VOL. 9 NO. 2 NOVEMBER 2001

# Orient aviation

MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

# COUNTING THE COST

**Airline insurance cover skyrockets, jobs cut, routes slashed, aircraft grounded, security increased...**

**Asia's airlines feel the pain of September 11**

*New regime at THAI but who will* really *call the shots*

*SPECIAL REPORT: Aircraft leasing in the Asia-Pacific*

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## COVER STORY

### COUNTING THE COST

Page 14

**Asia's airlines hit hard in aftermath of September 11 attacks**


## NEWS



## FEATURES



## HELICOPTERS



## SPECIAL REPORT



## GENERAL AVIATION



## REGULAR FEATURES




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# A GLIMMER OF LIGHT

In the October issue of *Orient Aviation* we asked: is it really the end for Ansett?

In mid-September, the airline had been cut adrift by its parent, Air New Zealand (Air NZ), and, unable to pay its debts, it was grounded and put into administration. It was another utterly miserable day for Asia-Pacific aviation.

In September 1998, another battling airline, Philippine Airlines (PAL), also shut its doors. A combination of crippling strikes and the rapid onset of the Asian economic recession forced PAL chairman, Lucio Tan, to call time. It owed US$2.2 billion to scores of creditors and nobody except perhaps some passionate PAL staff gave the carrier a chance of ever managing its way to solvent operations.

Today, both airlines are flying again. Ansett is operating as only a skeleton of its former self, but at least it is back in the air.

Perhaps, if the hardworking team of administrators and diminished staff have time to think about it, they might take heart from PAL.

It has battled for survival and has been successful – fingers crossed post "9-11" – in its gradual climb to recovery because it had staff, spearheaded by president, Avelino Zapanta, who believed in, and loved, the airline.

Ansett staffers are behaving exactly the same way. They are not giving up on their carrier.

PAL could have been out of "rehab" in the not-too-distant future had it not been for "9-11". It may have to wait a little longer now.

Ansett has had owners who were, basically, not interested in the airline, although it was managed by professionals who wanted the airline to succeed.

Ansett's administrator is not giving up on his patient. He has approached Singapore Airlines, once a front-runner to take a 50% stake in Ansett, to become involved again. SIA has a lot on its plate, but it has not ruled out some role in a resurgent Ansett.

This industry needs some good news at the moment, so it would be a great fillip to see Ansett join PAL as a carrier made viable again. Certainly neither of them is expected to achieve their former glory, but if they are still flying in five years and in the black, they will be worthy examples of triumph over extreme adversity.

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**O**PTIMISTIC: China Airlines (CAL) president, Christine Tsung, believes direct links between China and Taiwan could be in place in less than two years. "I am very positive about the chances of direct links, and the chances are getting better every day," Ms Tsung told delegates at a recent Hong Kong aviation conference. No doubt with this in mind, CAL signed a deal in September that will give the Taipei-based carrier a 25% stake in China Cargo Airlines, the freight arm of Shanghai-based China Eastern Airlines. CAL, with three other Taiwanese aviation companies, also has invested more than US$13 million for a 49% share in a cargo terminal at Xiamen International Airport, in southeast China. If additional proof is needed that direct links are a real possibility, representatives of Taiwan's six carriers met Chinese aviation regulators in Beijing in mid-October. Top of the agenda were discussions about direct links, technical issues and strengthening cooperation between Taiwan and the mainland.

*China Airlines president Christine Tsung: upbeat about direct flights*

# PERSPECTIVE

NEW POSTS, OLD FACES: Guy McLeod, former sales director with Airbus Industrie China, has been appointed president of the planemaker's China region. McLeod, a former Gurkha officer and a popular figure with Chinese airline executives, succeeds Pierre de Montgolfier who died in August after taking ill suddenly in June. McLeod had been acting president before he was confirmed recently. Meanwhile Airbus's former Asia-wide PR guru, Sean Lee, has returned to Singapore to join Singapore Aircraft Leasing Enterprise (S.A.L.E.) as head of corporate communications. He is responsible for the worldwide promotion of the fast-growing lessor. Reporting directly to S.A.L.E. managing director Robert Martin, Lee will oversee the corporate positioning of the company as it moves into a new phase of its development. His role includes the development of shareholder and investor relations in association with the deputy managing director / chief financial officer. A 30-year veteran with experience in regional airlines and general aviation, Bob Mason, has been appointed chief executive officer of the Regional Aviation Association of Australia (RAAA). He succeeded Alan Terrell, who retired on October 1. From 1985 to 1999 Mason was managing director/general manager of Skywest Airlines. He is a former chairman of the RAAA.

*New chief executive of the Regional Aviation Association of Australia Bob Mason*

SHIM FINGERS PROGRESS: Korean Air's affable president, Yi Taek Shim, had a novel way of describing progress in this technological age of e-business when he took part in a conference panel discussion during a visit to Hong Kong. He grew up in an age when most people sat before a manual typewriter and punched the keys with two fingers, he said, while the young people of today sit before a computer screen using all 10 digits on the keyboard. He said this reflected the changes in the aviation industry where airlines had to move with the times to survive and that included, these days, concentrating on core airline business.

LEAHY OPTIMISTIC: Airbus Industrie's "super salesman", executive vice-president customer affairs and chief commercial officer, John Leahy, is a New Yorker and the events of September 11 – when terrorists flew aircraft into the twin towers of the World Trade Centre – affected him more than most. Fortunately, he lost no family in the tragedy, he said, but he had lost friends. However, in a defiant and optimistic address to the Hong Kong International Aerospace Forum in September he predicted the industry would experience a "deep V" decline and recovery, and would be back on track in 12 months.

TRYING EXPERIENCE: A Cathay Pacific Airways executive told *Perspective* of the day recently when he travelled on his airline to test its inflight Internet facility after the U.S. terror attacks. He wished he had stayed in the office, he said. All he saw was doom and gloom about the aviation industry.

NEW NAMES FOR NEW ORDER? Although the restructuring of China's aviation industry is still underway, a source has told *Orient Aviation* there are some moves afoot to change the names of the merged groups. The names of the carriers absorbed into the groups led by Air China, China Southern Airlines and China Eastern Airlines, will disappear, but the source said that does not necessarily mean the names of the "Big Three" will also endure, particularly as they will no longer be geographically representative of the combined airline entities. China Southern, for example, will merge with airlines from the north and northwest of China, while China Eastern will absorb carriers from the northwest and southwest of the country.

BAD TASTE: No names mentioned, but *Orient Aviation* thought it in the worst possible taste when an Asia-based representative of a U.S. helicopter company handed us a brochure that featured a cover showing one of its helicopters against the backdrop of the twin towers of the New York Trade Centre, the site of the September 11 airborne terrorist assault that took more than 6,000 lives. The company should recall every single one of these brochures and incinerate them or, at least, to avoid insensitive representatives repeating our experience, give urgent instructions to overseas offices to not, under any circumstances, distribute the offending brochure.

# REGIONAL ROUND-UP

*Malaysia Airlines: drastic change in mindset needed, says new chairman*

### *Former MAS regime accused of abuse and plunder by chairman*

Malaysia Airlines (MAS) chairman, Tan Sri Azizan Zainul Abidin, has fired an unprecedented verbal broadside at the carrier's previous management, saying it had fostered a work culture of "abuse, plunder of the company for personal gain, high cost, inefficiency and has driven the company to near bankruptcy".

His comments, aimed at staff and published in the airline's in-house publication, *Berita*, are clearly directed at the legacy of previous chairman and majority shareholder, Tajudin Ramli, who sold his majority share holding of MAS back to the government earlier this year.

Azizan said the airline had been on the verge of collapse. "Consistently, during the past four years, it was in the red with accumulated losses amounting to more than RM4 billion (US$1.1 billion).

"The road to recovery is not going to be an easy one. It will need hard work and a drastic change in mindset," he said.

His criticism, in a speech he initially gave to staff to launch a recovery programme called *Together We Can Make It*, came as MAS announced plans to cut 12 international destinations following the U.S. terror attacks. The first phase of the network rationalisation is expected to save the airline US$50 million annually.

The chairman said with the change of leadership at the airline, a turnaround programme was being implemented. "The starting point for the change is to face reality. We have been making massive losses every year during the past four years.

Our financial position could not support the size of our operation. The ambitious expansion programme was not matched by a viable debt servicing programme."

MAS will now review its procedures to plug the "rampant leakages and stop the haemorrhaging to protect it from predators," he added.

AT PRESS TIME: Qantas Airways announced it was to spend A$300 million (U.S.$153 million) on 17 new aircraft - 15 B737-800s or A320s and two Bombardier Dash 8s - with options on 40 more.

Qantas also said 25% shareholder, British Airways, wanted to retain its interest in the airline.

### *China Eastern Airlines censured by stock exchange*

China Eastern Airlines (CEA) has been publicly criticised by the Shanghai Stock Exchange for failing to adequately disclose information about aircraft purchases on two occasions. The Shanghai-based airline said it "sincerely accepts" the censure and said it would not transgress information disclosure regulations in the future.

The *Shanghai Securities News* said on the first occasion CEA failed to receive approval from shareholders and board directors before signing an aircraft order and then failed to notify the public. On the second occasion, the board of directors approved the purchase deal, but once again the public was not informed.

The airline needs approval from the Civil Aviation Administration of China (CAAC) for aircraft purchases. No action was taken against CEA by the stock exchange.

*The Asian Wall Street Journal* said the censure of the carrier was part of a campaign by authorities to clean up financial markets and the corporate sector by cracking down on illegal stock trading activity, corporate accounting fraud and spotty information disclosure by companies.

Meanwhile, CEA is to buy a 25% stake in Qingdao's international airport in Shandong province. The carrier already has substantial investments in Shanghai's Pudong airport.

The money will help fund an expansion of the Qingdao airport which, when completed in 2003, will be capable of handling 5.2 million passengers and 90,000 tonnes of cargo annually.

Qingdao is scheduled to host the sailing events at the 2008 Beijing Olympics.

### *U.S. based pilots file action against Cathay Pacific*

As the Cathay Pacific Airways pilots' dispute entered its fourth month in October, nine former Cathay pilots, based in Los Angeles, filed suit against the airline for damages in excess of US$100 million.

The pilots were among a group of 49 who were sacked during the early days of "limited" industrial action called by the Hong Kong Aircrew Officers Association (HKAOA) to demand improvements to duty schedules and the elimination of pay differences based on time and place of recruitment. A total of 53 pilots were fired.

In the lawsuit, the pilots claim their terminations were in retaliation for expressing concerns about airline safety issues. Members of the HKAOA also have taken legal action against Cathay management in the UK, Australia and Hong Kong. The union alleged it had taken action outside Hong Kong because "the employment laws in Hong Kong offer no real protection against managements ...for unfair dismissal".

The union wants reinstatement of the

pilots. Cathay, meanwhile, has hired a group a pilots to replace some of those sacked during the industrial action.

The HKAOA has called on management to return to the negotiating table or risk losing millions of dollars as the dispute continues. At press time, the airline was claiming the union's action was not having any effect on its operations.

### *China signs for 30 B737s. More orders to come?*

It was a long time coming, but in October the China Aviation Supplies Import and Export Corporation (CASC) signed a US$1.6 billion deal (at list prices) for 30 Boeing 737 aircraft. The -800 and -700 models will be distributed between five airlines, China Southern Airlines (20), China Eastern Airlines (4), Hainan Airlines (3) and Shanghai Airlines (3). The aircraft will be delivered from 2002 through 2005.

The finalising of the deal had been held up twice this year, the first time by the collision of the U.S. spy plane with a Chinese air force jet in Chinese air space in April and in September by the attacks on New York and Washington.

"China is modernising its commercial fleet to improve airline efficiency and profitability. Our near-term focus is fleet renewal," said the vice-chairman of the State Development Planning Commission, Zhang Guobao. "The airplanes in [the October] announcement will replace older aircraft in the China fleet."

There is speculation that more orders are on the way before the end of the year, possibly as early as October during U.S. President George W. Bush's visit to China.

### *IATA appeal on HKIA charges falls short*

Hong Kong's Airport Authority (AA) has decided to extend a 15% reduction in user charges at the Hong Kong International Airport (HKIA) for an additional six months to September 30, 2002.

But this falls far short of an appeal by the director general of the International Air Transport Association, Pierre Jeanniot. Speaking on a recent visit to Hong Kong he asked the AA to further reduce charges or to extend the discount period for another two years to allow airlines enough time to recover from "substantial hardships".

He also urged the airport authority to ensure that contributions from non-aeronautical revenue were sufficient to enable reasonable landing and parking charges to be set.

The AA's decision came just two days after Jeanniot's visit to Hong Kong. Its chief executive, David Pang, said the six-month extension was only proper in the circumstances. "The world economy is beginning to feel the economic fallout of the September attacks [in the U.S.] and the international aviation industry has taken the full force of it.

"The AA has always regarded itself as being a partnership with airlines and so we are willing to help where we can."

The 15% reduction was introduced on January 1, 2000 after much pressure from airlines. In October 2000, the discount was extended to March 31, 2002. Pang said the latest extension would mean a saving to airlines of HK$150 million (US$19.22 million).

Jeanniot said even with the reduction in charges, HKIA had some of the highest aeronautical charges in the region. Pang said even without the 15% discount the airport represented value-for-money with some of the world's most modern facilities and highest levels of operational efficiency.


*Philippine Airlines: a nostalgic return to Shanghai after 52 years*

### *PAL's sentimental return to Shanghai*

Philippine Airlines returned to Shanghai in October – after a break of 52 years! The five-times-a-week, B737-400 service is one of three new Asia-Pacific destinations launched by the resurgent carrier. Flights to Bangkok and Melbourne also were inaugurated in late October.

There was more than a hint of nostalgia attached to PAL's Shanghai re-launch. The Manila-based carrier first flew to China's thriving eastern port city in September, 1946 via Hong Kong, which constituted PAL's first two overseas destinations. The Shanghai leg was terminated in October 1949 following the Communist takeover of the country.

PAL said it was continuing with its expansion strategy, which was planned long before the current global crisis in the aviation industry, "on the back of confidence in the mainstream and niche markets it intends to serve". PAL now flies to 20 points in 13 countries and territories. It also flies to Xiamen in China.

The airline is hoping the services will provide healthy traffic returns in both the leisure and business market. The World Tourism Organisation has forecast the number of Chinese travelling overseas will skyrocket from 10 million a year to 50 million by 2010.

PAL has been recovering well since it was put into the hands of the receivers in 1998. It has recorded a profit in the last two years, but has been hit badly by the September 11 attacks in the U.S.

### *Early start being considered for Australian*

The demise of Ansett Australia may prompt Qantas Airways to launch its low-cost carrier, Australian Airlines, earlier than it had planned. Originally, the new entrant was slated to take off in the second half of 2002, but Ansett's misfortune could provide a major opportunity for Australian.

The business plan for the Qantas subsidiary is still to be presented to the board, but a spokesman said: "The global situation is still fluid, but it is possible [the launch of the new airline] may be brought forward a little bit."

### *Air India closes offices*

Ailing Air India is to close 20 of its 34 overseas offices and reduce staff at 10 others in response to a drop in passenger traffic. Offices to be closed include Boston and Montreal in North America and Barcelona, Manchester, Nice, Stockholm, Warsaw, Prague and Budapest in Europe. Offices in Washington DC, Toronto, Madrid, Brussels, Rome, Birmingham in England, Lagos, Taipei, Auckland and Sydney will be downsized.

### *SIA Cargo adds and cuts*

SIA Cargo started twice-weekly services from Singapore to Dallas-Fort Worth via Hong Kong on October 30. It is the first service by a Southeast Asian cargo carrier to the mid-South hub of the U.S.

On November 1 SIA Cargo is to commence a twice-weekly service from Singapore via India to Munich and New York. SIA Cargo president, Hwang Teng Aun, said SIA would be the only international cargo airline to operate a regular freighter service to Munich.

Los Angeles will continue to be served on a daily basis with freighter flights from Singapore. San Francisco will be reduced to three services a week.

A weekly freighter service to Melbourne and Perth was suspended in early October and frequency to Sydney was reduced to twice weekly. A weekly freighter service to Penang was suspended in October. Capacity continues to be available in the belly holds of SIA's passenger services.

### *In brief:*

Negotiations are still continuing with Dutch airport operator Schiphol Group about equity investment in Malaysia Airports Holdings Bhd (MAHB), said the chairman of the airport operator, Tan Sri Basir Ismail. "But it's for the government to decide and it has not completed due diligence yet," he said.

Japan Airlines has ordered a B777-200ER Maintenance Training Simulator (MTS) from CAE in a deal worth C$10 million (US$6.4 million). The MTS, an advanced flight simulator, is designed to train airline maintenance engineers and technicians to perform tests on aircraft systems and avionics.

Singapore Technologies Engineering Ltd announced a net profit of S$252.8 million (US$142 million) for the nine months ending September 30, up 26% on the previous year.

Cathay Pacific Airways will launch a twice-a-week non-stop service between Hong Kong and Sapporo in Japan on December 2. This will increase the number of Cathay flights between Hong Kong and Japan to 83 a week.

## Digging deep for Orbis

*It's not all bad news in the industry at the moment. In October, the* Hong Kong-based ***Aerospace Forum*** *added another US$14,000 to its Aerospace Auction initiative that supports the* ***Orbis*** *flying eye hospital charity.*

*At the* ***Hong Kong Rugby Sevens*** *"Long Lunch" bidding started at US$5,000 per seat for use of a donated Gulfstream G-4 for the day. The auctioneer's hammer eventually came down for the final two seats on the aircraft at US$7,000 each.*

*Since the* Orient Aviation *supported charity initiative was launched at Asian Aerospace 2000 in Singapore more than US$200,000 has been raised by the* ***Aerospace Forum*** *for Orbis and other charities.*

*The Forum, which is expanding its activities in Asia, will host* ***British Airways*** *chief executive and former* ***Cathay Pacific Airways*** *managing director,* ***Rod Eddington****, as guest speaker at the Forum's final 2001 lunch in early December where it is hoped attendees will bid generously for a Concorde aircraft model and unique memorabilia set. British Airways resumed Concorde services across the Atlantic in October.*

SEPTEMBER 11, 2001

# COUNTING

• The airlines' plight • A president's perspective

Asian airlines are coming to grips with massive increases in insurance pre miums – in some cases up to a staggering ten times previous levels – as the aviation industry continues to reel from the September 11 terror attacks in the U.S. and the ongoing volatile international climate.

Many have had to rely on government guarantees to keep them in the air as they faced grounding of aircraft by lessors and airports because of inadequate war-risk cover. Lloyd's of London told *Orient Aviation* the carriers faced hikes of between 100% and 200% as they entered their traditional annual round of insurance negotiations through October.

But it appears the impact will be far worse than expected as insurers move to compensate for the US$20 billion to $40 billion in claims they are estimated to face as a result of the U.S. tragedy.

The International Air Transport Association (IATA) is so concerned that director general Pierre Jeanniot has been meeting personally with insurers to try to find an acceptable solution to ease the cost burden on airlines.

"Passenger and hull-risk coverage is available, but at exorbitant cost," he said. "This and the issue of war risk for third-party coverage, for airlines and service providers, are possibly the most serious problems facing our industry today."

While many airlines are slow to divulge precise details of the insurance impact, there is clear evidence the price of premiums will combine with declining traffic and increased costs associated with heightened security measures to cripple income over the coming 12 months.

Japan's transport ministry said its country's airlines faced additional insurance payments of up to $332.5 million a year. Japan Airlines (JAL) disclosed its insurance costs have increased tenfold since the attack.

Prior to the U.S. hijackings, Thai Airways International (THAI) had received insurance quotes for the new fiscal year from October 2001 to September 2002 that were double the figure of the previous year. The quote was withdrawn by insurers immediately after the attacks and replaced with a revised premium four times the original amount.


*Hong Kong airlines Cathay Pacific, Dragonair and cargo operator Air Hong Kong worked out last-*

# Insurance aftersh

*...but no apologies from the insurers*

A special report by TOM BALLANTYNE and BARRY GRINDROD

# THE COST

• IATA's grim figures • The manufacturers' view

*minute deals with private insurers*

# ock

That story has been repeated all around the Asia-Pacific region, although airlines in some other regions are being hit even harder. In South America, Colombia's cash-strapped carriers have seen their insurance costs increase a staggering 6,300% to $32 million. The Association of Colombian Air Transporters (ACAT) said the Andean nation is already faced with high premiums due to a 37-year guerrilla war.

The major rewriting of aviation insurance terms has emerged as one of the biggest economic aftershocks of the U.S. events, which immediately prompted insurers to issue a seven-day notice of cancellation of previous policies.

New policies call for higher war-risk premiums and place a $50 million cap on liabilities for acts of war or terrorism suffered by airlines.

In essence, insurers are imposing a $1.25 surcharge per passenger per flight for this cover. The amount will be added to the ticket price as a separate charge.

But the scramble to find cover came against a backdrop of changing conditions. Immediately after the attacks there was no insurance available in excess of the $50 million cap. By October, many insurers, including Lloyd's and AIG (American International Group), were providing wider insurance coverage but only up to $1 billion, still far short of the previous $2 billion limit.

In mid-October, several global insurers said they will exclude coverage for acts of terrorism in their policies. Instead, they will ask governments to be insurers of last resort for terrorist attacks. One U.S. company said it believed only 10% insurers are continuing to include terrorism coverage in policies.

Regarded until now as a relatively small cost in an airline's overall budget, insurance has fast taken on far more significant proportions and governments throughout Asia have been forced to step in to help by underwriting guarantees to fill the insurance shortfall.

Total insurance for a major airline would normally be between $60 million and $90 million, but the surge in premiums will send that figure skyrocketing. Most carriers have introduced surcharges to help cover the increase. But it means another rise in the price of air tickets at a time people are reluctant to travel.

There is no such thing as a standard insurance premium for airlines. It depends on a raft of factors, from safety record to financial standing, to the region of the world a carrier operates in and even the country it flies from. Given the global nature of the new "war on terrorism" no international airline can escape the fallout.

Insurance sources said some idea of the extra cost to airlines – and this could be conservative – can be measured by using the $1.25 passenger surcharge insurers have imposed.

With an annual estimated total of about 1.75 billion airline passengers worldwide, the bill would be up to $2.2 billion, provided the charge is accepted by all airlines.

Carriers with high passenger volumes will have a significantly higher premium bill.

The additional cost for a major operator such as JAL, which carries 38 million international and domestic passengers every year, could be around $50 million. THAI, with 17.7 million customers, would face $22 million in insurance surcharges, Singapore Airlines (15 million passengers) $18.7 million and Cathay Pacific Airways (11.9 million passengers) some $14.8 million. However, other factors could make the cost of insurance far higher.

Without adequate liability coverage, aircraft can be banned from flying by both the lessor of the aircraft and airports. Fears of this prompted most – although not all – governments to move quickly to guarantee third-party insurance of up to $2 billion to cover any shortfall in claims. It is unclear how long this arrangement will last.

Hong Kong's three airlines, passenger carriers Cathay Pacific and Dragonair and cargo operator Air Hong Kong, all managed to work out last-minute deals with private insurers and avoided the need to tap government guarantees that had been promised.

The Indonesian Government declined to underwrite a shortfall in national flag carrier Garuda Indonesia's insurance cover. Finance minister Budiono said Jakarta could not afford a guarantee and Garuda would have to fend for itself.

The airline's director of finance, Emirsyah Satar, said the company had moved to secure coverage for its third-party war and terrorism liability insurance up to a maximum of $1 billion with agencies in London. "It is, of course, up to the shareholder (the government) to make that decision," said Satar.

Garuda needed to pay additional premiums of between $20 million and $25 million a year for liability coverage of up to $1 billion, besides having to pay about $10 million a year for hull liability.

Surcharges being imposed by airlines on each passenger across the region vary considerably, depending on the increase in premiums they have faced.

THAI, Malaysia Airlines, Garuda and SriLankan Airlines have added $1.25 to their existing insurance surcharge. SriLankan, which grounded its flights briefly before it gained government underwriting, had already been hit hard by soaring insurance premiums following recent attacks by separatist Tamil Tiger rebels on the country's only international airport.

South Korea's Asiana Airlines and Korean Airlines have imposed a $1.45 surcharge, while the governments of both Taiwan and China have agreed to all their airlines imposing a $2.50 fee. Philippine operators Philippine Airlines, Cebu Pacific and Air Philippines have all added $6.

JAL, All Nippon Airways (ANA) and Japan Air System (JAS) will have their third-party coverage guaranteed for up to six months.

JAL raised insurance payment costs to $3.12 per passenger to increase its third-party coverage to $1 billion, while ANA lifted its surcharge to $1.60.

The carriers also have asked for government help to pay for additional security, which is expected to cost the country's industry more than $3 million per month.

"We welcome the government support and look forward to help on additional security measures," said JAL spokesman Geoff Tudor.

In Australia, where Prime Minister John Howard announced a $5 billion insurance lifeline for local airlines, Qantas Airways said it had been told by insurers that they may provide limited war-risk cover to airlines they consider to be a good risk. "Qantas falls into that category," said a spokesman.

Insurers are making no apologies for the unprecedented rise in premiums. Lloyd's spokesman Adrian Beeby told *Orient Aviation* that in real terms insurance for airlines has been "a very cheap commodity in the market place" in recent years. "Many underwriters were losing money during that period, and the claims from the U.S. attacks will wipe out many, many years of premium income. In fact, the worldwide aviation premiums taken in last year were a fraction of the US$6 billion in combined liability coverage on the four planes that went down in the US." (That figure does not include liability on the World Trade Center towers and the Pentagon.)

Chris Fagan, finance director of London-based Goshawk Insurance Holdings, which insures aircraft around the world, agreed. He said the cost of insuring planes against war, terrorism and political risks was increasing before the U.S. attacks. He denied the insurance industry was trying to profit from the attacks. "We are reacting to the market," he said.

Beeby said determining war-risk premiums is a complex process. Lloyd's has a team of experts evaluating when wars start and end for the purposes of imposing extra war-risk insurance, all based on an analysis of risk, the political situation and other factors.

"It has to take into account many factors, including the risks facing individual airlines, the routes they fly and the funds available to insurers to cover liabilities. All are factored into the decision-making process," he said.

"Each airline is considered on a case-by-case basis. After the attacks, there is a far greater risk of terrorism and it is difficult to determine the risk according to geography. That is why the premiums have gone up for all airlines."


*Qantas Airways: a good risk*

Beeby said the security measures taken by airlines and local authorities, such as having sky marshals onboard flights and additional checks on baggage and passengers, will be taken into account when individual airline premiums are negotiated.

But whatever relief airlines can obtain on premiums by showing they are spending millions on security is unlikely to bring about a quick or even significant decline in insurance costs. Indeed, there is a strong chance the situation could worsen if the military action launched by the U.S. and its coalition partners in October against the terrorist threat spreads to different parts of the world.

That will not only keep the cost of insurance high, it will force other costs on airlines because they will have to re-route flights around potential trouble spots.

# Asia feels the heat

## COUNTING THE COST

The aviation industry has never experienced anything like it in almost 100 years. With a global economy already in a downward spiral that was hurting airlines worldwide, the airborne terrorist attacks on New York and Washington on September 11 have sent the finances of carriers everywhere into freefall.

Asia has been spared the worst of the post "9-11" fallout, but the news in the region is still very bad for our long-haul carriers. They are now dealing with the triple whammy of escalating insurance premiums, increased security costs and the reluctance of millions of their regular passengers not to fly – at least in the near-term.

The traditionally conservative Singapore Airlines (SIA) is making "sacrifices". And they are starting at the top. Deputy chairman and chief executive officer, Dr Cheong Choong Kong, has had his salary sliced by 15%.

Other senior management and staff have taken a pay cut of between seven and 10% and SIA Group board directors have agreed to a 30% drop in their fees.

At press time, discussions were underway with SIA associated unions with the view to achieving wage reductions for "bargainable staff".

And that, for some, could mean retrenchment, a possibility SIA has not ruled out. "There may be worse to come," said Dr Cheong.

SIA has suspended flights to Karachi and Lahore, cut six flights a week to the regional destinations of Surabaya, Kuala Lumpur, Kaohsiung and Hong Kong and reduced its Singapore-Amsterdam-New York service from four to three flights a week.

In Hong Kong, tough measures adopted by Cathay Pacific Airways during the 1997-98 Asian economic recession, which included making over 3,000 staff redundant, have helped the carrier cope with the present crisis.

In mid-October, Cathay suspended 14 flights (4% of all services): to Manila (7), Kuala Lumpur (4), Bangkok (3), Los Angeles (3) and Vancouver (2).

Said the airline's director corporate development, Tony Tyler: "At the moment, Cathay Pacific has no plans to reduce staff numbers. This airline is not immune to the pressures on the industry, but any staff reductions would only be implemented as a very last resort."


*Singapore Airlines: top management taken pay cuts*

Asia's largest carrier, Japan Airlines (JAL), has revised its earnings for the current year as a result of a post September 11 decline in passenger traffic. The new forecast, issued in mid-October, predicted a group net loss of 40 billion yen (US$332 million), bringing to an abrupt end three consecutive years of profits. JAL had earlier projected a net profit of 25 billion yen in 2001-2002.

JAL has cut its trans-Pacific schedule by 24%, reducing flights to Hawaii to 58 a week from 75 and continental U.S. to 50 a week from 67. But the carrier will increase services to Korea and Vietnam to partly compensate for the U.S. cutbacks.

To cushion this impact, JAL will slash 600 jobs in the year to March 2002 in addition to the 700 job losses already announced in the mid-term business plan. All Nippon Airways has reduced its flights to the U.S. in November from 53 to 44, down 17%. It will add flights to China and South Korea.

EVA Air, Taiwan's second international carrier, has reduced its flights to the U.S. and Southeast Asia by 17 a week. Job cuts are in the pipeline. In September, EVA cut its earnings forecast for the second time this year to a net loss of NT$3.2 billion (US$93 million).

Taiwan's largest carrier, China Airlines, has reduced its pre-tax profit forecast for the fiscal year by 58% to NT$1.37 billion (US$39.7 million).

Malaysia Airlines (MAS) is axing 12 destinations, including New York, from its international network in a bid to save M$190 million (US$49.4 million) annually. It has reduced services to Australia, but the carrier will add frequency to points in Asia. Managing director, Mohamad Nor Mohamad Yusof, said MAS received 3,600 cancellations in the two weeks following the U.S. terrorist attacks. He expected passenger loads to fall about 15% in the year to next March. There is speculation in Kuala Lumpur that MAS will cut 3,000 jobs and ground at least 10 aircraft.

Korean carrier, Asiana Airlines, plans to cut its 6,000 workforce by 700 (12%) and to reduce costs by 57.5 billion won (US$46 million). In other moves, Asiana has cancelled flights on five international and domestic routes, shelved plans to buy two new aircraft and will return two leased freighters ahead of time.

Its rival, Korean Air, also has made across-the-board staff and expenditure cuts (see page 20). The South Korean Government has agreed to pay loans totalling 250 billion won (US$193.2 million) to the two carriers as part of an aid package for its airline industry.

Qantas Airways has cut international flights, will pare its executive staff by 10% and is meeting unions to discuss wage reductions. It also will stop hiring new contractors, consultants and non-operational staff. Air New Zealand is cutting back flight schedules by 10.5% in November.

China's three major international carriers, Air China, China Southern Airlines and China Eastern Airlines, have cancelled or reduced flights to the U.S., Pakistan, the United Arab Emirates, and Kuwait.

# Stepping up security

## COUNTING THE COST

Security has become a major issue worldwide following the tragic U.S. hijackings. Asia-Pacific airlines vary significantly in their approach to the emotive subject although all carriers have reported added measures like banning knives and sharp instruments on board to stepping up vigilance in other areas.

Security is a sensitive area that a number of carriers prefer to keep close to their chests.

But Australia moved quickly after September 11 with the government announcing it will introduce legislation that includes, said prime minister John Howard, allowing "a modest number" of armed police to travel on randomly chosen flights and for intelligence agents to hold suspects for up to 48 hours in a bid to combat sky terrorism.

"We are also putting in place ever more stringent baggage security measures, including full X-ray and physical search of cabin baggage and increased examination of checked baggage," he said.

Asia-Pacific airlines are divided on sky, or air, marshals. Some have them, some do not, but not all are prepared to say one way or the other. China Airlines (CAL) first introduced onboard security in 1970 when Taiwan was under marshal law. Until 1993, it was law to have sky marshals on planes "when cross-strait relations between China and Taiwan was "highly confrontational", said a CAL spokesman. During that time the inflight security staff successfully defused three attempted hijacks. Since September 11 CAL has upgraded its security measures including training staff on how to deal with the unlawful seizure of an aircraft.

CAL president, Christine Tsung, told a conference in Hong Kong recently that CAL employed 77 air marshals today and had a security staff of 150.

Malaysia's transport minister, Dr Ling Liong Sik, has said the government is reviewing the case for inflight security personnel. The Indian Government has given the green light for its carriers to carry armed staff on board.

Cathay Pacific Airways, meanwhile, remains relatively tight-lipped about its security arrangements. When asked about sky marshals head of security Peter Wan said: "We have to, and will continue to, examine all areas of security and would consider any measures we believe would enhance security. However, we would prefer not to comment on specifics."

Japan Airlines (JAL), however, has given a categoric 'no' answer to air marshals, although it has stepped up security in other areas. "Airport security has been beefed up," said spokesman, Geoff Tudor. "The problem has to be fixed on the ground."

A number of China's carriers also are known to carry sky marshals. In recent years there has been a number of its planes hijacked by crew and passengers and flown to Taiwan. China also sees itself under threat from Muslim extremist in the far west of the country.

Korean carrier, Asiana Airlines, has developed a terrorist suspect automated search system that has been installed in all the carrier's international and domestic offices. Asiana has build up a database of over 500 terrorist suspects from information it obtained from Korean and international sources. The computer system will give a warning if a passenger is matched to a database entry.


*Asiana Airlines: developed a terrorist suspect search system*

Tudor said JAL was checking passengers' names more carefully to establish identity, limiting hand baggage to one item and banning knives and sharp implements on flights.

Knives had been banned on board domestic flights in Japan since July 1999 when a knife-wielding hijacker killed an All Nippon Airways (ANA) captain after demanding to fly the plane. Cockpit doors have also been locked since this time.

ANA refused to answer any questions about its security.

Philippine Airlines (PAL) had one of the more unusual hijackings on a domestic flight a couple of years ago, when a mentally unstable man wearing a crude home-made parachute pulled out a gun and demanded the crew open the plane door. They then pushed him out and he fell to his death.

A PAL spokesman said while it has not been fully explained how the hijacker was able to board the plane with the pistol, since September 11 security had visibly tightened at all Philippine airports.

Boarding gate counters will also have access to the search system to able staff to check passengers who made an automated or online reservation.

The presence of armed police and military personnel has been increased at airports throughout the region. During October at Singapore Changi International Airport soldiers patrolled in groups of six carrying M-16S1 assault rifles mounted with laser sights.

At Incheon International Airport in Seoul, civilian security staff were given access to guns in October as part of its security upgrade.

The Incheon International Airport Corporation (IIAC) recently bought 18 K-2 rifles, 578 K-5 pistols and 9,400 rounds of ammunition following approval from the Ministry of National Defence. Officials at the IIAC said security staff responsible for the outer airport area and passenger terminal will be allowed to use the firearms kept in the airport's armoury in case of emergency.

# Troubles mount for KAL chief Shim

These are tough times for Asia's airlines and probably none more so than for Korean Air (KAL), which is cutting staff, has reduced routes and has grounded aircraft following the September 11 terrorist attacks.

It's been even tougher for its president, Yi Taek Shim, who took over the "hot seat" in April 1999 only days after KAL aircraft had another crash in a string of serious accidents. He was given a government mandate to improve the safety of the carrier.

In the last three years KAL has spent US$350 million to upgrade its safety programmes and equipment. It has been accident and incident free during Shim's time at the helm.

But earlier this year, it suffered another serious blow when the U.S. Federal Aviation Administration (FAA) downgraded South Korea's safety rating and cited the government's lack of safety oversight at KAL and Asiana Airlines as the reason for the ruling.

The downgrade will cost KAL, which reported a 345.9 billion won (U.S.$276.7 million) first half loss this year, an estimated 150 billion won a year and dashed its hopes of re-newing its code-share flights with SkyTeam alliance partner, Delta Air Lines, an agreement which was cancelled after a KAL cargo plane crashed in Shanghai in 1999.

Now Shim is wrestling with the latest developments in the industry, but this time they extend far beyond the carrier's control.

The KAL president told *Orient Aviation*, in an exclusive interview, that 150 staff at general manager and assistant general manager level would be laid off at the carrier. This represents 1% of the 17,000 workforce. An annual intake of 350 flight attendants has been put on hold as has all KAL recruitment.

Shim said passenger loads to the U.S. cities of Chicago and Washington had fallen by 20% and those to the West Coast had declined 15% since September 11. KAL had cut 13 of its 50 flights a week to the U.S., said Shim.

The situation will be reviewed in mid-December. The route cutbacks are the equivalent to four of five aircraft, he said. KAL also has stopped services to Cairo and to unprofitable domestic points, which have resulted in seven or eight aircraft becoming surplus to requirements in recent weeks.

*Korean Air president Y. T. Shim: the airline has been accident free while in his charge, but events beyond his control have made life difficult*

Shim said that at the beginning of 2001 KAL had planned to phase out nine older aircraft. Five jets have left the fleet, which has left 11 aircraft parked.

KAL will take delivery of eight new planes in 2002; two B747s, two B777s, an A330 and three B737s. A number of Boeing 747-200/300 freighters, A300-600s, MD-82/83s and Fokker 100s will leave the fleet.

Shim said deliveries scheduled for 2003 and 2004 may be delayed and no options for aircraft will be taken up. KAL has 114 aircraft, which will rise to 117 by year end and to 125 by 2005-06. He said smaller aircraft would be replaced by larger types, with KAL's capacity to rise between 4% to 5% annually to 2006.

The South Korean Government has predicted the FAA will upgrade its safety rating by the end of 2001, but Shim believed next March is a more likely date for the lifting of the FAA restrictions.

Meanwhile, KAL is restructuring in a bid to return to profitability. From January 2002, passenger, cargo, catering, aerospace manufacturing and the hotels and duty free divisions will become profit centres, said Shim. He hopes this will help the airline to break even next year and make a profit in 2003.

• Following this interview the South Korean Government told KAL and Asiana Airlines it would agree to loans of 250 billion won (US$ 193.2 million) in an aid package for the two international airlines.

## Industry faces 'toughest time in 50 years'

Robert Adams, a board member of Cathay Pacific Airways and Hong Kong's regional carrier, Dragonair, said the six months following September 11 could be the most difficult half-year period the aviation industry has faced in the last half century.

"We must prepare for the worst and hope for the best," he told delegates at a recent conference in Hong Kong.

He said the key was survival. "It depends how fast the world economy recovers and that depends on how soon people want to travel again," said Adams.

He added that management teams needed to be "very flexible", as was demonstrated in late September when airlines had to urgently re-organise insurance cover after insurance companies cancelled war-risk policies.

"If the world can work together to sort out terrorism then we could be OK. If the major countries of the world cannot agree, then it will effect trade and effect trade in Asia," said Adams.

## *Garuda escapes serious fall-out*

*Steps taken by Garuda Indonesia during its re-structuring in 1998, and following Asia's economic recession, had spared it any fall-out from the events of September 11.*

*During 1998 Garuda returned 14 aircraft to lessors and its two U.S. destinations, Hawaii and Los Angeles, were among 16 international routes shut down in 1997 and 1998, Emirsyah Satar, the airline's executive vice-president finance, told* Orient Aviation*.*

*Services to three destinations have been re-started, but Garuda has not resumed flights to the North American cities.*

*Satar said Garuda's short and medium-haul flights had suffered no decrease in load factor and even its long-haul flights to Europe had held up consistently since September 11. One reason for this, said Satar, was that loads were mostly leisure traffic. Garuda has streamlined its aircraft types from eight in 1997 to six and aimed to reduce this to four in the future. The carrier is evaluating the B777 and A340 for use on its long-haul routes.*

# Mainland market offers hope amid global uncertainty

*By Jonathan Sharp*

Amidst the gloom that has cloaked the world aviation industry following the events of September 11, China, with its enormous population and a rapidly developing economy on the brink of joining the World Trade Organisation (WTO), offers a beacon of hope, according to speakers at the recent *Air Finance Journal* conference in Hong Kong.

Reviewing the growth dynamics of the China market, John Duffy, Head of Transportation Finance, Asia Pacific, at IntesaBci Bank, said while it was too early to gauge the full impact of the attacks against the U.S., it was a well-founded view that China had a measure of insulation from what happened elsewhere because its domestic market was so large – and growing.

He said that with China due to overtake Japan as the largest passenger market in Asia in the next decade, China's fleet requirements were going to be very large, although he doubted whether the figure of 400 new aircraft being bought over the next five years, as some have suggested, would be reached.

The fact alone that China's population increase each year was about the same as the present population of Australia was good news if you were trying to sell aircraft to the mainland, even though relatively few Chinese travel by air at present.

The size of China's purchases of aircraft depended to a great extent on how Beijing's relations with Washington and the European Union developed. "In the meantime, the problem is not so much not having enough aircraft, it's not having enough infrastructure."

He said that while major population centres such as Beijing, Shanghai and Guangzhou had made huge strides in developing their infrastructure, there were still far too few airports geared up to deal with modern airliners.

A total of 43 airports are being planned, and with five state-of-the-art facilities in the booming Pearl River Delta region of south China alone, issues such as managing air traffic control are going to be as problematic as getting finance for new aircraft.

Duffy said WTO was a major coming of age for China because it would bring the country into global trade flows that are going to increase the need for air transport dramatically.

The much bally-hooed consolidation of the fragmented Chinese airlines was also a seminal point for the development of the country's air industry.

*Head of Transportation Finance, Asia Pacific, at IntesaBci Bank John Duffy: China's purchases of aircraft depended to a great extent on how Beijing's relations with Washington and the European Union developed*

While reams of press coverage had been devoted to the subject, Duffy said the key point of the restructuring of China's airlines into four big groups was that so far nothing much had happened, and that the realignment would probably not be completed for two more years.

"There will be a whole number of political, economic and social issues to work out in terms of which assets go into these groups," he said, adding that most Chinese airlines had many peripheral assets such as hotels and catering companies.

For example, what do you do with the staff in those organisations?

But he said consolidation would eventually be finalised.

"There's no doubt about that because in a world where airlines of 100-200 aircraft can't be sustained, then what hope is there for airlines in China with fleets of 40-50 aircraft?"

Duffy said the consolidation presented "interesting dilemmas" to bankers and lawyers in terms assessing the risk of lending to an airline whose composition was going to change radically in the next two years as a result of the restructuring.

"Risk assessment of Chinese airlines is certainly going to be probably more art than science over the next two years," Duffy said.

He said that while Boeing and Airbus Industrie could clearly count on securing major slices of the Chinese pie, regional aircraft manufacturers were gaining ground.

In a country like China with 40 cities with populations of at least one million, smaller aircraft made "eminently more sense" because they were able to fly one- or two-hour hops between a number of those centres.

He saw a need for feeder services in for example Sichuan province, which had the geographical size of France but the population of Japan. "You would think that a feeder service might make a few dollars there."

Duffy also saw huge potential for cargo in China, where at present 55% of all freight travelled by water and only 1% by air.

Boeing, which in October nailed down its sale of 30 B737s to China, certainly shares the general enthusiasm for the China market, which it entered in the early 1970s with the sale of B707s.

Boeing's latest China Market Forecast says that China, including Hong Kong and Macau, will require 1,764 jet airliners worth US$144 billion between 2001 and 2020 and will become the largest commercial aviation market outside the United States.

More than 80% of China's new aircraft will service the domestic market, and regional jets and single-aisle airplanes will account for 78% of those serving the domestic market.

Randy Baseler, vice president of marketing, Boeing Commercial Airplanes, said China's 20-year Gross Domestic Product (GDP) growth forecast was 6.1% annually.

"Boeing projects that air travel growth will outpace GDP growth over the next two decades," he said.

*SHAKE-OUT IN AUSTRALASIA: Ansett flying again; Air New Zealand handed government rescue package; Qantas dominates market.* TOM BALLANTYNE *reports from Sydney*

# Will SIA be Ansett's saviour?

Ansett Australia is back in the sky just one month after the airline closed its doors amid a storm of controversy.

But the reincarnation, dubbed Ansett Mark II, is a mere shadow of its former self, with administrators and government now pinning hopes for long-term survival on reviving Singapore Airlines (SIA) interest in taking control.

Ansett's future remains shaky. Canberra has underwritten a guarantee on any tickets sold to travellers to bolster public confidence, but only until January 7. After that the airline will be on its own.

Convincing SIA to commit to Ansett will be a tough mission, particularly in the short term. There has been no shortage of people trying, including the Victoria state premier, Steve Bracks, who has met with SIA representatives.

While the Singapore carrier is showing interest, indications are that in the current volatile international climate it is not ready to invest hard cash. Instead, it appears SIA would most likely take a consultancy role and may provide management expertise in a bid to pull Ansett out of the doldrums.

The airline's administrators, Mark Mentha and Mark Korda, flew to Singapore to court SIA deputy chairman and chief executive, Dr Cheong Choong Kong, and his management team. They reported that SIA executives were "being very cautious" about an offer of an equity stake and management role in Ansett.

Dr Cheong said while SIA was keen to explore the possibilities, there were many issues to resolve before any commitment could be made. He denied reports SIA would be discussing the Australian situation with the head of Virgin Atlantic Airways, Sir Richard Branson.

Sir Richard owns Australian domestic carrier, Virgin Blue, but although SIA has a 49% stake in Virgin Atlantic, it has no financial interest in the Brisbane-based domestic operator.

*SIA deputy chairman and chief executive, Dr Cheong Choong Kong: cautious response to Ansett offers*

There had been reports SIA may be considering using Virgin Blue to replace Ansett as a local feeder.

While there has been other interest in picking over the remains of Ansett – five parties are said to be interested, including a potential staff buy-out – both the administrators and the Australian Government are united in support of a deal involving SIA. They see it as the best chance for saving what was Australia's second largest carrier.

However, the timing is dreadful. Even though it is recognised as one of the world's most profitable airlines, SIA has been seriously hurt by the repercussions of the September 11 terrorist attacks in the U.S.

At best in the short term, SIA will become virtual managers of Ansett, providing planning and management assistance. This will allow it to track improvements and leave a decision on investment until the time is right.

With less than a dozen of Ansett's 66-strong fleet flying, arch rival Qantas Airways now controls more than 70% of the domestic market. The situation also has provided a major boost to low-cost Virgin Blue.

This has wider implications because it leaves a void in the regional network of the global Star Alliance. Several Star majors, including United Airlines and SIA, operated Australian domestic code-share flights with Ansett and relied on its local network for passenger feed to international services.

After closing its doors on September 14, with 17,000 staff left on the street and passengers stranded, Ansett came under control of voluntary administrators. Also grounded were regional subsidiaries Kendell, Hazelton, Skywest and Aeropelican airlines.

Ansett's limited return to the market came on September 29 with five Airbus A320s operating on the primary domestic trunk route between Sydney and Melbourne. Ansett Mark II offered a back-to-basics service; a single class cabin, no on-board catering and no frequent flyer points. Golden Wing lounges and Executive Lounges remained closed.

By press time Ansett had added six more A320s to operations, re-launching services from Sydney to Brisbane, Canberra and Perth. While it has attracted passengers with highly discounted tickets, many potential travellers are staying away, nervous they may be left in the lurch again.

In the midst of all this, Qantas's business has gone from strength to strength, although the airline is being investigated by Australia's pricing watchdog, the Australian Competition and Consumer Commission (ACCC) after complaints of anti-competitive behaviour raised by the Ansett administrator.

It is examining Qantas's pricing, redeployment of capacity and its general behaviour since Ansett collapsed.

Qantas chief executive, Geoff Dixon, hotly disputed any irregularity and insisted the airline's actions would stand any ACCC scrutiny.

Government saves Air New Zealand (page 28)

# Govt saves Air NZ

## Boss Toomey bows out

Battered Air New Zealand (Air NZ) will trim its flights by 10.5% in November as it struggles with falling international passenger numbers and the dramatic loss of subsidiary Ansett Australia.

The rationalisation followed intervention by the New Zealand Government to reclaim majority ownership of its national flag carrier in the face of possible financial collapse.

After nearly 10 months in charge, president and chief executive, Gary Toomey, resigned and former chairman, Sir Selwyn Cushing, walked away as the re-building of Air NZ began. A search has begun for a new chief executive.

Air NZ was originally privatised 12 years ago, but Wellington intervened in October after the failure of a proposed refinancing package that would have involved shareholders Brierley Investments and Singapore Airlines (SIA) pumping a combined US$125 million into the airline. It would have raised their combined stake to 71% from 55%.

In the end, with Air NZ reporting losses in its latest financial year of US$593.7 million, both parties decided this would have amounted to throwing good money after bad and the risk was too great, particularly in the light of the emerging international political situation.

The New Zealand Government came to Air NZ's aid with a US$368.75 million rescue package in which it takes a stake of more than 83%. This dilutes the holdings of Brierley and SIA to 5.2% and 4.3% respectively.

New Zealand's finance minister, Michael Cullen, said the government stake would not be permanent. The government is likely to try and find another carrier to eventually buy Air NZ, he added.

Former Qantas chief financial officer and co-deputy managing director Toomey, who took the helm in January, has had a volatile year. He resigned just days after acting chairman, Jim Farmer, reacted strongly to media reports in Australia which suggested Toomey was about to be dumped. Describing it as "entirely unfounded speculation", he said he was "deeply disturbed that such damaging, untrue rumours are in circulation".

*Air New Zealand chief executive, Gary Toomey: resigned after 10 months in charge*

Toomey, who said it was appropriate for him to step aside and spend time with his family, ultimately fell on his own sword, shouldering the blame for the collapse of subsidiary Ansett.

However, he retained the goodwill of the Board. Farmer said the departing chief had encountered a set of problems not of his making and had worked relentlessly to find answers to them.

"We have no criticism to make of him or the management team he led for what has happened," said the acting chairman. He added that Toomey had personally borne the brunt of Australian anger over the Ansett closure and "deserves every sympathy and consideration for that fact".

The bulk of November's schedule cutbacks will involve services to the U.S. from Sydney, a direct result of the September 11 terrorist attacks, and on trans Tasman flights to Australia.

Farmer warned of impending staff cuts, but said the likely impact would be less than reported predictions of up to 1,500.

Initially, savings would be achieved through normal attrition and a recruitment freeze. Staff will be encouraged to take accumulated leave.

Already torn apart by the Ansett debacle, Air NZ has seen a substantial fall in traffic in its two biggest markets. The airline only operates to Europe through the U.S. and was particularly badly hit by recent events. Also, many Australian travellers are shunning Air NZ because they believe bad management was a major contributor to Ansett's demise.

Analysts welcomed the government rescue package, but most question whether it was enough and none recommended investors should buy Air NZ shares. There is concern that re-nationalisation will lumber the airline with political interference, putting the brakes on its ability to operate freely as a commercial enterprise. At the very best, no one expects Air NZ to make any money until the 2002-2003 financial year.

Meanwhile, while initially denying responsibility for an estimated US$250 million in entitlements due to Ansett workers, Air NZ has now come to an agreement with Ansett's administrators to hand over US$75 million in return for being released from all claims relating to the Ansett Group.

The carrier also has agreed to enter into a commercial arrangement with Ansett as a preferred partner and to help the administrators carry on the Ansett business. That will be critical because Air NZ, along with its U.S.-led Star Alliance partners, desperately need an Australian domestic partner.

As part of its downsizing Air NZ is reducing its 11 management units to seven larger units which will be in place within three months.

*'Many Australian travellers are shunning Air NZ because they believe bad management was a major contributor to Ansett's demise'*

*As China's aviation industry continues to grow...*

# Helicopters play catch up

*By Jonathan Sharp*

In China's headlong rush to modernize and expand its air industry, one sector would seem to have been neglected so far – general aviation helicopters. There are over 30 mainland companies operating helicopters commercially, owned by private as well as state-run enterprises and by two major airlines. But they are tiny, unprofitable outfits, flying a total of about 40 helicopters, with fewer than 20 of them acquired from Western manufacturers.

So what's the potential market? Substantial, according to Diana Chou, managing director of Hong Kong-based Aerochine Aviation Ltd, which represents America's Bell Helicopters. She says the current forecast is that China could need at least 200 helicopters in the next 4-5 years to meet demand for a wide variety of services in industry, agriculture, traffic control, law enforcement as well as for simply carrying passengers.

As a result, major manufacturers are beating a path to China's door. But Chou said there is a raft of reasons why non-military use of helicopters in China has to date been so low and why expansion will take time.

The military's control of Chinese air space is one of the hindrances. As an example of the difficulties stemming from the People's Liberation Army ruling the air space, Chou said that her company had offered to provide helicopter services at a recent international event in a big Chinese city, but the city's government, after studying the offer at length, politely turned it down on the grounds that such facilities would be too difficult to organise.

"Basically, the municipal governments no control over their own airspace. Even if they want to use helicopters for traffic control, they would have a difficult time getting permission. It is still very bureaucratic."

China has to find a way to relax air space restrictions for general aviation flying, she said. Talks have been held on this subject between the military and the country's commercial regulatory body, the Civil Aviation Administration of China, on loosening up restrictions, but the results, if any, are not known.

However a couple of companies in south China had developed such good relationships with the local military establishment that they were able to fly at the times they requested.


*Opaque bureaucracy hinders expansion of helicopter companies in China*

"If the relationships are there, everything is possible," said Chou.

Although the military control is stifling, she said only a weak regulatory structure exists for general aviation in China, meaning that the sector remains at an elementary stage, even though demand may be high. "The system is very loose. People are just trying to get a feel for what needs to be put in place."

But progress is being made. One Chinese company that at present does offshore work is aiming to move onshore and eventually to start a passenger shuttle service between Hong Kong and the adjoining Pearl River Delta, a booming economic region. In addition, a conference has been held in which police agencies from various Chinese provinces discussed using helicopters for security duties such as the drive against smuggling. In another public service field, a company has bought two Sikorsky S76C+ aircraft for search and rescue duties based in Shanghai.

Chou adds that Shanghai, at the mouth of the fast-developing Yangtze River basin, would be an obvious centre for helicopter services such as linking the metropolis to the nearby port of Ningbo or to the inland city of Nanjing, routes on which most people now use rail or road transportation.

Other possibilities abound, including the use of helicopters in Beijing for traffic control during the 2008 Olympic Games.

But Chou said the biggest handicap she sees in China is the lack of marketing skills among the general aviation companies, which are inclined to buy helicopters first and then think about how to employ them later.

Many Chinese airlines have made huge strides in honing their management and planning abilities but with general aviation operators, "it's a totally different ball game."

"It's extremely frustrating. You can't just go in and sell a product (in China). You have to help the client identify the market. Sometimes you even have to help clients to find their customers, and bring the two together."

There's also the problem – as rampant now as ever it was in pre-Communist days – of corruption in the form of potential customers demanding illegal sweeteners.

"Yes, people do ask for favours," Chou said delicately, adding that all such requests are rejected. Instead, providing above-board entertainment for clients "is the norm".

A more straightforward hurdle is one of obtaining finance for customers purchasing helicopters, because the funds involved may be too small or the risk too high. And when funding is found, interest rates are very high.

Partly to overcome this problem, Chou sees a process of consolidation taking place among general aviation operators, akin to the current restructuring by mainland airlines. But like everything else in China, this will take time. "In Mainland China you have to be extremely patient."

# China starts ATC upgrade

*By Tom Ballantyne*

The long-awaited modernisation of China's en-route air traffic control (ATC) system is finally underway and is scheduled for completion by 2004 following the awarding of a US$91 million contract to Europe's Thales ATM (Air Traffic Management) by the Civil Aviation Administration of China (CAAC).

Under the contract, to be managed from Australia, Thales (formerly Airsys ATM) will provide en-route ATC centres for Beijing, Shanghai and Guangzhou, along with three approach centres and control towers at Beijing, Hongqiao and Pudong airports (both in Shanghai), and one remote position at Tianjin.

The ATM facilities are based on Thales' advanced Eurocat 2000 automation product.

The contract represents a big win for Australia, with the main development work to be done at Thales' plant in Melbourne.

Bruno Serey, Thales ATM managing director, said the deal follows a three-year programme of evaluation and will include over 200 air traffic control stations.

Known as NESACC (Northern, Eastern and Southern Area Control Centres), the project is the cornerstone of the CAAC's plan to concentrate and upgrade air traffic management systems covering Chinese airspace to support the nation's economic development into the first half of the new century.

China has more than 1,150 air routes, including international airways, to over 60 cities in 33 countries. Air traffic is growing at an annual rate of 10%. The new systems will control up to 80% of current air traffic in China.

Eurocat provides a high level of automation for controllers and incorporates satellite detection with Automatic Dependent Surveillance (ADS) and Controller-Pilot Data Link Communications (CPDLC). The new systems will enable more efficient route planning and reduce operating costs.

Serey said Thales ATM used TAAATS (The Australian Advanced Air Traffic System) to demonstrate its expertise in delivering very large ATM systems on time and to the satisfaction of the customer.

An integral part of the NESACC project will be the transfer of expertise to China through the involvement of CAAC engineers and technicians in the development and implementation teams. Thales has signed a Memorandum of Understanding with Sichuan University in Chengdu for the establishment of a Master of Science (MSc) programme in real-time software engineering.

With NESACC, China will be perfectly equipped to handle the peak of air traffic when the 2008 Olympic Games takes place in Beijing.

*The events of September 11 in the U.S. served to heighten the woes of flag carrier Thai Airways International (THAI). It has suffered a series of power struggles and embarrassing problems this year which have put a dampener on investor interest in its proposed part privatisation. A new THAI board was appointed in October and a new president will be named in November, but with a long record of political and military interference, that has proved to be a stumbling block to efficiency and competitiveness at the airline, the question remains ...*

# THAI: who is running the show?

*Let the airline people get on with the job, urges former chief Chatrachai*

*By Barry Grindrod*

**A few weeks ago *Orient Aviation* was preparing a story that posed the question: who is running much-troubled Thai Airways International (THAI)? As if to answer the question, a couple of days later airline president Bhisit Kuslayanon was sacked by the Thai prime minister, Thaksin Shinawatra, and the entire board resigned.**

**In October, a new 15-man board was appointed with former finance minister, Virabongsa Ramangkura, elected chairman and acting president. A decision to appoint a new president was delayed until November. Although there are 12 contenders, of which six are from the Thai Government, THAI's executive vice-president commercial, Tasnai Sudasna is tipped to win the job.**

**Originally, the name of the new airline chief was to be announced at the time of the new board. But the fact the decision has been delayed another month suggests Tasnai's appointment is not cut and dried.**

**Will the new president's job be a poisoned chalice as it indeed proved for Bhisit? That remains to be seen, but whoever it is he at least will start with the support of the Thai Government. That is crucial at THAI which traditionally has been highly politicised. Chairman Virabongsa, described by the Thai media as an "economic guru", is a close ally of Thaksin and transport minister Wan Muhamad Noor Matha.**

**Bhisit had only been at the helm of THAI a couple of months when the Thaksin Government was elected. He almost immediately found himself at the centre of a campaign clearly designed to oust him.**

**Just before Bhisit lost his job, another former THAI chief, Chatrachai Bunya-Ananta, described the situation as "a right mess" and appealed for the politicians to stop interfering in THAI.**

**"Increasingly, with the change of politics there is someone moving every day to oversee THAI's business. Every minister who has been given a portfolio in the Ministry of [Transport and] Communications wants to take over. I don't think there is anything wrong with oversight, but they should consult with people who know what the airline business is all about," Chatrachai told *Orient Aviation*.**

*Analysts encouraged by the membership of the newly elected board of directors*

**But the new president will have a mountain to climb at THAI, which even before the events of September 11 in the U.S., was formidable.**

**Attempts to part-privatise THAI have been ongoing for the past five years, but the government's efforts have been continually thwarted by economic conditions and a plunging stock price. It was scheduled to put 23% of its shares on the market in November, but the permanent secretary for finance and former acting THAI president, Somchainuk Engtrakul, has said it will wait "until the market picks up".**

**THAI's share price has fallen 40% this year, which contrasts with a 5% gain in the overall Thailand stock market.**

**Former THAI president Chatrachai believes the sooner THAI is privatised and its management allowed to run the airline unhindered, the better. But that now looks a way off.**

**Analysts have expressed some optimism with the new 15-man THAI board of directors. Only five are from government, compared to nine on the previous board. Of the 10 directors with a business background, five are former bankers. Only one is from the military, an area that has had a significant influence on THAI in past years.**

**In October, THAI announced plans to cut costs by two billion baht (US$45 million)**

annually. This included trimming investment in aircraft spare parts, freezing employment – at press time there was speculation that 300 staff would be laid off – closing a number of overseas offices and putting inflight product upgrades on hold.

The route network also is being restructured. THAI expects U.S. traffic to decline 16% in the six months to March 2002, Asian routes to fall 11% and European traffic to decline 3%.

THAI lost US$20.5 million for the first half of the 2001 financial year to March 31, compared with a $212.7 million profit for the same period in the previous year. High fuel costs and foreign exchange losses were blamed.

The carrier has a critical debt per equity ratio of 11:1. Accumulated debt amounts to $2.3 billion, with another $1.2 billion to pay for aircraft procurement. Capital stands at only $209.4 million.

In September, the board approved a new corporate strategy that included plans to reorganise the company's operations into separate business units wholly-owned by THAI.

Other incidents that have blighted THAI this year include:

• In August, prime minister Thaksin had to step in to defuse a row in which pilots refused to fly with two union leaders, both cabin attendants. The two crew said THAI pilots were inefficient and did not deserve the pay rise that THAI cockpit crew wanted.

• In May, the prime minister said his national airline "sucks" and added that if he was not a public figure he would not fly on the flag carrier.

• In April, a new 15-man THAI board was named, but then president Bhisit, a respected 30-year stalwart of the airline, was not among the appointed directors. It was the first time in recent history that THAI's current president was not automatically made a board member. The deputy transport and communications minister, Pracha Maleenond, who oversees THAI and appointed several of his close associates to the board, said Bhisit's "performance [as president] was being evaluated".

Only after angry protests by union members, who accused the government of "jobs for the boys" and "political favours", was Bhisit confirmed as president.

• Within days, THAI hit the headlines again when it was revealed that board members and "friends" of THAI, including top local journalists, had been entitled to unlimited free first class travel and corporate credit cards for the last several years.

• In March, a THAI B737 exploded at Don Muang airport, killing one person and injuring seven, shortly before Thaksin was to board the plane.

Initially, he claimed it was an assassination attempt, but investigators later ruled out foul play. Breaches of maintenance protocol while the aircraft was on the ground are reported to have caused the explosion. Investigations are continuing.

# The former boss who fought politics – and lost

*By Tom Ballantyne in Bangkok*

There is a slow shake of the head and a sigh of exasperation from the much-respected former president of Thai Airways International (THAI), Chatrachai Bunya-Ananta. "I left [the airline] eight years ago and not a single day passes when I am not looking at THAI and feeling awfully bad about it," he said.

Now executive chairman of Thailand's up-and-coming scheduled newcomer PB Air, the former THAI chief is clearly troubled that in some way he contributed to the airline's current problems when he ran the carrier in 1992 and 1993.

"Every day I look at this and say 'Oh no, what have I done? Have I created a situation where there is no real consensus of management?' I would hate to see THAI go the same way as a few other Asian airlines. I hope not."

In reality, Chatrachai can hardly be responsible for THAI's current woes, which are more the result of a bloody Asian financial crisis, subsequent political events in Thailand and most recently the terrorist attacks on the U.S. and a new nationalistic government clearly bent on hands-on intervention in the carrier's affairs.

*Former THAI president and now executive chairman of PB Air, Chatrachai Bunya-Ananta: sidelined ineffective military managers*

He knows better than most the complex political arena in which the president of the airline operates.

When Chatrachai took the helm at THAI in September 1992 he was the airline's first civilian president, ending the traditional leadership of a string of senior Thai Air Force officers.

Then a 30-year veteran of the country's civil aviation scene, he quickly moved to sideline ineffective military managers, streamline the fleet and make broad organisational changes. Within three months of his arrival, 200 air force officials had been kicked out of the airline.

But by October 1993 he was gone. Following the death of the airline's first civilian chairman, Pandit Bunyapana, the air force regained control and replaced Chatrachai with Thamnoon Wanglee who retired on September 30 last year.

Chatrachai believes for the good of the airline it is important THAI is privatised as soon as possible. "I blame it on the politics that interfere at the top level. The fundamental thing in THAI [politics] is still there. Regardless of what they do, the aircraft should go out on time. That's fundamental. The boys and girls that run around, they still carry on doing what they have been trained to do," said Chatrachai.

He was unimpressed by the government's treatment of former president Bhisit Kuslayanon, who is now an advisor to THAI. "They had just appointed him and the next day they were telling him they are going to retire him. It's a terrible mess," said Chatrachai just before Bhisit's sacking.

TOM BALLANTYNE *spotlights the hopes, aspirations and setbacks of Thailand's three scheduled regional carriers*

# *Long-haul blow for PB Air*

**The global crisis brought about by the terrorist attacks in the U.S. has turned ambitious Thai operator, PB Air, into a casualty of the conflict.**

**Preparing to launch scheduled long-haul services between Bangkok and Phuket in Thailand and Stockholm, PB has had to place an indefinite hold on plans after losing critical funding from Swedish backers.**

**The announcement was made after the Swedish financiers, operating under the name PB Air International AB, said they could no longer comply with an agreed contract and declared their operation bankrupt.**

**The Thai airline, owned by Thai beer tycoon Dr Piya Bhirombhakdi, had already arranged the wet lease of an MD-11 to begin flights on October 23. It was targeting leisure travellers from Scandinavia bound for Thai resorts and was to operate services five times a week from Stockholm – three to Bangkok and two to Phuket.**


***PB Air: setback to long-haul ambitions***

**The international future of PB Air is now in disarray. "Resulting from the catastrophe, the funds needed to sustain the Scandinavian flight operation have disappeared from the financial market with immediate effect. The planned flights between Sweden and Thailand will have to be indefinitely postponed," said PB's executive chairman, Chatrachai Bunya-Ananta.**

**Chatrachai stressed PB's domestic network, serviced by three Fokker F28s, is unaffected and the airline is continuing to review possible expansion on domestic routes.**

**The development came as a body blow to Chatrachai, a former president of Thai Airways International (THAI), who sees big potential for a second long-haul Thai operator. Although the plug has been pulled on current funding he remains confident PB's plans will be revived once the industry gets through its current difficulties.**

**Sweden was the first step in an expansion he believed would make PB a significant player in the long-haul market. Chatrachai and his management team had been discussing the possibility of securing more aircraft next year.**

**"There are ample opportunities in continental Europe. With Thai Airways operating to Frankfurt and Munich, PB is looking at several other big cities in Germany, including Berlin. The Netherlands is also under review," Chatrachai told *Orient Aviation*.**

**Until recent events, the U.S. had been considered a prime candidate for the second stage of expansion.**

**"There are 22 points in the U.S. available for Thai carriers to operate and THAI only uses one of them," said Chatrachai.**

**The future timetable of any such expansion is now anyone's guess.**

**PB's strategy reflects a trend among Thailand's emerging airlines: they do not want to compete directly with THAI or with each other, focussing instead on carving separate niches for themselves.**

**PB is not making money at present, but Chatrachai said it does have "sustainable operations".**

**"In this region you have Singapore Airlines, THAI, Malaysia Airlines and others. They monopolise some of the routes. In keeping with our philosophy of being a holiday carrier, we need to give long-haul passengers a variety of exotic destinations," said Chatrachai.**

**"I have always been an advocate of ASEAN tourism. I believe it is a tremendous region, providing the political situation remains stable.**

**"We will build up the domestic operation within Thailand and take on some of the unprofitable routes from THAI. Then we will gradually build an interconnecting network into some Indochina destinations that each government wants to promote."**

**PB has little debt. It owns the domestic F28s and will be leasing long-haul aircraft. It plans to outsource most of its requirements.**

**The carrier has signed a contract with Worldspan to host its operating systems and provide the airport software required for international market entry. It will cover all aspects of ground handling and facilitate IT services such as flight inventories, fares and pricing.**

**Domestically, expansion remains the subject of review. PB operates F28 services from Bangkok to Krabi, Roi-et and Wattanakorn, but it has said the Fokker jets will be replaced.**

**According to Captain Jothin Pamon-montri, PB president and also a former senior THAI executive, PB is looking for more economical aircraft. It plans to lease the aircraft and has a wide range of choices, including the B737, B717 and the MD-80, as well as Embraer or Bombardier commuter jets.**

**Developments will likely depend on opportunity – the routes THAI decides to abandon and hand over to the smaller airlines. But Capt. Jothin said PB expects international services to eventually become the airline's main revenue base, with inbound travellers supporting the domestic business.**

# Pioneering president

*Bangkok Airways founder shows no signs of resting on his laurels*

Bangkok Airways has come a long way since 1968 when its founder, president and chief executive, Dr Prasert Prasarttong-Osoth, established what was then known as Sahakol Air, an air taxi company.

In 1986, Dr Prasert re-invented his air taxis into Bangkok Airways, Thailand's first privately-owned domestic carrier.

Today, Bangkok Airways has a fleet of two Boeing 717-200s and nine ATR 72s and 42s and a growing domestic and short-haul international market. What's more the environmentally and culturally sensitive Dr Prasert, who has built two unique "green" airports at holiday resort destinations in Thailand, shows no sign of resting on his laurels.

*Bangkok Airways new ATR 72-500s reflect its president's passion for preserving both the environmental and cultural aspects of the destinations served by the carrier.*

The former surgeon has been travelling non-stop in recent months finalising plans for expansion of Bangkok Airways that saw a significant increase in services in October.

The airline looks as if it will weather the current crisis following the terror attacks in the U.S. with minimal damage. Dr Prasert said he did not expect to have to cut services or the 1,000 staff. Revenue is expected to be down about US$10 million on initial projections of $90 million, but $80 million will be 33% up on US$60 million revenue in 2000. Robust earnings in the first nine months will minimise the impact.

"In a worst case situation we predict zero growth in sales revenue. That is our most conservative scenario," he said.

Indeed, Bangkok Airways inaugurated services to Jinhong in Yunnan Province, southern China on October 18 and will add two new destinations. Hua Hin, in Thailand, and Luang Prabang, in Laos, next April.

It has also been granted rights by China to operate from Bangkok to Xian and expects to start services next April.

The airline's Siem Reap – Bangkok route has been hardest hit by the events in the U.S. because many passengers are Japanese or American.

Prasert believes Thailand should turn the current global crisis into a positive by working with Laos, Cambodia, Burma and Vietnam in promoting Indochina as a peaceful region.

On a virtual one-man diplomatic mission he has won privileges from Chinese and Vietnamese aviation authorities to boost Bangkok Airways' regional presence.

Dr Prasert also has brokered a deal with Vietnam authorities to allow his airline to carry passengers directly on return flights between Bangkok and Ho Chi Minh City, using the rights of Vietnam Airlines. This is because Vietnam has not fully utilised its capacity, partly because of a lack of aircraft. With the Vietnam services expected to begin soon, Bangkok Airways will compete directly with Thai Airways International on the route.

Dr Prasert said he has a number of other destinations pencilled into his diary for consideration. They include Kunming in China, Hong Kong, Bali and Medan in Indonesia, and Mandalay and Pagan in Myanmar.

The two B717s that arrived in the last 12 months at the airline have been a key to Bangkok Airways' expansion plans. "At the very least, these additions to our fleet signalled the opening of a new chapter in our development in which we will become not just the leading private airline flying to tourist destinations in Thailand, but a major player in the short-haul international market," said Dr Prasert.

"The Boeing B717-200 is arguably the best aircraft in the world for high frequency, short distance flights and, equally importantly from an environmental point of view, it is one of the quietest aircraft of its type."

The ATR turboprop fleet also is being updated. "This is not because the existing aircraft are obsolete. It has only been in operation for five years. However, the fleet is comprised of two different ATR series, each with its own tooling and spare parts requirements. By exchanging all aircraft for the new ATR 72-500 series, we will be able to rationalise the entire repair and maintenance operation," said Dr Prasert.

The arrival of jets at Bangkok Airways does not mean the turboprops are falling out of favour. On the contrary. The airline plans to add one new ATR to the fleet annually.

Dr Prasert said success was not simply a matter of bottom line results. Building a network that links some of the Mekong Delta's most important cultural and environmental sites carries with it extra responsibility.

"Our route network reflects this concern and sense of responsibility. On the island of Koh Samui, our first destination, we wanted to ensure the surrounding beauty was disturbed as little as possible by the arrival of regular airline services. As a result, we built an airport and created infrastructure that to this day remains sympathetic to the island's beautiful environment," he said.

"Similarly, when we begun services to the ancient Thai capital of Sukhothai, we built an airport in harmony with the local surroundings. We have regular services to Siem Reap, home of the magnificent Khmer temple complex, as well as to Phnom Penh, the Cambodian capital."

Now operating to 11 destinations in four countries – Thailand, Cambodia, Singapore, China and with Vietnam starting soon – the carrier has cemented its position in the regional airline market with a strong niche in Indo-China.

# China package key to born again Angel's success

When Thailand's second national flag carrier, Angel Air, suspended all flights in May last year, many thought it was the end of the road, the demise of yet another hopeful upstart that found the realities of the airline business a commercial killing field.

They were wrong. President and chief executive, Somchai Bencharongkul, a 44-year-old lawyer and former government minister and adviser, was made of tougher stuff. The planes were grounded for little more than a month and today Angel is busily rebuilding its presence in the industry.

With Angel now flying to Hong Kong, Japan and Macau, Somchai has set his sights on services to Taiwan and, with the help of Chinese partner, China Northern Airlines (CNA), routes to as many cities in mainland China as possible.

And the September 11 terror attacks on the U.S. have not altered the expansion plans. Despite a significant drop in Japanese passengers on services from Osaka, other routes are holding up well so far, according to the airline.

The strategic tie-up with CNA, which includes a joint marketing agreement, is critical to plans to win an increasing share of China's growing package holiday business. "It has given us connections deep inside China," said Somchai.

Also, it has smoothed the path of fleet expansion for the carrier. Angel has wet-leased three Airbus A300-600s from the Chinese operator increasing its operations to Japan.

According to Somchai, Angel is now breaking even and he is confident it can pay off its debts by 2003.

This renewed optimism is a long way from last year's depression. Founded in 1997, it launched its first flights, on the Bangkok-Chiang Mai domestic route, with a B737-500, in September 1998. The timing was miserable. Angel became a victim of Asia's economic crisis.

Projected passenger traffic failed to materialise and debts mounted quickly. There were moves by creditors to liquidate the company. Somchai admitted that his launch timing had been wrong and that management expectations were too high.

When the crunch came in 2000, he ruefully declared: "We wanted to be a big boy, but we were only three years old and operating in a very difficult market."

The month-long hiatus last year allowed him to take stock and make some tough decisions. Offices were downgraded, staff halved and the management structure rationalised. People who stayed took pay cuts.

*President and CEO of Angel Air, Somchai Pencharongkul: never-say-die approach puts carrier back in the air*

Angel shifted its focus from domestic and regional business traffic to targeting inbound tourists from Japan and China. In June, the airline commenced flights between Osaka and Phuket, a route that cleared the way for it to re-launch a connecting domestic service between Phuket and Bangkok. This is its only domestic route today.

At the same time, it inaugurated flights between Bangkok and Macau, another cog in a network planned for China and its provinces.

Somchai said, after a recent visit to Tokyo, that a number of destinations were being studied, including Tokyo, Sapporo, Sendai, Toyama and Fukuoka.

Elsewhere, Angel is looking at the feasibility of flights to Seoul in South Korea, as well as Taiwan. He is optimistic the carrier can re-launch services from Bangkok to Chengdu in China before the end of the year. Kunming is also being considered as an early addition to the network.

In the longer term, Chinese tourists are not the airline's only target between Thailand and mainland China. Somchai said China has great potential for business and economic expansion and will attract large numbers of foreign visitors. That means two-way business traffic as well as tourist traffic.

In many ways Angel has had little choice but to focus on a regional network. While the Thai Government talks about open domestic skies there are, in fact, no domestic open skies, Somchai said. It is impossible to compete with national flag carrier Thai Airways International (THAI), he pointed out.

"The reality is there is more regulation rather than less," said Somchai.

To have an opportunity to compete domestically, THAI would have to be privatised. Instead of waiting for that to happen, which could take some time, Angel is building its niche elsewhere.

The Angel Air tail logo is the wing of Kinnaree, a celestial Thai creature. With its new strategies and renewed confidence, Somchai is certain that this time around Angel Air will not falter, but soar to new heights.

*Angel Air: deal with China Northern Airlines to boost its package tour business*

# LEASING

## in the Asia-Pacific

# Ansett Worldwide offers new lease of life with total capacity solutions

*By Tom Ballantyne*

In the trying days following September's tragic events in New York and Washington, executives of freshly re-branded Ansett Worldwide set about calling every one of the lessor's 72 customers operating its 172 jets – a portfolio worth around US$5 billion – in 43 countries around the world.

The question? How are you being impacted, are there any issues you need to discuss and what can we do to help you?

Scots-born, Sydney-based chief executive Charles S. Graham doesn't dispute that some of Ansett Worldwide's customers are worried. Nor does he suggest that none has raised the possibility of returning aircraft. For a start, troubled Ansett Australia is a client, operating two of the firm's B767s, three B737s and three A320s.

Technically, the Airbuses are still on lease with the new, pared-down Ansett Mark II, but in late October the Boeings were in the process of being taken back and new customers found.

But overall, Graham insisted, the impact has been minimal, and signs are that Ansett Worldwide may be in an ideal position to weather the turbulence. The reason is a new business strategy, finalised earlier this year, which focuses on providing aircraft capacity solutions to meet the specific and complex needs of airline clients.

"A couple of features of our strategy have worked very much in our favour. First, we haven't got a lot of speculative order books because our strategy has been to acquire aircraft in response to customer needs, as opposed to long-range speculative purchasing," Graham said.

"So we are not worrying about how we are going to place a hundred aircraft that we have to take delivery of over the next two or three years. In this cycle I think that is a definite advantage for us.

"Secondly, there is the strength of our operational capabilities, which give us more opportunities to replace equipment if necessary. We can introduce aircraft types that airlines have not had experience with before. We can even place aircraft on relatively short-term leases. It increases our odds of being able to get the aircraft back in the air," he added.

*Ansett Worldwide chief executive Charles S. Graham: the company is ideally positioned to weather turbulence*

Ansett Worldwide executives are convinced that being more than just a leasing company will be a key factor in successfully negotiating what is shaping up as the most difficult period in the history of the airline industry.

"It's not just the metal part of the aircraft," said Harry Forsythe, vice-president of marketing worldwide. "We can provide things that are not linked at all to the hard asset you are buying, whether it's an Airbus, Boeing or whatever. We are adding services that are worth more than just the aircraft."

Forsythe is talking about an ability to blend financial derivative skills with in-depth aviation knowledge. Ansett Worldwide, which was acquired last year by Morgan Stanley Aircraft Finance (MSAF), is a full-service lessor, not just a finance house. It is the only major lessor with its own Air Operators Certificate (AOC) and has engineering capabilities available in-house as well as a range of technical support services.

These include new aircraft production inspection services, crew leasing – including aircrew, engineers and management personnel – aircraft asset management, spare-part procurement services and training support.

Forsythe said part of what leads to panic in the leasing business is that financial groups see aircraft as a good investment. "But without having the operational structure, as we do, you are drastically exposed if something happens. You are lost when it comes to looking after (an aircraft) when it is not being operated by an airline, or you don't know how to re-market it to other airlines.

"That tends to lead to panic when it comes to what people perceive as being a drastically reduced market value. These people will go out and offer the planes at ridiculous rents. It doesn't do any part of the industry any good."

Forsythe pointed out that Ansett Worldwide is no stranger to doing business during down cycles. "It is a terrible time, but we have dealt with this kind of thing before. What we are trying to do is deal with it in a slightly different way – using the infrastructure we have, the added value we can offer, in a way that can be of benefit to our customers or potential customers."

Ansett Worldwide's new ownership has made a significant difference. Formed in 1985, the company was previously jointly owned by transport group TNT and media giant News Ltd. Some suggest that during the later years of this reign there were serious financial restrictions on the lease division's ability to expand its fleet and operate effectively.

That period ended when it was acquired lock, stock and barrel in April 2000 by Morgan Stanley and then integrated with MSAF, which already had a portfolio of 61 planes.

The new strategy of delivering total capacity solutions to airlines differs markedly from the approach of the old Ansett Worldwide Aviation Services, commonly known as AWAS, which focused on asset management – owning a fleet of planes and managing them efficiently.

The new company does that, too, but it has added more dimensions to the execution of the strategy. "Our new focus is on our customers, both existing and potential, in terms of analysing their needs and partnering with them to provide solutions to their needs," Graham explained.

It is not a matter of having aircraft and convincing airlines to take them, or attempting to get the business exclusively. Often, a "mix-and-match" solution may be the answer, demonstrated by a deal now under way with U.S. operator Hawaiian Airlines.

With an ambitious fleet replacement programme that included a requirement for Boeing 767-300ERs, Ansett Worldwide has partnered with Boeing Capital Corporation to put together a capacity solution for the carrier.

"The B767 programme is the key to the success of Hawaiian's business plan," Graham said. "We have listened very carefully to Hawaiian, gone through the business plan with them, agreed on what their needs are, and then either provided that ourselves or are working with partners to get the solution they require.

"It is a 12-aircraft deal, of which we are providing eight aircraft (the first was delivered in October) on operating lease. We have partnered with Boeing Capital Corporation to provide the other four aircraft to exactly the same specifications. Our engineers have worked with Hawaiian to determine the specifications of the 12-aircraft fleet, and we partnered with Boeing in negotiations with Hawaiian for the aircraft.

"It is an example of how we are working with the customer and partners to satisfy the need of the customer as opposed to us saying: what have we got in our fleet to satisfy Hawaiian's needs? Being prepared to do it with a partner is exactly why we have the business," Graham said.

Forsythe pointed out other reasons why Ansett Worldwide is in a relatively strong position despite the gloomy global outlook for airlines.

While there is no question that many airlines are parking aircraft, the jets they are taking out of service are older models: classic B737s, MD-80s and B727s. Also being scaled back are some long-haul flights with big aircraft, especially on routes to the U.S. The vast majority of Ansett Worldwide aircraft are used on regional services.

"With the fleet profile we have, we are not expecting much in the way of aircraft coming back. One of our underlying acquisition strategies was to go for modern, new-generation aircraft. And because they are more economical to operate, it makes sense to retain these planes," Forsythe said.

The picture Ansett Worldwide has received from its customers since September's terrorist attacks in the U.S. supports that view, particularly in Asia.

"We had an economic downturn in place prior to September 11th. I think the story coming out of Asia is that things were already in a slump and therefore couldn't deteriorate too much further. The attitude appears to be that we are pretty much at the bottom of a trough anyway. That's at a macro-level," Forsythe said.

"At a micro-level, the aircraft we have in Asia are basically used for intra-Asian travel. Load factors are holding up because people need to travel around. Overall, the Asian airline response has been: sure, it will have some impact, but we are not having to do anything in the way of radical pruning. Many of them had already done that in the wake of the Asian economic crisis."

The fact that Boeing and Airbus are either trimming production rates or at least cancelling plans to ramp up production is also a plus. Ansett Worldwide believes the type of aircraft it owns are those that will be transacted in the next 24 months.

Like everyone else, however, the lessor is anxiously waiting to see how the international situation develops. Further expansion of the military action by the U.S. and its allies could bring darker clouds for a while, and forecasters remain divided on how soon a recovery could begin.

And that is why talking to customers is so important, according to Graham. "We are trying to find ways to demonstrate to customers that we are prepared to share some of this (pain) with them. We feel this sort of approach will be rewarded at some stage in the future.

"We are trying to avoid a situation where the baby gets thrown out with the bath water. If we can be the leasing company whose aircraft are retained during the bad times, then that is a significant step forward. People can say traffic has dropped off dramatically and ask us to take aircraft back. We have to show them they can park older aircraft and make them realise that retaining our type of aircraft is a more valuable alternative."


*Ansett Worldwide offers wet-lease solutions to its clients*

*Cebu Pacific and Pegasus management at the B757 signing ceremony. From left: Cebu president and CEO, Lance Gokongwei, chairman John Gokongwei, Troy Tollen, from Pegasus, corporate secretary, Perry Pe, and vice-president corporate planning and external affairs Peggy Vera.*

# *Pegasus assists Cebu with regional goals*

*By Tom Ballantyne*

San Francisco-based lessor Pegasus Aviation Inc., which earlier this year launched a strategic push into the Asia-Pacific region, has finalised a deal to lease two Rolls-Royce-powered Boeing 757-200s to Philippine operator, Cebu Pacific.

Cebu, which was launched in 1996, will use the 183-seat jets to inaugurate regional operations. The first aircraft was scheduled for delivery in late October with the second to arrive in November.

The airline hoped to start international services with twice-daily flights to Hong Kong in mid-November, followed by services to Singapore, Korea and Taiwan from December.

Cebu has 12 110/115-seat DC-9 aircraft operating on its domestic routes in an all-economy configuration.

"We are hiring additional staff and training employees for overseas operations. Flying international is a gigantic leap for us. We want everything to be close to perfect," said Cebu's president and chief executive officer, Lance Gokongwei.

The Pegasus portfolio includes major carriers like Northwest Airlines, Korean Air and British Airways. But the lessor also assists in the development of small to medium-scale carriers with their fleet building, fleet renewal and fleet planning programmes.

Gokongwei said the Cebu contract included an option to lease an additional aircraft and an option to upgrade to larger types.

"Our arrangement with Cebu Pacific is consistent with our strategy to establish long-term relationships with growing airlines around the world," said Pegasus vice-president for marketing, Asia, Troy Tollen.

Pegasus has a commercial jet fleet of 217 aircraft on lease to 65 customers in 30 countries. Passenger planes comprise 178 of the fleet with 39 freighters making up the balance. It has assets of US$4.5 billion and reported US$450 million in operating lease revenues in 2001.

# Boullioun faces challenges head on

*By Tom Ballantyne*

Sold earlier this year by one German banking giant to another, aircraft lessor Boullioun Aviation Services may have hung out the "under new ownership" sign, but it's management is breathing easy, at least in terms of its forward business plan.

Stunned, like everyone else, by the September 11 attacks on New York and Washington, it is active in the leasing market, tracking how changing conditions are affecting its customers.

But Boullioun is not cancelling any of its firm orders for jets or postponing deliveries just yet.

And it believes, if the experience following the Gulf War in the early 1990s is anything to go by, a recovery may come within 12 months.

In the meantime, president and chief executive, Robert J.Genise, is confident the new owners have set the scene for solid growth and a new approach to business. "In the last two years we were basically tied into the sale of the company, first being sold to Deutsche Bank and then being sold by Deutsche Bank. It takes a lot of management time," he said.

Now that it is over, Boullioun has been re-energised, underpinned by strong financial backing and is determined to move on with growing the business, he said.

Genise is first to admit the ownership developments have been unsettling. When Deutsche Bank made it known last year it aimed to sell Boullioun, the news came as a shock to the lessor's management and staff. The bank had only purchased the company in December 1998.

As luck would have it, new owners were found relatively quickly in the form of another German finance house, Westdeutsche Landesbank Girozentrale (WestLB), with the takeover finalised in February.

"Certainly it was a surprise to us. I don't think Deutsche Bank would have bought us if they had intended to do that, but circumstances change. So be it.

"The best thing about the way they handled the sale was they decided to sell to a financial services company, rather than a leasing competitor, who would not be interested in the company, more in our portfolio," said Genise.

Since the sale was completed, management has been able to "renew its involvement" in the company, he explained. "Our business plan was reviewed by WestLB before they acquired us. They bought into it and it is going very well. We all feel very much re-energised that we now can focus on Boullioun's business.

*Boullioun chief executive Robert J. Genise: will take delivery of 30 narrowbody aircraft in 2001-02*

"There are some very good synergies between ourselves and WestLB. We are working with several of their offices on transactions for some of our customers where they are looking at banking transactions. So we can help them develop relationships with the airline industry and they provide support for us as well. It is very positive."

That strength has already produced results, with an announcement in May Boullioun had completed its first external financing under WestLB ownership with a syndicate of 24 major U.S., European and Japanese financial institutions. After launching the facility at US$1.3 billion and receiving substantially greater commitments, Boullioun accepted oversubscriptions up to US$1.45 billion in 345-day bridge finance.

With short-term backing assured, Boullioun is concentrating on drumming up more business. For instance, it has been working closely with WestLB's Tokyo office on helping it organise Japanese operating leases.

"The Japanese operating lease market is still there because it is predicated on the tax needs of a lot of small and middle market companies. There are a lot of privately held companies that are still looking to make investments in aircraft. So the Japanese operating lease market is still relatively buoyant. They are still looking for opportunities," said Genise.

Founded in 1986 by aviation industry veteran E.H."Tex" Boullioun, the lessor holds a 35.5% stake in Singapore Aircraft Leasing Enterprise (S.A.L.E.). They have combined portfolios of 82 aircraft with a total market value of more than US$2.8 billion and have 90 aircraft on order worth about US$5 billion, plus options.

Boullioun takes delivery of 19 narrowbody B737 New Generation and Airbus A320 jets this year and will add another 11 in 2002. It has 30 options on Boeing and Airbus products.

"We do look outside these parameters, but our decision-making process is always predicated on getting a good return on equity and pricing. It does no good to buy a big aircraft and have it look good in the press if you can't get a reasonable rate of return on it," said Genise.

Boullioun turns over around US$250 million in annual revenue with some 20% pre-tax returns on equity, making it a big player in a market. The terrorist threat makes it a challenging time for everyone.

"As airlines move to protect their capital reserves and maintain their liquidity, we will see more opportunities to do leasebacks. We will see this globally."

Boullioun's John Willingham said the entire industry faced challenges similar to those it had to overcome following the Gulf War. "It is a difficult time and no one in the industry is running from that, but, with a couple of exceptions, our planes remain placed. Obviously, if a small number of our customers are in difficulty it is our policy to work with them and help them through what is happening."

Meanwhile, as partner S.A.L.E. starts to take a more active role in global leasing – it has opened an office in the UK – Genise dismisses suggestions the two companies are beginning to double up in business terms.

"We agreed with the Singapore shareholders that S.A.L.E. has to have its own capabilities. Prudent investors in Singapore would like to make sure the company is self-sufficient," said the Boullioun boss.

"It is managed independently and is in a transitional period. By April next year they will be operating totally on their own. They will, of course, still need board approval for investments.

# Lessors brace for capacity shuffle

*By Jonathan Sharp*

The terrorist attacks of September 11 on the U.S. are going to have a testing fallout for the world's operating lessors, and there may be some casualties in the sector as a result. But as well as the obvious challenges there are opportunities that may benefit both lessors and their customers.

So believes Singapore Aircraft Leasing Enterprise (S.A.L.E.), the only major Asia-based lessor, whose spokesman Sean Lee outlined to *Orient Aviation* the company's view of the leasing industry in the aftermath of the assaults on the US.

"The events of September 11 have created a situation that is going to require very careful management by operating lessors around the world," Lee said. "We believe it's really going to test the various strategies which have been adopted by different organisations."

He said some of the smaller players might disappear from the scene. "There has already been consolidation in the industry and quite clearly in the situation such as we have now, consolidation becomes a higher possibility."

It will be especially difficult for lessors that have large numbers of new aircraft about to be delivered, as they may have difficulty placing them with customers.

In addition, lessors with a large inventory of older aircraft may suffer, because in a downturn for the industry such as at present, the first aircraft to be withdrawn from service are the older aircraft types.

But Lee added: "I think that for lessors with well-managed, young portfolios and diversified customer bases around the world in different regions, the current situation can be managed and can also inversely provide new business opportunities which will be of benefit to lessors and also to the airlines."

He outlined the various leasing solutions for airlines, including sale & leaseback and slot swaps, that were being looked at and could help airlines seeking to retain liquidity in these dire times. Under sale & leaseback, an aircraft that has already been delivered to an airline is purchased by a lessor and leased back to the carrier, enabling it to obtain additional capital from its assets.

Lee said S.A.L.E. was also looking at slot swaps in which a lessor takes delivery and pays for an aircraft ordered by an airline, or takes an aircraft delivery position an airline holds.

"The airlines get back all their pre-delivery payments and they are in a situation of liquidity. We become the owners of the aircraft and the airline in return leases the aircraft on a long-term basis." At the same time the airline would take up the later delivery positions that the lessor may have.

*Singapore Aircraft Leasing Enterprise: no negative impact after September 11*

Lee said S.A.L.E. had not suffered any direct negative impact on its business so far from the September 11 attacks.

"Basically our lessees are up-to-date on their payments, and so far we haven't been aware of any direct, specific difficulties. But obviously we are keeping in close contact with our existing lessees to identify any problems which may arise and to work on these and find mutually beneficial solutions."

He said that in the long term, the airline industry would recover, as it has from past crises, and in fact the leasing industry could emerge in a stronger position from the September 11 disaster.

"What this is really going to demonstrate is the very volatile situation of matching up capacity to demand. So we believe airlines will ultimately turn more and more to leasing solutions, or at least to a greater mix of ownership and leased aircraft in their fleets to be able to adapt to market requirements more easily."

The number of aircraft on operating lease has risen from zero 25 years ago to about 19% of the current in-service fleet – more than 2,000 aircraft. This is set to rise to 30% of the world's fleet over the next 10 years, according to figures quoted by SALE.

Lessors account for about 36% of firm orders for future delivery by Airbus and Boeing – more than 1,160 aircraft at mid-2001. The top ten lessors account for 80% of the leasing market by aircraft value.

Lee said that although S.A.L.E. is Asia-based, its strategy is to be a global player. "Of course we have synergies with airlines in the region, which places us well to work with them, but we are by no means concentrating our focus on one region."

He said S.A.L.E. was in a good position to cope with the current crisis, with its fleet's average age at three-and-a-half years and focused on the Airbus A320 family and the Boeing 777.

# Phones ringing again

**Soon after the September 11 assaults in the U.S., Hong Kong-based corporate aviation company, Metrojet Ltd, began to receive phone calls from some unexpected quarters.**

**The calls were not sinister; on the contrary, they were very welcome because they were from people who had not done business with Metrojet before, and were not even on the firm's list of prospective customers.**

**The calls were even more welcome because business from the firm's traditional Western customers had dried up in the first week after the September horror, said Mark Turner, Metrojet's managing director. "As expected, the initial reaction of most of our Western clients was to hunker down, to stand down their travel.**

**"Since that time we have received an increasing number of calls for work." More importantly from Turner's point of view, some of the calls were from local people who to date have made up only a small fraction of Metrojet's business.**

**"That would suggest to me that folks locally are looking at their options, both from a security perspective and the reliability factor," he said.**

**Metrojet, which flies a Hawker 700 and a Gulfstream IV, draws 80-85% of its business from Western customers, with the rest based locally – an imbalance that Turner would like to see reversed.**

**Speaking in early October, Turner said business had not yet picked up to pre-September 11 levels. "However, if all of the bookings that we've provided quotes for are confirmed, then we will have exceeded by far any given month since the inception of the company (in 1996)."**

**Realistically, however, Metrojet did not expect to get more than 20-25% of the quotes confirmed as bookings, about the normal level.**

**In the United States, the corporate aviation business has soared following the tragedy, but the industry's Asian counterpart has not necessarily fared as well.**

**In Macau, Chuck Woods, the just-arrived new chief executive officer of Jet Asia Ltd, which operates two Canadair Challengers, said the tragedy had not had an immediate impact on his business.**

**"People are voting with their wallets [in the U.S.]," he said. People in Asia, however, are not feeling the disaster as acutely.**

**Jet Asia was beginning to receive more requests for quotes for its service, Woods said, but he could not gauge whether this was a result of the disaster or the company's stepped-up sales and marketing activity.**

**One area where Jet Asia was hit by the disaster was its insurance costs.**

**The company said underwriters had finally agreed to reinsure the company to the required level. "But it is going to cost us a lot of money to do that," said spokesperson Yeet Jones.**

**The company's viability was not threatened, Woods said. "We are quite optimistic about our own position and condition for future growth."**

## *Fairchild, Cessna clinch China deals*

*In a deal that could be worth US$266 million, Chinese regional carrier, Hainan Airlines, has converted options on 21 Fairchild Dornier 328JET aircraft to firm orders.*

*The go-ahead southern China carrier has recently taken delivery of its 19th 328JET, an order placed in August 1999. At the time it placed options on a further 21 32-seat jets. Hainan, which is listed on the Shanghai Stock Exchange, has said it will buy more of the planes.*

*In September, Fairchild Dornier signed an agreement with Harbin Aircraft Industrial Group to produce wing fairings for the 328JET.*

** Cessna has sold its first Citation X to China. The aircraft will join the fleet of two Citation Model 650s owned by the Civil Aviation Administration of China's Air Traffic Management Bureau in Beijing.*

*The airplanes are primarily used by the ATM bureau as special mission flight inspection aircraft, including calibration and monitoring of navigation aids. The CAAC has been using Citations for 10 years.*

# *ABAA gaining momentum*

*The embryonic Asian Business Aviation Association (ABAA) is already showing vigorous signs of life, according to Mark Turner, the moving spirit behind the lobbying group.*

*"We are very happy with progress so far," said Turner, adding that the association has 20 paid-up members among aircraft manufacturers, operators and service providers from most major countries in the Asia-Pacific region and, interestingly, one from outside the region – Germany.*

*"I see the membership increasingly fairly quickly," Turner said of the grouping, which will be based in Hong Kong. Steps to establish a legal structure for the organisation are being completed, and the group will hold its next meeting in Singapore to coincide with February's Asian Aerospace show.*

*He said the ABAA's top priority was to gain acceptance as a credible grouping working as a single voice for business aviation in the region.*

*"We very much want to be viewed by governments as a professional body that can be called upon for counsel on business aviation and that they can lean on as they are looking at their own regulations," he said. Hong Kong, for instance, was looking at regulations that will apply for business aircraft. "We think we are a good resource to call on for our experience."*

*The ABAA will also press countries to speed up the granting of flight clearances and to reduce costs and fees to spur more corporate aviation activity in the region.*

*"Our intent is to make sure that we address issues that affect general aviation across the board as well as those issues which are country specific, so that we can help our membership in their respective countries. We are trying to create level playing fields," said Turner.*

# SEPTEMBER 11 CASTS LONG SHADOW...

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

The consolidated revenue passenger kilometres (RPKs) of the Association of Asia Pacific Airlines (AAPA) member carriers declined 1% in July, but the number of passengers carried (PAX) grew by 0.5%. Capacity expanded 3.6%, which reduced the load factor by 3.5 percentage points to 75.8%.

Cathay Pacific Airways' (CX) traffic statistics distorted July's results to a degree. The Hong Kong-based airline carried substantially fewer passengers than the same month in 2000 due to the combined effect of the pilots' industrial action and typhoon Utor. If Cathay Pacific's figures are removed from the equation, AAPA consolidated RPKs and PAX achieved 1.4% and 3.6% growth respectively. Meanwhile, capacity was up 4.4%, which brought down the load factor for the month to 77%, compared with 79.3% in 2000.

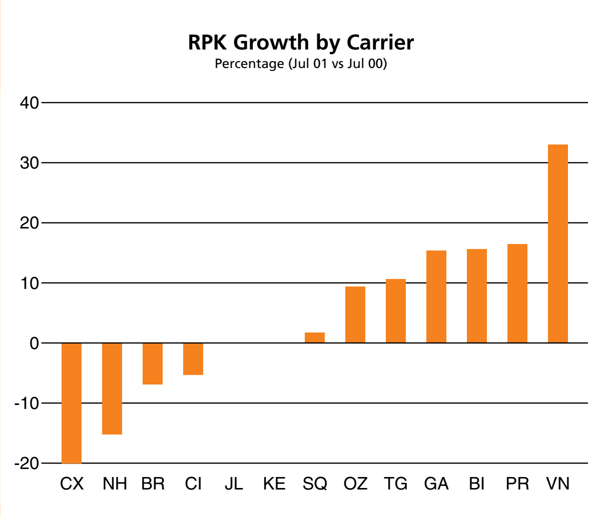
Eight carriers posted RPK growth, which ranged from a very modest 0.1% for Korean Air (KE) to 33.1% for Vietnam Airlines (VN). Four other carriers achieved double-digit growth - Philippine Airlines (PR - 16.7%), Royal Brunei Airlines (BI - 16.1%), Garuda Indonesia (GA - 15.2%) and Thai Airways International (TG - 10.9%).

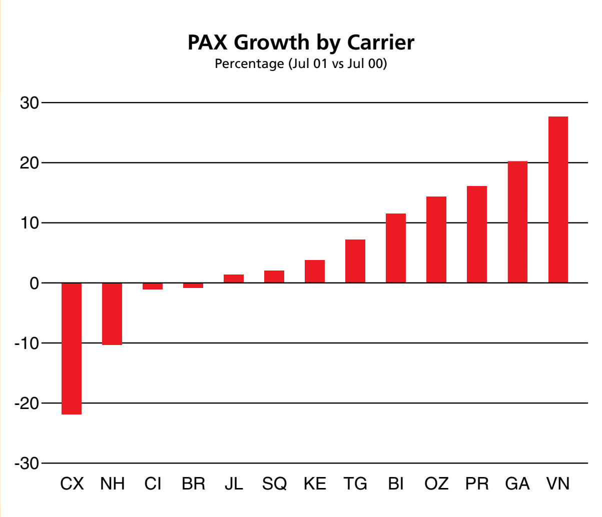
At the opposite end of the scale, Cathay Pacific's RPKs declined 19.6%, followed by All Nippon Airways' (NH) decline of 15.3%, EVA Air's (BR) drop of 6.9% and China Airlines' (CI) 5.4% fall off. Japan Airlines (JL) recorded no growth in July.

Both EVA Air and China Airlines experienced negative growth in PAX, albeit marginally. This was possibly attributable to worsening economic conditions. In the first seven months of 2001, All Nippon Airways carried approximately 210,000 less passengers than in the same period last year. The Japanese airline suspended and reorganised some of its international routes under its 2001 group business plan for the fiscal year beginning April 1. The business plan focused on rebuilding its air transport network based on profitability and market demand.

In the midst of a general traffic slowdown, three carriers saw their traffic outgrow capacity. As a result Royal Brunei Airlines (5.1 percentage points), Philippine Airlines (2.1 percentage points) and Thai Airways International (0.5 percentage point) increased their load factors. The remaining carriers, however, had to contend with a decline which ranged from Cathay Pacific's 13.9 percentage points to Singapore Airlines' (SQ) 0.9 percentage point drop.

Sensible capacity expansion enabled virtually all carriers' load factors to stay around the 70% mark and above. Asiana Airlines (OZ) topped the list with 81.6%, followed by Singapore Airlines (79.8%), EVA Airways (79.2%), Thai Airways International (78.9%), China Airlines (78.2%), Vietnam Airlines (78.2%), Garuda Indonesia (77.7%), Japan Airlines (76.9%) and All Nippon Airways (76.6%). The remaining four carriers managed load factors below the 75%



*Cathay Pacific Airways: traffic hit by pilots' industrial action and a typhoon in July*

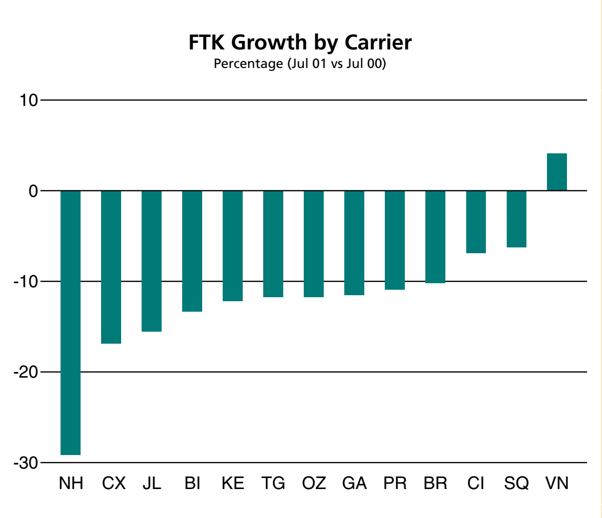
mark. Cathay Pacific, with 69.5%, fared the worst.

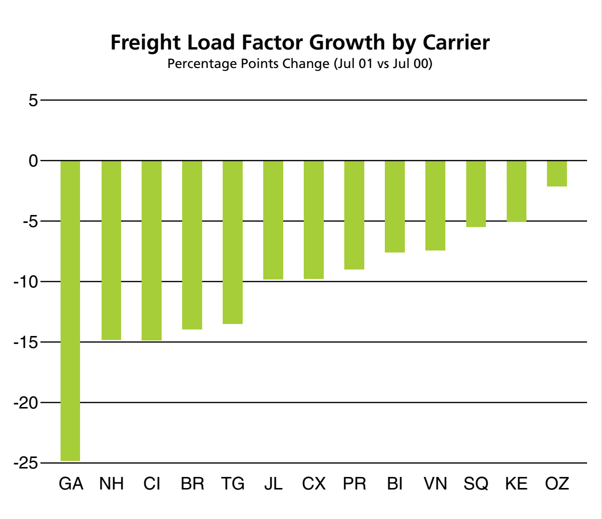
### *Cargo Results*

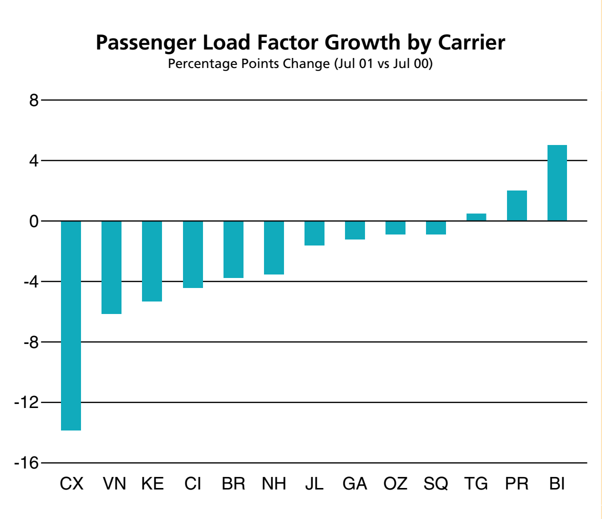
The airfreight market continued to worsen in July as AAPA consolidated freight tonne kilometres (FTKs) fell by 11.3%, the fifth consecutive month of decline. A 1% rise in capacity forced the load factor down 8.6 percentage points, to 62.1%. Even deducting Cathay Pacific's low numbers, created by the pilots' dispute and a typhoon, could only improve the situation slightly with FTKs down 10.6%, capacity increased by 1.5% and load factor decline of 8.5 percentage points to 62.7%.

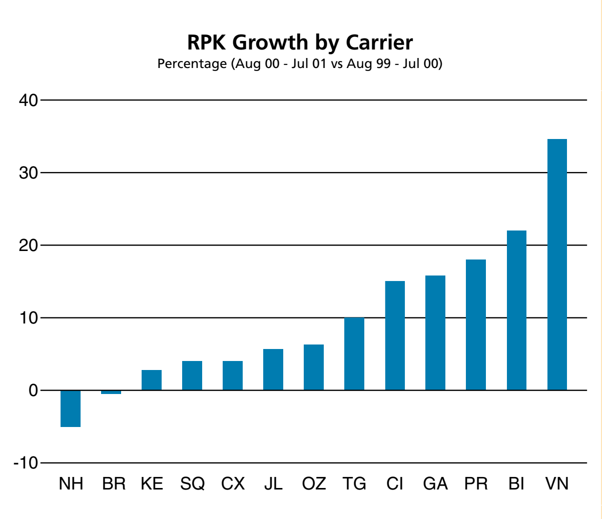
FTKs dropped more than 10% year-on-year for the majority of the carriers. These ranged from 10.3% (EVA Air) to 29.1% (All Nippon Airways). Vietnam Airlines (4.1%) was the only carrier to post an increase in FTKs.

Reductions in capacity for most airlines failed to offset the large decline in freight traffic. All carriers suffered a drop in load factor led by Garuda Indonesia's fall of 24.8 percentage points. Only three airlines managed load factors over 70% - Asiana Airlines (74.9%), Korean Air (72.9%) and China Airlines (71.2%). EVA Air (69.8%),



Singapore Airlines (63.8%) and Cathay Pacific Airways (63.1%) registered load factors over 60% while the remaining seven carriers were below 60%.

### *Results of the 12 Months to July 31, 2001*

AAPA consolidated RPKs increased 5.7% for the 12-month period under review. The number of passengers carried rose by 5.9%. Seat capacity growth was marginally slower than the rise in RPKs at 5.4%, which resulted in a slight improvement in load factor to 74.1%.

### *Cargo Results*

AAPA consolidated freight traffic declined by 2.2% for the 12-month period ended July 31. Capacity growth was 3.1%, which pushed the load factor down by 3.6 percentage points to 66.5%.

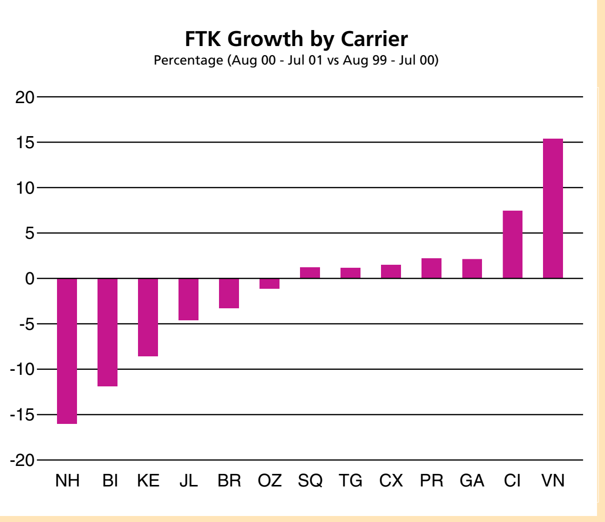
### *Summary*

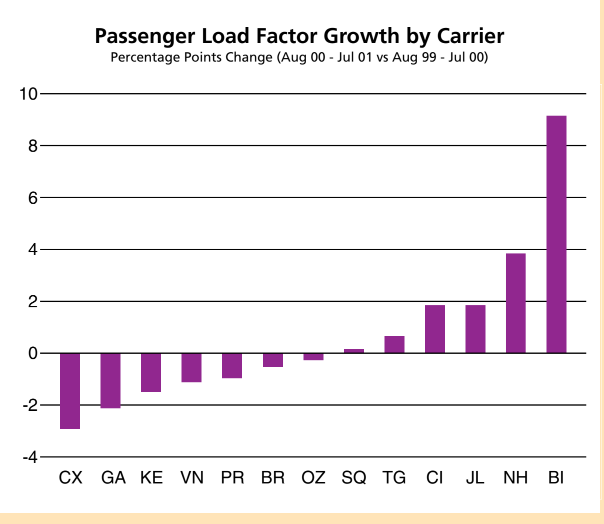
The aviation industry in the Asia-Pacific region and around the world, already under siege by worsening global economic conditions, plunged further into despair following the tragic events of September 11 in the U.S. that prompted the nationwide shutdown of U.S. airports for two days. This forced the cancellation of huge numbers of flights into and out of the country. Forward bookings for the last quarter of the year will be affected and several member airlines have already reduced flights in response to declining demand.

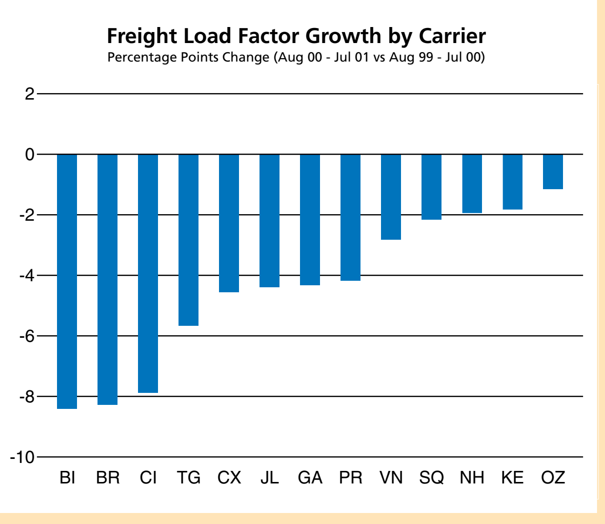
The uncertainty surrounding the current events is expected to cast a shadow over passenger and cargo traffic in the months to come.

*E-mail:krislim@aapa.org.my*

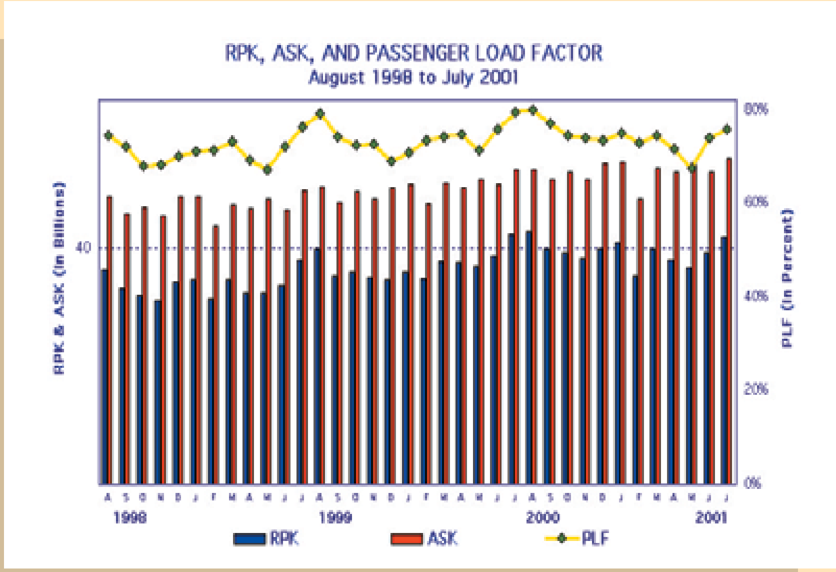

*Garuda Indonesia: cargo load factor slumped by almost 25% in July*

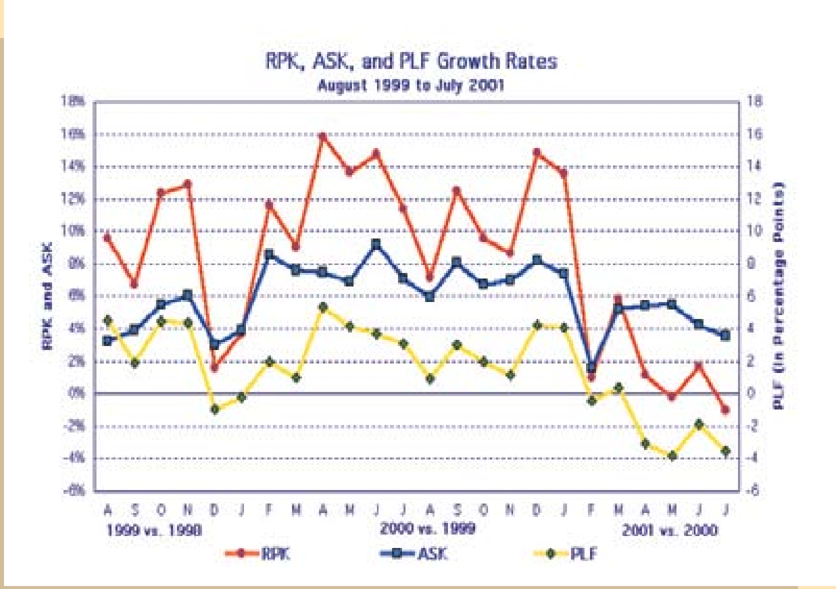


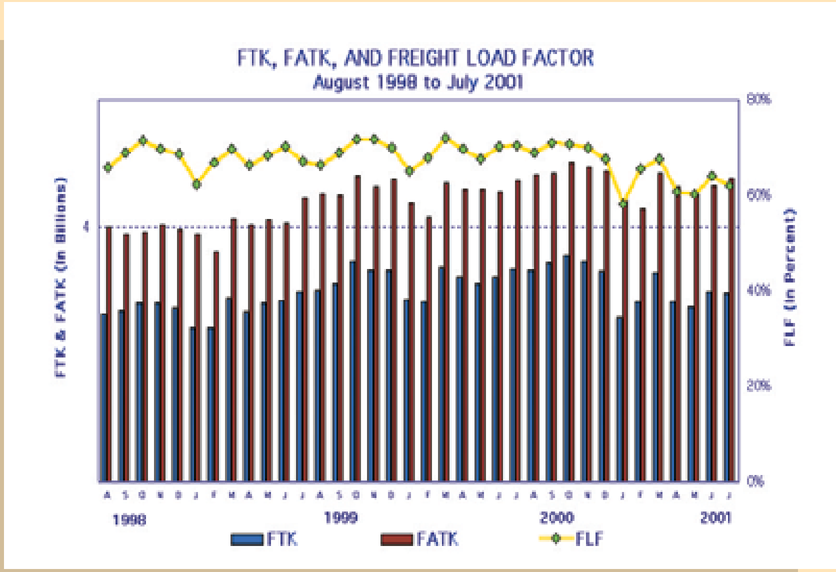



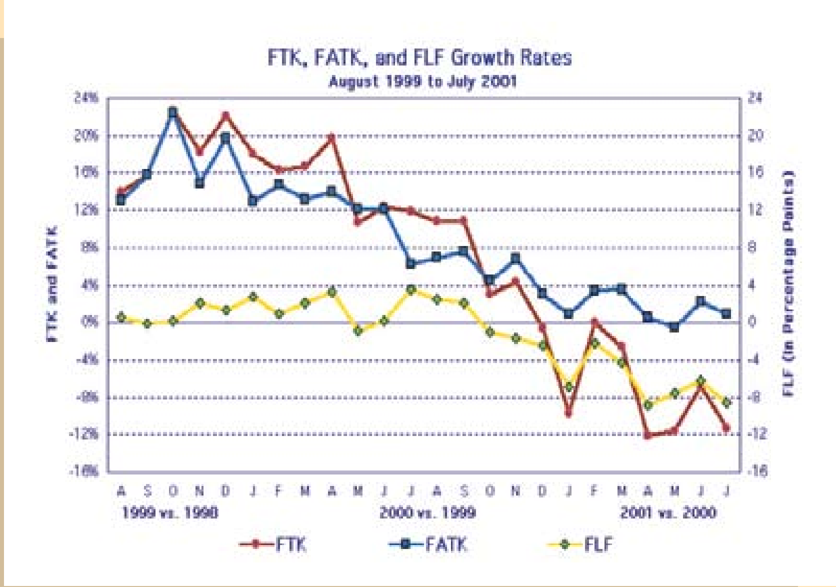
# Monthly international PAX statistics of AAPA members



# 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) |
|---|---|---|---|---|---|---|---|---|---|
| JUL-01 | 41,777,227 | 55,113,208 | 75.80 | 2,962,957 | 4,775,298 | 62.05 | 6,872,610 | 9,817,678 | 9,401 |
| 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 |
| AUG-00 | 42,563,884 | 53,219,304 | 79.98 | 3,328,928 | 4,835,287 | 68.85 | 7,329,682 | 9,731,918 | 9,411 |
| TOTAL | 470,432,535 | 634,531,538 | 74.14 | 37,312,201 | 56,753,536 | 65.74 | 81,548,831 | 114,855,011 | 105,970 |

**2000 to 2001**

| | RPK % | ASK % | PLF | FTK % | FATK % | FLF | RTK % | ATK % | PAX % |
|---|---|---|---|---|---|---|---|---|---|
| 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 |
| AUG-00 | 7.15 | 5.93 | 0.91 | 10.89 | 6.88 | 2.49 | 9.06 | 6.40 | 5.81 |

**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] | 271,174,551 | 371,336,940 | 73.03 | 20,204,971 | 32,214,779 | 62.72 | 45,687,431 | 66,151,506 | 61,581 |

**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] | 3.03 | 4.72 | -1.20 | -7.80 | 1.57 | -6.37 | -2.11 | 3.09 | 4.13 |

**Note:**

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