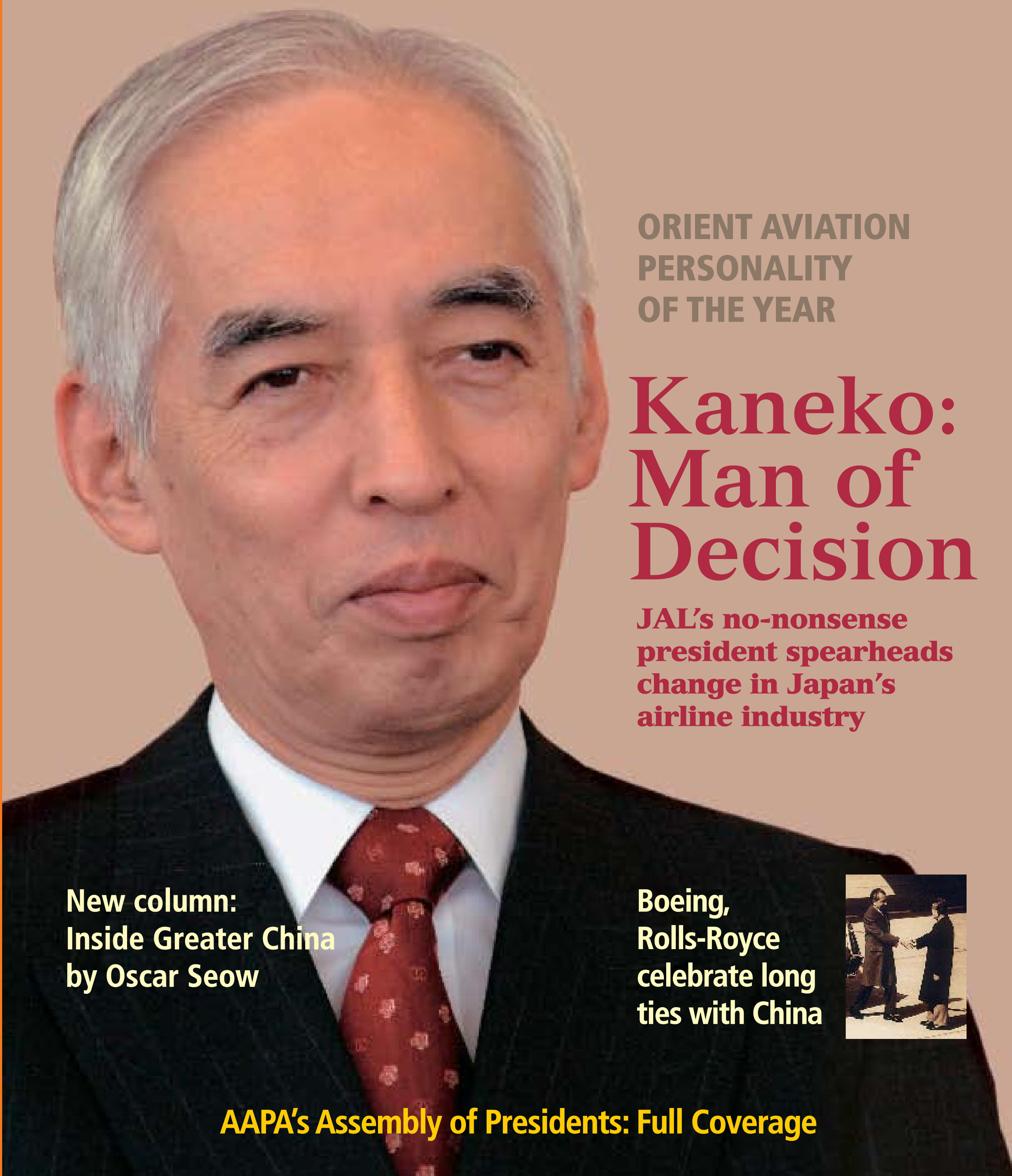
MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

Orient aviation

VOL. 10 NO. 3 DEC 02/JAN 03



ORIENT AVIATION PERSONALITY OF THE YEAR

Kaneko: Man of Decision

JAL's no-nonsense president spearheads change in Japan's airline industry

New column: Inside Greater China by Oscar Seow

Boeing, Rolls-Royce celebrate long ties with China

AAPA's Assembly of Presidents: Full Coverage

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. 3 DEC 02/JAN 03

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Photo: Kurita Kaku

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THE GREAT HOUDINIS

The leading carriers of the Asia-Pacific have once again proved they are the great Houdinis of the airline world.

According to the Association of Asia Pacific Airlines' 2001-2002 annual report, published in November, its 17 member carriers suffered a net loss of US$720.5 million in the year to March 31. Operating profit slumped 75% to US$886.3 million.

Those figures, of course, were largely the results of the global recession and the aftermath of September 11. But they are now old news.

In a quite remarkable recovery, the annual report said that recently announced profits of up to 12 carriers in the region are unequalled anywhere in the world, except for Europe's low-cost operators.

What's more, all AAPA members are expecting even better results to come in the second half of this year. "Revenue from all sources has increased, interest rates, fuel and other costs are under control and forward bookings are strong," said the report.

These kind of words, unthinkable a year ago, must make airlines in Europe and the U.S. positively green with envy.

But, significantly, this is not the first time in recent years that AAPA carriers have executed a great escape act. In 1997-98, as the Asian economic recession bit hard, the collective loss of AAPA members topped US$1.2 billion. Within two years the loss had turned into an astonishing collective profit of US$1.82billion.

The lessons managements learnt during those months five years ago proved invaluable in 2002 as airlines carefully clawed their way back from the worst year in aviation history. Executives were wiser and their airlines were leaner and meaner. When 2001 did its worst, Asia's airlines were better prepared than most to cope. And, as the recent financial results have shown, they did more than cope. They now lead the world recovery.

However, there is no room for complacency. There is plenty to occupy the Asia-Pacific airline industry in the coming 12 months, including costly security and insurance issues and, not least, the threat of war in the Middle East.

Also, there are aeropolitical and environmental pressures to tackle. The campaign against the long running and vexing questions of high airport and overflight charges will continue. AAPA director general, Richard Stirland, forcibly outlined his views on this long list of issues during the 46th Assembly of Presidents in November, in Cebu.

Let's hope some seasonal Christmas cheer and goodwill to all men prevails.

Orient Aviation wishes its readers a merry Christmas and a happy and, hopefully, a peaceful 2003.

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PERSPECTIVE 2002

CHRISTINE MCGEE looks at the chief executives who have made the news in 2002 for the right, or sometimes the wrong, reasons

As the industry willed itself through the most damaging cycle in its history, its boardrooms' 'revolving' doors were kept busy at the region's airlines as some bosses did not survive the turmoil.

First to go in 2002 was the glamorous **Christine Tsung**, whose short reign as head of Taiwan's **China Airlines (CAL)** came to an abrupt halt when she was invited to join her nation's Cabinet as economic minister. She may have wished she had stayed at CAL after she was forced to resign from her Cabinet post six weeks later, following damning attacks on her alleged competence from several economists and political commentators. Her successor, the more retiring company man, **Philip Wei Hsing-Hsiung**, had barely settled into the job when a CAL aircraft crashed in May killing all 225 passengers and crew.

China Airlines president Christine Tsung – OUT

Not to be outdone, **EVA Air**, Taiwan's second international carrier, also appointed a woman to the top job at the beginning of 2002. **Kitty Yen Ruoh-chi**, a career EVA Air employee, was unexpectedly summoned to the chairman's office of EVA's parent company, the **Evergreen Group**, and within a few minutes of sitting down, chairman **Y. F. Chang**, invited her to run EVA. "I never say no, " she told *Orient Aviation*. She is still there, unlike former **Ansett** flight attendant, **James Hogan**. In January, two Melbourne tycoons, **Solomon Lew** and **Lindsay Fox**, planned to resurrect Ansett and hired Hogan as their Ansett chief executive. But the deal collapsed several weeks later and Hogan is now running **Gulf Air** in the Middle East. The wheels turned more slowly at **Thai Airways International (THAI)** where the airline board took six months to find a permanent successor to **Thamnoon Wanglee**. For the first time the selection process took on some transparency, which eventually resulted in the March appointment of an airline outsider, leading Thai businessman and academic, **Kanok Abhirodee**, as president of THAI, a decision personally sanctioned by the Thai prime minister, **Thaksin Shinawatra**. Kanok's leadership road has been rocky as foes on the airline board jockey for a return of their former influence at THAI. At press time, he was still in charge. **Air New Zealand (AirNZ)** also had its difficulties, following its serious flirtation with bankruptcy in late 2001 and the New Zealand government's US$415 million purchase of a majority of its shares. But the sure hand of new chairman, **John Palmer**, and the appointment of banker **John Norris** as AirNZ chief executive is bringing results. The airline introduced cheap fares on domestic routes and re-focused its international services to suit current demand.

EVA Air president Kitty Yen Ruoh-chi – IN

THAI president Kanok Abhirodee – IN

In Indonesia, another banker, **Abdulgani**, relinquished his role "for the golf course", but his departure was not without controversy. Abdulgani had a preferred successor, who was not chosen. Another contender for the position, **Samudera Sukardi**, lost out in a case of reverse nepotism. Finance minister for state enterprises, **Laksamana Sukardi**, refused to appoint his well qualified brother for the job out of fears of being accused of favouritism. Now the flag carrier is being run by a neutral candidate, Garuda and Merpati "lifer", 52-year-old **Indra Setia-wan**. Government owned domestic carrier, **Merpati Indonesia**, also has a new boss, president **Hotasi Nababan**. His predecessor, **Wahyu Hidayat**, is president of the **Indonesian Air Carriers Association**. By mid-year, **Air Nuigini** chief executive, **Peter Roberts**, and his ultimate boss, the New Guinea government, parted ways as the struggling carrier turned in another dismal annual balance sheet. In China, the succession of former **China Southern Airlines** pilot, **Capt. Yuan Yuan**, as head of the **Civil Aviation Administration of China (CAAC)**, was announced without fanfare a few days before the **International Air Transport Association (IATA)** held its annual general meeting in June, this time in Shanghai. At the AGM, director general **Pierre Jeanniot** formally retired and his successor, **Giovanni Bisnig-nani**, was introduced to his industry colleagues. Since then, Bisnig-nani has said he will be paying a lot of attention to addressing the concerns of IATA's Asia-Pacific membership, most particularly airport user fees and ATC and over-flight charges. In the region, **Andrew Drysdale**, who most recently ran regional Australian carrier, **Hazelton Airlines**, is the new IATA Asia-Pacific director, based in Singapore.

Air New Zealand chairman, John Palmer – IN

Garuda president Indra Setia-wan – IN

During the year, a Malaysian entrepreneur was commanding attention as his Malaysian domestic airline, **AirAsia**, appeared to be paying its way. Likeable **Tony Fernandes** is running Asia's first no-frills carrier and has said he is considering expanding to targeted regional destinations. Within days of this claim, **Denis Adams**, a long time **Qantas Airways** senior executive, had launched Qantas' full service regional leisure airline, **Australian Airlines** out of Cairns. For **Peter Foster**, who made headlines when he lead an ex-Cathay team that briefly managed **Philippine Airlines**, Asia is once again home, after stints in Europe and the Middle East. In August, **Royal Brunei Airlines (RBA)** broke with its tradition of seconding civil servants to run RBI and made Foster its chief executive.

Australian Airlines chief executive Denis Adams – IN

REGIONAL ROUND-UP

CAAC SCRAPS REVENUE POOLING AS DEREGULATION DRIVE CONTINUES

China's airlines may have read it first in the media, but there is no denying that regulator, the **Civil Aviation Administration of China (CAAC)**, has called a halt to a revenue pooling arrangement which was introduced in 2000 to try and control rampant ticket discounting on domestic routes.

The news first appeared in the *Beijing Business Today* newspaper, but the airlines, on hearing of the move, said the decision was inevitable as China's airline industry restructures and distances itself from its former Beijing master.

In November, the **State Council** sanctioned the consolidation of the nine CAAC airlines into three groups led by **Air China**, **China Southern** and **China Eastern**. The CAAC now acts solely as regulator.

The revenue pooling arrangement helped control airfares on about 150 key routes that made up about 60% of mainland air traffic, according to the Mainland media.

The cash pool was controlled by the CAAC, which re-distributed the money to the carriers via a complex formula.

Now the CAAC is out of the loop and the pooling arrangement has been cancelled, it will allow carriers to better manage their networks in the months ahead, once they are permitted to freely set their own airfares.

The *South China Morning Post* reported in November the CAAC was studying a proposal to allow airlines to set their own fares within a 40% band as a prelude to completely deregulating fares within a year.

The consolidation of China's airlines also will mean less competition on the key routes.

Cathay Pacific Airways took delivery from the manufacturer of the first of three Airbus A340-600s on November 30.

Cathay plans speedy expansion

Cathay Pacific Airways (CX), which announced a 26.5% increase in passengers for October compared to the same month last year, said it will "rapidly increase capacity in the next 18 months". The airline took delivery of the first of three ultra-long-range A340-600s in November and will accept two more by January. It will also add A330 and B777 extended-range airliners to its fleet in 2003. In November, Cathay's chief executive, **David Turnbull**, said the airline would begin non-stop service from Hong Kong to New York, possibly as soon as April 2003. Earlier in the month, the carrier's director of corporate development, **Tony Tyler**, said the new airplanes will be used "to thicken" the Asian network and add more flights to London, Australia and Johannesburg, South Africa.■

VIRGIN BLUE TO GO PUBLIC AND INTERNATIONAL

Sir Richard Branson, founder and 50% owner of Australian domestic no-frills carrier, **Virgin Blue**, plans to list the airline in 2003 following a settlement with **Sydney Airport** in November over access to gates at the former Ansett Australia terminal. Sir Richard said legal action against the airport company would be withdrawn now that Virgin Blue had been given access to six gates immediately and another six at a later date. He added the airline had 18 international destinations in its sights, but would initially consider flying to six of them. Independently, **Virgin Atlantic Airways** has applied to fly from Hong Kong to "one or two major Australian cities" next year, said Branson.

MANILA'S TERMINAL 3 STILL IN LIMBO

At press time, the Philippine Government was threatening to assume control of the troubled, privately-owned new international terminal three at **Ninoy Aquino International Airport,** to ensure it will open as scheduled in December. However, **Philippine Airlines (PAL)** president, **Avelino Zapanta**, told *Orient Aviation* that "no one had signed up to move into the new terminal 3" and that included PAL.

Meanwhile, Germany's **Fraport AG**, which holds 30% in the international terminal and has invested US$378.8 million in the project, said it still wants the Philippine Government to buy back the facility from all international and local shareholders and allow Fraport to run the complex on a management contract.

Several matters remain unresolved. Fraport partner, **Philippine International Air Terminals Co. Inc. (PIATCO)**, is accused of altering the contract after it was signed by the former Philippine Government. Investors and the national government are considering declaring the contract void in an attempt to resolve ownership and control of the terminal.

AIRNZ NO-FRILLS SERVICE A SUCCESS

Air New Zealand (AirNZ), now in the throes of a network-wide restructuring, launched its low-cost domestic Express Class service in November and saw most of the cheapest fares on the network sell out immediately. Average fares across the domestic services have been cut by an average of 20%, but some flights have tickets available for less than 60% of their former prices. Business class seats on the carrier's domestic B737-300 fleet have been removed to increase seats for Express class travellers and full service inflight meals have been replaced with a snack service. About 40% of bookings have been made online, AirNZ said.

BOEING LAUNCHES CHINA OUTLOOK

China's domestic aviation market will grow by 9% per year in the next two decades, a figure that will require new aircraft purchases valued at US$165 billion, **Boeing Commercial Airplane Company** said in its 2002 *China Current Market Outlook*.

The forecast, presented at the fourth **Zhuhai International Air Show** in November by Boeing vice-president, marketing, **Randy Baseler**, said mainland China's overall aviation market was expanding at 7.9% annually and would require 1,900 new airplanes in the next 20 years. Single-aisle aircraft would provide 77% of total new airplane sales, Boeing believed. Baseler said the fastest growing regional market would be between China and Japan (7.1% per annum to 2020), China to the U.S. (6.1% growth to 2020) and China to Europe (5.4% per year to 2020). "Passengers are asking for comfortable, low fare, convenient, non-stop flights with frequency options," he said.

CAL MAKES CRASH SETTLEMENT

After mediation in the Japanese courts, 106 relatives of 38 of the 264 victims of a **China Airlines (CAL)** crash near Nagoya in 1994 have accepted an undisclosed offer from the Taiwanese carrier. The families had demanded 4.1 billion yen (US$33 million) from CAL, but are believed to have accepted an offer of 16.4 million yen per crash victim plus a further payment.

AVIC II TO LIST IN HONG KONG

China Aviation Industry Corp II (AVIC II) will combine four of its companies into a single entity by year end with the intention of listing the new company on the **Hong Kong Stock Exchange**, said AVIC II vice-president, **Liang Zhenhe**. The defence, civil aviation and auto conglomerate will combine **Haifei Aviation Industry**, **Harbin Dongan Auto Engines**, **Hongdu Aviation Industry** and **Jiangxi Chang-he Automobile** for the Hong Kong share sale debut. Haifei Aviation has formed a joint venture to produce 30-50 seat jet aircraft with Brazilian manufacturer **Embraer**.

AVIC II intends to produce up to eight new civil aircraft types by 2007, including stepping up its helicopter manufacturing.

GARUDA LAUNCHES SHANGHAI OPERATION

As it adjusts its operations following the October Bali bombings, Indonesian flag carrier, **Garuda Indonesia**, has refused to allow the drop in passengers to deter it from starting a twice-weekly service to Shanghai. Launched in November, the carrier hopes the flights will offset some of the decline on its other routes, particularly to Australia and Europe.

"China is a lucrative market and given Shanghai's rise as an economic centre, I am confident the number of passengers will grow," said Garuda vice-president marketing and development, Irman Imawan.

According to the **Civil Aviation Administration of China (CAAC)**, around 300,000 people fly from China to Indonesia every year. Shanghai is Garuda's third destination in China. It also flies three times a week to Guangzhou and daily to Hong Kong.

Garuda has adjusted its route network in response to events in Bali, reducing flights to Australia, the United Kingdom, Japan and South Korea and halting services to Frankfurt, Fukuoka and Adelaide. It is understood the measures will be in place until at least March, although Garuda will monitor the situation.

The Bali attacks have also postponed the launch of Bali's first international airline, **Air Paradise International**. The company said it would now inaugurate its services to Perth in Western Australia in February next year. The airline intended to start flying on October 27, 13 days after the bomb attacks that killed 190 civilians and maimed many others, mainly western tourists.

Garuda Indonesia: has launched a third China destination

BRIEFLY...

AIR SERVICES AGREEMENTS (ASA): Russia and Taiwan will operate direct air links between Taipei and Moscow from next April although the two countries do not have formal diplomatic relations, the *United Daily News* reported in Taiwan in November. Initially **China Airlines** and **Transaero Airlines** will each offer two flights a week, once the formal agreement to operate the services is signed in December.

AIRPORTS . . . Four of the five airports to show increases in traffic for July 2002 are in the Asia-Pacific region, reports **Airports Council International (ACI)**, with Shanghai's **Pudong Airport** reported as the fastest-growing airport worldwide. The top five airports mid-year were: Tokyo Narita (up 7%), Hong Kong and Beijing (up 5%), Tokyo Haneda (up 2%) and Amsterdam Schiphol (up 1%). Macau's international airport recorded its highest number of airport movements for the year in October, a result of the Chinese national day holidays at the beginning of the month and a surge in air freight business. Passenger volume rose 13.9% compared to October 2001 and freight climbed 33.7% over the same period a year ago. **Beijing Capital Airport** said it would raise airline user fees by up to 290% following changes in the structures of fees formalised by the **Civil Aviation Administration of China (CAAC)** earlier this year. The airport earns the bulk of its income from aeronautical charges. Mainland China's **Hainan Melian Airport** will pay its consultants and partners, **Copenhagen Airport**, consultancy fees of US$1,000 per day, the prospectus for the initial public offering of the airport revealed. The Danish airport operator has agreed to take up 45% of the IPO. Traffic at **Hong Kong International Airport** recovered to better than pre-9/11 levels, the operators have announced. Passenger throughput increased by 17.9% compared to a year ago and freight traffic increased by 26.4% over the same period in 2001. **Shenzhen Airport**, just over the northern border of Hong Kong, will invest US$3.62 billion to add a second runway and a third passenger terminal to its facilities, the airport authority announced in November.

CARGO . . . Hong Kong-based **Dragonair** has added a third freighter, a recently-converted B747-300, to its dedicated fleet to increase services on its Asia-Europe and China routes. The airline has seen cargo business increase by more than 60% to date this year. The big four small-pack and package courier services, **DHL**, **Federal Express (FedEx)**, **TPG NV** and **United Parcel Services (UPS)**, have reached a compromise agreement in their dispute with mainland rival **China Post**. The global courier services have agreed to a new licence system that technically could allow China Post to restrict growth of their businesses.

However the companies said they have been assured by the relevant Chinese authorities that the new rules will not stymie their operations. China Post's Express Mail Service presently holds about a third of the increasing courier business in China.

REGIONAL JETS ... Bombardier Aerospace delivered the fifth aircraft in an order of six CRJ200 regional jets to **Yunnan Airlines** in Kunming.

ENGINES . . . International Aero Engines (IAE) has won a US$100 million contract to supply its V2500 engines for **Air China's** eight new Airbus A319 aircraft. The Beijing carrier is a new customer for IAE's consortium partners, **Rolls-Royce Engines**, **Pratt & Whitney**, **Japanese Aero Engines Corporation** and **MTU Aero Engines**.

FLEETS . . . Air New Zealand has ordered an ATR 72-500 66-seat aircraft, an acquisition that will bring the Auckland-based carrier's fleet of the European prop planes to 10. The airliner will be delivered in January next year to **Mount Cook Airlines**, a fully-owned subsidiary of **Air New Zealand**. **Thai Airways International's (THAI)** board has approved the purchase of two B747 aircraft. Earlier this year THAI agreed the company would buy two long-range aircraft and one mid-size airplane. After 12 months of negotiations **Airbus Industrie and Vietnam Airlines (VN)** have converted the carrier's commitment to buy its first Airbus planes to a firm order for five A321s. The jets will be delivered from 2003 to 2005 and will join the carrier's fleet of ten A320 and two A321 leased airplanes. Australian domestic carrier, **Virgin Blue**, is considering the purchase of up to 20 new aircraft to add to its fleet now it has concluded a deal with **Sydney Airport** for six gates at the former Ansett domestic terminal.

HELICOPTERS: An S-300C and two S-300Cbi helicopters, produced at the **Sikorsky/Shanghai Little Eagle Science and Technology Co.** joint venture company, have been delivered to the Xinjin division of the **China Civil Aviation Flying College** in Sichuan. **Guangdong Baiyun General Aviation Co. Ltd** accepted delivery of two S-300Cbi helicopters, planned for flight training in September.

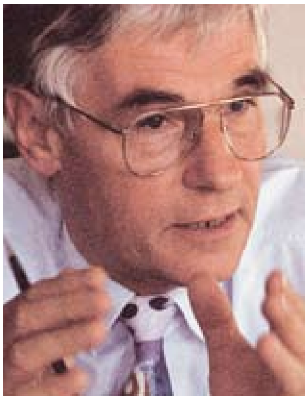
INFORMATION TECHNOLOGY . . . Mercator has sold its frequent flyer and marketing IT package, **CRIS**, to **Philippine Airlines**, the first Asia-Pacific customer for the Dubai-based company's system.

LEASING . . . Singapore Aircraft Leasing Enterprise (S.A.L.E) and **Lauda Italia** have signed leases on 10-year terms for two IAE V2500 powered A321s, scheduled for delivery to the Mediterranean carrier before mid-2003.

SIAEC chief executive, William Tan: interim profit

MROS . . . SIA Engineering Company Ltd recorded an interim profit of S$101.3 million (US$57 million) to September 30 this year, a 3.9% increase over the same period in 2001. Company chief executive, **William Tan**, said MROs must continue to satisfy airline demands for cheaper maintenance and faster turnaround times. A few weeks earlier, the Singapore-listed company said it had ended talks to buy **Lockheed Martin's** 25% equity in Guangzhou-based MRO, **GAMECO**. An SIA Engineering spokesman told *Flight International* that "consent of one GAMECO shareholder has not been secured", and the conditional agreement with Lockheed Martin has been terminated.

SR Technics has been bought by **3i**, an investment company, and the management of the Swiss-headquartered global MRO. The purchasers paid US$424 million to the **SAir Group** in a deal that will give the former SR Technics management 12% of the new company. The remaining 88% equity will be held by 3i and its partners. **Hans Beyeler** will remain in charge of the company while the new chairman will be **Frank Turner**, an engineer by profession.



SR Technics chief, Hans Beyeler: remains in charge

ROUTES ... Month-old, full-service leisure carrier and wholly owned **Qantas Airways** subsidiary, **Australian Airlines**, launched its Cairns-Hong Kong route on November 22. **Air New Zealand** has upgraded capacity on several routes since November including: double daily services to Los Angeles from Auckland; an extra service to Sydney (now five times daily), increases to daily services on the Auckland to Tokyo, Osaka, Hong Kong and Singapore routes; additional flights to Auckland from Honolulu and to Nagoya; flights on to Air New Zealand from Nadi to Los Angeles, Papeete to Los Angeles, Raratonga to Papeete and Sydney to Los Angeles. **Cathay Pacific** will launch its direct service to New York in a few months now that it has taken delivery of its first A340-600. The Hong Kong-New York route, which traverses the North Pole, requires a long-range airplane for the service. The first of Cathay Pacific's A340-600s was delivered on November 30. Taiwan's **China Airlines (CAL)** has added another service on the "golden route" between Hong Kong and Taipei as competition for passengers intensifies following the entry of **Dragonair** and the granting of more services to CAL rival, **EVA Air**. **Korean Air (KE)** and **Vietnam Airlines** have signed a joint services deal to develop and expand existing code-share agreements for cargo and passenger services. Services on the Incheon-Ho Chi Minh City route have increased from six to eight and from five to seven from Incheon to Hanoi and return. **Emirates Airline** intends to add four routes to its network and increase frequencies on 17 existing services in 2003, adding capacity of 26% to the airline. New routes are Dubai to Cochin (2002) and Dubai to Lagos, Moscow and Shanghai (2003). In 2003, double daily services will be introduced to Manchester, Bangkok, Munich and Muscat, services to Sydney will increase to daily and to Hong Kong from 10 to 13. There will also be new services each week to several Middle Eastern cities, Istanbul, Paris and Malta. **Thai Airways International** now operates a code share with domestic Thai carrier **Phuket Air** on four routes – Bangkok-Ranong, Bangkok-Mandalay, Chiang Mai-Bagan and Ranong-Phuket.

TRAINING . . . In a US$29.8 million investment, Canada's **CAE Inc.** has signed up with **China Southern Airlines** to establish a joint venture flight simulator training school, the **Zhuhai Xiang Yi Aviation Technology Co.**, in Guangdong. The company is targeting Asian airline customers. Joint venture partners **Bombardier Aerospace** and **Shandong Airlines** will use the carrier's facilities to train its pilots to fly their newly-acquired CRJ 200 regional jets. **Qingdao Fei Sheng Training Centre** has been operating for 18 months and is certified for training by CAAC.

BUSINESS ROUND-UP

SIA'S FIRST HALF PROFIT LEAPS SIX FOLD

SIA Group's first half 2002-03 profit surged almost six fold from a year earlier, to S$773.5 million (US$434.6 million), beating analysts' expectations of a S$422.3 million result. SIA said the encouraging results were assisted by a tax write-back of S$278 million and improved cargo operations.

An SIA statement said without the tax write-back, a result of a cut in the corporate tax rate from 24.5% to 22%, profit attributed to shareholders would have been S$499 million, an increase of 269.8% over the same period in 2001.

SIA deputy chairman and chief executive, **Dr Cheong Choong Kong**, said revenue rose 10.8% to S$510 million and passengers carried increased 1.8% to 7.78 million. He said travellers were price conscious in the present depressed economic environment and they were opting for economy rather than premium seats when they flew. As a result, yield declined 1.1 %, to S$0.9 per passenger kilometre. Combined yield for passengers and cargo dropped by 4.9%.

"It was cargo that made the difference," said the SIA CEO, who added the division had turned around from a loss a year ago.

The group also enjoyed increased income from its associated companies (up S$76 million), its joint venture, **Eagle Services Asia**, and from its 49% equity in **Virgin Atlantic Airways** (up 366% to S$87.6 million).

SIA's ill-fated investment in **Air New Zealand**, in which the Singapore carrier had held a 25% stake, produced a loss of S$267 million. SIA's holding in the re-structured New Zealand carrier is now 4%. The SIA Group statement said the combined factors of political volatility in the

Singapore Airlines: exceeded analysts' expectations

Middle East, high fuel prices, increased competition in the cargo sector and the effect of terror attacks, along with growing uncertainty about the global economy meant the second half of the year would be more uncertain.

RE-STRUCTURE HELPS MAS SLASH LOSSES

Malaysia Airlines' (MAS) managing director, **Mohamad Nor Yusof**, reported in November that the carrier had cut its losses by almost 700%, to M$79.68 million (US$20.7 million), for the first six months of the year. This compared with a loss of M$557.6 million for the same period in 2001. Md. Nor said MAS's performance improved in the September quarter as the new measures, introduced to save the carrier from bankruptcy, began taking effect. Earlier in the month, MAS minority shareholders approved the carrier's debt restructuring, a plan that allows MAS to transfer most of its airline and property assets, plus responsibility for operations of its domestic routes, to newly created government companies.

Md Nor said he expected MAS to meet its target of a M$94.2 million profit for the year to March 2003. In the latest six-month period, the airline recorded pre-tax losses of M$79.7 million, MAS catering posted a M$34.3 million loss while cargo added profits of M$21.12 million to the re-arranged balance sheet. Cost-cutting and lower fuel and finance charges assisted in the improved result.

SHARP UPSWING IN KAL EARNINGS

Korean Air (KAL), Korea's largest international carrier, put the effects of '9/11' well behind it when it announced a profit of 86.5 billion won (US$70.6 million) for its third quarter, compared to a loss of 103 billion won 12 months ago.

The carrier's revenue for the first nine months of the year was 4.61 trillion won and international airline seats and cargo contributed 2.26 trillion won to that result. A KAL spokesman told the *Asian Wall Street Journal* traffic and yields had increased steadily, with revenue per passenger kilometre up by 7.8%. "This is the high season for airlines and that is the main reason for our revenue picture, but we have also improved yield by re-allocating our route structure," the spokesman said. A fall-off in fuel prices and an improving won contributed to the strong result, airline analysts said.

JAL REVISES DOWN FULL YEAR PROFIT

Japan Airlines Group, which recently merged with **Japan Air System (JAS)**, reported in November that its net profit for the first six months of its fiscal year had increased by 105.4%, to 33.7 billion yen (US$279.5 million). The airline group said healthy cargo earnings plus lower fuel costs contributed to the result. However, the group also said operating profit fell 27% in the same period, mainly because bookings on Japan-U.S. routes had not returned to pre-9/11 levels. The newly merged holding company revised down its full year profit forecast by 20%, to 24 billion yen.

PAL BACK IN PROFIT

Philippine Airlines (PAL), a flag carrier that does daily battle in a country burdened with both a terror-

Hainan Airlines: recorded a profit of more than US$13 million in the first nine months of 2002 ist presence and a struggling economy, reported a net profit of 946 million pesos (US$17.9 million) in the first six months of its fiscal year, compared to a US$3.5 million loss 12 months ago.

PAL president, **Avelino Zapanta**, said the airline hoped to reach its full year profit target of one billion pesos, a projected turnaround from losses of 1.5 billion pesos a year ago. PAL, under the stewardship of Zapanta, was headed towards its third consecutive year of profits in 2001, but went off track after the '9/11' terror attacks. The setback required the adjustment of PAL's 10-year schedule for repayment of its $2.4 billion debt. PAL said it paid back $245 million on its loans in 2001 and will pay down another $230 million in interest and principle this year. The Manila-based carrier is largely privatised, principally owned by a Philippines billionaire, **Lucio Tan**. The Philippines Government has 4% equity in the airline.

MIXED RESULTS ON THE MAINLAND

Mainland China's island-based carrier, **Hainan Airlines**, reported third quarter profits of 54.6 million yuan (US$6.6 million) for its current fiscal year. The result pushed the carrier's profit up to 111.4 million yuan for the year to date, an increase of 15% over the same period last year. International investor, **George Soros**, through his company, **American Aviation**, owns 14.8% of Hainan.

Recently, the Chinese Government lifted a ban that prevented foreign investors such as American Aviation selling its shares in the Mainland Chinese carrier. At press time, Hainan Airlines' chairman, **Chen Feng**, said in the *South China Morning Post* that U.S. strategic investors who specialise in aviation investments were interested in Chinese airlines because they have good long-term growth prospects. "If all goes smoothly, I think you will see a major development next year," he said in the Hong Kong newspaper report.

However, eastern China

Taiwan's China Airlines (CAL) president, Philip Wei Hsing-hsiung, announced in November that the carrier had met and surpassed its full year profit target of NT$2.2 billion (US$63.32 million) in October. He attributed the peak result to increased demand in regional travel.

based **Shandong Airlines** revealed its profits declined by 80%, to 12.7 million yuan, in the first nine months of the year as a result of higher taxes and new loans for aircraft purchases. Shandong, which recently bought several Bombardier CRJ aircraft, said year-end earnings were expected to decline by more than 50%, from the 69.6 million-yuan result of the last fiscal year.

In the first half of this year the carrier recorded net income of 11.8 million yuan. Net income in the third quarter was 913,900 yuan.

HIGH FLYING EMIRATES

Dubai-based **Emirates Airline** recorded a profit of Dhs 404.2 million (US$110 million) for the six months to September 30, an increase of 140%, or Dhs 168.2 million, on the same period in 2001. Emirates chairman, **His Highness Sheikh Ahmed bin Saeed Al-Maktoun**, said despite an 18% capacity increase, load factor rose 4% to 78% compared to the first half of 2001. Cargo income jumped by 38% in the same period.

RECORD SHOWING BY SRILANKAN

South Asian operator **SriLankan Airlines** recorded results among the best in its 23-year history in July and August (latest figures available). The carrier's head of commercial, **G. T. Jeyaseelan**, said targets were either achieved or surpassed in passenger load factors, passenger numbers and revenue. "All our planning, risk taking and hard work is yielding dividends," he said.

Significantly, for the first time in many years, profits were earned purely as an airline, as opposed to the group. Load factors in August were 85.5%, among the highest ever achieved by the airline (March 2002 – 86.03% – was the highest).

Jeyaseelan said virtually every destination contributed to the profit, from the Middle East to the Far East, Indian sub continent and Europe. "This proves beyond doubt that our rationalisation of routes late last year, where we took a calculated decision to suspend less profitable routes and increase frequencies on more profitable ones was the correct decision at a time when the global aviation industry was tottering.

While the entire airline has been working together to improve its performance, bold decisions such as restructuring and moving the revenue optimisation department to Dubai to work closely with SriLankan's strategic partner Emirates paid rich dividends. It enabled us to ensure that every seat on every flight gave us the maximum yield."

Edited by
Christine McGee

Organisers deny Zhuhai show is to be grounded

Following the poorest attendance in the life of the Zhuhai Air Show in November, speculation continues in the industry that the show will peter out due to lack of global interest.

Show organisers, speaking to the *China Daily*, however, quashed such sentiment – despite the cancellation of the aerobatics show this year – and said there will be a fifth Zhuhai show in November 2004.

One global trade show company is interested in acquiring the licence to operate the conference and exhibition with a view to transferring it to a larger and more accessible city in China.

Unofficial attendance figures optimistically claimed there were 200,000 visitors to the show on its public days and about 20,000-30,000 professional and media attendees on the trade days.

Major announcements made at the show were:

AIRBUS: The European aircraft manufacturer said three units of AVIC I – Shenyang Aircraft, Xian Aircraft and Chengdu Aircraft – are to supply parts valued at US$169 million to Airbus for installation on its A320 airplanes. The Shenyang and Xian AVIC I units will provide leading edge and trailing edge components for the A320 and Chengdu will supply floor grids for the aircraft. AVIC I executive vice-president Yang Yuzhong said his company might also write a contract to supply parts for Airbus' new airliner, the A380. Separately, Airbus announced the Jiling Shipyard in Nanjing would build a transport ship to bring A380 components to France for final assembly.

EMBRAER & AVIC II: Partners in the joint venture 30-50 seat commuter jet will deliver its first jets by the end of 2003, in a schedule aimed at producing 24 aircraft a year from the Harbin factory of the partners, Embraer of Brazil and Mainland China's AVIC II.

AVIC I: Displayed its mock-up of the 72-79 seat ARJ21 regional jet aircraft that it is developing following the decision in June by the Mainland's State Development and Planning Commission to invest US$602 million in the project. Assistant president of AVIC I, Tang Xiaoping, said ARJ21 would complement the development of the smaller Embraer/AVIC II jet in meeting regional jet market demand. The first ARJ21s are expected off the Xian factory production line in 2006 and to be flying by 2007. Xiaoping said he expected the domestic market to take about half of the 300 airplanes the company will produce by 2026. He had hopes for sales of 140 of the airplanes to Asia, Africa and Europe.

Pictured left to right: Bombardier Business Aircraft president, Peter Edwards, with the chairman of Poly Technologies, Shan Yihe, senior advisor at China Ocean Aviation Corp., Li Changjiang and executive vice-president Poly Technologies, Chen Hongshen, celebrate the delivery of a Bombardier Challenger 800 to China Ocean Aviation Group at the fourth annual Zhuhai International Air Show. The 34-seat aircraft will be used by senior Chinese government officials

GE AIRCRAFT ENGINES: Signed a Letter of Intent with AVIC I aviation company to provide GE's CF34-10A engine for China's proposed regional jet, the ARJ21 and reportedly discussed the possibility of assembling the engine in China. A GE spokesman said the deal would be worth US$3 billion over 20 years. GE Aircraft Engines has long had a presence in China and currently buys engine parts from AVIC I valued at an average of US$20 million a year, a figure predicted to rise to US$400 million by 2005. China estimates it will require 300-500 regional jets over the next two decades. GE will open a corporate and research development centre in Shanghai next year.

MTU Aero Engines: The German and Chinese funded joint venture formally unveiled its multi-million dollar aero engine maintenance facility, based in Zhuhai, on November 5. Equal partners, China Southern Airlines and MTU Aero Engines of Germany, have invested US$189 million in the 156,000 sq. metre complex in the southern China Special Economic Zone. Positioned to service the airlines of the Pearl River Delta, MTU Zhuhai will initially provide maintenance, repair and overhaul of up to 150 IAE V2500 and CFM56 series engines a year. The facility can service engines up to 150,000 pounds thrust. It will test its first engine in early 2003 at its US$13 million testing cell, built by U.S. engine giant, Pratt & Whitney. MTU Zhuhai plans to expand engine MRO capacity to 300 engines per year, starting with module split and fan repair work.

ROLLS-ROYCE: Won business worth US$30 million as its share of an order to supply V2500 engines to flag carrier Air China, the manufacturer announced on November 4. The engines will be used to power Air China's eight A319s. Rolls-Royce is a senior shareholder in International Aero Engines (IAE) consortium which produces the engines.

Eight aviation vendors – Eaton Aerospace, Hamilton Sundstrand, Honeywell, Northrop Grumman, Parker Aerospace, Goodrich, Satair and TPA – signed contracts to supply Airbus customers in China and the Asia Pacific, via its CASC/Airbus Customer Support Centre, with parts, avionics repair, customer liaison and training. There are already 20 companies in partnership with Airbus at the centre, including Avio-Diepen, Messier Services, Thales Avionics, Smiths Industries and B/E Aerospace. ■

WORLD BEATERS

One year on from the worst year in aviation history, only Europe's low-cost carriers can match AAPA carriers' profits

BARRY GRINDROD and TOM BALLANTYNE report on the 46th AAPA Assembly of Presidents in Cebu

Asia's airlines are back in the big time with recently announced profits unequalled anywhere in the world except for Europe's low-cost carriers, according to the Association of Asia Pacific Airlines (AAPA) 2002 annual report.

In November, AAPA director general Richard Stirland told the association's Assembly of Presidents, in Cebu, that in recent months a dozen AAPA carriers (it has 17 members) had announced financial results with either renewed or sharply increased profits.

"Moreover, all carriers announcing their results have stated that they expect the second half of this year to be better while some, such as EVA Air and China Airlines, have revised their profits forecasts upwards by as much as 30%," he said.

According to the annual report: "Revenue from all sources has increased, interest rates, fuel and other costs are under control and forward bookings are strong."

This is in stark contrast to airlines in the U.S. and Europe, which are still making heavy losses.

The recent figures also compare remarkably well with the AAPA's 2001-2002 financial year, which ended March 31, in which members suffered a net loss of US$720.5 million, their first loss since the Asian economic crisis of 1997-1998, and saw their operating profit slump almost 75% to US$886.3 million (see page 20).

Just 16 months after the tumultuous events of September 11, carriers in the Asia-Pacific are carrying twice the number of international passengers than their American counterparts. What's more, Asia is adding more capacity than last year, something no other region is doing.

Asia's recovery is nothing short of remarkable, particularly when 2001 is viewed as a whole.

Director general Stirland said during the first eight months of 2001 AAPA member airlines' traffic was far from healthy. Revenue passenger kilometres (RPKs) barely grew during the period, load factors fell, with long-haul traffic most depressed. Significantly for Asia's carriers, freight tonne kilometres (FTKs) dropped an average of about 10% between April and August.

Hosts: Philippine Airlines (PAL) president and outgoing AAPA chairman, Avelino Zapanta (left), and PAL chairman, Lucio Tan. PAL was the host airline at the AAPA's 46th Assembly of Presidents in Cebu

Come September 11, said Stirland, AAPA carriers' North American traffic slumped by 30%, but, overall, traffic fell only 6.4%. By October and November the situation had deteriorated further with North American traffic sinking 40% and, overall, a decline of 16%-18%.

However, by December there was a dramatic improvement. Traffic to North America on AAPA carriers was still down 22%, but the decline on the European routes had almost halved, said Stirland. Most significantly passenger numbers within the Asia-Pacific region were only 3.3% below the 2000 level. That meant the overall passenger decline had moderated to 6.6%.

But it was early in 2002 when significant improvements in RPKs, freight and load factors were seen.

In February RPKs were down only 1.8% on the previous year, with intra-Asia Pacific passenger traffic up 5.9%. With a 6% reduction in capacity, load factor was up more than three percentage points.

In April, cargo dramatically turned around with 13.6% growth on the previous year.

Between May and July 2002, RPKs were up more than 2% on a year earlier in spite of no improvement on the Pacific routes. The growth had come from within Asia and on European routes.

Freight rose an extraordinary 20% in May and July, June recording a more modest 16%!

The September 2002 figures give the first year-on-year comparisons with the consequences of the terrorists' attacks in the U.S. The RPKs of AAPA member carriers increased by 12.5%, passenger numbers rose 11.3%. Seat kilometres were up 4.9%. Passenger load factor climbed by five percentage points to 74.8%.

Freight tonne kilometres rose 17% year-on-year in September 2002, with freight tonnes increasing 22.9%. Available capacity climbed 12.9% with freight load factor up 2.6 percentage points.

Passenger traffic on the Transpacific route grew 20% year-on-year, intra Asia-Pacific travellers increased 14.7% and European traffic was up 8.7%

The real test is how the region is do-

ing this year when compared to 2000, said Stirland.

Compared to September 2000, passenger numbers in the same month this year were up by 5% and RPKs by 1%. Capacity rose 4% which resulted in a fall in load factor of 2.25 percentage points to 74.8%.

Freight tonne kilometres increased in September 4% over two years ago, but load factor was down 1.4% on 2000.

"While there is only a 1% increase in RPKs and a 4% increase in freight tonne kilometres overall, Transpacific traffic is still way below the level of two years ago and there has been a massive transfer of traffic to the shorter routes of Southeast Asia. Similarly, freight is down on the Transpacific, exclusively in the westbound direction, while freight on European routes has grown substantially in both directions since two years ago," he said.

Top table. Pictured (from left to right) at the post Assembly press conference are Korean Air president and incoming AAPA vice-chairman, Yi-Taek Shim; Philippine Airlines president and retiring AAPA chairman, Avelino Zapanta; AAPA director general Richard Stirland and China Airlines president and incoming AAPA chairman, Philip H. H. Wei.

Changes in the air

Asia's airlines may well be leading the world recovery, but top executives attending the AAPA's Assembly of Presidents know their bottom lines are still under threat and that the industry faces the prospect of dramatic change in the aeropolitical arena in the years to come.

The spiralling cost of anti-terrorism security measures – a burden being thrown almost wholly on airlines – dominated public and private discussion. Not far behind was the contentious issue of soaring insurance costs, as well as rising airport and aeronautical charges.

The airline chiefs met to map out strategies for the coming year in an atmosphere vastly improved on the gloom of last year's gathering in Bali, held just weeks after the U.S. terrorist attacks. They were left in no doubt, however, that they will need to prepare themselves to deal with serious emerging issues.

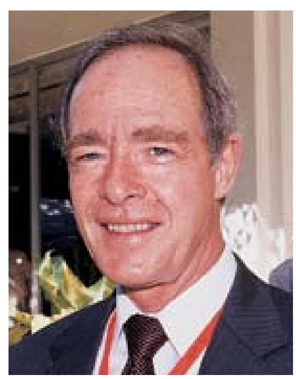
Among them is a new push towards liberalisation that will ultimately have a major impact on how they do business. The International Civil Aviation Organisation (ICAO) has convened a meeting in Montreal in March to consider how (not if) the industry is to be liberalised.

And AAPA director general, Richard Stirland, outlined a series of other threats to the region's carriers. They included U.S. "open skies" policy and protectionism, subsidies to U.S. airlines and their ability to enter Chapter 11 bankruptcy protection, giving them a decided business advantage over non-U.S. rivals. A mounting menu of overflight fees and airport charges, potential rises in fuel costs and environmental protection issues, as well as terrorism and the possibility of war, particularly in Iraq, had to be added to the mix, warned Stirland (see page 21).

On the other hand, the last 12 months had demonstrated three important lessons, he said:

- Asian carriers have huge resilience, flexibility and skill in managing adversity.
- the Asian region itself is increasingly inter-dependent on the external economies of Europe and North America.
- the desire of the people of Asia to travel, explore, trade and to visit their friends and relatives is unquenchable.

It was the International Air Transport Association's (IATA) Asia-Pacific regional director, Andrew Drysdale, who encapsulated the state of the global airline industry and some of the major challenges it faces. He told Asian airline chiefs: "This industry is in deep trouble.



IATA regional director, Asia-Pacific, Andrew Drysdale: need harmonised, global security standards

The Asia-Pacific represents the one bright spark in an otherwise gloomy picture. Governments need to recognise the cost of security is theirs to bear – and we need harmonised, global security standards.

"We need to establish a new partnership between airports, airlines and air traffic control providers. Together, we need to deliver the best quality of service at a reasonable price. We also need to liberalise and modernise the rules governing international aviation, to allow this capital intensive industry to reach its full economic potential. If we can achieve these goals, then the future of this industry is bright indeed."

On security, the AAPA Assembly was adamant: governments must shoulder the cost because security is a state responsibility. Airlines and passengers are already paying excessive travel taxes and should not be burdened with additional costs.

Korean Air president, Yi-Taek Shim, said terrorism had increased the risk of travel, with insurance costs rocketing after '9/11'. "The U.S. slapped on an additional premium of up to US$25 per air traveller following the September 11 tragedy. Asian airlines might be forced to charge up to US$5 more for each passenger if the carriers remain saddled with security costs."

Stirland said airlines were already giving big discounts on tickets and a US$5 or US$10 surcharge represented a "pretty major" percentage increase in cost. "Obviously, the airlines will have to pass the cost through, but whether they can be successful in doing that and retain the growth in the market seen in the last six and eight months is very problematic."

He said AAPA member airlines have either implemented or are working on a series of security measures, including fitting reinforced cockpit doors, establishing video surveillance of the cabin, liaising with airports on security immediately prior to departure and cooperating with governments in providing additional information on their passengers.

Hiroshi Tanaka, deputy vice-president of Japan Airlines, said new aviation security measures should be standardised to reduce the costs borne by airlines and passengers. It was becoming "very difficult" for the industry to cut costs due to poor coordination among countries over aviation security procedures, he said.

The cost of added security measures for airlines worldwide reached about US$3 billion in 2002. IATA's Drysdale said aviation was not the target of the terrorist attacks on 9/11. "Nor was the atrocity in Bali, or in Moscow, or in Zamboanga. Terrorism, in whatever its form, is an attack against a state or a society. And security is the responsibility of states. The airlines and their passengers have paid their taxes and should not be asked to contribute beyond that to be protected from terrorism," he said.

Meanwhile, Philippine aviation officials called for airlines from across the region to work together instead of destroying each other through unnecessary competition. The chairman and 90% owner of Philippine Airlines, Dr Lucio Tan, pushed for greater co-operation. "The issues confronting our industry today are critical and pressing. Issues like security threats, declining traffic, high insurance premiums, rising fuel costs, among others, call for individual strengths to be aligned towards regional stability. We need to direct our efforts toward one goal and that is to survive. Competition must be replaced by co-operation," he urged.

The message was echoed by Philippines under-secretary for transportation, Arturo Valdez, (delivering a speech on behalf of transportation secretary Leandro Mendoza), who said co-operation within the industry is imperative to help rationalise airline capacity, make better use of aircraft resources and improve synergies from the combined marketing efforts of airlines.

Philippines under-secretary for transportation, Arturo Valdez, speaking on behalf of transportation secretary Leandro Mendoza, said co-operation within the industry was imperative

In a clear swipe at U.S. operators, Valdez said if Asian airlines are to rely only on help from their individual governments, it may not be enough to help them compete against "airlines propped up by state aid and government protection".

"If we want to nurture back to health our airline industry, we must learn to embrace the necessity of collaboration, instead of fighting each other over shrinking markets. Fortunately, the market in the Asia-Pacific region has shown undeniable signs of an early recovery," he said.

Airlines are attempting to come to terms with another controversial issue playing havoc with travel markets – the growing propensity for governments to issue travel advisories warning nationals against travel to specific countries in which they could be at risk. In general, airline executives understand the reasons, but feel some governments may be taking measures too far. Ultimately, it is an issue outside their control.

Asian airline executives are also closely considering the potential impact of a recent landmark European Court of Justice judgement that could alter the face of international aviation. According to the ruling, any European Union (EU) country that grants rights to a non-EU state to fly a particular route, must also give any EU airline rights to the route. If France, for instance, allowed a designated airline (such as Air France) to fly Paris-Tokyo, it must now permit any other EU airline, such as Lufthansa or Alitalia, to also fly the route.

Regarded by some analysts as a major step towards establishing a European aviation trading bloc, there are obvious implications for existing bilateral agreements between Asian nations and individual European countries.

An aviation law expert, London-based solicitor John Balfour, told the Assembly it is unlikely there will be any early impact because of the complex legal questions raised by the judgement. He said Asia-Pacific countries are not obliged to accept a new EU clause in legislation and that existing air service agreements would likely have to be renegotiated and redefined to take into account new rules.

However, he said a longer-term consequence could be that individual Asian nations may have to negotiate with Europe as a bloc, rather than with each country. The creation of a liberal European and U.S. aviation bloc would also put pressure on other states, such as countries in Asia, to forge their own bloc.

Yes, liberalisation is in the air again. Barry Humphreys, director of external affairs and route development at Virgin Atlantic Airways, told the Assembly he believed an EU/U.S. open skies agreement will happen "and more quickly than some are forecasting".

Such a pact will not be the end of the matter, said Humphreys, who is chairman of IATA's international aviation issues task force. "There is a good chance other liberal-minded countries such as Australia, Canada, Singapore and others, would quickly seek to join an EU/U.S. agreement. It is certainly feasible that within a relatively short period of time countries representing a substantial majority of international air travel would have agreed on real deregulation. Then at last the economic regulation of air transport would be dragged into the 21st century," he said.

For Asian carriers, now clearly winning their recovery battle – for the time being at least – it represents another potentially significant shift in the forces that rule their markets.

China Airlines president, Philip H. H. Wei: the AAPA's incoming chairman

Major Assembly resolutions

• A call on governments to pay for aviation security. While airlines are committed to taking all possible steps to improve safety and security they argue a security threat against an airline is a threat against a country and its people and governments have a direct responsibility for meeting the cost. The AAPA opposed the arming of flight crews and sky marshals and said security threats must be thwarted on the ground.

• A demand that airport and aeronautical authorities adopt fair and equitable charges according to principles of the International Civil Aviation Organisation (ICAO) and in consultation with airlines.

• A call to governments to create a competitive environment in the Computerised Reservations Systems (CRS) industry. Airlines said CRS booking fees, a substantial portion of an airline's distribution costs, have been "escalating unabatedly without any proper cost justification in more than a decade" – a direct consequence of the absence of competition.

• A demand that the European Union (EU) maintain denied boarding compensation at reasonable levels that do not adversely affect airlines' inventory and pricing policy. The AAPA argued there is an imbalance in the airline/passenger obligation favouring passengers who can simply fail to show up without penalty. Passenger no-shows leave airlines exposed to the risk of flights departing with empty seats.

• A call to the EU to avoid legislating unilaterally on airline/passenger contracts. The AAPA said unilateral legislation would create chaos in the airline industry and among the travelling public as a result of differing conditions in various parts of the world. It wants global harmonisation of airline/passenger contracts and the EU to work with ICAO and the International Air Transport Association (IATA) to achieve this.

• A proposal for a harmonised traffic collision avoidance system (TCAS) standard among regulators around the world. AAPA said it is committed to safety enhancement measures, but near-miss accidents and mid-air collisions may occur because regulatory standards are not harmonised. Standardisation of TCAS could mitigate the risk.

Delegates at the AAPA Assembly of Presidents enjoy a taste of traditional Cebu

TRAFFIC UPDATE – September 2002

Strong growth in telling month

In the first month to show a direct comparison with the aftermath of September 11, all AAPA carriers recorded better passenger load factors (PLF) and significantly improved cargo loads, it was revealed at the 46th AAPA Assembly of Presidents in Cebu.

The facts: revenue passenger kilometres (RPKs) increased 12.5%, passengers carried rose 11.3%. With seat capacity growth confined to 4.9%, the PLF rose five percentage points to 74.8%.

Freight tonne kilometres climbed 17%. Freight load factor rose 2.6 percentage points to 69.8%.

Passenger traffic on trans-Pacific routes grew by 20%. This was not surprising given the number of services that were suspended to the U.S. in September last year, said the AAPA.

Within Southeast Asia, which had modest growth in September 2001, traffic surged 14.7% in the same month this year. Traffic in Northeast Asia rose 11% while routes between Asia and Europe increased 8.7%.

Japan Airlines, Asiana Airlines and Vietnam Airlines all recorded over 20% RPK growth. Cathay Pacific Airways and Thai Airways International saw RPKs climb about 15%.

Freight growth was described by the AAPA as "spectacular". The 17% rise in September followed 19.5% in July and 18% in August.

Freight from Asia to North America grew 46% in September to 69,000 tonnes. The reason was two fold: partly because of restrictions on freight last year and because of the U.S. dock strike this year.

Freight traffic to Europe rose 28%. Inbound to Asia, growth was much more restrained. Westbound cargo on the trans-Pacific routes edged up 2.4% while European traffic to Asia climbed 8.5%.

"There is a strong divergence between the results of the carriers based in [the Asian] region and those in Europe and the U.S., which would tend to indicate that [AAPA] members are less reliant than in the past on traffic originating outside the region. Asia now has its own dynamic," said the AAPA director general, Richard Stirland.

"On the other hand, the strong freight growth not only to the U.S., but also to Europe is a reminder that the global economy and its health still remain vital to the overall results of the Asian carriers."

For the year's traffic figures to August see Business Digest (page 37).

AAPA Financial Report at a Glance

DESCRIPTION	1997/98	1998/99	1999/00	2000/01	2001/02	2001/02 Versus 2000/01	Average Annual Growth
OPERATING REVENUE	**49,641.3**	**41,774.6**	**48,149.4**	**53,260.7**	**47,781.5**	**(10.3%)**	**(1.0%)**
Passenger	37,267.0	30,817.7	35,266.0	39,469.0	35,970.5	(8.9%)	(0.9%)
Cargo	8,023.3	7,196.0	8,516.5	9,007.0	7,606.7	(15.5%)	(1.3%)
Others	4,351.0	3,760.9	4,366.9	4,784.7	4,204.2	(12.1%)	(0.9%)
OPERATING EXPENSES	**47,647.3**	**40,970.4**	**45,494.7**	**49,784.9**	**46,895.2**	**(5.8%)**	**(0.4%)**
OPERATING PROFIT	**1,993.9**	**804.3**	**2,654.7**	**3,475.7**	**886.3**	**(74.5%)**	**(18.3%)**
Other Income (Expenses)	(2,889.2)	(294.4)	(207.5)	(2,371.1)	(1,302.8)	45.1%	18.1%
NET PROFIT (LOSS) AFTER TAX	**(1,215.7)**	**317.1**	**1,816.6**	**1,220.9**	**(720.5)**	**(159.0%)**	**12.3%**

NOTE: Dragonair and Air New Zealand do not contribute to the statistical report.

FINANCIAL YEAR 2001-2002

A YEAR OF WOE

Association of Asia Pacific Airlines (AAPA) carriers made their first net loss in the 2001-2002 financial year since the 1998 Asian economic crisis, as global recession and September 11 extracted their toll on the industry.

The US$720.5 million loss for the 12 months to March 31, 2002, was 159% down on the previous year's profit of US$1.22 billion.

Operating profit slumped 74.5% to US$886.3 million, from US$3.48 billion in 2000-2001. The operational profit margin dropped 4.6 percentage points to 1.9% of operating revenue, the second worst margin in a decade.

With reduced traffic and yield, the overall load factor of 66.6% was only marginally above break-even point.

The AAPA annual report, published in November, said cost-cutting measures adopted by member airlines before and after the U.S. 9/11 attacks had allowed them to record a small operating profit.

Operating revenue of the 15 reporting AAPA carriers in the year under review fell 10.3% to US$47.8 billion. This was due to the decline in traffic (RTKs fell 4.4%) and yield (down 6.1% in US$ terms). However, the drop in yield was attributed to member airlines' home country currencies against the US$.

The annual report said if the currency effects were factored out, there would have been a 3% increase in yield. After discounting currency effects, the operating revenue dropped by 1.6%.

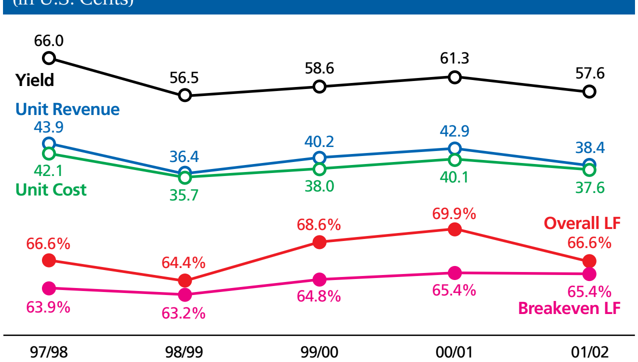
Passenger revenue fell by 8.9% in 2001-2002, while its share of total revenue rose 1.2 percentage points to 75.3%. Cargo revenue (with a revenue share of 15.9%) dropped 15.5%. Other revenue sources contributing 8.8% of total revenue, declined 12.1%.

Operating expenses were down 5.8% in US$ terms, according to the annual report, but rose 3.4% when local currency fluctuations were taken into account. Contributory factors to the increase were more expensive insurance premiums, higher maintenance and overhaul costs and increased general and administrative expenses.

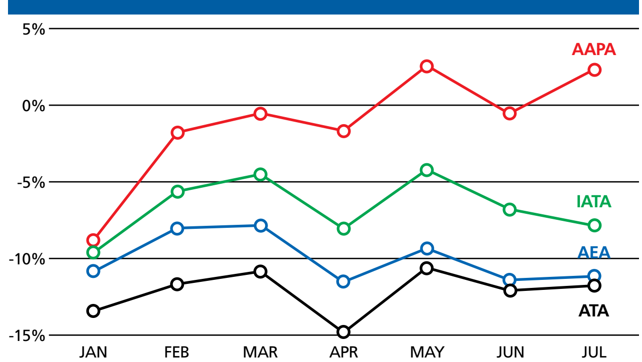
Direct and indirect operating expenses dropped in US$ terms by 3.8% and 8.1% respectively. Using the same currency rates as the previous fiscal year, direct and indirect expenses increased by 5.7% and 0.7% respectively.

AAPA member airlines trimmed personnel costs during the year, but without reducing the aggregate head count. Indeed, the employee numbers increased slightly over the previous year to 183,500. Expenditure on personnel, however, was cut by 9.5% in US$ terms (or -1.3% in constant US$ terms).■

AAPA yield, unit revenue, unit cost and load factor
(in U.S. Cents)



RPK growth 2002 international operation



Stirland slams U.S. 'threats'

U.S. aviation policies came in for stinging criticism in Cebu from the director general of the Association of Asia-Pacific Airlines (AAPA), Richard Stirland.

He spoke of the "threats on the horizon, or even overhead right now" that face Asia's aviation industry. "First, the United States, in many of its manifestations, is a threat," he told the Assembly of Presidents during a presentation which outlined the developments in the Asian aviation industry since September 11 and mapped its future.

He listed U.S. threats to the industry as "bogus open skies agreements, its protectionism, its outright subsidies to its airlines, its bankruptcy arrangements, its arbitrary and unilateral rule-making and its pilots unions".

"Open skies agreements with the U.S. continue to be extremely one-sided bargains, with a host of inequalities embedded in them, not least the inability of foreign carriers to establish any sort of meaningful hub in the U.S. and, as part and parcel of this, to operate any sort of cabotage service," said Stirland.

"Subsidies. We all know about the US$5 billion and the US$10 billion in loan guarantees, but there are other areas where assistance is being sought and given, not least in insurance costs, while carriers elsewhere in the world, including Asia, are obliged to return to the commercial market for the totality of their cover.

"Chapter 11. The threat here is that major competitors of Asian carriers, based in the United States, will be able to discard their liabilities like a worn out shirt and emerge with a much lower cost base to compete purely on price with our member airlines.

"Regulations. Since September 11 we have had a torrent of unilateral and perhaps unnecessary regulations governing many different aspects of our operations on the ground and in the air.

"Deadlines and penalties have been established without consultation by the U.S. for all carriers, domestic and foreign. The cost imposed falls on the airlines concerned.

"Unions. Unions in the U.S., such as ALPA (Airline Pilots Association) are part and parcel of the protectionist approach to aviation. Not content to severely limit the foreign ownership of U.S. carriers, ALPA has set out to export its bargaining tactics, its demands, its restrictions and hence its crew costs to foreign carriers,

AAPA director general, Richard Stirland: open skies agreements with U.S. one-sided

including some in this region. Fortunately, so far they have not succeeded. Asia is not Atlanta, Dallas or Chicago.

"Let me turn to other costs. Overflight and airport charges are totally beyond the control of the airlines and out of control.

"The airlines are a captive and compliant target and charges bear little relationship to cost of provision or value provided, with a few exceptions. One member airline has seen its overall unit costs drop by 20% in the last 10 years. Its unit overflight charges, meanwhile, have increased 35%, and this at a time when on-board navigational aids have rendered many ATC services irrelevant if not counter-productive.

"Fuel. No need to state the obvious. Airlines are totally reliant on a small segment of the barrel. Believe it or not, their requirements don't figure largely in the calculations of producers, refiners or marketers. Availability as well as price is always a threat."

Opportunities in Asia

'China has only just begun to be tapped as a source of traffic and a tourist destination'

But Europe was not entirely spared by the director general.

"The Environment. Largely ignored in Asia, environmental pressures in Europe principally, could add millions to airline costs, either in direct charges, levies and taxes, or indirectly in the form of engine modifications or more likely, operating procedures and payload restriction.

"No environmentalist in Europe ever paid for his lunch," said Stirland.

"Under the heading of Political [threats] I have grouped the obvious issues of war and terrorism and there is little point in expanding on those."

He also spoke of "the threat of the so-called Asian minnows threatened by mega carriers in the U.S. and Europe, either in terms of negotiating strength for traffic rights or marketing muscle".

"I think this is an illusory threat, simply because the financial and socio-economic factors favour Asia and secondly because if consolidation is going to take place, it will be, as in all other major industries, ultimately on a global, rather than a regional basis and future competition will be between trans-global competitors, with nationality a secondary consideration," said Stirland.

And opportunities in Asia?

"China has only just begun to be tapped as a source of traffic and a tourist destination," added the director general.

"Freight by air still has a long way to develop. The recent port dispute on the U.S. West Coast revealed to many the advantages and favourable result of the cost benefit equation of air freight.

"Low cost operations: all I will say is that this is an opportunity, not a threat for Asian carriers.

"Takeovers and mergers. If ever the rules on ownership and control are relaxed, it is the Asian carriers who are best positioned to be the predators, the initiators of new airlines, the key partners in mergers and consolidation. They have the traffic base, the track record, the access to capital and the initiative and vision to make it happen.

"All that stands in their way is an increasingly anachronistic, ossified system which makes the U.S. steel industry look like an entity exploring the outer frontiers of nano-technology by comparison."■

Could Qantas switch alliance camps now AirNZ deal is done?

By Tom Ballantyne

After months of complex negotiation Qantas Airways and Air New Zealand finally announced their long awaited alliance November 25, a deal that will see the Australian flag carrier take a 22.5% stake in its long-time Auckland rival for around US$250 million.

The agreement has yet to pass its biggest hurdle; winning approval from competition authorities on both sides of the Tasman.

Australia's second domestic carrier, Virgin Blue, quickly announced it would lodge objections to the alliance, which could seriously impact its ability to properly compete in the Australasian market.

The new partnership also raises serious questions about the two carriers' alliance status. Qantas is a leading member of oneworld and Air NZ is in the Star Alliance. A Star source has not ruled out a switch by Qantas.

Under their agreement, the two airlines will code-share on all New Zealand domestic and trans-Tasman flights and on flights between New Zealand and the Americas.

Air NZ will also code-share on Qantas Australian domestic flights and Qantas international flights that connect with Air New Zealand flights.

A Star Alliance statement issued shortly after the announcement by the two carriers, said its members recognised the business decision of Air NZ. "Throughout the process Air New Zealand has kept the members well informed about the rationale behind its considerations and the possibility of this outcome," said a spokesman.

"Air New Zealand and the other members [of the Star Alliance] are currently investigating all opportunities arising from this announcement."

Under the arrangement Air NZ will have one director on the Qantas board, while Qantas will have two directors on the Air NZ board.

The Australian airline chairman, Margaret Jackson, said the Qantas board believed the strategic benefits to both airlines would ensure they played major roles in growing the economies of both countries.

Air NZ chairman, John Palmer, said the deal secured long-term opportunities for both airlines. "The establishment of a major airline grouping in the region provides both parties with a sound base from which to strengthen their global presence in overseas markets, develop new routes and improve scheduling and frequency of services. The strategic alliance is a bold response to the challenges both airlines face. The agreement emerged from a commonly held view of the future which sustained the lengthy discussions between the two parties initiated some 12 months ago."

Qantas Airways: is to take 22.5% equity in Air New Zealand after 12 months of negotiations

He said Air NZ had considered two strategies: joining with another airline and competing against Qantas, or working with Qantas. "The Qantas alliance offered the best outcome, both from the company perspective and from the national interest."

Qantas chief executive, Geoff Dixon, said the partnership would assist both airlines to retain their independence in an industry facing considerable and continuing difficulties. It was anticipated the alliance would deliver combined synergies of up to US$225 million by the third year of the agreement, enabling Qantas and Air NZ to make better use of their resources and capabilities.

International Air Transport Association (IATA) airlines collectively lost over US$12 billion in 2001 and are forecast to lose a further US$5 billion in 2002, said Dixon. "In this environment, airlines are increasingly entering alliances and equity partnerships to secure their long term survival.

"Qantas and Air New Zealand together make up less then 4% of the world aviation market and neither airline can ignore the forces of globalisation and consolidation that characterise this complex and demanding industry," Dixon said.

Senior Star Alliance sources believe there is a possibility oneworld alliance carrier Qantas could be lured into the Star camp now it has clinched the equity deal in AirNZ.

"It should not be taken for granted that Air NZ will automatically leave Star and join oneworld," a senior official close to Star told *Orient Aviation* at the Star Chief Executive Board meeting in Rio de Janeiro in November.

He suggested several factors could heavily influence the alliance course Qantas ultimately takes:

- A critical joint services agreement between Qantas and its oneworld partner, British Airways (BA), is due for renewal early next year. If regulatory authorities refuse to sanction it one of the primary reasons for Qantas's membership in oneworld would be removed.
- A decision by BA to sell its 25% stake in Qantas, possibly to Singapore Airlines (SIA), although BA chief executive, Rod Eddington, has denied the airline plans to sell its Qantas stake.
- A continuing failure by BA and U.S. alliance partner, American Airlines, to win anti-trust protection from U.S. authorities, a situation that prevents oneworld from taking full advantage of alliance opportunities. ■

ORIENT AVIATION PERSONALITY OF THE YEAR

KANEKO: MAN OF DECISION

Words: BARRY GRINDROD
Pictures: KURITA KAKU

There was a time Japan Airlines' (JAL) president, Isao Kaneko, used to enjoy coaching the JAL women's basketball team, the JAL Rabbits. But no more; today a much bigger game-plan is occupying his time.

Normally a voracious reader of books, now in-house reports tend to replace the biographies and historical works of which Kaneko is so fond.

Even the form guide for his beloved horse racing is yesterday's news. Today, Kaneko's time is spent studying performances of a very different nature – the integration of the JAL and Japan Air System (JAS) airline companies into what will become the Japan Airlines Group in 2004.

"Of course, I would like more time to relax," said the 64-year-old president. "The pressure is great, but I have to establish the new company and make it succeed."

The early signs are that Kaneko will achieve his goal. In sporting parlance he is a "winner", a rare breed in Japan's current turbulent economic times. And in a nation noted for its consensus culture, Kaneko is not afraid to stick his neck out and make quick, at times, unpopular decisions.

His no-nonsense approach has not been confined to JAL. As a former chairman of the Scheduled Airlines Association of Japan (SAAJ) he has spearheaded

the many calls for the reduction of landing charges and user fees at the country's airports. He lobbied, too, for a fourth runway at Haneda Airport which has now been approved and should open in 2009.

As the chairman of the board of governors of the International Air Transport Association (IATA) Kaneko is playing an active part in major issues confronting the airline industry such as security, third party war-risk insurance and airport charges.

A 42-year veteran at JAL, Kaneko had hardly settled into the boss's chair in June, 1998, when he announced he would be slashing the number of board members by half from 30 to 15 to accelerate decision-making and cut their term of office from two years to one.

His first priority, he said, was to restore dividends to shareholders who had not been paid for the previous six years. He achieved this in his first three years by turning around the company's financial performance, only to be denied in the fourth by the events of September 11. JAL lost 36 billion yen (US$295 million), but that was less than had been forecast. He is optimistic that dividends will be paid again in 2002.

Kaneko also managed to turn adversity to his advantage in the early days of his tenure. Police revealed racketeers had been supplying pot plants to JAL offices, a business relationship in contravention of the commercial code. Although the contract had ended Kaneko set up an in-house audit to establish that all business links with the dubious suppliers had ended and introduced strict new business rules. One board member responsible for the contract resigned and other staff were re-assigned.

In February 1999, the Ministry of Transport revealed that JAL's maintenance division had failed to notify the Japan Civil Aviation Bureau within the required period of irregularities relating to emergency slides on DC-10 aircraft. There was no threat to safety as the fault had been already found and rectified.

However, a board member who was also a top maintenance department executive was immediately demoted and subsequently resigned. Kaneko and other board members took salary cuts for three months.

"These two negative events made us enhance our transparency," he said. "In this area we have very much improved." Indeed, to demonstrate the new air of accountability and transparency, JAL's safety record is published monthly on its website. It shows any flight irregularities and the factors that caused them.

But whatever Kaneko's achievements in the last four years, and they have been considerable, his legacy will be the merger with JAS which he and JAS president, Hiromi Funabiki, hatched between them last year.

"For a long time, JAS and JAL talked about cooperation in a number of fields including IT and automatic self check-in equipment. I met with Hiromi Funabiki many times," said Kaneko. "From spring 2001 we talked about ground handling cooperation and some time in the summer we came to the conclusion that integration, rather than cooperation, was the way to go.

"Then September 11 happened and the impact of the tragedy vindicated our earlier decision."

Events have moved remarkably quickly since that time. On October 1, Japan Airline System Corporation, the new holding company of the combined airlines, began trading on the Japan Stock Exchange.

JAL has always been strong in the international market. Seventy per cent of its revenue comes from overseas routes. Domestically, All Nippon Airways (ANA) has ruled the roost with 49% passenger share of the lucrative market. JAL and JAS has lagged behind with 25% and 23% respectively.

"But the international market is unstable," said the JAL president. "On the

AWARD CITATION

The *Orient Aviation* Personality of the Year Award to Japan Airlines president, Isao Kaneko, reflects four years of strong leadership in which the airline company has restored shareholder confidence after six barren years. This has culminated in the merger of Japan Airlines and Japan Air System with Kaneko the lead player in a move designed to make the airlines more competitive, particularly in the domestic market.

The speed and efficiency of the transition to date – the merger will be complete by April 2004 – has been swift and trouble free.

The airline was already restructuring when he became president in 1998, but it was still losing money and the new president inherited a formidable task. Kaneko instilled discipline and purpose into its ranks. He demanded speedy decision-making by reducing the size of top management and introduced his own blueprint for success. This included focussing on the core business of the airline.

JAL made a profit in Kaneko's first three years. Last year the company fell victim to the events of September 11. But the president is predicting a strong 2002 with dividends back on the agenda.

Orient Aviation, and many people whose views we sought, believes Isao Kaneko has contributed greatly to the success of Japan Airlines, particularly in view of Japan's weak economy, and is a worthy winner of our award. ■

The livery of the new Japan Airlines Group fleet

BIOGRAPHY

Isao Kaneko joined Japan Airlines in April 1960. After experience in the international cargo department, he joined the airline's industrial relations department where he has spent most of his career.

In 1968, he was posted to JAL's American Region headquarters in New York where he worked in administration with involvement in local labour issues.

Career highlights:

1980: deputy vice-president industrial relations.

1985: vice-president industrial relations.

1991: elected to the JAL board of directors

1995: managing director and senior vice-president human resources

1997: senior managing director and senior vice-president human resources

1998: appointed JAL president on June 26

He is married with one daughter and one grandson.

other hand, the domestic market is much more stable so with integration we can increase our stability by increasing the share of domestic revenue from 33% to about 47%."

Deregulation of the domestic market in February 2000 in terms of fare setting, routes and frequencies did not help JAL a great deal. At Haneda, which is used by 60% of the domestic market of 90 million passengers, slots were limited and meant that JAL and JAS could not compete with ANA, said Kaneko.

The JAL president said the toughest part of the consolidation to date was to win the approval of the Fair Trade Commission (FTC).

"It took the view a reduction in the number of airlines was bad for competition," said Kaneko. "So JAL handed back nine round-trip slots at Haneda for new entrants such as Skymark Airways which is trying to increase the number of its flights. Also, we promised to reduce basic fares by 10%."

The new company estimates maximum overall savings of between 48 and 53 billion yen by financial year 2005, said Kaneko.

There will be a saving of about 31 billion yen on rents and property leases, especially through sales branch consolidation and joint use of airport facilities. The reduction of 3,000 jobs, all by natural attrition, will save about 24 billion yen. Reduced investment in new aircraft and lower aircraft and maintenance costs will save 12 billion yen.

However, there will be investment costs, particularly in IT systems, of about 20 billion yen.

Kaneko said the transition was going smoothly. By 2004, three new carriers will have been created, Japan Airlines International, Japan Airlines Domestic and Japan Airlines Cargo.

"So far we have established joint sales companies for all JAL and JAS products and we are integrating wholesaling of international and domestic tours," he said.

The holding company is currently evaluating the fleet needs of the new JAL Group. Before the merger JAL was rationalising its fleet from seven to five aircraft models, by retiring the DC-10s and MD-11s, said Kaneko. The mainstays were to have been the B747-400, other classic B747s, the 777 series, the 767 series and B737-400. Now, said Kaneko, JAS's A300s and MD-90s and MD-80s have to be considered.

Orient Aviation chief executive and editor-in-chief, Barry Grindrod, presents JAL president, Isao Kaneko, with the magazine's Personality of the Year award.

"Contrary to some commentators' remarks, we have by tradition always been a two-supplier company. It is because of the Boeing-McDonnell Douglas merger that we are a 'Boeing only' customer," said Kaneko.

"We are now studying the types of aircraft we will need in the future. We are interested in all new models and types.

"We are studying the A380, but I think it is very difficult to think of that aircraft effectively in terms of domestic operation, because of the problem of turn-around time restriction. We already use B747-400 aircraft with 568 seats and B777-300s with 470 seats, which is plenty of capacity for us.

"We are also using regional jets, Bombardier CRJs, in our regional airline, J-Air, based in Hiroshima West [four in service and two on order]. And we will buy more as we need them."

Kaneko said JAL's subsidiary carriers would continue under the merger. The business model of Japan Express (JEX) with its lower salaries was important to JAL, he said.

The carrier has seven B737-400s and may add more in the future, but it is hampered by a short supply of cockpit crew that restricts expansion. "We hire some JEX pilots on contracts and from several other sources," said Kaneko.

The president reported passenger traffic was good on all routes with the exception of the trans-Pacific which has only recovered to 80% of the pre-September 11 level. This is significant because JAL relies on the trans-Pacific for 31% of its international revenue. Kaneko said he was expecting a complete recovery in 2003, a year when he expected the Japanese economy to rebound.

The China services were particularly good, said Kaneko. Cargo traffic also was doing well and compensating on the trans-Pacific routes for the loss in passengers. Business travel, too, had mostly recovered. ■

'BIG CUT' POSSIBLE IN NARITA FEES

Japan Airlines (JAL) president, Isao Kaneko, expects to see a lowering in user charges at Narita Airport "maybe within the next two years". "We expect a big reduction, perhaps in the area of 30-50%. That's what we hope," he said. The Narita Airport Authority thinks differently, however (see page 29).

A possible breakthrough in the long-running Japan airport charges saga follows a modification in the original plan to jointly privatise Narita, Kansai and the as yet un-built Chubu Airport. It was felt that funds from Narita would be used to subsidise the other airports, thus keeping its charges high.

Following widespread criticism at home and abroad the Japanese Government has had a change of heart and Narita will now be privatised separately. ■

'We [JAL and JAS] came to the conclusion that integration, rather than cooperation, was the way to go'

Narita rules out early cuts in user charges

NAA says no hope of reduction during privatisation process which could take five years

By Daniel Baron in Tokyo

Faced with a barrage of protests both at home and abroad, Japan's Ministry of Land, Infrastructure and Transport (MLIT) has scrapped its plan to lump Narita, Kansai and Chubu airports together in a privatisation package that would have seen both the Osaka and yet-unbuilt Nagoya area facilities heavily subsidised with revenue from Narita Airport. The result, argued the airline industry, would be an infinite continuation of, or even a rise in, the sky-high user charges at Narita.

Masahiko Kurono, head of the Narita Airport Authority (NAA), acknowledged at a meeting of the MLIT's Council for Transport Policy that bumping up fees at Narita Airport would be impossible in the current environment.

The MLIT will now handle each airport separately, beginning with Narita in fiscal 2004. Japan's business daily, *Nihon Keizai Shimbun*, reported that the airport's management firm would first be transformed into a "special government-affiliated stock firm", then eventually privatised.

But the MLIT also announced plans to pay off Kansai's debts with public funds, to the tune of 13 billion yen (US$108 million) annually for the next 30 years. To nobody's surprise, the government will use proceeds from the initial public offering of Narita's new airport entity.

As for the issue of fees, the NAA now says it is "not in a position to reduce landing charges" because of the privatisation process, which may take up to five years. It also cites a steady increase in costs over the past 18 years. "The costs of constructing and operating an airport in the Tokyo metropolitan area are inevitably high because of extremely high population density and limited space," said an NAA spokesman.

The airline industry, however, is not buying the argument. Anthony Concil, assistant director of corporate communications for the International Air Transport Association (IATA), said " there are not many businesses that can say their costs are more than they were 18 years ago. Most business models evolve to reduce costs over time".

On this point, NAA has implied the industry should be grateful that fees have not gone even higher than the present 2,400 yen per tonne. "The ability to maintain the same level of charges without an increase for so many years is the result of NAA's constant efforts to manage the airport efficiently in every respect," the NAA spokesman said.

He neglected to mention that Tokyo's Haneda Airport, with its inner city, waterfront location and severe space constraints, provides greater capacity than Narita, charges 25% less and turns a profit.

NAA's stance reflects the classic case of a service provider recognising that demand – particularly high-yield demand – is inelastic enough to maintain high prices. Given Tokyo's status as Japan's primary centre for commerce and government and the greater metropolitan area's population of 30 million, the airport's users are unlikely to pack up and move. This is particularly true of its four largest operators, Japan Airlines, All Nippon Airways, United Airlines and Northwest Airlines, all of which depend on Narita for their hub and spoke operations.

NAA acknowledged that it enjoyed the advantage of high demand for its facility, citing rises in aircraft movements of 32% in June, 34% July and 37% in August over the same months in the previous year. The sharp increases came as a result of the opening of its second runway in April.

"In spite of IATA's claims concerning landing charges, the airlines themselves are interested in expanding capacity at Narita at the current level of charges even under the prevailing difficult circumstances," said the spokesman.

At what cost level will competing airports become attractive enough to counter the lure of Tokyo? Cheaper rates at Incheon have seen more new China traffic head to Seoul than to Narita. Further, the recently forged bilateral agreement between the United States and Hong Kong gives U.S. carriers greater access to a less expensive facility.

Neither the MLIT nor NAA would say what, if anything, would prompt a policy shift. The pressure to relent, however, was raised a notch as *Orient Aviation* went to press in November, when the U.S. Government included high airport user charges in its structural reform dialogue with Japan. It marked the first time that such fees were raised as a trade issue. On this, IATA's Concil said that his organisation was "pleased to see the U.S. Government show leadership on the matter".

NAA maintained the position that a fee reduction prior to privatisation was impossible, and remained non-committal about the future. "The airport is not in a position to commit itself to the charges applicable after privatisation because of a number of uncertainties," the NAA official said. ■

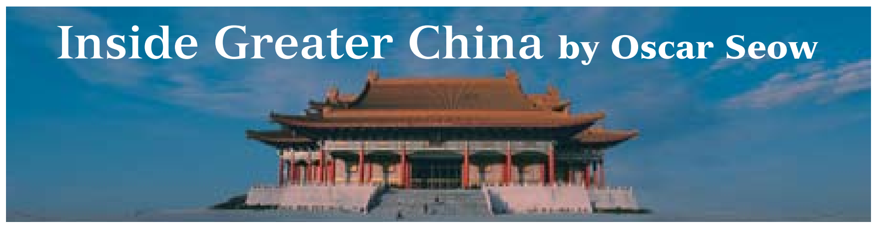
Haneda runway delay

Battles both inside and outside Japan's Ministry of Land, Infrastructure and Transport (MLIT) means the method of construction for the planned fourth runway at Tokyo's Haneda Airport will not now be announced by the end of the year. Disagreements have prevented the airport's planning committee from reaching a consensus.

The MLIT is considering three types of construction: a pier; pier and landfill; or a mega-float. A delay in construction will translate into tougher times for Japan's smaller carriers, which are already constrained by capacity limitations at the airport. One of them, Skymark Airlines, is not waiting for the new runway.

In an agreement reached in October with All Nippon Airways (ANA), Skymark will take over two daily return slots from ANA for flights from Haneda to Aomori and Tokushima beginning next April. The deal will allow ANA to focus on higher-yield segments, while giving Skymark an opportunity to expand its current two-route operation serving Fukuoka and Kagoshima. ■

Charter flight plan raises cross-strait hopes



In November, at the Chinese Communist Party's 16th Party Congress in Beijing, Hu Jintao was confirmed as China's next president to succeed Jiang Zemin.

But there was an even more interesting story out of the Party Congress, one with direct consequences for Greater China's aviation and tourism industries: the emergence of direct cross-strait links as a centerpiece of the political agenda for China's next generation of leaders.

The agenda on direct links was set before the meetings even began. On state television a few nights before the opening of the congress, several former Taiwanese residents – now Party members living in the mainland – were wheeled out to give teary-eyed pleas for cross-strait travel to be re-opened, so they could visit the island of their childhood. Later, President Jiang used his opening address to the congress to highlight that the "three links" – direct cross-strait transport, trade and telecommunications – served the common interests of Taiwan and the Mainland.

He added: "There is every reason to take practical and positive steps to promote such direct links and open up new prospects for cross-strait economic cooperation."

Over the ensuing days, talk that a deal on direct links was forthcoming heated up, with feints and parries from both sides of the strait as the idea took shape. Taiwanese legislator John Chang, a Kuomintang (KMT)-affiliated opposition politician, raised the idea of allowing the island's carriers to operate charter services to the mainland in the run-up to Chinese New Year (January 31-February 3) to help Taiwanese living on the mainland journey home for the festival.

The Taipei Government agreed reluctantly, but stipulated only Taiwanese carriers should be allowed to make the journey and then through a "third country", with all the political baggage that implied.

Beijing first warmed to this idea, but then cooled off somewhat when it was made clear that Mainland carriers would not be extended reciprocal rights to land in Taipei.

The Taiwanese military quietly let known its position that Sungshan airport – Taipei's domestic hub – would not be suitable for cross-strait flights, on the grounds that it would prove a security risk.

Rather, it said, such flights should go through Chiang Kai-shek International Airport. Neither side seems as yet willing to concede much on the issues of sovereignty and reunification.

Still, as we went to press, even those airlines traditionally linked to the Democratic Progressive Party (DPP), a pro-independence movement that rules Taiwan through President Chen Shui-bian, have begun to support the KMT proposal. All six major airlines joined Mr Chang on a lobbying mission to Beijing in late November. The situation remains highly fluid, with the outcome on Chinese New Year charter flights still remotely possible, depending on how the politics swing.

Forgetting the excitable public and media for a moment, nobody should take for granted that the resumption of direct links between Beijing and Taipei will be resumed, after a 50 year lapse, on such short notice.

After all, it has been a dozen years since the optimism of the 1991 round of Asia Pacific Economic Cooperation (APEC) meetings in Seoul – when Hong Kong, Taiwan and the mainland overcame political differences and officially joined the fraternity – first triggered expectations for an imminent resumption of direct links.

Yet it was not until July 1997 that China Airlines and the Civil Aviation Administration of China (CAAC) managed to sign a service accord on passenger ticketing and transfers at Hong Kong and Macau that allowed Taiwanese travellers to more easily fly into the Mainland.

Far from the talk of militarily-achieved reunification, China, to bring Taiwan back into the fold, has tried to make the issue of direct links more politically palatable to Taipei, with a seemingly new willingness to concede, at least for now, that it is a commercial and humanitarian, rather than a political matter. There should be little doubt that, at the end of the day, reunification is still the most important issue for Beijing in its dealings with Taiwan. But Beijing seems to realise it must proceed slowly if it wants reunification to happen.

Certainly, there is plenty of ground to begin cross-strait talks, given their increasingly close economic links. Since the late 1980s, when Taiwan first re-opened cross-strait civil exchanges, the island has invested more than US$70 billion in the mainland, opening factories and other businesses.

Strangely though, the most ardent opposition to direct air services comes from Taiwan, rather than Beijing. Despite the economic realities, the DPP continues to be wary of expanding mainland ties, even economic ones. The resumption of direct links will depend on whether or not the Mainland and Taiwan can agree to start discussions solely at a working level, irrespective of reunification and sovereignty. It's anyone's guess when that will happen.

Lost in all the present talk has been the issue of when Mainland residents will be allowed to freely travel to Taiwan. This is likely to be approved before direct air services across the Strait. And, make no mistake, politics aside, Taiwan's tourism industry is salivating at that prospect. Tourism, especially visits from Mainland compatriots, is seen as the medicine to overcome the hollowing out of Taiwan's economy. While an estimated 4.6 million Taiwanese visited the Mainland last year, little more than 1,000 of its citizens have visited Taipei.

With China's 1.2 billion plus population and growing consumer wealth, you can bet a desire by Mainlanders to see "Ilha Formosa", or the beautiful island of Taiwan as the Portuguese explorers called it, will emerge as the biggest driver for direct links. ■

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Stability a key to PAL revival

By Tom Ballantyne in Cebu

Philippine Airlines may still be officially in receivership, tied to a complex rehabilitation plan launched four years ago, but its recovery path is no longer under threat, according to senior vice-president and chief financial officer Andrew L. Huang. "PAL is on course for growth and a stable, profitable year," he disclosed at a November briefing in Cebu.

Despite global economic gloom, shaky airline markets, terrorism and war clouds hovering over Iraq, the airline is maintaining projections of net income in the current year of around US$20 million.

Debt has also been substantially reduced, from a crippling $2.4 billion at the height of its troubles, to $1.8 billion. The airline has been paying an average of $230 million annually on loans.

It is a remarkable achievement considering PAL's neurotic 1990s. Staff morale hit rock bottom as the carrier suffered years of bureaucratic interference, bad management and corruption. A string of government-appointed presidents failed to revive its flagging fortunes.

Worse, shortly after new majority owner, tobacco and beer tycoon Lucio Tan, took the reins in 1996 and announced a $3.2 billion re-fleeting exercise, the Asian financial crisis arrived. "Quite frankly, we ran out of cash and had to restructure," explained Huang.

PAL finally closed down completely for 10 days in 1998 following a pilots' strike that cost it US$1.5 million a day. Despite such trauma, Huang is convinced the experience forced "the opportunity to do a lot of soul searching".

Ultimately that laid the foundations for recovery as the airline got back to basics.

"From a fleet of 53 planes we are down to 29 today,'' Huang said. "We were flying to 40 cities domestically and now we are flying to less than 18. From 30 international destinations we are now flying to 20. We are no longer in the business of flying somewhere just to wave the Philippine flag.

"Staff numbers are down from 14,000 to 7,200. Yet from an average

PAL senior vice-president and chief financial officer Andrew L. Huang: "We are no longer in the business of flying somewhere just to wave the Philippine flag"

of maybe a billion dollars in revenue, we are only down to $820 million or $840 million. While we have significantly restructured and down-sized the organisation, we have not lost the kind of income you would think we would lose. Our numbers have stood up."

PAL's main thrust is in controlling the bottom line. "You go back to fundamentals, which is contribution margin and operating margin, making sure routes you fly and the number of times you fly are disciplined.

"We have basically said cash is king. The routes have to do well or they will be cut," said Huang.

None of this means PAL has a "slash and burn" policy, nor is expansion and growth frozen.

The airline is looking at additional capacity and Huang believes three new jets will be required; a long-haul aircraft, a fairly large medium-haul regional jet and a single-aisle aircraft for domestic and short-haul regional. PAL currently operates four B747-400s, four Airbus A340-300s, eight A330-300s, three A320-200s, seven B737-300s and three B737-400s.

PAL wants to reduce the number of types. "We operate five different types of aircraft and we only have a fleet of 29. That's not acceptable," said Huang. Capacity did not only mean bringing in new aircraft.

"We have done some things on the capacity front without spending a lot of money over the last two years. We reconfigured all our A330s from 278 seats to 302 seats. That's 24 extra seats on each of eight planes so it's almost like adding another plane."

A long-haul addition to the fleet would probably be earmarked for the U.S. market, where Huang said PAL is "leaving money on the table".

With load factors of 90% to the U.S. it often has to turn away customers. "People fly with us because we have a fairly good product and we save four to six hours vis-a-vis the competition because U.S. airlines mainly operate to Manila via Tokyo.

"Out of Manila we are the fastest trans-Pacific airline and the business traveller likes that.

"We are not a Cathay Pacific or a Singapore Airlines, but it's a good service and it gets you there the fastest. That's a valuable thing."

Huang also sees cargo, presently 10% to 13% of revenue, as a significant growth area. PAL wants to increase this by as much as 40%, although this will take several years. "We are missing out on cargo. Some routes are bursting at the seams. We believe we can build it significantly if we do a lot of internal restructuring on how we view cargo," he said.

He is optimistic any impact from a war with Iraq will be muted.

"We are shielded from the impact of war because PAL's core business is the huge numbers of overseas Filipino workers and visiting friends and relatives from abroad. We have a steady cash flow and more than sufficient cash on hand as our nest to prepare us for the bad times."

There is another critical element in Huang's confidence about PAL's future. The days of "revolving door" management are gone.

"There's been a lot of stability in management, which has not been changed since 1999. I have to credit our president, Avelino Zapanta, with the work he has done. This includes a programme in which he personally handles what are essentially town hall-style meetings with staff.

"Prior to rehabilitation nobody knew what was going on. Now, it is there for everyone to see. It's all about talking to people and making sure you understand them and they understand you," said Huang. ■

MILESTONES

Boeing: 30 years

Boeing senior vice-president sales, Larry Dickenson: sees only positives for the future in China

By Barry Grindrod and Melody Su, in Beijing

Compared to the old state-run airline industry with its one national carrier, CAAC, aviation in China today is another world. The recent green light from the State Council for the consolidation of its top carriers, formerly under the Civil Aviation Administration of China (CAAC) umbrella, into three groupings, is designed to make the industry more efficient and transparent after the helter-skelter growth of the 1990s.

Boeing Commercial Airplane Company's senior vice-president sales, Larry Dickenson, first visited China 10 years ago at a time when the country's aviation industry was mushrooming fast, in fact too fast for its own good by the mid-1990s. China did not have the infrastructure to cope with its expanding airline fleets and the country's premier, Jiang Zemin, asked Boeing for help.

On a 1993 visit to Seattle, premier Jiang told Boeing executives the country and its airline industry were growing at a pace. "He said he needed Boeing's assistance to create the infrastructure that would allow China to take more aircraft, a

Rolls-Royce: from Mao to a new

By Charles Anderson

Rolls-Royce is looking forward to its next 40 years in China with the kind of grand plans that would have astonished executives overseeing the 1962 sale of its first Dart engines to the country.

Commercial aviation was still in its infancy back then. It was slow going as the company trod carefully through the political upheavals and commercial uncertainties that were the norm in Mao Zedong's republic. It took another eight years before the Dart, powering a fleet of Vickers Viscounts, was followed by the Spey 512, on board the Trident, and a further 17 years before the RB211 took a bow with the Boeing 757.

Now Rolls-Royce has 115 engines in operation with eight major airlines in Mainland China; a joint venture, Xian Aero Components (XRA), mainly making turbine blades that has an annual US$6.9 million turnover; component manufacturing agreements with the Aviation Industry of China (AVIC) that help supply the company's global operations and a training scheme run jointly with the Civil Aviation Administration of China (CAAC) that has just been extended for another five years.

Rod Williams, Rolls-Royce's president China, puts collaborative programmes and strategic development at the top of his list of priorities when he talks about the company's next 40 years in China. Straight engine sales appear secondary.

"China, because of its size, has a civil aviation market which is big enough to support and sustain a domestic industry. The work we have done over a number of years through either a joint venture in terms of manufacturing or through joint research and technology programmes is certainly something we want to develop," he said.

"Ultimately, we would like to see that lead to a situation in which China could become a serious partner with us in maybe a new engine development programme. We certainly are keen to look at ways we could develop that kind of strategic development – to have the Chinese industry as a partner with us in the long-term future.

"One of our advantages is that, having been here for 40 years already, we can see how important a long-term commitment is to this kind of market. I hope the Chinese can see we are an organisation that is not going to go away."

Such talk is light years from the situa-

In early December, a party of top Boeing executives and VIPs will travel to Beijing to commemorate 30 continuous years of trade and cooperation in China. This year marks an even longer association, 40 years, between engine manufacturer, Rolls-Royce, and China.

Orient Aviation spoke to executives of both companies about the keys to their success in China; businesses which started in an infant Chinese aviation market and are now set to grow exponentially in the industry's fastest growing market.

U.S. President Richard Nixon meets Zhou En-Lai in Beijing in 1972

on, still working together

process that would, in turn, contribute to the economic growth of the country," said Dickenson.

Since then Boeing has invested about US$300 million in the country on programmes aimed at improving safety, increasing capacity and training management. In the eight years to 2001, Boeing instructed over 15,000 Chinese aviation professionals, half of whom were pilots, maintenance and flight operations people. In 1993, a China-Boeing task force was formed to overhaul its air traffic management (ATM) system and train air traffic controllers.

"Our commitment is just as strong today as it was 30 years ago," said Dickenson. "Our president [of the Boeing Commercial Airplane Company] Alan Mulally is very committed to China."

There is an old Chinese saying, according to Dickenson, which says: "When you drink from the well, never forget who helped you dig the well. We have certainly dug the well for commercial transportation in China," he said.

One of the cornerstones of the relationship between Boeing and China is it has always been based on the fact that the U.S. company wanted to be a long-term partner, said Dickenson.

"Elements change over time, whether it is commercial manufacturing companies that make parts for our airplanes, working with the airlines or cooperating with the CAAC on aspects of training. The common thread is Boeing's long-term commitment to the Chinese aviation industry," he said.

When China ordered 10 B707s in 1972, following the groundbreaking visit of U.S. President Richard Nixon to Beijing earlier in the year, China had one state airline, the CAAC.

But in the late 1980s China divided its state airline into quasi-independent carriers headed by Air China, China Southern Airlines and China Eastern Airlines. It also allowed provincial governments to start their own carriers.

During the 1990s, China's aviation industry skyrocketed. And as the number of airlines grew to almost 40, infrastructure and safety was left wanting.

As a result, the CAAC has been working in recent years towards winning approval for consolidation of its carriers to improve management and fiscal efficiency. The recent go-ahead from Beijing to start the process means the nine airlines will officially become three independent groupings eventually, reducing the total number of carriers operating in China to about 12.

Again, Boeing has been involved. "The blending of differ-

(cont. on next page)

millennium

tion in 1958 when a Chinese economy and technology review delegation to Britain spent two days visiting the company's plant in Derby, England, before the sale of the Dart engines. Mao hats and tunics were the uniform of the day as the delegation toured the engine assembly workshop, test bed, manufacturing line and high altitude simulation test bed.

Ties were then strengthened in 1972 when managing director Dr (later Sir) Stanley Hooker made personal contact through diplomatic channels with the Chinese industry and made the resulting sale of the product patent of the reheated Spey MK202 turbofan to China, strengthening a Rolls-Royce pattern of technology transfer that has continued ever since.

Sales of the RB211 family grew throughout the 80s and 90s, joined by the Tay 650 on China Eastern's Fokker 100s, IAE's V2500 on the Airbus A320 [Rolls-Royce is a senior shareholder in the IAE consortium] and, finally, a breakthrough order in 2000 for the new Trent engine on five A340-600s, again ordered by China Eastern.

James Richards, now Rolls-Royce's director of European Union relations, was director of Northeast Asian Affairs for the company from 1996 to 2000 and was First Secretary to the British Embassy in Beijing in the late 70s.

Rolls-Royce China president, Rod Williams: preparing for the next 40 years

He sees a long-term pattern of engagement as vital to Rolls-Royce's interests.

"The secret of our success is broad commitment, co-operation and collaboration that reflects the view in Rolls-Royce that China is a market of long-term strategic importance in all areas of our business," he said.

"If you seriously engage with the Chinese, there is much that is rewarding in business and at a personal level. We make a point of engaging at all levels, at senior levels with senior Chinese

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China president, Jiang Zemin, tours Boeing's Everett plant with chairman, Frank Shrontz, in 1993

FU BAOXIN, FORMER VICE-PRESIDENT, AIR CHINA

'Boeing has made a great contribution to air transportation and the aviation industry in general in China. Over the years Air China has benefited from, in particular, pilot and maintenance personnel training from Boeing. Also, the company has helped the airline benefit economically by assisting us to analyse our air route network and the aircraft types that were best suited to serve the routes. Boeing even helped our marketing department by designing advertisements for us. China looks forward to continuing its mutual cooperation with Boeing well into the future.'

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ent business cultures into unified units is something we ourselves have experienced in the last four or five years. We have spoken to China's airline managements about how this can be achieved. Also, we have helped airlines with their fleet plans as they prepare to integrate and work out their route networks," said Dickenson.

He believes the mergers are a positive move that will bring a new efficiency to the airlines in the groupings and allow the group leaders, Air China, China Southern and China Eastern Airlines to expand their domestic networks. China Southern recently took delivery of China's first B737-800, to be used on local services.

The senior Boeing executive has witnessed a marked improvement in the quality of China's airline executives in recent years. "No question about it. It went from 'let's make these aircraft operate efficiently and safely' and, having dramatically improved those aspects, it moved on to 'how can we run our company to make a profit', by looking at aspects like higher aircraft utilisation and revenue management and yields," he said.

Dickenson singles out Shanghai Airlines for special mention. "It is so well run. It has a business plan that works. It is profitable and it has the full support of the Shanghai Government. It will become a large airline one day," he said.

Another major aspect of Boeing's long-term commitment to the country is its industrial cooperation with China's four largest airplane factories in Shanghai, Xi'an, Chengdu and Shenyang to make parts for Boeing aircraft. "This work was part of our initial strategy and goes back over 10 years," said Dickenson. "This is not offset work. It is manufacturing that Boeing pursued because it expected high quality work at a competitive price."

As of March this year China operated 587 aircraft of which 64% were Boeing jets (including McDonnell Douglas). Airbus has 110 planes in China, 19% of the total fleet.

Competition between the two manufacturers is fierce and probably in China more than anywhere else, politics comes into play.

There had been "bumps in the road", said Dickenson when, because of strained Sino-U.S. relations, Boeing was penalised and lost orders. "There will always be bumps in the road, but as long as we progress in the right direction we will be alright. What drives us is trade and Boeing aircraft. Our goal is for China to believe we are committed and above political buffeting by the two sides [U.S. and China]," he said.

Dickenson said he understood it was important for China to have a second major manufacturer supplying aircraft to the country. The country did not want to find itself in a situation where it could

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personnel coming to the UK and with board members going to China."

Williams, when he does talk about sales, echoes the importance of the market to Rolls-Royce. "China represents an extremely significant market opportunity for us in the airline sector over the next 10, 15, 20 years. So it rates very, very highly in Rolls-Royce's order of priority."

He is especially enthusiastic about CAAC's forecast of the need for between 1,500 and 1,800 aircraft in the 200-seater down market, which means potential sales of IAE V2500s on the smaller Airbuses and the RB211-535E4 on the Boeing 757. The only downside is that Rolls-Royce does not power Boeing's 737 family, which uses General Electric's CFMs.

Williams also cited the 10-year fleet hour agreement with China Eastern Airlines, announced in August, that covers the Trent 500s on the Airbus A340-600s, as a breakthrough for Rolls-Royce.

ROLLS-ROYCE MILESTONES

1963: Dart engine enters service in China

1960s: Dart overhaul technology transferred to China

1970: Spey 512 enters service on the Trident

1976: Spey 202 licence agreement with Xian

1970s: Spey 512 overhaul technology transferred to China

1987: RB211-535E4 enters service with China Southern Airlines on the Boeing B757

1991: RB211-535E4 powered B757 services to Lhasa, Tibet

1992: Tay 650 enters service on Fokker 100 with China Eastern Airlines

1993: RB211-535E4 overhaul technology transferred to China

1994: Twenty MD-90 aircraft purchased, powered by V2500

1995: RB211-535 powered B757 services to Bangda

V2500 enters service on Airbus A320 with Sichuan Airlines

1996: New joint venture between Rolls-Royce and AVIC's Xian Aero Components approved

RB211-524H enters service on the B767-300 with Yunnan Airlines

1996-7: China orders another 20 A320s powered by V2500s for the China Southern fleet

1997: CAAC and Rolls-Royce open their Tianjin training centre

RB211-535E4 enters service on a B757 with Xinjiang Airlines

China Southwest orders two B757 aircraft, powered by the RB211-535E4

1998: Manufacture of aerofils commences at Xian plant

2000: AE3007 enters service on Embraer 145 jet with Sichuan Airlines, Chengdu

2002: China Eastern signs 10-year Fleet Hour Agreement for Trent 500

This is the company's top "total care" service package, until now only in use in the Mainland for Sichuan Airlines' be denied aircraft by a sole supplier if, for example, sanctions were imposed. "I do not like the situation, but I understand it," he said.

In the years to come, Boeing's leading salesman said he could only see positives. "The economy will be robust, cities like Shanghai will become financial centres of the world, Pudong airport will be bustling, growth in the west of China will continue and there will be a great deal of emphasis and development at China's airports and airlines," he said.

On a personal note, Dickenson said the highlight of his work in China was the sale of 50 aircraft, worth US$3 billion, in 1997. "It needed a lot of orchestration," he said.

But he has not ruled out an even bigger coup before he retires. "There is a lot of demand in China. The airlines need more planes. But once the leadership process is finalised (the consolidation) the bureaucracy will start to move again."

BOEING CHINA

Boeing established its Boeing China office in Beijing in 1995. It has a staff of about 100, with 230 other personnel based in China's major cities and at factories which produce parts for Boeing aircraft.

Management courses are held at the manufacturer's Learning Centre in St Louis, in the U.S. Pilot training is carried out in the U.S. and at the CAAC's Chengdu flying college. Boeing has several pilots based in China who work in Chengdu and visit airlines on a regular basis. ■

BOEING MILESTONES

1916: Founder William Boeing hires Beijing born engineer, Wang Zhu, to design a new seaplane

1935: Nemo Pancetti becomes the first Boeing customer service representative in China. He arrives in China in time to uncrate the 261 airplane and train crews in flying and maintaining the aircraft

1972: U.S. President Richard Nixon arrives in Beijing in February for an eight day visit, describing it as "a journey of peace"

China orders 10 Boeing B707 jetliners

1973: China's first Boeing jet is delivered to China

1978: China orders three Boeing B747s for its expanding international network

1979: Shanghai Aircraft Industrial Corporation (SAIC) begins production of MD-80 main landing gear doors

1980: Boeing sets up a Beijing office with one field service representative

First Boeing B747 delivered to China

1981: Xian Aircraft Company and Boeing sign contract for the Chinese factory to supply machined parts for the B747

1982: Xian Aircraft Company signs contract to produce B737 Classic forward access doors

1983: First B737 delivered

The first two MD-82s delivered

1985: Boeing works with Civil Aviation Institute in Tianjin to develop maintenance technician training programme and a scheme to qualify students for airframe and power plant licences.

First B767 delivered

Licence agreement for MD-80 co-production programme signed by Aviation Industries of China (AVIC)

1987: First Boeing B757 delivered

Boeing assists development of Beijing Capital Airport Spares Centre

Shenyang Aircraft Company signs contract to produce machined parts and cargo doors for B757 airplanes

1990: China places the biggest order in Boeing's history: 36 aircraft plus 36 options, in a deal valued at US$9 billion

1994: McDonnell Douglas and the China National Aero-Technology Import and Export Corporation (CATIC) sign MD-90 Trunkliner agreement

Boeing delivers 200th aircraft to China

China flew its first Boeing B747 in 1980

1995: China Southern becomes first Chinese airline to order the Boeing B777.

Boeing signs B737 next generation manufacturing contracts with Shenyang Aircraft Corp, SAIC and Xian Aircraft Corp. to produce tail sections, horizontal stabilisers and vertical fins respectively

Boeing begins training Chinese flying instructors and donates two B737 simulators to the Civil Aviation Training College, Chengdu

1996: The first MD-90 is delivered

1997: China makes a US$3 billion order for 50 Boeing aircraft

Boeing invests US$11 million in MRO facility, TAECO, in Xiamen

1998: U.S. president, Bill Clinton, visits China.

During the visit China converts 20 options for Boeing airplanes to firm orders and signs a purchase agreement for 10 options for B737 next generation aircraft

Boeing delivers 300th aircraft to China

Boeing, Hexcel Corp and AVIC set up a company, BHA Composite Parts Co Ltd, to manufacture composite parts for commercial airline interiors and secondary structures

2001: China Southwest accepts its first B737- 600, the first operator of the aircraft in China

China Aviation Suppliers Import and Export Corp. order 30 B737s

2002: Hainan Airlines takes its first 737-800 with winglets: the first operator of the modified type in Asia

China Eastern Airlines accepts its first purchased 737-700

China Southern takes delivery of its first B737-800 and one of two B747 freighters

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44-seater Embraer RJ145s, powered by Rolls' A3007s. The deal, involving China's first Trents, is particularly significant, he said.

When it comes to training, Williams again stressed Rolls-Royce's long-term goals. A joint training centre was set up with CAAC in Tianjin five years ago, with the first of seven protocols signed in 1990. Initially, the centre concentrated on technical training for the men and women who operate Rolls-Royce engines. Now management training programmes are included at that level, as well as senior management and development programmes run in association with the Civil Aviation Management Institute, tagged the Top 300 programme.

Under this, airlines nominate 20 to 25 of their senior staff with the most potential for promotion. They spend three months at the Institute in Beijing and six weeks at the Rolls-Royce facility in Derby.

Rolls-Royce managing director, Sir Stanley Hooker, with China's vice premier, Wang Zhen, in 1973

The advantages to both sides are obvious. The Chinese are trained in their own language and see management practices from another perspective while Rolls-Royce strengthens its relationships with potential aviation industry leaders.

Williams has no special plans to celebrate Rolls-Royce's 40th anniversary in China. He sees its presence as an ongoing affair. But he does have a long-term perspective that links the first 40 years with the next.

"If we can achieve what we would like to achieve over the next 10 to 15 years, then we will be here in 40 years' time," he said. "We are setting our stall out for the next 40 years, which very much builds on the good understanding and experience we have gained over the last 40 years." ■

IT spending to grow

By a Special Correspondent
In Singapore

Lim Soon Hock, Asia-Pacific president of SITA, the integrated information and telecommunications systems supplier, remains optimistic about prospects for 2003, despite the fact that many companies have put investment in information technology (IT) on hold following the events of September 11 and the global economic slowdown.

Airlines, he said, were waiting for the right time to put existing plans for expansion in IT into operation.

"Even prior to September 11, the economic environment was not that good. In the first quarter of last year, we had signals of business and investment slowing down based on the new orders we were collecting," Lim told *Orient Aviation* in Singapore.

IT spending fell to some 2.2% of industry revenue, compared to the industry-wide 3% that had been consistently recorded in the years preceding September 11, he said. It remains below expectations, even though the industry is pulling out of a drastic tailspin.

"I guess one reason why they are holding back is the economic uncertainty that is still present. Secondly, the prospect of a U.S.-led war against Iraq is also making them reconsider if they should push ahead with more spending," he said.

However, Lim sees that changing. Airlines have been making plans to increase investment in new systems and applications, he said, citing the annual survey of airline IT trends conducted by SITA and a leading Europe-based aviation magazine.

"It's just a question of when they want to push the button. The planning is already there," he said.

The August survey showed that 61% of 90 carriers questioned expected an increase in IT investment next year.

Lim sees better times ahead in the region. "For Asia-Pacific, airlines have reported an increase in passenger traffic and cargo in the first half of this year, although yields have been low. But in general, business has been getting better," he said.

"There is no doubt that an investment in IT and a move to the latest open systems, applications, equipment and networks will benefit an airline.

"For example, distribution costs account for something like 24% of

SITA Asia-Pacific president, Lim Soon Hock: a major focus on security products

overheads. That's one big headache all airlines face. Today, with the pervasiveness of the Internet, airlines can exploit that technology to support their distribution.

"Some of the top airlines have announced budgets to the tune of US$100 million to US$200 million dollars to e-enable their businesses over the next five to 10 years."

Ironically, one side effect of September 11 and the economic downturn is aiding SITA.

"Because of the current emphasis on cost reduction and containment, essentially it has encouraged a lot of airlines to look at community-based systems and applications which do not require a huge capital investment up front," said Lim. "This type of initiative was what spurred the creation of SITA in the first place.

"What we expect is to see many airlines, even first-tier carriers, moving away from huge legacy systems to an environment where they buy services and pay on a per-usage basis. SITA can provide those services."

Lim also discussed SITA's contribution to one aspect of air travel under increased scrutiny: security.

SITA was offering a range of products that aimed to address the threat, he said.

"We have undertaken a huge project with the Canadian Government where we integrate all existing data pertaining to a customer. All this information is aggregated together and made available to the relevant authorities so that they can decide whether to grant him access or not."

Closer to home, in Singapore, SITA is currently working with local authorities on biometric fingerprint identification to ensure that a passenger boarding an aircraft is the same one who checked in.

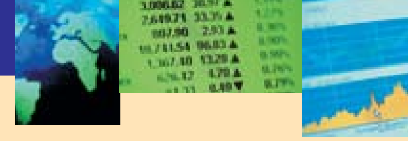
The company has also been engaged to help the European Community to formulate the benchmark, standards and requirements for secure travel.

With a healthy customer base and the likelihood of an upturn in business next year, Lim sees SITA on track to achieve its target of listing its service arm, Sita Information Networking Computing (INC), within the next three to five years.

"I think it is within reach. I think we have done well compared to other companies in the Telco industry," said Lim. "We are cash rich, have hardly any debt and boast a solid customer base."

Geneva-based SITA began life in1949 as the not-for-profit Societe Internationale de Telecommunications Aeronautiques which aimed originally to bring together airlines' existing communications facilities so all users could derive cost-efficiencies from a shared infrastructure.

It now has 1,800 customers including 588 airlines and all major computer reservation systems as well as airports, aerospace and airfreight companies. It recorded corporate revenue of some US$1.6 billion last year.■



AUGUST 2002 STATISTICS

INTRA-ASIAN TRAFFIC BUOYANT

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

International passenger traffic for Association of Asia Pacific Airlines (AAPA) members continued on a growth trend with revenue passenger kilometres (RPKs) rising 1.9% in August compared to the same month in 2001. The number of passengers carried (PAX) was also up, by 3.9%. Capacity increased by 2.7%, resulting in a marginal decline of 0.6 % in load factor to 77.4%.

Vietnam Airlines (VN), Cathay Pacific Airways (CX) and Thai Airways International (TG) experienced a double-digit increase in RPKs. Growth was equally robust for EVA Air (8.0%) and Asiana Airlines (OZ: 7.7%). In contrast, traffic did not improve for All Nippon Airways (NH: -12.1%) and Japan Airlines (JL: -9.5%).

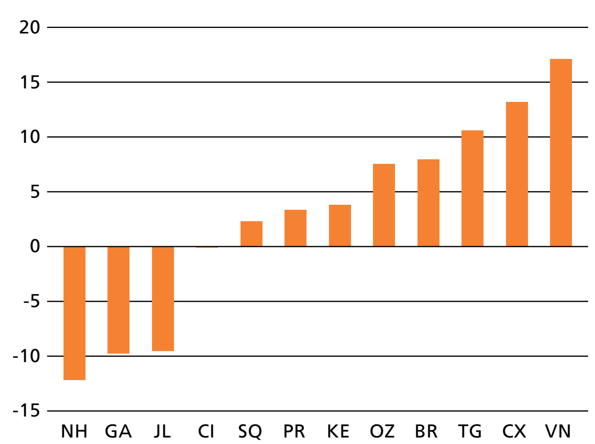
Among the carriers with improved load factors from a year earlier, Philippine Airlines (PR) registered the biggest increase, at 5.4 percentage points. Cathay Pacific Airways was next, up 3.3 percentage points. On the other hand, seven carriers experienced a decline in load factor, with Japan Airlines (-5.8 p.p.) and All Nippon Airways (-4.0 p.p.) the worst hit.

Vietnam Airlines: double digit RPK growth in August over the same month last year

Improved traffic and cautious capacity management enabled all carriers to report healthy load factors in August. Four carriers had a load factor of more than 80% – Asiana Airlines

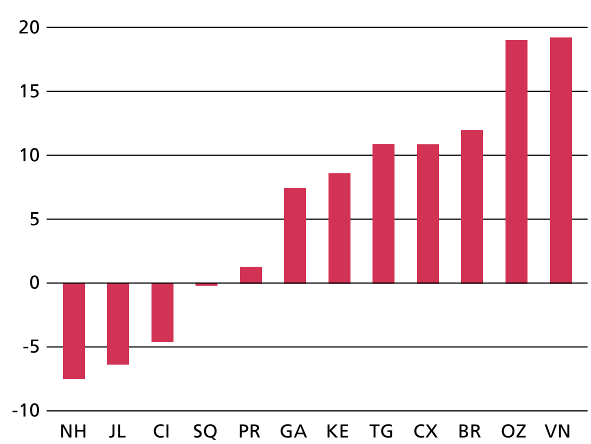
RPK GROWTH BY CARRIER

Percentage (Aug 02 vs Aug 01)



PAX GROWTH BY CARRIER

Percentage (Aug 02 vs Aug 01)



Singapore Airlines: freight load factor rose 10 percentage points in August compared to a year earlier

(84%), Cathay Pacific Airways (82.1%), EVA Air (BR: 82.0%) and China Airlines (CI: 81.1%). The remaining eight carriers registered a load factor in the 70s.

CARGO

AAPA international freight tonne kilometres (FTKs) rose 18% in August, the fifth consecutive month of double-digit growth. Capacity grew 8.1%, resulting in a 5.6-percentage point gain in load factor, to 67.2%.

Driven by strong demand in airfreight, seven carriers experienced a robust growth in FTKs – Cathay Pacific Airways (43.2% – subsidiary Air Hong Kong's European routes were included, giving rise to an inflated growth rate), EVA Air (24.3%), Singapore Airlines (SIA 23.0%), Asiana Airlines (22.4%), Thai Airways International (17.5%), Vietnam Airlines (17.2%) and All Nippon Airways (12.7%).

With the exception of Garuda Indonesia (GA) and Korean Air (KE), all carriers saw their load factors increase from a year earlier. At the top of the list, Singapore Airlines' load factor rose 10 percentage points. Asiana Airlines (78.4%), however, had the best load factor, followed by China Airlines (77.4%) and EVA Air (73%). Garuda Indonesia and Philippine Airlines recorded load factors under the 30% mark.

RESULTS OF THE 12 MONTHS TO AUGUST 31, 2002

PASSENGER

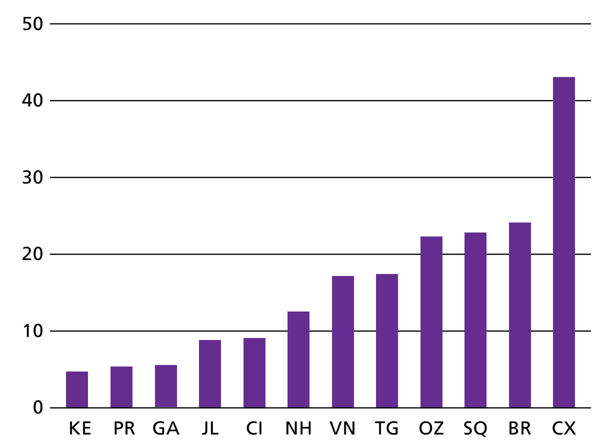
AAPA consolidated international RPKs and PAX for the 12-month period under review contracted by 5.9% and 2.4% respectively. Capacity was down 3.7%, resulting in a load factor of 72.3%, down 1.7 percentage points.

CARGO

The consolidated international FTKs for the 12-month period grew at an encouraging rate of 4.6%. Capacity was up

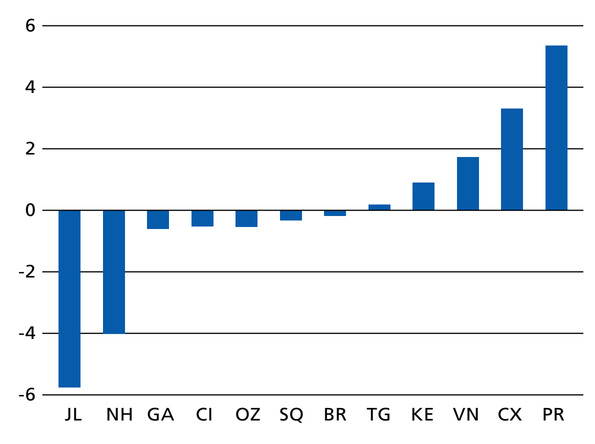
FTK GROWTH BY CARRIER

Percentage (Aug 02 vs Aug 01)



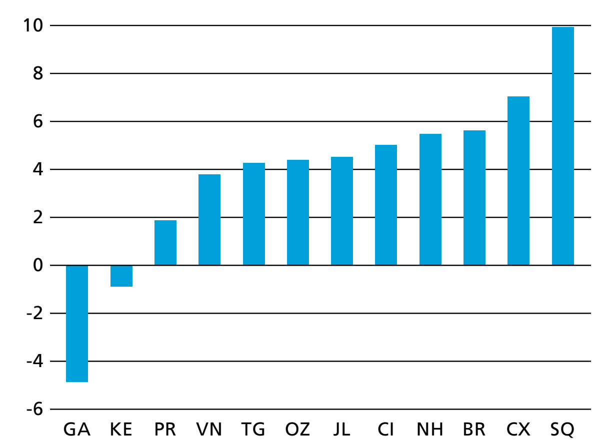
PASSENGER LOAD FACTOR GROWTH BY CARRIER

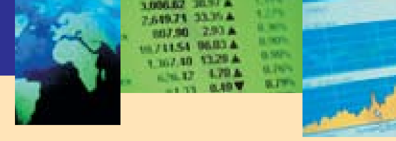
Percentage Points Change (Aug 02 vs Aug 01)



FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Aug 02 vs Aug 01)





by a marginal 0.4%, resulting in a load factor of 67.8%, up 2.7 percentage points.

SUMMARY

In the past few months, the AAPA members' better-than-expected passenger traffic performance was due mainly to buoyant intra-Asian traffic. In terms of passengers carried, year-to-date the region had seen the number grow by 1.4 million, an increase of 3.2% over the comparable period last year. Traffic is expected to maintain its momentum of growth, although the recent tragic event in Bali could pose a threat to intra-Asian leisure travel. The indication is that Asians will continue to travel and will substitute one destination for another if perceived safety is a concern.

The freight sector continued to perform well. Many AAPA members reported healthy FTK growth and airports in the region were seeing increased cargo volume flowing through. The shutdown of U.S. West Coast ports helped the carriers to increase loads as exporters looked to airfreight as an alternative means of transporting goods to the U.S.■

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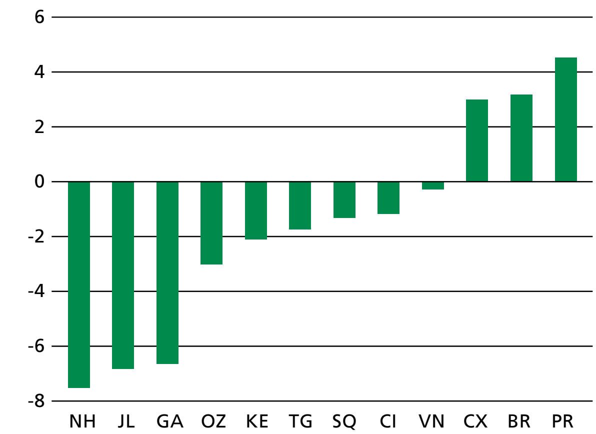
PASSENGER LOAD FACTOR GROWTH BY CARRIER

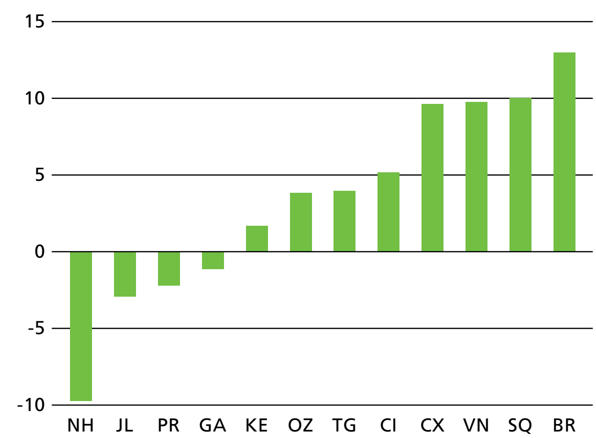
Percentage Points Change (Sep 01 - Aug 02 vs Sep 00 - Aug 01)



Philippine Airlines: a 5.4 percentage point rise in passenger load factor over one year ago

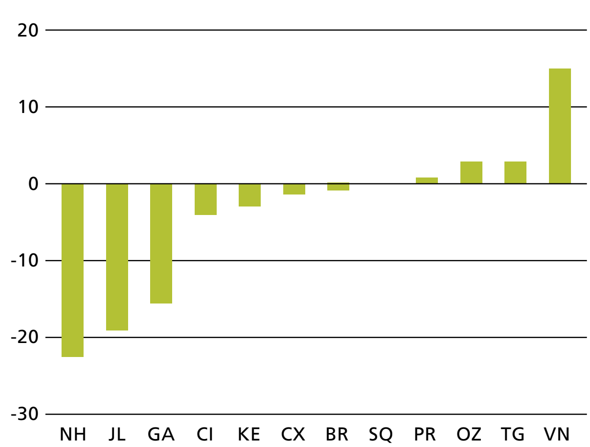
FTK GROWTH BY CARRIER

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



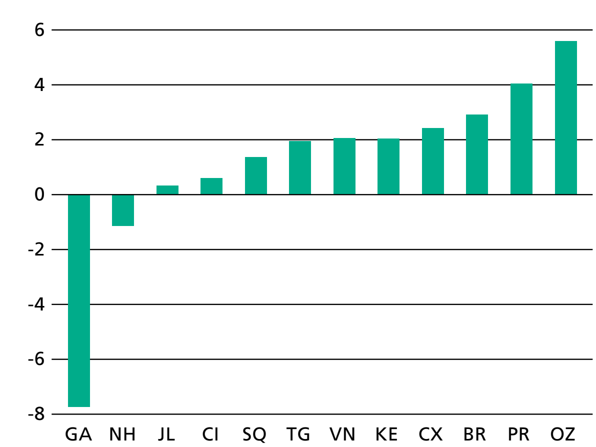
RPK GROWTH BY CARRIER

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

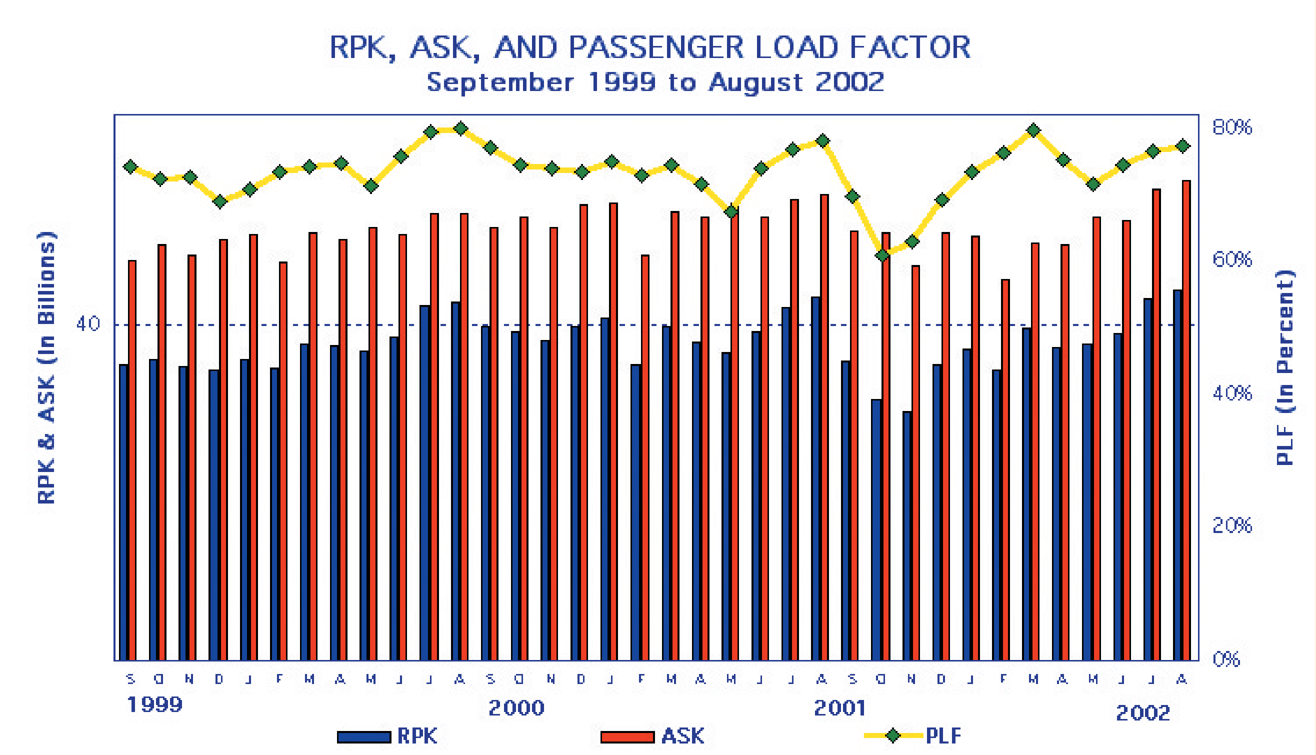


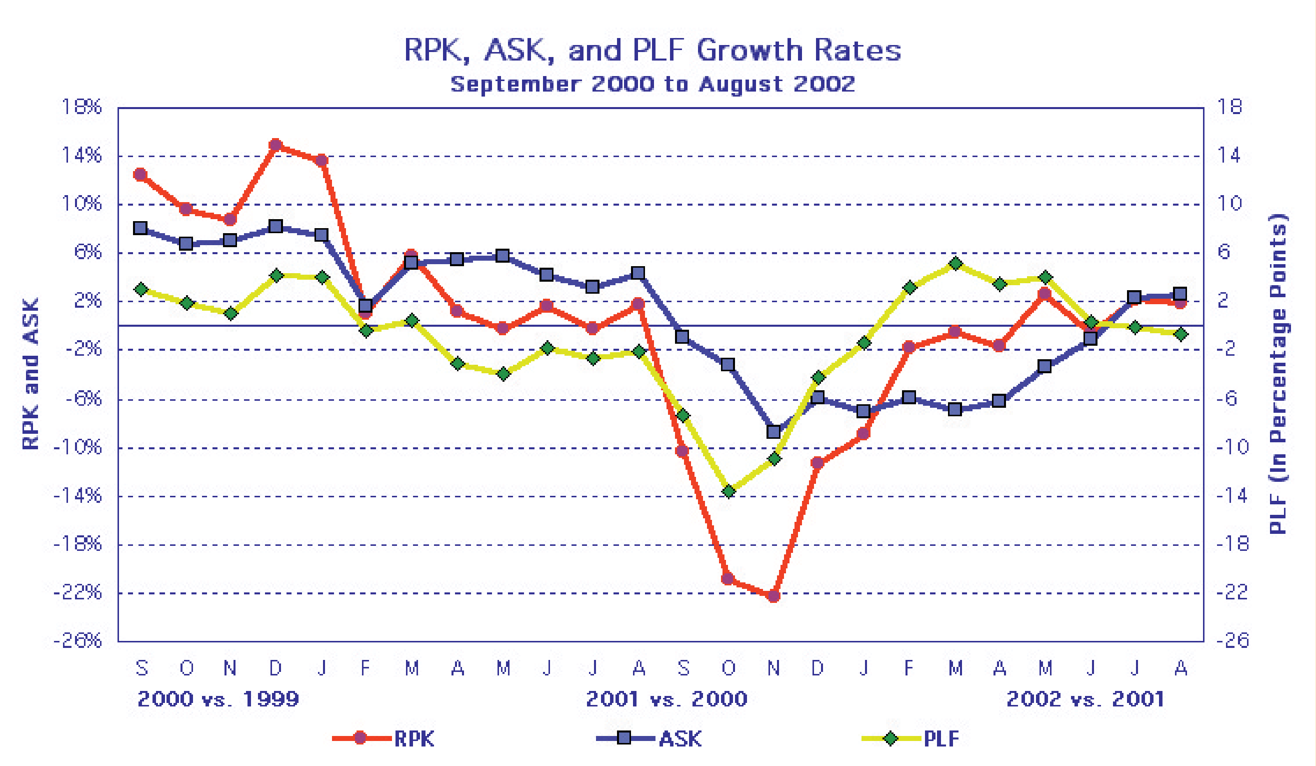
FREIGHT LOAD FACTOR GROWTH BY CARRIER

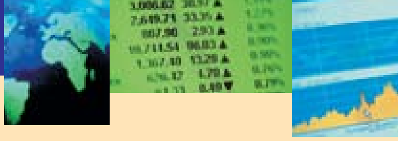
Percentage Points Change (Sep 01 - Aug 02 vs Sep 00 - Aug 01)



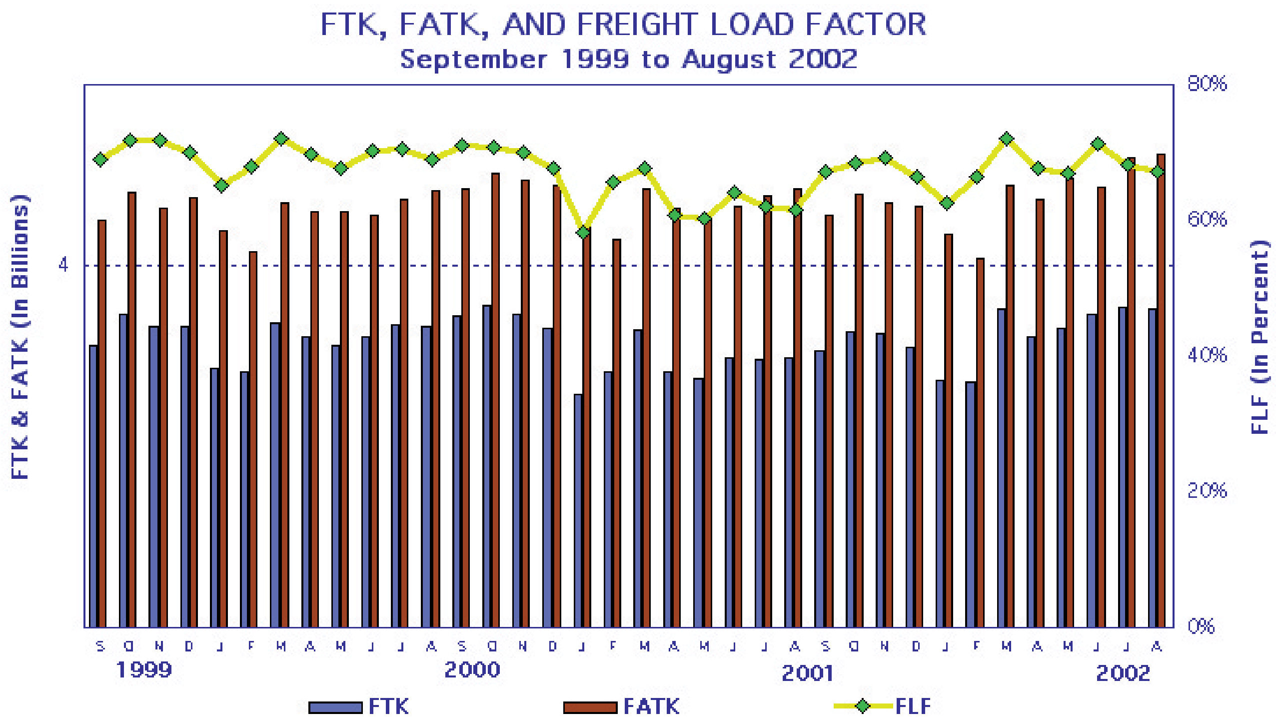
MONTHLY INTERNATIONAL PAX STATISTICS OF AAPA MEMBERS

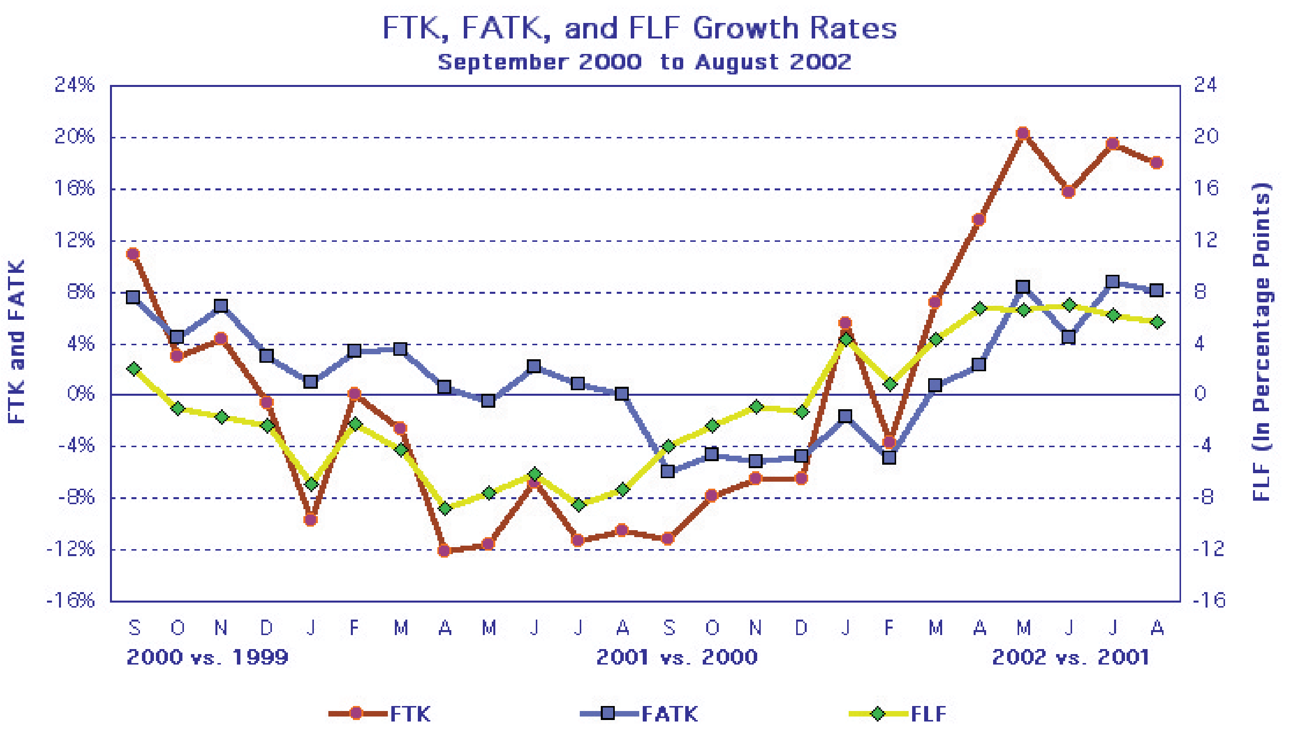


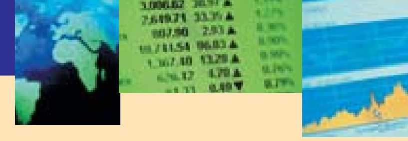




MONTHLY INTERNATIONAL CARGO STATISTICS OF AAPA MEMBERS







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)
SEP-01	35,601,847	51,038,190	69.76	3,061,243	4,555,532	67.20	6,406,828	9,210,564	8,229
OCT-01	31,006,991	50,974,094	60.83	3,277,370	4,793,876	68.37	6,151,064	9,438,030	7,475
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
TOTAL	443,650,689	613,440,733	72.32	38,657,754	56,987,921	67.83	80,587,299	112,669,124	103,902

2001 TO 2002

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
SEP-01	-10.31	-0.89	-7.33	-11.22	-6.00	-3.95	-10.86	-3.83	-5.63
OCT-01	-20.93	-3.26	-13.59	-7.84	-4.61	-2.40	-15.20	-4.28	-14.88
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
GROWTH	-5.91	-3.66	-1.73	4.58	0.41	2.70	-0.86	-2.03	-2.40

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	312,208,924	413,355,239	75.53	25,985,087	38,297,780	67.85	55,704,660	75,737,795	72,603

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]	-0.83	-3.15	1.77	12.07	3.36	5.27	5.59	-0.39	1.57

Note:

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