MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

Orient aviation

VOL. 10 NO. 4 FEBRUARY 2003

10th Anniversary Year

WELCOME HOME, ROD

Back in Hong Kong, British Airways CEO and former Cathay Pacific boss, Rod Eddington, is optimistic about Asia's airline industry

No-frills carriers: can they succeed in the Asia-Pacific?

'Make or break' time for Air NZ

Special report: Engineering & Maintenance in the Asia-Pacific

A Wilson Press publication

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Published 10 times a year
February, March, April, May, June, July/August, September, October, November and December/January.

Orient aviation

VOL. 10 NO. 4 FEBRUARY 2003

COVER STORY

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British Airways CEO and former Cathay Pacific boss, Rod Eddington, talks optimistically of Asia's airline industry

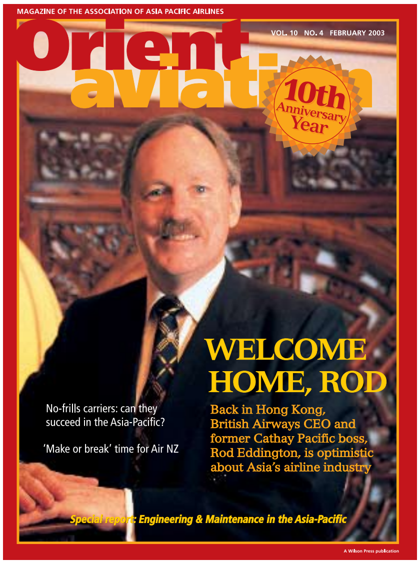

Photo: Patrick Dunne

NEWS

MAIN STORY

SPECIAL REPORT – ENGINEERING & MAINTENANCE IN THE ASIA-PACIFIC

REGULAR FEATURES

HERE TO STAY

The potential for a boom in no-frills and low-cost airline operations in the Asia-Pacific has been the subject of heated debate for several years. Many analysts and industry observers doubt the phenomenal success of budget flying in Europe and the U.S. can be cloned in Asia's skies ... and with good reason. Asia is not Europe with its deregulated air market that allows airlines free cross-border operations between a multitude of nations. Neither is it North America, where the skies are open between the U.S. and Canada (as well as some South American nations).

In this region, airline operations take place within a regulatory straightjacket, a plethora of individual air service agreements and on intra-regional routes. These routes are already dominated by major national flag carriers whose rights and profit-making ability are jealously protected by their government guardians.

There is airport slot congestion and, in many cases, a lack of sufficient infrastructure at secondary airports to facilitate opportunity for the secondary point-to-point services on which low-cost carriers thrive. Some countries, such as Singapore, have little or no domestic traffic, meaning a budget airline must necessarily be an international airline to have any hope of survival.

Despite this, there is clearly a place in the region for these brash newcomers. AirAsia in Malaysia (helped by the troubles of Malaysia Airlines) and Virgin Blue in Australia (its survival assured by the collapse of Ansett Australia) have proven the point. That big airlines are nervous about low-cost upstarts cherry-picking their markets is evident by the emergence of Qantas' Australian Airlines and the proposed new no-frills carrier planned by Thai Airways International. Whether forays by national flag carriers into no-frills or low-cost subsidiaries will ultimately be successful remains to be seen. The record for this type of operation has not been covered in glory in Europe.

What is clear is that Asia-Pacific air passengers are no different from travellers elsewhere. They want safe, quality service at the lowest price. For this reason, low-cost airlines will become a permanent part of the fabric of aviation in the region.

However, they are unlikely to reach the size or maturity of a Ryanair, easyJet or Southwest Airlines until intra-regional air routes are liberalised. Initially, that will probably happen on a sub-regional basis (such as within Asean).

It will be many years before the Asia-Pacific offers the European Union-style access new low-cost carriers require to survive and prosper on a large scale.

TOM BALLANTYNE
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PERSPECTIVE

CLASSY: Oh, to have been a fly on the wall. It was a couple of months before Christmas when what many might have thought "unthinkable" occurred.

The place was Toulouse, France and **Alan Mulally**, president and chief executive of the **Boeing Commercial Airplane Group** was coming to the hometown of archrival Airbus to deliver a speech at the local university. Mullaly's office called Airbus to inquire if a visit might be arranged. "Why not?" was the answer. So Mulally and his small team, including Boeing vice-president and programme manager for the now shelved Sonic Cruiser, **Walt Gillette**, visited **Airbus** and met with Airbus president and CEO, **Noël Forgeard**, and executive vice-president customer affairs, **John Leahy**.

Boeing's chief Mulally

Events moved along so smoothly that the professional rivals enjoyed a cosy dinner together the same evening. The next day the Boeing team returned for a personal guided tour of the A380 mock-up. It must have been quite an eye opener for the Airbus staff.

Orient Aviation understands the dinner included some "vigorous debate" between senior engineers from the two airplane manufacturers about the Sonic Cruiser.

By the way, before Mulally arrived, it suddenly occurred to Airbus staff that the *soiree* might raise some eyebrows amongst government officials on both sides of the Atlantic. They quickly called the local U.S. Consulate and had one of Washington's diplomats attend and take notes to show nothing underhand was going on.

Airbus head Forgeard

And one more thing: Forgeard and Leahy were told they would be "most welcome" in Seattle. They are still awaiting the official invitation. It must have gone astray in the mail!

Singapore Airlines CEO-designate, Chew Choon Seng

CHANGES

In January, **Singapore Airlines (SIA)** confirmed what the industry had anticipated for some time – that Dr. **Cheong Choong Kong**, chief executive and deputy chairman of the airline group would retire in June this year. The CEO-designate of the prestigious carrier is SIA's current senior executive vice-president (administration), **Chew Choon Seng** (56). A mechanical engineer by training with a Master of Science degree from Imperial College, London, Chew joined SIA in 1972. He has worked his way through all areas of the company, including stints as country manager in Italy and Japan and posts as regional senior vice-president of the Southwest Pacific, the Americas and Europe. Currently, he is in charge of SIA's corporate affairs, finance and internal audit. SIA spokesman, **Rick Clements**, said in media interviews at the time of the announcement that Chew will carry on Dr. Cheong's vision of expansion. His task was to make the airline group and its related subsidiaries a global company, said Clements. Eighteen months ago, youthful **Koh Boon Hwee**, a brilliant academic and entrepreneur, became the new chairman of the Singapore Airlines Group. He is a decade younger than Chew and had never worked in the airline industry until his appointment to SIA.

ACTION STATIONS

The musical chairs never stop at China's **Hainan Airlines**, the airline arm of the swashbuckling **Hainan Air Group** and its many aviation related subsidiaries. In January, the company announced that **Li Weijian** had resigned as president and would be succeeded by **Zhao Zhongying**. Zhao was formerly the president of **China Xinhua Airlines**, a domestic Chinese carrier that Hainan Airlines took over last year. At the same time, the board, still led by chairman **Chen Feng**, appointed Hainan Airlines vice-president **Zhu Yimin**, as the carrier's new chief executive.

BIG BUST UP

At press time, a 180 kg Taiwanese female, identified only by her family name of **Hsieh** in court documents, has demanded compensation and an apology from **Dragonair** after airline staff barred her from taking her seat on a Taipei via Hong Kong flight to Shanghai. Hsieh has lodged a complaint with the Consumer's Foundation of Taiwan and claimed she had been hurt and humiliated by the airline's behaviour. In its defence, Dragonair said the ban was made in the interests of safety. An airline spokesman in Taiwan said it could not accept Ms Hsieh on board because there was no seatbelt available in her size. "The consideration of Dragonair is the flight safety of Ms Hsieh and other passengers," said **Steven Chang**, the marketing and sales manager for the airline in Taiwan. "This should never be interpreted as discrimination against the overweight." But said Consumer Foundation chairman Tsai Tzai-pen at a press conference in Taipei: "It is hard to understand because international airlines would not refuse to carry large-sized people like Sumo wrestlers or body builders."

CONFIRMED

Despite some nasty and ill-founded rumours that he would not survive his probation at **Thai International Airways**, the airline's president since May last year, **Kanok Abhirodee**, was confirmed in his position by the airline's board before the Christmas recess. Kanok, who had never worked in an airline until he was chosen in open competition for the THAI top job last May, must now carry off the part privatisation of the carrier, set for this year, as well as oversee a fleet renewal plan for the carrier.

VACANCY FILLED

Although former **Asian Aerospace Pte Ltd** president, **Jimmy Lau**, resigned in the final days of the Singapore conference and exhibition, **Asian Aerospace 2002**, the company has only just announced his successor, **Ed Ng**. A Harvard MBA holder and a first class honours science graduate from Manchester University, Ng has spent several years with a global property investment and development company, **Capitaland** and also has been president and country manager of **GE Capital** for Singapore and the Philippines. ■

REGIONAL ROUND-UP

MAS ORDERS SIX A380S; JAPAN, CHINA CARRIERS NEXT?

Malaysian flag carrier, **Malaysia Airlines (MAS)**, through its parent company, **Penerbangan Malaysia Berhad (PMB)**, has ordered six A380, 555-seat aircraft from **Airbus**, with deliveries to start in 2007. The preliminary agreement includes an option to buy four more of the double-deck airliners.

MAS is the third carrier in the Asia-Pacific to order the two-deck giant jet. **Singapore Airlines** has ordered 10, with 15 options. It will be the launch customer in 2006. Qantas Airways has ordered 12 A380s.

PMB signed the Memorandum of Understanding with the Toulouse manufacturer in January and said the airplanes would be leased to MAS as they came on line in 2007 and 2008. The PMB agreement brings the order book for the A380, due off the production line in 2006, to 103 with eight airlines, leasing company, **ILFC**, and freight giant **FedEx** as customers.

Airbus executive vice-president customer affairs, **John Leahy**, is adamant China and Japan will be added to the list of A380 customers in the not-too-distant future.


Malaysia Airlines: third Asia-Pacific carrier to order A380

THAI AIRPORT INVESTMENT GETS GO-AHEAD

The Thai national Cabinet has approved **Thai Airways International (THAI)** plans to invest 13.74 billion baht (US$321.4 million) in six projects, including a catering complex and aircraft maintenance facilities, at the new Bangkok airport, now under construction at Suvarnabhumi, outside the Thai capital. A THAI spokesman said the airline would pay for the projects from company funds, but would also be able to call on outside sources for financial assistance – if necessary. THAI also is giving strong support to the development of aviation hubs outside Bangkok, particularly on the tourist island of Phuket and at Chiang Mai and Ubon Ratchathani, in northern and northeastern Thailand respectively. Both THAI and the Thai government want to develop the cities as secondary hubs that will provide flights directly to other cities throughout Asia, rather than feeding most onward services through congested Bangkok.

UNITED PULL-OUT PUTS PRESSURE ON QF/AIR NZ DEAL

At press time, a debate was developing about the fate of the planned **Qantas** purchase of 22.5% of **Air New Zealand (AirNZ)** for US$275 million, following United Airlines' decision to withdraw services on the Auckland-Los Angeles route from March 29. The New Zealand Government desperately wants the deal approved, but the Australian regulatory authority, the **Australian Competition and Consumer Commission (ACCC)** already has said the United Airlines decision could likely create a monopoly on the route for Qantas/AirNZ. Under the proposed purchase deal the two airlines would share services in New Zealand and Australia.

JUDGE REFUSES DRAGONAIR/CATHAY CLOSED DOOR DEAL

At press time, Hong Kong's two carriers, **Cathay Pacific Airways** and **Hong Kong Dragon Airlines (Dragonair)**, were preparing to appear before the Special Administrative Region's **Air Transport Licensing Authority (Atla)** after Dragonair lodged an objection to Cathay Pacific's plans to resume air services to China after a 12-year hiatus.

Events related to the Atla hearing took an unexpected turn in early January when it was learnt that the two carriers were working through a proposal to code-share on China-bound routes. While they negotiated, Dragonair had sought to delay the hearing of its objections to its rival's plans.

No way, said the presiding Atla chairman and Supreme Court judge, **William Stone**, a firm gentleman who told the parties that the Dragonair objection to Cathay Pacific's application to fly to Beijing, Shanghai and Xiamen deserved its day in a public forum (set down for January 23 in Hong Kong).

In the meantime, Dragonair has received approval to fly to new destinations, Bangkok, Manila, Tokyo, Seoul and Sydney.

BRIEFLY . . .

ALLIANCES . . . oneworld alliance members, who operate 1,900 aircraft worldwide, have agreed to share common specifications, wherever possible, across their engineering and maintenance activities. Oneworld members plan to extend their policy of joint purchasing of spare parts and other products to contracts for third party service suppliers. The eight oneworld carriers said they have added an estimated US$2 billion in value to their companies since the global alliance was formed three years ago.

CARGO . . . Hong Kong-based all-cargo carrier, **Air Hong Kong (AHK)** has announced it will buy six Airbus A300-600F aircraft with options for four more. Deliveries will be from mid-2004 to the first quarter of 2005. **Cathay Pacific Airways** owns 70% of AHK and provides its chairman, Cathay's director corporate development, **Tony Tyler**. **DHL Worldwide Express** holds the remaining 30%. Beijing aviation authorities announced in January that it will allow foreign express delivery companies and freight forwarders to own up to 75% in their local joint ventures. The decision is a victory for the foreign operators who have lobbied hard for a rules liberalisation. The changed regulations will allow foreign investors to buy shares from their Chinese partners or establish new joint ventures. **Hong Kong Air Cargo Terminals (HACTL)** reported its highest ever throughput in the 2002 year, at 1,903,507 tonnes, an increase of 19.6% on 2001 and a result which beat the previous record of 1,749,372 tonnes in 2000. **Shenzhen Airport**, just across the border from Hong Kong, reported that cargo volume at its facility increased by 20% in 2002, compared to 12 months earlier. The U.S. Government has given the go-ahead for **Federal Express (FedEx)**, **Northwest Airlines**, **Polar Air Cargo** and **United Parcel Service (UPS)** to fly 19 new freight services out of **Hong Kong International Airport** as part of the Air Services Agreement signed last October by Hong Kong and the U. S. Decisions on applications from four other carriers, **Air Transport International**, **Atlas Air**, **Evergreen International Airlines** and **Kalitta Air**, are pending.

CODE-SHARES . . . Star Alliance members, **Air New Zealand (Air NZ)** and **Air Canada** have expanded their code-share relationship to include seats on Air Canada flights from Los Angeles to four Canadian cities: Calgary, Montreal, Toronto and Vancouver. In January, **Cathay Pacific Airways** won approval to code-share with American Airlines to 20 U.S. cities, including New York, Atlanta, Chicago, Boston, Las Vegas, Miami and Washington DC/Baltimore. **Thai Airways International (THAI)** and **Myanmar Airways** will operate 23 code-share services weekly between Bangkok and Yangon.

FLEETS . . . Cathay Pacific Airways took delivery of the first of its three new Airbus A340-600s in late November, however chief operating officer, **Philip Chen**, said at the time that speculation the aircraft (two more of the type arrived in Hong Kong in early 2003) would *definitely* be deployed on proposed non-stop services between Hong Kong and New York was incorrect. "We have to see how our code-share arrangements with **American Airlines** are developed, among other factors," he told reporters on the delivery flight from Toulouse to Hong Kong. Taiwan's **China Airlines** confirmed its order for 10 Boeing B747-400s, with a book value of US$2 billion on December 30. **Qantas Airways** took delivery of its first Airbus A330-200 in Toulouse in December, a delivery flight which marked Qantas' entry to the Airbus client list. Qantas has ordered a mix of 13 A330-200s and -300s, powered by GE-CF6-80E1s engines, as well as an order for 12 A380s. **Royal Brunei Airlines** has taken seven-year operating leases on two Airbus A319-100 from **CIT Aerospace**, with deliveries due in August and September respectively.

LEASING . . . Ansett Worldwide has delivered its third B767-300ER aircraft to **Vietnam Airlines**. The leasing company owns 178 aircraft on lease to 72 airlines in 45 countries. **Singapore Aircraft Leasing Enterprise (SALE)** has negotiated new financing packages with **BNP Paribas, Kreditanstalkt fur Wiederaufbau** and **WestLB AG** to cover delivery to SALE this year of five Airbus 320s and two Airbus A321s as well as three A320s in 2004.

ROUTES . . . Cathay Pacific Airways will increase its flights from Hong Kong to London to three times daily from June. **Korean Air** is now flying from Seoul to Xiamen and has begun services from Cheongju to Shanghai (three a week) and Busan to Xian (twice weekly). **Lufthansa German Airlines** will double its services from Hong Kong to Munich to six from April. **Orient Thai** will fly Bangkok to Shanghai five times a week and Bangkok to Guangzhou three times weekly from April. **Qantas Airways** has increased its flights to Sydney from Hong Kong to double daily. United Airlines of the U.S. will operate a second daily flight from Hong Kong to Tokyo from April 6, despite its financial difficulties. The increased daily service is allowed since Hong Kong and the U.S. signed a new Air Services Agreement.

SAFETY . . . Korean aviation investigators seem ready to attribute the cause of the **Air China** Boeing 767-200ER crash in Busan last April to pilot error. The aircraft captain survived the crash, but 129 of the 155 passengers on board were killed. A final report on all aspects of the accident will be released in June. Mainland China's *Xinhua* news agency has reported a passenger who started a fire in a **China Northern Airlines** MD-82 aircraft, bound from Beijing to Dalian last May, has been blamed for the crash, which killed all 112 passengers onboard. However, the *Asian Wall Street Journal* report said neither the airline nor the country's aviation regulators would confirm the *Xinhua* report.

SECURITY . . . Under a recent agreement negotiated between Australia and Singapore, Australia will place air security officers on some **Qantas** flights operating from Australia to Singapore. Australia, which set up the Air Security Officer programme after the '9/11' U.S. terrorist attacks, would also like Indonesia to agree to a similar system. ■

BUSINESS ROUND-UP

THAI PROFIT UP 427%; BETTER TO COME

Thai Airways International (THAI) has reported a 427% jump in profit for the 2001-02 financial year, a result that will produce dividends for THAI shareholders for the first time since the onset of the Asian economic crisis in 1997. The airline made an annual profit of 10.18 billion baht (US$233.3 million) to September 30, compared to a profit of 1.93 billion baht a year earlier. Analysts noted, however, that profits slipped at the carrier in the last quarter of the year, a trend they explained by rising fuel prices, threats of Middle East conflict and a weaker national currency.

THAI chairman, **Thanong Bidaya**, said the airline would pay a dividend of 1.50 baht per share, a recommendation that was approved at THAI's December board meeting. Thanong added that 2002-2003 looked even more promising for THAI, with forward bookings at high levels and no visible fallout for the carrier after the Bali bomb blasts in October.

THAI is expected to proceed with a partial privatisation of its government held shareholding in March. The sell off of 23% of the Thai Government's 93% equity in THAI has been postponed several times in the last five years for reasons ranging from poor profits, lack of management transparency, the Asian economic crisis and the slump (in 1997-98) in the value of the baht.

EVA UPGRADES FORECAST FOR SECOND TIME

In its second upward revision for the current year, **EVA Air**, the island nation's second international carrier, has upgraded its profit forecast by 56% to NT$2.54 billion (US$73.13 million) for the fiscal year. Earlier, the airline had predicted a profit of NT$1.63 billion, based on an operating margin of 6.3%. In a statement from the airline in December, the company said: "The outlook for passenger revenue remained steady and is at the same level as previously forecast. However, forecast cargo revenue for the fourth quarter [of the fiscal year] has been increased by 15% to NT$8.5 billion. For this reason, revenue for the year has been revised upward by 2% to NT$64.16 billion. Cumulative revenue for the first 10 months of EVA's fiscal year increased 21.9%, to NT$52.9 billion, compared to the same period in 2001.

EVA Air: has revised its profit forecast upwards for the second time this year

FISCAL U-TURN FOR AIR CHINA

Air China, now a merged group of three carriers, has reversed its profit forecast for the fiscal year. In a statement published in China's state-owned news organisation, **Xinhua**, officials at the Beijing-based carrier said revenue in 2002 would be lower than the 23.2 billion yuan (US$2.8 billion) in 2001.

These comments contradicted reports in October, after the airline was merged with two other Mainland government carriers, **China Southwest Airlines** and **China National Aviation Corp.**, that revenue would increase in 2002 by 1.9 billion yuan to 25 billion yuan compared to 2001. The merged carrier has a fleet of 118 aircraft and currently employs 23,000 staff. In January, the Construction Bank of China granted the airline an 18 billion line of credit, a facility also provided to **China Eastern Airlines** (see below).

AIR NZ BOOSTS PROFIT PREDICTION

After a nightmare two years, **Air New Zealand (Air NZ)** surprised the market in January by stating it was upgrading its profit forecast for the full year to June 30 from NZ$200 million to NZ$230 million (US$118.5 million). In a statement to the country's stock exchange, the flag carrier said the forecast had been increased by the rise in the value of the NZ$, the lively performance of its low-cost domestic subsidiary, **Freedom Air**, and better than expected business conditions across the country. However Air NZ chief executive, **Ralph Norris**, cautioned that the profit prediction, "if achieved, would only represent a 5.9% pre-tax return on assets".

SKYMARK BATTERED IN BRUTAL MARKET

Japan low-cost airline, **Skymark**, has announced its losses for the year to October 31, 2002, had increased substantially to 1.09 billion yen (US$9.02 million) compared to 988 million yen for the same period in 2001. The carrier had its profit wings shredded by an onslaught of discount ticket sales from Japan's major domestic carriers in a market already suffering from economic paralysis. However, the company said revenue for the year had increased by 14% to 15.4 billion yen.

CHINA EASTERN WINS CREDIT LINE

Shanghai-based **China Eastern Airlines (CEA)** has secured an 18.5 billion yuan (US$223.1 million) credit line from Mainland bank, the **China Construction Bank**, a decision that brought credit available to the carrier of up to 60 billion yuan.

The airline will start taking delivery of 18 new aircraft (five Boeing 737s, three Airbus A340s and 10 Airbus A320s) in 2003. Another five A320s and two A340s are expected to arrive at China Eastern in 2004.

CEA's company secretary, **Luo Zhuping**, said the airplanes were ordered years ago and were already in the carrier's budget plan. He said they had been paying for them in instalments and would have taken delivery of them whether or not they had the new credit line.

KAL SEEKS MARKET MONEY

At press time, South Korean flag carrier, **Korean Air (KAL)**, was in continuing negotiations to finalise the issue of US$300 million in asset backed securities to assist in funding its 2003 operations. The ABS fund-raising is expected to be co-managed by the **Korea Development Bank (KBS)** and **Societe Generale Belgique**. In January, KAL announced its profit for the current fiscal year would increase by 20% as Koreans took more holidays, taking advantage of a working week reduced by half a day to five days a week, and declining fuel costs.

CHINA ROUND-UP

Reports by Melody Su, in Beijing, and staff reporters

SINGAPORE, MALAYSIA EXPAND AVIATION TIES WITH CHINA

In separate meetings, both Singapore and Malaysia have agreed to expand co-operation in aviation issues with China. Singapore and China signed a Memorandum of Understanding in China to examine the feasibility of setting up a joint aviation training centre for seminars, information exchange and staff exchange programmes.

In Kuala Lumpur, representatives of China and Malaysia agreed to expand China's access to Malaysia in exchange for rights for Malaysia carriers to add 10 new destinations into China. The new destinations will include cities in the central and western provinces of the country while Malaysia agreed to virtual open skies access to its cities for Chinese airlines. The new agreement expires in 2005.

Separately Singapore's **Changi International Airport** has signed a Memorandum of Co-operation with the western China airport company, **Wuhan Tianhe Airport Company Ltd**, to assist **Tianhe Airport** with staff training, development of administration systems, marketing and asset management.

AIRPORT GROUPING ESTABLISHED

Following the merging of its major airlines and support groups, China has consolidated major airport interests in Beijing. The new **Capital Airport Group** is comprised of **Beijing Capital International Airport**, **Tianjin Binhai International Airport**, the **Civil Aviation Airport Construction Company**, the **Jinfei Civil Aviation Economic Development Centre** and the **China Civil Aviation Project Consultation Company**. Including six sub-divisions and six stock companies, the new group has 6,500 employees with a total capital of 17 billion yuan (US$2.07 million).

The focus of the group will be on five areas: airport management of Beijing's Capital Airport and Tianjin Airport, airport construction, investment and financing, tourism and service support.

NEW GROUPS UNIFY FLIGHT CODES

The carriers belonging to each of China's three new consolidated airline groups, **China Eastern Aviation Holding (CEAH)**, **China Southern Aviation Holding (CSAH)** and **China National Aviation Holding (CNAH)** have unified their flight codes. **China Southwest Airlines** and **China National Aviation Corp**, in the **Air China** led group, will use CA, **China Northwest Airlines** and **Yunnan Airlines** will carry the MU code of its major partner, **China Eastern Airlines** while **China Northern Airlines** and **Xinjiang Airlines** will use **China Southern Airlines'** CZ code.

Unified logos and frequent flyer programmes will be introduced next in the new groups, as will similar catering standards. However, at this stage there will be no major adjustments made to flight schedules and air routes.

CHINA'S TOURISTS FLYING MORE

A Mainland China survey of airline passengers has revealed that in the last three years tourist traffic has grown substantially. In 2002, the percentage of business travellers fell 6.4% to 58% compared to 2001, but tourist traffic rose 6% to 32.09%.

State-owned enterprise employees still provided the largest number of passengers travelling by air. However, analysts said the demographics of air travel are changing because of favourable economic conditions in China. There are now more private sector businessmen travelling by air.

In 2002, more than 30% of Chinese airline passengers travelled on average three times or less. Just above 24% took between four and six flights.

As China's economic, cultural and political links with the world continue to strengthen, the number of overseas passengers has also risen in the last year.

Group travel increased 7% over 2001 to 23% in 2002 as China's focus on tourist market development continued to improve, said analysts.

But poor on-time performance continued as the biggest headache for airline passengers.

Shanghai Airlines carried the highest percentage of business travellers (69.8%) in 2002. **Hainan Airlines** was a favourite with tourists (53%). The results reflected the economies of the airlines' home bases, Shanghai being China's leading financial centre and Hainan Island, known as the Hawaii of the East, a popular tourist destination.

HAINAN SETS UP CARGO VENTURE

Hainan Airlines, named for its base on the southern Chinese island of Hainan, has set up a joint venture cargo operation, **Yangtze River Express**, with the **Shanghai Airport Group** and ordered three Boeing 737 freighters for its operations. The venture, said **Hainan Air Group** executive vice-president, **Zhong Shu**, "is grabbing the high end of the market, domestic airfreight". Speaking to Hong Kong's *South China Morning Post* he said until the company's freighters – the first was scheduled to arrive in late January – begin operations Yangtze Express will continue to carry its freight in the bellies of Hainan Airlines aircraft. Zhong said the company, capitalised at 200 million yuan (US$24.07 million) and majority controlled by Hainan Airlines, might co-operate with global freight operators as their ground networks in China were established. "International express carriers cannot fly within China. But they have ground networks. It is possible for us to work with them in the future," Zhong told the Hong Kong-based newspaper. **DHL**, **TNT** and **UPS** operate as partners with **Sinotrans**, the country's largest freight forwarder, in servicing China for their clients.

Separately, the Hainan Airlines Group has signed an agreement with the government of Kelamayi City in Xinjiang for the two partners to build and manage a new airport for the city. Hainan Airlines also agreed to develop air services to the region once the airport is completed and co-manage the facility.

Beijing-based international carrier, Air China, was rated the country's favourite airline by 48.7% of the 30,258 passengers who responded to the survey. They complimented the flag carrier's good safety record and "attractive image".

AVIC II TO LIST IN HONG KONG

AVIC II, a joint venture partner with Brazilian regional jet manufacturer, **Embraer**, in the development and manufacture of a 30-50 seater commuter jet, is to list on the **Hong Kong Stock Exchange** in 2003, pending approval from the State Council.

All capital raised will be invested in the new commercial aircraft project, which is based in Harbin. The partners expect to produce 24 aircraft a year with the first aircraft to be delivered at the end of 2003.

In 2002, AVIC 11 made a profit of 20 million yuan (US$2.44 million), its third successive black ink result. It has forecast a profit of 50 million yuan in 2003.

LHASA PLANS FOR BIZ JET OPERATOR

China's **Shandong Rainbow Business Airlines** has announced plans to offer regular private business jet services to the capital of Tibet, Lhasa, after a successful maiden flight on a Bombardier Challenger 604.

Rainbow Business Airlines chief executive, **Bai Weishan**, said the company had received several inquiries for flights to Lhasa aboard the Bombardier aircraft since the trial flight.

TIGHTER REGULATION FOR GENERAL AVIATION

China has introduced legislation to regularise the fast growing general aviation market with emphasis on air safety.

General aviation makes up half of China's commercial aviation fleet and the sector operated more than 40,000 flights last year. Its rapid development prompted the move, which will see the general aviation sector able to make better use of air space resources. The moves, in turn, improve flight safety and guarantee future development of general aviation in China.

The regulations will come into effect on May 1.

SKY MARSHALLS IN TRAINING

China aviation regulators have confirmed that specially trained air security staff will fly on **Air China** services in 2003 as a means "to tighten air security and fight terrorism". The first teams of security police have been selected from airline security staff and are being given specialist training before they assume their duties.■

For years airline industry observers have seriously doubted the success of low-cost, no-frills carriers in Europe and the U.S. could be duplicated in Asia. Now, financial pressures and changing markets are encouraging airlines and entrepreneurs to try their luck.

NO-FRILLS

Can it work in Asia?

Meanwhile, it is boom time for second-tier regional carriers; a special 11-page report from around the Asia-Pacific

By Tom Ballantyne

Thai Airways International (THAI) is to join the budget airline club. It hopes to finalise plans for a no-frills subsidiary by the end of March. The new subsidiary could be flying by October.

While THAI's actions appear to point to an acceleration of the low-cost model across the Asia-Pacific, industry analysts are divided over the prospects of its survival.

Most agree more hopeful low-cost operators will emerge, but they doubt a European/North American-style boom. Among the barriers in Asia: tough bilateral restrictions in a widely diverse region, government protection of incumbent national flag carriers, intra-regional markets and air routes already dominated by major operators and a lack of airport infrastructure to support the secondary routes newcomers need to target.

The new THAI carrier, in which Singapore Airlines (SIA) could eventually take a stake, would join only three other genuine no-frills airlines already in the Asia-Pacific skies: Malaysia's AirAsia, Australia's Virgin Blue and Air New Zealand's Freedom Air. Others, mostly low operating cost carriers rather than no-frill airlines, are subsidiaries of major carriers. These include Japan Airlines JAL Express, All Nippon Airways' Air Japan, Garuda's City Link and Qantas' Australian Airlines.

While doubts cloud the viable future of budget airlines, there is a significant surge in regional expansion among traditional second-tier carriers. Ironically, considering the depressed state of aviation in many parts of the world, plans are emerging for new regional operations. In Asia, at least one was launched in recent weeks. Air Paradise International, the Bali-based start-up that aborted its launch last October after the bombings in Kuta, began flying between Bali and Perth and Melbourne in February. Using a former SIA Airbus A310-300 for the service, it is undercutting rivals with discount tickets.

Thai Airways International: a no-frills subsidiary could be flying by October

At the same time, small regional airlines are significantly increasing capacity as they order or lease new aircraft to cash in on vigorous intra-regional air travel growth.

Even the prospect of war in Iraq has failed to dull this optimistic trend, with industry insiders suggesting trouble in the Middle East may benefit Asia's travel markets by encouraging passengers to travel more often within their own region, in places already faring far better than elsewhere in the world as tourist destinations.

With Qantas Airways' low-cost international subsidiary, Australian Airlines, operating for four months and reporting high load factors, several other majors may be tempted to join THAI in offering air travel alternatives, including Singapore Airlines.

Chairman Koh Boon Hwee has told staff in an internal company newsletter: "Do not assume it [a low-cost airline] cannot happen here and do not assume, because the government owns 56% of SIA, they will not support the start up of a low-cost airline."

Separately, SIA chief executive, Dr

Cheong Choong Kong, who will retire in June, has indicated regional subsidiary, SilkAir, is prepared to offer no-frills service to counter any competition that might emerge from rival leisure carriers.

The Singapore Government has been sounded out about the possibility of SIA taking a stake in the new THAI subsidiary carrier. Under Thailand's foreign ownership rules foreign airlines can take up to 30% in a local operator. Said a source: "There is a government-to-government proposal and SIA has been asked to look at it. There is no time-frame on when it might reach conclusions."

Major carriers have been intrigued by major inroads made in Malaysia by AirAsia, generally regarded as the region's first true European style "no-frills" operation. It recorded a phenomenal 500% growth rate last year, flying 1.1 million passengers. It is targeting as many as 2.7 million passengers this year.

In Australia, Sir Richard Branson's "no-frills" Virgin Blue has exceeded all expectations, rapidly building its fleet and moving into profit well ahead of its business plan. In January, it announced an order for 10 B737-800s with options for an additional 40 aircraft, in a deal worth US$3 billion. Its success was significantly accelerated by the collapse of Ansett Australia early last year.

However, Philip Wickham, regional airline analyst with ING Barings in Hong Kong, said while no-frills, low-cost airlines will develop in Asia "don't expect them to have the same impact as they have had in Europe and North America". Most air routes in Asia are strictly controlled under bilateral agreements, he added. "Until we get a form of liberalisation, a Pan-Asian market without regulation that will open up air routes, as is the case in Europe, you will not see a dramatic increase in no-frills operations. I would not be holding my breath for this to happen." He believed the best chance for no-frills airlines to develop was in a sub-region of Asia, such as the Asean nations, which have jointly liberalised their air routes, but this is a step unlikely to happen in other parts of the region for many years.

Wickham and other analysts who spoke to *Orient Aviation* pointed out that the type of routes on which no-frills carriers thrive – point-to-point between secondary destinations – hardly existed in many areas of Asia.

Some countries – such as Singapore – do not even have a domestic market. In others, routes are dominated by major operators and are virtually trunk routes. The two most likely countries in which no-frills operations could survive are Australia and Japan. However, Australia has a limited population and Japan faces serious congestion issues at the major airports where new airlines would need access, he said.

WHAT THE CEOs THINK

Hot on the heels of a potential US$3 billion deal for as many as 50 new jets from Boeing, Virgin Blue chief executive, Brett Godfrey, has no doubts that while building the carrier's domestic market, the time is ripe for low-cost operations across the Asia-Pacific. Significantly, the order includes B737s capable of flights of up to six hours, putting several key destinations in the region within range. "We've set ourselves a short-term target to get to a third of the Australian domestic market and we'd like to think that within five years we can perhaps go beyond that. But look, there's a whole new world of opportunity out there for us in the regional Pacific market."

PB Air president, Capt. Jothin Pamon-Motri: no-frills carriers will not succeed in Asia

He said Virgin's international expansion is imminent, with a "beauty parade" of potential destinations including New Zealand, Singapore, Bali, Fiji, the Cook Islands, Samoa and Vanuatu. "People in the Asia Pacific region appreciate value fares and high quality service just as much as their counterparts in the Northern Hemisphere," he added.

Captain Jothin Pamon-Motri, president of Thai second-tier operator, PBAir, and a former senior Thai Airways International (THAI) executive, believes low-cost, no-frills airlines do not have a future in the region. "In Europe, you have such highly priced air tickets with high yields and high traffic volume that a low-cost airline has room to manoeuvre by keeping its costs down, lowering ticket prices and still getting a yield. In this region yields are already so low that it is extremely difficult to operate and get the margins you need to survive. Keeping costs down can be difficult in Asia. For example, a big carrier like THAI gets fuel at a good price because it purchases massive amounts. We don't get such a good price because we buy far less.

"There are also no low-cost airports here. In England, Heathrow may be expensive, but you can operate from Standstead. What do you do at Hong Kong or Singapore? If you do find a small airport travellers don't won't to fly there, then travel for hours in a bus to get to where they really want to go."

Captain Jothin said the completion of Bangkok's new international airport in 2006 may hold some promise because it will mean with the existing facility at Don Muang continuing, there will be two airports. However, to maintain profitability low-cost operators need to cut distribution costs by using Internet booking. Despite his views, Captain Jothin said PBAir was watching THAI's plans to launch a budget airline operating from Chiang Mai very closely and may be interested in some involvement. "The question is: will THAI want us?" he said.

Virgin Blue: an order for 10 new planes with 40 options

As they grow, low-cost carriers will face difficulties retaining their predicated structure. Said Peter Negline, transport analyst at JP Morgan Chase in Hong Kong, who published a report on Virgin Blue in January: "We believe Virgin Blue is at a turning point in its history, as it looks to take on many of the characteristics of a full-service incumbent."

Growing rapidly, Virgin Blue has moved into Ansett's old terminal in Sydney, a decision costing it millions of extra dollars annually.

"In our opinion, Virgin Blue will require an injection of A$500 million (US$285 million) of fresh equity in fiscal year 2004 if the airline is to evolve into an incumbent operator and maintain a conservatively geared balance sheet," said JP Morgan Chase.

This view tallies with a current White Paper on changes in the airline industry by analysts at PriceWaterhouseCooper, which warns big carriers against jumping on the low-cost airline bandwagon. It said while these carriers have been successful in making profits by stimulating lower-end demand, this does not mean traditional airlines can easily re-invent themselves as similar players.

"A low-cost model is best achieved by starting from scratch – entering the market as a new, green field player," argued the paper, which added the trend-setting carriers faced a series of challenges themselves. "The model holds up well when the airline is strictly contained and controlled. However, in the current environment there will be pressure to expand into markets created by the crisis. This will expose the model to a number of dangers."

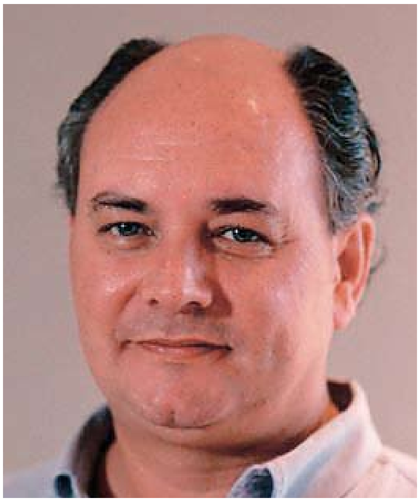
The White Paper said if a low-cost airline moved outside the short-haul, point-to-point market, there were added complexities of product and crew rostering that would create more costs and would reduce utilisation.

Expanding into hub airports also would bring increased airport charges and turnaround delays. "The cost base of the low-cost airlines – the foundation of their competitive advantage – would come under strong upward pressure over time," said the paper.

Aircraft leasing companies are not getting too excited about a potential boom in business from Asia's low-cost start-ups. "The problem is their business is built on low-cost and that is the attitude they take into negotiations to acquire aircraft. They want to take advantage of market conditions. They are not really interested in a relationship with a leasing company. They want budget prices with a premier product," said Harry Forsythe, vice-president marketing for aircraft leasing company Ansett Worldwide. However, in January, Ansett leased a B737-300 to AirAsia.

But Forsythe said his company had walked away last year from a potential deal with a low-cost airline in Asia because it was not prepared to meet the pricing conditions demanded. Because of bilateral issues and the nature of air routes in the Asian region he did not believe there would be rapid growth in the number of no-frills operators, at least in the short to medium-term.

SIA chairman, Koh Boon Hwee: told staff not to rule out a low-cost start up at SIA



Ansett Worldwide vice-president marketing: [low-cost start-ups] want budget prices for a premier product

However, Peter Harbison, managing director of the Sydney-based Centre for Asia Pacific Aviation (CAPA), is bullish about prospects. "The current environment provides clear and exceptional opportunities for the development of low-cost operations to capitalise on intra-regional traffic on routes of up to four hours," he said. According to a recently published CAPA report on low-cost airlines, features compatible with the growth include:

- rapid demographic and economic progress in many countries
- current aviation market opportunities, as well as threats to survival of conventional models
- congested, high-cost hub airports alongside under-utilised regional airports and growing difficulties in raising capital for new infrastructure
- broader government policy objectives to stimulate tourism and trade outside capital cities
- opportunities for "soft liberalisation", allowing international access to smaller airports behind national gateways, with limited risk to national flag carriers

Most analysts agreed there is no generic low-cost model emerging in Asia, and instead believed there was a mix of approaches tailor-made to meet the region's varying market needs. Australian Airlines is built on the principal of low operating costs, but it is not "no frills". Recognising flights from Australia to Japan and other Asian ports are in excess of seven hours, passengers get full international service although aircraft are configured in a single economy class.

Australian saves costs by flying a single aircraft type (the B767) on the routes, which is leased from its parent Qantas, employing minimum staff, operating advantageous agreements with unions and utilising Internet booking to cut distribution costs.

THAI's new operation will be no-frills and it will be based on discount travel. The carrier's president, Kanok Abhiradee, said it would be set up to serve government plans to make Chiang Mai, Phuket and Ubon Ratchathani aviation hubs. He added that other airlines in Thailand and overseas would be asked to invest in the carrier.

THAI's strategic sub-committee has asked management to study other carriers with experience in operating low-cost services.

Singapore is interested, but it is approaching the concept with caution. "Singapore is examining all the possibilities with Thailand to help set up what we call a budget airline," said Singapore's Prime Minister Goh Chok Ton. But he made it clear Singapore would not want to pour money down a "black hole".

One Singapore analyst, who did not want to be identified, said SIA management was extremely cautious about the concept, particularly the prospect of several years of losses that could eventuate from investment in a start-up budget operator.

However, an SIA spokesman said: "We have been invited to consider various possibilities concerning Chiang Mai and this we are doing. We are not able to make any comments at present."

Apart from start-ups, expansion among existing small airlines is unparalleled in the Asia-Pacific. Their confidence

seems well founded. The International Air Transport Association (IATA) forecasts an average of 3.3% annual growth in global passenger traffic through to 2006. But it forecasts intra-Asian traffic will increase 5.3% a year.

Aircraft manufacturers, too, are preparing for the surge in regional business. Brazil's regional jet maker Embraer, for example, expects sales of 1,130 regional jets in the Asia-Pacific over the next 20 years.

In **Thailand**, PB Air has leased two new ERJ 145 regional jets from Embraer. Phuket Airlines has added three B737-200s to take its fleet to five. Bangkok Airways, which now serves 14 destinations in five countries including China, has recently added two B717-200s to the two in service. It also has six 70-seat ATR 72-200s and three 70-seat ATR 72-500s in its fleet.

In **Australia**, Alliance Airlines will add two Fokker F-100 jets to its fleet in March. Regional Express (Rex) has begun an upgrade of its fleet with 13 SAAB 340Bs. Qantas will buy three additional De Havilland Dash 8s for regional operations and Virgin Blue, with a fleet of 30 B737s, has ordered 10 more with 40 options.

Philippine carrier, Cebu Pacific, has recently increased its Boeing B757 fleet to three, with one additional aircraft and is in discussion with Boeing and Airbus about more capacity.

Malaysia's AirAsia could more than double its fleet of six B737s in the next couple of years as it plans for strong growth. AirAsia chief executive, Tony Fernandes, is concentrating on building the carrier's domestic operations, but has indicated he wants to tap the Singapore market. Longer term, Fernandes has his sights set on flying to Indonesia, the Philippines and Thailand.

India has recently seen government approval of a scheduled operating licence for charter operator Jagson Airlines, a carrier which is looking to acquire up to 10 regional jets or turboprops. At the same time, incumbent Jet Airways has ten 70-seat Embraers on order. Air Sahara is looking at doubling its fleet and already has ordered seven 50-seat Bombardier CRJ-200s.

Even in **Japan**, where newcomers like Air Hokkaido (Air Do) and Skymark are having problems making money against existing majors in a country with a chronic shortage of slots at hub airports, the start-ups are looking to expand routes and add aircraft to their fleets.

In **Taiwan**, several airlines were cleared to operate charter flights direct to mainland China during this Chinese Lunar New Year period. These included EVA Air, UNI Airways, TransAsia Airways, China Airlines, Mandarin Airlines and Far Eastern Air Transport. If that is a prelude to the opening up of regular cross-strait traffic, as most analysts have predicted, it would spark a rush for additional capacity. About four million people travel between China and Taiwan each year, mainly through Hong Kong and Macau. A direct flight to Shanghai from Taipei is about 90 minutes, significantly less than it takes to fly via Hong Kong or Macau.

In **Indonesia**, a substantial amount of new capacity has come on line over the past 12 months, although most of it has involved the importation of older planes leased by hopeful newcomers. There are grave doubts in the industry about the survival of many of these carriers. Following aviation liberalisation in Indonesia two years ago, there are 16 scheduled airlines flying in Indonesia.

In **New Zealand**, flag carrier, Air New Zealand (Air NZ), has expanded operations of its low-cost subsidiary, Freedom Air, increasing capacity to Queensland by 23% in recent months. Air NZ domestic carrier, Mount Cook Airlines, has taken delivery of an additional ATR72-500 to bring its fleet of the aircraft to 10.

Even in **South Korea**, where air transport is heavily regulated and traffic has for some time been split between long-time flag carrier Korean Air (KAL) and rival Asiana Airlines, there is talk of a new entrant. The local government of Cheju Island, a popular tourism area, has announced it will launch Cheju Airlines later this year, using five aircraft, on routes to Seoul and Guangzhou in China. It plans to increase its fleet to 10 and add new routes, depending on profit levels.

The government aims to tap into Cheju's growing visitor market, which soared 13.3% last year, to 9.93 million, and is expected to exceed 10 million in 2003.

However, the proposed launch was greeted with some scepticism. Korean Air president, Yi-Taek Shim, told *Orient Aviation* KAL was approached to assist in setting up the new carrier, but doubted it would succeed. "KAL already offers excellent and extremely frequent services to Cheju. Why should we help set up a potential competitor?" he said.

As Asian airlines face the prospect of more industry uncertainty this year, they are well aware heightened competition from brash, new, low-cost airlines pose yet another challenge.

Like THAI, the decision most of them must make is to accept the emergence of these operators as an annoying addition to market competition or meet them head on by setting up their own no-frills airlines.■

SOUTHWEST, THE DADDY OF NO-FRILLS TRAVEL

No-frills airlines are not new. Operations such as Peoples Express and Sir Freddie Laker's Skytrain plied the Transatlantic in trailblazing style in the 1960s before they went broke in predatory pricing wars waged by their more traditional airline competitors.

Today, low-cost operators are booming again, particularly in the aftermath of September 11 and the downturn of the aviation industry.

The major success of the cheap airlines had been in North America and Europe, where tightly knit, highly populated markets were ideal for the point-to-point, short to medium-haul services the budget carriers thrive on, mainly linking secondary, non-hub airports.

Unlike incumbent full-service airlines, with their often top-heavy administrations and expensive services for passengers, low-cost carriers cut down on maintenance costs by flying a one class single aircraft type that has eliminated superfluous services. They also drastically slash distribution costs by selling tickets on the Internet, to avoid paying commission to travel agents.

With this business model, the cost per passenger and per kilometre for the new low-cost airlines is from 40% to 65% lower than for larger airlines, according to a recent study by the McKinsey consulting group.

Southwest Airlines in the U.S. is the low-fare industry's role model. It has been in operation for three decades and has never recorded an operating loss. It has grown annually at double-digit rates and now flies to 58 cities in the U.S. with a fleet of 355 aircraft. It has an 11% share of domestic capacity.

Europe's oldest existing low-cost airline, Ryanair, was launched in 1986 with services between the U.K. and Ireland. It then expanded to Continental Europe in the 1990s. With a fleet of 41 aircraft it now flies to 13 countries. The largest no-frills carrier in Europe is easyJet, which last year acquired Go, a low-cost operation formerly owned by British Airways.

EasyJet has 64 Boeing jets operating to 83 destinations around Europe. It recently decided to convert to Airbus and has placed an order for 120 aircraft.■

Asia's 'Mr No-Frills' proving the doubters wrong

From strength to strength

By Barry Grindrod

It perhaps says a lot that Tony Fernandes, chief executive of Asia's first genuine no-frills airline, AirAsia, should have once worked for the Virgin empire, albeit in the music division.

The entrepreneurial skills of its founder, Sir Richard Branson, seemed to have rubbed off on the youthful, 37-year-old Fernandes, an accountant by training.

Consider the facts. When Fernan-des's company Tune Air acquired AirAsia in January last year from DRB-Hicom, the airline had been operating since 1993 on domestic routes without ever making money. It had M$150 million in accumulated debt at the time of the sale.

Fernandes re-launched the brand, modelling it on U.S.-based Southwest Airlines and easyJet and Ryanair in Europe, and it made money from its start. He began with two B737-300s. By mid-year four more had been added. He is now looking to expand the fleet to 14 or 15 aircraft when he takes the no-frills brand regional in 2004. Thailand, China, Indonesia and the Philippines are possible destinations for AirAsia services.

In its first year with Fernandes at the helm AirAsia flew 1.1 million people to cities within Malaysia. Load factors averaged 70%. He is looking to more than double the 2002 traffic figures to 2.6 or 2.7 million this year.

Only 6% of Malaysians fly, which leaves a lot of potential," he told a Hong Kong conference in December. Half that number fly short-haul and for this reason Fernandes, not one to be rushed into anything, is concentrating on building his Malaysian network this year.


AirAsia and its founder Tony Fernandes: Asia's first European style no-frills carrier

For a no-frills carrier to work Fernandes said the ingredients were a critical mass of potential passengers, lots of airports, slots, routes and market-oriented governance.

To capitalise on those ingredients, AirAsia opted for one type of aircraft in a single class, no service frills, market oriented airports, 20-25 minute turnaround times, a new form of distribution and ticketless travel.

Fernandes said 40% of AirAsia's business was generated by the Internet although the carrier only went on line last July. "Many people said it would not work, that passengers would not use credit cards," said the entrepreneur. "On the first day we launched our Internet service all our seats were sold for 10 ringgit (US$2.6). We sold out in five hours.

"I went to the airport and there was one family of 19 who had never flown before. They had found their way to the Internet. There were others like them. People are always looking for a deal."

Today, at the beginning of its second year AirAsia is debt-free and has posted a net income of M$11.8 million in the six months to December 31.

In August, Malaysia Airlines (MAS) slashed fares on domestic routes, but denied it was a response to AirAsia. It did, however, prompt meetings between the two carriers and the Malaysian Government. Fernandes said the two carriers should complement each other.

The Malaysian Government agrees and has pledged to support MAS and AirAsia. Indeed, Transport Minister, Datuk Seri Dr Ling Liong Sik, has offered AirAsia more domestic and regional routes.

Low-cost Cebu looking to double offshore routes

Cebu Pacific, the Philippines' second largest carrier, is looking to double its offshore destinations in 2003 with China, Taiwan and Japan added to the existing network of Hong Kong, South Korea and Singapore.

Launched in 1996, two years after the liberalisation of the Philippine airline industry, Cebu's debut was greeted with scepticism. It had just three domestic destinations. Within 18 months the carrier had carried its one-millionth passenger. This figure rose to five million by 2000 but was 1.7 million in 2002.

Officially designated the country's second national flag carrier in 2000, Cebu launched its first overseas flight, a twice-weekly service to Hong Kong, in November 2001.

Three weekly flights from Manila to Seoul began in March last year and a daily Manila-Singapore service was launched last October. Singapore is a key market for Philippine carriers. The city has overseas Filipino workers in residence and is a favoured destination among Filipino tourists.

Now operating a fleet of 12 McDonnell Douglas DC-9s to 13 domestic destinations, where it has a 30% market share, and three Boeing B757s on international routes, Cebu's president and chief executive, Lance Gokongwei, said careful growth, focus on customer service and reliability had been the key to successful expansion overseas.

"We are among the world's lowest cost, highest customer loyalty airline operators," he said.

Low-cost airlines in China?

It's a possibility, but it will not be easy, writes HAN DAWEI

Since the low-cost U.S. airline pioneer, Southwest Airlines, was launched in 1971, the low cost airline (LCA) concept has been introduced into many countries, with most of them modelled on the success of Southwest. But to date the concept has not been introduced into China.

Would it be possible to introduce a low-fare, no-frills airline in China?

Most LCAs have emerged from the successful conversion of a full-service airline. Every one of them was born in a free market. Under certain rules, a low-cost airline is able to bid for a flight route and airport slot, as well as establishing its airfare to meet its own margin.

To date Chinese carriers have been unable to set their own fares. A breakthrough was made last November when the Civil Aviation Administration of China (CAAC) halted "price alliances", forced upon domestic airlines in 2000 to curb massive discount wars, that were leaving major Chinese airlines awash in red ink.

There is speculation that the CAAC will completely deregulate fares within 12 months. The CAAC has been working with the National Economic Planning Committee on airfare reform.

This is very good news for the introduction of an LCA in China – with ticket prices to be based on market demand and costs.

China's airline industry has consolidated the nine airlines, previously under the umbrella of the CAAC, into three airline groups to enhance the competitiveness and efficiency of China's major airlines and to meet the challenge of the world airline industry. In future the CAAC will have no direct control over airline management. Instead, it will concentrate on its new role of industry regulator.

The three airline groups, China National Aviation Holding, China Eastern Air Holding and China Southern Air Holding, are operating full-service flights on their domestic and international routes, using multi-type aircraft fleets. On average, around 30% of their network are long-haul flights. It would be impossible to persuade any of them to convert to being a short-haul, no-frills carrier.

It is the regional carriers which are best suited to the Southwest Airlines low-cost model. They could include Sichuan Airlines, Shandong Airlines, Shenzhen Airlines, Shanghai Airlines, Xiamen Airlines, Hainan Airlines and Xinhua Airlines.

In fact, some of China's airlines have been intentionally or unintentionally conducting low-cost operations on certain sectors or in some regions for some considerable time. In 1995, Hainan Airlines purchased regional jets and deployed them on some high frequency short-haul sectors. Recently, China Southern Airlines started shuttle flights between Guangzhou and Sanya, on Hainan Island; about a two-hour sector. The flights offer maximum airfare discounts and simple inflight service.

> 'A WEB-BASED E-TICKETING SYSTEM COULD BE INTRODUCED IN CHINA ON A WIDE SCALE AND THIS WOULD SIGNIFICANTLY REDUCE AIRLINE MARKETING COSTS'

Benefit for Airline

Operating costs for a LCA are significantly lower than for a full-service competitor. This gives more room to adjust airfares, build market share and develop market opportunities.

Hainan, Shandong and Shanghai Airlines are publicly listed companies in China. Sichuan will be listed soon. Other airlines are owned by local provincial governments or by joint enterprises. But in all cases a board of directors takes responsibility for the company's profitability and acts as a decision-maker on airline business strategy.

It is possible for one or more of these airlines to launch a low-cost airline once airfare barriers have been removed.

China's emerging market economy and air traffic deregulation means regional airlines face intense competition. Management has to develop an effective and sustainable business strategy to avoid being overrun by rivals. Could the LCA model be the answer?

Fleet and route

On their short-haul domestic routes, the major fleets of most of China's regional airlines are made up of one or two aircraft types with a full service cabin configuration.

Most LCAs primarily choose Boeing 737 aircraft and Airbus A320s for their fleets, which have proved suitable on short-haul routes, both economically and operationally. To convert into an LCA and schedule future development, there would be no need to replace their fleets, but certain renewal and adjustment would be necessary.

Apart from fleets, routes at some airlines would have to be extensively analysed and optimised. Recently, certain strict regulations have been issued by CAAC to accompany airline consolidation. For example, some high-volume domestic sectors like Beijing-Shanghai have been made unavailable to airlines, like Sichuan Airlines, not based in these cities. I believe this is a "sunshine" policy favouring the three new groupings.

Hard work must be carried out to determine how to best optimise those routes. With further extensive air traffic industry reform and marketisation, these anomalies will hopefully be remedied.

Flight operation

China's regional airlines employ all their own flight crew and some licensed engineers. They operate their own ground handling and minor engine maintenance while major maintenance repair and overhaul are out-sourced. Minor changes to crew rosters and maintenance schedules could convert these aircraft from a full-service to a low-cost operation. However, as efficiency is crucial to low-cost operations, an extensive tailor-made training plan must be developed.

Station operations are mainly contracted out to local airports. Minimising aircraft turn-around time is another major advantage and a necessity for low-cost carriers. Therefore, it is crucial to strengthen cooperation with airport partners.

Aircraft modification

One of the typical characteristics of low-cost carriers is an all-economy seat configuration. At present, most of China's regional carriers have business and economy class on domestic services. They would need to change to single class if they wanted to change to an LCA. China has the maintenance facilities to accomplish this work.

Ticket Marketing

In China, ticket sales are subject to a multi-method marketing system, consisting of ticket offices, Internet bookings, hotlines and travel agencies, etc. The web-based e-ticketing system has not been well developed. Less than 10% of total seats sold in China were purchased through the Internet, compared to LCA easyJet in the UK. Easyjet sells some 90% of its seats through the Internet.

Information Technology is growing fast in China, in fact faster than most parts of the world. There is no doubt that a web-based e-ticketing system could be successfully introduced in China on a wide scale and this would significantly reduce airline marketing costs. In fact, most of China's regional airlines have been promoting their web-based ticketing services and sales.

Other issues

In China, the air traffic industry has been growing at double digit rates for the past three decades in parallel with strong national GDP increases in China. Air traffic is forecast to grow about 10% a year through to 2020. In 2001, domestic passengers amounted to 74 million. That is about 7% of the population. But travellers by rail and road reached 14 billion. That means every Chinese travelled 10 times in 2001. It is not too optimistic to expect some rail and road passengers to travel by air if fares are lowered to meet their budget.

Meanwhile, the CAAC is continuing to ease regulations as it opens up the aviation industry and makes it more competitive. These include the privatisation of airports. To boost spending the central government has introduced three week-long holidays to improve the economy. They are Chinese New Year, the May Spring holiday and the National Day holiday in October. These new policies are positive messages for China's airline industry.

It will not be easy to introduce a low-cost airline in China. Take the situation in Japan, for example. Skymark Airlines and Hokkaido International Airlines or Air Do, entered the market in the late 1990s and tried to challenge the incumbents on high-volume domestic sectors by charging low ticket prices. However, the combination of recession, continuing price wars and the slow pace of Japanese deregulation has weighed heavily on them.

The situation in China is not any brighter, in fact it is even more difficult in certain areas. But LCAs are achievable.

Han Dawei works as an aircraft engineer with Gulf Aircraft Maintenance Company (GAMCO), in Abu Dhabi.

A member of the Royal Aeronautical Society, he previously worked as an aircraft engineer with Hainan Airlines, in southern China and AMECO-Beijing. Han is currently studying for an MSc degree in Air Transport Management through London City University. He is researching the subject of low-cost airlines in China as his course project.

Shenzhen Airlines: among the regional airlines that would be best suited to the low-cost model

CHINA REGIONAL AIRLINES STATISTICS

Airline	No. of Aircraft	A/C Type	No. of Route	No. of Employee	A: Domestic Flight B: International Flight
SICHUAN	5	A320	100+	1500	A
	2	A321			
	5	ERJ 145			
SHANDONG	7	B737	80+	820	A
	9	CEJ-200ER			
	7	SAAB340			
SHENZHEN	12	B737	30+	850	A
SHANGHAI	7 (+9 on order)	B737	60+	2000	A+B
	7	B757			
	4	B767			
	3	CRJ-200ER			
XIAMEN	15	B737	75	4100	A+B
	6 (+1 on order)	B757			
HAINAN	22	B737	85	3500	A+B
	19	328JET			
XINHUA	9	B737	50+	1230	A

A blessing in disguise

Many of Indonesia's start-ups 'doomed to failure'

By Tom Ballantyne

Indonesia's director of air transportation, Santoso Eddy Wibowo, sent letters in 2002 to the owners of nine new airlines that planned to enter the country's already crowded skies and warned their operating licences could be revoked.

All had missed their start-up deadlines and failed to take-off within 12 months of being granted their licences. A variety of factors had stalled the carriers' ambitions, including a loss of confidence in the market by investors. This trend had been particularly true since the October bombing in Bali that cost nearly 200 lives, said Santoso.

It may be bad news for the hopefuls, but it could be a blessing in disguise for the nation's air industry.

Seventy-one scheduled and charter carriers hold operating certificates in Indonesia. Veteran airline executives are near unanimous in their view that many of the fledgling carriers are doomed to failure and that the boom in start-ups, bringing with it destructive air fare discounting and fears of breaches in air safety, posed a serious threat to stable market development in the nation's aviation industry.

"The airline business is like the drug and sex business. It is very attractive to some businessmen, but it is also very dangerous," said Garuda Indonesia president, Indra Setiawan. "Average operating margins are less than 5%, but still these newcomers are very aggressive about getting into the business.

"We don't want our country to have a bad experience like the one when the banks collapsed during the Asian economic crisis [in 1997-1998], which left the Indonesian Government to sort out the mess."

Wahyu Hidayat, chairman of the Indonesian National Air Carriers Association (INACA), believed Indonesia has strong potential for domestic airline growth. But he warned some people were painting a misleading picture of the industry's prospects and were encouraging too many start-ups too soon.

"Given the country's large population, parties are vying to enter the business, but the domestic airline market is saturated. At a time when the economy has not fully recovered from more than four years of crisis and people's purchasing power remains weak, many Indonesians are still reluctant to fly."

Hidayat has no doubt many of newcomers will not survive.

The carriers warned by air transport chief Santoso have been given some time to put their house in order. They will receive three warnings before their licences are eventually revoked. If this happens, the cancellations will occur as *Orient Aviation* goes to press.

Indonesian National Air Carriers Association chairman, Wahyu Hidayat: domestic airline market is saturated

Four of the threatened nine are proposed scheduled operators – Internusa Air, Asia Avia Megatama, Satrio Mataram Airlines and Alatief Alair International. The remaining airlines, Multimoda Transportindo, Bali Adventure Sky, Papua Air Indonesia, Pura Wisata Baruna and Rabin Global Air Servindo have been given licences to operate unscheduled flights. They are among 26 scheduled and 45 unscheduled carriers that have obtained business licences from the ministry.

With its massive population of around 230 million, Indonesia appears ripe for rapid air travel growth, although passenger numbers represent a small percentage of that figure. After a slump during the Asian downturn four years ago, traffic rose substantially to 9.7 million in 2001 and was expected to reach 10.5 million last year. But it may be 2005 before numbers reach pre-downturn levels of more than 13 million.

The difficulty for newcomers is that more than 60% of Indonesian air traffic is controlled by incumbents such as government-owned Garuda and Merpati Nusantara and established private operators such as Bouraq, Dirgantara and Pelita.

But many of the newcomers are reportedly close to bankruptcy as they slash fares to win custom and sell tickets on some routes at a 50% discount. Already a few have been forced to cease operations.

The Bali bomb attacks did not help. At a time when the Indonesian economy was slowly regaining strength the murderous assaults raised doubts among potential foreign investors about the viability of the Indonesian airline industry, although neither INACA's Hidayat or Garuda's Setiawan believe the attack will have a significant impact on domestic air travel.

Garuda chief Setiawan said Indonesia has to learn from the experience of others. In 1995, China, with a population five times higher than Indonesia, had many airlines, he said. Today, mergers are the order of the day and the number of airlines has fallen significantly as China's airline industry aims to improve efficiency and return to profitability.

He believed regulators should concentrate on ensuring new airlines have a suitable business plan which showed they could maintain long-term profits and safety levels before the government granted them a licence.

Soeratman, president of Pelita Air Service, a long-established charter operator until it introduced scheduled services several years ago, said: "If the new airlines have a limited budget, it will be hard for them to survive. But if they have an unlimited budget and can take a long breath while others have run out of breath they will survive," he said.

Established airlines such as Garuda and Merpati are bringing in new domestic aircraft to strengthen their fleets. They also are working to synergise their operations, a strategy that will allow them to trim costs and become more dominant in the industry. Several other incumbents are forging loose alliances and planning code-shares on various routes. ■

Minnows fee woes

By Daniel Baron, in Tokyo

The year of the goat may have only just begun, but Japan's Ministry of Land, Infrastructure and Transport (MLIT) is already locking horns with the airlines. The MLIT announced in December its intention to increase landing fees for domestic flights throughout the country from April 1.

The government is aiming to earn an extra 8 billion yen (US$65 million) in fiscal 2003 to prop up loss-plagued airports such as Osaka's Kansai International Airport. It is looking at additional increases for 2004. The proposal would see fees at Osaka's domestic Itami airport shoot up by 33%. Currently Japan Airlines (JAL) and All Nippon Airways (ANA) pay nearly 500,000 yen (US$4,200) to land a B747-400 at the facility.

The rate hike would further deteriorate paltry yields at all of Japan's airlines, large and small.

The government is not happy, however. Following the decision, JAL and ANA announced they would be forced to increase non-discounted fares by 5% to cover the rise in landing fees. Transport minister, Chikage Ogi, retorted that such an increase was unnecessary and that the carriers should work on becoming more efficient.

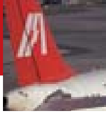
A fare hike may be difficult for Japan's airlines to pull off, and particularly so for JAL. Approval of the carrier's merger with Japan Air System was predicated in part on a pledge to cut normal fares by 10% across the board for three years, barring a "sudden change" in the economy.

Although in principle Japanese carriers are allowed to set fares freely, the government retains the right to halt an increase it deems "discriminatory". Nevertheless, Japanese consumers are unlikely to sympathise with either side. The timing of any increase would be particularly inopportune for the country's regional jet and prop-jet operators, which have worked hard to find a niche in the context of capacity limitations at Tokyo's Haneda Airport.

Carriers such as Japan Airlines System group subsidiary, J-Air, and Fair Inc. have stepped in to fly routes that are not profitable for mainline aircraft. And the shedding of fat by ANA will also see Skymark Airlines assume two of the former's routes from Haneda using B767-300 aircraft.

While opportunities for the smaller airlines have increased, profits have been elusive. In its fiscal year ending October 31 2002, Skymark posted a loss of 1 billion yen (US$8.3 million) and is forecasting additional losses in 2003. Miyazaki-based SkyNet Asia, which commenced operations in August 2002 with one route, is also bleeding red ink.

Yet another new entrant, Lequios Airlines, is preparing for a June launch to compete with the majors between Haneda and Okinawa. The proposed increase in domestic user charges promises to create an additional obstacle to long-term viability for both Lequios and Japan's other fledgling carriers. ■



Domestic battle looms in India

By Tom Ballantyne

The track record of airline start-ups in India's often chaotic skies is patchy, to say the least. New players like ModiLuft, Damania, East West and NEPC, launched after the government introduced domestic open skies in 1992, have been forced to close their doors.

Now, surviving incumbents, government-owned Indian Airlines (IA) and privately backed Jet Airways and Air Sahara are about to encounter a new rival in the shape of long-time charter operator Jagson Airlines.

Given the go-ahead late last year to launch scheduled domestic airline operations, the Delhi-based Jagson is expanding its fleet and network. Chairman Jagdish P. Gupta is in discussion with suppliers to lease or lease-purchase up to 10 regional aircraft. "We have already begun negotiations with various European and Russian aircraft makers about possible acquisition of 10 30-50 seat jet or turbo-prop aircraft," he said.

The bigger carriers will be apprehensive about the arrival of Jagson as an official fourth domestic airline. For the past decade Jagson has operated three Dornier turboprops, mostly tourist charters, as well as unscheduled services to smaller destinations such as Lucknow and Chandigarh.

Gupta has no immediate plans to challenge the bigger airlines head-on. He has his sights aimed at establishing scheduled services on non-trunk routes, but also sees opportunities to introduce new services on trunk routes during "non-peak" hours. "Operations on routes such as Delhi-Mumbai during 'off-peak' hours, like noon or in the afternoon, would be commercially sustainable with a smaller aircraft. We are looking at both turboprop and regional jet options for such operations," he said.

Gupta would not disclose details of aircraft types, but it is thought Jagson is talking to France's ATR and Spain's Alenia Aero and Casa, all of which manufacture 30-50 seat aircraft. The Russian firm, Pzlmielic, could be a contender with its 30-38 seat AN-38. On the small jet front, discussions would be expected to include Embraer and Bombardier.

"We have managed to survive for 10 years in a tough market and have established ourselves as a regional player. Now that we have been permitted to start scheduled services, we feel it is time for us to expand and become more profitable. Jagson has the lowest overheads in the country, which will make the expansion strategy tick," said Gupta.

The company will sponsor its own training and ground support services staff to launch the scheduled operations. Revenue generated from the expanded services will pay for the leasing of additional aircraft, said Gupta.

Jagson is entering an arena well known for cut-throat competition and keen pricing between existing players. As well, there is a worrying gap in quality between government-owned IA and two established private airlines.

Indian Airlines: struggling against private operators

IA's low-cost subsidiary, Alliance Air, set up to compete against brash newcomers, appears to be on the way out, apparently because of passengers' concerns about flying in the carrier's fleet of veteran B737-200s, because they are all more than 20 years old. IA has already repainted Alliance's blue and orange aircraft in its own red and white livery.

IA, which operates 36 Airbus A320s and six A300s, suffered record losses last year while its competitors are on significant expansion drives.

With 250 daily flights to 41 destinations in India, Jet Airways has a fleet of 32 Boeing B737-400, -700 and -800 jets as well as eight ATR 72-500 turboprops. With an average age of 3.18 years, it is one of the youngest fleets in the world. The carrier plans to buy the B737-900 and has ordered 10 70-seat jets from Brazil's Embraer. These are scheduled for delivery from 2004, when they will begin replacing the ATRs.

At the same time, Air Sahara is more than doubling its fleet. Now operating 10 B737s (two -800s, three -700s and five Classic -400s) it will have taken delivery of seven 50-seat Bombardier CRJ-200 regional jets by March and will operate them on both short-haul regional and long-distance trunk routes.

Sahara chief executive, Uttam Kumar Bose, said the plan revolved around putting the CRJs on regional routes – secondary commercial hubs like Ahme-dabad, Indore, Lucknow, Bhopal, Vizag and Coimbatore – in the mornings and evenings, then re-deploying them on trunk routes in the afternoons, or perhaps late at night, to help travellers connect more efficiently with international flights.

The airline also will take delivery of larger jets although there have been mixed messages on details. In June, it was reported Sahara would add 14 new aircraft, including the purchase of six new B737-700s, to its fleet. However, sources said late last year Sahara was on the verge of finalising a deal with Airbus for the acquisition of 11 jets at a cost of $400 million, a move which would see it convert its fleet from Boeing to the European planemaker.

Bose was quoted in the local media as saying the company was in the process of securing funding from Exim Bank and other aircraft funding institutions. There has been no official announcement about the deal.

However, any major expansion by Sahara, always the smallest of the three big domestic players, would shake up the domestic market which has not experienced any significant growth in passenger traffic for more than a year. A large increase in capacity would likely spark a ticket pricing battle as the airlines strive to fill extra seats.

Rich desert pickings

New Australian regional carrier cashes in on U.S. misfortune

By Tom Ballantyne

The Mojave Desert is a long way from Brisbane, but it has been the focus of attention recently for Scott McMillan, managing director of one of Australia's newest regional carriers, Alliance Airlines.

It will be from an aircraft parking lot in Southern California's searing desert country that two Fokker F-100 jets will depart in March to join the Queensland operator's small but growing fleet.

Alert to the woes of the U.S. airline industry, McMillan jumped at the chance to purchase the aircraft, part of a big fleet of regional jets grounded and parked in the sand by struggling American domestic U.S. Airways. And the veteran Australian airline executive also has snapped up spare parts, spare engines and a simulator.

That additional investment reflects the fact Alliance is more than a regional airline. It is one part of an aviation group that boasts not only scheduled airline services, but strong partner businesses involving busy charter operations for major resource companies and an engineering and maintenance operation at Brisbane Airport.


Alliance Airlines: adding jet capacity to its scheduled and charter services

Alliance is not the only newcomer in Australia's skies as regional aviation strives to recover from the 2001 downturn and the dramatic collapse early last year of Ansett Australia and its regional subsidiaries.

In December, Regional Express, or Rex, born from the remains of long-time operators, Kendell and Hazelton airlines, announced a major upgrade of its Saab fleet. It has signed a lease deal with Saab Aircraft Leasing for 13 Saab 340Bs to replace older aircraft. Three have been delivered and the rest will arrive in the next six months.

Rex, which said it has no plans to start trunk route operations or introduce jets into its fleet, operates from the former Ansett terminal in Sydney where it offers its passengers top class facilities, including frequent flyer business lounges in Sydney, Melbourne, Adelaide and Canberra.

Expansion plans by both of the new local operators have begun to ease earlier concerns that many of Australia's regional centres would lose air services or be faced with a Qantas monopoly after Ansett's shutdown.

Alliance, operator of three 91-seat Fokker F-100 twinjets and a 30-seat Embraer Brasilia turboprop, is bringing in additional jet capacity to increase its scheduled and charter services, while spare parts and engines will add to its engineering services, said McMillan.

The airline has plenty of aviation experience to back up its expansion plans. Launched in July last year, Alliance is the reincarnation of former Australian regional carrier, Flight West Airlines, which ceased operations in June 2001 and was later purchased by a consortium, Queensland Airline Holdings, funded by a group of experienced aviation figures.

Members include Stephen Bond, who has an interest in major helicopter operator Bond Air Services and UK regional airline Logan Air, Hugh Jones, chief executive of New Zealand based aviation company Airwork, and the chairman of the Australian-owned Aeromil group of companies, Steve Padgett.

"The demise of Ansett and its regional subsidiaries opened the door to a host of opportunities and we aim to take advantage of these," said McMillan.

"While Qantas and Virgin Blue have certainly done a great job on many of the regional routes, Qantas in particular has been left with a virtual monopoly in many areas and we believe there is room for competition in some areas."

At present, it operates scheduled services from Brisbane to the North Queensland centres of Gladstone (competing with Qantas), Rockhampton (with Qantas and Virgin Blue) and Townsville (with Qantas and Virgin).

McMillan has been aggressive with pricing, introducing special one-way fares during off-peak periods on several routes and launching low-cost holiday packages.

Linked to the Sabre distribution system, Alliance has interline or pro rata agreements with all the big international carriers that fly to Brisbane, including Singapore Airlines, Malaysia Airlines and Thai Airways International. Capturing feed to and from regional Australia to overseas destinations has become an important part of the business, said McMillan.

Alliance operates ad hoc charters and has major contracts to fly regular services to sites operated in Western Queensland by mining giants Pasminco and WMC Limited. McMillan said he expects new business for charter flights from other resource companies and that the work would involve services beyond Australia.

Headquartered in Sydney with its main operational, engineering and maintenance base in Wagga Wagga, Rex operates 34 Saab 340s and seven Metro 23 turboprops on routes in New South Wales, Victoria, South Australia, Tasmania and Canberra.

Chief executive Michael Jones said the fleet upgrade is another key milestone for the airline. "This agreement is an indication of our long-term commitment to serving regional Australia." ■

By Tom Ballantyne

New airways mean big savings for Asia's carriers

Some of Asia's biggest airlines are enjoying a multi-million dollar windfall in fuel cost savings after the opening of an array of critical new air routes along the Australasia – Asia – Europe corridor. The skyway has been hampered for years by chronic congestion and costly delays.

The International Air Transport Association (IATA) has estimated carriers' annual fuel savings will be US$55 million, but this could prove conservative. The association said many flight times have been shortened by up to 30 minutes.

The big regional winners will be Qantas Airways, Singapore Airlines, Malaysia Airlines and Thai Airways International. But all carriers that operate services to Europe through Southeast Asia will save on fuel.

At this stage, airlines are reluctant to predict financial benefits the new air routes will bring. They say they will not be able to assess the extent of the savings until the airways have been operating for at least six months.

However, one airline indicated it expected to reduce its flying time by at least 180 hours and save 590 tonnes of fuel annually on one daily operation between Asia and Europe.

These estimates would equate with a saving of around US$1.3 million annually on a single flight. Operators with multiple services to a number of European cities can expect benefits of several million dollars.

The largest overhaul of routes in aviation history – five new airways were introduced in each direction – came into affect in late 2002 after two years of intense work among IATA, the International Civil Aviation Organisation (ICAO), some 40 nations, airlines, military agencies and air navigation chart-maker Jeppeson. The massive route restructure project was conducted by ICAO's Europe, Middle East, Asia Route Structure South of the Himalayas (EMARSSH) task force.

The changes were long overdue. Heavy congestion along the historic Kangaroo Route, from Australia through Southeast Asia to Europe, has dogged airlines for years. Each day some 45 wide-bodied aircraft depart airports such as Sydney, Singapore, Bangkok and Kuala Lumpur for Europe. The previous air route structure, designed after World War II, had become grossly congested, particularly over the Bay of Bengal and India. As the nightly logjam built up, flights often were delayed on the ground and when they did fly, less than half were able to achieve their desired cruising levels for optimum fuel burn.

Airservices Australia chief executive, Bernie Smith: new airways will enhance air safety

Already tagged as the "new green routes", the airways not only save airlines money and time. They also drastically reduce aviation fuel consumption by cutting greenhouse gas emissions. Less congested air routes also have clear implications for aviation safety and reduce stress for air traffic controllers.

Said ICAO's John Richardson, who is chairman of the EMARSSH task force: "Even factoring in a very conservative one percent saving across the board, [the new route structure] will result in a saving of 25,000 tonnes of fuel per year – and we think we will do better than that. The result of EMARSSH is an energy-efficient route structure that stretches halfway around the world."

Getting there was not easy, according to IATA's regional director for safety, operations and infrastructure, David Behrens.

IATA began the reform process two years ago after a meeting in Singapore, which set member airlines the task of reviewing air traffic flows along the Kangaroo Route with a view to improving safety, reducing costs and increasing efficiency and environmental friendliness. "We quickly realised that what was required was bigger than anything we had ever done before," said Behrens. "The success of the EMARSSH project clearly demonstrated what could be accomplished through international teamwork and mutual understanding."

While EMARSSH was an international effort, Australia's air regulatory body, Airservices Australia, was a key player in the process. "Australia provided a major leadership role as a member of the small core team of ICAO nations, providing the technical expertise to streamline the air route structure," said Airservices chief executive, Bernie Smith.

"We were chosen for that major role because of our global reputation as a leader in air traffic management innovation."

Smith said development of the new "fuel-friendly" routes capitalise on the advanced avionics aboard today's new generation of wide-body aircraft. Also, it enhances aviation safety by reducing route congestion and simplifying air traffic controller workload.

IATA's Behrens said he was "particularly grateful that Airservices Australia agreed to develop the mathematical safety case analysis – which was no small task".

Qantas group general manager flight operations and chief pilot, Captain Ian Lucas, said the Kangaroo Route had been an important part of Qantas operations for more than 50 years. "The EMARSSH project has been an excellent example of regional states working closely with the airline industry to modernise the air traffic system," he said.

The introduction of the new routes is far from the end of the story. "To cope with growth, we will eventually need to move towards a User Preferred Route system that would let airlines file optimised flexible routes based on daily wind patterns," said Behrens.

Airservices Australia will host a post implementation review meeting with ICAO, IATA, specific airlines and a large number of nations in Australia, in March. ■

Photos: Patrick Dunne

ASIA'S IN MY BLOOD, SAYS BA BOSS EDDINGTON

By Oscar Seow in Hong Kong

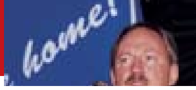
Rumours that British Airways chief executive, Rod Eddington, has relocated from Asia, or more specifically, Hong Kong, to Britain are completely groundless. Not true at all. He must still be here. How else could you explain the still valid Hong Kong Permanent Resident identity card that resides in his wallet? Or the fact that five years after his physical departure from the helm of Cathay Pacific Airways, Edding-ton probably has more friends in Hong Kong now than he did back then?

Okay, okay. It's true the affable and charismatic 52-year-old Eddington is no longer based in Asia, a region in which he spent almost 17 years with the Swire Group and Cathay Pacific, the last five of those as the Hong Kong-based airline's managing director.

In early 1997, Eddington, an Australian by birth and a Rhodes scholar by education, became executive chairman of Melbourne-based Ansett Australia after media magnate Rupert Murdoch asked him to try his hand in turning the carrier around. Ansett, unfortunately, is no longer, having finally given up the ghost early last year after being purchased by Air New Zealand.

Eddington also is no longer in Australia. In May 2000 he was plucked from Ansett by British Airways (BA) chairman, Lord Marshall, and charged with pulling the UK flag carrier through one of the most trying phases in its 83-year history. He replaced the much-derided Bob Ayling in the chief executive's seat.

The timing could not have been better for Eddington. Air NZ already held 50% of Ansett and Eddington supported Singapore Airlines' (SIA) move to purchase the 50% held by Murdoch's News Corp. But shortly after Eddington left,



> **'IN THE LAST DECADE THE GAP BETWEEN THE STRONG CARRIERS IN ASIA AND SOME OF THE OTHERS HAS WIDENED'**
> **– ROD EDDINGTON**

Air NZ executed its right of first offer on Ansett and SIA was out of the picture. The rest, as they say, is history.

In spite of his present position as chief executive of Europe's second largest carrier, Eddington retains close links with Asia, not least of which are his Korean-born wife, whom he met while at Cathay Pacific, and the numerous business links with Hong Kong and Australia that he has maintained. He remains on the boards of Murdoch's News Corp and John Swire & Sons, which controls Cathay Pacific. Eddington also is chairman of the EU Committee of the Hong Kong Trade Development Council and is considered by many informed observers to be one of Hong Kong's most ardent and effective advocates in Europe.

Indeed, when interviewed by *Orient Aviation* days before leaving Cathay Pacific for Ansett in late 1996, Eddington said: "My emotional attachment to the airline will be with me for ever."

"The good thing about my job is that it provides me with lots of opportunities to travel to Asia," Eddington said when in Hong Kong in December. He was there to attend BA's annual board meeting and he had selected the venue. ''I've kept up my Hong Kong connections, not only through friends, but through the things I do to support Hong Kong in Europe."

"Hong Kong is a vibrant, energetic place. I met my wife here and both my children were born here. Yeah, I think that if you live in Asia for as long as I have, Asia does become part of you," said Eddington.

"I left Hong Kong literally in the first couple days of 1997, but I've kept very much involved in it. One of the things I do in Europe is chair the EU-Hong Kong committee, so I've kept alive an interest in Hong Kong and Asia, generally," he added.

Does Eddington miss Australia, his native homeland? Chances to go back are few and far between. "I get back there once a year. My mother still lives in Perth so I try to get home to see her for Christmas and New Year," he said. In any case, he hasn't lived in Australia much since he left Perth's University of Western Australia in 1974 for the greener pastures of Oxford University.

And then, of course, he lived in Hong Kong and Asia for a large part of his working life, which makes him a unique witness to the growth of Asia's major international carriers as they broke into the ranks of internationally acclaimed airlines over the past two decades.

So just how have Asia's airlines changed over the course of Eddington's career in the region?

"I don't think anything's changed very substantially over the last few years. There's strong competition here. I think the strong Asian carriers set the standards in the industry, whether they are standards of profitability or standards of service. So it's a very competitive environment in which to operate," said Eddington.

"The issues that may have been perceived as challenges through the 60s and 70s, like political stability and the like, are no longer issues. And most of the major countries are stable politically and economically. So really, when you talk about challenges – if you are operating into Asia, whether you are coming from North America and Europe, the major challenge is the quality of competition," he said.

One thing that has happened in Asia, however, is that the strong airlines have grown stronger and the weak, well, weaker. "One of the things that has happened in Asia over the last decade, is the gap between the strong carriers in Asia and some of the others has widened."

''If you go back 20 years, airlines like Philippine Airlines were much more robust and competitive than they are today. Even for an airline like Thai Airways International, 20 years ago it was a strong competitor to Cathay Pacific and Singapore Airlines," he said. Since then though, "Cathay and Singapore, and increasingly Dragonair, which has grown and prospered over the last decade," have widened the gap. "The gap has grown between the well-organised and well-run airlines and their major regional competitors," said Eddington.

Let this be a warning to all airlines competing, or wanting to compete, in Asia: "If you want to compete with them, you can't afford to stand still. While others have had trouble over the years, or have struggled, Cathay and Singapore have put up plenty of distance," declared the BA boss.

Good advice. But learning to keep pace with the leaders is one thing, finding opportunities to overtake them another altogether. What opportunities does Eddington see in Asia for airlines?

"The opportunities have increased. Clearly, the opportunities that exist around business into and out of China are hugely ahead of where they were a decade ago," he said.

"Of course, a decade ago Japan was very much the engine room of Asia and it's critical to most Asian airlines and Asian economies. But the major Asian airlines have relatively fewer eggs in the Japan basket than they had 10, 20 years ago. Back then, it was pretty much Japan, economy number one, and then a big gap to the next. But now you have China, you have Japan, you have Korea, all quite apart from places like Hong Kong. So there are terrific opportunities in Asia," said Eddington.

More to the point: "I look at China and ask, what are the opportunities? Increasingly, European airlines are looking to drive tourism from China, but the real opportunities in China have come from within Asia."

''Look at the network that Dragonair has into China now, and similarly that of Japan Airlines, Korean Air and Asiana have into China today. These are not just to places like Shanghai and Beijing and

Eddington in Hong Kong with (from left): Guy McLeod, president Airbus China, Robert Adams, director CITIC and Martin Craigs, president Aerospace Forum Asia

Guangzhou, but routes to a whole range of smaller destinations. When I worked in Korea in 1980 and 1981, Korean Air could not even fly into China, much less have Korean tourists travelling there," he said.

Conversely, airlines from outside the region have, by necessity of their distance, taken a vastly different view of China than Asian carriers. For BA, this has meant concentrating on serving Beijing from London since it had to give up Shanghai to its arch-competitor Virgin Atlantic a few years ago. BA is now concentrating on developing a pipeline to and from Europe for Chinese traffic.

"If you look at China, first and foremost, there are the opportunities to fly to and from China and do good business both in the context of passengers and cargo. But also we are beginning to see real outbound growth from China," said Eddington.

Eddington said when he first worked in Japan for Cathay Pacific in 1985, Japan had about five million outbound tourists. A decade later, that figure had risen to 15 million. But it also took the Japanese decades before they began venturing outside of Asia. By contrast, mainland tourists already can be found as far away as London, where Eddington now makes his home.

"If one draws a parallel to what happened in Japan and compare it with China, the Japanese first travelled close to home. They went to neighbouring countries like Korea and Taiwan before they started travelling more widely. But the Chinese are there already. They are beginning to travel more widely. So I think there are some extraordinary opportunities, not just for airlines, but also for hotels and the whole tourism trade," he said.

"I often take my children to London's Chinatown for dim sum on weekends and the biggest difference I have found over the years is that a decade ago most people would be speaking Cantonese. Now you are hearing a lot of Putonghua.''

It's obvious Eddington feels very strongly about Asia and its long-term prospects for good growth and prosperity. But given the economic pain that has dogged airlines elsewhere in the world over the past couple of years, how does he think Asian carriers will fare over the next 12 months?

"I don't think Asian airlines will be spared some of the challenges that we all are facing," he said. "Security is an issue for every airline in every market, not just the American and European airlines. Rising insurance costs place a burden on all of us.

"And a number of the major economies in the world are clearly struggling. The Japanese economy stalled more than a decade ago and is still stalled. There are some worrying signs from Germany and we're getting mixed signals about what is happening to the U.S. economy. In that environment, airlines will think long and hard about how they can pursue profitable growth opportunity."■

British Airways: now concentrating on developing a pipeline to and from Europe for Chinese traffic

Life in the BA fast lane

Although he has never said it – and that could be because nobody has asked – it is unlikely that Rod Eddington expected he would one day be running British Airways (BA) as he worked away during those Melbourne autumn months three years ago, **writes Christine McGee**.

Back then he was sitting atop of Ansett Airlines, after successfully completing his brief from his boss, Rupert Murdoch, and was probably wondering what he would do next.

As instructed, he had put the now defunct carrier in much better shape and in doing so had found a buyer for Murdoch's 50% share of the airline. Star bidder and regional aviation neighbour, Singapore Airlines, could not wait to get its hands on all those air rights for onward services that Ansett could offer expansionary SIA.

But life did not work out like that. Air New Zealand (AirNZ) decided it wanted all of Ansett and paid a price that plastered big grins across the faces of the seller's negotiating team.

Even before AirNZ's sudden move on Ansett, Eddington said there would be no room for two CEOs when Ansett found a new owner. From afar, British Airways chairman, Lord Marshall, saw in Eddington a man who could turnaround the £244 million loss the carrier was about to announce to shareholders.

Within weeks, Eddington had moved to London and the West Australian Rhodes scholar was in situ as chief executive of British Airways.

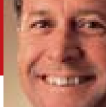
In the same month that he took the job, BA announced its first annual loss since the global carrier was privatised in 1987 but there was a much bigger blow to come in July, when one of BA's Concorde aircraft crashed after take-off outside Paris, killing all passengers and crew on board. For Eddington that was one more huge hurdle to overcome in a climate where he had to cut thousands of BA jobs, draw up an entirely new system of management and control at the carrier, negotiate new mergers and acquisitions, sell off assets – plus put the carrier back in the black.

Along the way BA has had to abandon attempts to acquire equity in KLM and a tie-up with American Airlines following anti-competitive objections from the European Union regulators. He also sold low-cost BA subsidiary, GO, for £110 million – a decision now criticised since easyJet bought it a year later for three times that amount.

He has put the Union Jack back on BA tails, but the airline also will have shed 13,000 jobs by 2004.

His operating strategy, Future Size and Shape, has cut costs by 15%, produced needed cash reserves of US$3 million by year end in 2002 and simplified BA's fare structure so that customers can at least compare them like-for-like with offerings from low-cost competitors.

Already he is seeing some results from his and his employees' efforts: BA is back in the black.■



Make or break for Air NZ

Without Qantas alliance airline will be reduced to domestic carrier, says chief Norris

By Tom Ballantyne

If Air New Zealand (Air NZ) did not proceed with its proposed alliance with Qantas Airways, within five years the carrier could be forced to abandon international operations and become a domestic airline, said chief executive Ralph Norris.

The vehement opposition that emerged after public disclosure of the deal, in which Qantas will pay US$250 million for a 22.5% stake in Air NZ, was the result of "nationalistic hearts ruling heads", Norris told an American Chamber of Commerce meeting in Wellington.

Industry insiders consider suggestions the Kiwi carrier's international survival is at stake may be an over-statement. But they are unanimous in their view that Australasia's two major airlines face the fight of their lives to convince a suspicious public and doubtful regulators that the deal is no less than a play for monopoly that will drastically curtail competition in South Pacific skies.

They also agree that if Qantas and Air NZ win approval for the alliance, it will dramatically change the aeropolitical climate and affect airline relationships far beyond Australia and New Zealand.

The view is the partnership could speed up liberalisation as Australasian governments strive to introduce more competition and force global alliance groupings to reassess their partnerships.

The Qantas-Air NZ deal is far from assured. Both the Australian Competition and Consumer Commission (ACCC) and New Zealand's Commerce Commission (NZCC) have expressed strong reservations about it. Authorities are concerned about a potential domestic monopoly and also fear almost total dominance will result on some of the carriers' overseas routes.

If United Airlines, for example, dumps U.S.-Australasia routes as it fights its way out of bankruptcy protection, it would leave trans-Pacific airways totally available to Qantas and Air NZ.

One possible answer to the monopoly debate is to open the skies to foreign competition. The ACCC has hinted that open skies agreements, which would allow foreign airlines to enter the market and compete with Qantas and ANZ, would ease its concerns.

"A more competitive environment, of course, is more conducive to us having no difficulties with the arrangement," said the ACCC's commissioner Ross Jones.

"If the commission thought there were some acceptable arrangements between Qantas and Air NZ, one of the crucial issues would be the ability of someone else to come in and compete on the routes where they dominate.

"That competition may not come domestically. In an open skies agreement there may well be carriers from other countries that can provide the competition."

Air New Zealand chief executive, Ralph Norris: too many airlines offering artificially low fares

And Australian transport minister John Anderson – the national government is in favour of the alliance – said the tie-up, if agreed, could come at the cost of a more liberal approach to aviation by the government.

He said the ACCC would have to consider whether to grant approval "on the basis of increased access by foreign airlines to the routes from Australia to New Zealand and to the west coast of the U.S.".

Anderson also has an eye on the wider airline picture. He predicted the global airline industry would consolidate into three to five dominant airline groups over the next 10 years.

"We must have one of those airline groups in this region because we are located far from the major trunk routes," he said.

These comments came as Australian air treaty negotiators sat down in December with their counterparts in Singapore for exploratory talks on a Singapore-Australia "open skies" pact.

Formal consultations were expected to take place within the next few months.

Such a pact would allow Singapore Airlines (SIA) freedom to operate through Australia to New Zealand and on to the U.S., providing the competition authorities want it. It may also spur SIA into making a decision on whether or not to enter the Australian domestic market. It would be likely other Asian airlines may then be afforded the same opportunity.

It could be up to six months before the Australasian regulatory authorities make a decision on the proposed trans-Tasman alliance. The deal would then need approval from the airlines' stake-holders, which means a final decision would be unlikely before the last quarter of 2003.

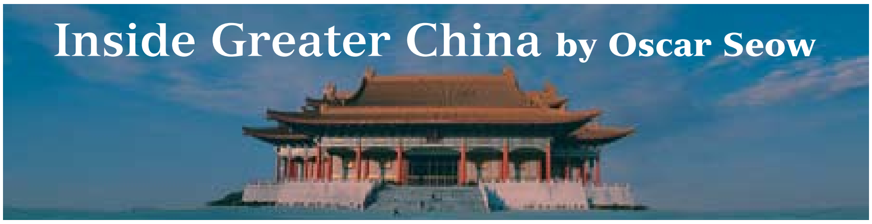
Air NZ is in the Star Alliance and Qantas is in oneworld. It is unlikely this would continue if the partnership goes ahead. While Norris has urged observers not to assume Air NZ will leave Star, that still appears the most likely scenario.

If so, Star will have some serious decisions to make. With lead member United in financial strife and a network black hole in Australasia, Star carriers would urgently need to fill the gap, possibly through a new Australian domestic venture by SIA, or in some type of joint operation among several Star members.

"Too many airlines are fighting for reduced business by offering fares that are artificially low [and] hoping the downturn doesn't last longer than their reserves of cash and credit," said Norris.

"[the alliance] is a far-sighted realisation that the global industry has become massively inefficient in producing any reasonable return on capital. Those which cannot deliver the goods in financial terms are unlikely to survive in the medium or long-term."

A PIVOTAL YEAR



What a year 2002 was for China's aviation industry! Few years have given the industry the same degree of thrills, fears and hopes for the future that were experienced in the past 12 months. A single word sums it up: revolution.

Looking back it will be seen as a pivotal year. The industry has seen – arguably for the first time – a consistent theme of reform in management and safety.

To recap the dizzying year, we have compiled, in reverse order, a top 10 list of the biggest China aviation stories of 2002.

10. In June, China was named the sixth largest airline services provider in the world in the International Air Transport Association's annual list of regular scheduled services by country, a rise from number nine a year earlier. The Civil Aviation Administration of China (CAAC), said Mainland airlines flew more than 13.8 billion kilometres per week in 2001, an increase of 19% over the previous year.

9. The CAAC unveiled its first White Paper in March, the "2002 Aviation and Transport Industry Development Plan". The paper largely sets out product development strategy for mainland airlines and details its opinions on how aviation supplies and infrastructure should develop in China. It is significant that it represents the future role of the CAAC in managing China's airline industry: no longer will the CAAC micro-manage its airlines now it has become a regulator.

8. Guangzhou-based China Southern Airlines joined the list of the top 20 busiest airlines in the world. In December it welcomed on board its 20 millionth passenger.

7. In April, an Air China Boeing 767-200 crashed into a foggy mountainside in South Korea, killing 129 of the166 passengers on board. This tragedy, the first in Air China's history, was followed a month later by a China Northern Airlines MD-82 crash into the sea near Dalian, killing all 103 passengers and nine crew. Beijing took prompt action to reaffirm the safety of mainland airlines. In August, it announced that 8 billion yuan (US$976 million) was available to assist mainland airlines in upgrading all aspects of safety.

6. In October, after a year of unexplained delays, Taipei finally approved a plan by flag carrier China Airlines (CAL) to buy 25% of Shanghai-based China Cargo Airlines, the cargo subsidiary of China Eastern Airlines. The US$47 million deal was the first airline investment by a Taiwanese company in the Mainland. It overcame huge political hurdles in Taiwan to win approval. Taiwan is considered by Beijing to be a renegade province.

5. Taiwanese legislator John Chang, a KMT-affiliated opposition politician, raises the idea in December of allowing the island's carriers to operate charter services to the Mainland in the run-up to the Lunar New Year, as the first step to the resumption of cross-strait regular scheduled services. As *Orient Aviation* went to press, tickets for the charter flights were on sale.

4. In May, tired of years of fruitless action against illegal discounting of air fares by airlines and travel agents in China, the CAAC, the State Development and Planning Commission, the Public Security Bureau, the China National Tax Bureau and the General Administration for Industry and Commerce made the unprecedented move of threatening travel agents with police raids and criminal prosecution if they did not stop.

3. In August, Shanghai-based Junyao Group, one of China's top 100 private companies, surprised the aviation industry by investing in China Eastern Airlines Wuhan Co, a company formed by China Eastern to take over ailing Wuhan Airlines. It marked the first time a Mainland private enterprise had been allowed to invest in an airline.

2. October saw the listing of Shanghai Airlines on the Shanghai Stock Exchange. The growth of the three national carriers had siphoned capital and business opportunities from the regional carriers, threatening their existence. Shanghai Airlines, along with Hainan Airlines, continued to represent the cream of the regional carriers in China and, while still minnows, pose the only serious competitive threat to the majors on domestic and regional routes out of the Mainland.

1. Without doubt the number one news item in China last year was the official creation of six national aviation giants, after 18 months of squabbling and uncertainty. The move marked the official merger of nine CAAC-owned airlines into three national champions, led by China Eastern, China Southern and Air China.

Three other aviation groups are also established: China Travel Sky Holding, China Aviation Oil Holding and China Aviation Supplies Import and Export Group.

The three new airline groups have 419 aircraft and assets of 158 billion yuan (US$19.28 billion), accounting for 80% of the industry's assets. If China's aviation industry is to develop to levels of global leadership, these six groups will be its standard bearers.■

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China Southern Airlines: in 2002 joined the list of the top 20 busiest airlines in the

ENGINEERING & MAINTENANCE

All change at GAMECO

A major focus on expanding third party work at New Baiyun airport will be a priority

By Charles Anderson

Guangzhou Aircraft Maintenance Engineering Company (GAMECO) moved into 2003 with a new ownership structure, a change in top management and a series of major challenges on the horizon.

As *Orient Aviation* went to press, an announcement outlining Lockheed Martin Aeronautics Service International's sale of its 25% stake in the heavy maintenance joint venture to Hutchison Whampoa (China) Ltd was pending. Hutchison had previously owned 25% of GAMECO with the remaining 50% held by main customer, China Southern Airlines. All three companies were founding partners in 1990.

Bob Watson, general manager under the old regime, has already left GAMECO's facility at Guang-zhou's Baiyun International Airport only eight months after taking over from Dan Lange, a Lockheed employee. Watson has been succeeded by former GAMECO deputy general manager and Hutchison employee, Thomas Tsiang.

The sale comes after the failure of talks last year between Lockheed and Singapore Airlines Engineering Company Limited (SIAEC). SIAEC is keen to expand its interests in China.

It further increases Hutchison Whampoa (China)'s investment in aviation maintenance, a development that was expanded in 1998 when the Hutchison subsidiary helped form a consortium with China National Aviation Corporation (CNAC), United Airlines and British Airways to form China Aircraft Services (CAS) at Hong Kong International Airport. Hutchison holds 20% of CAS, a maintenance and cleaning service provider.

But Tsiang, a CAS director who joined Hutchison Whampoa (China) in 1998 and previously spent 16 years in senior management in Australia with companies such as Pacific Dunlop and ICI, prefers not to dwell on the ownership change at such an early stage.

"Basically, GAMECO will still be committed to becoming the first-choice supplier to China Southern Airlines (CSA) and other customers," he said. "GAMECO will be striving to achieve a world-class safety record, high quality work, on-schedule turn-around times and cost efficiency."

The challenges he appears to relish and is happy to discuss centre on the changing structure of China's aviation business, the rationalisation of China Southern's maintenance operations and GAMECO's move

An artist's impression of China Southern's hangar at the New Baiyun Airport scheduled to open later this year

SPECIAL REPORT

to a much larger facility at Guangzhou's New Baiyun Airport.

The company met its budget targets in 2002, thanks to an incentive programme and a series of cost-control measures. But Tsiang sees some difficulties ahead.

"We are expecting fierce competition in the local maintenance, repair and overhaul (MRO) industries in the next 12 months and beyond," he said. "This is because there are an increasing number of new overseas entrants moving into Chinese aviation markets. The merging of the three airline groups is also likely to drive some of GAMECO's long-term customers back to the MRO facilities of their parent airline groups."

GAMECO is still officially targeting this October for its move to the new US$2.36 billion airport, situated 18 kilometres from the current Guangzhou airport, despite concerns New Baiyun's opening date could be delayed. GAMECO is investing US$100 million in a four-bay hangar at the new airport, equivalent to three times its existing capacity.

The facility will be capable of handling two wide-bodies and five narrow-bodies at the same time, with one bay reserved for painting services under an agreement signed last summer with PPG Aerospace Materials (Suzhou), an affiliate of American company PRC-DeSoto International.

It's an impressive investment, but one that must pay its way, meaning third-party business will become essential for a company that last year derived about 80% of its workload from one customer – China Southern. "GAMECO has to increase its business significantly," said Tsiang, of the Baiyun expansion, with the company looking further afield for new revenue.

"GAMECO provides technical support services to most of the domestic airlines in China. We are now actively working together with many other Asia-Pacific customers' airlines for long-term business opportunities. It is GAMECO's corporate mission to become one of the leading MROs in China and the Asia-Pacific region."

With 2,400 employees on the payroll, GAMECO handles Boeing 737, 757, 767 and 777 aircraft as well as Airbus A320 and 321s. Recently, it won FAA approval for A320 heavy maintenance, becoming the only MRO in China to hold FAA, CAAC and JAA certification in this area.

The recent FAA green light fits well into the company's expansion plans with business development director, Joey Lo, talking of its ambitions to provide A320 maintenance for Asia-Pacific airlines at the time of the announcement in December.

Moving C checks for 18 China Southern Boeing 737s to a two-bay hangar operation at Xinzheng airport in Zhenzhou city, in the northern province of Henan, last October has helped ease a little of the pressure on GAMECO's current facilities.

"The idea is to alleviate GAMECO's capacity constraint problem in Guangzhou and develop China Southern's Henan branch maintenance capability," said Tsiang.

At Henan, China Southern is providing hangar space, tooling and equipment and some manpower while GAMECO holds the approvals and has control of the production line in terms of management, technical supervision and quality control.

It also is a step in the right direction for GAMECO in its continuing efforts to persuade China Southern to further rationalise and consolidate its maintenance facilities.

"The difficulties are still there," said Tsiang, "but I would rather call them challenges. The main one is to strengthen our services to meet China Southern top management's needs and to convince them that consolidation will reap benefits."■

LTP achieves major milestones

Lufthansa Technik Philippines (LTP) is beginning to make its presence felt in the Asia-Pacific region.

In the latter months of 2002 the company, which bought Philippine Airlines (PAL) engineering and maintenance facilities at Manila's international airport and in Cebu and Davao, and launched their Asia-Pacific operations in September 2000, reached two major milestones.

Last October, it was granted its JAR-145 certificate by Europe's Joint Aviation Authorities (JAA), which allows it to offer line and base maintenance services to JAA-registered aircraft. The certification was hailed as a "very major step in the development of the company", by Lufthansa Technik Group (LHT) chairman, August-Wilhelm Henningsen.

Also, the introduction of an Airbus A330 and A340 overhaul line in Manila means that for the first time the LHT Group will perform D-checks on A330/A340s outside Europe. LTP is investing more than US$20 million to set up the new project that will eventually create 700 new jobs; 400 initially and 300 jobs later, after a second overhaul line starts at the end of 2003 to meet the demand of Lufthansa jets and regional airlines.

PAL signed an agreement last year for LTP to provide heavy maintenance for its four A340s and eight A330s. The first D-check on a Lufthansa aircraft is scheduled for this year.

In mid-2002, 100 LTP aircraft mechanics and specialists visited hangars in Hamburg for on-the-job training in A330/A340 overhaul and worked on two PAL and one Lufthansa aircraft. LTP also sent engineers to Hamburg and Shannon Aerospace in Ireland for first-hand experience in production planning and materials management in aircraft overhaul.

In December, the company opened a new regional wheels and brakes shop where processes once done manually are now automated.

LTP's vice-president marketing and sales, Rainer Janke, said the Manila-based MRO would face stiff competition in the A330/A340 market from Hong Kong Aircraft Engineering Company (HAECO) and Singapore's ST Aviation Services Company (SASCO), but he felt that LTP's geographic position, low costs and investment in facilities and training it would be equal to the task of competing effectively with its rivals.

"The demand for A330/A340 overhaul will double in the next five years. Almost 50% of that market will be in Asia," he said.

Meanwhile, Shenzhen Airlines has become the first Chinese customer of LHT's other new Asian operation, Lufthansa Technik Shenzhen, a shop based in southern China close to Hong Kong. The company opened its workshops to airline customers late in 2002.

It has signed a five-year deal to service thrust reversers of the CFM 56-3 engines of Shenzhen's fleet of eight Boeing 737-300s. The package also includes engineering support and the supply of spare parts for the aircraft.

LHT also is a joint venture partner, along with national carrier, Air China, in AMECO-Beijing.■

By Charles Anderson

Trent family underwrites HAESL's success

Like many managers in the aviation repair and maintenance sector, Ian Callender, director and general manager of Hong Kong Aero Engine Services Ltd (HAESL), is looking to grow his business by extending its capabilities as well as expanding present programmes.

HAESL, majority owned by Rolls-Royce and Hong Kong Aircraft Engineering Co (HAECO), is coming out of the downturn in good shape thanks mainly to its Trent engine maintenance operations, which have now overtaken the RB211 series in terms of work volume.

"HAESL is fortunate because we specialise in Trent 700 and 800 engines.

"We are the leading Trent shop worldwide and Trents tend to be the engines that keep flying," said Callender. Many of the aircraft parked during the downturn tended to be older, less efficient models than the Trent powered jets.

Callender also has reason to be grateful for the current strength of Asian carriers compared to their global counterparts.

"Our business has held up very well this year. Our positioning is good in terms of engine types. We have seen modest growth in throughput. The fundamental difference is that the Trent programme has continued to grow very strongly.

"This year the Trent 500 will power the Airbus A340-500 and 600. So we are moving right out into the future."

HAESL, established in 1997 in Hong Kong to handle the Rolls-Royce family of engines, depends on Rolls-Royce's success in the region.

"We want to do business with anyone who buys their Rolls-Royce large engines.

"The Trent family of engines has been very successful for Rolls-Royce. It has underwritten how well this shop does," said Callender.

Increasing HAESL's component repair business is Callender's second option for growth.

"We can do 85% of repairs on engines here. We want to build on that capability," he said.

"We are working with Rolls-Royce on setting up centres of excellence, repair centres that meet world-best standards of repair."

So far HAESL has concentrated on fan blades, turbine blades, honeycomb and bearing support. It offers a regional or worldwide service on those parts and has six other areas under consideration. Business at present is being sought from other Rolls-Royce shops globally, but Callender wants eventually to tap third party contracts.

HAESL director and general manager, Ian Callender: looking to Mainland China for new business

HAESL is fortunate that in land-starved Hong Kong it has room to expand at its site in Tseung Kwan O in the New Terrotories.

A HK$28 million (US$3.63 million) third-phase, 3,600-sq metre building is about to open and will provide electrical workshops, more repair capabilities and office space.

With the industrial estate on which it is housed already filling up, other options are under review.

Keeping all operations together on one site is of major importance. "The typical turnaround time for a Trent is 60 to 65 days," said Callender. "That is probably the world's best standard. It is critical for customers. The whole shop runs on a stream process. It's an integrated function. We need to be as close together as possible."

The company's growth so far has depended on finding business from outside Cathay Pacific - which today takes up 50% of HAESL's workload - and Hong Kong's second airline, Dragonair. Thai Airways International, Malaysia Airlines and Garuda Indonesia have sent their Trents to Tseung Kwan O while Qantas Airways, South African Airways and a number of smaller carriers have used its RB211-524 facilities.

China Southern Airlines and China Southwest Airlines are RB211-535 overhaul customers and Callender would like to include China Eastern Airlines, using Trent 500s on its new Airbus A340-600s, on his business list.

"Our China programme has been small, but significant," he said. "Working in Hong Kong we would like to increase our presence there through the RB211-535s and Trent 500s."

This year also saw the opening of Singapore Aero Engine Services Ltd (SAESL), a US$100 million joint venture between Singapore Airlines Engineering Company (SIAEC), Rolls-Royce and HAESL.

It overhauls Trent 800s in service with Singapore Airlines' (SIA) Boeing 777s, among others. Capabilities for servicing Trent 500 and 700s will be added this year. There is space, too, for Trent 900s, currently being developed for the new Airbus A380, that is planned to enter service in 2006. SIA will be its launch customer.

SIAEC is a minority shareholder in HAESL, which handled SIA engines before the opening of SAESL, but SAESL's operations have not dented growth in Hong Kong.

"Rolls-Royce could see the potential for Trent in the region being such that it was important to provide more shop capacity," said Callender. "And, if we get swamped, we have the opportunity to offload work to a shop doing similar engines."■

'[HAESL IS] WORKING WITH ROLLS-ROYCE ON SETTING UP CENTRES OF EXCELLENCE, REPAIR CENTRES THAT MEET WORLD-BEST STANDARDS OF REPAIR' - Callender

TAECO's success story contin-

As a third hangar prepares to open, conversions could prompt further expansion

By Charles Anderson

March 24 is a date P.K. Chan, chief executive of HAECO (Hong Kong Aircraft Engineering Co) and its sister company, TAECO (Taikoo Xiamen Aircraft Engineering Co), has firmly underlined in his diary.

On that day the industry veteran is throwing a giant party in Xiamen to mark the 10th anniversary of TAECO's founding. The gala gig will also celebrate the opening of a new hangar at the East Gaoqi International Airport complex in the southeast coastal Chinese city.

The hangar, TAECO's third, has taken two years to build and will allow for growth in both heavy maintenance and freighter conversion capabilities at the company.

At present TAECO, which has facilities for repair, maintenance and overhaul (MRO) of Boeing 747s, 737s, 757s and 767s and Airbus A330s and A340s, can work on four wide-body and two narrowbody aircraft simultaneously. The new building will add two widebody bays and one narrowbody bay to this capacity.

Chan, as ever, is looking for opportunities for his companies to expand. Already TAECO, a joint venture in which HAECO has a 49.55% share, is the only company globally authorised to perform B747 passenger to freighter/combi conversions on the -200 and -300 series under the Boeing Supplemental Type Certificate (STC) since Boeing's closure of its own conversion workshop in Wichita in the U.S. HAECO handles B747-200 combi conversions at its base at Hong Kong International Airport.

Now Chan is hoping to receive certification to carry out B747-400 series conversions in Xiamen, which may mean further expansion of the southern Chinese MRO complex.

"That is waiting on Boeing's decision," he told *Orient Aviation* in January. Boeing holds a 9% share in TAECO. If the – 400 conversion programme was confirmed work could fully occupy one of the TAECO hangars in the long run, said Chan. "I may be required to build another hangar at Xiamen," he added.

"This year we are full [at Xiamen], despite the events of 9/11, and we are still meeting our original budget."

All that is cause for celebration, Chan believed, although the size of the anniversary party is something of a problem for him. "We started TAECO from scratch. We trained our staff ourselves. The people have grown with the company and the company has grown with the people."

Now TAECO has 1,800 employees and Chan, who is company chairman and has been there from day one, wants to invite them all on March 24. "Where are we going to put all those people? I don't know yet. That is my headache."

Chief executive of TAECO and HAECO, P.K. Chan: celebrating 10 years in China

TAECO trains its workers at HAECO's extensive facilities in Hong Kong. It takes four years to bring an engineer to Hong Kong Civil Aviation Department standards and two years to train a mechanic. In the last 10 years, 120 qualified engineers and 1,000 mechanics have returned to work at TAECO after their HAECO education. Thirty engineers and 120 mechanics are currently under training in Hong Kong.

At HAECO, which is part of the Swire Pacific group as is HAECO's main customer, Cathay Pacific Airways, Chan feels business is doing as well as can be expected.

"We are all right this year. HAECO has done well. We have seen a slight growth in line maintenance, but we are facing difficulties with airlines as they are reducing their costs," he said.

A restructuring in 1999 has helped HAECO. "We have fewer overheads and we are more cost effective. That has compensated for the airlines' cost-cutting," said Chan.

"Hong Kong's cost base is high. We have a lot of competitors in the region whose costs are lower than ours. That's why we must do things smarter. We need to maintain the quality of our work and provide better service to attract more customers."

The core of HAECO's work is provided by most of the 66 widebody aircraft of its sister company, Cathay Pacific (TAECO also services a number of the carrier's jets), the three B747s of Cathay's all-cargo subsidiary, Air Hong Kong, and Dragonair's 21 aircraft Airbus fleet.

Chan is cautiously optimistic about business in the coming year for HAECO, TAECO and the smaller Shandong shop in China, Shandong TAECO Aircraft Engineering Co (STAECO), in which HAECO and TAECO have stakes.

"I predict all three companies will be relatively healthy, although there are certain areas we can't predict, like whether there will be a Gulf war," he said.

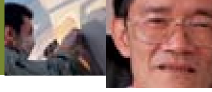
At HAECO, a US$4 million joint venture with EADS Sogerma Services was signed early last year providing Aerospatiale ATEC 6 equipment to test a range of avionics computers on new generation aircraft at the Hong Kong facility. Wider cooperation with the French maintenance company is still on the cards.

"That is under discussion," said Chan. "Not just over MRO services, but something wider. We are working very hard to achieve that."

Expansion is also planned at STAECO, based at Jinan in China's Shandong province. Another hangar is being built alongside the existing single-bay hangar that handles narrow-bodied aircraft such the Boeing 737 and Bombardier series. It is due for completion in mid-2003.

This time last year Chan was hoping to make TAECO a dedicated Boeing MRO facility and establish a joint Airbus MRO in China. Expansion outside Asia was also being mooted.

Now he prefers to talk more generally in terms of breadth of services that the



three existing companies offer between them and the ways he would like to broaden the scope of their MRO business.

"We still want TAECO to be a dedicated Boeing series operation," said Chan. "HAECO would like to be more focused on the new generation aircraft and STAECO would still be a narrowbody repair facility.

"On the other hand, MRO is a tough business. We are selling labour that can be phased out or squeezed. It does not have big potential when it comes to a company's growth.

"Today, as a group, we are looking for any opportunity to penetrate into aviation-related areas such as engineering or material management. We want to upgrade our MRO capabilities. We want to sell our engineering capabilities and help airlines with their fleet management."

Chan sees cooperation with other MRO providers as one way forward. He took the opportunity to test the waters during a speech at an awards ceremony in Singapore in December, an occasion that marked HAECO's designation as Best Asia-Pacific Independent MRO Operation 2002 by a U.S.-based magazine.

"I told the people that we are all in MRO and yes, we compete with each other. But in a sense, why can't we work together? In certain areas we don't need to duplicate. We can minimise our costs and gain benefits for everyone," he added.

"I don't know how my speech was received. But from my point of view we are all facing difficulties in the MRO business. All investments involve huge amounts of money. Why can't we have a way of cooperating together, in all areas from training to tooling? I'm open for suggestions."

TAECO's hangars are fully booked. A fourth hangar may be necessary

Ansett: the name lives on

MRO business keeps a proud flag flying; two years business on the books

By Tom Ballantyne in Sydney

Ansett Australia, the airline, is well and truly dead. Ansett, the maintenance, repair and overhaul (MRO) business, may officially be in the hands of the former airline's administrators, but it is alive and more than kicking, with big ambitions for its future.

"There are a lot of experienced people here and they have been through a lot of hardship, but they are sticking around because they believe in what we can do," declared Paul Bithavas, general manager engineering services for the all new Ansett Aviation Engineering Services, or AAES. "There is a light at the end of the tunnel ... and it's not an express train."

On the contrary, the 500 staff on AAES' books have enough work to keep them busy for a couple of years. Currently, that mainly involves maintenance and checks on former Ansett jets owned by lessors such as investment groups and banks that are being prepared for delivery to new customers.

A case in point is AAES's recently completed reconfiguration and full D check on an ex-Ansett B737 bound for Brazilian domestic carrier, Rio Sul Airlines.

But the former airline maintenance unit is pulling out all stops to emerge as one of the region's major independent MRO firms.

It is moving into phase three of its recovery plan, which is a campaign to win commercial airline customers from around the region and beyond.

There have been no official announcements yet, but the company is talking to at least five potential customers in Asia and expects to finalise some of these deals by the end of March.

It has been a long and traumatic road for anyone involved in Ansett since the big Australian domestic and international carrier collapsed more than a year ago.

During the first phase after the shutdown, MRO staff had to adjust to the drama of losing their parent and come to terms with restructure and rationalisation.

Next, they had to negotiate transition, prepare a business plan and adjust to operating as an independent company. As well they have had to ready the MRO for outside investment and possibly eventual sale.

Ansett Aviation Engineering Services, general manager, Paul Bithavas: a lot of goodwill in the market

These processes involved decisions on the workforce – most staff are now on contract, rather than being fully employed by AAES – as well as focus on specific business areas.

There were three primary units at Ansett: aircraft maintenance, component repair and the engine division. Qantas has signed an agreement to purchase the engine business, a move scheduled to take place in mid-2003. AAES will continue to accept work in some component areas but will mainly focus on maintenance.

Since November, the company has moved into its latest phase, building up a long-term customer base. AAES says it is selling a worldwide reputation, built up over decades, of high quality work on aircraft it knows well.

With hangars capable of housing wide-body Boeing B767s and a range of single aisles, from the B737 and Airbus A320 to the BAe146, Bithavas said: "There is a hell of a lot of experience here. We started working on A320 maintenance in 1988 and we have worked on the B737 for 16 years, from the time the aircraft first came to the region.

"We understand the issues involved in the maintenance of these planes. They have been learned over the long-term. We understand the life-cycle costs," said Bithavas.

"You can go to the U.S. or Europe and pay companies a fortune, but they have only been doing the work for a handful of years."

As far as winning work is concerned, this is one MRO willing to look to the past and the future.

"We are not afraid to go back into working on the Fokker F28 or the B727, but we will also obtain clearance to work

Ansett Aviation Engineering Services: building up a long-term customer base

on the B737 NG [New Generation]. The business is out there. It would be a huge waste if we didn't make it happen," he added.

Bithavas knows it will not be easy. In the current airline climate MROs across the world are "doing business cheaply to get the business", he pointed out. "But we have a couple of years work which gives us time to build."

Ultimately, what happens to AAES in terms of ownership is up to the administrator.

There is no specific timeframe, but several possibilities for its future. It could eventually be sold outright to an existing MRO major or to an investment group of local and/or overseas interests.

Bithavas believed the ideal situation would be for it to emerge as an independent Australian MRO with mixed ownership.

"Local operators such as Qantas and Virgin Blue could take 20% between them, with perhaps 50% going to offshore interests. There might be a staff share and also shares for Australian investors. Australia has a huge aviation industry and we under-estimate its size," he said.

"We have not had an independent MRO company until now and I think that is an indictment on us because there is definitely room for such an operation.

"Qantas and Virgin Blue can't even handle all their own work so there is overflow. There is also going to be a growing demand for MRO, both here and overseas."

There are no indications the disaster that befell Ansett Australia is producing any negative sentiment among potential customers towards the former airline's re-born maintenance business. "There are actually some advantages. The fact there is no airline to constrain us means we can be far more flexible and change direction very quickly. But the technical expertise and quality of the work has always been of the highest standard and many people know that. There is a lot of goodwill out there and people who sympathise with what happened here."

Indeed, while the acronym AAES will become the recognisable brand of the business, the retention of Ansett in the official name was a conscious decision to retain a link with the long and distinguished history of the airline.■

'NO INDICATIONS THE COLLAPSE OF ANSETT PRODUCED NEGATIVE SENTIMENT AMONG POTENTIAL CUSTOMERS TOWARDS THE FORMER AIRLINE'S RE-BORN MAINTENANCE BUSINESS'

New owners, new business, new hope...

It's all go for SRT

Christmas came slightly early for major Zurich-based MRO, SR Technics (SRT) Switzerland, when financial investors, headed by 3i, Europe's leading venture capital company, and several banking syndicates, concluded a 425 million euro deal to buy the company from the SAirGroup on December 20.

And SRT's 2000 management and staff, who have a 12% stake in the new company, will be hoping for a prosperous new year. The signs look good, with the company expecting a final turnover of 750 million euros for 2002.

The leveraged buy-out was signed in early November and finalised after clearance from the authorities who are handling the liquidation of the SAirGroup.

The MRO was one of the most successful divisions of the SAirGroup, but once the group, including Swissair, entered Chapter 11 in late 2001 an air of uncertainty hung over the MRO, although the company continued to stress it was maintaining its high standards in airframe, engine and component services for its clients despite the ownership hiatus.

Said the chief executive of SRT, Hans Ulrich Beyeler: "We have not just retained the confidence of our existing customers and seen this confirmed. We also are scoring a lot of success in securing new business."

In December, SRT signed a contract for heavy maintenance visit (HMV) overhaul of 12 SWISS A320s, worth 20 million Swiss francs (US$14.5 million). A pioneer in maintenance and overhaul work on the A340 and the A330, SRT has added the heavy maintenance market for Airbus short-haul jets to its portfolio.

"SR Technic's strategy continues to focus on growth opportunities, especially in the areas of total care solutions, asset management and engine services," said a spokesperson.

In Asia, where SRT has worked with carriers for 40 years, and has had a representative office in Hong Kong for six years, the MRO has recently closed a number of contracts. These include a component pooling agreement for Garuda Indonesia's A330 fleet; a renewal of Thai Airways International's PW4000 engine contracts; engine overhaul deals for Cathay Pacific, Air China, China Northern, China Eastern and Shanghai Airlines and 12 PW4000 HPC overhauls for Taiwan's China Airlines.

SRT's executive director Asia-Pacific, Erwin Stillhard, said other major contracts in Asia were approaching closure. "We have an A320 family long-term inventory management contract which will be signed very soon. Final negotiations with the same airline for a fleet technical management contract have begun already.

"These two contracts will give us the opportunity to offer similar comprehensive technical services to other Airbus operators in the Asia-Pacific," he said.■

MTU Malaysia on the march

While MTU Aero Engines' new engine overhaul facility in southern China, MTU Maintenance Zhuhai, a joint venture with China Southern Airlines opened last November, has been winning most of the attention in recent months, MTU Maintenance Malaysia also is busily expanding.

A joint venture with Malaysia Airlines (MAS) and situated 20kms outside Kuala Lumpur at Shan Alam, MTU Malaysia is dedicated to the repair of CF6 and V2500 airfoils.

It is currently repairing 80,000 airfoils a year . In the last 12 months staff increased from 60 to 100. In 2003 MTU expects to throughput 140,000 to 150,000 airfoils.

Staff numbers will double again in the next two to three years, said MTU Maintenance Malaysia managing director, Karl Josef Eikelmann.

This would be dependent on the company acquiring significantly more third party work.

The MTU chief said he was looking forward to a supply of V2500 blades from the new Zhuhai facility this year.

Eventual capacity of the Shah Alam facility, projected Eikelmann, could be a staff of 200-250 employees who could repair up to 300,000 airfoils a year.■

Profit and expansion for ANZ-

By Tom Ballantyne

People could be forgiven for thinking 2001 was a pretty rough year for Air New Zealand Engineering Services (ANZES), when a global aviation downturn hit the industry and its ambitious merger with Ansett Australia's engineering arm collapsed following the bankruptcy of the Australian operator.

There was bad publicity, too, with a number of incidents that involved pieces falling off Air New Zealand (Air NZ) jets. Then, as recently as December, there was an emergency landing in Brisbane by one of the carrier's B767s, apparently as a result of a rare uncontained engine failure.

Yet the mood is buoyant in the ANZES hangars. Business could hardly be better. Indeed there is expansion planned to cope with rapidly increasing demand for engineering services, according to ANZES vice-president engineering services, John Mounce.

After a healthy US$27.5 million profit, on revenue of over $250 million in the year ending June 30, 2002, the firm has forecast income of $35 million, on slightly increased revenue, in the current year.

Mounce will hire 200 more staff this year and another 200 later, expansion that will increase the workforce to 2,600.

"We are doing exceedingly well. With the loss of Ansett, which was deeply disappointing, we went out there and hit the market hard to fill our capacity. We have succeeded. The coming year is going to be very exciting because we have been given a bit of rope to expand and strengthen the business," he said.

ANZES is benefiting on several fronts. The rapid expansion of Australia's Qantas Airways and Virgin Blue, following Ansett's collapse, created an engineering capacity shortfall in Australasia. The New Zealand carrier's engineering facilities in Auckland and Christchurch cashed in on the overflow and carried out maintenance, repair and overhaul (MRO) work on Qantas B747s and B767s as well as Virgin's B737s, including the new 700 series jets.

As well, China is becoming an important market for ANZES. It recently completed a heavy 'C' check on a Yunnan Airlines B767 and a second B767 will visit the workshop for a 'C' check in February. ANZES has been in negotiations with another Chinese carrier for MRO work.

Probably most significant for ANZES is the decision last year by parent, Air NZ, to buy 15 Airbus A320s for its domestic and regional short-haul services – the first Airbus aircraft the carrier has purchased – and its power plant selection in December of International Aero Engines (IAE) V2500 engines.

These orders will add another card to ANZES' airframe and engine MRO capabilities. It had hoped to extend business to include the V2500 some time ago, but the plan was delayed by the industry downturn following '9/11'.

The A320 engine contract will add the V2500 to other models, the Pratt & Whitney JT8D and the Rolls-Royce Dart, which are both overhauled at the Christchurch Engine Centre, a joint venture between Air NZ and Pratt & Whitney.

Mounce believes ANZES has the potential to become the regional MRO centre for single-aisle Airbus aircraft. Discussions are underway with Airbus on the development. The engineering operation will be fully capable of handling the A320 business by the end of 2003.

In the region, the primary work on twin-aisle Airbus jets is carried out in Manila by Lufthansa Technik Philippines. Sources suggested the European planemaker is confident of following up its wide-aisle regional sales success – a large number of Asian operators are now flying the A330/A340 series – with orders for the A320 family. If that occurred, ANZES would be well positioned to compete for a major slice of the MRO business.

The company has modern repair and overhaul facilities in Auckland and Christchurch, including state-of-the-art engine testing facilities, which extend to a wide range of support shops including non-destructive inspection (NDI), composite repair, plating, welding, machining and manufacturing.

ANZES Airframe also offers a full range of MRO capabilities from line maintenance through to heavy overhaul and structural modifications. Expertise extends to a wide variety of aircraft types including the Boeing B747, B767, B737 and B727, the British Aerospace BAe146, the ATR 72 and 42 and the Saab 340. It has extensive experience in all letter checks, structural repair, service bulletin incorporation and ageing aircraft modifications, lease aircraft reconfigu-rations and interior refurbishment, ETOPS conversions, avionics system installations and aircraft repaints.

Air New Zealand Engineering Services: in a buoyant mood

The situation also is likely to improve on the public relations front.

The results of an investigation into the uncontained engine failure over Queensland last December will take several months to complete, but preliminary inspection of the damaged CF6-80A2 engine by manufacturer General Electric indicated a section of a high pressure turbine came loose and fed back through the engine, penetrating the rear engine casing. The resulting engine shrapnel damaged the leading edge flap on the wing and the engine cowling. Insiders say the incident is unlikely to have been a result of any engineering problem.

Nevertheless, Air NZ called in Boeing to assist the airline in a peer review of its engineering operation. Although the shop is audited on a regular basis by several independent bodies, the peer review is being conducted as an extra precaution.■

Asia's airlines to discuss new FAA fuel tank ruling

Representatives of Asian airlines are to attend a key workshop being hosted by the Association of Asia Pacific Airlines (AAPA) in Singapore on February 20 to hear briefings from U.S. Federal Aviation Administration (FAA) and Boeing and Airbus specialists on requirements for the upgrading of aircraft fuel tanks designed to eliminate the potential for fuel tank explosions on commercial aircraft.

A new rule which could require significant design changes to fuel tanks – called Special Federal Aviation Regulation (SFAR) 88 – will need airplane manufacturers to submit their safety assessments of the fuel tanks to the FAA by June 6, 2003. All airlines have to comply with any design changes, inspection or maintenance requirements resulting from those assessments by December 6, 2004.

"The SFAR covers fuel tank system design review, flammability reduction, maintenance and inspection requirements," said Leroy Keith, technical director of the Association of Asia Pacific Airlines (AAPA).

"It applies to all current and future passenger aircraft [and] has the potential to impose a major economic and operational burden on airlines because of the redesign, inspection and maintenance required to eliminate all potential ignition sources."

The new rule on fuel tanks was developed following several explosions on commercial aircraft in the past 12 years in which the probable ignition source was inside the fuel tank. The most notable accident was on July 17, 1996, when Trans World Airlines (TWA) Flight 800, a B747, exploded shortly after take-off, resulting in the death of all 230 persons aboard.

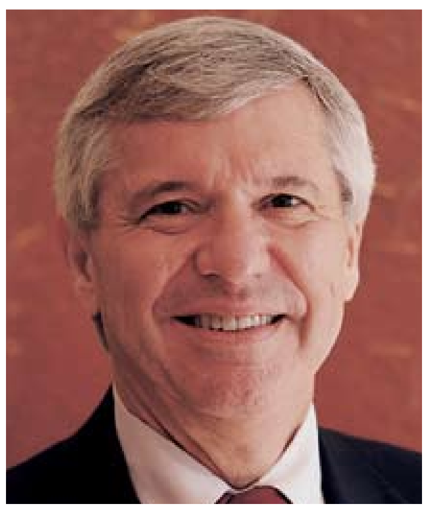
The accident investigation results of that flight led the US National Transportation Safety Board (NTSB) to recommend changes in fuel tank design.

The FAA has issued numerous Airworthiness Directives relating to fuel tanks in the last seven years, in addition to comprehensive regulations to eliminate potential ignition sources in fuel tanks. Research also has been conducted into methods that could eliminate, or significantly reduce, fuel tank flammable vapours.

It released a Notice of Proposed Rule Making (NPRM) on October 29, 1999 and a final ruling, SFAR 88, on May 7, 2001, which significantly changed its fuel tank design philosophy.

The design requirement prior to SFAR 88, with which all existing aircraft comply, specified the chance of a fuel tank explosion was less than one in a billion flights. The new rule assumes fuel tanks will explode if an ignition source is present. It requires the elimination of all ignition sources, from current as well as future aircraft.

However, Keith explained breakthroughs in FAA research programmes in the last six to nine months have yielded major gains in airborne fuel inerting technology, including an inexpensive and lightweight onboard "inerting"' system. It works by pumping nitrogen-enriched air into fuel tanks, reducing oxygen in fuel vapours and reducing



Association of Asia Pacific Airlines technical director, Leroy Keith: break-through in technology

flammability. The new system would remove ambient air from the aircraft's engines, using 90cm (three feet) long air separation modules to extract oxygen and discharge nitrogen that is then pumped into the fuel tank.

"The resulting vapours have an oxygen concentration of about 12% – instead of 21% in ambient air – and are significantly less combustible. The system must be tested in flight, but could be installed on some types of aircraft in 2004. Boeing has already applied for permission to install such a system on its aircraft," said Keith.

"Due to the advance of inerting technology, the FAA issued a 'spot amendment' to the original SFAR on September 10, [2002], which will allow equivalent procedures to comply with the SFAR requirements. In the spot amendment, the FAA made a major shift in its approach. It will allow inerting to eliminate the risk of fuel tank explosions rather than the inspections/modifications required originally. This has the potential to reduce the impact on airlines significantly."

Aircraft manufacturers will have to show existing fuel tanks do not have an explosive fuel/air ratio, and/or no ignition source present. It appears wing tanks do not have explosive mixtures due to lower temperatures and oxygen content, so only fuselage tanks will have to be considered, but manufacturers are still substantiating this.

Manufacturers have made it clear they have expended a lot of resources during the last two years on design review, and inspection and maintenance programme development to meet the original SFAR, which mandated ignition suppression and they have recently been investing heavily in the inerting approach.

"They would not continue to do both, nor would they support both ignition suppression and inerting as the solution, because of the costs involved to them and the airlines," said Keith.

The original SFAR 88 had required the airplane maunfacturers to submit the safety assessments of the fuel tanks by December 6, 2002, with the compliance date of the design changes by June 6, 2004, but the recent developments prompted an extension to June 6, 2003, for the safety assessments submission and December 6, 2004, for the design changes.

The workshop will follow a two-day FAA workshop for regional aviation authorities. Keith said the rule could have a "serious impact" on the AAPA's 17 member airlines, which operate about 1,200 aircraft, 70% Boeing and 30% Airbus.

"Consequently, the AAPA Secretariat has been actively involved in the SFAR 88 developments, ensuring first hand updates for members and presenting consolidated member positions at the appropriate forums," said Keith. ■

STATISTICS FOR OCTOBER AND SEPTEMBER, 2002

STRONG SHOWING CONTINUES

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

OCTOBER 2002 STATISTICS

In October, the preliminary consolidated revenue passenger kilometres (RPKs) for Association of Asia Pacific Airlines (AAPA) member carriers grew 29.5% compared to the same month in 2001. The number of passengers carried (PAX) rose 26.2% to approximately 9.4 million. Capacity climbed 7.1%, which resulted in an increase of 12.4 percentage points in load factor (PLF), to 73.5%.

These impressive traffic statistics were achieved in comparison with the second month following the events of September 11, in 2001. Despite these distortions, the October 2002 consolidated passenger traffic in RPKs and PAX grew by 2.4% and 7.4%, respectively, when compared to October 2000 figures.

With the exception of Garuda Indonesia (GA), all carriers reported strong RPK growth in the month under review. Garuda's RPKs were down 13.2% in October, due mainly to the Bali bombing.

Japan Airlines (JL) and All Nippon Airways (NH) saw their RPKs grow by more than 50% year-on-year (YOY). Asiana Airlines (OZ) and Korean Air (KE) reported an RPK increase of around 40%. The remaining carriers also reported double-digit increases for October.

The RPKs recorded by the Japanese carriers, however, remained significantly below the October 2000 level (down 9.3% in the case of Japan Airlines and 18.3% for All Nippon). Garuda's RPKs - down 19.8% from the October 2000 level - was the other carrier with significantly weak traffic. However, the majority of the remaining carriers were either close to reaching or surpassed the level of RPKs reported in October 2000.

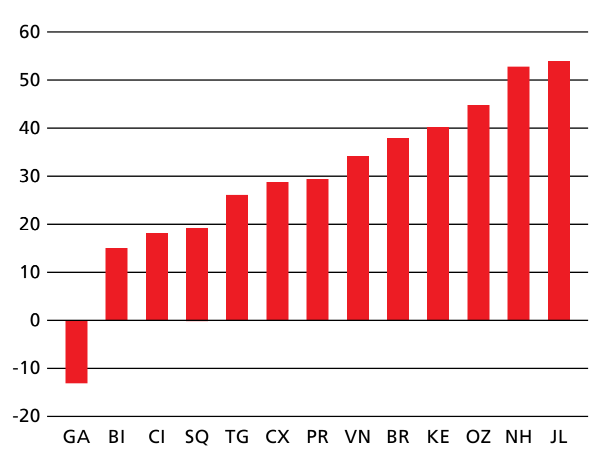
All carriers reported an increase in PLF, ranging from 6.9 percentage points (p.p.) for China Airlines (CI) to 30.6 p.p. for All Nippon Airways. Nine carriers recorded load factors over 70%. Another four airlines achieved PLF's between 60%-70%. All Nippon Airways had the highest load factor of 76.8% in October last year.

CARGO

The consolidated freight tonne kilometres (FTKs) of AAPA member carriers increased 23.9% over 12 months earlier. Capacity rose at a slower pace - 13.6% - allowing the freight load factor (FLF) to reach 74.6%, 6.2 percentage points higher than the FLF recorded in October 2001. It was the highest load factor of the year with traffic and capacity growth following suit. The shutdown of the West Coast ports in the U.S. may also have

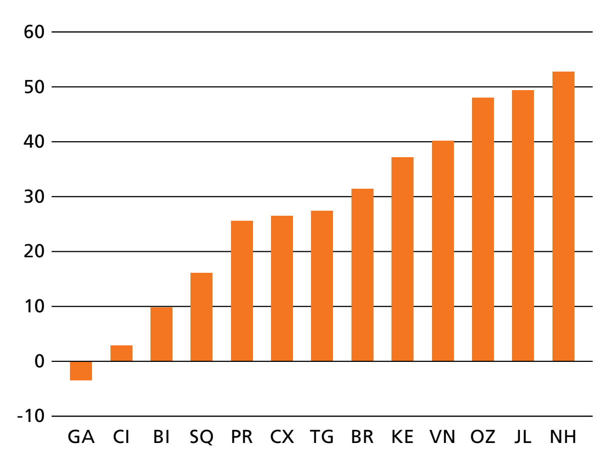
RPK GROWTH BY CARRIER

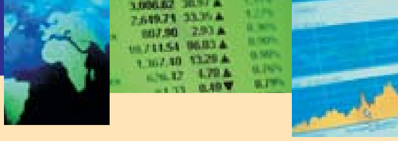
Percentage (Oct 02 vs Oct 01)



PAX GROWTH BY CARRIER

Percentage (Oct 02 vs Oct 01)





Garuda Indonesia: traffic badly effected by Bali bomb blasts

contributed to the impressive results.

With the exception of Philippine Airlines (PR) and Garuda Indonesia, all carriers experienced strong FTK growth with nine carriers reporting double-digit increases. EVA Air (BR) topped them all with FTKs rising 39.9% in October, followed by Cathay Pacific Airways (CX), up 35.7% and Asiana Airlines with a rise of 33.9%.

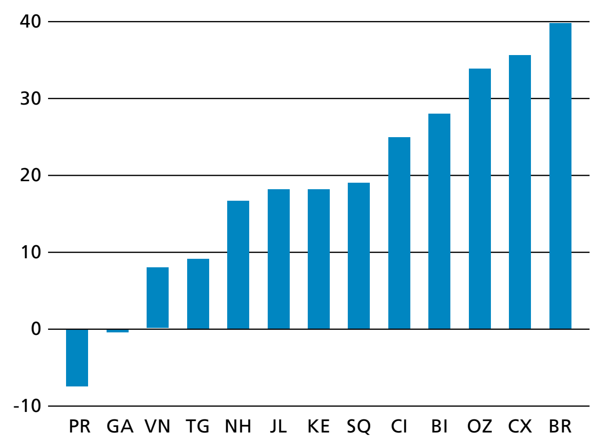
Ten carriers reported an increase in FLF with Royal Brunei Airlines (BI) leading the pack. Three carriers - Philippine Airlines, Korean Air and Thai Airways International (TG) - experienced a decline in load factor, ranging from -1.2 p.p. to - 4.5 p.p. China Airlines, Asiana Airlines and EVA Air reported load factors in the 80% range.

RESULTS OF THE 12 MONTHS TO OCTOBER 31, 2002

The AAPA member carriers' consolidated international RPKs contracted 0.4%, but PAX grew 2.0%. Capacity was down 2.4%, which resulted in a load factor of 73.8%, up 1.4 percentage points.

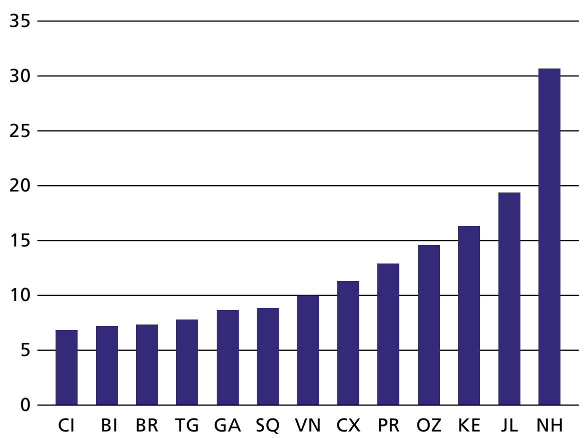
FTK GROWTH BY CARRIER

Percentage (Oct 02 vs Oct 01)



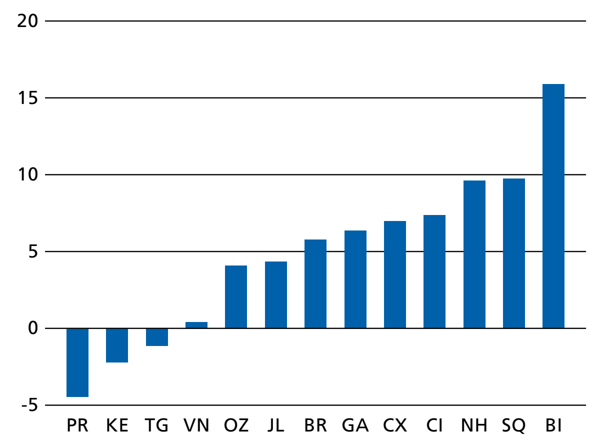
PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Oct 02 vs Oct 01)



FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Oct 02 vs Oct 01)



CARGO

Consolidated international FTKs grew 10.1%. Capacity was up 3.6%, which resulted in a FLF of 68.6%, up 4.1 percentage points.

SUMMARY

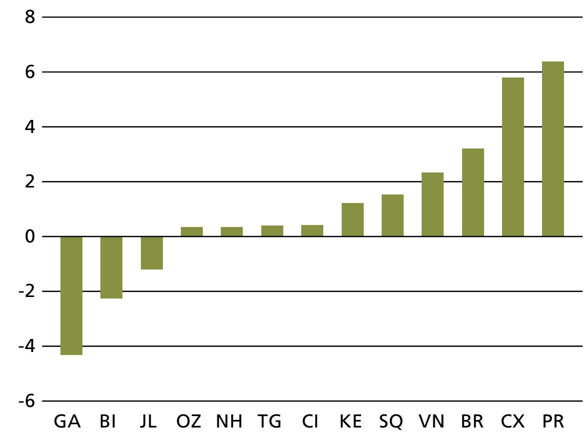
On a cumulative basis from January to October 2002, RPKs grew 2.9% and passenger numbers increased 4.6%. The figures for both passenger and freight also were above the corresponding figures for the first ten months of 2000.

As AAPA carriers reached the bottom of the traffic slump in November 2001, it is anticipated that the YOY growth rates next month will be higher than October.

All Nippon Airways: RPKs rose in October compared to 2001, but significantly down on October 2000

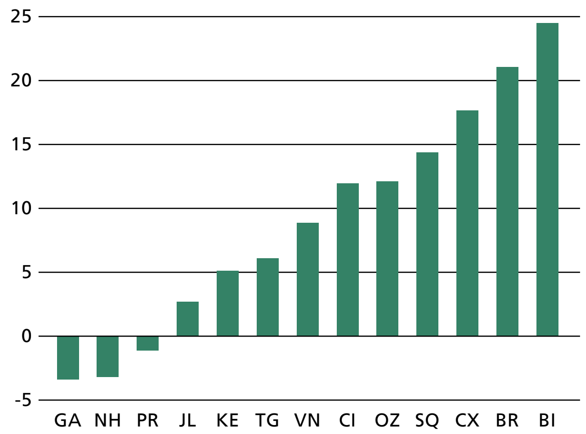
PASSENGER LOAD FACTOR GROWTH BY CARRIER

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



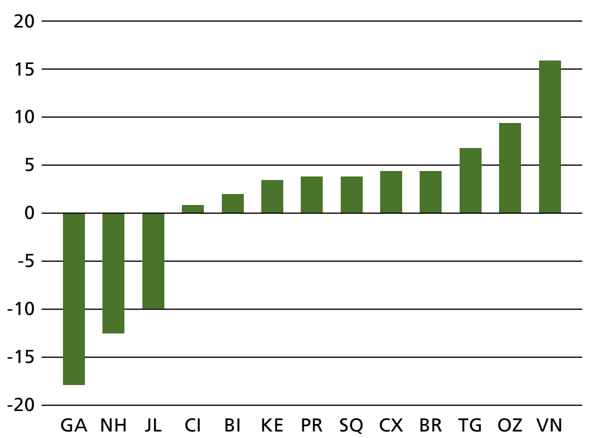
FTK GROWTH BY CARRIER

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



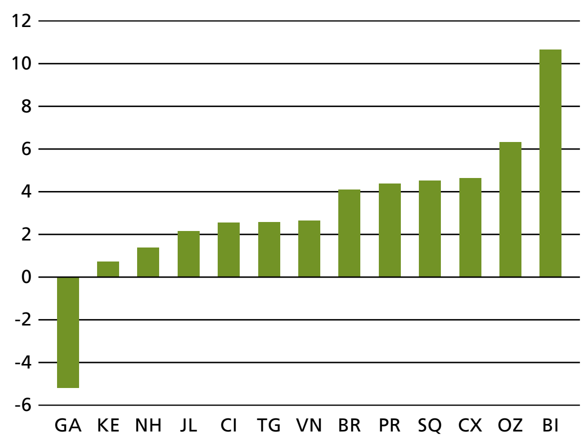
RPK GROWTH BY CARRIER

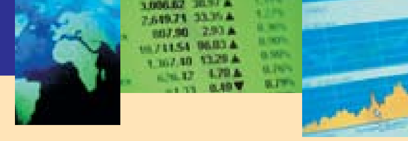
Percentage (Nov 01 - Oct 02 vs Nov 00 - Oct 01)



FREIGHT LOAD FACTOR GROWTH BY CARRIER

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





SEPTEMBER 2002 STATISTICS

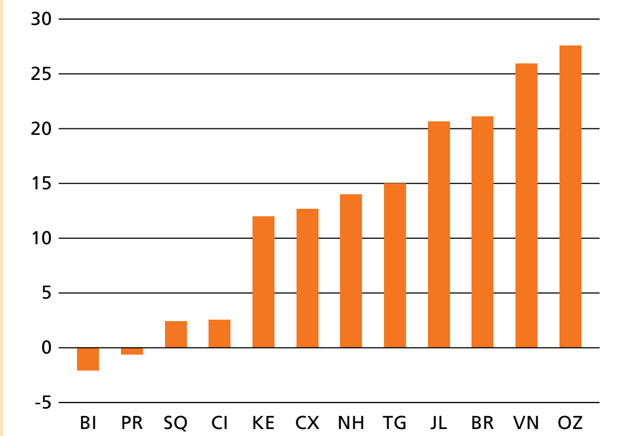
In September 2002, RPKs of AAPA member carriers rose by 12.5%. The number of passengers carried was up 11.3%. Overall capacity showed a YOY increase of 4.9%. With RPK growth outpacing capacity increase, the PLF rose 5.0 percentage points to 74.8%. The exceptional results were the result of comparisons with the low base in September 2001 following the events of September 11 in that year.

Vietnam Airlines' (VN) RPKs increased 25.1%, followed by Asiana Airlines (23.1%) and Japan Airlines (20.3%). Thai Airways (15.4%), Cathay Pacific (14.6%), All Nippon Airways (14.4%), Korean Air (12.6%) and China Airlines (11.2%) all experienced double digit growth. Royal Brunei was the only carrier to experience negative growth in September.

All but one carrier reported an increase in PLF, with All Nippon Airways (16.6 p.p.) experiencing the biggest rise. All Nippon (79.1%) also reported the highest load factor. There were eight other carriers with PLFs over 70%. China Airlines, Korean Air and Philippine Airlines registered a load factor slightly below the 70% mark.

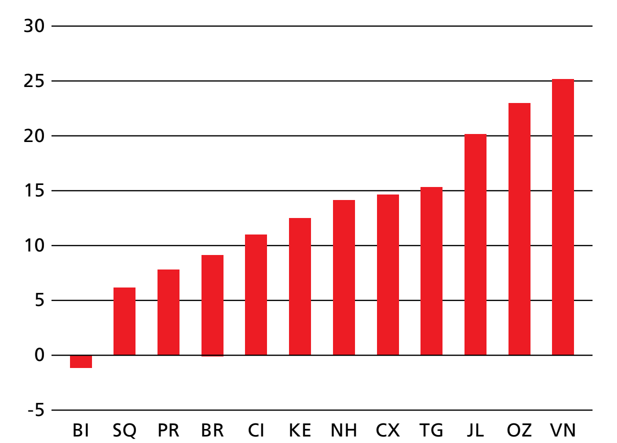
PAX GROWTH BY CARRIER

Percentage (Sep 02 vs Sep 01)



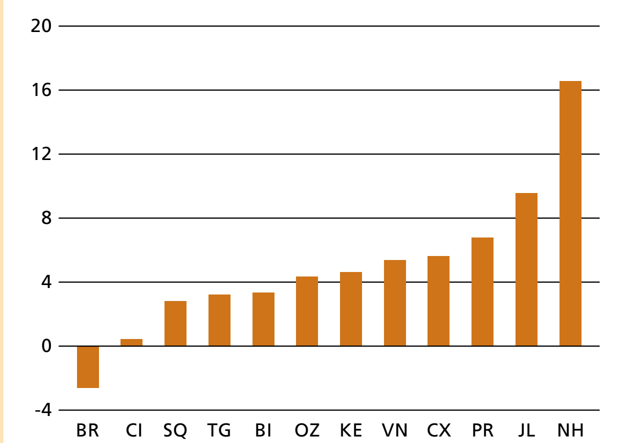
RPK GROWTH BY CARRIER

Percentage (Sep 02 vs Sep 01)



PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Sep 02 vs Sep 01)



EVA Air: FTKs increased 39.9% in October

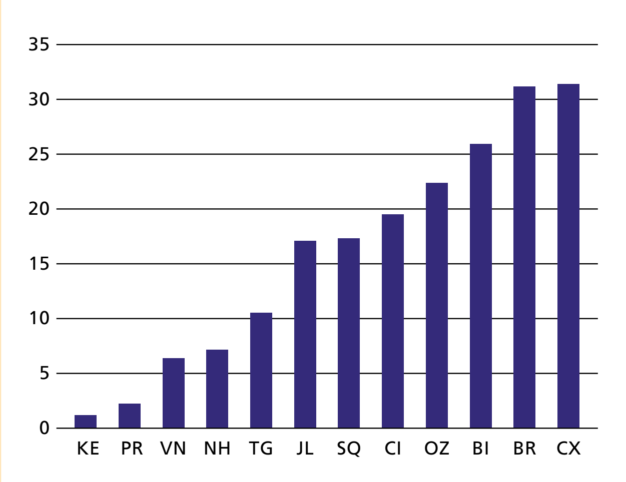
CARGO

FTKs of AAPA members in September grew 17.2%, slightly below the rates reported in July (19.5%) and August (18.0%). Capacity was up 12.9%, resulting in a FLF gain of 2.6 percentage points, to 69.8%.

Cathay Pacific and EVA Air's FTKs rose an impressive 31.4% and 31.1%, respectively. Six other carriers had double-digit growth in September. Nine airlines recorded an improvement in FLF. On the other hand, the load factors of Korean Air (-7.1 p.p.), All Nippon Airways (-2.5 p.p.) and EVA Air (-0.3 p.p.) declined. China Airlines and Asiana Airlines shared September's highest load factor - 79.3%.

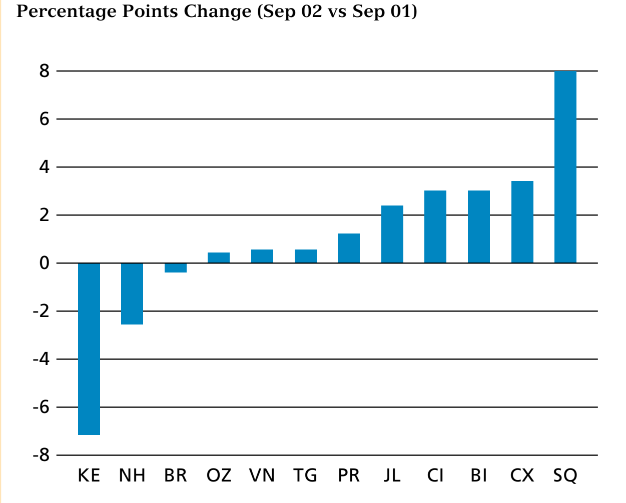
FTK GROWTH BY CARRIER

Percentage (Sep 02 vs Sep 01)



FREIGHT LOAD FACTOR GROWTH BY CARRIER

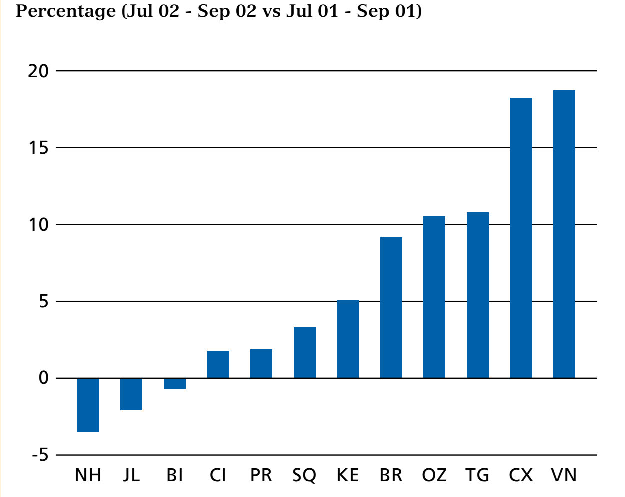
Percentage Points Change (Sep 02 vs Sep 01)



Cathay Pacific Airways: highest increase in PLF in the third quarter (July-September)

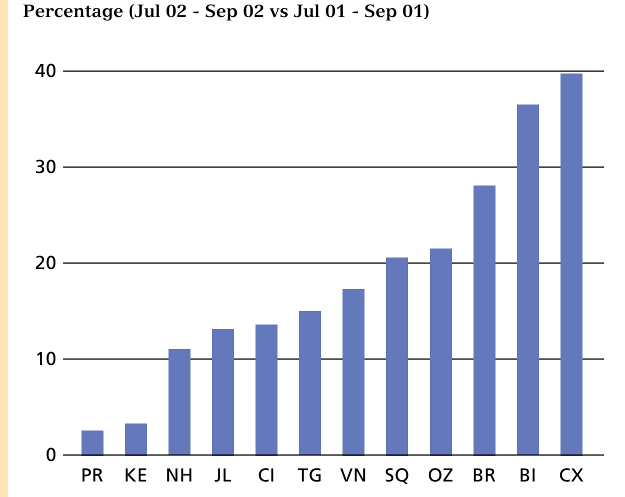
RPK GROWTH BY CARRIER

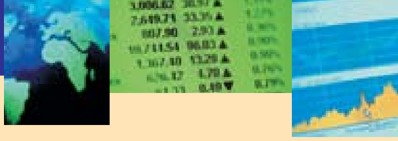
Percentage (Jul 02 - Sep 02 vs Jul 01 - Sep 01)



FTK GROWTH BY CARRIER

Percentage (Jul 02 - Sep 02 vs Jul 01 - Sep 01)





(JULY TO SEPTEMBER 2002)

RPKs of AAPA member airlines rose 5.1% in the third quarter of 2002. During the period, the carriers flew 1.7 million more passengers than the third quarter of 2001 - a YOY increase of 6.0%. Overall capacity was 3.3% above the corresponding quarter in 2001, which resulted in a PLF of 76.3%, up 1.4 percentage points.

Nine carriers reported RPK growth in the third quarter with Vietnam Airlines (18.7%) and Cathay Pacific (18.3%) leading the way. Thai Airways (10.9%) and Asiana Airlines (10.6%) also reported double-digit growth. Three carriers experienced a reversal in RPKs - All Nippon Airways (-3.5%), Japan Airlines (-2.0%) and Royal Brunei Airlines (-0.7%).

Cathay Pacific (7.2 percentage points) had the highest increase in load factor over the same period in 2001. However, EVA Air (79.6%) registered the highest PLF. Cathay Pacific was close behind with 79.5%. The remaining 10 carriers had load factors in the 70% range.

CARGO

FTKs of AAPA carriers rose 18.2% in the third quarter. Capacity was up 9.9% YOY. FLF improved 4.8 percentage points to 68.4%.

All carriers reported FTK growth with 10 out of 12 carriers registering a double-digit increase. Royal Brunei Airlines (11.4 p.p.) reported the biggest increase in FLF. Asiana Airlines (79.1%) posted the highest load factor for the quarter, followed by China Airlines (78.4%), EVA Air (73.9%), Korean Air (73.8%) and Cathay Pacific (70.1%). The remaining carriers registered a load factor below 70%.

RESULTS OF THE 12 MONTHS TO SEPTEMBER 30, 2002

AAPA carriers' consolidated international RPKs and PAX contracted by 4.1% and 1.1%, respectively. Capacity was down 3.2%, which resulted in a load factor of 72.8%, down 0.7 percentage point.

CARGO

FTKs grew 7.1%. Capacity was up by 2.0%, which resulted in a FLF of 68.1%, up 3.3 percentage points.

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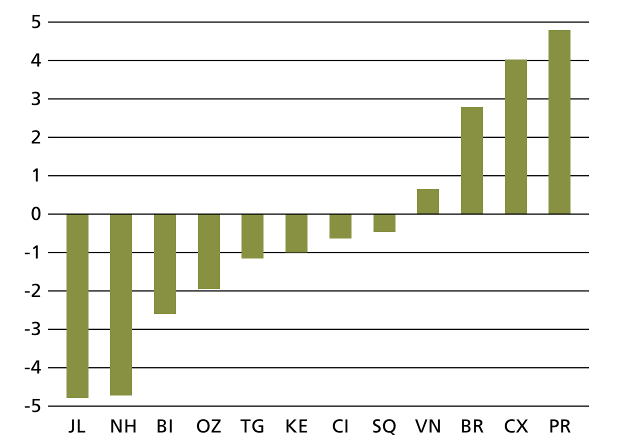
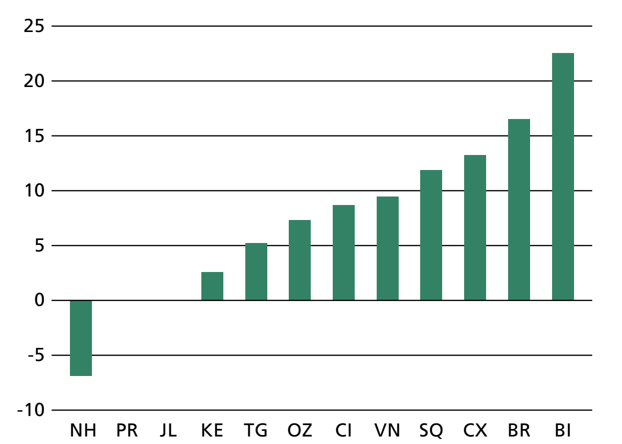
PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Oct 01 - Sep 02 vs Oct 00 - Sep 01)



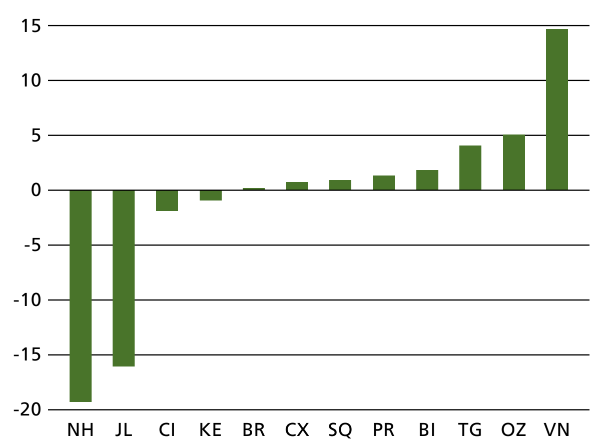
FTK GROWTH BY CARRIER

Percentage (Oct 01 - Sep 02 vs Oct 00 - Sep 01)



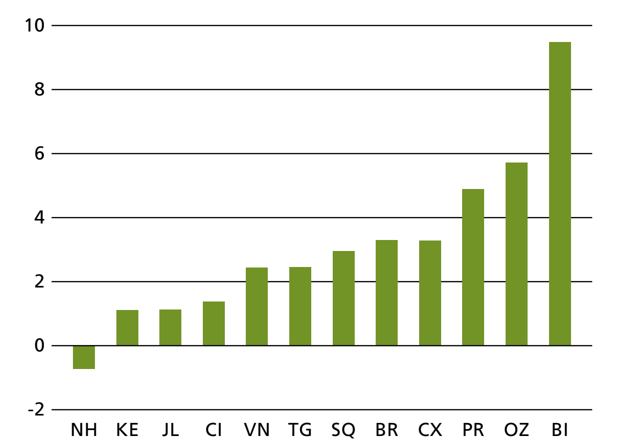
RPK GROWTH BY CARRIER

Percentage (Oct 01 - Sep 02 vs Oct 00 - Sep 01)

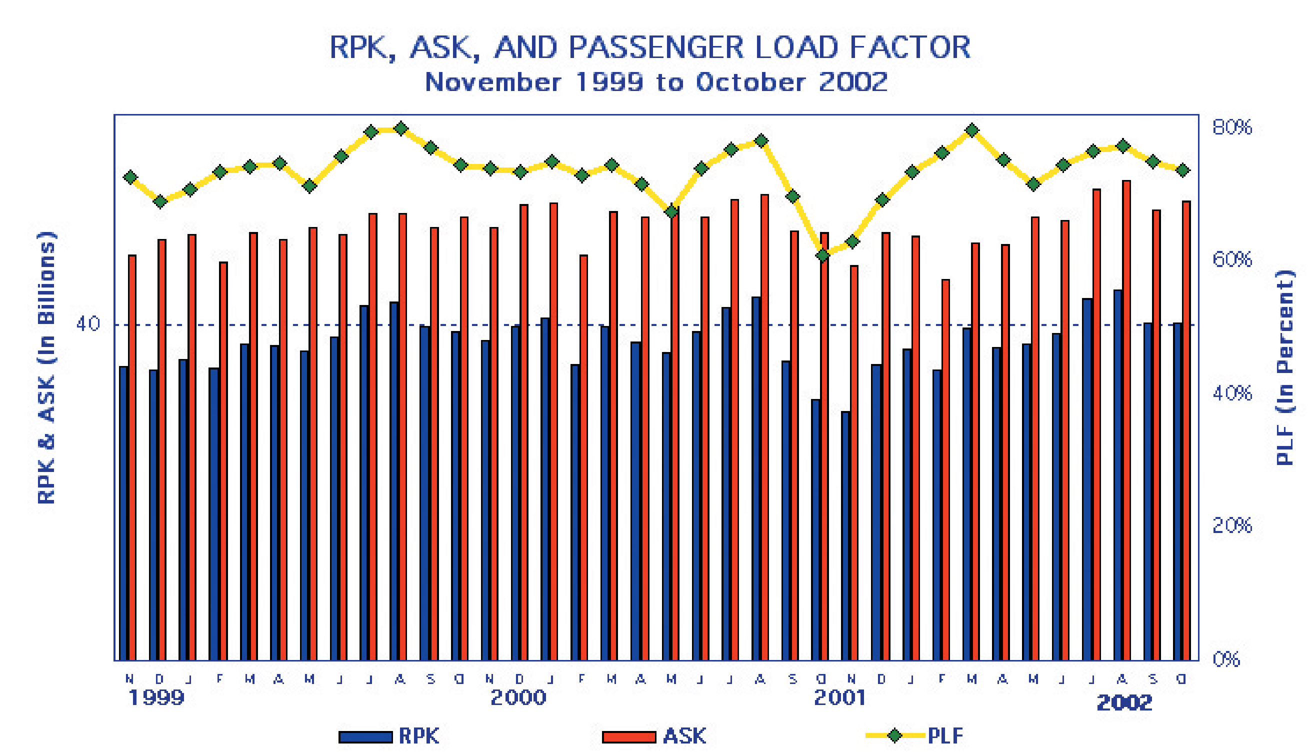


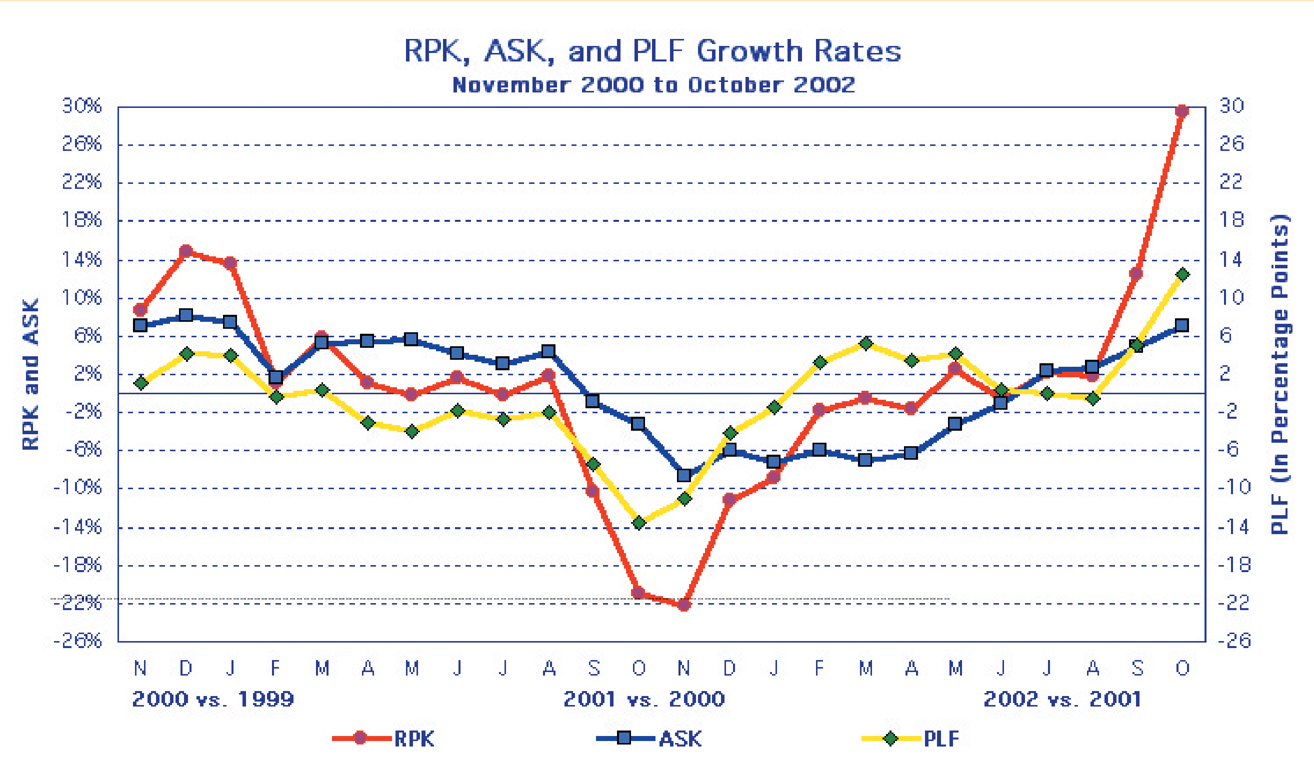
FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Oct 01 - Sep 02 vs Oct 00 - Sep 01)

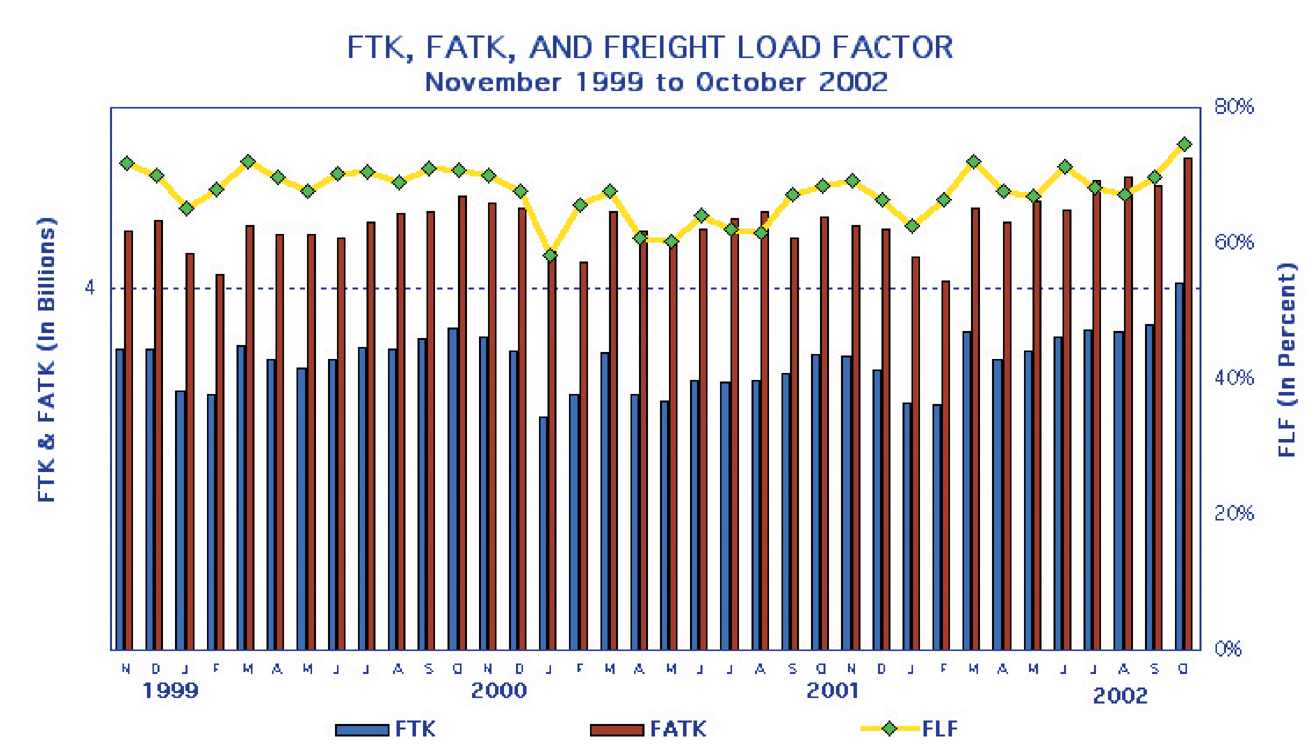


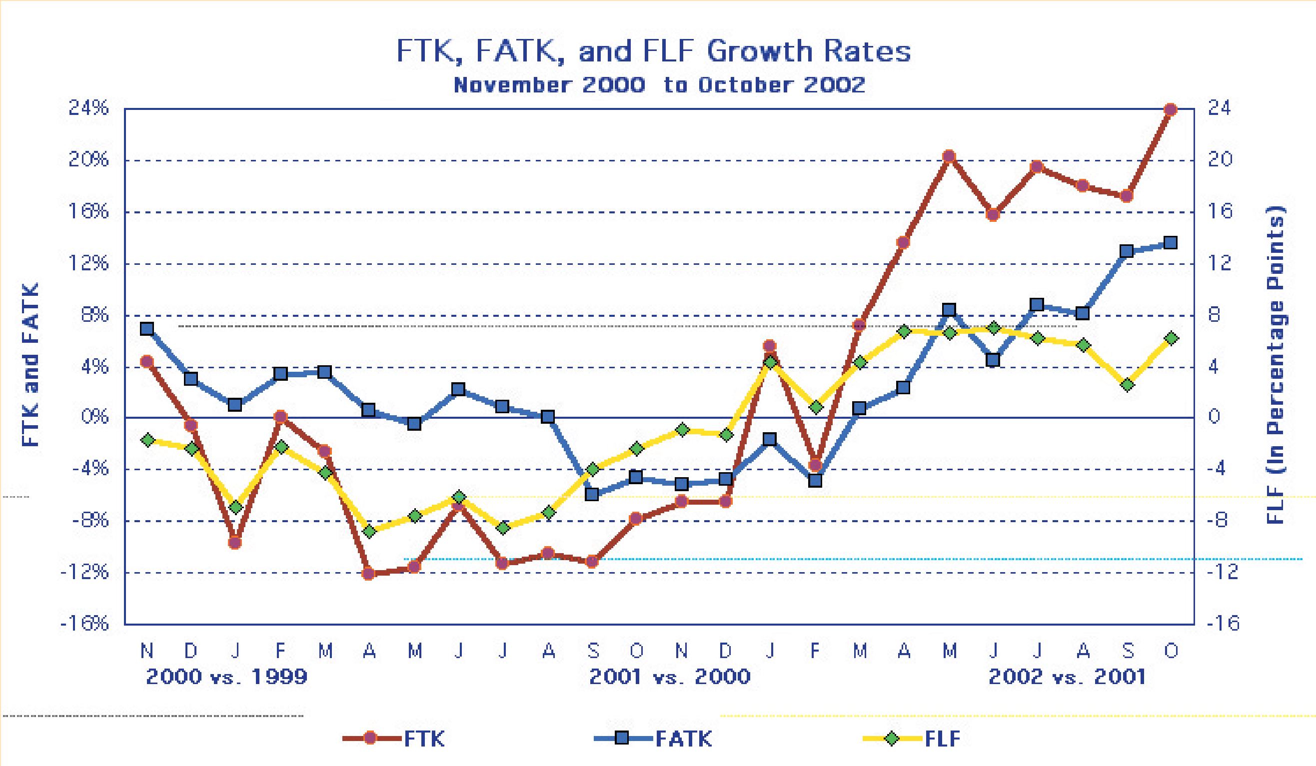
MONTHLY INTERNATIONAL PAX STATISTICS OF AAPA MEMBERS

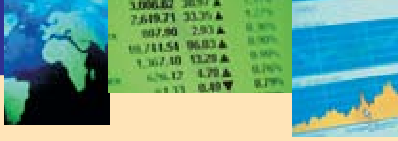




MONTHLY INTERNATIONAL CARGO STATISTICS OF AAPA MEMBERS







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)
NOV-01	29,565,610	47,049,593	62.84	3,243,992	4,685,510	69.23	5,978,041	8,974,938	7,211
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
TOTAL	457,262,437	619,571,934	73.80	39,966,522	58,227,371	68.64	83,197,220	114,668,234	106,790

2001 TO 2002

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
NOV-01	-22.28	-8.73	-10.95	-6.44	-5.21	-0.91	-15.13	-7.22	-16.44
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
GROWTH	-0.43	-2.37	1.44	10.10	3.55	4.09	4.78	0.40	2.04

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	392,429,510	521,498,724	75.25	33,632,468	48,886,639	68.80	70,872,473	96,385,499	91,195

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]	2.88	-1.38	3.12	13.91	5.36	5.17	8.51	1.80	4.60

Note:

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