Orient aviation

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MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

LIFE AFTER SQ006

Global goals still on track

Best of buddies at SIA

'I suppose the truth of our vulnerability and mortality hit us. It was a devastating experience'

– Dr Cheong Choong Kong,

SIA deputy chairman and chief executive speaking about the crash of SQ006

Executive interview:
BA's Eddington puts accent on success

Country focus: Japan
JAL chief Kaneko's tough love pays dividends

SPECIAL REPORT: *Commuter and business jet aviation in the Asia-Pacific*

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COVER STORY

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SIA chief looks to the future

INFLIGHT ASIA *goes electronic*

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SPECIAL BUDDIES

Singapore Airlines (SIA), successful, financially sound and safe, thought it could never happen to them. It did. And as their deputy chairman and chief executive, Dr Cheong Choong Kong, told *Orient Aviation*, the events of the stormy night of October 31 in Taipei when SQ006 crashed on take-off with the loss of 83 lives, "devastated and humbled" all who worked at the airline.

But it did something more. It brought people together in grief in a quite extraordinary and positive way, a way that will surely be noted by the industry at large as a model in selflessness.

Nine years ago SIA's management devised a "buddy" programme to assist the crisis management control centre at Changi airport. The specially trained buddies are responsible for helping the family and friends of victims and survivors in the event of an accident

But as Ruth Kelly, SIA's vice-president customer affairs, who heads the buddy programme, said: "What happened on the night of the accident was incredible. We have a list of 385 trained buddies in Singapore, but as the news [of the accident] was breaking people who were not registered as buddies turned up at the crisis management control centre at Changi airport in droves.

"People arrived all through the night. Some got out of bed, others had just returned from duty travel. Some staff returned from leave early just to be there. They wanted to help."

Buddies and non-buddies alike played their part. "I have never seen so much motivation and enthusiasm as there was in that first 48 to 72 hours," said Kelly.

Kelly says she would like to talk to other airlines to compare notes, to see how SIA can improve its buddy programme. *Orient Aviation* believes there are many airlines that would like to – and should – talk to SIA.

This was voluntary work at its best and its most demanding, where trained and untrained staff came together in the most tragic of circumstances to help others.

Almost four months later the healing is continuing; the buddies are continuing their work.

Letters of thanks bulge from a file in SIA's headquarters Airline House. Much good has come from this adversity.

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FORBIDDEN LOVE: The Philippines Immigration chief, Andrea Domingo, fined tiny Continental Micronesia Airlines with 50,000 Pesos (US$1025) for smuggling a mistress of the former Philippines president, Joseph Estrada into the country in late February. Domingo said the Guam-based airline sneaked Laarni Enriquez into Manila by using only part of her name, granting her unaccounted passenger status and assisting her in bypassing immigration procedures.

Well known in her native Philippines, Enriquez was spotted leaving Manila International Airport – wearing a hood – in the company of an aide to Antonio Gana. Gana is an Estrada aide and until his recent dismissal was general manager of Manila International Airport. A Gana assistant, Jake Acuna, is to be charged with human smuggling, said the immigration boss.

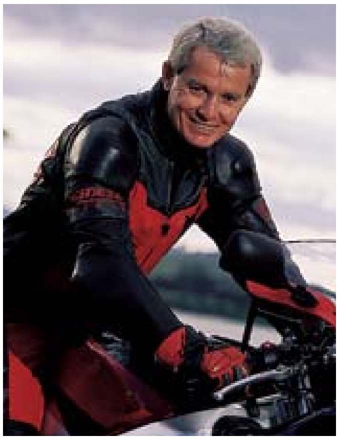
Enriquez fled the Philippines to the US on January 11, via Hong Kong, to avoid being subpoenaed to testify against her lover in his impeachment hearings in the same month. Philippines justice minister, Hernani Perez, said the grounded Enriquez as well as other Estrada mistresses would be included in the criminal case to be filed against the deposed Philippines leader.

PERSPECTIVE

CHALLENGE: At last Malaysia Airlines (MAS) has a new managing director, government appointee, Dato Mohamad Nor Bin Mohamad Yusof, an advisor in the national finance ministry. At the same time, MAS announced its new chairman, Azizan Zainal Abidin, who also is chairman of the national oil company, Petroliam Nasional Bhd. In January, the Malaysian Government bought the 29% of MAS held by mercurial Malaysian entrepreneur and the carrier's former chairman, Tan Sri Tajudin Ramli, bringing the nation's equity in MAS to 59%. A few weeks earlier, the former owner of Lauda Air, Niki Lauda, confirmed he had been approached and had declined an offer to head MAS.

ORDERLY SUCCESSION: Kichisaburo Nomura (66), president of All Nippon Airways (ANA), will be chairman of ANA from April 1. His successor as president of Japan's second international carrier will be Yoji Ohashi (61), a 37-year veteran of ANA. A law graduate like Nomura, Ohashi's first major job at ANA was as director of sales in 1988. From that springboard he became senior director and general manager for the airline at Narita Airport from 1993 to 1995 when he was appointed to run the airline's U.S. offices from New York. He was made an ANA managing director in 1997 and is currently the airline's senior executive vice-president.

HANDOVER: Qantas Airways chief executive and managing director, James Strong, formally handed over running of the Australian flag carrier, Qantas Airways, to his former deputy Geoff Dixon on March 5, but not before he presided over the 2001 Formula One (F1) Grand Prix motor race in Melbourne a day earlier. Strong is an avid motorcycling racing fan and has been particularly happy for Qantas Airways to be a major sponsor of the Australian F1 – the first race each year on the annual competition's 17 event international calendar.



James Strong: racing ahead

Geoff Dixon's team is chief financial officer Peter Gregg and seven executive general managers: John Borghetti (sales and distribution), Denis Adams (marketing), Paul Edwards (network management), Steve Mann (customer services), David Forsyth (Aircraft Operations) Narendra Kumar (subsidiary businesses) and David Burden (technology and services). In late February, Qantas revealed a 22% decline in first half profits and announced it would cut its workforce by 5% (page 15). Meanwhile, it was announced that Strong is to be the new chairman of Woolworths in Australia.

TRANSFORMED: Across the Tasman Sea, AirNZ-Ansett Group chief executive, Gary Toomey, announced his restructuring of the group into seven divisions, which also marked out the executives who have survived the merger of the two airlines. Still in the fold are Ansett managers Andrew Miller (CEO of Ansett International and head of the new group's sales and distribution division), and **Trevor Jensen** (operations). Other new division heads are Lesley Grant (customer service), George Frazis (strategy, network and marketing), Brendan Fitzgerald (world-wide airport services) and Kevin Turnbull (business enhancement). Toomey is still looking for a boss to run the new ventures division of the group.

SORRY: United Airlines (UAL), the world's largest carrier, has apologised on behalf of cabin crew on a February Hong Kong-Singapore flight who failed to notice that one of their passengers had died during the flight. A witness to the events leading up the death of the middle-aged US male passenger said cabin crew failed to notice the condition of the 51-year-old passenger, who had died by the time the aircraft had landed in Singapore, until he was pointed out to them by disembarking travellers. A UAL spokesman in Hong Kong offered his condolences to the man's family, according to Hong Kong's *South China Morning Post*. The spokesman said the cabin crew had acted as quickly as possible to the situation when made aware of it and that the flight attendants had followed local and airline regulations in doing so.

PACIFIC TIES: As the only Democrat in President George Bush's cabinet, the new head of the U.S Department of Transportation, Norman Y. Mineta (69), could bring some much-needed cultural understanding to US-Asia relations. Californian Mineta was chairman for eight years of the House Aviation Subcommittee and was in charge of the National Civil Aviation Review Commission – which set out the blueprint for overhaul of the Federal Aviation Administration. In the last six months of the Clinton presidency, he was Secretary of Commerce.

REGIONAL ROUND-UP

THAI "will stay" in the hands of the Thais, says government

Politics, it appears, have won out in Thailand with the new government promising a U-turn on the proposed sale of a 10% stake in Thai Airways International (THAI) to a foreign carrier. "In my opinion Thai Airways doesn't need a foreign partner. We don't need their technology, while on the marketing part, we have already joined the Star Alliance," said the government's permanent secretary for finance and THAI director, Somchainuk Engtrakul.

The former government was planning to cut its stake from 93% to 70% this year, issuing new shares to domestic investors and selling 10% to a strategic airline investor. The move was first mooted three years ago, but has met with one delay after another. Lufthansa, Qantas Airways, Singapore Airlines, British Airways, United Airlines and Air France, have been among those to express interest, but more than one has lost patience over time.

Engtrakul's comments followed an announcement by the newly appointed finance minister, Somkid Jatusripitak, that shares of 59 state enterprises undergoing privatisation will be offered to the Thai public instead of selling to foreign investors.

THAI chairman, Srisook Chandrangsu, offered a slightly more optimistic view when he said recently: "On the plan to sell shares to a strategic partner, we are still keeping it ... but it is not necessary to sell shares only to an airline. Selling shares to another airline may not be positive for our share price."

The new Thai prime minister, Thaksin Shinawatra, was vague when asked about the plans for THAI's future. He said there would have to be a review to be sure the share diversification was the right move.

Analysts have expressed disappointment that any hope of THAI having a foreign airline investor now looks slim along with the chance of the carrier improving its efficiency. It now seems the negative influence of the military and government officials who make up most of the THAI board, will continue.

Thai Airways International: the new government is unlikely to sell a 10% stake to a foreign airline

SIA orders B777s to replace A310-300s

Singapore Airlines (SIA) has ordered 20 Boeing 777-200 aircraft, 10 on firm order with 10 options in a deal valued at US$4 billion. The aircraft will replace SIA's fleet of 13 A310-300s.

SIA previously ordered 61 B777s in 1995 as part of a 77 jet order. The remaining 16 were for its leasing subsidiary Singapore Aircraft Leasing Enterprise (SALE).

With the latest order, SIA will have 81 B777s in operation, on order or on option. The planes will be powered by Rolls-Royce 892 engines and will be delivered between 2003 and 2009.

Said SIA's deputy chairman and chief executive, Dr Cheong Choong Kong: "In terms of capacity, the B777 is a larger aircraft than the A310 and therefore not a direct replacement in terms of size, but it offers us the flexibility to use the aircraft on both the shorter-haul services currently operated by the A310, as well as the longer sectors.

Meanwhile Rolls-Royce has announced the development of the latest two members of its Trent family, the 900 for the Airbus A380 family and the 600 for the Boeing 747X and the Longer Range 767-400ER jet. The UK Government is investing £250 million (US$362.5 million) in the project. The Trent 900 has been selected by Singapore Airlines, Virgin Atlantic and International Lease Finance Corporation for their A380s.

Ansett sale to SIA? Forget it, say bosses

Air New Zealand chief executive Gary Toomey has dismissed reports the airline will sell part of wholly-owned subsidiary Ansett Australia to Singapore Airlines to raise money for the purchase of new aircraft. "I don't think there's any credibility in what's being said. We don't have any knowledge of it, so you can scratch it completely from our perspective," he said. SIA boss Dr Cheong Choong Kong also told *Orient Aviation* that there was no truth in the reports.

In fact Toomey has set out his early goals for Ansett. He plans to upgrade the fleet, boost Ansett International's services to high-yield destinations like Los Angeles and Tokyo and deepen the company's relationship with 25% shareholder SIA. An Ansett re-launch is expected later this year.

Qantas makes choice of engines

Qantas Airways has made its decision on engines for 31 new jets to be delivered in the next 10 years. General Electric will supply CF6-80E1 engines for seven Airbus A330-200s and six A330-300s and CF6-80C2 engines for six Boeing 747-400 Longer-Range aircraft. Rolls-Royce will supply Trent 900 engines for 12 Airbus A380 twin-deck aircraft.

... also tipped to take stake in PNG carrier

The Papua New Guinea Government (PNG) has announced that 49% of its ailing flag Air Niugini will be available to foreign interests in a privatisation plan which should see the offshore stake sold by April. Seven groups from PNG, Europe and North America have lodged expressions of interests to buy into the airline. They have not been named but it is known most involve non-airline investors. However, Qantas Airways has submitted an expression of interest and is now regarded as favourite to win the stake.

Hong Kong to break Deadlock with U.S.?

Hong Kong held informal talks with officials of the U.S. Department of Transportation in February on a long-standing dispute about expanding cargo and passenger rights. The U.S. accuses Hong Kong of refusing to open its skies as other air authorities in the region have done, while Hong Kong wants cabotage rights in the U.S. American carriers regard this argument as specious as Hong Kong, with no hinterland of its own, cannot offer comparable rights.

For Inchon, now read Incheon

Incheon International Airport, as the new airport on South Korea's west coast has decided to be called, will open on March 29, the airport 's authorities announced barely two months ahead of the long-awaited opening date. The great day, a Thursday, was chosen because it falls in the first week of summer operations and Thursday usually has the lowest weekday traffic.

Also the weather near the airport on that day has been mostly mild for the past 20 years. What the world has long known as Inchon has been revised to Incheon to comply with a new system of English language spelling of Korean words introduced by the government last year.

Authorities hope that confusion over the airport's name will be the least of the problems experienced by the airport they are calling "The Winged City". High construction costs and the lack of a rail link to downtown Seoul 50 kilometres away (at least until 2005) are among issues that may dampen the high hopes held out for one of the biggest infrastructure projects in Korea's history.

Wrong part on Ansett jet

There were red faces again at Ansett Australia when it emerged one of its Boeing 767-300s flew between Australia and Hong Kong with a wing leading edge slat designed for 767-200s. After the error was discovered in Melbourne the aircraft had the right part fitted overnight and returned to service the following day. Earlier Ansett had two of its 767s grounded when cracks were found in the horizontal stabilisers. In addition the carrier's schedules were disrupted just before Christmas after the airline realised that mandatory inspections had not been carried out for up to 18 months.

Chinese travellers Accuse JAL of bias

More than 90 Chinese aboard a Japan Airlines (JAL) Beijing-Tokyo flight which was diverted to Osaka due to a snowstorm in Tokyo have threatened to sue JAL for being forced to spend 16 hours at Osaka airport while passengers of other nationalities were accommodated at a hotel.

JAL's Beijing office said the company had been barred by Japanese authorities from allowing Chinese nationals, who were bound for destinations outside Japan, to leave the airport. Official Chinese media said the passengers were demanding US$86,000 each in damages, saying the airline had offered only 'small sandwiches" and nothing to drink, leaving them in a hall with no seats.

CRJ-200s for Yunnan

Yunnan Airlines has bought six 50-seat Bombardier CRJ200 regional jets in a deal valued at an estimated US$138 million. The profitable Kunming, China-based carrier will take delivery of the aircraft between October this year and December 2002.

Afghan airline grounded

Afghanistan's national airline, Ariana Airlines, has been forced to halt domestic operations after being subject to United Nations sanctions. Airline deputy head, Qari Rehmatullah, said the government could not afford to buy fuel. In November 1999 the United Nations banned all international travel by Ariana and in January fresh sanctions made

IN BRIEF

Air New Zealand is to replace its ageing Metroliners and Bandeirantes with 16 new Raytheon Beech 1900D aircraft to serve its smaller provincial ports. The 19-seater aircraft will be introduced over an 18-month period starting in May.

Rising demand has led Cathay Pacific Airways to add nine flights a week to its Hong Kong – Indonesia schedule from February 26, from 19 weekly flights. Last year the carrier's revenue rose 30% increase between the two countries.

CARGO

United Parcel Service (UPS) reporting record revenue and earnings for 2000, said package delivery daily volume for Asia-Pacific rose nearly 5% in the fourth quarter, with China registering more than 40% volume growth. UPS expects to begin flying directly to China in April after being chosen by the U.S. Department of Transportation as the fourth American air carrier granted direct operating rights to China.

China Eastern Airlines said it plans a fourth weekly cargo service between Shanghai and New York at the end of 2001 or early next year.

APPOINTMENTS

Jed Hart, manager corporate safety for BHP, has been appointed chairman of the Aviation Safety Foundation Australia (ASFA). He succeeds Don Kendell, founder of regional carrier Kendell Airlines. Dr Rob Lee, formerly director of Australia's Bureau of Air Safety Investigation (BASI) before it was integrated into the Australian Transportation Safety Bureau, and Carol Durkin, past president of the Australian Women's Pilots Association, also joined the board.

oneworld – Maunu von Lueders has been appointed vice-president sales of the oneworld global alliance. He was previously vice-president alliances and international relations with Finnair.

Dragonair – Hong Kong-based Dragonair has appointed Gerard ter Bruggen as manager cargo sales and services in Europe.

it virtually impossible for the airline to maintain its five passenger aircraft. The decision on domestic flights will mean 400 staff will be laid off.

In brief:

The SIA Engineering Company (SIAEC) broke ground for its third maintenance hangar. To cost S$25 million (US$14.25 million) including the land cost, the hangar will be in service by July next year. It will increase SIAEC's airframe maintenance and overhaul capacity by 15%.

Impulse Airlines executive chairman, Gerry McGowan, said he plans an initial public offering for the carrier next year. Impulse began jet service last year after seven years of turboprop operations. In February Impulse added three Boeing 717s to its existing five.

Dragonair has ordered an Airbus A330/A340 flight simulator from Canada's CAE. It will join an A320 simulator in use at the Hong Kong-based airline's training centre at Chek Lap Kok airport.

Taikoo Aviation Technologies, a subsidiary of Cathay Pacific Airways, has acquired a 10% stake in U.S-based Tenzing Communications, the airline's inflight Internet partner. Cathay is to launch inflight Web access and e-mail throughout its fleet in the third quarter of this year.

Aerospan.com has entered into an e-marketplace collaboration with Singapore Technologies Aerospace (ST Aero), the first e-marketplace collaboration and live integration of its type within the industry. Under the agreement, the private marketplace of ST Aero, JuzClickSource, which is the e-procurement platform for its buyers, has been seamlessly connected with the Aerospan global e-marketplace. This offers all users with more opportunities to drive efficiencies and enhances both e-marketplaces' abilities to reach suppliers and buyers worldwide.

Philippines domestic carrier, Cebu Pacific, and U.S. major Northwest Airlines have signed a frequent flyer programme agreement. Northwest WorldPerks members will earn points on five-year-old Cebu Pacific's flights in the Philippines.

Japan Airlines (JAL) will be the launch customer for the Boeing-managed Global Airline Inventory Network (GAIN). Boeing will manage JAL's supply chain for roughly 70,000 expendable airframe spare parts used in the airline's fleet of Boeing aircraft. The first phase of GAIN will be implemented at JAL in April.

Air New Zealand (AirNZ) has introduced three code-share flights a week with Singapore Airlines (SIA) between Singapore and Zurich. AirNZ code-shares with SIA on Singapore-Auckland, Singapore-Christchurch, Singapore-London, Singapore-Bangkok and Singapore-Manchester (via Amsterdam) routes. SIA also code-shares on selected AirNZ domestic services.

Qantas Airways has announced a code-share agreement with Italian flag carrier Alitalia, effective March. Alitalia, which recently halted services to Australia, will code-share on four Qantas services weekly between Australia and Rome via Bangkok.

Australian Air Express, a joint venture company owned by Qantas Airways and Australia Post, has extended long-term leases on three BAe 146QT freighters from BAE SYSTEMS. The aircraft – two series 300 units – and a series 100 jet operate overnight cargo services throughout eastern Australia, carrying general freight, perishables and mail.

Cathay Pacific Airways will launch a new four-times-a-week non-stop service between Hong Kong and Delhi on March 26. The decision came shortly after the conclusion of air traffic rights talks in which it was agreed to increase seat capacity between India and Hong Kong.

China Eastern Airlines plans to take delivery of three Airbus A320s and lease four A319s this year as part of a plan to expand its fleet to 100 airliners over five years.

China Southern Airlines is contemplating leasing a number of regional jets with 50 seats or less. ING Barings said in a research report that China Southern planned to add 10 regional jets, with five to be added this year and the rest next year. The report said the airline would use the aircraft to raise the company's profile in the feeder market for flights of less than 500 kilometres.

The Civil Aviation Administration of China (CAAC) has lowered the upper limit of permitted airfare increases from 20% to 14% as a result of lower jet fuel prices. The CAAC last October allowed domestic airlines to raise fares by up to 20% to help offset high fuel prices. Most Chinese airlines raised fares by 15% in December.

BUSINESS ROUND-UP

Executive clear-out at QF

As its profit levels dipped for the first time in nearly six years, Australia's QANTAS AIRWAYS moved to improve competitiveness, including a clear-out of executive and middle management ranks, big staff cuts and a network rationalisation.

The action came as chief executive designate Geoff Dixon prepared to take over from James Strong, who has led the airline since 1993. At his final press conference Strong announced a 22% drop in first half after-tax profits to US$139.9 million.

While it continues to be one of the best performing airlines in the Asia-Pacific, Qantas has been unable to fully counter the multiple impacts of increased domestic competition, rising fuel prices, the weakening of the Australian dollar and increased airport charges across its network. Revenue did rise 13.1% to $2.65 billion in the six months to December 31, but yields on its mainline routes deteriorated as a result of competition with new no-frills carriers Impulse and Virgin Blue. And even though an aggressive fuel price hedging strategy generated savings of $135.2 million, the carrier's fuel costs still increased by $62 million.

Dixon said staff would be trimmed by 5% overall, with 220, or 25% of executive and middle management positions, leaving within two weeks. Another 1,250 non-operational personnel will exit the airline in the next six months, mainly through attrition and voluntary redundancy.

Some poor performing international routes, the first being all services to China and Canada, will be dumped. Suspensions will be announced shortly. The aircraft, B767-300s, will be redeployed on Australian domestic routes, lifting capacity by 11%.

Dixon said there was little to indicate trading conditions would improve in the second half of the year. The past 12 months had seen the environment, in Australia and overseas, change dramatically as a result of competition from lower cost airlines, government-sponsored policy changes and higher costs.

"We have three major competitors in the domestic market with the start-up of Impulse and Virgin, and Ansett being absorbed into the foreign-owned grouping of Air New Zealand and Singapore Airlines," said Dixon.

"We must improve our productivity per employee to better match our major competitors and bring our domestic airline costs closer to the two new domestic airlines."

The action represented a negative side of the rapid liberalisation of the aviation industry by governments in Australia, he added.

Ansett sinks AirNZ's profit hopes

After a gloomy 2000 during which it was battered by Qantas Airways in the Australian domestic market, Ansett Australia losses virtually put paid to any profitability at the AIR NEW ZEALAND ANSETT GROUP might have hoped for in its first six months as a combined company.

Ansett Australia's poor performance sank Air New Zealand's profit hopes

After-tax income plummeted 97% to US$8.8 million in the half year to December 31, hit by the Ansett woes, fuel costs rising 72.9% and a plunging New Zealand dollar. The airline group had a pre-tax operating loss of $14.9 million, down 126% on the same period in 1999.

While revenue rose 147% to $1.5 billion any comparison with sales in the equivalent six months is meaningless; this was the first time the financials of Air New Zealand and Ansett have been on the same balance sheet.

Air NZ chairman Sir Selwyn Cushing would not itemise Ansett's specific contribution to the drop in income, but he and new chief executive, Gary Toomey, left no doubt the contribution was significant. Sir Selwyn even conceded Air NZ may have paid too much last June to acquire the 50% of Ansett it did not already own. But he said the purchase of Ansett was "absolutely necessary" to the future strategic growth of Air NZ.

Sir Selwyn said this has been "one of the most challenging periods faced by Air New Zealand and Ansett", with trading performance impacted by:

- fuel prices at 10-year highs.
- New Zealand and Australian dollars at all-time lows against the U.S. dollar.
- increased competition in Australia with the arrival of two new low-cost airlines (Impulse and Virgin Blue) and big capacity increases on Australian main trunk, trans-Tasman and Pacific routes by major competitors.
- a new Australian tax system that had impacted on consumer spending patterns.
- drop in domestic demand caused by the Sydney 2000 Olympics which outstripped gains from international Olympic traffic.

The integration of Ansett and Air NZ had progressed at a slower pace than anticipated, with projected savings from the union failing to meet expectations, he said. Sir Selwyn said based on current trading and market conditions, the outlook for the second half "is uncertain". There is potential for further deterioration in operating results in the short-term".

PHILIPPINE AIRLINES (PAL) has reported an unaudited net third quarter loss ending December 31 of 539.7 million pesos (US$10.5 million), more than three times its deficit in the same period of 1999. The flag carrier blamed increased fuel costs during a traditionally lean period. PAL said it registered a net income of 299.25 million pesos (US$5.8 million) in the nine months ended December 31, compared with a loss of 121.64 million pesos (US$2.4 million) in the same period a year earlier.

High fuel costs took their toll on THAI AIRWAYS INTERNATIONAL'S (THAI) first quarter results. THAI's operating profit was 1.76 billion baht (US$40.5 million), down 60.2% on 4.42 billion baht recorded in the same period last year. Fuel and oil costs were 3,166 million baht higher and foreign exchange losses were 1,506 million baht compared to 6,849 million baht in 1999.

At Singapore Airlines (SIA) they did not think it would ever happen to them. But when SQ006 crashed in a rain storm as it tried to take-off from a wrong runway in Taipei last October the unthinkable did happen. Four months on the hurt is still there, but SIA remains committed to its global goals. Deputy chairman and chief executive Dr Cheong Choong Kong spoke exclusively to Orient Aviation *about the accident, its effects on the company and the airline's future*

Devastating, Humbling

By Barry Grindrod and Tom Ballantyne

These were just two words used by Singapore Airline's (SIA) deputy chairman and chief executive, Dr Cheong Choong Kong, to describe his feelings after the crash of SQ006 on take-off from Taipei's Chiang Kai-shek Airport on October 31 last year.

The pilots of the Los Angeles bound B747-400 tried to lift off from a runway closed for repairs during a rain storm. Eighty three passengers and crew died.

In his first interview about the accident, Dr Cheong said while the trauma had passed, the pain was deep-rooted.

"It has been a humbling experience. There were times when some of us felt we were winning in every field of competition. We were doing very well in every respect, winning awards ... and then this [the accident] suddenly happened.

"I suppose the truth of our vulnerability and mortality hit us. As I said, it was a devastating experience."

But it was an experience Dr Cheong and his senior executives faced head on.

He was in Auckland for an Air New Zealand board meeting when he heard about the accident. In a matter of hours he was in Taipei facing the anguished friends and relatives of those on board SQ006, all done in the glare of the media spotlight.

It was a pattern he was to repeat in the days to come. Not an easy task for anyone. "You have to tell yourself it is a necessary responsibility and duty," said Dr Cheong. "However, some of my colleagues were under far greater pressure. They had to bear the full brunt of anger and grief for weeks on end."

More than 100 of SIA's voluntary team of

SIA deputy chairman and chief executive, Dr Cheong Choong Kong: the truth of our vulnerability and mortality hit us

trained "buddies", staff from all departments within SIA, were on the first flight to Taipei out of Singapore early on the day after the late night crash to help friends and relatives of passengers and crew on SQ006 (page 22). Within a couple of days over 300 buddies were involved on the ground along with management staff.

Dr Cheong paid tribute to the buddies, who are trained to respond to a variety of crises ranging from accidents and hijackings to long delays. "It demonstrates that it pays to be prepared although you can never be fully prepared. You can always find things that did not work as well as they should have done," he said.

"One of the important lessons we learnt was how important communication is in the first few hours after an accident. No matter how great the pressure is on us we have to resist stating anything other than what is fact."

Dr Cheong described the crash of SQ006 as the low point of his 27-year career with SIA, 17 of which have been spent as the head of the airline. He joined two years after its formation in 1972 and has helped it grow into one of the most respected and profitable airlines in the world from its base in the island state of just four million people.

SIA's inflight service is a yardstick by which other airlines are judged. Awards have been many. And, most importantly, it has been a safe airline.

Add all these factors together and perhaps it explains why SIA was inundated with letters, faxes, e-mails and phone calls of support after SQ006 crashed.

Dr Cheong said there was a small fall in passenger numbers from and through Taipei for a time after the accident, but no significant decline elsewhere.

While SQ006 will occupy the minds of SIA for a long time to come, the issues of the day have to be dealt with, said Dr Cheong. These include, for example, addressing steep aviation fuel price increases and the softening of some markets in the region.

At the time of the accident SIA was on a high. Earlier in the year a US$971 million investment bought the airline group 49% of Britain's Virgin Atlantic Airways. Another US$140 million increased its holding in Air New Zealand (AirNZ), now the Air New Zealand Ansett Group, to 25%, which gives SIA a powerful say in Ansett Australia, now wholly-owned by AirNZ.

A new first class cabin that leapfrogged all the opposition was bedded down, along with the introduction of other inflight entertainment innovations to keep it ahead in the customer service race.

Then came the headline grabbing US$8.6 billion order for Airbus Industrie's super jumbo, the 555-seat A380; firm orders for 10 and options on another 15. SIA will be the first carrier to operate the Very Large Aircraft when it comes into service in 2006.

A few days later SIA announced a US$1.3 billion deal with Boeing for six B747-400 freighters, with options for another nine.

Only four days before the Taipei accident the good news was still coming. SIA's financial report for the six months ending September 30 announced SIA Group pre-tax profit rose 89.3% on the same period in 1999, to S$1.4 billion (US$793.8 million). Operating profit was up S$206 million to S$739 million. The airline's pre-tax profit climbed 88% to S$1.21 billion. Operating profit rose 52% to S$569 million on revenue of S$4.62 billion.

In recent weeks business as usual has included another new aircraft deal. In February, SIA ordered 20 Boeing 777-200s, 10 on firm order with 10 options in a transaction valued at US$4 billion on list prices applicable at times of delivery. The aircraft will replace SIA's fleet of 13 A310-300s.

And the carrier is looking to add to its

Shortcomings at Taipei crash airport

Aviation authorities in Taiwan investigating the crash of a Singapore Airlines B747-400 in which 83 people were killed have said some facilities at Taipei's Chiang Kai-shek (CKS) were faulty.

The Los Angeles-bound aircraft, with 179 passengers and crew on board, slammed into construction equipment and burst into flames in a storm as it attempted to take off from a runway closed for repairs on October 31 last year.

"The CKS airport is old. It has been in use since 1979. Some of the lighting systems, signs and marks were not up to the latest standards of the International Civil Aviation Organisation (ICAO)," said Dr Kay Yong, the managing director of the Aviation Safety Council, which is leading the investigation.

Taiwan is not a member of ICAO, but had pledged to observe the organisation's standards and regulations.

The February 24 interim report was a presentation of facts. A final report, in December, will identify the cause of the crash.

The three pilots survived the crash. They told the investigators they had been briefed before the flight that a parallel runway was closed for maintenance work, but had mistaken it for the assigned runway.

Air traffic control was unable to spot the mistake because the airport did not have ground radar to monitor the movement of the jet. Visibility was very poor on the night.

Dr Yong said the closed runway had not been blocked off because it was being used by taxi-ing planes.

The investigator said one guiding light that could have helped direct the aircraft to the correct runway was not working and another was too dim. The lights were at the point where the pilots turned on to the wrong runway. There also was a line painted on the route leading to the closed runway, but none to the correct runway.

Singapore Airlines, which has said it will take full responsibility for the accident and pay compensation to the injured and families of those killed, said it would wait for the completion of the investigation before commenting.

Singapore Airlines: messages of support from travellers following the accident global portfolio by bidding for a stake in Air India with Indian partner, Tata Industries.

SIA bosses also are talking to other airlines, although Dr Cheong will not name names. He does not rule out at some future stage buying into a Chinese airline. "Why not?" he said confidently. SIA, through its subsidiary, Singapore Air Terminal Services (SATS), has a ground handling and a catering joint venture in Beijing and its engineering division has a joint venture in Xiamen.

SIA is ambitious. It is already influential on aviation's world stage and it intends to become more so. It has the expertise and the cash to do so. It has no debt and more than US$1 billion cash-in-hand to help fulfil its goals.

But this is not the time for the company to be too upbeat, said Dr Cheong. The "humbling" experience of SQ006 has meant that the company is looking at the lessons it can learn from the experience. It is taking stock.

But life, and SIA's game plan, goes on. "I would hope that five years from now we would be clearly recognisable as a very large global group of airlines and airline-related companies. I see Virgin, Ansett and Air New Zealand as just the beginning," said Dr Cheong.

"At the same time, while we will be growing through our acquisitions and alliances we will be very much focused on our organic growth by adding new destinations and increasing frequencies."

Dr Cheong has just signed a new two-year contract as SIA's chief executive that will come into effect in June and take him through to the age of 62 at the airline. "There will be no more contracts. I will then retire from SIA and look to do something different," he said. Referring to his successor he said "people had been identified".

Dr Cheong's achievements in the past 27 years have been considerable to say the least.

Born in Malaysia in 1941, he is quick to reject any suggestion SIA's success is built on his own business philosophy. "It is not my philosophy, but the way the company does things," he said. "It is more the culture of work. The culture of doing business within the company."

There are some constants in that, he added. "We stay with the basics of management, time-honoured basics. Take customers, for example. We think customer all the time. And competition; we believe in competition. I believe much of our success is due to the way we have been used to competing from the earliest times. That competition has honed many of our skills.

"We don't go blindly for the latest management fad. We are open to new ways of doing business and new ways of thinking, but it is this adherence to basics, of prudence of financial management for example, which makes it work."

Other executives underscore the importance of fundamentals. Example: awards are a way of life for SIA. Staff still enjoy winning them, but celebrations are short. Even if they collect 95% of the vote, a post mortem is held about possible shortcomings that cost them the remaining 5%.

Another critical cog in the "global company" strategy is there is no glass ceiling for non-Singaporeans at SIA.

Back in 1993, when many other Asian carriers were moving to reduce expatriate numbers and "nationalise" their staff, Dr Cheong was telling his senior executives SIA had to search the world for the best, recruit them and allow them to reach the highest ranks, wherever they came from.

It is an undertaking he has delivered on. "It's not just us trying to be fashionable," he said. "We recognised if we were to grow and if we are going to be number one, then we must be served by the best in the world.

"Because you are competing with global players, it is arrogant to think the best in the world can only be found in tiny Singapore. So starting in the early 1990s we recruited fresh university graduates in other parts of the world to work for us. It wasn't a question of finding the best and bringing them in as chief executive or senior vice-president, but bringing them in at the lowest executive level and letting them work their way up like Singaporeans."

SIA has always been an international company. It operates internationally. But Dr Cheong believes globalisation means having businesses based all over the world, not just flying there.

He is more optimistic than ever that open skies and liberalisation are inevitable. "It's a philosophy that should be espoused by any self-respecting airline. How else can you grow? How else can you succeed in a market with your own skills and merits if you don't have free competition?"

Singapore Airlines will be the first airline in the world to put the A380 Very Large Aircraft into service in 2006

He thinks there is nothing schizophrenic about the two apparently diverse paths SIA is taking in its expansion quest; being a Star Alliance member on the one hand, yet setting up its own global stable of airline and airline-related companies on the other.

That may appear to be building an alliance group within an alliance group, but not so, according to Dr Cheong. SIA needs the world as its market because it does not have a substantial home market in which to grow, he said.

"Why should we apologise for that? In this day and age just about every other industry has been, or is being, globalised. Look at the banks and look at the Telcos. The airline industry is practically the last major bastion of protectionism," he said.

Some growth comes through alliances, but this is an artificial way, he suggested, because part of the reason alliances came into being was to circumvent protectionist walls, the regulatory environment and ownership limits which place brakes on airline globalisation.

"Now, alliances have a *raison d'etre* of their own and not just as a means of overcoming protectionistic values. Being a member of an alliance with the right partners has its own merits. One example is the affiliation of frequent flyer programmes which strengthen your product immensely and give you a big marketing edge over other airlines with less extensive frequent flyer networks," said Dr Cheong.

"At the same time we want to be a successful large group of airlines and airline-related companies for a slightly different set of reasons. Our growth rates out of Singapore have been declining over the years and the reasons are not difficult to see.

"It's a small home market and when you reach a certain size, as we have, every additional point of growth is harder to achieve. How many more frequencies can you add to London or Sydney? How many more new destinations can you add to your network when you are already flying to practically all the major destinations of the world?

"So if you can't grow at a satisfactory clip the traditional way, then we can grow vicariously through our investments in smaller airlines which, because they are smaller, are capable of higher rates of growth than we can achieve on our own. That is something quite different from the rationale behind membership of alliances."

Both are important as separate, but parallel goals, he insisted. "Where they overlap is some of the airlines we have taken equity stakes in happen to belong to the same alliance. And it's not difficult to see why because the airlines we are interested to invest in and the airlines we would like to be our partners in an alliance have the same characteristics. We look for the same criteria."

There have been suggestions SIA wants to ultimately control the airlines it takes a stake in. Not so, said Dr Cheong,

"We are not interested in a majority stake, a majority meaning more than 50%. We would like the airline to retain its national character because I think that would make us more acceptable to the home market, which is important for pure commercial, if not ideological, reasons.

"Attaining the equity stake requires a lot of effort from the very top and making the equity partnership work also requires a lot of effort so unless the stake is significant it's not worth our while."

Air India: SIA in a bid with Tata Industries for a stake in the Indian national carrier

Dr Cheong insists SIA "would not force itself" on its equity partners. "We would be very happy to extend co-operation in any area, but it has to be with mutual consent and the effort must be to the mutual benefit of all parties."

He does not mind talking about giving assistance to Australia's Ansett, now wholly owned by Air NZ. "We would be very happy to give it (assistance), to grow Ansett International into a truly major international airline in time.

"We have to recognise that right now it has hardly started, but we want it to develop into a true competitor to Qantas," he said.

Having large amounts of cash on hand allows SIA to maintain its lead in the costly field of Information Technology (IT) and IFE, central planks in its reputation now and in the future.

"It's not just IT, which has been with us for a long time. It's more the technology associated with the Internet and all these new developments which allow us to leapfrog the competition provided we have the will and the willingness to spend," said Dr Cheong.

"This technology opens up a new green field and everybody is starting at the same level. We certainly have the will and we have the financial resources to carry it through. We see tremendous opportunities and we will harness this new technology for a lot of things, but in particular for customer servicing and to improve our sales."

What makes SIA a successful airline is a little bit of everything, said Dr Cheong. "You can't put your finger on one thing and say; 'hey, that's it'. Whether it is the cabin crew, or the most modern fleet or the best inflight entertainment system, they are all part of the entire fabric.

"There is no magic formula, although one cannot deny luck may play a role at times."

On a wet and windy night on October 31 last year that luck ran out when SQ006 failed to take off. Today, however, confidence is returning to SIA and the airline will build on the lessons it has learned to achieve greater global heights.

SIA fleet: 91 and growing

SIA has a fleet of 91 aircraft with an average age of five years and 11 months. It has 65 jets on firm order and options for another 55.

SIA has 36 B747-400s with three more on order and nine options. In addition, the fleet includes nine B747-400 freighters with eight on order.

There are 13 B777-200s in service, with 37 on order and 26 options. It has five B777-300s with three others on order.

It also has 13 Airbus A310-300s and 15 A340-300s.

There are five A340-500s on order and five options. SIA will take delivery of 10 A380s from 2006 through 2011 and has 15 options on the new Very Large Aircraft.

The airline's route network, including flights of wholly-owned subsidiary, SilkAir, and freighter-only destinations, extends to 91 cities in 40 countries. Including code-share services, SIA serves 119 destinations in 41 countries. The carrier has 613 passenger flights a week departing Singapore.

SIA's crisis 'samaritans' are ...

The best of buddies

By Barry Grindrod
In Singapore

Siddy Baharuddin, one of Singapore Airlines (SIA) most experienced "buddies" – volunteers who assist in times of crisis – says she has found herself a new "brother".

She met him in the worst possible circumstances, the day after SIA had its worst ever crisis: on the night of October 31 when Los Angeles-bound Flight SQ006 crashed trying to take off from Chiang Kai-shek airport in Taipei. Eighty three passengers and crew of the 179 on board died. Many others were injured.

The graphic television pictures of a burning plane shocked and horrified viewers. None more so than the people of Singapore.

But the accident brought out the best in one group of people, the SIA "buddies" whose job it is to assist in caring for the relatives and friends of victims and assist survivors. It's a tough job, physically and mentally draining. But there are compensations for both parties.

Siddy's new brother lost his mother in the crash and the relationship illustrates the strength of the SIA buddy system and the extraordinary compassion and caring of the buddies themselves. The bonds formed in many cases lead to very special and long-standing friendships.

Siddy, a senior SIA sales representative and one of the airline's most experienced buddies, first saw "active service" in December, 1997, when SilkAir, a wholly owned subsidiary of SIA, lost a B737 with 103 passengers and crew on board over Indonesia. It crashed into a river in Palembang.

"The two accidents were very different. There were no survivors in the SilkAir accident and the crash site in Palembang was very isolated. It was not easy for friends and relatives to visit. There were no faxes or phones to use," said Siddy.

The hardest part of the job? Breaking bad news to the families, said Siddy. "With SQ006 there were many different nationalities, different races, so choosing the right words to tell people their loved ones had perished was important.

"At first in Taipei we did not have a precise list of passengers and their condition so we could not tell people anything. It was very difficult. We could not build up their hopes.

Siddy Baharuddin: "We have to let ourselves be punching bags ... It is part of the anger process for the next of kin"

"It is important in those very difficult circumstances that we understand what the next of kin were going through and allow them to use us as a punching bag. This is part of the anger process, but as the day goes on they begin to realise we are there to help and they become very close to you. From a painful experience something beautiful develops and real friendships emerge between the buddies and relatives."

Ruth Kelly is SIA's vice-president customer affairs and heads the buddy programme. "What happened on the night of the accident was incredible. We have a list of 385 trained buddies in Singapore, but as the news was breaking people who were not registered as buddies turned up at the crisis management control centre at Changi airport in droves. It was wonderful. People arrived all through the night. Some got out of bed, others had just returned from duty travel. Some staff returned from leave early just to be there. They wanted to help. They had no idea what they would be doing because they were not trained buddies. But they either helped with admin, were runners for buddies or had the language skills we needed in Taipei."

The initial group of more than 100 buddies was on the first flight to Taipei at 6.30am. Within a couple of days, scores more back up buddies flew to Taipei. "We had more than 300 in Taipei, not all at once, because some were relief buddies," said Kelly. It's estimated a buddy, on average, is mentally prepared for seven to 10 days for crisis support before he or she needs to "recharge the batteries".

"I have never seen so much motivation and enthusiasm as there was in that first 48-72 hours after SQ006 crashed. How people moulded and got on with the situation was phenomenal," she said.

"What also has to be remembered is someone has to cover for the buddies back in the office, which means that staff throughout the network are playing their part in crisis management."

The buddy system was launched by

"Shock treatment" is part of the buddy training programme when film clips and newspaper coverage of accidents are analysed and discussed

SIA management in 1992 to support its permanent crisis management centre. It was decided that in the event of a major crisis like an accident or a hi-jacking a structure was required where people would help the next of kin of victims and provide back up support for them. Buddies could also be called upon when passengers suffered long delays caused, for example, by an air traffic control computer shutdown, or onboard food poisoning.

Today, SIA has 385 buddies in Singapore and 268 based overseas. They are recruited from throughout the airline and its subsidiary companies. The numbers received a huge boost after the SQ006 accident. Another 170 joined the ranks.

Everyone throughout the SIA Group has access to the buddy bulletin board that gives the history of the programme, procedures, and how to join a list of buddies.

Once a person volunteers and before they can be activated for any type of crisis, they have to graduate through a series of training courses. They are held over a three-day period that includes a great deal of role playing. During the courses it is decided if the volunteer is comfortable with the role and has the potential to handle crisis situations. News clips of emergencies are used as "shock treatment' to test the would-be buddy.

The key to being a good buddy, said Kelly, is to be a good listener. "They are not counsellors, but we equip them with basic counselling skills," she said.

"We get help from a local counsellor. He will discuss grief, the process of grief, understanding anger and the stages of anger. They will be taught basic skills in paraphrasing what relatives say, seeking clarification of what they are saying to enable them to understand what is needed. The more they listen and the more they learn about the family, the more they can support that family.

"But the buddies are also there to inform the people who are undergoing trauma what is going on at the crisis management centre. Buddies pass on any requests the next of kin may have to the centre."

Just as important as looking after the relatives and friends of victims is the need for the buddies to look after themselves.

"Buddies are given a lot of training on how to manage their physical, emotional and mental states," said Kelly. Buddies also keep their eyes on other buddies, watching for signs of emotional wear and tear, and are always ready to help when necessary.

A bulging folder of thank you letters at SIA's Airline House headquarters illustrates the value of the work of the buddies. During March SIA will be holding a "buddy talk time", a kind of final debriefing of the SQ006 aftermath.

"We still have buddies working with survivors and with relatives. We also have buddies who are hiding their feelings away and may need to talk," said Kelly. "The talk time will allow us to look at where we are at now, what improvements we can make to our programme and for the buddies to share, in a group or individually, their own feelings. "It will be a kind of closure on SQ006."

Said Siddy: "The buddy programme helps to bring people together in the company. You cannot help but feel proud to belong to such an organisation that has so much dynamism."

The turnaround at British Airways (BA) since former Cathay Pacific Airways and Ansett Australia boss Rod Eddington became chief executive in May last year has been dramatic. Modestly, he refuses to take all the plaudits for BA's improved performance and credits his predecessor, Robert Ayling, with contributing to the success of recent months. But, Eddington told TOM BALLANTYNE *in London, there is still much hard work ahead.*

Eddington puts accent on success

...and it's working; but no more investment in Asia-Pacific carriers

There were a few raised eyebrows in British Airways' (BA) Waterside headquarters near London's Heathrow Airport when it was announced in April last year that an Australian was to take over one of the great British institutions.

But many of those who knew Rod Eddington in his successful days as managing director of one of the most profitable and most respected airlines in the world, Cathay Pacific Airways, and, latterly, executive chairman of Ansett Australia, believed BA chairman, Lord Marshall, had pulled off a master stroke.

The sceptics might have said there was nothing to lose, it could not get any worse at BA. His predecessor, Robert Ayling, had been sacked as the bottom line headed into the red. The carrier that calls itself "the world's favourite airline" was under investor siege as it reeled from high fuel costs and expenses as well as tough competition from low-cost European rivals.

In the last year of Ayling's BA leadership after-tax profits had plummeted from US$833.3 million in 1997 to $677.3 million in 1998 and $313.6 million in 1999. In May last year, a few days after Eddington had stepped into his chief executive's office for the first time, the carrier reported its first full year loss of $16.7 million.

At the time shareholders were far from happy after earnings per share plummetted from around 77 cents in 1997 to minus 24 cents in the year to March 31, 2000.

And the staff was unhappy, too. Ayling's management style had not made many friends among BA's employees. Eddington errs on the side of gross understatement when he reflected on his early weeks at Waterside. "Morale [of the workforce] was bruised," he said diplomatically. "But people were still committed to the company. That as much as anything has enabled BA to get through the last couple of years, because they have obviously been difficult years."

"Eddo" the saviour? Well, it was not long before he knew his talents would be tested to the full – and more! The documented financial woes were just the beginning. He was soon thrown into the complex and soon-to-fail negotiations with Dutch flag carrier KLM about a proposed merger. And in June,

BA chief executive Rod Eddington: the Australian is comfortable at the helm of one of the great British institutions following the tragic crash of an Air France Concorde, BA grounded its own fleet of the supersonic jets.

Although Eddington will not comment publicly about the Concorde issue with Air France because the investigation is ongoing, it is likely the BA Concorde fleet will be back in the air by spring.

Eddington, who in March will take his place on the board of 25% BA-owned Qantas Airways, is the consummate airline executive.

He has fitted easily into his new surroundings. He says he enjoys the job tremendously and his Korean-born wife and two children are "very happy" with their new life in England.

Any lingering suspicions about the new boss from Down Under have probably been dispelled by the hands-on, no nonsense Eddington style.

"I have always regarded myself as an Australian first and foremost, but I recognise that I'm a gypsy," he said.

He lived in England for seven years in the 1970s when he studied at Oxford University as a Rhodes scholar and then as a research fellow. Later, when he joined Cathay Pacific at 29, he worked in Japan, South Korea and Hong Kong before he moved to Melbourne to head Ansett in 1997.

"If the acid test [on loyalties] is who do I barrack for when Australia plays England on the cricket or the rugby field, it's no contest," said keen sportsman Eddington with a smile. "But although BA is a very British company in some ways, it is a global company in others. I think the days are gone when companies like BA or Qantas Airways are run from a very narrow base by a very narrow group of people, all from one country. You just can't do it any more.

"This airline business is one of the most cosmopolitan of all industries so I don't think it is strange there is an Australian at the helm of British Airways. I regard myself as part of the British Airways team," he said.

There is already evidence Eddington's efforts at BA are paying off, although he refused to take all the credit and pointed out the benefits to the airline produced by measures taken by Ayling before he left the airline.

Nevertheless, the turnaround since Eddington took over has been stunning. In the nine months to December 31, operating profit climbed 111% to $668.2 million, with pre-tax profits hitting $325.7 million. Yield rose 8.3% and, excluding a 46% rise in fuel costs and the impact of exchange rate changes, unit costs fell 3.1%.

The results reflect a reduction of unprofitable capacity and continued cost efficiencies, with smaller aircraft, higher frequencies and a more profitable mix of passengers all contributing to the better results.

"These numbers are encouraging and reflect the continuing improvements in the business. In a competitive marketplace they show we can continue to improve profitability by focusing on our core activities and the right network," said Eddington.

Major priorities have been fleet strategy, a re-appraisal of BA's use of London's second airport at Gatwick and rationalisation of short-haul European operations, he added.

BA's short-haul business is fragmented. It includes BA's own regional services, wholly owned subsidiaries like Brymon, CityFlyer and Deutsche BA, and franchises such as BASE Airlines, British Mediterranean, British Regional Airways and GB Airways. "The first question is what belongs inside the tent and what doesn't? We are in the process, in an intelligent way, of consolidating and integrating the other parts of our short-haul network," said the BA boss.

A French subsidiary, Air Liberte, has been sold and BA's no-frills operation, GO, is on the auction block, expecting to be sold by the end of the year. Two separate businesses at Gatwick – CityFlyer and EOG (European Operation Gatwick) – have been incorporated under one management structure.

Branding will be an issue in the longer term. "Whether or not we ultimately have everything under one brand, a BA brand, or whether we will have two brands, a BA and a BA Regional or a BA Link or a BA Express, that's an issue we will be addressing. It is not something we are rushing into," said Eddington.

BA is radically reorganising its use of Gatwick, which has been a second hub, along with Heathrow. That will end. "Gatwick, good airport though it may be, will never be a good hub and spoke airport. It has only one runway and two terminals, so it's a split terminal airport. It just doesn't lend itself to a hub and spoke operation," argued Eddington.

Over the next two to three years some long-haul services will be brought back to Heathrow from Gatwick and some short-haul flights will go the other way. BA will continue to have a substantial presence at Gatwick, but primarily it will become a point-to-point operation.

British Airways: A dramatic reversal in fortunes

"There are places like New York, which is a big market, and leisure destinations such as the Caribbean, which will be able to justify a Gatwick operation. But operations like our South American and African routes will come back up the M25 motorway to Heath-row."

The third plank of BA's revival plan is fleet strategy. "When I arrived at BA there was a strategy in place which had a number of pieces to it. One was trying to make sure we had the right sized aircraft on the right routes and this included a substantial commitment to the Boeing B777.

"The longer-range variants particularly have been extremely useful because BA has a big fleet of about 57 B747-400s, but there were some long-haul routes where the B747-400 was too big. The B777-200 has been extremely useful operating in parallel or in tandem with the -400s.

"BA had also made a major commitment to the narrow bodied Airbus fleet, A319s and A320s, with some opportunities to acquire

A321s later. That was an excellent decision. It's a very popular aircraft with our customers and our crews and it means instead of operating B767s on short-haul European routes, on routes where that aircraft was too big, we're able to operate a more appropriately sized aircraft. I think both those planks of the strategy were absolutely right."

But Eddington said there was no room in the fleet for the Very Large Aircraft, the 550-seat A380 in the near future.

One reason is that partner and oneworld alliance member Qantas Airways has ordered 12 of the aircraft. "Qantas will be operating the A380s under our joint service agreement. We will be code-sharing. Qantas will operate them from Sydney through Bangkok to the UK. There will be A380 capacity which we can take advantage of. We are delighted Qantas will be operating it, but BA has other priorities at the moment."

Eddington said he felt some frustration over the failure of complex negotiations aimed at securing a BA-KLM merger, a plan ultimately foiled by European Commission monopoly concerns.

"In the bilateral system, aeropolitical realities drive a lot of things in this industry and one of the things they do is make consolidation much more difficult because ownership and control issues, which are fundamental to the bilateral process, often determine what you can and can't do. Are they frustrations? Yes they are, but they are the realities you have to live with."

He still believes European aviation will consolidate. "That is inevitable and the reason is the economic drivers are powerful.

"The economic pressures to consolidate, particularly in tough times, are real. The aviation industry is no different to any other industry. We have seen consolidation globally in the car industry, the telecommunication industry and the banking industry. International aviation is more fragmented in many ways than any of them."

Eddington has a message for the Asia-Pacific airline industry; BA will not be investing in any more of the region's carriers and, despite rumours, it will not be changing its 25% stake in Qantas.

"Any investments we make will be in European airlines as part of a consolidating process in Europe. That will be our focus. You won't see any investment by us in Asia," he said.

He denied conflicting reports that suggested BA planned to either raise its Qantas stake or dump it altogether." We have no plans to raise or trim the stake. It's a significant investment, but not a dominant one.

"We have an excellent relationship. We think the current relationship underpins the strong links between the two carriers, the joint service agreement between the UK and Australia and our joint membership in oneworld. Yet it does not crowd Qantas management in any shape or form. I think it is pitched just right."

'I have seen a widening of the gap between the Cathay Pacifics and the SIAs on the one hand and some of the other airlines in Asia on the other. In part, that is a reflection of the quality of leadership' – Eddington

In Asia, BA will focus on building relationships with partners through the oneworld alliance. "We will serve the key markets directly as BA on a non-stop basis wherever we can from London Heathrow. But we will serve many of the smaller markets through our alliance relationships with Qantas and Cathay Pacific."

Eddington believes some of the region's airlines fared far better than others through the 1997-98 economic crisis. "Every country responded differently. Airlines responded differently and the strong airlines in Asia, the best managed airlines like those of the quality of Cathay Pacific and Singapore Airlines, have strengthened their relative positions as a result of the quality of their management and decision-making."

All Asian carriers benefitted substantially from the boom of the mid-1980s and mid-1990s, because "a rising tide lifts all ships", he said.

"But in the really tough times it is airlines with the strong brands, with good management teams, with a good product and with a strong customer base which really excel. I have seen a widening of the gap between the Cathay Pacifics and the SIAs on the one hand and some airlines in Asia on the other. In part, that is a reflection of the quality of leadership. People like David Turnbull and Philip Chen at Cathay and Dr Cheong and Michael Tan at SIA are experienced people who run airlines on commercial grounds."

Eddington is reluctant to comment publicly on the problems of his former charge, Ansett, now wholly owned by Air New Zealand. However, he did observe that putting two airlines together was "a challenge".

"Think of the difficulties Qantas had in the early days merging with Australian Airlines and look at the problems in British Airways, putting BOAC and BEA together all these years ago. But if everyone is focused on it you can do it.

"There is plenty of evidence to suggest these things can be done and I have no doubt that Gary Toomey and the team will be focused on getting it done."

Eddington is looking forward to sitting on the Qantas board. "I think James Strong [Qantas chief executive] and his team have done a terrific job, through the privatisation of the airline and beyond.

"The BA relationship with Qantas is a very good one and I am looking to reinforce that. It's great to be involved again in an Australian company, although clearly the overwhelming majority of my time will be spent on matters BA.

"But sitting on the Qantas board wearing a BA hat, my primary focus obviously will be to do what I can to help Qantas continue to grow and strengthen. I'm also mindful of the quality of the links between BA and Qantas. I believe they are important links for both carriers. I am going to help try and reinforce them if I can."

Airlines face 79% rise in Sydney fees

By Tom Ballantyne

Australia's pricing watchdog, the Competition and Consumer Commission (ACCC) has attracted criticism from all sides with a draft ruling which would allow Sydney Airport to increase aeronautical charges an estimated 79% later this year.

The body has been slammed by airlines for allowing such a big increase, by airport management for trimming back its original demands and by government for the impact it may have on the potential sale price of the airport when it is privatised.

The draft decision would allow the airport to raise its revenue from the current US$47 million a year to US$85 million per annum. The airport management had sought permission to lift revenue to US$109 million annually.

That proposal, made nearly a year ago, sparked an angry response from airlines, which instigated legal action. They have continued to fight the proposed increases, which they claim breaks a promise the airport made that it would not attempt to recoup money spent on its costly improvements for the 2000 Olympic Games by raising user charges.

Airlines remain unhappy. They wanted increases restricted to around 30%, far below the 130% sought by Sydney Airports Corporation (SACL). In the event, the ACCC has opted to approve a figure midway between the two demands.

Warren Bennett, executive director of the Board of Airline Representatives of Australia (BARA), which represents international carriers using the airport, expressed disappointment and said the draft decision seems to contemplate a 79% increase in aeronautical charges.

"The ACCC's draft decision will have a significant affect on the operating costs of airlines. Ultimately these costs must pass through to the air travelling public of Australia," he said.

The ACCC estimated its formula for increases would add about US$1.06 to the price of a return domestic ticket and around $5.30 to an international return flight.

Parties were given less than a month to respond to the draft finding. Both BARA and the SACL have made it clear they are rushing to prepare "strong" submissions to argue their respective cases.

SACL said it sought increases in landing charges and infrastructure usage charges to better reflect the airlines' use of the substantially upgraded facilities and services.

"Sydney Airport's proposal to increase aeronautical charges was designed to influence airline behaviour, not affect passenger behaviour," said its chief executive Tony Stuart. "For airlines, the airport will remain one of the most competitive in the world and the increase in charges will not affect the capacity for regional airlines to use Sydney Airport."

BARA's Bennett suspects the rush to finalise the new fees – final submissions are due March 5 – is a result of political pressure for a speedy decision in order to meet the government's timetable for privatisation of the airport. A draft report should have been delivered by February 28 setting out the strategy and timing of the airport sale – expected to be complete by the end of this year. It is expected to involve a public float.

Some government officials are privately concerned the failure of the ACCC to approve much higher increases in aeronautical charges could seriously affect the expected US$2.1 billion asking price for Sydney Airport.

Indeed, leading credit rating agency, Standard & Poor's (S&P), promptly placed its A+ long-term and A-1 short-term ratings on SACL on a negative watch after the draft ACCC announcement.

S&P said the ACCC's restriction was "likely to place some pressure on SACL's total revenues and cash flows in the near term, which could weaken the company's financial coverage levels."

Sources from several airlines said they are determined to mount a powerful fight to reduce the proposed fee rises.

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A selection of the top stories also will be included each month in *Orient Aviation*.

Cathay takes 10% stake in Tenzing

By Christine McGee

Cathay Pacific Airways moved to the leading edge of electronic communications onboard with its decision to take a stake in the global inflight communications company, Tenzing Communications.

The Hong Kong-based international carrier announced in mid-February its wholly owned technology investment company, Taikoo Aviation Technologies Limited, had paid US$10 million for 10% of the Seattle-based company's shares.

Ian Riddell, the airline's information management and e-business director said in a press statement: "The investment in Tenzing Communications is consistent with our venturing programme, a key element of our e-business strategy.

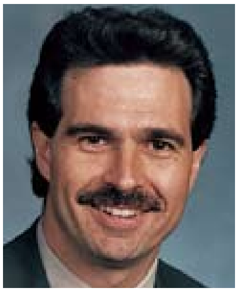
"It recognises that inflight connectivity for air travellers will become an essential part of the service offered by leading airlines over the coming decade. Cathay Pacific, through Tenzing, wishes to be at the forefront of the wave of new service offerings."

The same press statement said the US$10 million investment was part of the second round of funding raised by Tenzing Communications. The leading contributor to the first round of investment – US$12 million – was an international communications company, the Fremont Group. Other parties to the two sequences of investment were founding individuals of the company, TH Lee, Riverside Management Group, JGL Investments, Deutsche Bank and ITOCHU Corporation.

Tenzing Communications is a company that seeks to develop and provide inflight connectivity solutions including inflight e-mail, terrestrial global roaming capabilities, extensive Web content and focused e-commerce and updated content.

Last year, Cathay Pacific announced it would invest HK$2 billion (US$256.5 million) in e-business products that have included

Cathay Pacific information management and e-business director, Ian Riddell: inflight connectivity will become an essential part of airline service



Tenzing chief operating officer, Alan Pellegrini: Cathay's investment significant in more than financial terms; signals confidence

a re-launch of its website, introduction of NotiFLY (informs passengers of flight changes), development of a sophisticated downloadable trip planner and upgraded online booking and check-in systems.

At the same time that Cathay Pacific announced its e-business investment strategy, it conducted an onboard trial of Tenzing's inflight e-mail system. Shortly afterwards, the airline decided it would install Tenzing's inflight connectivity system across its fleet. Earlier this year the carrier announced its deadline for "deploying" – the third quarter of this year. Cathay Pacific said the e-fit makes it the first airline in the world to commit to the introduction of e-connectivity for passengers across its entire fleet.

In Singapore, SIA conducted separate trials on two inflight e-communications systems – Tenzing's product and Honeywell's system. Both models have yet to produce the technology to offer real-time e-mail and website access, but developments in the field are moving so fast that inflight access to e-mail and the Web are soon expected to match the terrestrial e-mail and Internet accessibility of passengers.

Tenzing burst onto the inflight scene at the 1999 World Airline Entertainment Association (WAEA) conference and exhibition in Salt Lake City, Utah. It was an unknown quantity, but it instantly distinguished itself with its marketing pizzazz and accessibility – an experience unique among its competitors at the time. At that 1999 WAEA conference and exhibition Tenzing's early assault marketing team said Cathay Pacific was a possible customer for its system.

Since then it seems to be love between the Hong Kong carrier and the Seattle-based company, with the parties apparently agreeing that e-connectivity – from e-mail to the Internet to direct-to-cabin television entertainment – is the next big moneymaking thing.

Said Tenzing's chief operating officer, Alan Pellegrini, an ex-Rockwell Collins sales vice-president: "This investment from Cathay Pacific is significant in more than financial terms. As with our first round of funding, this investment signals a high level of confidence in Tenzing and our services from airlines – industry leaders who understand our business and our target markets."

Having secured significant investment from a prestigious stable of e-venture companies, including Cathay Pacific, the critical question is: which passengers will pay for what e-connectivity services onboard?

Global catering equipment manufacturer and designer De Ster.ACS continued along its path of industry integration with its recent establishment of a primary partnership with an inflight consultancy and new strategic alliances with two inflight equipment designers and manufacturers. CHRISTINE MCGEE *reports*

One stop global shop moves closer

New partnership and sales and sourcing agreements announced at the industry's annual European flight catering conference continue equipment company DeSter.ACS's strategy of setting up a global "one stop shop" for its inflight customers.

Speaking at the International Flight Catering Association (IFCA) exhibition in Barcelona in February, chief operating officer of DeSter. ACS, James Drayton, said his company, the wholly owned travel division of the Duni Group, had entered into a operating and strategic partnership with inflight concepts agency, Performa.

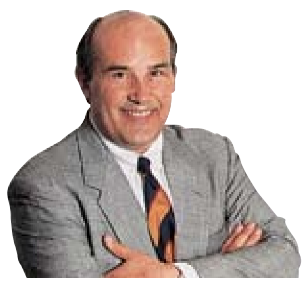
It also had signed sales and sourcing agreements with ceramics manufacturer, Wedgewood of England, and recently merged cutlery and hollowware manufacturers, Groupe Guy Degrenne/Berndorf Inflight.

The DeSter.ACS Performa "independent" partnership "will offer a complete platform for inflight services and product development", a statement released at IFCA said.

DeSter.ACS and Performa will combine their skills to offer an integrated package of design, development and delivery of inflight service to airlines.

However, both companies stressed their new co-operation must not be seen as a merger of their interests. The functioning of the new partnership will be "independent from the day-to-day activities of Performa and DeSter.ACS" , the IFCA statement said.

"It is an exciting and logical step for us to be taking as it meets our ambition to be seen as a total solutions provider," said Drayton. "It meets the needs for the market as we see more and more carriers prepared to contract out to single source professional suppliers."



DeSter.ACS chief operating officer James Drayton: "More and more contractors prepared to contract out to single source professional suppliers"

"Performa is the market leader in designing inflight service and to combine our skills with the recognised position and skills of DeSter.ACS is a perfect match to provide such a comprehensive service," said Keith Bates, Performa's president.

Performa was set up in Australia and now operates globally, with Bates primarily based in Hong Kong. Its most recent inflight re-launch was the re-branding and service delivery transformation of British carrier, British Midland, into the hip bmi.

Better halves of a new whole...

Performa

- Global leader in inflight service design & delivery
- Aviation specialist
- Public company with global resources & staff
- International customer base of airlines
- World-beating industry experience

DeSter.ACS

- World leader inflight design concepts
- Travel business focus
- Recognised supplier of total solutions
- International manufacturer of inflight equipment
- Acknowledged global industry experience

The company is also well known for its role in developing Ansett International's award-winning inflight service when the international arm of the Australian domestic carrier was launched seven years ago.

Stockholm-based international "table" concept and equipment manufacturer, Duni, bought DeSter.ACS last year. In the last 14 months, DeSter.ACS has consolidated its production and marketing into a new operations centre and headquarters in Belgium and management, sales and production centres in Holland, Sweden, Thailand and the U.S. It also has sales offices in several other countries; the most recent being the opening of a regional representative office in Beijing, China.

DeSter.ACS also chose IFCA to unveil its new sales, marketing and sourcing partnerships with manufacturers Wedgewood of England and Groupe Guy Degrenne Berndorf Inflight. Drayton said DeSter.ACS will assume charge of worldwide sales of Wedgewood of England products to airline customers while the ceramics manufacturer will take on total sourcing for all DeSter.ACS ceramics worldwide.

The Guy Degrenne/Berndorf partnership – the Degreene group bought 70% of Berndorf in 2000 – with DeSter.ACS has an evolutionary element in its operations. DeSter. ACS will be, as with Wedgewood, the world salesman for the cutlery and hollowware manufacturer and Guy Degreene/Berndorf Inflight becoming the Duni subsidiary's sole inflight flatware and metal accessories supplier. However, the metalware manufacturer, which produces most of its products in the Asia-Pacific region, will continue to supply a selected group of its own clients under the new partnership. As well, existing contracts signed by all parties will be honoured until they lapse.

COUNTRY FOCUS BY *TOM BALLANTYNE*

JAPAN

Tackling the odds

Rivals co-operate to overcome economic hardships

Life has not been easy for Japan's airline industry during the last decade. Two downturns, one following the Gulf War in the early 1990s, the other Asia's most dramatic economic recession later in the decade, battered the nation's confidence. Coupled with high labour costs, volatile fuel prices and an economy struggling to emerge from stagnation, airline profits have been all but non-existent.

Coping with tough market conditions is a challenge at the best of times and, as the rest of Asia knows all too well, that experience has not been confined to Japan in the nineties.

But Japan Airlines, All Nippon Airways and Japan Air System have had their attempts to restructure and rationalise made more difficult by other issues. These include breaking down traditional employment practices, coping with unprecedented levels of international competition, integrating domestic deregulation and managing demand on ever-present slot constraints at the country's primary airport hubs; facilities charging the world's highest aeronautical fees.

Now, just as traffic growth has brought profit back to the balance sheets, the indicators suggest more dark economic clouds are gathering over the Land of the Rising Sun.

In February, a revision downwards of Japan's latest economic growth figures raised the spectre that the world's second-largest economy is back in recession at a time when global growth is faltering. Simultaneously, the U.S. economy is slowing, a fact, if it persists, that would impact severely on Japan.

Such difficulties are nothing new to Japan's airline majors. Their patient shareholders have stoically accepted a lack of returns on investment for years. They must be relieved there is clear evidence carriers have made significant progress in implementing restructure and rationalisation, introducing new efficiencies and innovative planning; all planned to dramatically change Japanese airline operations.

Congestion at Tokyo's airports a major problem for airlines

Bitter rivals in the air have put their differences aside to co-operate on the ground with joint maintenance and information technology ventures designed to save money. The carriers have even come together to market a united shuttle service on the mainline Tokyo-Osaka route in an attempt to compete better with high speed train services.

All the airlines welcomed the deregulation of the nineties that resulted in more competitive pricing, freedom to adjust networks and permission to eliminate loss-making domestic services on routes that were formerly forced to operate for reasons of community service.

Deregulation also allowed new entrants to take to the air although slot restrictions at Tokyo's domestic Haneda Airport have made life difficult for the newcomers to compete adequately against incumbents. There are signs at least one, Air Do, is struggling to survive.

The big operators, despite their achievements of the last five years still face mammoth challenges. Managements know they must continue a relentless drive to force down costs and further improve productivity if they are to earn "true" profits.

They know much of their future depends on Japan's ability to resolve its airport problems, particularly at Tokyo and Osaka, where environmental issues and years of bitter debate have slowed the pace of expansion and frustrated airline managements world-wide.

As neighbouring South Korea prepares to open its new multi-billion dollar hub at Inchon in April and with several other expensive new facilities operating around Asia, Japan needs a new Tokyo airport or, at least, much greater expansion at the existing airports. The need is great and the need is urgent.

The country's airline and aviation authorities must also find a solution to the long-running dispute with the U.S. over air rights, essential in formulating policies which will accommodate the global industry's inevitable march towards liberalisation and open skies. Japanese economic health is one of the key pistons in the engine driving Asia-Pacific aviation.

The travel patterns of the country's business and leisure travellers impact significantly on the bottom lines of airlines elsewhere.

Whether or not its carriers succeed in their ongoing drive to cement real and consistent profitability into operations in the face of the major challenges confronting them, and whether the airports issue can be satisfactorily resolved, will undoubtedly be critical to the well being of the industry across the region.

IN THIS REPORT

JAL was in bad shape when a new president was appointed in 1998. Hard decisions had to be made, but they have paid dividends — literally

KANEKO'S TOUGH LOVE

The 1990s were turbulent times for flag carrier Japan Airlines (JAL), but since Isao Kaneko became its president in June 1998 there has been a dramatic transformation at Japan's largest operator.

He immediately read the riot act. Speedy decision-making was required, dithering was out, he demanded. He chopped the number of board members in half to make it easier.

The job was a big one. Kaneko inherited an airline in disarray. It called for a no-nonsense leader who could make tough decisions. In the seven years prior to Kaneko's arrival JAL accumulated losses of US$334 million, with debts and over-evaluations of associated hotels and resorts accounting for another $560 million. Shareholders received no dividends for six years.

In 2001, they will be handed their third pay out in a row with JAL expecting net profits of US$273.5 million for the year ending March 31, on total consolidated revenues of around $14.4 billion. This represents a 1.9% return on income, roughly in line with a consistent 2% being targeted by Kaneko.

Getting there has not been easy, although shareholders, on the day he took over, approved a US$894 million debt write-off, the largest against capital reserves in Japanese corporate history. It allowed the new president to start with a clean sheet.

The 62-year-old airline chief has taken full advantage of that starting over, pushing through reforms and restructuring to the point where JAL is firmly back in the black.

"Our aim is to have stable growth. We want consistent profitability, something which has been lacking in the past," Kaneko told *Orient Aviation*.

Question marks may hang over economic conditions, but the groundwork for a better future has been laid. Unit costs have been slashed by 38% since 1990, unit labour costs are down 48% and costs per ATK are 63 yen, compared with around 91 yen in 1990.

Japan Airlines president Isao Kaneko: "We have finally caught up. We can now be competitive with the major American and European airlines as far as cost is concerned"

These gains reflect well on the bottom line. JAL's mid-term operating income for the six months to September 30, 2000 was the second highest the airline had recorded; up 88.4% to US$484.6 million on a 7.7% increase in revenue to US$5.5 billion.

"We have finally caught up. We can now be competitive with the major American and European airlines as far as cost is concerned. Our labour efficiency, our productivity, is much higher than other major carriers in the world," said Kaneko.

Given local airport charges three times higher than the world average, present fuel taxes and traditional labour norms, it is no mean achievement. With the board halved from 30 to 15 members for faster decision-making, his blueprint concentrates on the core air transport business and centralisation of services, resources and use of aircraft for maximum efficiency.

Divisions have been established to maximise effectiveness and independent businesses such as trading and hotel management are being hived off to realise their true economic value.

JAL is much leaner and meaner today. In 1998, manpower was 36,000. By the end of this year the workforce will have been reduced by 3,500. Another 700 will depart in 2002. Cabin crew today are hired on a contract-based system rather than the previous "for life" employment.

Perhaps most important is the fine tuning of airline operations; a reorganisation into three groups:

- JAL itself operating domestic trunk routes and international intercontinental routes using large aircraft such as the Boeing B777 and B747.
- JALways handling low yield international resort routes, with flights to holiday destinations such as Guam and Hawaii.
- JAL Express (JEX), Japan Transocean (JTA) and J-Air taking over all regional domestic routes more suitable for smaller aircraft.

JEX, based at Osaka's Itami airport, will increase its fleet to six B737-400s in March and will eventually take over all domestic B737 and B767 flying. While it is not in the current plan, neither Kaneko or JEX president Toshio Yoshido are ruling out the possibility of short-haul international services.

"The establishment of JAL Express is aimed at having it operate smaller aircraft so if there are any suitable short-haul international routes for JEX to fly that is a possibility," said Kaneko.

JAL's cockpit crew pay structure is based on large aircraft operation. JEX, with operating costs around 20% lower than JAL, allows competitive operations on lower demand regional routes.

"Cockpit crew costs are much lower. We recruit directly. We have our own pay scale, which is lower than the JAL scale. JEX cabin attendants have to clean the cabin between flights. Cockpit crew include Japanese and non-Japanese pilots," said JEX boss Yoshido.

Maintenance support is provided by JAL and JTA. The end result is a no-frills, economic operation.

JAL's own fleet is being rationalised. Seven types – too many for an airline with 150 jets – will be reduced to five. Its MD-11s will be sold by 2004 and the DC-10s retired by 2005-06. When all the B737s join the JEX fleet, JAL's aircraft types will be reduced to four and then three if the B767s go the same way.

New types to be considered include the Airbus A380 or the Boeing B747 stretch. Kaneko said the A340 and A330 are also possibilities for JAL.

There has been major restructuring in the finance and accounting divisions. There are 70 of the 88 group companies working in the JAL finance centre. There are 46 companies in the group accounting centre.

Several catering companies in the JAL Group are also being consolidated.

Self-supporting independent businesses within JAL face a different future. JAL is no longer interested in owning hotels, said Kaneko. "JAL Hotels is now a management company with some 53 properties worldwide. It's management expertise and the links with JAL are an attractive package for hotel owners. It's good business and there are plans to float it on the Tokyo Stock Exchange, possibly by 2003-04," he said.

Japan Express (JEX): to take over JAL's domestic B737 and B767 routes

JAL Trading, a general trading subsidiary originally set up as a procurer of goods for the airline, also is capable of standing on its own two feet, added Kaneko. With a diversified portfolio of business interests, ranging from aircraft acquisition to wines and spirits importation, it is earmarked for flotation this year.

JAL Infotech, the carrier's information technology (IT) subsidiary, has formed a partnership with IBM. It will develop its own business activities as well as providing JAL with IT support.

The national carrier plans to continue co-operating with local rivals in cost-saving areas.

For example, Japan's three major airlines started a joint shuttle service between Tokyo and Osaka. They are going to establish a common airline web site (Kokunaisen.com) in the spring.

Kaneko said the carriers had an agreement to share spare parts for the B777. "We also can develop common self check-in machines at airports, something we are doing at the moment with Japan Air System," he said.

A man of words – and action

Within weeks of becoming JAL president Isao Kaneko told Orient Aviation *"speedier management" was the way ahead for the airline, he said. Quick thinking was the name of the game with equally quick decision-making needed from board level down.*

Kaneko promptly put his words into action. The board, for example, was halved to 15 members.

The son of a railwayman, Kaneko studied politics and law at Tokyo University where he was a talented basketball coach. At one time he had ambitions to become a journalist. He eventually opted for a more secure career path in the national airline.

Those who know him well say he has a great ability to manage people. He is hands-on and direct.

His business philosophy is revealing. Kaneko quotes leading Japanese statesman Masaharu Gotoda, whose pronouncements include "don't hesitate to accept responsibility ... be prepared to stretch beyond your limits" and "once a decision has been taken, follow it without hesitation".

He also quotes GE chief Jack Welch extensively. Control your destiny, or somebody else will; face reality as it is, not as it was or you wish it to be; be candid with everyone; don't manage, lead; change yourself before you have to; and, if you don't have a competitive advantage, don't compete.

At JAL, Kaneko insists on transparency. "We are accountable to the public, our shareholders, our customers and our employees. As a public transport company, we must be open in our actions."

These are no hollow promises. As chairman of JAL's Flight Safety Board Kaneko, who often attends crew meetings and pays regular visits to the shop floor, has instructed the airline's safety record be published daily on the Internet. "If there has been any irregularity in flight operations, people can read what happened," said the president.

In 1999, although leisure traffic increased, the critical business passenger sector declined. But from February 2000 executive travel began to grow again, raising yields.

"Our revenue from international passengers grew approximately 8%. Traffic for the domestic portion is stable and cargo business has been very good through 2000," said Kaneko.

"But recently the slowdown in the American economy, which also influences the Asian economy, has caused a small decrease in cargo traffic between Japan and the U.S. and Asia and the U.S. I am a little concerned, but I am sure the U.S. economy will make a soft landing.

"Of course the airline business can be hit by cyclical economic conditions so maybe for one year we may have to face some difficulty. But as a trend for five, 10 or 20 years we can expect very healthy growth for air traffic demand in passenger and cargo, both international and domestic.

"For 2001 we expect 2% growth in domestic passengers, 3% for international travellers and 5% or 6% for international cargo. As an average, we can expect good growth for two decades. So we have to be prepared for the short term depression or difficulty, but look to long-term average growth," he said.

Kaneko is confident JAL's profit record is going to be far better in the next ten years than it has been in the past ten. "Not very big, two digit growth, but average stable profit can be achieved," he said.

JAL continues to play a "wait-and-see" game on the airline alliance front. "Up to now we have preferred to steer an independent course, making alliances with partner airlines on a bilateral basis where we can see benefits for both partners and customers. We talk to the executives of oneworld member carriers, but we are not in a hurry to make a decision to join any particular alliance," said Kaneko.

"We have partnerships with carriers belonging to other alliances like Air France, a member of Skyteam, and THAI and Air New Zealand in the Star Alliance. Last year, we forged a cargo partnership with Northwest Airlines. There is no hurry, no pressure and we continue to weigh the pros and cons of joining a global alliance."

Kaneko is well aware of the challenges ahead, including airport issues, liberalisation and inevitably increasing competition. But all in all, he said, JAL is in a much stronger position than it was three years ago. "It's been very tough, but I am happy with the way things are turning out,"he said.

Japan Air System: being wooed by the major manufacturers

JAS eyes new jets

Japan's third major domestic carrier, Japan Air System (JAS), is reviewing a fleet modernisation plan that could see its ageing fleet of A300s replaced over the next five years. Company sources confirm the carrier is in discussion with both Boeing and Airbus Industrie over potential replacement jets.

JAS, in which major flag carrier Japan Airlines (JAL) has an 8% stake, is, like its local rivals, also making money. Profits last year more than doubled to US$9.7 million from $4.6 million in 1999, with sales increasing 5.8% to $3.3 billion.

With a fleet of 90 jets, more than a third under lease, it has 36 A300s. They are primarily used for domestic flights, although four A300-600s operate international services.

Airbus is apparently proposing a new lighter version of its A330-500 aircraft, with Boeing pushing the B767-300ER.

Airbus plans to develop a version of the A330-500 capable of flying as far as 7,000 nautical miles, aimed at European airlines flying trans-Atlantic routes or from Eastern Europe to Asia. The jet, which Airbus will build only if demand justifies commercial production, may now have a version aimed at regional carriers, particularly in Asia.

The modified plane, suitable for JAS needs, would have a range of about 4,350 nautical miles, ideal for airlines seeking an aircraft for purely regional operations.

JAS is mainly a domestic operator, but it does operate international services to Seoul and Hong Kong, as well as Xian and Kunming in mainland China.

JAS and China Southern Airlines also operate code-share services between Osaka and Guangzhou, with each operator flying three times weekly.

Other overseas destinations are served through code-share arrangements, flights to Amsterdam with KLM on the Dutch operator's aircraft and to Seattle, San Francisco, Los Angeles and New York on Northwest Airlines services. Continental Airlines code-shares on the same US-Japan flights.

JAS has been looking to rationalise its operations through extensive code-sharing and joint ventures in Japan and elsewhere. It is a partner in the joint Tokyo-Osaka shuttle service which also involves JAL and All Nippon Airways. From last September, JAL and JAS combined selected airport services for domestic and international flights. JAL provides baggage handling, cargo, ramp and airplane cleaning services for JAS flights at Kansai International Airport.

Both carriers also will combine check-in services in the near future, with passengers able to check in from kiosks located at nearby train stations in Tokyo, Sapporo, Fukuoka and Hakata, as well as at the Yokohama City Air Terminal.

Other JAS cost reduction exercises include outsourcing. For example, it has signed a 10-year $150 million agreement with Pratt & Whitney for a fleet management programme of the JT8D-200 engines on its fleet of MD-80 aircraft.

As ANA names a new president ...

Profit forecast raised

With profits driving upwards, All Nippon Airways (ANA) is moving to consolidate gains by accelerating reforms in year three of its five-year corporate plan.

The carrier has raised its full year profit forecast after it reported healthy first half income on the back of rising demand with higher fares offsetting costly fuel.

In the six months to September 30 the group earned US$272.6 million, the first time it has reported first half earnings. For the full year ending March 31, ANA has boosted its net income estimate to $170.9 million from an earlier prediction of $111.1 million and suggested international services will move into profit next year for the first time since it began operating offshore in 1986.

The optimistic outlook comes despite continued high fuel prices and in part reflects some astute increases in fuel price hedging contracts. Some 40% of the carrier's fuel needs were protected against price volatility in the second half compared with only 10% in the first half.

"Since embarking upon the [five-year] plan in 1999 the ANA Group has trimmed investment and reduced fixed costs, accelerating concentration of resources and the rebuilding of its air transport network with the objective of enhancing value to customers and shareholders," said outgoing president Kichisaburo Nomura, who will become ANA chairman on April 1.

He will be succeeded as president by Yoji Ohashi, a 37-year ANA veteran, who is currently senior executive vice-president.

Like its major rival JAL, ANA is driving recovery with a host of improvements across its corporate and operational structure. "ANA management has strengthened its commitment to a network aligned according to market demand with a focus on profitability, efficiency and deepened co-operation with Star Alliance partners," said Nomura.

With a fleet of 142 jets carrying 43.2 million passengers annually to 62 destinations in 13 countries, ANA is determined to underpin its revival without being too ambitious. Fleet plans are cautious. While three Boeing B747s and four B767s are to be retired no new planes will arrive until 2004, when delivery of six B777-300s will begin. The -300 series is a new longer range version of the B777.

While continuing to monitor market demands, ANA plans to use them on long-haul routes to Europe and the U.S.

In domestic operations ANA will allocate resources to higher demand routes, exemplified by an increase in services from Tokyo to Osaka's Itami Airport. Routes with low demand are being adjusted or dropped.

The freedom to suspend services is a result of Japan's domestic deregulation. While increasing flights to Osaka, Fukuoka and Okayama, ANA is decreasing frequency to Hakodate and Nagoya and dumping Haneda-Memanbetsu, Nagoya-Aomori and Sapporo-Okinawa services.

ANA president Kichisaburo Nomura will become chairman on April 1 and be succeeded by Yoji Ohashi, currently ANA's senior executive vice-president

A similar tough approach is being taken on international routes, with ANA flights from Kansai to Denpasar, Indonesia, and from Fukuoka to Dalian and Qingdai, in China, being suspended.

There will be a number of other domestic and international network changes over the next few months to streamline routes and lift profitability. Nomura said ANA will inaugurate a service to Ho Chi Minh City, Vietnam, from Tokyo and increase frequencies on the Tokyo-San Francisco route.

The airline's network out of Kansai International Airport will be reorganised with resources concentrated on Asian and resort destinations with Air Japan, ANA's new low-cost subsidiary. It will begin with flights to Guam in addition to Seoul.

Air Japan began operations in January this year using a 216-seat Boeing B767-300ER on the Osaka Kansai-Seoul route.

"Newly permitted international charter flights out of Haneda airport will furnish ANA with a raft of business opportunities. By taking advantage of the unprecedented flexibility afforded by this scheme, flights to Guam will be operated with plans for service to Honolulu during peak periods while operations to Seoul and Cheju are under consideration," said the president.

"By gradually transferring selected short and medium-haul routes currently operated by ANA to Air Japan and by re-organising ANA's international route network at our Narita and Kansai hubs, we will be able to improve network efficiency, profitability and connectivity," said Nomura.

Now operating only from Osaka, after the opening of Tokyo Narita's second runway in 2002, ANA hopes to expand its operations with flights from Tokyo to a number of destinations in the Asia-Pacific.

Co-operation with the Star Alliance will continue to be strengthened by expanding code-shares on routes to Canada and Mexico. The carrier has recently announced code-shares with Thai Airways International on the Tokyo-Bangkok route and with South Korea's Asiana Airlines between Seoul and Osaka.

At home, ANA has enlisted in cost-cutting co-operative ventures with rivals JAL and JAS, including a joint Internet travel site, combined maintenance on specific aircraft types and the Tokyo-Osaka shuttle. The shuttle has 35 flights a day, of which ANA operates 15.

In January, ANA announced it would utilise an independent Internet portal, Jet-A.com, to procure jet fuel from the second quarter of 2001. The portal is a move by the world's oil and aviation industries to improve the use of Internet technology. It is designed to optimise the jet fuel supply chain by digitising, integrating and standardising the procurement process.

While it has a long way to go before it can truly rival JAL on international routes, ANA is finally beginning to leverage some power off its massive domestic base. With more stable financial returns its next corporate plan will likely lift the stakes and point towards further significant growth.

JAMMED!

Congestion puts Japan's regional hub status under threat

Japan's great airport debate is set to intensify amid growing doubt planned expansion measures will bring relief to Tokyo's desperately congested runways or ease concern that the country's status as a regional aviation hub is under threat.

Flashpoints are emerging over future U.S. airline access to the New Tokyo International Airport at Narita and the internationalisation of the city's domestic Haneda terminal.

At the same time, construction of a second runway at Osaka's main gateway, Kansai, appears set to be delayed because of funding doubts, while there are calls for a wider, rational debate on national airport planning.

Narita's long-awaited second runway is scheduled to open in May 2002, but sources at Japan's major airlines said they are preparing to fight tooth and nail to prevent significant additional capacity being granted to American operators, which hold a third of Narita slots.

They also are pushing to prevent wider use of Haneda – recently opened to international charter services and corporate flights through the night – for offshore flights. Japanese carriers want another runway built at Haneda, but they insist all additional capacity should be reserved for domestic operations.

Meanwhile, intense lobbying continues over another sore point among airlines, the high aeronautical fees – three times the world average – charged at Japanese airports.

Overall, there is growing demand that the government formulate a broad, nationwide airports plan. As reported in *Orient Aviation* in February, Japan Airlines (JAL) president, Isao Kaneko, who chairs the Scheduled Airlines Association of Japan (SAAJ), has called for a "grand design" to replace the present piecemeal approach to airport expansion. Many airport decisions are mired in political debate, which has led to the construction of several expensive, but under-utilised facilities at regional centres. Decisions have often been taken, then overturned, and then reversed.

Osaka is a prime example. When the big international facility was built on a man-made island in Osaka Bay, off Kansai, the existing airport at Itami was supposed to have closed. It remains open and is busier than ever.

Now, a third airport is being built in the same area, at Kobe. At the same time, the government is undertaking a review of a project to build a second runway at Kansai, apparently over concerns the high cost will burden the Kansai International Airport Company (KIAC) with too much debt. KIAC is struggling financially after losing money for four straight years and traffic volume through Kansai has been lower than anticipated. When the second runway was approved in 1996, KIAC projected 150,000 arrivals and departures in fiscal 2000. The Transport Ministry estimates the number was around 120,000.

While Osaka has its own planning problems, the future of Tokyo's airports remains at the heart of Japan's aviation problems. The country's airlines have been upset for years over the high access U.S. carriers have to Narita. With up to 40 countries queued up for slots, JAL's Kaneko believes allocation of additional capacity when the second runway opens next year should be heavily weighted away from the U.S. He points out that at the hub facility of most nations local operators have up to 50% of slots. At Narita, Japanese airlines have only 38%. Kaneko wants that share increased, with most of the remainder going to countries other than the U.S.

The problem for Japan's air authorities is that sort of approach could likely spark a furious row with Washington at a time delicate negotiations will be continuing about a new Japan-U.S. air accord.

In reality, the second Narita runway does not solve many of the airport's problems. It is short, only 2,180 metres (7,500 ft), so it cannot be used for long-haul jumbo jets. However, U.S. carriers will undoubtedly want slots for smaller planes to operate onward flights from Tokyo to other Asian ports.

Haneda presents another challenge. While JAL, All Nippon Airways and Japan Air System welcome the decision to open the airport between 11pm and 6am for international charter flights – services to leisure destinations such as Hawaii and Guam – they are adamantly opposed to a wider internationalisation of the airport.

The take-off queue at Haneda Airport outside Tokyo

That also will cause some diplomatic angst for aviation officials. South Korean president, Kim Dae-jung, has asked Japan to move quickly to allow scheduled international services; he wants clearance for shuttle flights between Seoul and Haneda as a means of relieving congesting on the Seoul-Narita route.

Japanese airlines argue Haneda is fully utilised domestically and that for the foreseeable future they will need any additional capacity for domestic expansion.

The SAAJ view is apart from Narita's second runway, another runway is required at Haneda and a third airport must be planned. It wants a full-scale debate involving professionals, not only to look at the airport expansion but also to look at ways to solve the desperate need for fast transport links between Narita, Haneda and any third facility, and on to Tokyo city. If Japan is to maintain its position as a primary Asia-Pacific airline gateway, against tough competition it has to move quickly to resolve these issues.

If it fails, congestion at Tokyo will simply deteriorate into the point of gridlock.

Near-miss planes just 10 metres apart

A preliminary investigation into the near miss of two Japan Airlines (JAL) planes over Yaizu, 176 kilometres from Tokyo, in January, has revealed that a trainee air traffic controller and a supervisor working with him had incorrectly identified the aircraft. The jets, carrying a total of 677 passengers and crew passed within 10 metres of each other.

Allegedly the B747-400, Flight JL907, was ordered to descend by the controller who had mixed up the flight numbers. When the Traffic Alert and Collision Avoidance System (TCAS) alarm sounded the captain made an emergency dive. Forty two people of the 427 on board suffered injuries ranging from bone fractures to scalding. No one was injured on the second aircraft, a DC-10 carrying 250 people.

The incident was officially declared an accident by the Japan Civil Aviation Bureau of the Ministry of Land, Infrastructre and Transportation.

JAL and All Nippon Airways are introducing an advanced version of TCAS as a result of the near miss. The police have said they will determine whether the controllers bear criminal responsibility after comparing the account given by Captain Makoto Watanabe, the 41-year-old pilot of the B747, with records of the communications he had with the controllers.

Blame and punishment and Flight JL907

A Special Correspondent in Tokyo analyses aircraft accident culture in Japan and the disturbing role the police play in it.

Japan Airlines: captain of near miss plane grilled by the police in the cockpit immediately after he landed his aircraft

In the afternoon of January 31, two Japan Airlines (JAL) aircraft were involved in a near miss incident over Yaizu, 176 kilometres (110 miles) south-west of Tokyo. One of the aircraft, domestic B747-400 flight JL907 en route to Okinawa with 427 people on board, made an emergency dive resulting in injuries to 42 passengers and cabin attendants.

Captain Makoto Watanabe promptly turned his aircraft back to Tokyo's Haneda Airport. The other aircraft, JAL DC-10 flight JL958 from Pusan to Tokyo with 250 on board, landed without problems at Narita Airport.

In early media reports, the Japanese police were quoted as saying they would investigate the case to find who was responsible with a view to arresting and punishing them. Under Japan's laws airline accidents involving injury or death are automatically investigated under the criminal code in much the same way as road traffic accidents. Participants are investigated as if they are involved in a potential crime for "professional negligence resulting in injuries". Such attitudes are deeply rooted in Japanese society.

In the case of JL 907 the police were already at work. A three-man squad, notebooks at the ready, was waiting when the B747 landed. They boarded, entered the cockpit and for one hour questioned the pilots, interrupting their post flight checks. Injured passengers were still on the aircraft and the police intervention prevented the captain and co-pilot from performing their basic and mandatory duty of making official reports on the near miss.

Witnesses said the investigators seemed to take the position that the cockpit of the B747-400 was the scene of a crime and the occupants possible, if not probable, suspects.

Later that evening the captains of the two flights said, on union advice, that they would submit their reports to police only through attorneys. They later gave briefings in full to company personnel.

These events demonstrate that in Japan, the police play a dominant – some say dominating – role from the very beginning where accidents are concerned, taking a stance which discourages openness in those involved in the incident, impedes the resolution of the technical enquiry and jeopardises future prevention of an incident or accident.

The president of the 5,400 strong Japan Federation of Flight Crew Unions and an All Nippon Airways captain, Kazuhiro Kawamoto, said by their haste in seeking to apportion blame or liability, the Haneda police action contravened the basic spirit of the International Civil Aviation Organisation (ICAO)

convention regarding accidents, which is to find the cause and establish remedies.

Society's goal in Japan is torn between finding out what went wrong, so that it can be put right in future, and finding someone to blame and then punish. With the fear of arrest, trial and detention looming over any investigation there is a natural reluctance on the part of those involved to comply voluntarily with a situation that is rigged against them. Hardly surprising when the participants in an accident case are often treated from the beginning not as witnesses, but as perpetrators of a crime – in Japanese, "kagaisha".

Fear of the blame and punishment process colours attitudes to safety in a disturbing and fundamental way, leading to over-restrictive practices and excessive limits on operations, which in turn prevent the expansion of services and affect the convenience of travellers and shippers.

In the "accident culture" in Japan, the first elements to arise are:

- Who is guilty?
- Whose fault is it?
- Who do we punish?

This is in marked contrast to the situation in the United States. The National Transportation Safety Board (NTSB) would investigate a near miss, but a police investigation would never be initiated, unless the NTSB report uncovered criminal activity.

In the case of an aircraft accident in Japan, who is responsible for investigating the case, the Aircraft Accident Investigation Committee, the police or the media?

Japan's Aircraft Accident Investigation Committee (AAIC) was established in 1973. It falls under the jurisdiction of the Japan Civil Aviation Bureau, the aviation division of the Ministry of Land, Infrastructure and Transportation (MLIF), a newly formed mega-ministry incorporating the former Ministry of Transport. It is not independent, as is the NTSB. This puts the impartiality of the AAIC into question. Air traffic control, which is involved in this near miss case, is also an MLIF-controlled function.

The AAIC's role is two-fold. First to determine the cause and to recommend correction, second to prevent future accidents, save lives and reduce damage and injury.

In the case of the police, finding the cause comes first too, but their final goal is to find out who is responsible, then prosecute and punish.

The media focus, apart from initially reporting the circumstances of the accident, is to pinpoint blame and call on punishment of those responsible. To this end they harass and pursue persons involved in the case long before responsibility has been established, playing the roles of prosecutor and judge.

Often the level of media attention is tantamount to persecution and places great stress on its innocent victims.

When air accidents are investigated in Japan, a tacit agreement exists between the police and the AAIC. The police have first priority to access the accident site or secure the evidence. This includes custody of the cockpit voice recorder and the "black box" or flight recorder. The police ask the AAIC to analyse these. From the AAIC report the police determine the cause of the accident. During the period of the report investigation and compilation other parties involved are not expected to make public comments, except for statements of regret or apology.

'The media focus ... is to pinpoint blame and call on punishment of those responsible. To this end they harass and pursue persons involved in the case long before responsibility has been established'

As part of the punishment culture, people involved in an accident often take responsibility before the official judgement or report of a case. The most usual form is resignation of senior executives.

Sometimes the response is more drastic and final. In 1985, during the police investigation into a JAL B747 accident when 520 people died, a Ministry of Transport chief technical inspector committed suicide, driven to this desperate act by incessant grilling by police from rural Gumma Prefecture, where the accident occurred.

The aircraft in question had been in a tail-hit accident seven years before. A Boeing team had repaired the aircraft and the inspector had signed off on the repair. Part of the repair of the lower half of the rear pressure bulkhead was inadequate, but visually undetectable. The weakened bulkhead ruptured in flight, severing hydraulic lines and damaging the vertical stabiliser, thus leading to the subsequent crash. The police interrogators put the blame on him.

There is a strong sense of taking responsibility in Japanese society, which expects those who have disturbed the harmony or order of things to follow custom, apologise and take the appropriate expiatory measure.

In the near miss case, nobody is suggesting that changing the accident investigation system in Japan will do away with the need for anyone to take final responsibility as the culture demands. Instead, the call is for a change in procedure, to prevent scenes like the cockpit grilling of Captain Watanabe and his fellow crew and the disruption of a meaningful, expert investigation.

Japanese airlines share a common interest in co-operating with civil accident investigations, but would prefer the police waited until the civil investigation is over, instead of rushing to judgement.

Although the role of the AAIC is to find out what happened and then to recommend corrective action, its report findings often lead the technically challenged police to the identity of people responsible for the accident.

The crash of a China Airlines plane at Nagoya in 1994 illustrates how bizarre this can become. After a lengthy investigation the AAIC concluded faulty procedures by the cockpit crew led to the accident. Whereupon Nagoya's 'finest' recommended criminal prosecution of the captain and co-pilot, who were both dead!

In other industrial societies the processing of accidents involves what we might call the "insurance culture".

In these countries the cost of human error in an accident is covered by an insurance policy. No punishment will be enforced on individuals unless the investigation results indicate wilful misconduct or gross negligence. The other message here is that accidents are to be learned from, so they can be prevented in future.

Until relatively recently there was no insurance culture in Japan. That seems strange when you consider in the 17th century there was already a very healthy and sophisticated futures market system in place for handling rice. But there was no concept of insurance. When things went wrong, events were treated according to the culture of blame and punishment.

Today, the punishment culture still prevails. With all the talk of globalisation and adoption of international standards, Japan's law enforcement authorities should adapt to an accident culture that focuses on remedial instead of punitive action and enter the 21st century rather than continue to apply the standards of the feudal past.

China to lead regional jet boom

Not too long ago analysts were almost unanimous in their belief that an Asian regional commuter jet was a Boeing B737, an Airbus A320 or something even larger. Now, Asian operators are discovering the new breed of small jets and transforming the face of regional operations, reports TOM BALLANTYNE.

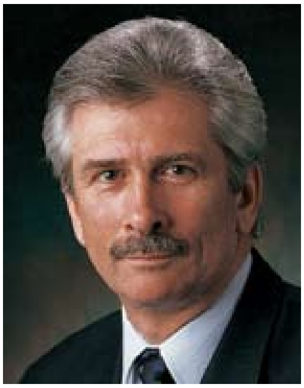
Barry Eccleston, executive vice-president business development at Fairchild Dornier is convinced the regional jet worm has turned in the Asia-Pacific. The region is on the verge of a big boom in small jet sales and it will be spearheaded by an emerging Chinese market, he said.

Speaking during February's Australian International Air Show at Avalon, near Melbourne, Eccleston said China is now one of the strongest markets in the world for the new generation of regional jets and airliners under 110 seats.

Fairchild Dornier forecasts show more than 700 aircraft – jets and turboprops – in that size range will ordered by airlines in China and western Pacific Rim nations. Of that total, more than half will be jets in the 50 to 110 seat category.

"The market for regional jets in China is largely untapped, but the requirement is growing rapidly. Air carriers in China, like those elsewhere, are discovering the new smaller jets make good economic sense for the way the market is changing," said Eccleston.

It sounds like a brave prediction given past frustrations about the pace of airline development in China and the generally dismal outcome of previous attempts to sell small regional jets like the Fokker into the regional market.



Barry Eccleston, executive vice-president business development at Fairchild Dornier: China market "untapped"

But times have changed, he said, and today's jet suppliers – Bombardier and Embraer as well as Fairchild Dornier – can learn lessons from the Fokker experience.

There is plenty of evidence to suggest he is right. After trailing behind Europe and North America in the regional small jet stakes, Asia is suddenly catching on.

Hainan Airlines became the first airline in China to operate new generation regional jets with an order for 19 of Fairchild Dornier's 32-seat 328JET in August 1999. The first was delivered in November that year and deliveries are now complete. But Hainan has since turned a series of options into firm orders, taking its total buy to 40.

Eccleston is sure there are more orders to come from other airlines, in China and elsewhere. He believes Australia, India and Japan will also be drivers behind growth in regional jet orders.

While Eccleston will not comment publicly, he and his rivals are well aware of strong reports that India's Jet Airways is unhappy with its fleet of ATR turboprops and is keen to replace them with jets.

There are even bigger fish to fry; several of the regional jet makers made it clear they are talking to Qantas about possible replacements in its large regional fleet.

In the meantime, most of the manufacturers are having some success. Canada's Bombardier has sold its Canadair CRJ-200 regional jet to Shandong Airlines in China, Japan Airlines-owned regional J-Air and Kendell Airlines in Australia.

Based at the capital of Shandong Province, Jinan, 500 kilometres south of Beijing, Shandong Airlines last year acquired five CRJ200 jets as part of a major expansion programme and has since leased another five.

Embraer has been successful in Australia on the turboprop front and has high hopes for its new 70-seat ERJ 170 jet. Its family of jets include the 98-seat ERJ 190-100 and the 108-passenger ERJ 190-200.

Currently 11 Australian regional operators fly Embraer turboprop aircraft including Air North regional, Flight West Airlines, Skippers Aviation and Network Aviation. The company is aiming to achieve a 50% share in the regional commercial jet market.

"Australia is a very important market for Embraer. It is one of the most important countries in the Asia-Pacific region in terms of its economy and quality of air transport operators and personnel. Its geography is also conducive to a solid regional commercial aviation industry," said Luiz Fuchs, the planemaker's chief representative and managing director for the Asia-Pacific.

Hainan seeks Hong Kong venture with 328JET

By Jonathan Sharp

Chinese carrier Hainan Airlines, which boasts U.S. financier George Soros as a key shareholder, has approached Helicopters Hong Kong Ltd (HeliHongKong) about possible joint ventures including the setting up of a Hong Kong-based regional operator. This is according to Andrew Tse, chief executive of HeliHongKong, a sister company of Macau-based East Asia Airlines Ltd, which operates helicopters plying between Macau and Hong Kong.

Tse sees an opportunity for a regional airline providing feeder services to the Hong Kong hub from under-served points in south China and several southeast Asian centres.

"Hainan Airlines has been quite aggressive in the regional airline business. They have a fleet of Fairchild Dornier 328JETs and they were wondering whether it would be possible to operate in and out of Hong Kong using these Dornier jets," Tse told *Orient Aviation*.

Tse said that instead of applying to Hong Kong aviation authorities for an air operator's certificate (AOC) he commissioned a study from Trinity Aviation Ltd to see if the idea could fly.

Trinity concluded the current service to 22 cities in south and central China from Hong Kong was inadequate with the aircraft on the routes being too large and the frequencies too few.

"Many of these cities are being served only by an airline from China, thereby allowing the opportunity for a Hong Kong airline to operate the route," the study said.

"This study shows such an airline would be commercially viable within a system with a breakeven load factor for the operation of around 50%." It added outbound traffic from China was increasing at a high rate and was expected to grow. There will therefore be a continual need for services to points in China away from the main hubs.

Under such conditions it would be reasonable to expect the regulatory authorities in both Hong Kong and China to approve such an operation as envisaged in the study. It highlighted the case of Shantou, in south China, which was served by one airline (China Southern Airlines) although annual traffic was over 100,000 seats sold. Tse said he saw Hong Kong International Airport as the major airport for southern China in future. "Unlike places in North America or in Europe, there is no feeder service in Hong Kong so I believe there is a need for such a service." Tse said Trinity had not studied feeder service opportunities outside China. "Obviously I believe there is a market in the Southeast Asian area. So we are still doing some studies now."

Chief executive of Helicopters Hong Kong, Andrew Tse: looking for a positive air rights response from Hong Kong authorities

As possibilities, he cited smaller cities in Malaysia and points in Vietnam and Cambodia. Tse said he had sent a copy of his proposals to the Hong Kong civil aviation authorities.

"What is important is not the hardware of setting up an airline, it's not the capital or the expertise. What is important is whether this airline can secure scheduled rights from the Hong Kong authorities."

He said he was waiting for a meeting with the Hong Kong authorities to clarify whether a regional airline could obtain the necessary rights. At present just six AOCs have been issued in Hong Kong.

"If the answer is positive then the next step is whether we should go ahead and raise money to form a new airline. If the answer is no, then forget it. It's as simple as that," said Tse. He acknowledged frankly that he saw no great financial rewards in such a regional airline. "Setting up a regional airline operating out of Hong Kong is very, very costly."

He said the "big boys" such as Hong Kong-based carriers Dragonair and Cathay Pacific Airways were not considering a small airline using 50-seaters because of the capital cost and the small investment return.

"It's not a pot of gold. But personally I do see an opportunity for this kind of regional airline linking south China and Southeast Asia to Hong Kong as a hub, as some sort of a feeder airline to the big boys. I do see a need as far as the consumer is concerned. Now whether there is a business case, I don't know."

Tse said he had not received any further feedback from Hainan Airlines, which he said might have approached Hong Kong authorities independently about obtaining rights to fly to the territory.

China's Hainan Airlines may enter into a ground breaking deal with Hong Kong operator

Business jets were once regarded as rich boys toys, expensive play things for the rich and famous, or the multinational corporation with a billion dollar travel budget. No longer. The case for private corporate transport is strengthening and Asia is a prime target for the bizjet salesmen. TOM BALLANTYNE *reports.*

MAS markets its king-sized BBJ

On the home page of Malaysia Airlines (MAS) World Wide Web site there is a product called Mastar. Click on it and you are transported to another world, the opportunity to travel in millionaire splendour aboard your own jet.

Mastar is the airline's Boeing B737-700 Business Jet, or BBJ, touted as southeast Asia's first VIP private commercial jet and available for charter complete with luxuries akin to a five-star hotel, seats for only 16 passengers and a state room with a double bed.

The Malaysian flag carrier states pointedly that it is "fit for a king, or fit for business". One of more than 70 customers who have now ordered the BBJ from the Seattle planemaker, MAS may be leading the field in a market once believed to be declining, but now apparently on the cusp of a boom.

Boeing believes other major international airlines may follow suit with their own fleets of big business jets and rival Airbus is also offering a corporate version of its A319. According to one Boeing executive a recent study reveals using corporate jets for business travel can work out cheaper than buying executives first or business class tickets on scheduled commercial flights.

The message is getting through. A Swiss-based executive jet operator, PrivatAir, plans to base a BBJ in Asia before the end of the year. It has not yet decided on a location, but insiders suggest it is likely to be either Singapore or Hong Kong.

In February, Canada's Bombardier disclosed it had clinched a US$100 million deal with China's Shandong Airlines for four Challenger 604 widebody business jets. The first will be delivered in March 2002 and they will be used for Shandong's new global charter business operations.

With a range of 4,077 nautical miles, the Challenger is proving popular among business and government customers alike. It is authorised for civil operation in 40 countries and also has military certification in Malaysia, the Philippines, China and South Korea.

The Boeing Business Jet

Ironically, while names like Lear and Gulfstream have epitomised the image of corporate jets in the past, it is the new models such as Boeing's BBJ and Airbus' Corporate Jetliner (ACJ) which appear to have sparked a renewed boom in VIP flying.

Virtually all the world's major planemakers, large and small, have business jet versions of their popular commercial aircraft on offer. Boeing is not confining its ambitions to today's BBJ. It has already launched a stretched BBJ 2 and is talking about a BBJ 3, which would be based on the B757 airliner. Also on the drawing board is a corporate version of the B717.

Fairchild Dornier offers the Envoy 3 (12 seats and 2000 nm range) and the Envoy 7 (16 passengers and 4,150 nm, available from 2003) and potential customers can also look at the popular 328JET as a corporate shuttle.

As well as the Challenger, Bombardier has corporate versions of its Global Express aircraft. The Japan Civil Aviation Bureau (JCAB) ordered one in November and then opted to take a second in February. Bombardier hopes to announce up to four more business jet sales in the region in the near future.

The Canada-headquartered manufacturer has settled on Hong Kong as its Asia-Pacific headquarters for business aircraft sales and also has set up an office in Beijing, with a parts distribution centre in Singapore to cover the entire region.

The Asia-Pacific has never been as active in the business jet arena as North America and Europe, but the pundits are predicting this will change rapidly over the next decade, as companies look for ways to bring higher efficiency to their business in a global marketplace.

The 2000 National Business Aviation Association convention in New Orleans heard forecasts from avionics manufacturer Honeywell that 6,800 business aircraft worth $90 billion will be delivered between 2001 and 2011.

For the first time, the industry believes these aircraft are being regarded as legitimate business tools rather than executive toys. Until now, most of the growth has been in the U.S. and Europe – some 80% of corporate jets operate in these areas. A primary part of that business is fractional ownership where individuals or companiess can buy a share in a jet. While such schemes are available in the Asia-Pacific they have not been so successful because of the wide spread of the region. But information technology such as the Internet is now being used to reach more businesses to demonstrate corporate jet travel is accessible.

MAS's Mastar is an example and others will likely follow. There were around a dozen business jets, an unprecedented number, on show at February's Australian International Air Show near Melbourne. All 20 major manufacturers of business jets were there, an increase of 15% on the last show in 1999. They were pushing hard to convince companies of the cost-savings and efficiencies they can deliver.

That 15% appears to be reflected in regional business jet activity. ExecuJet Australia, a leading operator of executive aircraft, is introducing a fourth aircraft into the fleet following an increase of 15% in jet charters and enquiry levels during 2000.

"Our market is not only current users of business aircraft, but many who previously might not have considered using corporate jets as an alternative to scheduled airline services," said Ian Vanderbeek, managing director of ExecuJet.

"Business jet operators can fly when they want, be guaranteed of travelling, enjoy access to a much larger number of airfields and visit many more locations than scheduled airlines.

They can also achieve substantial cost savings by visiting multiple destinations in less time than they would using scheduled services, thus reducing the requirement for overnight accommodation."

The arrival of big corporate jets such as the BBJ and the ACJ have also changed the map of business jet travel, catering for long-haul transcontinental flights. Boeing's own chief, Phil Condit, uses a BBJ extensively on his world travels.

All the planemakers point out the return on investment – anything up to US$40 million and beyond – cannot be counted simply in cash. The flexibility offered in executive jet travel relieves much of the stress of scheduled air travel and puts executives in a better frame of mind to do business.

Peter V. Agur, Jr., president of The VanAllen Group in the U.S., a Georgia- based company, cited a recent study which showed the use of business aircraft can increase the time available by at least 4%. "That doesn't sound like much until you realise that 4% can add two weeks to your company's business calendar, add another mover and shaker to your top marketing and management team and take your wasted hours, week in and week out, and make them some of your best," he said.

Successfully convincing potential customers in the Asia-Pacific to accept such arguments is precisely what the business jet makers hope to do to boost sales of their high-flying corporate offerings across the region.

CRJ-200 'sim' boost for Ansett

Ansett Australia is aiming to cash in on the boom in regional jet aircraft sales, writes Tom Ballantyne. The carrier has begun operating an US$8.6 million Bombardier CRJ 200 regional jet simulator, the only one in the southern hemisphere, at its Melbourne base.

One of only 12 in the world, Ansett expects to reap big rewards, an estimated $2.7 million annually in export earnings. Initially, it will mainly be used to train pilots for Australian regional and Ansett subsidiary Kendell Airlines, which is purchasing 12 new Bombardier CRJ200 50-seater jets. It also has options on 12 CRJ700 70-seater aircraft.

When the bulk of Kendell CRJ pilot training is completed, Ansett will be pushing hard to win contracts from around Asia.

Trevor Jensen, head of operations at AirNZ-Ansett, said the new simulator was primarily procured to serve Australia and to continue establishing Ansett as the leading provider of training for pilots who fly regional aircraft outside the country's capital cities.

"Financially, our costs are minimised by not having to send pilots overseas to train and the new simulators will be a major revenue earner in the training it provides for pilots from other airlines around the world.

"Talks are continuing with Bombardier to train foreign pilots in Melbourne. We are also talking to numerous other companies and airlines. Pilots from Vietnam and Kenya have recently used the centre, plus airlines from South Africa, Japan and China have expressed strong interest in training time on the new CRJ," said Jensen.

Trevor Jensen, head of operations at AirNZ-Ansett: Ansett pushing hard to win Asian contracts for its new CRJ-200 simulator

While Ansett's simulator centre near Melbourne's Tullamarine airport is well equipped with big jet capability – including Boeing B767, B737 and Airbus A320 simulators – it is developing into an attractive option for carriers requiring regional aircraft simulator training.

As well as the CRJ equipment, it also has Saab 340 and Metroliner simulators.

The new CRJ simulator represents the latest state-of-the-art aviation technology and allows pilots to perform under a wide range of different conditions, some of which they would not be able to do if they were training in actual aircraft.

It took 18 months to build after years of development by Flight Safety International based in Oklahoma.

George Savvides, Ansett's flight simulation and business manager, said it was hoped Bombardier would assist in redirecting training customers to Melbourne. Most existing CRJ simulators are in the U.S. and for Asian airlines, sending pilots to Melbourne is an attractive alterative.

Savvides said Air China and China Northwest, which have used the carrier's Bae 146 simulator, Xiamen Airlines (B737) and Shandong Airlines (Saab 340) are among Ansett's China clients.

Having already programmed simulators to replicate a large number of Chinese airports the training centre can now adapt the programmes for the new CRJ facility.

Operating 24 hours a day, seven days a week, Ansett's simulator centre conducts about 20,000 hours of training each year, half of it used by pilots from overseas.

China a major draw for Macau's Jet Asia clients

'We are birthing corporate aviation in Asia'

By Jonathan Sharp in Macau

"If we blow this, with the resources we have, then shame on us." So says Captain Ronald Pettit, aviation manager of Jet Asia Ltd, the Macau-based corporate aviation company operating two Canadair Challenger airplanes from the territory's five-year-old airport.

The resources the ebullient Virginia-born Pettit talks about include the deep pockets of Stanley Ho, chairman of Jet Asia, but better known as head of Sociedade de Turismo e Diversoes de Macau (STDM), holder of the territory's exclusive gambling franchise.

Jet Asia manages one of the Challengers on behalf of STDM – Ho and his entourage are apparently frequent flyers – but both aircraft are available for world-wide charter services.

The pocket-sized former Portuguese colony of Macau, a gambling mecca and a drowsy mini-version of nearby Hong Kong, might seem an unlikely home for an executive jet operator when others in larger and more dynamic financial centres in the region have failed to take off or fallen by the wayside.

But Pettit says Jet Asia is already "viable" and aims to add a third aircraft this year. The goal is to acquire a managed airplane, meaning one that is bought by a client and run by Jet Asia. "Our focus for our third airplane is for somebody else to buy it," he said.

Although Jet Asia declines to give details of its finances, Pettit said business had shown "phenomenal" growth in 2000, albeit from a low base.

Jet Asia has had both Challengers flying charters simultaneously several times in recent months, a situation the company would like to see more often.

"But we are realistic, we are in a nascent market here. We are birthing corporate aviation in Asia."

Jet Asia started operations on May 1, 1998. Its Bombardier-made Challengers are fitted with 10 seats, with one aircraft that can be configured to accommodate 12 passengers.

Justifying the choice of this size of cabin-class corporate jet, Pettit said Asian customers prefer larger aircraft to accommodate family members, bodyguards and even nannies.

The company's reach extends far beyond Asia, with substantial business flying to Europe and the United States. Jet Asia's marketing focus is on business from Fortune 500 companies, although the company has also counted Hollywood celebrities and a former U.S. president among its customers.

Why the focus on such companies? "Because they do business in China. China is the elephant in the neighbourhood. Like the U.S. economy it drags the whole world along with it," said Pettit.

Jet Asia: customers have included a U.S. president and Hollywood film stars

Since Portugal handed back the territory to China in December 1999, Jet Asia has found that obtaining mainland permission for permits to fly to Chinese destinations has become noticeably easier.

"Because Macau was a Portuguese colony, Beijing treated us as a west European entity. It was in fact easier for a U.S.-registered airplane to get a permit than it was for us."

Now that Macau is back in the embrace of the motherland, the approval rating has improved.

Officially China requires notice of 15 working days for granting a permit to land in the country. "That would kill us. We couldn't operate," said Pettit.

Thankfully, lead times for securing permits are in practice much briefer, although not as short as Jet Asia and others would like.

Pettit noted the United States, Europe and Singapore required a mere two-hour notice period, whereas elsewhere took days.

But even though Singapore is liberal, flying there entails crossing the airspace of Vietnam or the Philippines, and both those countries required several days' notice.

Pettit would like China to open offices handling corporate aviation in every country to allow expedited procedures, ideally to reduce notice periods to a few hours.

"We would like corporate flights to be treated almost like ambulance flights," he said.

Added Yeet Jones, Jet Asia's manager operations: "We know it can be done because Beijing will process anybody's ambulance flights in four hours."

Asia's fees for permits, landing and other charges are sky-high compared with elsewhere, Pettit noted, with for example Tokyo and Beijing charging in the region of US$10,000. Seoul also charges $10,000, "and if you land on Sundays it is $12,000".

By contrast fees for a Paris to Madrid flight would probably be less than $2,000.

But Jet Asia regards lead times for acquiring permits, not the high fees, as the prime impediment to business.

Another constraint: a reluctance of rich, but conservative Asian chief executives to indulge in high-cost corporate aviation. "It's not a question of money," said Pettit. "There's plenty of money here."

New airport opens the way for Metrojet

By Jonathan Sharp

The scheduled arrival in March of a Gulfstream IV at Metrojet Ltd marks an important step – but by no means the last – for the Hong Kong company as it positions itself to take advantage of what it sees as major opportunities for business aviation.

Mark Turner, managing director of Metrojet Ltd and Heliservices (HK) Ltd, said Metrojet will operate the 11-seat Gulfstream for the U.S. manufacturer, but with the aim of selling it in the next 15 months. He thinks he can find a Hong Kong buyer. "That's not to say we have somebody in line waiting to buy it." As well as managing the jet, Metrojet is qualified to perform maintenance on it and will put it out to charter at about US$6,000 an hour.

Established in 1995 as part of the Kadoorie Group, Metrojet has been flying a Hawker 700 that it bought as a means to acquire an Air Operator's Certificate and to set up a flight operations department so as to establish credibility as an aviation management company.

"But our Hawker is not the aircraft to introduce to the local market because it is too small. When you introduce an aircraft to a potential client you want one that has all the leading-edge technology and the bells and whistles as well as the comfort and room that they have grown accustomed to."

Metrojet's next step, to reorganize the company to bring greater efficiencies, is imminent, Turner said. "We are trying to be a bit more efficient because we think we are at the start of some really good opportunities for business aviation."

He said Hong Kong regulatory authorities had previously not provided a welcoming environment for business aviation. This was partly because of space constraints at the old Kai Tak airport. This had meant there was a good chance a private plane would have to drop off passengers in Hong Kong and then fly somewhere else to wait for the return leg because there was no room to park at Kai Tak.

Those constraints disappeared with the 1998 opening of the new Hong Kong International Airport at Chek Lap Kok, including an extensive Business Aviation Centre with Metrojet as a shareholder. However, as other regional operators agree, constraints persist in neighbouring mainland China in the form of restricted access and high cost.

But attitudes are changing. "The important thing with regard to regulatory authorities, whether we are talking about Hong Kong or the mainland, is that there has been a significant adjustment in attitudes towards business aviation," said Turner.

Mark Turner, managing director of Metrojet Ltd and Heliservices (HK) Ltd: some really good opportunities for business aviation

"On the mainland they recognise that (business aviation) is a means of bringing people into the country that can contribute to the development of the country and it's in their best interest to facilitate this."

Turner said Hong Kong's problem was that Beijing still treated it as a foreign country for aviation purposes, despite the 1997 handover of sovereignty by Britain.

He said it costs Metrojet over US$8,000 in fees and ground service charges to fly the Hawker to Beijing. "For my competitor, who is based in Beijing, for him to fly around and into Beijing costs him $26. No zeros."

When that operator flew to Hong Kong he paid just the same fees to land in the territory as Metrojet. The upshot was the Beijing operator can fly to Hong Kong empty, pick up passengers for Beijing, return them to Hong Kong and fly home empty at lower cost than Metrojet just flying Hong Kong-Beijing-Hong Kong.

"So the playing field is not level. As a Hong Kong company we are offended by the fact that we are treated exactly like U.S., British, Australian or any other entities. We are an SAR (Special Administrative Region of China), but we don't get any credit or recognition." To add insult to injury, the Beijing operator can fly any route he chooses in the mainland whereas Metrojet must fly designated routes sometimes hundreds of miles longer. These are the hurdles that we have to get over for this really to prosper in the way we know it can."

To help overcome these and other hurdles, Turner has been a prime mover in the formation of the Asian Business Aviation Association (ABAA), which met in June last year in Hong Kong and at the Zhuhai air show in mainland China in November.

Development of the ABAA is "probably the most important thing that operators can do for themselves," said Turner. "We've got a lot of momentum," he said, plus support from fellow professional bodies.

Metrojet: operating an 11-seat Gulfstream jet for the U.S. manufacturer

RPK GROWTH RATES SET TO RECEDE

In November, members of the Association of Asia Pacific Airlines (AAPA) reported 8.5% and 8.2% growth in revenue passenger kilometres (RPK) and passengers carried (PAX), respectively. Capacity expanded 7.9%, resulting in a passenger load factor (PLF) of 73.1%, up a marginal 0.4 of a percentage point year-on-year.

Five airlines recorded more than 10% growth with Garuda Indonesia (GA) leading the group with 33.9%. The other four carriers were China Airlines (CI – 21.9%), Vietnam Airlines (VN – 20.1%), Royal Brunei Airlines (BI – 13.7%) and Ansett Australia (AN – 12.7%). No airline reported negative RPK growth.

PLF growth moderated further from October, with only five airlines recording improvements. Garuda Indonesia (8.5 percentage points) once again headed the list, followed by Japan Airlines (JL – 4.3 percentage points) and Royal Brunei Airlines (3.3 percentage points). On the other hand, seven airlines experienced a decline in load factor, ranging from 0.3 percentage points (China Airlines) to 3.8 percentage points (Vietnam Airlines).

Airlines with high load factors were Asiana Airlines (OZ – 77.3%), Japan Airlines (77%), Thai Airways International (TG – 76.6%) and Singapore Airlines (SQ – 76%). Seven other airlines reported PLFs in the low 70s (%). Royal Brunei Airlines posted under 70%.

Cargo Results

In the light of the U.S. economic slowdown, freight tonne kilometres (FTK) grew by only 5.8%, but this was better than October's growth of 3.5%. Capacity expanded 8.2%, resulting in a reduced freight load factor (FLF) of 1.6 percentage points to 70.2%.

All but three airlines managed to register FTK growth. Experiencing strong cargo growth in November were China Airlines (16.8%), Ansett Australia (16.2%) and Cathay Pacific Airways (CX – 11.2%). Of the three airlines showing a decrease in FTKs, Japan Airlines and Korean Air (KE) contracted less than 1%, while Royal Brunei Airlines contracted 13.7%.

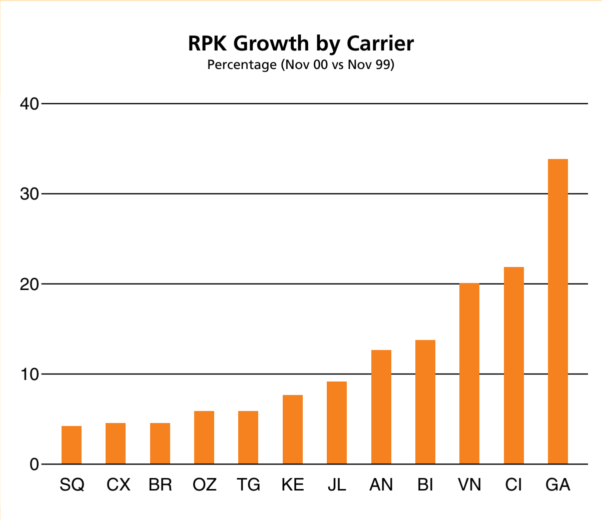
Only Garuda (6.6 percentage points) and Korean Air (1.1 percentage points) recorded improvements in FLF. The remaining airlines registered a decline with Royal Brunei Airlines (11.6 percentage points), Vietnam Airlines (7.5 percentage points) and EVA Air (BR – 5.5 percentage points) recording the sharpest fall in load factors.

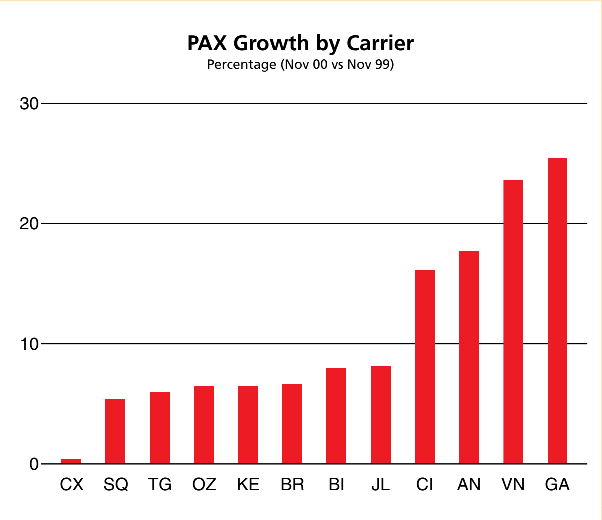
Freight load factor (FLF) remained high for six airlines, exceeding the 70% mark. Ansett Australia recorded 81.8%, followed by China Airlines (81.2%), Asiana Airlines (79.2%), EVA Air (78.7%), Cathay Pacific Airways (75.4%) and Korean Air (74.7%). The others turned in load factors below 70%.

Results for the 12 months ending November 30 2000

The consolidated RPK figures and number of passengers carried for the 12-month period under review increased by 11.2% and 9.4% respectively. Seat capacity rose 8%, resulting in a 2.2 percentage point improvement in load factor to 75%.

Growth in RPKs during the 12 months varied among member





airlines, but none recorded negative growth. Figures ranged from 1% at Ansett Australia to 60.6% for Garuda Indonesia. In addition to Garuda, double-digit growth was posted by Asiana Airlines (21%), Vietnam Airlines (17.4%), Cathay Pacific Airways (11.8%), China Airlines (11.8%) and Korean Air (11.3%).

Two airlines posted a significant improvement in PLF – Garuda Indonesia (9.7 percentage points) and Cathay Pacific Airways (4.6 percentage points). On the other hand, Ansett Australia and Korean Air experienced a decline.

All but two airlines recorded load factors in excess of 70%. Garuda Indonesia led the way with 79.7%. Nine other airlines filled more than 70% of their capacity, with seven above 75% – Asiana Airlines (77.3%), Vietnam Airlines (76.9%), Singapore Airlines (76.5%), Cathay Pacific Airways (76%), China Airlines (75.8%), EVA Air (75.5%) and Thai Airways International (75.2%).

Cargo Results

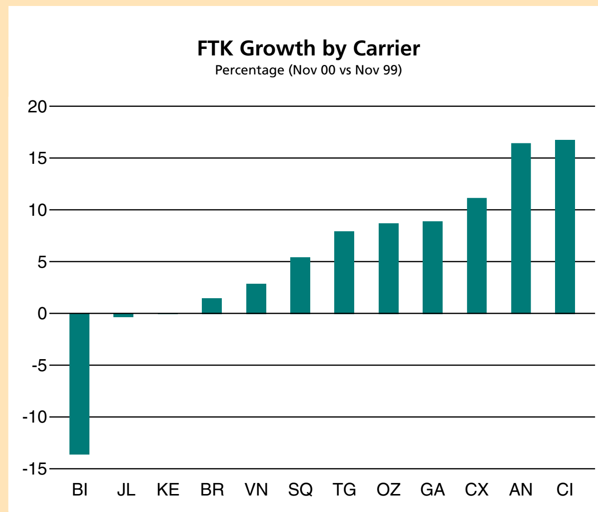
Consolidated FTKs of AAPA airlines rose 13.4% while capacity expanded 12.8% for the 12-month period. This resulted in a 0.4 percentage point increase in load factor to 70.9%.

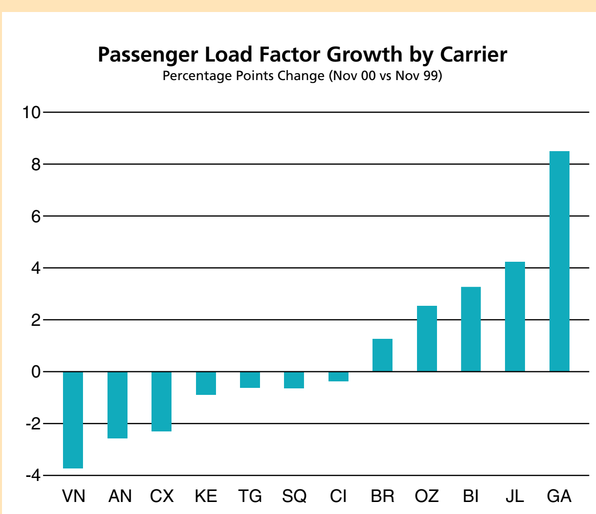
High FTK growth was recorded by China Airlines (25.9%), Vietnam Airlines (25.9%), Asiana Airlines (18.1%), Garuda Indonesia (16.9%), EVA Air (15.3%), Korean Air (13.9%) and Singapore Airlines (10.7%).

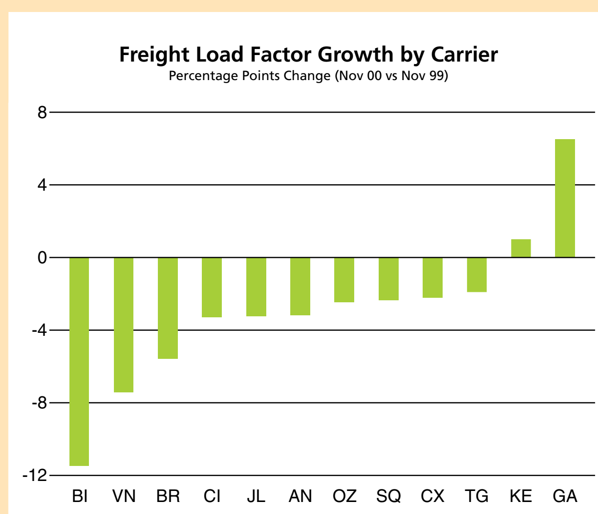
The improvement in load factor was moderate. Only Cathay Pacific Airways (2.4 percentage points) and Vietnam Airlines (2.0 percentage points) emerged significantly better. Four airlines, however, registered a decline in FLF.

Taiwan-based carriers continued to record the highest load factors – China Airlines (83.7%) and EVA Air (80.4%) – with the Korean-based carriers, Korean Air and Asiana Airlines, coming

Garuda Indonesia: increased passenger and freight load factors in November







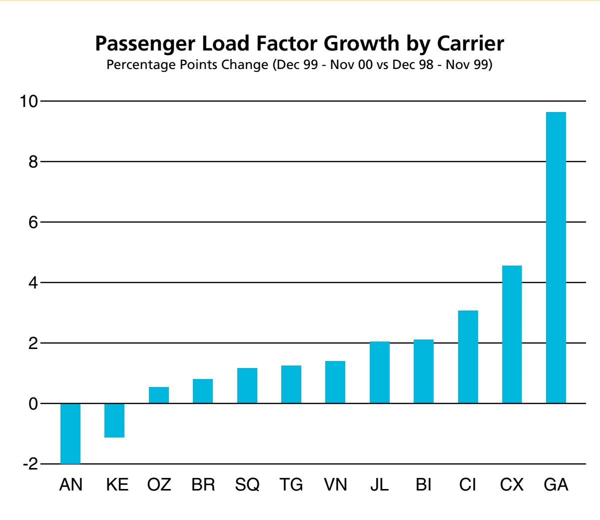
China Airlines: recorded the highest FLF in the year to November 30

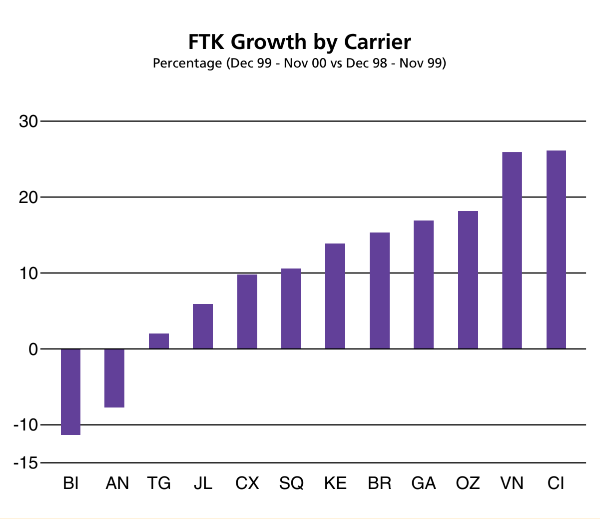
next with a similar load factor of 76.7%. In contrast, three airlines from Southeast Asia – Royal Brunei Airlines, Garuda Indonesia and Vietnam Airlines – posted load factors below 50%.

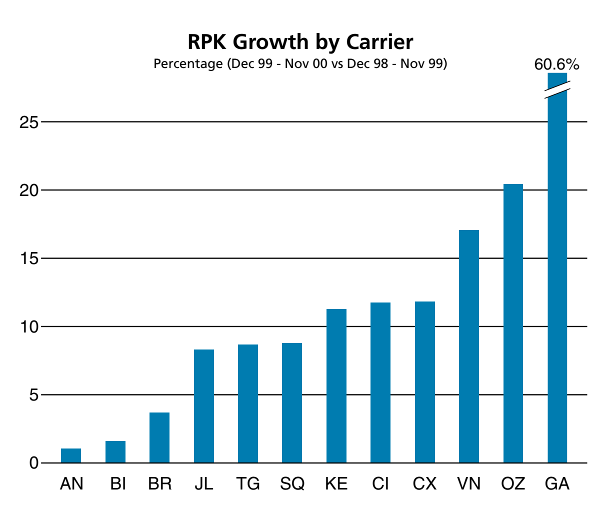
Summary

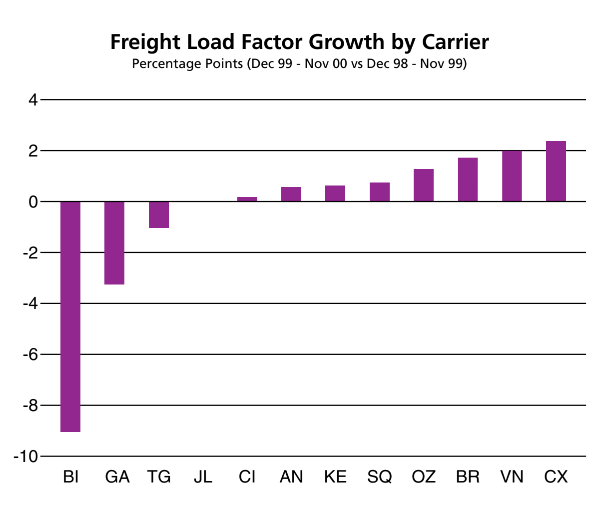
The crisis of 1997 was prefigured by a slowdown of passenger traffic, while cargo traffic did not decline until the financial crisis began to affect economic fundamentals and hence trade. This time around economic weakness has been signalled by a slowdown in cargo traffic, while passenger numbers remain relatively strong. However, airlines will inevitably find that RPK growth rates recede from the levels of 2000 as the U.S. economy has a widening impact on the Asia-Pacific region.

More optimistically, a weaker traffic base may well be accompanied by a weaker U.S. dollar and lower fuel prices, which would reduce costs at the same time that revenue falls.

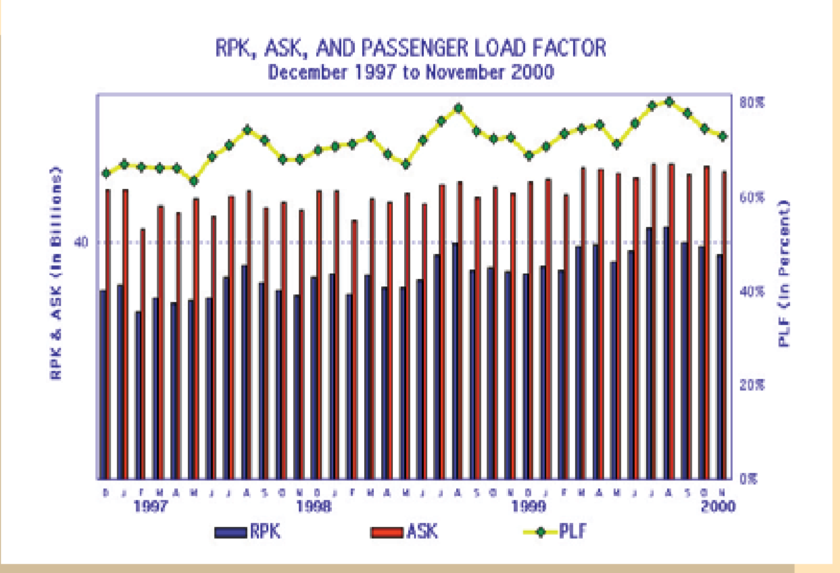


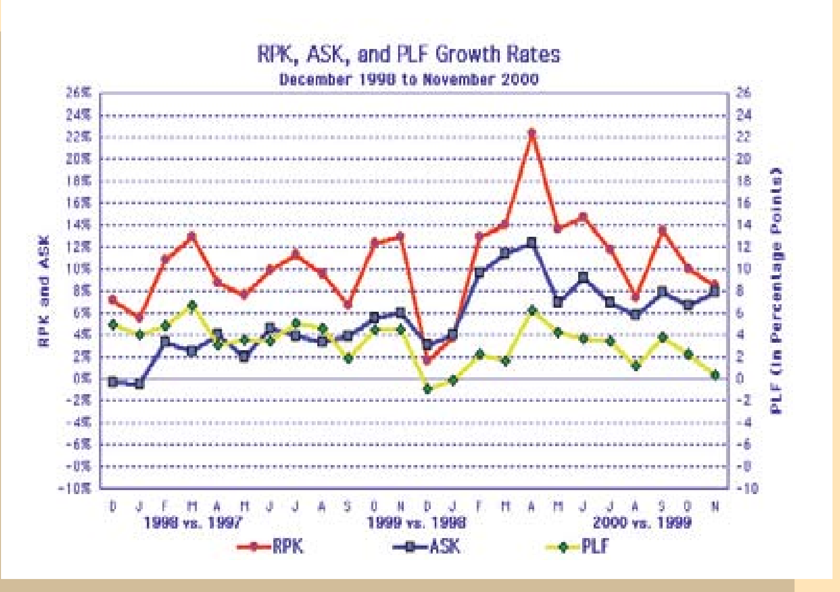




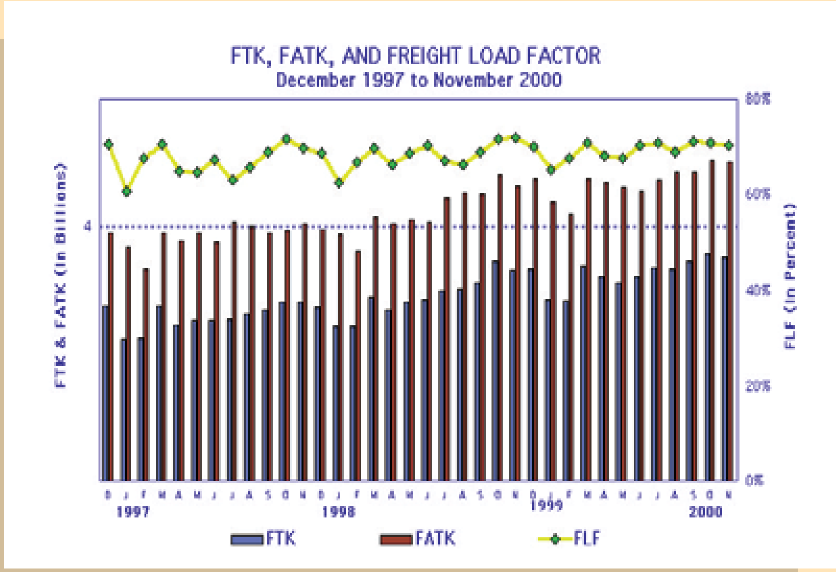


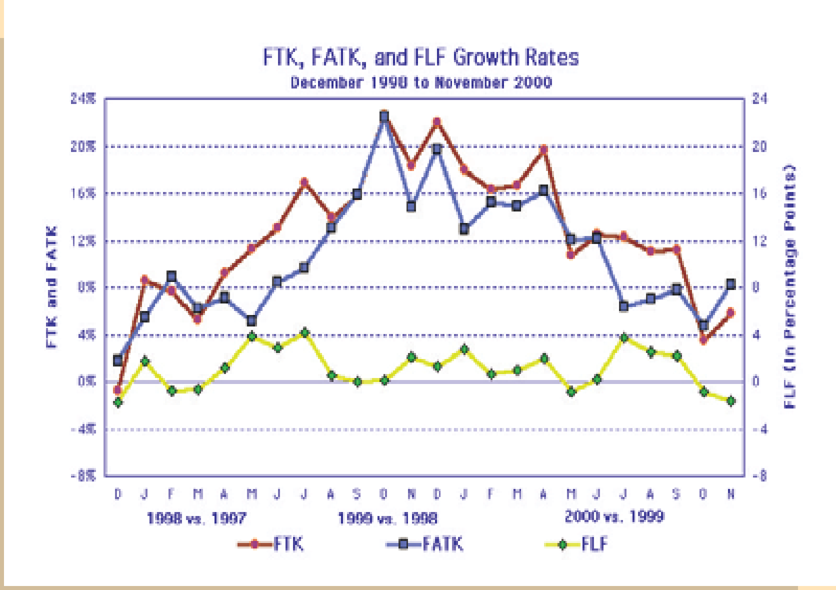
Monthly international PAX statistics of AAPA members





Monthly international cargo statistics of AAPA members





AAPA monthly international statistics (MIS)

*IN THOUSANDS

1999 to 2000

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
NOV-00	37,969,250	51,964,678	73.1	3,514,694	5,006,770	70.2	7,071,257	9,774,564	8,588
OCT-00	39,332,153	52,675,508	74.7	3,574,009	5,039,458	70.9	7,267,403	9,870,068	8,787
SEP-00	40,020,664	51,426,742	77.8	3,458,883	4,857,183	71.2	7,221,936	9,582,405	8,765
AUG-00	42,659,534	53,139,437	80.3	3,334,257	4,840,488	68.9	7,342,838	9,731,361	9,410
JUL-00	42,358,347	53,178,496	79.7	3,352,737	4,735,953	70.8	7,330,686	9,492,294	9,366
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	51,663,143	71.2	3,117,148	4,602,811	67.7	6,587,965	9,339,170	8,283
APR-00	39,588,941	52,408,645	75.5	3,206,711	4,696,924	68.3	6,844,787	9,505,943	8,656
MAR-00	39,330,412	52,620,044	74.7	3,368,597	4,755,519	70.8	7,001,375	9,582,087	8,585
FEB-00	35,223,148	47,901,122	73.5	2,818,197	4,172,994	67.5	6,111,261	8,570,603	8,084
JAN-00	35,872,893	50,662,344	70.8	2,858,084	4,386,228	65.2	6,226,028	9,037,317	7,883
DEC-99	34,612,362	50,110,454	69.1	3,325,734	4,746,309	70.1	6,573,078	9,338,728	7,947
TOTAL	462,215,307	618,472,172	74.7	39,134,111	56,394,955	69.4	82,403,853	113,044,862	102,893

1999 to 2000

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
NOV-00	8.5	7.9	0.4	5.8	8.2	-1.6	6.9	8.0	8.2
OCT-00	9.9	6.7	2.2	3.5	4.7	-0.8	6.5	5.6	9.7
SEP-00	13.4	7.9	3.7	11.2	7.8	2.2	12.3	7.9	12.8
AUG-00	7.4	5.8	1.2	11.1	7.0	2.5	9.3	6.4	5.8
JUL-00	11.8	7.0	3.4	12.3	6.4	3.8	12.4	5.2	9.6
JUN-00	14.7	9.2	3.7	12.4	12.1	0.2	14.4	10.6	11.6
MAY-00	13.6	7.1	4.1	10.7	12.1	-0.8	12.9	9.5	11.2
APR-00	22.4	12.3	6.2	19.7	16.2	2.0	20.3	14.3	16.0
MAR-00	13.9	11.4	1.7	16.6	14.9	1.0	15.0	13.0	9.9
FEB-00	13.0	9.6	2.2	16.3	15.2	0.6	15.4	12.4	11.7
JAN-00	3.7	4.0	-0.2	18.0	12.9	2.8	10.9	8.0	4.7
DEC-99	1.6	3.0	-1.0	22.0	19.5	1.4	12.3	11.0	2.7

Calendar Year

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
2000[5]	427,602,945	568,361,718	75.2	35,808,377	51,648,646	69.3	75,830,775	103,706,133	94,946
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 %
2000[6]	11.9	8.0	3.9	12.1	10.4	1.6	12.2	9.1	10.0
1999	9.1	3.4	5.7	14.0	11.5	2.4	12.2	7.4	9.3
1998	-1.5	-0.8	-0.7	-2.5	1.1	-3.6	-2.4	0.5	-2.8
1997	3.6	6.0	-2.5	14.2	6.0	8.2	8.3	6.5	2.3
1996	14.8	12.3	2.5	16.5	18.1	-1.6	15.3	14.8	13.5

Note:

1. The consolidation includes 16 participating airlines.
2. Data for Jul 2000 - Nov 2000 are subject to revision as actual data for QF (Jul 2000 - Nov 2000), NH (Nov 2000) and PR (Nov 2000) are not available. Oct 2000 have been revised with the inclusion of AN Oct 2000 and NH Oct 2000.
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 2000 to date - From Jan 2000 to Nov 2000.
6. Year-on-year comparison: Jan - Nov 2000 v. Jan - Nov 1999.

TORTURED ANSETT CAUGHT WITH ITS GUARD DOWN

TURBULENCE

By Tom Ballantyne

The news that the finances of Australasia's new Air New Zealand Ansett Group have sunk close to the red ink line, largely because of a dreadful performance by Ansett Australia, should come as a serious reminder that no one is immune from fiscal drama in this cyclical airline industry of ours.

Putting the recent Asian economic recession aside, not to mention rising fuel prices, no one in this region can afford to take their eye off the ball for one second.

Losing concentration on the big picture as well as the critical individual elements that make an airline successful is precisely what happened at Ansett. There may have been extenuating circumstances, but that is no excuse. Staff at Ansett have undergone more than four years of torture. They thought their problems were over when Rod Eddington arrived from Hong Kong to steady things and instigate a restructure for the carrier.

But he headed off to London before the job was finished, leaving a void that took nearly nine months to fill. Gary Toomey, former deputy chief executive and financial guru at Qantas, finally grabbed the tiller in January, but before he arrived no one was really minding the ship.

Loyal Australian staff finally discovered in June their future lay in New Zealand hands (with more than a little influence from 25% Air New Zealand stakeholder Singapore Airlines) and their worries turned to whether their jobs would disappear across the Tasman as rationalisation measures continued.

Worse still, 20 or 30 managers, many of them after years of service, suddenly disappeared as the executive restructure got underway. Little wonder morale plummeted. And maintenance slip-ups, virtually unheard of in a major airline did not help the cause. Boeing B767s had to be grounded during the busy Christmas period and, later, a wrong part was installed on a B767.

Ansett is no slouch when it comes to customer service. Its international inflight service is a regular award winner. Yet staff worried about their future might not be quite as enthusiastic as they might otherwise be.

The result? Ansett is being decimated by rival Qantas Airways and hit by Australian newcomers Impulse and Virgin Blue. Its market share has stagnated at the same time as overall domestic traffic has risen 7% annually.

Gary Toomey has to reverse that trend while combining two airline operations. It is a mammoth task. And if he needs any reminder of what is ahead then he only has to think of how long it took Qantas and domestic Australian Airlines to join forces. That process was traumatic and during this period Ansett thrashed Qantas in the market place, stealing a big lead in traffic share while Qantas minds were on other things. The reverse has been happening over the past year. The point is no airline can afford to drop its guard.

Air New Zealand Ansett is not the only Asia-Pacific airline flirting with trouble. Everyone knows Malaysia Airlines has deep financial problems. Yet at a time the airline industry is driving further and further down the road towards truly commercial management and privatised operations, Kuala Lumpur has decided to place government bureaucrats at the head of its national flag carrier.

Competent as they may be in their chosen field, they are not airline people. And they do not have decades of experience in running airlines which have to compete in the vicious world of international aviation.

Perhaps they will have the vision and persistence to achieve a turnaround, as non-airline executives like Robby Djohan and Abdulgani, both bankers, appear to have had at Garuda Indonesia. But, on average, history tells us their chances are not good.

British Airways shareholders did not have any qualms or thoughts of nationalism, unlike some countries in Asia, when it hit bad times. It looked around for the best and brought in Australian Eddington. Nine months later, financial results have improved. Singapore Airlines chief, Dr Cheong Choong Kong, has said there is no glass ceiling placed over non-Singaporeans aiming for the top of SIA. And despite the national pride inherent in being either a New Zealander or an Australian, Air New Zealand brought in Australian Toomey to turn its troubling financial tide.

Meanwhile, the Thai Government is threatening to do a U-turn and keep its national carrier, Thai Airways International, firmly in local hands after three years of preparing for partial privatisation. Several international airlines have been patiently waiting in the wings to make bids. It smacks of ongoing government interference and that usually works to the detriment of the airline.

For a start, such interference slows down the decision-making process and stifles proper forward planning. Incumbent managers (as happened in the Ansett case) do not make decisions on their merits because they do not know what their new owner(s) want.

The AirNZ Ansett figures indicate the underlying message for the region's airlines is that this is no time to relax. Already there is some evidence global economies, including the U.S., are slowing down, with Japan possibly heading back into recession. If that happens other Asian nations will likely follow.

The Middle East is more of a powder keg than it has been since those dreadful days of the Gulf War and that does not bode well for an end to volatility in jet fuel prices. This is a period when airlines need strong leadership by professional managers who are firmly focussed on their business.