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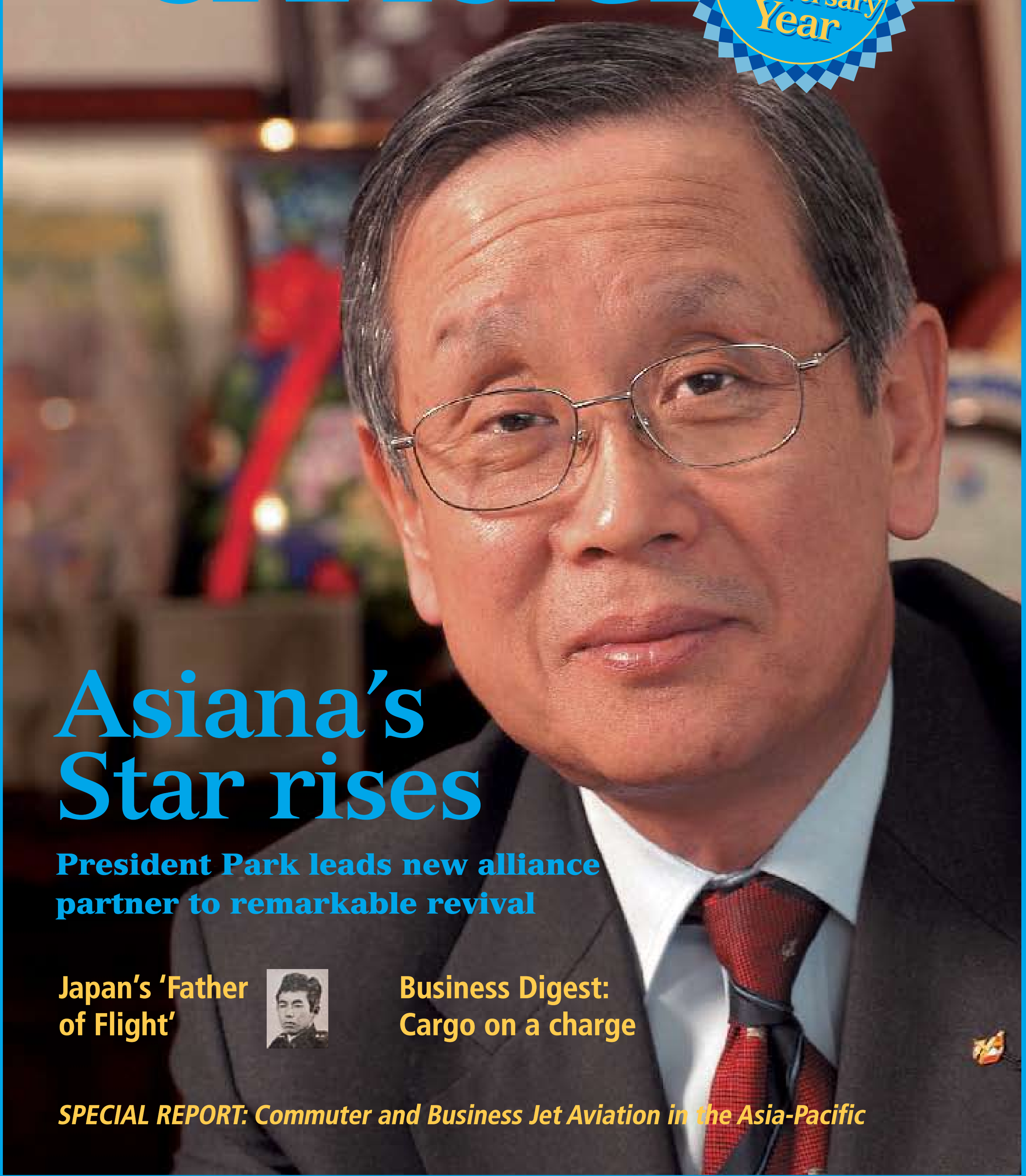

Asiana's Star rises

President Park leads new alliance partner to remarkable revival

Japan's 'Father of Flight'

Business Digest: Cargo on a charge

SPECIAL REPORT: Commuter and Business Jet Aviation in the Asia-Pacific

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The South Korean airline's revival continues with full membership of the Star Alliance from March

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TRIUMPH OVER ADVERSITY

In late 1997, as the Asian economic crisis was starting to bite, South Korea's second international carrier, Asiana Airlines, was reeling. At a Hong Kong air finance conference in 2000, a senior Asiana executive, Ghil Byung-Wui, told delegates: "It may have been natural to judge that Asiana could not have survived."

Well, today Asiana is not just surviving, but thriving. It recently announced a 2002 profit of 194.1 billion won (US$164.8 million).

Asiana's remarkable turnaround is a story of speedy management expertise and self- sacrifice by its staff. On March 1, the airline and its loyal employees were duly rewarded when Asiana became the 13th full member of the Star Alliance.

Airline president, Chan Bup Park, told *Orient Aviation* correspondent Daniel Baron (see main story, Asiana Comes of Age, page 28) that Star membership was "proof to ourselves that we have finally arrived".

But more importantly, Park estimated membership could boost Asiana's annual income by US$35 million. The airline's partners also will benefit, particularly from Asiana's access to the China market. Park said demand for its 14 China services to 12 cities is growing at 30% a year.

It all seems such a long way from the dark days of the late 1990s. Launched in 1987, when, as one industry commentator said, a duck with a chair strapped to its back could have made money in the airline business, Asiana felt it could do no wrong.

In 1995, Asiana's then president, Sam Koo Park, told *Orient Aviation* the airline planned to double its fleet by 2000, to 75 aircraft. It was all systems go. But the Asian recession brought such ambitions crashing down and took Asiana to the brink of extinction.

As so often happens in business, many of Asiana's problems were self-inflicted. Others were beyond its control. But management acted quickly.

The fleet was reduced, orders were cancelled or deferred and routes were cut back. By 1998, the downsizing had created a surplus of 1,400 staff, but no one was made redundant. Instead, newly hired and junior staff took unpaid leave for 12 months and all other employees agreed to one month's unpaid leave. All staff had been recalled by 1999.

Asiana re-invented itself. President Park stressed the airline will not be caught out again. "We at Asiana are now prepared for anything. Being flexible and rapidly dealing with changing business conditions is now ingrained in our corporate culture."

Asiana's experience is an object lesson for any fledgling airline, its recovery an inspiration for everyone.

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REGIONAL ROUND-UP

CHINA EASTERN, SWIRE TO SIGN AIRPORT VENTURE

In mid-February, an agreement to form the 50/50 venture, **Shanghai Eastern Airlines Swire Investment Company Ltd (Eastern Swire)**, was announced, a business equipped with US$30 million in start-up capital and one interested in investing in Mainland Chinese airports and aviation related industries. **China Eastern Airlines** president, **Ye Yigan**, said in a press statement that his airline and **Swire Pacific** have a long history of close contacts and co-operation. Swire Pacific chairman, **James Hughes-Hallett**, said the two companies shared a common interest and will form a "powerful partnership". In June last year, China's aviation regulators liberalised the laws defining foreign investment in the country's aviation industry. Eastern Swire said it believed the new legal regime and the present stable development of Mainland aviation, combined with the ongoing sophistication of the industry's restructuring, "will bring more opportunities for airport investment".

CROSS STRAIT BREAKTHROUGH

Taiwan's flag carrier, **China Airlines (CAL)**, completed the country's first commercial flight to Shanghai in five decades on January 26. The CAL aircraft flew into Shanghai, via Hong Kong, and collected 243 Taiwan-bound passengers. The aircraft returned to Taipei, after touching down briefly in Hong Kong, where the crew and passengers were welcomed by politicians, dignitaries and families. Six of Taiwan's airlines were given permission to operate charter flights to China, via either Macau or Hong Kong, in the lead up to the Chinese Lunar New Year holiday in late January and

China Eastern Airlines: airport joint venture with Swire

early February. One of two captains on the inaugural round trip was former flight attendant, **Captain Pei-Pei Chen**. A second female pilot, **Fang Ho**, was a co-pilot on the historic journey. Sixteen charter flights were approved for travel between Taipei and China from January 26 to February 9. After that date, the ban on cross strait flights was re-imposed.

EMIRATES PLANS MAJOR GROWTH

Dubai-based **Emirates Airline** announced in January that it will add 25% to capacity in the next 18 months, introduce new routes, including Shanghai and Moscow, to its network, add frequencies to services and introduce a revolutionary seat into its first class cabin. In October, after the airline takes delivery of its first Airbus A340-500, non-stop services between Dubai and Sydney will start. A340-500s also will be used to launch Emirates' Dubai-New York and San Francisco services in 2004 and add non-stop flights from the Emirates' home city to Osaka, Japan and London's Gatwick Airport. From October 26, Dubai-Brisbane services, via Singapore on Boeing B777-300 aircraft will be added to Emirates routes to Sydney, Melbourne and Perth.

These changes are part of radical restructuring of the Emirates' global network which also will see double daily services from Dubai to Munich in March, Dubai to Tehran in May, Muscat, Manchester and Nairobi from Dubai in July and from Dubai to Hong Kong next October. Emirates chairman, **Sheik Ahmed bin Saaed Al Maktoum**, said the airline planned to have a 56-aircraft fleet by March 31, 2004, open a dedicated Emirates Airline terminal in Dubai in 2005 and take delivery of the first of its 22 A380 airplanes in 2006.

WAR WILL NEGATE FORECASTS

Boeing is cautiously optimistic about a recovery in the world airline industry, according to Boeing Commercial Airplanes vice-president marketing, **Randy Baseler**. But he warned if there was a prolonged war in the Middle East all forecasts will be scrapped. Speaking in Sydney in February, Baseler said a short conflict would result in many global airlines returning to profit either late this year or early 2004, with aircraft orders picking up in the next 18 months.

At the same presentation, Baseler repeated that Boeing had "walked away" from negotiations with airlines on several occasions because the company was not prepared to compete with the low and loss-making offers **Airbus** was pitching to clients.

BRIEFLY

CARGO . . . The cargo subsidiaries of four leading carriers have signed a Memorandum of Understanding to become partners in an air cargo portal, **Air Cargo Exchange**. **Cathay Pacific Cargo**, **Japan Airlines Cargo**, **Qantas Freight** and **Singapore Airlines Cargo** said the portal, expected to be fully operational by mid-2003, would allow their customers to book, track and trace freight and review flight schedules. The service will be launched in the countries of the partner carriers, but it is planned to expand to a global network.

CODE-SHARES . . . The formal agreement for **Cathay Pacific** to code-share with **American Airlines** to 20 U.S cities commenced on January 27. Cathay Pacific passengers will fly on the carrier's scheduled services to San Francisco, Los Angeles and New York and complete onward journeys on American Airlines airplanes designated with Cathay Pacific's CX code.

ENGINES . . . IAE has won a US$100 million contract to supply its V2500 engines on up to eight Airbus single aisle aircraft – firm orders for four A320s and two A319s and options on another two A320s – for **Singapore Airlines'** wholly-owned subsidiary, **SilkAir**.

FLEETS . . . Pacific carrier, **Air Tahiti**, is now flying two recently delivered A340-300s, powered by CFM56-5C4 engines, on routes out of Tahiti to Europe and the U.S. West Coast. **South African Airways (SAA)** is using the first of nine A340-600s it has ordered on the Johannesburg to Frankfurt and Hong Kong routes. The Airbus airplanes, powered by **Rolls-Royce Trent** 500 engines, are part of SAA's 10-year fleet replacement plan involving several Airbus aircraft types.

INFORMATION TECHNOLOGY . . . Fiji's **Air Pacific** is the launch customer for **Mercator's** new FAS-TRAC system, designed to provide revenue accounting functionality and statistical analysis of ticket and cargo income for small to medium-sized airlines. **Sabre Holdings** have signed contracts with **Bangkok Airways** and **Indonesian Airlines** to provide their reservations and departure controls software. Sabre has a five-year contract with Bangkok Airways to operate Sabre Airline Solutions for the second-tier carrier and agreed to provide a multi-million dollar IT reservations and passenger system for domestic operator Indonesian Airlines – in conjunction with Sabre's Indonesian partner, **PT Abacus Distribution Systems Indonesia**. **Singapore Airlines' (SIA)** customers can now book flights online on other carriers, largely with **Star Alliance** partners and SIA joint venture partner, **Virgin Atlantic Airways**. SIA intends to expand the service, which also allows SIA frequent flyers to redeem miles for tickets on-line, to carriers outside its formal airline partnerships.

LEASING . . . In a statement summarising **Ansett Worldwide's** business for 2002, the company said that in a difficult year for aircraft lessors, it had "executed 61 transactions, including 12-lease restructurings covering 35 aircraft". The **Bahrain** investment bank, **First Islamic Investment Bank**, has set up an aircraft leasing company that will comply with Islamic Sharia law, with **Bank of American** affiliate, **Montrose and Company International**. The company has acquired 21 aircraft, valued at US$142.9 million and leased airplanes to **British Airways**, **Air Canada** and **Brit Air**, an **Air France** subsidiary. Under the Sharia legal system, charging interest on loans is regarded as usurious. **Singapore Aircraft Leasing Enterprise (SALE)** has signed a contract with Netherlands' carrier, **Martinair**, to lease two new Airbus A320s, powered by IAE V2500 engines. They are due for delivery from this month. SALE has 39% of its fleet leased to European carriers.

MROs . . . In February, **SR Technics** signed a five-year agreement with **Dragon-air** that initially covers component support and inventory management, but its scope will be expanded to include the management of all the components of the Hong Kong-based carrier's fleet during the life of the agreement.

ROUTES . . . Air New Zealand, presently awaiting regulatory approval for **Qantas** to purchase 22.5% of its airline business, will suspend its Sydney-Los Angeles service from April 27 and increase its Auckland-Los Angeles frequencies from 14 to 17 each week in the same month. **Cathay Pacific Airways** will add a third service each week from Hong Kong to Sapporo, Japan in June and increase capacity from its home city to Fukuoka and Nagoya from March 31. Bangkok-based **Orient Thai Airlines** has increased its services from Bangkok to Kuala Lumpur from four to seven each week. **Vietnam Airlines** plans to expand services to new routes Jakarta, Mumbai, Siem Reap and Shanghai in 2003 and add a second flight each week on its Hanoi-Vientiane-Phnom Penh service.

TRAINING . . . Cathay Pacific Airways and Shanghai-based **China Eastern Airlines (CEA)** have expanded their exchange training programmes with the planned arrival of several CEA middle managers for secondments of up to 18 months at Cathay Pacific in Hong Kong. In February, **GE Capital Aviation Training (HK) – GECAT** – announced cockpit crew from Mainland Chinese carriers **China Eastern Airlines (CEA)**, **China Northwest** and **China Northern** would be trained at GECAT's Hong Kong simulator complex at Cathay Pacific's headquarters. The new contracts bring the number of airline customers served by GECAT (HK) to 20.

FSB, VIRGIN JOIN FORCES

FlightSafetyBoeing (FSB), which is to be re-named **Alteon** later this year, and Australian no-frills operator, **Virgin Blue**, are partners in a new flight training facility being built at **Brisbane International Airport**, in Australia.

FSB president, **Pat Gaines**, said at the groundbreaking ceremony earlier this year that he wanted the project fast tracked for opening by mid-2003. "We are particularly interested in Chinese airlines, but we think there is good business across the region," said Gaines. The centre also will offer aircraft maintenance training. FlightSafety Boeing Training International was a joint venture, launched in 1997, by Boeing and **FlightSafety International (FSI)**. In October last year, Boeing acquired all of FSI's equity in the company and now sells flight and air maintenance training for aircraft of 100 seats or more. **Qantas Airways** also is building a new maintenance facility in Brisbane. It announced in January it would expand its 2003 apprenticeship intake by at least 70 places, to add to the 170 apprentices already offered jobs.

Elsewhere in Australia, **Newcastle Airport**, 160 kilometres north of Sydney, will spend A$80 million (US$48 million) in the next five years building maintenance hangars capable of handling the Airbus A380 as well as an aircraft painting facility, air-freight infrastructure and a 120-room airport hotel. ■

GOODBYE KITTY, HELLO STEVE

*Taiwan's **EVA Air**, the nation's second international carrier, completed an executive shuffle in January which resulted in the re-assignment of EVA president of 12 months, **Kitty Yen** (pictured left), and the appointment of **Steve Lin** as the privately owned carrier's new president. Lin, 52, joined the parent **Evergreen Group** in 1976, and was previously executive vice-president. Yen, who also was acting chairman and president of the **Evergreen Sky Catering Corporation** while in charge of the airline, has moved to take up the position full-time at the caterer "to further enhance EVA Air's onboard service quality", said a company statement.* ■

CLARIFICATION

In the February issue of Orient Aviation a story headlined "Life in the BA fast lane", referred to a British Airways Concorde aircraft "that crashed after take-off outside Paris".

It was, of course, an Air France Concorde that crashed. We apologise for the error. - Ed. ■

BUSINESS ROUND-UP

FIRST QUARTER BOOM FOR THAI

Thai Airways International (THAI) reported a triple fold increase in profits for the first quarter of its 2002-2003 fiscal year, a result produced by accelerated passenger sales growth and an expanding cargo business. THAI said in mid-February that in the three months to December 31, 2002, net income at the Bangkok-based airline rose to 3.51 billion baht (US$81.6 million) compared to 1.05 billion baht in the same period in 2001.

The substantial profit helped offset the rise in aviation fuel prices in the last quarter of 2002 and was a result that far exceeded analysts' predictions of profits of 1.2 billion baht to 1.6 billion baht for the quarter. THAI said that the number of overseas visitors has recovered to healthy levels from the slump produced by the events of '9/11' in 2001. Anecdotal evidence also suggested tourists chose Thailand for their holidays in the quarter under review, following the terrorist bombings in Bali last October.■

EVA AIR CASHES IN FROM NEW ASA DEAL

EVA Air, Taiwan's second international carrier and the country's largest privately owned airline, returned to profit in the year to December 31, 2002, a result won from more efficient operations, improved traffic and new intra-regional services.

EVA said its pre-tax net profit for its latest fiscal year was NT$2.41 billion (US$72.3 million) compared to a loss of NT$3.17 billion a year earlier.

In 2002, EVA was granted the rights to increase services to Hong Kong in a new air services agreement (ASA) signed by the two governments in mid-2002. EVA increased its flights to Hong Kong to 40 a week, a rise of 250% over previous services. Passenger traffic rose 10% last year and contributed almost half (NT$32.5 billion) of the airline's NT$64.6 billion operating revenue for the period – the highest figure since the airline's launch in 1991.

In a company statement released in February, EVA added its cargo revenue had made a strong recovery by recording a 33% (NT$27.5 billion) gain in revenue compared to the same period in 2001, a result that reflected Mainland China's growing export market, the airline said.

CARGO BOOSTS ASIANA PROFIT

South Korea's **Asiana Airlines** bounced back in style from a poor 2001 with a profit of 194.1 billion won (US$163.9 million) in 2002. The Seoul-based carrier said a buoyant cargo market and reorganisation of its route network, particularly the expansion of its China and Japan operations, had reversed its fortunes over 2001 when it lost 384.8 billion won.

Also contributing to Asiana's good performance were foreign currency gains from a stronger won and lower interest rates.

The airline's revenue rose 16% to 2.57 trillion won. Operating profit, meanwhile, rocketed more than four-fold to 177.2 billion won from 44.4 billion won a year earlier.

Asiana has forecast a 4.2% increase in revenue this year to 2.68 trillion won. It has set a profit target of 266.3 billion won and aims to lift operating profit to 190.9 billion won.

(Asiana comes of age, see main story on page 14).

KAL REWARDS STAFF WITH BONUS

South Korea's largest carrier, **Korean Air (KAL)**, has reported an annual profit of 111.9 billion won (US$95.3 million) for the 12 months to December 31, compared to a loss of 589.4 billion won a year earlier. The Seoul-based airline said its good result had come from improved cargo operations, a result of the country's fast improving exports, especially on northeast Asian routes, in an expanding national economy.

KAL employees received a special bonus of 400 billion won after the 2002 profit was determined. Airline analysts expect the airline to continue its profit trend in the 2003 fiscal year.

DEBATE ON IPO FOR VIRGIN BLUE

Sir Richard Branson, co-owner of Australian no-frills domestic carrier, **Virgin Blue**, would like to launch an Initial Public Offering (IPO) for the airline "around May". However, **Patrick Corporation**, the other 50% shareholder in the two-year-old airline, told shareholders at its annual general meeting (AGM) in Sydney in February, that it diverges from Sir Richard's strategy for an IPO. "A float is of no interest to us," said Patrick's managing director, **Chris Corrigan**, at the AGM. He said the management would abide by its agreement to sell up to 5% of its stake in Virgin Blue if required, but "otherwise it will keep its 50% equity".

In March 2002, Patrick Corporation paid A$260 million (US$151.3 million) for a half share in the young Brisbane-based carrier. Current estimates of the value of the carrier range up to A$1.7 billion. Virgin Blue chief executive, **Brett Godfrey**, said the airline has hired **Goldman Sachs** to advise on a possible sale. Corrigan, whose company has land, sea and air transport divisions, has told Virgin that Patrick Corporation will pay the airline up to A$30 million for every $100 million achieved over and above an IPO value of A$620 million, according to the *Bloomberg* news service.

PROFIT LEAP FOR AIR CHINA

Rapidly improving passenger sales and rising profits from air cargo operations produced a profit of 112 million yuan (US$13.6 mllion) for Beijing-based **Air China**. The result, the first to be recorded by Air China since its October merger with carriers **China Southwest** and **China National Aviation Corporation (CNAC)**, compared with profits of 34 million yuan in the same period in 2001. But the numbers fell short of the international carrier's prediction it would achieve net profits of 360 million yuan for the 2002 fiscal year.

Air China, which hopes to raise up to US$500 million in a planned Initial Public Offering, has a post-merger fleet of 118 aircraft that serves 308 routes.■

CHINA ROUND-UP

DOMESTIC CARRIERS WIN FARE CONCESSIONS

In February, China's regulators granted Mainland domestic airlines, like Shandong Airlines (pictured above) freedom to increase air fares by up to 17%, following rises in the cost of aviation fuel after the Chinese Lunar New Year holiday. Until the new edict was announced on February 10, the **Civil Aviation Administration of China (CAAC)** had capped increases in domestic air tickets this year at 12%. According to media reports, fuel eats up between 25% to 30% of China's domestic carriers income each year. The *South China Morning Post*, published in Hong Kong, reported estimates of analysts who said that every 1% increase in jet fuel prices directly added between 3% – 5% to a Mainland airline's operating costs.

CHINA EASTERN GROUP CHIEF SETS 2003 GOALS

At its first annual general meeting since **China Eastern Aviation Holding (CEAH)** was established last October, CEAH president, **Ye Yigan**, said the airline group would focus on achieving annual growth of 8% in total traffic turnover and rationalisation of the carrier's fleet and route network to achieve maximum business returns. The airline group, based in Shanghai, was formed from the merger of **China Eastern Airlines**, **China Northwest Airlines** and **Yunnan Airlines**. The two other major airline groups are **China Southern Airline Holdings** and **China National Aviation Holding**.

CHINA TO SPEND US$2.6B ON AIRPORTS

At the annual meeting of the **Civil Aviation Administration of China (CAAC)** in January, the regulatory body authorised funds of US$2.6 billion for several major airport and infrastructure projects. They include extensions to **Xi'an Xianyang Airport Terminal** and **Xinjiang Hetian Airport** and upgrading of Hainan Island's ATC facility at Sanya. Another nine projects, at Guangzhou's **New Baiyun Airport**, **Lhasa Gongga Airport** and **Linzhi Airport** in Tibet, as well as expansion of facilities at **Beijing's Capital International Airport** and construction of phase two of **Pudong International Airport** in Shanghai make up the package.

Separately, Jiangsu Province officials have announced that a new airport will be built in Wuxi, a facility planned to service the northern region of Jiangsu and neighbouring Anhui province.

SOROS PROFITS BIG FROM HAINAN

Global financier, **George Soros**, is about to realise almost a three-fold increase in his 15% investment in **Hainan Airlines**. Soros, through his investment vehicle, **American Aviation Corp**, bought into Hainan Airlines, a carrier based on the southern Chinese island of Hainan, in 1995 for US$25 million or US$0.25 cents a share. Under amended legislation recently approved on the Mainland, foreign investors such as Soros now are allowed to trade their shares in Chinese companies on the Stock Exchange. Soros' shares became tradeable on January 27 and were placed on the market, US$70 million.

TYCOON'S AIRPORT BID CRITICISED

At press time, as rumblings of disapproval emerged among aviation regulators, 36-year-old tycoon, **Wang Junyao**, appears set to continue negotiations to win 100% control of China's **Yichang Airport**, the six-year-old gateway airport for the Three Gorges Region in Hubei. Wang operates the **Junyao Group**, a conglomerate of aviation, property and dairy interests based in Wenzhou, a city where his emergence as a tycoon who established Wenzhou's first aviation links to the outside world have made him a legendary figure.

In January, Wang reported he had signed a Memorandum of Understanding with Beijing that would allow him to buy 100% of Yichang Airport for US$66.43 million. About a third of the funds invested would be for renovations at the airport, which was built in 1996.

However by mid-February, critics were describing the sale price as too cheap and also attacked some decision-makers within the **Civil Aviation Administration of China (CAAC)** for its plan to surrender total control of the airport – one of 88 state-owned and controlled airports in China – to Wang. Media reports said the head of the law and policy division of the CAAC, **Yuan Yaohui**, said the State Council said it would sell a maximum of 49% of any of its airports to private interests, with the state retaining 51% of each facility.

However, the CAAC has said it would hand control of all airports in China – except in Tibet and the facilities in Beijing – to its provincial governments, a policy that could help Wang as Hubei province officials reportedly support the tycoon's bid to buy 100% of Yichang Airport.

FIRST RESCUE AIRCRAFT IN SERVICE

China's first aircraft dedicated completely to search, rescue and evacuation has been operating since January, in a joint venture agreement between the **International SOS Rescue Centre** and **Golden Deer Business Aircraft Company**. Golden Deer provides SOS with a Hawker 800 XP aircraft, based in Beijing, that is being utilised for emergency medical transfers of patients to medical centres within China and throughout the Asia Pacific region.

SIA TO START U.S. SERVICE VIA XIAMEN

Singapore Airlines (SIA) will launch an air cargo route to Chicago, via Xiamen in southern China, on April 1. SIA said the service is being developed as a result of a new Air Service Agreement signed between Singapore and Mainland China.

An SIA B747-400 freighter will arrive in Xiamen each Tuesday, Thursday and Saturday, to take off cargo and load new freight and then fly to Nanjing and onto Chicago. SIA operates four freighter services a week from Singapore to Shanghai.

South Korea's Asiana Airlines was launched 15 years ago and after early success suffered greatly in the Asian economic recession. But induction into the Star Alliance in March completes a remarkable recovery. President Chan Bup Park summed it up ...

Asiana comes of age

DANIEL BARON
reports from Seoul

Asiana Airlines president and COO, Chan Bup Park, is brimming with confidence, and with good reason. His carrier is enjoying strong demand and high marks for its safety, inflight service and primary hub airport, Incheon. Its fleet of 64 aircraft is one of the world's youngest and flies to 45 cities in 15 countries. Asiana joined the International Air Transport Association (IATA) in 2002, enhancing its stature and giving it a bigger say in the industry. And the icing on the cake: full membership of the Star Alliance from March 1.

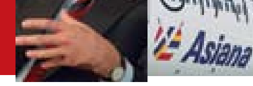
Not bad for an airline which 15 years ago was an upstart in a monopolised market.

When *Orient Aviation* visited Asiana in 1995, the carrier was high on ambition, eager to match and eventually overtake arch-rival Korean Air. Expansion plans included doubling the fleet to 75 aircraft by 2000, according to then president Sam Koo Park. "We are certainly not content to be Korea's second airline," said Park at the time.

The future, however, had other plans for Asiana. The pan-Asia meltdown of 1997 nearly brought the airline to its knees, forcing a rethink of its *raison d'etre* and painful sacrifices by staff. The U.S. terrorist attacks of September 11, 2001, meant another shockwave and more restructuring.

The current president, who also took the helm in 2001, summed up his philosophy for Asiana succinctly: "Always be ready for the next crisis. We at Asiana are now prepared for anything".

Following '9/11', Asiana was quick to take action, deferring deliveries of new aircraft, cutting frequencies on certain routes and reducing labour costs. At the same time, the airline forged new code-sharing partnerships and from March gained full membership of the Star Alliance. These measures, combined with solid growth in South Korea's economy, allowed Asiana to regain its footing much more quickly than after the 1997



Asiana Airlines: demand for China services is growing 30% annually

events.

"Being flexible and rapidly dealing with changing business conditions is now ingrained in our corporate culture", said Park.

That character trait has paid off handsomely. Asiana posted a hefty 194.1 billion won (US$164.8 million) profit for 2002. The figure represents a significant recovery from heavy losses of 384.8 billion won in 2001, and is nearly double the profit declared by rival Korean Air.

Asiana's agility may soon be put to the test again, however. Rising oil costs due to the threat of war in Iraq prompted it to purchase 36% of its first quarter jet fuel needs in late 2002. Much closer to home, the rapidly escalating war of words between North Korea and the United States has caused oil prices to rise further; the company is now considering additional hedging.

Further, the timing of Asiana's entry into the Star Alliance is accompanied by consternation over two members, United Airlines and Varig, both of which are fighting for their survival. At stake is one of the biggest prizes of membership – feed on United's U.S. domestic system and a greater presence in the trans-Pacific market through code-sharing.

In spite of the lingering uncertainties, the airline is beaming with enthusiasm for its new family of partners. "We are confident that this is the right time, even in this unstable year for the global airline industry, to join the Star Alliance", said Park. "It will infuse in us a powerful momentum to strengthen Asiana's position as a truly global airline".

Park said the carrier is looking at a sizeable US$35 million in annual incremental income as a result of Star Alliance membership. At the same time, Asiana will aim to reduce overhead costs through cooperative purchasing and joint advertising and promotions.

Park set a demanding timetable for preparation following the announcement of impending membership in June 2002. Six months later, integration of systems for front-line functions, for example, through check-in and frequent flyer programmes, was completed, thanks to help from a software development company belonging to Asiana's parent corporation, the massive Kumho Group.

Asiana also launched an aggressive campaign to educate the domestic market about the alliance and its membership, culminating in a two-week long "Asiana Star Festival" in February and the debut of a B767 sporting Star Alliance's new livery.

While the potential rewards to Asiana's bottom line stand out most, for the carrier's employees Star Alliance membership brings an equally valuable injection of self esteem. Although known as the youthful airline that tries hard to please, Asiana has been longing for a mark of adulthood. "Internally", said the carrier, "entry into the Star Alliance is proof to ourselves that we have finally arrived". Co-dependence with alliance members will also provide staff a stronger sense of long-term stability.

For their part, Asiana's Star Alliance partners will gain greater access to the booming China market. Asiana serves 12 cities in China with 14 routes, enabling Star to boast two China gateways (Incheon and Narita) in Northeast Asia versus one for Skyteam and none for oneworld.

Park said demand for China services is growing by a staggering 30% annually. In fact, he added, a portion of that traffic is passengers flying from one Chinese city to another via Incheon. The carrier currently leads in market share between the two countries, with 31.8% compared to 27.8% at Korean Air.

One quarter of all Koreans going abroad, reported Asiana, are headed to China. Perhaps more significant, however, is the inbound market. During the past 10 years, inbound traffic from China has increased by more than 20% annually.

Star Alliance also adds to its map the Russian Far East, which Asiana serves with flights from Incheon to Khabarovsk and Sakhalin. It is the only non-Russian carrier with scheduled services to the latter.

Asiana's other golden market, Japan, continues to grow as well. The carrier now offers 112 flights per week to 13 cities in Japan. With the opening of the second runway at Narita Airport, it was able to bump up frequencies on the high-yield Seoul-Tokyo route.

In 2002, 76% of Asiana's passenger revenue was generated from Asian routes (including Korea and Japan). Collectively, China and Japan services now comprise more than 50% of Asiana's outbound international traffic from Incheon. Park said for the short-term the airline will focus on such high-yield regional markets and selected long-haul

CHAN BUP PARK: CAREER PATH

Asiana Airlines' president and chief operating officer, 58-year-old Chan Bup Park, joined the airline's parent group, Kumho & Co., Inc., in 1969. After 21 years with Kumho he joined the fledgling Seoul-based carrier in 1990 as senior vice-president in the marketing and sales division.

In 1992, Park was appointed president of Asiana's regional office in Los Angeles. Three years later he returned to Seoul as marketing and sales executive vice-president. In 2000, he took a similar position in the airline's administration division before becoming president in 2001.

markets showing strong demand, such as London, Frankfurt and Sydney.

As for the passenger fleet, Asiana plans a gradual increase in its size with additional B777s as well as A330s. Park preferred not to provide further details, citing the difficulty in predicting the global economic situation.

Easier to predict is Asiana's reliance on Incheon Airport, to which Park attributed much of his carrier's strong performance in 2002. Aircraft utilisation has improved due to its round-the-clock operation. Its location between Japan and China has helped as well. "There is no doubt in my mind. Incheon will become the primary hub of Northeast Asia," he said.

Park added that on-time performance had also improved by around 10% as a result of the shift to the facility, which is unhindered by slot shortages.

Incheon has been particularly beneficial for the cargo side of the equation, which now comprises 32% of Asiana's total revenue. Twelve countries and 18 cities are served with a fleet of five B747 freighters and one B767 freighter.

Park said Asiana is working to increase cargo volume from the current 560,000 tonnes by 3.9% annually over the next five years. This will entail a gradual expansion of the cargo fleet. The carrier has two B747-400 freighters on order and is looking to convert four B747-400 combis into freighters by 2009. He added that the airline would continue to use short and medium-term wet leases to meet seasonal demand.

To support the growth in cargo business the airline will open a new cargo terminal in 2003 and is in the process of developing an e-logistics system. Asiana reported it is evaluating co-operation with cargo alliance WOW. Its members are Singapore Airlines Cargo, Lufthansa Cargo, JAL Cargo and SAS Cargo of which all but JAL Cargo are already in the Star Alliance. It is also looking at adopting IATA's Cargo 2000 cargo management system.

With the operation at Incheon humming along and Star Alliance membership in place, Asiana, said Park, will concentrate on maximising yield while shedding stakes in non-core business assets. Both processes are underway. The airline adopted the PROS revenue management system in August 2002, with all functions online by December. "Through PROS," said Park, "we expect to see at least a 2% increase in annual profit."

In 2002, Asiana sold off its stake in the Asiana Airport Service Co. and in February agreed to sell 80% of its catering unit to Lufthansa Sky chefs for 65 billion won.

Park said his primary goal is to deliver more predictable results to shareholders, who, in spite of the airline's strong performance throughout 2002, have sent the carrier's stock price south. "In 2003, we will concentrate on profitability", he said. "We will gain trust from the market by focusing on producing consistent profits".

Asiana Airlines: top quality inflight service

With the exception of a new service from Incheon to Auckland, Asiana has no plans for additional routes. It reduced frequencies from Incheon to Manila, stopped flying from Busan to Guam, and is considering axing unprofitable domestic services.

The carrier also is aiming to reduce distribution costs through more online bookings. Currently around 15% of seats are purchased online and passengers can book and purchase domestic flights with their cell phones.

While Asiana's rapid-action rationalisation plan has made it more resistant to external shocks, new challenges are waiting just around the bend, so to speak. A high-speed rail service connecting Seoul with the southern cities of Daegu and Busan is due to come on line in early 2004. Both Asiana and Korean Air are predicting that demand for air travel on the two routes will plummet.

Further, in October 2002 the government of Jeju Island, which Asiana serves from eight cities, announced that it would explore the creation of a new airline with public and private funding. And a report released in January by Korea's Ministry of Construction and Transport (MOCT) suggested it might support the idea of new operators using regional jets for routes whose demand will not justify larger aircraft. Asiana's Park, however, countered that a new carrier would not be economically feasible and predicted continued control of the domestic market by the two existing carriers for the foreseeable future.

That is an ironic statement from an airline that once assailed the monopoly held by Korean Air.

But no wonder. Fifteen years after its first flight, Asiana is keen to protect its hard-earned reputation for safety, reliability and top-quality service. In the domestic market the carrier has succeeded in positioning itself as the preferred brand. "Our research suggests that when the difference in ticket price is less than 5%, passengers prefer Asiana," said Park.

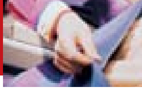
He noted that for a while his carrier was able to charge as much as 16% more than Korean Air. "We are smaller than our competitor, but are perceived as being of higher quality".

The name of the airline's slick inflight magazine, *Asiana Culture* neatly sums up its focus on brand positioning. "In the eyes of the Korean customer", said the airline, "we are viewed as friendlier, more approachable, than our main competitor". Now, with the help of the Star Alliance, Park is keen to see awareness of Asiana's brand of "culture" blossom on the world stage as well.

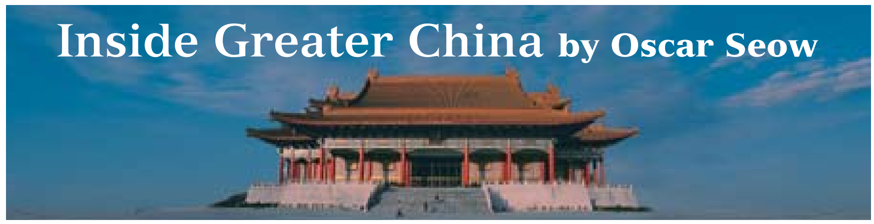
STAR MEMBERS

Air Canada, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian Airlines Group, bmi British Midland, Lufthansa German Airlines, Mexicana Airlines, SAS Scan-dinavian Airlines, Singapore Airlines, Thai Airways International, United Airlines and VARIG Brazilian Airlines.

Spanair will become a full member on April 1 and LOT Polish Airlines in late June.



Cathay, Dragonair in China showdown



Hong Kong has always been a peculiar market for commercial aviation with plenty of luck and natural advantage over its regional rivals. Little wonder then that every couple of years yet another group emerges to challenge Cathay Pacific Airways' position as the city's *de facto* flag carrier. To date, these hopefuls have found it impossible to overcome Cathay's dominance in the market.

But this may be changing as the Hong Kong Government progressively liberalises the Special Administrative Region's (SAR) airline industry. And this trend is at the heart of a current legal battle between Cathay and its Mainland China-controlled rival, Hong Kong Dragon Airlines (Dragonair), for routes from Hong Kong to Mainland China. The arguments being put by both parties fighting for the China 'space' has evolved into a bitterly contested 'boxing match' refereed by the SAR's Air Transport Licensing Authority (Atla), an independent body sanctioned by the local government to hand out air route licences.

As *Orient Aviation* went to press, both sides were waiting for the tribunal to resume the hearing in March, after the five days originally set aside for the January hearing proved inadequate.

A short history lesson is in order if the debate between the parties is to be understood. Cathay wants to resume flying to some of the most lucrative Mainland routes – from Hong Kong to Beijing, Shanghai and Xiamen.

Dragonair, a regional carrier with mainland ties, was given the routes by Cathay in 1990, when the international airline still had majority control of Dragonair.

In recent years, though, Dragonair has become increasingly independent, particularly since Cathay sold a large stake of the carrier to China National Aviation Corp. (CNAC), then a Hong Kong-listed window company of the Civil Aviation Administration of China (CAAC). The CNAC was able to gain control of Dragonair after it threatened to start an airline in Hong Kong to rival Cathay, a credible threat to Cathay ahead of the regulatory uncertainties of Hong Kong's return to Beijing rule in 1997.

The general belief is that Cathay had hoped a stake in Dragonair would be enough to satisfy CNAC's ambitions. In turn, by retaining a minority stake and seats on the board, Cathay would be able to keep an eye on the expanding regional carrier.

In fact, CNAC was satisfied with the arrangement, at least in the context of being content to bide its time until the Hong Kong Government was willing to relax the "one airline, one route" regime enough to allow another local airline to directly compete with Cathay.

In the two years since the government adopted its policy of progressive liberalisation, Dragonair has taken every reasonable opportunity to expand away from its core China network.

Using the only two truly profitable routes in its network – services between Hong Kong to Shanghai and Beijing – to fund expansion, Dragonair has added services to most of the major cities in Mainland China and bought three second hand Boeing 747 freighters to launch a cargo network between Asia and Europe, services that compete directly with Cathay's cargo service on some sectors.

But Dragonair's boldest move was to launch direct passenger and freight services to Taipei last year, a route on which it competes head-to-head with much larger rivals – not only Cathay, but also China Airlines and EVA Air. In addition, in the past six months it has lobbied for, and been granted, licences to fly to five major regional destinations outside China.

Cathay argued that however grudgingly it let Dragonair expand, it still deserved *quid pro quo* in China. Cathay is one of the few carriers not allowed to service its own backyard and has to rely on Dragonair for most of its mainland connectivity.

The issue of access to Mainland routes is charged with emotion, which is not surprising when such high stakes are considered. The two carriers were required to prepare written submissions to the Atla tribunal ahead of the hearing. Dragonair's document was approximately 150 pages long, most of it a history of its relationship with Cathay. For its part, Cathay responded with a critique of Dragonair's management strategy. Its submission was about half as long.

Cathay's charge that Dragonair has relied too much on its Shanghai route may be valid. Dragonair insiders tell *Orient Aviation* it earned about HK$300 million (US$38.9 million) last year, with the Shanghai route accounting for a very large proportion of that profit. The airline had a system-wide net margin of about 7%, compared with Cathay's 8% over the past three years.

Could Dragonair have asked for the Taipei route earlier? Should it have used its profit to lobby the government for faster dismantling of the "one airline, one route" policy, rather than wait for it to be dismantled naturally?

Debatable. But a case can be made that Dragonair has not tried hard enough.

Still, Cathay has been protected by government policy for a long time. It may not have a monopoly at the Hong Kong International Airport – there is foreign competition – but just try launching another carrier in Hong Kong. The only other competing carrier to be started in Hong Kong in recent times, Air Hong Kong, also ended up a majority owned Cathay subsidiary.

However, a much wider debate about Hong Kong's competition policy, or lack of one, is beginning to stir beneath the surface of the evidence heard at the Atla hearings.

How quickly should the government be backing away from the "one route, one airline" policy? Having protected Cathay's dominant market position for so many years, few in government seriously believe that Dragonair can compete openly – and right away – without some form of protection in return. Yet the dilemma for Hong Kong is how to achieve that while pursuing a policy of liberalisation at the same time. Add to that mix Atla's problem – it must choose whether to address consumer interest over the short or longer term.

The best analogy for the dilemma came from the tribunal's chairman, a senior judge at the hearing. It was like an onion, he said, peel back one layer and you find yet another. And still you cry. ■

James Hogan's career as chief executive of Ansett Australia ended before it began when relaunch plans for the Australian carrier collapsed early last year. Now, he is the first ever non-Arab president and CEO of struggling Middle East operator Gulf Air. TOM BALLANTYNE reports.

HOGAN'S CHALLENGE

When former bmi British Midland chief operating officer, James Hogan, took charge of Gulf Air last May, the Australian-born airline executive knew he faced the challenge of his life. With debts of US$700 million, Gulf lost US$138.5 million in 2001 and an estimated US$111.4 million last year.

While Dubai-based neighbour, Emirates Airline, was going from strength to strength, ordering billions of dollars worth of new jets and making exceptional profits despite the aviation downturn, Gulf's operating performance was poor.

Originally jointly owned by the Gulf States of Bahrain, Oman, Abu Dhabi and Qatar (Qatar severed its ties with the airline in May 2002), the carrier's reputation also suffered from an incident in August 2000 when 143 passengers and crew died after a Gulf A320 crashed into shallow waters close to Bahrain airport.

In these less than perfect conditions Hogan has prepared an ambitious, three-year recovery plan to put Gulf in the black.

In December, Gulf's owners agreed to pump US$238.7 million into the carrier during the next two years, an investment made after a US$79.8 million cash injection into the airline last May.

Hogan predicted Gulf will break even next year and return to profit in 2005. The restructure will include new routes, an expansion of Gulf's 30-aircraft fleet and membership of a global alliance. This, he said, will be a key move to expand the airline's international reach.

Hogan said the plan is designed to ensure the long-term commercial viability of Gulf Air and is not a quick fix.

Its centres around a number of "pillars", including fleet renewal and expansion, brand development, alliances, network and customer service.

Gulf is planning to double its 30-strong fleet by 2009. In addition to its A340-300s, A330-200s, A320-200s and B767-300ERs, the airline has started talks with Embraer and Bombardier, with a view to purchasing smaller, short-haul jets to serve regional markets.

Gulf's presence in the Middle East and the Indian Sub-Continent will be strengthened and new international destinations may be launched as early as June. They will include Australia's main gateway of Sydney and Johannesburg and Athens. Gulf had operated to Sydney until it withdrew the service early this year. "The overall aim is to phase in key destinations over the next 24 months, based on customer demand," said Hogan.

Major alliances, Star and oneworld, have been courting Middle East airlines for several years. The region remains a major gap in their networks. Hogan indicated Gulf could make a choice within six months, although he declined to indicate any preference. "With our network plan, we see Gulf Air as the perfect fit for one of the global alliances."

Hogan believes the carrier's cost-cutting programme can be achieved without major job losses. "If we have areas that become obsolete we [will] redeploy or retrain the people. But I have no major programme for redundancies," he said.

The carrier has made a good start to 2003 with double-digit passenger growth in all classes between Gulf gateways and London, Paris and Frankfurt as a result of extra frequencies.

However, Hogan conceded increased security is a critical issue for airlines. "In any plan, there are always risks and opportunities. We're in a part of the world, whether it be Iraq, Palestine or Israel, where there is a lot of uncertainty. Nevertheless, moving forward we see a huge opportunity for this [region]."

Gulf Air president and CEO James Hogan: restructuring paying off

JUNE LAUNCH FOR 'GULF AIR 2'

Gulf Air is to launch an all-economy airline to tap into the leisure and regional expatriate worker markets later this year.

The as yet un-named subsidiary, to be based in Abu Dhabi, is expected to launch flights in June using Gulf's existing fleet of nine Boeing B767-300ERs.

Industry insiders suggest 'Gulf Air 2' may be structured along the lines of Qantas' new low-cost carrier, Australian Airlines. It will have low operating costs, but will not be a "no frills" operation. One of the main targets will be the thousands of foreign workers, many from South and Southeast Asia, who work in the Gulf region. "Cost efficiencies will result from simplified processes and not

New planes a boost for Aircalin's Japanese routes

By Tom Ballantyne

Jean-Michel Masson may be French, a former senior executive of Air France and now chief executive of an airline flying the flag of a French territory, but he reacts quickly to any suggestion the connection may have played a central role in the decision by Air Caledonie International to purchase two Airbus A330s that just happen to be manufactured in Toulouse, France.

Rumours Paris brought diplomatic pressure to bear on its South Pacific island to sway the airline, now branded Aircalin, in the direction of an Airbus order - the deal won a significant tax exemption from France - and away from U.S. planemaker Boeing, are utter nonsense, he said. "This was a straightforward decision in which we looked at all the alternatives, selecting the right aircraft for the routes on which we are operating," he told *Orient Aviation* in New Caledonia.

From Noumea, capital of the island nation, these routes are to Australia and New Zealand and, more importantly, to Japan, the territory's major source of tourists. It is even more important because from March 30 Aircalin, already flying three times a week to Osaka, takes over the Noumea-Tokyo route from Air France under a code-share agreement. For that Aircalin required new aircraft.

Under the code-share, the French flag carrier will withdraw from the Tokyo-Noumea sector of its Paris-New Caledonia service at the end of March, a route it services with an A340. Aircalin will now carry Air France passengers on from Tokyo, as well as the numerous Japanese tourists heading for the island resorts. All passengers travelling through from France will remain the "property" of Air France, while Japan-originating customers will be Aircalin passengers.

Masson hopes to attract a growing number of Korean travellers, who will fly to Noumea by connection with flights in Japan.

The two 271-seat A330s replace a leased 201-seat A310. Launched in 1983, Aircalin also operates a 126-seat B737-300 and a 19-seat Twin Otter turboprop. While no official announcement has been made, insiders said the single-aisle Boeing will be replaced later this year with an A320.

Apart from Japan, Aircalin flies to Sydney, Brisbane, Auckland, Papeete in Tahiti, Nadi in Fiji, Port Vila in Vanuatu and the remote Wallis and Futuna islands. There will be further expansion, but Masson is cautious about when it may occur.

In the immediate future, growth is expected from the extension of code-share agreements with Air New Zealand and Qantas Airways. ■

Aircalin: looking to attract more Korean travellers through Japan

100 YEARS OF POWERED FLIGHT - AN ASIAN PERSPECTIVE

Using birds and insects as his inspiration, Chuhachi Ninomiya, the fourth son of a samurai, may well have beaten the Wright brothers into the air if his countrymen had given him more encouragement. When the brothers left Ninomiya grounded in 1903 he took the news badly, dropped the project, but still became...

Japan's unsung father of flight

By Geoffrey Tudor, Japan Airlines

On December 17 this year, an enthusiastic throng of highly placed dignitaries will gather at Kill Devil Hill, just south of the village of Kitty Hawk, on the wind-whipped outer banks of North Carolina, to commemorate the 100th anniversary of Orville and Wilbur Wright's first-ever fully controlled, powered flight.

The ceremony will highlight the Wrights' place in aviation history as the inventors of controlled powered flight, but, as history reveals, Chuhachi Nino-miya, the fourth son of a samurai, came close to stealing the Americans' thunder.

More than a decade ago, on April 29, 1991, a primitive, powered replica, looking remarkably like the precursor of all modern fixed-wing aircraft, lumbered off the wharf at Yawatahama on the Japanese island of Shikoku, flew 50 metres (136 feet) and then descended to *terra firma*.

On this day, exactly 100 years after his first experiment in chasing the dream of manned flight, Ninomiya was, at last, being given a measure of recognition.

Ninomiya had named his design after a Japanese summer insect, the *tamamushi*, or jewel bug, and to be sure, the bug's commemorative flight was short-lived. With an intrepid professor of aeronautical engineering from Nihon University (and former test pilot), Tsuneo Noguchi, at the controls, such as they were, the 'Jewel Bug's' 1991 flight was a mere 16-feet longer than that achieved by Orville Wright 88 years earlier.

Remarkably, a century earlier on April 29, 1891, this young Japanese man first achieved powered flight at an army base in Shikoku. His aircraft was an unmanned prototype that was powered by a twisted rubber motor fashioned from a doctor's stethoscope.

Chuhachi Ninomiya in his 20s. He was 25 when his prototype airplane, the Crow, first flew.

Ninomiya managed to launch the aircraft – and it flew. His feat had followed several years of observation and experiment, some involving the study of Japan's still omnipresent crows, so he called his rubber-powered model the *karasu* or crow. A revolutionary feature of his model was a tricycle undercarriage, an innovation that was not introduced on to modern aircraft until the 1930s.

His studies of the take-offs and landings of crows, first observed at a lunch break during military manoeuvres, had led him to recognise a wheeled undercarriage was essential for flying humans.

Aircraft, he reasoned, needed to start from the ground and return to the ground, as his feathered teachers did.

The observation was a mark of the young designer's down-to-earth originality. At that time, most other would-be aviators were hung up on launches from catapults or sliding from hills or elevated platforms in bids to achieve the initial airspeed needed for take-off.

Through experimentation, the young designer also realised a propeller-powered airplane flew better if the airscrew blades were relatively short and turned fast. Later study of his plans showed that in the 1890's he was clearly ahead of the Wrights and other inventors in at least some aspects of his design.

Ninomiya was born in 1866 in the port town of Yawatahama, Ehime Prefecture, on the island of Shikoku (Wilbur Wright was born in 1867, Orville in 1871). Like boys around the world, from childhood he was fascinated by flying.

At that time, the prospect of human flight was in the air, but it was an invention waiting to be born.

He toiled at different designs, building models and gradually evolved his own idea of a flying machine.

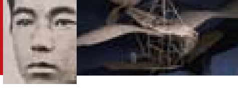
Like the Wrights, the self-taught Ninomiya relied heavily on his acute powers of observation. He kept copious notes (which still survive) of what he saw, particularly his insights into the flying creatures; birds, bugs and even flying fish.

As a result of his studies, Ninomiya recognised four areas of the aerodynamics of bird flight that were also crucial to the achievement of human flight.

Firstly, he established the relationship of lift and drag by watching crows and noting how they manoeuvred.

Secondly, he realised the relationship of the angle of attack and lift.

Thirdly, by measuring the wing areas, weight and flying speed of flying crea-



tures, insects and birds, he calculated the relationships of such elements as wing area, weight and airspeed, mastering by his observations the basic concepts of modern aerodynamics.

His fourth conclusion was his advocacy of the fixed wing at a time when other would-be aviators were promoting bird-inspired flapping, but hard-to-control, wings.

At the age of 20, after various jobs including time as a photographer's assistant, Ninomiya joined the army. He served as a medical orderly and after hospital hours worked on his designs and models. His prototype 'Crow', which he first flew in April 1891, was an important milestone.

The Crow not only had a startlingly modern look about it, but pointed the way to aircraft still far in the future. As well as his tricycle undercarriage, Ninomiya's single-wing configuration has become all but universal in civil and military aircraft.

Old models of Ninomiya's basic designs, the Crow and Jewel Bug airplanes (Photo: Yawatahama City)

Ninomiya saw the military potential of his invention – the first practical use of aircraft was reconnaissance – and in 1893 created his second design, the *Tamamushi* type. This he submitted to his army superiors. He suggested a programme of research and development. His ideas were haughtily rejected, not once, but three times.

The Japanese generals doubted Ninomiya's "toy" could be useful in battle. Even if it was, the thinking seemed to be university-trained engineer-officers were the people best to develop it. The humble foot soldier was simply not the right (or Wright) stuff. After his third rebuff, Ninomiya left the army medical service and went into the pharmaceutical business in Osaka, where he made some money to finance his plans to build and fly a man-carrying flying machine.

Funded by his Osaka business, Ninomiya set up a workshop in Yawata City, between Kyoto and Osaka, to prepare the *Tamamushi*, or Jewel Bug, in a full-size development of his 1893 design.

His first designs for the Tamamushi-type featured human pedal power to turn the propeller, but he eventually realised he needed a more powerful system.

It was while he was studying the use of a light motorbike engine, then incredibly expensive and only available as an import, that the news from Kittyhawk put a sudden stop to his ambitions. On December 17, Orville and Wilbur beat him into the air. It was a very close thing, but first is first.

Ninomiya took the news very badly. Despondent, he dropped work on his flight project and returned to the patent medicine business. He eventually became a wealthy man.

Consolation of a kind came in 1921 when his former army commanding officer wrote to him with a fulsome apology for rejecting his ideas a quarter of a century earlier. The letter was published in the Imperial Aeronautical Society's journal – recognition at last.

But Ninomiya never completely lost his interest in aviation. He founded a Shinto shrine dedicated to aviation in Yawata, a historical treasure which today houses a small museum dedicated to his pioneering achievements. The shrine is also dedicated to the souls of all who died on the hard road to successful aviation. Memorial ceremonies are conducted at Yawata on April 29 every year and are always attended by a representative of the prestigious Japan Aeronautical Association.

Ninomiya died in Kyoto in 1936 at the age of 70, and at the time was honoured by the Emperor and hailed by the flourishing Japanese aviation community as the "Father of Japanese Aircraft". Today, the thought arises that if he had been encouraged in the 1890s, Japan might have been a power in aviation well ahead of the aviation heroes of the U.S. and Europe.

Although he never realised powered flight, the replica 'Bug' flown in 1991 showed Ninomiya's design was on the right lines. According to professor- pilot Noguchi, the original design had a horizontal stability problem, corrected in the replica, and there was also lateral instability. "But if he had been able to use a gasoline engine, there's little doubt he would have flown," said Noguchi.

In his hometown of Yawatahama, in Shikoku, there is an annual "Ninomiya Day", an occasion when the local people celebrate his achievements with a model aircraft contest.

In honour of the Wright brothers achievement, Japan Airlines has a replica of the Wright Flyer in the lobby of its Tokyo headquarters. As we celebrate their achievement this year, the industry might spare a thought for the bitter-sweet story of the Japanese trailblazer. Ninomiya deserves his own modest place in the history of flight.■

The Jewel Bug replica at Nihon University in 1991 testing the aerodynamics using a car instead of a wind tunnel

Embraer has gained a production foothold in China, how soon will it be before its Canadian rival follows suit?

Bombardier plays it cool on Mainland manufacturing venture

Charles Anderson reports

As Embraer gets down to business in China through its manufacturing joint venture with Aviation Industry Corporation II (AVIC II), its major global rival, Bombardier, also is making moves to keep pace with the fast-growing domestic industry's decision to wean itself away from dependence on imported regional jets.

So far Bombardier, long a market leader in China through its CRJ and Dash-8 regional range and its Challenger business jets, has remained coy about the exact form it hopes any upcoming deal will take. But it is obvious the giant Canadian corporation does not want to be left behind as reorganisation of China's route structure into a hub and spoke model increases the scope for feeder airlines using regional jets.

Boeing's latest current market outlook forecasts the need for 1,550 new airplanes serving domestic Chinese routes over the next 20 years, with 1,200 of those being either single-aisle jetliners or regional jets.

"Given these changes, we're optimistic about the China market. But we have a lot of challenges ahead of us," said S.C. Xiao, vice-president sales, for Bombardier Regional Aircraft, China.

The biggest of those, according to Bombardier, is the decision by AVIC II's sister organisation, AVIC I, to build its own 72 to 79-seater short-haul jet in a US$600 million investment based in Xian, without the help of a foreign partner. The first ARJ21 – standing for Asian regional jet for the 21st century – will be completed by 2006.

Industry talk is precise about Bombardier's own joint venture plans. The company is said to have signed a Memorandum of Understanding with AVIC I to co-produce the CRJ700/900 large regional jets with Shanghai Aviation Industrial Corporation. Detailed discussions are believed to be continuing.

Bombardier Regional Aircraft, vice-president, sales China, S. C. Xiao: many challenges ahead

Bombardier itself will only go as far as saying in a general internal briefing document, also given to *Orient Aviation*, that it is "working on an as yet undisclosed plan to be part of China's future in regional aircraft production."

Whatever those plans are it is clear that they will not focus on the same kind of aircraft as the one assembled by Embraer in China.

Officially, Bombardier does not include Embraer's joint venture among the threats that could erode its market strength because, it argues, the 50-seat capacity of the planes Embraer and AVIC II will produce is too small.

"We gave that opportunity a pass because we believe a 70-seat aircraft would make a lot more economic sense than a 50-seat aircraft in China's airline market," said James Hoblyn, vice-president sales, operations and asset management, Bombardier Regional Aircraft. Its own plan "would dovetail nicely with the ARJ21 programme by filling the 70-seat void until the first aircraft enters service.

By that time we would have established a more permanent production foothold in China.”

Bombardier has good reason to claim it understands the China market better than most. It has 37 planes of all kinds flying throughout the country, with China Yunnan Airlines, Shandong Airlines and Shanghai Airlines utilising the 50-seat CRJ200s. Shandong has two 70-seat CRJ700s on order. Its Rainbow Jet subsidiary, part of Bombardier’s Flexjet network, employs two Challenger 604s, the corporate variant of the CRJ200, for its charter operations (see separate story).

Seven more Challengers are in service with China United Airlines, the Chinese Air Force’s commercial outfit, and China Ocean Aviation, the navy’s internal airline. Three Dash-8 Q400 turboprops are with Chang An Airlines, a member of the Hainan Air Group.

Many CRJs fly challenging routes such as to Shandong Airlines’ high-altitude destinations of Xining and Golmud in western China. Long-haul services include internal flights like Kunming to Shantou (Yunnan Airlines, 1,420 kilometres) and external, Shanghai to Vladivostock in Russia (Shanghai Airlines, 1,600 kilometres).

Although much of Bombardier’s representation in China is through regional jets, David Dixon, business aircraft vice-president of sales for Asia-Pacific, is bullish about prospects for his business aircraft.

“At the heavy end, the widebodies, we have 100% of the market. We are the brand of choice, I guess. But looking right across the board I see potential at the other end, with smaller aircraft, such as in the [lightweight] Lear 40 to 50 category. We should see more Challengers and beyond them the [ultra long-range] Global Express.”

Like many others, he believes easing of regulatory restrictions is key to the maturing of the market. “At the moment it is difficult to own your own plane in China. You need to work in association with one of the carriers that has an operator’s licence. I can see it will grow along those lines initially,” said Dixon.

“People will buy and then maybe go along to people like Rainbow Jet and say: ‘will you operate this for us because you have a licence?’ “

This growth through the airline sector is unlike anywhere else in the world, said Dixon. “The way you operate a corporate airliner and the way you operate an airline is usually very different. You have different sets of rules at service areas. It’s not a natural mix.

“As to size and ultimate scale, as a market to us, China is important. It will continue to be important, although it has a long way to go before it hits the European level, such as in the UK or Germany. But it is still a star performer in Asia,” said Dixon.

Bombardier Regional Aircraft vice-president, marketing, sales operations and asset management, James Hoblyn: 70-seat aircraft makes more economic sense than 50-seater in China

Bombardier Aerospace, Business Aircraft vice-president of sales for Asia-Pacific, David Dixon: training an important sales tool in the future

Pilot training facilities for the CRJ series were extended this year at the Qingdao Feisheng Training Centre, a joint venture between Bombardier and Shandong Airlines, with all Chinese airlines operating CRJ200s utilising the facility. Its two flight simulators will soon be upgraded to CRJ700 capability.

Apart from being a profitable business in its own right, Dixon sees training as a useful tool in Bombardier’s future sales drives, especially in the country he describes as Bombardier’s other star Asia-Pacific market: Australia.

Three Global Expresses, five Learjet 45s and three Challengers have been delivered there in the last year with Cathay Pacific Airways and Singapore Airlines using Lears for advanced pilot training at their facilities in Adelaide and Queensland respectively.

“Flight training is a regional thing. Every airline is a potential customer. They might want to go to Cathay and SIA to buy time. Not everyone wants to build their own infrastructure, because pilot time may vary,” said Dixon.

“I’m a great fan of the advanced training concept because we can secure brand names like Cathay and SIA. They can evaluate us the same way they evaluate a [Boeing] 747 or an Airbus. The quality of the airplane is the key.” ■

Cathay Pacific has a Learjet 45 for advanced pilot training in Adelaide, Australia

Last December when senior executives of Brazil's regional jet manufacturer, Embraer, and China's Aviation Industry Corporation II (AVIC II) signed a joint venture deal in Beijing to build regional jets at Harbin, northern China, in association with the Harbin Aircraft Industry (Group) Company, the event marked a turning point in the planemaker's history and signalled a major breakthrough in the Asia-Pacific market. TOM BALLANTYNE reports from Embraer's headquarters at Sao Jose dos Campos, Brazil.

BREAKT

China plane making ground floor access to

The last decade was traumatic for the world's regional aircraft industry as manufacturers Fokker, Saab and Fairchild Dornier closed their doors for good.

And, in the mid-1990s, the future of the then state-controlled Embraer was also in doubt. Plans to launch the now successful ERJ-145 were almost shelved as losses mounted at the Brazilian company. But following privatisation in 1995 and the appointment of dynamic president and CEO, Mauricio Botelho, Embraer has survived, expanded and netted major orders and record profits.

It was therefore hardly surprising that the champagne flowed when Embraer boss Botelho and AVIC II president, Zhang Yanzhong, signed their December agreement to form the Harbin Embraer Aircraft Industry Company and build the ERJ 135/140/145 family of aircraft in China.

The deal gives Embraer ground floor entry into one of the world's biggest markets for regional jets. The first aircraft is scheduled for delivery next December.

In its recent long-term forecast, Embraer, or Empresa Brasileira De Aeronautica S.A., predicted the global regional jet market would buy 8,610 aircraft, worth U.S.$180 billion, over the next two decades. The U.S. (56%) and Europe (21%) will dominate sales, but Asia, with 13%, is a rapidly growing market Embraer does not intend to ignore.

Through to 2020 some 490 regional jets are expected to be sold in the Asia-Pacific and another 640 in China. Embraer's executive vice-president for corporate communications, Horacio Aragones Forjaz, said the company estimated that for Embraer, sales of at least 100 aircraft are possible in China alone, with additional sales in the rest of Asia.

To date Embraer has five ERJ 145s flying with Sichuan Airlines in China.

Aragones Forjaz confirmed negotiations were underway with at least one other Chinese airline for Embraer jets, but declined to give details of the developing deals.

However, almost two years ago China Southern Airlines president, Wang Changsun, told *Orient Aviation* his airline was hoping to purchase 20 ERJ145s. Later in the year, South American sources said Embraer had 30 firm orders with two Chinese carriers and was awaiting the green light from the Chinese authorities to begin delivery of the airplanes.

Since then deliveries of a number of regional aircraft have been put on hold as some Chinese carriers withheld payment of a 22.85% import tax imposed by the China Aviation Supplies Corporation in April, 2001. It is believed Embraer was among the manufacturers affected by the airlines' decision.

The simple arithmetic suggests that if Embraer could capture 20% of the Asian market it will earn U.S.$5 billion in revenue from the region in the next 20 years.

The target is far from wishful thinking because the China joint venture has not been Embraer's only recent Asian success. India's Jet Airways will be the launch customer for the Embraer 175. It is a deal that will significantly boost Embraer's presence in another potentially huge Asian market – India.

The 175 is part of the Brazilian company's new family of regional jets, the 170/190 series, offering 70 to around 108-seat capacity. The 175, with 78 seats, is scheduled to make its first flight in June. Jet has signed for 10 aircraft, with options on

China to be 'important share o

MELODY SU, in Beijing, was at the signing of the joint venture between AVIC II and Embraer and spoke to the Brazilian manufacturer's president and CEO, Mauricio Botelho.

In 2000, Embraer won its first contract with a Chinese airline when Sichuan Airlines signed for five ERJ145s. "At the time, we could see great potential in China's regional aircraft market," said Botelho.

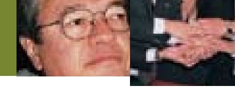
"More narrowbody than widebody aircraft were required by Chinese airlines and they were at the point of implementing a strong regional airline system. So we saw a very strong requirement for regional jets in the market.

"We believed that the best way to penetrate this market – rather than export jets to China – was to establish a corporation with the Chinese aviation industry which would allow us to strengthen our presence and develop aircraft here. We are very happy that after more than one year of discussions about the capabilities of the project, both sides at last were able to sit down at the table and sign the contract.

Embraer president and CEO, Mauricio Botelho

Botelho said the equity investment in the joint venture would be US$25 million, in which Embraer and Harbin Aircraft Industry (Group) Co. would take a 51% and 49% share respectively.

The new 24,000 sq. metre production and assembly plant in Harbin will be responsible for the manufacturing, assembly, sales and after-sale support for the ERJ 135/140/145 family of aircraft. The contract covers the production, under licence, of all versions of the ERJ family, to be marketed primarily in China. The new production unit will employ up to 220 people.



HROUGH

deal gives Embraer world's biggest market

All smiles: executives of Embraer and AVIC 11 close the joint venture deal

another 10. Deliveries will begin in late 2004.

Thailand's PB Air also has ordered three 70-seat 170s and two 50-seat 145s, with prospects of more orders as the Thai operator adds to its fledgling regional network.

In Japan, Embraer has also moved to lift its presence, by its appointment of the giant Marubeni Corporation as its agent for the 170/190 family.

It is the Chinese joint venture, however, that has given Embraer its biggest boost. Embraer also has a representative office and distribution centre in Beijing. Jointly run with the China Aviation Supplies Import and Export Corporation, the distribution centre holds more than 6,000 aircraft spare parts and components and is electronically connected to other centres in Brazil, Australia, England, France and U.S.

Embraer boss Botelho and his 12,000-plus staff are more than happy with recent progress in their business. Set up in 1969 as a state-owned company and privatised in 1995, Embraer produced 132 aircraft in 2002. That figure should rise to 148 this year and 155 in 2004.

In 2001, global sales generated a net profit of US$145.2 million on revenue of US$2.8 billion, which contributed nearly 5% of Brazil's total exports. In the first nine months of 2002, the latest figures available, revenue hit a record US$1.7 billion. The firm order backlog stood at US$9 billion, with another US$13.2 billion in options.

The successful ERJ 135/140/145 jet family, offering 37, 44 and 50 seats, is now deeply embedded in the regional airline psyche, with some 1,544 of the aircraft ordered since the programme began in the early 1990s.The Embraer 170/190 family (70 and 98 seats), now including the 175 and 195 (78 and 108 seats), has strengthened the product line. The 170 made its maiden flight in February last year and the first delivery will be to Swiss late this year. Embraer has accumulated 128 firm orders and 218 options for the 170/190 family.

The Brazilian manufacturer does not consider its entry into the 100-seat and above market throws it into direct competition with Boeing and Airbus and their smaller versions of the B737 and A320 families.

"While the 170/190 still offer the same comfort levels as the B737 and A318, in general we are dealing with different types of customer. They are large and powerful, but they are not in the regional jet market. In the main they are selling their smaller aircraft to major airlines, existing customers looking for a smaller capacity jet.

"We are selling to smaller regional airlines, already operating smaller aircraft, that are looking to introduce higher capacity jets. While there may be areas where we will be chasing orders from the same source, in the main we do not see ourselves as being in direct conflict with Airbus and Boeing," said Aragones Forjaz.

Regional airlines are not Embraer's only target. It expects to win a 10% slice of the corporate jet market, which is estimated to order nearly 7,500 jets from all makers in the next decade. ■

f Embraer's global business'

Will that mean competition for the ERJ family manufactured in Brazil?

"Absolutely not," said Botelho. "All orders from Chinese airlines will be made in China by the Harbin Embraer Aircraft Industry Company. The delivery of the first aircraft is scheduled for December 2003. Eventually aircraft may be exported from China to other countries, but that will depend on the market environment, with all parties being involved in whatever final decision is made."

The joint venture is now looking for its first customer. "We know there is great interest among Chinese airlines and we have one year to find a customer," said Botelho.

Before AVIC II opted for Embraer as its partner to manufacture regional jets, it was no secret that AVIC was in talks with the now defunct Fairchild Dornier. At that time negotiations broke down over technology transfer.

Will Embraer transfer its technology to China?

Botelho said there would be transfer of technology, but progressively. "The aircraft industry is a global industry. No one manufacturer has the capability to manufacture everything."

Embraer now has a very strong position in the Chinese aviation market, said Botelho. The company was in China for the long haul, not short-term results, he added.

"This event represents a landmark, not just in the history of Embraer, but also in the history of both countries' bilateral relations.

"We firmly believe the Harbin Embraer Aircraft Industry Company will be a powerful lever to expand the presence of our products in this flourishing Chinese market. For sure, it will represent an important share of Embraer's global operations," said Botelho at the signing ceremony.

He pointed out the regional airline market was very strong, even allowing for the events of September 11. ■

By Charles Anderson

Sales success for Citation in Australia, Japan. Meanwhile in China ...

New rules boost for Cessna

Chris Bogaars, Asia-Pacific sales director for Cessna, believes thinking small will lead to big things for his company in China as regulations on private aviation are relaxed.

Cessna did not enjoy a good year in its primary Asian target country as far as sales of the rugged Caravan range were concerned.

Only five deals were sealed in 2002, three to China Northern Airlines and two with Shandong Airlines. Some 30 options remain on the table at Shandong, where there had been strong hopes of adding to the seven Caravans already in operation at the carrier.

Last year's industry talk of the Jinan-based carrier continuing its rapid expansion has been muted as the airline goes through a period of consolidation. Profit figures fell 80% in the first nine months of 2002 thanks to higher taxes and loans for new aircraft. Its go-ahead president Sun Dehan, long the driving force behind the airline's growth, left towards the end of 2002 to become mayor of Binzhou, north of Jinan.

"It's been a tough year for us," said Bogaars, referring to the general economic climate as well as the China market. "We haven't done that well. We need to redouble our marketing efforts to take advantage of China's potential."

With the giant China Southern Airlines as the country's first Caravan customer and China Northern, now under China Southern's umbrella, continuing to buy from Cessna, Bogaars sees plenty of potential for further sales of Caravans to the large airlines. He also highlights possibilities in China's rugged western region, where there will be demand for planes that can land in tough terrain as the area opens up to commerce.

But his tone brightens noticeably when he talks more generally about changes afoot in aviation regulations that could mean rapidly improving prospects for the Caravans' little sisters, the Skyhawk, Skylane and Stationair models, Cessna's range of single-engine piston aircraft.

With the country easing its tight controls on private aviation from the beginning of May, he believes a new market is about to open. The changes, announced in mid-January, will allow freer operations for general aviation up to 600 metres. Anybody will be able to apply to air traffic control for permission to fly where before restrictions applied. Procedures will be simplified, cutting approval time from about a week to six hours.

Helicopters will benefit most at first, Bogaars said, but increasing the ceiling to 3,000 metres, which he hopes will come about, would be a major boost for the development of China's fledgling general aviation sector.

Such moves open the door to sales and training using the kind of small two to four-seaters for which Cessna is known worldwide.

Bogaars sees a knock-on effect from there as interest and knowledge of aviation increases among individuals and companies. Caravans also will take their share of a freer market when the sector moves on from its first stage of development to something more sophisticated.

China's understanding that change is needed in this area of the industry is reflected in visits by officials to Cessna's facilities in Wichita. "They were interested in both our manufacturing and talking to us about developing general aviation in China," said Bogaars.

"Cessna has been approached by a number of companies in China to talk about JVs and technology transfer on our single engine range, including the Caravan airplanes. Cessna would be interested in developing this relationship, possibly starting with some component manufacturing."

In Cessna's business jet division, Citation regional sales director for Asia-Pacific, Robert Hollander, sees a recently announced addition to his range doing good business in China and the rest of the region. The Citation Mustang, a new light jet which can be used for owner operation or pilot training, will be introduced in 2006 costing about US$2.3 million, the same price as a turboprop.

Hollander took seven orders from the region for the six-seater at the National Business Aircraft Association show in Orlando, Florida, last September and added another, from Japan, before the end of the year. Globally, Cessna had 300 Mustangs on order by year-end.

Cessna's Citation Mustang: overwhelmed by demand

"The demand really overwhelmed us," he said.

There was plenty of interest in the Citation range in China last year, but no decisions were forthcoming. Deliveries were to Japan and Australia. "We did terrifically well compared to our competitors in terms of deliveries," said Hollander.

He is optimistic about adding to the 72 Citations flying in the Asia-Pacific at present, hoping to increase what is a small market when compared to the U.S. and Europe. Globally, the 4,000th Citation will be delivered this year.

As with everyone, China remains a prime target. "The CAAC (Civil Aviation Administration of China) is making great strides in opening up the market," he said. "I am pretty confident that when that is done and people gain access to aircraft and own aircraft, we should increase our market share." ■

A Fair success

By Daniel Baron
in Tokyo

From its inception in January 1999, regional Japanese airline Fair Inc. set out to be unique: in a land of one-hour flights on 550-seat jumbos, it would ply under-served domestic routes with regional jets.

In doing so, it could avoid the problem plaguing Japan's other upstarts, i.e., taking on the majors on prime routes among fierce price competition and with little room to increase capacity.

Fair began service in August 2000, between Sendai and Osaka's Kansai International Airport, with one 50-seat Bombardier CRJ-100, followed by a second in April 2001.

A third aircraft, a CRJ-200, joined the fleet in March 2002. A fourth aircraft is due in June.

The flight path to survival has not been without major turbulence. The airline faced a cash crisis in Spring 2001 and nearly saw its leading stockholder hold back further funding, threatening collapse. In the surrounding political warfare, the company's founder and president was forced to step down. Then, as a result of the 9/11 tragedy in the U.S., Fair saw traffic drop and insurance costs balloon.

A new regime headed by current president and CEO, Hisatoshi Kiyota, picked up the reins in April 2001 and forged ahead with a rationalised business plan.

Kiyota said the right mix now for Fair is "emphasis on feeder routes, with point-to-point services where there is potential for long-term profitability".

Ironically, the flight originally meant as the bread and butter feeder service, Sendai-Kansai, did not deliver. Fair now flies into Osaka's Itami Airport, a move that saw load factor rise 15 points. "Kansai became unviable because of the high user charges, the shift by many foreign-bound flights to Narita and the simple fact that for point-to-point passengers, Itami is more convenient," said Kiyota.

Fair also dropped an unprofitable Sendai-Hiroshima service. Instead, the airline shifted its focus to feeding All Nippon Airways' (ANA) international flights at Narita, with code-shares under the name ANA Connection.

Fair began services between Narita and Osaka-Itami, Sendai and Sapporo on April 18 last year, when the airport's second runway opened.

Fair Inc president and CEO, Hisatoshi Kiyota: airline has overcome public perception that small aircraft are uncomfortable

At an airport long dominated by B747s, the sight of a diminutive CRJ has been a head-turner to say the least. "A friend joked that Narita did not feel like an international airport until CRJs arrived," said Kiyota, referring to the already large presence of regional aircraft at North American and European gateways.

The move has paid off. Fair's average load factors at Narita have, according to the company, held steady in the 75%-90% range, with those on Itami services reaching 96% in September last year.

Cost control has been the other key to turning a profit.

Fair employs only 115 persons: management staff plus cockpit/cabin crews and maintenance personnel. All reservations and most marketing/sales functions are farmed out to ANA.

The arrangement has worked well for both sides. "We pay ANA a considerable amount of money for their services," said Kiyota.

"But it is still cost-effective. It allows us to focus on the operation and planning while our friends at ANA take care of the rest. And they can put to better use aircraft that were too large for the markets."

Serving as a feeder at Narita is not without its headaches. Kiyota's biggest problem is under-utilised aircraft. "Because ANA flights arrive and depart around banks in the morning and late afternoon," he said, "we find ourselves with aircraft on the ground for four hours in the middle of the day. And point-to-point demand is too low to warrant flights between the banks."

Kiyota said that Fair would like to feed additional cities from Narita in the future. He added that only around 50% of his carrier's Narita passengers were in transit to and from ANA international flights.

The company is now exploring code-share relationships with non-Japanese airlines that use the airport.

The aircraft themselves have also presented unique challenges. As the first operator of CRJs for scheduled services in Japan, Fair went through time-consuming processes of familiarisation with the Japan Civil Aviation Bureau (JCAB) about certification.

Another challenge has been educating the public.

Fair had to change the prevailing perception that small aircraft were uncomfortable or more prone to turbulence.

Kiyota said advertising the aircraft's leather seats and generous seat pitch, plus word-of-mouth, helped to bridge the perception gap.

While filling passenger seats has become easier, filling the left seat in the cockpit remains a problem.

Kiyota explained that "unlike in other countries, the self defence force in Japan does not provide a pool of commercial pilot candidates. In addition, pilots here tend not to shift from one company to another. Even if they did, only we and one other company (a JAL subsidiary) operate the aircraft." Of Fair's 17 captains, 13 were on loan from ANA and then certified for the CRJ.

As for Japan's other new entrants, such as Skymark Airlines or the recently launched SkyNet Asia, Kiyota is somewhat sceptical.

"The potential for success is limited because of their approach, i.e., going up against the majors from Haneda, which is not profitable," he said. "Aircraft with under 60 seats are not even allowed into Haneda, so for us it was not an option from the beginning."

His carrier, Kiyota said, would continue to concentrate on feed at Narita and new point-to-point opportunities for the CRJ on regional routes.

That strategy seems to be the right one. Unlike Japan's other new carriers, Fair is upbeat, and is forecasting a profit for fiscal year 2003. ■

By Charles Anderson

New partners for Flexjet Asia

But further growth depends on quality resources

With the business charter market still in its infancy in much of the region, Bombardier is eyeing expansion of its Flexjet network of five independent operators with caution due to the scarcity of other top quality companies to approach.

Flexjet Asia-Pacific, an extension of the U.S. and European operations that promote access to Bombardier's business jets, has just completed its first year with two new partners, Singapore Technologies' Pacific Flight Services and ExecuJet Australia, joining the launch trio of Shandong Airlines' subsidiary Rainbow Jet, Philippino Subic International Air Charter and Jet Asia of Macau.

Two aircraft also have been added. Rainbow Jet has taken a Challenger 604 and Subic International a Learjet 60. Subic has a Challenger on order. On the operational side, Rainbow Jet has flown the first Chinese-registered business jet into India, a high-altitude route-proving flight to the Tibetan capital of Lhasa has been undertaken and a block charter deal with Shell to provide call-out services for the oil company and its guests was signed in China.

General manager, Gregory Kalinin, is pleased with the progress of Flexjet Asia-Pacific. "It has been a great year. A lot of our expectations have been surpassed," he said. But, when it comes to new partners, he strikes a note of caution.

"We are looking for controlled expansion. We would like to perhaps add another partner to the network. But that really depends on whether we can find another high calibre charter operator. They are a rare resource in the region. We would like to make sure we are covering the widest geography possible with the right kind of partners," he added.

However, any new operator will not come from China at present. Flexjet appears content to keep Rainbow Jet, which flies two Challengers, as its sole partner there. "We are very happy with our relationship with Rainbow Jet. I know it is not something we are actively considering," said Kalinin.

Flexjet Asia-Pacific uses Hong Kong, where it has its regional headquarters, and Washington D.C. as hubs from where information is gathered about the availability of Bombardier charter aircraft. Individual flights in a single country or utilisation of combined routes provided by any number of the five operators for cross-Asia travel can be provided.

"Our end goal is to increase utilisation of our partners' aircraft," said Kalinin. "This has a positive impact on the development of business aviation in the region in general and provides additional revenues to our partners. It also stimulates demand for new aircraft. In a sense it is enlightened self-interest."

Flexjet in Lhasa: diversity of destinations

Elsewhere, fractional ownership is a major component of Flexjet's business, but not in Asia. "It doesn't work here because there is a scarcity of aircraft necessary to run a large-scale programme. Also there are the various rules among the different countries to consider," said Kalinin.

The complexity of regulations governing Asia's air space is a major impediment to growth of the charter business as a whole, although Kalinin argued Flexjet can provide the answers for a company with an extensive itinerary for its executives across a number of jurisdictions.

"We can acquire the landing permits in different countries and leverage the expertise of our various partners," he said. "It is a way of bridging the difference between Asia and the U.S. and Asia and Europe for example. Obviously, though there is work to be done."

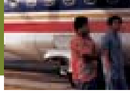
China, with its potential for brisk growth as foreign investment soars, has its own set of challenges. Overseas executives with a need for fast travel can find access for foreign aircraft restricted at the country's airports. Chinese registered planes have many official cost advantages on their side, meaning visitors are much more likely to use local operators for their travel needs.

Rainbow Jet's proving flight to Lhasa from Chengdu in Sichuan Province, using a Challenger 604, is an example of the diversity of destinations organisations like Flexjet must serve. Flexjet has received several charter requests to fly to Gongga airport, which sits at 3,500 metres in the Himalayan mountains. The airport is subject to adverse weather that can severely restrict accessibility during daytime hours. The Rainbow flight returned the same day.

However, business travellers are often forced to use a combination of alternative airports and ground transport or to fly commercially.

"The business charter market in China is in its infancy," said Kalinin. "It took a big step forward this year with Rainbow Jet. It offers a very high standard of service, a standard that executives from Europe and North America would not be able to distinguish from their western counterparts.

"It is a big step, but there is a lot of growth left. It will take time and it will not always be easy."



Deer Jet hiccup for Gulfstream

Gulfstream started 2003 with two new models on its production line and ambitions to add China to its traditionally strong markets of Japan and Australia, **writes Charles Anderson**.

December saw the 500th, and last, of its GIV-series aircraft rolled out at its manufacturing facility in Savannah, Georgia, and production of its new large cabin, mid-range G300 and long-range G400 begun, which means the company can offer aircraft at price and performance points which were not available before.

In Asia, which represents 5% of Gulfstream's annual business, the G100, G200 and G300 are seen as a good potential fit for the market, with the expectation of four to six sales per year. Four were sold in 2002.

Gulfstream's optimism must be tempered, however, by a delay and possible change to the US$60 million order for three mid-sized G200s to Hainan Airlines' Beijing-based Deer Jet subsidiary.

The first was due to arrive in the third quarter of 2002 and the last in early 2003.

"Hainan has initiated a re-evaluation of its Deer Jet subsidiary's fleet mix in response to changes in market requirements in China," Gulfstream said in answer to questions from Orient Aviation. *"This evaluation may result in the number of Gulfstreams and model types changing."*

The company believes it has the right product mix for China. It claims the G100 and G150 are better alternatives to existing H800XP and Citation fleets, that G200 and G300s are well suited as regional business jets and G400, G500 and G550s are well equipped for global Chinese companies and the government.

Gulfstream has 23 planes based in North Asia at present, with a G200 due to go into charter service soon with MetroJet, which will operate and maintain it from its base at the Hong Kong Business Aircraft Centre at the new international airport. A Gulfstream IV was put into service at the centre in April 2001 to increase Gulfstream's profile in the area.

ATR holds high hopes for Asia-Pacific

By Charles Anderson

A Bangkok Airways ATR72 unloading at Koh Samui airport

Asia-Pacific counted for nearly half the aircraft sold by Avions de Transport Regional (ATR) in 2002, with Christopher Clarenc, ATR's vice-president sales for the Asia-Pacific, convinced the simple and reliable turboprops produced at the company's Toulouse factory have a healthy future in this part of the world.

Bangkok Airways ordered three 70-seat ATR72-500s, with delivery starting in the second half of 2003, bringing its total orders over the last two years to nine. Air New Zealand took two of the same aircraft configured to 66 seats, Air Tahiti one and the government of French Polynesia one 43-passenger ATR42-500. That makes seven out of ATR's global total of 16; not a large number when compared to other manufacturers, but enough after an internal reorganisation and slimming down to turn a profit.

"ATR is very much convinced that Asia is a market with good potential, but in the short-term it is very difficult to define, mainly because of the uncertainty surrounding the Iraq situation," said Clarenc. "Longer term, if you look at the aircraft being operated here, a significant number carry between 30 and 70 passengers. Most of those flying are ageing significantly and will need to be replaced in the next five to 10 years."

Turboprops, Clarenc argues, are still the answer for markets where yields are low, sectors comparatively short, airports are not so well equipped and where operators can be flying two or three aircraft in out-of-the-way places. ATR has 75 passenger aircraft in service in the Asia-Pacific.

"The cost advantage over a small jet under these circumstances is significant," he said. "Our planes are well proven in different countries and ideal for smaller operations. The turboprop is alive and well. The market is smaller than 10 years ago, but there are fewer competitors now. We can make a good living out of it."

China, where ATR has five of its 72 series with Xinjiang Airlines, is not seen as a major sales area as yet. "It is a huge market, but it is just starting out," said Clarenc. "Trunk routes come first and the smaller routes will be developed later." Competition from homemade turboprops has made the going tough.

"We are in touch with the market. We are interested in getting in, but we don't see as much short-term potential in China as we see in Southeast Asia and the Pacific," he said.

Secondhand sales figured prominently on ATR's balance sheet in 2002, but only a very few of the 53 transactions were made in the Asia-Pacific. "We have difficulty selling used aircraft in this part of the world," said Clarenc. "The market which is best-suited for them, places like Indonesia and the Philippines, is very depressed nowadays. We are still working on it, but it is taking longer than expected."

TOM BALLANTYNE
reports from Toulouse

Airbus working on domestic A380 plan for Japan

With eight airlines, leasing company ILFC and freight giant FedEx already in the bag with firm commitments for 103 of their giant A380 jets, senior executives at Airbus Industrie are so sure Japan Airlines (JAL) and All Nippon Airways (ANA) will join the customer list they have set up a special task force to find an answer to a peculiar Japanese problem – use of the aircraft on high-density, rapid-turnaround, short-haul domestic routes.

Japan, where Boeing B747s are already used as giant shuttles carrying more than 550 passengers between Tokyo-Osaka and Tokyo-Sapporo, is the only country in the world where a domestic version of the jet is likely to be viable. The 555-seat A380 could carry more than 800 travellers in a Japanese all economy domestic configuration.

The problem? The first edition of the new plane, the A380-800, is a long-haul international aircraft. A domestic version, which would require strengthening the undercarriage and other parts of the aircraft to cope with a higher number of flight cycles, take-offs and landings, will not be available until around 2010, according to Thomas Burger, marketing analyst for the A380 marketing division.

But Burger said Airbus has a team of engineers looking at ways the original model could be used temporarily by the Japanese airlines on domestic routes until the domestic version is available.

The trick will be to work out a way of making the "temporary fix" not too expensive and uneconomical to operate.

To date, reaction in some quarters to using the A380 in domestic service has, publicly at least, been cool. JAL president Isao Kaneko told *Orient Aviation*: "We are studying the A380, but I think it is very difficult to think of that aircraft effectively in terms of domestic operation, because of the problem of turn-around time restriction. We already use B747-400 aircraft with 568 seats and B777-300s with 470 seats, which is plenty of capacity for us."

John Leahy, Airbus executive vice-president customer affairs, is not deterred. He said he believed it "inevitable" that Japanese operators would order the A380 at some stage for both domestic and international use.

He said the leviathan was ideal for domestic operations in Japan where major airports were congested and slots scarce.

Airbus is turning up the heat. It launched a major advertising campaign which touted the A380 in Japanese newspapers in January. Insiders suggested ANA, currently looking to buy up to 45 smaller aircraft, is being offered a rock-bottom price on these planes if it takes the A380 as well. The European planemaker knows if it can win the heart of one of the two big Japanese carriers, the other will almost certainly follow.

Qantas Airways' first of 13 A330s entered service in February

Airbus also is confident the A380-800 will join the fleets of China's airlines. Chinese Premier Zhu Rongji visited the A380 mock-up in Toulouse last year. He told Airbus chief executive Noel Forgeard and Leahy that he would like to see it operating with one of the country's airlines in time for the 2008 Olympic Games in Beijing.

Leahy has set his salesmen a "modest" target of clinching one new A380 order for the jet every year.

They made an early start in 2003 when Malaysia Airlines signed a Memorandum of Understanding (MoU) in January for six A380s. The first three are scheduled for delivery in 2007 and three more in the following year. MAS would become the third Asian A380 operator, joining Singapore Airlines and Qantas.

Airbus is on a roll in the Asia-Pacific. In December, Qantas, a long-time Boeing diehard customer, took delivery of the first of 13 A330s. It has also ordered 12 A380s. The A330s will operate on the Qantas domestic routes. The first one entered service in February.

Also in December, Taiwan's China Airlines announced an order for 12 Airbus A330-300s, with options on another six. It is the airline's first A330 order, following the acquisition of the longer-range sister aircraft, the A340, in 1999. The A330s are scheduled for delivery from mid-2004 to 2007 and will be deployed on the carrier's regional network.

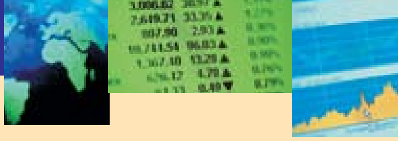
In the South Pacific, Fiji's Air Pacific – part-owned by Qantas – will add two A330-300s to its fleet this year. The carrier is leasing two B747-200s from SIA, too, as part of its biggest ever expansion.

Air New Zealand, until now an all-Boeing operator, has ordered 15 single-aisle A320s.

In February, Air Tahiti Nui took delivery of two additional A340-300s – it already has two of the type. They will mainly fly to the U.S., Japan and Europe.

Meanwhile, Airbus is making significant inroads into the cargo market. Air Hong Kong (AHK) is to purchase six Airbus A300-600F freighters and has options on four more. They will be used to expand AHK's operations within the Asian region. AHK is 70%-owned by Cathay Pacific Airways and 30% by DHL Worldwide Express. The wide-body aircraft are scheduled for delivery between the second half of 2004 and the first quarter of 2005.

On the Indian subcontinent, Airbus appears about to win a US$2.1 billion deal to sell 43 A319/320/321 single-aisle jets to government-owned Indian Airlines. No official announcement has yet been made by the planemaker or the airline but French prime minister, Jean-Pierre Raffarin, admitted a possible deal during a visit to India in February. ■



STATISTICS FOR NOVEMBER, 2002

EIGHT BIG MONTHS FOR CARGO TRAFFIC

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

The AAPA member carriers' consolidated revenue passenger kilometres (RPKs) and passengers carried (PAX) grew by 27.8% and 23.2% respectively in November, compared to the same month in 2001. Seat capacity was 13.6% above the level reported a year earlier, but still considerably lagged behind the growth in RPKs. This resulted in a passenger load factor (PLF) increase of 7.7 percentage points, to 70.7%.

Individual member airlines, with the exception of Royal Brunei Airlines (BI) and Garuda Indonesia (GA), reported brisk growth from a low base in 2001: the year of the '9/11' attacks. Royal Brunei was largely unaffected by '9/11' and as a result registered more consistent growth of 6.5% year-on-year. On the other hand, Garuda Indonesia experienced another month of decline in passenger traffic.

Five carriers – EVA Air (BR), Korean Air (KE), Asiana Airlines (OZ), Thai Airways International (TG) and Vietnam Airlines (VN) – saw the number of passengers carried to November surpass figures for all of 2001. With the exception of Korean Air, they also registered year-to-date RPKs that were higher than 2001.

Only Garuda Indonesia, suffering from the effects of the Bali bomb blasts, registered a deterioration in PLF in November, even though it cut capacity by more than 20%. Eight carriers reported load factors in the 70% range, with All Nippon Airways (NH) registering the highest load factor (73.6%).

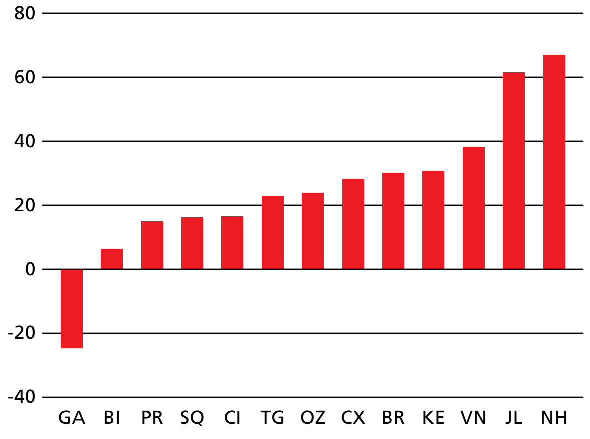
CARGO

The freight sector continued to post excellent results. AAPA carriers' consolidated freight tonne kilometres (FTKs) grew 21.1% in November. It was the eighth straight month of double-digit growth. Capacity grew 14.9% and the freight load factor (FLF) rose to 72.9%, an increase of 3.7 percentage points.

Bullish demand for airfreight on key routes continued to drive carriers' growth. It is encouraging that the increase in freight capacity was relatively in line with rising demand.

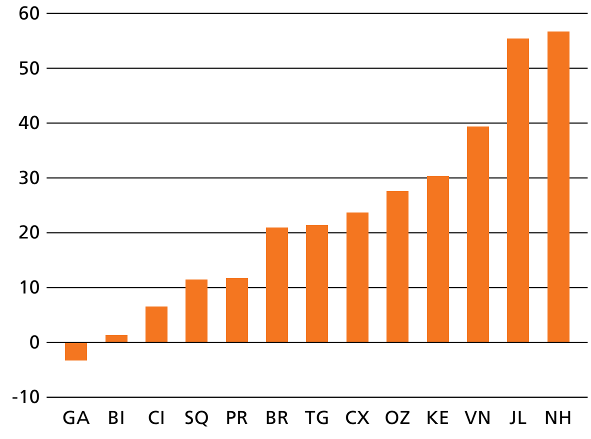
RPK GROWTH BY CARRIER

Percentage (Nov 02 vs Nov 01)



PAX GROWTH BY CARRIER

Percentage (Nov 02 vs Nov 01)



Royal Brunei Airlines: largely unaffected by '9/11', it registered a consistent growth rate of 6.5% year-on-year.

Korean and Taiwanese carriers averaged double-digit FTK growth, while they maintained a FLF in excess of 75% for the eleven months to November.

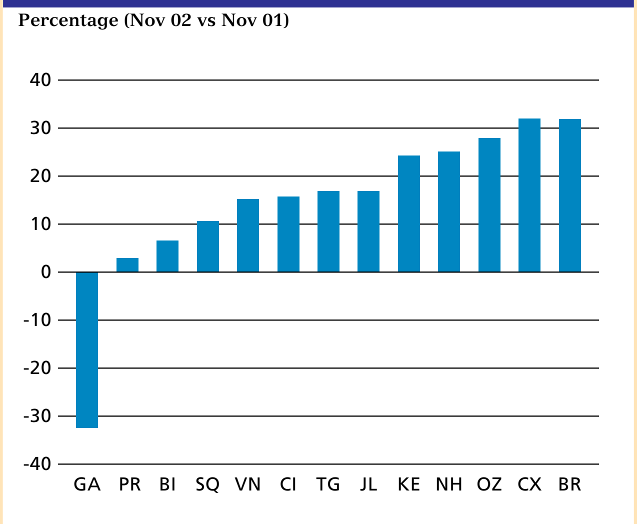
Nine carriers reported increases in FLF, with Royal Brunei Airlines leading the pack. But Garuda Indonesia, Korean Air, Philippine Airlines (PR) and Vietnam Airlines experienced a decline in load factor. China Airlines (CI) recorded the highest load factor in the month under review (82%), followed by Asiana Airlines (79.5%), Korean Air (76.8%) and Cathay Pacific Airways (CX) at 76.5%.

RESULTS OF THE 12 MONTHS TO NOVEMBER 30, 2002

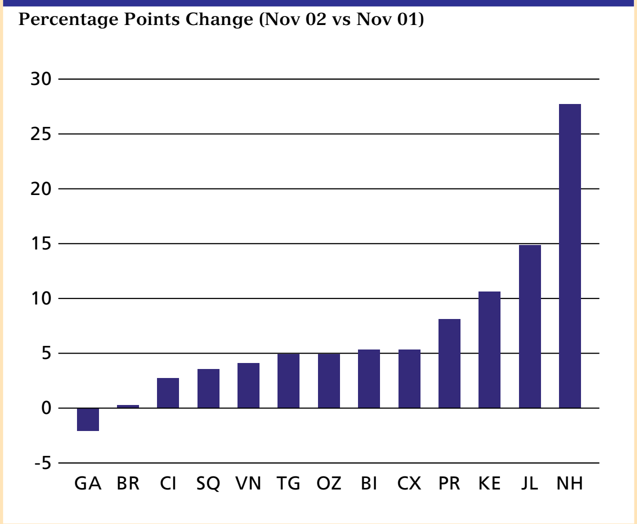
PASSENGER

AAPA consolidated international RPKs for the 12-month period to November 30 grew 3.3%, but PAX grew at a much faster rate, up 5.1%. Capacity was down marginally, which resulted in a load factor of 74.4%, up 2.8 percentage points.

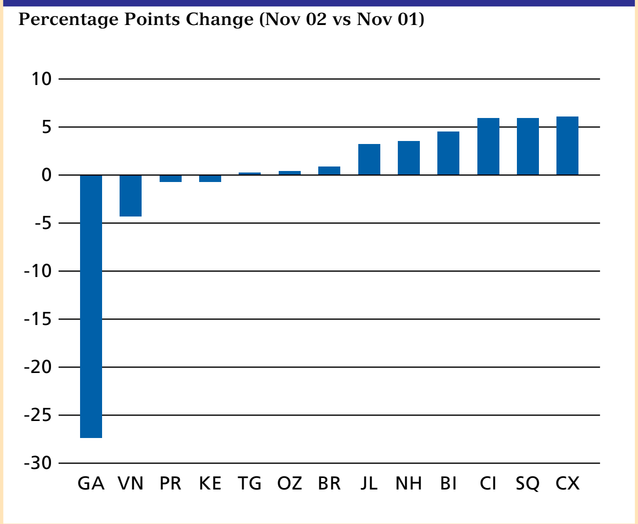
FTK GROWTH BY CARRIER

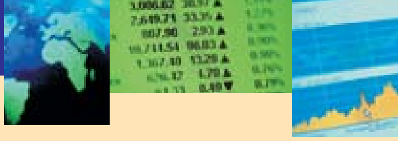


PASSENGER LOAD FACTOR GROWTH BY CARRIER



FREIGHT LOAD FACTOR GROWTH BY CARRIER





CARGO

Consolidated international FTKs for the 12-month period to November 30 grew 12.7%. Capacity was up 5.3%, which resulted in a load factor of 69%, an increase of 4.5 percentage points.

SUMMARY

Year-to-date RPKs increased 4.7% for AAPA carriers, which is in stark contrast to the negative growth of 0.9% reported by the International Air Transport Association (IATA) for its members in the same period. The number of passengers carried topped the 100 million mark and was certain to surpass the 2000 level of 103.5 million for the full year. Similarly, in the freight sector, FTKs were expected to post full-year growth in the region of 15% over 2001.

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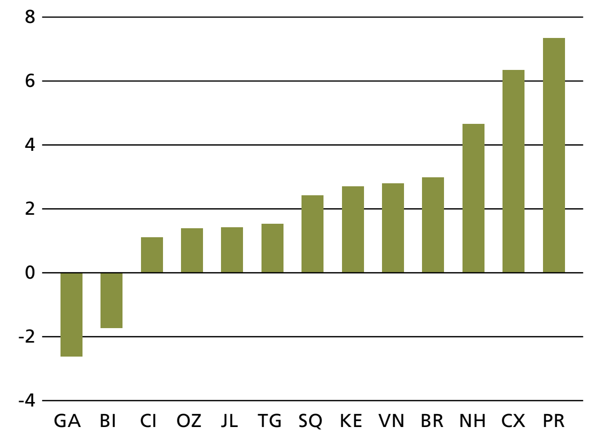
PASSENGER LOAD FACTOR GROWTH BY CARRIER

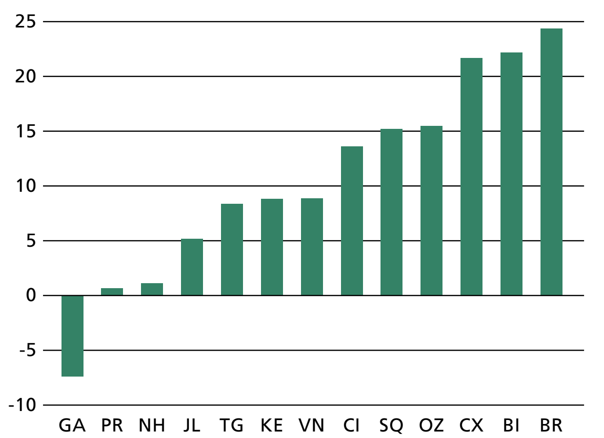
Percentage Points Change (Dec 01 - Nov 02 vs Dec 00 - Nov 01)



Japan Airlines: shared the highest RPK growth in November, compared to a year earlier, with its rival All Nippon Airways

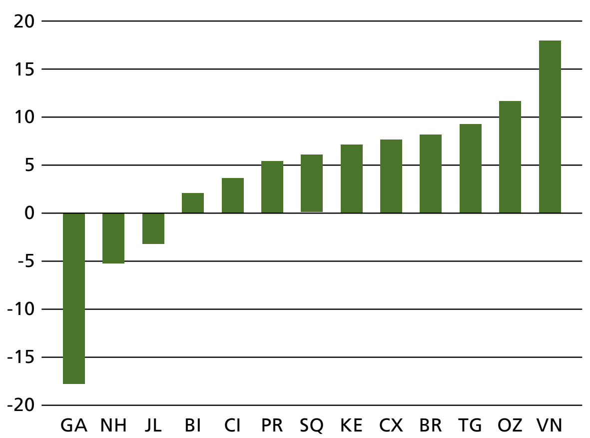
FTK GROWTH BY CARRIER

Percentage (Dec 01 - Nov 02 vs Dec 00 - Nov 01)



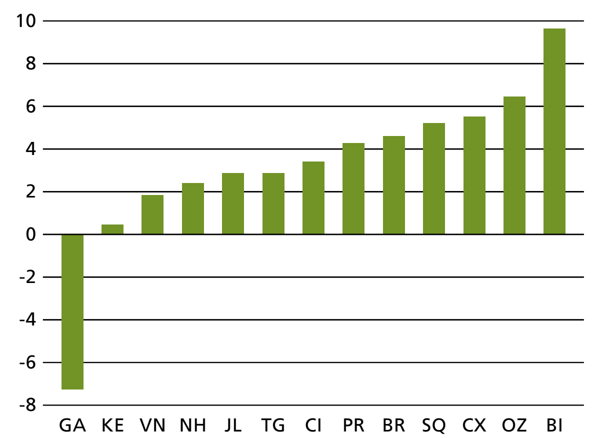
RPK GROWTH BY CARRIER

Percentage (Dec 01 - Nov 02 vs Dec 00 - Nov 01)

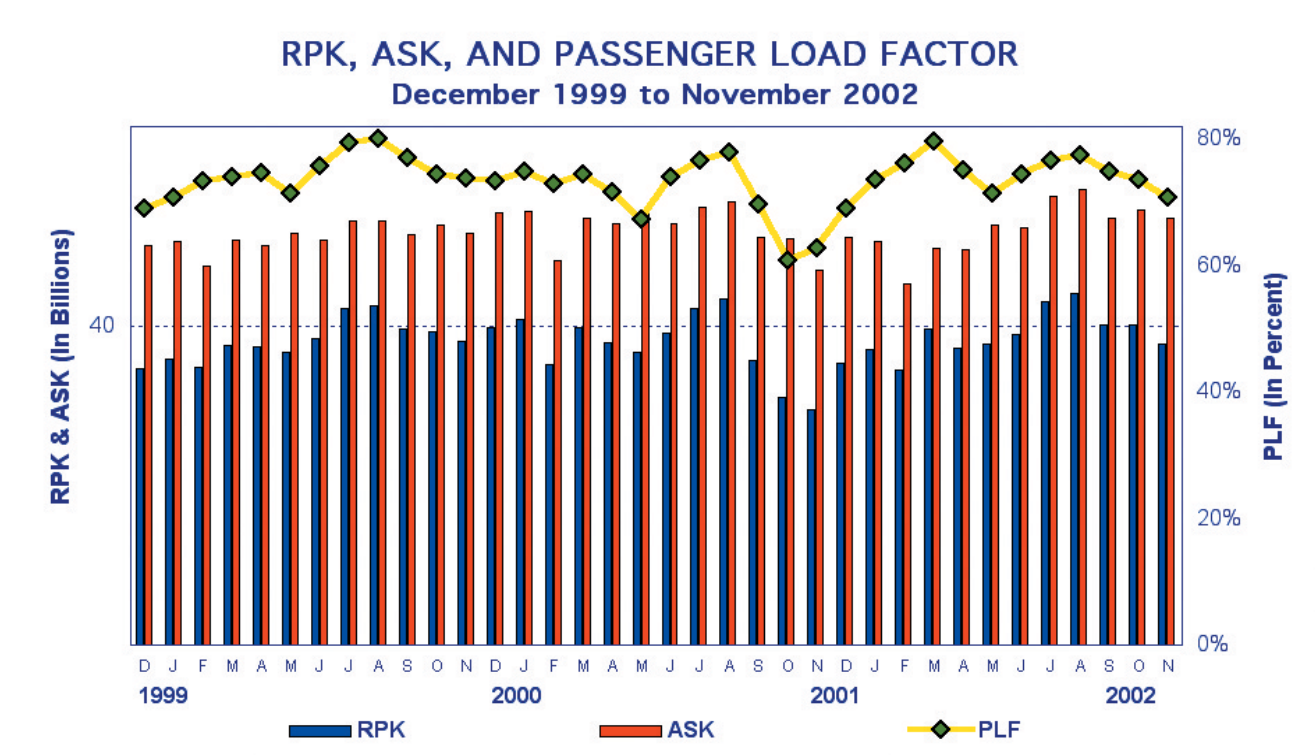


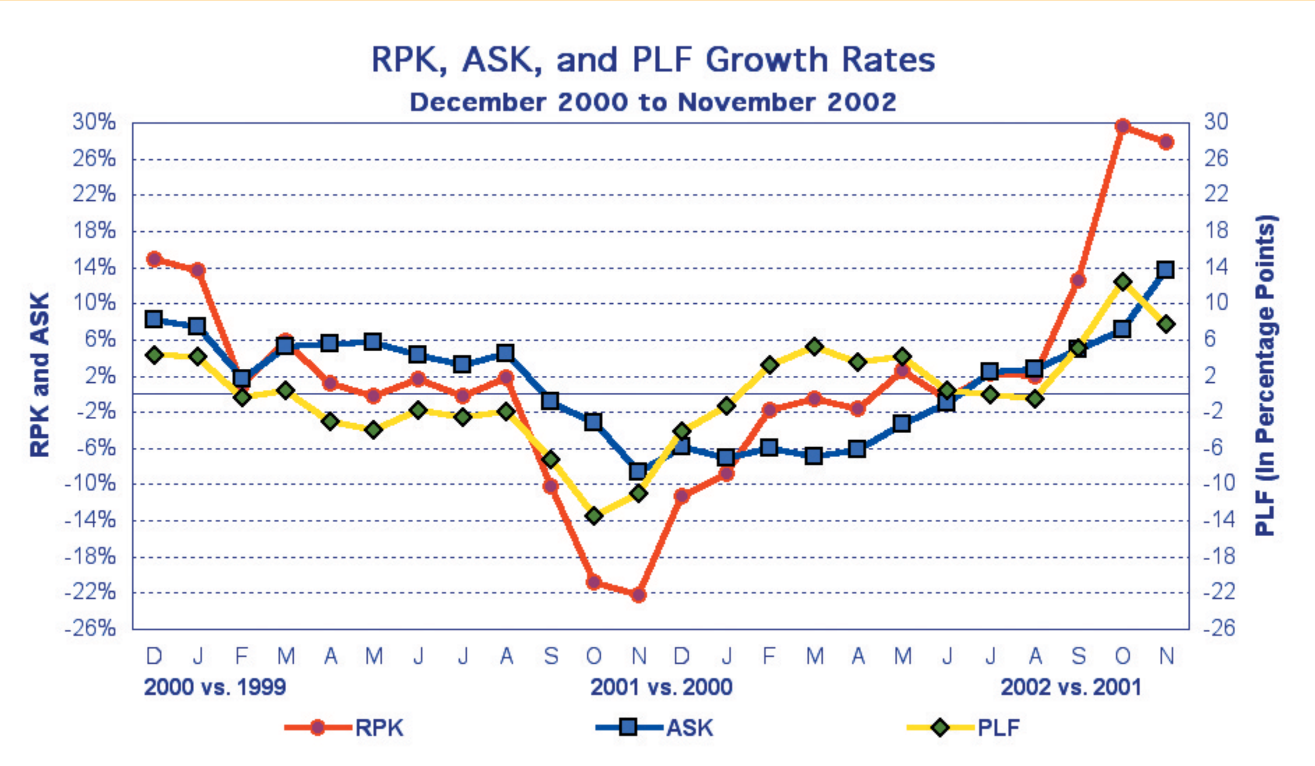
FREIGHT LOAD FACTOR GROWTH BY CARRIER

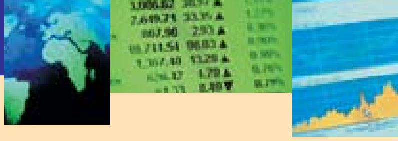
Percentage Points Change (Dec 01 - Nov 02 vs Dec 00 - Nov 01)



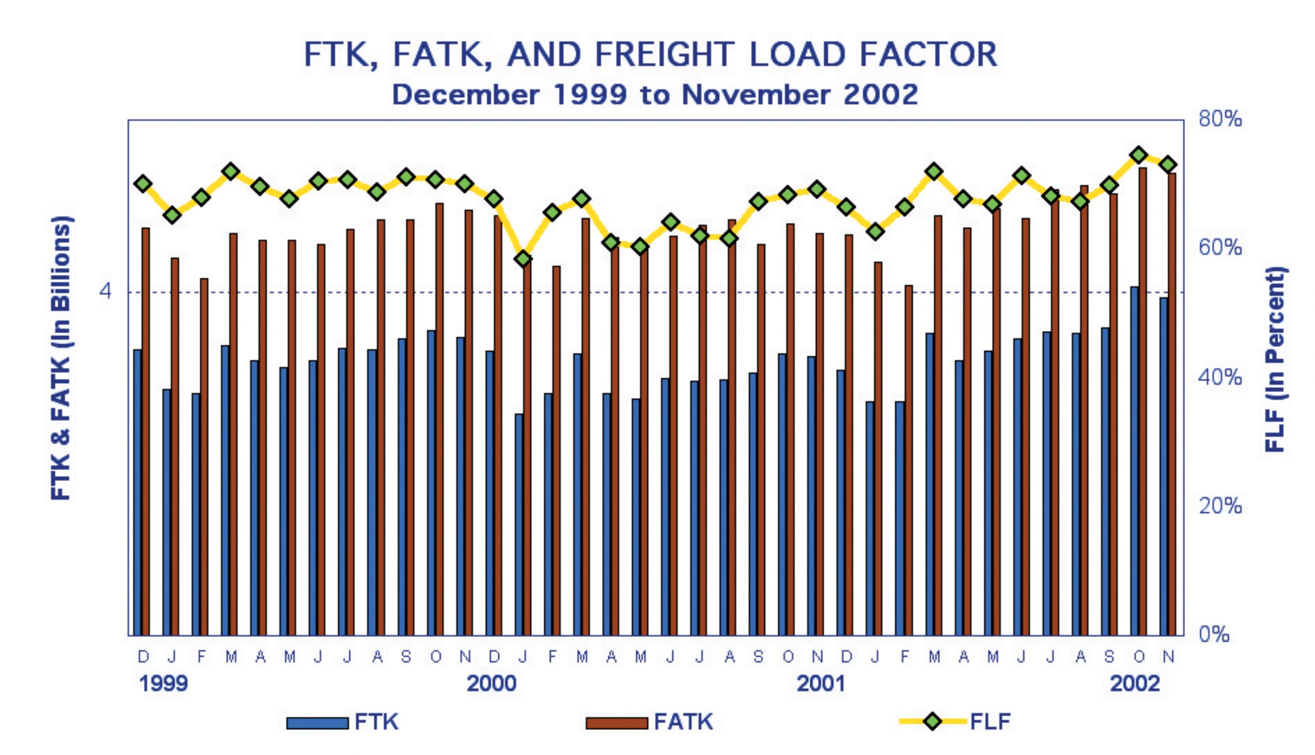
MONTHLY INTERNATIONAL PAX STATISTICS OF AAPA MEMBERS

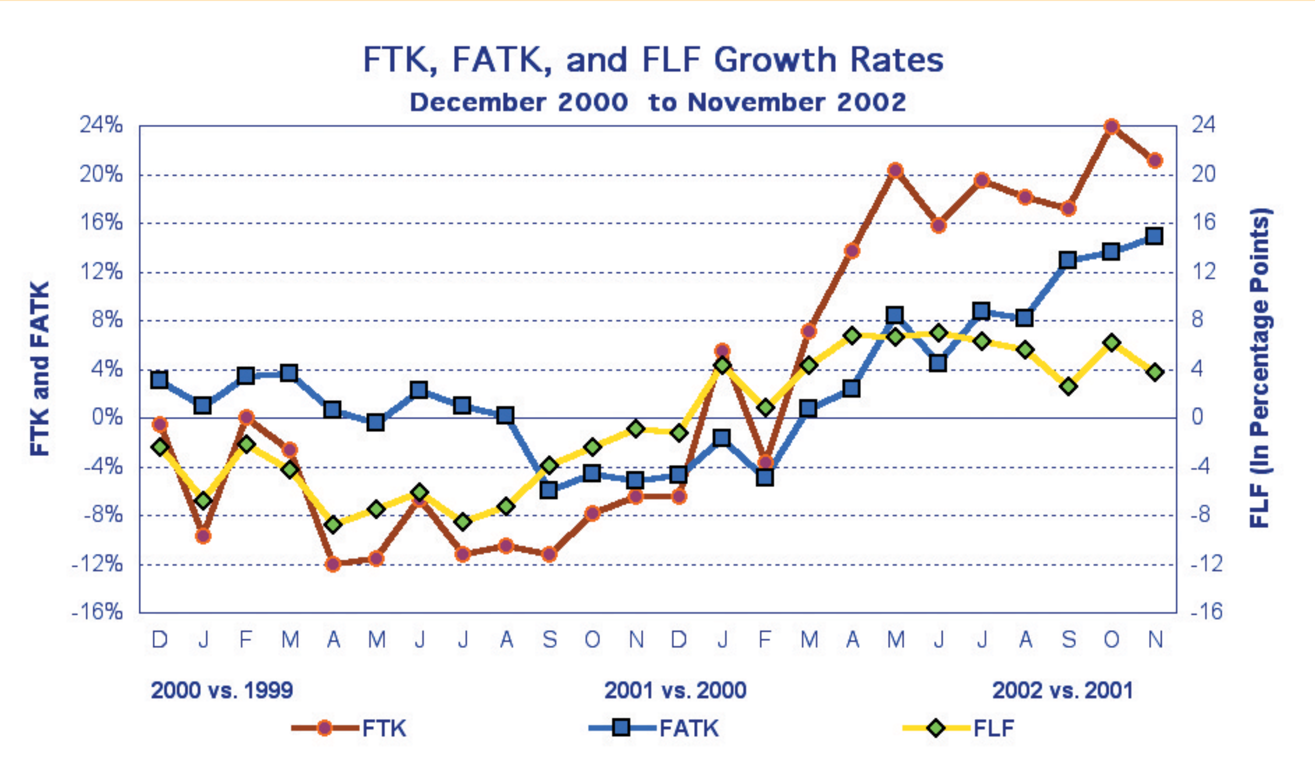


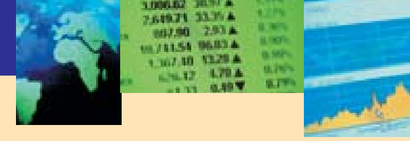




MONTHLY INTERNATIONAL CARGO STATISTICS OF AAPA MEMBERS







AAPA MONTHLY INTERNATIONAL STATISTICS SUMMARY OF CONSOLIDATED RESULTS IN THOUSANDS

2001 TO 2002

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
DEC-01	35,267,317	51,023,617	69.12	3,090,062	4,655,223	66.38	6,346,707	9,307,797	8,384
JAN-02	37,126,908	50,541,963	73.46	2,723,224	4,352,161	62.57	6,215,154	8,960,696	8,481
FEB-02	34,506,659	45,314,221	76.15	2,714,321	4,081,188	66.51	6,343,335	7,842,815	8,298\
MAR-02	39,611,128	49,729,631	79.65	3,512,735	4,881,714	71.96	7,247,896	9,438,779	9,350
APR-02	37,255,496	49,573,917	75.15	3,203,656	4,738,718	67.61	6,688,035	9,267,518	8,872
MAY-02	37,650,015	52,692,923	71.45	3,315,590	4,960,585	66.84	6,856,231	9,740,280	8,824
JUN-02	38,886,391	52,282,994	74.38	3,459,836	4,859,617	71.20	7,121,377	9,635,831	8,761
JUL-02	43,053,295	56,186,324	76.63	3,540,061	5,191,938	68.18	7,579,883	10,324,348	9,807
AUG-02	44,119,032	57,033,266	77.36	3,515,664	5,231,860	67.20	7,652,749	10,527,528	10,210
SEP-02	40,065,129	53,543,048	74.83	3,587,644	5,143,415	69.75	7,342,205	10,121,091	9,161
OCT-02	40,155,456	54,600,437	73.54	4,059,736	5,445,443	74.55	7,825,608	10,526,613	9,432
NOV-02	37,774,160	53,457,660	70.66	3,926,791	5,383,582	72.94	7,523,442	10,347,851	8,882
TOTAL	465,470,988	625,980,001	74.36	40,649,321	58,925,443	68.98	84,742,622	116,041,146	108,461

2001 TO 2002

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
DEC-01	-11.27	-5.92	-4.16	-6.55	-4.75	-1.28	-9.93	-5.61	-5.22
JAN-02	-8.89	-7.12	-1.42	5.50	-1.72	4.28	-2.94	-4.93	-6.32
FEB-02	-1.81	-5.98	3.23	-3.70	-4.95	0.86	3.59	-9.86	3.58
MAR-02	-0.52	-6.98	5.18	7.09	0.68	4.31	3.19	-2.95	3.00
APR-02	-1.65	-6.26	3.53	13.62	2.27	6.76	4.85	-1.99	1.82
MAY-02	2.58	-3.31	4.10	20.27	8.30	6.65	10.24	2.04	4.03
JUN-02	-0.56	-1.11	0.41	15.75	4.41	6.97	6.83	1.64	-0.93
JUL-02	2.25	2.33	-0.06	19.51	8.75	6.26	9.70	5.46	3.51
AUG-02	1.85	2.65	-0.61	18.04	8.13	5.62	8.84	6.26	3.92
SEP-02	12.54	4.91	5.00	17.20	12.90	2.57	14.60	9.89	11.32
OCT-02	29.50	7.11	12.44	23.87	13.59	6.17	27.22	11.53	26.17
NOV-02	27.76	13.62	7.70	21.05	14.90	3.69	25.85	15.30	23.17
GROWTH	3.27	-0.65	2.82	12.68	5.27	4.53	8.18	2.23	5.06

CALENDAR YEAR[4]

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
1997	387,763,016	561,392,742	69.07	31,741,381	45,688,853	69.47	67,739,088	96,736,079	88,696
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	462,466,095	617,787,854	74.86	39,020,611	56,255,588	69.36	82,533,153	112,874,721	103,527
2001	446,262,043	626,881,408	71.19	35,858,596	55,742,084	64.33	77,638,545	112,962,219	102,778
2002	430,203,671	574,956,384	74.82	37,559,259	54,270,220	69.21	78,395,915	106,733,349	100,077

CALENDAR YEAR[5]

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
1998	-1.46	-0.76	-0.49	-2.47	1.13	-2.47	-2.36	0.48	-2.82
1999	9.08	3.43	3.75	13.95	11.50	1.47	12.15	7.45	9.33
2000	10.95	7.21	2.53	10.61	9.19	0.89	11.26	8.08	9.85
2001	-3.50	1.47	-3.67	-8.10	-0.91	-5.03	-5.93	0.08	-0.73
2002[5]	4.67	-0.16	3.45	14.62	6.23	5.07	9.96	2.97	6.02

Note:

1. The consolidation includes 15 participating airlines. Consolidated results for JAN - NOV 2002 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 - NOV 2002.
5. YTD comparison: JAN - NOV 2002 v JAN - NOV 2001.