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VOL. 9 NO. 10 SEPTEMBER 2002

STRAIGHT SHOOTER

Qantas chief Dixon defies critics as carrier bucks world trends

Cargo boom: Asia leads world recovery

SriLankan Airlines battling back

Open skies split in Manila

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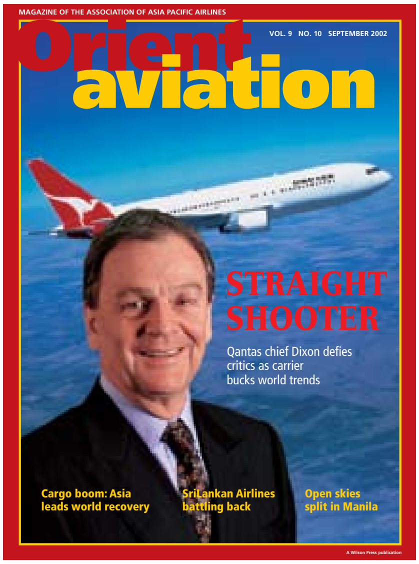
COVER STORY

STRAIGHT SHOOTER
Page 24

No-nonsense chief executive Geoff Dixon defies critics as Qantas Airways turns world trends upside down



COVER PHOTO: PATRICK DUNNE

NEWS

MAIN STORY

REGULAR FEATURES

NOW FOR THE GOOD NEWS

It is said often enough that only bad news makes news. Well, we beg to differ.

In this issue *Orient Aviation* is the carrier of good news from beginning to end. Page after page cites evidence that the Asia-Pacific is indeed leading the world recovery after a recession and the unparalleled turmoil caused by the September 11 terrorist attacks. The facts and figures in our stories support the forecasters' views that this region will be aviation's most industrious growth engine in the next 20 years.

In our business round-up there is news of dramatic turnarounds by Cathay Pacific Airways, Korean carriers, Korean Air and Asiana Airlines, Thai Airways International and Philippine Airlines (PAL). And then there is Qantas Airways, the subject of our cover story. Last month no-nonsense chief executive, Geoff Dixon, described the airline's 2001-2002 profit – the second biggest in its history – as a "creditable result". An understatement indeed.

And in answer to the critics who said Qantas was helped by the sad demise of Ansett Australia, particularly in the domestic market, it should be remembered that Qantas relies on international routes for 80% of its revenue.

And just for good measure, the Australian flag carrier is to launch a low-cost subsidiary international carrier in October. How's that for confidence?

In the Philippines, PAL nearly went out of business in 1999, but under rehabilitation and a new management it recorded two consecutive years of profits and would have made it three in a row except for September 11. Now PAL has kicked off 2002 with the highest quarterly profit in its 61-year history.

It is a fighting spirit that typifies many of Asia's carriers.

Our lead story, *Tonnes of Optimism*, outlines the cargo boom in Asia, an aviation business that has exceeded all expectations in the region's industry. Just about all of the Association of Asia Pacific Airlines member carriers have seen freight volumes rise, in some cases dramatically, and double-digit growth is expected for calendar year 2002 for most of them.

However, let's not get too carried away. Yields for both passenger and cargo traffic are still a major concern for airlines. In many a public statement, the CEOs of the best carriers have said they are now focusing their attention on simply that – increasing yields.

Looking back to the Asian economic crisis of 1997-1998, a number of the region's airlines were on their knees. Even those who were better equipped financially and managerially to handle the crisis needed some serious surgery to stay on their profit tracks. Many Asian carriers learned fast and learned well. Those experiences of four years ago enabled them to cope better than most with the emotional and fiscal horrors of the last 12 months and to come out winning.

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PERSPECTIVE

Edited by
Christine McGee

FIASCO?

An August statement issued after private airport operator, **Fraport AG Frankfurt Airport Services Worldwide** released its encouraging half-year results revealed the **Philippine Government** "has signalled its willingness to discuss in detail the option of re-transferring the Manila Terminal project to the Philippine state". The Fraport executive board said it "was optimistic about negotiations with the Philippine Government" after receiving the letter. But the airport operator remained insistent it would "continue to abstain from providing further funding to **Piatco (Philippine International Air Transport Company**)", its minority project partner in the new terminal at Manila's International Airport, "until an acceptable solution has been achieved with both the government and Fraport's Philippine partners". In 1999, disgraced and presently imprisoned former Philippines president, **Joseph Estrada**, negotiated a US$600 million deal with Fraport, a 65% partner, and Chinese/Filipino business interests to build an international terminal at **Ninoy Aquino International Airport**. Unfortunately the deal gave majority voting rights to the local partners while Fraport only gets to vote on 30% of its equity in the project. It is now revealed that Estrada also agreed that the government would assume responsibility of the consortium's loans if it defaults on payments. Present Philippines president **Gloria Arroyo** is now grappling with this possibility after Fraport decided it would cease funding the project when it had spent US$350 million in interim financing. In the meantime, **Philippine Airlines** has also baulked at moving from its gleaming and almost new dedicated terminal to the new facility – scheduled to open in December. As well, duty free operators, concerned at both high rental costs and increased competition, have demanded the terminal be declared void. Over to you madam president.

MAS, AIRASIA EQUITY DEAL?

Not so long ago, **Tony Fernandez** (pictured above) was a businessman with a brave idea – setting up a low-cost carrier in an Asian country. He was not a planespotter and he had never worked for an airline or a related industry. But he did have a good idea – cheap domestic flights in Malaysia – a country where the flag carrier has always lost money on its local network. Only 10 months into his launch of **AirAsia**, the Malaysian Government has had to accept he knows what the public wants. In August, the Malaysian transport minister, strongly hinted that young blade Fernandez and **Malaysia Airlines (MAS)** could become equity partners with MAS keeping long-haul services and AirAsia operating the nation's domestic network.

BATTLE UNFOLDING

The **Australian Government** decided last month to preserve the 49% cap on foreign ownership in the privatised national carrier, **Qantas Airways**. The decision, which surprised some observers and participants in the lobbying process leading up to the decision in mid-August, was taken in the context of an intense national debate over the sale of a large portion of the government's former telecommunications authority, **Telstra**. A significant number of Australians remain unconvinced of the arguments for privatisation of vital national infrastructure and it is believed the government feared an electoral backlash if they allowed Qantas to increase its offshore equity. Don't, for a minute, think however that the issue is dead and buried. A single battle may have been lost, but Qantas is determined to win the war – at a time that will suit the interests of all parties, political and otherwise.

DISAPPEARED

In a game decision, seasoned Australian airline executive, **Peter Roberts**, accepted an offer to run troubled **Air Nuigini**, but the job seems to have got the better of him. In June, it was revealed that Roberts had departed from the airline for good. According to sources, he resigned after completing only one year of his three year contract amid reports the carrier was continuing to suffer major losses. Air Nuigini's board, chaired by **Michael Bromley**, has refused to confirm local media reports that the airline lost 36 million kina (US$10 million) in the last 12 months. Until a permanent replacement is appointed as chief executive, the general manager of finance, **Steve Wilks**, and the executive general manager operations, **Captain Dave Wiltshire**, are running the Port Moresby-based airline.

UNREST

Singapore Airlines (SIA) and its flight crew avoided a possible falling out last month after a row flared up over seats for crew rest breaks on long-haul flights. Until the recent past, flight crews took their breaks in business class. However, now that SIA is fitting flat beds in its business class cabins, the number of business class seats has to be reduced with the resulting loss of revenue. To alleviate the revenue reduction, SIA wanted its flight crews to rest in economy seats. The uproar from SIA's collective cockpits produced a compromise in late August. SIA and the pilots' union agreed the airline would reserve one business class seat and two economy class seats for pilot rest breaks. If additional seats are available in business or first class on specific flights, SIA will upgrade the pilots from economy. If the premium seats are not available and a pilot has to take a rest break in economy, SIA will pay US$115 to each pilot who has to rest in an economy seat.

In July, SIA sacked the pilot and co-pilot who were involved in the crash of SQ006 in Taiwan in October 2000. The third member of the cockpit crew, first officer **Ng Kheng Leng**, remains at SIA. The crash took the lives of 83 passengers and crew. The announcement followed a decision by the Taiwan's courts not to proceed with charges against the two pilots.

REGIONAL ROUND-UP

CATHAY APPLIES FOR RIGHTS TO RESUME FLIGHTS TO CHINA

At press time, the regional aviation industry expected Hong Kong-based **Cathay Pacific Airways** to unveil plans to resume services to the mainland China after a 12-year absence. In mid-August, it was confirmed the airline had lodged an application to fly to the mainland with **Hong Kong's Air Transport Licensing Authority (ATLA)**. The application was published in the government gazette in late August and a two-week consultation period has commenced to allow interested parties to comment on the Cathay application. Regional carrier, **Dragonair**, is the only Hong Kong airline currently permitted to fly to mainland cities. ATLA approval to fly to China would only be the first step in the process of re-entry into the mainland market for Cathay. It also would need Beijing's agreement to win designation to fly routes to China's cities.

Cathay operated services to China until it invested in a majority share of Dragonair, a purchase which prompted its decision to leave the China market to its new "baby". In the mid-90s, Cathay decided to sell its majority stake in Dragonair to the **China National Aviation Corp.** in a deal that neutered Chinese aviation interests' intention to establish, in the then British colony, a rival carrier to Cathay. In a recently negotiated air services agreement between Hong Kong and Taiwan, Dragon-air was granted rights, for the first time, to fly the Hong Kong-Taipei route, a decision which brought to an end the *de facto* one airline one-route policy that had operated in Hong Kong.

Last month Cathay launched a toll-free hotline on the Chinese mainland "for the increasing number of people who are using Hong Kong as their gateway to and from the Chinese mainland". Callers to the hotline receive Cathay Pacific flight details and information about the carrier's global network.

Malaysia Airlines: major restructuring

THAI CONSIDERS DELAYING SHARE SALE – AGAIN

Off again? At press time, **Thai Airways International (THAI)** was reported to be considering delaying its long-awaited share offering – set down for this October – until next year. Recently appointed THAI president, **Kanok Abhiradee**, said his carrier had yet to decide if the sale of 23% of the airline would proceed next month or next February. Analysts and factions within THAI differ on the right time to conduct the sale, which will reduce the Thai government's equity in the carrier to 70% and, hopefully, raise 10 billion baht (US$239 million) for the nation's public coffers. Some analysts said a February sale made more sense as there are several other Thai enterprises lined up for IPOs in coming weeks.

This view is echoed by the Thai Airways Employees Union, which also argues that THAI should not buy any new airplanes as it will add more debt to the already heavily committed national carrier.

A separate collection of arguments said THAI should stick to its October sale schedule as fears of escalating conflicts in the Middle East are pushing up crude oil prices, a price hike that would be reflected in THAI's earnings in the first quarter of 2003. In July, president Kanok said THAI would sell 400 million shares – 300 million new shares and 100 million shares from the government holding – in October in a Stock Exchange of Thailand initial public offering. It was later reported the shares would only be sold to local investors.

MAS REVEALS SURVIVAL STRATEGY

Malaysia Airlines (MAS) has announced plans to sell off a majority of its aircraft assets to a new state-owned company and re-cast itself as an airline management entity in a strategy aimed at reducing debt and maintaining its operations as the country's proud flag carrier.

In a statement delivered to the **Kuala Lumpur Stock Exchange**, MAS said **Pener-bagan Malaysia Bhd. (PMB)** would buy 73 of its aircraft for 5.1 billion ringgit (US$1.34 billion) as well as take on MAS liabilities of almost 7 billion ringgit in exchange for equity in the airline of 69.3%. PMB would apply to the authorities for a waiver from the rule that it bid for the remainder of MAS's shares because it held majority equity in the carrier, the MAS statement said.

Additionally, the airline is selling all its property to another government created company, **Global Network Sdn Bhd**, for 1.5 billion ringgit, and would lease back facilities required for the airline's operations. MAS already has sold its catering subsidiary to **LSG SkyChefs** for 175 million ringgit.

MAS managing director, **Mohamed Nor Yusuf**, said the re-structuring would allow MAS to predict a profit of 94.2 million ringgit by March 31, 2003, compared to a loss of 835.6 million ringgit for the fiscal year to March 31 in 2002. MAS would continue as operators of its international passenger and cargo services with aircraft leased from PMB, Yusuf said, but all revenues from domestic flights would go to the new government company.

The new MAS structure also marks a departure by the Malaysian government of cross subsidising profitable international services with the loss-making MAS domestic networks.

PRIVATE COMPANY JOINS CEA IN WUHAN PURCHASE

In yet another industry first Shanghai-based **China Eastern Airlines (CEA)** confirmed in late August that it will bring in a private company as the third partner in its takeover of regional carrier, **Wuhan Airlines**. The two other main partners with CEA (40% equity) in the deal, which is intended to re-launch the airline based in the western heart of China, are the **Wuhan Municipal Government** (40%) and charter operator, **Junyao Group of Shanghai** (18%). The fourth investor, with a 2% equity is **Wuhan High Technology**

Holding Group Co. reported the *Asian Wall Street Journal*. The joint venture, which will be known as **China Eastern Airlines Wuhan**, is expected to profit from CEA's merger with regional carriers, **Yunnan Airlnes** and **China Northwest Airlines**, a consolidation now in its final stages of negotiation with Chinese industry regulator, the **Civil Aviation Administration of China (CAAC)**. Meanwhile, in July, the CAAC approved plans to offer 200 million A-shares in an initial public offering of **Shanghai Airlines** on the Shanghai Stock Exchange. No date has been set for the IPO.

BRIEFLY ....

FLEETS . . . In July, **Air New Zealand** said it would buy 15 new Airbus A320s and had negotiated purchase rights for another 20 of the aircraft. Deliveries will begin in October next year, in a reported US$400 million deal that involved both purchase and leaseback arrangements for the new airplanes. A few weeks later, the airline confirmed it had added one more 66-seat ATR 72-500 to the group's fleet, bringing the total of ATR 72-500s now flying with the Air New Zealand Group to nine.

In an order confirmed at England's **Farnborough Air Show** in the northern Summer, **All Nippon Airways (ANA)** announced plans to buy five B777-300 and nine B767-300ER aircraft, with deliveries due from fiscal years 2004 to 2006. ANA will retire 25 Boeing airliners by 2006 as part of its plan to reduce its aircraft types to four – B747-400s, B777-300s, B777-200s and B767-300s – in the same period.

Family-owned **Bangkok Airways** has ordered three more ATR 72-500s, bringing its ATR fleet to nine.

China Southern Airlines, the mainland's largest carrier, took delivery of the first of its next generation B737-800s in August. The airline, based in Guangzhou, has ordered 20 of the Boeing airplanes.

Reuters news agency has reported **Shanghai Airlines** has added a B737-800 and a Hawker 800 XP bizjet (manufactured by Raytheon) to its fleet and said the Shanghai carrier had leased two other B737-800s and intended to sign for another of the Boeing mid-sized jets.

In a press conference in France, Russian Prime Minister, **Vladimir Putin**, said Russian airline, **Aeroflot**, will acquire 18 Airbus airplanes, at this stage planned to be A320s, to upgrade the airline's ageing fleet.

INFORMATION TECHNOLOGY . . . **Air China** and **Sabre** have signed a three-month consulting agreement to assist the airline in developing a long-term IT strategy. Sabre will audit the Beijing-based carrier's present IT systems and offer options for new IT infrastructure and application requirements.

Air New Zealand (Air NZ) has renewed its contract with **IBM Global Services** and extended the scope of the agreement. The IT company is now managing Air NZ's mainframe, mid-range, Web and Limux services. Additionally, the New Zealand carrier has signed up software provider, **PeopleSoft**, on a two-month contract to upgrade its finance, human resources and payroll IT systems; an infrastructure set-up described as ageing by Air NZ CEO, **Ralph Norris**.

China Airlines has bought **SITA's Access Module** baggage tracking system to improve its service to passengers with lost and missing luggage.

China Eastern Airlines: brought in private company for Wuhan Airlines takeover

LEASING . . . Ansett Worldwide has announced that long-time customer, **Vietnam Airlines**, has taken delivery of one of its B767-300ER freighters, which brought the national carrier's fleet of B767s to six. At the same time, the airline agreed to extend its lease on a second B767-300ER aircraft leased by the Australian headquartered lessor to the carrier in November 2000. **Singapore Aircraft Leasing Enterprise (SALE)** signed a leasing agreement with Brazil carrier, **TAM**, for two Airbus A320s, with one delivery made in August and the second scheduled for November. The two airplanes, leased for 7.5 and five years respectively, have IAE V2500 engines. A month earlier, SALE completed a sale and leaseback deal with **Asiana Airlines** for a new B747-400 freighter. SALE announced a pre-tax profit of US$47.5 million for the year to March 31.

MAINTENANCE . . . Listed **SIA Engineering Company Ltd (SIAEC)** and Indonesia's **PT JAS** have signed a Memorandum of Understanding for a joint venture in aircraft line maintenance and technical ramp handling services at Indonesia's airports. If the venture proceeds, SIAEC will have 49% in the company and PT JAS will have 51%.

ROUTES . . . Zhang Hong Ying, chief executive of **Air Macau**, an 11-plane carrier majority owned by **China National Aviation Corp.**, said the airline would expand its network, including more flights to Chinese mainland cities, as Macau progressed from a former Portuguese colony to a resort city and conference centre.

Air New Zealand said its subsidiary, low-cost **Freedom Air**, will launch direct services from Auckland, Wellington and Christchurch to Brisbane in Australia in October as well as immediately expanding its services from New Zealand cities to the Australian resort destination, the Queensland Gold Coast. Freedom Air will cease flying New Zealand domestic routes in late September when the group will introduce the internal network's new low-cost, **Air New Zealand Express** as its domestic operator. The new network marks a shift in the national carrier's operations to new and low-cost leisure services. In July, The **Air New Zealand Group** announced it had ordered 15 Airbus A320s, as part of its new strategy of operating as a low-cost carrier in the Pacific.

Cathay Pacific Airways will increase its flights from Hong Kong to Auckland to double daily three times a week, on A340-300s, from November. From September, the Hong Kong-based carrier also will restore its five times daily flight schedule to Bangkok.

Taiwan's **China Airlines (CAL)** launched the first direct Taiwan-Moscow service on August 24 with a charter flight to the Russian capital. A CAL spokesman said a regular air link between Taipei and Moscow could be established, but the decision depended on demand and endorsement of the service by the Taiwanese and Russian governments.

China Northwest Airlines is now flying nonstop each Saturday between Lanzhou in China to Hong Kong, using an Airbus A320. Lanzhou is the capital of Gansu Province and an important city on the famed Silk Road. The carrier also flies between Xian, home of the Terracotta Warriors, and Hong Kong.

Hong Kong Dragon Airlines – **Dragonair** – signed a waiver agreement with **EVA Air** in July that allows Dragon-air passengers to fly with either airline out of Taipei, without prior endorsement of their tickets. The agreement, in force from August, increases the number of flights available each week to Dragonair passengers from 22 to 62. EVA Air, Taiwan's second international carrier, is now operating five daily return trips on the Taipei-Hong Kong route – plus two MD-11 cargo flights, as a result of the new, expanded air services agreement signed by Hong Kong and Taiwan two months ago.

Japan Airlines (JAL) and Shanghai-based **China Eastern Airlines (CEA)** are operating an intensified code-share agreement from the first of September that will increase the services offered to their passengers on the Narita-Shanghai and Kansai-Qingdao routes. Additionally, JAL and CEA operate four freighter flights weekly and have a joint sales agreement for air cargo.

Malaysia Airlines (MAS) inaugurated twice-weekly flights from Kuala Lumpur to Colombo, with a transit stop in Male in the Maldives, from early August, using A330-300 aircraft. MAS has code-shared the route with Sri Lanka's national carrier, **SriLankan Airlines**, which operates five services a week on the Malaysia-Sri Lanka route.

Singapore Airlines (SIA) launched the region's first direct flights to U.S. gambling city, Las Vegas, in mid-August, with a three times a week service from Singapore to the city via Hong Kong.

SilkAir, **Singapore Airlines'** regional leisure airline subsidiary, started twice a week services to China's Chengdu, the capital of Sichuan province, after China and Singapore signed a new air services agreement.

Thai Airways International (THAI) will add Xiamen in China, Switzerland's Geneva and Bahrain and Abu Dhabi in the Middle East to its network out of Bangkok from October 27. The airline also will add one flight a week to London, Frankfurt, Melbourne, Cheng-du, Tokyo (via Phuket) and Busan services, increase its services to Beijing from seven to 10 and double its flights to Hanoi to twice daily every day.

Air New Zealand: ordered 15 Airbus A320s as part of its new strategy of operating as a low-cost carrier in the Pacific.

TRAINING . . . Air Macau has bought an Airbus A320 Maintenance/Flight Training device from Faros-Wicat. **Dragonair** has installed an A330-340 flight simulator at its Flight Training Centre at Hong Kong International Airport, to increase its capacity to offer third party flight training.

CLARIFICATION

In the July/August issue of *Orient Aviation* we reported that China Airlines had requested a review of the Hong Kong Civil Aviation Department's (CAD) findings into the August, 1999, crash of an MD-11 at Hong Kong International Airport.

The CAD has pointed out the investigation report has not yet been made public. It had, they said, only been served on the relevant parties for comment. Two parties had requested the findings and conclusions in the report be reviewed by a board of review. The board, as yet, has not been appointed.

The CAD also said that the U.S. National Transportation Safety Board and Boeing Commercial Airplane Group, who assisted in the investigation, had "confirmed to us that so far they have not made any statement as to the cause of the accident".

BUSINESS ROUND-UP

STRONG FIRST HALF FOR CATHAY PACIFIC

CATHAY PACIFIC AIRWAYS signalled it was well and truly on the road to recovery when it announced a HK$1.412 billion (US$109 million) profit for the first half of the financial year to June 30. The figure was 7.1% up on the same period last year, but, more importantly, was a dramatic reversal from the HK$662 million loss in the second half of 2001-2002, that followed the events of September 11.

Turnover of HK$15.51 billion was 2.1% down on 12 months earlier, but 6.3% higher than the second half of last year.

"Subject to unforeseen circumstances we anticipate continued demand in the coming months and an improved result in the traditionally stronger second half [of the year]," said the airline's chairman, James Hughes-Hallett. "Orders for new aircraft (three A330-300s and three B777-300s for regional service to be delivered in 2003 and 2004 to add to three long-haul A340-600s ordered earlier) and our commitment to create about 1,300 Hong Kong-based jobs underline our confidence in the future of the airline and Hong Kong."

Hughes-Hallett listed a number of reasons for Cathay's change in fortunes in the half year: prompt action in cutting costs following September 11, re-negotiating terms with suppliers, the parking of aircraft following cutbacks in services and lower fuel prices.

Load factors were up. Passenger loads increased 6.2 percentage points to 78.1% in the six months under review, while cargo rose 5.1 percentage points to 70.2%. However, business travel remained soft and Cathay's chief executive, David Turnbull, said he did not expect to see any improvement in first or business class bookings this year. Revenue up the front of the plane fell 8%. Meanwhile, passenger yield fell to HK45.4 cents from HK47.3 cents a year earlier.

Weaker cargo yields were compensated by an increase in tonnage. Cargo revenue grew by HK$253 million in the six months to June 30.

Philippine Airlines: a record breaking first quarter

KOREAN AIR BACK IN THE BLACK

KOREAN AIR (KAL) also has achieved a major reversal in its fortunes when it posted a profit of 195.39 billion won (US$156.3 million) for the first six months of the year, a major improvement over last year's first half loss of 345.92 billion won.

Operating income was 102.39 billion won compared to a loss of 149.37 billion won a year earlier. The airline said the improvement was the result of steady growth in passenger and cargo traffic, restructuring in all airline divisions, the stabilising of the jet fuel price and interest rates and the strengthening of the won against the US dollar.

KAL's operating revenue rose 7% to 2.915 trillion won, while operating expenses fell 1.4%, to 2.296 trillion won, over the first half of last year.

Given the better-than-expected results for the half year, KAL said its full year operating profit is expected to exceed the targeted 310 billion won.

In the second six months KAL is expected to benefit from a greater focus on the China market, a growth in passenger travel in the third quarter following the World Soccer Cup, when many people stayed at home in June to watch the competition, and a rebound in Japanese passenger travel.

Cargo is expected to show a year-on-year average increase of 11% in the months ahead.

... AND ASIANA FOLLOWS SUIT

South Korea's second international carrier, **ASIANA AIRLINES**, also swung back into profit this year after heavy losses in 2001. It recorded a preliminary net profit of 91.1 billion won (US$72.9 million) in the first half of the year, compared to a loss of 156.3 billion won a year earlier. Preliminary revenue rose 13% to 1.19 trillion won. Operating profit leapt to 64.1 billion won from 26.4 billion won in 2001.

Asiana's second quarter net profit was 66.9 billion won against a 53.8 billion loss a year earlier, a result gathered mainly through foreign exchange gains and lower jet fuel prices. Preliminary revenue for the quarter rose 16% to 619.7 billion won, a figure largely attributed to improved cargo business.

FIRST QUARTER RECORD FOR PAL

PHILIPPINE AIRLINES (PAL) posted the largest quarterly profit in its 61-year history between April and June. The 983.9 million pesos (US$19.68 million) net profit for the first quarter was more than twice the 457.7 million pesos net income PAL earned for the same period last year. It also surpassed the airline's internal budget target nearly nine times over.

PAL lost 1.6 billion pesos in the last fiscal year, mainly after the fallout from the September 11 U.S. terror attacks.

"I could not have asked for a better start to the fiscal year," said PAL president, Avelino L. Zapanta. "The profit performance reflected PAL's ability to adjust to the dynamics of the volatile post-September 11 marketplace."

The airline reduced its operating expenditure in the quarter by nearly one billion pesos to 8.67 billion pesos. Although operating revenue remained flat, operating income, at 2.73 billion pesos, was 45% higher than a year earlier. With an increased load factor of 78.9% systemwide (81.1% on international routes and 67.6% domestically), PAL was "seriously studying" a case for adding capacity, said Zapanta.

The carrier was on the brink of liquidation in 1999, but under rehabilitation it posted two straight years of profit – 46 million pesos in 1999-2000 and 419 million pesos in 2000-2001. It was well on its way to a third profitable year when September 11 derailed its efforts.

HAINAN EXPANDING AT A PACE

While the spotlight in China has been on the merging of its top 10 carriers, **HAINAN AIRLINES** has been establishing itself in a position of strength to handle the added competition. It has been expanding its own portfolio by buying carriers like **Changan Airlines**, **Zhong-yuan Airlines**, **Xinhua Airlines** and **Shanxi Airlines**.

Now the carrier, in which international financier, **George Soros**, has a stake, says it is planning to buy a U.S. airline. No details have been given.

It also will be adding another 21 planes to its 50 aircraft fleet. They will include three B767-300ERs, six B737-800s and 12 Dorniers.

And Hainan is making money too. It posted a 9.4% rise in first half net profit.

Recently, **AIR CHINA** announced an unaudited 2.74 million yuan (US$332,467) profit for the first six months of the year, compared to a 631.7 million yuan loss a year earlier. The airline said the reversal was due to increased international passenger traffic, up 17.2% year-on-year to 4.72 million, and cargo growth, a rise of 24.9% to 191,900 tonnes.

Other Chinese airlines have not been as fortunate. The country's largest carrier, **CHINA SOUTHERN AIRLINES (CSA)** reported a 38.8% drop in net profit to 123.2 million yuan (US$15 million) for the first six months of the year, compared to the same period in 2001. Turnover for the period was 8.55 billion yuan, up 5.9% on the previous year.

Foreign exchange losses - the airline has heavy yen borrowings - and the absence of asset sales were seen as major contributors to the downturn, although a fall in jet fuel prices boosted CSA's bottom line.

Meanwhile, CSA's chairman, Yan Zhuqing, expressed concern that Cathay's entry into the China market would put key routes under further pressure. He said the lucrative Hong Kong-Beijing route had already shown some decline.

Yan said he expected profitability in the domestic market to improve in the second half of the year because of a crackdown on illegal ticket discounting by Beijing. Domestic traffic accounted for 78.7% of CSA's total passenger revenue.

At press time **CHINA EASTERN AIRLINES (CEA)** reported a 63.7% drop in midyear net profit to 25.5 million yuan (US$3.1 million) compared to the first six months in 2001. However, operating profit rose 29.8% to 491.17 million yuan. CEA's domestic operations recorded a loss of 132.4 million yuan.

SHANDONG AIRLINES, the smallest of China's four listed carriers, posted a 43.5% drop in first half net profit to 23.42 million yuan (US$2.86 million), compared to the same six months in 2001. Turnover, however, was up 45.9% to 823.1 million yuan for the period.

The carrier said in a statement to the Shenzhen Stock Exchange that fierce price competition had led to the reversal in earnings in the first three months of the year, while crashes at Air China and China Northern Airlines in the second quarter had softened demand for tickets.

Although Shandong recorded a 57.3% rise in passengers for the half over 2001, as well as a 61.6% increase in cargo and mail, operating expenses proved to be the bogey man for the carrier. Expenses rose 52.1% year-on-year compared to the 45.9% rise in operating revenue.

Shandong was a pioneer of the commuter market in China in the 1990s. Recently, it announced it would invest 100 million yuan to buy a stake in **Jinan International Airport** in Shandong province.

THAI CASHES IN ON FOREX GAINS

THAI AIRWAYS INTERNATIONAL (THAI) capitalised on a weakening US dollar with a third quarter profit of 3.45 billion baht (US$82.8 million), up 366% on the same period to June 30 a year earlier. For the nine-month period THAI posted a profit of 9.23 billion baht compared to a 195 million baht loss a year earlier.

QANTAS *bucks the world trend (see special report page 24)*

Air freight is performing remarkably strongly and prospects for the future are even better. What is more Asia promises to be the powerhouse driving this prosperity. It's timely news as thousands of delegates from the cargo industry prepare to attend the world's biggest air cargo bi-annual forum and exhibition organised by the International Air Cargo Association (TIACA) in Hong Kong, in September.

By Tom Ballantyne

TONNES OF OPTIMISM

Asia's air cargo market is exceeding all expectations, although yields remain a concern

Asian airlines' air freight business is making a dramatic recovery with optimistic projections of an early return to pre-2001 growth levels. Rising exports of high-value, high technology goods from the Asia-Pacific region's major manufacturing centres are fuelling the rebound, despite ongoing nervousness about the U.S. economy and global business confidence.

The region's major cargo players told *Orient Aviation* they believed the freight increases are sustainable although, like the air passenger business, there are continuing concerns about yields.

But considering the depth of the 2001 downturn, the revival has been little short of phenomenal. Last year was the worst in three decades for the air cargo industry, with a world-wide traffic decline of 9.7% year on year. The Gulf War provided the previous largest fall, but at 2.5% was tiny when compared to the recent crisis.

Now, big airlines are reporting freight tonnage growth in excess of 10% for the first half of 2002 against the same period last year.

There is also growing excitement about the acceleration of China's economy – currently being assisted by substantial rises in foreign investment.

China's exports rose 14.1% in the first six months of 2002, according to official figures.

The Asian Development Bank (ADB) has predicted East Asian economies will grow more strongly this year than was earlier forecast, despite concerns about the strength of the recovery in the U.S.

Singapore Airlines: cargo alliance a quantum leap in the air freight business

The Manila-based multilateral institution said in a quarterly report a surge in exports should help the gross domestic product of ASEAN countries, China and South Korea grow at an average of 5.8% this year, compared to an April forecast of 5.2%. This is another good indicator of cargo prospects.

Long-term, cargo forecasts for the next 20 years are good. The latest predictions from global aerospace company, Boeing, put expansion at 6.4% annually until 2021.

The International Air Transport Association (IATA) projects 5% increases over each of the next five years, although

many Asian airline cargo executives believe both these figures could prove conservative. For example, Japan Airlines (JAL) senior vice-president cargo, Juntaro Shimizu, is one who believes long-term demand could extend beyond the present healthy projections.

Boeing has forecast the delivery of 681 new freighters (349 large/260 medium/72 small) worth $116 billion, as well as more than 1,850 conversions by 2021. This would mean a global freighter fleet of 3,078, compared with 1,775 at the end of 2001. A number of Asian airlines are looking at expanding their freighter fleet.

Amid the optimism, the most critical battle for all cargo operators remains yield improvement. Hwang Teng Aun, president of Singapore Airlines Cargo, told *Orient Aviation* the carrier remains concerned about this issue, even though the decline in yields has stabilised, after falling significantly in recent months.

However, there is a lot of price pressure from what he called "passenger-centric" airlines that carry cargo in belly space.

The airlines that believe belly cargo is a marginal revenue product will always make it difficult for the major air cargo players who are investing in freighters, said Hwang.

"You really have to get a return on your investment. Freighters are very asset intensive. There has to be some risk-sharing vis-à-vis our customers," he said.

He said it was unsustainable for the serious cargo carriers to set marginal prices on their products.

Japan Airlines' senior vice-president cargo, Juntaro Shimizu: believes cargo growth could extend beyond healthy projections

A row is brewing between freight forwarders and airlines about IATA's plans to increase cargo rates from October. Forwarders complain they have been given too little time to prepare. The move, they said, will effectively raise rates on low-density cargo by 20% and hit their businesses by increasing their costs.

The issue is to be discussed by IATA in September and by delegates at the International Federation of Freight Forwarders Association (FIATA) World Congress. Both meetings will be held in Istanbul, Turkey.

The forwarders' protests already seem to have had an effect. IATA said increased rates would not be introduced until late this year or early in 2003, rather than in October, as was originally planned.

The airlines need the rate rises to consolidate gains they are making in cargo volume. Almost all Asian carriers are making giant strides in making up last year's losses.

Cargo traffic for the world's third largest cargo carrier and the largest in Asia, Korean Air (KAL), which earns about half its revenue from freight, rose 8.4% in the first six months over the same period last year. But in June (the latest month figures were available for most airlines at press time) cargo traffic was up 21%. "We're expecting demand to steadily grow in the second half of this year," said KAL spokesperson Crimson Lee. The demand is led by the shipping of IT products, he said. KAL is one of the carriers planning to increase its 20-freighter fleet.

Korea's second international carrier, Asiana Airlines, saw freight grow 10% in the same period. "We continue to ship more semi-conductors, monitors and other IT products to the U.S. from Southeast Asian countries," said Asiana spokesman, Ahn Jae Hwan.

Estimates put Asiana's freight sales up 28% to around US$45 million in June. "We're expecting shipments to grow at a faster pace from September as the worldwide economy is likely to show a recovery."

Hong Kong's Cathay Pacific Airways saw cargo volume increase 20.4% in June and cumulative figures for the first six months of the year show traffic increased by 13.5% over 2001. Cargo load factor for June was 73.9% – up 6.6 percentage points on last year.

Said Cathay's general manager cargo, Kenny Tang: "Cargo traffic continues to surge, driven by strong demand to and from North America. We've been particularly encouraged by a recent strengthening in cargo yields."

Tang added cumulative figures year-on-year to June show an approximate 12.1% increase in traffic. "Cargo has always been a good barometer for market conditions, and the recent cargo figures show positive signs," he said.

In June, SIA Cargo reported a 14.3% rise in cargo aboard freighters and in the holds of its passenger aircraft, with load factors up 6.5% to 71.2%.

Hwang said the Asia-Pacific would be the critical area for the future of the air cargo business. "If you look across the whole region, from the Indian sub-Continent to Japan, we (Singapore) are in the centre of this region. China could be the engine [that drives the cargo business], but the region, as a whole, will grow reasonably well."

Said JAL's Shimizu: "In the first quarter of the 2002 financial year the signs of recovery are clear. Demand in Japan has grown more than 10% over the same period last year and is almost back at the level of the 2000 financial year. The first half of 2000 was running at peak levels [before the slump]. To date, inbound cargo has improved 2% over the 2001 financial year and has been increasing further since July."

Shimizu added shipments to and from Asia are showing exceptional recovery. "Movements from Asia to the U.S. and from Japan to Asia have vastly improved and we can put most of that down to increased demand in the IT and electronics related commodities sectors."

Malaysia Airlines' (MAS) freight arm, MASKargo, reflects the upturn. It finally made a small profit in the first quarter of 2002 after years of losses. Although the events of September 11 had been a major worry to the industry, following on from the recession that started at the beginning of 2001, MAS-Kargo was able to concentrate "on putting things right" and making improvements to increase cargo-handling efficiency on the ground, said MAS senior general manager (cargo) J.J. Ong. MASKargo put greater efforts into tapping lucrative markets in Asia and Europe as well as Australia in the post-September 11 period.

Hong Kong's Dragonair launched dedicated freighter operations in mid-2000 and has never looked back. It has two B747-300 freighters with a third joining the fleet before the end of the year. Its cargo volume grew more than 68% in July from a year earlier, with jumps of over 60% in March, April, May and June, after the delivery of the second freighter.

Korean Air: good results for Asia's largest cargo carrier

New daily services to Taipei are sure to see the boom continue.

The optimistic region-wide results are backed by statistics from airport cargo handlers. Singapore Airport Terminal Services (SATS), whose largest shareholder is SIA, handled 13% more cargo in June compared to the same month in 2001. A spokesman said the economic recovery in the U.S. and Asia boosted demand for cargo services. SATS handles about 80% of cargo traffic at Singapore Changi International Airport.

In Hong Kong, the Airport Authority reported June cargo volume soared by 25% year-on-year, due to the improved economic environment. Exports, or loaded cargo, to North America, Japan, Taiwan and Europe were strong and surged 34% in the same month.

Big all-freight operators are also bullish. DHL Worldwide Express is using China as its major Asian gateway. It also has distribution hubs in Hong Kong and Singapore.

With three new gateways in Beijing, Shanghai and Shenzhen, DHL expects to raise its network coverage to 43 stations, covering 1,000 towns and cities in China by the end of the year. The expansion into China is intended to capitalise on the robust growth of China's economy and the opportunities presented by China's recent accession to the World Trade Organisation.

FedEx is also looking to strong growth in the region with hub expansions in Taiwan and the Philippines and direct flights between Japan and China. FedEx's Asia-Pacific president, David Cunningham, said the company is positioning itself to tap long-term growth in the region through "very targeted investments in the region based on existing and projected customer demand".

While reluctant to discuss specific targets, Cunningham said North Asia is the fastest growing sector of the Asian air freight industry with outbound growth forecasts averaging 6.5% a year over the next 20 years and intra-Asian growth estimated to hit 8.5%.

While Asia is leading the way in cargo expansion there has been a recovery in North America, too.

Data from the Air Transport Association (ATA), representing U.S. airlines, showed U.S. air cargo traffic rose in June for the third straight month after 14 months of decline. The 2% increase was the largest this year and the biggest since a rise of 2.1% in January, 2001.

But the main game is now in Asia and many carriers are looking to spread their networks or lift capacity. Cathay Pacific launched a twice-weekly cargo service to Milan, Italy, in August.

Italy is an important market for Hong Kong. It is the Special Administrative Region's twelfth-largest trading partner with business last year worth almost US$5 billion.

The carrier, which has five B747-400 and 6 B747-200 freighters in its 77-aircraft fleet, serves a freighter network of 23 destinations in Asia, the Middle East, Europe and North America.

Tang said consideration is being given to the purchase of medium-sized freighters for use on regional routes, but no decision had yet been made. The new aircraft, it is believed, would be leased out to its wholly-owned subsidiary, Air Hong Kong, which until recently operated three B747-200 freighters and a A300B4 converted passenger aircraft. Two of the B747s have since returned to Cathay.

It is believed that Cathay is to extend its present "Starlight Express" joint venture with DHL Worldwide Express when the current contract ends early next year.

DHL is to operate the franchise for the new express cargo terminal at the Hong Kong International Airport. At press time a signing ceremony was expected at the end of August.

Cathay Pacific Airways: regional expansion in the pipeline. General manager cargo, Kenny Tang (inset) says the airline is evaluating medium-sized freighters

An official announcement on the future of the Cathay-DHL joint venture is expected in the near future, according to Cathay's chief operating officer, Philip Chen, who declined to comment further on "rumour and speculation".

DHL does not operate its own aircraft in Asia. It has a number of partner airlines, including Cathay, which carry cargo in their belly space.

SIA has 11 B747-400 freighters and firm orders for up to 17 more to be delivered in the next three to four years. It also may convert some of its Airbus A380 orders into the freighter version, but the new very large aircraft will not be available for several years.

China Southern Airlines, China's largest carrier, took delivery of the country's first B747-400 freighter in June.

It was immediately placed in service on the Shenzhen-Chicago-Shanghai-Shenzhen cargo route. A second is due to be delivered in September and will be used to operate to Europe and the Middle East.

MAS's MASKargo is positioning itself for network expansion and is aiming for new markets in Germany, Japan, Thailand, Bangladesh and Taiwan. It has a fleet of four B747-200 freighters, in addition to the belly space in its 82 passenger aircraft.

Another significant development in recent times has been a move by JAL to join SIA, Lufthansa German Airlines and Scandinavia's SAS in the WOW cargo alliance.

The alliance now boasts a combined fleet of 43 dedicated freighters, and a belly hold capacity of more than 760 passenger aircraft, many of them wide-bodied jets.

"We believe by this strategic step we are able to enhance the global approach of JAL Cargo.

"By adding to WOW's harmonised product portfolio and worldwide air cargo network we will keep pace with our customers' demands and the trends of globalisation," said Shimizu.

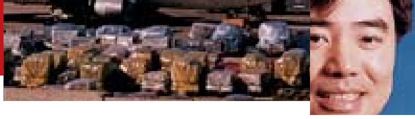
SIA's Hwang said the development of the cargo alliance was a quantum leap in the business.

More and more customers want to deal with fewer and fewer suppliers and they need a system that will overwhelmingly meet most of their requirements globally, he said.

"Each of us, while we are strong in certain regions, is clearly not global in the sense that is required by the global manufacturing chain and logistics companies. The fundamental premise of WOW is we want a loose consortium, but a strong alliance to be able to offer to our customers a network that is, by far, much bigger than individually any of us can offer."

Interlining is almost never done in the

FedEx: has expanded its hubs in Taiwan and the Philippines



cargo business. WOW aims to provide interlining through IT interconnec-tivity. "I need to be able to book cargo on any flights of several airlines as easily as if I was travelling myself as a passenger," said Hwang. "This kind of connectivity requires a lot of project harmonisation and much IT harmonisation. That's where a lot of time and effort has to be spent."

While the news is generally good on the cargo front, commentators are still urging caution, well aware some of the world's major economies remain frail and that more terror incidents could happen.

Jim Edgar, head of Boeing's cargo interests in Asia, said an aspect of '9/11', particularly for Asia, was that a great part of the decline in air cargo traffic in the days soon after the U.S. terrorist attacks came at the expense of belly cargo on passenger jets. "While the freighter traffic declined it was not as precipitous. There were selective groundings of freighter aircraft, but they were not of the magnitude you saw on the passenger side and most of those are back in service now," he said.

There is some concern about overcapacity, as grounded planes are brought back on line. Hwang pointed out a number of airlines with aircraft in the desert are putting them back into service, providing the market with a capacity injection. "We will have to see whether or not that will hit the demand. It could well do so, but at the same time, short of an extraordinary event, the economy seems to be growing in the U.S. and consumption in Asia seems to be expanding. Hopefully, the growth in demand will be met by the increasing capacity that will surely be coming on stream in the next couple of months."

Edgar, however, pointed out that figures are being compared with last year's low base. Boeing's forecast is that by the end of 2003 cargo traffic will be back to the level it was at the end of 2000.

"I don't think many industrial firms yet realise the potential leverage they can have using air cargo, inventory management, quick to market, flexibility, reducing costs. I am very bullish about the future of air cargo," said Edgar.

"Everything is happening in Asia in air cargo. Europe-Asia or trans-Pacific, these are the high growth areas and will be for many years. At the end of 2000, 42% of all cargo touched somewhere in Asia; it was either trans-Pacific, Europe-Asia or intra-Asia. In 20 years, these three markets will represent 52% of the world's total traffic. All the fundamentals are still there: inexpensive labour, abundant raw materials.

"I think the future of cargo in Asia is very, very bright indeed."

See cargo traffic on a charge. AAPA statistics pages 30 to 38

The freighter of the future: A380 or B747?

When Airbus Industrie's giant A380 freighter enters service in 2008, its chief competitor in the skies will be the B747 freighter. *Orient Aviation* asked both sides to put their views on what will be a significant new entrant into the air freight arena. In essence, the U.S. planemaker says a cargo version of the A380 will be a lemon. Not surprisingly, Europe's Airbus strongly disagrees.

THE BOEING VIEW...

People need to understand, explained Boeing's air cargo chief for Asia, Jim Edgar, that with about 250 B747 freighters in service, this is the intercontinental freighter standard. By 2008, when the Airbus A380 freighter will enter service, Boeing estimates that even with retirements there will be more than 300 B747 freighters in service.

"The 747 today represents about 45% of the world freighter capacity. The A380 cannot interline with the B747's three-metre high pallet. If you are operating a system like Singapore Airlines, Cargolux, Cathay Pacific or Korean Air, interlining is critical to your efficiency and your costs. That the world's intercontinental standard cannot interline easily with the A380 is significant."

Even more significant, according to Edgar, is the emergence of cargo alliances. They all operate B747s today and interlining will become even more important.

"The B747 was not adapted for cargo, it was designed for cargo. The A380 has a full upper deck and users have to put their payload on two main decks that are designed primarily for passenger capacity. It will have to carry a lot of structure. To get another 32 tonnes of cargo over and above the 747 freighter, you have to carry 92 tonnes of operating lifting weight. It's not an efficient general cargo carrier," said Edgar.

"Another point to be considered is new ground equipment that is being developed. Every time you land an A380 freighter somewhere you better have this specialised ground equipment that works on this plane. The B747 can virtually land anywhere because the ground equipment is common. Spare parts. Training. All the things that go along with the freighter operation are world-wide with the B747. They integrate seamlessly with those other 250 B747 freighters.

"The A380 is a unique aeroplane type and it carries a lot of weight on each and every flight that is not revenue weight."

"And there is no nose door with the A380, which means you can't accommodate outsize loads," said Edgar.

THE AIRBUS VIEW...

"There may be around 250 B747 freighters today, but that is no guarantee that they will still be around tomorrow. Airlines will want the larger and more efficient aircraft, and that's the A380," said an Airbus spokesman.

"The 10 ft high pallet cannot be interlined with any other aircraft except a B747. Airbus aircraft, including the A380, offer interlining amongst themselves, as well as with most of the world's airliners. The A380 offers the benefit of three-deck interlining flexibility; carrying cargo from a smaller aircraft, such as a B727 freighter or BAe146, does not compromise main-deck large-pallet space.

"The A380 has been designed in passenger and freighter versions right from the start. It can carry heavy loads on both decks. Having two decks on which to put cargo is a benefit – not a disadvantage – since it gives you more cargo space. Remember, freighters tend to bulk out, so the greater width and floor space of the A380 fuselage are real assets.

"It is misleading to make claims about extra cargo and structure. What is important is overall economics. The B747 has 33% to 50% higher cash operating cost (COC) per tonne nautical mile (nm) than an A380 freighter. In addition, the A380 can carry its load a lot further – 150 tonnes of freight on a distance of 5,600 nm against about 90 tonnes for the B747-400F.

"Loading cargo through the nose of the B747 also requires a special loader – in this instance, one that takes up more ramp space (at least a 23 metres longer stand). The special loader was not a big deal when the B747 entered service. Remember also the A380 passenger and freighter versions will, like the B747, fly mainly among the world's top 25 largest cities/hubs.

"The A380 will need an upper deck loader with more reach than those around today – the manufacturers of this equipment have confirmed their ability to produce the equipment. The same upper-deck loader can be used to load both main and upper decks.

"There is no nose-door on the A380 because it emerged from extensive discussions with airlines that it was not that useful to them.

Main use of the nose door would be for outsize cargo – a difficult market for airlines because of price competition from the Russian Antonov An 124." — **Tom Ballantyne.**

Jostling for position

Daniel Baron reports from Tokyo

Japan's airlines are gearing up for October 1, when Japan Air System (JAS) and Japan Airlines (JAL) will enter the first phase of their integration. The merger will result in a "duopoly plus" business environment: two major airlines – JAL and ANA – with extensive domestic systems feeding international flights, and a hodge-podge of much smaller players such as Skymark Airlines, Fair and new-entrant Skynet Asia.

From October, JAL and JAS will operate as members of the Japan Airlines Group. The two carriers' sales activities will be conducted by a newly formed organisation, JAL Sales. The company is planning to have mileage programmes combined by April 2003, with full systems integration completed by April 2004.

One remaining question is the future of JAS's relationship with Northwest Airlines. The carriers code-share on each other's flights and are members of each other's frequent flyer programmes.

The combined JAL/JAS schedule for October reflects the primary demand of the government, namely the return of 18 one-way slots at Tokyo's Haneda Airport. Frequencies to nine cities will drop by one each. At the same time, the company will commence service on routes where ANA previously held a monopoly.

To placate critics of the merger, JAL/JAS will cut standard fares by 10%.

On the international side, in September JAL commenced a code-share agreement with Shanghai-based China Eastern Airlines. The two carriers will place their codes on each other's flights between Narita and Kansai Airports and Shanghai and Qingdao.

JAL is also looking to strengthen its position in cargo. The airline has a joint cargo venture with China Eastern, with each carrier operating two weekly freighter services between Narita and Shanghai. In June, it announced its membership in WOW, the airfreight alliance formed by Lufthansa Cargo, SAS Cargo and Singapore Airlines Cargo.

JAL predicted that increased revenue and synergies gained as a result of integration would result in a net profit of 29 billion yen (US$243 million) for fiscal year 2003 following an estimated 22 billion yen income in the current financial year.

As for inflight product, JAL recently launched a lie-flat business class seat, matching ANA, which had unveiled its own enhanced product several months earlier. In July, the carrier also became a launch customer for Connexion by Boeing's broadband Internet service.

Seeking to divert attention from its arch-rival, ANA has launched a group of sharply discounted domestic fares for use from October, including an all-you-can-fly ticket for 10,000 yen (US$80). On the aggressive discounting, Yoji Ohashi, ANA's president and CEO said: "Our marketing plans are another signal to the competition that we're going to maintain leadership in the domestic market."

ANA said the fares were "conceived in light of developments in the air transport market in Japan and a 're-think' of the company's marketing programme".

JAL and JAS will enter the first stage of integration in October

The carrier hopes to hold its own against JAL in the booming Japan-China market, with recently enacted code-share agreements with China Southwest Airlines and Shanghai Airlines. Also, ANA will push its membership in Star Alliance as a point of differentiation. JAL is not a member of an alliance.

In addition, ANA will look to reap some benefit after bringing into the fold bankrupt Hokkaido International Airlines (Air Do), which it bailed out in June. Phasing out Air Do's identity altogether, however, might invite the wrath of regulators, as the world's most travelled city pair, Haneda-Sapporo, would then be operated by only ANA and JAL.

As for the remaining small carriers, slot concessions at Tokyo's Haneda Airport may satisfy their immediate thirst for greater market share, but the way ahead is still, shall we say, up in the air. Plans for a fourth runway at Haneda have stalled due to disagreement over location and construction type. Capacity constraints at the high-yield airport could wind up inhibiting the kind of growth the small airlines require.

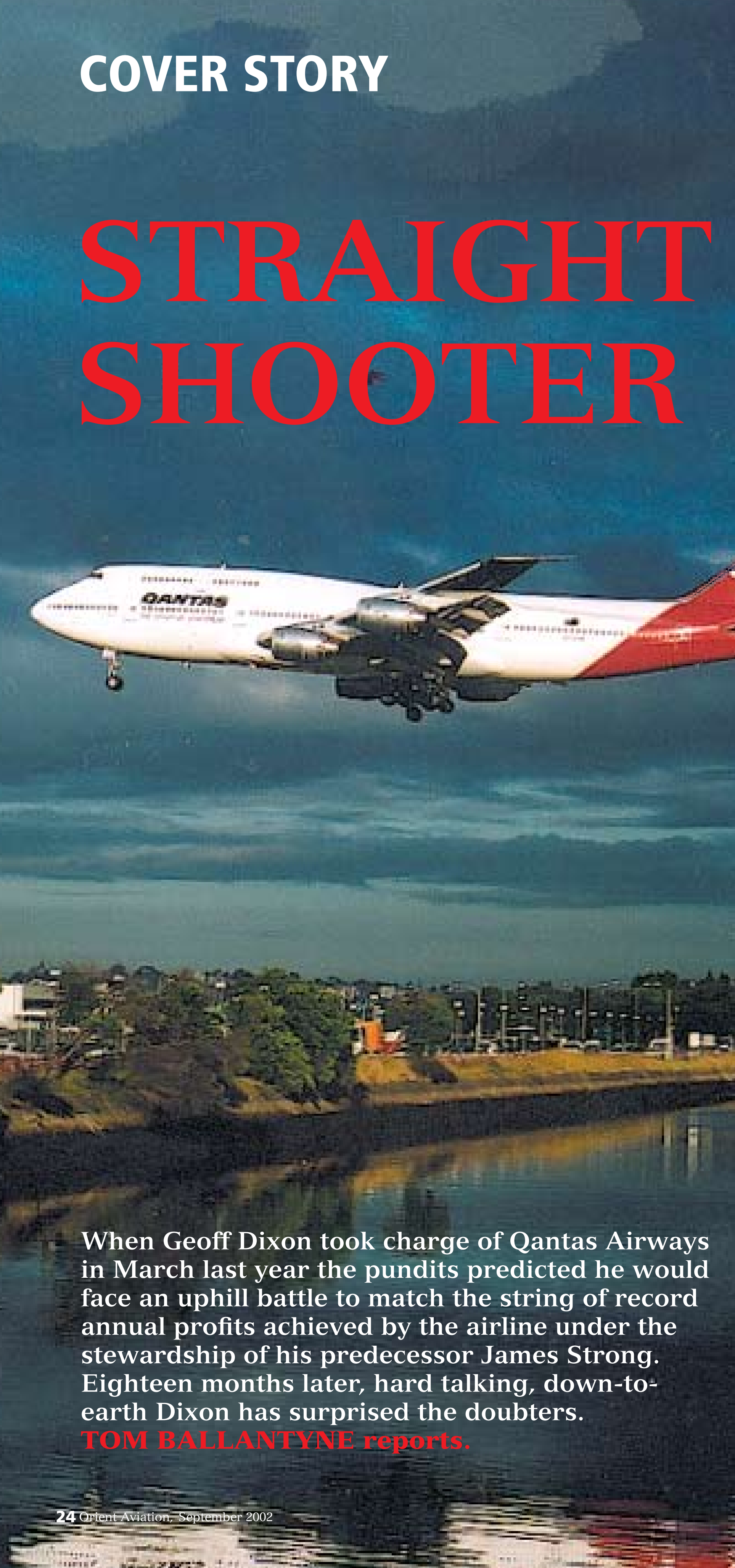
Preparing for the fight, Skymark Airlines, which flies from Haneda to Fukuoka and Kagoshima, has reduced its standard fares. The airline also has introduced a business class product, essentially a re-packaging of the "Super Seat," a domestic forward cabin product found on JAL and ANA.

Further, the carrier announced in July the launch of a scheduled charter service from Haneda to Seoul using late-night and early-morning slots. Skymark is hoping to maximise utilisation of its aircraft, which until now have remained idle at restricted hours.

Skynet Asia Airlines also has entered the ring. On August 1 the new Miyazaki-based airline commenced flights to Haneda with five daily return services, rising to six from September.

Similar to Hokkaido-based Air Do, Skynet Asia received initial financial support from its local prefectural authority, with the intent of increasing competition and, through lowered fares, bringing more tourism to Miyazaki.

The Sapporo start-up, however, was unable to match the majors in frequency and perks, eventually sending it into bankruptcy. Skynet Asia is hoping that by launching with a second-tier route and flying B737-400s, as opposed to larger capacity aircraft, it can avoid the pitfalls that rendered Air Do done. ■



STRAIGHT SHOOTER

When Geoff Dixon took charge of Qantas Airways in March last year the pundits predicted he would face an uphill battle to match the string of record annual profits achieved by the airline under the stewardship of his predecessor James Strong. Eighteen months later, hard talking, down-to-earth Dixon has surprised the doubters. TOM BALLANTYNE reports.

Given the shambolic financial state of the global airline industry, Geoff Dixon's comment that Qantas Airways' US$233.3 million net profit for the 2001-2002 year – its second highest ever – was a "creditable result" may go down as one of the great understatements of the year.

Shrugging off a dismal first six months in the international marketplace, he and his team have blossomed in adversity, driving through corporate re-engineering, fine-tuning operations and preparing the ground for new ventures that promise big returns down the track.

Dixon's current war cry is "segmentation", a process that involves isolating under-performing parts of the business, then tailoring their strategies to convert them from loss-makers into profit-producers.

The latest Qantas financial result, for the year ended June 30, built on an 11.1% rise in revenue to US$6.1 billion, reaffirmed Dixon's conviction segmentation pays dividends.

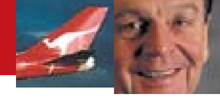
He insisted Qantas' future is full of interesting opportunities – and not only for the core airline. "About 28% of our profits in the past year came from our subsidiary businesses such as regional airlines, our catering business and Qantas Holidays. A very important part of how we go forward is to establish a portfolio of businesses that are not necessarily subject to the cyclicality that appears quite often to hit the airline business," he said.

Not that flying aeroplanes will be ignored. Qantas is in the midst of the biggest upgrade programme in its 83-year history. It is looking to invest nearly US$13 billion over the next decade in everything from aircraft to Information Technology and service improvements.

As airlines around the world rack up billion dollar losses, Qantas is bucking the trend and planning big moves. In October, Dixon will launch an innovative, low-cost international carrier, Australian Airlines. Its goal is to turn loss-making Asian regional routes, long ago dumped by the majors including Qantas, into money-spinners. He also is considering a new low-cost domestic offshoot, using wide-body B767s to fly purely leisure routes.

He has board approval for a US$7 billion fleet renewal plan for the next decade. Some 35 new aircraft are on order: 13 Airbus A330s, 12 A380s, six Boeing B747-400ERs and four B737-800s. An additional investment of US$5.9 billion is under consideration.

Qantas, a oneworld alliance member, may acquire a piece of cash-strapped Star Alliance member, Air New Zealand



(Air NZ). Dixon is in talks with the carrier about taking equity, which would forge a trans-Tasman alliance between the two airlines despite the fact Air NZ is a long-time rival and member of Star. At press time talks were continuing.

In August, investors responded enthusiastically to an A$800 million (US$430 million) entitlement offer to existing shareholders, to help finance aircraft and to contribute to an Air NZ purchase if negotiations were successful.

It has been an extraordinary 12 months for the airline. The collapse of Ansett Australia early this year placed tremendous pressure on Qantas, which had to fill the gap left by Ansett's disappearance at short notice. During the last year, in addition to planes on order, Qantas has bolstered its fleet with 15 new Boeing B737-800s and one B737-300, six B717s and seven De Havilland Dash 8s, as well as taking another 11 aircraft on short-term lease. Staff numbers have grown by 1,500 to over 33,000.

The current re-equipment programme will see an overall 10% increase in capacity and a 16% rise in available seat kilometres. Dixon said the investment would increase efficiency by reducing aircraft operating costs and offer travellers a better product, which, it is hoped, will improve yields.

Big gains have been made in other areas, too. Over 20% of domestic bookings are now made on the Internet, which cuts distribution costs. "For a traditional airline we are Amadeus' biggest customer in that particular field. We are probably among the world leaders in this area and it is bringing us very significant savings," said Dixon.

It is all heady stuff for a boy from rural Australia. Born in Wagga Wagga, Dixon vigorously guards his private life, unlike his predecessor Strong, who enjoyed courting the media. The two worked closely together for many years and Strong was never slow in recognising Dixon's role in his successes.

Now 62, Dixon began his working life as a cadet reporter on Wagga Wagga's *Daily Advertiser*. After a stint in corporate public relations Dixon joined the Australian Government. It was while he was working in the Australian consulate in New York as chief information officer that he was headhunted by Strong to return home to help revive the fortunes of the then Government-owned domestic carrier, Australian Airlines. The carrier later merged into Qantas.

At Australian Airlines he quickly gained a reputation for his marketing skills as well as earning recognition for his ability to make decisions quickly and out-think the opposition.

His ongoing success may please shareholders, but it does not protect Dixon from more than his fair share of

Qantas Airways chief executive, Geoff Dixon: a corporate scrapper

criticism. Detractors suggest he has been "lucky" and that some of his manoeuvres amount to little more than spoiling tactics to unsettle rivals, the Air NZ bid being a case in point.

Many observers believe neither the New Zealand public nor the country's government, which now owns the airline, will accept Qantas as a partner. "We believe that a relationship between Air NZ and Qantas would be a very good fit for both of us," said Dixon. "If we get a deal that is mutually beneficial it will be great. If we don't, we'll get on with our lives and they'll get on with their lives."

Dixon is a corporate scrapper, but he also is a pragmatist. Recently, he, along with others, argued long and hard with the Australian Government in a bid to have the 49% cap on foreign investment in Qantas removed.

He believes lifting the cap will free the airline to raise money for its investment programme at better rates in offshore markets. The move failed.

Dixon was one airline chief blessed with a ray of sunlight during the dark days following the September 11 U.S. terror attacks. Within days, Ansett fell in a heap and in March this year it went out of business.

Being handed around 90% of the Australian domestic market gave Qantas a solid domestic base that cushioned the crisis for Qantas on its international routes. Nevertheless, the reality remains the airline still relies on international operations for 80% of its revenue and, like carriers around the world, suffered in the months following 9/11.

Qantas has also been accused, among other things, of engineering Ansett's demise, of hiking air fares now it has market dominance, of attempting to damage low-cost rival Virgin Blue by throwing capacity onto its routes and abandoning regional Australia.

He has repeatedly argued Qantas helped Australia through the Ansett crisis, carrying thousands of its stranded passengers at no charge.

He is angered by accusations of price gouging. "There is still a huge number of discount fares. Over 60% of our fares are discount and 20% are, on average, very deep discount."

And Qantas still does a great deal of what Dixon calls "social flying", operating flights on loss-making routes. "We are not ripping off regional Australia. I can assure you in regional Australia you can lose money on monopoly routes. I don't know of any other business in the world where you can do that and we do. We can lose money being the only airline flying," he said.

Dixon said introducing more wide-body aircraft onto domestic routes is not a strategy to dominate the market, but to protect the overall profitability of Qantas. "We are in no way trying to establish a position to be so dominant in this country that it imperils a Virgin or anybody else coming in. It is not something we want to do."

Qantas holds no fears over the possible arrival of a third domestic carrier in Australia's skies: Singapore Airlines (SIA) and Air NZ have both been reported as potential entrants. "I know no more than what I read in the newspapers. Obviously, if SIA wants to start a domestic airline in Australia, unlike most other countries they can. Our company is ready for that to happen," said Dixon.

Talk of launching a new low-cost domestic may be a strategy to muddy the domestic waters and cause potential new entrants to pause. Dixon remains coy. "I think I'd prefer to leave the confusion out there," he said.

However, there appears no doubt that single class, wide-body aircraft will be dedicated to leisure routes that attract very few business travellers.

Dixon has managed to retain his sense of humour through his time at the top. No doubt the locals at the pub he owns in Wagga Wagga, the Turvey Tavern, can vouch for that.

Last year, when asked about a wave of criticism from passengers over new cardboard inflight refreshment boxes he conceded airline customers had been short changed. "We believe the decision to put the boxes on was the right decision. We just forgot to put any food in them," he joked.

Since then, extra food has been added and the offering improved substantially. "Overall, the product is very good, but we believe we can always improve," said Dixon. He might well have been talking about his philosophy for the airline company at large.

Philippines split over U.S. open skies debate

PAL says 2003 too early, but President Arroyo favours speedy liberalisation

By Rene Mallari in Manila

Philippine Airlines (PAL) is pushing for a delay in the planned introduction next year of open skies between the Philippines and the U.S.

But others, including President Gloria Arroyo, have said the country must liberalise its aviation industry as soon as possible.

Open skies advocates want the Philippines to embrace a new air services regime so the country promotes itself as an aviation hub. They say nations that adopted such a policy experienced dramatic trade growth.

President Arroyo said changes had to be introduced in the airline industry to attract more tourists and investors to the country. "We must seize the moment to act boldly on current opportunities to fully modernise aviation services and turn the Philippines into a transportation and commercial hub in the Asia-Pacific," she said.

Mila Abad, president of the reformist group, Freedom to Fly Coalition (FFC), also urged the Philippine Government to liberalise the aviation industry.

But national carrier, Philippine Airlines (PAL), wants the implementation of open skies, due to be introduced in October 2003, delayed to give local carriers "time to grow".

PAL president, Avelino Zapanta, said the government needed to renegotiate the terms of an existing Philippine-U.S. air services agreement to adopt a "calibrated" open skies policy that would provide for market-based enhancements and a reasonable safety net for local carriers while also promoting the Philippines as an aviation hub.

He said Philippine airlines were "handicapped" at present by the US$15 billion subsidy granted to American airlines by Washington D.C., which had protected them from financial collapse following the events of September 11.

Zapanta said U.S. airlines could use the subsidy to "launch unfair or destructive competitive practices under a lopsided open skies regime that would hasten market instability at the expense of growth".

In addition to being disadvantaged by the subsidy, local carriers would have limited access to the U.S. market under the proposed new policy, said the PAL president.

"Philippine carriers are excluded from U.S. airline alliances and face the threat of another flight freeze as Washington has downgraded the local aviation authority's capability to perform safety oversight functions."

He further justified PAL's plea for a delay in the introduction of open skies by noting that American carriers were using only 39% of their current passenger rights for flights between Manila and U.S. cities.

PAL president Avelino Zapanta: argues U.S. carriers using only 39% of current passenger air rights between U.S. and Manila

United Airlines has suspended its flights to the Philippines, while Northwest Airlines had cut its Manila services by 33% because of diminished market demand, said Zapanta.

PAL, said Zapanta, wants the U.S. to open its domestic routes to Philippine carriers as part of a revised open skies agreement with Washington D.C. The Philippines can then reciprocate accordingly.

Allowing Philippine carriers to fly U.S. domestic routes would offset U.S. carriers' existing fifth freedom advantage of being able to carry traffic between the Philippines and cities in Asia, Australia, the Middle East and Europe.

"Unlike U.S. carriers, which begged for protection and received state aid from the U.S. Government last year, PAL only wants fair, equitable, realisable and reciprocal opportunities for Philippine carriers to fully access the Philippine-U.S. market," said Zapanta.

The American Chamber of Commerce (Amcham) in Manila has urged the Philippine Government to push for open skies with the U.S. because the Philippines' market share of tourism in Asia is shrinking.

Amcham claimed that more direct international flights to more airports within the Philippines were urgently needed to reduce travel costs, promote tourism and business travel and benefit overseas Filipino workers (OFWs).

Cesar Tolentino, an economist at the Manila-based University of Asia and the Pacific, also supported the open skies policy.

He said it would encourage competition among local and international carriers that would benefit the consumer.

However, he said it was important the government ensured the policy was "a win-win solution for all concerned" and not biased towards local airlines.

Meanwhile, the FFC's Abad called on the government to activate all pending talks that would improve access to the Philippines, particularly the stalled discussions between the United Arab Emirates (UAE) and the Civil Aeronautics Board about the expansion of the Manila-Dubai route.

There are about 150,000 OFWs in the UAE and some 1.2 million in the entire Middle East, said Abad, but only six flights each week operate on the route, compared to 320 flights to elsewhere in Asia, where 920,000 OFWs work. ■

KAL scores own goal

The World Cup was a great success for Asia, but the airlines and hotels ended on the losing side

By Daniel Baron in Tokyo

World Cup held no winners for Japanese and Korean airlines

The World Soccer Cup, held in June, was by any account a huge success for the host countries' teams and organisers. For their airlines, though, it was a game of goals unreached.

Ambitious Korean Air (KAL), for example, had bumped up capacity with an extra 35 weekly flights between the two countries. The bookings to fill the seats, however, never materialised. In fact, total traffic between Korea and Japan during June declined 24% from the same period in 2001, to 244,184 passengers, said the carrier.

This contrasts with routes between Korea and Oceania, China and Europe, where the airline's traffic jumped 64%, 51% and 21%, respectively.

KAL's average load factor on Korea-Japan routes during June was 57%, down from 81% during the previous year, reflecting the boost in capacity for the World Cup.

At Japan Airlines (JAL), company spokesman Geoff Tudor said: "The World Cup for us meant lots of empty seats." Indeed, the company had predicted that many people would stay home and as such added no extra capacity to its schedule.

JAL reported that its international traffic during June was down 10% compared to the same month last year. Traffic on Japan-Korea routes declined by a whopping 45%.

At ANA, domestic traffic in June declined 6.1%; international traffic was off 5.2%.

Further, the anticipated demand for charter flights between Tokyo's Haneda Airport and Seoul also did not materialise, with only approximately 30 of the planned 70 flights conducted. ANA reported it operated merely two such flights, for tour operators.

A report issued by Japan's immigration office in July estimated that only 30,000 visitors entered the country specifically for the World Cup, far fewer than anticipated. The report said 83,000 South Koreans visited Japan during the month of June, a 20% drop from the same period in 2001.

Meanwhile, Japan's Ministry of Land, Infrastructure and Transport said 169,778 people passed through Narita Airport during the World Cup period, an increase of 4.9%. Capacity, however, was up 54.4% over the same period in the previous year as a result of the new runway.

The dip in traffic between the host countries is attributed to the fact that both the Japan and Korea teams played only on their respective turf. For die-hard home-team fans on either side there was little reason to go abroad.

Instead, the primary destination for many became any spot with a television. "In Korea," said KAL spokesman Crimson Lee, "many people simply decided to stay home to watch the games on TV. They put off their travel plans until after the event."

Complicating matters further was a lack of hotel availability, particularly in Seoul, due to block bookings by organisers FIFA, the international football federation. Assuming the rooms would be filled, travel agents and hotels had been turning customers away, leading to lighter advance bookings for the airlines. As the games got underway, however, many of the block reservations were cancelled, leaving hotels with empty rooms and consequently airlines with dismal load factors.

In spite of the less-than-stellar traffic figures, KAL's Lee was upbeat about the experience in general. "Although the figures during the World Cup period were a bit disappointing, the high season is expected to fill the gap," said Lee. He reported bookings for the traditional summer holiday period, between mid-July and mid-August, were up over the previous year. "More importantly," Lee added, "at the end of the day, the increase in exposure and brand recognition will contribute positively to our growth and profitability in the long term."

In addition, none of the host country airlines reported World Cup-related inflight hooliganism, the fear of which had prompted the Japanese Government to dispatch air marshals to the country's airlines. ANA spokesman Fred Tanaka said the carrier, which hired its own Europe-based "Sky Guards", encountered no on-board disturbance.

On a lighter note, JAL's Tudor lamented – tongue-in-cheek – his carrier's failed "top secret" attempt to transport Japan's team to Sendai for its match with Brazil without being noticed by the local press.

The stealth operation gone wrong was carried out with one of the carrier's B747s, which, coincidentally, had been painted with a large mural of a football player. In spite of heightened security and a ban on publicity, low and behold, when the aircraft arrived in Sendai, a swarm of reporters and TV cameras were there waiting for it.

While at a loss to explain who could have let the cat out of the bag, Tudor admitted the "unexpected" press attention was a PR coup for JAL. ■

BATTLING BACK

Never-say-die SriLankan Airlines cashing in after year to forget

By Tom Ballantyne

SriLankan Airlines and its battling chief executive, Peter Hill, have been to hell and back in the last 14 months, but now, at last, there is real hope of better times ahead for the carrier.

Six weeks before the global aviation industry was brought to its knees by the events of September 11, SriLankan found its fleet caught in the middle of a Tamil Tiger terrorist assault on Colombo Airport. It lost four of its 12 planes and passenger traffic slumped 50%.

And if that was not bad enough, the airborne "9/11" terror attacks in the U.S. made matters even worse.

Today, however, in a remarkable transformation, SriLankan's load factors are hitting record levels – over 84% – and yields are improving significantly. What's more it emerged with a profit from the worst year in airline history.

The main reasons, Hill told *Orient Aviation*, were the ceasefire in Sri Lanka's long-running, debilitating civil war and the prospect of more settled political times.

"The peace process has given us the stimulus to look forward to increased opportunities. Passenger numbers are rising quite dramatically. A lot of Sri Lankans living overseas are returning home because they are able to go back to areas of the country that have been out of bounds for many years," said Hill. Business class traffic also was on the rise, he added.

The emerging peace process also has sparked a lot of interest from European investors looking for new business opportunities in Sri Lanka, said the chief executive.

Last year's terror attacks came at a time when SriLankan was trying to rebuild after recording a record loss of US$70.4 million to March 31, 2001.

High fuel prices contributed significantly to the red ink. The airline had no fuel price hedging in place so it had to bear the full brunt of record high prices. Combined with a weak local currency higher fuel prices exacerbated the declining market conditions.

SriLankan secured additional credit lines, reduced aircraft lease rentals through the use of interest rate swaps and established a fuel risk management programme. The loss of four aircraft and

SriLankan Airlines chief executive Peter Hill: better times ahead for the carrier

a massive shrinkage of its network as it withdrew services dramatically reduced costs. Also, the carrier offered 1,500 workers voluntary retirement.

These measures, together with an improved business environment in recent months, contributed to SriLankan's operating profit of 1.4 billion rupees (US$14.6 million) in the year ended March 31.

Following the Colombo airport attack, services virtually halted at the carrier as the damage was assessed. SriLankan immediately dropped a number of destinations, including Frankfurt, Rome and Australia, as a result of the terrorist attacks.

Today, SriLankan has a fleet of three Airbus A340s, four A330s and two A320s.

In recent months, the carrier was ensconced in negotiations with 40% shareholder, Emirates Airline, at the request of the new Sri Lankan Government. The island country's politicians were unhappy with some aspects of the deal with the Middle East operator.

Key issues that were discussed included ground handling rights, the catering franchise and the fact that SriLankan is the sole designated international carrier for Sri Lanka for a limited time.

The outcome was that there will be no change in Emirates' holding. Emirates purchased its SriLankan stake in 1998 and has six years left to run on a 10-year management contract with the carrier.

Meanwhile, SriLankan is to resume services to Germany in October, with four weekly flights to Frankfurt via Paris. "With the peace initiatives undertaken by the government, our projections are that leisure and business traffic from Germany will grow significantly in the future," said Hill.

Closer to home, SriLankan will introduce more services to India after the completion of bilateral talks with Indian authorities that will give the airline rights to fly three times weekly to Bangalore, India's computer software hub.

The Colombo-based carrier currently flies to New Delhi, Mumbai, Chennai, Trichy and Trivandrum in India.

Elsewhere in Asia, it has services from Colombo to Tokyo, Bangkok, Hong Kong, Kuala Lumpur, Singapore and Jakarta.

The airline has introduced a weekly freighter service, using its own dedicated Antonov AN12 freighter, to Karachi.

With a capacity of 13 tonnes, it carries consignments of betel leaves to Pakistan and returns with a mix of general cargo such as garments, medicines and equipment for Colombo and destinations in India and the Far East. The freighter also serves Bangkok, Banga-lore and Male.

Marketing efforts have been intensified at all the airline's destinations. In Britain, for example, SriLankan is promoting itself on 20 of London's famous taxis. The campaign coincided with the SriLanka – England cricket Test match series.

Tactical commercial promotions such as "buy one, get one free" packages, complimentary stays in Sri Lanka for transit passengers and special interest tours to Sri Lanka also are being promoted.

The shifting of the airline's revenue management team to Dubai last year and the assistance of proven revenue management techniques from strategic partner Emirates has boosted revenue.

Hill and SriLankan may still have a long way to go, but there are encouraging signs that the airline has put the nightmare of the last 12 months behind them. ■

Rivals clash over claims of price-cutting

By Tom Ballantyne

How long can Boeing stand by and watch arch rival Airbus announce big aircraft orders, some from long-time customers of the Chicago-based aerospace giant, apparently won by aggressive discounting that produces offers airlines cannot refuse?

Even though Airbus now seems certain, for the first time next year, to sell more planes than Boeing, the answer, according to Randy Baseler, vice-president marketing of the U.S. company, is that whatever happens, Boeing does not want to get into a price-cutting war with its European competitor.

And he warned the way in which Airbus had won recent sales campaigns, including big orders from Virgin Atlantic Airways and Air New Zealand (Air NZ), is threatening the viability of the industry. He and other Boeing officials spent considerable time at the recent Farnborough Air Show accusing Airbus of irresponsibility by not cutting production following last year's industry crisis.

But Airbus flatly denies it is winning orders through bargain basement deals. "Whenever Boeing loses a deal, that always seems to be its claim. The planes sell themselves. It's is not a pricing-war issue," said Airbus spokeswoman, Mary Anne Greczyn.

The European maker's top echelon, including chief executive, Noel Forgeard, and chief operating officer, Gustav Humbert, echoed the denial, and said all planes produced are going to paying customers and that the company is not selling at a loss.

But many of the customers who have recently bought from Airbus have said low prices were key to their decisions. Baseler admitted outright Boeing had pulled out of negotiations with Air NZ – the carrier has placed an order that will see it replace its long-time B737 fleet with up to 35 A320s, its first ever Airbus order – because it was not prepared to go any lower on price. "We have to consider the overall viability of our company," he said.

Added Toby Bright, leader of Boeing's commercial airplane sales: "I hated losing that [order]. Air New Zealand was one of my first sales accounts. I took it personally. We went as far as we could to make a reasonable business out of it and then we stopped. Our competitor chose to go significantly further."

The verbal battle between Boeing and Airbus about pricing has publicly revealed a fundamental divergence of tactics between the two big planemakers as they strive to overcome the worst downturn in their business. In basic terms, each has taken a dramatically different approach.

Gustav Humbert, Airbus COO: Airbus has better ratio of employees to deliveries

Randy Baseler, Boeing vice-president marketing: viability of the industry under threat

Boeing has cut its production by nearly half and now produces 24 planes a month, compared with 46 a month in 2001. It has slashed 2003 delivery forecasts to between 275 and 300, down from 527 last year and the 380 it expects to deliver in 2002.

Airbus, on the other hand, has merely shelved a planned expansion and trimmed its output from last year. It expects to deliver slightly more than 300 planes in 2003, which would give it a lead over Boeing for the first time in the European company's history.

Boeing's chairman and chief executive, Phil Condit, said this means Airbus is not matching its production to the market. Baseler warned that in the long-term the European manufacturer could flood the market with excess capacity that will depress aircraft values and lead to a harmful price war.

"If someone buys an aeroplane for $50 million and later someone else buys the same aeroplane for $40 million all of a sudden the residual value of that aeroplane is not $50 million. Airlines that have paid the real price for an aircraft will suddenly find their asset severely dimished in value. For the industry's health that is not good. It alters the dynamics of the industry," said Baseler.

Airbus argues that current supply problems exist because Boeing produced nearly twice as many planes as Airbus in recent years.

Airbus COO Humbert said his company is more efficient than Boeing. In 2001, Boeing delivered its 527 commercial planes with a commercial work force of about 95,000 and will deliver around 380 jets this year with about 65,000 employees. Airbus has a stable work force of 45,000, including 27,800 in manufacturing. "Airbus will deliver about 300 planes this year, which shows it has a much better ratio of employees to deliveries," said Humbert.

Baseler described this claim as "absolutely absurd". ■

Next month:
The region's most comprehensive fleet census

April and May, 2002 statistics

(*Orient Aviation* produced a combined issue in July/August so both April and May statistics are published below).

CARGO TRAFFIC ON A CHARGE

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

May international traffic results of member airlines of the Association of Asia-Pacific Airlines (AAPA) recorded the first significant improvement in revenue passenger kilometres (RPKs) in more than a year. RPKs rose 3.7% and the number of passengers carried (PAX) was up 4.9%. Seat capacity declined 1.5%, which resulted in a 3.6-percentage point increase in load factor to 70.9%.

Eight carriers reported positive RPK growth, with two of them, Vietnam Airlines (VN) and Thai Airways International (TG) reaching healthy double-digit growth of 18.9% and 13.7% respectively. RPKs shrank for five carriers in May – Royal Brunei Airlines (BI -8.7%), All Nippon Airways (NH -7.0%), Japan Airlines (JL -5.4%), Garuda Indonesia (GA -3.3%) and Cathay Pacific Airways (CX -0.8%). Garuda Indonesia, which has been experiencing double-digit decline in RPKs year-on-year since November 2001, managed to soften the decline in the month under review as a consequence of a 16% increase in the number of passengers carried.

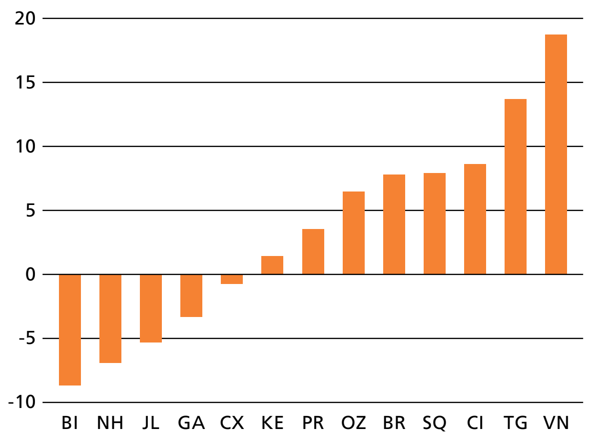
The majority of carriers reported a rise in the percentage of seats filled in May. Philippine Airlines (PR) emerged with the best improvement in passenger load factor (PLF), up 8.5 percentage points. Vietnam Airlines (8.2 percentage points) and Cathay Pacific Airways (6.5 percentage points) also reported substantial load factor improvement. The load factors of three carriers deteriorated – Royal Brunei Airlines (-8.4 p.p.), Asiana Airlines (OZ -2.3 p.p.) and All Nippon Airways (-1.1 p.p.).

Two carriers – Philippine Airlines and EVA Air (BR) – regis-

Thai Airways International: strong RPK growth in April and

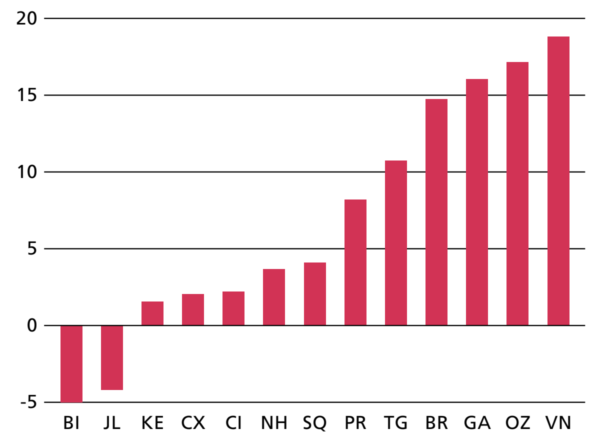
RPK GROWTH BY CARRIER

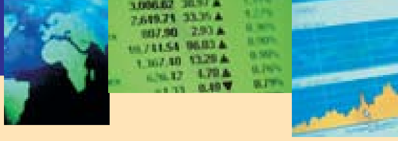
Percentage (May 02 vs May 01)



PAX GROWTH BY CARRIER

Percentage (May 02 vs May 01)





tered a PLF above 80%, while seven carriers had a load factor over 70%, which ranged from Japan Airlines' (70.3%) to China Airlines' (CI) 77.5%.

CARGO

AAPA international freight traffic, measured in freight tonne kilometres (FTKs), rose 22.5% in May. Although the huge increase could partly be attributed to the relatively low base of May 2001, the freight market has definitely shown signs of recovery. Capacity rose 9.9%, which resulted in a 7.0-percentage point increase in load factor to 67.1%.

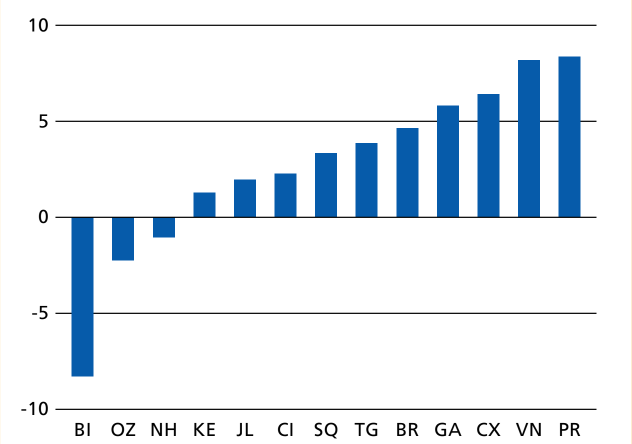
With the exception of Vietnam Airlines, all carriers reported impressive positive growth in FTKs, largely fuelled by the strong demand for exports to the United States. Ten carriers recorded double-digit growth in May, with EVA Air posting the largest increase, at 34.7%. Meanwhile, Singapore Airlines' (SQ) FTKs grew 26.0% year-on-year, followed by China Airlines (24.2%) and Asiana Airlines (22.5%).

There was an across-the-board improvement in freight load factor (FLF) in the month under review, with Asiana Airlines leading the pack with an rise of 14.4 percentage points. EVA

Garuda Indonesia: softened RPK decline in May, which stretched back to November 2001

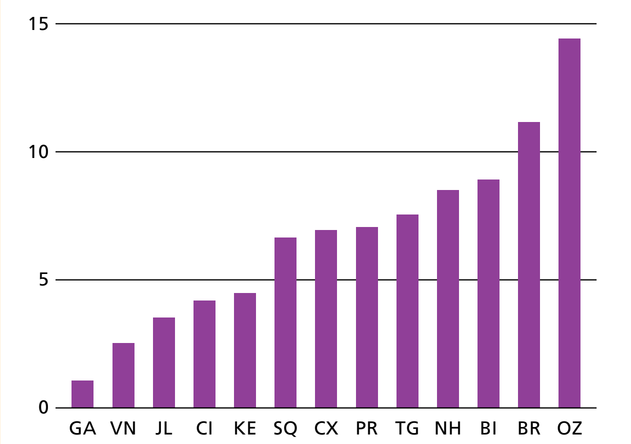
PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (May 02 vs May 01)



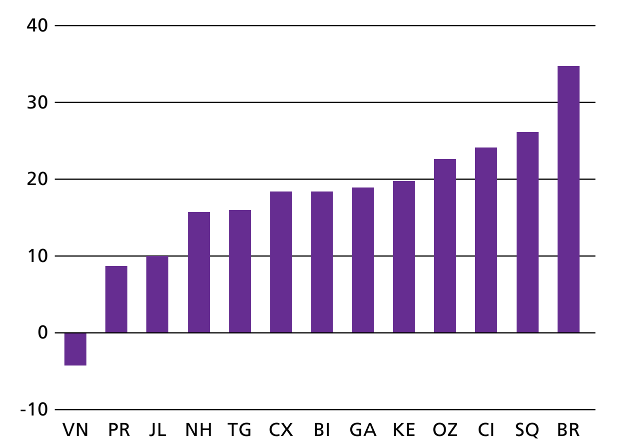
FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (May 02 vs May 01)



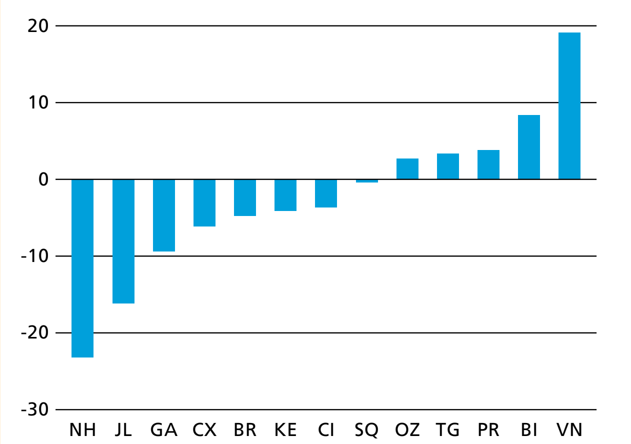
FTK GROWTH BY CARRIER

Percentage (May 02 vs May 01)



RPK GROWTH BY CARRIER

Percentage (Jun 01 - May 02 vs Jun 00 - May 01)



Philippine Airlines: best passenger load factor among AAPA carriers in May. Up 8.5 percentage points to over 80%

Air (11.2 percentage points) also registered a double-digit improvement. All other carriers registered increases, which ranged from Garuda with one percentage point to Royal Brunei Airlines with 8.9 percentage points.

Asiana reported a FLF of 82.1%, followed by EVA Air (74.3%), Korean Air (KE – 73.8%) and China Airlines (73.2%). Four carriers filled less than 50% of their capacity.

RESULTS OF THE 12 MONTHS TO MAY 31, 2002

PASSENGER

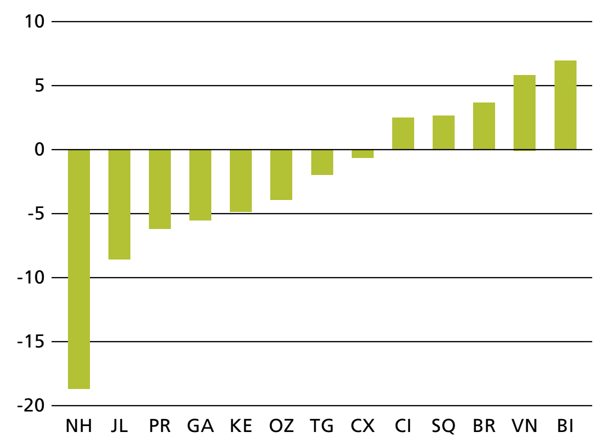
The AAPA consolidated international RPKs and PAX for the 12-month period contracted by 5.4% and 2.0%, respectively. Capacity declined by 2.3%, which resulted in a load factor of 72.2%, a decline of 2.3 percentage points.

CARGO

The consolidated international FTKs for the 12-month period under review contracted by 1.6%. The capacity was reduced by 0.7%, which resulted in a load factor of 66.4%, down 0.6 percentage points.

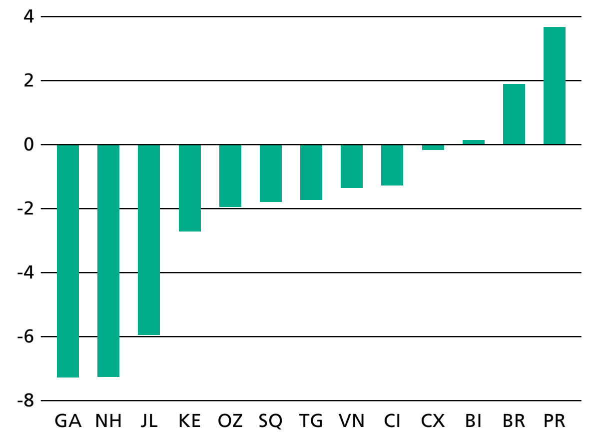
FTK GROWTH BY CARRIER

Percentage (Jun 01 - May 02 vs Jun 00 - May 01)



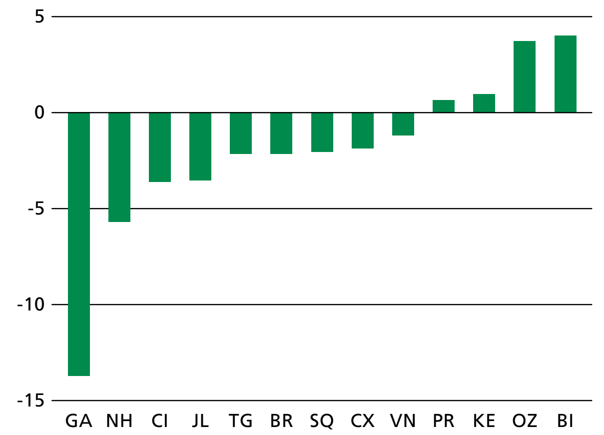
PASSENGER LOAD FACTOR GROWTH BY CARRIER

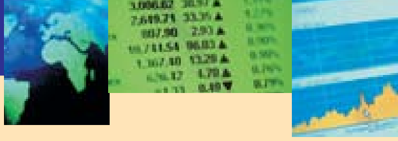
Percentage Points Change (Jun 01 - May 02 vs Jun 00 - May 01)



FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Jun 01 - May 02 vs Jun 00 - May 01)





SUMMARY

In the year to date passenger traffic (January to May) is only marginally below the level of the corresponding period in 2001. It should definitely turn the corner in June and resume growth on the back of an economic recovery and the return of passenger confidence in flying. Already, the number of passengers carried has recorded growth of 1.6% to date with an increase of just under one million passengers compared to the same period last year.

As for freight traffic, growth in the first five months of 2002 is an encouraging 10.1%. With the expectation of continuous trade improvement, freight traffic should easily register double-digit growth for the entire calendar year.

APRIL STATISTICS

Continuing the recovery momentum, the AAPA international scheduled passenger traffic figures produced another positive, albeit small, gain in April with revenue passenger kilometres rising 0.3% year-on-year. The number of passengers carried, which reflected an increase more in short-haul traffic, increased 2.9% year-on-year.

Capacity was 4.3% below April 2001, which produced a 3.5-percentage point gain in passenger load factor, to 75.1%.

Seven carriers reported positive RPK growth while another five registered a decline. Among the carriers that produced an increase in RPKs, Vietnam Airlines led with an impressive 11.6%. Asiana Airlines (9.5%), Thai Airways International (7.6%), Korean Air (7.1%) and Singapore Airlines (5.2%) also registered positive growth in April. All Nippon Airways, with an RPK fall of 12.6%, and Japan Airlines, with a drop of 7.5%, have yet to turn the corner as trans-Pacific routes still suffer from the lingering effects of September 11.

With capacity continuing to be restrained, all but one carrier emerged with an improved load factor. The carriers with a substantial PLF improvement were Vietnam Airlines (7.1 percentage points) and Cathay Pacific Airways (5.0 percentage points). Royal Brunei Airlines saw its load factor decline by 4.7 percentage points, due largely to a 7.2% increase in capacity.

EVA Air, China Airlines and Vietnam Airlines managed to fill 80.0% or more of their aircraft while Philippine Airlines, Cathay Pacific Airways and Asiana Airlines reported load factors in the high 70s.

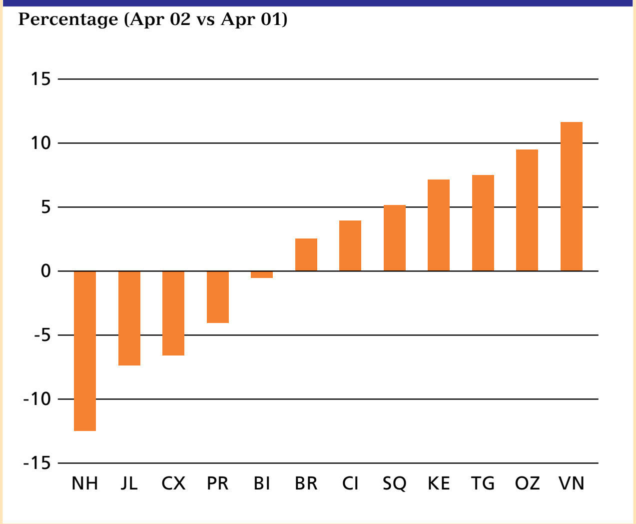
CARGO

AAPA international freight traffic grew 15.5% year-on-year in April, the first double-digit growth since September 2000. Freight load factor climbed to 68.0% – a gain of 7.3 percentage points – as capacity increased by 3.3%.

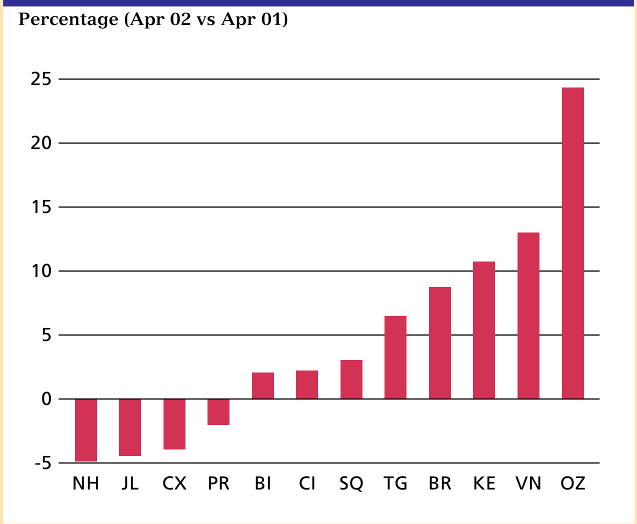
The Korean and Taiwanese carriers were the prime beneficiaries of the upturn in the freight market. Freight tonne

Singapore Airlines: FTK's grew 26% in May

RPK GROWTH BY CARRIER



PAX GROWTH BY CARRIER



kilometres for EVA Air, China Airlines and Korean Air grew by more than 20%. Singapore Airlines and Philippine Airlines also emerged with double-digit growth rates.

The two Japanese carriers finally registered positive FTK growth rates after 18 months of decline. The much improved economic condition of the country in recent months – Japan's GDP reportedly grew by 1.4% in the first quarter of 2002 – must have contributed to the results.

Predictably, virtually all carriers registered a higher load factor compared to the same period last year. Asiana Airlines' FLF improved by 15.7 percentage points. EVA Air and Philippine Airlines also reported double-digit percentage-point improvements. The Korean and Taiwanese carriers again led in terms of capacity filled – Asiana Airlines (81.5%), Korean Air (76.3%), EVA Air (75.0%) and China Airlines (74.1%).

RESULTS OF THE 12 MONTHS TO APRIL 30, 2002

PASSENGER

The AAPA consolidated international RPKs and PAX for the 12-month period ending April 30 shrank by 5.7% and 2.2%, respectively. Capacity declined by 1.7%, which resulted in a load factor of 71.9%, down 3.0 percentage points.

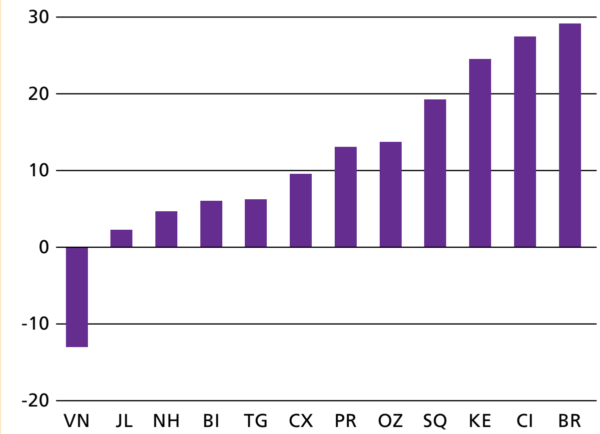
CARGO

The consolidated international FTKs for the period under review decreased 4.2%. Capacity was reduced 1.6%, which

Vietnam Airlines: reached highest RPK growth among AAPA carriers in April.

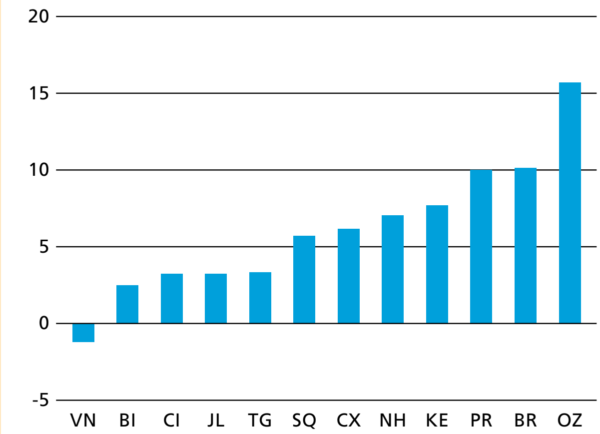
FTK GROWTH BY CARRIER

Percentage (Apr 02 vs Apr 01)



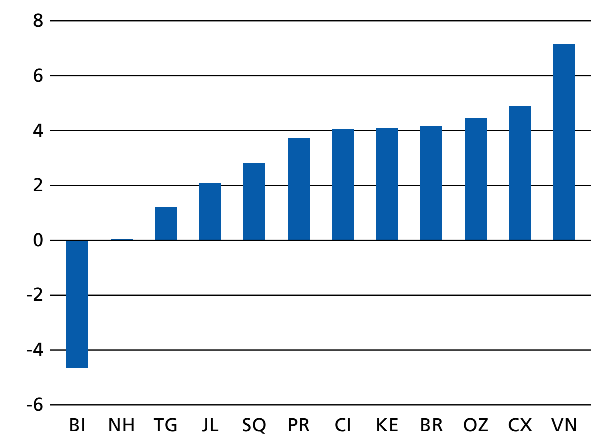
FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Apr 02 vs Apr 01)



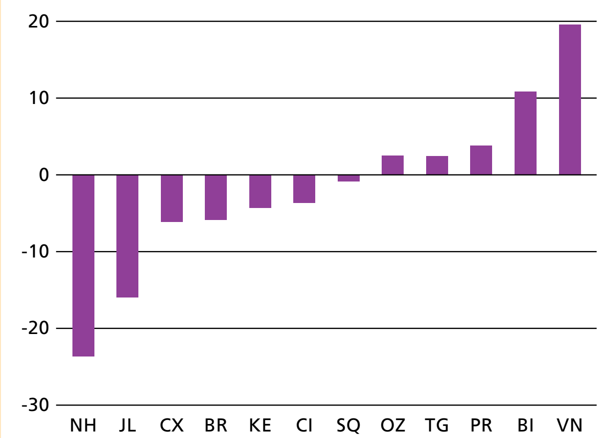
PASSENGER LOAD FACTOR GROWTH BY CARRIER

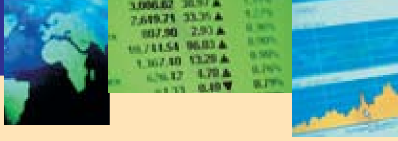
Percentage Points Change (Apr 02 vs Apr 01)



RPK GROWTH BY CARRIER

Percentage (May 01 - Apr 02 vs May 00 - Apr 01)





Asia's largest cargo carriers, Korean Air and China Airlines, together with EVA Air, saw their freight traffic grow over 20% in April.

resulted in a FLF of 65.8%, a decline of 1.8 percentage points.

SUMMARY

The recovery in the freight market is clearly evident as many AAPA member airlines saw their cargo traffic improve significantly in the past two months. Capacity, up 1.6% in March and 3.3% in April, increased gradually to meet the rising demand. The International Air Transport Association (IATA), in its April international traffic report, also noted the "exceptional" performance by Asian airlines in the freight sector.

The April passenger traffic figures are in line with the recent traffic recovery trend. More encouragingly, in addition to significantly higher load factors, a number of carriers also reported a steady improvement in business traffic – a vital factor for airlines' bottom line.

As the freight sector roars back, the passenger sector is expected to follow suit in an improving economic and trade climate. ■

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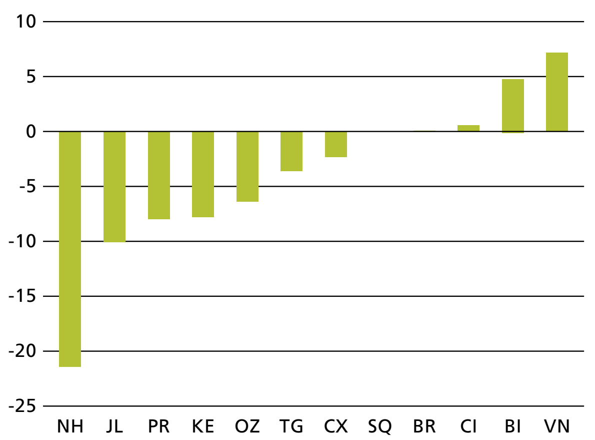
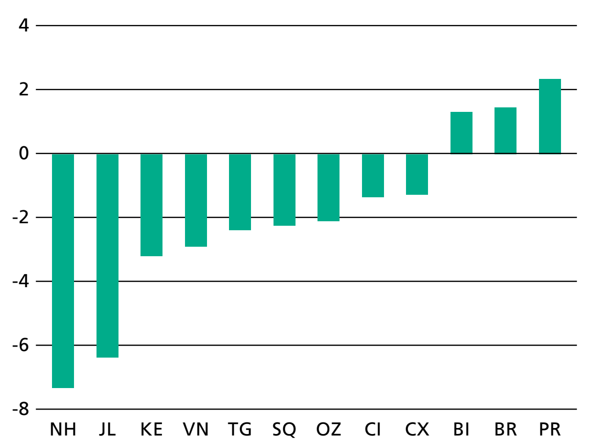
FTK GROWTH BY CARRIER

Percentage (May 01 - Apr 02 vs May 00 - Apr 01)



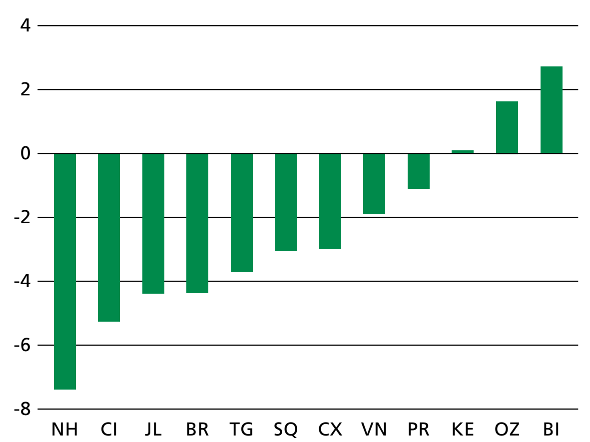
PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (May 01 - Apr 02 vs May 00 - Apr 01)

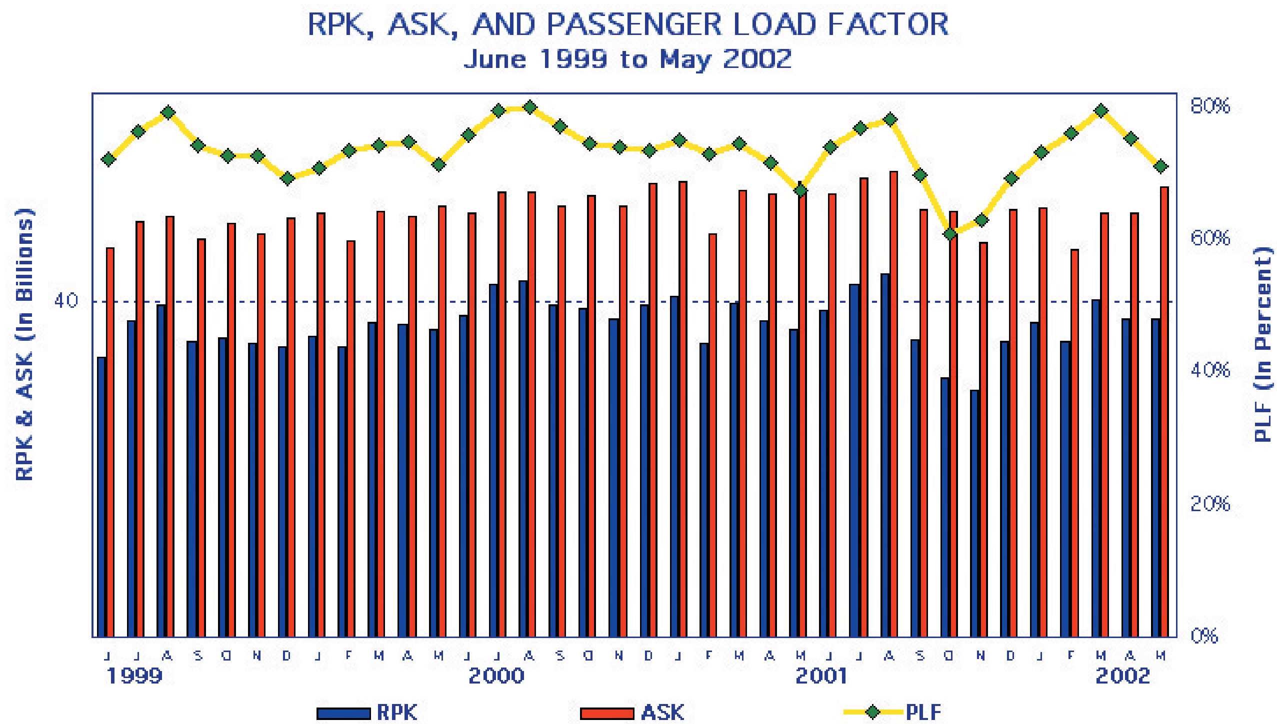


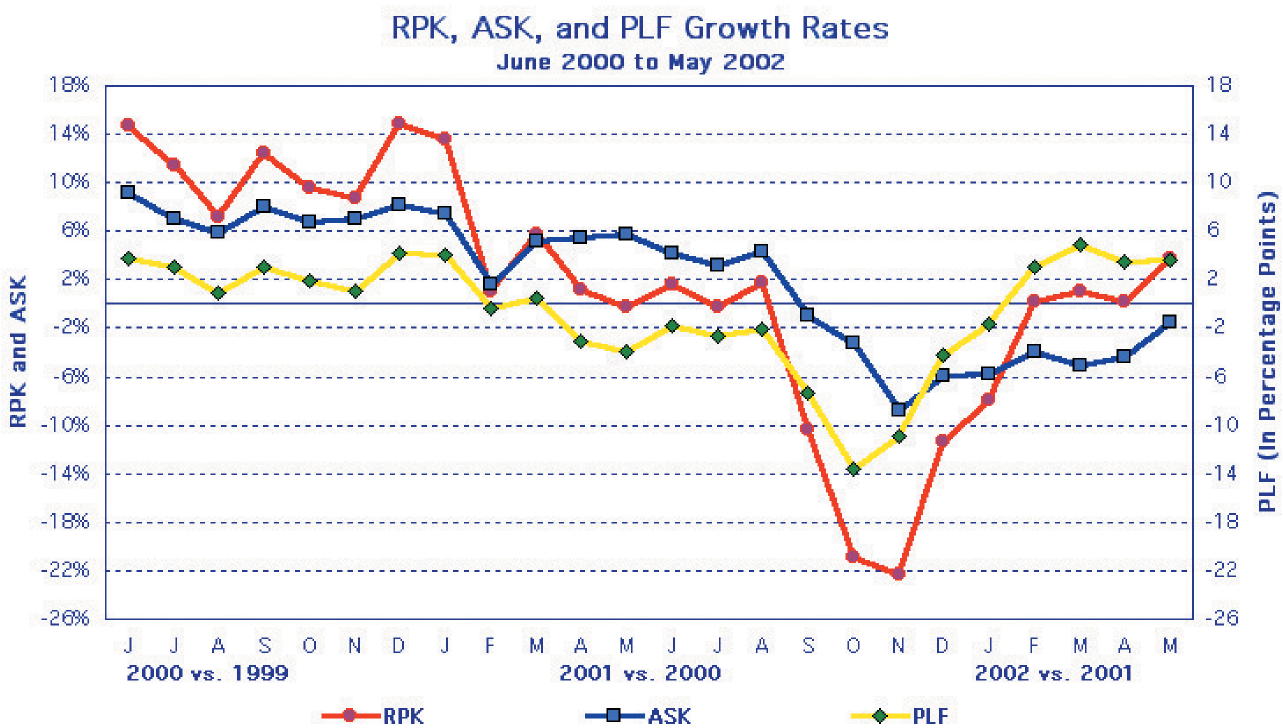
FREIGHT LOAD FACTOR GROWTH BY CARRIER

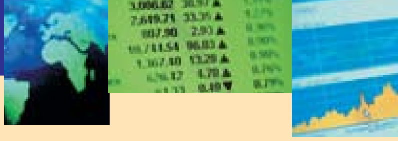
Percentage Points Change (May 01 - Apr 02 vs May 00 - Apr 01)



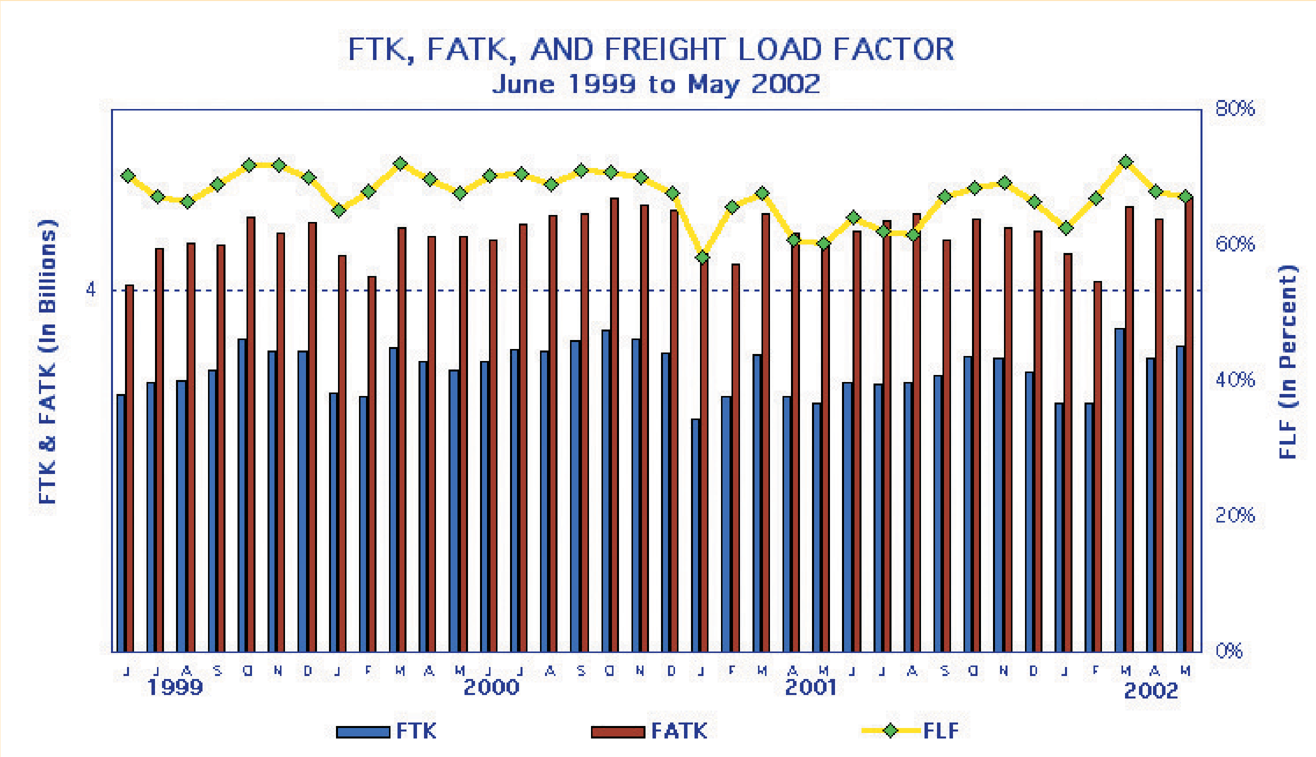
MONTHLY INTERNATIONAL PAX STATISTICS OF AAPA MEMBERS

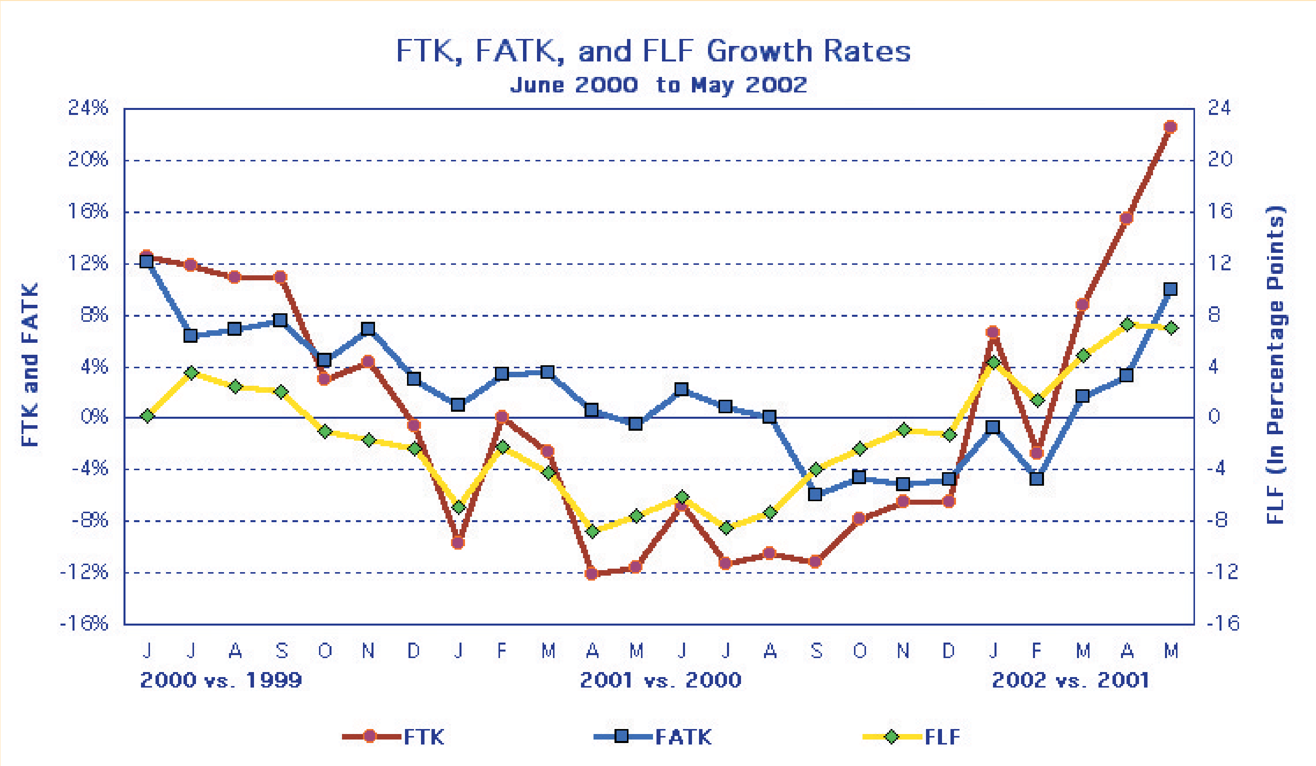


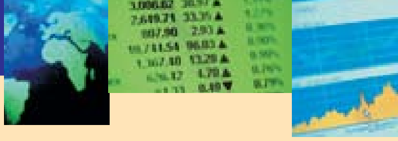




MONTHLY INTERNATIONAL CARGO STATISTICS OF AAPA MEMBERS







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)
JUN-01	39,106,964	52,868,597	73.97	2,986,123	4,654,401	64.16	6,665,837	9,480,574	8,843
JUL-01	42,107,236	54,907,670	76.69	2,962,142	4,774,183	62.05	6,909,752	9,789,903	9,474
AUG-01	43,315,945	55,559,023	77.96	2,978,443	4,838,280	61.56	7,031,073	9,907,159	9,825
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	37,520,527	51,284,409	73.16	2,750,898	4,394,421	62.60	6,304,452	9,077,159	8,498
FEB-02	35,209,377	46,331,945	75.99	2,741,196	4,090,116	67.02	6,475,056	7,897,034	8,321
MAR-02	40,233,597	50,746,146	79.28	3,568,385	4,927,776	72.41	7,377,621	9,578,431	9,358
APR-02	37,980,049	50,588,535	75.08	3,255,749	4,787,739	68.00	6,829,159	9,423,840	8,963
MAY-02	38,072,441	53,703,742	70.89	3,378,178	5,035,468	67.09	6,989,048	9,919,494	8,899
TOTAL	444,987,900	616,075,560	72.23	37,293,780	56,192,526	66.37	79,464,638	112,004,923	103,480

2001 TO 2002

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
JUN-01	1.68	4.23	-1.86	-6.74	2.20	-6.15	-2.34	2.82	3.56
JUL-01	-0.24	3.17	-2.62	-11.30	0.89	-8.53	-5.43	3.01	1.24
AUG-01	1.77	4.40	-2.01	-10.53	0.06	-7.29	-4.07	1.80	4.40
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	-7.92	-5.76	-1.70	6.58	-0.77	4.37	-1.55	-3.69	-6.13
FEB-02	0.19	-3.87	3.08	-2.75	-4.74	1.40	5.74	-9.23	3.87
MAR-02	1.05	-5.08	4.83	8.79	1.63	4.84	5.03	-1.52	3.08
APR-02	0.27	-4.34	3.45	15.47	3.33	7.29	7.06	-0.34	2.87
MAY-02	3.73	-1.46	3.55	22.54	9.93	6.96	12.37	3.92	4.92
GROWTH	-5.37	-2.30	-2.34	-1.62	-0.73	-0.60	-3.26	-1.99	-2.03

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	189,015,990	252,654,776	74.81	15,694,406	23,235,521	67.54	33,975,337	45,895,958	44,039

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]	-0.67	-4.10	2.58	10.09	1.98	4.98	5.68	-2.04	1.62

Note:

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