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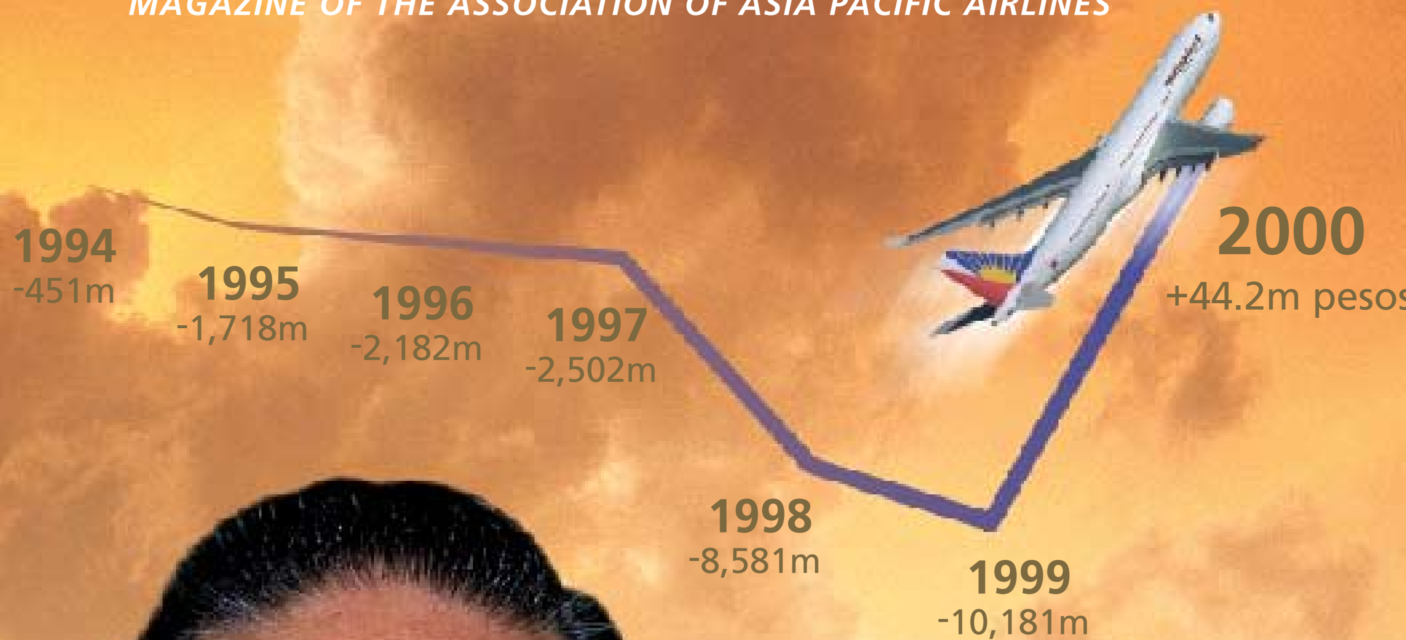

Avelino Zapanta

Man for all seasons

PAL is in profit and paying off its debts; the first president to rise through the ranks is offering hope of a secure future

Asia's airlines prepared as world's major economies falter

Mounting calls for single global safety audit

***SPECIAL REPORT:** Asia-Pacific carriers make great e-business advances*

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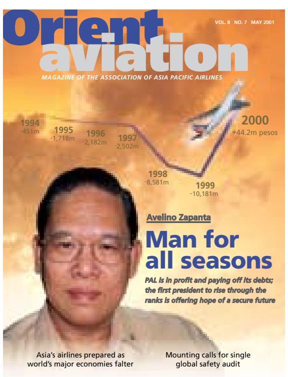
Man of the people Zapanta is turning the tide



BPA INTERNATIONAL ®

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Recession – better the second time around

With the daily diet of gloom and doom we are fed about the looming U.S. lead global recession, we would expect the region's airlines to be prepared for a slowing in both cargo and passenger traffic that is feeding into their monthly load reports, Of course, the best run carriers are doing just that.

We learned from the information gathered by our chief correspondent, Tom Ballantyne, when he put together our lead story, Prepared (page 14), that airlines believe they can adjust to this period of economic bleakness, especially as it will be offset by continuing reasonable regional traffic demand.

Many airline bosses told *Orient Aviation* the predicted recession will dent earnings and will produce a downward trend in their results. But many of them added that these economic circumstances would be viewed as a cyclical earnings blip in a region where airline traffic growth figures remain formidable.

In their corporate mind's eye, they are roaming into a world where China will be a member of the World Trade Organisation, where India will have a government regime that allows free market competition for airlines, including foreign ones, and where the consolidated benefits of belonging to a global alliance can offset declines in air travel in particular regions around the world

These same executives said their strategy for safe navigation through this latest economic downturn has been honed by their recent harsh experiences at the hand of the Asian economic collapse from 1997 to early 1999.

Their airlines have already done the hard yards in job losses, restructuring and flight network surgery. Having been through one recession so recently, the lessons of tightened purse strings remain fresh in the minds of every airline staff member from the top down. Bitter experience has taught them how to cope – they've been there, done that and now they all know a lot more about managing an airline in tough times.

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CLOSER TIES: Attitudes to joining a global alliance are changing at China's national carrier, Air China (pictured right), Jurgen Weber, Lufthansa German Airlines' chairman and chief executive, said at the Star Alliance Chief Executive Board meeting hosted by bmi british midland in April. Until six months ago management said it was not interested, Weber told *Orient Aviation*, but now they are shifting their position. The German flag carrier codeshares with Air China between Germany and China (Star moves page 22).

PERSPECTIVE

SURPRISE MOVE: When Boeing Commercial Airplanes boss Alan Mulally jetted into Hong Kong to meet Cathay Pacific Airway's top management team in late March, everyone was expecting another high-powered B747 stretch "sell". However, as one executive at the meeting told *Orient Aviation*, it took everyone by surprise when Mulally whipped out a racy little model of its new sub-sonic passenger jet, the Sonic Cruiser. "It was totally, totally unexpected. It was the first time we had heard of the plane," said the source. Unexpected maybe, but the Cathay Pacific team liked what they saw and also liked what they heard from the man who was the driving force behind the development of Boeing's B777. The manufacturer would like Cathay to be a launch customer for its Mach 0.95 speedster. And although there is a way to go before Cathay makes up its mind, Boeing just might get its wish.

WHY?: When the Thai deputy transport and communications minister, Pracha Maleenond, announced a new 15-member board for the national flag carrier, Thai Airways International (THAI) he also threw into doubt the future of the carrier's president, Bhisit Kuslasayanoon. Pracha, who has two of his close associates as new board members, said Bhisit had not been included among the new directors and that "an outsider" should fill his position on the board. He added the "old board" appointed him, that his contract had not been signed and that his "performance would be evaluated by the new board". The likeable and most capable Bhisit, who has seen many a board come and go in his decades of service to THAI, is expected to learn if he can keep his job in May.

DEFEAT: Relatives of the victims of a 1994 China Airlines (CAL) A300-600R crash, which killed 264 passengers and crew when it crashed at Nagoya Airport in 1994, have failed in a second attempt to charge four former senior CAL flight operations executives with negligence. In April, the Nagoya District Public Prosecutor's Office, reporting the results of a second investigation commenced in January last year, said: "It is difficult to call into question the criminal responsibility of the four individuals because aptitude levels achieved through training at the carrier were similar to those at other airlines." The Nagoya investigators came to their conclusion after studying the crew training procedures and evaluation systems at Japan Air System, which took delivery of A300-600R aircraft around the same time as CAL and adopted the same flight training systems. It has become widely accepted that pilot error caused the crash. The pilot and the co-pilot were killed in the accident.

BIRD OUT: With the formal and relatively trouble-free launch of Seoul's new Incheon International Airport now behind them, its officials are dealing with a new and unexpected hazard – wave upon wave of migrating birds flying south over the river flats that now accommodates the huge new facility. A special bird swatting and catching squad – advised by the prestigious Korean Hunting Management Committee and equipped with a range of deterrents including nets laced with small fish, huge butterfly nets and devices that emit piercing bells and whistles – is attempting to shoo away, scare off or entrap many of the estimated 30,000 birds that chose to stop for a breather or nest on or near Incheon. All efforts are experimental, said one official. "If we set off loud noises, we frighten them off, but we don't know if they will come back."

PROVED WRONG: When Philippine Airlines (PAL) transferred the ownership of its engineering and maintenance division to Lufthansa Technik Philippines (LTP) the gloom merchants were predicting mass sackings among the 1,300 staff. On the contrary, LTP, a joint venture between the German MRO giant and Philippine partner, MacroAsia Corp, has expanded its staff to over 1,600 people since it started operations in September last year. LTP president and CEO, Thomas Gockel, told *Orient Aviation* in April the workforce would top 2,000 during 2002. LTP will be looking to boost its third party contract work in the months to come, but right now PAL, which slashed its fleet from 54 to 22 aircraft after going into receivership in 1998, is on the ascendancy. Its fleet has grown to 34 planes and is keeping LTP busier than expected. Including the purchase price, LTP will be investing over US$200 million in the facilities in the first five years of operation.

TAKEN OVER: The Air New Zealand Ansett Group, the new majority owner of Australian regional carrier, Hazelton Airlines, said the airline's president and chief executive, a very busy Gary Toomey, will be chairman of Hazelton's new board, with senior managers John Blair, Scott Roworth and George Frazis from the AirNZ-Ansett stable appointed as Hazelton directors. Recently, Toomey said at an international conference there was an urgent need to intergrate regional Australian services at Ansett.

REGIONAL ROUND-UP

Thai prime minister accepts plane blast was an accident and not a bomb

Thailand's prime minister, Thaksin Shinawatra, has accepted the findings of the U.S. National Transportation Safety Board (NTSB) that an explosion on a Thai Airways International (THAI) B737 aircraft he was about to board for a domestic flight was an accident and not a bomb blast.

Earlier Thaksin had described the explosion as an assassination attempt on him and said he knew who had planted the device. U.S. and Thai investigators, in a joint preliminary report, said the explosion, which killed one person and injured seven others, was similar to that of a Philippine Airlines B737 in Manila in 1990.

Investigators said the plane's two air conditioning power units located directly under the central fuel tank, generated heat and had been running continuously since the plane's previous flight including 40 minutes on the ground. Last May, Boeing recommended that carriers use generators on portable carts to power aircraft air conditioning systems when planes were parked on the ground for a long time.

The prime minister was due to board the B737 with more than 140 other passengers for a flight north to Chiang Mai when the blast occurred. Asked about his remarks relating to sabotage, Thaksin said: "Although our [investigators] equipment is among the best in Asia, American devices are better and more accurate than ours."

MAS operations 'may be split', says Mahathir

Malaysia's Prime Minister Mahathir Mohamad said his government is considering splitting the international and domestic operations of loss-making flag carrier Malaysia Airlines (MAS) before establishing an alliance with a foreign airline partner.

Local services were losing money and foreign airlines were not keen to subsidise domestic flights, said the prime minister. "We are looking at splitting the operations. We haven't made a decision, but that is one of the possibilities," said Mahathir.

In February, an advisor in the finance ministry, Datuk Mohamed Yusof, was appointed as the new managing director at MAS. The airline lost M$843 million (US$221.8 million) in the nine months to December 31.

Just the ticket: A London bus forms the backdrop for members of the Star Alliance chief executives board when they gathered at Marlowe outside London, at a meeting hosted by the alliance's newest member, bmi british midland.

Philippines hub puts UPS head-to-head with FedEx

U.S. cargo giant, United Parcel Service (UPS), has signed a Letter of Intent (LoI) with the Philippine Government to invest US$300 million in the former Clark Air Force Base to establish its operations as a regional hub.

The new project – UPS already has 171 people working at Clark – is one of four aviation programmes being set up at the former U.S. base. The three others are a US$750 million maintenance facility, an aircraft service centre for C-130 cargo planes and an area for other aviation-related industries.

The UPS move will put the integrator head-to-head with Federal Express, which operates a regional hub at the nearby Subic Bay Freeport Zone, a former U.S. naval base.

FLEET ORDERS
ANA orders nine B767s

All Nippon Airways (ANA) has ordered nine Boeing B767-300ER aircraft in a deal valued at more than US$1 billion (list price). The GE-powered aircraft will be delivered between April 1, 2002 and March 31, 2003. ANA is Asia's largest operator of B767s. It has 53 of the aircraft, including 34 B767-300s, eight -300ERs and 11 B767-200s.

A Hainan Airlines company spokesman has said the southern China carrier is considering buying or leasing 10 Boeing B767-300 aircraft over the next five years. A decision is expected soon. If Hainan decides to lease the planes it will borrow up to 80% of the finance for the purchase from overseas banks.

As part of the first stage of its fleet upgrade programme, Air New Zealand is to acquire three 211-seat B767-200s from Star Alliance partner Air Canada.

Recent Australian start-up carrier, Virgin Blue, has signed a contract with CIT Aerospace, which has set up an Australian office, to lease two Boeing 737-800 and two Boeing 737-800 or -700 aircraft, with deliveries schedule from November this year to October 2002.

Air Philippines leases B737s in international route bid

Air Philippines Corp. (APC) is to lease three Boeing 737-300 aircraft from General Electric Aviation Services (GECAS) as it bids to become a regional and international carrier.

One billion pesos (US$120 million) has been earmarked for the carrier's route expansion, which APC hopes to launch soon if its application for an overseas Air Carrier Operating

Certificate is approved by Manila's Air Transport Office. It plans to include Kuala Lumpur, Bangkok, Kaohsiung, Brunei and Guam among its new destinations.

APC, which was due to take delivery of the new aircraft in April, has a fleet of eight B737-200s.

SR Technics in search for MRO station in Asia

SR Technics, the maintenance and engineering division of SAir, is focussing its attention on the search for a major maintenance, repair and overhaul (MRO) site in Asia following the official opening of its Palmdale, California facility.

It is understood preliminary talks have taken place in a number of locations, including Singapore and Hong Kong. An interest in the Thai International Airways facility at U-Tapao has long been on hold pending the privatisation of the facility. That project now seems unlikely to get off the ground.

Officials of the MRO group are holding back on more detailed comment until the new management of parent, SAir, has outlined its restructure and rationalisation plans.

Speaking in Palmdale, Hans U.Beyeler, president and CEO of SR Technics and chairman of SR Technics America, said an Asian centre would fulfil an aim to have SR Technics Centres of Excellence on three major continents; Europe, North America and Asia.

Palmdale was selected as the location for the North American facility in November 1999 after heavy competition for its business from more than 15 locations across the U.S.

More than US$50 million has been invested at Palmdale, which was officially opened in late March. Major work currently being carried out at the facility includes a contract with Boeing and FedEx to upgrade ageing DC-10 aircraft. They are being converted from the three-man cockpit of the DC-10 to MD-10s, with a modern, Boeing Advanced Common Flightdeck. The first aircraft was handed over to FedEx and Boeing for final check out and test flight in March.

Board perks may be cut

Thai International Airways (THAI) cost-cutting could be extended to the rather privileged members of its board. To date, board members have been entitled to unlimited first class tickets and the use of corporate credit cards at the expense of the national carrier. However, the *Bangkok Post* reported recently the government's deputy transport and communications minister, Pracha Maleenond, has said the free tickets should be limited and credit card privileges scrapped.

It was said the deputy minister was awaiting figures on the cost of perks to the airline before issuing instructions, but the *Bangkok*

AOC for SIA Cargo

Singapore Airlines' all-cargo subsidiary carrier, Singapore Airlines Cargo Pte Ltd, which aims to take off in July, took a major step forward in mid-April when it received its Air Operator Certificate (AOC).

SIA started with one freighter in 1988. SIA Cargo now has nine B747-400 freighters, known as Mega Arks, with another eight on firm order. Capacity is projected to grow at 10% a year for the next five years. SIA is ranked by IATA as the world's third largest air cargo carrier in terms of the number of international freight tonne kilometres flown with more than 600 flights a week to 73 cities.

Post said: "if the figures are released they could prove embarrassing".

Conversion contract

SIA Engineering Company (SIAEC) announced it has entered into a three-year contract with Dragonair, Hong Kong's regional carrier. The deal is worth about US$16.54 million. Under the contract, SIAEC will provide project management for the cargo conversion of two of Dragonair's Boeing 747 aircraft at Taikoo Aircraft Engineering Company in Xiamen, China.

Fall in HACTL cargo

Hong Kong Air Cargo Terminals (HACTL) reported a reduction in throughput in cargo in the first quarter of 2001, compared with the same period in the previous year. HACTL said the result was primarily due to softening import demand in the United States and most of Hong Kong's other markets. In March, HACTL handled 144,441 tonnes of cargo, a reduction of 5.5% from the same month in 2000.

Qantas in acquisition talks

Qantas Airways has confirmed it is holding talks with New Zealand's Tasman Pacific Airlines (TPA) with a view to purchasing the New Zealand domestic operator. Formerly Ansett New Zealand, TPA holds a franchise to operate as Qantas New Zealand. If talks succeed the operator would become a wholly-owned subsidiary and part of the Qantas group.

Rohr Aero stake for SIAEC

SIA Engineering Company (SIAEC) has acquired a 30% stake in BFGoodrich Aerostruc-tures & Aviation Services Group's wholly-owned subsidiary, Rohr Aero Services-Asia (RASA) at a cost of US$15 million. SIAEC has an option for a further 10%. RASA overhauls aircraft nascelles, thrust reversers and pylons in Singapore.

Train not blame, British investigators advise Hong Kong ATC managers

Members of the U.K. Civil Aviation Authority (UK CAA) have advised the Hong Kong Civil Aviation Department (HKCAD) that its executives place too much emphasis on blame for air traffic incidents and accidents. Instead, they should focus on retraining and lessons learnt from these experiences. The recommendations are contained in a report, commissioned by the CAD, following a series of near-miss collisions and incorrect instructions from air traffic controllers working at Hong Kong International Airport.

The report also warned that existing arrangements for managing safety would be unable to cope in the future with anticipated traffic levels and the increasing complexity of the air traffic system. To assist in dealing with these strategic and training problems, the UK CAA report said the CAD to strengthen the management structure of Air Traffic Control (ATC) should introduce a formal safety management system. It added an initial incident investigation be introduced so controllers involved in incidents of a less serious nature could return to work without long delays.

CHINA ROUND-UP

Addressing a press conference coincid ing with the climactic hours of the US-China spy plane crisis as well as amid ominous rumblings across the Taiwan Strait, it was hardly surprising that Li Zhongming, chairman of Shanghai-based China Eastern Airlines, reported no progress in protracted exchanges over Taiwan's China Airlines buying into China Eastern's freight-carrying subsidiary, China Cargo Airlines.writes Jonathan Sharp

But despite the geopolitical tensions, which include China's vociferous opposition to possible US sales of high-tech arms to Taiwan, Li was relaxed in speaking about his hopes for the future – which apparently still include cooperation with Taiwan's top carrier.

"We want to make a close cross-strait relationship and increase personnel traffic between the two shores or to promote the direct flights between the two places," Li said in Hong Kong on April 10. "If China Airlines still wants to continue to cooperate with us, we will still like to cooperate with them."

At the same time he indicated that China Airlines should make up its mind soon, noting that other parties, including Cathay Pacific Airways and China-backed conglomerate CITIC Pacific have expressed interest in investing in China Cargo, which is 70% owned by China Eastern.

Li was speaking after China Eastern, one of China's three largest carriers, announced a net profit of RMB175.5 million (US$21.2 million) for 2000, which was below analysts' expectations. High fuel costs were largely responsible for operating costs rising 12.99% from 1999. Average aircraft daily utilisation rose 0.6 hours to 8.7 hours. Passenger revenues rose 7.63% to RMB8.644 billion (US$1.04 billion), 77.04% of total revenue. Revenue from international traffic was up 22.23%, while revenue from Hong Kong routes rose 9.02%. However revenue from domestic traffic was down 1.39%.

Reporting its 2000 results a week after China Eastern, the mainland's biggest carrier China Southern Airlines, based in Guangzhou, appeared to have had a more successful year, with net profit of RMB502 million (US$60.6 million), more than five times higher than the 1999 figure.

China Southern chairman, Yan Zhiqing, said the 2000 figure was achieved despite a 32.8% average increase in fuel costs and intensified competition. He cited the company's success in cost control, development of new markets and in improvement in operating environment.

China Eastern Airlines of Shanghai: results fall short of analysts' expectations

However, the 2000 balance sheet benefited from a number of extraordinary items such as disposal of fixed assets and foreign exchange gains, and operating profit was down by 36.1%.

The number of passengers carried increased 11% to 16.8 million, while cargo and mail volume increased 13% to 440,000 tonnes. Yan singled out impressive growth of international cargo business, driven by robust demand for cargo from the region and the airline's new cargo route between Shenzhen and Chicago, launched in April last year.

He said that as a result of capacity expansion and improvement in aircraft daily utilisation to 8.66 hours from 8.08 hours in 1999, the airline's ASKs (Available Seat Kilometres) were up 12.5% in 2000 while ATKs (Available Tonne Kilometres) rose 22.5%. Increases in capacity this year will come mainly through a rise in utilisation rate, with the target for the year being nine hours per day.

Yan warned: "Considering the economic situation and limited disposable income of the average citizen in China the industry will continue to be affected by oversupply. Competition in the domestic and international market should continue to be intense."

Both China Eastern and China Southern stand to benefit long term from the restructuring under which 10 airlines under the Civil Aviation Administration of China will be amalgamated with the top three airlines, but neither of the airlines' bosses was able to offer a firm timetable for this to happen. However, the industry assumption is that both China Eastern and China Southern will have more to report on this crucial development before they announce their next set of annual results.

Pilot, ATC blamed for Wuhan Airlines crash

Human error has been blamed for the crash of a Wuhan Airlines Y-7, which killed 42 passengers and crew and seven people in boats on the river where the stricken plane landed in June last year. The plane, bound for Wuhan, capital of China's Hubei province, ran into trouble when it flew into a severe thunderstorm, said investigators. Concluding a 10-month investigation, they said the pilot made mistakes, but also blamed air traffic controllers in the Wuhan tower. No other details were given. The *Xinhua News Agency* said seven people, including the top Communist Party official in the Wuhan city aviation department have been punished or given warnings.

CNAC speculation could be good news for CITIC

It is said China's State Council took a decision in early March that the Civil Aviation Administration of China (CAAC) must sever its ties with airlines and concentrate on its role as the airline industry's regulator. Although the news has still to be made public officially, the decision has been long in the making. The CAAC has 10 airlines under its wing, including China's three largest operators, Air China, China Southern and China Eastern. Independent airlines in China have long complained the CAAC has shown favouritism to its own carriers. Now there is speculation that another arm of government with airline ties, the China National Aviation Corp (CNAC), has been told it has to withdraw its interests. CNAC has a majority shareholding in Hong Kong's Dragonair and also a stake in Cathay Pacific Airways. Could this explain why CITIC Pacific, the Hong Kong arm of the mainland government's largest trust company, China International Trust and Investment Company, said in March they would be investing more in China's aviation companies, with a special interest in cargo? CITIC holds a 25% shareholding in Cathay Pacific and 28% in Dragonair.

Weakening Korean won is putting the Korean airlines at a disadvantage compared to their rivals

Chinese airlines are facing challenging market conditions, increased competition and the restructuring of their industry

PREPARED

TOM BALLANTYNE reports

The pain of the Asian economic downturn from mid-1997 to early 1999 is helping the region's airlines come to grips with the effects of the softening of major world markets in the first quarter of 2001.

As global economies battle through a slowdown and strive to fend off recession Asia-Pacific airlines are being warned to steel themselves for tough times. With freight traffic levels from the region already severely dented by the deceleration in the U.S. economy, particularly a slump in information technology (IT) spending, industry insiders and analysts are predicting passenger numbers will follow suit.

Weak currencies, a volatile stock market, ongoing high fuel costs and shaky trading conditions, coupled with low corporate confidence and political crises such as the US-China spy plane conflict, have added up to a cocktail of uncertainty for airline planners.

According to the latest statistics from the Association of Asia Pacific Airlines (AAPA), freight tonne kilometres of its 18 member carriers in January dipped below the 2.8 billion mark for the first time since April 1999. It was the second consecutive month of negative growth, with overall cargo load factors slipping to a dismal 59.4%.

"The immediate outlook for freight traffic remains poor," said the AAPA. "If freight trends prove to be the leading indicator of passenger traffic trends, it is expected that passenger traffic will decelerate to low single-digit growth."

There are already signs of a slowing trend in the passenger sector that began in the fourth quarter of last year. "In the light of an anticipated slowdown in passenger traffic, a conservative approach to capacity growth will be crucial in maintaining a healthy level of load factor," warned the association.

The concern is shared by industry analysts, with many forecasting passenger numbers could begin showing a serious decline by June 2001. There is a great deal of confusion and uncertainty among airline managements over precisely what the future holds. A survey of major operators by *Orient Aviation* shows carriers across the region are re-focusing their efforts to trim expenses and lay contingency plans to deal with any sudden worsening of market conditions.

Already some operators have amputated loss-making routes and strengthened restructure and rationalisation plans decided in the aftermath of the last recession. Weak currencies and sustained high fuel prices are not helping. Uncertain social conditions in markets, such as Indonesia, the Philippines and Korea, are limiting the potential for recovery.

Despite the uncertain outlook there are several factors which could ease the strain of the slowing market:

- most economists believe any downturn will be shorter and less severe than the Asian economic recession of 1997-1999.
- having fought their way through that experience, the bulk of Asia's airlines are better prepared to meet the challenge, with belt-tightening measures already in place.

The Asian Development Bank (ADB) has trimmed 2001 economic growth forecasts for the region to around 5%, from 7.1% last year, because of the US-led global slowdown and weak electronics demand.

ADB president, Tadao Chino, said countries hit by the current slowdown were more resilient to external shocks than they were in 1997 because they had embraced painful reforms, although he cautioned much more needed to be done on the region's economic reform agenda.

There remains some disagreement among economists on this view because a number of Asian economies remain extremely shaky, including the vital market of Japan, as well as Australia, the Philippines, Indonesia and Thailand. Most Asia-Pacific nations have lowered their growth forecasts for 2001.

Most worrying is the failure of Japan to

ORIENT AVIATION SURVEY

turn, or even slow, the downward economic slide. The Japanese Government has conceded its economy is still weakening with prospects dimming for a recovery in the worst slowdown since World War II. In April it downgraded its economic assessment for the third consecutive month. This is the first time since September 1995 the government has used the word "weakening" to describe the economy.

Japan's economics minister, Taro Aso, said a slide back into recession was a real possibility, meaning the government should be prepared to implement an extra budget this financial year to avoid an economic contraction.

International Air Transport Association director general, Pierre Jeanniot, also warned airlines, including those in Asia, to improve their management structures to meet ongoing challenges, including market difficulties. "The fundamental laws of economics have not changed – and our industry should better manage itself accordingly," he said.

There is no blanket rush by Asia-Pacific carriers to dump flights, cut capacity and staff numbers and slash expenses, but only because most have already done that in the wake of 1997.

This is how some of the region's airlines are confronting the new economic challenge and coping with changing market conditions:

Japan's airlines are holding up relatively well considering the parlous state of the nation's economy.

Isao Kaneko, president of JAPAN AIRLINES (JAL), said the carrier's updated corporate plan for the period April 1, 2001 through March 31, 2004 takes into account the rapidly changing economic and business environment, characterised by intensifying competition.

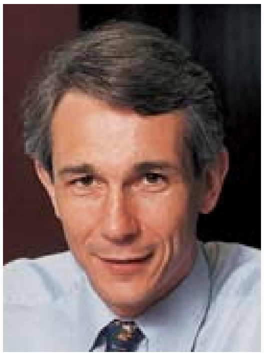
"Business in the year ended March 31, 2001 went according to expectations, but we are noticing some changes in the market. The strongest difference is in international air cargo, where traffic volume since the end of last year has been down, year-on-year, particularly on trans-Pacific and Asian routes. That seems to be linked to the downturn in the U.S. economy."

JAL's international cargo volume fell 2.1% in February, to 22,892 tons, the fifth straight month of decline. Kaneko remains optimistic, however, and said he expects cargo traffic to rebound in the second half of this business year, beginning in October.

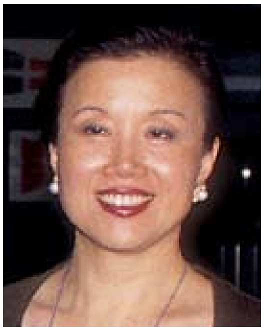
He said international passenger demand in the Japanese market remains strong and domestic passenger business is stable. "So although we see some effect from the dull economic situation, we continue to take a medium-term view and maintain our projected business forecast growth of just 2% per annum over the next three years."

JAL plans some network expansion after the second runway at Narita, outside Tokyo, opens in mid-2002, a business opportunity Kaneko said the airline has to take if it is to compete effectively.

Koji Ohno, senior vice-president, public relations for ALL NIPPON AIRWAYS (ANA) said: "ANA is staying the course with its tremendously successfully medium term corporate plan (1999-2003).



Cathay Pacific Airways director corporate development, Tony Tyler: passenger levels are still holding up relatively well



China Airlines' president Christine Tsung: passenger and cargo revenue up in the first three months of the year

Under the principles of 'selection and concentration' that have embodied the first two years of this plan, ANA strengthened its route network through a number of rationalisations and improved its personnel and management systems.

"Additionally, to improve profitability by an estimated 15 billion yen per year, ANA will streamline its fleet of aircraft, starting in fiscal year 2003, to Boeing 747-400s, 747s, 777s, 767s and Airbus A320s.

"In support of this goal, ANA has ordered nine Boeing 767-ERs and plans to order three Airbus A320s."

"We are also going ahead with fleet renewal and rationalisation plans and don't intend to change them based on the current reading of the situation. We will continue to monitor the situation and are flexible enough to make changes if we need to."

In Hong Kong, CATHAY PACIFIC AIRWAYS director corporate development, Tony Tyler, said the airline is watching events very closely in terms of passenger and cargo booking trends. "So far we have seen weakness in the cargo area, but passenger levels are still holding up relatively well".

The airline has not made any major changes in flight schedules, although it has suspended services to Zurich (due to long-term poor performance rather than the current economic downturn). Flights to Delhi were launched in March and a number of other new routes are being considered. Cathay will take delivery of 14 aircraft this year, a net gain of 11, which takes its fleet to 78, around 16% capacity growth.

Tyler said Cathay is maintaining stringent cost control throughout the company and has reduced cost per ATK substantially in the past three years. It is also implementing a range of e-business initiatives expected to reduce total expenditure by more than US$65 million a year by 2003. Much of the savings will come from online purchasing, including a substantial reduction in inventory carrying costs.

"No doubt 2001 will be a challenging year. Signs of a U.S. slowdown are growing and fuel prices remain high. However, we remain optimistic about Hong Kong's long-term future and committed to continuing to grow our operations if possible," said Tyler.

Stanley Hui, chief executive officer of Hong Kong's second international carrier, DRAGONAIR told *Orient Aviation*: "While the near-term picture in the U.S. may be clouded by concerns of a temporary slowdown, in the markets where Dragonair operates the economic outlook remains bright.

"The accession of China, Dragonair's main market, to the World Trade Organisation (WTO) will, we believe, bring lasting benefits to our business, on both the passenger and cargo sides.

"This is one reason why we announced plans at the begining of last year to more than double our fleet by the end of 2005 and these plans remain on track.

"We will take delivery of two passenger aircraft and two freighters this year.

"That is not to say we cannot make adjustments if required. As a medium-sized international airline we can also be more flexible with our fleet and network, responding more quickly to market demand. However, we are not seeing any reduction at this time."

Paul Wang, spokesman and acting vice-president corporate communications for Taiwan's CHINA AIRLINES (CAL), said in regard to world economic conditions it had introduced an effective cost control programme some years ago. "The programme has shown very positive results. For example, staff productivity in 2000 increased by 18.6% compared to a year earlier. We also run a well regarded oil hedging policy to take advantage of the fluctuation of oil prices in the market.

"In addition, we have frozen manpower growth, terminated some unprofitable routes and sold surplus aircraft such as Boeing B737-800s to further reduce operating costs."

Wang said Taiwan's economy has experienced some slowdown in recent times and CAL has "felt the chill", especially in the cargo sector. "However, according to our traffic figures, passenger traffic still shows double digit growth and cargo traffic had some limited growth in the first two months of this year."

In April, CAL reported operating revenue for the first quarter of this year rose 11.3% to US$523.2 million. "The numbers speak for themselves," said CAL president Christine Tsung. "China Airlines passenger revenue and cargo revenue in the first three months indicated a 27.4% and 4.9% increase respectively despite continued global economic sluggishness."

However, Tsung admitted rising oil prices somewhat eroded the company's profits, especially in terms of cargo transportation, with oil accounting for 24% of operating costs.

CAL is planning to increase its passenger flights and cut its cargo flights to beef up its bottom line, said Tsung.

In a bid to maintain its leading position in the market, CAL will strengthen its services for Taiwanese companies in mainland China by increasing flights to Hong Kong.

Tsung expected the economy to rebound in the second and third quarters, and said staff and management "are braced for all kinds of challenges ahead".

K.W.Nieh, senior vice-president of the public relations division of rival, EVA AIR, said as soon as management began to notice an impact from the economic downturn, serious efforts to counter it were initiated immediately.

"These counter-measures included reducing expenses and making more efficient use of our resources. For example, over the past two years, we introduced few aircraft – just two MD-11 freighters in 1999 and one B747-400 freighter in 2000 – and took the best advantage of the current fleet.

"In the meantime, we also have suspended some unprofitable routes and cut some low loading frequencies to continue our stable growth and maintain certain profits."

He said as Asian economic development has been slowing down since last year, EVA Air Cargo has been gradually affected. "It was fortunate that our cargo fleet did not expand tremendously and our cargo capacity is still under our control. However, for the first quarter of 2001, our revenue has achieved our target. We believe the worst of the regional economic downturn will pass over, and this region will be reinvigorated and ready to face new challenges. With the economy continuing to be prosperous, it will be beneficial to all business, including air travel. EVA Air also will enjoy steady growth".

SINGAPORE AIRLINES (SIA), operating under open skies with several countries, has incorporated the effects of the fall-off in business in some markets into its strategy. However, it remains committed to its global goals of buying equity in airlines of other nations, with a possible equity purchase – pending the results of due diligence and regulatory approval – in Air India.

At a recent landmark speech to the Wings Club in the U.S., SIA deputy chairman and chief executive, Dr Cheong Choong Kong, reinforced the carrier's long-term commitments to a global presence when he urged the U.S. to abandon rules that limited significant foreign equity in its airlines.

Korea's airlines are also suffering from the downturn in cargo traffic. ASIANA AIRLINES said a weakening Korean won caused losses on its cargo business in the first quarter of this year despite better sales on routes to Europe, Japan and Southeast Asia. Like big rival, Korean Air, higher prices for imported fuel are eating into its bottom line.

"The weakening Korean won is really putting Korean airlines at a disadvantage compared to their rivals," said Kim Jae-il, Asiana vice-president of cargo marketing sales.This has placed the operator under pressure to trim costs. "We will try our best to meet this year's target by cutting costs 5-10% year-on-year in the first half," he said.

Asiana hoped to report a net profit of around US$15 million this year on sales of US$1.7 billion. This follows a loss of US$59.4 million last year. Cargo accounts for 27% of sales.

The airline expects to capitalise on a new cargo route from Seoul to Frankfurt on June 3, using a Boeing 747-400 freighter.

The biggest challenge for Asiana and KAL is addressing the falling freight numbers on routes to the U.S. In the first quarter of 2001, outbound Korean cargo to North America fell 1.3% to 36,282 tonnes year-on-year and the sluggish U.S. economy has provided little basis for optimism, according to Kim.

"We expected trade to China to recover in the second quarter, but the recent political confrontation between China and the U.S. has made our outlook unclear."

KOREAN AIR (KAL) said passenger numbers during the first quarter rose from a year earlier, although the first quarter operating performance had yet to be tallied. First quarter sales in 2000 were US$902.4 million, but the same period this year is expected to

Forward planning: the region's carriers are making strategy adjustments to cope with an expected fall off in cargo and passenger numbers this year see a lower figure. KAL air cargo during the period shrank from a year earlier due to falling exports.

None of this has stopped the ongoing market confrontation between Asiana and KAL. The country's Ministry of Construction and Transportation has reported Asiana is catching up on its older rival. International flight schedules for the summer months show the number of Asiana flights at 269 a week, representing 80% of Korean Air's 333. During the winter of last year, Asiana flights totalled 208, 60% of KAL's services.

Asiana's catch-up is attributed to the newly opened Asian routes to Japan, China and Indonesia, while Korean Air was ordered to limit flights due to a series of accidents in 1997-1999.

Thailand's new government has clouded future planning for Bangkok-based THAI AIRWAYS INTERNATIONAL (THAI) through its moves to keep the carrier in national hands, casting doubt on a future equity stake by an offshore airline partner. A new board was formally appointed on May 1, a development which will also impact on management decisions. In April THAI reported a 60.2% plunge in operating profits to US$38.9 million in its first quarter, ending December 31, 2000. The shortfall came despite a 15.7% increase in revenue to US$721 million.

Fuel costs and foreign exchange losses were the main reasons for the decline. THAI president Bhisit Kuslasayanon, expressed concern about the weaker baht, which could increase the airline's foreign exchange losses. While he is optimistic a weaker baht should attract more tourists and lift passenger numbers he said 72% of the airline's total revenue came from foreign currency earnings, while it spent 52% of its earnings on purchasing aviation fuel.

While China's economy grew at a faster than expected 8.1% in the first quarter of this year, Beijing is also warning its businesses the economy is likely to lose some steam in the second half as a global slowdown takes hold.

China must prepare for the worst because of the downturn in Japan and the U.S., despite reporting a strong budget performance in the first quarter of the year, according to a senior finance official.

Finance minister, Xiang Huaicheng, said China's budgetary revenue in the first quarter rose 27.9%, but growth slowed in March from the February level. "We cannot be too optimistic. In the first quarter, exports rose by only 14.6% over the same period last year. We must prepare for the worst scenario and hope for the best."

These signs of concern are emerging among airlines, which are having to cope not only with challenging market conditions and heightened competition but watershed changes in Chinese airline industry policy. CHINA EASTERN AIRLINES, one of the country's three biggest, shocked the market in April with an announcement its 2000 net profit was US$22.6 million, 47.9% below expectations. Sharply higher fuel prices were blamed. But passenger numbers also appear to be dwindling; in the first two months of this year they grew only 1.4%.

Stanley Hui, chief executive officer of Hong Kong's second international carrier, Dragonair: not seeing any reduction in demand at this time

CHINA SOUTHERN AIRLINES saw net profit climb from US$10.6 million to US$64.5 million in 2000, although operating profit declined.

VIETNAM AIRLINES is one carrier showing no signs of contraction. It plans ambitious growth, doubling this year's previous targets by increasing flights. In the first quarter of 2001 it operated 8,143 flights, carrying 913,000 passengers, including 400,000 foreigners, an overall year-on-year increase of 31%.

The carrier plans to lift its revenue 20%, twice the original target, with passenger numbers expected to soar 29% to 3.6 million, up from a previous target of 3.2 million.

It will launch flights from Hanoi to China's Kunming and Beijing and to the Russian capital, Moscow, in the fourth quarter of the year. From May Vietnam Airlines will increase the number of flights from Ho Chi Minh City to Guangzhou (China) from three to four per week.

In Malaysia, where the government buy-back of the national flag carrier and the appointment of a new managing director, Datuk Mohamed Nor Yusof, has wrought change at MALAYSIA AIRLINES (MAS), the fight to rebuild the carriers' fortunes is underway. The new boss has drawn up a high-level plan aimed at returning MAS to the black in two years.

However, he cautioned the time frame is dependent on global economic factors and the fine detail is still being worked out.

The plan will lay down a strategic direction and concentrate on identification and prioritisation of individual programmes such as a restructuring of the balance sheet and improving efficiency, network strategy and organisational structure.

He conceded the balance sheet is currently very fragile and carried a disproportionately large amount of debt. "There is an obvious and urgent need to de-gear the company's funding structure and re-assign the balance sheet to a more manageable level, he said.

MAS will rationalise routes and look at all options to improve yields and loads. It is considering separation of its domestic and international operations into two independent units.

Australia's airlines have more to concern them than economic conditions, with start-up domestic carriers bringing new competitive pressures to markets dominated by QANTAS AIRWAYS and AIR NEW ZEALAND ANSETT. Qantas, one of the region's most profitable carriers over recent years, has already moved to eliminate loss-making routes, including all flights to China, and is close to shutting down others.

Chief executive, Geoff Dixon, said it is clear the competitive environment will place great pressure on future results, with discounting on domestic routes resulting in a further reduction of yields. "The Australian dollar has continued to weaken to record levels, putting further pressure on travel out of Australia and on our costs. As well, the overall slowing in the Australian and international economies is having a negative effect on both domestic and international business travel making it difficult to forecast outcomes at this time."

Qantas is conducting a review of its entire business to ensure it is able to meet changing competitive and economic circumstances.

Air NZ Ansett is also speeding up Ansett's fleet modernisation and restructure plans after several major maintenance lapses in recent months and the grounding of its B767 fleet. It plans to launch services to more overseas destinations, including the U.S.

Chairman Sir Selwyn Cushing said the group would not achieve its annual target of NZ$350 million (US$141.7 million) worth of benefits from last year's merger of Air NZ and Ansett.

Safety audits: numbers becoming 'unmanageable'

Calls for a global standard

By Tom Ballantyne

Moves to develop a system of glo bal standard airline safety audits are gathering strength as concern mounts about the growing number of checks carriers have to face.

Airline managements and maintenance and engineering officials say while safety is their number one concern, the volume of audits being conducted on individual operators is becoming unmanageable. They claim the checks are diverting attention from critical daily work and using increasing numbers of staff and amounts of time in the hangar and maintenance offices.

Apart from an airlines' own internal safety audits and thorough checks by their governments' civil aviation regulator, there are a number of other groups conducting reviews:

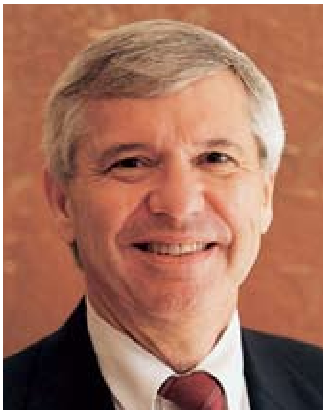
- the International Civil Aviation Organisation (ICAO) conducts safety audits at state level, including a nation's airlines.
- the International Air Transport Association (IATA) has introduced safety audits for prospective new members and is expected to eventually apply the same system to all members.
- global airline alliance members are auditing each other as well as ensuring new members' safety standards are up to scratch.
- safety audits are conducted by prospective code-share partners on each other.

The 18-member Association of Asia Pacific Airlines (AAPA) is putting its weight behind a global safety audit standard.

"Every audit conducted by these people basically has the same parameters and the same outcome in mind. Our [member] airlines have expressed concern about the number of audits required and they have talked about [the benefits of] a common audit system," said AAPA technical director, Leroy Keith. "We have spoken to IATA on this issue and we support the concept of a common standard."

AAPA airlines began discussions about the issue a year ago and looked at the potential for a common audit system for AAPA member carriers. The drawback was such a system would create yet another audit.

Asian airlines are not the only carriers worried about the audit deluge. "It seems like every time you look over your shoulder there is another team of safety auditors coming through the door to check you out," Mark D. Myers, manager of United Airlines domestic quality assurance programmes, told *Orient Aviation* in Denver, Colorado, recently.



AAPA technical director, Leroy Keith: AAPA supports common standard concept

United, along with other U.S. carriers, has been meeting with the Air Transport Association to discuss a global standard. European Airlines Association members have also been involved in discussions.

The most likely path to a global standard will be – with the support of regional airline associations – through IATA and ICAO, which have the clout to bring together airlines and states to design an internationally acceptable model.

In recent weeks, IATA has been collaborating with the Flight Safety Foundation (FSF) on developing worldwide standards for airline safety audits.

Said the foundation's chairman and president, Stuart Matthews: "As a result of the public's recent demand for one standard of safety around the world, everybody has been auditing everyone else. Potentially this could mean more than 10,000 airline audits a year, a number this industry just could not afford. We would like to see carriers evaluated, once a year or every two years, by a competent and qualified auditing team working to a standard everyone could accept.

"After completion, that audit would be recognised by everyone else, including the regulators, in a manner similar to certified public accountants in the financial industry."

IATA director general, Pierre Jeanniot, has made working towards harmonised safety audit standards one of the key elements of the association's Safety Strategy 2000 campaign, encouraging all members to use safety audits as routinely as financial audits.

"The credibility of our industry and its continued high degree of acceptability by the public demands that we reach a new significantly improved safety level in the coming decade," he said.

Safety audits are an accepted part of airline life, recognised by operators as a critical piece of the air safety jigsaw. But they believe the volume of audits is not only growing too large; some simply repeat checks that have already been done.

In particular, the rapid growth of alliances and code-sharing has added to the burden. For example, late last year the U.S. Government mandated guidelines for all U.S. airlines to audit foreign carriers with which they code-share.

In part of the Department of Transportation's (DoT) "improved code-share safety programme", the guidelines say not only does the U.S. carrier have to audit the foreign airline, the Federal Aviation Administration (FAA) has to check if the local carrier is carrying out the audits correctly.

U.S. airlines have to conduct on-site audits of foreign code-share partners not less than once every 24 months, with audit reports available for FAA review not more than 45 days after the conclusion of each audit.

For code-share agreements already in place, the U.S. carrier is expected to audit 25% of its foreign carriers during each quarter of the year after the guidelines take effect, followed by audits of each foreign carrier not less than once every 24 months. The guidelines also set out recommended qualifications of auditors.

Ansett crisis: SIA may hold key

By Tom Ballantyne

Air New Zealand Ansett Group president and chief executive, Gary Toomey, is driving through a multi-billion dollar recovery blueprint for Australian subsidiary Ansett Australia, including the modernisation of its 65-strong fleet, as he steers the carrier through its worst crisis.

With Ansett's entire fleet of 10 Boeing B767s grounded in April, after four serious maintenance lapses in four months, Toomey chaired a series of critical planning meetings in Melbourne to map out a recovery plan designed to mend the airline's shattered image.

It will include a brand re-launch later this year and the early lease of at least six new aircraft, including four B767-300s, as part of a programme to replace seven veteran B767-200s, all more than 15 years old.

That will be followed by a major order for new planes – the likely cost is in excess of US$2.5 billion. The principal question being asked by analysts is where will the money come from?

Toomey has said the possibility of 25% Air New Zealand (AirNZ) shareholder Singapore Airlines (SIA) increasing its investment is being reviewed. This would require legislative changes to foreign ownership rules by the New Zealand Government. Toomey was planning to meet with New Zealand Prime Minister Helen Clarke in late April to discuss lifting the cap, at press time.

The B767-200s were grounded a day before the Easter holiday break, after it was discovered checks on engine pylons requested in a Boeing service bulletin had not been conducted within the 180-day time period allowed. When checks were carried out, cracks were discovered on three aircraft. The Civil Aviation Authority of Australia (CASA) ordered the entire B767 fleet to cease flying. CASA chief Mick Toller threatened, but later decided against asking Ansett to 'show' cause why its entire fleet should not be grounded. Toomey argued the action was unjustified and Ansett remained one of the safest airlines in the world.

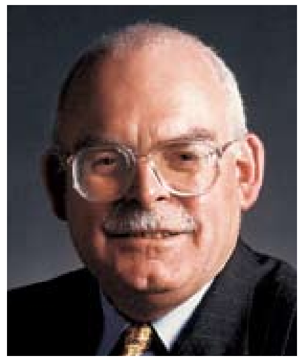
But Toller said the discovery of another lapse – a B767 had flown all day with an emergency chute inoperative – was the "last straw". It followed the Easter debacle and the grounding of B767s last December after another Boeing service bulletin had been ignored and the fitting of a wrong part on a B767 wing in February.

The B767s and their maintenance histories were all being individually checked by CASA. If cleared to fly, it is not expected they will all be back in the air until May.

Ansett was forced to lease aircraft from rival Qantas and buy seats on no-frills operators Impulse and Virgin Blue to move holiday traffic. It also was lent or leased aircraft from Air NZ, SIA and Air Canada.

ANA, bmi show the way for Star

The occasion was a grand gathering in a restored castle staged to herald the Spring commencement of bmi british midland trans-Atlantic services. But the 15 airline bosses of the Star Alliance Chief Executive Board made it clear on the day that new British-U.S. services are only the start of something big for the world's largest airline grouping. CHRISTINE MCGEE *reports from Marlow in England.*



Sir Michael Bishop, chairman of bmi british midland, told Orient Aviation *his airline might have been granted the rights to fly into Hong Kong, but that does not mean the airline will rush into setting up the service.*

"There already are five non-stop daily flights from Hong Kong to London Heathrow – two flights a day from Cathay Pacific and British Airways and one Virgin Atlantic service. We have not made a decision yet to fly to Hong Kong. An appealing factor is that bmi services could connect with All Nippon Airways and Ansett out of Hong Kong."

For an airline boss who had lost a critical battle in an extended war to fly his aircraft out of London's Heathrow Airport to the United States, the chairman of bmi british midland, Sir Michael Bishop CBE, was charm itself.

When he took gracious centre stage as host of the Star Alliance Chief Executive Board press conference, he said bmi might be flying out of Manchester to Washington DC and Chicago for now, but that does not mean Star Alliance airlines are giving up on transforming Heathrow into a major Star hub.

Said Sir Michael, when he announced a proposed US$72 million investment at Heathrow to upgrade alliance facilities: "Heathrow is an important global hub for Star. It is also here that we face our toughest competition. Oneworld has developed a strong alliance network, with members that we all respect as carriers.

"The investment we are planning will accelerate the process of bringing real network competition choices to people travelling from and through the UK, " he said.

Ideally Star, which has 330,000 staff worldwide, would like to group all its airlines in one terminal, but a decision on the fate of the proposed Terminal 5 will not be decided until the North Atlantic summer. As a result, said Sir Michael, Star members had no choice, but invest in innovative infrastructure to improve connection times and customer services facilities by eking out every inch of space its airlines have at terminals 1 and 3.

"We [the alliance's Chief Executive Board] will be taking short to long-term measures ranging from the introduction of connection customer service teams and timetable scheduling to airport infrastructure developments. We have to live with limited facilities at a time when aviation is growing considerably each year.

" We have got the scale now we need to develop the scope of our services. We plan to work closely with airport authorities to unlock the potential of Heathrow as a Star Alliance hub," he said.

To demonstrate how valuable alliance membership can be to a carrier, especially at a hub like Heathrow, Sir Michael said bmi interline bookings from Star carriers had increased 68% – compared to 16% from other carriers – since his airline joined Star in July last year.

"A major part of the increase came from All Nippon Airways. Through Star, bmi british midland was able to market an integrated offer to Japan that produced a massive growth in traffic through Heathrow and on to a wide range of bmi destinations in Europe.

At the same conference the new chief executive of the Star Alliance, William Meaney, said Star was continuing to harmonise its frequent flyer programmes and simplifying booking procedures "with the aim of moving all our operations together at all the major airports of the world".

Collectively, the Star chief executives said they would like the world's governments to reduce their regulatory roles in aviation.

They urged national governments to consider exchanging control over their carriers for a world where airlines would be allowed to operate like other multi-national industries and own, manage or have controlling equity in airlines and aviation-related businesses beyond their national borders.

Added Singapore Airlines deputy chairman and chief executive, Dr Cheong Choong Kong: "Our industry should look less at setting mandated standards within national boundaries and just let the passenger go for the best deal. Governments should be less concerned with these regulatory practices and should concentrate on supplying good infrastructure – and we must include airport congestion and ATC systems in that."

"The Star Alliance has criteria for membership and there are no new members pending. However that could change. In the case of China, it is an extremely important and a critical area for airline travel. We have an intensive level of co-operation with Air China – which will increase through future ties with United Airlines. A time will come when a Chinese carrier will be in Star, but we and our friends in China are in no hurry." Jurgen Weber (above), chairman of Lufthansa German Airlines.

Unless the members of the new Thai Airways International (THAI) board change their minds, the Bangkok-based carrier wants to stay in the Star Alliance, the carrier's executive vice-president commercial, Tasnai Sidasna Ayudhaya, told Orient Aviation *in London.*

But he added: "Nothing is guaranteed, although we need a grouping of some sort". He also cast doubt on setting a new time frame for the purchase of THAI equity by a strategic foreign investor. "My gut feeling is there is no hurry for that, no desperate need for a foreign investor," he said.

Has Philippine Airlines (PAL) got it right this time?

BACK IN BUSINESS

In profit and paying off its debts, PAL's man-of-the-people president, Avelino Zapanta, predicts the airline will defy its critics and be out of receivership in two to three years. And, he added, PAL will again be an aviation force to be reckoned with in five years. BARRY GRINDROD *reports from Manila.*

In his 35 years with Philippine Airlines (PAL) Avelino Zapanta has seen it all and, more importantly, done it all.

That is why after a disillusioned Zapanta prematurely retired from the airline that had been his life in February 1999, chairman and majority shareholder, Lucio Tan, sent out an SOS for him to return as airline president and chief operating officer less than two months later.

At the time, the airline was in receivership, it owed US$2.25 billion to more than 8,000 creditors. Seven months earlier PAL had barely escaped collapse through the combined forces of the Asian economic recession and a series of crippling industrial disputes with pilots and ground staff. It had closed down for 10 days and although it had re-opened, albeit as a shadow of its former self, the divisive internal bickering and faction fights continued.

It was the job from hell, but Zapanta, the man who started his PAL career as a cargo clerk earning a little over seven pesos a day (US$1.50 at today's exchange rate), and who had bowed out weeks earlier as senior vice-president sales and marketing, decided it was "the chance of a life time ... a dream", he told *Orient Aviation* in April.

It was, in fact, the last throw of the dice for chairman Tan, who had made it widely known in no uncertain terms, that he was open to offers to anyone who wanted to make a bid for his PAL shareholding.

When he stepped into the PAL hot seat Zapanta was the 13th president in the carrier's 58-year history. But most significantly he was the only president to have risen through the ranks. Indeed, the only one to have worked at any other level in the airline.

Philippine Airlines president, Avelino Zapanta: first president to rise through the airline ranks

His brief was daunting: to bring peace to the airline; to heal the gaping wounds between management and staff and to bring a smile back to the airline that once called itself

"Asia's sunniest".

In the 1960s PAL was Asia's premier airline and had earlier pioneered routes to Europe and the U.S. (See PAL milestones).

In his climb up the corporate ladder Zapanta had worked on the ramp, he had suffered the stresses and strains of the check-in desk, he had managed airport offices and he had spent years in the cargo department. Sales and marketing was food and drink to PAL's great all rounder.

Stability was paramount to PAL. Tan and Zapanta hoped confidence in the airline and profitability would follow. It seems to be the case. As one insider said: "Lino is one of us. He is the only president that has been in touch with the workers."

To this end, for one week in every month Zapanta holds a series of meetings with the workforce at eight different PAL workstations called *ugnayans* in the Filipino language, which loosely translated means connecting or a meeting of minds.

The stations include the passenger and cargo terminals, flight operations, the training centre, the data centre and the airline's main administration offices in Manila, Cebu and Davao. At the gatherings he brings staff up to date on PAL's operational and financial performance, talks about new developments and tries to allay staff fears.

"When we first started the *ugnayans* people were unsure. We would answer questions for over an hour. Now we are lucky if we get three or four questions," said Zapanta.

When PAL re-opened for business in October 1998 after its 10-day flirtation with extinction, the Manila Securities and Exchange Commission (SEC) required it to submit a rehabilitation, or survival, plan that would satisfy the commissioner and the airline's major creditors, particularly the aircraft manufacturers and lessors from which PAL had ordered 36 new aircraft in 1996, that it could survive as a proper corporate entity.

For a time it looked as if Cathay Pacific Airways would take a stake in the crippled carrier and manage its operations, but this fell through in December when Tan could not agree to Cathay's management plans. The Cathay decision dented creditor confidence and PAL's first rehabilitation plan was rejected as being "unrealistic and unworkable".

Tan then hired a team of former Cathay managers to act as consultants to PAL, as the airline battled to draw up an acceptable rehabilitation plan to meet a March deadline. It worked, the plan was approved in April, but the team of "outsider" consultants was not universally popular. The ill feeling was emphasised by the fact that each of the five managers had been assigned 24-hour armed bodyguards on their arrival in Manila.

Zapanta's track record

- Two years of profit
- Debt reduced from US$2.25 billion to under $2 billion
- Staff reduced to under 7,000
- Fleet increased from 22 to 34
- On time performance improved
- International destinations increased from 12 to 16

It was during this period that father of six children Zapanta was faced with his moment of truth.

"I was called back from vacation by the former Cathay executives and as I travelled back I knew it was time for me to retire," said Zapanta. "I had wanted to retire on two previous occasions, but Mr Tan had refused to accept my application.

"This time was different. The consultants had been given a free hand and I did not feel good that PAL was to be run by foreigners. I felt they would not have a full grasp of the situation. Knowing how western-style management operated, one way or another I knew I would be in conflict with them if I remained."

This time Zapanta's resignation was accepted.

But two months later he received a call to return to PAL from the chairman and, as Zapanta said in April, "I did not have to think twice about it."

The changes, however, sent doubt shuddering through the ranks of PAL's creditors once again. Soon after Zapanta returned, as *Orient Aviation* was told at the time, the expatriate consultants found themselves sitting around doing little except waiting for a contract pay-out, which eventually came in July.

But peace and stability did develop at PAL. This was helped by the neutering of the once troublesome pilots and PAL employee unions. Tan offered the employees 60,000 shares in the company in return for a trouble-free 10 years. Most accepted the offer.

And rehabilitation? "We are doing better than the plan," said Zapanta.

In the first year, the SEC approved forecast was for a loss of 650 million pesos. PAL made a profit of 44.2 million pesos.

This was not made any easier when the government of the Philippines suspended direct air services with Taiwan in 1999 after accusing China Airlines and EVA Air of poaching PAL passengers on the Manila-Taipei-U.S. route. The on-off row went on for over six months before a compromise deal was struck.

Manila was accused of protecting its flag carrier, but said Zapanta, who claims the government has given away too many passenger and cargo air rights in recent years making it difficult for PAL compete on equal terms: "Our government yielded to the demands of Taiwan."

In the second year of the plan PAL was forecast to make a 2.7 billion pesos profit. Alas, this did not allow for aviation fuel, budgeted at US$18 a barrel, to rise as high as $46 a barrel. Fuel accounts for 30% of PAL's expenses.

Nor did it take account of the deterioration in the value of the peso as the Philippines

Philippine Airlines: aims to become a force to be reckoned with once again lurched from crisis to crisis, first with hostage taking dramas that played havoc with the tourism industry and then with political protests that led to the ousting of President Joseph Estrada earlier this year.

In spite of these negative factors PAL expects to return a profit of 300 million pesos for the year to March 31.

Zapanta said the creditors are quiet and are supportive of PAL's progress. There is good reason. Cost savings, which have seen a workforce of 15,000 in 1998 slashed to less than 7,000, have meant the airline is paying them more than was originally agreed in the rehabilitation plan.

PAL's orginal US$2.25 billion debt is now below $2 billion. "In the first 11 months of the 2000-2001 financial year our operating margin was 5.1 billion pesos. But once we had paid our financing we were left with 156 million pesos. If we had not been so heavily indebted, PAL would have been in the top 10 most efficient companies in the Philippines," said Zapanta.

The airline's steady progress has meant that the SEC and its creditors have given PAL permission to expand beyond the limits laid down in the rehabilitation plan.

For example, PAL's fleet was reduced from 54 to 22 aircraft when it re-launched in 1998. The plan allowed for the addition of no more than two more aircraft.

Today, with its second year at an end, the PAL fleet now stands at 34 aircraft; seven Boeing 747-400/200s; 12 B737-400/300s; four A340-300s; eight A330-300s and three A320-200s.

In that time frame the carrier has increased its international destinations from 12 in 8 countries to 16 in 10 countries.

Zapanta said they need more aircraft for North American operations. PAL is also exploring the European market again. But the SEC and creditors will need to be sure the operations will be profitable before agreeing to any further expansion, he said.

"We would like more flexibility, but we understand the situation. We have to move ahead steadily," he said.

PAL had been hoping to hub out of Frankfurt in Europe, using Lufthansa as a partner, but the German carrier chose not to lend its support. PAL has now entered talks with Italian national carrier, Alitalia, and is looking to Rome or Milan as hub airports. Zapanta said he could not comment on the level of the talks.

Zapanta said that in the future it was important for PAL to have an airline partner. In the past equity talks with Lufthansa and Northwest Airlines had drawn a blank and, said the president, no airline or alliance was interested in PAL as long as it was in receivership.

Alitalia: in talks with PAL which is exploring the possibility of establishing a European hub in Italy, in either Rome or Milan

However, there is undoubted confidence within the corridors of PAL's Manila head office these days. "People had given up Philippine Airlines for lost a couple of years ago. They were wrong," said Zapanta.

"Our corporate objective has not changed. It was to be out of receivership within five years and plan to become a major player, at least in the region, in 10 years. I am encouraged to say we will probably be able to get out of receivership in the third or fourth year. We will certainly be re-costing at the end of the third year, and hopefully we will start our drive to be a major player between the fourth and seventh years."

The airline is looking to list on the Philippine stock exchange in about three years. Late last year it obtained a back door listing through another Tan controlled company, Baguio Gold Holdings Corporation, which took over most of PAL's outstanding capital stock.

"We need to establish a track record of profitability. We must have a minimum of three years of profits to qualify for listing so probably after the third, fourth or fifth years we will have an Initial Public Offering," said Zapanta.

In mid-March Zapanta, along with chairman Tan, hosted PAL's 60th anniversary celebrations. A couple of years ago, for the airline to reach such a milestone would have been viewed as something of a miracle.

Today, there is a new mood of optimism at PAL but can it last?

Zapanta, the man many believe responsible for the new beginning, believes it can. He will be around, he said, until PAL exits receivership. And then? "There are capable individuals waiting in the wings, I have identified them," he said.

Right now the signs are good for PAL. But only time will tell if it will be able to take its place again among the elite of the Asia-Pacific's airlines.

Making up for lost time

As the saying goes, little things mean a lot.

One of the first "injustices" PAL president Avelino Zapanta set to correct was the re-introduction of long service awards. Scores of deserving staff previously overlooked as the airline cut costs, were finally rewarded for their loyalty and presented with the traditional time pieces, Omega watches.

And although the rehabilitation plan imposes strict fiscal controls on the PAL management, staff received pay increases in the last two years. This was not a policy common to companies in the Philippines as the country's economy struggled and many workers demonstrated on the streets against wage freezes.

In the second year Zapanta addressed pay distortions that existed among positions such as vice-president. Some staff received pay rises of up to 20% to bring them into line with their peers.

60th ANNIVERSARY

PAL milestones

1941: PAL took to the sky for the first time on March 15 when a twin-engine Beech 18 took off from Nielson Airport in Makati for Baguio City, with five passengers on board.

1946: PAL resumed services on February 14 after World War II with five DC-3s.

1946: On July 31, PAL became the first Asian airline to cross the Pacific, using chartered DC-4s. Crossings took 41 hours with stops in Guam, Wake, Kwajelein and Honolulu.

1946: PAL acquired three DC-4s and on December 3 started scheduled services between Manila and San Francisco.

1947: PAL launched a DC-4 service to Rome and Madrid on May 3 becoming the first Southeast Asian carrier to fly to Europe. It took two days with stops in Calcutta, Karachi and Cairo.

1954: On March 30, the new government ordered the suspension of all PAL's long-range international services as an economy measure. It said it needed money for rural development. All four-engined aircraft were sold.

1962: International services were resumed on June 20.

1965: The government relinquished control of the airline in January, selling half its shares to private investors.

1977: The government took control of the airline again in November.

1979: The Boeing B747 entered the PAL fleet. Later in the year, B727s and A300s were added.

1986: PAL's domestic fleet was upgraded with the addition of Fokker 50s and B737s.

1993: Once again the government decided to privatise PAL. A consortium, PR Holdings, won the bid for a 67% stake.

The question: posed by Orient Aviation *in September 1998*

The answer: given by PAL's in-house newsletter in June 2000

1995: Lucio Tan won control of the airline.

1996: PAL launched a US$4 billion modernisation and fleet upgrade programme. It ordered 36 new aircraft.

1998: In February, with the Asian economic recession taking a heavy toll on its business, PAL president Jose Antonio Garcia announced the airline would slash its workforce from 15,000 to 9,000. Global operations were to be reviewed.

1998: In June, PAL went into receivership. The move coincided with a PAL pilots' strike, followed by a ground staff strike.

1998: PAL closed its doors on September 27 with more than 8,000 creditors owed in excess of US$2.2 billion.

1998: PAL re-opened for business on October 7, but with the receiver taking close interest it reduced its fleet from 54 aircraft to 22 and cut its staff from 15,000 to 9,000.

1998: In December, negotiations between PAL and Cathay Pacific, intended to conclude with the Hong Kong-based carrier taking a stake and management control of PAL, were terminated by Cathay. Agreement could not be reached on the extent of the Hong Kong-based carrier's control.

1999: In January, with PAL still suffering from internal faction fights, Tan brought in Regent Star Services, a five-man consultancy team of ex-Cathay Pacific managers on a contract and with a mandate to breath new life into PAL.

1999: In March, PAL's 10-year rehabilitation plan was accepted by creditors and the Manila Securities and Exchange Commission (SEC).

1999: In April, Tan invited PAL stalwart Avalino Zapanta out of his short-lived retirement and appointed him PAL president with a brief to "make industrial peace".

1999: With no other investors willing to pump US$200 million additional equity into PAL by June 4, a pre-condition set by the SEC, Tan and "friends" came up with the money on deadline.

1999: In July, only seven months into the job and having been on the "outer" for weeks, the Regent Star Services consultants were paid out by Tan.

2000: In May, PAL announced it was back in the black after making a 44.2 million peso (US$1.02 million) profit for the financial year to March 31.

2000: Lufthansa Technik Philippines took over PAL's engineering and maintenance operations on September 1.

2001: On March 15, PAL celebrated its 60th anniversary.

Inflight entertainment and magazine sales' departments must join forces if they want to reap revenue from advertisers

MISSED OPPORTUNITIES

CHRISTINE MCGEE reports from London

There is nothing an advertiser likes more than a targeted, captive and well-heeled audience, and when it comes to such criteria none comes closer to this ideal than passengers in an airline cabin.

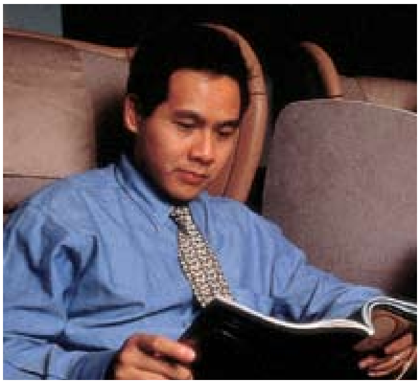
But inflight entertainment (IFE) and magazine departments of the world's airlines are losing out when it comes to fully exploiting the revenue possibilities of this audience because they rarely join forces when making their pitches for ads, said a keynote speaker at the March World Airline Entertainment Association (WAEA) workshop.

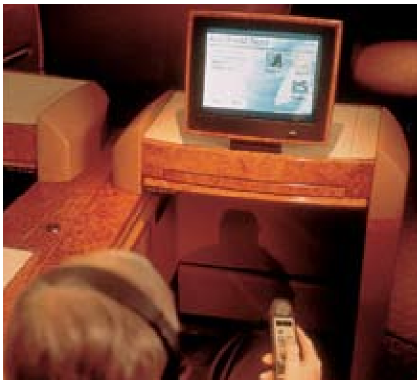
It also was implied that sales departments responsible for bringing in IFE revenue were failing to keep up with the times. Many of them tended to rely on tried and true sales pitches. Such approaches did not take into account the changing profiles of premium and frequent flyers, their age and technology-driven lifestyle, their global knowledge and the arrival of direct television, the Internet and AVOD onboard.

Christelle Feghali, from the European-focused RCI Inflight Media Group, said this pattern was easy to justify as the competitive costs per thousand for buying ad space in inflight magazines was very attractive – because of the high spending profile of air travellers compared to the rest of the population.

And at this stage, she said advertisers still preferred to book in inflight magazines because there is a body of research to show passengers do look at the magazines while flying and also because inflight magazines "hang around for a long time". These same clients, and probably others, are less certain about the benefits of using either IFE avenues or ambient media for advertising on board, she said. "We know advertisers have a feeling it is better to appear in a magazine, for example, than on a menu card or an inflight airline towel," she said.

"We also know advertisers do not yet have sufficient passenger survey information about the viewing habits of passengers in flight."





What inflight advertisers want

- *Their priority targets are housewives, young people and men – with men listed according to their income and the number of airline trips they make a year (three plus).*
- *Inflight editorial must to be more up-to-date – it is now seen as failing to connect with the young Internet savvy generation*
- *Be offered packages across all inflight media from print to Audio Video-on-Demand to branding deals to the new media of the Internet inflight and live-to-air television.*
- *Sales alliances across airline partners*
- *Detailed demographics, statistics and passenger surveys, which show what passengers really read and watch inflight*

Firstly, with the arrival of the Internet and e-mail on board, it was the WAEA panel's collective view that a surge in inflight shopping will be "a no-brainer". Secondly, they argue advertisers are seeking targeted audiences not just for a particular demographic audience, but for a route specific demographic audience.

For example, panel members said these advertisers will want to be only on flights that are showing live sports events.

But even in these circumstances, the deal is in the detail, each of the panel speakers said. For example, of the top 10 airlines in the world, seven of them have their largest number of routes on domestic services (Japan's All Nippon Airways is one such carrier). Such demographics shape buyers' views towards buying space on inflight media, they said.

Packages, therefore, are a must and they should run across all media in flight, they insisted. Advertisers and agencies expect offers that include print and electronic media in flight yet it rarely happens. It is quite common for these two departments in an airline never to meet, let alone set up combined sales deals, said Feghali.

This behaviour had to change, she added, if airlines intended to increase onboard ad revenue. However, before that happens, airlines must develop the ad packages that advertisers want. And when it comes to IFE, advertisers want dominance, interactivity and passenger surveys information.

PROFILE OF AN AIR TRAVELLER

(a highly selected target for advertisers)

This individual, whatever his nationality, fits perfectly well into the categories ad vertisers have established as their prime targets. Most commonly this person is a male frequent flyer with a high income that offers advertisers a captivity and receptivity no other media can guarantee.

THE ASIAN PASSENGER

- *68% are men*
- *25% of them hold senior positions in their companies (against 34% for frequent flyers who make three or more trips a year)*
- *45% of them have an annual income of more than US$30,000*
- *25% have a gold credit card (compared to 33% for inflight readers).*

THE AMERICAN PASSENGER

- **55% are men**
- **24% have senior positions in their companies**
- **75% have gold credit cards (compared to 84% of frequent flyers)**

THE EUROPEAN PASSENGER

- **69% are men**
- **21% have senior position in their companies (compared to 43% of frequent flyers)**
- **43% of them have an annual income of Euro 40,000 (US$35,300) against 53% of inflight readers**
- **23% have gold credit cards**
- **24% are opinion leaders compared to 32% of inflight readers**

bmi upgrade for UK-US flights

When new Star Alliance partner bmi british midland launched its service from Manchester to Washington D.C. on April 30, it was determined that its passengers would be rewarded for their loyalty.

Aboard the newly fitted out A330s that will service this route and the Manchester-Chicago service set to commence on May 21, passengers will have the choice of a three class cabin – the business, the new economy and the economy – that includes the introduction of the increasing common premium economy cabin.

New trans-Atlantic carrier: bmi british midland

Called the new economy, it offers full fare economy passengers a separate cabin, six inches more seat pitch than the airline's economy seat, the attention of dedicated check-in and cabin crew and fast track security clearance at Manchester Airport. All seats are fitted with laptop power points, dataports, a 36 channel PTV, audio and games system and a cabin telephone.

The business cabin – aboard the carrier's A330s flying the U.K.-U.S. route – has all the new economy features. As part of its global branding and service upgrade, launched in February in London, bmi has followed the lead of a small group of world airlines and put chefs onboard to oversee the preparation, presentation and serving of the new food and wine service. In business, passengers can order meals on demand and have the option of snacking throughout the flight. Each seat has a 60-inch pitch and reclines to a 160 degree stretched seat for sleeping.

In economy, all seats are fitted with the full personal entertainment and games system and seats have a competitive pitch - compared to U.S. airlines of 32 inches.

To help travelling families cope with the trans-Atlantic journey, check-in counters will open an hour earlier for departures and collect and return child buggies at the aircraft door for all passengers.

Air Canada jumped headfirst into the inflight e-mail world when it decided to test fly Tenzing Communication Inc.'s onboard e-mail and Internet services, but found its main objectives changed. CHRISTINE MCGEE *reports from the World Airline Entertainment Association workshop in London.*

A change of tack

Air Canada: keen to offer live TV on board its fleet

When Air Canada decided to test drive e-mail and Internet services on board, it was primarily intended to decide if e-connectivity in flight appealed to their high spending frequent flyers rather than simply be at the forefront of a new IFE era.

Said Joanne Ward, Air Canada's director of design and product management: "We were looking at services which were regarded by our frequent flyers as most valuable to them and access to e-mail in the air emerged as one of these drivers.

"It appeared to be a good complement to our commercial strategy, which is to offer passengers in the air what they already had on the ground in terms of services. The web content also gave people a choice – besides movies."

However, the key objectives of the trial, said Ward, became tests for system use: ease of signing on and starting up as an e-mail inflight subscriber, transmission speeds of the e-mails sent, appeal of the cached web content – provided by both Air Canada and Tenzing – and the reaction to possible pricing for the service.

To initiate the trial Air Canada mailed brochures to a targeted group of 22,000 of its frequent flyers and offered free subscriptions to the service for six months. It added the incentive of 500 free miles to each member of the test run who sent back a completed survey form about the new product.

Passengers using the system – only flights from Toronto to Vancouver and Los Angeles – could send and receive e-mails with attachments using one or more of their own e-mail addresses and could access cached web content dubbed "best of the Web".

The onboard e-mails of passengers were cached, compressed and transmitted to Tenzing's supported receiving centres. The same time frame of about 10-15 minutes applied to sending e-mails to passenger's in flight.

"Air Canada obviously wants a brand presence on the web and as we are a Canadian company we will include Canadian content such as news, sport, destination information and Canadian personalities, said Ward.

"There are unlimited possibilities. This is a trial, too, when it comes to content."

And the results so far? Air Canada now has about 3,000 customers [passengers] registered for the service and usage is about 10% of that number, said Ward, as not all the sample subscribers have flown with the aircraft fitted with the system yet or have not flown at all.

"We also have learnt that while a lot of people travel with laptops it does not mean they know how to set them up. A clever technical person at the office has done that for them. So when they have to set up on board, using the CD ROMs in the seatback, they don't always know how to do it."

Tenzing operates an advisory call centre where they can receive advice on how to connect to the system. The airline has simplified the instruction cards and Tenzing's support in putting people on board long-haul flights to offer advice is welcome, she said.

Pricing for the subscriber service is still under discussion, as Tenzing's business model requires that passengers pay for their e-mail and Internet services in flight. One school of thought favours charges, which match the cost of inflight telephony, while some airlines believe passengers might pay for e-mail, but not necessarily want to be charged for cached web content.

Long-term, Air Canada is hoping technology will provide a way for all IFE systems to be linked into one stand alone suite that will have established industry commonality.

For now, the airline must pay for the server and have inflight telephones installed on its aircraft to offer e-mail and the Internet to passengers.

"We are keen to move to broadband with the service so we can consider the attractive options of bringing live TV onboard," said Ward. In the same presentation, Tenzing Communications Inc.'s vice-president sales and marketing, John Wade, said the company had eight customers for its service, of which three could not be identified yet.

Cathay Pacific Airways is the launch customer for a total fleet installation and Singapore Airlines is continuing to test the system regionally and on trans-Pacific flights from Singapore to Los Angeles on a B747-400 with the MASC 3000E AVOD system.

SAS conducted a wireless trial last December and Virgin Atlantic Airways recently selected the company to install e-mail service inflight. "The system will be running on a Virgin Atlantic A340-600 and the company wants us to install it fleet-wide so now we must make money," Mr Wade said.

Both speakers agreed the most pressing questions now to be resolved are the split in revenue between the airline and the supplier, price points and who will pay?

2001 Technical Press Briefing

FLYING HIGH

Family values the key to Airbus Industrie's speedy market penetration

By Barry Grindrod in Toulouse

Consider this. An Airbus Industrie aircraft takes off every five and a half seconds. At the end of February, the European planemaker had sold 4,223 aircraft to 175 airlines worldwide since it was established in December 1970. Just 30 years!

That means that when the first B747 entered service in 1969, Airbus was no more than a twinkle in the eye of the European civil aviation industry

But even by the lofty standards of Airbus, the last 12 months have been extra special.

In mid-2000 it was announced that Airbus had outgrown its consortium days, made up of companies from France, Germany, Britain and Spain, and would to be formed into the Airbus Integrated Company (AIC), a new corporate organisation that would provide total management control over every aspect of its far-reaching, wide-ranging business. Annual turnover was US$17.2 billion in 2000 as Airbus established a landmark 50% market share with its great and only remaining rival, Boeing.

The AIC kicked into gear early this year, shortly after Airbus reached another massive milestone – the launching of the greatly publicised double-deck, superjumbo; the 555-seat A380-800. The world's biggest commercial "paper" aeroplane attracted criticism and scepticism, but it was the optimism of the industry that eventually won out big time for Airbus.

So much so that Boeing effectively ditched its proposed B747 Stretch – a heavier, longer-range (an extra 1,240km) version of the B747-400 may be built – and opted instead to tempt the market with the Sonic Cruiser, a 250-300-seat jet that will travel at Mach 0.95.

Although Boeing's change of tack had not been announced in March, when Airbus held its international technical press briefing in Toulouse, there was a veritable spring

Airbus Industrie's executive vice-president customer affairs and chief commercial officer, John Leahy: driving force

in the step of executives like executive vice-president customer affairs and chief commercial officer, John Leahy, at the annual home town gathering.

Generally regarded as one of the world's "super salesmen" and the driving force behind the Airbus sales initiatives worldwide, Leahy had only arrived in Toulouse minutes before his presentation after five days – "two nights in hotels and three on airplanes" – visiting Taipei, Sydney and Hong Kong. In Taipei, EVA Air became another new Airbus customer when they signed for two A330-200s and will lease another six of the planes from GECAS.

But one can only assume Leahy's industry intelligence – or clairvoyancy – must have been very good when he suggested Boeing "should close their books on this one [the B747 Stretch] and go for a new aeroplane". He predicted Airbus would have orders for 100 A380s before the end of 2001. There are firm orders for 62 A380s to date and 54 options, with Singapore Airlines, the first airline to put the aircraft into service in 2006, and Qantas Airways, among the customers.

The freighter version, to enter service in 2008, is attracting much attention. FedEx, 10 firm orders and 10 options, and Emirates, two firm, have committed to the A380F. A smaller A380-700 is also on the stocks.

The technical press briefing this year coincided with yet another Airbus milestone, the roll-out of, as the Airbus marketing hype describes it, the longer, larger, farther, faster, higher, quieter, smoother Rolls-Royce Trent 500 engine powered A340-600. The 440-seat aircraft, in a three class configuration, will have a range of 13,900kms and will enter service early next year.

The ceremonial roll-out, attended by about 1,000 customers, suppliers and media representatives, had a circus theme. But the future of the -600 and its longer-range (16,000km) sister A340-500, which will enter service later in 2002, is considerably less precarious than the high wire acts that performed in the newly completed A380-sized hangar.

Ten customers have made firm orders for 71 of the aircraft, 48 A340-600s and 23 -500s.

While the A380 has been dominating aviation's headlines in recent months there has been another division of Airbus operations the manufacturer describes as "a well-kept secret".

It is the freighter market. During the 1980s and early 1990s, most airlines somewhat neglected their cargo operations. In Asia, China Airlines and Korean Air were major exceptions and today Singapore Airlines and Cathay Pacific are developing into major world players in the cargo market.

All airlines are now actively looking to boost cargo revenue. Taiwan's EVA Air, for example, has built up its cargo revenue from less than 30% of the airline's total to close to 50%. It has set itself a goal of 60% of total revenue from the freighter division.

Airbus has 246 freighters, either new or converted from passenger aircraft, in service or on firm order. This number is more than all the McDonnell Douglas, L1011 and B767 freighters put together and is just 15 fewer than all B747 freighters in service.

The A300F4-600R is Airbus' best-selling freighter. It has commitments for 128 of them. UPS has 90 on order with 50 options, FedEx has ordered 36 and has 36 in service. Eighty aircraft are under consideration with other operators.

More than 70 commitments have been made by 15 carriers for A300B4 freighters. FedEx, easily Airbus' best cargo customer, has 45 A310Fs in service with more in the offing.

On the stocks is the A330-200 freighter, which will be a "long-range route developer" to complement the "regional feeder", the A300-600RF. Airbus claimed it will be the only medium-capacity, long-range freighter available in the market.

Meanwhile, the Airbus single-isle A320 family continues to go from strength to strength. Since the launch of the A320 in 1984, it has been joined in the market by the A321 (1989) and the A319 (1993). The 129-seat A318 will become part of 'the family' at the end of 2002. It has attracted 161 firm orders and 53 options from 11 customers. This includes eight from Air China.

The A320 family has secured 2,698 orders from 104 customers to the end of February, of which 1,419 have been delivered. The production rate has climbed steadily from 15 a month in 1998 to 23 a month in 2001 and will reach 30 a month in 2003. It will be the highest sustained rate of aircraft production in the world, according to Leahy.

The A330-300/-200 and A340-600/-500/-300 grouping has had firm orders for 685 aircraft from 57 customers. To date, 373 have been delivered. Production has increased from five a month in 1998 to seven this year and will step up to eight each month in 2002.

The Airbus family's little cousin, the Airbus Corporate Jet (ACJ), is continuing to grow in popularity. Based on the A319, potential sales are put at 15 to 20 a year. Six deliveries are scheduled for this year and another six in 2002. Orders and commitments number 26.

Among customers so far for the ACJ are the Italian and French air forces, Middle East governments, DaimlerChrysler and TwinJet executive charter. Airbus secured its first airline customer last year for the ACJ, Qatar Airways.

Worldwide, Airbus has three training centres, five spares centres and 120 field service offices.

Its engineering excellence, innovative skills and contribution to areas like safety and the environment have been considerable. Looking at its progress in the first three decades, the big question is: what will be achieved in the next 30 years?

Former Cathay Pacific Airways chairman, Peter Sutch (second from right) at the A340-600 roll-out. With him, from left, is Airbus China president, Pierre de Montgolfier, sales director Neil Woolvine and vice-president sales Airbus China, Guy McLeod

BOOKS

China aviation 'decoded'

Interpreting the complexities of China's air line and aviation industry and the philoso phy of the bureaucrats of the Civil Aviation Administration of China (CAAC) can often be a challenge, even to the most experienced industry hands.

What is the underlying strategy behind current airline merger moves? What will World Trade Organisation (WTO) membership mean to the nation's carriers? How is aviation policy formulated in a socialist market economy and what changes are currently taking place?

And what about the basics, the fine detail of the more than 20 principal airlines operating across this vast country and beyond its borders? How will their operations and plans be affected by government policy and what is happening on the airport front throughout the seven administrative regions and 33 provinces and major municipalities? Where is tourism, vital to airline growth, heading?

What is happening on the aircraft financing and leasing front, or in the Chinese regional aircraft market and aerospace manufacturing industries?

These and a multitude of other questions are answered and explained in a new research publication on Chinese market.

The Essential China Book 2001: Airports, Airlines & Tourism, published by the Sydney-based Centre for Asia Pacific Aviation (CAPA), is now available. It is planned to update the book on an annual basis.

Explained CAPA managing director Peter Harbison: "For some observers and prospective investors, China's aviation industry is a field of dreams. For others it is a nightmare. The purpose of this book is to seek to throw some light and perspective on the many complex facets of China's aviation industry, its economy and associated industries such as tourism.

The Essential China Book, which includes an extensive appendix of the latest statistical information on the country's airline sector, costs US$595. Inquiries can be directed to CAPA at aviationcentre@one.net.au.

UAL cashes in on good fortune

From Tom Ballantyne
in San Francisco

When U.S. giant United Airlines (UAL) announced in March plans which will see it significantly strengthen its already impressive presence in the Asia-Pacific region at least one competitor quickly cried "foul".

Rival American Airlines (AA) was not impressed, particularly over a gambit that is quickly becoming known as "The Fortune Cookie Affair". Officials of the Dallas/Fort Worth-based oneworld alliance carrier believe Washington was duped by UAL during the battle for additional slots into China under a new US/China air services treaty.

Why? When UAL was in the midst of lobbying for the rights last year it handed out thousands of Chinese food containers containing fortune cookies with a message inside that said: "United will fly non-stop Chicago to Shanghai in April 2001".

It was the same route AA said it would fly if its bid for flights was successful. Furthermore, in its filing to the U.S. Department of Transportation (DoT), AA argued there was "no guarantee that United would actually initiate or sustain such non-stop service once this proceeding has been concluded". As it turned out, UAL won entitlement to the new services. AA lost out, but it was also right.

When UAL launched its two new non-stop B777 services from Chicago's O'Hare International Airport to China in April, it did not land anywhere near Shanghai. The big jets touched down at the primary Chinese hub of Beijing.

Unabashed, UAL was clearly aware it had a critical strategic victory over its alliance opponent and it is making no excuses about its tactics. Said a UAL spokesman: "The company is responding to changing market conditions. We informed everyone involved, including the government, four months ago."

The incident is evidence that UAL has committed a great deal of thought to making an even bigger impact in Asia, the world's fastest growing air transport region. It has backed up the Chicago-Beijing services with an additional two non-stop flights from San Francisco to Shanghai and launched an offensive into other key regional markets.

Representing one of the largest expansions ever by UAL to Asia, this has seen:

- the resumption of an around-the-world service through Delhi and Hong Kong to the U.S.
- a daily service between New York City's John F. Kennedy International Airport (JFK) and Hong Kong, which at 7,339 nautical miles is the world's longest non-stop scheduled passenger flight (around 15 hours and 40 minutes).

United Airlines: no longer the "biggest gorilla"

The resumption of the around-the-world service makes UAL the only airline able to offer a globe-circling service on which customers can travel all the way under a single livery. The route, covering 31,528 kilometres (19,705 miles), was launched by UAL back in December 1995, but suspended in 1999 during the Asian economic downturn. The B747-400 flights operate from New York through London Heathrow to Delhi and Hong Kong before returning to New York.

Often tagged The Big Gorilla – not always as a compliment – UAL's Asian growth is not only about adding to a network that already operates more than 2,300 departures a day across the globe. Management is determined to convince the world it can offer international service as good as any carrier.

Less than five years ago, UAL's international service had a poor reputation. That was until former chief executive Gerry Greenwald sent dozens of his executives off on other airlines' flights – including many of Asia's top carriers – to take notes on how inflight service should be done.

The result is a transformation in attitudes and service hardware throughout all classes that is now beginning to make an impact in the market.

Despite major investments, UAL's customer service is still criticised in some quarters. In March, along with several other U.S. major carriers, it was the target of attack in a "2000 National Airline Quality Rating" survey released by researchers at Wichita State University and the University of Nebraska.

It is an accusation UAL president Rono Dutta strongly disputes

He pointed out:

- UAL ranked 6th of 11 major carriers in on-time performance (OTP), with 76.2% of flights arriving on time, up from 61.4% the previous year. Some $182 million is being invested in 2001 to support operational improvements that will improve its OTP.
- On lost baggage, UAL ranks 4th of 10 majors with a rate of 5.37 per 1,000 customers. It was 9th the previous year.
- UAL ranks 6th overall out of the 10 majors in customer complaints filed to the DoT, with 3.89 customer complaints per 100,000 enplaned passengers – up from 9th when it had 6.30 complaints per 100,000.

And he may have something else to be thankful for, at least in the short term. When AMR Corporation, parent of AA in April cleared a final legal hurdle and closed its $742 million purchase of bankrupt Trans World Airlines, it meant UAL will no longer be the "biggest gorilla" in the jungle.

A joint AA/TWA would become the largest airline in the world. Unless, that is, UAL's planned purchase of US Airways is approved by US federal regulators, which would again see it take the leading spot.

LEADING airlines of the Asia-Pacific, most notably Singapore Airlines (SIA) and Cathay Pacific Airways, have made wide-ranging decisions to invest multi-millions of dollars in service enabling e-business systems at their airlines. Recent, rapidly introduced innovations include online check-ins across networks, electronic ticketing, airline-linked mobile services and extremely comprehensive websites that offer information from bookings to frequent flyer updates. It is a brave, exciting world, in a constantly changing era of technology advances. Orient Aviation *reports on leading airline strategy in the e-world of aviation.*

UP CLOSE AND PERSONAL

... for SIA passengers clicking online

Singapore Airlines' (SIA) e-commerce centre vice-president, Walter Lee, did not have a single person in his 125-strong e-commerce department at the national carrier a year ago.

"SIA formed the E-Commerce Centre in July 2000 after six months of strategy planning, which was put to the board and approved," he said at an April media briefing by SIA executives.

Shortly afterwards, in October last year, the carrier's global website, SQ-eTravel, was launched, initially to inform customers about SIA's products and information.

Now the website offers passengers online bookings across its network of 67 destinations, supported by WAP technology flight alert messaging and new information and increasing sophisticated electronic ticketing services at 42 destinations.

As well, in Hong Kong and Singapore, e ticketing has been broadened beyond SIA booking offices to include e-ticket sales through selected travel agents in both cities.

"Our basic philosophy at SIA is we are going online because our customers are going online. We are not a dot.com. We are not a mobile phone company. We are not trying to become a computer reservations systems operator. We do not want to put travel agents out of business. In fact, we want travel agents to use our systems to book online for their customers," said Lee.

"SIA is an airline whose business – to put it colloquially – is to put bums on seats. To do this in 2001 we have to provide services our customers want. And they want us to be online."

He said: "We moving into a generation where more and more people are web-savvy and want to have control over their travel plans. What we are doing is looking into this trend and fulfilling their needs so that we remain service champions".

At this point in developments, the percentage of SIA tickets sold over the web is very small in comparison to the proportion of sales generated through traditional channels, Lee said. "There has been an almost 20-fold year-on-year increase in bookings made through the SIA website, albeit from a low base," he added.

The "greatest challenge for SIA online services was to seamlessly integrate them with more traditional service delivery channels and at the same time ensure these services were commensurate with our premium product. Our customers expect and deserve whatever services or features that are available off-line – such as complex itineraries – to be made available online through the Internet," he said.

Lee's department has a S$700 million (US$388 million) budget to spend over three years on online customer services, management systems and the supply chain. Its goal is to link SIA customers in one, uninterrupted chain from ground to air.

He has a development team of 75, working full-time on new, as well as operating systems, and 50 IT professional and support staff.

"We don't want to be an e-travel mall. We want to be an e-boutique," said Lee. "We already have that with our partners in our new online travel exchange that is being developed across the region."

In the near future, the carrier's e-commerce team will unveil its revamped global website, www.singaporeair.com, that will simplify bookings and offer increased information for users.

It is planned that SIA users will be able to plan and book an entire travel itinerary from flights to accommodation and entertainment at foreign destinations.

It also is intended to add to the number of SIA destination cities that offer e-ticketing and expand the network of travel agents who can sell SIA e-tickets.

"The increasing use of technology will not diminish the importance we place on 'the human touch'," said Lee. "SIA's primary objective is not to lower costs, but to have life time retention of our customers."

STOP PRESS...

Singapore Airlines (SIA) has announced it is offering passengers global e-mail and Internet services in collaboration with Seattle-based provider, Tenzing Communications Inc. The first flight with e-mail, a B747-400, flew out of Singapore to Los Angeles on April 22. SIA is the first airline to provide inflight e-mail and the Internet for global travellers. Tenzing is installing a similar system at Cathay Pacific Airways.

Brave new e-world no threat to the old – CX

By Jonathan Sharp

Six months after unveiling its HK$2 billion (US$256 million) investment programme in e-business projects, Cathay Pacific Airways (CX) said it was powering ahead with a panoply of online products for passenger services, cargo and the airline's procurement requirements that at first glance might seem to be making the traditional offline way of doing things rapidly redundant.

But even as airline officials paraded the benefits accruing to both customers and the airline's own bottom line from online transactions, they also made it clear the brave new e-world is far from ousting the old low-tech one. And at least one project, for a joint travel web site announced by Cathay Pacific and other Asian airlines, has run into an unscheduled delay.

Tim Fitzsimmons, Cathay Pacific's general manager e-business, said on the passenger side, the airline's recently enhanced flagship web site was receiving 600,000 hits a month and was becoming the first point of contact with the Cathay brand for an ever growing number of people who previously encountered the airline through travel agencies or at the check-in counter.

The site's features include online booking, online check-in (which allows passengers, among other things, to choose and even change their seat assignments before heading for the airport), real-time information on arrivals and departures, a downloadable timetable, online shopping and mileage checking.

"I think we have, in terms of international travel, the most extensive online check-in capability anywhere in the world," Fitzsimmons told *Orient Aviation*.

He added that the booking engine was "a pretty powerful tool to allow passengers to access inventory on all our flights. We will be rolling out competitive prices for all our routes on the site over the next six months or so, with the objective of simply providing a channel for people who want to buy online."

But the aim is not to bypass travel agencies or offline services. "The key statistic for me is that even the most optimistic forecast I have seen for travel purchased online is about 25-30% in five years' time," said Fitzsimmons.

That still leaves at least 75% of business for traditional travel agencies. "But I think (the figure) is going to be more than that, because I believe a lot of the 25-30% of business that we receive online will be from agents who have gone online. So I think the travel agency community will still have 85%-plus of the retail travel industry," he added.

Cathay Pacific's general manager e-business, Tim Fitzsimmons: "not competing head-to-head with travel agents"

"We don't see this as competing head-to-head with the travel agency community. We see this as providing a number of online channels that customers can use – if they wish."

But the productivity and cost benefits of online transactions for passenger services are undeniable: Cathay sees savings of HK$200 million annually after five years.

The prospect of such gains were behind the announcement by Cathay and other Asian airlines last June of an online travel agency to market plane tickets directly to consumers and also offer hotel, car rental and tour bookings.

The goal was for the agency, called Travel Exchange Asia and to be based in Singapore, to be launched by the end of 2000, but Fitzsimmons said the target was now the end of the third quarter or the start of the fourth quarter of this year.

Why the hold-up? "It has probably been a more complicated joint venture to put together than we originally envisaged in terms of shareholding agreements and technology and structure."

Fitzsimmons said that as part of its product portfolio Travel Exchange Asia would have a so-called "white label product" that would allow the Exchange to provide its technology to any travel agency.

He said the traditional resistance of Asian people to provide personal data such as credit card numbers online was not unique to airlines. He said Cathay was actively exploring options such as allowing passengers to initiate the transaction online, but pay for it in a more conventional way.

"There are other opportunities which we are exploring with financial services providers of direct debit facilities from people's bank accounts rather than putting credit card numbers online. We are taking a fairly imaginative approach to getting around that particular problem," said Fitzsimmons.

Cathay Pacific is the first Asian airline to introduce travel services using the Wireless Application Protocol (WAP) technology, although passengers need to have a mobile phone that supports the technology and subscribe to selected WAP services.

Mary Chan, Cathay's worldwide reservations and ticketing manager, acknowledged the limitations of the services via WAP technology. "So we are not investing a lot of money in making the mobile check-in work yet because we realise that 3G (Third Generation) phones are just around the corner. We want to wait until 3G phones are here, when we can do a lot more."

Fitzsimmons said Third Generation technology would make a quantum leap in allowing the airline to offer its services by phone or to other handheld devices.

"Wherever the customer is in the world, whatever he is doing, we will hope to be able to offer him a Cathay Pacific-branded travel portal on a mobile device, whether it's a phone, a PDA (Personal Digital Assistant) or whatever it is."

Cathay's work in this area was at the moment less visible to the consumer, but Fitzsimmons added: "I believe that 3G or 2-1/2G will allow Asian airlines to have a genuine leapfrog over the Americans and Europeans in terms of what is being offered to the consumer simply because mobile penetration here is so high."

September e-day for Cathay

As the race to provide inflight Internet services warms up, customers of Cathay Pacific Airways will start to taste the fruits of its US$10 million investment in service provider Tenzing Communications when the airline starts to install e-mail and some Web-surfing capabilities in September, writes Jonathan Sharp.

Mary Chan, Cathay Pacific's worldwide reservations and ticketing manager, said the product would be fitted throughout the fleet by 2004 and available in first and business classes plus a portion of economy class seats. The thinking is that not everyone in the back of the plane will want to avail themselves of such services – at least not yet.

The product has three parts, starting with hardware basics: power sockets to recharge computer batteries, sparing passengers the inconvenience of carrying spare batteries.

Part two is what Cathay calls inflight Intranet, rather than Internet, because the service will not be real-time. About 10 sites, such as CNN, finance, sport and travel sites will be selected and their content will be refreshed each time the aircraft is on the ground. Thus the content will be up to three and a half hours old on a Hong Kong-Japan flight and up to 11 hours old on European flights.

Virgin Atlantic: second client for Tenzing

The third feature, inflight e-mail, will be in virtual real-time: e-mail messages will take about 15 minutes to reach the recipient.

Users will have to subscribe to Tenzing and they will have two options, Ms Chan said. Frequent flyers may choose to take out a monthly subscription to Tenzing. "But those without a subscription can still subscribe while on board," she said.

And the price to passengers? Cathay has not worked a schedule of charges yet. "Price is an issue. I think the market will regulate itself. I sincerely believe it will be affordable."

Some commentators have said airlines might be uncomfortable with the prospect of their customers, while flying at 35,000 feet, seeing the unnerving aftermath of, for example, an aviation disaster on CNN. But Cathay rules out any censorship of content.

Tenzing's second firm customer after Cathay, Virgin Atlantic, will introduce inflight e-mail and Internet services late this year.

Target: China's online foreign flyers

Cathay Pacific Airways has extended its presence in the mainland China travel market through a partnership with the Civil Aviation Computer Information Centre, the largest shareholder in TravelSky Technology Ltd. Cathay Pacific also bought into TravelSky last February, at the time of its public listing.

The new company, launched in December 1999, operates TravelSky.com, mainland China's only destination website to provide real-time scheduling, seat availability, air ticket prices for 25 Chinese airlines and Air Macau and bookings for rental cars and hotel accommodation.

"As a corporate investor, Cathay Pacific will co-operate with TravelSky.com to broaden awareness [of our airline] in mainland China and of the services and products we offer," a Cathay Pacific statement said.

It is planned Cathay Pacific information will be available on the TravelSky website and passengers booking on mainland airlines will be able to arrange connecting flights on Cathay Pacific through TravelSky.com," the statement added.

The six-month-old website – www.travelsky.com – was established by China's Civil Aviation Computer Information Centre, an organisation which develops and supplies inventory control and computer reservations systems and passenger reservations systems for all Chinese mainland airlines. Its network covers 300 Chinese and 80 foreign cities and had 28,000 terminals connected to its network at press time.

Executives of TravelSky Technology Ltd toast the company's public listing in February

Cathay Pacific's general manager corporate communications, Alan Wong, said: "The online travel market has tremendous potential and the combined strengths of TravelSky and Cathay Pacific will broaden the service to all our customers."

Added a TravelSky spokesman: "The ability to include Cathay Pacific's products and schedules on our site is another big advantage to customers booking tickets."

StarNet's star turn

The Star Alliance – a global alliance of 12 members operating 15 airlines – has launched its system to enable key passengers to download to their PCs or Personal Digital Assistants (PDA) automatic updated timetables for 9,000 flights daily across the global group's route network.

Rolled out at the April induction of bmi british midland into Star, the system – at this stage called multi-carrier wireless travel support – will be enhanced later this year with global flight information and personal notification services.

A Star statement claimed the system is a significant advance on present wireless services offered by competitors. It is intended, when it is fully operational, to offer border-less information to its travellers across the globe.

Explaining its applications at its launch, the director of Star Alliance seamless service and product, Paul Van Doninck, said the system automatically updates all global Star flights when a user turns on his or her PC or PDA. It also provides Star frequent flyers with flight schedules for their destinations within seconds, on flights of Star Alliance members.

Star's product team is test-running the system with key customers across its data base and has asked them to report back to Star with their assessments of the benefits and operations of the system.

"Many airlines offer mobile electronic devices, but they are limited to one airline or

Now online: Star Alliance's one-stop personal passenger global flight planning system – via your PC or Personal Digital Assistant.

national or regionally international footprints and are consequently of little use.

"Travellers need quick access to flight information wherever they find themselves. Star is in a unique position to provide that support, often before the traveller may even know he or she needs it," said Van Doninck.

Driven by its niche market of technology savvy frequent flyers, Star said its market research revealed this group of air ticket big spenders "expect us to give them the technological solutions that can simplify their travel".

Van Doninck said the system will operate via StarNet, the alliance's eight-month-old IT network that links the computer systems of Star members and allows non-compatible systems "to talk to each other". Star's public website www.staralliance.com will be the portal for the services.

Establishment of a WAP flight information system will follow later this year and will offer real time information through SMS or e-mail on any Star Alliance operated flight.

At the same time a flight notification service will be introduced to key customers, which will allow them to dictate how and when they want to be informed about their flights and schedule and if other parties should be included in the information chain.

Launched in September last year, StarNet is the Star alliance's IT system that links the computer systems of the group's 15 member airlines – an Internet portal for the global grouping.

StarNet allows staff of one airline access to the systems operated by partner Star carriers and handles information, which includes flight schedules, reservations and frequent flyer plans, on a single integrated electronic chain of communication. The Star Alliance Information Technology team, based in Los Angeles, developed it.

E-BRIEFLY

AIRLINES . . . TRAVEL Industry Automated Systems (TIAS), a company owned in equal 50% shares by Air New Zealand-Ansett and Qantas Airways, has sold its interests in its joint-ventures, Sabre Pacific and Southern Cross Galileo, to Sabre Inc. and Galileo International respectively. Qantas made a pre-tax profit of US$31.2 million and AirNZ-Ansett earned US$32 million from the sales. TIAS intends to concentrate on developing e-commerce software for the transport and air cargo industry. ...IN an on-going roll-out of IT innovations in the first quarter of the year, Cathay Pacific Airways launched its ground breaking customer online check-in service in January, along with a three-level downloadable trip planner. Initially available to key frequent flyers, their companion travellers and clients who buy their tickets online, online check-in allows passengers to book a confirmed seat and collect their boarding passes at the airline's dedicated airport check-in counter. The downloadable trip planner has the options of the airline's flights only, Cathay Pacific and Dragonair networks and Cathay Pacific, Dragonair and oneworld alliance journeys. In February, the Hong Kong-based airline expanded its outsourcing agreement with IBM, with the multi-national IT company extending the scope of its maintenance and development of the airline's desktop and workstation systems for another five years at the cost of US$50 million. . . . JAPANESE travel agents are now trialling a Japan Airlines (JAL) international e-ticket system operated through the airline's computer reservation, AXESS. JAL has been progressively introducing e-ticketing across its network since May last year. It is now establishing e-ticket sales systems on all Asian and European routes. IF the two companies have kept to their schedule, the SAir group's information technology company, Atraxis Asia Pacific, is close to completion of its project of transferring all IT functions of Malaysia Airlines to its responsibility, through a joint MAS-Atraxis joint venture, Trifiniti Services. When Trifiniti signed its contract with MAS last December, it also expected to provide e-infrastructure and contact centre services for TRI/Celcom and Naluri, two other companies controlled by the former chairman of MAS, Tan Sri Tajudin Ramli.

ICAO boost for the changing face of security

By Tom Ballantyne

Ongoing efforts by a leading U.S. technology company to literally change the face of air travel, particularly the business of passing through crowded airports, have been given a significant boost by an International Civil Aviation Organisation (ICAO) study.

An analysis by an internal ICAO task force, the New Technologies Working Group (NTWG), has identified facial recognition technology as the most likely biometric to be selected for global use.

In essence, it means that eventually a passenger's right to pass through airport formalities – whether check-in, customs and immigration or even boarding an aircraft – will not depend on handing over a ticket or passport, but on being identified by cameras.

Systems that do just that are already available and are in use at a number of national border crossings around the world. They can focus on a face in a crowd, compare it to thousands of photographs in a database and confirm the identity of the person involved.

The tacit support for such a system from the world body that represents state aviation authorities is music to the ears of Visionics Corporation, recognised as the global leader in developing facial recognition systems.

It follows a merger which saw Visionics join with another biometrics leader, Digital Biometrics Inc. whose expertise is in the area of fingerprint technology. It has already made major inroads into airports, selling its DBI FingerPrinter system to a number of major airports across the U.S.

ICAO's working group was formed to look at setting guidelines for the standardisation of machine-readable travel documents. The criteria analysed include enrolment and renewal processes, availability of back-up systems, public perception of global travellers, storage requirements and performance.

Face recognition scored the highest compatibility rating – greater than 85% – thereby emerging as the biometric of choice. The NTWG found the face is the fundamental characteristic used for the recognition of people. For the air travel industry biometrics addresses the need to ease overcrowding at airports, expedites clearance of passengers and to allow airlines, airport and border control authorities to operate more efficiently without compromising security.

Face recognition technology, in particular, also can be used in surveillance and counter terrorism operations.

Coincidentally, in January the Massachusetts Institute of Technology's (MIT) publication, *Technology Review*, placed biometrics on its top ten list of emerging technologies. It believed the technology would soon have a profound impact on the economy and on how people live and work.

Also, it chose Visionics chief executive, Dr Joseph J. Atick, as an innovator who exemplifies the potential and promise of the field. Visionics' FaceIt engine is the most widely deployed face recognition technology.

'Facial recognition technology would pinpoint known criminals or suspected terrorists'

It has advantages within the biometric family that make it a technology with mass appeal. These include an ability to use existing sensor infrastructure – such as standard PC cameras, digital cameras in cell phones and security cameras – and that it enables the widest array of applications.

In addition, it is familiar to the end user. "Facial recognition technology automates what humans have done since the beginning of time – recognise one another face-to-face," said Atick.

FaceIt has had a number of high profile deployments. It was used to eliminate duplicate voter registrations in last July's Mexican presidential elections and it has been used to identify known criminals in the Newham borough of London. It also is in operation in several international airports, casinos and other security installations.

Atick foresees a time when a passenger entering an airport will immediately be identified by cameras. The traveller will be able to check in baggage without dealing with airline staff, be issued with a boarding pass on the strength of facial identification and pass through customs in the same way. Cameras would confirm an individual had a right to board an aircraft for a flight or warn staff if someone not entitled to travel attempted to board.

The system would pinpoint known criminals or suspected terrorists, warning security authorities of their presence in the airport.

Visionics merged with Digital Biometrics in February, with the two firms taking on the overall name Visionics Corporation. With their combined strength in facial recognition technology and forensic quality fingerprint biometric identification systems, they hope to make a big impact on the world scene.

Shortly before the merger, the then Digital Biometrics shipped 14 DBI FingerPrinter CMS live-scan systems and five database workstations to seven Federal Aviation Administration designated Category X International airports across the U.S.; Seattle Tacoma, Los Angeles, Denver, Dallas Fort Worth, John F. Kennedy (JFK), Newark and Chicago O'Hare.

The systems assist the airports in complying with the Airport Security Improvement Act of 2000, which mandates fingerprint background checks for all specified airport and airline employees.

The FingerPrinter CMS is an integrated live-scan management system that captures, prints and transmits fingerprints electronically. In this case, the system captures fingerprints of applicants and transmits the images to the Office of Personnel Management that in turn, submits the image for search against the FBI's IAFIS (Integrated Automated Fingerprint Identification System) database. IAFIS then returns background check information to the site.

Global roaming WAP, a SITA first

By Tom Ballantyne

Some industry observers may still have doubts about the potential of Wireless Application Protocol (WAP) mobile telephone technology in the airline industry, but global airline communications giant SITA is not waiting to find out if they are right.

It has become the world's first service provider to offer global roaming WAP access for the air transport industry, giving airline staff and passengers access through their mobiles to a local phone number in 22 countries.

According to SITA, users will benefit from cheaper local call rates and faster connection times. It is expected to save international travellers up to 40% or more in call costs.

"Providing fast, cost-efficient and secure WAP access to closed user groups such as corporate customers and frequent flyers will be of major benefit to airlines and other air transport companies worldwide and will enable staff to access their corporate Intranet," said Leo Dowling, vice-president, marketing for SITA Network Solutions.

"Our fully digital network path improves connection stability and reduces transit delays. One of the most common user complaints regarding standard WAP service is slow connection time. With SITA's service, connections are around four times faster than using a standard analogue service, improving from 45 – 75 seconds to 10 – 20 seconds."

Initially, the service is available in 22 countries, including Australia, France, Germany, Japan and the United Kingdom. It will be available in the U.S. by the end of the year.

Until SITA launched the service, users had to access out-of-network WAP services by first making a costly international call to their domestic network. SITA delivers WAP roaming through the upgrade of SITA's remote access services. With this upgrade, SITA's network supports V.110 digital signalling used by data-capable GSM (Global System for Mobile Communication) phones, eliminating the need for the mobile network to revert to a slow analogue modem interface when communicating with SITA's network.

SITA is the world's leading provider of integrated telecommunications and information solutions to the air transport industry.

In recent years SITA has undergone a strategic change, expanding away from traditional communications channels to advanced use Internet and new computer systems.

It also has made inroads on the airport front and recently won contracts worth over US$47 million with airports worldwide for its pre-integrated "Airport in a Box" solution. This technology allows airports to streamline and simplify the passenger journey by providing an integrated set of core applications, automating all critical operational and business activities.

Charity auction realises young boy's dream – 30 years on

Beautiful symmetry

By Jonathan Sharp

Like many small boys, Gary Hopkins loved aircraft. Growing up in England in the 1970s, he was fascinated by British World War II icons such as Spitfires and Hurricanes. He made all the models and spent his pocket money on *Jane's* aircraft books.

He had also decided by the age of six he wanted to be a fighter pilot and to boost his prospects Gary prayed.

"Every morning at the end of school prayers I used to say: 'Look after my family' and 'Please help me to be a fighter pilot'."

The Almighty's response to the second plea was mixed. At the age of 10 Gary wrote to a popular British TV series called "Jim'll Fix It", in which presenter Jimmy Savile arranged to make children's dreams of adventure come true. Gary applied to fly with the British air force's aerobatic team, the Red Arrows.

"I remember one lucky boy did, and I sighed because it wasn't me."

At least, not yet.

Things started looking up, almost literally, when while at Loughborough grammar school Gary was awarded an air force scholarship and later an air force cadetship which enabled him to take a short officer training course prior to attending the University of Kent.

Mixing studies in finance with pilot training, Gary's future with the Royal Air Force seemed assured. In 1984, when Gary was 19, the air force sent him to Hong Kong for the summer. From the start he loved the "heat and hubbub" of Asia. He recalls flying in British army Scout helicopters along the then British territory's border with mainland China and waving at Kalashnikov-armed Chinese guards – who waved back.

Then in his second year at university Gary's eyesight began to deteriorate, possibly as a result of too much studying. "I guess I was doing too many late nights and too much studying and hard work. My eyesight started to play up a little bit," he said.

Playing up too much, the RAF decreed, saying that Gary's eyesight had deteriorated below the standard required for a pilot. He describes one test that left his vision blurred

A youthful Gary Hopkins in his flying days. Deteriorating eyesight killed his dream of being a fighter pilot

to an extent that he found it difficult to find his way around the London underground railway.

"That blurriness worked off later, but I really appreciated what it means not to be able to see somebody, or something, or to read where you are going, just as simple of that," said Gary.

"I never got into a fast jet. Once I was due to go up in a two-seat Jaguar. I was kitted up, I had been through the ejector seat procedures and we were due to go in the next 20 minutes. And then it developed an engine fault."

Barred from flying, Gary decided he was not interested in ground crew work and left the air force. But he found solace and success in the often white-knuckle world of financial trading, which has led him at the age of 36 to be head of bond trading at BNP Paribas in Hong Kong.

"Sometimes trading is almost like being able to fly. It is a proxy to that. You are not flying up in the sky, but there are some pretty interesting and volatile markets to trade. And sometimes when you are doing big orders for big banks you are 'bombing' equity markets."

Not only that, Gary will soon be flying again: his early dream and prayers to fly fast jets – with none other than the Red Arrows – is about to be fulfilled in a manner that Gary understandably describes as "beautiful symmetry".

Lot one at a charity auction, conducted for the second year at the Hong Kong Rugby Sevens Tournament on March 31 and April 1, offered a training session in Britain on board a BAE SYSTEMS Hawk 100 jet followed by a weekend with the Red Arrows when they perform at Malaysia's Langkawi Air Show in October.

The auction is organised by the Hong Kong International Aerospace Forum. The forum, which shares the proceeds with the Hong Kong Rugby Union, donates its auction proceeds to a charity that has a special resonance for people like Gary with eye problems: Project ORBIS, whose DC-10 flying eye hospital fights blindness worldwide. The auction raised a total of HK$800,000 (US$102,600).

Competing against corporate bidders, Gary won the auction with a bid of HK$210,000 (US$26,923). Deploying his trading skills, Gary waited until literally the last second before making his winning bid.

"Honestly it was like God saying to me: 'You've got this chance for this dream, and if at the end of the day I didn't take the opportunity to do that in my life while I was young enough and strong enough to do it, I would regret it always'.

"It's a lot of money, obviously. But the old expression is: What price your dreams? And this dream is almost beyond price. It took coming back to Hong Kong for me to have the opportunity to do this. I wouldn't have the opportunity to do it anywhere else. And the money is going to a very good charity," said Gary.

Beautiful symmetry, indeed.

CARGO SHORTFALL A TELLING OMEN

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

The Association of Asia Pacific Airlines (AAPA) members' consolidated revenue passenger kilometres (RPKs) and passengers carried (PAX) grew by 13.9% and 15.8% respectively in January compared to the same month a year earlier. Capacity grew at a restrained 7.7%, pushing the load factor up 4.1 percentage points to 74.9%.

While passenger traffic may have exhibited double-digit growth, results were distorted by the comparison with January 2000 data and, one, the associated roll over of Y2K, and, two, the earlier than usual Chinese New Year festive season in 2001.

All reporting carriers posted growth, with Vietnam Airlines (VN – 51.0%) again emerging with the highest growth for the month. China Airlines (CI – 36.5%), Royal Brunei Airlines (BI –36.4%) and Philippine Airlines (PR – 32.6%) came next. Four more carriers recorded double-digit growth – Thai Airways International (TG – 18.6%), Japan Airlines (JL – 15.6%), Garuda Indonesia (GA – 14.0%) and EVA Air (BR – 13.6%).

With the exception of Cathay Pacific Airways (CX) and Garuda Indonesia, all carriers recorded an improvement in passenger load factor (PLF). The three carriers with notable improvement were Royal Brunei Airlines (13.9 percentage points), All Nippon Airways (NH – 9.9 percentage points) and Japan Airlines (8.5 percentage points). Cathay Pacific's PLF declined by 0.4 percentage point while Garuda Indonesia suffered a decline of 2.9 percentage points.

Eleven carriers posted a load factor of 70% or more. Four of them – Vietnam Airlines (78.5%), Thai Airways International (78.1%), Singapore Airlines (SQ –76.3%) and Asiana Airlines (OZ –75.8%) – managed to fill more than 75% of their seats. On the other hand, Royal Brunei Airlines and All Nippon Airways managed PLF levels under 70%.

Cargo Results

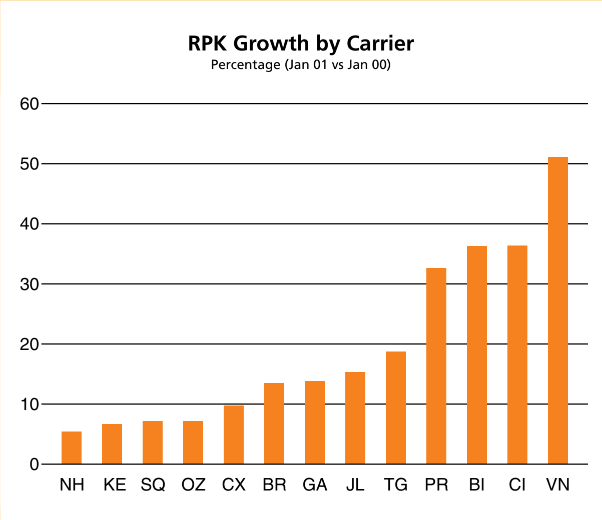
Freight traffic suffered a second consecutive month of negative growth as exports decelerated. Freight tonne kilometres (FTKs) shrank 8.2%. Capacity rose 0.8%, which resulted in freight load factor (FLF) falling to a low 59.4%, down 5.9 percentage points.

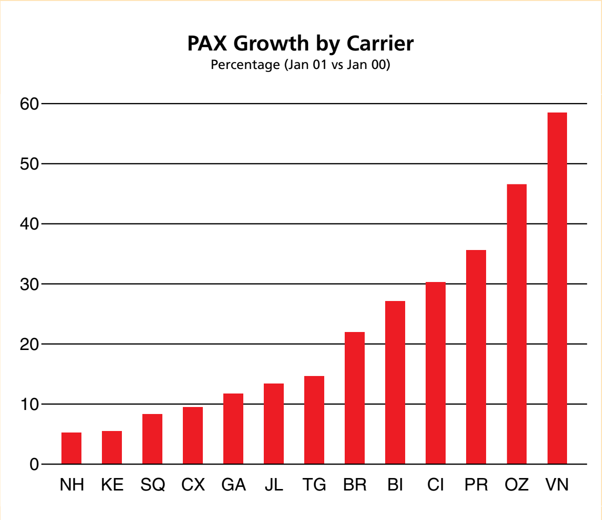
Again, the Chinese New Year holiday may have distorted the freight traffic in January.

Only four carriers registered FTK growth. Garuda Indonesia managed 9.9% growth, followed by Royal Brunei Airlines (9.1%), Thai Airways International (3.9%) and Singapore Airlines (3.3%). The remaining carriers posted negative growth ranging from (-2.9% (EVA Air) to -26.6% (Asiana Airlines).

Garuda Indonesia was the only carrier to register an improvement in FLF (3.8 percentage points). China Airlines experienced the greatest decline with its FLF down 12.4 percentage points.

Five carriers managed a load factor of 60% or more with the Taiwanese and Korean carriers dominating – Korean Air (KE





–71.6%), Asiana Airlines (67.4%), China Airlines (68.7%) and EVA Air (67.2%). The other carrier with a FLF over 60% was Singapore Airlines (60.1%). The remaining seven airlines all posted load factors under 60%. Philippine Airlines load factor for the month was the lowest at 15.5%.

Results of the 12 Months to January 31, 2001

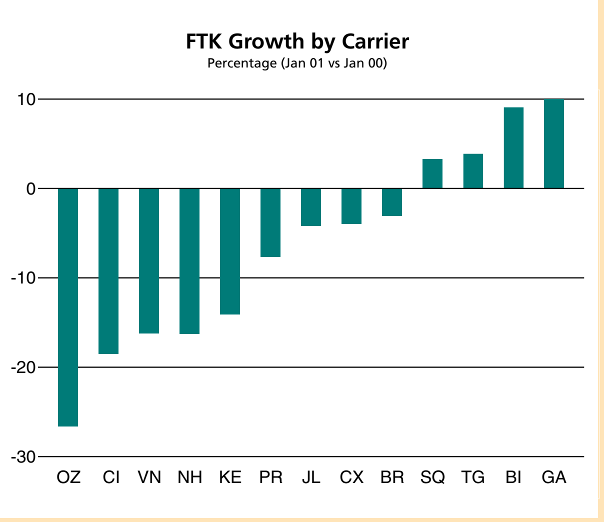
The consolidated revenue passenger kilometres (RPKs) and passengers carried (PAX) for the 12-month period to January 31 2001 grew by 12.1% and 11% respectively. Capacity growth remained a step behind at 7.7%. This resulted in a load factor of 75.3%, up 2.9 percentage points.

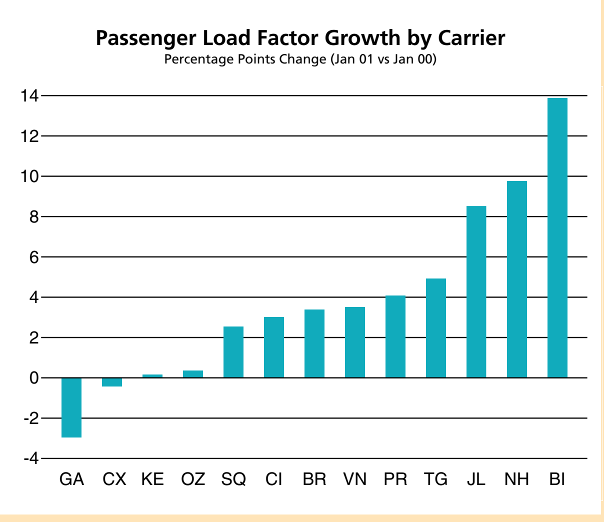
Most carriers continued to enjoy double-digit RPK growth for the period under review. Philippine Airlines had the highest growth rate (37%). Eight other carriers with double-digit growth were Vietnam Airlines (25.2%), China Airlines (18.8%), Asiana Airlines (17.0%), Garuda Indonesia (16.2%), Cathay Pacific Airways (14.3%), Thai Airways International (11.4%), Japan Airlines (10.9%) and Korean Air (10.9%).

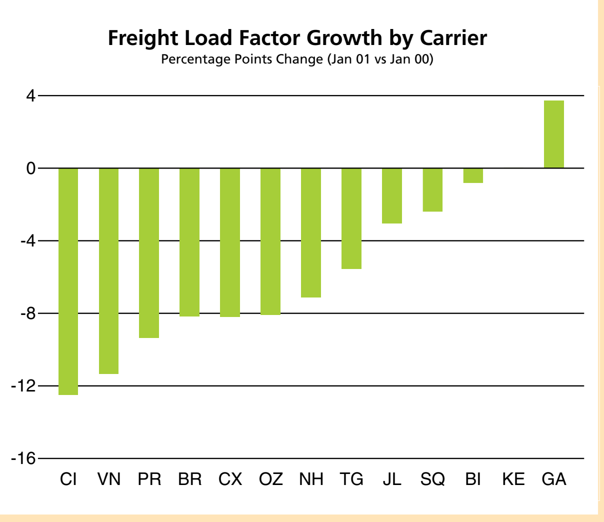
With the exception of Korean Air, all carriers reported an improvement in PLF with All Nippon Airways (7.7 percentage points) topping the list. The remaining carriers experienced an improvement ranging from 0.7 percentage point (Asiana Airlines) to 4.6 percentage points (Royal Brunei Airlines and Philippine Airlines).

All but two carriers reported load factors exceeding 70%. Asiana Airlines recorded the highest PLF at 77.4%. The other carriers with more than 75% load factor were Vietnam Airlines (77.3%), Singapore Airlines (76.9%), China Airlines (76.1%), Cathay Pacific Airways (76.1%), Thai Airways International (76.0%), EVA Air (75.8%) and Japan Airlines (75.5%).

Korean Air: managed a freight load factor of 71.6% in January, well ahead of other AAPA member carriers







Cargo Results

Continuing a downward trend, the consolidated FTK for the 12-month period grew by only 8.6%. Capacity rose 7.7% which resulted in a FLF of 71.2%, up by 0.6 of a percentage point.

All Nippon Airways (- 2%) and Royal Brunei Airlines (- 8.7%) suffered a contraction in FTKs for the period. The remaining eleven carriers, however, posted growth. Philippine Airlines (24.6%), China Airlines (18.1%), Vietnam Airlines (17.9%), Garuda Indonesia (15.0%) and EVA Air (11.1%) all had impressive growth in the 12 months.

Only All Nippon Airways (11.9 percentage points) and Garuda Indonesia (7.1 percentage points) reported significant improvement in load factor. Four other carriers enjoyed some improvement in FLF, but seven airlines reported a decline. Royal Brunei Airlines posted the largest fall of 7.5 percentage points.

The five carriers recording the highest FLFs were China Airlines (82.0%), EVA Air (79.4%), Asiana Airlines (76.6%), Korean Air (76.5%) and Cathay Pacific Airways (71.7%). Four carriers had load factors in the 60s while the remaining four carriers could only manage a FLF of under 60%.

Summary

The year 2001 kicked off against the backdrop of slower global growth as a result of the deceleration of the U.S. economy and trade with Asian countries.

The freight sector was severely affected by the U.S. economic slowdown, particularly the slump in IT spending. FTKs for the month fell below the 2.8 billion mark – the first time since April 1999. Negative growth continued for the second consecutive month and the load factor slipped to a low 59.4%. The immediate outlook for freight traffic remains poor.

If freight traffic trends prove to be the leading indicator of passenger trends, it is expected that passenger traffic will decelerate to low single-digit growth. There are, in fact, signs of a "slowing" trend in RPK growth since the fourth quarter of last year.

In the light of an anticipated slowdown in passenger traffic, a conservative approach to capacity growth will be crucial in maintaining a healthy load factor level.

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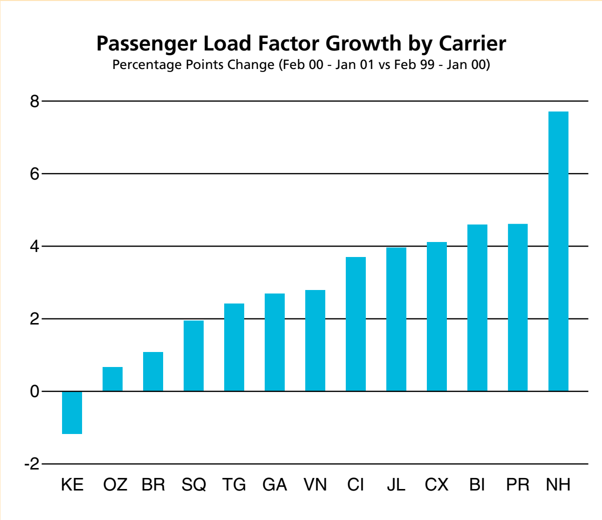
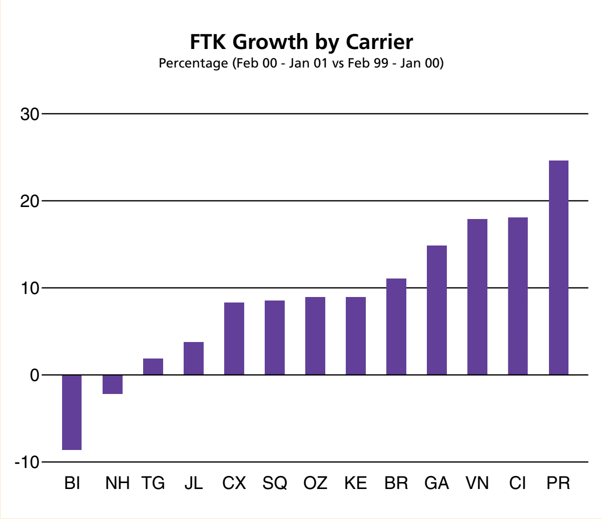
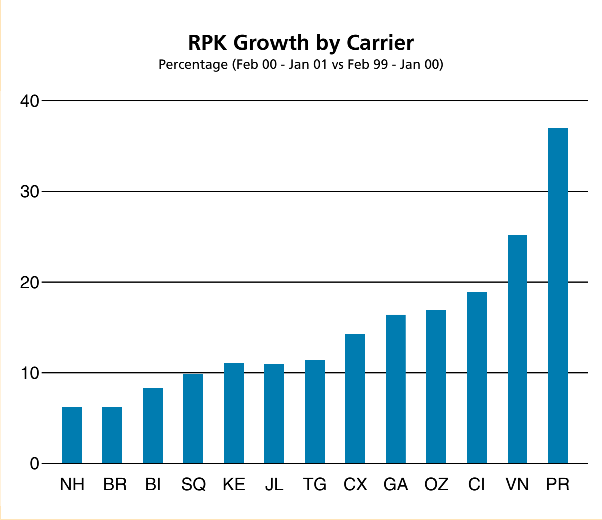
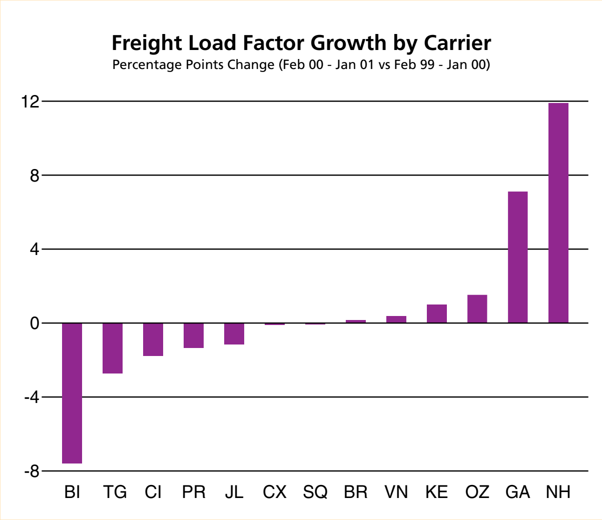
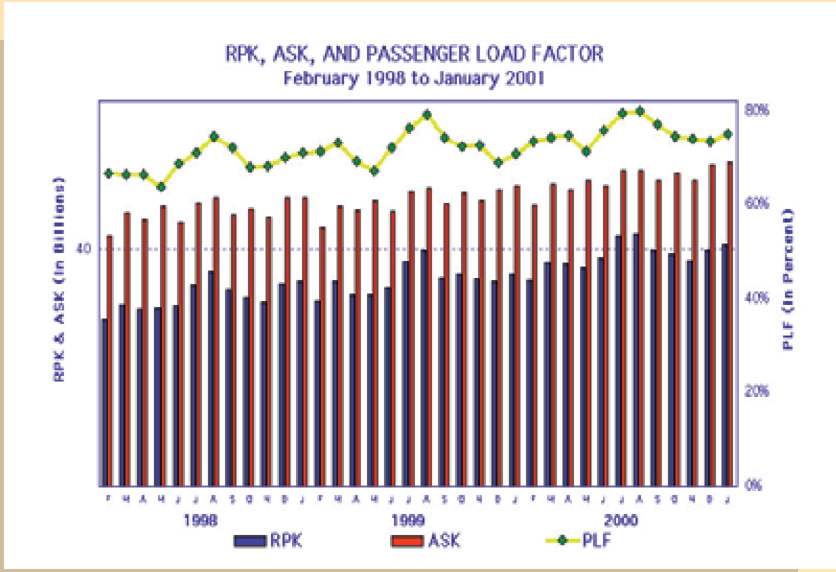


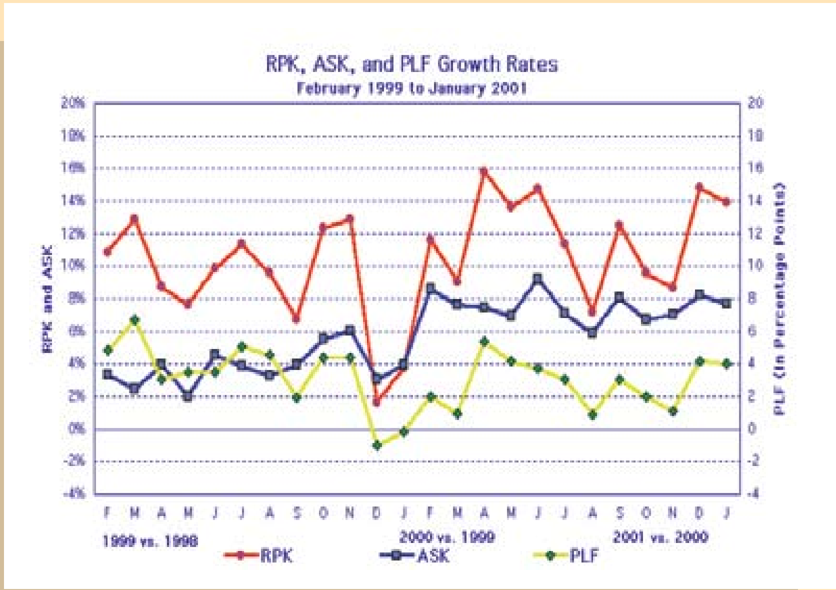




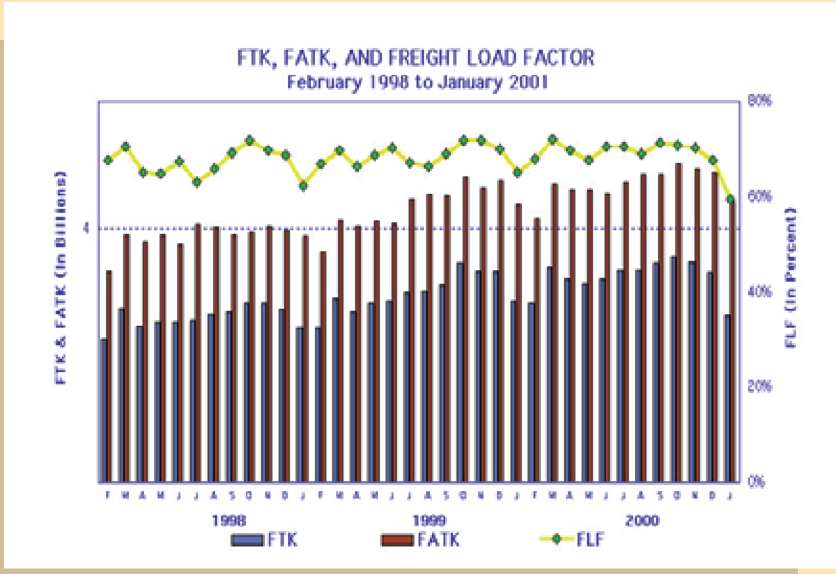


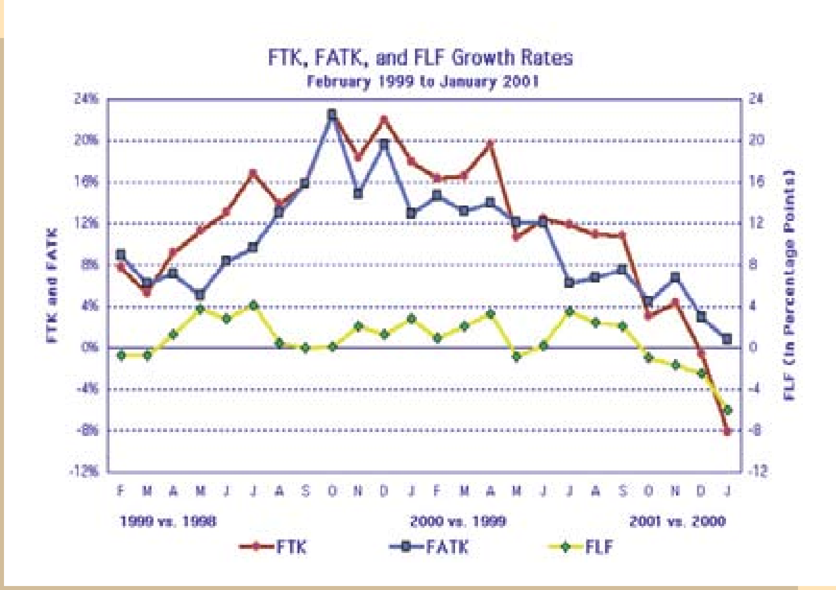
Monthly international PAX statistics of AAPA members





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)
JAN-01	40,864,216	54,547,272	74.9	2,624,741	4,422,324	59.4	6,407,061	9,422,486	9,125
DEC-00	39,744,563	54,234,897	73.3	3,306,664	4,887,447	67.7	7,046,451	9,860,647	8,846
NOV-00	38,040,505	51,552,700	73.8	3,467,407	4,943,007	70.1	7,044,098	9,673,473	8,630
OCT-00	39,213,125	52,689,409	74.4	3,556,216	5,025,502	70.8	7,253,911	9,859,762	8,780
SEP-00	39,695,907	51,498,288	77.1	3,448,015	4,846,064	71.2	7,187,257	9,577,705	8,720
AUG-00	42,563,884	53,219,304	80.0	3,328,928	4,835,287	68.8	7,329,682	9,731,918	9,411
JUL-00	42,210,457	53,221,980	79.3	3,339,584	4,731,881	70.6	7,306,299	9,503,672	9,358
JUN-00	38,462,047	50,721,560	75.8	3,205,060	4,554,317	70.4	6,825,239	9,220,322	8,539
MAY-00	36,785,555	51,563,143	71.3	3,117,148	4,602,811	67.7	6,587,965	9,339,170	8,283
APR-00	37,456,270	50,155,854	74.7	3,206,711	4,605,727	69.6	6,729,187	9,211,994	8,532
MAR-00	37,637,467	50,831,746	74.0	3,368,597	4,683,125	71.9	6,909,610	9,348,746	8,487
FEB-00	34,783,422	47,436,629	73.3	2,818,197	4,154,191	67.8	6,087,426	8,509,995	8,059
TOTAL	467,457,418	621,672,782	75.2	38,787,268	56,291,683	68.9	82,714,186	113,259,890	104,770

2000 to 2001

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
JAN-01	13.9	7.7	4.1	-8.2	0.8	-5.9	2.9	4.3	15.8
DEC-00	14.8	8.2	4.2	-0.6	3.0	-2.4	7.2	5.6	11.3
NOV-00	8.7	7.0	1.1	4.4	6.8	-1.6	6.5	6.9	8.7
OCT-00	9.6	6.7	2.0	3.0	4.4	-1.0	6.3	5.5	9.7
SEP-00	12.5	8.1	3.0	10.8	7.6	2.1	11.7	7.8	12.2
AUG-00	7.1	5.9	0.9	10.9	6.9	2.5	9.1	6.4	5.8
JUL-00	11.4	7.1	3.1	11.9	6.3	3.5	12.0	5.3	9.5
JUN-00	14.7	9.2	3.7	12.4	12.1	0.2	14.4	10.6	11.6
MAY-00	13.6	6.9	4.2	10.7	12.1	-0.8	12.9	9.5	11.2
APR-00	15.8	7.5	5.3	19.7	14.0	3.3	18.2	10.8	14.4
MAR-00	9.0	7.6	1.0	16.6	13.2	2.1	13.5	10.2	8.7
FEB-00	11.6	8.6	2.0	16.3	14.7	0.9	14.9	11.6	11.4

Calendar Year

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
2001[5]	40,864,216	54,547,272	74.9	2,624,741	4,422,324	59.4	6,407,061	9,422,486	9,125
2000	462,466,095	617,787,854	74.9	39,020,611	56,255,588	69.4	82,533,153	112,874,721	103,527
1999	416,820,106	576,253,703	72.3	35,277,459	51,519,550	68.5	74,179,615	104,437,440	94,242
1998	382,106,292	557,130,177	68.6	30,958,021	46,204,321	67.0	66,141,448	97,199,731	86,198
1997	387,763,016	561,392,742	69.1	31,741,381	45,688,853	69.5	67,739,088	96,736,079	88,696
1996	374,365,998	529,442,583	70.7	27,783,667	43,091,640	64.5	62,557,622	90,816,037	86,703
1995	326,071,184	471,535,677	69.2	23,838,488	36,487,508	65.3	54,250,542	79,121,583	76,378

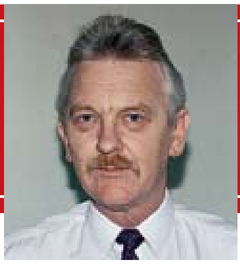
Calendar Year

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
2001[6]	13.9	7.7	4.1	-8.2	0.8	-5.9	2.9	4.3	15.8
2000	11.0	7.2	2.5	10.6	9.2	0.9	11.3	8.1	9.9
1999	9.1	3.4	3.7	14.0	11.5	1.5	12.2	7.4	9.3
1998	-1.5	-0.8	-0.5	-2.5	1.1	-2.5	-2.4	0.5	-2.8
1997	3.6	6.0	-1.6	14.2	6.0	5.0	8.3	6.5	2.3
1996	14.8	12.3	1.6	16.5	18.1	-0.9	15.3	14.8	13.5

Note:

1. The consolidation in the above table includes 16 participating airlines.
2. Data for Jan 2001 are subject to revision as actual data for AN Jan 2001, MH Jan 2001, QF Jan 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. CY denotes Calender Year (January - December). Year 2001 to-date: Jan 2001.
6. Year-on-year comparison: Jan 2001 v Jan 2000.

BOEING STRIKES BACK WITH SPEEDY MASTER STROKE



TURBULENCE

By Tom Ballantyne

If anyone had been labouring under the misapprehension that Boeing executives were reaching for their white flags having lost the seemingly one-sided sales campaign with Airbus Industrie to sell the Very Large Aircraft, developments in the last few weeks should set them straight.

Europe's Airbus continues to tote up orders for its 550-seat A380 while the Seattle planemaker (soon to be the Chicago or Dallas or Denver planemaker) has been pushing unsuccessfully into a powerful headwind in its efforts to sign up customers for the proposed B747 stretch.

Thus far, the attraction of a brand new Leviathan, as opposed to what many perceive as yet another version of an old design, has clearly won the day. Some major airlines want a high capacity jet for their primary trunk routes, but Boeing may be right; in the medium term, at least, there is not enough profit for two competing models.

Instead, the big American switched gears and surprised the market with plans to take the technology high road with the design of a revolutionary new 250 to 300-seater, the 'Sonic Cruiser', that will fly at Mach 0.95 and slash current flight times significantly as it soars more than 5,000 feet higher than existing commercial jets. Even better, it would have a stunning range of at least 9,000nm (16,700kms), giving it the ability to totally reshape the non-stop route map.

The move opens a new front in the Boeing vs Airbus marketing battle. It brings forward the potential for a new type of aircraft at a time when everyone thought we would have to wait decades for a quantum leap in jet design.

Even at this early stage airlines are showing a high degree of interest. Airbus, too, has not totally given it the thumbs down.

Airbus' top market forecaster, Adam Brown, said such an aircraft could be "the best way for us to move on" to the next generation of airliner technology "if the trade-offs can be done" allowing airlines to acquire and use the plane at a viable cost.

Many thought Boeing would never give up its domination of the high ground, or at least the very big ground, without a fight. They were right, but it has clearly decided there may be a more lucrative market to be had shortly after the A380 enters service in four or five years time.

Its declaration of intention to develop the sub-sonic speedster – it would replace the B757 and B767 family – is strategically and tactically brilliant. Not only did it direct attention away from the A380, but it slotted in nicely with Boeing's own arguments on the future aircraft market; that the really big demand will be in medium-sized jets for development of point-to-point services rather than giant, high capacity airliners.

The technology is no pipe dream. Much of it is already available and only needs refining. Alan Mulally, chief executive of Boeing Commercial Airplanes, said the aircraft could enter the market with operating costs similar to today's sub-sonic aircraft. It would use engines in use on the twin-engine Boeing B777.

'Much of [the technology] is already available and only needs refining'

Airbus points out there could be difficulties with the proposed design. Brown said his engineers told him it would be easier to design an aircraft that could cruise at Mach 2 than one to fly at Mach 0.95.

Already, Airbus designers have been working on a conceptual design called E2 (E-squared) that could fly about the same stage length as an A320 and have a capacity somewhere between the A320 and the A330/A340 family. But advances would have to be made in reducing noise, emissions of nitrogen oxides and CO_2 to meet ever-stricter environmental requirements, especially in Europe. Boeing is confident the necessary parameters can be achieved.

There has been a great deal of early interest shown by the airline industry, surprising given its usual scepticism about paper aeroplanes.

Singapore Airlines (SIA) chief executive Dr Cheong Choong Kong – SIA is launch customer for the A380 – confirmed Boeing had spoken to the carrier and it had been "encouraged to proceed" with the project. Dr Cheong pointed out the jet would likely be ideally suited to routes with a high share of business passengers who would pay a premium for faster, non-stop services. Cathay Pacific Airways also has met Mr Mulally and expressed early interest in the concept plane.

American Airlines head Don Carty is enthusiastic about it, too, and said if the price is right he would like AA to be the first airline to fly the sub-sonic cruiser. James Goodwin, boss of United Airlines, also believed there would be a market for a higher-speed aircraft. Air Canada chief executive Robert Milton said Boeing had made the right strategic choice.

There is another point to be made. If Boeing can succeed in persuading airlines to back the concept of a plane that will fly 15% to 20% faster than existing jets, cutting flight times by one hour for every 4,800 kilometres (3,000 miles), Airbus may find itself in a bind. With development resources already severely stretched by existing projects, particularly the A380, finding cash to fund a new battle with Boeing may prove difficult.

In Seattle, they suggested rival Airbus may have won a battle with its A380, but it is nowhere near winning the war.