VOL. 9 NO. 3 DEC 01/JAN 02

Orient aviation

MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

FIGHTING BACK

Asia-Pacific carriers unite to launch campaign to woo back passengers

2001 IN REVIEW

September 11, a day, and a year no one will ever forget

Orient aviation

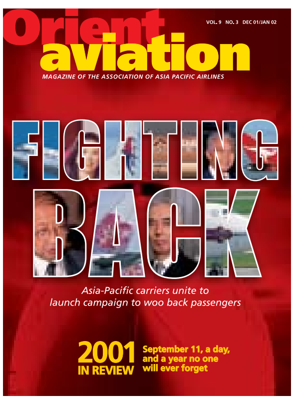
VOL. 9 NO. 3 DEC 01/JAN 02

COVER STORY

REVIEW

2001 Page 27

A year, a date the airline industry will never forget



BPA INTERNATIONAL ®

NEWS

SPECIAL REPORT

REGIONAL AVIATION

REGULAR FEATURES

PUBLISHER
Wilson Press Ltd
GPO Box 11435 Hong Kong
Tel: Editorial (852) 2893 3676
Fax: Editorial (852) 2892 2846
E-mail: orientav@netvigator.com
Web Site: www.orientaviation.com

Publisher and Editor-in-Chief
Barry Grindrod
E-mail: orientav@netvigator.com

Joint Publisher
Christine McGee
E-mail: cmcgee@netvigator.com

Chief Correspondent
Tom Ballantyne
Tel: (612) 9638 6895
Fax: (612) 9684 2776
E-mail: tomball@ozemail.com.au

Hong Kong & China:
Jonathan Sharp, Wellington Ng
Tel: (852) 2504 3995
E-mail: fusharp@aol.com

Photographers
Andrew Hunt (chief photographer), Rob Finlayson, Hiro Murai

Design & Production
Ü Design + Production

Colour Separations
Twinstar Graphic Arts Co.

Printing
Lammar Offset
Printing Company Ltd

Distributed by
Wilson Press Ltd

ADVERTISING
Head Office:
Wilson Press Ltd
Christine McGee
Tel: (852) 2893 3676
Fax: (852) 2892 2846
E-mail: cmcgee@netvigator.com

South East Asia
Tankayhui Media
Tan Kay Hui
Tel: (65) 9790 6090
Fax: (65) 280 2523
E-mail: tkhmedia@singnet.com.sg

The Americas / Canada :
Barnes Media Associates
Ray Barnes
Tel: (1) 434 927 5122
Fax: (1) 434 927 5101
E-mail: rvbarnes@cablenet-va.com

Europe :
REM International
Stephane de Remusat
Tel: (33 5) 34 27 01 30
Fax: (33 5) 34 27 01 31
E-mail: sremusat@aol.com

New Media & Circulation Manager
Leona Wong Wing Lam
Tel: (852) 2865 3966
E-mail: leonawong@orientaviation.com

Association of Asia Pacific Airlines Secretariat
Suite 9.01, 9/F,
Kompleks Antarabangsa,
Jalan Sultan Ismail,
50250 Kuala Lumpur, Malaysia.
Director General: Richard Stirland
Commercial Director: Carlos Chua
Technical Director: Leroy Keith
Tel: (603) 2145 5600
Fax: (603) 2145 7500
E-mail: ushav@aapa.org.my

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

ASIA'S AIRLINES ACT

A year ago on this page we wrote that airlines had been surprised at the speed of their recovery from Asia's economic recession. "Now, there is hope of even better times ahead," we concluded. How wrong can anyone be?

One year later it is hard to imagine an industry that could have suffered more than the airline industry in 2001, although many have suffered aplenty. The terrorists who attacked the U.S. on September 11 have seen to that.

Granted, airlines in the U.S. and Europe have been hardest hit, but one wonders what position Asian airlines would be in now if they had not cut back on costs and staff during the Asian downturn.

But even before the terrorists attacked in New York and Washington D.C., the industry was suffering significantly from a slowdown in the world economy, led by the U.S. and Japan.

When will it all end? Where will it all end?

If increased security measures in the air and on the ground deter the terrorists, the missing travellers may take to the air sooner rather than later, but who really knows what will happen in this new post September 11 operating environment.

In November, at the Association of Asia Pacific Airline's 45th Assembly of Presidents in Bali, member carriers decided to launch an advertising campaign to woo back passengers and to restore confidence in the industry (see page 16). The idea came from a Singapore Airlines think tank and the message is: air travel IS safe.

The campaign demonstrates that Asia's carriers are not prepared to sit back and wait for passengers to return, they are making things happen to encourage this outcome.

And there is every chance this region could lead the world out of the slump. All global studies still show that the Asia-Pacific will remain the fastest growing area in aviation in the next two decades. In this environment the strongest of the region's carriers will turn adversity into even greater strength as a recovering world economy will begin filling their cargo and passenger planes again.

In the meantime *Orient Aviation* wishes its readers a Merry Christmas and, hopefully, a much happier 2002.

* *Orient Aviation* decided not to present its Personality of the Year award for 2001. We felt, given the circumstances, it would be inappropriate.

BARRY GRINDROD
Publisher/Managing Editor

The Association of Asia Pacific Airlines members and contact list:

Air New Zealand
Managing Director, TBA
General Manager Group Communications, Mr David Beatson
Tel: (64 9) 336 2770 Fax: (64 9) 336 2759

All Nippon Airways
President and CEO, Mr Yoji Ohashi
Senior VP, Public Relations, Mr Koji Ohno
Tel: (81 3) 5756 5675 Fax: (81 3) 5756 5679

Ansett Australia
General Manager, TBA
Manager Group Public Affairs, Ms Heather Jefferey
Tel: (61 3) 9623 3540 Fax: (61 3) 9623 2887

Asiana Airlines
President & Chief Executive, Mr Park Chan-bup
Managing Director, PR, Mr Hong Lae Kim
Tel: (822) 758 8161 Fax: (822) 758 8008

Cathay Pacific Airways
Chief Executive Officer, Mr David Turnbull
Corporate Communications General Manager, Mr Alan Wong
Tel: (852) 2747 8868 Fax: (852) 2810 6563

China Airlines
President, Ms Christine Tsung Tsai-yi
Acting VP, Corp Comms, Mr Paul Wang
Tel: (8862) 2514 5750 Fax: (8862) 2514 5754

Dragonair
Chief Executive Officer, Mr Stanley Hui
Corporate Communication Manager, Ms Laura Crampton
Tel: (852) 3193 3193 Fax: (852) 3193 3194

EVA Air
President, Mr Daniel Wu
Deputy Senior Vice President, Mr K. W. Nieh
Tel: (8862) 8500 2585 Fax: (8862) 2501 7599

Garuda Indonesia
President, Mr Abdulgani
VP Corporate Affairs, Mr Pujobroto
Tel: (6221) 380 0592 Fax: (6221) 368 031

Japan Airlines
President, Mr Isao Kaneko
Director, Public Relations, Mr Geoffrey Tudor
Tel: (813) 5460 3109 Fax: (813) 5460 5910

Korean Air
President and CEO, Mr Shim Yi Taek
VP Public Relations, Mr Seung Jae Noh
Tel: (822) 656 7092 Fax: (822) 656 7288/89

Malaysia Airlines
Chairman, Tan Sri Azizan Zainul Abidin
Head of Industry Affairs, Ms R. Nordiana Zainal Shah
Tel: (603) 2165 5154 Fax: (603) 2163 3178

Philippine Airlines
President, Mr Avelino Zapanta
VP Corporate Communications, Mr Rolando Estabilio
Tel: (632) 817 1234 Fax: (632) 817 8689

Qantas Airways
Managing Director and CEO, Mr Geoff Dixon
Group General Manager Public Affairs, Mr Michael Sharp
Tel: (612) 9691 3760 Fax: (612) 9691 4187

Royal Brunei Airlines
Chairman, Dato Paduka Awang Haji Alimin Bin Haji Abdul Wahab
Tel: (673 2) 343 368 Fax: (673 2) 343 335

Singapore Airlines
Deputy Chairman and CEO, Dr Cheong Choong Kong
VP Public Affairs, Mr Rick Clements
Tel: (65) 541 4030 Fax: (65) 545 6083

Thai Airways International
President, TBA
Director, PR, Mrs Sunathee Isvarphornchai
Tel: (662) 513 3364 Fax: (662) 545 3891

Vietnam Airlines
President and CEO, Mr Nguyen Xuan Hien
Dep Director, Corp Affairs, Mr Nguyen Huy Hieu

TOO BUSY: Following a recent success ful Qantas equity offer that diluted British Airways' (BA) share in the Australian international carrier, BA's managing director, Rod Eddington, has resigned as a non-executive director on the airline's board. Until the recent market offering, BA had three Qantas board seats because it owned 25% of the airline, but the US$236.55 million equity injection diluted BA's holding to below 22.5%, thereby also reducing BA's board seats to two. The other BA directors, director of alliances, investment and joint ventures, Roger Maynard, and Nick Tait, have retained their seats. Eddington, who has plenty to occupy him in managing BA through the current economic and aviation slump, has close ties with the Asia-Pacific. He was managing director of Cathay Pacific Airways before he was lured to Australia by Rupert Murdoch, whose company then owned 50% of Ansett Australia. Eddington became chairman of Ansett and revived the airline in very short time, while also serving on Murdoch's Australian board. When BA boss, Robert Ayling, was sacked last year, Eddington was offered BA's top job, which he accepted around the time Air New Zealand bought Murdoch's interest in Ansett. Until September 11, it was acknowledged Ed-ding-ton's timing of his exit from Ansett was perfect. Now, with the current industry travail that is being visited on all trans-Atlantic carriers, including BA, its definitely been a case of "out of the frying pan and into the fire" for popular Eddington.

British Airways chief executive Rod Eddington resigned from the Qantas Airways board in November

PERSPECTIVE

SILENCE BROKEN: In a rare public statement, Lucio Tan, chairman of Philippine Airlines (PAL), said that governments of the region must provide assistance to their carriers "if they are to correct the competitive imbalance" that now exists in the industry. The normally reclusive Tan said in Manila in November that the US$15 billion package given to U.S. carriers after the September 11 terrorist attacks contributed to industry stability, but it also put airlines like PAL at a gross competitive disadvantage. He called on governments in the region to help re-establish a level playing field for airlines by offering them assistance. "For PAL, this is even more paramount, considering that [we] are still under rehabilitation," Tan said. PAL lost "untold millions" since the September terrorist attacks as a result of higher insurance premiums and foregone revenues, the airline chairman said.

Philippine Airlines chairman and majority shareholder Lucio Tan: Governments should give more assistance to the region's carriers to correct the imbalance created by the US governments US$15 billion rescue package for U.S. airlines

SOLD: Despite industry rumours to the contrary, Atraxis, the aviation IT company owned by the failed Swissair Group, was sold in November to the U.S. company, EDS, and not to European rival, Lufthansa Systems Limited, as expected. *Orient Aviation* was told EDS outbid Lufthansa Systems and at the moment price is everything to the beleaguered former Swiss aviation group. It also is believed SR Technics, another profitable subsidiary of Swissair, will have a new owner by Christmas if present negotiations proceed as expected. Two other Swissair profit-makers – at least until recently – global caterer, Gate Gourmet, and international airport retailer, Nuance Trading, are expected to be sold off in the near term.

Qantas Airways managing director Geoff Dixon: turning down a US$250,000 bonus not good enough for one union with Qantas employees among its membership

THAI-UP? As several ministers dig deep into the operations of Thai Airways International (THAI) in November, THAI's chairman and acting president, Virabongsa Ramangkura, revealed that the board has asked the airline's former vice-president of flight operations, Flt Lt. Sa-ad Sobsatrasorn, for more information about the flight operations former policy of sending THAI captains for training at a civil aviation training facility. The agreement with the organisation has now been cancelled. In the same month, *Orient Aviation* learnt that THAI's get tough policy on board member privileges is progressing well. Earlier this year, several families of THAI board members were asked to pay the full price for tickets they had purchased at 25% of over-the-counter value. In November, the board confirmed air ticket benefits for directors' spouses and their children had been terminated in compliance with a Thai Cabinet resolution. Most of the money has since been paid.

NOT IMPRESSED: In recognition of present hard times, Qantas Airways managing director, Geoff Dixon, has followed the example of several of his peers in the industry and declined his annual bonus – set at US$250,000 for 2001. But this gesture did not appease the demands of one group of Qantas workers who are members of the national maintenance union. Post September 11 notwithstanding, they claim the carrier will make US$250 million this year and they want a pay rise as part of their share of the profits. The company should show some compassion, they argue, otherwise they will continue a campaign of industrial disruption in the busiest holiday period of the year -Christmas and New Year.

LONG VIEW: Reliable sources in the Chinese aviation industry believe the widely publicised plan to merge ten of the nation's carriers into three groupings will take several years to achieve, even in the China of the post-World Trade Organisation era. (See Year in Review, p. 27)

REGIONAL ROUND-UP

Garuda Indonesia reschedules debt, looks to part privatisation in 2003

After nearly two years of negotiations, Garuda Indonesia finally restructured its massive US$1.8 billion debt in November. The move opens the way for potential part privatisation in 2003.

Emirsyah Satar, executive vice-president finance, said despite current woes facing the global airline industry Garuda was "on track" to meet a late 2003 target date.

By the end of the current financial year Garuda will have recorded three successive years of profitability, a primary requirement for privatisation. In 1999, the airline earned 400 billion rupiah (US$38 million). In 2000, profit dropped to 70 billion rupiah, a figure Satar believes Garuda will repeat in 2001 despite the cataclysmic events effecting the industry.

The bulk of the carrier's debt involved more than US$1.1 billion for Boeing and Airbus aircraft, which had been financed through U.S. and European import/export banks. A "realistic plan" allows Garuda to repay the money over an extended time period.

Garuda's cash crisis came to a head in 1998 during the Asian recession. Following the downfall of Indonesia's President Suharto, whose family had close links with the carrier, the airline's management was restructured and, with the help of Lufthansa Consulting, started to claw its way back to profitability.

At the time Garuda's problems included excess capacity, a sub-standard product, poor on-time performance, unprofitable routes, too many aircraft types and low aircraft utilisation.

From a peak of 58 aircraft and eight different types in 1997, the fleet was reduced to 42 planes and six types by 1999. It now stands at 45 aircraft, but there are plans to reduce the number of types to four.

Satar said strong gains had been made in a number of areas. An on-time performance of 74.9% in 1997 had risen to 89.5% in 2000. Passenger load factor had leapt from 55.4% to 71.2% in the same time frame.

Unlike many airlines Garuda has been protected somewhat from the knock-on effects of events in the U.S. because it had dropped flights to North America during the Asian economic crisis. Satar said Garuda's regional traffic is holding up "reasonably well". It is to start services to Taipei and Guangzhou, China, in December.

Garuda Indonesia's executive vice-president finance, Emirsyah Satar: airline on track for part privatisation in 2003

South Korea readies for air safety upgrade again

A U.S. Federal Aviation Administration (FAA) audit team arrived in South Korea in November to inspect the country's air safety system with hopes high that it could be upgraded by the end of December.

Earlier this year, the system was downgraded by the FAA because of a lack of safety oversight of South Korea's two international carriers, Korean Air (KAL) and Asiana Airlines, by the government. The ruling cost the country's transportation minister his job and severely impacted on the airlines' transpacific operations.

The U.S. Department of Defence also has lifted a ban, imposed almost two years ago, on its personnel using KAL on official business. The restriction followed a series of accidents involving the operator's aircraft.

Korea's Ministry of Construction and Transportation completed the overhaul of its air safety regime in early November and the FAA brought forward a planned inspection in the hope a decision on the upgrade could be made before the start of the busy Christmas holiday season.

The ministry said it has revised aviation-related laws, including those relevant to airline operating certificates, to eliminate factors that led to the downgrading. Also, it has overhauled air crew training and education programmes and "expects positive results" from the changes.

Work starts on major CSA, GAMECO airport projects

Construction of China Southern Airlines (CSA) US$429 million complex at the New Baiyun International Airport (NBIA), scheduled to open in October 2003, started in November.

GAMECO's four bay hangar at the New Baiyun International Airport will be the biggest in China

SriLankan answers auditors' fears

SriLankan Airlines, which lost four jets during an attack on Colombo's international airport by Tamil Tiger suicide bombersearlier this year, has reported a US$70.4 million loss for the year ended March 31, one of the biggest deficits in its history.

Owned 40% by Dubai's Emirates Airline, the result was worsened by higher fuel prices and a weak local currency. Auditors raised concerns the carrier, with a reduced fleet of eight aircraft, might not be a going concern, but the company said it had taken corrective measures this year.

"The company has secured additional credit lines, reduced aircraft lease rentals through the use of interest rate swaps and established a fuel risk management programme," said SriLankan's annual report.

Passenger arrivals in Sri Lanka have dropped 50% since the terrorist attack on the airport. The carrier has reduced most of its long-haul services and offered voluntary retirement to more than 1,500 employees. "We are having to cope with exceptional financial and operational problems due to factors beyond our control," said chairman S. K. Wickremasinghe.

SriLankan, which has three Airbus 340s, four A330s and one A320, posted a loss of around US$8.3 million in 2000. It is not making a forecast for the current year.

At the ground-breaking ceremony, CSA Group chairman, Yan Zhiqing, said the new airport, 30 kilometres north of the current Baiyun International Airport, would be one of China's three gateway airports along with Beijing and Shanghai. It also will be largest airport hub in Southeast Asia.

The CSA complex will include air catering, cargo and maintenance facilities.

The US$100 million, 145,000 sq metre Guangzhou Aircraft Maintenance & Engineering Co. Ltd. (GAMECO) facility, will feature the largest aircraft hangar in China. It will be able to house four large wide-bodied jets side-by-side.

GAMECO is a joint venture established by CSA, U.S. based Lockheed Martin Aeronautics International and Hong Kong-based Hutchison Whampoa (China) Ltd.

The 104,000 sq metre cargo terminal, to cost US$51 million, will be the largest in China with a capacity for 800,000 tonnes of freight a year.

The US$41 million Guangzhou Baiyun International Airport Catering Facility will provide catering for all domestic operators that will use the new airport as well as international airlines. The facility will have a capacity of 30,000 meals a day.

IATA to co-ordinate MBA management course in China

The International Air Transport Association (IATA) has joined forces with Tianjin's Civil Aviation University of China and Northern Jiaotong University to offer an MBA degree course in aviation management.

IATA will act as co-ordinator for the two-year programme, which will start early next year. The association will be responsible for the organisation of the course, standards development and course materials.

The programme will combine a basic MBA curriculum with air transport specific courses. The model is the AMBA programme that IATA offers at Concordia University in Montreal, Canada.

Initially, instructors will be recruited globally for temporary assignments in China, but IATA will recruit and train local instructors in the future.

During the first five to six years the course will be in English, after which IATA hopes to offer the programme in Chinese.

"We are looking to recruit between 20 and 30 students per course year. Our target group will be mid-career aviation professionals currently working in China's aviation industry," said an IATA spokesman.

"As China's airlines continue to expand their international and domestic networks and develop deeper ties within the global aviation community we foresee the demand for this programme to be strong from day one."

SIAEC in major bid to boost third party work

SIA Engineering Co Ltd (SIAEC), Singapore Airlines engineering and maintenance listed subsidiary company, is moving to broaden its business mix and tap into opportunities offered by leasing companies amid uncertainty over the ongoing economic climate.

"In the next six months we will have to speed up our business mix and increase third party work," said chief executive William Tan. Over five years he hoped to increase revenue from third party maintenance services to 40% of total revenue from the present 15%.

Tan said SIAEC has 15% more capacity with the commissioning of a third hangar at Singapore Changi International Airport in October.

In the same month, the company, which has US$129.5 million cash in hand, reported a 62% jump in first-half net profit, but warned of difficult times ahead.

Tan said new opportunities include providing maintenance services to leasing firms that had repossessed aircraft from airlines. SIAEC has signed contracts with Singapore Aircraft Leasing Enterprise, in which SIA holds a majority stake, and another leasing company which Tan declined to name.

SIAEC is deferring the construction of a fourth hanger until 2003. Market conditions will depend on whether it proceeds with a fifth hangar.

The company, which derives about 85% of revenue from parent SIA, said it had not seen a reduction in business from the carrier.

THAI relinquishes loss-making local routes

Thai Airways International (THAI) is hoping to end 20 years of losses on domestic routes by allowing two private carriers, PB Air and Air Andaman, to take over a number of its services.

With the Thai government having recently announced a domestic open sky policy, the two airlines started operating the former THAI flights on November 28. "We have made a strong commitment to offer full support to their operations. It's also our policy to help them make a profit," said THAI chairman and acting president Virabongsa Ramangkura.

The government has stipulated that the carriers taking over THAI routes should not reduce frequencies and must maximise use of airport facilities.

Air Andaman has taken over southern domestic flights while PB Air will fly northern routes. They include Bangkok to Lampang, Phitsanulok and Mae Hong Son. Only three of THAI's domestic routes – from the capital to Chiang Mai, Phuket and Hat Yai – are profitable.

THAI has long shouldered a heavy financial burden from operating uneconomic domestic flights. It has had difficulty handing over routes to smaller airlines before the open sky policy was approved, but in October, Prime Minister Thaksin Shinawatra gave Virabong-sa the green light to launch radical financial and operational restructuring at the airline. This included clearance to offload loss-making domestic services to other carriers.

New Hanoi airport terminal opens, Hi Chi Minh City next

The Vietnam Government has approved a feasibility study for a new airport terminal at Ho Chi Minh City. Construction of the first phase of the new international terminal, capable of handling 5.4 million passengers a year, is expected to start in late 2003 and be finished in two years, said Nguyen Hung, director of the Southern Airports Authority.

The project will be funded by a US$185 million Japanese Government loan and US$32.9 million in funds from the Vietnamese Government.

A timetable for construction of a proposed second phase, bringing the terminal's capacity to eight million passengers, will be decided later. The extension decision will depend on passenger growth at Ho Chi Minh City's Tan Son Nhat airport, said Hung.

The two terminals at Tan Son Nhat handle about five million passengers a year. The new terminal will service only international flights with existing terminals used for domestic flights.

Malaysia Airlines: suspension of air fare agreement 'natural' step to make

MAS defends air fare pact move

Malaysia Airlines (MAS) has said the suspension of an agreement, which set minimum air fare prices for more than 25 airlines flying to Malaysia, was not done to spark a price war.

The objective of the Market Development Programme Malaysia (MDP), which was introduced in 1983 under the auspices of the Board of Airline Representatives in Malaysia, was to regulate and stabilise market fares, especially during periods of high demand, according to an MAS statement.

However, the U.S. terror attacks in September made the MDP "untenable and a hindrance to induce travel". The suspension was "natural" and unanimously endorsed by MDP members, it said.

"In the current environment, suspending the MDP will allow each carrier to better align supply with demand and, in turn, align its pricing appropriately. The decision to temporarily suspend the MDP was not done with a view to precipitating a price war. Rather, it will provide each carrier with the flexibility to price its product in accordance with market demand," said the statement. "The suspension will allow all MDP members to remain competitive with non-MDP carriers."

Non-MDP members include Singapore Airlines and U.S. carriers. Routes to the U.S. are not included in the MDP pact.

BUSINESS ROUND-UP

Only four days after announcing it would acquire Japan's third largest carrier, JAPAN AIR SYSTEM (JAS), JAPAN AIRLINES (JAL) reported a 61.3% fall in net profit for the six months to September 30. If JAL needed to emphasise the need for consolidation then this was it.

Group net profit slumped to 16.4 billion yen (US$134.9 million) over the same period last year. Revenue fell 0.3% to 871.3 billion yen.

JAL put the poor result down to sluggish international cargo demand over a prolonged period and dramatic falls in international passenger numbers after the September 11 terror attacks in the U.S.

In October, international bookings were 40% down on 2000 with a decline of more than 50% on flights to the U.S. Domestic flights fell by just 4% on the previous year.

JAL is projecting a net loss of 40 billion yen for the full year as a result of the September attacks. Earlier in 2000, the carrier had forecast a 25 billion yen net profit for this fiscal year.

The merger of JAL and JAS will make the carrier the world's third largest in terms of revenue earned in 2000, behind American Airlines and United Airlines.

The operations of the two companies will be combined in two stages. A joint holding company will be established by next autumn with operations fully integrated by the airlines in spring 2004.

The new look carrier will put added pressure on All Nippon Airways (ANA), which until now has dominated the domestic market. While JAL has reigned supreme on international routes, it has only had a 25% share of the local market, compared to ANA's 49%. Together, JAL and JAS would hold 48% of the domestic market.

JAL owns 8.25% of JAS, a holding that dates back to 1970 when JAS was formed from the merger of two domestic carriers.

A major plus in the deal for JAL will be that it will have access to JAS's considerable supply of landing rights in Tokyo.

Industry observers are speculating about whether the consolidation in Japan will be a pointer to the future in Asia. Could the same happen, for example, in Taiwan or Korea?

Consolidation is already underway in China where the 10 airlines under the control of the Civil Aviation Administration of China (CAAC) are to be merged into three groupings.

ALL NIPPON AIRWAYS (ANA) profit fell 47% to 16.8 billion yen (US$134.4 million) for the six months to September 30, compared with the same period last year.

The airline is forecasting a net loss for the year of 11 billion yen rather than a net profit of 18 billion yen it had predicted in May. To further cut costs ANA has said it will reduce its workforce by 700 to 12,700 by the end of the 2002 financial year. It also is going to postpone the hiring date of 200 cabin attendants to next April and shelve a plan to hire 300 others. ANA said job cuts and other new measures should reduce costs for the year by 30 billion yen. In mid-November it announced a cut in operations between Bangkok and Mumbai and between Bangkok and Kuala Lumpur and Kansai from January through March 31. In total, ANA has reduced its operations to the U.S. by 20% and, overall, international services in terms of available seat kilometres by 15% compared to last year.

Japan Air System: its landing rights in Tokyo a big plus for Japan Airlines in merger deal

SINGAPORE AIRLINES (SIA), which saw its net profit plummet 88.2% in the six months to September 30 compared to the same period last year, is facing the most difficult time in its hitherto remarkable 29-year history.

The challenge for the second half of the year, said the airline, would be to maintain is loss-free record.

The SIA Group first half profit was S$134.8 million (US$73.7 million) compared to S$1.14 billion a year earlier.

The dramatic earnings fall was attributed to record corporate losses by Air New Zealand, in which SIA then had a 25% stake, and dwindling cargo and passenger volumes in the slowing world economy. Contributions from Virgin Atlantic, in which SIA has a 49% shareholding, also declined.

SIA's revenue for the first half fell 4.8% to S$4.77 billion from S$5.01 billion a year earlier.

Passengers carried were down 0.2%, but because capacity rose 3.4%, load factor dropped 2.7 percentage points to 75.1%. Cargo carried fell 7.1%. Freight load factor slipped 5.3 percentage points to 64%. Overall load factor was 68.9%, down four percentage points.

SIA said the second half results would bear the full brunt of the aftermath of the U.S. terror attacks.

The carrier said it was continually adjusting capacity to match changing demand and deferring aircraft deliveries. It had put a freeze on hiring staff, cut wages and shelved projects other than the essential ones.

In mid-November, SIA dropped 114 trainee cabin crew in mid-course. "Even if the cabin crew graduated there wouldn't be jobs for them," said an SIA spokesman.

On the positive side, subsidiaries Singapore Airport Terminal Services (SATS) Group and SIA Engineering Company (SIAEC) both improved their operating profits on last year bringing in S$33 million and S$29 million respectively. SilkAir, helped by a change in aircraft depreciation rate, made an operating profit of S$3 million compared to a S$2 million loss a year ago.

The September 11 terror attacks in the U. S. had a "direct and serious impact" on China's aviation industry, according to the Civil Aviation Administration of China (CAAC). Its three major international carriers, AIR CHINA, CHINA SOUTHERN AIRLINES and CHINA EASTERN AIRLINES lost 294 million yuan (US$35.5

million), said research department director, Chen Xiaoning, on the CAAC web site. Passenger flights to the U.S. were suspended for four days and cargo flights for five days immediately after the attacks. The China aviation industry as a whole incurred extra costs of two billion yuan, mainly from insurance payments and the installation of cockpit security systems.

KOREAN AIR (KAL) lost 449 billion won (US$351 million) in the nine months to September 30 compared to a deficit of 185 billion won a year earlier. Once again, a sluggish cargo market was a major contributor to the results. KAL is the region's largest cargo carrier and the second biggest in the world.

Cargo flight revenue fell 8.3% to 1.1 trillion won from 1.2 trillion won. Overall revenue rose 4.8% to 4.3 trillion won.

Meanwhile KAL announced in mid-November that instead of retrenching about 1,000 workers, all staff were to take one month's unpaid leave.

South Korea's ASIANA AIRLINES is embarking on a selling spree to raise about 200 billion won (US$154 million) to cushion the effects of the global downturn and the September 11 aftermath.

Asiana has put its catering business on the market and will sell some of its interests in affiliate companies. Asiana, South Korea's second international carrier, holds 59.5% of Asiana Airport Services, 43% of Asiana Airport Development and 33% in Incheon International Airport Development. An Asiana spokesman said asset sales talks had been held with interested parties through October and November and he expected "deals to be struck" in early December.

The hard hit airline announced earlier that it would cut 5% of its 7,000 workforce. It also has cut three of its 14 weekly flights to Los Angeles in a bid to save up to 37.3 billion won between September and December.

Asiana, which received 100 billion won in emergency loans from creditors in October, plans to issue 250 billion won in asset-backed securities in December to raise money to repay its debt.

Taiwan's CHINA AIRLINES (CAL) is forecasting a pre-tax profit of NT$1.39 billion (US$40.3 million) for 2002, up slightly on its NT$1.37 billion projection for 2001. Earlier, CAL had forecast a pre-tax profit of NT$3.26 billion for this year. CAL lost NT$80 million before tax in the three months ending September 30, its first quarterly loss for three years.

Lufthansa struggles, but Asia offers major potential

Lufthansa German Airlines chief executive, Wolfgang Mayrhuber, oozes confidence, writes Barry Grindrod. His airline may have seen its net profit plummet 90% in the first nine months to September 30, he may have to deal with the costs of parking 43 Lufthansa aircraft (20% of capacity) and the cancellation of 1,200 flights a week from the Lufthansa schedule, but Mayrhuber knows just where he and his airline are going. Yes, he told *Orient Aviation* in Hong Kong, Lufthansa had been hit badly by September 11 and by the start of the world economic downturn earlier this year, but the airline had reacted quickly to the crises and remained flexible and ready to respond equally quickly when the market showed signs of recovery.

Lufthansa had allocated capacity to markets where there was potential for growth, said Mayrhuber. Asia, and China in particular, are cases in point.

China provided Lufthansa with 13% of its revenue from Asia. The German carrier has a very successful code-share deal with Air China and is a joint venture partner with the airline in AMECO, the Beijing-based aviation repair, maintenance and overhaul company. Later this year, Lufthansa will be an operating partner in a joint venture component repair shop in Shenzhen, southern China.

Lufthansa's cargo and catering companies also are heavily involved in the China market, he added. In November, Lufthansa doubled its three times weekly service between Hong Kong and Munich and Mayrhuber said he could see room for step-by-step expansion throughout Asia.

As far as Europe is concerned, the Lufthansa passenger airline boss, who previously ran Lufthansa Technik, predicted a major shake-out in the European airline industry with Lufthansa emerging, unlike many others, as a major player "in the top league". Indeed, Mayrhuber's chairman, Jurgen Weber, believes Air France, British Airways and Lufthansa will be the only major survivors in European aviation and that the current crop of 27 European airlines must shrink rapidly. Mayrhuber agreed and said the remaining carriers would either die, find niche markets or align with other airlines.

Lufthansa passenger airlines CEO, Wolfgang Mayrhuber: Weak carriers will not survive nor will government bail-outs prevail.

Lufthansa will remain strong, he said, because the aviation company is the core of the Lufthansa Group. It provides seamless travel with the Star Alliance and produces seamless supply through the Lufthansa Group's stand-alone catering, information technology and engineering and maintenance companies. A network of partners around the world, and particularly in Asia, will boost Lufthansa's operating strength, he said. In five years worldwide airline alliances will be much stronger and the airline consolidation process will be proceeding steadily, said the Lufthansa chief. Technology will have made airlines more productive and the airline industry, in general, will be more business driven. The weak will not survive and government bail-outs will not prevail, said Mayrhuber. For example, Sabena had been in business for 78 years before its collapse in November, but it made money in only two of them. It was burning taxpayers' money, he said.

Airline chiefs send a message ...

There was fighting talk at the 45th Assembly of Presidents of the Association of Asia Pacific Airlines (AAPA) in Bali, Indonesia, in November. With civil aviation as we knew it changed for good after the airborne U.S. terrorist attacks of September 11 and the airline industry in crisis, top executives focussed on how to restore the travelling public's confidence in air travel, upgrading security and overcoming the recent problems of aviation insurance cover.

As the AAPA's director general, Richard Stirland, said in the association's annual report confidence in the safety of air travel had been shattered at a blow in September. In the next two years the airline industry faced a tough battle for the hearts and minds of the travelling public as it attempts to persuade passengers the skies were safe and air travel was still a pleasure.

Described as the most important Assembly in the AAPA's history, the airline bosses charted a course for recovery.

FIGHTING BACK

Reports by TOM BALLANTYNE and BARRY GRINDROD

Pictures by PATRICK DUNNE

"Yesterday two million people chose to fly. Did you?"

"The world hasn't stopped. Have You?"

"Travel. It does you the world of good."

These are some of the messages that will be attempting to woo passengers back into the air in the coming months as the major airlines of the Asia-Pacific, standing shoulder to shoulder, embark on an unprecedented campaign designed to restore public confidence in air travel.

The idea emerged recently from a Singapore Airlines' (SIA) think tank. The "rough cuts" of television commercials were well received by Assembly delegates who resolved to launch a non-competitive campaign as soon as possible. It is expected to air between January and March with SIA, Cathay Pacific Airways and Japan Airlines making up a task force to spearhead and manage the campaign.

In September, passenger traffic among the 18 AAPA member carriers plunged 8.1% over the same month a year earlier, to 7.9 million. Airlines believe rebuilding public confidence must be the cornerstone of any revival.

Assembly delegates stressed they did not want this to be an airlines-only initiative. SIA's senior vice-president marketing and regions,

The AAPA's executive committee held a panel discussion with invited media at the 45th Assembly of Presidents in Bali. From left: Cathay Pacific Airways deputy chairman and CEO David Turnbull, Philippine Airlines president and COO Avelino Zapanta, AAPA director general Richard Stirland, Garuda Indonesia president and CEO Abdulgani, Malaysia Airlines managing director Datuk Md Nor Yusof and Singapore Airlines senior vice-president marketing and the regions Huang Cheng Eng.

Huang Cheng Eng, said airline chiefs wanted all aviation and tourism industry stakeholders to play their part, including airports, hotels, regional and international travel associations and other aviation bodies.

Huang said efforts will be made to enlist support for the campaign from bodies outside Asia, including the International Air Transport Association (IATA), which has already announced its own confidence-building programme.

A number of aviation companies like planemaker Boeing, have also launched regional and international advertising initiatives aimed at winning back business.

"We have a big population out there who are apprehensive (about flying), who are waiting for someone to take the lead. This campaign is designed to get those people travelling again. Others will follow," said Huang.

AAPA director general, Richard Stirland, rejected the ploy of airlines filling seats by heavily discounting fares or handing out free tickets, as some carriers had done following the Gulf War in the early 1990s.

"I think giving away free tickets is a rather blunt instrument," he said. "There is a huge difference between the affect on the industry in terms of perception after the Gulf War and current events. The Gulf War itself did not involve terrorism using any aircraft as a guided missile. The problem here is that globally every single household that has a television set has seen horrific incidents where a number of aircraft have been used in that fashion."

Stirland said this had generated a fear of flying among many people and a campaign to restore confidence had to try and work on the subconscious of people and get across the message that flying was fine.

SIA senior vice-president marketing and regions, Huang Cheng Eng: campaign designed to encourage apprehensive travellers to fly again

Past, present and future: The retiring chairman of the AAPA, Garuda Indonesia president Abdulgani, right, shares a joke with his successor, Philippine Airlines president Avelino Zapanta, left, and newly elected vice-chairman, China Airlines president, Christine Tsung. Also represented on the executive committee are Malaysia Airlines, Cathay Pacific Airways, and Singapore Airlines.

Asian carriers suggest global insurance pool

Asian airlines want to lead the way in creating a global pool worth millions of dollars to meet claims arising from future acts of terrorism.

Insurance premiums for acts of terrorism have rocketed. Kevin Dobby, vice-president member relations and communications for IATA, told the Assembly that global carriers paid US$1.5 billion in premiums for 2001. It is estimated that in 2002 this figure will rise to between $9 billion and $10 billion.

The AAPA has suggested that a mutual insurance pool be established into which each airline would put up to $20 million.

This marks the first effort by regional airlines to cope with the huge rise in insurance premiums since insurers cancelled hijack and war-risk coverage following the U.S. attacks.

The problem is that $20 million paid by each of the AAPA's 18 member airlines (providing a maximum of $360 million) will not be enough to create a required pool of at least $1 billion.

"We would assume a pool of this nature would, in the final analysis, probably involve more than just the AAPA airlines. We are looking for a wider net," said direct general Richard Stirland. "In an ideal world all airlines under the auspices of IATA and ICAO (International Civil Aviation Organisation) would participate.

"But there has to be a starting point. There is no reason why the AAPA airlines should not be the pioneers. We want to be at the forefront of that movement to find a solution to the insurance problem."

It remained to be seen what airlines in other parts of the world thought of the concept, he said. "If the idea does not fly it will be very difficult for airlines in this region to do it alone," he added.

Security re-think

... but AAPA against sky marshals, armed crews

Asia's airlines have thrown their weight behind a tough new aviation security regime designed to stop terrorists and hijackers before they board aircraft. But they have drawn the line at any moves to arm flight crew.

They also will resist the universal application of identical security measures developed by one country without full consultation, a stance adopted because of fears the U.S. Federal Aviation Administration (FAA) may attempt to impose its security regulations on all airlines flying into the U.S.

In November, executives at the Association of Asia Pacific Airlines' (AAPA) 45th Assembly of Presidents in Bali, passed a resolution which supported the International Civil Aviation Organisation (ICAO) in the development and adoption of new enhanced security standards. They also endorsed all the positions of the recently formed Global Aviation Security Action Group (GASAG).

GASAG, an industry group of airlines, regional airline associations, including the AAPA, airports, pilot groups, manufacturers, ICAO and the global police body Interpol, is working to establish a common global security position.

AAPA technical director, Leroy Keith, said while there is universal agreement on the need for increased security following the U.S. terror attacks, a number of issues remain controversial.

These include arming of flight crew, use

AAPA technical director Leroy Keith: striving to ensure real and effective security improvements

of armed sky marshals aboard flights and employing the aircraft itself as a defensive weapon through pilot manoeuvring of the plane.

"Our position is to keep terrorists off the plane in the first place by focussing on security on the ground, but if a hijacker or terrorist does succeed in getting aboard we are trying to come up with a rational approach on some of those issues," said Keith.

"They (the U.S. and Europe) could be going in a different direction. We want to have a clear industry position on the more controversial proposals.

"It is my personal concern the FAA may take unilateral action requiring all airlines flying into the U.S. to meet these requirements. That is where we will clearly have to represent our airlines on what are controversial questions."

GASAG has put forward draft recommendations on a wide range of counter-measures on the ground and in the air, including locked and strengthened cockpit doors and video cameras that allow pilots to see into the cabin.

There is no disagreement that the industry needs to move quickly to improve ground security, including the screening of passengers and baggage as well as airport and airline personnel who have access to secure airport areas.

But when it comes to inflight security there is some divergence of opinion within the industry. For instance, GASAG is supporting the use of aggressive flight manoeuvres, including intentional depressurisation by the pilot, but only as a means of last resort to prevent the use of an aircraft as a weapon.

Keith said the general airline view is that sky marshals should not be on board, but it is recognised and accepted governments may require them. In that case, governments should be responsible for the marshals, including their cost and ensuring they are trained to the highest industry standards.

The AAPA is working with member airlines, IATA and other associations towards a

Outgoing AAPA chairman and Garuda Indonesia president Abdulgani addressing delegates and guests at the opening of the 45th Assembly of Presidents in Bali

Indonesia's minister of transportation, the Hon. Agum Gumelar, surrounded by the media after making the keynote address at the opening of the Assembly focussed and co-ordinated global effort, endorsing ICAO resolutions and initiatives, backing GASAG and supporting member airlines in representing them or helping implement security measures.

"The association is striving to ensure real and effective security improvements while minimising airline impact," explained Keith.

In its resolution, the Assembly of Presidents said the recent terrorist attacks demonstrated there is a global requirement to urgently achieve higher levels of aviation security.

Other resolutions approved at the 45th Assembly of Presidents included:

• A call on governments to provide better legal safeguards for airlines in dealing with air rage and to adopt the International Civil Aviation Organisation's (ICAO) model legislation on disruptive behaviour as soon as practicable. The U.S. FAA said that between 1995 and 2000 the number of reported cases increased 216%, a trend, observed the AAPA, which has been replicated worldwide.

The airlines also decided to "campaign aggressively" on a region-wide and sustained basis against air rage. The resolution called on the support of the media and the travelling public to help eradicate the problem.

• To strengthen co-operation with airport authorities in the region on emergency response planning. The AAPA will work closely with airports in further developing "best practices", seeking improvements in emergency response procedures and facilities, as well as engaging airports in consultation and exercises.

• Supporting the ICAO Line Operations Safety Audit (LOSA) programme. LOSA, a new system for auditing cockpit procedures, is gaining wide acceptance by the global aviation community and the Assembly believed it has the potential to reduce human factors related accidents/incidents when used in a non-punitive manner and in conjunction with an effective Flight Operational Quality Assurance (FOQA) programme.

• The Assembly vowed to support national airline industries "to ensure viable, sustainable service in the Asia-Pacific region". It will do this by calling on governments to assist in re-establishing a healthy and profitable air transport system by reducing charges, fees, taxes and other financial impositions and giving consideration to the cost implications for airlines of all regulatory measures, including codes of conduct and disproportionate consumer protection measures.

AAPA member airlines also appealed to governments to actively promote tourism and to refrain from publishing "unduly alarmist" travel advisories to the public. According to the Assembly, governments in the region must maintain a regulatory environment that preserves the stability of air services, while ensuring healthy competition through equitable international agreements.

September traffic 'dreadful'

The Association for Asia Pacific Airlines (AAPA) revealed its "pretty dreadful" traffic figures for September, the month of the U.S. terrorist attacks, during the Assembly of Presidents.

Revenue passenger kilometres were down by 12.3% on the same month a year earlier, while passengers carried fell by 8.1% to 7.9 million. This was the lowest figure since January 2000.

While badly affected by the terror attacks, the AAPA pointed out that growth had been weak in the months prior to September (see business digest, page 33), the full economic impact of the aftermath of September 11 would not be known until the figures for October and November were available.

AAPA director general, Richard Stirland, said the figures were in line with the results of international operations of European and U.S. carriers – "pretty dreadful". "The only consolation is that regional traffic in Southeast Asia has held up better than expected, but probably at the expense of yields," he said.

Passenger traffic on transpacific routes slumped 30%. However, European and intra-regional routes only dropped 4%. Within Southeast Asia passenger traffic grew 3.4% in September, but the overall figure was dragged down by a 6.7% decline on the denser Northeast Asia routes, said the AAPA.

Cargo, already in serious decline before September, fared much worse than the passenger sector. Transpacific cargo sank 35.6% in September, with a 41% fall in east-bound traffic. The European cargo market fell 10.8%.

TRAFFIC UPDATE

September 2001

	Sept 2001	*Sept 2000*	*% change*
Passengers carried (000)	**7,972**	**8,672**	**- 8.1%**
Revenue passenger kilometres (000)	**34,615,731**	**39,452,278**	**- 12.3%**
Available seat kilometres (000)	**50,408,077**	**51,071,817**	**- 1.3%**
Passenger load factor	**68.7%**	**77.2%**	**- 8.6 points**
Freight tonne kilometres (000)	**3,050,189**	**3,438,293**	**- 11.3%**
Available freight tonne kilometres	**4,516,592**	**4,831,289**	**- 6.5%**
Freight load factor	**67.5%**	**71.2%**	**-3.7 points**

January to September 2001

	Jan – Sept 2001	*Jan – Sept 2000*	*% change*
Passengers carried (000)	**79,236**	**77,112**	**2.8%**
Revenue passenger kilometres (000)	**348,495,245**	**344,612,590**	**1.1%**
Available seat kilometres (000)	**476,760,399**	**458,024,151**	**4.1%**
Passenger load factor	**73.1%**	**75.2%**	**- 2.1 points**
Freight tonne kilometres (000)	**26,221,435**	**28,662,512**	**-8.5%**
Available freight tonne kilometres	**41,543,083**	**41,361,000**	**0.4%**
Freight load factor	**63.1%**	**69.3%**	**- 6.2 points**

AAPA FINANCIAL REPORT AT A GLANCE (in US$)

	1996/97	1997/98	1998/99	1999/00	2000/01	2000/01 versus 1999/00	Average annual growth
OPERATING REVENUE	51,241.9	49,641.3	41,774.6	48,149.4	53,833	11.8%	1.2%
Passenger	39,271.7	37,267	30,817.7	35,266	39,478.2	11.9%	0.1%
Freight	7,464.5	8,023.3	7,196	8,516.5	9,593.8	12.6%	6.5%
Others	4,505.6	4,351	3,760.9	4,366.9	4,761	9.0%	1.4%
OPERATING EXPENSES	49,225.9	47,647.3	40,970.4	45,494.7	50,335	10.6%	0.6%
OPERATING PROFIT	2,015.9	1,993.9	804.3	2,654.7	3,497.9	31.8%	14.8%
OTHER INCOME (EXPENSES)	(773.4)	(2,889.2)	(294.4)	(207.5)	(2,476.4)	(1,093.4%)	(33.8%)
NET PROFIT AFTER TAX	964.7	(1,215.7)	317.1	1,816.6	926	(49.0%)	(1.0%)

Note: Air New Zealand/Ansett and Dragonair did not contribute to this statistical report

FINANCIAL YEAR 2000-2001

Mixed results

Despite a 37% surge in the price of jet fuel in the 2000-01 financial year, the consolidated operating profit of the mem ber carriers of the Association of Asia Pacific Airlines (AAPA) increased almost 32% to US$3.5 billion over 1999-2000.

However, net profit was 49% down on the previous year at $926 million.

A variety of causes contributed to the mixed results including high load factors in the international passenger traffic sector, improved yields and higher staff productivity, which all pushed operating profits to record levels.

But a hefty extraordinary income losses by one member carrier, debt burden and foreign currency exchange losses by some member airlines were the major factors behind the fall in net profit.

The recovery of Asia-Pacific air traffic in the late 1990s continued to slow in the financial year under review. But the combined operating revenue of the 15 reporting AAPA carriers increased 11.8% to a record $54 billion.

Passenger revenue grew 11.9%, 2.5 percentage points less then 1999-2000 in spite of faster growth in passenger traffic. Freight revenue grew 12.6%, significantly less than the previous year.

Operating costs for the financial year climbed 10.6% on 1999-2000 to $50.3 billion. The cost of fuel and oil rose 43.5%, increasing its share of total expenses from 13.9% to 18% over the previous year.

The performance of AAPA carriers in the last financial year can be described as that of two halves. In 2000, members flew 103.5 million passengers, 9.3 million more than 1999. An 11% increase in revenue passenger kilometres outstripped capacity growth of 7.2%. This was a 2.5 percentage point improvement in load factor to a record 74.9%.

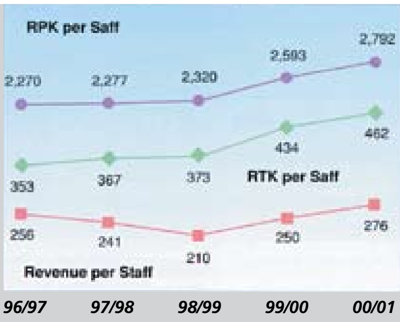
The freight business boomed in 2000, experiencing a rise of 10.6%, which was its second year of double-digit growth.

But the first half of 2001 brought a major reversal in fortunes. Freight traffic fell 7.2% year-on-year. The slowdown in the U.S. economy meant a slump in "tech" exports to the U.S.

Passenger traffic proved stronger with positive growth of 3.8% recorded for the first six months of 2001. AAPA members carried 52 million passengers in the period, two million more than a year earlier.

AAPA yield, unit revenue and cost systemwide operation (in US cents)

Staff productivity systemwide operation (in US cents)



DG calls for change in ownership rules

The director general of the Association of Asia Pacific Airlines (AAPA), Richard Stirland, has painted a gloomy industry view of the future saying governments must allow cross border airline mergers and acquisitions if essential air services are to be sustained.

"Airlines and their managements must think the unthinkable, face reality and prepare for the worst, even if in the longer term, matters gradually improve," said Stirland in the AAPA's 2001 annual report.

"Unfortunately, for many airlines the longer term may never come. They will disappear and consolidation seems inevitable. Therefore, if essential air service is to be sustained, and air transport is to emerge from the long dark night which threatens, governments must move on ownership and control to permit cross border mergers and acquisitions.

"In the interim, governments must give every possible support, short of subsidy or direct investment, to their airlines if they wish to see them and their vital contribution to the economy survive. Much of this support could be in the form of the removal or reduction of taxes, charges, airport fees, operational curfews and other restrictions not related to safety and security.

Stirland said confidence in the safety of air travel "has been shattered at a blow" by the September 11 terrorist attacks in the U.S. "In the next two years the industry must wage a titanic struggle to persuade the public ... that air travel is not only safe but remains a pleasurable experience," he said.

This must take place "against a background of potentially catastrophic financial results, the strangulation of airport facilitation by onerous security arrangements and a probable deterioration of inflight service because of limitations also imposed by security considerations," said Stirland.

AAPA director general Richard Stirland: gloomy picture

"The stifling impact of enhanced security on all aspects of airline operations can hardly be exaggerated. It will range from verification of identity at time of making a booking, through lengthy airport procedures and inability to make rapid connections at hubs, to limitations on baggage and a whole host of other retrograde steps.

"Every single aspect of this implies higher costs and lower productivity of aircraft and staff. Governments will only bear a fraction of this cost; passengers and shippers must bear the brunt of the higher costs, providing a further disincentive to travel and commerce, depressing growth rates further. The whole value and purpose of air travel and air transport will be in question and one commentator has already suggested that this terrorist attack spells the end of short-haul air transport in Europe and the U.S., as alternative modes such as coach and rail will be infinitely less stressful and significantly cheaper.

"The demise of such services would in turn have a major impact on hub and spoke operations and a further ripple effect on alliances: What is the value of a transatlantic alliance if neither partner can offer beyond connections over short-haul or domestic routes? What is the value of a hub if security demands a re-checking of passenger identity etc., at every transfer point?

"At the other end of the spectrum, what future is there for a 600-seat aircraft in a world of high fares, depressed markets, lengthy security checks and a need to monitor and possibly restrain passengers from moving around in flight? What airline will be able to afford any new aircraft, indeed any new service enhancement over the next five years?

In the long-term, said Stirland, air transport must inevitably rise from the ashes along with regional economies and the natural growth of international travel and tourism. "But between then and now stretches an indeterminate period of disappointment and frustration," he added.

AAPA fleet grows 5.2% in 2001

The average age of the AAPA fleet as of November 1 2001 was 8.49 years. This compares to 8.06 years a year earlier.

The number of aircraft in service is 1,264, up 62 aircraft or 5.2% on the year 2000.

Twelve AAPA carriers increased the size of their fleet during the year. The two Japanese operators, Japan Airlines and All Nippon Airways, boast the largest fleets with 151 and 142 jets respectively.

Vietnam Airlines added six planes to its fleet – a growth of 31.6% – while Cathay Pacific Airways had 12 new aircraft delivered in the year to increase its fleet to 74. AAPA members have ordered 280 aircraft to be delivered over the next five years.

Japan Airlines: Asia's largest carrier with 142 planes

ASSEMBLY IN FOCUS

Garuda Indonesia was the host airline at the Association of Asia Pacific Airlines' 45th Assembly of Presidents held in Bali in November. Our picture gallery shows delegates and guests mingling at functions during the event.

A taste of Indonesian culture at the Assembly of Presidents

China Airlines president Christine Tsung enters the spirit of the occasion with Cathay Pacific deputy chairman and chief executive, David Turnbull

Japan Airlines managing director passenger sales, Akihiko Kaji, Mrs Kyoko Kaji, with Sabre senior VP Asia-Pacific, Michael Baldwin

Korean Air chairman, Y. H. Cho, left, with Philippine Airlines president and AAPA chairman, Avelino Zapanta, centre and Martin Craigs, BAE SYSTEMS, executive VP Asia

Korean Air senior VP international affairs and alliances, Bo Hee Won

Asiana Airlines president Chan Bup Park and wife Kim Hea Ja

Malaysia Airlines managing director, Datuk Md Nor Yusof

Rolls-Royce regional executive Chris Bewley

Korean Air associate general manager William Han with Vietnam Airlines deputy director corporate affairs, Nguyen Huy Hieu

Cathay Pacific chief operating officer Philip Chen

THAI in danger of collapse, says chairman

Share offering now unlikely until 2003

Thai Airways International: economic and internal problems are threatening its survival

Thai Airways International (THAI) has agreed to a pay rise for its pilots although its chairman has warned the cash-strapped airline could be wound up within three years if radical re-structuring was not implemented.

THAI is US$2 billion in debt, a figure that is 18 times the size of its equity.

"If we continue managing the way we have, I can guarantee that in no more than three years, the company will collapse," the *Bangkok Post* quoted chairman and acting president, Virabongsa Ramangkura, telling a staff meeting.

The Bangkok newspaper said the Thai government, which owns 93% of THAI, has offered help. It has said if the airline did not make enough money from its share float, it would issue bonds to shore up the company's financial position. Since then THAI director and finance ministry permanent secretary, Somchainuk Engtrakul, has said the float is likely to be postponed until 2003 because of the dire economic climate and the airline's internal problems.

Exchange rates, the cost of new aircraft, jet fuel and insurance cover, especially since the September 11 U.S. terrorist attacks, are said to have largely contributed to THAI's mountain of debt.

But one of the carrier's other major problems is that it is grossly overstaffed. Just how overstaffed can be gauged when it is compared with other major Asian carriers. THAI, which has a fleet of 81 aircraft, employs 25,000. Singapore Airlines, with 100 aircraft, has 14,000 people on its books while Cathay Pacific Airways, with 74 jets, has a staff of just over 14,000.

According to the newspaper report, Virabongsa, a former finance minister, said THAI had no staff reduction plans, but a freeze had been put on hiring.

However, overtime is to be radically reviewed and fewer aircrew deployed on flights. Other cost-saving measures include slashing donations to charitable projects and cutting public relations and office expenses.

In November, THAI decided to close seven of its eight offices in North America following the fall in demand since September. They were in Seattle, San Francisco, Dallas, Chicago, Washington D.C., New York and Toronto. Los Angeles will remain open. The carrier also eliminated one of its seven weekly flights to Los Angeles.

The chairman also said he is determined to weed out corruption at the airline.

THAI pilots, who were the centre of a bitter dispute that led to flight delays earlier this year, will receive pay rises of totalling US$3.6 million a year, or around US$317 a month for each of the carrier's 950 cockpit crew.

Virabongsa said the income of Thai pilots has fallen far short of those of other airlines, following the baht's fall in value during the Asian economic crisis.

The pilots' demands degenerated into a wrangle with the airline's staff union after senior union officials, who are flight attendants, accused pilots of doing little work.

The pilots refused to operate flights with the officials on board until the disagreement was sorted out in talks with management. THAI will reduce the salaries of some pilots who hold management positions to help pay for the increases.

The airline now faces demands from other staff for similar pay increases. Its official staff union said the increase should be applied to all of THAI's 25,000 staff. Union president, Jaemsri Sukchoterat, said the pay award for pilots was unfair to other staff.

Meanwhile, the airline has set up a subcommittee, chaired by Virabongsa, to consider cost-cutting options, including the hiring of foreign consultants and a reduction of some uneconomic domestic routes.

THAI suffered a US$4.8 million drop in revenue in September after the U.S. terrorist attacks. The airline said it hoped cost-cutting measures would save nearly US$50 million a year.

THAI has had a terrible year. In September, its entire board of directors resigned amid bomb threats and rows over management, just as the airline was preparing for part-privatisation. The timing of the share sale is still on hold pending a better economic climate.

At press time the airline was still without a president. Bhisit Kuslasayanon was sacked by the country's prime minister, Thaksin Shinawatra, in September.

Ansett future uncertain, Qantas to lay off 2,000 staff, Virgin Blue on offer

STATE OF FLUX

By Tom Ballantyne

Australasia's airline industry continues to be in turmoil with the future of troubled Ansett Australia still unknown, thousands of Qantas Airways workers set to join the ranks of the unemployed before Christmas and a large share of no-frills carrier Virgin Blue to be put on the market by owner Sir Richard Branson.

Ansett's destiny remains uncertain despite administrators naming a consortium of two Australian businessmen, Lindsay Fox and Solomon Lew, as the preferred bidders.

In November, Virgin Blue declared it will make an Ansett bid, but only after looking at the company's books.

Even though Qantas is one of the few global carriers likely to record a healthy profit this year, chief executive, Geoff Dixon, announced in November that 2,000 of the airline's 33,000 staff would be made redundant by year end.

The chief executive insisted the action was necessary. Although the carrier has captured 93% of the Australian domestic market since Ansett collapsed in mid-September, Qantas makes 78% of its profits from international operations.

Without Ansett's demise, the airline would have been forced to cut up to 8,000 jobs, according to Dixon.

However, the maintenance union, which went on strike in late November, wants a pay rise for its members, but Qantas has imposed an 18-month pay freeze. Other unions have agreed to the freeze, but maintenance staff are holding out.

In addition to redundancies Qantas has:

- postponed the launch of low-cost international operator, Australian Airlines.
- cancelled all services to New York. Since September 11 only 20% of seats have been sold.
- trimmed services to Rome, Johannesburg, Bangkok, Manila and Buenos Aires.
- retired four elderly Boeing B747-200s more than a year ahead of schedule.

International capacity has been reduced overall by 11%. Bookings from Japan have slumped 25% and in the UK by 23%.

While Qantas protected its flanks, there was closure on a deal to secure Ansett's future. An Ansett staff buyout group, Anstaff, has withdrawn from the race and put its weight behind two local millionaires, transport king, Lindsay Fox, and retail magnate, Solomon Lew. The two Melbourne-based businessmen want to re-launch Ansett with a fleet of 29 new Airbus A320s, employing 4,000 of the original 16,000 staff.

Their bid hinges on a US$100 million payout from the Federal Government to cover the cost of entitlements due to staff who lost their jobs after the collapse. Canberra is continuing to refuse to inject taxpayers money into the package, putting the deal in doubt.

Qantas Airways: international woes result in 2,000 job losses

Meanwhile, Sir Richard Branson, whose corporate flagship Virgin Atlantic Airways is haemorrhaging cash, is looking to raise money for ventures elsewhere in his corporate empire and is offering a large share of Virgin Blue to potential buyers. Up to 49% is probable, but a majority share has not been ruled out.

Thanks to Ansett's problems and the disappearance of Impulse Airlines, Virgin is seen as an attractive investment. It is expected to grow rapidly over the next few years and is planning a partial public float in the first half of 2003.

Troubled Air New Zealand (Air NZ) is turning to Asia to lift its flagging fortunes. Its two primary markets, the U.S. and Australia, were ravaged, the first by the U.S. terror attacks and the latter through its handling of its former subsidiary Ansett. Air NZ cut the carrier loose to save itself from collapse, angering Australian travellers.

Rescued from financial crisis in October by a government cash injection, Air NZ has increased flights to Japan, Hong Kong and Taiwan. Sales and distribution senior vice-president, Norm Thompson, said the move is based on predictions of strong growth in Asian tourists visiting New Zealand.

QF buys Impulse, orders planes

Qantas has purchased former low-cost start-up Impulse Airlines outright for an undisclosed sum.

Impulse withdrew from the domestic market in May and agreed to lease its fleet of eight B717s and 13 Beechcraft 1900Ds to Qantas on a contract basis. The fleet and 550 pilots, flight attendants, engineers and ground staff have been taken on board by Qantas.

With Ansett operations slashed, Qantas domestic market share has soared. In October the airline ordered 15 Boeing B737-800 new generation jets with 60 options. Qantas will pay less than the listed $4.5 billion for the 75 planes because they were purchased through oneworld partner American Airlines, which has an exclusive supplier deal with Boeing at a guaranteed lower rate. Earlier in the year Qantas finalised a US$4.5 billion order for 12 Airbus A380s, 13 Airbus A330s and six B747-400s.

A ‘family’ revolution

China Southern, Sichuan Airlines fly the Embraer flag

By Jonathan Sharp, in Sao Jose dos Campos, Brazil

In the immediate post-September 11 era, it might seem out of place for the boss of a leading aircraft manufacturer to quote revolutionary icon Che Guevara, as Embraer president Mauricio Botelho did as, with typical effervescence, he warmed up guests invited to the roll-out of the Brazilian company’s latest jet airliner.

But then, Botelho has not been averse to taking questionable initiatives in the six years since he took over – and rejuvenated – the company that now has the proud boast of being the country’s largest exporter, eclipsing coffee.

“One must be tough without losing tenderness,” was the paraphrased Che Guevara quote Botelho chose at a dinner speech on the eve of the October 29 roll-out of the 70-seat Embraer 170, the first to appear of a new family of jets leading up in size to the 108-seat 195 model.

Embraer has already been forced to be tough in the wake of the terror attacks on the U.S., cutting 1,800 jobs or 14% of the company’s workforce and reducing production in 2002 of existing Embraer models from 20 to 11 per month.

Parked at the Embraer plant at Sao Jose dos Campos near Sao Paulo were two Embraer aircraft hot off the production line and in the livery of China’s biggest carrier, Guangzhou-based China Southern Airlines.

One Chinese carrier, Sichuan Airlines, is already operating five Embraers, while two other mainland airlines, including China Southern, have firm orders for 30 models. Approval of the latter orders by central Chinese authorities is awaited.

Botelho spoke of a China market in excess of 300 aircraft in the next 10 years and, given China’s huge investment already in larger aircraft, “we believe it is the right time to provide aircraft in the smaller and medium-sized market”.

“We are extremely confident in attacking this market,” he said.

But so, of course, are Embraer’s competitors. Bombardier’s president, Robert Brown, has announced the Canadian manufacturer is in substantive talks with potential Chinese partners to become the first foreign firm to manufacture regional aircraft in China.

Bombardier, which has sold 25 aircraft to China worth about US$138 million and delivered the first two of six CRJ200s to Yunnan Airlines in November, also has established a training centre for regional jets in the eastern province of Shandong.

“We want to make a commitment over a long period of time that would allow us to go much further than a small manufacturing venture,” said Brown.

Not to be outdone, Fairchild Dornier recently delivered its 19th 328JET to China’s Hainan Airlines and the carrier has decided to convert its 21 options to firm orders. More orders are likely, Hainan has said. Fairchild announced at the Beijing Air Expo in September it had signed an agreement with the Harbin Aircraft Industrial Group to produce 328JET components.

Moritz Suter, chairman of Switzerland’s Crossair which is the launch customer for the Embraer 170, who told a press conference before the roll-out: “We don’t need bigger planes. We need the right size and the right size for tomorrow is smaller, not bigger.”

More specifically, according to Botelho, the reasoning in favour of small jets runs as follows: traffic reduction on many major routes will tend to shift operations to small and medium-sized aircraft, thus replacing capacity by frequency.

Moreover, tighter security measures at large airports and resulting congestion will favour direct flights in smaller aircraft. The attractions of smaller aircraft may put more pressure on the industry to discard contract scope clauses that restrict the use of such jets.

The Embraer 170: the first of the company’s new family

Embraer chief executive Mauricio Botelho: expanding in the China market

Botelho also pointed to the existence of a large number of aircraft 20 or more years old that no longer complied with new environmental regulations nor competed in profitability with the new commercial jet generation.

Whether the new Embraer family – which is dropping the regional jet designation ERJ in the hope that it will be bought by major airlines and not just regional operators – will be attractive in light of what Botelho calls “the new paradigms” of the industry remains to be seen.

But analysts give credit to Embraer for developing a new family of jets instead of building stretched versions of existing models, thereby demonstrating a boldness of vision that Che Guevara himself might have appreciated.

2001 IN REVIEW

The day the world changed

The September 11 U. S. terrorist attacks have re-shaped global civil aviation with a scope and depth that the industry could not have imagined before that terrible assault on humanity.

The scale of the airline traffic collapse has varied in impact by region, but even in the Asia-Pacific, the hot spot for future commercial aviation growth, the present crisis has cut deep into the cash reserves of carriers.

In the last four months, passenger numbers have declined by an estimated 18-25% among the regional and international carriers of the region. While Qantas Airways now controls around 90% of the domestic Australian market because of the collapse of Ansett Australia, its international business has declined sharply and it will lay off up to 2,000 employees before Christmas. Sixteen thousand Ansett staff lost their jobs when the airline went into administration on September 14 and only an estimated 4,000-6,000 of them are expected to be re-offered work if the airline is revived as a fully-fledged domestic carrier.

Singapore Airlines, in addition to executive pay cuts, announced in November that it let go 114 cabin crew trainees mid-course because there would be no jobs for them when they graduated. At Korean Air staff unions have negotiated a deal that saves more than 1,000 jobs in exchange for each worker taking one month of unpaid leave. All ANA employees have been asked to take a month-long holiday at 60% of their regular salary. But hundreds of jobs also will be lost. In Taiwan, EVA Air has already sacked some staff.

In the meantime, global players such as Cathay Pacific Airways said it could begin parking some of airplanes in early 2002. At the last count, the number of transpacific services cut by Asia-Pacific operators was heading towards 90.

'The days when passengers were offered a view of their aircraft landing from the cockpit jump seat are gone'

For other carriers in the region September 11 might prove to be the proverbial straw that broke the camel's back. The futures of three government-owned airlines, Air New Zealand, Malaysia Airlines (MAS) and Thai Airways International (THAI) are under threat. They already were in trouble before September 11 through bad management, mismanagement, corporate indulgence or all of the above. Their debts are massive and they do not have the cash flow from ticket sales to service their loans without continuing government funding support, layoffs and top to bottom company restructuring.

But it is not just job cuts, salary freezes, parked aircraft and route trimming that have become part of the new raw world of aviation post September 11. Failures in security had largely contributed to the success of airborne terrorist attacks so security in the air and on the ground has been moving to a new level of awareness, professionalism – notably in The Americas -and hundreds of millions of dollars of additional costs for the industry.

Aboard the aircraft, the days when passengers were offered a view of their aircraft landing from the cockpit jump seat are gone. Instead cockpit doors are armoured plated and reinforced and allow entry for only a tiny group of authorised onboard personnel. At some airlines, including a few Asia-Pacific carriers, sky marshals are now occupying some of those empty seats aboard aircraft.

Put together, these factors suggest life will be a struggle for the world's airlines in 2002, but there is some good news on the horizon. Analysts believe oil prices could drop to as low as US$10 a barrel in the next year. They also say the U.S. economy could begin its recovery from mid-2002. But these positive predictions will only be good for the airline business if passengers regain their confidence in the safety of flying. It is up the industry to convince them that this will be the case.

That was the year that was...

ACQUISITIONS

In March, the Air New Zealand Ansett Group (AirNZ Ansett) won the battle for control of Hazelton Airlines. AirNZ Ansett had been competing with Qantas Airways for the Australian eastern seaboard regional carrier, but Qantas pulled out of the running after the Australian Competition and Consumer Commission (ACCC) vetoed both bids based on concerns that some of Hazelton's slots at Sydney Airport might be misused by a large owner. AirNZ Ansett persisted and won approval for the takeover after answering the ACCC's concerns. All that came undone on September 14 when AirNZ cut loose Ansett and put it into administration. Other regional carriers majority-owned by Ansett, including Hazelton, are in the hands of the administrators and are looking for new owners.

In China, Hainan Airlines received permission to buy 51% of unlisted Xinhua Airlines from the state-owned Shen Hua Group for US$97.6 million. Hainan also acquired Changan Airlines and Shaanxi Airlines in recent months.

Meanwhile, the merger of 10 Chinese mainland airlines controlled by the Civil Aviation Administration of China (CAAC), is still bogged down in negotiations. Mainland sources told *Orient Aviation* it could be some time, "months even years", before agreement is reached. Air China, China Southern and China Eastern will head three groupings. China Southern is understood to have signed Letters of Intent with China Northern and Xinjiang Airlines about a merger deal, but it has to be ratified by the CAAC.

AIRPORTS

To ease the near manic demand for slots at Narita, Japan's aviation authorities lifted a ban on overnight flights at Tokyo's Haneda Airport. Plans for a third airport in the Tokyo metropolitan area also could be scrapped pending the results of a study into adding a fourth runway at Haneda.

The under-used and heavily indebted Zhuhai International Airport went into bankruptcy in mid-year, just four years after its opening. Built to accommodate up to 12 million passengers a year, the US$885.7 million facility attracted only 15 flights a day in 2000, with an average of 40,000-50,000 passengers a month. Critics said it was too close to rivals at Hong Kong, Shenzhen, Guangzhou and Macau. The long-term future of the airport is not known, but it is understood the bi-annual Zhuhai Air Show will continue to be held at the facility.

Recently the Hong Kong Airport Authority began looking into establishing a cargo logistics facility at the airport, in conjunction with unnamed partners.

Air New Zealand: year to forget

Ground has been broken for the New Baiyun International Airport, 30 kilometres north of Guangzhou. It is scheduled to open in October 2003. The current Baiyun Airport is the busiest airport in China.

On March 29, while the rest of the aviation world watched nervously, Incheon International Airport on South Korea's west coast enjoyed a relatively glitch-free opening. Known as "The Winged City", the US$5.5 billion facility replaced Seoul's cramped and shabby Kimpo Airport for international operations. After 100 days of operation, but before September 11, daily income at Incheon was already 70% higher than its predecessor.

ALLIANCES

Y.H. Cho, chairman of Korean Air (KAL), said his airline would resume code-sharing with Air France and Delta by the end of this year. Delta cancelled its code-share agreement with KAL more than two years ago following a series of KAL accidents over the last five years. KAL has since implemented a third-party flight safety retraining programme and, to ensure objectivity in testing standards, has hired its first senior foreign flight operations director.

In November the parties opened a U.S. cargo sales joint venture with headquarters in Atlanta, Georgia.

AGREEMENTS

In what could be a sign of things to come, Japan Airlines (JAL) and Japan Air System (JAS) announced in November that they would merge. The move, to be completed in 2004, will make the new carrier the third largest in the world in terms of revenue earned in 2000. Industry observers have speculated that major carriers in Taiwan and Korea may act along

COMINGS A

Almost half the membership of the Association of Asia Pacific Airlines changed their chief executives in the last 12 months. For some it was a question of did he jump or was he pushed? Others made a more gracious exit.

All Nippon Airways president, Kichisaburo Nomura, was promoted to chairman in April. He was replaced by Yoji Ohashi.

Early in the year Qantas Airways managing director, James Strong, stepped down and out of aviation altogether after leading the carrier into the private sector and achieving six years of record profits. Strong's timing now seems impeccable given the turn of events in the industry since he left Qantas. Geoff Dixon is now in the hot seat with lots of hot issues to handle.

UP: Kichisaburo Nomura, promoted to chairman at ANA

Others were less fortunate. Bhi-sit Kuslasayanon was rewarded for 30 years of loyal service to Thai Airways International (THAI) with dismissal by Thailand's prime minister, Thaksin Shinawatra, after just a few months in charge. It may be a blessing in disguise. The airline is in turmoil and its chairman and acting president, Virabongsa Ramangkura, said the airline has US$2 billion of similar lines in the future.

United Parcel Service (UPS), after reporting record revenue and earnings for 2000, including a 5% increase in Asia Pacific volume in the fourth quarter, signed a Letter of Intent with the Philippine government to invest US$300 million in the former Clark Air Force Base to establish a regional hub. In the meantime, UPS and all other international cargo carriers are continuing their campaign to introduce open skies out of Hong Kong.

Shenzhen, Hong Kong and Macau grew closer with the agreement between Helicopters Hong Kong Ltd. and East Asia Airlines Ltd. of Macau to provide helicopter passenger services between the three cities.

Direct flights between China and Taiwan appear closer after Taiwan's China Airlines (CAL) reached agreement with Shanghai-based China Eastern Airlines to take a 25% stake in its freight arm, China Cargo Airlines. Beijing's approval of the deal is needed, but direct links look increasingly possible following meetings between Chinese aviation regulators and representatives of Taiwan's six carriers in mid-October. By year end the Taiwanese Government was openly discussing dismantling its decades long travel ban with mainland China.

ANNIVERSARIES

Philippine Airlines (PAL) started the year well, marking its 60th anniversary with its second successive year of profits. The carrier returned to Shanghai in October to inaugurate its five-times-a-week B737-400 service, PAL's first flight to the city since the Communist takeover in 1949. It also inaugurated services to Bangkok and Melbourne.

Kong Dong, the man responsible for running the upgraded Shenzhen International Airport and overseeing extensions to the Beijing Capital Airport, succeeded Wang Guixiang as executive director and president of the mainland's Hong Kong-based China National Aviation Corporation (Group) Ltd.

Japan Airlines (JAL) celebrated its golden anniversary in October. In its 50th year of service, JAL stands as Asia's largest airline and the world's fifth largest, according to IATA passenger and cargo operations data.

DISAGREEMENTS

At press time the five month dispute between Cathay Pacific Airways and its pilots continued to rumble on. The pilots started "limited" industrial action on July 3 to demand improvements to duty schedules and pay issues, actions which led to flight delays and cancellations. The company fired 53 pilots for being in breach of their contracts. In October, the pilots' union, the Hong Kong Aircrew Officers Association, called off the action to encourage management to return to negotiations. The decision has not gained the pilots any concessions and there is talk of industrial action being re-instated.

Thai Airways International pilots had more success. Despite the carrier being US$2 billion in debt and having a questionmark over its long-term survival, the company has agreed to pay rises totalling US$3.6 million a year, or around US$317 a month, for each of the carrier's 950 cockpit crew.

During the course of this year Korean and Japanese pilots have also taken strike action against their companies.

E-BUSINESS

Cathay Pacific Airways (CPA) launched inflight Web access and e-mail throughout its fleet using Tenzing Communications technology, a global inflight communications company. Earlier in the year Taikoo Aviation Technologies, a subsidiary of CPA, acquired a 10% stake in the U.S.-based Tenzing.

Online travel goes by a new name in Asia following the rebranding of Travel Exchange Asia as Zuji, which comes from a Chinese word meaning 'footprint'. The online travel site is a joint venture of 11 Asia Pacific airlines.

ON THE MOVE/NEWSMAKERS

French Canadian Pierre Jeanniot's term as director general of the International Air Transport Association (IATA) was extended to 2002. The move to reaffirm Jeanniot came after former John Swire & Sons executive director and Cathay Pacific chairman, Peter Sutch, and Qantas Airways' chief executive, James Strong, declined offers to run for the top post at the Geneva-based organisation. At the same meeting, the chairman of Korean Air, Y.H. Cho, was one of 31 airline chiefs elected to the IATA board of governors. Cho's appointment marked his return to public view, coming more than two years after he was charged with tax evasion and foreign currency crimes in his native South Korea.

NOTABLE

The interim report from the investigation into the October, 2000, crash of an SIA B747-400 in which 83 people were killed suggested some facilities at Taipei's Chiang Kai-shek Airport were faulty. The final report is expected in December.

The newly elected Thai government had great difficulty in coming to grips with the politics and problems facing Thai Airways

ND GOINGS

debt and will disappear from the skies in three years if drastic steps are not taken to restructure THAI.

Former Qantas Airways co-deputy managing director, Gary Toomey, found he had inherited massive problems when he took over as head of the Air New Zealand Ansett Group in January. By October, Air New Zealand had cut its bankrupt Ansett subsidiary adrift and posted record losses for a New Zealand company. Not surprisingly, Toomey did the decent thing and resigned. The airline has yet to name a successor.

Malaysia Airlines (MAS) chairman and majority shareholder, Tajudin Ramli, sold his stake in the carrier back to the government early this year and left the airline with losses of US$243 million to March 31. The new chairman, Tan Sri Azizan Zainul Abidin, recently said the previous management had driven MAS to the edge of bankruptcy with a work culture of "abuse, plunder of the company for personal gain, high cost and inefficiency".

DOWN: Bhisit Kuslasayanon dismissed as THAI president

Also during the year, Daniel Wu replaced Frank Hsu as president of EVA Air and Park Chan-bup succeeded Park Sam Koo at Asiana Airlines as president and chief executive.

Top safety marks for A

In a year of terrorist-driven aviation disaster, Asia's airlines had their safest 12 months for decades. There were no major airline crashes and only four fatalities. While there were six hull losses, four occurred on the ground at Colombo, in Sri Lanka, when rebels attacked the city's international airport and destroyed two A330s, one A340 and an A320 of SriLankan Airlines.

Elsewhere, one person died and seven were injured at Bangkok Airport when a Thai Airways International B737 exploded at the gate, an accident later attributed to the aircraft's auxiliary power unit (APU).

The only aircraft crash was a non-jet accident. A Fokker F-27, which belonged to Indonesian carrier, Merpati Nusantara, came down near Surabaya-Juanda Airport. Three people died.

It was a year of great encouragement on the safety front, although it was by no means perfect.

It began with a shadow being cast over Ansett Australia after the grounding of six of its elderly fleet of Boeing B767s because of a failure to conduct required safety checks.

This was not the end of Ansett's woes. Later in January, another B767 was grounded when it was discovered the aircraft had been fitted with a wrong part. Then, during the busy Easter holiday, the entire 10-strong B767 fleet was grounded by Australia's Civil Aviation Safety Authority (CASA) after four serious safety lapses in as many months. As some aircraft were getting back into the air CASA found a B767 that flew with faulty escape chutes. CASA chief Mick Toller grounded the B767 fleet again calling it "the last straw".

In September, the trouble-plagued airline was put into administration and is now operating as a shadow of its former self. At press time its long-term future was still in doubt.

In January, two Japan Airlines jets, a B747-400 and a DC-10, came within 10 metres of each other while flying near Tokyo. The near-miss – there were 677 passengers and crew aboard the two planes – was the result of an air traffic control error.

A three-year inquiry by Indonesian aviation authorities into the 1997 crash of a SilkAir B737 over Sumatra, in which 104 died, came to an inconclusive end in February.

Widespread speculation attributed the accident to the suicide of the aircraft's captain, Singaporean Tsu Way Ming, but Indonesia said it had been unable to reach a conclusion about the cause of the crash.

The U.S. National Transportation Safety Board (NTSB), however, said investigations "strongly supported" the crash could be "explained by intentional pilot action". Investigations by Singaporean authorities concluded the pilot was psychologically sound and financially solvent despite having large debts at the time of the crash and a history of disciplinary problems as a pilot.

In May, the spotlight was on South Korea when a U.S. Federal Aviation Administration (FAA) inspection team concluded the country's air safety investigators lacked objectivity with its international carriers Korean Air (KAL) and Asiana Airlines, investigation staff were not technically competent and problems existed in enforcing flight operation rules and pilot screening.

That was the year that was...

(continued from previous page)

International (THAI). Prime Minister Thaksin Shinawatra was scathing in his criticism of the national flag carrier – at one stage he said "it sucks" – declaring it would, and then it would not, seek a foreign investor to take an estimated 10% stake in the troubled airline. When Virabongsa Ramangkura was appointed acting THAI president after the dismissal of Bhisit Kuslasayanon, the wooing of foreign investors resumed.

The part-privatisation saga, which has been on and off for over four years now, was to have taken place in November, but, surprise, surprise, it has been put off again. The latest timetable is for the float to be suspended until 2003 because of the economic situation and the airline's internal problems. That's the date the THAI chairman and acting president has said THAI could be history unless it gets its act together.

While THAI continued to navigate the turbulence of government ownership, its domestic rivals were busy making inroads to the market. Bangkok Airways, Angel Air and PB Air all expanded their regional and domestic networks in 2001.

Korean Air chairman, Y. H. Cho: joined IATA board of governors

Australasia lost three of its most noted aviation pioneers during the year, all passing away after lengthy periods of illness.

They were Sir Dennis Buchanan, who founded Queensland-based Flight West Airlines, which was recently put into voluntary liquidation by the family, Don Kendell, who set up Kendell Airlines and Brian Grey, who became known as the "Little Aussie Battler" after setting up Compass Airlines, Australia's first no-frills operation, in 1990. He ran out of money a year later.

Philippines Immigration chief Andrea Domingo fined tiny Continental Micronesia Airlines 50,000 pesos (US$1,025) for smuggling a mistress of disgraced former president Joseph Estrada into the country in late February. Laarni Enriquez had fled the country in January to avoid being subpoenaed to testify at impeachment hearings against Estrada.

United Airlines apologised on behalf of cabin crew who failed to notice a passenger die during a flight to Singapore from Hong Kong.

After swallowing no-frills competitor Impulse Airlines in May, Qantas Airways unveiled plans for Australian Airlines, a low-cost international carrier. However, the turmoil in the international market following the September 11 tragedy in the U.S. prompted Qantas to put the launch on ice.

sia's carriers

For flag carrier KAL, which itself has had a series of safety problems in recent years, and Asiana, the finding came as a severe and surprising setback. Both airlines had spent millions of dollars improving their own safety systems and were now penalised for oversights of their government regulatory agencies.

By August, the FAA had officially downgraded Korea's air safety rating, a move which prevented the two airlines from adding new services to the U.S. and forbidding code-share flights on future services.

However, South Korea's Ministry of Construction and Transportation completed the overhaul of its air safety regime in November and the FAA brought forward an inspection date from 2002 in the hope a decision on an upgrade could be made before the 2001 Christmas holiday period.

The violent events in Sri Lanka in July, followed by the U.S. terrorist attacks of September 11 have forever altered the air safety equation.

Security is now more than ever an integral part of airline safety programmes. Carriers and authorities alike are studying the pros and cons of air marshals, strengthened cockpit doors, video cameras in aircraft cabins, dramatically heightened checks of passengers and their luggage on the ground and improved intelligence.

There are other aspects of safety that have attracted headlines through the year. Air rage has been an ongoing thorn for airlines and deep vein thrombosis (DVT) emerged as a controversial topic.

Amid the controversy, the region's airlines and aviation bodies have been working steadfastly to improve airline safety and to find new ways of trimming accident and incident statistics. Asia-Pacific carriers, among them Cathay Pacific, Air New Zealand and Taiwan's China Airlines, are breaking ground with an evolutionary new safety programme in the cockpit, Line Orientated Safety Audits (LOSA).

China Airlines: introducing Line Oriented Safety Audits

Designed by the University of Texas Human Factors Research Project, it is now emerging in an operational form and is potentially the biggest advance in air safety improvement in decades.

For the first time, the system pinpoints crew errors and highlights the reason why crashes take place, instead of the more traditional path of reacting to accidents using material collected from flight data recorders after the event.

The region is also playing a leading role in attempts to bring airline safety audits under control: carriers complain they are now subject to so many audits that there is a danger the focus of their maintenance and engineering departments can be distracted from the tasks they should be doing.

China leads region in plane orders

In Asia, China led the way with aircraft orders in 2001. Elsewhere in the region, carriers nervous about market conditions, even before the U.S. September 11 tragedy, were cautious when it came to their fleet requirements.

In January, China's XIAMEN AIRLINES signed a firm order for two Boeing 757-200s, bringing its total orders for the type to seven. February saw CHINA SOUTHERN AIRLINES buy two B747 freighters and THAI AIRWAYS INTERNATIONAL ordered a single B747-400.

In March, ALL NIPPON AIRWAYS purchased nine B767-300ERs and Taiwan's EVA AIR firmed up a Letter of Intent (LOI) for two Airbus A330-200s. EVA announced it would lease another six of the type from GECAS.

A month later ANA ordered three more A320-200s, which brought its total orders for the type to 28.

Also in May, SIA converted a LOI signed in February to a firm order for 10 B777-200ERs, aircraft destined to replace older Airbus A310-300s.

A month later, JAPAN AIRLINES signed an add-on order for three B777-200ERs. In July, Beijing-based AIR CHINA committed to a firm order for six B737-700s and Hong Kong's DRAGONAIR converted one option for an A330-300 to a firm order.

August saw JAPAN AIR SYSTEM order three A300-600Rs. They will join the 19 operating in the JAS fleet. SILKAIR in September firmed up an option on an A320-200.

Ironically, the year's biggest orders, at least in terms of aircraft numbers, came after the U.S. terror attacks. The China Aviation Supplies Import & Export Corp. (CASC) ordered 30 B737s in a deal worth US$1.6 billion. To be delivered between 2002 and 2005, the aircraft will go to four airlines; CHINA SOUTHERN (20 B737-800s), CHINA EASTERN (four B737-700s), HAINAN AIRLINES (three B737-800s) and SHANGHAI AIRLINES (two B737-800s). One B737-700 has yet to be been assigned to a carrier.

In October, QANTAS AIRWAYS confirmed an order for 15 B737-800s with options on 60 more. The firm orders have a list value of US$910 million, although the airline is understood to have acquired them at a far lower price by ordering them through alliance partner American Airlines.

QANTAS signed for two Bombardier Q300s in November, to add to one in July. The value of the three aircraft is US$43.9 million.

China's HAINAN AIRLINES converted options on 21 Fairchild Dornier 328JETs to firm orders in October. In November, Bombardier delivered the first two of six CRJ200s to YUNNAN AIRLINES. During the year Embraer delivered the last of five jets to SICHUAN AIRLINES while another two carriers, including CHINA SOUTHERN (20), have ordered a total of 30 Embraer aircraft.

AAPA CARRIERS SLASH TRANSPACIFIC FLIGHTS

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

The Association of Asia Pacific Airlines' (AAPA) consolidated revenue passenger kilometres (RPKs) recorded 1.8% growth in August, while the number of passengers carried (PAX) increased 4.1% to 9.7 million. Capacity increased 4.9%, which resulted in load factor declining by 2.4 percentage points to 77.7%.

Nine carriers registered growth in RPK, with Vietnam Airlines (VN – 34.2%), Royal Brunei Airlines (BI – 16.2%), Asiana Airlines (OZ – 12.5%) and Philippine Airlines (PR – 12.4%) posting the highest growth. On the other hand, four carriers experienced a slump with All Nippon Airways (NH) traffic declining 12.8%, Cathay Pacific Airways (CX) falling 5.6%, EVA Air (BR) down 4% and China Airlines (CI) off 2.5%.

With the exception of All Nippon Airways and Cathay Pacific, all AAPA carriers showed a relatively sharp rise in the number of passengers carried, ranging from 2.6% (Singapore Airlines – SQ) to 27.4% (Vietnam Airlines). Vietnam Airlines had already flown more than one million passengers since January, an impressive increase of 33.4% compared to the same period last year. Other notable carriers with significant passenger growth to August were Royal Brunei Airlines (15.6%), Asiana Airlines (13.9%), Philippine Airlines (12.2%) and Garuda Indonesia (GA – 11.1%).

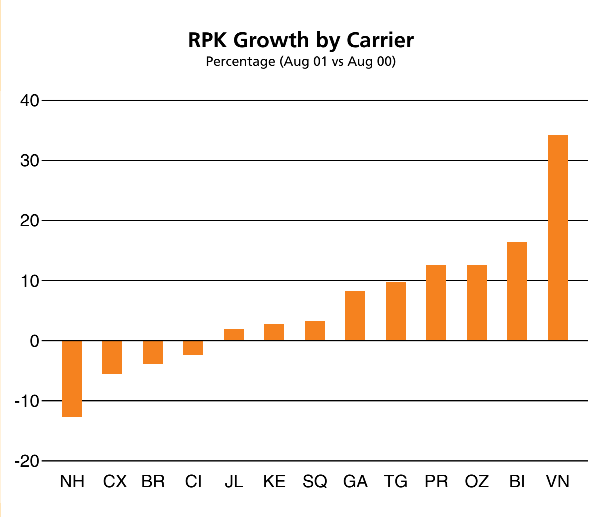
Ten carriers experienced declining load factors, ranging from a marginal fall of 0.1 percentage point (Asiana Airlines) to a drop of 8.6 percentage points (Vietnam Airlines). Three airlines, however, bucked the trend with improved load factors – Royal Brunei Airlines (5.3 percentage points), Philippine Airlines (3.1 percentage points) and Thai Airways International (TG – 0.03 percentage point).

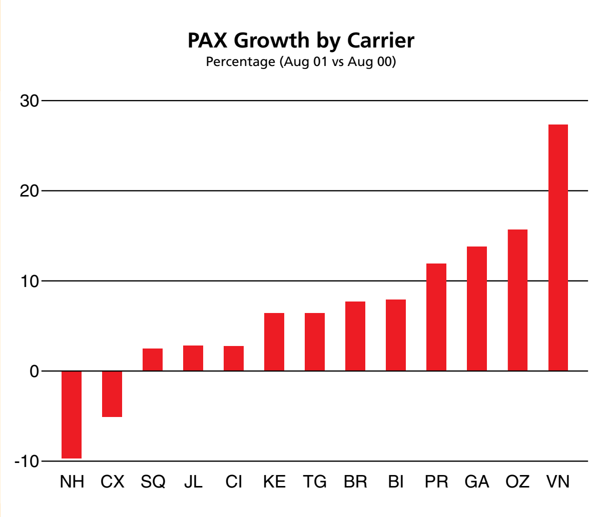
As in July, load factors remained above 70% with air travel peaking in August. Of the 13 reporting carriers, four had a load factor of over 80% – Asiana Airlines (84.5%), EVA Air (82.1%), China Airlines (81.6%) and All Nippon Airways (81.3%).

Cargo Results

Members' airfreight business took another beating in August with consolidated freight tonne kilometres (FTKs) falling 10.4% year-on-year. Capacity was flat and load factor fell 7.2 percentage points to 61.7%.

Vietnam Airlines (7.8%) was the only carrier to post an

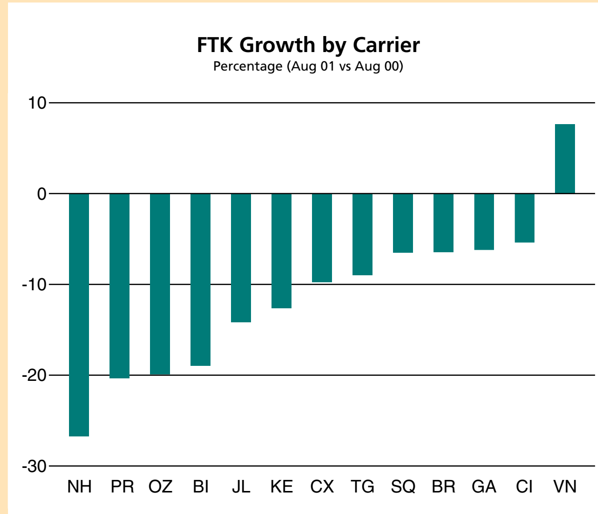


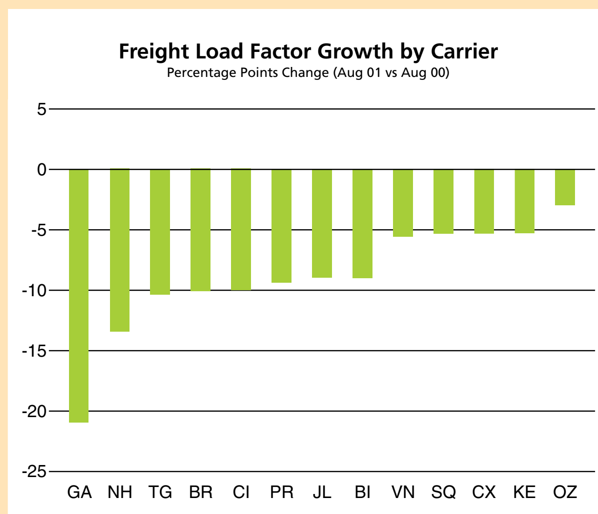


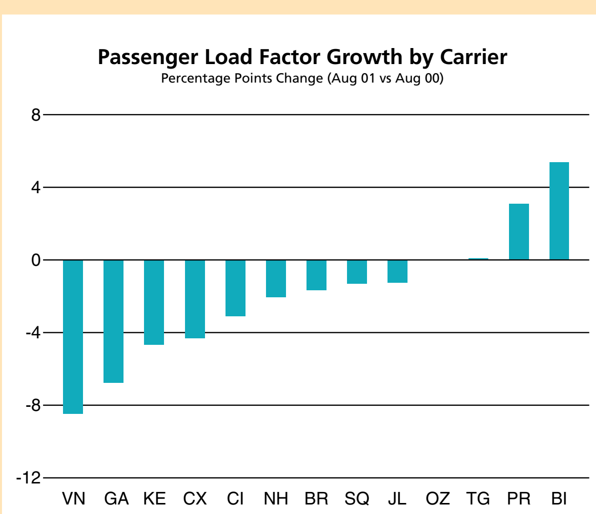
Vietnam Airlines: only AAPA member to increase freight traffic in August

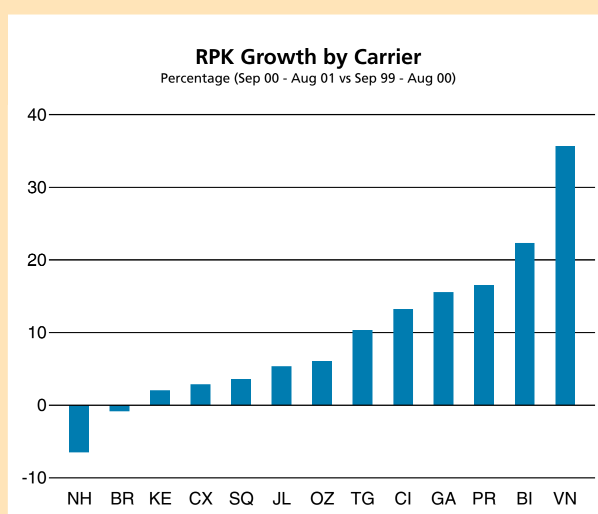
increase in FTKs. The carrier had an impressive year-to-date growth of 14.6%. The rest of the member airlines all recorded an FTK decline ranging from a decline of 5.4% for China Airlines to a fall of 26.8% posted by All Nippon Airways.

Five carriers cut capacity to check falling payloads, but the remaining eight member airlines boosted capacity in August. Nevertheless, all carriers suffered a decline in load factor. The heaviest casualties were Garuda Indonesia, down 20.9 percentage points, All Nippon Airways, off 13.4 percentage points, Thai Airways International, down 10.3 percentage points and a fall for both the Taiwanese member carriers, EVA Air and China Airlines,









of 10.3 and 10 percentage points respectively. The two Korean carriers, Korean Air (KE) and Asiana Airlines, and China Airlines reported load factors exceeding 70%. The remaining carriers managed a load factor from a mere 23.4% to 67.4%.

Results of the 12 Months to August 31, 2001

The consolidated revenue passenger kilometres of AAPA member airlines grew 5.2% for the 12-month period ended August 31, 2001. The number of passengers carried rose 5.7%. Capacity expansion of 5.3% was slightly ahead of traffic growth, which resulted in a load factor of 73.9%, down marginally from the previous 12-month period.

Cargo Results

AAPA consolidated freight traffic fell 3.9% for the period under review. Capacity expanded 2.6%, pushing down the load factor by 4.5 percentage points to 65.9%.

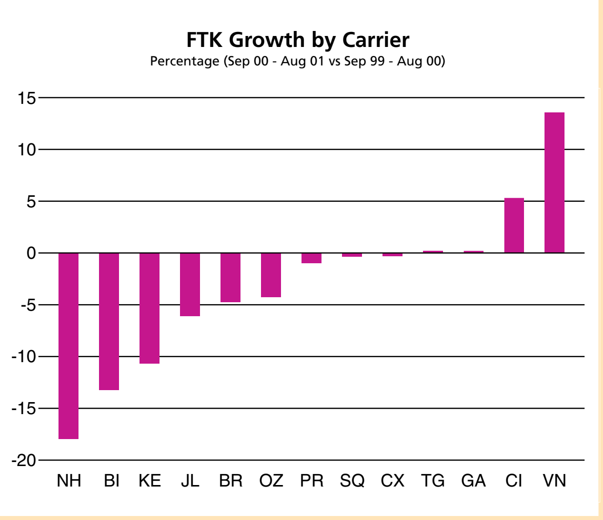
Summary

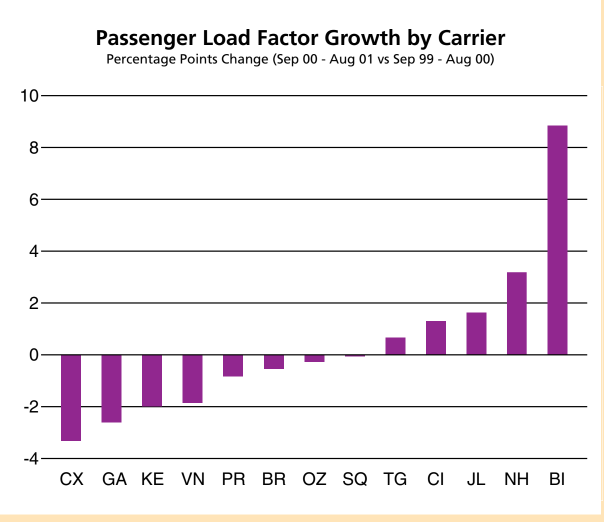
A month after the September 11 attacks in the U.S., many airlines in the Asia-Pacific region began implementing frequency cutbacks for the months of October and November, especially on transpacific routes, as declining demand on this sector became clearly evident. A survey of AAPA member airlines revealed 71 weekly transpacific flights for October and November were cut from schedules.

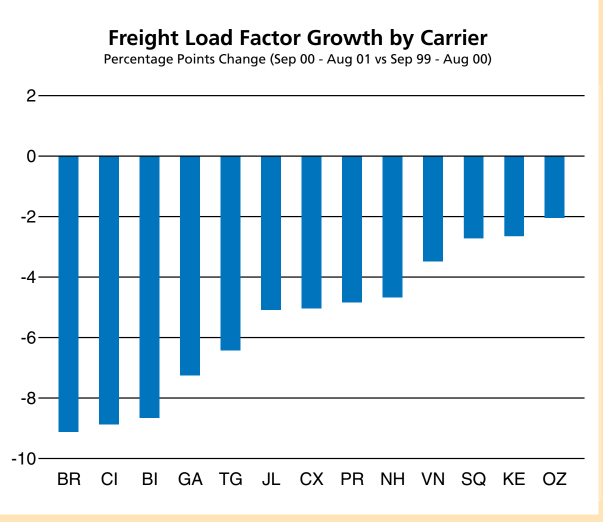
Airlines are now pinning their hopes on some recovery in December, which has also been clouded with uncertainty following the world response to terrorism.

E-mail:krislim@aapa.org.my

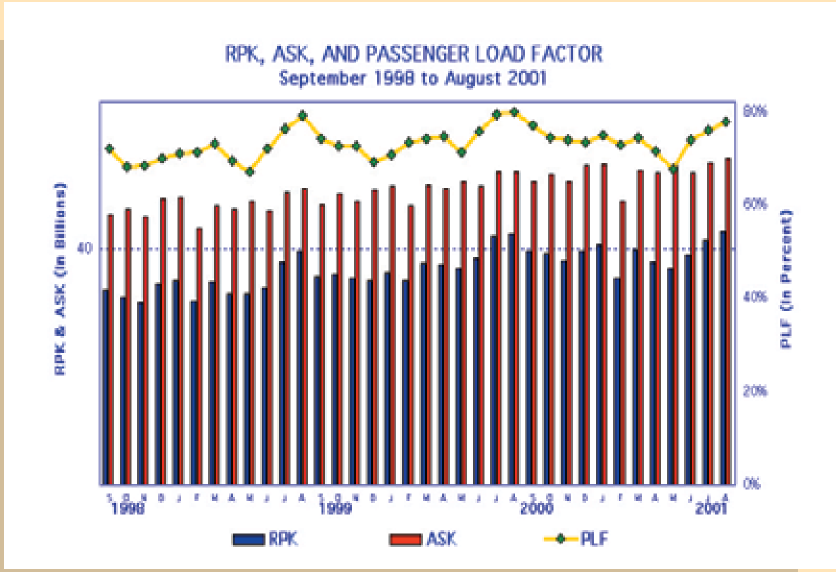
All Nippon Airways: FTKs fell 26.8% year-on-year

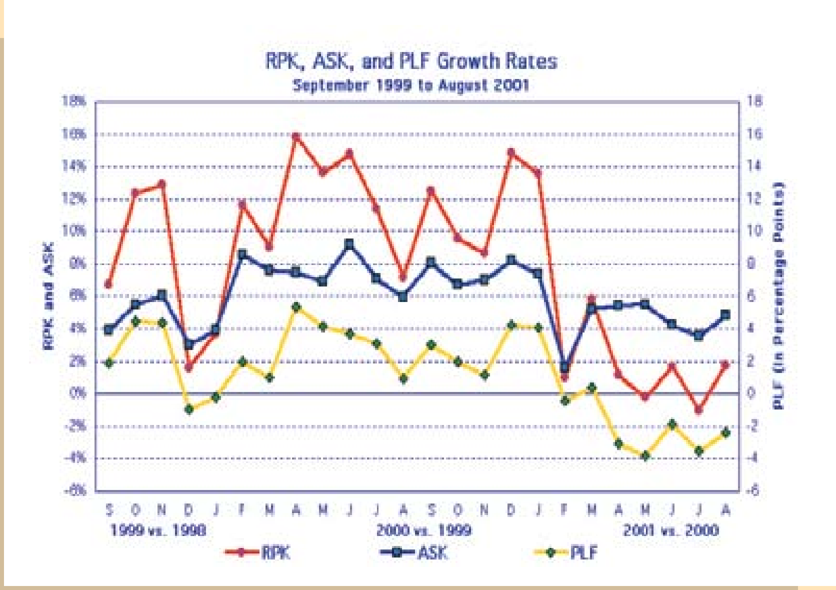




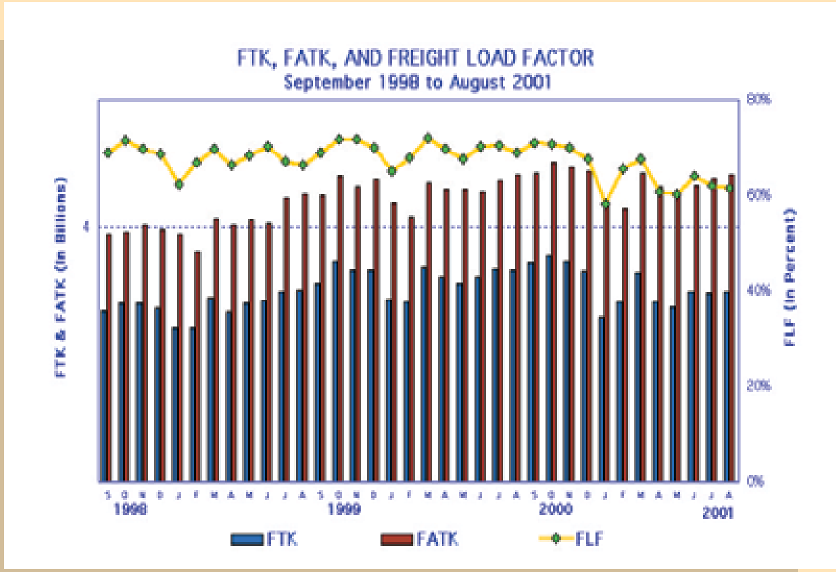


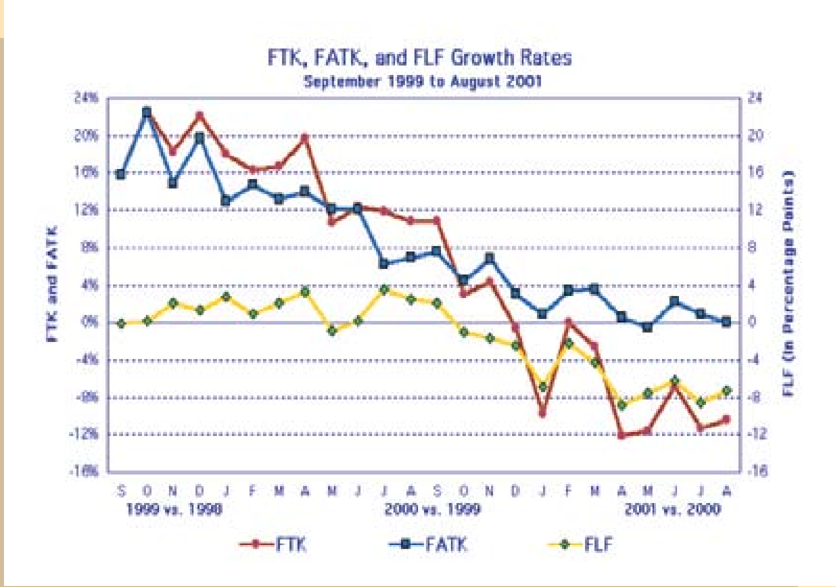
Monthly international PAX statistics of AAPA members





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)
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	54,393,104	67.48	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	4,848,968	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	4,944,456	70.13	7,044,098	9,673,473	8,630
OCT-00	39,213,125	52,689,409	74.42	3,556,216	5,025,502	70.76	7,253,911	9,859,762	8,782
SEP-00	39,695,907	51,498,288	77.08	3,448,015	4,846,064	71.15	7,187,257	9,577,705	8,720
TOTAL	470,573,614	636,222,127	73.96	36,949,548	56,729,961	65.13	81,172,020	114,932,495	106,242

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

	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]	313,879,514	426,246,833	73.64	23,171,246	37,026,491	62.58	52,640,303	75,960,908	71,264

Calendar Year

	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]	2.86	4.74	-1.35	-8.14	1.36	-6.47	-2.38	2.93	4.13

Note:

1. The consolidation above includes 16 participating airlines.
2. Data for Jul - Aug 2001 is subject to revision as actual data for QF Jul - Aug 2001 is not available.
3. KA and NZ do not participate in this report. AN data ceased from Jul 2001 onwards.
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 - Aug 2001.
6. YTD comparison: Jan - Aug 2001 v Jan - Aug 2000.