Orient aviation

VOL. 8 NO. 9 JUL/AUG 2001

MAGAZINE OF THE ASSOCIATION OF ASI NES

LET THE GOOD TIMES ROLL

Business is starting to boom for Vietnam Airlines and it has US$2 billion to spend on new planes

UPHEAVAL DOWN UNDER

CHINA: lessors beat a path to mainland's door

SPECIAL REPORT: Mid-year analysis of the Asia-Pacific aviation industry

Orient aviation

VOL. 8 NO. 9 JUL/AUG 2001

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LET THE GOOD TIMES ROLL

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Vietnam Airlines prepares for record expansion

BPA INTERNATIONAL ®

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New jets, new hope for VNA

Vietnam is a land of opportunity and should have realised much of it years ago. In the early 1990s bucket loads of foreign investment were poured into the country, but, in general, returns were not good as an old-style Communist government managed eventually to put a stranglehold on investment and change.

The country has a large pool of young, talented and willing men and women. Too often in the past their enthusiasm has been stymied by politics and bureaucracy – or both. Vietnam Airlines (VNA) is a case in point. And its fortunes perhaps mirror the economy. But times are changing. Fast.

In 1996, *Orient Aviation* visited Hanoi and met its impressive, youthful management team. They said the airline had been growing too fast and that they lacked resources, particularly human resources, to accomodate such rapid change. A period of consolidation was required, they said, to enable them to "organise". But they still forecasted its fleet of 26 aircraft would top 40 by 2000. There was talk of an 80 jet fleet by 2005.

Alas today VNA has just 23 aircraft, thanks in no small way to the Asian recession. Consolidation was not an option. It has, however, long rid itself of its Russian fleet of ageing jets. But the government, now led by a reform-minded leader, has made investment and reforms a priority and, to prove the point, VNA has been given approval to spend US$ billion on new planes. Three will arrive before the end of 2001 and the fleet is expected to reach 34 jets within five years.

Business is booming again. Growth this year could be 20% over 2000. New routes are planned, a co-operation deal is close with American Airlines, with VNA itself hopeful of flying to the U.S., its old foe, by 2005 when it will be able to capitalise on the large Vietnamese population in North America.

In recent years emphasis has been placed on training within the airline and modernisation of Vietnam's airports and air traffic services are underway.

In 1996, we wrote of a new dawn for VNA. It did not happen. The signs are much more hopeful now.

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FORGIVEN? More than two years after he retreated from public view when charged with tax evasion and foreign currency crimes in his native South Korea, in April this year, the chairman of Korean Air, Y. H. Cho, became one of 31 airline bosses elected to this year's International Air Transport Association (IATA) board of governors at the association's annual general meeting in Madrid, Spain in May.

At the same meeting, the present IATA director general, Pierre Jeanniot, had his tenure as head of Geneva-based IATA extended until 2002.

Apparently, the decisions in March by both James Strong, formerly chief executive of Qantas Airways and Peter Sutch, the former chairman of Cathay Pacific Airways, to decline offers to run for the director-generalship this year created a leadership vacuum which Jeanniot said he would fill for the next 12 months.

French Canadian Pierre Jeanniot: his term as International Air Transport Association director general extended to 2002

Chairman of Korean Air, Y. H. Cho, now a board governor of the International Air Transport Association

PERSPECTIVE

DEFINITELY: He has been talking about it for a decade, but Philippines' tycoon John Robinson Gokongwei, 75, said he is ready to hand over his vast trading conglomerate including his fast-developing Cebu Pacific Air, to his brothers and his only son, Lance, aged 35. Gokongwei Jnr is in charge of Cebu Pacific Air, which has done well, but the carrier also has had some blots on its operational copybook. In 1998, the airline was grounded for almost six weeks after a crash which killed 104 people in February of the same year. Investigators found 21 operational faults and almost a score of airworthiness violations at the airline. The Gokongwei scion is Wharton School educated and has assumed control of the group's food, telecommunications, banking and electronic business as well as Cebu Pacific. He is "very capable", said his father who wants to take up painting in [semi] retirement.

WHITE ELEPHANT: In June the obvious - that the Zhuhai International Airport in the southern Chinese province was a wasteful and useless project orchestrated by a vainglorious provincial governor with a friend in high places – the former Chinese premier, Li Peng – became official. Court proceedings in the southern Chinese capital, Guangzhou, revealed the airport was so heavily in debt it will be closed. The US$885.7 million airport has clocked up debts of at least US$205.4 million. The complex was built between 1995 and 1997, despite fierce opposition from the Civil Aviation Administration of China (CAAC) and Li's successor Zhu Ronghi. Critics said it was too close to rivals at Hong Kong, Shenzhen, Guangzhou and Macau. It was built to accommodate up to 12 million passengers a year, but in 2000 it attracted only 15 flights a day with an average of 40,000-50,000 passengers a month.

BABY BOOMER: Singapore Airlines (SIA) will have a new chairman, Koh Boon Hwee, (50) from August, dependent on his election to SIA's board at the airline's annual general meeting in mid-July. Formerly the chairman of SingTel, another Singapore government linked conglomerate, Koh will replace Dr. Michael Fam (74). Dr Fam is SIA's longest serving board member. He joined the board in 1972, when SIA was about to strike out on its own and stayed to succeed SIA board member, S. Dhanabalan, as chairman in 1998. Koh has spent 15 years as SingTel chairman, where he was elected to the position four times. He is also chairman of Internet Technology Group Ltd and Omni Industries Ltd. as well as a director on several other listed and private companies.

Zhuhai Air Show: Set to move out of the province now that the debt-ridden airport is to be closed?

FRAMED? Influential individuals opposed to the privatisation of Air India are being blamed for the late May suspension of the managing director of the national flag carrier. Accusers allege Michael Mascarenhas is guilty of impropriety in relation to payments to a London travel agency, which cost Air India a lot of revenue. However, sources report the real reason for the suspension was Mascarenhas' refusal to accept the re-instatement of the airline's commercial director, V. K. Verma by the transport ministry. Verma was sacked by the then M-D because of his less than whole-hearted support for the airline's privatisation, according to Indian commentators in Delhi.

RESURRECTED: Former president of Indonesia, Dr. B.J. Habibie, did a personal appearance turn at the Paris Air Show, where he revealed he is keen to continue his personal support and involvement in his aviation baby, the government-owned aircraft manufacturer, Dirgantara Indonesia (formerly IPTN). Dr. Habibie and one of his sons, Ilam, held a press conference at the June Paris Air Show where they said staff had been cut by 33% to 10,000 at the aerospace company and that it had projected revenues of US$100 million for the current fiscal year. There remains a market for the company's CN235 turboprop, he insisted, if the company could raise US$100 million.

REGIONAL ROUND-UP

Airlines seek approval for big order

China Eastern Airlines and unlisted Shanghai Airlines are seeking regulatory approval to buy at least 50 passenger planes, company officials said in June. China Eastern wants 15 aircraft from Bombardier, 10 from Boeing and five from Airbus, marketing director Gao Pei said in Beijing.

But commuter aircraft manufacturer, Bombardier of Canada, said China could be delaying approval to sell 35 of its aircraft to Mainland Chinese airlines because it wanted to build its own regional jet. In June, an assistant president of China Aviation Industry Corp I, Tang Xiaoping, said his company intended to develop its own turbo feeder line aircraft and that feasibility studies were continuing on the project. He predicted demand for up to 500 of such airplanes in the next two decades. Sources said it is understood the Chinese aviation authorities also are delaying approval for on the ground delivery of ten regional aircraft to China Southern Airlines.

CNAC covets more of Dragonair

China National Aviation Corporation's (CNAC) chairman, Kong Dong, said in mainland Chinese media reports that the CNAC would like to increase its share in Hong Kong's Dragonair if the carrier's other major shareholders were willing to sell. "When there is an opportunity to buy [more shares] we will grab it," he said. Plans for Dragonair to raise capital for expansion through an independent public listing are unlikely to be revived soon, despite favourable stock market conditions in the mainland aviation industry. Dragonair was expected to begin the process of listing in 1997, but the plan did not eventuate once the CNAC took up its 43.3% equity in the dynamic regional carrier. Analysts believe CNAC would like to have a 51% controlling interest in Dragonair.

Cathay Pacific says no to China flights

Unconfirmed June media reports in Hong Kong claimed that the Special Administrative Region (SAR) is set to abandon its one route, one airline policy for mainland Chinese services. If the reports prove correct, the new policy will mean that the HKSAR's two airlines, Cathay Pacific Airways and Dragonair will compete directly with each other on services into China and to Taiwan. However, Cathay Pacific has denied it has any immediate plans to launch flights to China and said "it would seek to fly there when the time is right". China considers Taiwan to be a renegade province of the nation. Dragonair started services to China in 1990. When Cathay Pacific bought a share in the company in the same year, it stopped its services to China in favour of Dragonair. Both the carriers plan to develop services out of Taiwan, which is a lucrative route for all carriers that provide beyond services to mainland Chinese cities. In June, Cathay Pacific announced it would increase its flights from Hong Kong to Taipei by five a week, bringing the number of weekly services on the summer schedule of the route to 33. Taiwan's China Airlines and EVA Air also operate services on "the golden route", which carries passengers between Taiwan and mainland China via Hong Kong.

Cathay Pacific Airways has denied speculation it could resume flights to China in the near future

Meanwhile, Taiwan and Hong Kong have extended their air services agreement for six months to December this year. The current agreement expired on June 12 and is now part of the review of air rights in China that is being undertaken by Hong Kong and Beijing aviation authorities.

At press time, a deadline set by Cathay Pacific management for acceptance by its pilots of a new pay offer passed and resulted in a work to rule by pilots during the Hong Kong carrier's peak summer season.

Ansett debt balloons in 2001

Ansett Australia watchers said in June they believed the airline's debt could climb higher than previously predicted for the year to June 30. The predictions could place extra pressure on the parties to resolve the fate of the second Australian carrier, which is now wholly-owned by Air New Zealand. In early June, it was revealed that Qantas Airways was in talks to buy a large share of Air New Zealand and that Singapore Airlines was considering "the concept" of a total buyout of Ansett Australia (see cover story page 14).

Korean Air pilots caused Shanghai crash

A mix-up in the cockpit over feet and metres caused the crash of a Korean Air cargo airplane that took the lives of the three cockpit crew and five people on the ground near Shanghai in 1999. Forty others were injured in the fatal accident. Investigators confirmed the co-pilot took instructions from air traffic control to ascend to 1500 metres, but he became confused and told the pilot it should be 1500 feet because international aviation language traditionally uses imperial measures. The pilot began to descend, realised the instruction was not right but could not correct the mistake in time to avoid crashing. The South Korean Department of Construction and Transportation said Korean Air could not serve the Seoul-Shanghai cargo route for at least two years because of the errors by the pilots.

MAS signs alliance deal with KLM

Malaysia Airlines' (MAS) managing director, Mohamed Nor Yusof, said in an mid-June interview with a national Malay language newspaper, *Mingguan Malaysia*, the national flag carrier would sign a co-operation deal with KLM Royal Dutch Airlines. These comments are an advance on statements he made two weeks earlier, when he announced the airline had losses of US$342 million in the latest fiscal year. (see cover story page 14).

China Airlines to seal China Air deal by year end

Taiwan's China Airlines hopes to complete the purchase of a stake in China Eastern Airlines' cargo subsidiary, China Air Cargo, by the end of this year. China's aviation regulator, the Civil Aviation Administration of China (CAAC), has already given the green light to the sale of the stake. Taiwan has a decades-old ban on direct links between the two countries.

New China helicopter services

Helicopters Hong Kong Ltd. and East Asia Airlines Ltd of Macau have officially signed an agreement with the Shenzhen Airport (Group) Co. and Air Traffic Management, CAAC Shenzhen, to provide helicopter passenger services between Shenzhen, Hong Kong and Macau. Within several months, the "HeliShuttle" service will begin between Shenzhen's Huang Tian Airport and Hong Kong and Macau, respectively.

Three is a crowd concedes United Airlines

United Airlines announced in June it would abandon its non-stop flights from Hong Kong to New York from August five months after it launched the service on April 1 and two days before Hong Kong carrier, Cathay Pacific Airways begins a service on the same route. Continental Airlines also operates non-stop services to New York from Hong Kong. A United Airlines spokesman said premium class bookings were healthy but economy class sales were disappointing after a good start in the northern Spring. At the same time, Continental have increased services between Hong Kong and Guam from three to four times a week.

Briefly....

On July 1, Singapore Airlines' cargo division became a separate company, Singapore Airlines Cargo Pte Ltd (SIA Cargo), and took on all cargo operations for the international carrier. Nine SIA Mega Ark freighter carriers were transferred to the books of the new SIA subsidiary on the same date.

Korean Air announced in June it would join with Air France and Delta Air to form a cargo joint venture to be launched in 2002. The North Asia carrier already is a member of the Skyteam cargo alliance with the two carriers, along with Eastern European airline, CSA Czech Airlines.

Japan Airlines signed a US$664 million, 10-year contract with IBM in June, which will result in the Japanese carrier outsourcing a range of its svstems operations to the global IT group.

Pilot error caused the fatal crash in Shanghai of a Korean Air cargo airplane in 1999. All three crew died as did five bystanders on the ground.

PAL profits leap by 850%

Philippine Airlines (PAL) announced in June that its unaudited net profit for the financial year to March 31 was 436 million pesos (US$8.6 million), compared to 45.8 million pesos a year earlier. The encouraging result was achieved with revenue of 31.2 billion pesos earned from 5.75 million passengers travelling on the 32-aircraft PAL fleet. Passenger load factor improved from 66.1% to 68.5%. Revenue passenger kilometres climbed by 26% to 2.7 billion. PAL is in its second year of a long-term rehabilitation plan supervised by the Philippines Securities and Exchange Commission. PAL president, Avelino L. Zapanta, said the result was a significant achievement for the airline and its staff to record an improved surplus that was a consolidation of its modest profits in the last financial year.

Zapanta said PAL was able to pump up revenues, ride out the upsurge in expenses and take advantage of operational efficiencies "during a particularly difficult year for the aviation industry". Contributing to the positive results were the consolidation of PAL's domestic and international services at the new terminal at the international airport in Manila from 1999 and the sale of PAL's engineering and maintenance unit to Philippine and German joint venture partners in the last year.

Said PAL chairman Lucio C. Tan: "Indeed we could have earned more last year had it not been for the sharp rise in the price of aviation fuel and the volatility in the foreign exchange rate, both of which far exceeded our projections."

Philippine Airlines: on recovery road

BUSINESS ROUND UP

Strong passenger growth for ANA Group

Japan's second largest airline, All Nippon Airways (ANA), reported record earnings for the latest fiscal year. However it warned the airline's profits were expected to halve this year as a result of the twin albatrosses of a fall-off in demand for domestic travel and a slowing U.S. economy. In the last 12 months, the ANA group recorded a net profit of 40.28 billion yen (US$336.1 million), following losses of 15.20 billion yen for the same period a year earlier. The 113 company group including airlines, All Nippon Airways Co., Air Nippon Co. Air Japan Co. (flies only international routes) and Air Hokkaido (flies domestic routes only), attributed its improved performance to its membership of the global Star Alliance, an overall increase in demand, and increased first and business class bookings. However, the main airline arm, ANA Co., reported a net loss of 29 billion yen due to extraordinary losses from the sale of securities, appraisal losses on securities and deferred income taxes incurred by Japanese accounting regulations. Group airlines carried 49.9 million domestic passengers (up 0.2%) and 4.4 million international travellers, an increase of 9.5% on the 2000 fiscal year. Revenue for the reported 12 months increased by 5.9% to 1.04 billion yen and operating income rose by 181.6% to 72.3 billion yen. First half domestic tourism floundered mainly due to the volcano eruption at Mt. Usu. However, deregulation of airlines fares had increased competition and produced higher demand for leisure travel within Japan.

Huge losses for Malaysia Airlines'

Four months after the Malaysian national government bought a 29.5% share of flag carrier Malaysia Airlines at a 160% premium to the listed price, the airline reported net losses of 1.33 billion ringgit (US$342.9 million) over the same period in 2000. The result was at least double the losses analysts expected for the Malaysian airline and five times higher than in fiscal year 2000. Announcing the results on May 30, the airline's managing director, Mohamed Yor Yusof, also unveiled a business recovery plan for the airline which he said would return the airline to profit in three years (details cover story page 14). The plan, he said, could produce profits of 341 million ringgit by 2004.

Bad news...

Better news...

RESCUE OPERATION

By Tom Ballantyne
chief correspondent

The breach has widened in the Asia-Pacific between the successful and the not so successful airlines. And as 2001 passes, it is becoming clear that three once proud international carriers are in danger of being relegated to the bottom half of the region's airline league.

The Asia-Pacific airline industry has never seen anything like it. In Southeast Asia two major airlines are fighting to revive their battered fortunes while in Australasia the aeropolitical map is set to undergo watershed change following revelations of an embryonic plan to carve up Australasian aviation between Qantas Airways and Singapore Airlines (SIA).

Reeling from fiscal losses and dented by a string of maintenance slip-ups, the Air New Zealand-Ansett Group (AirNZ Ansett) is confronting dramatic ownership change. In Bangkok, flag carrier Thai Airways International (THAI) is digesting a whole series of political attacks, including stinging criticisms of its operations and service from its own new prime minister, Thaksin Shinawatra.

In Kuala Lumpur, Malaysia Airlines (MAS) is embarking on yet another recovery plan after announcing staggering losses for the year to March 31.

While these carriers work desperately to re-build their faltering businesses, they are in danger of being left behind by major competitors, operators such as SIA, Qantas, Cathay Pacific and Japan Airlines (JAL), all of which are recording significant profits despite the current operating conditions of a slowing U.S. economy and historically high fuel prices.

Even carriers that flirted with disaster after Asia's economic downturn such as Philippine Airlines, Garuda Indonesia (a special case because of the country's ongoing political instability) and Vietnam Airlines are steadily recovering from troubled times.

Yet in Auckland, Bangkok and Kuala Lumpur, home bases to three of the region's best recognised airlines, the flag carriers are facing a traumatic period of self-examination that will almost certainly decide their long-term futures.

In the last two months, developments have included:

- secret talks in Singapore between Air NZ majority shareholder Brierley Investments and SIA and, independently, Qantas Airways. At press time, SIA had offered to increase its 25% equity in the Air NZ Ansett Group by subscribing to a placement valued at NZ$1.31 a share, which would put the value of the airline group at US$415 million. "We do not want to be part of a Qantas or any other proposal," said SIA chief executive and deputy chairman, Dr Cheong Choong Kong.
- Thailand's Prime Minister, Thaksin Shinawatra, publicly declared THAI's service was not up to regional standards and that he is "very happy" when he cannot get a seat on the airline. "If I was not a public figure, I would not fly with THAI, It is substandard," he said, shocking THAI staff.
- MAS, now returned to national government control, stunned markets with the scale of its pre-tax losses to the year ended March 31. After it revealed the losses of US$342.9 million, more than five times that of the previous year, the new MAS managing director immediately announced a recovery plan that he said would return the carrier to the black by 2004.

Air New Zealand Ansett Group chief executive Gary Toomey: deal on the group's future a long way off

The parlous state of MAS and to a lesser degree THAI has been highlighted by the carriers' inability to introduce foreign equity into their businesses. THAI now seems undecided about pursuing foreign investment although its board insists 13% of the airline will be put on the market by year end.

MAS has postponed any deals or auctions for the sale of a portion of its equity to foreigners, which is probably just as well. It did, however, sign a co-operative alliance deal with KLM in June.

While the board of AirNZ-Ansett met in June and virtually rejected the Qantas proposal for purchase of the Auckland-based carrier in favour of a bigger stake for SIA, the future make-up of AirNZ-Ansett remains clouded. AirNZ gave its formal proposal for SIA to increase its present 25% equity in the Auckland headquartered airline to the New Zealand Government on June 28. Most observers believe a bigger SIA involvement may be the best path for the troubled group , but the deal still does not eliminate hurdles such as the need for the New Zealand national government to lift foreign ownership limits. At press time, SIA had not specifically quantified the size of the stake it would like

DO WE HAVE A DEAL?

Qantas Airways chief executive Geoff Dixon and Singapore Airlines' chief executive Dr Cheong: strategic stakes in Air New Zealand and Ansett were still "concepts" in June

to eventually acquire in the airline, but it said it believed about 35% or possibly 40% would make the arrangement worthwhile for the Singapore carrier. AirNZ-Ansett chief executive, Gary Toomey, said at the end of June that the bid by Qantas for a share of his airline seemed effectively dead because SIA holds "the trump card". Toomey's airline needs US$2.1 billion to launch a five-year fleet upgrade for Ansett.

Air New Zealand was privatised in 1988, but the New Zealand Government holds a golden share in the carrier. At present the limits on foreign ownership in the national airline are set at 25%.

However, Qantas Airways chief executive, Geoff Dixon, had not then conceded defeat. He asked the New Zealand Government to allow it to acquire 25% of AirNZ-Ansett, a much smaller equity purchase than he originally proposed.

But Toomey said the new Qantas bid would not even be considered even if the New Zealand Government does not allow SIA to raise its 25% share of the Antipodean's airline group. In a late June interview he said a government veto of the SIA offer would trigger the sale of loss-making Ansett by AirNZ. "It can't be because SIA has the trump card here. They have the investment in Air New Zealand and they are the only ones we know who could buy Ansett," he said.

"It does not mean we were not happy to look at the Qantas proposal (an offer to buy SIA's 25% and Brierley Investments' 30%), but if SIA say they won't do the deal then I can't see how the Qantas offer is on the table."

Like Rupert Murdoch's News Corporation, the previous Ansett owner, it is said Brierley wants out of its airline holdings, particularly after the 100% acquisition by AirNZ of Ansett last year, a move that has put AirNZ, a previously profitable operator, into the red. Analysts expect 2000-2001 losses to reach US$75 million for the airline.

The deal that is now publicly acknowledged as being discussed makes sense for most of those involved. Brierley departs from the airline business and SIA acquires Ansett, which up until now it has always said it wanted.

New Zealand prime minister, Ms. Helen Clark, believed there were "quite serious obstacles in the way of the latest Qantas proposals", and added her government had not received a formal proposal from the Australian carrier as yet. "The problems are that over many years, we have invested enormous time and trouble negotiating bilateral aviation agreements in the New Zealand national interest," she said.

What is emerging as a more likely scenario is that Brierley will attempt to use Qantas as a lure to attract other parties who might take its airline stock off its hands. News of the prospective Qantas deal would certainly have sparked several prompt telephone calls from AirNZ Ansett's Star Alliance partners, including United Airlines (UAL) and Lufthansa. These two lead carriers in Star have shown past interest in making combined offers for holdings in associated alliance carriers. It may be that one of the other options Toomey has mentioned is an equity share by Star member carriers in his airline.

A hurdle Brierley must overcome is New Zealand's foreign investment rules, which limit a single offshore airline to a 25% equity (now held by SIA) and overall foreign shareholdings in New Zealand listed companies to 49% .

There is an argument that it would be far more palatable for New Zealand's national government to lift the foreign investment caps so that one or more of Air NZ's existing partners could take control. It is assumed that if Qantas did end up controlling AirNZ, it would cause a public outcry given traditional trans-Tasman rivalry between the two countries.

Both the Australian and New Zealand governments are under tremendous pressure from their national flags to lift or at least increase the present foreign investment caps.

Qantas' chief executive, Geoff Dixon, wants them removed entirely and sources told

Changing partners but will they enjoy the dance? Qantas Airways and Air New Zealand

Uncertainty saps Ansett morale

Where now for Ansett? While the movers and shakers in airline management in Singapore, Australia and New Zealand ponder the complex obstacles in the way of their proposed deal to divide up Australasia's skies, thousands of employees of the Melbourne-based carrier must be wondering about their future.

Asked about the impact on staff of the news Ansett's ownership may again be up for grabs, Air NZ Ansett Group president, Gary Toomey, made it clear that despite the blaze of publicity and speculation, it is business as usual for the ongoing merger of the two airline entities. Ansett staff are being kept fully informed.

That may be cold comfort for employees who have only recently emerged from a traumatic two years of uncertainty over ownership and leadership.

Ultimately, if analysts are correct, the "concept" of a Qantas/Air NZ versus Singapore Airlines/Ansett market may end up in the "too hard" basket.

But it remains clear that Air NZ majority shareholder Brierley Investments is looking at other options which could still see control of Ansett move to another party. In the months it is likely to take before the situation is resolved, morale in Melbourne is bound to suffer yet again.

Founded by Sir Reginald Myles Ansett in 1936 with a single six-seater Fokker Universal aircraft, over the next 22 years its fleet grew to 43 planes, including two helicopters. In 1991, it became the first Australian carrier to offer a frequent flyer programme on domestic routes.

Now with a fleet of 64 aircraft, it has seen domestic market share shrink over the past few years, but still carries more than 45% of local Australian travellers. It started flying international routes in 1993 and now operates to Bali, Fiji, Hong Kong and Osaka. Ansett became a member of the Star Alliance in 1999.

However, the past five years have been marked by traumatic corporate events.

Owned 50% by transport group TNT and media mogul Rupert Murdoch's News Corporation, financial problems led to TNT selling its share to Air New Zealand. It also became evident that Murdoch also wanted to offload his airline stake and after more than 12 months of intricate negotiation the sale, again to Air NZ, finally occurred last year, giving the Auckland flag carrier sole ownership.

While these negotiations were going on, Cathay Pacific chief executive Rod Eddington was brought in to take charge of Ansett, a move seen as a master stroke at the time. But if Ansett workers believed they finally had stable management, they were wrong. Eddington in May 2000 was lured to Britain to become chief of British Airways.

It took Air NZ nine months to find a replacement in the form of former Qantas executive Toomey. In the meantime, Ansett staff morale was battered by lack of leadership, concerns about ownership and their job security, as well as a string of serious maintenance problems.

The latest developments have done little more than ensure the instability is likely to continue for some time to come.

Orient Aviation his arguments are winning a more sympathetic hearing in the national capital, Canberra. Toomey has not put forward a percentage for raising the caps in New Zealand, but also wants the rules eased.

Both airlines need access to foreign equity to fund their expansion plans. Toomey diplomatically said: "The company currently has a share structure that constrains its ability to raise capital from the global market by way of equity, a problem that we share with Qantas. Looking to our medium-term requirements, over the next five years, it will be a matter of political judgement both here and in Australia as to the future form and level of constraints on our access to foreign equity investors."

He said the international trend is for more liberal attitudes towards national ownership and control issues. "But we can only speculate about how far that will go."

Analysts hope the tide is about to turn. One Sydney-based commentator said the proposed consolidation of the two major aviation forces in Qantas/Air New Zealand and Singapore Airlines/Ansett should be seen in the broadest possible context. Artificial restrictions on industry consolidation and foreign ownership are major aberrations from the global competitive model. Foreign ownership restrictions are the basic reason why this latest set of transactions is being mooted. The limits are imposed by national rules, which are largely nationalistic, and as a result of international agreements that allow airlines to fly between countries. The effect of the proscription is to prevent full mergers, a normal, virtually inevitable consequence, in a deregulated industry, he said.

Air New Zealand Ansett group chairman Sir Selwyn Cushing: stepped aside as the airline's chair in June

"The New Zealand Government is frighteningly close to making a choice of either underwriting the airline out of public funds or letting it die. Because our national airline icons have existed all this time, it is assumed they will always be there. That's no longer true," he added.

Qantas' Dixon is not letting that put him off. He said a Qantas-AirNZ partnership would result in both carriers maintaining independent operations and brands. AirNZ will continue to be New Zealand-owned, with a majority of New Zealand nationals on a board and with a New Zealand chairman. The management, head office and principal hub would remain in Auckland and the carrier would be listed on the New Zealand Stock Exchange. He said he fully realised the transaction was complex and required approval from the New Zealand and Australian Governments, the New Zea-

land Commerce Commission, the Australian Competition and Consumer Commission and the Board of AirNZ. The proposal would not in any way affect AirNZ's access to bilateral aviation rights, insisted Dixon.

"We are certain the partnership would offer considerable benefits for AirNZ and Qantas. It would create major synergies and growth and the grouping would have greater scale to compete more effectively in an increasingly competitive and consolidating global market. Competitive and quality airlines require substantial financial resources and an Air NZ-Qantas partnership would have these resources," he said.

While SIA has been focusing on evolutionary change, its near neighbours in South-east Asia have been flirting with the more serious problems of earning a corporate living. In Bangkok, THAI management and staff are coming to terms with a serious attack on the airline's standing.

After he berated the carrier's standards, Thailand's prime minister Thaksin suggested THAI was coasting on its reputation and only remained viable because its bread-winning economy class seats met industry standards. He had used the Thai word "huay" to describe the airline, an all-encompassing negative that implied that something is substandard, a Thai national newspaper reported.

Many observers, as well as THAI staff, believed Thaksin should have made his criticisms in private, but it appeared he had lost patience with the carrier. In March, fire destroyed a Boeing B737 jet just 30 minutes before Thaksin was to board. U.S. investigators later found the fire was caused by an exploding fuel tank,

THAI remains unhappy that Star alliance leader member Lufthansa German Airlines moved its regional hub from Bangkok to Singapore

BHISIT SURVIVES ON WAVE OF WORKER SUPPORT

Thai Airways International president Bhisit Kuslasayanon: acknowledges the carrier must improve to restore market share

The most surprising aspect of the volatile corporate events that have shaken Thai Airways International (THAI) in the past three months is not that there have been internal convulsions, according to one Bangkok-based industry observer. Instead it is the fact that Bhisit Kuslasayanon emerged from a boardroom battle confirmed as president of the airline.

THAI is no stranger to internal trouble. For years it has suffered from a lack of astute leadership while also being prey to the unavoidable red tape of government ownership. It also has been the victim of the erratic decision-making of commercially inept air force officers at board level; a longstanding liability in Thailand's airline industry.

Bhisit, a 30-year plus THAI staffer, who took over from Thamnoon Wanglee last year October, is highly regarded and was widely recognised as the right person to succeed mercurial Thamnoon. Unfortunately, this is not always what counts on your curriculum vitae in Bangkok and for a period of time not only was Bhisit not confirmed as a board member, he was also reminded by the new chairman that his contract had yet to be signed. In the event, Bhisit did retain the position when the new board convened last May, but it was a close call. Ultimately, the threat of a virtual revolution by staff unions, who decided they could no longer tolerate continuing government interference in the running of THAI, saved Bhisit's bacon.

Bhisit has said nothing, about the behind the scenes manoeuvres that decided the issue. But when deputy transport and communications minister, Pracha Maleenont, put forward names for a new board for THAI in April, Bhisit was not on the list. The omission raised the spectre of a new president being appointed to THAI. The most likely candidate, it was believed, was the airline's senior executive vice president for human Resources, Prachak Jamrusmechoti, who had been a vigorous rival for the post last year. Bhisit came out on top then because of his experience and his relationship with his predecessor. Prachak is understood to have renewed his efforts to dump Bhisit and have himself appointed when Thaksin Shinawatra won the Thai national elections last January. But Thaksin's deputy transport minister misjudged the mood of THAI's workers. Not only did Thaksin leave Bhisit off his proposed THAI board, he also named several close associates as new members. These included a naturalised Thai, Brian Marcar, the chief executive of BEC Tero Entertainment, a business unit affiliated with Channel 3 television, which is controlled by Pracha's family.

That was the final straw for THAI's powerful union, whose members were furious. They railed over "jobs for the boys" and "political favours" and demanded Marcar's removal from the board and Bhisit's inclusion on it. There was more. In the days before shareholders met on May 1 to approve the final list of new directors, angry union members damaged Pracha's official Mercedes limousine during a visit to THAI headquarters.

The deputy minister was forced to back off and Bhisit remained as president. In Bangkok, many believe that while cooler heads have prevailed for now, the issue is far from over. Pracha, they say, is hardly likely to forget the May mayhem, particularly the attack on his beloved limousine.

Bhisit now has a legacy to bear of a controversial re-confirmation of his leadership and he will have to tread delicately with his new board if he is to succeed, let alone survive in the job. Those who understand the political complexities of the upper managements of Thailand's state owned enterprises suggested to Orient Aviation *there is no guarantee Bhisit will escape future threats to his leadership if he slips up in his efforts to return THAI to financial health. For Bhisit, it is not the ideal environment in which to construct a business recovery for THAI. He is being pressured to run the airline more professionally and competitively and also is under constant surveillance from a critical government.*

heated by an air conditioning unit that had been kept running on the ground, against the manufacturer's advice.

In May, the government disclosed that about 200 active and retired members of the airline's board, including politicians and some top journalists, were THAI freeloaders with virtually unlimited perks, including free first-class tickets. The accusations and revelations have placed THAI president, Bhisit Kuslasa-yanon, a veteran of the carrier, in an extremely delicate position. He has to balance his commercial instincts against the constant criticisms and demands for change coming from a new board of directors – top heavy with the new government's friends.

The initial make-up of the Thaksin era board sparked union protests, with charges of cronyism against Thaksin and his government. At one point it was believed Bhisit would not be appointed president, but he survived an attempt to curb his control at the carrier. But no sooner was he confirmed in the position than new board chairman and lawyer, Sunthorn Pokachaipat, attacked THAI management for doing nothing to stop SIA from joining the Star Alliance last year, which he described as a grave mistake. "SIA is THAI's most formidable competitor in the region. We are one of the founding members of the Star Alliance. Why did we let SIA enter the alliance?" he asked.

Sunthorn may have a point, although there is probably little THAI could have done about it. Star wanted SIA, one of the region's most aggressive competitors. But THAI management reported that since SIA joined Star it has lost thousands of passengers because Star lead partner Lufthansa has switched many of its code-share and cross-ticketing arrangements to SIA.

THAI insiders said much of this lost business can be blamed on the long delays in construction of a new airport at Bangkok, with Lufthansa becoming so frustrated with the project's procrastination that it opted to switch to the far better facility at Singapore Changi International Airport.

Board members also expressed concern at the fact that THAI employs 24,000 staff for 80 aircraft, while SIA needed only 13,000 staff to operate 92 planes.

The carrier's latest financial results have not helped THAI's case. Net profit in the latest quarter, ending March 31, fell 61% over the same period a year earlier, to US$17.4 million. It is forecasting a full year (ending September 30) drop from $104.1 million in 2000 to $96 million in 2001.

Considering his difficult position, Bhisit is handling all this with aplomb. He pointed out the financial results are mainly the result of increased spending on fuel and heavy foreign exchange losses. In the January-March period this year, the baht's depreciation caused $59 million in foreign exchange losses, compared with a $25 million gain in the same period a year ago. Back then the national currency stood at 39 baht to the US$. In June, it was trading at 45.6 baht to one U.S. dollar.

Bhisit has moved quickly to win board approval to act on a number of fronts. He conceded Thaksin was justified in his criticism of service standards and said THAI will spend US$100 million on improving first and business-class seats and inflight entertainment systems.

Former Malaysia Airlines chairman Tan Sri Tajudin Ramli received generous exit treatment from his government

"Airlines are competing on providing comfort and quality service. We need to spend for a renovation to be able to compete with them," said Bhisit.

THAI introduced domestic electronic ticketing in June, with the service to be extended to international routes from September. The airline has reduced privileges, like free tickets, for board members, a move which will cut spending on such perks by as much as 80%. He also has set up a panel to oversee fuel purchases.

And after some international routes posted losses because wrong-sized aircraft were assigned to them, he has ordered the deployment of suitable jets on all routes.

On another front, THAI is looking at restructuring its domestic operations on which the carrier loses $44 million annually. THAI will establish five hubs in Chiang Mai, Phitsanulok, Hat Yai, Phuket and Khon Kaen. Services into these hubs, from small regional destinations, will be operated by private airlines such as PB Air, Andaman Air, Bangkok Airways and Angel Airlines. They will code-share on the routes with THAI. This will reduce losses to around $11 million a year, although this plan has yet to be approved by THAI's board of directors.

But the board has agreed to a proposal to cut fuel costs by purchasing it directly from Thai Oil and Bang Chak Petroleum. Up to now, the Petroleum Authority of Thailand (PTT) had been the middleman in all purchases, which added to the fuel bill. THAI spends $330 million, 14% of operating costs, on fuel. A special committee has been set up to consider buying fuel from foreign refiners. The airline does not have a contingency plan for dealing with the baht's fluctuations, which makes fuel costs even more unpredictable.

Bhisit said THAI will not withdraw from Star, but he said the airline must find ways to reap additional benefits from being a member of the world's largest airline grouping.

However his most urgent task is to restructure management. The airline's executive committee is working on a new corporate plan, covering 2002 to 2006, that will be designed to re-vamp the carrier and improve its business strategy.

In the midst of this is the ongoing uncertainty surrounding privatisation, which will impact on THAI's future performance. A proposed public share offering of 13% has been put on hold until the new corporate plan is written. Some officials suggested it could take place before year end, but that appears extremely unlikely. Sunthorn said he does not believe a 10% stake should be offered to foreigners.

Despite these criticisms, Bhisit is confident THAI will flourish. He pointed out that according to the latest survey by Skytrax Research in Britain, THAI was ranked fifth best airline worldwide in terms of quality and product, after Emirates Airline, SIA, Cathay Pacific Airways and British Airways.

Meanwhile in Kuala Lumpur, MAS is setting out on the long road back to health with a massive recovery plan, which is not expected to see any return to profitability for three years.

The legacy left by former owner, telecommunications tycoon Tan Sri Tajudin Ramli, is a US$2.6 billion debt and a fiscal position which can only be described as precarious. The Malaysian national government bought back Tajudin's 29.1% of MAS in February for $471 million, by paying more than 2.5 times the listed share price at the time.

While it was common knowledge MAS was heading for another big deficit, markets were shocked when the carrier reported pre-tax losses of US$342.9 million. Recently appointed managing director, Datuk Mohamed Nor Yusof, forecast MAS would have a pre-tax profit of around US$90 million in 2004.

Objectives are to improve MAS's liquidity, prune its balance sheet, raise additional working capital, restore profitability and re-affirm the airline's position as a competitor in the premier league, he said.

He added a complete overhaul of business processes would take about two years and would include a review of yields, securing strategic alliances, seeking domestic fare increases and finalising a new organisational structure. There will be no job cuts.

Additional programmes such as a review of the domestic product, sales and distribution, ground handling, inflight services, corporate content and information technology will be implemented. A rationalisation of international routes is on the cards, as well as a revived search for global partners.

Winning government permission for domestic fare increases will not be easy. Kuala Lumpur's national government opposes such a decision, yet domestic losses are one of the airline's problems. There have been suggestions MAS should split off its domestic operations, which have to be subsidised by international income, but Mohamed Nor said local flights provide crucial feed to overseas services.

MAS wants to join an alliance or build bilateral cooperation with interested airlines. "We have seen we cannot take on the world alone," the M-D said. MAS had found that its stand-alone approach to build an international airline so far had only contributed to its financial burden.

But plans to sell a stake to a strategic airline partner are on the shelf – for now. "The MAS turnaround story will not depend on the (entry of a) foreign strategic partner. What is important here is how effective we are to a foreign partner. But at this stage, I do not think we are that attractive," he said.

Several consultants are looking at MAS's overall situation with the intention of developing long-term solutions to MAS's endemic problems.

On the need to raise more funding – MAS is committed to take delivery this year and next year of three new aircraft it ordered in 1995 – Mohamad Nor said there were several investment bankers willing to arrange funding. MAS needed to bring its capital structure in line with its airline peers and prune its balance sheet. The company has a large term liability (a 50 billion yen loan) due to retire next May that it intends to settle.

The problem for MAS, THAI and AirNZ Ansett is they can hardly be confident about achieving the stable market conditions they need over the next two years to improve their businesses.

Weaker regional and U.S. economies are expected to impact on airline earnings through the rest of this year. It is anybody's guess what will happen in 2002.

Added to this downbeat forecast is the likelihood of increased regional instability. Social unrest is mounting in Indonesia, China-U.S. relations are becoming strained and there are other trouble spots such as Taiwan and The Philippines.

All in all, betting on the ultimate outcome of the efforts of the three carriers to regain their lost positions in the regional airline marketplace appears to be a risky business at best.

Fast forward at THAI and MAS

Both Malaysia Airlines (MAS) and Thai Airways International (THAI) have gone into overdrive since June as their new respective bosses attempt to force change at airlines long cocooned from modern economic reality by government funding and nationalism.

At a THAI press conference in June, the airline's new chairman, said: "In order to ensure continual growth any business must concentrate on maintaining the quality of its products and services in a constantly changing competitive market. Expansion that focuses on quantity, while ignoring the importance of quality, may leave us in a situation of just more of the same.

"As the national carrier, THAI and what we can achieve, evokes passionate feelings among Thais of all walks of life. We seek to serve the genuine interests of the Thai people by now being The First Choice Carrier: Smooth as Silk, First Time, Every Time," he said.

Changes planned at THAI include an upgraded cabin, reduction of aircraft types and engines, better utilisation of asset value, new fuel purchasing policies, development of a new route network strategy – that could

Inflight service improvements are a priorty at THAI

entail elimination of many THAI domestic routes – and of new destinations, an improved frequent flyer programme, extensions to THAI's profitable catering division to cater for up to 47,000 meals daily, hire of 63 forklifts for THAI Cargo, utilisation of e-business opportunities and improved individual employee productivity.

Sale of equity in THAI is on hold until THAI's market capitalisation improves. It is now set at US$970 million, compared to $1,200 million three years ago. THAI plans to form the carrier into several business units and hand over its several domestic services to private carriers such as Angel Air and Bangkok Airways.

In the Kuala Lumpur headquarters of MAS, new managing director, Mohamad Nor Yusof, is proceeding with his strategy of returning the carrier to operational profitability within three years. He has announced a new alliance with KLM Royal Dutch Airlines while he openly criticised the poor productivity of MAS staff. He said: "I liken MAS to a house that is supposed to be doubled-storeyed, but instead has five storeys. In such a [poor financial] situation, the position is untenable. MAS costs are higher than its competitors. Each department did not perform to expectations. We need to emulate our competitors and operate high frequency, short haul services across the region. We also face problems getting landing rights."

The airline has signed an agreement with SABRE for a new revenue accounting system and also agreed to use SABRE's flight route planning and scheduling services.

CHINA: A LEASING POWERHOUSE

By Tom Ballantyne

San Francisco aircraft lessor, Pegasus Aviation, has its targets aimed squarely in the direction of the world's biggest potential aircraft leasing market as it builds its business in the Asia-Pacific.

Pegasus has its eyes set on China. The fast-growing aviation company is aiming to cash in on the nation's airline expansion and lift its already significant presence in the market.

Pegasus Aviation, the world's largest privately held aircraft leasing company, plans to increase its Asian business to more than US$1 billion before year end. And its expansion plans for Asia, and China in particular, don't end there.

In the longer term, Pegasus wants the Asia-Pacific to increase its share of the company leasing portfolio from the present 20% to more than a third, according to Pegasus' vice-president marketing Asia-Pacific, Troy Tollen.

While he identifies several target markets across the region, he said China holds enormous potential that Pegasus intends to tap.

The company already has a head start. It has leased 10 aircraft to three of China's most respected carriers: China Southern Airlines, China Eastern Airlines and Shanghai Airlines. The deals are a major portion of Pegasus' Asia business, with 14 aircraft leased.

Apart from its China business, Pegasus has placed a B777-200 with Malaysia Airlines, two MD-11 freighters with Korean Air and a DC10-30 is leased to Biman Bangladesh Airlines.

Its two latest Chinese deals were confirmed in April, when it increased the number of airplanes leased to China Southern Airlines and added Shanghai Airlines to its customer list. Pegasus leased a Boeing B737-700 to the Shanghai carrier and acquired one of the airline's Boeing B757-200ERs in a purchase/leaseback transaction.

Said Richard Wiley, Pegasus president and CEO: "With the addition of Shanghai to our business and the leasing of our 10th aircraft in China, we have become one of the top leasers in this important market."

"Shanghai Airlines is growing rapidly and the transaction with Pegasus will contribute to our development," said James Xia, the airline's chief financial officer and senior vice president. The carrier, headquartered in the same city as China Eastern Airlines, intends to increase its fleet from 17 to 30 airplanes during the next five years. Expected fleet additions include the Next Generation B737, the Boeing B757 and B767.

Also, the airline has ordered the Bombardier CRJ Regional Jet and Raytheon Business Jet and plans a listing on the Shanghai Stock Exchange.

Within days of signing up Shanghai Airlines, Pegasus leased two jets, adding to the three already with China Southern, to the Guangzhou-based carrier. China Southern sold one Airbus A320 and one Boeing B757-200 to Pegasus and leased them back.

Shanghai Airlines: newest customer for U.S. aircraft leasing company Pegasus.

While China may be the powerhouse behind future growth, Pegasus is not ignoring other markets. Tollen said the company's strategy involved focusing on other high growth markets such as Korea, Taiwan and Oceania as well as developing second-tier markets in India, Indonesia and the Philippines.

It also sees a big opportunity in freighter leasing and will boost its freighter business with the acquisition of MD-11 and B747 cargo aircraft.

Pegasus has a lease portfolio of 223 aircraft and assets of some US$3.6 billion. In the year to March 31 it had total revenues of $462 million.

But its Asian business has trailed far behind other regions. Compared with the 14 aircraft it has in Asia, Pegasus has 58 aircraft leased in North America and a similar number in Latin America and the Caribbean, plus 22 airplanes with European airlines.

Pegasus began life as a small aircraft lessor in 1988, but in the last few years its expansion has been phenomenal. In the last three years, its assets have grown 418.6%, its leasing revenues increased 261.1% and its aircraft portfolio expanded by 134.7%. Its interests extend beyond aircraft leasing to affiliates: spare parts company International Aero Components and a maintenance facility.

Tollen said despite the present downturn in Asian air cargo business, the long-term prospects for the region's freight traffic indicated continued strong growth.

Pegasus management also believes the increasing number of air services agreements being negotiated by countries within the region and with the U.S. will increase competition and bring more diversity in aircraft type into the market.

The growing trend for Asia-Pacific carriers to use operating leases as a fleet transition tool matches Pegasus' strategy. The market demand for Boeing narrow-bodies such as the B737 and B757 is compatible with the company's fleet strength.

IATA launches global safety audits

By Tom Ballantyne

International Air Transport Association (IATA) director general, Pierre Jeanniot, has announced the global airline body will introduce a set of standard international safety audits to ease an increasing cost burden on carriers forced to undergo multiple and repetitive checks on their operations.

Jeanniot said the airline industry is suffering from a proliferation of inspections, reviews and audits. They often overlap, both in intent and content. Worldwide, more than 70,000 audits a year are performed, costing in excess of US$3 billion.

In May, *Orient Aviation* reported on the growing concern of airlines, including those in the Asia Pacific, with management, maintenance and engineering officials protesting that while safety is their number one concern, the volume of audits being conducted on individual operators is becoming unmanageable.

Carriers complete their own internal safety audits, but they also are checked by government civil aviation regulators. The International Civil Aviation Organisation (ICAO) carries out audits at state level, which include checks on a nation's airlines. Global airline alliance members also audit each other, as do prospective code-share partners.

Asia-Pacific carriers concerned about proliferation of annual safety audits

The 18-member Association of Asia Pacific Airlines (AAPA) has put its weight behind the introduction of a global safety audit standard. Last year IATA inaugurated an Operational Quality Standard (OQS) audit for new member applicants and is bringing in a set of International Standard Audits that offers a related range of value-added audit and audit tracking services.

Jeanniot said standardisation and harmonisation would enhance air transport safety worldwide. "As an independent international body with global influence, credibility and access to worldwide technical resources, IATA is well positioned to develop and lead the implementation of harmonised and cost-effective industry-wide operating and audit standards," he said.

The programme will focus initially on the IATA Operational Safety Audit (IOSA), which will cover flight operations, safety management, engineering, maintenance, ground operations, cargo, dangerous goods and related training in these areas.

The programme's implementation will rationalise global audit efforts and bring significant performance improvements and cost savings to the airline industry while ensuring that the competence, quality and robustness of an airline to achieve safety objectives and manage related risks is properly assessed and accredited, Jeanniot said.

Paris Air Show – a regional view

By Christine McGee in Paris

Despite continuing scepticism about the feasibility of the project, Alliance Aircraft of the U.S. signed a joint venture agreement at the Paris Air Show with China's AVIC 11 subsidiary, the Harbin Aviation Alliance Group, to produce the proposed Starliner 100 35-seat regional jet. The aircraft is part of a planned family of commuter aircraft that could include 44 and 55 seat airplanes. First deliveries of the smallest model are planned for 2004.

At the same global aviation extravaganza, the AVIC 11 sealed a Memorandum of Understanding with Rolls-Royce to jointly develop the six seater, twin engined Z-11 helicopter, powered by the British company's 250 engine. The Z-11 was cleared by Chinese civil aviation authorities for use in general aviation last April. At the same show, R-R said Asia was the reason for the company's major growth forecast for the civil aero engine market.

Japan's Sumitomo displayed its new lightweight landing gear system in Paris, a first for a company. The system will be fitted to Bombardier's CRJ700.

Goodrich Landing Systems Services said it plans to establish an Asian base for a landing gear overhaul centre within two years, after plans to set up such a facility were put on hold because of an increase in the time span of B777 landing gear overhauls in the region in recent years.

Singapore Technologies Aerospace (ST Aero) plans to have an authorised Sikorsky S-76 helicopter maintenance centre established in Singapore by December this year. The company estimates there are 38 operators flying 100 Sikorsky S-76s in the region.

Ibis Aerospace, the joint venture of the Czech Republic's Aero Vodochody and Taiwan's AIDC, displayed its prototype Ae270P single engine turboprop in Paris. The company said it had 27 firm orders for the airplane and Memorandums of Understanding signed for an additional 24.

At the Le Bourget exhibition and air show, Japan Airlines formally announced its order for three Boeing 777-200ER airplanes, with deliveries scheduled from 2003-2006. Boeing said it also expected to receive orders from JAL for the B767-300ERS,as part of the Tokyo based airline's plan to replace 15 DC-10s.

Bombardier Aerospace said in Paris it was looking for partners to join an Asian business jet charter network. Said Bombardier Business Aircraft president, Pierre Beau-doin,said business aviation is growing in Asia and that his company would offer the added benefit to the region's customers of its Skyjet online service exchange. At the same time, it was reported Sir Richard Branson had conducted early June talks with Bombardier Aerospace as part of his investigations into setting up an business class only arm of his airline conglomerate with the Canadian company's Global Express airplanes, specially the 19-seater version. Virgin Atlantic flies to Hong Kong and mainland China.

With approval for a US$2 billion fleet upgrade Vietnam Airlines is ...

ON A ROLL

Little more than a decade ago Vietnam Airlines (VNA) was the struggling flag carrier of a socialist state, fighting to overcome the twin millstones of ageing and unreliable Soviet-manufactured aircraft and outdated operating systems. Today, business is starting to boom as the airline prepares for the biggest expansion programme in its history. TOM BALLANTYNE *reports from Hanoi.*

With a government-approved two-step US$2 billion plus fleet expansion plan safely tucked into his pocket, Vietnam Airlines (VNA) president and chief executive, Nguyen Xuan Hien, is a happy man.

But the national government's approval of the fleet investment is not the only good news to buoy the carrier as it surges, with renewed confidence, into the 21st century.

During an interview with *Orient Aviation* in VNA's headquarters at Gia Lam, on the outskirts of Vietnam's capital city, Hanoi, in June, Nguyen revealed exclusively that the carrier is on the verge of another landmark development: the signing of the airline's first commercial co-operation deal with a major U.S. operator, American Airlines (AA).

At present, VNA does not have any ultra-long haul jets. It serves the U.S. from Ho Chi Minh City, in the south of the country, through Taipei, via a code-share with Taiwan's China Airlines (CAL), to Los Angeles. It is expected to launch another code-sharer service to San Francisco, also through Taipei, with CAL later this year.

At press time, Nguyen was not prepared to reveal details of the VNA-AA discussions because the agreement had not been signed. But he said it would involve code-share services on AA jets spanning the Pacific and it would give the Vietnam flag carrier massively increased access to the huge numbers of Vietnamese living in the U.S.

At this stage, New York is likely to be included in the arrangement, as well as several other major U.S. cities.

According to Nguyen, the agreement, when signed will foreshadow VNA's entry into the U.S. market in its own right by 2005, when it will operate long-haul jets purchased as part of its new fleet development plan.

Vietnam Airlines' president and chief executive: Nguyen Xuan Hien: plans to sign a code-share deal with U.S. international carrier and oneworld lead member, American Airlines

"We are in a situation where aviation in the region is developing very fast so we are investing more in our company. These regional developments will create a favourable situation to expand for VNA," said Nguyen.

"We plan to become an airline that has its national character, but at the same time plays its full part in regional and global aviation."

Part of that plan may be a re-branding of VNA, although this strategy shift is by no means certain. Assisted by Boeing, the carrier has one B767 painted in a new "experimental" livery, in a sophisticated dark green with a stylised golden lotus blossom logo on the tail. It has been put into operation to assess public reaction to the change of image, but approval

for the change must be given by the Vietnam national government.

It is all good news for Nguyen, who has been at the helm of VNA for less than a year, although the cautious chief executive is no stranger to the industry. A career bureaucrat, he was director-general of Vietnam's Northern Airports Authority before he was promoted to deputy director-general of the Civil Aviation Bureau of Vietnam. He moved over to VNA when his predecessor, Dao Man Nhuong, was stricken with liver cancer.

Nguyen has arrived at VNA during a period of exceptional growth, with a number of elements in Vietnam coming together to create a favourable climate for the carrier's expansion. On present forecasts, it is little wonder the national government, the 100% owners of VNA, was persuaded the US$2 billion fleet budget was justified.

The 2001 Air Transport Action Group (ATAG) Asia/Pacific Air Traffic Growth & Constraints forecast – based on International Air Transport Association (IATA) mathematical predictions – said trade normalisation and market liberalisation will help Vietnam experience the region's highest rate of annual growth, 10.5%, through to 2014. The forecast said aviation traffic in Vietnam will rise from 4.3 million in 1999 to 19.2 million, a phenomenal 347% increase.

This was music to the ears of VNA management, which has lived through plenty of ups and downs since it began operations with five small aircraft in 1956. At the time, Vietnam was engaged in a civil war between supporters of its post-colonial master, France, and Vietnamese independence fighters.

That conflict evolved into the long-running U.S./Vietnam war – not an ideal environment in which to nurture a fledgling national carrier into healthy adolescence.

When VNA did fly internationally during those times, its destinations were to the Communist capitals of Beijing and Moscow, with uneconomic and unreliable Soviet-manufactured planes.

When the war ended, with the complete withdrawal of U.S. troops in 1975, VNA was a mediocre airline with poor service standards, a dreadful safety record and a virtually non-existent accounting system.

In fact, for many years afterwards, the carrier could not provide coherent sets of accounts on its financial position, a factor which limited its capacity to acquire aircraft and equipment.

But slowly and surely, in the late eighties and the 1990s, VNA built itself a reputation, leasing Boeing and Airbus aircraft and purchasing smaller planes to the point where it now has a fleet of 23; 11 Airbus A320s, four Boeing B767s, six ATR-72s and two F-70s. Before the end of this year VNA will add two A320s and another B767 to its flying complement, bringing the fleet to 26.

By 2006 Vietnam Airlines aims to have increased its complement of Vietnamese pilots flying on long-haul routes to 70%-80% of total cockpit crew

Nguyen said: "If the present trend [in expansion] continues we expect to reach 20% growth this year, compared to last year, with the total number of passengers to reach approximately four million."

This is an impressive figure. In 1991 VNA carried just 494,400 passengers: 273,700 domestic and 220,700 international. In 2000, it carried 1.7 million domestic and 1.2 million international passengers, up 11% on 1999.

VNA has developed detailed strategies to 2010 and onto 2020. "These plans involve the acquisition of new aircraft, including short-range, medium-range, advance-medium and long-range," Nguyen told *Orient Aviation*.

In March, the carrier had signed a Letter of Intent to buy three new Boeing B777-200s, valued at US$480 million, although Nguyen indicated the order could increase to four airplanes, with deliveries probably beginning in 2003. Overall, his management intends to increase the fleet to 34 within five years and to 40 by 2010.

Details of the aircraft types being considered have not been disclosed, but the VNA chief executive took a delegation from the airline to June's Paris Air Show, where they had talks with Airbus and Boeing.

The carrier's long-haul needs will likely be met with Boeing aircraft and the shorter haul requirements by Airbus, with the A321 type being considered as an addition to the fleet of A320s. As well as short-haul intra-regional services, the Airbuses and some B767s operate on the major domestic trunk routes that link Hanoi, Danang and Ho Chi Minh City.

VNA put a lot of effort into selecting the right aircraft for its smaller domestic routes and finally opted for the French-Italian ATR new generation 72-500, powered by Pratt & Whitney 127F engines.

Funds for the fleet expansion will come from airline earnings, preferential government loans, bonds and income tax credits, underpinned by a predicted improved financial performance.

Though the fine detail of VNA's fiscal operations was not available – accountancy systems are still being overhauled – Nguyen said group revenue last year was US$565.3 million, up from $465.6 million in 1999 and $422.6 million in 1998. The airline itself earned income of $366.8 million in 2000 and group pre-tax profit was US$31.8 million.

Cabin crew service and training will be upgraded as new aircraft come into the VNA fleet

Complete fleet overhaul planned in next decade for Vietnam Airlines

Such profitability is an achievement when the operating conditions of the late 1990s are taken into account. Like all carriers in the Asia-Pacific, VNA suffered badly during the Asian economic recession.

"That is why, during 1997 and 1998 we did not have very fruitful operations. But in the period that followed the economic situation of every country in general improved and so did the operations of VNA," said the president.

"In 1999 we achieved growth of 10% over 1998. In the first half of 2001 we experienced an 18% – 20% increase over the same period last year. Although fuel prices remain high, which have effected levels of income, we have managed to operate a successful business and be profitable."

The fleet modernisation, the biggest in the airline's history, also means network expansion. "We are planning to develop our routes to other Asian countries, especially with new services and new destinations to Japan, Korea, China and Thailand, as well as maintaining and improving our routes to Australia. We will consolidate our services to Western Europe and try to resume flights to Eastern Europe, including Moscow. Along with these innovations will be the introduction of our own flights to the U.S. by 2005," said Nguyen.

Fully aware of trends towards regional and global aviation liberalisation, he pointed to the liberalised aviation regime in existence among the nations of the Mekong sub-region, which involves Myanmar, Laos, Cambodia and Thailand.

In March these nations agreed to simplify procedures for opening new air routes within the region and reiterated their commitment to creating conditions that will promote business for carriers from the four countries.

Also, VNA is planning to develop its own domestic services and flights throughout the Mekong sub-region

On the international scene, apart from its existing code-share services to Los Angeles with CAL, VNA operates code-share flights with Qantas, Japan Airlines (JAL), Malaysia Airlines (MAS), Cathay Pacific Airways, Swissair (to Zurich over Bangkok) and Lao Aviation.

While it is likely to maintain most of these arrangements new aircraft will allow it to introduce more long-haul flights using its own airplanes.

Nguyen was non-committal on the subject of alliances beyond saying that for now the airline would not commit itself to a grouping. "We are keeping our options open, looking at the whole situation and what is best for VNA," he said.

VNA invests significantly in the training of cockpit and cabin crew and maintenance and engineering personnel, he added.

VNA's strategic development plan includes a programme to lift maintenance capability and spare parts inventory and successfully manage the transfer of information technology to all parts of its business.

A project is underway to improve capability in areas like management, flight operations and sales and reservation systems. All are being overhauled.

VNA has operated joint ventures with foreign companies in cargo handling and catering and is looking at the potential for more of these projects, particularly in the maintenance area.

Cargo is not being ignored. Freight volume rose from a mere 6,134 tonnes in 1991 to 45,529 tonnes in 2000. VNA carried 12,500 tonnes in the first quarter of this year, foreshadowing another increase through 2001.

The airline has linked up with major freight operators to boost its presence in the regional market. Vietnam Air Service Company (VASCO), a VNA subsidiary, signed a freighter contract with Federal Express (FedEx) in February, opening the route from Ho Chi Minh City to Subic Bay in the Philippines, FedEx's prime regional hub. This agreement allows VNA to tap into a cargo network

Dilapidated airports in the country's major cities of Hanoi and Ho Chi Minh City are being re-built or modernized

In with new, out with the old

In mid-May, the Vietnamese Government announced approval for a US$2 billion fleet upgrade plan for Vietnam Airlines.

The re-fleeting of the airline will be done in two stages: between 2001-2005 and 2006-2010. The first stage will increase VNA's fleet to 30, followed by a injection of ten airplanes from 2006-2007.

The government-controlled Vietnam News *said it is intended that VNA to increase the number of its fully owned aircraft from the present six airplanes to 18 by 2005 and to 34 by 2010.*

At the same time of the fleet upgrade announcement, a VNA spokesman told the Agence France Presse Agency *in Hanoi the carrier planned by 2006 to expand the number of Vietnamese pilots flying on long-haul routes to between 70%-80% of all pilots flying with the airline.*

Goodbye to antiquated aircraft supplied by former Eastern Bloc Communist Government allies with more ATRs (above) to come into the fleet

through Subic to 18 major cities in Asia-Pacific, Europe and the U.S., via five weekly FedEx flights out of Vietnam.

Also in February, VNA and another express freight giant, United Parcel Service (UPS) jointly implemented an air cargo service between Ho Chi Minh City, through Taipei to cities in Japan, North America and Europe. The flights, using a UPS B757 freighter carrying 35 tonnes of freight per journey, operate every Saturday and Sunday.

These deals should contribute a significant amount to VNA's revenue stream, particularly when the current downturn in cargo traffic passes by.

There are other pieces of the jigsaw essential to VNA's ongoing success still to be put in place, including modernisation of Vietnam's transport infrastructure, such as airports and air traffic services. These mammoth projects are underway, with terminal and runway improvements in progress at Ho Chi Minh City, Hanoi and Danang, to make the cities more attractive to inbound traffic.

In April, Hanoi's Noi Bai airport unveiled a glossy, new terminal, which is accepting international flights. Overseas services, which used to operate into Gia Lam, home to VNA headquarters, have been switched to the new facility.

Currently undergoing trials, the new Noi Bai terminal is planned to be fully operational by December.

But the issue most critical to VNA's future is the development of Vietnam's national economy. Like China, Vietnam has been through a long period of economic renovation, called *doi moi* in Vietnamese, to reform systems and introduce more competitive market practices.

VNA should be a major beneficiary of these reforms.

It was given another boost at the recent Ninth Party Congress of the Communist Party, which resolved to continue to vigorously pursue *doi moi*, under a new, reform-minded leader. During the next five years, it is intended that regulations which have discouraged foreign investment or forced resident foreign joint ventures to be abandoned, will be dismantled.

Vietnam Airlines: new livery being trialled on a sole B767 to gauge national and customer responses to the dramatic re-branding of the carrier

Despite recent negative forecasts on prospects for ratification of a Vietnam-U.S. bilateral trade agreement, the resolutions of the Ninth National Congress lifted investor confidence.

As well, the International Monetary Fund decided to resume lending for Vietnam and the World Bank is moving down the same path. After the congress, New York-based rating agency, Moodys Investor Service, changed its outlook from negative to stable for Vietnam's B1 foreign currency country ceiling for bonds and notes and for B3 foreign currency country ceiling for bank deposits. The agency said the outlook change was prompted by a renewed commitment by the Vietnamese Government to advance structural reforms beyond a point that was previously considered politically unacceptable.

In May, Vietnam's central bank announced a relaxation of foreign exchange rules for foreign investors to ease rules for investment in key national projects, including aviation.

It does not mean, however, that VNA itself is following the lead of some other airlines and looking for a foreign airline partner to take a strategic stake in the national carrier. Such a step would be too radical for the flag carrier of a committed Socialist State.

Nevertheless, Nguyen told *Orient Aviation* he believed foreign investment will play a vital role in potential joint venture deals critical to VNA's future.

The new national leadership also points to a future for an airline, born in turbulent times, with its formative years spent in a nation in a battle that finally it won, that has never been brighter.

China flexes freight muscle

By Jonathan Sharp

Varying degrees of concern were voiced by international air express carriers such as Federal Express (FedEx) and United Parcel Service Inc. (UPS) following moves by China's government postal service to review and probe the operations of foreign and domestic carriers.

The measures are seen in the context of China's imminent accession to the World Trade Organisation (WTO) and efforts by the government's China Post to ensure its share of the lucrative and rapidly growing express delivery business.

One of the strongest statements came from Federal Express Corp. following reports that FedEx's local joint venture partner, Da Tian W., in the southern town of Dongguan, close to Hong Kong, was having its licence reviewed. David Cunningham, president, FedEx Asia Pacific, confirmed the status of the agent's licence was "under discussion" although FedEx itself was not directly involved.

"We would note that this issue is affecting all the air express companies operating in China including domestic as well as foreign operators," Cunningham said.

"This is a regrettable situation that all in the air express industry in China hope will be resolved soon and to the benefit of the customers and China's long-term interests. Any prolonged action will affect customers and in particular their competitiveness in today's global market place."

He said China's entry into the WTO provided great potential for the air cargo market.

FedEx believes all the express service providers, including China Post, will share in the rewards and benefits this will bring, not only to the express industry, but more importantly to China's exporters. The key to success in the future lies in continually improving service, reliability and speed to market.

The issue at stake was whether China Post should have a monopoly over business documents sent or received internationally.

"A postal monopoly with such a wide scope would be unique in the world. Therefore, preventing business customers in China [from having] access to express services for such shipments will put them at a competitive disadvantage with companies elsewhere in the world," Cunningham said.

More circumspect was a statement by UPS, which recently began its first direct service between the United States and mainland China.

However, the company confirmed that two UPS envelope shipments were taken from the Shandong office of UPS's local agent Sinotrans in April. They were later returned.

UPS stressed it fully complied with Chinese regulations and expressed confidence that China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and other government agencies in China would be able to resolve this issue shortly. DHL-Sinotrans, which handles the China operations of DHL Worldwide Express also has reported some disruption of its mainland business.

In a further defensive measure on the postal front, China Postal Airlines, which operates mail services for the government, is one of six second-tier mainland airlines that are banding together to avoid being sidelined by the consolidation of 10 airlines under the Civil Aviation Administration of China.

Analysts said the alliance makes sense for tiny China Postal Airlines, which could use space on its partners' aircraft to develop a worthwhile network. There is no suggestion the rumblings over express delivery rights are related to broader issues such as strains in relations between the United States and China. Instead, it is seen as an effort by China Post's express delivery service, EMS, to shore up its position ahead of WTO membership, when China is expected to abolish rules limiting foreign companies to 50% ownership in joint ventures.

Meanwhile, political and diplomatic tensions between China and Taiwan were thought to have been stalling a deal between Taiwan's China Airlines to take a shareholding in the cargo unit of Shanghai-based China Eastern Airlines. However China Airlines' president and chief executive, Christine Tsung Tsai-yi hoped to finalise the deal by the end of 2001.

Muscle from mainland China's express freight company, China Postal Services: western express freight companies Federal Express, United Parcel Service and DHL Sinotrans are challenging former government monopoly

CHALLENGING

By Jonathan Sharp

Cathay Pacific Airways: increases flights to Taiwan

Airlines are like canaries – and not just because they both fly. In the same way that birds used to be taken down mineshafts to detect signs of trouble beneath ground, so the aviation industry is famously adept at giving early warning of problems afflicting economic activity on the earth's surface.

And so it was that, starting in the last quarter of 2000 and increasingly in the first half of 2001, airlines in the Asia-Pacific sensed the chilly draughts resulting from the slowdown in the U.S. economy, more particularly in the cargo sector that was such a heartening performer following the Asian financial turbulence of the late 1990s.

But to date at least, there has not been the same scaling back of services, capacity and staff that marked the Asian crisis. And most airlines did not have the handicap of being bad-mouthed by their own government's leaders – unlike Thai Airways International (THAI), which "sucks", according to Thai Prime Minister Thaksin Shinawatra.

Thaksin's view of THAI is not held by most analysts and airline executives about the prospects for the region's industry as a whole. Guarded confidence about the future is underpinned by the knowledge that lessons from the painful past have been studied and well digested, and that even if lightning does strike twice in Asia, storm warnings will be heeded much earlier than previously.

Moreover, unsettling uncertainties about the future flight path are paralleled by eye-catching opportunities, for example in China where moves to rationalise an unruly aviation sector are making headway as the world's most populous nation girds itself for entry into the World Trade Organisation (WTO).

While high fuel prices remain a painful burden for all airlines, developments such as the shake-out in Australasia, the opening up of polar routes for trans-Pacific services, the race to roll out enhanced inflight services, not to mention the remorseless cut and thrust between Airbus Industrie and the Boeing Aerospace Company as they tout their mould-breaking products, ensure that the second half of 2001 will be as engrossing as the first.

A key cause for anxiety remains the United States, and whether the best efforts of Federal Reserve chairman Alan Greenspan and the tax-cutting measures of U.S. president George W. Bush can propel the economy out of its near-stall – a vital consideration for export-driven Asian economies and, by extension, their airlines.

Of scarcely less importance for the region's aviation industry is the performance of Japan's economy, with hopes raised – but not yet fulfilled – by the arrival of reform-minded prime minister Junichiro Koizumi.

Airlines such as Cathay Pacific Airways, Singapore Airlines and Korean Air, which derive up to 30% of their sales from cargo, in particular, feel the pinch from the U.S. slowdown, which hurts demand for electronic and other time-sensitive goods that are staples of the cargo industry.

Latest figures from Cathay, for example, show that while passenger totals in April were slightly higher than in the same month last year, the amount of cargo fell 10%.

Singapore Airlines, while reporting that its full-year net profit rose 33% to S$1.55 billion (US$855 million), said the outlook for the current fiscal year depended on the pace of economic recovery, particularly in the United States, and said cargo traffic would continue to be pressured.

Similarly, Japan's biggest three airlines reported much improved results for the year ended March 31, but forecast slower growth for the next year because of the slack economy at home and in the United States.

Less concerned about trans-Pacific developments is the restless giant of China, which is preoccupied with steps to bring efficiency and hence profitability to its 30-plus airlines to cut out fratricidal domestic competition and prepare for heightened competition internationally following WTO membership.

Final confirmation arrived in late April of a blueprint whereby 10 airlines under the stifling blanket control of the Civil Aviation Administration of China (CAAC) will be grouped under the three biggest carriers: Air China, China Eastern Airlines and China Southern Airlines.

The moves confirm Guangzhou-based China Southern as the mainland's biggest carrier, although it may be soon outshone by Air China, based in the nation's capital, which is to team up with the China National Aviation Corp, the biggest shareholder in Hong Kong's Dragonair.

Air China is also planning a US$500 million listing on the Hong Kong and New York stock exchanges, and a German government official said it could join the Star Alliance by 2004.

Determined not to be muscled into oblivion by the Big Three, six second-tier mainland airlines promptly announced they were forming their own alliance, although what its final shape will be is unclear.

Subsequent tantalizing reports spoke of further watershed moves, including a long-awaited decision to lift the curb on outside investment in Chinese carriers from 35% to 49%. This may whet the acquisitive appetites of cash-rich carriers that held back from invest-

TIMES AHEAD

Big decisions for THAI; "dismal performance" by MAS

ing in China until they could secure stakes that would give them a worthwhile degree of management influence.

While the pace of consolidation and reform in Chinese aviation appeared to be quickening, analysts have pointed that a daunting series of regulatory and other hurdles remain to be crossed before the sector can be said to have successfully re-defined itself.

Adding further spice to the China pot were reports that Beijing had given the go-ahead to Taiwan's China Airlines to acquire an equity stake in the cargo subsidiary of Shanghai-based China Eastern Airlines.

Such a deal, the subject of prolonged speculation, had thought to have been thrust into deep freeze following last year's election victory by Taiwan's Democratic Progressive Party, whose pro-independence calls are anathema to Beijing.

However, industry sources tell *Orient Aviation* that Beijing's approval of the China Airlines-China Eastern deal had not been a sticking point. Rather, the ball was in Taiwan's court to consummate the deal, which would be a huge leap forward towards breaking down barriers between the mainland and the island Beijing regards as a renegade province.

Also taking a big leap in 2001, at least in terms of trans-Pacific services, were Continental Airlines, United Airlines (UAL) and Cathay Pacific, which announced the start of non-stop flights between Hong Kong and New York, with the focus on premium, front-end passengers. However, United has now decided to cease its unprofitable service from September.

Continental's boss Gordon Bethune – for whom the word "ebullient" might have been invented – said the service would have started much sooner but for the need to get permission to cross Soviet, now Russian, airspace. The Russians are apparently driving a hard bargain for the right to fly over their territory, with UAL reported to be paying US$8,000 for each flight. Cathay indicated its own New York service, due to start in September, might have been launched earlier had it not been for drawn-out negotiations with the Russians.

The addition of so much capacity on one route resulted in United's decision that three indeed proved to be a crowd on the route. Moreover, the three airlines' use of the Polar route for the 15-plus hour flights stoked concerns about the risk of passengers and crew being exposed to high levels of solar and cosmic radiation.

The *International Herald Tribune* quoted a scientist who helped draft European Union guidelines for inflight radiation as saying: "A frequent flying executive who recently became pregnant should really think twice about flying the polar route." The airlines themselves say the health risks are minimal.

In late May, the rivalry between Airbus and Boeing came into sharp focus in Japan, where Airbus is desperate to break the dominance of the soon-to-be-Chicago-based U.S. planemaker. Airbus chief executive Noel Forgeard said in Tokyo Japanese manufacturers would be missing a historic opportunity if they did not participate in helping to build the A380 superjumbo. He asked Japanese aerospace companies, some of which have longstanding partnerships with Boeing, to build sections of the wings and fuselage of the A380, totaling 8% of the aircraft.

Airbus sees Japanese carriers buying up to 600 aircraft costing US$88 billion in the next 20 years, and Forgeard said 180 of them would be Very Large Aircraft – of the type for which Boeing sees only a limited global market.

A day after Forgeard spoke, Boeing Aerospace chairman, Phil Condit, warned Japanese companies against entering risk-taking partnerships that excluded Boeing. "We also have partners on projects, and when you have partners, you expect them to work with you on that particular project and not on one that is directly competitive to that," Condit said.

He expected Japanese companies to take part in building the proposed Sonic Cruiser, for which Boeing is assessing the potential market before the project goes ahead.

Boeing's ability to sell aircraft may be legendary, but it appears to have been less successful, to date at least, in persuading airlines to sign up to its inflight communications system Connexion By Boeing, while rival Tenzing Communications has made the running with customers including Singapore Airlines, Cathay Pacific and Virgin Atlantic Airways.

But be patient, says Connexion president Scott Carson. He told *Orient Aviation's* Tom Ballantyne that Connexion's broadband sys-

China Southern: to emerge as China's largest international carrier tem would eventually prove its worth over Tenzing's narrowband service. In other words, watch this cyberspace. At press time, it was strongly rumoured that Airbus Industrie would buy into Tenzing.

Meanwhile, several Asia-Pacific airlines have the more down to earth issue of profitability to deal with rather than the Internet in the sky. For example beleaguered Malaysia Airline Systems (MAS) reported a 1.33 billion ringgit (US$350 million) loss for the year ended March 31. "It was a dismal performance," acknowledged managing director Dato Mohamad Nor Bin Mohamad Yusof, who was appointed in February after the Malaysian government bought the 29% stake of MAS held by businessman, Tan Sri Tajudin Ramli, following a disastrous period of privatisation.

Mohamad Nor promised "serious steps" to turn the airline around before considering attracting a foreign partner. "At this stage I don't think we are attractive."

But prospects appear less gloomy for another battered carrier, Philippine Airlines, which is clawing its way back to respectability after barely escaping extinction. President Avelino Zapanta, summoned out of a two month-long retirement by chairman Lucio Tan, has presided over two years of profit, with costs and debt reduced and fleet size and international destinations increased. Implementation of a rehabilitation plan is ahead of schedule, he told *Orient Aviation* in April, although the country's brittle political scene and hostage-taking incidents such as the seizure in May of Filipinos and Americans from a Philippines tourist resort are unsettling factors.

Philippine Airlines: doing better than industry analysts expected

South of the equator, emotions ran high about a proposed reshuffle whereby Qantas Airways would acquire a 55% shareholding in Air New Zealand by buying Brierley Investments' 30% stake and the 25% owned by SIA. SIA would then achieve its aim of taking control of Ansett Airlines by buying the carrier from Air New Zealand.

Prime minister Helen Clark stepped into the political storm by saying the Qantas takeover faced "serious obstacles". For its part, Qantas tried to calm matters with chief executive Geoff Dixon saying the airline did not want outright control of its New Zealand neighbour.

The proposed changes came amid months of turmoil in the region's aviation sector, including the takeover by Qantas of no-frills rival Impulse Airlines and Ansett fending off threats by regulators to close it down over maintenance shortcomings.

Independent analysts see advantages for all players in the proposed new Australasian lineup, including for Singapore Airlines, whose earlier attempt to buy into Ansett was rebuffed.

BOEING'S HIGH ON EDUCATION

Perched on a bluff north of St. Louis, overlooking the Missouri River, a gracious mix of historic and contemporary buildings nestles among 286 acres of private woodland. But this is no retreat. This is home to the Boeing Leadership Centre, a complex devoted to training Boeing executives for life centre stage in the global marketplace. TOM BALLANTYNE *reports.*

Once a month without fail, no matter how busy they are, both Boeing chairman Phil Condit and his vice-chairman Harry Stonecipher fly to St Louis, Missouri, in the southern United States, and make their way to an isolated rural enclave, 30 minutes drive from town.

The centrepiece of the estate they visit is a regal southern mansion, set amid sloping lawns, that leads to a modern complex nestled unobtrusively in the wooded landscape. This is the Boeing Leadership Centre, where the world's biggest planemaker nurtures the talents and skills of its 2000 top executives through courses designed to prepare them for the highly competitive global marketplace.

The two leaders are rarely there together. "Every time one of the courses starts I am there. Every time one finishes, Phil Condit is there," said Stonecipher. It shows how much importance both men place on Boeing's seat of learning. This is, in the words of Stephen Mercer, vice-president of the centre, "the company's Times Square, its corporate Champs Elysée, bringing together Boeing leaders from all over the world to build a common corporate culture."

No senior Boeing employee can opt out of a visit to St Louis. If anyone makes too many excuses Condit and Stonecipher want to know why – personally.

Mercer said whether it is in the classroom, over dinner or in the gym, the campus is designed to help participants focus on leadership education, explore business change and define a new unified Boeing culture.

"Whether sharing coffee in a common room or exploring a nature trail, attendees talk shop constantly. They share what they have done, what they are learning, exchanging techniques, best practices and a whole new world of experience all with the goal of achieving spectacular business results," he said.

Boeing vice-chairman Harry Stonecipher: "it was about time we spent more money on people."

He insisted the centre must be working, pointing out that in 1997 and 1998 Boeing was in trouble, losing money and struggling with the complex business of merging with McDonnell Douglas. The centre opened in 1999 and today "earnings are up, revenue is up, the stock price is up and backlogs of aircraft orders are rising", he added.

The centre consists of three residential lodges (a fourth is under construction), with 120 private rooms, a 200-seat dining room, a common area, a workshop building of six classrooms, a lecture hall and 21 breakout rooms. An underground ballroom, built in 1946, is used as a meeting and dining place..

There is a system of digital projection equipment for presentations and classroom exercises. Wall-mounted video monitors continually provide stock quotes and world news.

All participants live on campus, though the atmosphere is more akin to a five-star hotel than a college. The only parking lot is for staff. Isolation is imperative.

It is isolated so attendees are free from interruptions. "All amenities for daily living are taken care of so that Boeing leaders can take advantage of this rare moment in their careers when they are unplugged from the daily demands of leadership. They are here to learn," said Mercer.

The centre is dedicated to developing leaders who can take advantage of the rapid changes that drive the global economy. The core curriculum: Transition to Management, Leading From the Middle, Strategic Leadership Seminar, Boeing Executive Programme and Global Leadership Programme is designed to meet the educational requirements of leaders at each stage of their careers.

It aims to produce:

- executives with vision broad enough to encompass all the opportunities change provides
- middle managers who can translate that vision into plans flexible enough to stay ahead of change
- first level managers who can respond creatively to the change that surrounds them without waiting for detailed direction

Among the learning facilities is a "war room" where business simulations are co-ordinated and another building, isolated from the rest of the complex, where executives enter another world. It represents a mythical Asian country called Hahn. "Students" pass through passport control and live as if they are abroad, negotiating deals with actors who portray seasoned, tough businessmen.

Part of the learning process does involve real foreign travel. Boeing sends small teams of executives overseas to important business centres. These groups don't do any official business. They spend a month learning about the local culture. They meet executives and officials from all walks of life, both in the aerospace industry and outside it.

Boeing chairman Condit believes the centres plays a critical part in preparing the company to become a global business. But he and Stonecipher are not only pouring money into improving the minds of the company's elite.

Said Stonecipher; "We intend to have the best educated work force in the world. We are spending US$80 million annually on the learning experience for Boeing's 200,000 staff, with another $30 million allocated to the learning centre. This is our investment in people."

Unlike many firms, Boeing is not putting limits on what employees want to learn. If they enrol in a degree course it does not have to be related to an employee's job or even to aerospace. Whatever a Boeing employee wants to do, as long as he or she is learning something new, the company will pay up front for them to do it.

The future is learning as Boeing Plans new sonic cruiser

"We had one employee who wanted to study mortuary science. We have had a couple of people who took degrees in Divinity. That's fine with us," said Stonecipher.

His attitude? If a handful of employees leave after taking these degrees to pursue other careers they represent only a tiny loss to Boeing. They will leave happy and think what a great company Boeing was to work for. If they don't leave they will be happier and better educated employees.

Right now, some 32,200 staff are taking part in degree or extra-curricular courses. In the past two years 4,500 employees have completed various degrees, Stonecipher said.

All of this, he explained, resulted from a serious talk he and Condit had as the two men strove to convert Boeing and McDonnell Douglas into a single company. "One of the things we said was that we invest billions of dollars each year in research and development to prepare for the future and it was about time we spent more money on our people. That is precisely what we are doing."

TRAFFIC RESILIENT DESPITE ECONOMIC DOLDRUMS

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

Member carriers of the Association of Asia Pacific Airlines (AAPA) reported passenger traffic for March 2001 remained good despite the effects on their businesses of the U. S. economic downturn and the worsening economic climate in the leading regional economy of Japan.

AAPA member airlines reported growth of consolidated revenue passenger kilometers (RPKs) and passengers carried for the month of 5.5% and 6.9%, respectively. Capacity rose by 5.4%. Passenger load factor (PLF) was 74.2%, up 0.1 percentage point.

With the exception of All Nippon Airways (NH -9.4%) and EVA Airways (BR -2.7%), all carriers registered growth in RPK in March. Five carriers reported double-digit growth: Royal Brunei Airlines (BR 59.1%), Vietnam Airlines (VN 38.1%), China Airlines (CI 17.6%), Philippine Airlines (PR 12.6%) and Thai Airways International (TG 12.0%).

In terms of load factor, six carriers recorded an improvement. Royal Brunei Airlines had the biggest – and the only significant – improvement, by 22.6 percentage points. This was attributed to double-digit growth in RPKs (as well as PAX) compared to a less-than 10% increase in capacity. Seven other carriers posted declines in load factor, with Garuda Indonesia (GA) experiencing the largest drop (6.9 percentage points).

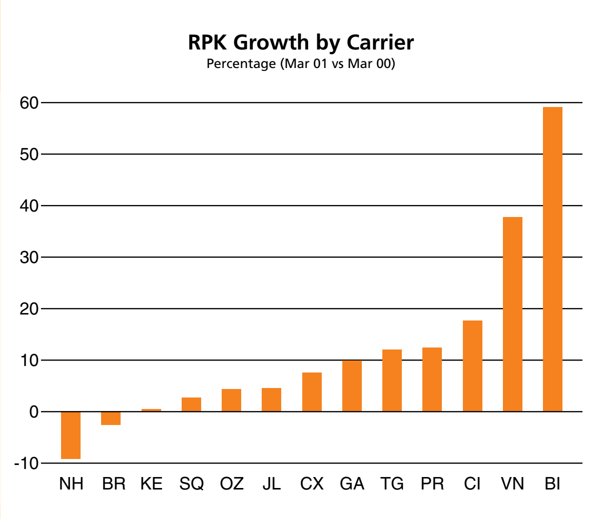
Ten carriers filled 70% or more of their seats, with six of them registering a load factor of 75% or above – Vietnam Airlines (78.8%), China Airlines (77.4%), Thai Airways International (76.5%), Japan Airlines (JL 76.1%), All Nippon Airways (75.2%) and Singapore Airlines (75.0%).

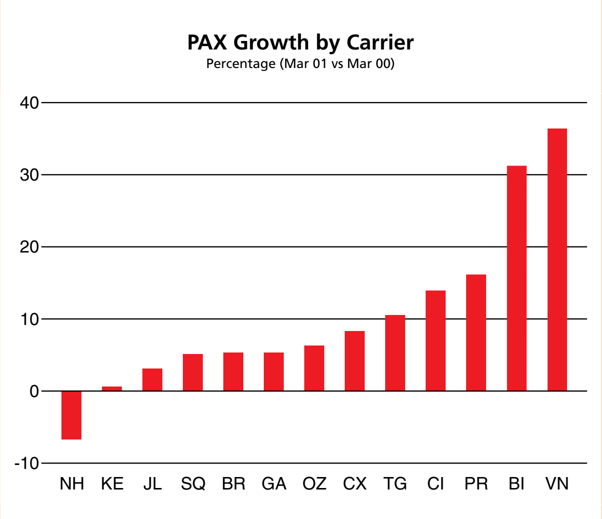
Cargo Results

The AAPA consolidated freight tonne kilometres (FTKs) shrank by 3.5% in March. Capacity, on the other hand, expanded by 4.1%, which dragged down the load factor by 5.5 percentage points to 66.7%.

Five carriers reported growth in FTKs – Vietnam Airlines (26.3%), China Airlines (9.6%), Thai Airways International (6.1%), Garuda Indonesia (4.1%) and Singapore Airlines (2.1%). On the other hand, All Nippon Airways (-19.2%) and Korean Air (KE -15.5%) led the pack of eight carriers experiencing contraction.

In terms of load factor, only two carriers managed an improvement – Vietnam Airlines (1.5 percentage point) and Garuda Indonesia (1.4 percentage point). The remaining airlines had declines in load factor which ranged from 1.0 percentage point





EVA Air expected to suffer from worsening cargo and passenger traffic in coming months

(Singapore Airlines) to 13.1 percentage points (All Nippon Airways). Four carriers managed to register a load factor in the 70s. They were Asiana Airlines (OZ 77.5%), China Airlines (77.4%), Korean Air (77.2%) and EVA Air (75.8%). Three carriers from Southeast Asia – Philippine Airlines, Vietnam Airlines and Royal Brunei Airlines – reported load factors below 50%.

First Quarter Results (January to March 2001)

The AAPA consolidated revenue passenger kilometres (RPKs) grew by 6.4% while passengers carried (PAX) rose by 6.8% in the first quarter of 2001. Seat capacity was a step behind with 4.6% growth. Load factor for the quarter was 73.6%, up by 1.2 percentage point year-on-year.

Among the eleven carriers that achieved RPK growth in this quarter, six enjoyed double-digit growth. Royal Brunei Airlines topped the list with 47.1% expansion, followed by Vietnam Airlines (41.1%), China Airlines (19.0%), Philippine Airlines (18.5%), Thai Airways International (12.7%) and Garuda Indonesia (12.7%).

In terms of load factor, Royal Brunei Airlines posted the biggest improvement – up by 18.7 percentage points. Two Japanese carriers – All Nippon Airways and Japan Airlines – followed with an improvement of 5.1 percentage points and 4.2 percentage points, respectively.

Vietnam Airlines had the highest load factor, filling 79.9% of its seats in the quarter under review. Nine more carriers registered a load factor in the 70s, which ranged from 71.2% (Korean Air) to 77.7% (Thai Airways International).

Cargo Results

The U.S. economic slowdown hit cargo traffic for the second consecutive quarter. Freight tonne kilometres (FTK) contracted by 3.5% while capacity rose by 2.9%, which resulted in a 4.4-percentage point decrease in FLF to 66.2%.

FTK growth was mixed among the AAPA member airlines. Six carriers reported growth – the largest was Vietnam Airlines (16.5%) – while the remaining seven posted a contraction. Both All Nippon Airways (-17.4%) and Korean Air (-14.8%) experienced double-digit falls for the quarter.

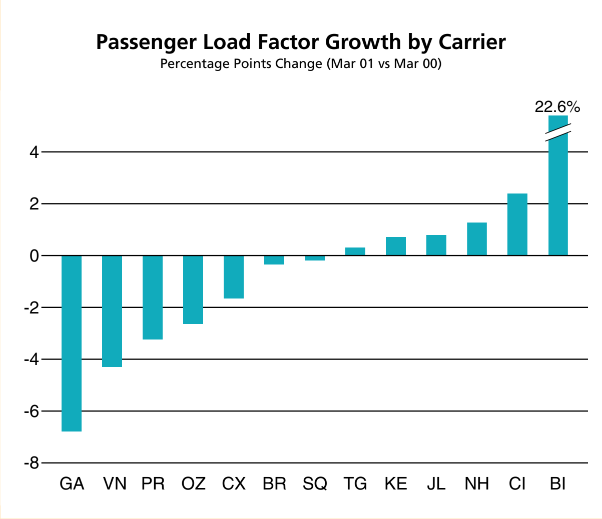
Garuda Indonesia was the sole carrier to report an improvement in load factor – a 1.2 percentage point gain. The remaining twelve carriers posted declines, which ranged from 0.9 percentage point (Korean Air) to 9.4 percentage points (China Airlines).

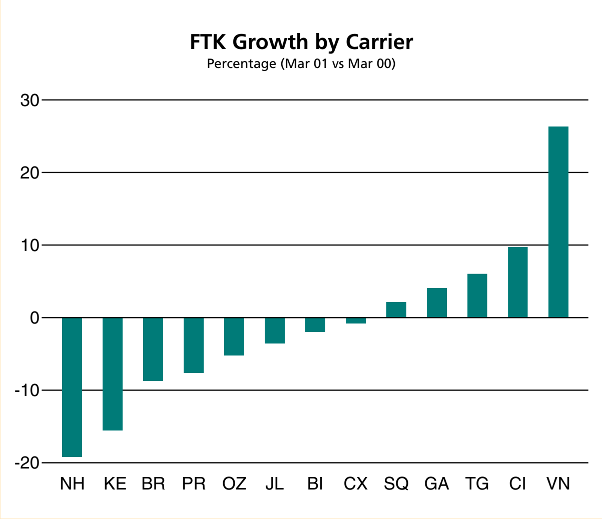
Korean Air registered the highest load factor for the quarter, at 75.0%. China Airlines (74.5%), Asiana Airlines (73.5%) and EVA Air (71.3%) were the other carriers with a load factor in the 70s range.

Results of the 12 Months to March 31, 2001

The AAPA consolidated revenue passenger kilometres (RPK) and passenger carried (PAX) for the twelve-month period ended March 2001 grew by 10.7% and 9.7%, respectively. Capacity expanded by 6.8%, pushing the load factor up by 2.7 percentage points to 75.2%.

All carriers posted growth in RPKs, eight of them in the double-digit range. The top five airlines posted growth exceeding 15% – Philippine Airlines (30.6%), Vietnam Airlines (29.8%), Royal Brunei Airlines (19.4%), China Airlines (18.8%) and Garuda Indonesia (16.6%).





With the exception of Korean Air, all carriers recorded an improvement in load factor. Royal Brunei Airlines topped the list with growth of 9.6 percentage points, followed by the Japanese carriers – All Nippon Airways (7.8 percentage points) and Japan Airlines (4.2 percentage points).

Eleven carriers reported load factors in the 70s, with eight of them registering a load factor above the 75% mark for the twelve-month period under review. Vietnam Airlines had the highest load factor of 77.3%, followed by Asiana Airlines (76.9%), Singapore Airlines (76.8%), Thai Airways International (76.1%), China Airlines (75.9%), Japan Airlines (75.8%), Cathay Pacific Airways (75.5%) and EVA Air (75.3%).

Cargo Results

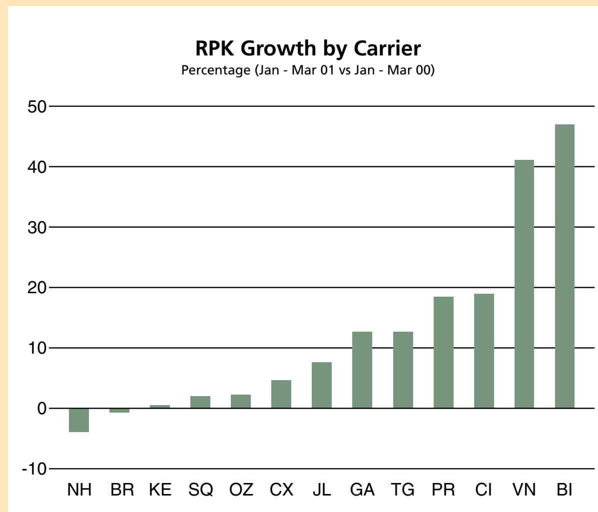
The consolidated FTKs for the twelve-month period grew by 6.0%. The capacity expanded by 6.5%, reducing the load factor by 0.4 of a percentage point, to 70.7%.

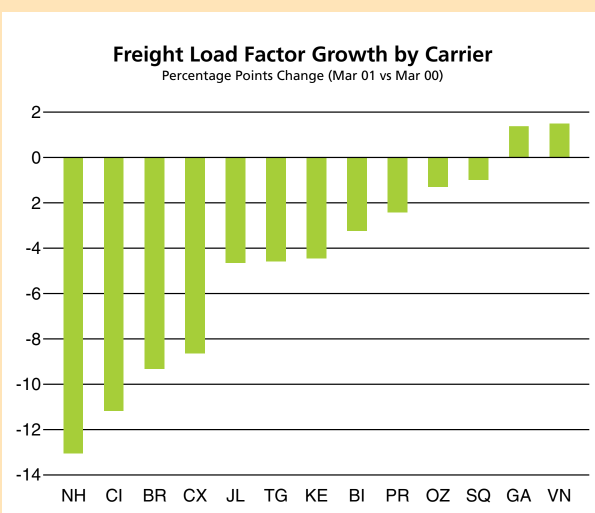
Eleven carriers emerged with FTK growth ranging from a modest 1.1% (Japan Airlines) to a high 19.4% (Vietnam Airlines) for the twelve months under review. Royal Brunei Airlines and All Nippon Airways both suffered contraction.

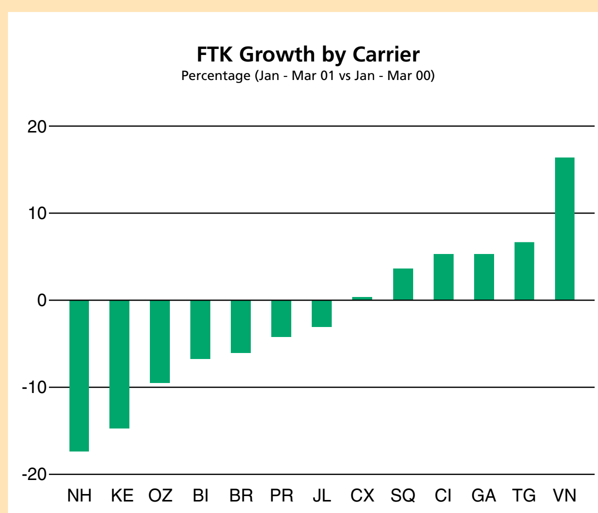
Load factor growth was reported by five carriers, with only All Nippon Airways (7.3 percentage points) and Garuda Indonesia (5.5 percentage points) showing significant gains. On the other hand, Royal Brunei Airlines (- 7.2 percentage points) suffered the largest decline. Five carriers – all of them from Northeast Asia – enjoyed a load factor of over 70%.

China Airlines emerged top with a load factor of 81.2%, followed by EVA Air (77.8%), Asiana Airlines (76.6%), Korean Air (76.3%) and Cathay Pacific Airways (70.9%).

Royal Brunei Airlines topped AAPA carriers in revenue passenger kilometers in March 2001







Dragonair: the newcomer in long-haul air freight might suffer on its Asia-European cargo route

Summary

The March results indicated that passenger traffic, although less robust, remained good despite the current economic climate. Its resilience is vital to member airlines in sustaining growth for 2001 as cargo traffic is only expected to see recovery in the second half of the year.

The immediate economic outlook (i.e. the second quarter) remains poor although the U.S. economy grew by a better-than-expected 2.0% in the first quarter this year. In the Euro area, the global slowdown began to have a greater impact on its economy, with "weaker exports hitting manufacturing across a broad front" (Business Week, May 14). Inflation continued to climb, affecting domestic demand in several members of the EU. Japan's economic woes drag on and the economy is in danger of sliding into recession.

Against this economic backdrop, there may be a worsening of cargo and long-haul passenger traffic for AAPA airlines next quarter.

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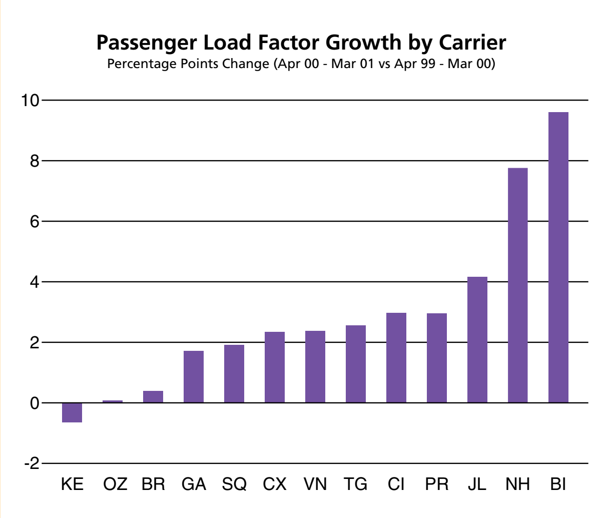
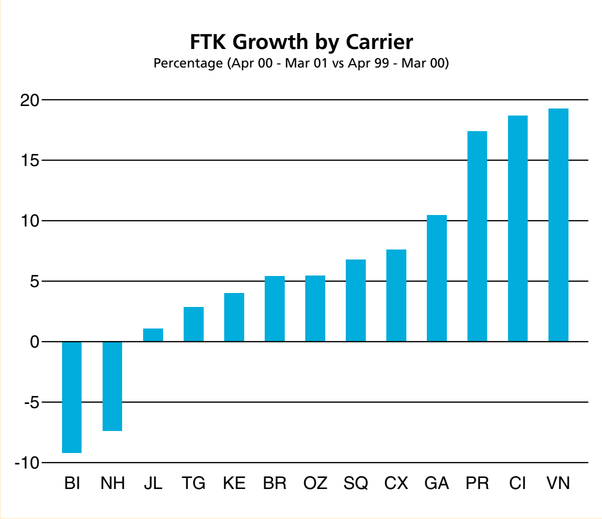
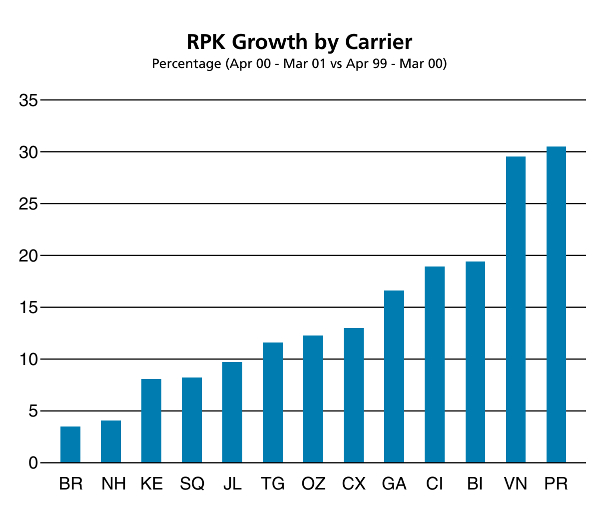
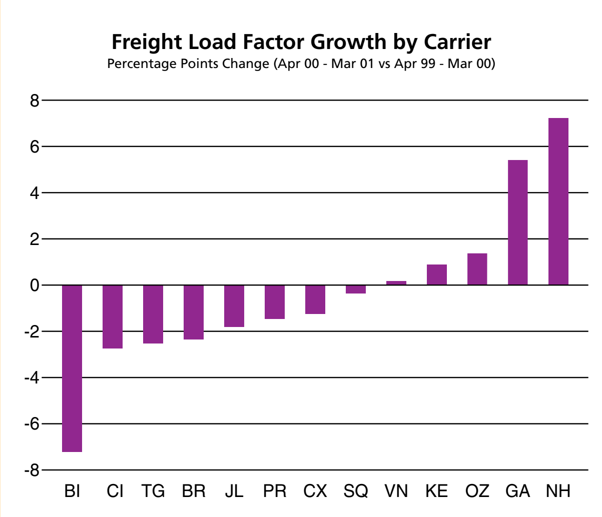
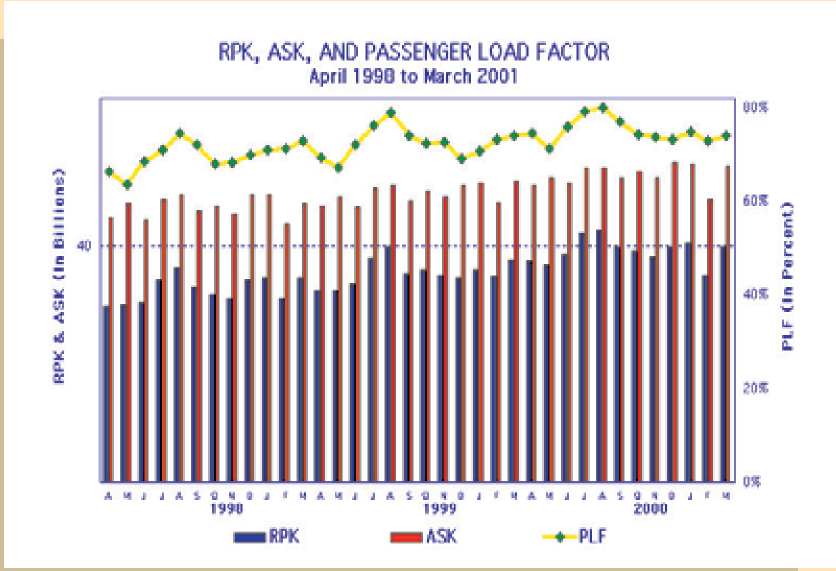


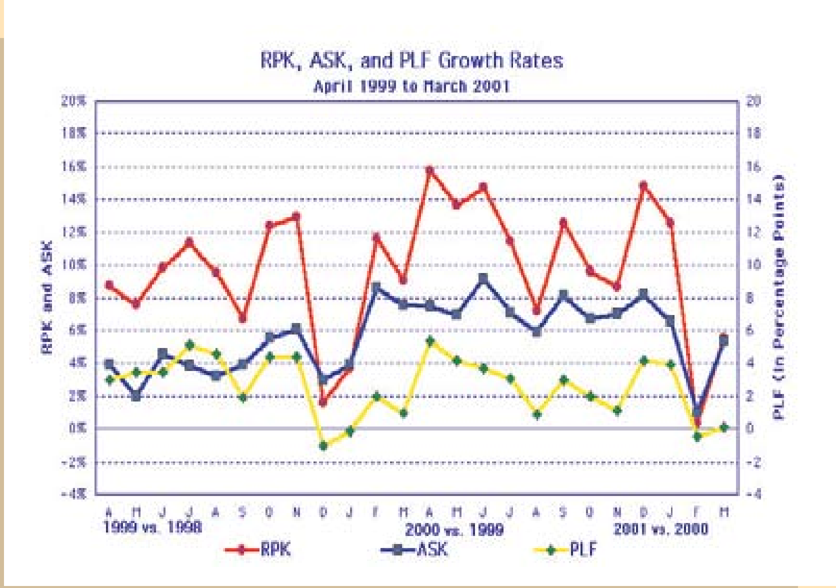




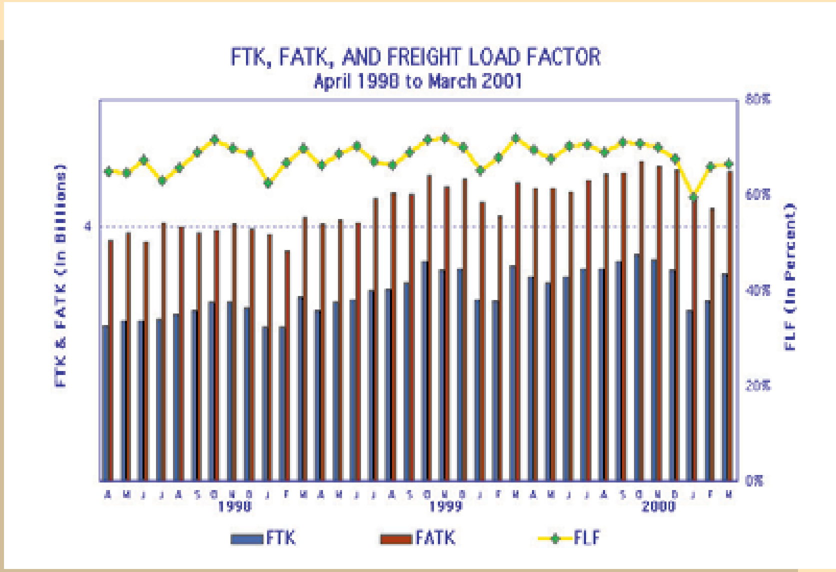


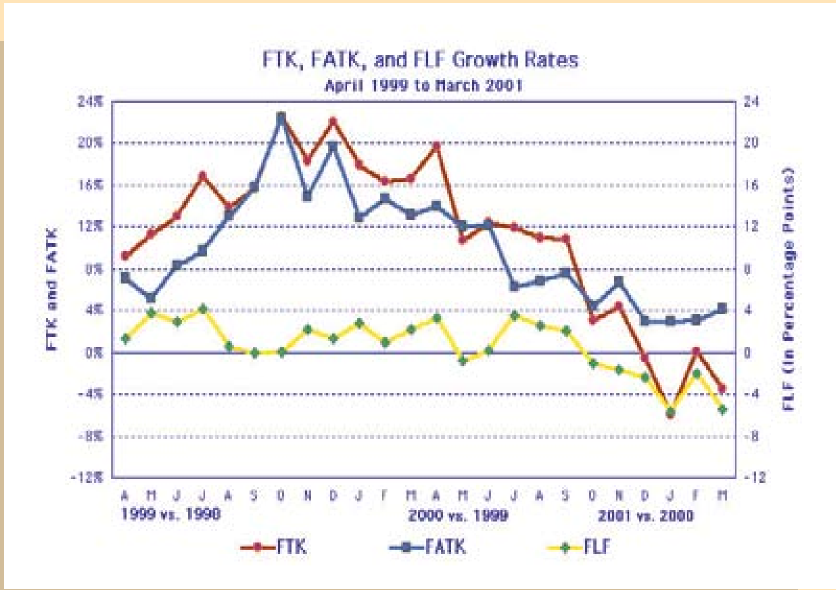
Monthly international PAX statistics of AAPA members





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)
MAR-01	39,724,147	53,559,524	74.17	3,249,294	4,875,217	66.65	6,944,186	9,773,952	9,075
FEB-01	34,891,538	47,877,174	72.88	2,821,637	4,283,067	65.88	6,096,764	8,662,026	7,962
JAN-01	40,375,226	53,996,062	74.77	2,686,684	4,513,197	59.53	6,445,942	9,466,042	8,991
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
JUL-00	42,210,457	53,221,980	79.31	3,339,584	4,731,881	70.58	7,306,299	9,503,672	9,358
JUN-00	38,462,047	50,721,560	75.83	3,205,060	4,554,317	70.37	6,825,239	9,220,322	8,539
MAY-00	36,785,555	51,663,143	71.20	3,117,148	4,602,811	67.72	6,587,965	9,339,170	8,283
APR-00	37,456,270	50,155,854	74.68	3,206,711	4,605,727	69.62	6,729,187	9,211,994	8,532
TOTAL	469,163,224	624,389,895	75.14	38,733,348	56,704,974	68.31	82,796,981	113,880,684	105,129

2000 to 2001

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
MAR-01	5.54	5.37	0.13	-3.54	4.10	-5.50	0.50	4.55	6.93
FEB-01	0.31	0.93	-0.45	0.12	3.10	-1.96	0.15	1.79	-1.20
JAN-01	12.55	6.58	3.93	-6.00	2.89	-5.71	3.53	4.74	14.06
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
JUL-00	11.40	7.07	3.08	11.87	6.29	3.52	12.01	5.30	9.48
JUN-00	14.75	9.16	3.69	12.44	12.12	0.20	14.38	10.62	11.61
MAY-00	13.61	7.15	4.05	10.72	12.10	-0.84	12.91	9.48	11.17
APR-00	15.79	7.49	5.35	19.67	13.97	3.31	18.24	10.76	14.37

Calendar Year

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
2001[5]	114,990,911	155,432,760	73.98	8,757,615	13,671,482	64.06	19,486,892	27,902,021	26,028
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
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
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
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
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
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

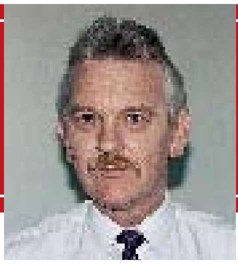
Calendar Year

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
2001[6]	6.18	4.37	1.27	-3.18	3.39	-4.34	1.37	3.74	6.55
2000	10.95	7.21	2.53	10.61	9.19	0.89	11.26	8.08	9.85
1999	9.08	3.43	5.65	13.95	11.50	2.45	12.15	7.45	9.33
1998	-1.46	-0.76	-0.70	-2.47	1.13	-3.60	-2.36	0.48	-2.82
1997	3.58	6.03	-2.46	14.24	6.03	8.22	8.28	6.52	2.30
1996	14.81	12.28	2.53	16.55	18.10	-1.55	15.31	14.78	13.52

Note:

1. The consolidation above includes 16 participating airlines.
2. Data for Mar 2001 is subject to revision as actual data for AN Mar 2001, MH Mar 2001 & QF Mar 2001 are 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. Calender Year denotes January - December. YTD 2001: Jan 2001 - Mar 2001.
6. YTD comparison: Jan - Mar 2001 v Jan - Mar 2000.

THE STAKES ARE HIGH FOR ANSETT



TURBULENCE

By Tom Ballantyne

When a respected airline industry insider told this columnist on May 22 that an unlikely trio of collaborators had secret talks in Singapore a few weeks earlier the idea seemed too bizarre to have credence.

The insider said Qantas Airways, Singapore Airlines (SIA) and Air New Zealand Ansett Group (AirNZ Ansett) majority shareholder Brierley Investments, had had a friendly chat about a potentially dramatic ownership change.

On the table, in what SIA later described as in the "concept" stage, was a watershed strategic shift in Australasian airline ownership; Qantas would buy the SIA and Brierley Investment shareholdings in AirNZ-Ansett and Brierley would sell Ansett to SIA.

Understanding that even the most unlikely is possible in global aviation these days, *Orient Aviation* telephoned the office of Qantas Airways chief executive, Geoff Dixon. We also called his press relations chief Michael Sharp to ask if the report had substance. Dixon did not call back, although Sharp telephoned twice and basically said "we'll get back to you".

No wonder they were being coy. The information was correct, but listed company Qantas had to keep the proposal secret until it could release it to stock exchanges, which finally occurred on May 29.

Coming only weeks after Qantas' virtual takeover of Australian no-frills domestic carrier, Impulse Airlines, the news shook the very foundations of the traditional airline landscape of Australasia.

After all, Qantas had taken a 7.5% equity in AirNZ when it was privatised, but the partnership was a failure. In essence, managers at the two airlines could not work together in any co-operative way. Qantas discovered that despite its equity in the New Zealand flag carrier, it had absolutely no influence on decision-making or directions. Qantas sold out.

Is it then, perhaps, a case of here we go again? Perhaps not. The proposed buyout initially might appear unbelievable, but the essential question is: does it make sense? And, on reflection, such a shuffling of the Australasian airline deck of cards may do just that.

While the media coverage that followed the announcement of the discussions concentrated on Qantas' possible bid for AirNZ, the significant sentence in the brief public statement issued by the airline was that it "had been approached to consider a transaction".

In other words, Brierley Investments, now headquartered in Singapore, had put out the feelers to Qantas on the deal. Brierley and its shareholders have clearly reached the end of their tether with Ansett. Believing it paid too much for the Australian carrier in the first place, Brierley is now watching, helpless, as Ansett drags Air NZ into the red.

On the other hand, SIA has said it wants to buy Ansett, whose Australian domestic services fit perfectly with the impressive international network the Singapore flag carrier has spent several years incorporating into every major Australian city.

More importantly, SIA has the money to help both the domestic and international arms of Ansett do what it needs to do; expand and modernise its fleet. SIA chief executive, Dr Cheong Choong Kong, told *Orient Aviation* this year he wanted to build Ansett into a major airline that could compete on equal terms with Qantas. That was a big statement.

Under the proposals for the trans-Tasman deal, Qantas would head an Australasian airline empire, but it would not acquire a monopoly if Ansett was to be sold off to SIA. If anyone is capable of providing true competition for Qantas, by combining with Ansett and providing the financial muscle required, it would surely be SIA, one of the industry's great competitors.

Australia, New Zealand and Singapore have an opportunity to lead the regional way in what is becoming inevitable in the global airline industry: rationalisation, consolidation and liberalisation. The difficulties for such a process are enormous. The players must persuade national governments to alter their foreign ownership rules. They also must convince government corporate watchdogs that the deal would avoid establishment of a market monopoly for Qantas/Air NZ.

Then there is the alliance situation to consider. AirNZ is a committed member of the Star Alliance. This relationship would have to be severed so that the Auckland operator could move into oneworld, of which Qantas is a member. There is a precedent. Canadian Airlines International, a former oneworld member, is now merged with Star's Air Canada and has been absorbed into that alliance.

Another question? What will happen to the combined engineering operations of Ansett and Air NZ, which are negotiating a shaky course to true union?

There are other aspects of the re-arrangement that are less easy to define that could have a powerful bearing on its ultimate outcome. The attitude of the New Zealand public, conditioned by decades of trans-Tasman rivalry and one-upmanship, is expected to be extremely antagonistic towards a perceived take-over of its national flag carrier by an Australian airline. This response is expected to colour the reaction of the New Zealand national government to "the concept".

While this process goes on, poor old Ansett is again faced with uncertainty about its future. Within nine months of Air NZ finalising its purchase of Ansett and six months after Gary Toomey took charge in Auckland – filling a leadership hiatus of nine months – another ownership earthquake is rocking the ground on which it stands.

Unless a deal happens quickly, the legacy may be an Ansett that never recovers from the trauma it is living through. If that occurs, the ultimate price of endeavouring to force continuing high levels of competition on the industry across Australasia may be one less airline and reduced competition.