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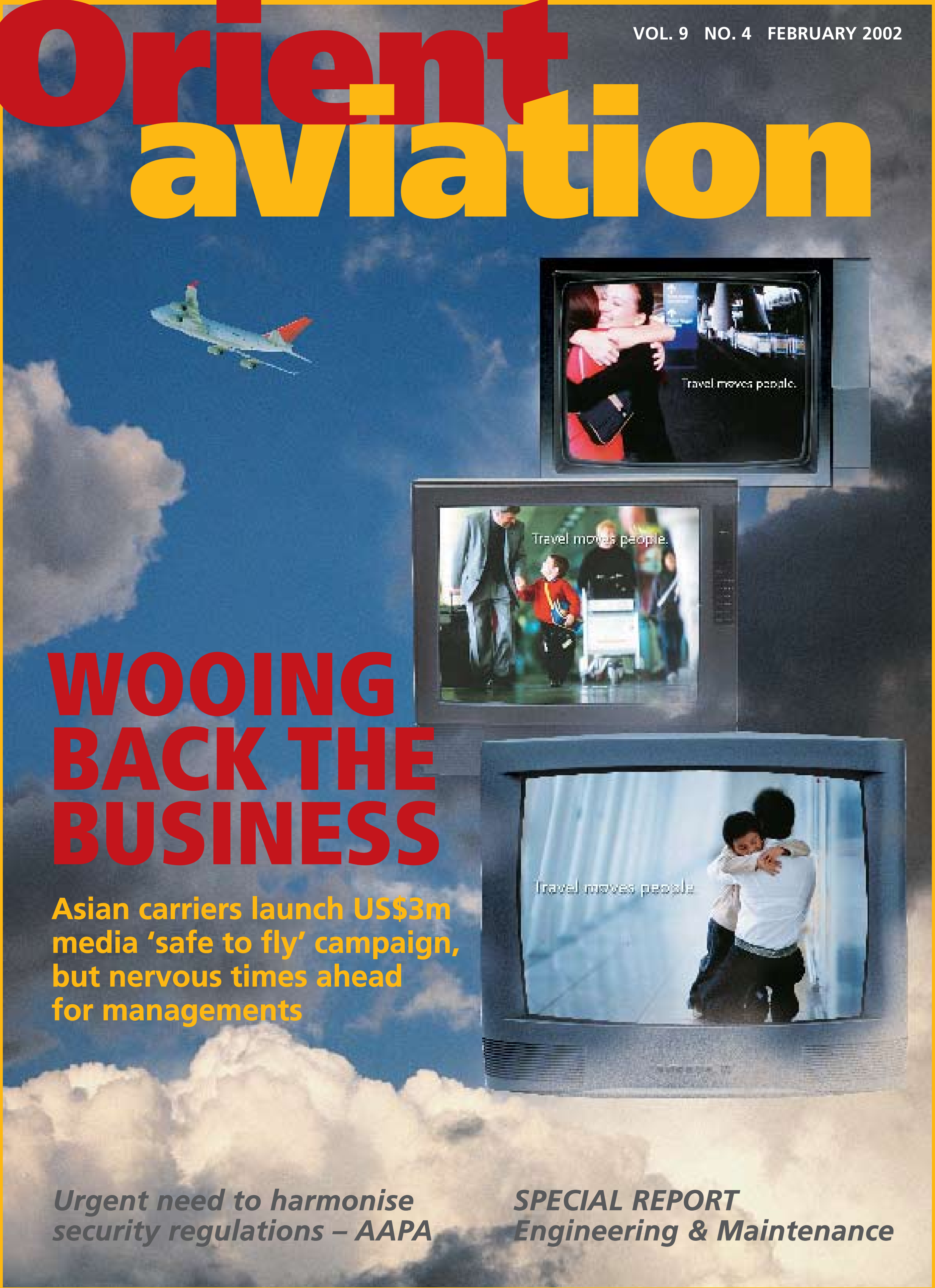

WOOING BACK THE BUSINESS

Asian carriers launch US$3m media 'safe to fly' campaign, but nervous times ahead for managements

Urgent need to harmonise security regulations – AAPA

SPECIAL REPORT Engineering & Maintenance

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COVER STORY

WOOING BACK THE BUSINESS

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But nervous times ahead for Asia's airline managements

NEWS

SPECIAL REPORT...Engineering and Maintenance Part One

HELICOPTERS

REGULAR FEATURES

NEW HOPE OR FALSE DAWN?

This is the question posed by our cover story as signs emerge that travellers are returning to air travel in increasing numbers.

But airline managements fear this trend may be short lived and only based on ticket discounts and cheap holiday packages to fill seats in the current low season.

But let's be more positive: many people *are* beginning to put their fears to one side following the tragic events of September 11. They *want* to travel again. Indeed analysts say there is a lot of pent up demand for travel out there.

There are signs the recovery could come quicker than anticipated in some sections of the global economy, but there also are other well-respected opinions that say it may not happen until 2003. Critical to these developments, of course, is that there is no repetition of terrorism in the air.

This calls for vigilance of the highest order, on all fronts, in the air and on the ground. There is no doubt that airlines have put security at the top of their agendas in recent months, but whether they are acting quickly enough for the U. S. Federal Aviation Administration (FAA) remains to be seen. It is calling for carriers to put bars on cockpit doors by April and to have them strengthened by April 2003.

This is mandatory for U.S. carriers. The FAA has merely asked non-U.S. carriers to introduce the upgrades with an ominous warning that "rulemaking" may be applied if they do not comply.

But who does what, when and how is causing some concern. Indeed a lack of harmonisation in security regulations "is causing confusion, duplication, or inaction among operators. The authorities and the industry need to work together quickly to decide on harmonised standards," said the Association of Asia Pacific Airlines (AAPA) technical director, Leroy Keith.

For example, Cathay Pacific Airways, which boasts an immaculate safety record, said it had extensively evaluated means of securing cockpit doors, but would not jump the gun in case it had to back track on its upgrade schedule if regulators decided to impose different standards for increased cockpit security.

The onus for harmonisation is on the industry's regulators. Once they decide what is needed everyone can get on with the job as a matter or urgency.

This kind of co-operation would also help bolster initiatives like the AAPA's US$3 million campaign to restore public confidence in air travel.

BARRY GRINDROD
Publisher/Managing Editor

PERSPECTIVE

Edited by
Christine McGee

STAR TURN:

Fortune magazine named **Christine Tsung**, president of Taiwan's flag carrier, **China Airlines (CAL)**, as one of the 50 most powerful women in international business in an end of year poll. Vibrant Ms Tsung, who has energised CAL since she took over more than a year ago, came in at 10 on the prestigious list and was cited for "her determination and professional knowledge in leading Taiwan's largest carrier".

NEVER SAY DIE:

Despite the losses his carrier **Singapore Airlines (SIA)** incurred at **Air New-Zealand**, the airline would continue to seek foreign acquisitions, the carrier's chairman, **Koh Boon Hwee**, said in January. In a speech to members of the **American Chamber of Commerce** in Singapore he said: "We will continue to seek out and make future acquisitions if they make sense and further our goals." Koh believed national governments would eventually allow foreign carriers to acquire equity in national carriers, although he acknowledged that most nations would still restrict outsiders from buying into their airlines for reasons of national pride. SIA lost US$154.9 million last year when **Ansett Australia**, a recent Air New Zealand (Air NZ) acquisition, haemorrhaged millions of dollars in 2000-2001. SIA's stake in Air NZ is now 4% and the New Zealand Government has bought most of its national carrier to ensure it avoids bankruptcy.

At the same gathering, Koh, who became SIA's non-executive chairman last year, praised SIA employees for accepting pay cuts of up to 15% to keep the red ink off the airline's balance sheet.

SIA chairman, Koh Boon Hwee: commended staff for their loyalty and acceptance of pay cuts post 9-11

• In Hong Kong, **Cathay Pacific Airways** has said staff can take up to 12 months unpaid leave in 2002. The airline's director of corporate development, **Tony Tyler**, said the carrier is offering staff this option because the airline is parking numbers of aircraft this year. Between 5-10% of Cathay employees are expected to take up the offer.

WHICH AIRLINE?

Gary Toomey, who ran the merged **Air New Zealand Ansett Group** for eight months before it collapsed last year, told an Australian newspaper he had been offered the job running an Asian airline, but he would not name the carrier. He declined the offer. After Toomey resigned from **Air NZ** last October, he slipped very rapidly out of public view as he became the scapegoat in Australia for Ansett's demise. For now, he said he would continue to live in Auckland while he looked for career opportunities possibly outside aviation.

PANG'S PAIN:

Tough times in Hong Kong have produced demands for a pay review by the limited group of elected representatives to Hong Kong's legislative council – with the view to pay reductions – in the salary packages of 100 senior management of the **Special Administrative Region's (SAR)** statutory bodies. Named among the targeted group was **David Pang**, the boss of the **Airport Authority of Hong Kong** and the man in charge of the SAR's airport. Pang is reputed to be paid between HK$4 million-HK$5 million (US$513,000 – US$641,000) a year in salary and benefits, which the critics say is too much in these straightened times. The government will announce the results of a review into the matter in three months.

WELL CONNECTED:

At the end of last year, lawyer **Pehin Dato Hj Yahya** took over as chairman of **Royal Brunei Airlines** following the transfer of former chairman, **Dato Mohamad Alimin Abdul Wahab**, to the new **Brunei National Oil Company**, where he is its first executive officer. The new chairman is a former chairman of the **Brunei Investment Agency** and is on the boards of **Brunei Shell Petroleum** and the **Brunei Oil and Gas Authority**. He also has kept his most recent job – permanent secretary of the Office of the Prime Minister of Brunei – a position he has held for four years.

Royal Brunei Airlines chairman Penin Dato Hj Yahya is a lawyer who also is permanent secretary of the Prime Minister's Department in the Sultanate.

TOUGH JOB:

John Paterson, a board director of **Swire** subsidiary, **Hong Kong Aircraft Engineering Company (HAECO)**, since October 1998 is its new chief operating officer. Paterson, a former senior executive at the **Swire/Rolls-Royce** joint venture engine overhaul and repair company, **Hong Kong Aircraft Engine Services Limited (HAESL)**, has the task of running a business that is under intense cost pressure as airlines reduce demand for MRO work as they streamline their fleets and/or park airliners.

BACK AS THE BOSS:

It's a full career circle for the new chief executive of **Ansett Australia**, **James Hogan**, who took on his job at the Melbourne, Australia head office of Ansett in January. Fresh out of school 27 years ago, Hogan, now a mid-forties father of three, started his working life as a customer service operator at the airline. He moved on to **Qantas Airways**, then Australia's only international carrier, where he was a flight attendant. After 13 years at **Hertz**, the car rental company, he returned to aviation in 1997 as the service director for the British regional carrier, **British Midland**, now known as **bmi British Midland**. After a short stint as worldwide marketing boss for the **Forte Hotels Group** he went back to bmi in 1999 as chief operating officer and board director as well as being the holder of the carrier's air operator's certificate. He was a member of the executive team that oversaw the re-branding of the carrier, its launch on trans-Atlantic routes in 2001 and its entry into the largest airline alliance, Star, last March. Hogan left bmi British Midland in August last year.

REGIONAL ROUND-UP

CHINA'S MERGER PLAN MOVING OH SO SLOWLY

The re-organisation of China's aviation industry was never going to be straightforward and two years after news of the plan was first made public, the bickering behind the scenes is continuing.

In January, the **Civil Aviation Administration of China (CAAC)** insisted the merger of 10 CAAC-controlled airlines would proceed this year. At the same time the state owned *Xinhua News Agency* denied reports objections from major airlines involved in the re-organisation had forced the civil aviation regulator to re-think the plan.

However, mainland sources told *Orient Aviation* major disagreements behind the scenes at the airlines are significantly holding up progress. The source said there would be no final outcome this year and hinted at the frustration among some of those involved when he said "it could take years" for the mergers to be completed.

The carriers to head the three merged groups, **Air China**, **China Eastern Airlines** and **China Southern Airlines**, are said to have submitted their restructuring proposals and they are under review by Beijing.

In the blue print for the new look aviation sector Air China would merge with China Southwest Airlines and the **China National Aviation Corp (CNAC)**. CNAC, which holds a majority stake in Hong Kong's **Dragonair**, is believed to be unhappy to be linked with Air China, an over-staffed and, for years, a loss-making company with limited management expertise. Air China says it has strengthened its management and has moved into the black from last year.

China Eastern is slated to merge with **China Northwest Airlines** and **Yunnan Airlines**. China Eastern is not happy at inheriting massively indebted Northwest.

China Southern would join forces with **China Northern** and **Xinjiang Airlines**. This appears to be the most harmonious group. Southern and Northern have already started joint initiatives and Southern is closely allied to Xinjiang.

Vietnam Airlines: the first beneficiary of U.S.-Vietnam trade agreement

Vietnam Airlines' historic plane deal

While airlines in the region struggled to keep their heads above water last year, ***Vietnam Airlines*** *bucked the trend and recorded healthy passenger and cargo traffic figures.*

It was therefore appropriate that in December the carrier consummated the historic trade agreement between Vietnam and the U.S. by signing an agreement to buy four ***Boeing*** *777-200 planes in a deal worth more than US$400 million. It is the first time the airline has bought Boeing aircraft. It currently leases Boeing B767s and Airbus A320s.*

The bilateral trade accord was signed last year after many delays by former U.S. president, ***Bill Clinton****, but then had to be ratified by the legislatures of both countries and their presidents. Vietnam's deputy prime minister,* ***Nguyen Tan Dung****, said in Washington the announcement reflected the beginning of a new trading era between Vietnam and the U.S. Vietnam Airlines served as a bridge to welcome people to the country, he said.*

The Vietnam Economic Journal *reported in January that the carrier may sign for a number of* ***Airbus*** *aircraft in the near future.* ■

NEW AIRLINE IN JAPAN

In a country already supporting at least five loss-making international and domestic airlines, **SkyNetAsia Airways** has joined the fray in Japan. It will take delivery of the first of two **Boeing** 737-400s in February and start flying between Miyazaki, on the southern island of Kyushu, to Tokyo's **Haneda Airport**. Fares will be 30-35% below market price. Financial support is being provided by local government and business interests in Miyazaki.

QANTAS WAGE FREEZE

The two unions representing **Qantas Airways'** 2,500 maintenance workers agreed in January to a wage freeze until June 30 allowing the airline to lock in a company wide freeze. In return, Qantas approved a 2% pay rise every six months over the next two years dependent on productivity improving. Qantas's 31,000 staff will also receive a 3% incentive bonus if the company matches last year's pre-tax profit of A$550 million (US$286 million).

IN BRIEF:

The U.S. **Federal Aviation Administration (FAA)** has restored South Korea's safety standard rating to Category 1 just four months after down marking the country to Category 2 citing Korea's failure to meet minimum international standards. The reversal means that the country's two international carriers, **Korean Air (KAL)** and **Asiana Airlines**, are free to expand their services in the U.S. and resume code-sharing arrangements with their partners: KAL with **Delta Air Lines** in **SkyTeam** and Asiana with **oneworld** member **American Airlines**.

Singapore Airlines' (SIA) Singapore Flying College (SFC) has chosen **Maroochydore Airport**

on Australia's Queensland Sunshine Coast as the base for its **Advanced Flight Training Operations**. SIA plans to move its four Learjet 45 trainers and advanced flight simulator to Queensland from Singapore where cadets now train. In addition to Singapore, the SFC has had a facility at Jandekot, near Perth in Western Australia for 10 years. "The decision was taken to relocate the training aircraft based on an assessment of better access to airspace, a wider route structure and the ability to access reliable supplies of aircraft parts, maintenance and overhaul," said **Capt. Maurice De Vaz**, SIA's senior vice-president flight operations and chairman of the SFC.

SIGNS OF BETTER TIMES AHEAD?

Airlines in the Asia-Pacific region are re-activating many services largely suspended in the weeks following the terror attacks in the U.S. on September 11. **(See cover story Survival Mode, page 14).**

• In January, **Malaysia Airlines** announced it is resuming services to six international destinations suspended during recent months and continuing flights to two cities it had earmarked for suspension in the next two months. Services between Kuala Lumpur and Manchester, Rome, Istanbul, Cairo, Beirut and Karachi are to resume over the next two months and flights to Auckland and Zurich will continue.

• **Korean Air (KAL)** added Hanoi to its Asian network in the new year. Twice weekly services from Seoul to Hanoi supplement the carrier's twice-weekly service to capital Ho Chi Minh City. KAL also resumed services to Guam and Saipan. It stopped flying the routes in 1997 after one of its B747s crashed in Guam. KAL resumed flights to Cairo in January.

• From January, **Thai Airways International (THAI)** increased frequency on two high density routes, Bangkok-Osaka and Bangkok-Dubai. The Osaka services rose from four weekly to daily. THAI also launched three weekly flights from Bangkok to Chengdu, China. In December, THAI resumed flights to Pakistan.

• **Cathay Pacific Airways** resumed Hong Kong – Karachi flights in January. As before, all three weekly return services operate through Bangkok. The service had been suspended since October 28. In addition, Cathay introduced two additional direct flights between Hong Kong and Dubai from January 16. Cathay and British Airways have expanded their code-sharing agreement.

• Taipei-based **China Airlines** resumed normal flight frequency on its North American routes in December with 40 round-trip flights a week.

• **Qantas Airways** flights from Australia to New York via Los Angeles, halted in November, will continue from February 27. It also will increase services to Hong Kong to improve through connections to Europe and operate all its "kangaroo route" services between Australia and Frankfurt, Paris and Rome via Singapore from March 31.

• **Singapore Airlines** will resume services to Lahore and Karachi from February 2. The carrier will increase services from Singapore to Tokyo from 17 to 20 from mid-April. Services to Chicago over Amsterdam and to New York over Frankfurt, suspended last November, are expected to continue from the end of April.

• **Philippine Airlines** doubled its frequency between Cebu and Seoul to four flights a week in late December. ■

BUSINESS ROUND-UP

ASIANA ASSETS ON THE BLOCK

South Korea's second international carrier, **Asiana Airlines**, is putting assets up for sale in an effort to raise much needed cash.

On the market is its 59% stake in ground handling company, **Asiana Airline Services Co.**, a 43% holding in **Korea Airport Development**, which operates two terminals at the **Incheon International Airport**, and its 33% stake in the **Incheon International Airport Foreign Carrier Cargo Terminal**.

The Asian Wall Street Journal reported that **Lufthansa's** ground service arm, **GlobeGround GmbH** and three other overseas companies, were expected to bid for Asiana Airline Services.

Last year Asiana put its catering division up for sale. At the time it said it was hoping to raise about 200 billion won (US$152.9 million) by also selling its stakes in other affiliates.

The Seoul-based carrier launched a restructuring plan after it recorded a net loss of 191 billion won in the first nine months of 2001. This included cutting its 6,000 workforce by 700, shelving plans to buy two new aircraft and returning two leased planes ahead of time.

Asiana's debt was 2,699 trillion won at the end of September last year. In December, it issued 250 billion won in asset-backed securities as part of its restructuring programme.

MAS to sell, leaseback US$1.6b of planes and property

Lumbering under debts of more than US$2.4 billion, state-owned **Malaysia Airlines (MAS)** has moved to sell and leaseback almost $1.6 billion of assets to ease its debt burden and provide nearly $216 million of working capital for expansion, writes **Tom Ballantyne**.

Managing director **Datuk Mohamed Nor Yusof** disclosed $1 billion would be raised from the sale and leaseback of eight aircraft – six B747-400s and two B777-200ERs – to a government special purpose vehicle (SPV), **Aircraft Business Malaysia**.

Properties worth $579 million also would be sold to a government SPV. They include MAS's 35-storey Kuala Lumpur headquarters, its major complexes at the capital's two airports at Sepang and Subang, along with the **Malaysian Airlines Academy**, a computer centre and a training complex.

Negotiations are underway to sell 70% of **MAS Catering** to a consortium headed by **Lufthansa's LSG SkyChefs**.

Malaysia Airlines managing director Datuk Mohamed Nor Yusof: the new chief is moving fast to restore the airline's financial viability

"We are fairly asset-heavy and some are non-income generating. To repay our debts and raise working capital, we have board approval to unlock cash trapped in these assets. The key is that it puts us back on track and allows us to shed (some) debts and non-core assets," said Datuk Mohamed Nor.

The MAS chief is making no excuses for what amounts to a huge helping hand from its owners, the Malaysian Government. "No airline can go on without government assistance. It is clear that governments globally, including the U.S. Government, are playing a key role in the re-building of the international aviation industry after the September 11 terrorist attacks. Hence it is legitimate for the Malaysian Government to assist the national carrier," he said.

MAS aims to complete the sale and leaseback of its aircraft by May and the disposal of the properties by June. Datuk Mohamed Nor said of the finance raised about $631.6 million would be used to take delivery of five new aircraft, $415.8 million to repay yen bonds due this year, $342.1 million to short-term borrowings and $215.8 million for working capital.

"Our immediate concern is to meet the 50 billion yen repayment. The exercise also helps in shoring up our working capital," said the managing director.

Ideally, MAS would like to hive off its entire stake in the catering division, but it has decided to keep a small interest to ensure maintenance of required standards, said Datuk Mohamed Nor. The move also will reduce the 21,000 MAS workforce as the 2,500 catering employees will come under the wing of the new majority shareholder of the airline caterer.

CATHAY TO MAKE SECOND HALF OPERATING LOSS

Cathay Pacific Airways has told investment analysts that although it expects to make an operational loss in the second half of its financial year, it will make a profit for the 12 months.

The airline has been hit hard by the global recession, the events of September 11 in the U.S. and the long-running dispute with its pilots over work rosters and salaries.

Cathay's traditional high earning routes to Japan and North America have been particularly badly affected. The airline has parked a number of its aircraft in recent weeks.

Analysts in Hong Kong are forecasting a second half loss for Cathay in the range HK$400 million (US$51.8 million) and HK$1 billion. On that basis, Cathay would report a full-year profit of between HK$300 million and HK$900 million.

In the half year to June 30, Cathay recorded a net profit of HK$1.32 billion, a 39.4% fall on the same period in 2000.

PLEASE NOTE:
Orient Aviation's e-mail address is now orientav@netvigator.com

MAIN STORY

There are signs the recession in the airline industry is beginning to fade and better days lie ahead. To help restore public confidence in air travel Asia's carriers have launched a US$3 million media advertising campaign. But some airline managements still fear the figures are a false dawn. Having made the hard decisions – rationalisation and reorganisation – they remain nervous. A close eye will be kept on travelling habits in the coming weeks, traditionally the low season in the industry, to determine if recovery is really on the way. **TOM BALLANTYNE** reports that Asia's airlines are in ...

SURVIVAL MODE

The images used on the TV screens on the cover and above are incorporated in the print advertising campaign.

With signals emerging that 2002 may not be the financially apocalyptic year many airlines feared, Asian carriers still remain very nervous about the substance of the recovery that now appears to be under-way.

There are clear signs the dramatic plunge in traffic following the events of September 11 in the U.S. has bottomed out, but executives are far from popping the champagne corks.

While major airlines in the region are slowly clawing their way back from the weeks immediately post "9-11", relaunching many services suspended after the U.S. terrorist attacks in New York and Washington, they are tempering optimism with a continuing war on costs.

Richard Stirland, the director general of the Association of Asia Pacific Airlines (AAPA), which represents the region's 18 major operators, said carriers believe the recovery in traffic may be largely due to discount airfare and travel package initiatives.

"There is no doubt traffic is coming back, but the question airlines are asking is whether this is merely a blip because people are taking up these deals [discount fares and packages]," he said.

"Airlines are less concerned about traffic growth in terms of RPKs (revenue passenger kilometres) and passenger numbers. It is all about deals in the market. These are providing cash flow, but at very low margins. Airlines are very concerned about yields."

According to airline sources, some operators are carrying more passengers for less revenue than they were collecting a decade ago.

The situation will be difficult to reverse in the short term. January to April is traditionally the low season for carriers as passengers take a break from travel after the peak Christmas and New Year holidays. To fill seats airlines are likely to have to indulge in more discounting.

Making matters worse is that with little or no returns on leisure traffic airlines are also being faced with sparsely filled business class cabins on many routes as corporate passengers put the brakes on spending in the hope the economic situation will improve.

Japan, with its airlines ravaged by the nosedive in transpacific traffic and the country's economy mired in a third recession in a decade, is extremely worrying, said Stirland. "Japan is critical to everyone," he said.

Nevertheless, Asian airlines are continuing their fight back and have focussed on measures aimed at getting people back in the air. In late January, the AAPA launched a US$3 million television and print media advertising blitz directed at restoring pubic confidence in air travel and using the theme "Travel Moves People".

The project has received strong support from the Pacific Area Travel Association (PATA). Aircraft manufacturers, Boeing and Airbus Industrie, also are expected to be involved.

It will be aired on global network television stations such as CNN as well as local language television and print media. A public relations campaign on the Internet will be run in conjunction with the advertisements.

Many carriers also are increasing their own publicity budgets. In January, for example, although involved in the AAPA project, Malaysia Airlines (MAS) launched a global campaign to boost inbound tourism. The carrier will spend more than US$1 million immediately, but expects the advertising and promotion budget for the next financial year, starting in April, to be above US$30 million.

It is difficult to tell how truly effective the recovery has been so far. But there is no doubt the downturn has been devastating for the airline industry.

Association of Asia Pacific Airlines director general, Richard Stirland: airlines questioning if recovery is down to cut-price fares and travel packages

Worldwide, a record 1,828 planes were taken out of service and parked by the end of 2001. The previous record was 1,089 in 1993 during the post-Gulf War downturn.

Airclaims, a London-based aviation consulting firm, believes the number could reach more than 2,400 by mid-year.

Airbus Industrie executive vice-president customer affairs, John Leahy, said Airbus and rival Boeing may suffer a decline of up to 60% in aircraft orders in 2002; that is 250 to 300 planes compared to 600 in 2001.

All Nippon Airways: no near-term answer to stemming dramatic fall in passenger traf-

In 2000, the figure was a record 1,131. Leahy believed business would pick up in 2003, but Boeing thinks there may be a further fall in orders.

The Asian airline industry has not been hit as hard as its counterparts in North America or Europe, although the impact has been mixed within the region.

AAPA statistics show that passenger traffic on member airlines declined 8.1% in September to 7.9 million, compared with 8.8 million in the same month in 2000. In October, when the impact of September 11 hit the hardest, passenger numbers were 16.1% down on the previous year.

November figures were not yet available at press time, but it is understood the decline has flattened out, remaining at around 16%. December is expected to show an improvement.

The dramatic decline in October and November was largely due to Japanese carriers, which have a large slice of transpacific routes.

The rate of decline in passenger load factors for AAPA member airlines in September and October, 8.6 percentage points and 14.6 points respectively, is believed to have been arrested in November with a 10.6 percentage point fall over the previous year, but that was a reflection of a near 10% decrease in capacity.

For the year, airlines will be lucky to break even on passengers carried when compared to 2000. In the first 11 months passenger traffic reached around 94.8 million, down nearly 1% on the previous eleven months.

The performance of individual airlines varied considerably. Singapore Airlines' (SIA) passengers fell 12.9% in November, with load factors dipping 9.1% to 66.9%. Freight declined 8.5%.

Cathay Pacific Airways reported a "marked easing" in the drop of traffic to most places in the world during November, supporting the consensus among analysts that airlines' troubles may have bottomed out in October. Nevertheless, passenger numbers still collapsed by 13.8% during the month and cargo dipped 6.5%. Cathay cut its capacity by 11.7%.

Qantas Airways, Cathay Pacific, SIA, Korean Air, Thai Airways International and China Airlines (CAL) are among operators that have re-introduced or will soon re-launch services suspended after "9-11". Some are opening up new routes as they re-organise their networks to eliminate marginal or loss-making services in their search for revived profitability. (See Regional Round-up, Page 9).

For instance, MAS managing director, Datuk Md Nor Yusof, announced in January that his airline will resume services to six suspended international destinations and continue service to two other cities it had earlier marked for suspension.

"There is some semblance of normalcy in airline travel ... it is bouncing back and our suspension of flights was more for financial reasons than a lack of opportunities," he said. MAS load factors for November and December were over 75%.

Korean Air, one of the worst-hit carriers during the Asian recession of the late 1990s, is forging ahead with expansion into China, planning six new destinations before the end of the year.

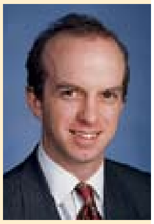
China Airlines restored its North American schedules to pre-September 11 levels on December 12, with 40 round-trip flights a week.

Qantas has resumed flights to New York, it is increasing services to Hong Kong and from March it will be service as usual through Singapore to Frankfurt, Paris and Rome. This "reflects that travel on some international routes is showing signs of improvement", said Qantas CEO Geoff Dixon, who has reduced international capacity by 11% at the carrier.

With a view to better trading conditions later in the year, Qantas will go ahead with the launch of its low-cost in-

'ACROSS THE REGION, CARRIERS HAVE REDUCED STAFF NUMBERS BY OFFERING EARLY RETIREMENT, VOLUNTARY REDUNDANCY AND UNPAID LEAVE SCHEMES'

THE ANALYST'S VIEW



Analysts are cautious about prospects for the upcoming year, pointing to uncertainty over recovery trends, the poor state of the Japanese market and the effects on yields of fare discounting.

Jardine Fleming Securities' regional transport analyst in Hong Kong, Peter Negline said 2002 was one of the most difficult to years to predict since the months following the Gulf War.

"There are anomalies emerging, too. Airlines are saying forward booking trends, traditionally a pointer to future market conditions, have become much more volatile than they have been in the past," said Negline.

"The year ahead is shaping up to become very volatile. In summary, 2001 was a tough year and it got increasingly tougher as the year progressed and 2002 is going to be no easier.

There may be some improvement in the second half, but it will still be a year of contraction."

ternational offshoot, Australian Airlines, around September.

Reports in China emanating from the chairman of China Eastern Airlines (CEA) said its ‘Big Three’ carriers, CEA, Air China and China Southern Airlines expected to lose 3.35 billion yuan (US$404.7 million) as a direct result of the drop in international travel after September 11. Analysts, however, while accepting the losses, said CEA was using September 11 as an excuse. They said other factors, including fierce competition, had played a major part in the losses.

The majority of the Chinese carriers only fly domestic routes and were sheltered from the worst affects of September 11.

Industry troubles have accelerated the pace of inter-airline commercial agreements and alliance co-operation. In recent weeks code-share deals have been signed between China Airlines and Delta, China Southern and Garuda Indonesia, with Cathay Pacific and British Airways increasing their existing joint services within the oneworld alliance.

Christmas trade boosted annual air cargo figures at Hong Kong International Airport, according to the Airport Authority. Although freight volume fell 7.4% to 2.08 million tonnes, a double-digit decline had been expected.

“It is certainly better than we had expected,” said Airport Authority senior communications manager Wong Sau-ying. “We can’t say the recession is over yet because we need the trend to continue for a longer period to make that conclusion, but it certainly appears to have eased.”

Passenger throughput in November dropped 9.3% year-on-year to 2.38 million, better than the 12% dip in October.

ANGEL’S WINGS CLIPPED

Thailand’s Angel Air, the country’s second national carrier, became a major casualty of post “9-11” events when it suspended all passenger services in January.

Chief executive, Somchai Bencharongkul, said the suspension would be “temporary” until lower-cost aircraft could be found to replace its uneconomic Airbus A300-600R, leased from China Northern Airlines.

Angel had been flying to Osaka, Hong Kong and Macau and planned to expand to Taiwan and new destinations in Japan early this year.

Sweet and sour for Singapore Airlines and Malaysia Airlines: both airlines are to resume services suspended after September 11, but SIA is offering voluntary redundancy to its staff and debt-ridden MAS is raising cash with the sale and leaseback of planes and major property assets

Officials at South Korea’s new Incheon International Airport said 14.5 million passengers used the facility from its opening on March 29 to the end of December. That is 3% up on passengers using the former international Kimpo Airport in 2000, although there was a decline in the months after “9-11”. Cargo traffic during the period declined 5%.

Singapore Changi Airport reported a 1.8% decrease in passengers through the region’s major hub last year, down to 28.1 million from 28.6 million. Cargo was harder hit, falling 10.4% to 1.5 million tonnes through 2001.

But in Australia airports have been losing millions of dollars, hit doubly by the events of September 11 and the collapse of Ansett Australia three days later.

For most if not all airlines the last 12 months has led to rationalisation and intensive cost-cutting. SIA, facing its first ever annual loss after reporting a massive 88% fall in profit for the first six months, has offered “a golden handshake” to all employees who have been with the airline for more than 15 years.

A Cathay Pacific official said the carrier was trying its best to keep down costs. Measures taken by the carrier included parking aircraft, cutting frequencies, re-adjusting housing allowances and suspending bonuses. It has offered voluntary unpaid leave to employees.

In Taipei, EVA Air has slashed its 2001 earnings forecast for the second time this year to a net loss of US$91 million. It would be the carrier’s first loss since 1994.

Deputy senior vice-president, K. W. Nieh, said EVA was streamlining its workforce and cutting flights to save costs. Passengers who shied away from air travel after September 11 had started to fly again, but the growth was not sufficient to offset previous losses, he said.

Taiwan’s largest carrier, China Airlines, also has cut its full-year financial forecast. Earnings per share were expected to fall 52%.

Thai Airways, still without a president at press time, is in profit, but saw income drop 59.11% in the year to September 30. It has moved to limit later damage by paring routes and has closed seven off-line offices in the U.S. and Canada.

Across the region, carriers have reduced staff numbers by offering early retirement, voluntary redundancy and unpaid leave schemes.

In Japan, a spokesman for All Nippon Airways said passenger numbers have declined sharply, with revenue falling 9.2% in the latest period. There appeared to be “no near-term solution for reversing the drastic decline in the number of travellers, particularly on the transpacific routes”, he said. ANA plans to cut its workforce by 1,000 and offer voluntary leave of absence to staff.

Overall, the airlines have made the hard decisions and are eyeing the travel patterns of the first quarter of 2002. However, the bottom line for airline management in the coming year remains clouded in uncertainty.

FAA puts airlines on notice

By Tom Ballantyne

When Federal Aviation Administration (FAA) director of aircraft certification services, John Hickey, addressed Asia-Pacific government and airline industry officials in Kuala Lumpur in January his message was clear: fail to meet new U.S. standards for inflight security and your airlines risk being denied access to American airports.

Attending the briefing were 86 senior officials representing 37 government authorities from 17 countries – including China and Taiwan – and 49 representatives from the regional airline industry, including 35 from 12 member airlines of the Association of Asia Pacific Airlines (AAPA) that operate flights to the U.S.

They were left in no doubt what was required by the U.S. authorities. By April, aircraft flying into the U.S. have been requested to fit security bars on cockpit doors. Within the following 12 months these doors must be internally strengthened. Failure to follow the "voluntary" two-phase procedure could prompt the FAA to "consider rule-making".

Leroy Keith, the AAPA's technical director, said the impact on airlines flying to the U.S. could be substantial. "If they do not install modifications in the time specified, either voluntarily or by their own authorities' requirements, the FAA will take unilateral action to require the modifications that would allow that airline to continue operating to the U.S."

Washington's tough line was expected, although insiders said there was some disquiet about the amount of time made available to carry out the work on the region's long-haul fleets. Hickey, however, said U.S. carriers had already fitted bars on the doors of around 6,000 planes, a task completed in just 60 days.

Hosted by the AAPA, the briefing, in which manufacturers Boeing and Airbus Industrie took part, brought representatives up to date on FAA regulatory security initiatives and their status.

The FAA presentation covered aircraft enhancements, including flight deck doors, video cameras, alerting systems and transponders, operators' procedures that involved defensive practices in flight, crew training, personnel licensing and global implementation.

For U.S. carriers the two-stage modification to cockpit doors is mandatory.

Non-U.S. airlines are not officially required to meet the U.S. FAA enhanced flight deck security requirements "at this time", said Hickey, but he added it was expected that regional authorities would introduce similar regulatory upgrades for their airlines.

The U.S. would "closely monitor" this and would "consider rulemaking" if the international community did not comply, said Hickey.

"It is clear the FAA does not want to take unilateral action, but it is fully prepared to do so if the authorities and airlines do not accomplish both phases by April 2003," said the AAPA's Keith.

It is understood an informal survey of the representatives of the airworthiness authorities who attended the Kuala Lumpur briefing indicated a majority would "enable" their operators to accomplish Phase 1 modifications [barring of doors].

But they would wait until an International Civil Aviation Organisation (ICAO) ministerial conference on aviation security, in February, before they decided what to do about Phase 2 requirements [strengthening of doors].

One of the primary concerns of the AAPA and its member airlines is that security regulations should harmonise. "This is causing confusion, duplication, or inaction among operators. The authorities and the industry need to work together quickly to decide on harmonised global security standards," said Keith.

Airlines are being asked to add security fees to the cost of tickets, in addition to government taxes, airport modernisation fees, passenger facilitation charges and, more recently, an insurance surcharge.

In the U.S., a US$2.50 fee for all air passengers was intended to apply from February 1 to help fund the implementation of new security measures. Airlines have to forward the money to the Department of Transportation's new transportation security administration.

In Australia, Sydney Airport increased its user charges from January to meet security upgrades. While marginal, they will help go towards the cost of additional security officers and electronic screening at the airports.

Singapore Transport Minister, Yeo Cheow Tong, announced in January an expected security fee will be introduced at Singapore Changi International airport, which has tightened access control to restricted areas, imposed more stringent checks of passengers and baggage and installed additional security systems. ■

U.S. airports 'culturally insensitive'

Member carriers of the Association of Asia Pacific Airlines (AAPA) are concerned about the treatment some of their passengers are receiving when confronted by heightened security at U.S. airports following the September terrorist attacks.

The delicate issue, according to reports from AAPA carriers, amounts to U.S. security and customs officials paying special attention to non-Caucasian travellers, including Asian passengers.

Said an AAPA official: "There is a concern and a general conception among our members that at Los Angeles Airport and other U.S. gateways the enforcement of security is overriding customer service.

"All the airlines share the belief there is a need for increased security, but they think it should be done with cultural sensitivity and without sacrificing the customer service element of the travel experience.

"Difficult as it is trying to persuade passengers to fly again, disregard for those elements will fuel the general perception that travelling in or out of the U.S. is a hassle."

The AAPA is writing to U.S. authorities, including the mayor of Los Angeles, drawing attention to these matters. ■

By Jonathan Sharp
in Hong Kong

Cathay awaits regulators' move

Attention those responsible for security at airports in Hong Kong, London, Zurich and Frankfurt: a 12-year-old boy carrying a pen knife made a nonsense of your post-September 11 security by the simple expedient of putting the knife in his wallet, placing the wallet at the side as he passed through detectors and picking it up on the other side.

This anecdote, related by Cathay Pacific Airways deputy chairman chief executive David Turnbull (the pen knife owner is a friend of his son), illustrated what Turnbull and many others say: if someone wants to get something on an airplane, they will do so.

The security implications for airlines and maintenance, repair and overhaul (MRO) providers in the aftermath of the September 11 attacks were aired at a recent Hong Kong conference moderated by Robert Francis, a former vice-chairman of the U.S. National Transportation Safety Board and now executive vice-president with consultants Farragut International.

Francis said the attacks and the subsequent enormous focus on security had brought a situation where security was going to be a much more integrated part of civil aviation operations and management than it had been historically.

He said that previously security had been "a little bit on the side", but was less so now. Some measures now being talked about were "total idiocies", he added. These included equipping cockpit crew with guns, a move he said was promoted by a very vocal minority of pilots in the U.S.

Francis added that screening of passengers was by no means foolproof, but it was a deterrent. "It is a deterrent because no terrorist can count on the fact that he is going to get through at a particular airport at a particular screening point to get on a particular airplane."

Derek Cridland, Cathay Pacific's engineering director, said an issue parallel to tougher security measures was the passenger's perception of security.

"All of us who travel have to perceive that security has improved ... and that whatever airport we go through there is a consistently high level of security."

Cridland said many suppliers were offering ideas on cockpit doors – "some very good ideas and some not so good ideas" – but at present airlines in Hong Kong are nervous about adopting particular measures and then being forced to backtrack if regulators mandated a different set of steps.

But action was needed promptly. "We are doing a lot of evaluating but in the near future we need to stop evaluating and just get on and do it. But we need to be sure the regulators are on side," he said.

Cathay Pacific's general manager operations, Captain Jeff Turner, said from a pilot's perspective the main thrust of security should always be on the ground at the airport. "We shouldn't really be solving these problems in the air."

Cathay Pacific engineering director, Derek Cridland: airlines making security upgrades need to be in step with regulators

Turner, who agreed cockpit crew should not be armed, said the understanding was where the FAA and JAA led in formulating regulations, the rest of the world generally followed suit. "It is therefore incumbent on those two bodies to think very carefully what they do, what they mandate."

Martin Craigs, chairman of the Hong Kong International Aerospace Forum, said September 11 might drive the aviation industry towards implementing screening methods using biometric data, as now being tested by the International Air Transport Association (IATA).

Craigs also floated the idea of a fast-track system allowing passengers willing to be fully screened to go through security checks rapidly, while those not willing to have background checks or biometric cards were obliged to wait.

"People who are paying the highest prices at the sharp end depend on the convenience of air travel. They will not travel if it becomes so inconvenient. And we all know what that's going to do to airline economics."

But Cathay's Cridland said it was vital to gain passengers' confidence by allowing them to see that everyone went through the same screening procedures. His colleague Turner raised another objection to a fast-track system, saying that if some passengers on a particular flight were checked through rapidly, they would still have to wait in the departure area for the others to be screened.

Meanwhile, should a pilot open the cockpit door in the event of attackers threatening to kill occupants of the passenger cabin? Said Turner: "I believe the general policy is going to have to be that you don't open the door."

If attackers believed there was a possibility the cockpit door might be opened because of threats to cabin members, then there was no point in locking or barring the door, he said.

"There has to be a clear understanding that that mode of terrorism won't work. If you make it very clear that it won't work then you are half-way to stopping the problem."

Not every airline is taking the cockpit door issue too seriously, it seems. Moderator Francis said he had asked an Air France captain what the airline's policy was and received the reply: "Now, instead of leaving the door open, we're closing it." ■

'Airlines in Hong Kong are nervous about adopting particular measures and then being forced to backtrack if regulators mandated a different set of steps'

– Derek Cridland, Cathay Pacific engineering director

A domestic dogfight

… but new Ansett owners "upbeat" about future

By Tom Ballantyne

As Ansett Australia prepares to re-launch in early February under a new management team there are serious questionmarks about when the airline can become profitable. Crucial to this will be its ability to attract back the customers who flew with the carrier before it went into administration.

Rival Qantas, now dominant in the country's domestic market, and low-cost rival, Virgin Blue, have started a discount campaign to counter Ansett's re-entry into the market.

Insiders suggested Ansett could lose as much as US$60 million in its first 12 months of operations. The carrier has been flying since October with a small fleet of older single-aisle Airbus A320 and B737 jets under the control of administrators. It had difficulty maintaining profitable load factors on a number of routes.

Ansett will re-launch with 16 new Airbus A320s, operating 751 flights a week on eight trunk routes.

Finalisation of the US$1.9 million purchase by Australian businessmen, retail mogul Solomon Lew and trucking magnate Lindsay Fox, was expected to be approved on January 29 at a creditor's meeting.

Their syndicate, Tesna Holdings, secured the liquidators approval in December after it attracted two Americans, David Bonderman, chairman of the successful European low-cost carrier Ryanair, and former America West Airlines chief executive Bill Franke as major investors. Bonderman and Franke will have equity of more than 35%, but less than 49%, which ensured Ansett remained a majority-controlled Australian operator.

The arrival of the U.S. interests into the Tesna owner mix ended expectations Singapore Airlines (SIA) could be take equity in or manage the airline.

In what promises to be a tough re-introduction, Fox and Lew are upbeat about their prospects. Fox told *Orient Aviation* a "sharper, sleeker new airline" would focus on providing the highest global standards of service quality on a full service airline.

Despite earlier speculation it would be a no-frills operator, Fox confirmed Tesna would operate business and economy classes and had corporate travellers as a key target.

Fox, who has a reputation as tough, no-compromise businessman, wants to ensure Ansett continues to attract international inbound visitors through on-carriage arrangements with commercial partners. However, he is making no definitive statements about future links with the Star Alliance, in which Ansett was a member.

The airline is still working closely with former owner Air New Zealand (Air NZ) and other Star carriers, including SIA.

"By the end of this year, Ansett will operate a new fleet of up to 30 Airbus A320 family aircraft, including A319s, A320s and A321s, on major business and leisure routes around Australia.

"We will unveil a new frequent flyer programme and will offer seamless links to international services, Australian cities and regional centres through new airline alliances," said Fox.

Passengers who still hold Ansett Global rewards points – 66 billion were lost when Ansett collapsed in September – will be able to use a percentage of the points with the purchase of tickets on the "new" Ansett.

The new management team will be headed by 45-year-old Australian-born James Hogan, who was formerly chief operating officer of UK carrier bmi British Midland. His chief financial officer is 39-year-old Adam Moroney, who was chief financial officer at Air NZ.

Hogan's task is formidable. Unprepared to speak publicly until officially taking up his new post on February 1, he has to take an airline that has flirted with liquidation and pit it against a Qantas that has more than 80% of the Australian domestic market.

Ansett will employ 4,000 staff compared to the 17,000 employees that worked for the original Ansett. Only 340 of the airline's original 600 pilots won their jobs back. Tesna has reached an agreement with five key unions that will deliver a much lower cost structure for the airline. It includes limits on pay rises and a profit sharing scheme that gives staff 5% equity in Ansett.

Some analysts are doubtful both Ansett and Virgin Blue can survive in the highly competitive Australian market, particularly if current economic conditions spark heavy price discounting and squeeze margins.

Australian no-frills operator, Virgin Blue, launching a discount campaign to counter Ansett's re-launch

Virgin Blue exceeded expectations with a pre-tax profit of more than US$4 million in the six months to September 30, in tough trading conditions. It has consolidated its position since the collapse of Ansett last September.

Virgin Blue, which employed 280 people when it commenced operations in August 2000, now has 1,500 staff and operates 350 flights weekly from its Brisbane Airport base, using 15 B737 jets.

Sources believed Ansett's new owners have budgeted for a loss of US$60 million in the first year of operations, a small loss or break-even in the second year and profits of around US$25 million in the third year. Fox and Lew also have flagged plans for a partial float of the carrier in three to five years. ■

Air NZ close to finding new boss

Troubled Air New Zealand (Air NZ), fighting to restructure and emerge from the worst financial battering in its history, is nearing the end of its global search for a new chief executive following the resignation of Gary Toomey last October.

Said Air NZ chairman John Palmer: "The board will take whatever time it needs to make the right appointment."

New Zealand businessman Roger France, who came out of retirement at his government's request to join the airline's board late last year, is managing the carrier until a new CEO is confirmed. New Zealanders tipped as a possible successor to Toomey include the chief executive of Television New Zealand, Rick Ellis, the Kiwifruit Marketing Board head, Tony Marks, and Air NZ's own vice-president planning and strategy, Andrew Miller.

Palmer dismissed suggestions Air NZ's future is bleak. "We have a choice: bankrupt the company now – or support commitments to rebuild a company of value," he said. Re-building was "both do-able and worth doing, crucial for shareholders and important for New Zealand".

Air New Zealand: "dangerously vulnerable"

The New Zealand Government owns 82% of Air NZ following a US$375 million bailout package that saw Brierley Investments' equity in the carrier drop from 30% to 5% and Singapore Airlines' 25% holding decrease to 5%.

Recovery will not be easy. A decline in international tourists and falling business travel numbers contributed to the carrier's shares being the worst performers among 22 airlines in the Bloomberg Asia-Pacific Airlines' Index in 2001.

Executive director France said the government re-capitalisation plan provided a bare survival platform and if the company did not act quickly it would fast become a burning platform. The short to medium-term priority is to gain financial flexibility through cost reductions, asset sales and debt reduction, he said.

The company's gearing ratio, now at 81%, left Air NZ "dangerously vulnerable to any further external shocks or performance downturns". The ratio should be 50% to 60%.

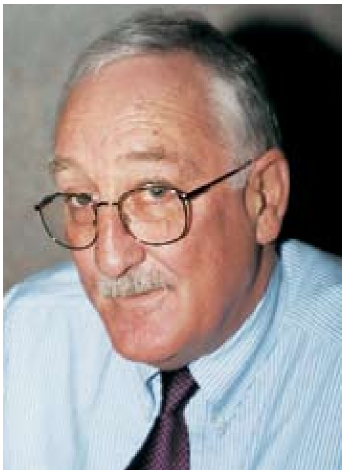
The airline's executive management team has been cut from 13 to eight as part of a cost saving programme. Discussions with unions about staff reductions are underway.■

Many of the tiny airlines of the beautiful South Pacific islands have been flirting with financial disaster for years, but with the global industry in crisis, they may finally have to accept the inevitable: co-operate or perish. TOM BALLANTYNE reports.

TROUBLE IN PARADISE

Royal Tongan Airlines CEO Semisi Taumoepeau: left Tongan tourist authority after 35 years to help airline stem losses

Air Pacific managing director and chief executive John Campbell: attempted coup in Fiji contributed to airline's first loss in 14 years



Polynesian Airlines chief executive, Richard Gates: he favours a commercially driven regional alliance

Royal Tongan Airlines chief executive, Semisi Taumoepeau, has no doubts the state-owned flag carriers of the South Pacific have reached a watershed in their turbulent history. "My feeling is if we don't co-operate and be really honest with ourselves, one, two or three small carriers will disappear," he stated matter-of-factly.

Talk of co-operation is hardly new, Taumoepeau conceded. But this time it is different. What has changed, he explained, is carriers have reached the edge of the cliff. "We must do something or we will fall over the cliff. That's the difference between now and 10 years ago. We must share resources. It is the only way. And we may have to swallow some of our national pride."

Taumoepeau, the new chairman of the Association of South Pacific Airlines (ASPA), was speaking as concern mounted that several of the region's carriers were close to collapse.

Last year he was called upon by Royal Tongan to save it from mounting losses after spending 35 years as head of Tonga's tourism authority.

There is a growing belief the only way forward may be rationalisation, involving a loose regional alliance, with island operators maintaining their individual brands, but expanding joint operations to slash costs.

Nearly every carrier in the region is experiencing financial hardship. Royal Ton-gan is now little more than a "virtual" airline. It has no jets, selling international seats only on code-share services with other carriers.

A leased Boeing B737-200 was returned after losses of US$1 million in 1999 and more than US$2 million in 2000. These are small amounts in global terms, but unsustainable for a tiny country like Tonga.

As recently as December, the single B737-400 of Air Nauru was grounded in Australia after the airline failed to pay a US$1 million maintenance bill owed to Qantas Airways.

Solomon Airlines also is in limbo. It has no aircraft and its market is being ravaged by an ongoing civil war.

Air Vanuatu is in dire financial straits and Air Niugini is fighting its way back to liquidity after almost going into bankruptcy little more than a year ago.

Samoa's Polynesian Airlines will an-

SINGLE AIRSPACE PLAN SCRAPPED

Plans by the scattered states of the South Pacific to forge a single, joint airspace regime have collapsed with island governments agreeing to halt action on the project.

The move follows a decision by two nations, Tonga and Samoa, to take control of their own airspace and designate Airways Corporation of New Zealand as their operator.

Their airspace was previously operated by air traffic control (ATC) in Nadi, Fiji. The International Civil Aviation Organisation (ICAO) recently acceded to a request from the two governments to take back control of their own airspace.

The development has come as a blow to the Association of South Pacific Airlines (ASPA), which lobbied for the development of a joint airspace system. With airspace over vast tracts of the Pacific Ocean handled by five different service providers, it believed there was uneconomic duplication of sophisticated ATC facilities and that rationalisation under a single provider would benefit airlines.

"Because ATC and overflights are a revenue generator for the providers, nobody is willing to throw away anything. Our concern was if we did not act collectively the situation would develop into an auction and that is exactly what is happening," said ASPA secretary general George Faktaufon.

"It is very disappointing because we will not be surprised if Nadi now starts to revise its overflight charges to make up for the loss of control of Samoan and Tongan airspace. This is what we have been trying to avoid."

nounce a major loss in the near future after several years of good results. Even Air Pacific, 47%-owned by Qantas, is suffering from woeful trading conditions. After 14 years of unbroken profitability, it reported a deficit of US$16.7 million last year.

Isolated to an extent from international political events, the South Pacific island scenarios are not a direct result of September 11, although the global airline industry crisis has "rung the alarm bell", said Taumoepeau.

Polynesian Airlines chief executive, Richard Gates, said carriers had been hit hard by record high fuel prices and weak currencies. With growth plans built around tourism expansion, September's events accelerated a decline in tourist numbers critical to South Pacific economies that had been detected as long ago as late 2000.

Air Pacific managing director and chief executive, John Campbell, said the bottom had fallen out of the Fiji tourism market after a highly publicised, but failed coup attempt last year.

Air Niugini's struggle for survival followed a series of local disasters, including a civil war in Bougainville and volcano eruptions in Rabaul in the mid-1990s that wiped out its most profitable domestic routes. Its operations were not helped by several years of bad management.

Now, airlines have been clobbered with soaring insurance costs. "Some premiums have gone up well in excess of 100% and some a thousand percent," said Campbell. "We have taken a US$1.5 million hit on premiums. We were paying premiums of around US$1.3 million [before September 11], but we are now practically up to US$3 million in premium payments."

With small Gross National Products (GDP), the island governments are unable to underwrite the guarantees airlines need to receive coverage of US$1 billion. In the case of Fiji, that would have meant the government risking five years worth of GDP.

A combination of all these factors finally appears to have convinced airlines they must do more than pay lip service to commercial co-operation.

Few believe a single, combined island carrier is the answer: Air Pacific was originally a joint South Pacific islands airline, but the concept floundered in the face of inter-island jealousies and political problems.

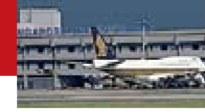
Air Pacific's Campbell said while some people may still have a "twinkle in their eye" about a re-born joint airline, it's an unlikely scenario.

Every country has a desire to have its nationals on flights of its own airline, he said. "A number of those desires and aspirations are just impractical in an airline context if it is to be mounted as a profit-making venture," added Camp-bell.

He believed growing bilateral ties are more likely. Air Pacific operates a large number of code-shares with carriers such as Air Vanuatu, Polynesian and Qantas. "We are in discussion about the possibility of introducing more work involving Air Vanuatu, Solomon Airlines and Air Niugini."

Said long-time South Pacific airline

Air Vanuatu: in serious financial trouble



manager and now chief executive officer at Air Niugini, Peter Roberts. “The airlines are brand names for their own country,” he said.

“But one brand cannot work the way it needs to. The operators have all started to recognise they can share resources, share aeroplanes and buy capacity from each other. We are more than happy to help in that regard.”

Gates saw the evolution of a regional alliance “in which the individual island’s identity is maintained in some form. There may be cross-border shareholdings, for example, but it must be driven on commercial rather than political grounds otherwise it will not work,” he said.

He did not believe the airlines would disappear because, in the main, Pacific airlines are owned by governments who support their carriers.

“The importance of these airlines to the economies of these small island states is absolutely critical. In the case of Samoa the airline is critical to tourism, which is the biggest foreign exchange earner. If the airline failed it would be disastrous,” said Gates.

However, it has not all been bad news. Problems in Australasian skies with the collapse of Ansett and Air New Zealand’s financial problems have brought a much-needed windfall to the small carriers.

Both Polynesian and Air Pacific have leased new generation B737s to Qantas to fill a need for capacity on New Zealand domestic routes. Air Niugini’s Roberts said a code-share with Qantas has been accelerated because of Ansett’s demise.

ASPA secretary general Faktaufon believes co-operation is also needed in areas such as maintenance, spare parts and training.

ASPA is working on a tactical plan for the regional industry. One option being discussed is foreign investment in its carriers. Qantas is a major shareholder in Air Pacific and Samoa is looking at the possibility of finding a strategic equity partner for Polynesian Airlines. Qantas, again, is a possibility.

However, Faktaufon pointed out attracting foreign investors will be a major problem. The airlines, with their limited home markets, are not appealing.

Another development that may push ASPA operators towards rationalisation is liberalisation of South Pacific skies. Island ministers agreed at a meeting of the Pacific Islands Forum in Apia, Western Samoa last year to endorse the principle of a single air services agreement among island countries.

It may take some time before it will be introduced, but the move would lay the groundwork for a strong regional airline alliance. ■

Singapore Changi Airport is one of a number of Asian airports to have reduced its charges to help airlines “weather the storm”. Asian carriers want Los Angeles Airport to follow suit.

Carriers call on LAX to freeze price hike

Angry Asian airlines have written to Los Angeles Airport (LAX) authorities protesting at a big rise in landing fees introduced in January in the midst of the global industry’s worst ever crisis.

Passenger carriers flying into the major U.S. West Coast gateway, previously paying around US$2 per 1,000 pounds of landed weight, are now being charged $2.47.

The Association of Asia Pacific Airlines (AAPA) wrote to Lydia Kennard, executive director of the airport operator, Los Angeles World Airports, expressing disappointment at the move and asked that the increase in landing fees and rental rates be frozen for the year.

Airports have been hit particularly badly by the aviation downturn, with hundreds of flights cancelled as international carriers trimmed operations to the U.S. It has been estimated that Los Angeles airport has been losing as much as US$1.4 million a day in revenue.

But AAPA director general, Richard Stirland, pointed out the industry is experiencing an unprecedented challenge to its viability in continuing operations in their current form and on the present scale, not only because of the global economic downturn which started in early 2001, but more importantly because of the aftermath of the September terrorist attacks in the U.S.

“We appreciate as a stakeholder in the industry, airports are similarly affected and are looking for ways to cover their costs through increased landing fees and rental charges.

However, there are airports, such as Singapore’s Changi Airport, Hong Kong International Airport and New Kansai Airport, that recognise the unique role airlines play and continue to play in the overall economic development of a country,” said Stirland.

He pointed out that these airports had chosen to reduce their charges to help airlines “weather the storm”, knowing that ultimately the survival and renewed growth of carriers will lead all stakeholders out of the depressed state they are experiencing.

“As the premier U.S. gateway for Asia-Pacific airlines, LAX [Los Angeles] has a unique opportunity to demonstrate its solidarity with other airports used by these carriers through similar action,” said Stirland.

He warned increased landing fees would only cause airlines to re-examine their frequencies to Los Angeles and delay resumption of cancelled services, leading to a downward spiral or reduced airport revenue and more increases in fees to cover the shortfall.

“We strongly urge the airport to consider alternative avenues for covering costs,” he said. ■

By Daniel Baron
in Tokyo

Narita under pressure to reduce charges

Will higher landing fees fly with airlines operating at Tokyo Narita airport? In 2001, the Narita Airport Authority (NAA) proposed an increase of 8.3% to what are already the world's highest international landing charges.

The International Air Transport Association (IATA) has urged NAA to scrap any hike and instead reduce charges by 15%, citing the general post-9/11 situation as well as Narita's strong financial results in 2000 and potential for even better results following the commencement of operations on the airport's long-awaited second runway.

The two sides are still negotiating the matter, aiming to reach an agreement prior to April 18, when the second runway is set to go into service.

NAA's proposal to raise user charges runs counter to the precedents set by other airports in the region, including Hong Kong International Airport and Singapore Changi Airport, which have reduced their own charges by 15% and 10% respectively.

The proposal might also appear unexpected in light of the airport authority's operating profit in fiscal 2000 of 10 billion yen (US$77 million). IATA's stance is that Narita's strong performance should enable NAA to reduce the burden on carriers, which have long complained that the airport is too expensive.

IATA is suggesting that the airport has also underestimated future revenue from the new second runway. "The slot conference in November showed us that the runway is already potentially over-subscribed," said IATA's corporate asistant director, for the Asia-Pacific, Anthony Concil.

"Revenue generated from the new runway will substantially contribute to the revenue for NAA and should have a net downward impact on overall unit costs."

Another issue on the negotiating table is how the airport's land is valued and how that valuation should impact user charges. "We are convinced that land at Narita has been over-valued and a more accurate evaluation should allow for us to reduce the overall cost base," said IATA's Concil. "Higher revenue, and a reduced cost base should not result in an increase in fees and more likely should result in lower fees."

An NAA spokesman did not elaborate on the airport's view towards a possible compromise, stating only "the rates...were calculated using estimated demands of flights and estimated expenditures incurred in the forthcoming five years."

Given the trend to reduce prices at other airports in the region, however, it can be assumed the NAA will attempt to reach an agreement that does not leave it looking insensitive to users following the most dramatic drop in boardings since the Gulf War.

Narita saw passenger numbers plummet after the U.S. terrorist attacks in September. The airport authority reported that November 2001 numbers were down 32% from the previous year. Carriers were swift to react, particularly those with no onward feed to the rest of Asia. Delta Air Lines axed its services from Narita to U.S. cities Portland, Los Angeles and New York, leaving only Narita to Atlanta. American Airlines has scrapped Narita to Seattle.

Nevertheless, after a nasty fall, demand at Narita is bouncing back. High-yield traffic in the transpacific market is recovering slowly but surely and Spring will bring with it Japan's Golden Week holidays (end of April), by which time pent-up demand for an escape from domestic economic gloom and doom is likely to induce Japanese travellers to head abroad in droves once again.

Indeed, Japan Airlines (JAL) has announced its return to the Narita-Los Vegas market in March, a sign that the ultra-risk-averse Japanese are ready to party again. United Airlines plans to reinstate a second-daily Narita-Chicago service and All Nippon Airways (ANA) is itself considering a return to Chicago, while maintaining its existing code-share with United.

Carriers using the airport have also anticipated a large increase in demand on intra-Asia routes, whose passenger numbers have, according to several airlines, recovered comparatively quickly. This would add strength to IATA's argument that revenue from the new runway should render a user charge increase unnecessary.

ANA expects to bump up its slots at Narita from 90 to 140, with most of the new ones for intra-Asia services.

JAL, with the opening of the second runway, expects to increase flights by 20%.

Singapore Airlines also plans to take advantage of new landing slots from April for three additional weekly frequencies between Narita and Singapore. ■

Narita airport: second runway 'should have a net downward impact on overall unit costs'

Crime, a help and hindrance for Philippine helicopters

By Rene Mallari in Manila

Helicopters have proved a popular mode of transport with corporate customers in the Philippines who want to avoid traffic congestion in the cities and the threat of kidnappings.

But in recent times the helicopter business has felt the heat as the economic recession has forced many of its clients, including San Miguel Corp., Philippine Long Distance Telephone Company, the Ayala Group of Companies, JAKA, Cementos Mexicanos and the Lucio Tan group of companies into belt-tightening mode.

Philippine-based companies utilise about 30 helicopters, fewer than the 50 units they had five years ago, according to Chris Mesias, president of the Helicopter Pilots Association of the Philippines (HPAP), an association of 90 Filipino pilots.

"Since January 2001, six of the helicopters have been sold to overseas buyers because many companies found it costly to maintain them, mainly because of their internal cost-cutting efforts and the peso instability," he said.

Since the Asian financial crisis in 1997, the Philippine peso has dropped to as low as 56 to a U.S. dollar (at the height of the former president Estrada gambling scandal) from 27. "Everything spent on the helicopters is in U.S. dollars from oil to spare parts," said Mesias.

Companies use the helicopters to transport their top executives between office rooftops for business appointments as well as for plant and factory inspections. "It's the best way for them to avoid Manila's daily traffic congestion," added Mesias.

More importantly, helicopters are being operated for security purposes. The Philippines has a growing number of kidnappings, many unresolved, of mostly wealthy Filipino-Chinese and foreigners.

Last year, 88 kidnappings were reported, according to the Philippine national police, half of which were Filipino-Chinese victims while 18 were foreigners.

The crime situation also has eroded the country's helicopter charter business as frightened tourists have stayed away, said Danilo Belonia, chief pilot of Cebu Pacific, the Philippines' second international carrier and a helicopter operator.

Visitor arrivals fell 7.6% to 1.4 million during the first nine months of 2001 from 1.5 million the previous year, according to the Department of Tourism.

The Philippines' six licensed charter service companies – Royal Star Aviation, Ayala Aviation, Pure Gold, Jaka, Aircraft Overseas of the Philippines, and Cebu Pacific – saw their revenue decline last year, said Belonia.

Cebu Pacific: the Philippines' second international carrier and one of six licenced charter helicopter companies operating in the country

The September 11 attacks in the U.S. were the final nails in the coffin. "After that, we only had about 10 hours of flights a month," he said. At its peak, a charter service company could be booked for more than 30 hours a month. Business usually picks up at the beginning of the year until May. The rest of the year is slow because of the rainy season.

Following the World Trade Centre attack, Japan's Ministry of Foreign Affairs placed the Philippines on alert level one on September 17. "This is bad news for the tourism industry as the Philippines is one of the top draws for Japanese tourists," said Mesias.

The U.S., the Philippines' largest tourism earner, also issued a travel warning, classifying the country as a security risk. Tourists from both countries were well down on 2000.

In general, a charter service company charges about P30,000 (about US$580) an hour. Most clients, Belonia said, are tourists and expatriates. "We are primarily dependent on foreign clients."

Many overseas business people stayed away in 2001. With the global economic recession, the Securities and Exchange Commission (SEC) reported more than a 50% drop in foreign direct investments (FDIs) in new and existing domestic corporations last year.

Despite the setbacks, Mesias hopes that the industry will recover in 2002. "It's all economics. If the economy picks up this year, then the aviation business, including helicopters, will rebound," he said.

His optimism could be rewarded. Analysts have projected the domestic economy to rise sharply in the second quarter as the U.S. economy improves.

Improvements in peace and social order, highlighted by the expected downfall of the Abu Sayyaf Muslim extremists in the southern Philippines, will enhance foreign investment and tourism and the business environment in general.

Belonia said there was plenty of room for growth in the helicopter charter business. "The Philippines geographic set up (with thousands of islands scattered across the archipelago) makes it favourable for helicopter charter companies in the long run," he said. ■

A NEED TO CHANGE EMPHASIS

Cabin reconfigurations will become a way of life, says Cathay Pacific Airways and HAECO chief. JONATHAN SHARP reports.

No airline is too big to fail, Cathay Pacific Airways chief executive David Turnbull has warned, and pinpointed the first quarter of 2002 as a period of acute danger, not just for Asian operators, but for all airlines as a result of the global economic downturn and the impact of the September 11 disaster in the U.S.

And that was bad news for the maintenance, repair and overhaul (MRO) business, Turnbull told delegates at a recent MRO conference in Hong Kong in a characteristic no-nonsense address.

"I think the weakness of the economies will really come home to roost in that (first) quarter.

"And all of this will have a direct impact on the MROs, by virtue of the fact that clearly airlines are reducing capacity, they are taking aircraft out of their fleets, they are reducing frequencies and that will reduce the income for engineering companies. Old aircraft are being parked and many of those aircraft will not re-appear."

MROs may love the business old aircraft bring, said Turnbull, who is also chairman of Cathay's sister company Hong Kong Aircraft Engineering Company Limited (HAECO). But old aircraft are not good for airlines.

Illustrating his theme, Turnbull noted the dramatic decline in aircraft values. "A Boeing 747-200 passenger aircraft you could sell a year and a half ago for US$20 million. Today you will be lucky to get two (million dollars) for it."

Turnbull noted that Asia, having endured the financial crisis of the late 1990s when other parts of the world flourished, was suffering a particularly hard time.

"We have gone from trough to trough in the space of three years. We had only one wonderful year and that was the year 2000. So now we are back to the same hole that we were in before. This part of the world has taken some huge hits," he said.

So what is the way out of the hole? Turnbull said MROs would have to shift their emphasis. For example, cabin recon-figurations will become an increasingly significant part of life. "Premier airlines that are keen on maintaining their product will continue to upgrade, and that will be an important source of business," said the Cathay chief.

'We are still getting today the same man-hour rates that we got 10 years ago and therefore low-cost areas like China will be at the forefront of growth in the future' – Cathay Pacific Airways chief executive and HAECO chairman, David Turnbull

In addition, the freight market will continue to grow in the long term, even though world trade is presently depressed.

While new freighters are expensive, conversion of narrow and widebody aircraft into freighters will be a big market.

Turnbull also recorded some positive outcomes of the downturn, with consolidation being forced on MROs and the establishment of joint ventures with orginal equipment manufacturers (OEMs). "But," he said, "we will need to create more of these partnerships."

The engineering sector of the aviation industry had always been more co-operative than airlines, he said and added: "Even the fiercest competitors will co-operate on the engineering side. But on the commercial side, airlines fight like cats and dogs, hardly talking to each other."

A major development had been the independence that MROs or engineering divisions of airlines were receiving from their parents. "Clearly that has given much needed visibility to the cost of doing maintenance. Before, frankly, for many airlines it was a black hole. Many airlines had no idea how much it cost to maintain their aircraft," said Turnbull.

In today's more competitive environment, margins for heavy maintenance were very depressed and had barely risen in the past decade.

"I think we are still getting today the same man-hour rates that we got 10 years ago and therefore low-cost areas like China will be at the forefront of growth in the future. In high-cost areas it will be very difficult to make a profit."

While some high-cost areas would continue to "do OK" because they had captive customers, Turnbull noted that in China labour costs were a quarter of what they were in Hong Kong and land costs were 30-40% less. "As you know, hangars take a lot of land."

MROs needed to focus on adding value rather than just providing labour, said Turnbull "and clearly joint ventures with OEMs are part of that story."

MROs had practically no alternative to linking up with OEMs, which were keen to enter the after-sales market, said Turnbull. "They have seen that the upfront profit from selling a bit of equipment is very small – sometimes it's a loss – and the money is to be made in the 10 years of that bit of equipment's life."

While the MRO market was growing, Turnbull warned about over-estimating its size. "It's easy to get carried away. Once you have committed a lot of capital to building hangars, and the tide of the market has turned against you and you have overbuilt, then you really have a problem."■

'MROs NEED TO FOCUS ON ADDING VALUE RATHER THAN JUST PROVIDING LABOUR... JOINT VENTURES WITH OEMs ARE PART OF THAT STORY'

Ansett's maintenance division has had to change tack to handle a much smaller Ansett Mark II after splitting from the joint operation with Air New Zealand

Ansett maintenance facility up for sale

By Tom Ballantyne

The maintenance division of Ansett Australia is up for auction as the Australian domestic airline strives to re-establish itself as more than a temporary player in the country's aviation industry.

As prospective new Ansett owners Solomon Lew and Lindsay Fox awaited final approval of their acquisition in late January it was revealed the re-born carrier planned to commit to a two-year contract with the existing maintenance operation, whoever ends up as owner.

The operator's engineering arm is under the control of Ansett administrators, the Arthur Anderson company, which plans to sell the operations as a stand-alone business. If the Lew/Fox grouping, known as the Tesna Syndicate, succeeds in acquiring the airline it would end up owning the maintenance hangars at Melbourne's Tullamarine Airport, but it would provide a four-year lease on the facilities to the maintenance company.

According to insiders, there has been some interest in a purchase, but it is understood a sale could be some way off. Ansett engineering has a wealth of expertise in both Airbus and Boeing aircraft, but has been through a very rocky 12 months.

Maintenance operations of the airline came under a safety microscope during the year after several lapses involving required checks on B767 jets. These led to the grounding, at one time or another, of Ansett's entire B767 fleet.

Much of the blame for the slip-ups was placed on the complexity of attempts by former owner Air New Zealand (Air NZ) to integrate the engineering operations of Air NZ and Ansett, a tricky strategy that, it is suspected, led to some areas of the engineering division losing focus on the main job at hand.

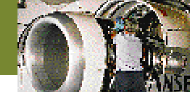
Since the collapse of Ansett, engineering management in Melbourne has had to change tack again, concentrating on retaining expertise and providing maintenance for the far smaller interim Ansett Mark II.

It is understood Australia's Civil Aviation Safety Authority (CASA) has indicated it will be taking a close look at the maintenance arrangements for the Lew/Fox airline operation, which involves leasing new A320 aircraft from U.S. operator, United Airlines.

These aircraft have engines that have not been operated in Australia and engineers will have to be trained to work on them.

A CASA official commented privately that "there are some sensitivities over making sure the relationship between the new airline and the maintenance people is adequately covered".

Ansett's maintenance lapses, however, led to a total reorganisation of its engineering procedures and the airline's maintenance operation continues to be held in high regard overseas.■



MTU Zhuhai thinks big

The building blocks are falling into place for mainland China's biggest aero engine repair and overhaul shop, even though the building itself in the booming Pearl River Delta region of Zhuhai has yet to be completed.

Walter Strakosch, president and chief executive officer of MTU Maintenance Zhuhai, a 50-50 partnership between DaimlerChrysler's MTU Aero Engines and China Southern Airlines based in nearby Guangzhou, is confident the project will meet its advertised schedule to receive its first engine during this year's Zhuhai air show in November.

Late last year a US$13 million contract was signed with Pratt & Whitney CENCO for supply of a test cell that, initially at least, will handle V2500 and CFM56-3 engines.

"These two engine types have a high population inside China and also inside Asia," Strakosch said. But he says that is not the end of the story for the US$180 million project, which is a step in the German partner's extension of its global presence. "We will carefully monitor which engines will have a high population in the future" and expand the range of capabilities accordingly, he said.

The test cell has the capacity for much larger engines such as the newly announced GE90 upgrade with 120,000 pounds of thrust. "That will be no problem for this test bed."

Strakosch said that by 2005 MTU Maintenance Zhuhai would be able to test 200-250 engines a year. "Expansion might be necessary at the end of this decade and it is easy to do." He speaks of possible expansion to 300-330 engines a year, predicated on what he, and many others, see as encouraging prospects for Chinese commercial aviation.

He said that business from partner China Southern Airlines, plus the two airlines it is teaming up with under the restructuring of Chinese carriers into three large groups, would keep the facility busy for the next several years. The breakeven point is forecast for 2005 or 2006.

The venture's website even speaks of eventually offering capabilities for Rolls-Royce Trent engines, but Strakosch said that is not on the agenda. "At the moment we do not think about Trent engines. That is a good job HAESL [in Hong Kong] can do." ■

'Huge step' for Sichuan Snecma

Christmas arrived a little early for Sichuan Snecma – on December 10 to be precise when the engine maintenance concern received FAA certification for CFM56-3 engines, the company's core business.

"For us it is a huge step," said Patrice Perreau-Saussine, general manager of the young joint venture employing 200 staff in Chengdu, capital of China's Sichuan province. The certification means that, for the time being at least, the company is the only one thus certified for this particular engine in China, where 350 are currently in operation, with many leased from foreign owners who require the FAA's stamp of approval.

However Sichuan Snecma, which already had certification from the Civil Aviation Administration of China (CAAC), has a long haul ahead of it before it can dream of scooping up more than a fraction of the potential work available.

In 2001, a total of just 12 engines were overhauled by Sichuan Snecma, which is a joint venture between France's Snecma Services (51%), China Southwest Airlines (35%), Willis Lease Finance of the U.S. (7%) and Beijing Kailan Aviation Technology (7%).

As Perreau-Saussine acknowledged, this is not a satisfactory level of business and the company is boosting its sales staff to help it achieve its aim of a 30-40% increase this year plus similar growth next year, when he thinks the company will start to be profitable.

To fulfill this ambition Sichuan Snecma is in discussions with the FAA to extend certification to all CFM engines by the end of this year. In addition, Perreau-Saussine expects to have JAA certification by the end of the first half of this year.

"Today our goal is first to extend our market in China before reaching overseas," said Perreau-Saussine, aiming, for example, at Chinese national flag carrier Air China, which is teaming up with Sichuan Snecma's partner China Southwest in the somewhat laboured consolidation of key mainland airlines into three principle groups.

Sichuan Snecma also is in discussion with China Southern Airlines, which will head one of the enlarged groups, to handle one of its engine types that require the FAA certificate.

As part of the company's full 2002 agenda, Sichuan Snecma is investing US$3 million in a cleaning station that is due to open in August this year, enabling the facility to clean 98% of engine parts as opposed to the present 35%.

The company is focusing on repair of engine parts, concentrating on equipment that requires a lot of manpower rather than expensive technology that Sichuan Snecma is not in a position to afford.

With this factor in mind, Sichuan Snecma is looking to outsource repair work to companies in, for example, Singapore and Malaysia, instead of sending parts back to France as at present, thereby cutting transport times and the all-important costs. "We want to arrive at a 15-20% decrease in costs compared to now."

The company also is talking with MTU Maintenance Zhuhai, the Sino-German joint venture in the southern Chinese Special Economic Zone of Zhuhai and a potential future competitor.

Under a possible exchange arrangement, Sichuan Snecma would send parts to the much larger facility in Zhuhai for repair in return for engines sent to Chengdu.

"I think it would be stupid to develop high-technology repair operations in both facilities. Why not share the market?" said Perreau-Saussine. ■

JONATHAN SHARP assesses the fortunes of China's two largest MROs, GAMECO

GAMECO changes course

If you want to know more about the issues facing the MRO industry in China at a pivotal period in its development, listen to Dan Lange, general manager of GAMECO (Guangzhou Aircraft Maintenance Engineering Co Ltd).

The pressure is on the southern China MRO. Not just because of the workload at GAMECO – although that's heavy enough at present — but also because of complex strategic steps that are being taken to rationalise and consolidate its business with its 50% stakeholder, China Southern Airlines.

These moves are in many ways a microcosm of the tortuous restructuring that Chinese aviation is undergoing, including the merging of airlines with China Southern and two other airline groups, to correct glaring inefficiencies stemming from the breakneck and fragmented growth of the 1990s.

A year ago GAMECO, whose other partners are Lockheed Martin Aeronautics Service-International (25%) and Hutchison Whampoa (China) Ltd (25%), was looking outside the immediate China Southern group for acquisitions to drive expansion. But the policy direction changed at board and shareholder meetings in March and April 2001 when it was decided that the more sensible way forward was to focus on how better to use the existing, scattered China Southern branches and subsidiaries currently performing maintenance work.

"It makes an awful lot more sense than going out and buying assets when China Southern already has those assets," Lange told *Orient Aviation*.

A decision on changing strategy is one thing. Implementation is quite another. A study commissioned from PriceWaterhouseCoopers demonstrated that substantial reduction in China Southern's maintenance costs and bringing them towards industry norms could be achieved through consolidation.

"One of the things that was necessary was to demonstrate to China Southern how inefficient the system was and what it was really costing them. They did not truly understand what the cost was. All they ever looked at was the labour cost, they didn't look at the total cost."

Lange said the study was favourable to GAMECO, helping the company to fend off long-standing airline criticisms that its charges for work were too high.

"We are in the discussion phase. We hope that in the next few months we are going to see a conclusion as to how we are going to proceed and then put together a detailed plan on proceeding together." So far so good, but as Lange added: "Now the question is how to get over the tough issues."

Principal among these – and it's a common problem throughout China as it struggles to modernise – is what to do with surplus staff who are at present underemployed at China's subsidiary facilities. "You don't do A-checks at every single branch and every subsidiary, because it's extremely inefficient," said Lange.

Centralisation is the obvious answer, but transferring staff from outlying areas to GAMECO means sorting out problems relating to different pay and benefit systems for employees.

Lange cites other issues. "They have got excess assets in the system, so what's going to happen to the assets that we don't need? They have excess materials. How are we going to bring the invento-

No recovery until 2003 – Heerdt

Ameco looking to expand third party work including the servicing of regional jets

Walter Heerdt, general manager of the Air China-Lufthansa Technik joint venture Ameco Beijing, says he knew of two cases of Asians "buying" work at loss-making rates in the post-September 11 era just to keep their hangars busy.

He did not say who they were, except that they do not include his own company. However, he acknowledges that times are tough and 2002 is not going to be a bumper year by any means. In fact he is forecasting Ameco's revenue will reach only the 2001 level of RMB1.2 billion (US$145 million).

Heerdt also is circumspect about the near-term prospects for the global aviation industry, contrary to some of the more bullish projections of a rapid

and Ameco

ries down to a reasonable level?

"And of course there are a lot of people in the branches and subsidiaries that have built up their own little fiefdoms and now you are talking about tearing down those little fiefdoms. Politically that is a very difficult issue for China Southern."

The entire consolidation process, taken step by step, could take three to five years – that is if it is approved.

"But let me put it this way: some form of consolidation will probably take place, it almost has to. It depends on what is consolidated within China Southern and what is consolidated within GAMECO," said Lange.

One project that seems to be posing fewer hurdles for GAMECO and China Southern is setting up a two-bay hangar operation in the city of Chengzhou, Henan province, acquired by China Southern when it took over a small local airline over a year ago.

The hangar's structure had been basically completed, but work halted when the local airline ran out of money. The plan now is to start a Boeing 737 C-check capability in March.

The Chengzhou operation is important because it will bring in third-party business that otherwise would have to be turned down as GAMECO's current growth capabilities are constrained by its existing facilities at Guangzhou's Baiyun (White Cloud) airport.

GAMECO may have to face constraints at its current home beyond 2003 because of building delays at the New Baiyun International Airport. Insert: general manager, Dan Lange

Those constraints will ease with the opening of Guangzhou's new Baiyun airport, where GAMECO is investing more than US$100 million on a four-bay facility.

Officially, the new airport is to open in 2003, but Lange sees signs of slippage and his expectation is the opening date will be early to mid-2004. "I think they were overly optimistic," he said.

Lange disagreed with some of his industry colleagues that China faces a problem of MRO over-capacity. "We are loaded – overloaded. About the only over-capacity that I can think of resides in Beijing," he said.

"We are so full we can't take all the business that's offered."

About 80% of GAMECO's business comes from China Southern. Lange says the focus is likely to remain on China , at least until more international carriers come to Guangzhou. "Basically we are so full that the cost of chasing international business doesn't make sense to us," he said.

'V-shaped' rebound.

"I personally don't expect a real recovery in 2002. I am sure this will take until 2003," said Heerdt.

He pointed to obvious opportunities for MROs once recovery takes shape, even though there is normally a six-month time lag before MROs benefit from an airline rebound.

Right now, many aircraft are being flown up to the time limit before maintenance checks are due and then parked. "A lot of airlines, when they see the light at the end of the tunnel, are going to take out the aircraft they parked in the desert, creating a peak in business, because these aircraft have to be made operable again," said Heerdt.

In fact some airlines may activate their aircraft early in anticipation of recovery. "So for us, I am not sure we will see a six-month delay after recovery," he added.

The downside is that a number of older aircraft, such as DC-10s and Boeing 747-100s will never fly again.

Heerdt gives China credit for learning the lessons of over-capacity by launching its drastic restructuring of airlines under three big groups led by Air China, China Eastern Airlines and China Southern Airlines.

"It may happen a little bit slower than somewhere else, but it will happen," he said.

Reviewing Ameco's business, Heerdt said 75% of the work came from domestic customers with just over 50% from joint venture partner Air China.

The rest of the business is from overseas, a market that Heerdt would like to expand. Even if some international business is lost post-September 11, Ameco should be able to at least partly compensate with work from Chinese carriers, particularly as there had been no downturn in China in fleet growth or aircraft utilisation.

Ameco's target remained to earn 50% of revenue from Air China, 20% from other domestic carriers and the remaining 30% from overseas.

Low labour costs remain an advantage for MROs in China, although that edge may be diminishing. Heerdt said Ameco's labour costs had risen 1,000% in the past 11 years – admittedly from a low base.

Another attraction of doing business in China – low land costs – is being eroded as the economy continues to show Asia's highest growth rate.

Looking ahead, Heerdt said Ameco was looking at focusing on developing capabilities for work on narrowbody Airbus aircraft, a growing fleet in China.

He said Ameco had offered three slots from the second quarter of 2002 for conversion of Boeing 747 combi aircraft to full freighters. The facility also was considering offering work on regional jets, for which there will be growing demand, particularly as China develops small airports in the undeveloped west of the country.

"China has said there will be 500 (RJ) units in the next 15 years," said Heerdt.

The present Air China/Lufthansa Technik contract covering Ameco expires in April 2004. Already, negotiations to renew it have started.

Air NZ, P&W venture battles on

By Tom Ballantyne

When Air New Zealand (Air NZ) and Pratt & Whitney (P&W) launched an ambitious maintenance, repair and overhaul joint venture at the Auckland-based national flag carrier's Christchurch engine shop in April last year, officials aimed to make the facility a major regional hub for a variety of engine types.

The partners were hardly to know the following six months would plunge them into a fight for survival.

However, the impact of the September 11 U.S. terrorist attacks was not the only blow for the Air NZ – P&W joint venture.

In the same week as the attacks in New York and Washington, Air NZ's wholly-owned subsidiary, Ansett Australia, collapsed. And because Air NZ had spent months integrating Air NZ and Ansett's maintenance divisions into a single entity, that in turn contributed more problems to the start up of the new venture.

"It has been a very difficult time," said Bill Jacobson, who was general manager of the then Australia & Air New Zealand Engineering Services (ANZES) and is still head of Air NZ engineering.

Nevertheless, he believes the P&W joint venture has a good future.

The project provides engine overhaul and repair services for all Pratt & Whitney JT8D and Rolls-Royce Dart engines. It had planned to expand both those services and introduce International Aero Engines (IAE) V2500 engines.

Plans were progressing well until September 11, said spokesman Barry Geddes. "Following the terrorist attacks the V2500 was put on hold and the JT8D business suffered a temporary but substantial setback. The Dart business increased 50%, partly because of work required by an airworthiness directive."

The staff levels of the venture were cut by 12% in October as JT8D business dropped between 60% and 70% after September 11. "In general terms, JT8D operators have had a tough time but the JV has been fortunate in that our customers have faired better than most. We have even gained several new customers in this difficult time and there are now clear signs that we will be back at least to 70% of pre-September levels early in 2002," said Geddes.

The V2500 is still on hold, but the workshop is secured and the land has been acquired for the test cell. The project is being reviewed early in 2002.

In the meantime, some staff have been seconded to Air NZ's engine centre in Auckland. A small number of personnel have been transferred to the P&W/Singapore Airlines plant in Singapore.

The project has built upon the success of the Air NZ Christchurch engine facility, which had already been attracting third party work for more than 10 years, said Jacobson. He said Christchurch's fully equipped B727 and B737 -200 to -800 and B767 aircraft maintenance facility is a virtual one-stop shop for airframe, engine and component repair. ■

SR Technics 'here to stay'

SR Technics (SRT) has a message for its Asian clients, indeed all its customers worldwide, and it wants it to be heard loud and clear, **writes Barry Grindrod**. It is, quite simply, that despite the fact that the Swissair Group and its carrier, Swissair, sought protection from creditors (Chapter 11) in October and the knock-on effects of the September 11 terrorist attacks in the U.S, it is "business as usual".

The Zurich-based MRO company is still performing to the high standards in airframe, engine and component services for which it has become known over the years, its management stress.

However, as with other Swissair Group subsidiaries like IT company Atraxis (already sold to EDS), caterer Gate Gourmet, ground handler Swissport and airport retailer, Nuance, SRT is up for sale and many big names in the MRO business have expressed interest in buying it.

SRT's work with Asian airlines dates back to the early 1960s. It started with Douglas aircraft and added Airbus to its portfolio in the 1980s.

In 1996, it established a representative office for the region in Hong Kong. It was a gamble at the time, but executive director Asia-Pacific, Erwin Stillhard, who opened the office six years ago, said being "on the ground" has paid dividends for the company.

None more so than in 1999 when SRT struck its largest deal in the region by signing a 15-year power-by-the-hour contract with Cathay Pacific Airways to maintain its 49 CFM56-5C4 engines that power its fleet of A340-300 jets.

The MRO is now in discussion with the airline for full support for three A340-600s scheduled for delivery in the next two years.

SRT's client list in the region includes Thai Airways International – its biggest customer by volume – China Airlines, Malaysia Airlines, Korean Air and Japan Airlines.

Garuda Indonesia is one of its longest serving clients and SRT has recently completed the first four of six A330 4C-Checks.

The company also has had a close relationship with China's airlines over the years. Today, SRT has a sales and marketing representative for China, Pascal Picano, also based in the Hong Kong regional office.

China Eastern Airlines (CEA), flag carrier Air China and China Northern Airlines are SRT's major clients. It carries out MRO work on P&W4000, CFM56-5B, -5C and -7 engines and component support and does major checks such as C and D/4C checks of CEA's widebody aircraft.

"Following the upheaval with our parent company in October its understandable that our customers wanted reassurance about the future of SRT.

"The fact is nothing has changed. It is business as usual. That has been good news for everyone," said Stillhard. ■

By Jonathan Sharp

HAESL spreads its customer base

Business at Hong Kong Aero Engine Services Limited (HAESL), in Hong Kong's New Territories, will not boom in 2002, but nor has the company suffered dramatically as a result of the September 11 attacks, according to HAESL chairman Ian Lloyd.

"The whole industry is facing difficult times, but we (at HAESL) are not going off the edge of a cliff in 2002. We are going to stay flat," Lloyd, Rolls-Royce's managing director-aero repair and overhaul, told *Orient Aviation*.

The company is majority owned by Rolls-Royce and Hong Kong Aircraft Engineering Company Ltd (HAECO), each with a 45% share, together with Singapore Airlines Engineering Company Ltd (SIAEC), at 10%.

"HAESL is fortunate in that the mix of fleets it is supporting has not been catastrophically affected by September 11th."

He said that of the 1,000-plus aircraft that had been parked since the disaster, many were older, less efficient aircraft and well over half were Pratt and Whitney-powered.

While aircraft with Rolls-Royce engines also had been retired, the British firm had suffered less than other manufacturers because the average age of the Rolls-Royce fleet was about eight years, Lloyd said.

HAESL has spread its customer base since it opened in early 1997 when 98% of its business originated in Hong Kong from Cathay Pacific Airways and Dragonair. In 2001, the Hong Kong element was 48%. Other customers have included Mainland China airlines and operators in Thailand, Malaysia and as far afield as the Gulf.

HAESL, which Lloyd described as a key step in Rolls-Royce's huge expansion into the engine servicing business, boasts a 130,000 lb thrust large fan test cell at its Tseung Kwan O facility, the first of its kind in Asia and one of the largest in the world, for handling the Trent engine series as well as the RB211 series.

Some business also has come from Singapore, although from 2002 that presumably will be handled by a new Rolls-Royce joint venture with SIA Engineering Company Ltd (SIAEC), Singapore Aero Engine Services Ltd (SAESL), expected to be formally launched at the Asian Aerospace air show in Singapore in late February.

"The logic says there will be enough Trents in this region to provide a base load for those shops," said Lloyd.

Explaining the rationale for establishing the Asian ventures, Lloyd said when Rolls-Royce was developing the Trent in the early 1990s, it was decided it was not going to just build the engine, but also build the infrastructure in the regions where the engine was going to sell.

'HAESL is fortunate in that the mix of fleets it is supporting has not been catastrophically affected by September 11' – chairman Ian Lloyd

"We weren't expecting the world to send its Trents to Derby. We wanted to be first in the market. We weren't going to let independents, even if they did appear, to get there first," he said.

Rolls-Royce will not have a lock on Trent business for ever. Lloyd said at least one of the customer airlines – in Europe – would add Trent capabilities in the next 3-4 years.

He rejected suggestions that HAESL's location, about one hour's drive from Hong Kong International Airport, had presented logistical or security problems, even with engines as huge as the Trent. "About 150 engines have made the journey this year (2001) without falling off a truck or becoming something that the newspapers will write about," said Lloyd.

Rolls-Royce's Asian focus is not confined to dealing with mammoth engines. On September 28, 2001, a joint venture was opened in the Philippines to deal with minnows – the Rolls-Royce Model 250 helicopter engines.

Lloyd said about 17,000 of the engines were flying around the world and Rolls-Royce reached a meeting of minds with the Philippine Aerospace Development Corporation on capturing at least a small part of that market in this region. The venture, Rolls-Royce Engine Services Limitada Inc., is an 80-20 split in favour of Rolls-Royce and currently employs 12 staff.

That workforce may expand if plans to handle Rolls-Royce 756 engines that power the Lockheed Martin C-130 come to fruition. ■

A Trent 800 engine under inspection at HAESL's Hong Kong facility

AEROSPACE FORUM
航空航天論壇

CIVIL AVIATION IN ASIA: 2002 CHALLENGES ... 2020 VISION

AN EXCLUSIVE ROUNDTABLE DIALOGUE & LUNCH ON MONDAY FEBRUARY 25, THE EVE OF ASIA AEROSPACE 2002, IN SINGAPORE

The Operators: Participants invited from Singapore Airlines, Cathay Pacific, Korean Air, China Airlines, Qantas Airways, Virgin Blue, China Southern Airlines and Shandong Airlines.
The Manufacturers: Participants invited from Airbus Industrie, Boeing, G.E. Aircraft Engines, Rolls-Royce, Pratt & Whitney, Embraer, Bombardier and Fairchild Dornier.

Agenda:

- September 11: the security and commercial implications in the Asia-Pacific for operators, suppliers, investors and service providers ... 2002 challenges
- Airline ownership and alliances: the way ahead in the Asia-Pacific, passenger-pleasing policies vs investor pleasing profits.
- Market projections and product predictions from the manufacturers and lessors. Standing over their revised forecasts post September 11.
- Global industry trends - Asia-Pacific variances ... 2020 vision.


Joe Sutter

Venue: Fullerton Hotel, Singapore 10:30 - 16:00 hrs, Monday February 25, 2002
Hosted by the China (HK) International Aerospace Forum.

Speakers from IATA, Association of Asia Pacific Airlines, S.A.L.E., I.L.F.C., Goldman Sachs, J. P. Morgan

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Official publication: Orient aviation

OCTOBER, 2001 STATISTICS

DEPRESSING

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

October, the first month to suffer the full impact of the September 11 terrorist attacks in the U.S., inevitably produced depressing traffic figures for Association of Asia Pacific Airlines (AAPA) member carriers.

AAPA consolidated revenue passenger kilometres (RPKs) and the number of passengers carried (PAX) fell by 22.1% and 16.1% respectively. Capacity was reduced 3% year-on-year, sending the load factor spiraling down by a massive 14.6 percentage points.

The load factor for the month was a dismal 59.8% – the lowest in a decade. It was unprecedented and the magnitude of losses in passenger traffic eclipsed the losses recorded in September.

The two Japanese carriers, Japan Airlines (JL) and All Nippon Airways (NH) experienced the largest drop in RPKs. Both carriers, exposed to the steep fall in transpacific traffic, saw their RPKs fall by more than 40% year-on-year.

Seven other carriers suffered a double-digit RPK decline, ranging from 10.6% (Philippine Airlines – PR) to 23% (EVA Air – BR). The RPK decrease for Garuda Indonesia (GA) and Thai Airways International (TG), 7.7% and 9% respectively, was less severe under the circumstances. On the other hand, Royal Brunei Airlines (BI) and Vietnam Airlines (VN) neither which have transpacific routes and are least exposed to the events of September 11, posted double-digit RPK growth in October.

Despite cutbacks in capacity, many carriers still struggled to fill seats. All carriers, with the exception of Royal Brunei Airlines, suffered from a sharp decline in passenger load factor (PLF). This ranged from EVA Air's relatively modest 2.9 percentage point decline to All Nippon Airways' 28.3 percentage points fall in PLF.

Thai Airways International: highest load factor among AAPA carriers in October

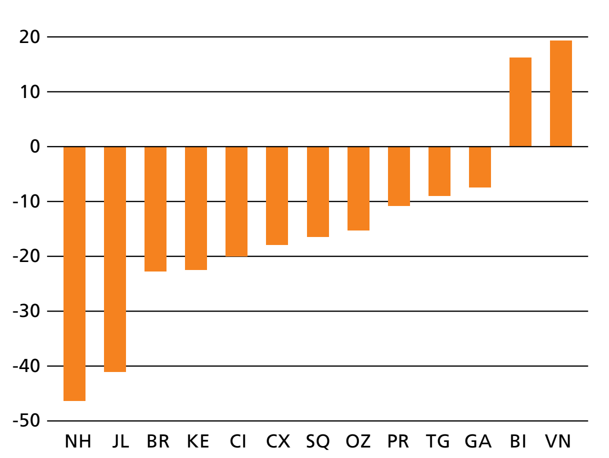
Thai Airways International recorded the highest load factor among AAPA carriers in October with 66.4%. There were eight other carriers with a PLF over 60%: EVA Air (64.5%), Cathay Pacific Airways (CX – 64.5%), Vietnam Airlines (63.4%), Singapore Airlines (SQ – 63.2%), China Airlines (CI – 62.8%), Royal Brunei Airlines (62.4%), Garuda Indonesia (61.5%) and Asiana Airlines (OZ – 60.7%). The remaining carriers suffered from half-filled aircraft, or less.

CARGO RESULTS

The consolidated freight tonne kilometres (FTKs) of AAPA carriers fell by 7.7%, a much smaller contraction compared to the previous three months. Capacity was reduced 4.5%, which

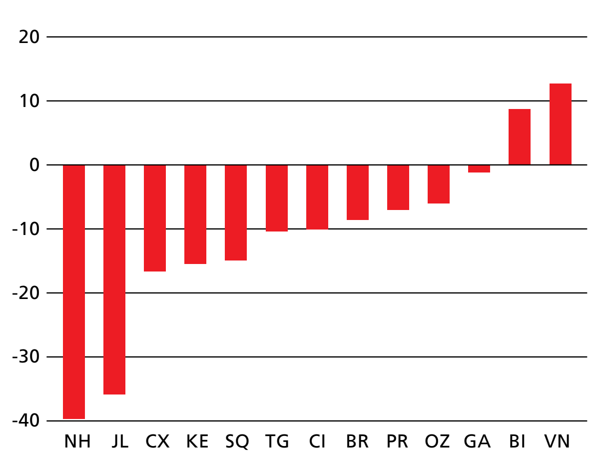
RPK GROWTH BY CARRIER

Percentage (Oct 01 vs Oct 00)



PAX GROWTH BY CARRIER

Percentage (Oct 01 vs Oct 00)



Japan carriers saw their RPKs slump by more than 40% year-on-year to October

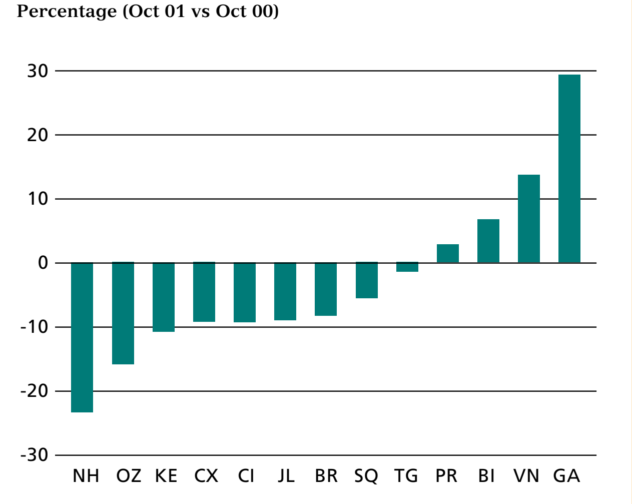
resulted in a freight load factor (FLF) decline of 2.4 percentage points to 68.4%, the highest load factor this year.

Four carriers managed to post positive growth in FTKs: Garuda Indonesia (29.2%), Vietnam Airlines (13.6%), Royal Brunei Airlines (6.7%) and Philippine Airlines (2.8%). The remaining nine carriers suffered a drop in RTKs, with All Nippon Airways, down 23.4%, the hardest hit.

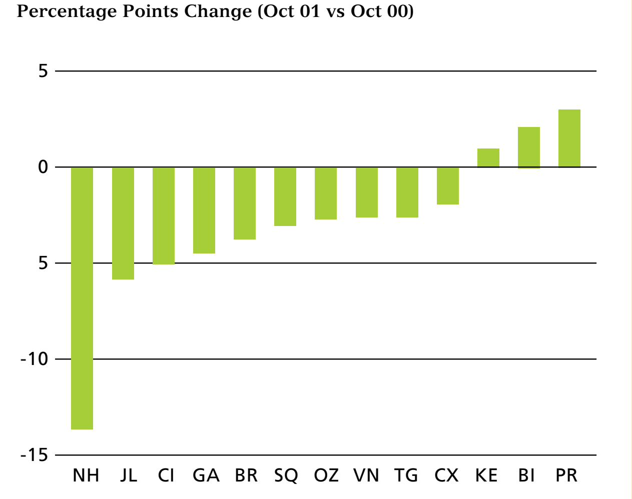
Garuda Indonesia once again boosted its freight capacity, as did Royal Brunei Airlines, Thai Airways International and Vietnam Airlines. Others slashed capacity, ranging from Japan Airlines (0.5%) to All Nippon Airways (12.8%). Despite efforts to reduce capacity by the majority of member airlines, the FLF remained under siege due to sluggish demand.

Ten out of 13 airlines reported deteriorating load factors, ranging from 1.9 percentage points (Cathay Pacific Airways) to 13.8 percentage points (All Nippon Airways). Five carriers managed more than 60% in load factor: China Airlines (77%),

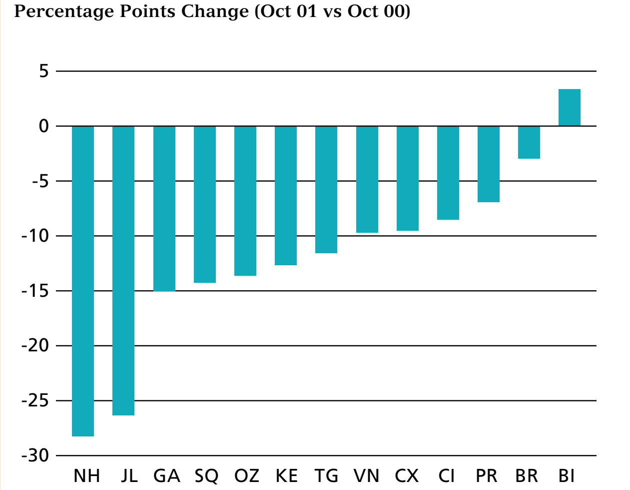
FTK GROWTH BY CARRIER



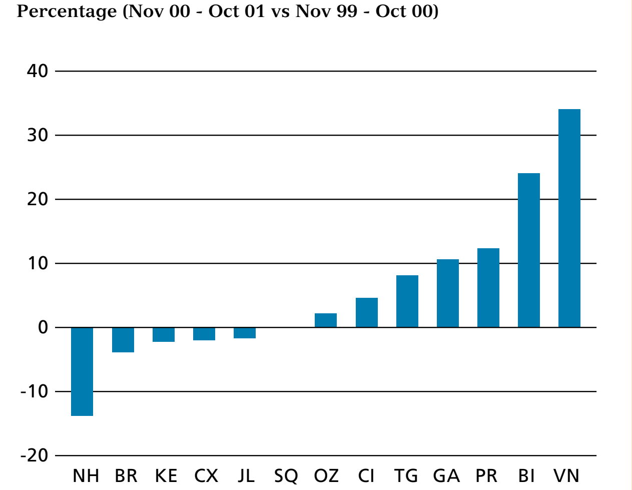
FREIGHT LOAD FACTOR GROWTH BY CARRIER

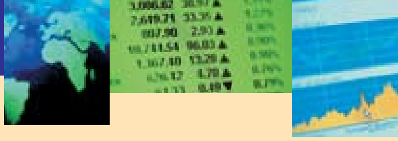


PASSENGER LOAD FACTOR GROWTH BY CARRIER



RPK GROWTH BY CARRIER





Asiana Airlines (77%), Korean Air (KE – 76.6%), EVA Air (74.7%) and Cathay Pacific Airways (73.1%).

RESULTS OF THE 12 MONTHS TO OCTOBER 31, 2001

The AAPA consolidated revenue passenger kilometres grew a marginal 0.3% for the 12-month period under review. The number of passengers carried increased by 1.9%. Capacity expanded by 3.8%, which resulted in a load factor of 72%, down 2.5 percentage points.

CARGO RESULTS

The AAPA consolidated freight traffic fell by 6.8% for the twelve-months to October 31. Capacity expanded by 0.6% pushing down the load factor by 5.1 percentage points to 65.3%.

SUMMARY

With the disastrous October results, the cumulative growth rate of the AAPA consolidated international passenger traffic for first ten months of 2001 turned negative, virtually ensuring the year would finish with negative growth.

While November remained depressed, December appeared to witness some stabilisation in international traffic and a pick-up in air travel confidence. The Christmas and year-end holiday should be a key factor in stronger demand for air travel within the Asia-Pacific region.

In addition, the recent decision by several member airlines to reinstate flights to the Middle East also provides an indication of the improving situation in the war-affected region. It is hoped that further initiatives by member airlines to boost air travel confidence produce the desired effect of luring back passengers. ■

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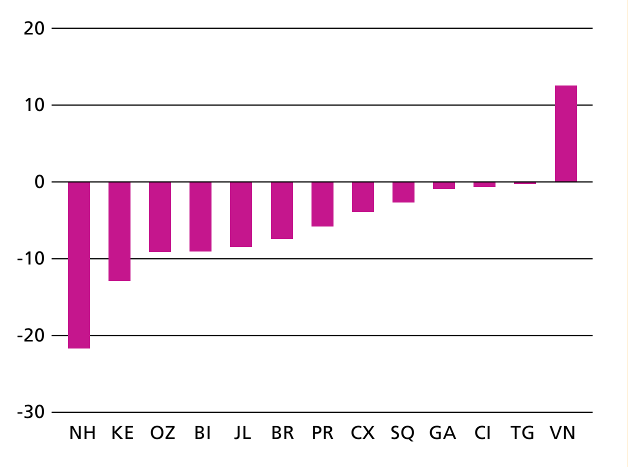
Garuda Indonesia: positive FTK growth in October

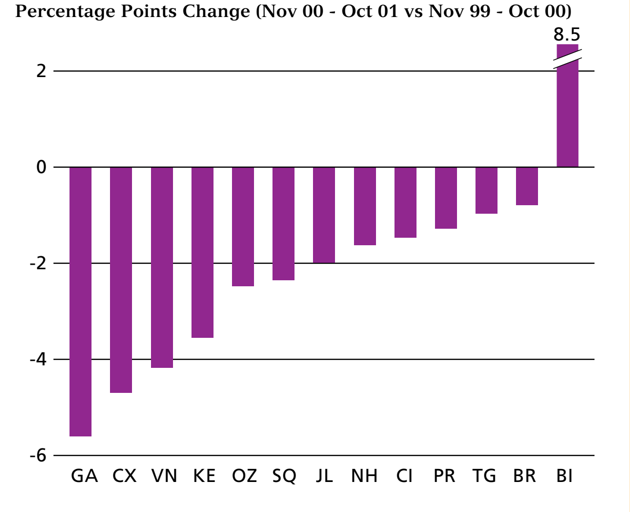
FTK GROWTH BY CARRIER

Percentage (Nov 00 - Oct 01 vs Nov 99 - Oct 00)



PASSENGER LOAD FACTOR GROWTH BY CARRIER

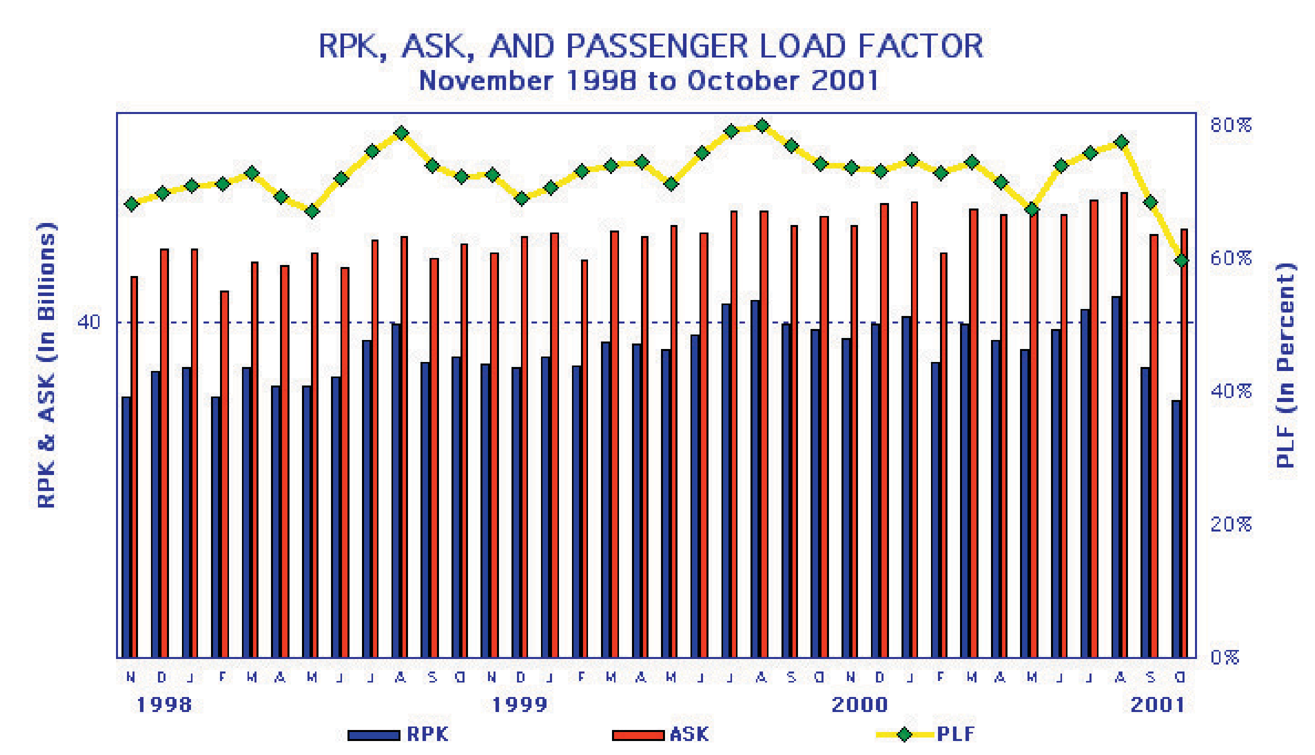
Percentage Points Change (Nov 00 - Oct 01 vs Nov 99 - Oct 00)

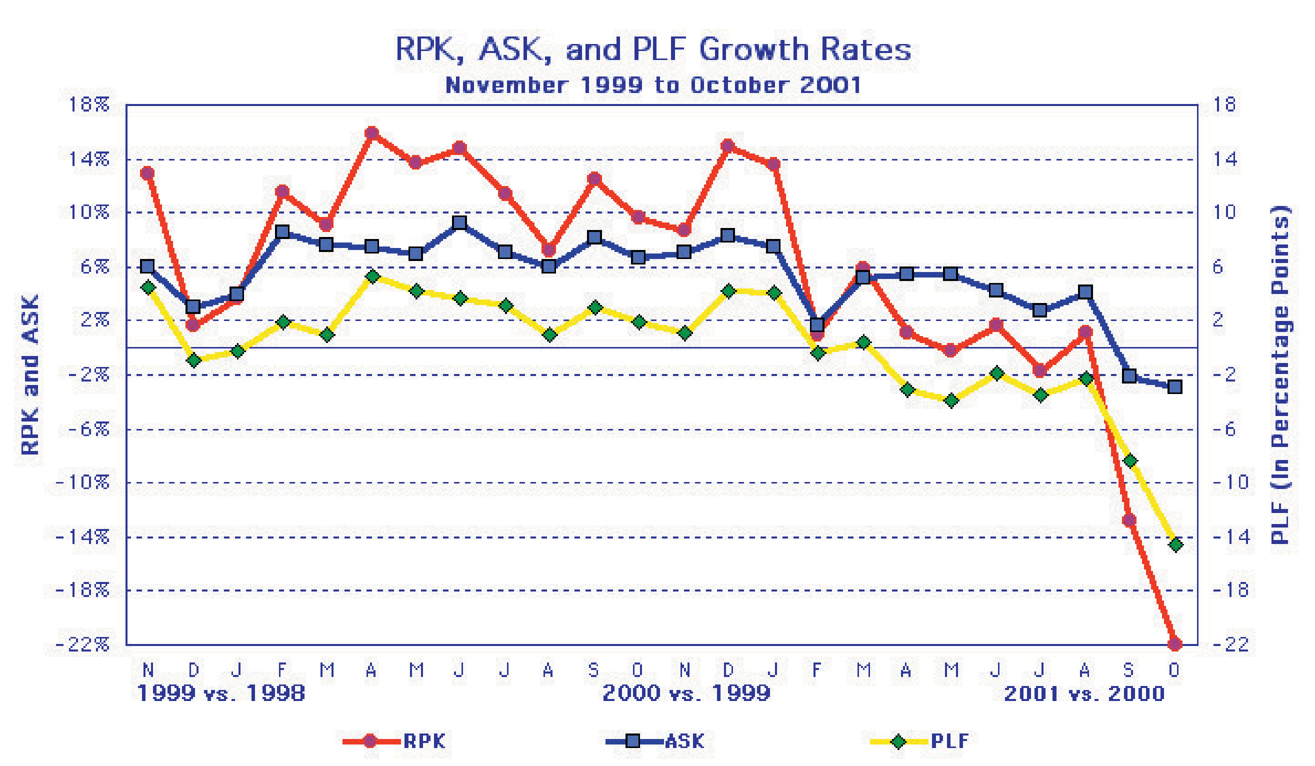


FREIGHT LOAD FACTOR GROWTH BY CARRIER

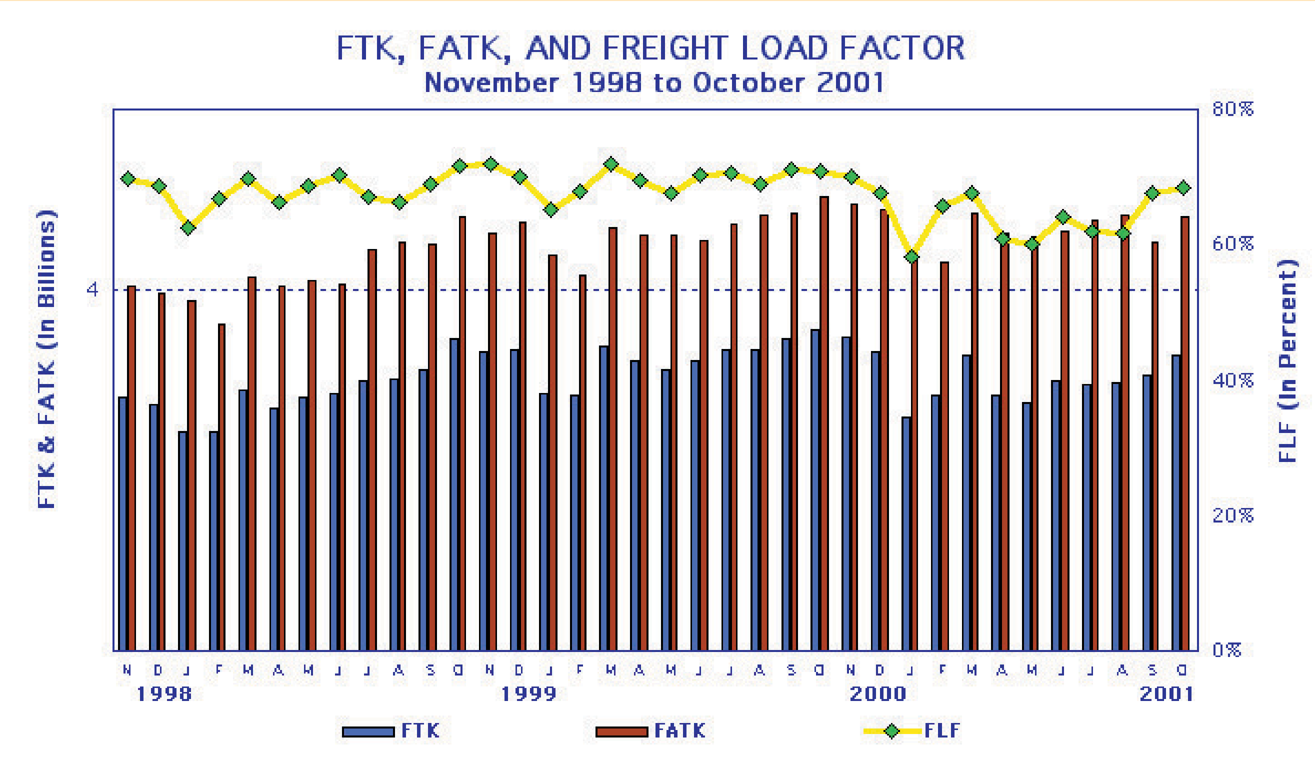
Percentage Points Change (Nov 00 - Oct 01 vs Nov 99 - Oct 00)

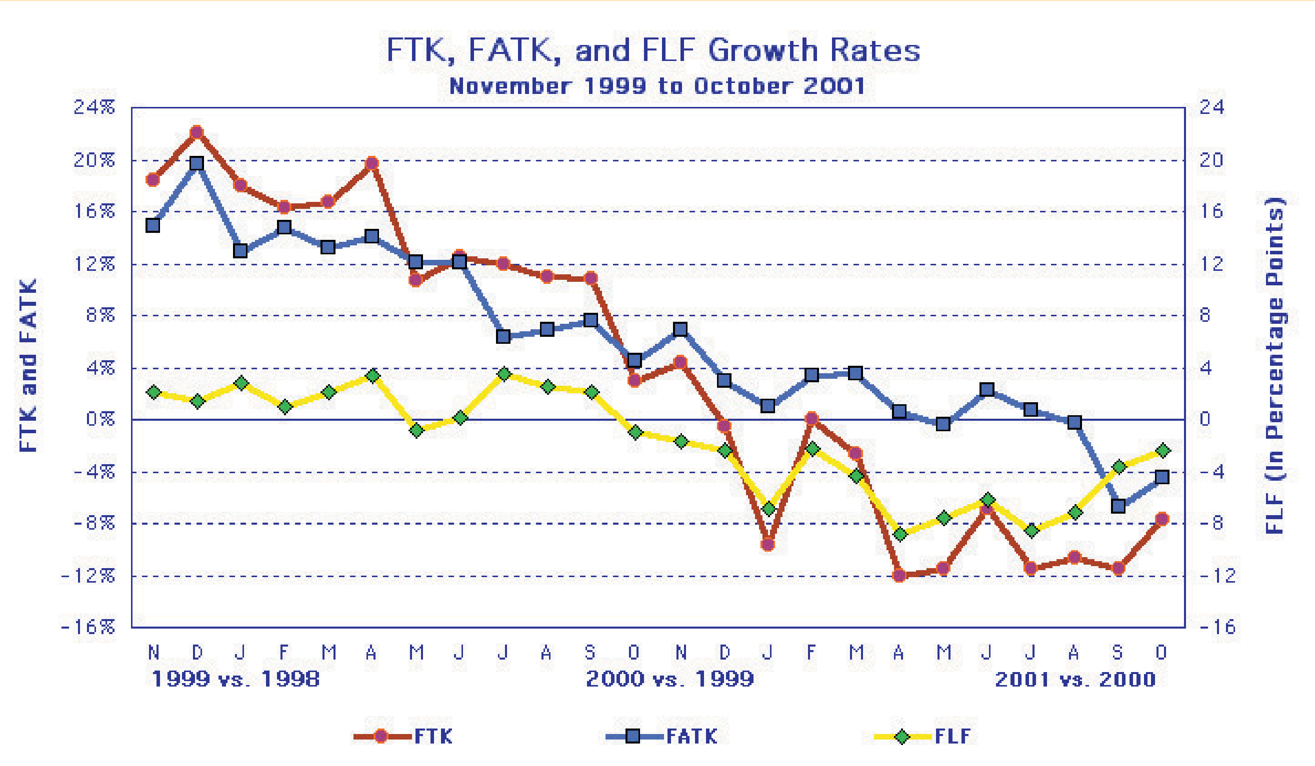
MONTHLY INTERNATIONAL PAX STATISTICS OF AAPA MEMBERS

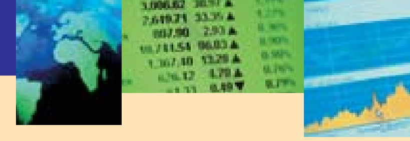




MONTHLY INTERNATIONAL CARGO STATISTICS OF AAPA MEMBERS







AAPA MONTHLY INTERNATIONAL STATISTICS (MIS) *IN THOUSANDS

2000 TO 2001

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
OCT-01	30,564,818	51,109,925	59.80	3,282,332	4,799,066	68.40	6,137,920	9,448,954	7,370
SEP-01	34,615,731	50,408,077	68.67	3,050,189	4,516,592	67.53	6,304,944	9,105,074	7,972
AUG-01	43,019,278	55,367,897	77.70	2,973,737	4,823,089	61.66	6,990,654	9,865,024	9,740
JUL-01	41,462,912	54,655,204	75.86	2,955,496	4,763,921	62.04	6,834,827	9,762,056	9,344
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
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
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
MAR-01	39,816,317	53,462,196	74.48	3,280,160	4,848,967	67.65	7,024,088	9,725,854	9,078
FEB-01	35,142,724	48,196,685	72.92	2,818,661	4,293,850	65.64	6,123,623	8,700,352	8,011
JAN-01	40,748,991	54,419,033	74.88	2,581,148	4,428,308	58.29	6,403,464	9,425,297	9,053
DEC-00	39,744,563	54,234,897	73.28	3,306,664	4,887,447	67.66	7,046,451	9,860,647	8,846
NOV-00	38,040,505	51,552,700	73.79	3,467,407	4,943,007	70.15	7,044,098	9,673,473	8,630
TOTAL	456,845,131	633,657,921	72.10	36,277,839	56,172,603	64.58	79,173,716	114,049,056	104,082

2000 TO 2001

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
AUG-01	1.77	4.86	-2.38	-10.41	0.01	-7.23	-4.11	1.90	4.09
JUL-01	-1.03	3.55	-3.53	-11.28	0.92	-8.63	-5.94	3.30	0.46
JUN-01	1.68	4.23	-1.86	-6.83	2.20	-6.22	-2.34	2.82	3.56
MAY-01	-0.22	5.49	-3.86	-11.57	-0.49	-7.54	-5.59	2.21	2.40
APR-01	1.13	5.44	-3.05	-12.08	0.60	-8.78	-5.21	2.65	2.12
MAR-01	5.79	5.17	0.43	-2.63	3.54	-4.28	1.66	4.03	6.96
FEB-01	1.03	1.60	-0.41	0.02	3.36	-2.20	0.59	2.24	-0.59
JAN-01	13.59	7.42	4.07	-9.69	0.96	-6.87	2.85	4.29	14.85
DEC-00	14.83	8.23	4.21	-0.57	2.97	-2.41	7.20	5.59	11.31
NOV-00	8.68	7.03	1.12	4.36	6.83	-1.66	6.49	6.90	8.70
OCT-00	9.61	6.70	1.98	3.01	4.44	-0.98	6.33	5.53	9.68
SEP-00	12.50	8.09	3.02	10.84	7.56	2.11	11.72	7.84	12.21

CALENDAR YEAR[5]

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
1995	326,071,184	471,535,677	69.15	23,838,488	36,487,508	65.33	54,250,542	79,121,583	76,378
1996	374,365,998	529,442,583	70.71	27,783,667	43,091,640	64.48	62,557,622	90,816,037	86,703
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[6]	379,060,063	527,870,324	71.81	29,503,768	46,342,148	63.67	65,083,166	94,514,936	86,606

CALENDAR YEAR[5]

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
1996	14.81	12.28	1.56	16.55	18.10	-0.86	15.31	14.78	13.52
1997	3.58	6.03	-1.64	14.24	6.03	5.00	8.28	6.52	2.30
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[6]	-1.46	3.10	-3.32	-8.51	-0.18	-5.79	-4.91	1.26	0.64

Note:

1. The consolidation above includes 16 participating airlines up to Jun 2001, but reduces to 15 participating member airlines from Jul 2001 onwards.
2. Data for Jul - Oct 2001 is subject to revision as actual data for QF Jul - Oct 2001 is not available.
3. KA and NZ do not participate in this report.
4. AN data from Jul 1998 to Jun 2001 only. VN data from Jan 1998 onwards.
5. CY denotes Calender Year (January - December). 2001 Year-To-Date (YTD): Jan 2001 - Oct 2001.
6. YTD comparison: Jan - Oct 2001 v Jan - Oct 2000.