MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

Orient aviation

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THE DRAGON ROARS

Chief executive Stanley Hui masterminding Dragonair's expansion plans

- **China's great reforms challenge**

Air NZ 'on the mend', says chairman

New IATA chief to put focus on Asia

- ***SPECIAL REPORTS:***

Security ALERT: don't allow history to repeat itself – again

European and U.S. investment in the Asia-Pacific

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Stanley Hui once helped save Dragonair, now as chief executive he has taken it to new heights of achievement

COVER PHOTO: PATRICK DUNNE

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GUILTY UNTIL PROVED INNOCENT

One cannot help but feel a little sorry for China Airlines (CAL). True, its safety record is poor, to say the least, but it appears that since the May 25 crash of Flight 611 over the Taiwan Strait and the loss of all 225 lives on board, CAL is being blamed for the accident purely because of its past record.

CAL has been found guilty until proved innocent and that is not fair. There is no evidence yet to link the airline or its crew to the cause of the tragedy.

Taiwan's premier, Yu Shyi-kun, has promised to fully privatise the carrier after outraged legislators criticised the management of both the airline and the quasi-government China Aviation Development Foundation that owns 71% of CAL. Safety has been compromised again, they said.

This response begs the question: why was this not done earlier? Even before May 25, CAL accidents had claimed nearly 500 lives since 1994.

In the latest crash, the recovered black boxes have thrown little light on the possible reasons for the mid-air break-up of the jumbo jet. The flight crew's conversation was normal until the plane disappeared from radar screens.

Indeed, Kay Yong, the director of Taiwan's investigating body, the Aviation Safety Council (ASC), said the ASC doubted pilot error was a factor in the tragedy. The emphasis is now on retrieving as much of the wreckage as possible and reconstructing the aircraft.

Close attention will be paid to the structure of the 23-year-old jet by investigators. Comparisons have been made between the 1996 loss of the TWA airliner in the U.S. and Flight 611. Both aircraft were more than 20 years old. A fuel tank explosion was listed as the probable cause of the TWA crash.

And if all this was not enough, CAL has decided to challenge a report issued by the Hong Kong Civil Aviation Department about an earlier accident which laid most of the blame for the crash of a CAL MD-11 at Hong Kong International Airport on the captain. The U.S. National Transportation Safety Board and Boeing earlier found that pilot error was not the cause of the accident that killed three people and injured more than 200 others. A review board has been set up to hear the dispute.

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PERSPECTIVE

Edited by
Christine McGee

A SAD FIRST

In an historic step, but one marked by tragedy, a ship carrying wreckage from the **China Airlines (CAL)** aircraft that crashed over the Taiwan Strait in May has made the first direct sailing between mainland China and Taiwan. In June, a vessel hired by Taiwan's **Red Cross** and registered in Taiwan, set sail from Xiamen, a southeastern coast city of China to Kaohsiung, Taiwan, reported the mainland Chinese official news agency, *Xinhua*. In January last year, Taiwan announced its three mini-links policy, which opened direct trade, transport and postal services between Fujian province in China and the Taiwanese islands, Quemoy and Matsu. Earlier this year Taiwan's president, **Yu Shyi-kun**, broadened the mini-links agreement to permit Taiwanese investors with companies in Fujian to travel to the Chinese province via either Quemoy or Matsu, as well as allow Taiwanese who wish to visit the mainland for religious reasons or other limited exchanges, to make the trip. Mr Yu also has relaxed imports of agriculture and industrial products into Taiwan.

DYNASTIC SHUFFLE

Chang Kuo-cheng, 41, the third son of **Chang Jung-fa**, the self-made tycoon of **EVA Air** and its parent, the **Evergreen Shipping Group**, is the new chairman of the Taiwan international carrier. In a June re-shuffle, announced after a shareholders' meeting that revealed EVA had lost NT$2.1 billion in the last financial year, Chang has a largely new seven member board, which includes EVA president, **Kitty Chen** and the carrier's former board supervisor, **Lin Hsin-yi**. Chang's new role is regarded as consolidating the second generation of leaders of the Chang dynasty at Evergreen, a once tiny transport company that is now a leading global shipping and cargo conglomerate. As the new EVA chairman worked his way to the top, he held positions throughout the domestic and global units of EVA parent, Evergreen International Corp. and the **Evergreen Marine Group**. Three of the Chang's four sons now work for Evergreen: EVA chairman Chang Kuo-cheng, Evergreen Marine chairman, **Chang Kuo-hwa**, and vice president corporate planning at EVA Air, **Chang Kuo-wei**.

FRIENDSHIP PLANE

Hollywood's Pulp Fiction and Saturday Night Fever movie star, **John Travolta**, who recently qualified as a Boeing 747 pilot, winged his way around 13 cities in 10 countries in June and early July as part of **Qantas Airways' Spirit of Friendship** tour. Travolta pilots a B707, which he bought from Qantas a few years ago, and is an ambassador at large for the Australian international carrier. Last time Travolta piloted his own aircraft into Asia, he was refused permission to land at **Hong Kong International Airport** and had to divert to the airport of the nearby city of Macau in the Pearl River Delta. Hong Kong authorities ensured such unfriendly behaviour towards the 49-year-old Travolta was not repeated when he flew into the city from Singapore in late June.

SUPERIOR CONNECTIONS

The new **Thai Airways International (THAI)** chairman, former Thai finance minister and a current government adviser, **Dr Thanong Bidaya**, has promised that the latest leadership team at THAI, led by new president, **Kanok Abhiradee**, will rid the airline of damaging internal conflicts, make the carrier more accountable to its [largely government] shareholders and ramp up its competitiveness in a region stacked with superior airline management. **Thanong**, who was widely expected to become chairman after the forced resignation in May of **Vira-bongsa Ramangkura**, comes to his new role laden with heavy hitting credentials.

At 54, and a fluent Japanese speaker, Thanong earned his PhD from prestigious Northwestern University in the U.S. and has spent a large part of his career as an academic running MBA graduate programmes. He was a THAI board member before his elevation to chairman and has the ear of Thai Prime Minister, **Thaksin Shinawatra**, in his roles as vice-chairman of the prime minister's council of economic advisers and chairman of the National Economic and Social Development Board. ■

Letter to the Editor

In the Letters to the Editor column of the June issue of Orient Aviation *(Equitime 'viable short-term option' for war risk insurance) Delta Air Lines chief risk officer, Chris Duncan, responded to earlier comments made by Richard Stirland, director general of the Association of Asia Pacific Airlines, that the U.S. efforts of Equitime would leave the global ICAO war risk insurance initiative "dead in the water".*

Below is the director general's reply to Chris Duncan's response.

Sir,

"Dead in the water" means brought to a standstill on either a permanent or temporary basis; it does not mean kill off.

Since the ICAO scheme is "subject to the receipt of such expressions of intent sufficient to permit the insurance entity to become operational, i.e. from a number of contracting states the sums of whose ICAO contributions rates amount to at least 51%," to quote from the ICAO document, and given that the United States constitutes 25% of the total ICAO contributions, it seems extremely likely that, until such time as the U.S.A. joins the scheme, it will be stalled.

The major part of the letter from Mr. Duncan explains why the U.S.A. is unlikely to join in the near future. It is therefore unclear why he would take issue with this statement.

Richard Stirland
Kuala Lumpur

REGIONAL ROUND-UP

DRAGONAIR, EVA BIG WINNERS AS ASA AGREED AT ELEVENTH HOUR

Hong and Taiwan agreed on a new air services agreement late on June 29, 24 hours before a second six-month extension period was due to expire.

Under the new agreement, the number of carriers flying the route was expanded to six. Joining **Cathay Pacific Airways** and **Dragonair** from Hong Kong will be Cathay's cargo subsidiary, **Air Hong Kong**, while **China Airlines (CAL)** subsidiary, **Mandarin Airlines**, will join its parent and **EVA Air** from Taiwan on the route.

Each side can increase the number of weekly round-trip passenger flights by 49. Of these, 32 can start immediately, with 17 more to be added in 2004. Cargo volume between Taiwan and Hong Kong was expanded with each side entitled to an extra 800 tons a week.

The big winners of the long, drawn out and often tense negotiations are Dragonair and EVA. The Hong Kong-based carrier has immediate rights to fly 22 passenger services and two B747 freighters to Taipei for the first time. It also can increase services to Kaohsiung from 21 to 28 a week. Taiwan's EVA Air, which will be entitled to 24 of the 32 immediate extra flights, will add the services to its existing 16 flights and can carry 600 extra tonnes of cargo. Mandarin will be allowed eight flights a week and 200 tons of cargo. Air Hong Kong will launch its services with 300 tons of cargo.

The loser is China Airlines. It maintains its 105 flights a week, but following the recent crash of its B747-200, it received no extra services.

Cathay Pacific might have expected better. It has been granted only three extra flights to add to its 100 a week and 100 extra tons of cargo on top of its 600 tons a week.

The original agreement expired 12 months ago and two six-month extensions have been granted. Although negotiations are between Hong Kong and Taiwan airlines, because of Beijing's ban on contacts with the Taiwan Government, it was alleged behind-the-scenes moves by government officials hampered progress in the last year.

EVA Air: a major beneficiary of new services now the new Taiwan-Hong Kong air services pact has been agreed

CAL CRASH PROTESTS TO MAKE HISTORY

Aviation history will be made in Hong Kong when a review board hears a dispute over the findings of an investigation into the crash of a **China Airlines (CAL)** MD-11 as it attempted to land in a typhoon at **Hong Kong International Airport** in August, 1999.

Three people died and more than 200 were injured when the MD-11's wing clipped the ground and turned the aircraft on its back. The airliner was carrying 315 people on a flight from Bangkok.

CAL has requested a review of the **Hong Kong Civil Aviation Department's (CAD)** findings, which largely blamed now retired Italian captain, **Gerardo Lettich**. CAL believes the weather was responsible for the crash. Earlier findings by the **U.S. National Transportation Safety Board** and **Boeing** absolved Lettich. This will be the first time such a review board has been conducted in Hong Kong.

PRIVATISATION ON COURSE AGAIN FOR RESURGENT THAI

Thai Airways International's (THAI) much delayed part-privatisation is on the stocks again. Following good first quarter results – and the chairman's prediction of a six-fold improvement in profits for the year – Thailand's Finance Minister, **Somkid Jatusripitak**, said: "We will try to do it [the share sale] by the last quarter."

The government owns 93% of THAI. Moves to reduce its shareholding to 70% started five years ago, but the Asian recession of 1997-98 sent interested parties running for cover and the sale was put on hold.

Attempts to revive the public offering have been hampered by the Thai economy and, most recently, the after shocks of September 11.

But this year, THAI's stock has rallied strongly and is now at pre-September 11 levels. President **Kanok Abhiradee** said he was hoping to arrange a "road show" for the carrier in Europe at the end of the year. Airline partners in the **Star Alliance** are priority targets, he said. Kanok has promised to speed up THAI's restructuring as well as privatisation.

In 1998, Star members, **Lufthansa German Airlines** and **Singapore Airlines**, were both contenders for THAI equity. **British Airways**, **United Airlines** and **Northwest Airlines** were also interested in buying into the carrier, but the three airlines will now be out of the picture. **Qantas Airways** was reported to be another interested suitor four years ago.

Lufthansa will remain a strong favourite. SIA is seen as unlikely to succeed in its bid because the two carriers' hubs, so close to each other, are in fierce competition.

AIR DO IN SURVIVAL TALKS WITH ANA

All Nippon Airways (ANA) and **Hokkaido International Airlines**, also known as **Air Do**, are to begin alliance talks following the failure of the four-year-old domestic carrier.

If a deal is reached it will prove a lifeline for Hokkaido. Its liabilities were said to be 5.8 billion yen (about US$47.6 million) on March 31. It has filed for court protection from its creditors.

An ANA statement said that the filing will help Hokkaido "start anew, with assistance on the operations side from ANA".

The carrier began its short life with backing from domestic investors, including the Hokkaido regional government. It offered discount flights at Hokkaido, but started to struggle when the major airlines matched its prices.

The tie-up will give **ANA**, Japan's largest domestic carrier, access to the very profitable Tokyo-Sapporo route. This is important for ANA because local competition will intensify once national carrier **Japan Airlines** merges this year with **Japan Air System** in a holding company.

Possible areas of cooperation for ANA and Hokkaido include aircraft maintenance, parts supply, provision of ground handling services, cabin attendant training and reservations system commonality.

RECORD BID FOR SYDNEY AIRPORT

Australia's last remaining Government-owned airport to come under the auctioneer's hammer, the country's major air hub in Sydney, has exceeded all expectations by attracting a winning bid of A$5.6 billion (US$3.2 billion), the highest price ever paid for an airport facility in a privatisation programme.

The new owner is the **Macquarie Bank**-led **Southern Cross** consortium, which includes German airport operator **Hochtief**. They are banking on a doubling of air traffic over the next two decades to justify the cost.

Macquarie has stakes in two airports in the UK, Bristol and Birmingham. The new owner expects passenger traffic to rise 10.5% in the next financial year, which is predicted to result in a 19% increase in earnings. By 2020, the consortium is banking on passenger throughput to more than double from 25.3 million to 62.8 million.

Thai Airways International: share surge has made part-privatisation a priority again

EMIRATES CHIEF MEETS HOWARD

Reports a new Australian domestic carrier could be launched by a foreign airline following the collapse of Ansett Australia in March appear to be premature.

Recent media reports have named Hong Kong's **Dragonair**, **Singapore Airlines (SIA)** and Middle East operator **Emirates** as three "bidders" for **Ansett's** domestic operations. Both Dragonair and SIA have flatly rejected any involvement, although SIA is known to be studying options for a possible move into the Australian domestic market. Some analysts predict SIA will achieve this by taking at least a 25% stake in **Sir Richard Branson's** low-cost carrier, **Virgin Blue**.

Emirates, cash-rich and holding wide-ranging air rights to expand services to Australia, cannot be ruled out. It is said to be interested in investing in the country's aviation sector and its chairman, **HH Sheikh Ahmed bin Saeed Al-Maktoum**, recently met Australian prime minister, **John Howard**, to discuss opportunities.

IN BRIEF

Indonesia's **P.T. Pelita Air Services** has leased two Fokker 100s and three Fokker 50s on a five-year deal from **debis AirFinance**.

China Yunnan Airlines has launched a daily service to Hong Kong from Kunming.

SilkAir launched twice-weekly direct flights between Singapore and Macau on July 2, using its A319 aircraft.

Malaysia Airlines took delivery of its 13th **Boeing** B777-200, an Extended Range version, in June.

BUSINESS ROUND-UP

QANTAS BUCKS WORLD AIRLINE PROFIT TRENDS

Boosted by the collapse of Ansett Australia and its own improved productivity, **QANTAS AIRWAYS** is expecting to exceed its predicted profit for the year to June 30 by more than 10%, the airline's chief executive, Geoff Dixon, said just days before the fiscal year closed.

The revised forecast means that Qantas now is tipping a pre-tax profit of A$605 million, up from original expectations of A$550 million for the 2001-02 year. The carrier had made A$550 million profit in the previous year, to June 2001. The upgraded profit prediction puts Qantas in the enviable position of increasing its profit in the worst year on record for aviation.

Dixon said the improved result was attributed to a number of factors including a faster than expected recovery in the international market, a solid domestic performance and better productivity. Qantas holds an 85% share of the local market following the closure of Ansett in March. Its only domestic rival is low-cost operator, Virgin Blue.

The boost in traffic following the demise of Ansett compensated Qantas for the losses suffered on its international routes following September 11 last year.

Dixon said the main drivers for the company's improved productivity were the introduction of more efficient aircraft into the domestic fleet, benefits delivered through the dedicated Cityflyer shuttle service, a lower cost of sales from a "significant" increase in Internet bookings and reduced overheads from improved benefits of scale.

Up to 2006, Qantas will invest an average of A$2.5 billion a year on new aircraft, improved lounges and upgrades of inflight products such as IFE systems and sleeper beds.

Qantas Airways: bucking world financial trends

CAL MAINTAINS FORECAST IN SPITE OF CRASH

Despite the crash of one of its B747 Classics in May, with the loss of all 225 passengers and crew on board, **CHINA AIRLINES (CAL)** is maintaining its full-year pre-tax profit forecast of NT$1.5 billion (US$65.2 million).

In June, CAL announced a 71% increase in pre-tax profit to NT$1.26 billion for the first five months of the year, compared to the same period in 2001. Operating revenue was up 9.6% to NT$30.8 billion.

Between January and May passenger and cargo traffic rose by 4.4% and 15.2% respectively over the same months in 2001.

Because of the upturn in the Taiwanese economy and the rising demand for high tech products, CAL said cargo revenue increased 22.6%, but passenger revenue growth was more modest at 3%.

CAL said although the May 25 crash will affect its profitability short-term, pre-tax profit in the first five months of the year had reached 89% of CAL's annual target.

"It is expected that China Airlines' financial performance will return gradually to normal levels," said a company spokesman. "In line with the strong economic recovery in Asia and Taiwan, lower interest rates and fuel prices and the appreciation of the New Taiwan Dollar, it is expected China Airlines will manage its challenges for 2002."

THAI TIPS PROFIT TO RISE SIX-FOLD

THAI AIRWAYS INTERNATIONAL'S (THAI) new chairman, Thanong Bidaya, has forecast a 2002 net profit of 12 billion baht (US$285.1 million), a result more than six times higher than the carrier's 1.93 billion baht profit in 2001.

Thanong is predicting an operating profit of four billion baht, before foreign exchange adjustments, in the second half of the financial year. In the first half to September 30, the carrier posted a net profit of 5.77 billion baht. It lost 935.3 million baht in the same period a year earlier.

MAS OPTIMISTIC OF 2004 TURNAROUND

MALAYSIA AIRLINES (MAS) posted a net loss of 835.6 million ringgit (US$219.9 million) in the year to March 31, compared to a 417.4 million ringgit loss a year earlier. Once again, the events of September 11 had a major bearing on an airline's financial results.

MAS said "aggressive measures to better manage cost and improve productivity" had some success in containing operating losses early in the year. And, despite extreme speculation immediately after September 11, the airline said turnover declined only 5.1%, to 8.5 billion ringgit, from 8.96 billion ringgit a year earlier.

In the last quarter there were encouraging signs of a return of passenger confidence as traffic grew. Despite this trend, MAS still lost 88.6 million ringgit in the quarter, compared to losses of 86.51 million ringgit the previous year. Revenue, however, gained 6.2% to 2.27 billion ringgit from 2.13 billion ringgit in the same period a year earlier.

The airline's managing director, Mohamad Nor Yusof, told media he was optimistic about achieving his target of returning to profit in the fiscal 2004 year. A corporate overhaul of the carrier is expected to be complete by August.

ANA LOSS MORE THAN FORECAST

ALL NIPPON AIRWAYS' (ANA) group net loss of 9.5 billion yen (US$75.8 million) for the year to March 31 was worse than the 8.5 billion yen they had forecast in April. It made a 40.3 billion yen profit in the previous year.

Group revenue fell 5.9% to 1.2 trillion yen. The number of passengers on its international flights slumped 20% to 3.51 million as confidence in air travel after the U.S. terrorist attacks on September 11 last year plummeted. Revenue from the overseas operations fell 18.2% to 169.7 billion yen. Load factor was 67.3%, down 7.1% from the previous year.

Passengers on domestic flights rose slightly to 45.8 million although revenue fell 1.4% to 662.7 billion yen. Load factor rose from 63% to 63.6%.

ANA's revenue from international cargo and postal operations dropped 19% on a year earlier to 32.9 billion yen. Revenue from domestic operations rose 8% to 11.4 billion yen as ANA began to specialise in postal services.

ANA is forecasting net income of two billion yen for 2002-03.

As China's aviation industry prepares for momentous changes, how is it coping?

CHINA'S CHALLENGE

By BARRY GRINDROD and CHRISTINE MCGEE in Shanghai

China's aviation industry is on the brink of colossal change and it is not only happening among the managements of the major airlines in their well publicised consolidation. There is a sense of excited expectancy the length and breadth of the industry; airlines, airports, air traffic management, safety and security.

And the change has started at the top. The merging of the former Civil Aviation Administration of China (CAAC) controlled carriers into three groups will spell the end of the CAAC as an airline operator. The CAAC's new role will be as industry regulator, a responsibility that will eliminate criticisms by small Chinese airlines of CAAC favouritism towards the carriers it has, until now, controlled.

The consolidation of the major airlines will mean greater efficiency for operators and passengers as much of the bureaucracy of the industry will disappear. China has one of the fastest growing regional airspaces in the world and, having shifted its airspace usage policy to give priority to commercial rather than military aviation, it has begun to modernise its airspace management system.

From August 1, Beijing will make concessions that could allow foreign interests to take up to 49% equity stakes in its airlines and airports, compared to 35% at present.

Many of the country's airports are being upgraded and, again, a new twist; provincial governments and airlines are investing in and taking over management of a number of regional airports from the CAAC. In February, Beijing announced the CAAC would surrender control of what are mostly badly managed, loss-making airports. It is hoped the move will attract investment.

Safety, however, remains a concern, particularly after two major crashes earlier this year which involved Air China and China Northern Airlines. CAAC vice-chairman, Bao Peide, speaking at the International Air Transport Association's (IATA) annual general meeting (AGM) in Shanghai in June, stressed the need for better safety and security standards.

China Southern Airlines' B747-400 freighter: the first in China as the airline establishes itself as a leader in the mainland's cargo market

So, why is there the need for these far reaching changes? Quite simply, the potential growth in China's aviation industry, which is already emerging, is staggering.

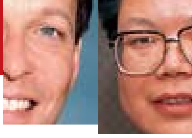
IATA's director general, Pierre Jeanniot, who retired at the AGM, said the industry was growing faster than the rest of the world by a factor of three or four and would accelerate because of China's World Trade Organisation (WTO) membership and the 2008 Beijing Olympic Games.

Dragonair chief executive, Stanley Hui, spoke about the growing affluence of China's 1.3 billion population. Outbound travel from China doubled between 1995 and 1999 to 9.2 million people, he said. More than 11 million people are forecast to travel overseas this year.

"In the early 1990s, outbound tourism did not exist at all. People did not have the means or the permission to travel abroad," said Hui.

Business travel also is on the increase as more multi-national companies take advantage of the post-WTO environment, he said. Foreign direct investment in China is estimated to be US$50 billion this year. "Prompted by increasing foreign reserves, which now top over US$220 billion, Chinese companies are looking to go international, promoting investment in foreign countries, leading to greater business travel out of China."

Air cargo (see page 16), too, is recording spectacular growth as China establishes a reputation as one of the world's great production centres, a position heightened now that the country is a WTO member.



MERGERS

The merger of nine of the mainland's top airlines into three groups has been completed and the consolidation now awaits the final seal of approval from the State Council, Bao Peide told the IATA AGM.

A decision is expected soon. China Eastern Airlines president and chief executive, Ye Yigan, said in early June that it was rumoured a decision would be made by the government within a month.

Each of the three groups will have assets worth about 50 billion yuan. The groups will be:

China Southern Airlines Group Corporation: China Southern, China Northern and Xinjiang Airlines.

China Eastern Airlines Group Corporation: China Eastern, China Northwest Airlines and Yunnan Airlines.

China Aviation Group Corporation: China National Aviation Corporation (CNAC), Air China and China Southwest. CNAC also has majority share-holdings in Dragonair and Air Macau, but these carriers will operate outside the mergers.

The only airlines to retain their names will be China Southern, China Eastern and Air China.

In a drive to improve efficiency and productivity among the remaining 10 significant carriers, the government has encouraged them to form their own airline groups, to join the "Big Three" or, alternatively, to remain independent.

There have been suggestions that airlines which do not join the new groupings could be at a disadvantage when it comes to route allocation.

Four years ago, when consolidation was no more than a twinkle in CAAC's eye, China Southern was already on the acquisition trail. In 1998, it purchased Guizhou Airlines and two years later, the carrier merged with Zhongyuan Airlines.

Once the latest restructuring is confirmed, China Southern will have a fleet of 180 aircraft operating more than 600 routes. It will be the largest airline in China, with more than 40% of the domestic market, and one of the largest carriers in Asia.

"The CAAC restructuring will help regulate the aviation market, reduce operational costs, concentrate marketing efforts on major routes, further segment the market and improve China's domestic route network so that the airlines can provide better transportation services to its passenger and cargo customers," Wang Changsun, China Southern's president, told IATA delegates.

"In addition, restructuring will lay a solid foundation for China's airlines to extend their regional and international routes and strengthen multilateral codeshare cooperation with other airlines around the world."

United Airlines senior vice-president international and alliances, Graham Atkinson: China more potential than Japan

China Southern Airlines president, Wang Changsun: restructuring will lay a foundation for China's airlines to extend regional and international routes

AIRPORTS

There are 143 civilian airports in China, including 31 international airports. In 2001, said the CAAC, 1,850 million flights in China carried 149 million passengers around the country and to international destinations. According to CAAC statistics, passenger and cargo traffic will grow by 8% and 15% respectively, each year for the next five years. China's fleet is forecast to triple by 2020, from 550 to around 1,700 aircraft.

Airport facilities to be opened this year include new terminals at Gongga Airport in Lhasa, Qingdao's Liuting Airport, Jiangbei Airport in western China's Chongqing and the upgrading of regional air traffic control centres in Beijing, Shanghai and Guangzhou.

As well, multi-billion dollar capital development will continue on China's VHF remote control systems in the country's three main air traffic zones, new airports in Urumqi and Xian will open and construction of the second stage of the southern China Sanya intelligence zone will be finished.

Other major projects recently approved are new radar control networks on the Beijing-Shanghai and Shanghai-Guangzhou routes, pre-construction work on the expansion of Beijing Capital International Airport, stage two of Shanghai Pudong International Airport, a new Kunming Airport and an extension of terminal facilities at Dalian Airport.

In late June, Yunnan province announced plans to merge its 10 airports following Beijing's decision to transfer airport management to local governments to improve efficiency and attract investment. Earlier in the month, the Hainan Airlines Group, which owns 60% of Meilan Airport, in Haikou, said it planned to merge with a number of other airports to form a listed airport management group.

AIR TRAFFIC MANAGEMENT

Yajun Liu, deputy director general of the Air Traffic Management Bureau of the CAAC, said ATM in China faced many problems, most particularly a shortage of trained staff, expected increased traffic delays on major air routes and at airports, unbalanced ATC infrastructure development between the eastern and western air space sectors and inadequate documentation on international regulations and codes of practice.

Speaking at IATA's AGM, Yajun said his department had six major goals:

- Reform and streamline the bureaucracy of ATM in China.
- Invest in improving China's air space structures.
- Continue to develop China's Air Traffic Control (ATC) regulations and specifications to reach required International Civil Aviation Organisation (ICAO) standards.
- To improve and optimise ATM infrastructure, particularly CNS/ATM systems in western China.
- To develop ATM training and management systems to increase the numbers of qualified staff available for ATM centres.
- To enhance ATC safety management and conduct research into human factors for ATC, including operational supervision and inspections.

ALLIANCES

The world's major alliances are eyeing the market in China and probably none more keenly than the world's largest alliance, Star.

Air China, which code-shares with Star's Lufthansa German Airlines, is tipped as the frontrunner for membership, but there is plenty of time for that to change.

On May 31, Lufthansa signed a Memorandum of Understanding with Shanghai Airlines "which reinforces the airlines' commitment in strengthening their cooperation in areas such as frequent flyer programmes, joint system development, the harmonisation of products and services, special pro-rate agreements, sales and marketing activities, as well as network connectivity," a joint statement said.

In recent years Shanghai has expanded on to international routes. It also is planning a domestic stock exchange listing this year to fund growth.

China Eastern is assumed to be a likely oneworld candidate because of its close ties to Cathay Pacific Airways and Qantas Airways. China Southern Airlines is deepening its corporate relationship with Delta Air Lines of the U.S., a Skyteam alliance member.

China carriers know well they have some ground to make up to match the world's best airlines and their standards as members of global alliances. For this reason, it will be some time before they are invited to become full members.

However, by signing cooperation agreements with airlines of status like Lufthansa, China's carriers have the benefit of advice from the international airlines that see the advantages of having Chinese airline members among their ranks.

DIRECT FLIGHTS

Taiwan businessmen are among the largest investors in China and they are putting pressure on their government to approve direct transport links with the mainland.

There is now real optimism a breakthrough could be close, maybe as early as next year. Most people travelling between China and Taiwan, however, still transfer through Hong Kong.

Dragonair chief executive, Stanley Hui, told IATA's annual gathering that 6.6 million passengers a year fly the "golden" Taiwan-Hong Kong route, of which an estimated 30% transfer directly to mainland China flights in Hong Kong.

He said it was just a matter of time before direct flights took off, but "probably not tomorrow". When they do, there will be some short-term negative economic effects on Hong Kong, he said, "but in the long-term, given the cultural, ethnic and long-established trade ties between Taiwan, mainland China and Hong Kong, we will see a much bigger market emerging. There will be more than enough business for everyone."

CARGO

Today, China Southern Airlines is establishing itself as a leader in the mainland cargo market. In late June, the carrier took delivery of the first of two B747-400 freighters it has ordered. Only days earlier it confirmed it would to pay 150 million yuan (US$18.1 million) for a 49% equity in the state's China Postal Airlines.

The B747 freighters will "do battle in the global cargo marketplace", said China Southern president Wang Changshun. The first aircraft has replaced a wet-leased freighter which operated a three times a week service between Shenzhen, China Southern's cargo hub, and Chicago in the U.S.

Shanghai Airlines: has signed an MoU with Lufthansa and plans a domestic stock exchange listing this year

The second freighter, to be delivered in September, will service routes in the Middle East and Europe. China Southern chairman, Yan Zhi Qing, said in order to compete with the major overseas carriers after China's entry into the WTO, as well as further enhance its own competitiveness in the freight market, the carrier had established an independent cargo division.

Following the acquisition of China Postal Airlines, China Southern is looking to capture a significant slice of the express mail and parcel market. Big international carriers, like FedEx, have moved fast in recent years and already have a large footprint in China.

Hong Kong-based Dragonair, majority owned by the mainland's China National Aviation Company, is another carrier carving out a sizeable cargo niche in China (The Dragon Roars, page 20).

"By the end of 2000, the annual volume of air cargo in China grew to 11.6 billion ton kilometres. It was only in the late 1990s that the [China] airlines started to introduce freighter operations," said Dragonair's chief executive, Stanley Hui. "As the country expands its manufacturing base and as multinationals rush to gain a presence in the mainland China market following WTO entry, demand for air cargo lift can only rise."

Hui said helped by the rapidly growing manufacturing base in the Yangtze River Delta, air freight between the mainland and Hong Kong had grown 17% a year in the five years to 2001. "We at Dragonair believe it is only just beginning to take off," said Hui.

AN AMERICAN VIEW

"We see China as being absolutely fundamental to the future of United Airlines in Asia and I would go so far as to say that by 2010 it will, in terms of economic growth and passenger traffic, have more potential than Japan," said Graham Atkinson, senior vice-president international and alliances of U.S. major, United Airlines (UAL).

UAL operates 21 flights a week to Beijing and Shanghai. It has been briefing Washington officials in recent weeks on the China aviation market and the importance of improved access. He believes discussions on expanded air rights between the U.S. and China will start before the end of 2002.

"In China they are jumping a generation in a matter of years, both in the aviation field and in the general economic field," said Atkinson.

The growth means it is critical for UAL to gain adequate access to Chinese gateways and find the right partners in China, he added.

Atkinson said everything is on hold until the consolidation process has been finalised. "There is still lack of clarity about how the market will play out and which carriers will have what presence and what rights in which gateways," he said.

Whatever happens, China will be UAL's central plank in Asian strategy in coming years. – **by Tom Ballantyne**

No clues in CI611 crash

Speculation continued unabated in late June about the possible cause of the break up of CAL Flight 611 above the Taiwan Strait in May, in an accident that cost the lives of 225 passengers and crew on board.

But Taiwan's investigating authority, the Aviation Safety Council (ASC), said it doubted pilot error was a factor in the accident. ASC director, Kay Yong, said they were no closer to knowing why the 23-year-old B747 Classic broke into four pieces at 30,000 feet (9,150 metres), 20 minutes after it took off from Chiang Kai-shek International Airport in Taipei, bound for Hong Kong. No distress call was received, although military radar showed the aircraft dramatically changed heading, altitude and speed during a four-minute period of flying at 31,000 feet.

Based on information from the aircraft's two "black box" recorders, and other material, there were no signs of fire or an explosion on board, said Yong. Neither was there evidence of dangerous or hazardous goods on the plane.

The main priority now, he said, is to salvage the wreckage and reconstruct the plane.

The aircraft was on its last flight before it was to be handed over to Cambodian-based charter company, Orient Thai.

This is CAL's fourth serious crash in less than 10 years, a tragic safety record that has claimed nearly 500 lives. The shock waves of the latest crash have reverberated right to the top of Taiwan's political agenda with premier, Yu Shyi-kun, appointing a minister without portfolio, Ching-yen Tsai, to draft a reform of the national carrier.

China Airlines: investigators doubt pilot error was a factor in loss of Flight 611

The directors of the quasi-governmental China Aviation Development Foundation (CADF), which is the majority shareholder in CAL, have been replaced. The 71% equity held in the airline by the CADF will be sold to the public next year. "We would like to see the company managed jointly by a local firm with an international aviation management team," Tsai told the *Taipei Times*.

A lucrative flight-link deal that would have put Delta Air Lines passengers on board CAL flights from Los Angeles and San Francisco and onto Taipei has been delayed indefinitely. ■

Wait continues for SQ006 pilots

By Tom Ballantyne

It could be several months before the pilots of Singapore Airlines (SIA) flight SQ006, which crashed in October 2000 at Taipei, will know when and if they can return to flying.

International pilots' unions are pressing for the speedy re-instatement of the flying licences of the three SIA cockpit crew, following a decision by Taiwanese authorities not to proceed with criminal prosecutions against the pilots.

But the Civil Aviation Authority of Singapore (CAAS) said a board has been set up to review the pilots' suspensions, which includes considering the facts of the case. "The entire process will take a few months," said a CAAS spokesman.

The review also may require the pilots to undergo a "rigorous programme of medical and psychological assessments, retraining and flight tests" in accordance with International Civil Aviation Organisation (ICAO) requirements.

The International Federation of Air Line Pilot's Associations (IFALPA) called upon the Singaporean authorities "to expedite the process of re-validating the pilots flying licences, so they can return to full employment status".

SQ006, a Boeing B747-400, crashed when it attempted to take off on a closed runway during a typhoon. The accident resulted in the death of 83 and injuries to 44 of the 179 passengers and crew.

The three pilots; Captain Fong Chee Kong, First Officer Latiff Cyrano and second officer Ng Kheng Leng, were detained in Taiwan for two months following the accident and faced the threat of manslaughter charges, which carry jail terms of up to five years, if Taiwan had decided to charge them.

The lengthy Taiwanese investigation into the accident sparked controversy when it was published in April.

It blamed the accident almost entirely on the pilots. A separate investigation arranged by the Singapore Transport Ministry found the accident was the result of a combination of many factors and that airport deficiencies played a sizeable role in the crash.

The threat of proceedings will continue to hang over the two senior members of the crew. Charges of manslaughter due to negligence against Captain Fong and First Officer Cyrano were conditionally suspended for three years.

They will not have to face court provided they comply with conditions laid down by the prosecutor's office.

These include not operating any aircraft entering or leaving Taiwan for one year and performing 240 hours of community service in Singapore. Second Officer Ng was cleared of any responsibility.

Chief prosecutor, Jiang Gui Chang, said "the pilots' negligence was undisputable". However, based on their "exceptional career records" and goodwill since the accident, a conditional suspension of charges was imposed. ■

Its new international dedicated cargo operation is performing much better than expected, its China services have blossomed and now Hong Kong-based Dragonair has been granted 24 lucrative flights a week to Taipei in recently concluded air rights talks. The future is bright, very bright, for the airline which 12 years ago was fighting for survival.

THE DRAGON ROARS

By Barry Grindrod in Hong Kong

Dragonair chief executive, Stanley H. C. Hui, has never been a man to beat his own drum. Matter-of-fact and quietly assured, he prefers to let the already considerable achievements of his Hong Kong-based airline do the talking.

What is more, those achievements are set to increase in number as Dragonair continues its drive into international cargo markets – with its recently launched dedicated freighter service – and the likely introduction of 70-100 seat jets into its highly lucrative bread and butter China market.

As well, the airline has emerged from the long-running air rights talks between Taiwan and Hong Kong with a slab of new and lucrative services to Taipei. Until now, Dragonair has only been allowed to fly the Hong Kong-Kaohsiung route.

Today, Dragonair is highly profitable, boasts one of the youngest fleets in the world, has a much-envied reputation for safety and passenger service and is perfectly positioned to further benefit from China's huge tourism and cargo potential.

Just 12 years ago, however, the carrier was facing a cash crisis. Launched in 1985 by prominent Chinese businessmen who, alas, had little knowledge of the aviation business, the carrier soon found itself struggling against the might of Cathay Pacific Airways, an airline that was in no mood to give anything away.

Dragonair was only able to acquire secondary destinations and found it could not survive on the unwanted scraps from Cathay's 'table'. After almost squeezing the life out of the little carrier, Cathay stepped in and, together with its parent company, Swire Pacific, took an initial 35% stake in the carrier, which it later increased to 43%.

At the same time, Cathay Pacific also signed a 15-year management contract. Once the deal was signed, a youthful Stanley Hui was among the team of four assigned by Cathay to breath new life into Dragonair. Within a year Dragonair was making money. In two years it had wiped out an estimated HK$150 million (US$19.2 million) of debt.

Hui was Dragonair's general manager airline planning and international affairs. "Traffic rights were the key to the turnaround," said Hui, in an interview with *Orient Aviation* in June.

Previously, Dragonair had been unable to land anything more than a handful of scheduled charter operations to Beijing and Shanghai in China, routes then also served by Cathay. But after bailing out the cash-strapped carrier, Cathay pulled out of China and handed its prized mainland routes to Dragonair.

The re-birth of Dragonair had begun and Hui was playing an important part in it. "Dragonair was losing heavily on its routes. Secondary routes are a burden, but if you have 'cash cow' routes you can support them," he said.

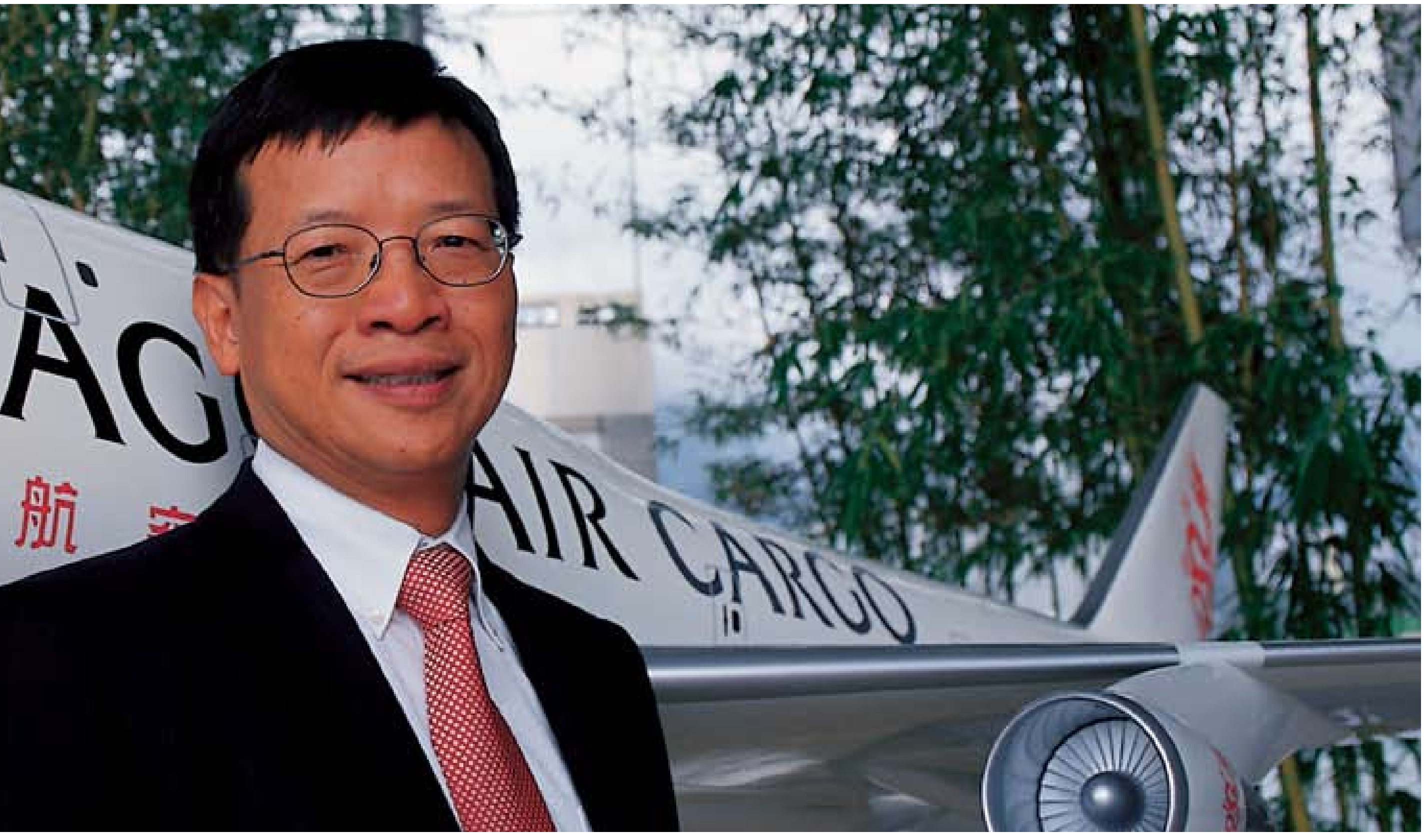
"It was very exciting in those days putting the airline back on the right track."

Putting the carrier back on track also included a change of fleet. In 1991, Dragonair replaced its four B737s with Airbus A320s. It later added A330s and A321s to the mix.

Hui left the airline to become chief representative in Beijing of Cathay's parent Swire Pacific in 1992.

In 1994, with his executive star on the ascendancy, Cathay once again turned to Hui to wave his magic wand, this time at all-cargo subsidiary, Air Hong Kong, in his home city.

At the time Cathay had decided to move in to control a carrier under threat. This time the threat was from China, as China Southern Airlines moved to buy deeply indebted Air Hong Kong. Cathay swooped in and acquired a 75% stake of



Dragonair chief executive, Stanley H. C. Hui: its all cargo operation has done better than expected and will expand into the U.S.
PHOTO: PATRICK DUNNE

the freighter airline to head off the mainland China carrier's purchase.

Within three years Hui had turned Air Hong Kong into a money-maker. Furthermore, he learnt lessons that were to add a new dimension to Dragonair years later when he launched his own dedicated cargo services.

"Air Hong Kong proved a helpful background for me. It made the decision-making process [of setting up Dragonair's dedicated freight division] easier and much quicker for us," he said.

By the time Hui took charge at Dragonair in 1997 the aviation and political landscape was changing in Hong Kong. The handover of the British territory to China was only months away, the China National Aviation Company (CNAC) had taken control of Dragonair and Cathay had terminated its management contract with Hong Kong's second carrier. These events initiated a watershed decision for Hui. He decided to leave Cathay after 22 years service and accept the top job at Dragonair.

By this time, Cathay and Swire had reduced their shareholding in Dragonair, along with CITIC Hong Kong, to allow CNAC to acquire a majority shareholding.

The shareholder shift was prompted by CNAC's attempts to launch an airline in Hong Kong in 1996, as the handover of the territory loomed. The plan was dropped once the Dragonair deal was completed.

The early days at Dragonair were far from easy for the new boss, especially as Hui's appointment coincided with the Asian economic recession of 1997-98.

Before the 1997 handover, Dragonair's China network was restricted. It had to apply for extra "charter" flights on a month-to-month basis. The flights either were or were not granted, depending on the state of political relations between Britain and China. Mainland airlines had a 2.7:1 seat ratio advantage over Dragonair.

After the handover Hui and his team worked closely with Mainland China to try and eliminate the route imbalance. By mid-1999, Dragonair had increased its seat capacity on China routes by 60%.

In February 2000, a new Air Services Agreement was signed between Hong Kong and China, which granted Dragonair equal access with Chinese carriers to the China market. By mid-year, the Hong Kong carrier had increased its seat capacity on China routes by another 30%.

But if the 1990s was a decade of steady and reasonably sustained growth for Dragonair, the start of the new millennium proved nothing short of dynamic for the carrier.

In February 2000, Hui unveiled a US$600 million fleet expansion plan; the purchase of five A320s and three A330s with an option on two additional A330s and the lease of an A330 and A321. By the end of this year Dragonair will have 21 passenger jets, up from 13 two years ago. Another five planes will join the fleet by the end of 2005.

In June 2000, Dragonair moved into its new ultra-modern, twin tower offices adjacent to the new Hong Kong International Airport.

This period was the airline's coming of age as an international carrier, a point enforced a couple of weeks later when it launched an all-cargo service to the Middle East and Europe.

Said Hui: "Two or three years ago the [Hong Kong] government said it would liberalise the cargo regime with a view to developing Hong Kong into a major air cargo hub. Our shareholders agreed the time was right for us to go into the all-cargo business."

Hui has always seen great cargo potential in the Pearl River Delta. When he arrived at the airline cargo was operated under a general sales agent arrangement. By the end of 1997 Dragonair had its own cargo department and the result was dramatic. In 1997 the airline carried 39,274

tonnes of airfreight. Last year that figure had risen to 121,123 tonnes.

Between 1997 and the start of its freighter service in 2000, cargo revenue had grown from 4-5% to 10-11% of the airline's total income.

"This set the scene for the major changes that followed," said Hui. "It was not that difficult to start. We had a good foundation with our own cargo team and outport offices geared up. It all came together in a short period of time."

Hui now thinks there is the potential for cargo to contribute between 30% and 35% of total revenue in the next five years.

After initially wet-leasing a B747-200 freighter, Dragonair now owns two ex-Singapore Airlines B747-300 freighters. A former Malaysia Airlines B747-300F will join the fleet before the end of the year. Hui also is talking about possibly converting B747-400 passenger jets into freighters in the future.

"Our all-cargo operation has gone better than expected," said the chief executive, a Hong Kong University graduate who easily commands the stage at global aviation meetings.

The third freighter will allow Dragonair both to complete its cargo network in Europe and China in the next five years and become more competitive with its rivals by adding frequencies on the routes. The next stage, said Hui, will be for Dragonair to add the U.S. to its cargo portfolio.

"China has become the world production house and the two most important trade routes for these goods are to Europe and the U.S. We cannot ignore this," he said. "Although we do not yet have a time frame, in the next three to five years we will have the U.S. covered."

Operational Statistics

	1997	1998	1999	2000	2001	As of 31May02
Revenue Passengers Carried	2,055,564	1,987,811	2,244,484	2,584,509	2,892,585	1,290,934
Freight Carried (tonnes)	39,274	43,577	65,859	93,738	121,213	65,498

China's Shanghai is the dragonhead of the Yangtze River, another major manufacturing region, making the eastern near coastal city Dragonair's most important cargo centre. The carrier also has eight passenger flights a day to Shanghai, more than anywhere else on the mainland, and Hui expects to add more services in the future. "The Shanghai market has grown faster than we expected," he said.

Although its parent, CNAC, is grouped with Air China and China Southwest Airlines in the consolidation of China's major carriers, Dragonair is outside the merger loop. However, some form of commercial cooperation with Beijing-based Air China was possible, said Hui.

In coming years, China will continue to be Dragonair's most important market. The airline will be identifying new destinations and increasing frequency of passenger and cargo services across the country, but Beijing and Shanghai will continue to be the major focus points of the network.

The carrier, said Hui, was currently evaluating smaller jets – the A319, A318 and RJ70 – to use on secondary routes in China. He believed they could be operating within two years. Although Dragonair has 18 destinations in China, 41 cities have air links to Hong Kong. A number of these cities could be candidates for a 70-seat aircraft service, said Hui. "We see them as a strategic move to develop markets that cannot be served by bigger aircraft. Hopefully, one day, they will grow into a viable market," he said.

While the Airbus aircraft would make sense from an operational standpoint, Hui said at the end of the day the choice of planes would depend on the size of the market.

In the last two years Dragonair's staff has increased from 1,400 to around 2,200. More employees will be added as the growth of the airline continues. Hui concedes the homely atmosphere of the airline is becoming a thing of the past. "Unfortunately, the family atmosphere will disappear as the company grows. The same happened at Cathay 20-25 years ago. It is unavoidable," he said.■

Dragonair hits Taiwan jackpot

Dragonair came out of the Taiwan-Hong Kong air service agreement (ASA) negotiations better than it had expected with 22 passenger flights and two freighter flights a week to Taipei and an additional seven to Kaohsiung.

It had been feared that Dragonair would be further frustrated in Taiwan as talks appeared to be deadlocked with only 48 hours to go to the deadline. The deal was done on June 29.

Having been confined to serving Taiwan's southern port city of Kaohsiung, the airline had expected to be flying to Taipei a year ago when the original ASA expired. And, based on that belief, Dragonair ordered an extra aircraft.

But stop-start talks on a new deal dragged on with politics playing a major role in the delay of a new pact. Fortunately, the airline was able to re-deploy its extra aircraft on its buoyant Hong Kong-Shanghai route.

The big question now is: how will Dragonair fare once direct flights are given the all-clear between Taiwan and the mainland? Although there will be an initial drop in traffic between Hong Kong and Taiwan, chief executive Stanley Hui, does not rule out the fact that Dragonair may be able to play its part in flights across the Taiwan Strait, possibly from Xiamen in southern China. "This would be an interesting role for Dragonair to play. Whether it would be permitted I don't know, but we would like to do it," he said.

Taiwan will become an increasingly important passenger and cargo market for Dragonair.■

DRAGONAIR FACTS AT A GLANCE

Ownership: China National Aviation Company Ltd 43.29%; CITIC Pacific Ltd 29.35%; Swire Pacific Ltd 7.71%; Cathay Pacific Airways 17.79%; Others 1.86%

Staff: 2,200

Fleet:
7 A330s, 4 A321s, 8 A320s,
2 B747-300s
On Order:
2 A330s (2002), 2 A321s (2003)
3 A320a (2004-05), 1 B747-300 (2002)

Destinations:
27 cities (18 in China) in nine countries

Scheduled freighter services:
Amsterdam, Dubai, Manchester, Osaka, Shanghai, Xiamen

Subsidiaries:
Dragonair Holidays 100%
Hong Kong International Airport Services 100%
LSG Lufthansa Service Skychefs 31.94%
Hong Kong Airport Services 30%
Dah-Chong Hong – Dragonair Airport GSE Service Ltd 30%

PHOTO: PATRICK DUNNE

Hui has proved himself capable of taking on the task of running a top international carrier, say industry observers

Hui proves a point

British Airways chief executive, Rod Eddington, once told *Orient Aviation* that when he was managing director of Cathay Pacific Airways, Stanley Hui was one of half a dozen Chinese executives capable of becoming Cathay's first local chief executive, **writes Barry Grindrod**.

The rumoured favourite for the post, Linus Cheung, left the airline in the mid-1990s for the top job at Hong Kong Telecom, now Pacific Century Cyber-works (PCCW). Hui followed him out of the Cathay door in 1997 when he accepted the offer to become chief executive at Dragonair. Four others remain in the wings of Cathay Pacific with chief operating officer, Philip Chen, seen as deputy chairman and chief executive David Turnbull's most likely successor at the Hong Kong carrier.

But while the local Cathay staff continue to wait patiently for the top job at Cathay, Hui, a 52-year-old father of two teenage sons, has been busily building Dragonair into a powerful regional position, particularly in mainland China.

As part of his grand plan for the airline Hui launched Dragonair's first international all cargo service to the Middle East and Europe two years ago. The U.S. market is next on the cargo agenda. Indeed, Dragonair now competes directly with Cathay on cargo routes. And it will compete head-to-head on passenger services between Hong Kong and Taipei following the completion of the recent air services agreement.

"I do not see it as rivalry. We have a lot of cooperation with Cathay, be it maintenance, computer mainframe applications or marketing. We have more cooperation than is apparent to the eye," said Hui. "I believe there is essentially enough business in the market for everyone. Maybe that is why the Hong Kong Government decided to allow more competition to come into the market."

Hui spent 22 years at Cathay. In 1990, he was part of the team sent by Cathay to manage a fragile Dragonair after the international carrier had bailed out the fledgling regional airline by taking an initial 35% stake in the operation. Cathay also signed a 15-year contract to manage the airline.

Today, Dragonair is a very different 'animal'. It resides in purpose-built, HK$1.4 billion (US$180 million) state-of-the-art new offices a stone's throw from the new Hong Kong International Airport. It shares the facility with its current majority shareholder, China National Aviation Company (CNAC). Nearby, in full view, is Cathay's new Cathay City headquarters.

It's a daily reminder for Cathay and its parent company, Swire Pacific, which between them still hold a 25.5% stake in Dragonair, that the airline is firmly standing on its own feet.

Hui has a healthy respect for his former employer and looks back on his time there with fondness. "Cathay was a regional airline when I joined it in the mid-1970s. It was still flying B707s and the first of its L1011s had just entered the fleet," he said.

The Dragonair chief compares his present charge to the Cathay of the late 1970s when its launch of the London route signalled the start of a major expansion for the airline.

Hui, who relaxes from the day-to-day pressures of management with an occasional game of golf, is widely respected in the industry and popular with his staff. Not least of his achievements is the good relationship that exists between Dragon-air management and its Chinese masters.

He modestly shrugs off suggestions that he may one day return to Cathay as its chief. There are those in the business who say Hui has already proved himself good enough to take on the task of running one of the world's most respected and profitable carriers.

It seems unlikely he would turn it down if it was offered to him, but, for now, he says, there is plenty for him to do at Dragonair.■

Air NZ 'on the mend'

But cash-strapped airline in equity talks with Qantas

By Tom Ballantyne

To use his own words, Air New Zealand (Air NZ) was in "intensive care" when John Palmer took over as chairman of the board last December. The airline was mired in debt having incurred record losses as it struggled to re-establish its credibility after the collapse of wholly owned subsidiary, Ansett Australia.

Eight months on and a long way to go, the Air NZ recovery is underway.

"The airline has been out of intensive care for a while now and is back 'walking'," Palmer told *Orient Aviation*. "We are going to make our own future and we are handling the first phase with some confidence."

Air NZ was saved from oblivion by a US$415 million bail-out from the New Zealand Government. This gave the New Zealand national government an 82% stake in the ailing carrier.

Since then the airline has reported a record US$600 million deficit for the year ended June 30, 2001 and announced another loss of $160 million for the first half of 2001-02, to March 31, much of it coming from the Ansett collapse.

Quietly spoken Palmer is new to the airline business. He is a former fruit industry boss who was chairman of the Kiwifruit Marketing Board. But he does not regard his background as a disadvantage because it means he arrived at Air NZ with no baggage and no fixed ideas.

He and new chief executive, banker Ralph Norris, have gone through the company with a fine tooth comb, curbing costs and putting a comprehensive restructuring programme in place.

Air NZ has repaid $300 million in unsecured debt, reduced the work force by 800, cut executive management from 17 to 7, trimmed the management payroll by 30% and slashed salaries by up to 15%.

The board has gone from 13 directors to six and their fees were halved. Non-core businesses have been put on the auction block, with Air NZ's Jetset corporate and retail travel business and ski resorts near Queenstown, on New Zealand's South Island, sold.

In May, it told the New Zealand Stock Exchange this year's financial results would be better than expected. The company now expects to break even instead of losing around $28 million.

Air New Zealand chairman, John Palmer: re-building the business from the inside out

Palmer is adamant the re-building will not involve any swashbuckling, fast-track expansion. Air NZ aims to manoeuvre its way out of difficulty with caution.

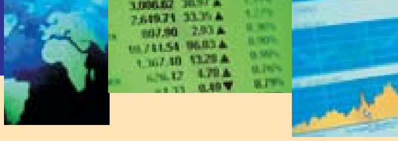
In late May, the airline announced sweeping changes to domestic services, including the dropping of business class in favour of a single class service, substantial fare reductions and more work for its no-frills operation Freedom Air, which operates domestically and across the Tasman Sea to Australia.

They were significant steps and, said Palmer, marked the day Air NZ "stopped being in survival mode and moved into forward mode".

The re-building of Air NZ will be conducted in three phases across 18 months, although Palmer is setting no deadlines for the recovery. The domestic services will come first, followed by short-haul regional (Australia and Pacific Islands) and finally long-haul routes.

Taking care of domestic operations first will "ensure the heart of Air NZ is in good shape", said the chairman. "We have to build the business from the inside out. The most profitable part is our domestic business. It is also probably the most vulnerable to new competition. Therefore it is very important we look after domestic first".

The future ownership of Air NZ is a matter of conjecture. The New Zealand Government does not want to stay in the



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)
APR-01	37,878,796	52,884,118	71.63	2,819,388	4,633,547	60.85	6,378,428	9,456,088	8,713
MAY-01	36,703,532	54,498,592	67.35	2,756,534	4,580,406	60.18	6,219,381	9,545,663	8,482
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
TOTAL	443,517,738	619,165,993	71.63	36,235,775	55,583,272	65.19	78,244,239	111,663,340	102,813

2001 TO 2002

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
APR-01	1.13	5.44	-3.05	-12.07	0.60	-8.77	-5.21	2.65	2.12
MAY-01	-0.22	5.69	-3.99	-11.56	-0.49	-7.54	-5.59	2.21	2.40
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
GROWTH	-5.61	-0.92	-3.56	-6.26	-1.80	-3.10	-5.57	-1.90	-2.31

CALENDAR YEAR[5]

	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	112,963,501	148,362,499	76.14	9,060,478	13,412,314	67.55	20,157,130	26,552,624	26,177

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[6]	-2.37	-4.94	2.01	4.38	-1.17	3.59	3.10	-4.66	0.13

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

airline business indefinitely.

In June, there was confirmation talks took place between fierce rival, Qantas Airways, and Air NZ. Qantas wants to buy a 25% stake in the airline and enlarge its own Australasian airline operation.

That move would likely face problems from competition authorities in both countries, who are assumed to regard it as monopolistic. Air NZ's Star Alliance partners also would be unlikely to sit back and accept such a development.

All Palmer would say to *Orient Aviation* in early June was that Air NZ is talking to everyone about everything. The board essentially sees the shareholding question "as a fairly distant issue, not something that is going to change the operational business," he said.

At the same time, Air NZ has to rebuild its tarnished image in Australia, one of its most important markets. Many Australians blame the carrier for Ansett's collapse. Palmer said there was some damage to Air NZ's reputation, but criticism had eased with time.

Nevertheless, a lot of effort is being put into resurrecting the airline's reputation. Vice-president sales and distribution for Australia, Paul Donovan, has been touring Australia talking to government representatives, travel agents and other groups to drive home the message that Air NZ remains a critical part of the Australian market.

Just as critical for Air NZ and its Star Alliance partners is filling the Ansett 'black hole', the lack of a domestic feed carrier for Star Alliance in Australia.

Palmer admits Air NZ is hurting from the "gap" and that all Star Alliance carriers are attempting to solve the problem.

Many observers believe the answer will involve the launch of a domestic operation in Australia by either Air NZ or Singapore Airlines, or by both working jointly to operate an Australian domestic carrier. The airlines concerned remain uncommitted at press time.

Said Palmer: "We could not rule out running domestically in Australia, but it is not part of our current operational plan. I can't say more than that."

The airline has been encouraged by gradually improving markets. International business has recovered well, with Asian, and particularly Japanese, business strong. North America has taken a little longer, but is at "pretty healthy levels".

Air NZ flights have been added to Japan and U.S. services expanded. The airline operates double daily services from Auckland to Los Angeles and five services a week from Sydney to the U.S. Joint fares have been established with foreign operators, including Virgin Atlantic, and discussions are underway about co-operation with a range of other carriers, including Emirates Airline. ■

Philippine Airlines: government investigating a share buy back

President Arroyo wants PAL back

State ownership of airlines in the Asian region is back in the spotlight following confirmation the Philippine Government has put the re-nationalisation of flag carrier, Philippine Airlines (PAL), on the political agenda, writes **Tom Ballantyne**.

Philippines President, Gloria Macapagal-Arroyo, disclosed at an ASEAN Free Trade Area (AFTA) Forum she has asked her Finance Ministry to look at how a buy-back of shares can be arranged.

Currently controlled by billionaire beer and tobacco tycoon, Lucio Tan, Arroyo said taking over PAL would be one way of liberalising the air travel industry and boosting tourism.

She made it clear, however, that any decision would take some time and the suggestion was one of the strategic options being evaluated in the context of an open skies policy and liberalisation.

The move appears to intensify an emerging trend in regional aviation, reversing years of development in which more and more carriers were privatised. In the last 18 months, two heavily debt-laden flag carriers, Malaysia Airlines and Air New Zealand, have returned to government hands to avoid bankruptcy.

While the New Zealand Government has made it clear it wants its airline to return to private control at some stage, it has become obvious states are not willing to let commercial failure lead to the collapse of national airline operations.

This is not the case with PAL, which has managed to recover following its flirtation with extinction in the late 1990s. Neither Tan nor the carrier's president, Avelino Zapanta, have officially commented Arroyo's remarks.

Zapanta said he expects PAL to record a profit this year following an improvement in air traffic. The airline lost US$41.9 million in the three months following the September 11 U.S. terror attacks, but estimated losses for the fiscal year to March 31, 2002, are US$30 million, far better than the forecasted $50 million.

Arroyo said her administration is willing to sustain losses while operating PAL in an attempt to lure tourists to local shores.

PAL is strongly opposed to an early full implementation of open skies, arguing it will threaten the viability of local airlines. "PAL is not totally against the government's open skies policy, but we're saying it's not the right time yet because local airlines are not prepared to compete with bigger global players," Zapanta told the Philippines media.

The country's president appears to have been encouraged to look at airline re-nationalisation after visiting a number of Southeast Asian countries. "Thailand and Malaysia, which are very successful at bringing in tourists, have a very liberalised air policy," said Arroyo.

The Philippines Government relinquished control of PAL in 1992, selling 67% in a privatisation programme that eventually led to tycoon Tan taking a majority equity. After a series of recapitalisations, bankrolled by Tan, the tycoon and his allies raised their PAL holdings to around 89% in the late 1990s, diluting the government's equity to 4.3%. ■

By Daniel Baron
in Shanghai

Asia to the fore, pledges new IATA chief

Like his speedboat in the Mediterranean, Giovanni Bisignani is quick to get to the point. The new International Air Transport Association (IATA) director general, who assumed his post during the association's June annual general meeting in Shanghai, delivered a message emphasising the need for speed in an era of challenges unseen at any other time in the history of civil aviation.

"The strength of any institution," said Bisignani, "lies in its capacity to adapt and respond rapidly to the changing needs of its industry." He went on to add IATA will "need to understand and respond faster to the industry's agenda. The speed of response will be fundamental to [its] success".

Bisignani has succeeded Pierre Jeanniot, who headed IATA for nearly 10 years. He was previously chief executive of Opodo, the European online travel portal, which, like its equivalents in North America such as Travelocity, has re-shaped the concept of travel product distribution. He also has served as managing director and CEO of Alitalia.

Besides his native city of Rome, the affable Bisignani has lived in New York and Boston, as well as in Buenos Aires during his teenage years.

Bisignani enters the post well familiar with commercial aviation matters, particular to the Asia-Pacific and especially to China. Having first visited the country in 1975, he became a frequent traveller to China while at Alitalia when the carrier forged the first China to Italy flights.

The new director general is positive about the upcoming consolidation in China's airline industry with 10 of the Civil Administration of China (CAAC) carriers merging into three groups. "I support the overall strategy of the government, which will serve to make Chinese carriers more efficient and improve service. We have seen all over the Western world how difficult mergers can be, but I'm sure it will increase the effectiveness of the airline industry in China as a whole," said Bisignani.

IATA opened its first office in China in 1995, a step that Bisignani said was timed well to recognise the country's future explosive expansion in aviation.

He added that while the airline industry welcomes the rapid growth in passenger numbers in countries such as China, a certain amount of caution may be required. "The industry must progress at the same speed as a country's infrastructure, i.e. airports and air traffic control," he said. "Otherwise, a new generation of passengers that is just beginning to fly may face a high level of frustration."

IATA's new director general, Giovanni Bisignani: greater focus on the Asia-Pacific

As IATA director general, Bisignani expects the organisation will be placing more emphasis on Asia than in the past. "I plan to spend a lot of time at our regional office in Singapore. IATA must place priority where the needs are and that means greater activity in Asia because development is faster here."

He pointed out that it is during the current exceptionally challenging period that the Asia-Pacific stands out. "The advantage here is that you still have growth, which makes it easier to handle certain types of problems," he said.

The issue of high user charges in the face of massive industry losses is one of the "problems" that IATA will have to tackle sooner than later.

While some airports in the Asia-Pacific have lowered or held steady landing fees and rental charges, others, most notably those in Japan, have provided little or no relief.

On this contentious point Bisignani said: "It's quite surprising that with airlines losing US$16 billion, in some countries you see airports that had one of the best years regarding profits. We cannot stand this situation anymore. The airlines have done an enormous amount of work to reduce costs to be more effective. The airlines are partners with the airports, which need us. If there are no passengers, there is no business for them."

IATA will, says an emphatic Bisignani, work for lower user charges by increasing awareness of the issue. "We will present to the world community who is efficient and who is not. We will be straight with local authorities and benchmark user fees. The airlines are not a monopoly anymore and we do not want our airport partners taking advantage of this."

Other developments he would like to see are improved cross-border cooperation in air traffic control as well as broader liberalisation throughout the industry.

IATA also is hoping its broadened selection of products and services will help increase membership in the Asia-Pacific. Korea's Asiana Airlines recently became a member. IATA's next target is Vietnam Airlines, with an eye on signing up carriers from Taiwan in the future. To date, political considerations have prevented Taiwan's carriers from joining IATA's ranks.

On membership Bisignani said: "Pierre Jeanniot has done a great job of making IATA more effective, not only through cost-cutting, but also by expanding activities in the marketplace that are in the interests of the airlines, including training and marketing."

Top of the director general's wish list, however, is profitability. "In an industry that has lost billions of dollars, our first priority must be to put our pieces in place. As an industry we must define a growth programme towards profitability, then head for liberalisation, which will result in better service for all," he said. ■

'IATA MUST PLACE PRIORITY WHERE THE NEEDS ARE AND THAT MEANS GREATER ACTIVITY IN ASIA BECAUSE DEVELOPMENT IS FASTER HERE.'

New oneworld initiatives

By Tom Ballantyne

With South Korea's Asiana Airlines, Poland's LOT Airlines and Spain's Spanair recruited to join the Star Alliance, rival oneworld has launched initiatives to fast track co-operation between its members.

The moves highlight how critical carriers see alliance links in markets slow to recover from last year's economic downturn and the impact of September 11.

Initiatives announced, following a meeting of oneworld chief executives in Hong Kong in June, included:

- an extension of alliance activities into cargo, engineering and maintenance, insurance, flight operations training and revenue accounting.
- the introduction of three new types of ticket, with more to follow, designed to increase innovation and attract more customers.
- new flights between oneworld hubs, improving connections and convenience for travellers and a significant expansion of code-share services.
- the launch of electronic ticket interlining, making it easier for passengers to transfer between member airlines.

Also, oneworld disclosed it had clinched a US$40 million a year corporate sales contract with a U.S.-based information technology multinational, which it claimed was the largest won by an alliance.

Peter Buecking, the alliance's managing partner, said members Aer Lingus, American Airlines, British Airways, Cathay Pacific Airways, Finnair, Iberia, LanChile and Qantas Airways, expect to benefit by almost US$1 billion in 2002 from the alliance. These benefits cover revenue generation and feed as well as savings from joint purchasing and shared airport and city facilities.

Meanwhile, the demise of Star Alliance member, Ansett Australia, is proving good business for oneworld's Qantas. Star has lost critical domestic coverage in Australia following the collapse of Ansett. Star members are being forced to pass many passengers on to Qantas.

In June, United Airlines went some way to filling the gap by signing a code-share agreement with no-frills minnow Virgin Blue, but it hardly replaces the former Ansett network.

The issue was one of the topics of discussion at the most recent Star board meeting in Shanghai. Some members proposed that Star attempt to lure Qantas from oneworld. Such a solution seems highly unlikely, given Qantas is 25% owned by British Airways and extracting itself from oneworld would be costly.

It is more likely one or more Star Alliance carriers (Air New Zealand and Singapore Airlines being most often mentioned) will eventually launch their own domestic operation in Australia.■

By Daniel Baron
in Shanghai

IATA AGM

War risk insurance out of control – Weber

Airline executives are desperate to purge from their daily vocabulary one particularly haunting phrase: "seven days' notice." This is the amount of time after which insurance providers may cancel war risk coverage following a catastrophic event such as the September 11 U.S. terrorist attacks.

And they did not mince their words at IATA's 58th Annual General Meeting (AGM), held in Shanghai in June. War and terrorism-related insurance costs, they said, are "out of control", and a new scheme for such coverage is needed immediately.

Lufthansa German Airlines chairman, Juergen Weber, wasted no time in getting to the point, stating that "all parties concerned need to understand the consequences of a further delay of action. Our industry simply cannot continue to operate in an environment of uncertainty." Weber added that his airline is forecasting a 600% increase in insurance costs.

Airlines worldwide face an insurance bill to the tune of US$6 billion, compared to US$1.7 billion prior to the September 11 attacks, said Giovanni Bisignani, IATA's new director general.

Governments stepped in after the attacks with a hodgepodge of stop-gap, country-specific schemes varying in coverage and passenger fees.

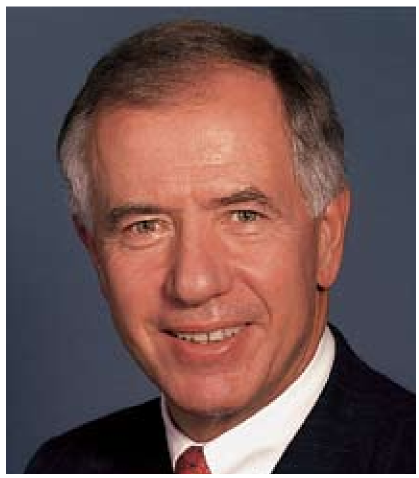
Weber went on to voice strong support for the non-profit, industry-led insurance plan proposed by the International Civil Aviation Organization (ICAO) in which airlines would pool funds, including initial capitalisation through loans from states, and would give them collective coverage of up to US$1.5 billion per incident.

Additional funds would be covered by governments, which, said the Lufthansa chairman, must recognise the risk of terrorism is a public, not a private, risk. "Politically motivated terrorism is intentionally directed against state institutions and citizens. It is not a risk inherent or specific to aviation," he said.

This position was endorsed by IATA delegates in a resolution that also urged ICAO to take "measures to establish an international convention to limit the third-party war risk liability of international airlines."

Still unresolved, however, is the issue of how to realise a global insurance scheme in light of plans by airlines in the U.S. to set up their own company for coverage ("Equitime"), as well as opposition by several European governments. (See "Splits Over Global Insurance Plan" in the April 2002 issue of *Orient Aviation*.)

Lufthansa's Weber reminded delegates that formation of a worldwide for-the-industry, by-the-industry insurance scheme would require time that the airlines do not have. He suggested that a regional approach be adopted first and cited the Association of European Airlines' "Eurotime" fund as an example.



Lufthansa German Airlines chairman, Juergen Weber: "our industry cannot continue to operate in an environment of uncertainty"

Two weeks after the IATA AGM, the ICAO Council announced it had approved "in principle" the establishment of "a global aviation war risk insurance scheme". When it is implemented the programme will provide third party insurance coverage for airlines and others parties "involved in civil aviation" via a non-profit entity backed by ICAO member state guarantees. Coverage would be capped at US$1.5 billion per insured and per accident.

ICAO added that a pool to meet claims would be built up primarily through premiums and investment income. "States would be called upon only as a means of last resort", ICAO said, but in order for the scheme to be effective, states "representing 51% of annual contribution rates" to ICAO must agree to participate as guarantors of last resort". ICAO asked for responses to the proposal by July 19.

For airlines in the Asia-Pacific, the creation of a similar mutual fund may not be seen as feasible or even desirable by certain parties. The region's vast geography and widely varying government policies, not to mention local politics, suggest a rocky ride ahead for any effort to create a region-wide scheme.

Inevitably intertwined in any discussion of cross-border concord is the issue of liberalisation of airline ownership and control rules. This, too, was a key theme of the IATA AGM.

Barry Humphreys, director of external affairs and route development for Virgin Atlantic Airways and chairman of IATA's Task Force on international aviation issues, reminded delegates that "the type of merger and acquisition strategy other industries have taken for granted for many years is being denied to the airline industry".

Central to the liberalisation proposal is a clear distinction between "commercial" control and "regulatory" control. The former refers to restrictions on airline ownership and operation, while the latter addresses airline licensing and supervision pertaining to operator and airworthiness certificates as well as crew licences. Humphreys emphasised that the distinction is needed so that cross-border ownership would in no way conflict with "current industry standards for safety, security and labour protection".

The proposal's other key point is an intention to work in tandem with, rather than replace, the existing bilateral structure. IATA's reform plan would, according to Humphreys, "enable states to agree amongst themselves to waive existing restrictions, provided they are convinced that sufficient regulatory control will be exercised to avoid safety and other concerns".

For its part, IATA's task force recognises that "not all countries want to progress at the same speed".

"Equally, however," said Humphreys, "the more conservative countries should not hold back those nations that wish to go forward more quickly".

Squatters posing safety risks at Philippine airports

By Rene Mallari in Manila

It's odd but true.

Several years ago at a local airport in Iloilo (a province in the Philippines' central Visayas region) two sleeping men were killed on a runway by a Philippine Airlines' B737-300 aircraft, the first incoming flight of the day.

Both men were reportedly intoxicated. They had scaled the perimeter fence and fallen asleep in the middle of the runway, oblivious to the misfortune that would later befall them. The men were residents living near the airport, recalled Edgardo Costes, airport maintenance section chief at the government-run Air Transportation Office (ATO).

The rapid growth of sub-divisions and squatting around airports is a threat to air safety and a major challenge for the ATO, director general Adelberto Yap told *Orient Aviation*. "Although we put up demarcations and notices and fence the airports, a lot of squatters still risk living anywhere, including within the airport perimeter," he said.

The Philippines has 87 airports; four majors, 44 trunk line airports (domestic routes) and 39 feeder facilities (to cater for tourists and resort destinations). Squatters are posing security threats at all types of airports and infringe on the 150 metre buffer zone of the facilities.

At Cebu's Mactan International Airport a resident built a four-story structure close to the airport. "We had that demolished because it was obviously an airport obstruction and a clear violation of our perimeter rules," said Yap.

Nowadays, it is more difficult to evict a squatter, said Yap. The law stipulates property owners have to re-locate and compensate families and communities affected by evictions. "Where can you find a country that rewards squatters?" Yap asked.

The Department of Transportation and Communications' (DOTC) limited budget means that paying off encroachers is out of the question for the ATO for now.

The problem concerns airline operators, particularly those who primarily serve the provincial airports, sites where human infringement at the facilities is most common. Antonio Buendia, president of Asian Spirit, said not all airports in the country have complete perimeter fences.

Some runways are littered with foreign objects, he said, while others have thick vegetation around them. Both are hazards that could translate into higher maintenance costs for operators, not to mention the danger they pose to incoming and outgoing flights.

Yap conceded that ATO funding is insufficient to address its problems despite the fact it is the DOTC's second largest earning agency. "It will cost us millions of dollars to finance all the jobs," he said.

Asian Spirit: facing dangers caused by people encroaching on to airports

As an example he calculated that building a perimeter fence for a feeder and trunkline airport would cost US$120,000-$240,000, depending on the type of material used. At international airports the same projects would require at least $1 million.

Insufficient funding has hampered the ATO's efforts to improve its maintenance and safety-related efforts. "We need more equipment and vehicles because we still lack mobility. Especially in the provinces, there are still people who cross the runway and tear down some parts of the fences. We can't go after all of them," Yap said.

Costes said the ATO has about five staff at each airport, far from the ideal of 20 employees, to take care of maintenance, administration, security and engineers within its jurisdiction. "To clean the vegetation around an airport, for instance, requires at least 10 people."

Yap said to compensate for the manpower shortage they receive assistance from the Philippine National Police and the airport's security group. "That is all we can do for the time being."

Costes lists equipment needed should include 67 tractor-type grass mowers and a dozen vacuum cleaners (for foreign object damage) as well as one service utility vehicle for each airport.

The ATO also should have at least 50 fire trucks to both serve Philippine airports and comply with ICAO requirements that will take effect in 2005. Specifically, ATO must have six major foam-crust tenders (12,000-litre water capacity); nine rapid intervention vehicles (6,000 litre water capacity) and 36 intervention vehicles (3,000-litre water capacity), a shopping list estimated to cost US$10 million.

Despite hurdles, the ATO says it can and will maintain the standards imposed by international aviation bodies. The agency wants to avoid another downgrade to Category 2, an experience that last happened in 1994 after the Philippines failed to meet ICAO's international safety standards.

"It took us three years before the Philippines reverted to Category 1. I don't want that to happen again," said Yap.

Meanwhile the Philippines, under the direction of the ATO, is implementing a nationwide satellite-based communications, navigation, surveillance/air traffic management (CNS/ATM) system, to be completed by 2007.

The ATO said the main aim of the project is to improve safety, by introducing a precision approach capability at secondary airports, and improving en route surveillance.

The system will be financed by more than US$200 million in Japan government-backed overseas development loans. ■

SECURITY *ALERT*

Lessons must be learned after September 11

BARRY GRINDROD reports from Singapore

The aviation industry failed to learn its lessons in the 14 years from the downing of Pan Am 103 over Lockerbie, Scotland, in December 1988 to September 11 last year, when terrorists flew hijacked planes into the World Trade Centre's Twin Towers in New York and The Pentagon in Washington D.C., a recent airline security conference heard.

There also is a danger that airlines could start taking security for granted in the future, delegates were warned at SATS Security's 6th biennial conference and exhibition titled *The Borderless World – Challenges for AVSEC*, in Singapore.

Mark Everitt, general manager of New Zealand's Aviation Security Service described the events of September 11 as watching history repeat itself in slow motion.

Despite a call by International Civil Aviation Organisation (ICAO) members for a widespread security re-vamp following Lockerbie, in the end the focus only fell on the introduction of 100% screening for hold stored baggage. That amendment was never completed, said Everitt, and ICAO has only moved on the issue again recently, setting 2006 as a deadline for 100% screening of checked in baggage worldwide, 18 years after it was initially mooted.

"Some of ICAO's 187 contracted states, for all sorts of different reasons, are even struggling to get basic cabin baggage screening systems in place. This is the reality," said Everitt.

A former manager of security training and auditing at TWA and an expert in hijack management, Philip Baum, told the conference the industry had another wake-up call in 1995 when it surfaced that Ramzi Yousef, who was convicted of the 1991 bombing of the World Trade Centre, and his terrorist colleagues were planning the mid-air destruction of 11 U.S. aircraft.

"The scale of the plan horrified the investigators and the industry as a whole,

Security training specialist, Philip Baum: an over reliance on technology, must not forget the human element

General manager, Aviation Security Service New Zealand, Mark Everitt: watched history repeating itself on September 11

yet it also seemed fanciful, improbable and unbelievable. It was beyond our comprehension," said Baum, who is managing director of security consultants Green Light and editor-in-chief of *Aviation Security International*. "Many committed the plot to the history books and continued about their daily aviation security duties in search of the more traditional threat."

Baum said September 11 changed all that and "all of us have had to come to terms with the fact that genocidal missions are not only brainwaves, but can become reality".

Aviation security challenges in the new millennium include:

- ***Better intelligence***
- ***More coordination***
- ***Improved screening with greater emphasis on human factors***
- ***Need to be more pro-active in identifying threats***
- ***Cultural sensitivity when dealing with passengers***

Senior security consultant, V. Nitchsingam, warned against complacency. "Airlines will eventually go back to ensuring capacity, securing and expanding routes and becoming more competitive and current. Security as a total approach will fall back on us [the security industry] and might even be taken for granted [by the airlines]," he said.

This could not be allowed to happen. Those responsible for security had to ensure that issues had the attention and approval of the most senior airline executives and the momentum of security culture was not lost or sidetracked, said Nitchsingam.

Baum was scathing of airlines who "fooled themselves" into believing that asking a check-in agent to put a few questions to a passenger about his or her bags or, he said, worse still, asking them to read the questions on a card, would enhance security.

And he reminded the aviation security industry it had to realise its role was not simply to provide a service designed to identify the heavily armed individual who will either set off an alarm on an archway metal detector or whose bags cause concern under X-ray examination, but also to identify people who carried no threatening items " yet whose presence on an aircraft could spell disaster".

Baum believes there is an over-reliance on technology for identifying threat passengers and that the human brain was the best 'technology' available for the job.

He spoke of the Lockerbie and the September 11th syndromes. Lockerbie is a survival technique adopted unconsciously by the security industry post December 21, 1988 which puts the focus on identification of explosives in checked baggage as if that was the only threat it faced, said Baum. "We must not allow it to cloud our view of the big picture," he added. "There are other [key elements] that need to be equally well addressed."

The September 11th Syndrome, said Baum, is another survival technique in which the industry tries to screen everyone as if they were the next Moham-mad Atta (the terrorist who flew the American Airlines jet into the World Trade Centre).

"We have witnessed the ludicrous situation where passengers have had nail clippers, mini-pen knives and other everyday items removed from them at screening points and knives being banned from meal trays.

"This process assumes terrorists could not hijack a plane with their bare hands, wine glasses, plastic cutlery – I accidentally cut myself on a plastic knife on a recent flight – or other contents of most passenger hand baggage," said Baum.

George Chao Pao Shu, the assistant director general of the Hong Kong Civil Aviation Department, told the conference that security officers at Hong Kong International Airport were seizing 3,000 items a day from passengers when the new regulations were introduced. This has since been reduced to 2,000 items daily following major promotional campaigns to advise passengers about new rules for baggage contents.

Baum told the conference that once intended 'shoebomber' Richard Reid was caught, "suddenly its time for shoes to be X-rayed". "We have become totally reactive and show little in the way of proactive security other than the deployment of more technology," he said.

There was a need to create a security system that was forward thinking, that would not assume a terrorist act would necessarily be similar to others committed previously. "Could the next version of the 'shoebomber' smuggle a device on board internally? If he or she is suicidal, it is the next logical step to take," and Baum pointed to the Middle East as an example.

The end of the heyday of hijackings came in the 1980s as archway metal detectors and X-ray machines proved their worth, said Baum. But other hijackings have occurred using more imaginative methods, he said.



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Advances in technology have been made but the human element must not be forgotten

The security expert said little has changed at airports since the mid-1980s, with most facilities still relying on modified 1960s technology. "Sure we have colour images on the X-ray machine now and archway metal detectors can be zonalised, but they are still looking for the same threat items," said Baum. "The traditional X-ray machine has limited capabilities, even with the alertest of operators at the controls."

(Everitt in his address told delegates there had been cases of airport screeners being colour blind).

Baum said there was no system in place to identify ceramic weapons or explosives on an individual, no technology that can create a clear image of all the contents of a bag and no real safeguard, save for good intelligence, that will protect against another September 11th incident.

"There have been new technologies developed, but how widely have they been developed? Portal explosives detectors are only being tested now, millimetre wave cameras and passenger X-ray are certainly under serious consideration, but even they rely on the threat item being there to be discovered," said Baum.

And, he said, some parts of the world consider themselves immune. "After all, isn't the United States the target?" is the thinking.

"Whilst I applaud the advances made in technology we must not forget the human element. For as long as we rely solely on a monitor and a buzzer we remain exposed," said Baum. "I am not advocating an Israeli-style interview of every passenger, but rather an analysis of each passenger's behaviour by a trained individual rather than a machine."

Passport to success

Canada rewards airlines for proficient screening, but too many carriers still see document checks as 'inconsequential'

Governments have been accused of giving up on the growing problem of people smuggling and dumping the responsibility for detecting illegal immigrants on the carriers. Airlines say illegal trafficking and other document fraud has cost them tens of millions of dollars in fines and costs.

However, Gary Blachford, First Secretary at the Canadian High Commission in Singapore, told the recent SATS Security conference his government devised a revolutionary scheme in the 1990s that allowed airlines to carry a certain number of "bad" cases a year before fines were imposed.

"For the first time, we, as a government, admitted that screening of passengers for proper documents will never be 100% perfect," said Blachford.

He called it the carrot and stick approach. He explained the Canadian Government decided the best way to handle the growing problem of improperly documented passengers was to offer airlines the possibility of paying no fines (or administrative fees as it calls them) if they reached a certain level of proficiency in screening passengers.

Those carriers taking part in the programme sign a Memorandum of Understanding (MOU)and all fines are then reduced from C$3,200 (US$2,048) per improperly documented passenger arrival to C$2,400 per individual.

Each airline is then given three sets of figures, Blachford explained. An airline with a relatively small traffic load may be given 12-24-36. This means that if a carrier arrives in the country with less than 12 improperly documented passengers in a six-month period it will not attract a fine. If the number is between 12-23, the airline will pay C$800 per passenger, 24-35 C$1,600 per passenger and 36 or more, C$2,400 per passenger. "Therefore, at the start of each six-month monitoring cycle each airline knows exactly what they have to do to meet the zero target figure," said Blachford.

"This approach is revolutionary. I know of no government programme, where the client can, through diligence, reduce all enforcement costs to zero," he said.

Gary Blachford, First Secretary at the Canadian High Commission in Singapore: his government accepts screening will never be 100% successful

In the 1990s, the airline MOU programme contributed to Canada being the only major industrialised country to "hold the line" on inadmissible passenger arrivals.

But Blachford said there were still too many airlines in too many parts of the world that regard document checks as "inconsequential to their principal business".

As a result, thousands of travellers arrive in North America each year either without proper identification or, in more than half the cases, without identification.

"The examination of documents, while perhaps driven by immigration laws, has a very important side effect – flight safety," said Blachford. "Every improperly documented or undocumented passenger represents an increased risk to aviation safety.

"As we speak, flights are leaving from key airports all through this [the Asia] region with improperly documented passengers aboard. In many instances this is being done with the full knowledge of the airline and the local immigration service. (Blachford said he had seen it happen himself)

"Their prerogative is to get rid of the person rather than ensure flight safety. Would the captain of that aircraft have taken off had he been advised [about the improperly documented passenger]? Somehow I doubt it."

With the growth of air travel in the future people smuggling will continue to increase, said Blachford and the partnership between airlines and governments would have to strengthen.

While technology would continue to be a large part of the processing solution, well-trained human beings would have to make the final decision to offload or uplift passengers, he said.

The relationship between control authorities and the air transport industry had improved remarkably in the last decade, said Blachford. "Governments, especially my own, have realised the only way forward is through public/private sector partnerships.

"We have begun to realise that no one nation and no one government alone can deal with the trans-national problem of people smuggling. The solution must also be trans-national. The air transport industry will and must be a part of that solution.

"Canada believes that like-minded partners need to develop an international multi-lateral response to the increasingly widespread and brazen crime of people smuggling. This response will require a considerable investment, but only by working together will real progress be made against one of the new millennium's most pernicious crimes," said Blachford. ■

Screening: call for more cultural sensitivity

With airline security taking on a whole new dimension since September 11, a Singapore professor has stressed the need for staff to be trained in cross-cultural sensitivities.

"People from differing cultural backgrounds look at others differently. But what is frequently overlooked is that all inter-cultural/cross cultural engagements depend on, and require, enormous degrees of sensitivity in order to proceed smoothly," said Professor Kirpal Singh, director, Centre for Cross-Cultural Studies, School of Business, Singapore Management University.

He said this was particularly relevant to air travel where the events of September 11 had "once and for all altered our perceptions of the people around us".

Prof. Singh spoke of what was known as "the gaze". "How we look at someone who is different from us, whether the difference is one of colour, dress, mannerism, gesticulation or voice, will frequently depend on our comfort zone," he said.

"Until September 11 our comfort zones were such that gazing in itself did not worry or upset us too much. However, the situation has drastically changed. Now even the slightest indication of someone gazing at us is the starting point of increased anxiety levels."

Coupled with more stringent security checks at airports, Prof. Singh said it meant that for aviation security to be effective and efficient staff had to be trained in cross-cultural sensitivities.

At the moment, he said, many aspects were insensitively and summarily handled. A Sikh, Prof. Singh used his own experience as an example.

He quoted the case of a security officer wanting him to remove his turban when the hand held security alarm sounded close to his head. "I explained to the gentleman that it was probably due to the small iron symbol of a dagger which was attached to my comb which was stuck into my hair underneath the turban," said Prof Singh. "It took quite a while, and the interference of another security officer, before they let me through."

An easy solution in this situation, he said, would be for a Sikh to be taken to a private cubicle where he would feel more comfortable taking off his turban.

The same argument could apply to Muslim women wearing the *tudong* or the full *purdah*. "The fact that the security officer is a woman herself is not the essence of the problem. It is how the women are asked to remove the so-called offending clothing," said Prof. Singh.

He also said gestures could lead to misunderstandings, sometimes with devastating consequences. Sri Lankans nod their heads for no and shake their heads for yes, he said, the opposite response to the norm of such mannerisms.

The reaction to the question: "Are you carrying any sharp instruments with you?", could lead to confusion, wasted time or even the passenger being offloaded, said Prof. Singh

"Aviation security officials and officers will need to be trained to be far more attentive and sensitive to individual cultures to ensure they do not provoke aggressive behaviour on the part of the people they check, search and interact with," he said.

Prof. Singh said it was easy to slip from efficient checking to ethnic/religious intrusion/confrontation. "This is why I am personally uncomfortable with ethnic profiling as a blanket security measure."

However, profiling of all passengers might have to be done, but it was the suppositions and assumptions that contribute to the analysis of a profile that had to be carefully re-examined to ensure some ethnic groups or types did not seem to be "somehow automatically more anxiety-creating than others", said the professor.

Cargo chain left vulnerable

Business no longer begins and ends with profitability, said cargo security specialist Vincent Koh.

Business management had ceased to be defined by commercial objectives alone. The business of management had become the management of crisis. The management of excellence must include the management of security and that includes the protection of cargo, said Koh, assistant manager, cargo security at Singapore Airlines Cargo.

Great efforts had been made to improve passenger and baggage security. This means, said Koh, that by default cargo is a softer target. "It is quite natural for the perpetrator to take the path of least resistance. The complex nature of tendering cargo to an air carrier makes developing safeguards much more complicated," he said.

Assistant manager security, Singapore Airlines Cargo, Vincent Koh: by default, cargo is a softer target

The more transparency the airlines adopt to ensure their clients can track the whole process of each consignment, the easier it becomes for the terrorist to pinpoint the airline or an aircraft with the same precision.

Koh said safeguards had to be taken through the entire cargo chain. Too much emphasis was being put on the protection of the aircraft and its passengers. Warehousing, cargo agents' facilities, shippers, logistic companies and trucking businesses must be included in the security network.

"A radical restructuring of current management paradigms is necessary," said Koh. The journey is just beginning, he added.

The importance of intelligence

Aviation security cannot operate effectively without continual intelligence and feedback from both the industry and enforcement agencies, said senior security consultant V. Nitchsingam, of Redza Security Sdn, in Malaysia.

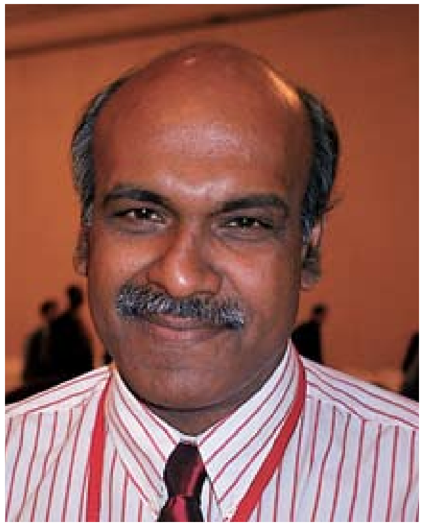
It was important for airlines to maintain a forceful exchange of information and intelligence with local police and security agents, local service providers and associations, global and regional airline security agencies, international agencies including Interpol and the International Civil Aviation Organisation (ICAO) and related groups, he said.

It was equally important to establish a unit to collate and disseminate the information to customers and consumers fast and accurately. One area that needed particular attention was the flow of information and intelligence between governments and official agencies and airlines and other related service providers, said Nitchsingam.

"Not infrequently, officialdom tends to be bureaucratic and places greater emphasis on confidentiality and the need to know rules rather than operational necessity.

"The aviation industry is replete with incidents that may or could have been averted or prevented if information known to one agency had been disseminated to its logical customers.

"In general, in aviation an act or an omission in one part of the world can lead to serious consequences in another. In the discipline of aviation security this is often fatal. Simply put, in security the element of chance cannot exist.



Australian Protective Service director, Martin Studdert: need to introduce a more coordinated security effort to take aviation security seriously

"Intelligence cannot be proprietary. It is not intelligence if it does not reach the appropriate customer in good time."

The director of the Australian Protective Service, Martin Studdert, outlined the need for better coordination between security providers at airports.

He used aviation security intelligence as an example.

"There is a huge amount of information that impacts on aviation security. But much of it is just information. It has not been connected to other information and analysed and converted into aviation intelligence," said Studdert.

"The actual doing of intelligence, passenger and baggage screening, community policing and general security can easily and preferably remain with the broad range of existing providers.

"What there needs to be is a single coordinating agency for security at an airport, an agency that will 'pull it all together'."

Studdert said the agency would need to be given powers and authority by the government in the country in which it is operating, but it would not necessarily operate as a regulator or an auditor. It would function in a consultative role. The government and the industry could share the funding of the agency.

Studdert said the concept required a new attitude and a new approach to aviation security and said it could only work if it was a joint government and industry effort.

"The lack of coordinated effort in the provision of aviation security is the single biggest shortcoming at most airports," he said.

"If we are to take aviation security seriously we need to get past excuses and rationalisations and introduce a more coordinated security effort in the aviation industry."■

A career, or just another job

Mark Everitt is a big man with a no-nonsense approach to his job. He spent 21 years in the New Zealand police force and then, in 1993, took on the job of general manager of the country's Aviation Security Service.

Under his leadership, it was the first aviation security office to receive ISO 9002 certification. The organisation's expertise is sought far beyond the shores of New Zealand.

It has been invited to assist in the re-writing of the International Civil Aviation Organisation (ICAO) training manual and recently completed a security audit at Kuala Lumpur International Airport in Malaysia.

Everitt is passionate about the importance of human factors and quality management systems in aviation security.

He believes you get what you pay for. "Salaries should be set at a level to attract the right people and other conditions such as leave, health and safety programmes should be provided to encourage employees to see aviation security as a career rather than a short-term job."

Everitt referred to a large U.S. international airport where security officers were paid less than McDonalds fast food employees. Staff turnover was 500% in one year at the security company.

He is in favour of security officers being rotated through jobs – screening, aircraft and terminal search and access control – to improve their alertness and motivation. "You cannot ask a person to stand by a door for eight hours [and expect him to do a good job]," he said.

(cont. on next page)

Taiwan used to reward hijackers from China, but now they face tough justice – twice

From hero to zero

How times change. Until 1988, hijackers who arrived in Taiwan with aircraft from mainland China were regarded as anti-Communist heroes and were richly rewarded with taels of gold and cash.

They were decorated for their "bravery" and "contempt of the Communist system", according to the deputy director of EVA Air's flight safety division, Lawrence T.C. Liu.

Today, however, hijackers face a very different fate, including a second trial in China when they are deported after they serve their sentences in Taiwan.

Before 1988, the relationship between Taiwan and China was very confrontational, said Liu. Politically, hijacking was seen as "a defector's denunciation of the government he deserted", he said.

"Hijacking was often used as an effective means of running political propaganda."

Liu said hijacking a Russian-built MIG jet fighter could earn its pilot between 500 and 4,000 taels of gold, depending on whether it was a MIG-15, a MIG-17, a MIG-19 or a MIG-21.

But in the last 14 years Taiwan has adopted a more open policy towards China.

This has included allowing Taiwanese to visit the mainland, establishment of cultural exchanges and, most importantly, making more than US$100 billion in economic investment in China.

EVA Air's flight safety division deputy director, Lawrence T.C. Liu: Taiwan no longer a paradise for hijackers

"The nature of the relationship between Taiwan and the PRC has changed dramatically.

"Hijacking PRC aircraft is no longer welcome," said Liu. "Taiwan is no longer a paradise for PRC hijackers."

Liu said the shift in policy had been a gradual one. Many would-be hijackers were not aware of the exact policy and were unsure what their fate would be when they landed in Taiwan.

Between April 1993 and June 1994 there were 13 hijackings, of which 12 were successful.

They involved eight different Chinese airlines originating from 12 mainland airports. The 16 hijackers involved were all imprisoned in Taiwan for periods stretching from three and a half to 12 years. All of them have since been sent back to China.

Liu said the hijackers ranged from merchants to manual workers and even doctors. Some took their families along. Their motives included fleeing debts in China or escaping from authorities after they committed crimes.

The last hijacking was in 1998. It was carried out by the pilot who had his wife with him on the aircraft. He said he committed the crime because he was unhappy with the airline's policy and low pay.

"To take such a high risk to demand fair treatment was indeed unusual behaviour," said Liu.

To show goodwill to China and to facilitate early deportation, the husband and wife were charged with "endangering flight safety" and given 12 months in jail.

A higher court amended the charge to illicit "entry without a visa" and the sentence was reduced to 10 months.

Liu said the fact that there had been no hijackings for four years is attributed to several factors. These include strict security and specialised training of crew, the Taiwanese policy of treating hijacking as a severe crime and the offenders' knowledge that once they have served their sentences in Taiwan they will be returned to China and tried again for the crime.

"As the Taiwanese Government develops its open policy further in relaxing trade and other restrictions, direct and frequent air travel between Taiwan and the PRC is foreseeable," said Liu.

However, to benefit from the huge China market the authorities only would allow airlines with good security management, adequately trained staff and good equipment to fly across the Taiwan Strait, he said. ■

A career, or just another job

(cont. from previous page)

Staff selection should not be rushed, said Everitt. Candidates should make a presentation to the interview panel to demonstrate communications skills, some form of psychological testing should be done on potential employees, an X-ray proficiency test should be set, references should be checked and vetting for criminal convictions carried out.

Successful candidates should, among other abilities, be able to deal effectively with people, have the communication skills to exchange information with colleagues and the relevant authorities, be able to spot irregular information, circumstances or images and be self-motivated.

Everitt added all employees in aviation security companies should undergo constant training. Personal performance should be regularly assessed, including covert observation of worker performance during normal operations.

Anyone who fails the ongoing assessments should be re-tested and, if necessary, given additional training to bring their performance up to standard.

New Zealand's Aviation Security Service tests its employees every 120 days. It has a 2% failure rate. Anyone who fails the test three times is dismissed. ■

Cathay keeping an eye on biometrics

By Kitty McKinsey

Tighter airport security since September 11 has made transiting through airports a prolonged headache for many travellers, but some Cathay Pacific Airways passengers are speeding through passport control at Amsterdam's Schi-phol Airport in just 10 or 15 seconds.

Cathay Pacific is one of a number of airlines participating in Schiphol's new quick security system using biometric iris scanning technology. Biometrics, the digital analysis of individual human biological characteristics using cameras or scanners, is gaining momentum in airport security.

Travellers who fly frequently through Amsterdam can choose to register for the iris scan programme as part of Schiphol Airport's Privium frequent-traveller programme, which includes some Cathay Pacific business travellers.

When a traveller joins Privium, scans are made of both eyes – a process that is non-invasive and does not irritate the eyes. After an initial passport review and background check, the iris scan is encrypted and embedded on a smart card (the size of a credit card, with a semiconductor chip that stores data). The process takes about 15 minutes.

The next time the traveller flies through Schiphol, he or she inserts the smart card into a reader at a gated kiosk and is allowed to enter an isolated area.

There, the traveller looks into an iris scan camera so the iris can be matched with data on the smart card. A match means the passenger can continue to the gate and the process is over in 10 or 15 seconds.

If there is a problem, the automatic gate directs the traveller to the front of the queue for a manual passport check.

Cathay Pacific corporate communications manager product, Patrick Garrett, said the airline does not benefit from passengers participating in the Privium programme, but added: "Possibly some passengers who like the range of e-tools that Cathay Pacific already provides – on-line check-in, notiFLY – will find the fact that we are participating in Schiphol as another attractive feature."

In addition to the Schiphol iris scan system, which went into use in April with technology supplied by IBM, some other airlines and airports are experimenting with biometrics to identity passengers.

Cathay Pacific corporate communications manager product, Patrick Garrett: biometrics will become increasingly important for security, but the direction is far from clear

A U.S. company, Eye Ticket, is testing another iris-based system at London's Heathrow Airport. SAS has said it may use fingerprint identification. Palm scans have been in use at some airports in Canada and Israel for several years.

Before biometrics can gain widespread acceptance there must be agreement on a single standard – recognition based on palmprints, fingerprints or the iris – because no traveller wants to have to enroll in different programmes, industry observers say. Privium argues the iris scan is quicker and more reliable than other systems because the iris rarely changes, whereas a small could hamper digital recognition. "Biometrics will become increasingly important for security and other applications," said Garrett, "but the direction is still far from clear."■

Security Connexion

Connexion by Boeing, the planemaker's real-time, high speed broadband Internet and inflight entertainment product, is being targeted by the U.S. Government as a potential security pipeline that could be used to protect commercial jets in flight and let observers on the ground know what is occurring on board, **writes Tom Ballantyne**, from Seattle.

Scott Carson, Connexion president, said in Seattle that following the September 11 U.S. terrorist attacks Washington asked Boeing to demonstrate a system capable of working in conjunction with Air Traffic Management (ATM) to enable ground-based operators to receive both data and visual images from a high flying jet.

He said test flights have proven the potential of the Connexion concept. During the flights, live broadcasts from two cameras, one in the cockpit and the other viewing the passenger cabin, were beamed to the ground, along with flight data from the cockpit.

According to Carson, in the event of a hijack, the cameras can identify individuals as well as any arms they might be carrying. "We are continuing to refine these capabilities," he said.

The ability to access real-time data and vision directly from an aircraft would be a critical element of improved security, allowing decisions to be made more quickly in the event of problems aboard a commercial flight.

While Boeing and U.S. Government officials remain cautious about the full potential, sources suggest there is a possibility the system could eventually be used to take control of an aircraft from the ground if, for example, cockpit crew are incapacitated. However, authorities are unlikely to allow such a system to be implemented until it is proven totally secure.

Connexion, already in use on board a number of business jets, is nearing a commercial launch. The first major customer, Germany's Lufthansa, has equipped a Boeing B747-400 with the system. British Airways also will trial it. When satellite reception across the North Atlantic is guaranteed towards the end of this year, Lufthansa will commence tests that will continue for several months.■

GECAT woos China's pilots

By Kitty McKinsey

With China poised for phenomenal growth in aviation, the country could need as many as 1,300 pilots every year to the year 2020. And GE Capital Aviation Training (GECAT) intends to capture a significant part of the simulator training that will stem from this growth.

The attraction of China is clear: the number of commercial aircraft in China is expected to triple over the next 20 years – from 550 today to 1,700 by 2020. GECAT calculates China will need more than 27,000 new pilots by 2020.

"It is obvious that the growth that is going to take place in China is significantly greater than anything else in the world," said GECAT Asia managing director John Bent.

GECAT Asia managing director, John Bent: pilot demand in China will be greater than anywhere else in the world

GECAT Hong Kong, the two-year-old independent airline training provider in Asia, has already secured 20 customer airlines for training in the Cathay Pacific Airways Hong Kong facility, where it leases four simulator bays. GECAT provides training on A320 and A330/340 simulators as well as the B737NG. It also markets spare time for Cathay Pacific on the B777, A330/340, B747-200 and B747-400 simulators.

New customers from mainland China are signing up for GECAT training at the Hong Kong centre. In March, Sichuan Airlines started training on the A320 Level D full flight simulator. GECAT said it was believed to be "the first time a mainland China airline has used a Hong Kong simulator for a significant amount of simulator training".

Bent said a number of other Chinese airlines have signed agreements with his company and will soon begin training. "Our location is very convenient for China and Northeast Asia airlines," Bent said. "The expansion of our presence in Asia is a publicly-stated goal of GE, and our investment in the region is an integral part of that strategy."

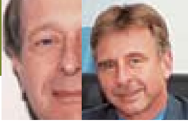
In May, GECAT signed a Letter of Intent to establish a pilot training relationship with Shandong International Aviation Training Corporation (SDIATC). GECAT is to move a B737-300 simulator from GECAT's London Gatwick Training Centre to Shandong Airlines' new training centre in Qingdao, with training to begin in October of this year. SDIATC and GECAT will jointly market the simulator training to customers in the region.

GECAT also has signed an agreement with Shanghai Eastern Flight Training Company (a subsidiary of China Eastern Airlines) to jointly market training in their facilities in Hong Kong and Shanghai.

Bent expects more airlines to outsource their training. Small or emerging airlines in particular usually cannot justify the capital expenditure to procure and operate their own simulators. But even for larger airlines that have their own training centres, quality independent training suppliers can perform a valuable role, he said.

"Specialist training organisations can join in cooperative ventures to operate their own training supply business and in parallel to market surplus airline resources," Bent said, citing GECAT's relationship with Cathay Pacific. "Such solutions allow an experienced training supplier to market and sell surplus airline training resources, leaving the airline to focus on core airline business."

Bent said some airlines have been reluctant to outsource training because of proprietary issues and lack of confidence in independent training companies. "For the independent training supplier able to demonstrate quality and reliability over a significant period, increasing levels of trust and confidence from the larger airlines will generate new opportunities to form cooperative training solutions," Bent said. ■



MTU shop to create 800 jobs

By Kitty McKinsey

Getting closer to its customers in the world's fastest-grow ing aviation market was the reason MTU Aero Engines, Germany's leading aircraft engine manufacturer, decided to invests in Zhuhai, in southern China.

MTU Maintenance Zhuhai is to open shop for repairing and overhauling commercial engines and gas turbines at the end of this year. It will initially focus on V2500 and CFM56 repairs, with further engines to follow. The operation is a 50-50 joint venture with China Southern Airlines, which has been a customer of MTU's maintenance shops for many years.

In fact, nearly all Chinese airlines are customers of MTU, said Walter Stra-kosch, chief executive of the Zhuhai joint venture. "To come closer to these customers, to speak their language, and to be present with a shop in this market was a logical step and a must for MTU."

MTU's investment is huge – US$186 million – and is expected to create 800 jobs in Zhuhai by 2009. The Zhuhai shop will

Walter Strakosch, chief executive of MTU Maintenance Zhuhai: a US$186 million investment

have the capacity to repair 200 engines a year, which the company calculates should generate US$250 million in revenue. Capacity is expected to expand to service 350 engines a year.

MTU Zhuhai has already hired 135 employees and training has already started in Hanover. By November, 110 Chinese employees will have been trained in Hanover and Vancouver for periods of two weeks to eight months.

Strakosch said construction also is going according to schedule and the ribbon-cutting ceremony will be held during the Zhuhai Air Show in November this year. The first engine will go into the new shop in November or December.

MTU chose Zhuhai's Special Economic Zone (SEZ) because of its tax incentives and favourable investment policy. In addition, the Zhuhai Free Trade Zone within the SEZ "allows us to import all equipment and consumables free of customs duty," said Strakosch. "For Asian customers, simple import/export procedures make the FTZ an ideal location."

Zhuhai's location near potential customers in Hong Kong and Macau also was an important factor. Strakosch said the new shop's marketing department is already talking with Asian airlines.

"Discussions in the past 12 months showed a strong interest from Asian customers," said the MTU chief.

China may provide bonus for Messier-Dowty

French landing-gear manufacturer, Messier-Dowty, was drawn to China because of its low manufacturing costs, but it is also looking ahead to the day China may become a market for the company's products as well.

The company's Singapore subsidiary, Messier-Dowty (Singapore) Pte Ltd., invested US$12 million in a manufacturing plant that began operations in Su-zhou, in eastern China, in January this year. The idea is to lower costs on the manufacture of small and medium-sized landing gear, a segment of the market that is particularly competitive.

Messier-Dowty controls 55% of the global market in landing gear for business and regional jets. It sees lower costs achieved in China as a way to maintain that market share, or even increase it.

The Suzhou plant uses Chinese raw materials to make parts that are shipped to Singapore for the assembly and testing of landing gear. These are then shipped directly to customers, or to Messier-Dowty's own plants in Europe and Canada. The China plant has its own manufacturing equipment, including capabilities in machining, chemical processing, heat treatment and finishing of detail components.

Alan Leong, general manager of the Singapore operation, said he has been impressed by the work ethic of his 80 mainland Chinese employees. "The Chinese are fantastic people," Leong enthuses. "The equipment came from the port and within one day they opened the boxes and put all the machinery in place."

Thanks to their hard work, the factory – which still hasn't had its "official" opening – started operations in January and made its first delivery in April. "In my personal opinion, it's probably a record from a Chinese plant," Leong said.

Suzhou, a town long known for its silk, but now trying to remake itself as a high-tech centre, was so happy to welcome Messier-Dowty that it gave the company a tax holiday and other incentives to locate there. "The mayor of Suzhou has been very supportive," Leong said.

The Suzhou operation is strictly manufacturing, with no technology transfer to the Chinese. Research and development is done in Singapore.

The big question for the future, said Leong, is how the domestic Chinese market for business and regional jets will develop. "Of course when Messier-Dowty started in China, they wanted to take advantage of low costs," he said. "But now they see a future in China. Potential business is definitely very big."

China is likely to begin manufacturing its own business and regional jets, but if it wants to sell them to the West it will need the co-operation of Western companies like Messier-Dowty.

Honeywell coup for Singapore

By Tom Ballantyne

Singapore is convinced the opening of a US$7 million global Centre of Excellence (CoE) for avionics hardware design and development at the city's Changi International Airport by U.S. aerospace firm Honeywell will spark a boom in new high technology aviation investment in the next few years.

The establishment of the centre in late May was a significant coup for the Southeast Asian hub: it is only Honey-well's second avionics design facility outside North America. The other is in Britain.

The new CoE will focus on design and development of next generation general aviation avionics systems, including Communication, Navigation and Identification (CNI) and Global Positioning Systems (GPS), in-flight entertainment and safety systems for aircraft.

Honeywell Asia-Pacific president, Francis Yuen, said the establishment of the facility is part of the company's overall strategy for globalising its engineering and development operations.

Honeywell hoped to boost the contribution of its operations in the Asia-Pacific region to double-digit figures from the current 8% of its worldwide revenue, although he did not specify a time frame.

Yuen noted there are positive signs of recovery in the aviation industry and said the company's objective is to position itself for the rebound. "This centre will not only tap Singapore's engineering talent, it will also make its facility more effective by leveraging on economies of scale and support a seamless transition from hardware design to production."

Ten Singaporean engineers will be sent to join the U.S.-based team at the firm's primary CoE in Kansas for development of the next generation low-profile VHF (very high frequency) navigation and communication unit. As part of the development activities, the centre will employ 28 full-time design and development engineers and technicians within the first year of set-up.

Honeywell employs 115,000 people in 95 countries and has conducted business in the Asia-Pacific region for more than half a century. Today, with 11,000 employees in 12 countries in the region, the Asia-Pacific is one of its fastest growing markets. Sales in Singapore represent about 14% of total regional revenue. Yuen said the island state will continue to be a critically important hub for the company's research and engineering development, as well as a manufacturing base for selected high-technology systems and products.

The chairman of Singapore's Economic Development Board (EDB), Teo Ming Kian, said the decision to site the centre at Changi is a strong testimony to Singapore's suitability and competitive advantage in hosting aerospace design and development activities.

"More importantly, other aerospace companies will be strongly encouraged, after the Honeywell example, to take advantage of Singapore's strengths in electronics and precision engineering." said Teo.

Singapore's aerospace industry posted an output of US$2 billion and achieved 25% year-on-year growth in 2001. "All these activities clearly attest to Singapore's continuing efforts to bolster its status as a global aviation hub," said Teo. ■

...as Lion City's aviation sector soars

By Christine McGee

Singapore's pro-active policy of encouraging global companies to establish joint ventures in the city state has made it the largest centre of aerospace manufacturing and partnerships in Southeast Asia.

Global companies operating joint ventures or stand-alone capital invested facilities in Singapore include the U.S industry household names of Dunlop Aviation, GE Aviation Services, Goodrich Aerostructures and Rohr, The Nordam Group, Pratt& Whitney, Serma-tech International, United Technologies and Hamilton Sundstrand, FlightSafety Boeing and Mil-Com, Standard Aero and, most recently an expanded Honey-well presence (see above).

Major European companies with multi-million investments in subsidiaries in Singapore are Thales, Snecma and Messier Services from France, Jet Aviation from Switzerland, Germany's Luft-hansa Systems, LIDO, Sennheiser and Driessen and British giants, Rolls-Royce's joint ventures SAESL and International Engine Component Overhaul and TRW.

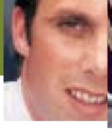
In a number of cases the above companies are in partnership with SIA Engineering (SIAEC) in their Singapore joint ventures. As well as consolidating its joint venture partnerships since the MRO was part privatised, SIAEC is expanding its investments in aerospace companies in the region. It now has 16 joint ventures spread across Singapore, Ireland, China, Hong Kong and Taiwan. In April, it signed an agreement to buy 25% of the Guangzhou Aircraft Engineering and Maintenance Company (GAMECO) from Lockheed Martin Aeronautics Service International of the U.S. The other partners in GAMECO are China Southern Airlines and Hong Kong's Hutchison Aircraft Maintenance Investment.

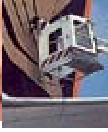
In June, SIAEC exercised its option to increase its equity in Rohr Aero Services Asia Pte Ltd (RASA) by 10% to 40 %.

SAEIC president, William Tan, said his company paid US$5.6 million for the additional equity.

"The use of composite structures is becoming increasingly prevalent in new-generation aircraft and engines and Rohr is poised to benefit from the growing market for hi-tech composite structure repair and overhaul work in the Asia Pacific," said Tan.

The other (sole) Rohr partner, Goodrich Aerostructures and Aviation Technical Services of the U.S. said the new shareholding would allow the seven-year-old company, which operates a 90,000 sq metre nacelle and thrust reverser workshop in Singapore, to build on its business of 30 airlines in the region. Goodrich Aerostructures and Aviation Technical Services, a subsidiary of the Goodrich Corporation of North Carolina, manufactures and sells aircraft





engine nacelles and pylon systems for large commercial aircraft.

In the same month, ST Engineering said it had made a bid, assumed to be a partnership, for MRO, SR Technics, but the bid lapsed. At press time, the industry was waiting for an announcement naming the new owners of the Zurich headquartered MRO.

Other major SIAEC joint ventures include Fuel Accessory Service Technologies with Hamilton Sundstrand, International Engine Component Overhaul and Singapore Aero Engine Services Ltd with Rolls-Royce and Hong Kong Aero Engine Services (HAESL), landing gear repairer, Messier Services Pte Ltd (repairs Boeing and Airbus landing gear) and Turbine Coating Services, part-owned by United Technologies Holdings (S) Pte Ltd (repairs PW4000 turbine airfoils).

During the last eight years, SIAEC has invested in a number of joint ventures with Pratt & Whitney in Singapore. They are: Combustor Air Motive Services (repair and overhaul of JT9D and PW4000 series combustion chambers), Asian Surface Technologies (repair fan blades of the above engines), Asian Compressor Technology Services (repair and overhaul PW4000 high pressure compressor stators), Eagle Services Asia (engine and module overhaul and repair of CFM56-5, JT9D and PW4000 engines) and PWA International (a number of workshops with Pratt & Whitney repair and overhaul of engine cases).

Jet Aviation, which recently established a second Asian centre, this time in Hong Kong, provides full support services for all types of corporate aircraft and also does interior modifications, refurbishment and painting as well as avionics modifications and engine repair and overhaul. ■

Singapore is the largest centre in Southeast Asia for aerospace partnerships

Airbus' $80m training centre pays dividends

By Kitty McKinsey

When Airbus first started doing business in China in 1985, the Chinese government required certain "offsets" – a percentage of parts that had to be manufactured in the country. Now that China has joined the World Trade Organisation, it can no longer make such stipulations. But Airbus is happy to continue to take parts from Chinese suppliers strictly because it's good business.

"Twenty-five percent of all the Airbuses flying in the world today have some parts made in China," said Guy McLeod, president of Airbus China.

Airbus has been working for more than 10 years with Aviation Industries of China (AVIC), and under agreements reached recently, AVIC will manufacture elements of A320 wings and miscellaneous parts for Airbus aircraft. The eventual aim is wing assembly in China. AVIC engineers have also participated in all areas of A318 design including management in the development and certification phase of the aircraft.

These manufacturing ventures – particularly highly advanced Airbus wings — represent "a major technology transfer" to China, said McLeod. In addition, the Chinese companies get experience in engineering and managing modern aircraft production.

Make no mistake – there's no charity involved here, McLeod said. "This is strictly a business decision."

Aside from manufacturing ventures, Airbus has shown its commitment to China by making it the home of one of only three Airbus training centres – or centres of excellence as McLeod calls them – in the world. (The other two are in Toulouse and Miami.)

Airbus describes the US$80 million CASC/Airbus-Customer Services Training and Support Centre near the Beijing Capital Airport as "the first and most modern combined training and customer support facility in China". (The centre is a joint venture between Airbus and the Civil Aviation Supplies Corporation.)

Airbus keeps a stock of more than 28,000 parts in the support centre so it can cover 80% of orders from Beijing. This is complemented by spare parts from the vendors who have set up facilities at the support centre to provide on-site technical, repair and spares support for Chinese operators of Airbus aircraft. The support centre also has CAAC, JAA and FAA approval to repair sophisticated avionics on Airbus aircraft.

President of Airbus China, Guy McLeod: 40% of trainees who attend Beijing centre are from overseas

The 8,200 sq metre training centre – the largest of three buildings at the centre – is equipped with two full flight simulators, one for the single-aisle A320 family and the other for the ultra-long range A330/A340. Each simulator is able to provide 5,000 hours per year for crew transition and recurrent training as well as training for maintenance engineers. The training centre also provides customised training for mechanics and cabin crews.

Since the centre was opened in May, 1997, it has trained employees for 25 Chinese and international airlines. Chinese customers include China Eastern, China Northwest, China Northern, and China Southwest Airlines.

"Forty percent of the trainees who come through our training centre are not from the mainland," said McLeod. Foreign customers have included Scandinavian Airlines, SilkAir, Turkish Airlines, Canadian Airlines and Egypt Air.

Over the years to March 31, 2002, the centre has trained more than 2,700 Chinese pilots and more than 1,500 foreign pilots in addition to more than 1,000 Chinese and foreign maintenance engineers and 1,320 cabin attendants. ■

Forward thinking at Snecma

By Kitty McKinsey

Snecma Services' Chinese unit is still a work in progress, but the company is already looking down the road to what it wants to accomplish in China four or five years from now.

Sichuan Snecma Aero Engine Services Maintenance Co. Ltd. (SSAMC) began operations in April 2000 at Shuangliu International Airport in Chengdu, the headquarters of the company's Chinese partner, China Southwest Airlines. Snecma Services invested US$$11 million for a 51% stake, with 35% owned by China Southwest Airlines. The remainder is held by the Beijing Kailan Aviation Technology Company, an offshoot of the Civil Aviation Administration of China (CAAC) and the U.S. company Willis.

SSAMC intends to provide comprehensive services for CFM56 engines – repair and overhaul, lease, on-wing support, technical and logistic support. It is the only company in China certified by the U.S. Federal Aviation Administration to repair CFM56-3 engines.

SSAMC, located in the aviation zone at Shuangliu International Airport, has a 13,000-square-metre workshop that includes disassembly/assembly lines and a test cell of 2,200 square metres, newly upgraded for all CFM56-3 engines.

The cleaning shop for module disassembly, reassembly and testing of CFM56-3 engines was opened on schedule, but it will be October before "all our business plans will be achieved", said SSAMC general manager Patrice Perreau-Saussine. "We are on a good way, more than one year ahead of our competitor," he added. "We are confident of our future."

With 200 skilled employees, the company offers not only CFM56-3 engine repair, overhaul and testing, but also QEC removal and installation, on-wing support, technical assistance and engine leasing.

Perreau-Saussine said these services would offer real savings for Chinese airlines, which used to have to go to the Philippines for such services. And further savings are ahead. "Once we begin to repair parts in quantity, we could decrease the price a lot," he added.

Parent company Snecma Services is committed to China, he said. "Snecma Services wants not only to have a base in China, they want to invest in China." To this end, SSAMC plans to begin repairing other types of CFM engines.

And why not, Perreau-Saussine asks, offer repair services for engines for small aircraft as well? "Snecma has plans for small aircraft for China – but maybe within four or five years," he said.

Like almost everyone else in the aviation industry, Perreau-Saussine has faith in the future of the Chinese market. "It's a great place for development. It's a place where aeronautics will develop, especially in Chengdu."■

Kunming turnaround for FSB

Building a business in China, anyone can tell you, can be a slow process. But after four years in operation, the FlightSafety Boeing training centre in Kunming, Yunnan Province, has turned the corner, **writes Kitty McKinsey**.

Opened with an investment of more than US$$30 million, the facility has staked out a business on "neutral territory" (not the home turf of any of the big Chinese airlines) training pilots from all over China. Major clients include Yunnan Airlines, Hainan Airlines, China Southwest, China Northern, and Shenzhen Airlines. Korea's Asiana Airlines has, in the past, sent pilots to Kunming for training.

"It's slow growth," concedes John Marino, chief representative of FlightSafety Boeing in China. (The company is a subsidiary of FlightSafety International and Boeing; the Kunming training centre is a joint venture under Chinese law.) "You have to be persistent and you have to hang in there for the long term, no matter what business you are talking about in China."

The centre, with 40 employees, owns two simulators to train pilots on the B737 (300, 400 and 500 series) as well as the B757 and B767. It provides support to a third simulator, an MD-82, on which China Northern Airlines, does its own training. The simulators model the airports in Beijing, Kunming and Shanghai.

The centre also trains flight attendants on water and land evacuation, as well as smoke and fire emergencies during flight. There is also training – including computer-based classroom instruction — for airline maintenance technicians, engineers and electricians.

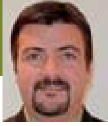
Before the Kunming centre opened, Chinese airlines had to send their pilots all over the world for training, an expensive exercise not only in travel costs, but in the length of time the pilots had to be out of the flying rota. Marino said Chinese pilots are happy to come to Kunming, not only for the professional training, but also because of its "10 months of spring".

Marino won't disclose the centre's exact financial performance, but says results "are getting better every year. Last year was our best year yet, and this year is better than last."

He also makes clear that FlightSafety Boeing is committed to expanding in China, predicted to be the world's fastest-growing airline market over the next decade or so.

"Everybody forecasts high growth and expansion for China over the next generation," he said. "Where there are people travelling and airplanes, there is a need for (pilot) training."

FlightSafety Boeing plans to move one MD-90 simulator from Long Beach, California to Kunming to support China Northern and may move another simulator there as well for "next-generation" series of the 737, the 600, 700 and 800 series. "We are committed to China," Marino said. "We want to grow Kunming."■



By Rene Mallari
in Manila

Philippines proves smart move for API

Since Memphis-based Aerospace Products International (API) started operations at the Clark Special Economic Zone in the Philippines in April 2000, the U.S. aircraft parts distribution company has grown by leaps and bounds.

And that may surprise many aerospace companies as most international players have opted for Singapore or Hong Kong as their bases when they have set up in the region.

But Alan Arnett, API's vice-president Asia-Pacific, said the success only confirmed what he already knew; that the company made the right decision to choose the former U.S. military base in Pampanga province, about 100 kilometres away from Manila, in the first place.

A major reason for the choice was that API wanted to be close to courier giant, Federal Express (Fedex), one of its business partners based in the Subic Bay Freeport Zone, also a former American military installation.

"If you shipped a package today by Fedex from Singapore to Japan, that package will go through Subic Bay, where it changes planes then heads on," said Arnett. The Subic hub connects 18 key economic and financial centres in the region.

The timing of the start up could not have been better for API, which has been in the aviation business for 14 years and also has facilities in the U.S. and Canada.

In April, the Atlanta-based courier service company, United Parcel Service (UPS), established its intra-Asia hub operation at the Diosdado Macapagal International Airport. "We're more convinced than ever we made the right choice as UPS now has its hub at Clark," said Arnett.

Lower costs were another driving factor for API when it singled out the Philippines to be its distribution hub, where it has its 23,000-sq foot centre at Clark. "If we had 23,000 square feet in Hong Kong, it would probably cost us six times as much in rent," said Arnett.

Competitive labour costs were another attraction for API. Arnett said he was pleasantly surprised by the number of aviation-educated people in the Philippines. "Every person on the staff has an aeronautical degree. They are all aerospace professionals. Many of our people have many years experience in the aircraft parts business," he said.

The Philippines' proximity to China, API's largest market and one which accounts for about 35% of its revenue, is important. The same applies to Australia and Japan, which are API's largest revenue earners after China, said Arnett.

As a new kid in the block, the company did it tough in its first year of operations, admitted Arnett. "It was hard to forecast what our growth would be and it was hard to know how we were going to be perceived in the marketplace. People did not know the company," he said.

Alan Arnett API's vice-president Asia-Pacific: made the right choice

But marketing and sales tenacity did the trick, said the regional boss. "By the end of our first fiscal year, the company was performing in the black on a month-on-month basis. We have made money ever since," said Arnett.

In addition to serving commercial operators like Lufthansa German Airlines, Philippine Airlines, Japan Airlines, United Airlines, Cathay Pacific Airways, Cebu Pacific and Asian Spirit, API offers aviation services to organisations like the Philippine Air Force.

Formerly known as Aircraft Parts International Combs Inc., API represents 150 manufacturers through its parts distribution network. It also offers customers supply chain management solutions.

Despite the events of September 11 last year, API still managed to post growth in the region. "We have four distribution centres and, year-on-year, growth in Asia has been the highest," said Arnett.

As economies recover after "9/11", API is looking at expanding its existing markets and opening new ones with India, Papua New Guinea, Guam and Cambodia as countries under review.

Having been in the business for 24 years, Arnett said the market dictates the price in the aircraft parts distribution industry. "Most of us (competitors) buy from the same manufacturers at almost the same prices. We know from winning and losing bids where the market threshold is. We're all fairly close in pricing. I don't think there is huge disparity," he said.

He believes it all boils down to availability and service. "Being located close to the air cargo hubs and being able to get it there in the shortest amount of time, I think that gives us the advantage over others," said Arnett.■

Embraer in talks with AVIC

Embraer of Brazil, the world's fourth-largest civilian aircraft maker, has denied press reports it has reached an agreement to acquire a 51% stake in Aviation Industry of China II (AVIC II) and assemble planes in China.

"Embraer publicly and unequivocally denies the existence of any such negotiations," the company said in a statement from Sao Paolo, Brazil. A Brazilian newspaper had reported that the deal had been clinched and was just awaiting approval by the Chinese government.

The company did say its is holding discussions with Chinese government representatives and AVIC II "concerning alternatives for industrial/technical co-operation between Embraer and AVIC II." It did not give any details. – **Kitty McKinsey**.■

Engine JV cranks up again

Pratt & Whitney's joint venture with Air New Zealand (Air NZ), the Christchurch Engine Centre, is back in the groove again, winning back lost customers after a tough trading period over the past nine months, **writes Tom Ballantyne**.

The company was established in April last year to maintain and overhaul P&W JT8D turbofans, mostly used in Boeing B727s, early B737s, McDonnell Douglas

DC9/MD80 jets and Rolls-Royce Dart engines. The operation suffered a downturn as airlines grounded large numbers of older aircraft following September 11 last year, which cut the market by 25% virtually overnight.

The joint venture is staffed by 320 former Air New Zealand Engineering Services (ANZES) workers. Many were redeployed elsewhere in the group after "9/11", but 41 had to be retrenched last November.

However, both P&W and Air NZ have maintained their confidence in the future of the project. With the airline now under government ownership, an extensive sales campaign over recent months, backed by government officials and aimed at JT8D operators, has regained a number of former customers and won some new business.

By the end of the year it is expected JT8D throughput will be about 10 a month. The company also has handled around 75 Darts engines. Still on hold is an expansion into work on International Aero Engines (IAE) V2500 engines. The joint venture partners will await further improvement in the market before deciding on its future, although a workshop site has been earmarked and land has been acquired for a test cell.

The improvement in business also is being reflected in Air NZ's own engineering services (ANZES), which was dealt a double blow by the collapse of Ansett in September, three days after the September 11 U.S. terror attacks. The company had been in the process of merging Air NZ and Ansett's engineering divisions.

"Fortunately, fending for ourselves is something that Air New Zealand and ANZES had already learnt to do very successfully," said Bill Jacobson, senior vice-president operations and technical. "We also were fortunate in that we had a number of existing contracts which were not impacted by the post-September 11 slowdown."

These included LM5000 gas turbine overhaul work for U.S.-based El Paso Corporation and airframe overhaul work for China Northwest Airlines (CNWA). ANZES has a contract to overhaul CNWA BAe146 aircraft, with the work carried out at Christchurch and at wholly-owned subsidiary, Safeair. ANZES has been doing work for lessor, Ansett Worldwide, for the "Total Support" of its B737 and B767 wet-lease fleets.

The engineering facility has been carrying out C-Checks on Virgin Blue B737s and Qantas B767s and B747s as well as work for several aircraft leasing companies which were faced with unscheduled lease returns as a result of the aviation downtown.

ANZES recently secured a major contract valued between US$6.3 million and $7.5 million, depending on options, to carry out heavy maintenance and reconfiguration work on up to 15 of Qantas' Boeing 747-400 aircraft. That work will be undertaken at the ANZES jet base in Auckland and involves cabin reconfiguration and the installation of in-flight entertainment systems on nine aircraft. There is an option for similar work on another three jets and heavy maintenance C-Checks on three aircraft for Qantas. ■

Rivals in aerospace battle

By Tom Ballantyne

Australasia and the South Pacific may be a long way from Toulouse and Chicago, but the world's big two planemakers, Airbus and Boeing, are competing to dominate the region's skies and play the leading role in Australia's aerospace industry.

In late June, U.S. giant Boeing was preparing to appoint a US$400,000-a-year president for Australia as part of a global strategy that has targeted the country as a key area for growth.

At the same time, Airbus is competing for a series of potential orders in the area as well as reiterating the European manufacturer's commitment to a growing presence in a country it said holds some US$500 million of Airbus business.

Airbus lost a major customer earlier this year when Ansett Australia collapsed, but after spending years trying to win over Qantas Airways it has broken through with a major order from the flag carrier for the A380 and the A330.

"With the Qantas order for A330s and A380s, and the selection of Hawker de Havilland to make wingtips and wingtip fences for the world's largest airliner, Airbus is now well established as a major aerospace player in the Pacific," said Airbus senior vice-president sales, Pacific, Rod Mahoney.

Through its partnership agreements with Australian aerospace companies, Airbus indirectly contributes to the employment of about 3,000 Australians.

Boeing counters with a more visible approach. "We have solid employment in a number of areas in Australia – some 3,000 staff – with headquarters in Brisbane and operations in Melbourne and Sydney," said chairman Phil Condit. Boeing has pumped tens of millions of dollars into Australia. In 1999, it purchased the Melbourne-based Preston group, an air traffic simulation equipment provider. In 2000, it acquired aerospace parts manufacturer, Hawker De Havilland (HdH). Recently Boeing selected HdH as one of the companies to participate in research and development of its proposed new Sonic Cruiser jet.

Sections for Airbus aircraft are made by HdH in Sydney and Melbourne, while BAE SYSTEMS and Lucas Aerospace are among companies involved on the equipment side. The work includes A330/A340 undercarriage doors and winglets, A320 wing ribs and, more recently, US$200 million worth of wingtips and wingtip fences for the A380, to be supplied over the life of the programme. ■

LHT Shenzhen plans regional expansion

German maintenance, repair and overhaul operator Lufthansa Technik chose Shenzhen, China, just north of Hong Kong, as the location of its third Asian facility not only because it is one of China's most rapidly developing regions, but also because of its transportation connections with the rest of Asia. "We want to develop business for the China market and also for Southeast Asia," said Cindy Zhao, head of customer management for Lufthansa Technik Shenzhen, **writes Kitty McKinsey**.

Since the workshop opened its doors in February, current customers have included Air China, China Southern, China Eastern and Shenzhen Airlines and the centre is courting others. "Later we will branch out into Southeast Asia," said Zhao.

The centre was originally set up to overhaul brakes and wheels, but has expanded into specialised services of repair and overhaul of airframe-related components – thrust reversers, engine nacelles, radomes, flight control surfaces and secondary composite structures. The company promises it "will expand to become an all-inclusive components service facility serving the Asian market".

Lufthansa Technik's investment of US$$9.06 million gave it a 70% stake in the joint venture. The Chinese partners are Beijing Kailan Aviation Technology Company, an offshoot of the Civil Aviation Administration of China (CAAC), with 20% and Shenzhen Investment Holding Company (10%).

In addition to its presence in the Philippines with Lufthansa Technik Philippines, Lufthansa is a partner with Air China in China's own largest provider of MRO services, AMECO Beijing. Its customers include 25 Chinese and 33 international airlines.■

Rolls-Royce to expand links with AVIC 1 & 11

Rolls-Royce's engines are on 113 Chinese aircraft owned by eight major Chinese airlines, and now its Chinese joint ven ture has become a major supplier for the company.

XRAerocomponents, the joint venture in Xi'an set up in 1998, produces engine components for Rolls-Royce. Its turnover last year was US$6.9 million, made up of Tay, BR710 and BR715 NGVs and turbine blades.

Rolls-Royce said it is following a consistent strategy to increase engine parts manufacturing in China, and has, over the course of nearly 40 years, transferred much of its engine technology to China.

Last year, Rolls-Royce procured US$10.67 million of parts from AVIC I and AVIC II companies. The UK company said it intends to expand its relationship with AVIC 1 and 11 as part of a strategy to reduce the number of suppliers and to develop partnerships with major suppliers with integration capability.

Rolls-Royce also has stepped up its training programmes in China in cooperation with universities in Beijing, Shenyang and the northwest.

Since 1990, Rolls-Royce has signed seven training agreements with CAAC and set up a training facility with CAAC in Tianjin. It has also trained more than 300 senior managers in strategic management through another training programme run with the Civil Aviation Administration of China (CAAC).

Elsewhere in the region Rolls-Royce has joint ventures in Hong Kong and Singapore. Rolls-Royce and the Hong Kong Aircraft Engineering Company (HAECO) each have a 45% stake in Hong Kong Aero Engine Services Limited (HAESL) in Hong Kong with Singapore Airlines Engineering Company (SIAEC) holding the remaining 10%.

In Singapore, Rolls-Royce has 30% equity in the new Rolls-Royce Trent engine overhaul facility, Singapore Aero Engine Services Limited (SAESL). SIAEC holds a majority 50% in the venture with Hong Kong's HAESL 20%.■

GE extends breakeven forecast in Xiamen

By Kitty McKinsey

GE Aircraft Engines Services had high hopes when it broke ground for a state-of-the-art jet engine overhaul facility in Xiamen, China, three years ago. But after investing US$30 million and opening the doors for business a year ago, the response from potential Chinese customers has been underwhelming.

The company, which would not discuss the matter officially, is reported to be disappointed with results so far, and is said to have stretched its expectations for break-even from one year away to three or four years from now.

However, the company says it remains firmly committed to the China market. "We are closely watching the immense potential of China's regional jet opportunity," Dave Calhoun, president and CEO of GE Aircraft Engines, said in the company's 2001 annual report. "Besides the three regional airplane manufacturers that are competing there, China is looking at building its own airplane, and we are supporting that effort as well."

GE Engine Services (Xiamen) is a joint venture between GE and a number of Chinese partners, the most important of whom are China Eastern Airlines and Hainan Airlines. The facility, located in Xiamen, a Special Economic Zone in Fujian Province, performs overhaul and repair of engines produced by GE Aircraft Engines and by CFM International, a joint venture by GE and Snecma of France.

In addition to sales and marketing offices in Taiwan, Hong Kong and Singapore, GE Aircraft Engines has a subsidiary in Malaysia, where it provides comprehensive services for commercial airlines, regional airlines, corporate airlines, corporate aviation and military aircraft.

As well, at its facility in Subang Selangor, GE Aircraft Engines/GE Engine Services provides support services to Air Asia, Pelangi Air, Transmile Air and the Royal Malaysian Air Force. That shop overhauls CFM56 and PW4000 engines.■

THE VISIONARIES

They started with nothing, but in 30 years the Airbus pioneers had changed the way people fly

By Barry Grindrod in Toulouse

Back in 1970, when people were asked how they saw the aviation market in the year 2000, they talked of vertical take-off and landing planes (VTOLs) dominating short and medium-range routes and envisaged supersonic and hypersonic aircraft operating long-haul. They were expecting jets with over 1,000 seats and 150 tonnes of freight, propelled by either hydrogen or nuclear fuel.

They were dreamers, said Gerard Blanc, Airbus Industrie's executive vice-president programmes at the manufacturer's recent technical press briefing in Toulouse. At the same time, a hard core of European aviation visionaries, initially from France and Germany, were quietly gazing into their own crystal balls and were developing something quite different. And, on the face of it, it was considerably more conservative in concept than the dreamers.

They saw a need for a family of aircraft, a commitment to technology that would bring long-term benefits to the industry. They also decided it was necessary to determine what was needed and when. In that year, the partners committed to their vision and Airbus Industrie was born.

The pioneers started with one lone aircraft type, the A300, but, as Blanc reflected: "A dream is fine, but a vision is something that is possible."

In 1970, when the B747 and B737 were starting to dominate the skies and the Airbus partners put their names to the contract they had no tools, no jigs, just a couple of bottles of champagne, said executive vice-president customer affairs and chief commercial officer, John Leahy.

It's been quite a remarkable 32 years. That said, it was only in the mid-1980s that the family values Airbus espouses today took off with the launch of the new generation "fly-by-wire" aircraft, the A320.

Around that time Leahy joined Airbus from Piper Aircraft in the U.S. "My colleagues asked me why I was leaving. They said Airbus would be out of business in two or three years. I replied I was only going to be there for three years," he said.

Airbus' latest models, the A340-600, the A340-500 and the "wide baby" A318 – all will enter service in the next 12 months – going through their paces over Toulouse

Eighteen years on, Leahy is regarded as one of the world's top salesmen – in any sector. Today, Airbus has a family of 12 aircraft types and has sold 4,399 aircraft to 180 customers (as of May 31, 2002) with, as Leahy points out, one plane taking off every five seconds somewhere in the world. In 2001, Airbus claimed, it shared orders with rival Boeing 50-50 in net terms, but pocketed 61% of revenue.

It's significant, given the philosophy of the early visionaries of watching the market to see what is needed and when it is needed, that its "little and large" models have yet to enter service. The "wide baby" 107-seat A318 is due to enter service in mid-2003, while the double deck 555-seat A380 will join launch customer Singapore Airline's fleet in spring of 2006.

On the more immediate delivery schedule are the entries into service of the A340-600 (in July) and the A340-500 (in November).

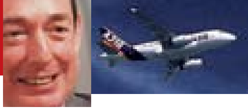
Airbus has 97 firm orders for the A380 – 12 are freighters – plus 50 options from nine customers. Leahy predicts that 25% of Airbus revenue in the next 20 years will be from the A380.

In 2001, Airbus ceased being a consortium and became a single integrated company. "Airbus' commercial success so far this year and the way we adapted our operations rapidly to the downturn are the measure of an extremely high level of efficiency," said Airbus president and chief executive officer, Noel Forgeard.

The company has set itself a target of 3.5% increase in productivity and a 11.2% reduction in costs per year.

It exceeded its target in 2001 and is on course to meet the figure in 2002. "As a result of the single chain of command Airbus manufacturing is able to maintain a high degree of flexibility to adapt to changing customer and market demands," said Forgeard.

"That is why we were able to deliver a record 325 aircraft in 2001 in spite of adverse conditions, generating a turnover of over 20.5 billion Euros (US$19.7 billion), the highest ever for Airbus. This,



in turn, gave us one of the highest operating margins before R & D expenses – above 16%.

"The built-in flexibility of our organisation also has allowed us to avert lay-offs." Forgeard said Airbus required 35% fewer employees to build a plane than rival Boeing.

By May 31, Airbus had delivered 132 planes in 2002, on course for its projected 300 for the whole year. The company's backlog is equal to five years of production.

Forgeard said: "Airbus is in great shape not just to weather the downturn, but to come out of it even stronger than before."

Looking to the future, the president said Airbus, which has 45,000 employees, was a global enterprise today and its scope was expanding geographically. In addition to its core bases in France, Germany, Spain and the U.K. it relies on industrial cooperation and partnerships with companies all over the world as well as a network of about 1,500 suppliers in 30 nations.

Last year, the manufacturer established a subsidiary in Japan and expanded the industrial participation base for the A380 programme to leading Japanese suppliers. Six companies have

Airbus president and CEO, Noel Forgeard: the company will emerge from the downturn stronger than it was before the recession

taken advantage of the opportunity.

Airbus also has set up a design office in Wichita, Kansas, in the U.S. and has established a joint venture engineering centre in Moscow.

In addition to product improvements, the aircraft manufacturer will be developing new derivatives like the A400M military aircraft and fuel tankers and freighters.

Indeed, freight is growing faster than the passenger market. Aircraft may only carry one percent of world cargo in volume, but it represents 38% in the value of the global freight.

In the next 20 years Airbus forecasts a market for 3,093 additional freighters: 703 new planes and 2,389 conversions from passenger aircraft.

Eventually Airbus customers will have six freighter models from which to choose: the A380F to serve the high capacity market, the A330-200F "route opener" and four regional freighters, the A300-600F, the A300B converted aircraft and the A310-200/-300 conversion models.

And so, asked Blanc, where will Airbus be in 2020? Will it be producing a plane larger than the A380? Unlikely. Smaller than the A318? Unlikely. A plane capable of the world tour without refuelling? Possibly. More economical aircraft? Sure. And more eco-friendly? Sure.

But who knows, given the strides the manufacturer has made in the last 30 years, there also may be a few surprises for its customer along the way.

Security upgrades come on line

Airbus Industrie will start to introduce improved security initiatives into the cockpit and cabin of its product line from this summer, **writes Barry Grindrod**.

A high security cockpit door for single aisle aircraft, reinforced to combat penetration and intrusion by hijackers, was certified by the Joint Aviation Authority (JAA) in May. Upgraded doors are expected to be certified for widebody and long-range aircraft soon.

Eventually, electrical remote control doors will be installed onboard, said Alain Garcia, executive vice-president engineering at Airbus.

A video camera allowing the pilots to view the cockpit access area and forward cabin section was due to be certified by the end of June.

Another initiative under development is an internal emergency communication system between the cockpit and cabin.

The latter, in the short-term, will essentially be a buzzer system with a specific hijack warning noise. In the medium-term, security will be aided by the identification of passengers by biometrics before boarding, with video cameras eventually incorporating Airbus In-Flight Information Services (AFIS), which will add a new dimension to cabin security.

For the passenger, AFIS, using satellites, will provide access to entertainment and communication services available on the ground such as e-mail, Internet and live television. More significantly for the crews, from a security perspective, AFIS will deliver a continuous flow of information between the aircraft and the airline's terrestial-based operational and maintenance centres.

In terms of calling on assistance from outside the aircraft, Airbus is working on installing a non-reversible means of setting the transponder emergency code, which will send audio/video information from the cabin to the ground and transmit information through encrypted data links.

Airbus also is monitoring studies to prevent planes crashing on populated areas using GCAS or EGPWS.

On a moral dilemma for the industry, Garcia said technology exists today that enables the control of an aircraft by the captain to be overridden and its direction changed to prevent it crashing on to city buildings.

"The ethical question exists here. The captain is in command of the aircraft from the moment the passengers embark until they disembark. Who is going to make the decision to take control of the aircraft from him?" said Garcia.

Airbus had no official position on this, he said.

Garcia said new security measures were being introduced in a "step-by-step" approach, but eventually the total package would be available to airlines.

Following the U.S. terrorist hijackings on September 11 last year, passenger confidence in air travel had to be restored, said Garcia. To stop terrorists from using aircraft as flying guided bombs or for blackmail, enhanced security required a global approach and ongoing action by the authorities, airports, airlines and aircraft manufacturers, he said.

March 2002 and First Quarter Statistics

ONWARD AND UPWARD

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

International revenue passenger kilometres (RPKs) of Association of Asia Pacific Airlines (AAPA) carriers rose 1.1% year-on-year (YOY) in March. Passengers carried (PAX) increased 3.1% YOY, to 9.4 million. With available seat kilometres (ASKs) 5.1% below March 2001, the passenger load factor (PLF) surged 4.8 percentage points to an impressive 79.3%, significantly surpassing the level achieved in August 2001.

Vietnam Airlines (VN) recorded a double digit RPK growth rate of 21.6% after three months of single-digit increases. Philippine Airlines (PR) chalked up a second straight month of double-digit expansion with 17.8%. Korean Air (KE), Asiana Airlines (OZ), Singapore Airlines (SQ) and China Airlines (CI) posted traffic increases of 7.0% or more. On the other hand, Japan Airlines (JL) and All Nippon Airways (NH) remained trapped in negative growth territory.

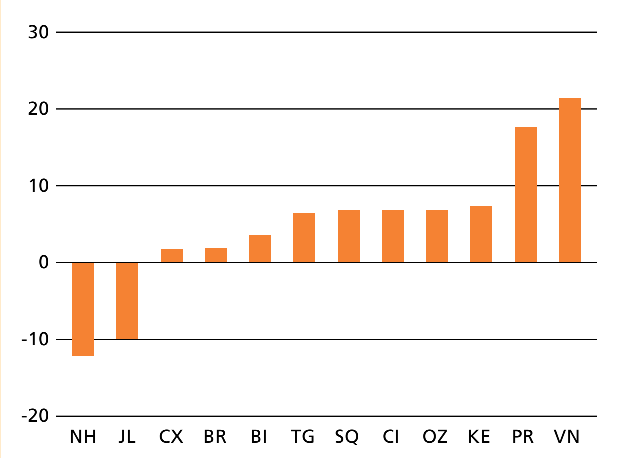
The combination of greater travel demand (pushed by heavy promotional campaigns) and lesser capacity helped prop up the percentage of seats filled at many carriers. Philippine Airlines (13.1 percentage points) and Cathay Pacific Airways (CX – 10.2 percentage points) emerged with the most improved load factors. Nine other carriers posted improvements ranging from Japan Airlines' 2.4 percentage points to EVA Air's 6.8 percentage points. Royal Brunei Airlines (BI) recorded a decline of 2.7 percentage points.

Vietnam Airlines: Double digit RPK growth of 11.8% in the first quarter of 2002

Eight carriers filled 80% or more of their seats in March – Vietnam Airlines (84.9%), Cathay Pacific Airways (83.1%), All Nippon Airways (81.9%), Philippine Airlines (81.8%), Singapore Airlines (81.6%), EVA Air (BR – 81.1%), China Airlines (80.5%)

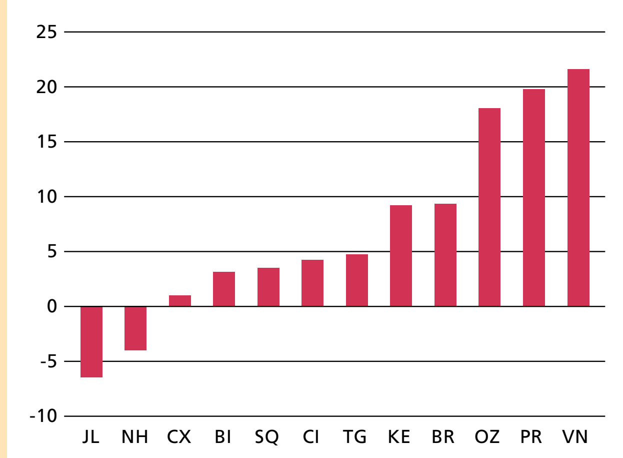
RPK GROWTH BY CARRIER

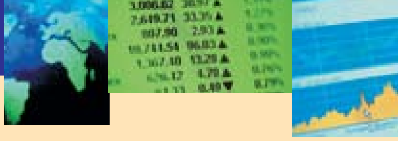
Percentage (Mar 02 vs Mar 01)



PAX GROWTH BY CARRIER

Percentage (Mar 02 vs Mar 01)





and Thai Airways International (TG – 80.0%). The carriers with load factors in the 70s range were Japan Airlines, Korean Air and Asiana Airlines.

CARGO

AAPA consolidated international freight tonne kilometres (FTKs) posted robust growth of 8.8% in March. Overall capacity rose 1.6% as some member airlines began adding capacity to capitalise on the airfreight recovery. With growth in FTKs outstripping capacity, the freight load factor (FLF) increased 4.8 percentage points to 72.4%.

Driven by the rise in air cargo demand, nine carriers registered traffic increases in March. Korean Air, with a substantial expansion in cargo volume in March, posted the largest FTK growth (20.5%), followed by EVA Air (19.5%) and Singapore Airlines (12.6%). Royal Brunei Airlines and China Airlines managed 8.7% and 8.1% growth respectively. Four other carriers reported moderate improvements ranging from 2.4% to 5.9%. All Nippon Airways and Japan Airlines experienced a decline of 11.1% and 4.0%, respectively.

The FLF improved for all but one carrier in March. Carriers with a significant rise in load factor were Cathay Pacific Airways (6.9 percentage points), Asiana Airlines (6.1 percentage points), Royal Brunei Airlines (6.0 percentage points) and EVA Air (5.7 percentage points). Vietnam Airlines, however, witnessed a 1.1 percentage point decline in its load factor.

Asiana scored the highest FLF (83.7%). EVA Air (81.4%) was the only other carrier registering a load factor in the 80s. Carriers with a FLF in the 70s were Korean Air (79.7%), China Airlines (79.7%), Cathay Pacific Airways (76.0%) and Singapore Airlines (72.4%). Philippine Airlines' load factor was below 30%.

RESULTS OF THE FIRST QUARTER (JANUARY TO MARCH 2002)

PASSENGERS

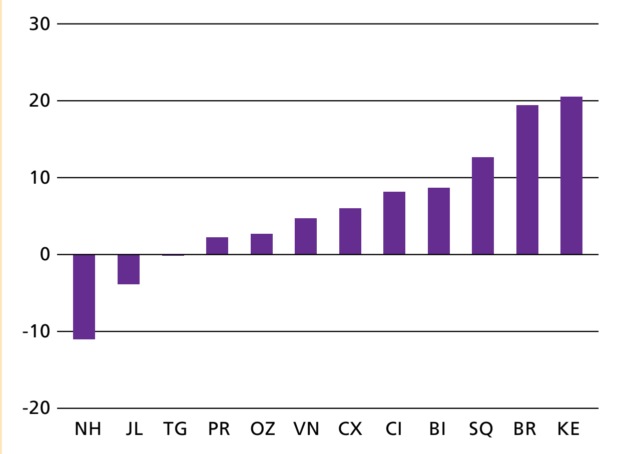
The AAPA consolidated international revenue kilometres contracted 2.4% while the number of passengers carried (PAX) grew less than 1% in the first quarter of 2002. Seat capacity declined 4.9% YOY, enabling the PLF to climb to 76.1%, up two percentage points.

Ten carriers reported RPK growth in the first three months of 2002. Vietnam Airlines topped the list at 11.8%, the only car-

Korean Air: posted the largest FTK rise in March (20.5%)

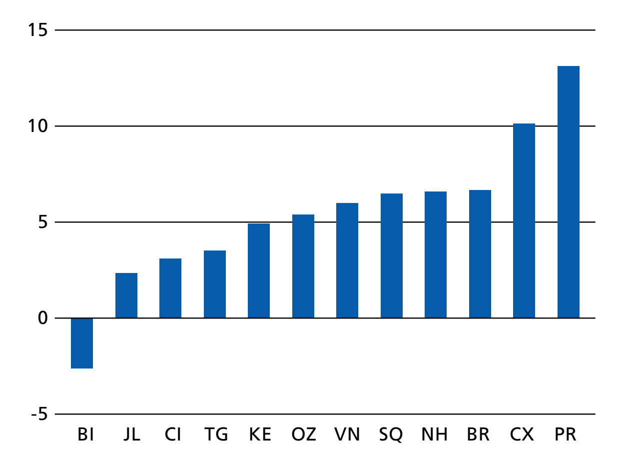
FTK GROWTH BY CARRIER

Percentage (Mar 02 vs Mar 01)



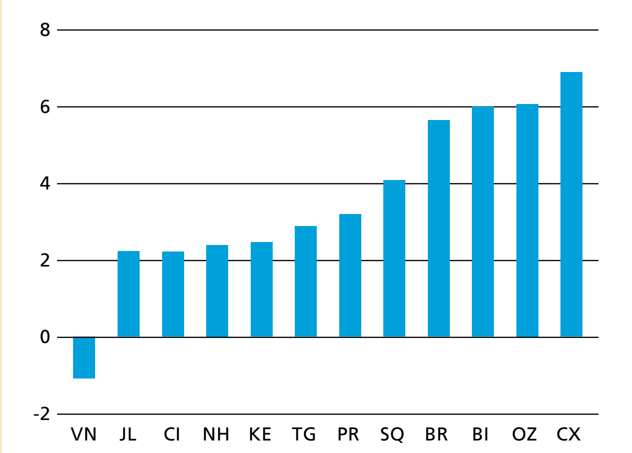
PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Mar 02 vs Mar 01)



FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Mar 02 vs Mar 01)



Japan Airlines and All Nippon Airways both saw a decline in RPKs and FTKs in the first quarter of 2002

rier to record double digit growth in the quarter, followed by Philippine Airlines (9.6%), Asiana Airlines (6.7%), Royal Brunei Airlines (5.0%) and Singapore Airlines (5.0%). The two Japanese carriers experienced a RPK decline.

Philippine Airlines registered the largest improvement in PLF (10.8 percentage points) followed by Cathay Pacific Airways with a 7.7 percentage point increase. Carriers with a declining load factor were Royal Brunei Airlines, down 1.8 percentage points, Japan Airlines, a drop of 0.5 percentage point and Vietnam Airlines, down 0.3 percentage point.

With the exception of Royal Brunei Airlines, all carriers had load factors in the 70% range. The carriers with PLFs of 75% or above were Vietnam Airlines (79.6%), Philippine Airlines (79.3%), Cathay Pacific Airways (79.1%), EVA Air (78.6%), Singapore Airlines (78.5%), Thai Airways International (78.2%), China Airlines (77.8%) and Asiana Airlines (76.4%).

CARGO

AAPA international freight tonne kilometres grew by 4.4% in the first quarter of 2002, the first positive quarterly growth since the third quarter of 2000. Capacity contracted 1.2%, which resulted in a 3.6-percentage point increase in load factor to 67.6%.

Among the eight carriers reporting positive growth in FTKs, only Royal Brunei Airlines (20.7%) and EVA Air (13.7%) managed double digit increases. Four carriers experienced a decline: All Nippon Airways (-17.4%), Japan Airlines (-6.3%), Thai Airways International (-1.1%) and Philippine Airlines (-0.3%).

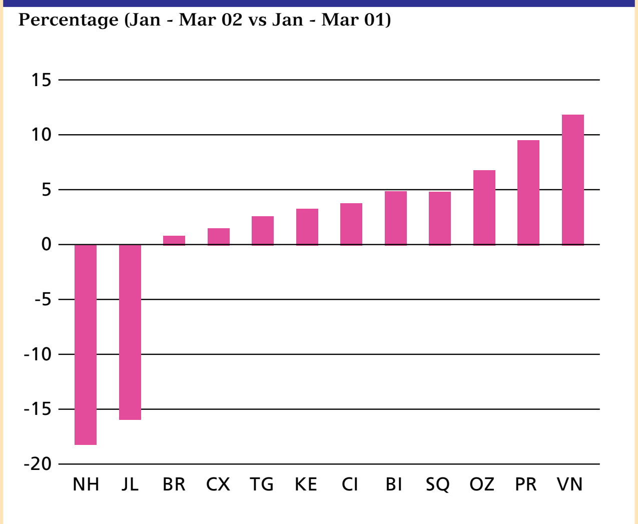
All carriers except All Nippon Airways reported an improvement in FLF. The Korean and Taiwanese carriers again dominated capacity filled – Asiana Airlines (79.9%), China Airlines (75.7%), Korean Air (75.3%) and EVA Air (74.6%).

RESULTS OF THE 12 MONTHS TO MARCH 31, 2002

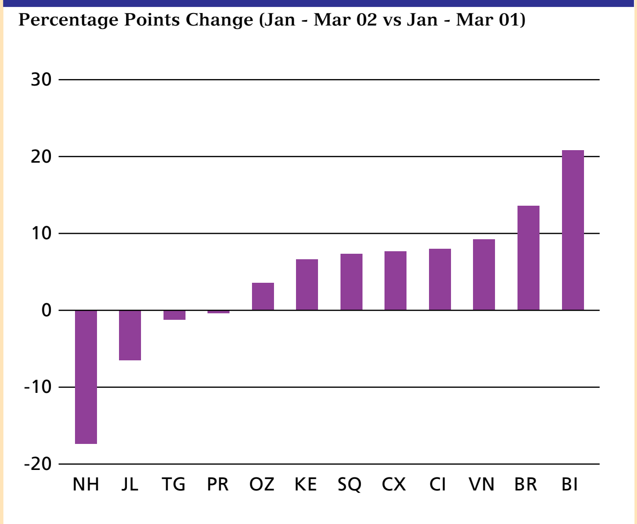
PASSENGERS

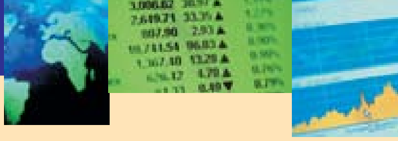
AAPA consolidated international RPK and PAX for the 12-month period under review shrank 5.6% and 2.3%, respectively. Capacity declined marginally (0.9%), dragging the load factor down 3.6 percentage points to 71.6%.

RPK GROWTH BY CARRIER



FTK GROWTH BY CARRIER





CARGO RESULTS

Consolidated international FTKs for the 12-month period contracted 6.3%. Capacity fell 1.8%, which produced a load factor of 65.2%, down 3.1 percentage points.

SUMMARY

Without more terrorist attacks or major civil disturbances, we can unequivocally declare that passenger traffic is on a sustained upward trend. The economies in the U.S. and the Asia-Pacific appear to be in the recovery phrase. Furthermore, the World Cup soccer tournament, co-hosted by Japan and Korea in June, promises to give an extra boost to traffic from both outside and within the region.

AAPA traffic in March (+1.1%) was significantly better than the Association of European Airlines (-7.9%) and the American Transportation Association (-10.8%). The one notable similarity among the three regional associations was the relatively high load factor, mainly due to the lower level of ASKs during the month. The recovery in load factor may be a welcome relief, but this was achieved partly at the expense of yields.

The economic environment has improved in recent months, judging by the better trade flows, especially to the U.S. The momentum is expected to continue. ■

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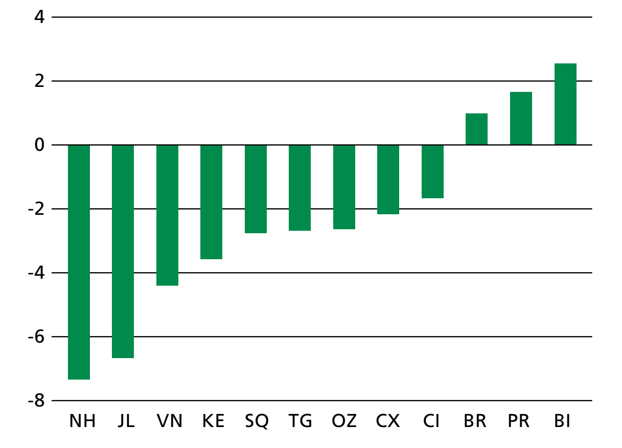
EVA Air: healthy passenger and cargo results in the first

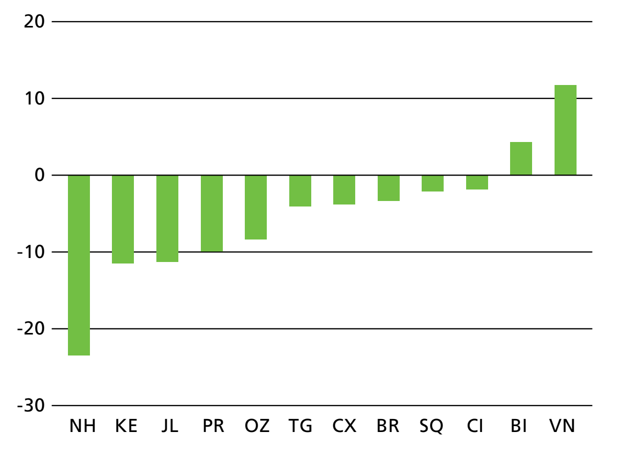
PASSENGER LOAD FACTOR GROWTH BY CARRIER

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



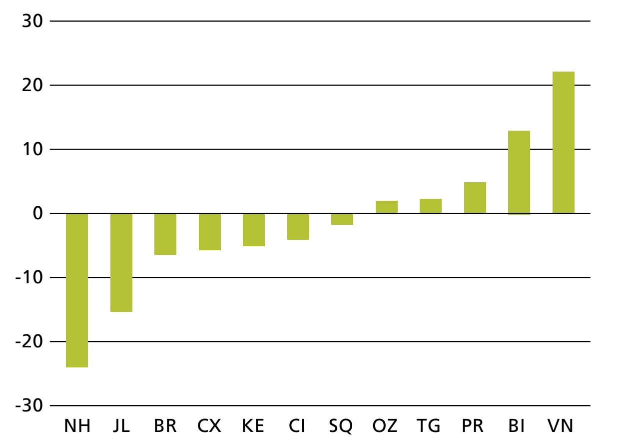
FTK GROWTH BY CARRIER

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



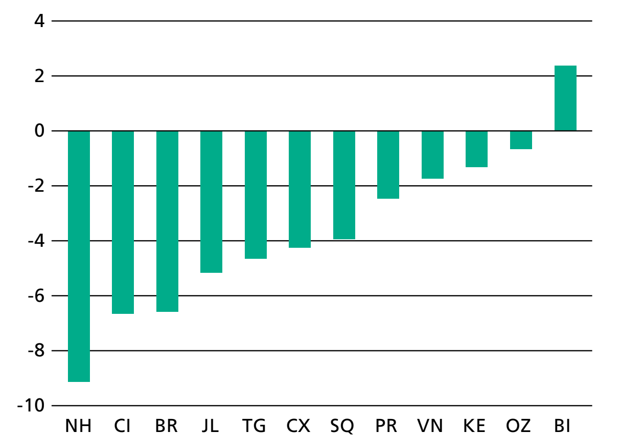
RPK GROWTH BY CARRIER

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

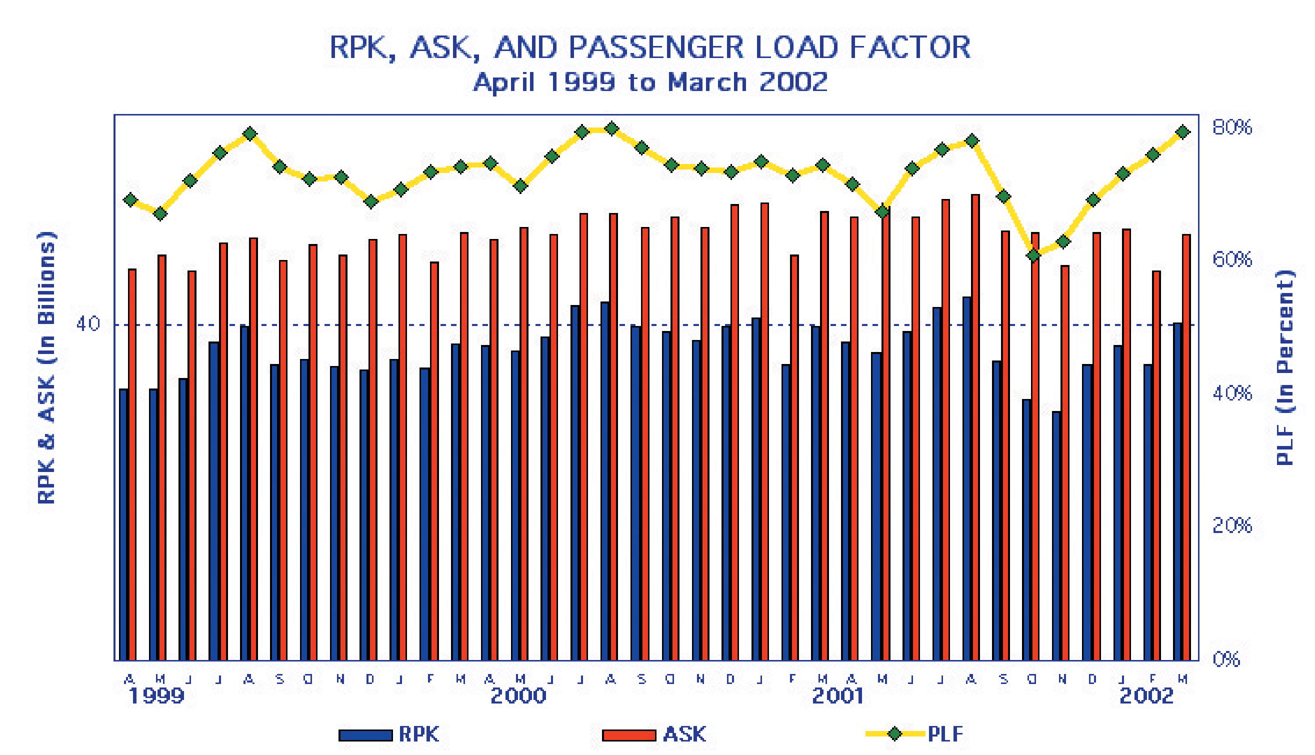


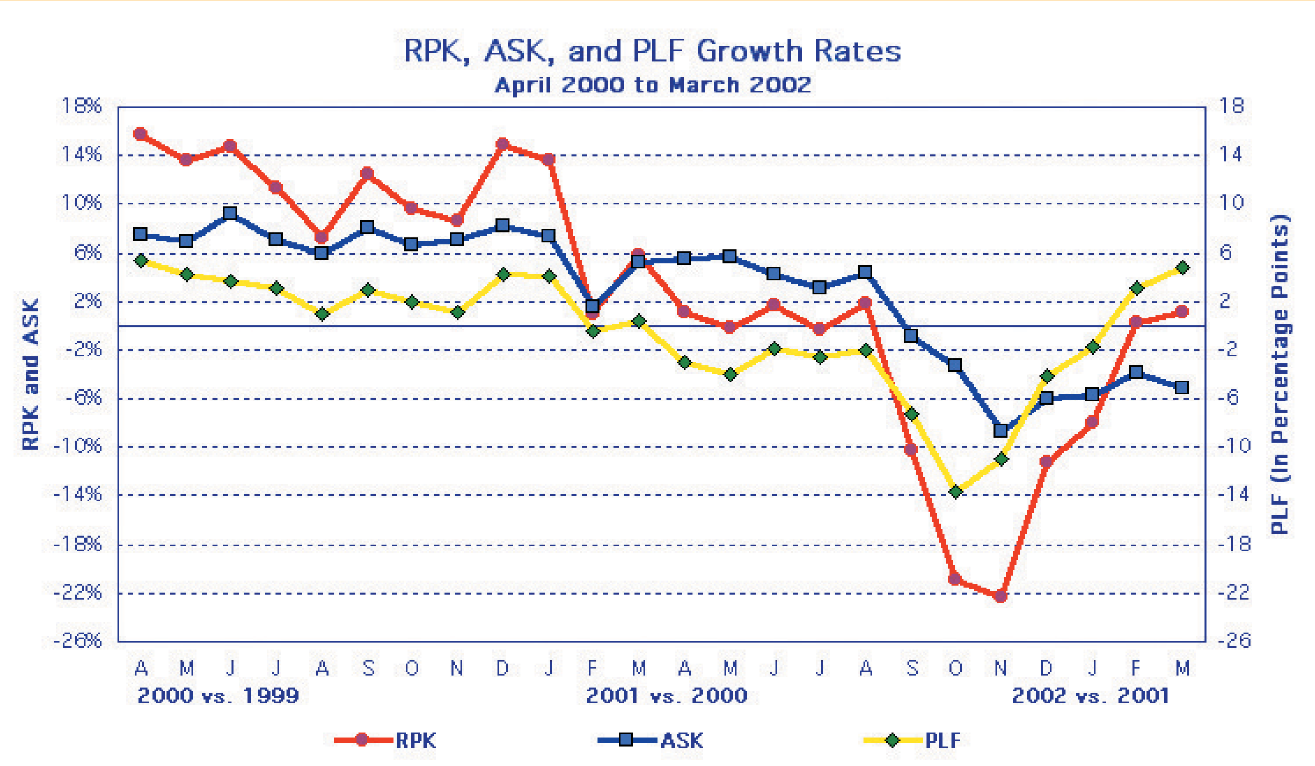
FREIGHT LOAD FACTOR GROWTH BY CARRIER

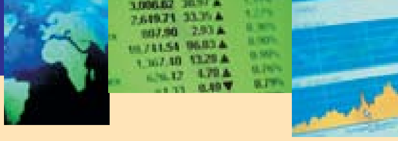
Percentage Points Change (Apr 01 - Mar 02 vs Apr 00 - Mar 01)



MONTHLY INTERNATIONAL PAX STATISTICS OF AAPA MEMBERS







MONTHLY INTERNATIONAL CARGO STATISTICS OF AAPA MEMBERS