Orient aviation

VOL. 8 NO. 4 FEBRUARY 2001

MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

THE WAITING WAITING WAITING GAME

Carriers at the crossroads as changing domestic politics delay privatisation plans

Japan airport charges: airlines keep up the pressure

The challenges of flying a B747 in the Antarctic

SPECIAL REPORT: Engineering & Maintenance in the Asia-Pacific

Orient aviation

VOL. 8 NO. 4 FEBRUARY 2001

COVER STORY

THE WAITING GAME Page 20

Politics frustrate would-be airline investors

BPA INTERNATIONAL ®

INFLIGHT ASIA *goes electronic*

The region's new electronic inflight magazine dedicated to onboard services and technology. Check out www.orientaviation.com for the best informed news, trends and features on our industry.

PUBLISHER

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

Publisher and Managing Editor
Barry Grindrod

Joint Publisher
Christine McGee

Chief Correspondent
Tom Ballantyne
Tel: (612) 9638 6895
Fax: (612) 9684 2776

Hong Kong & China:
Jonathan Sharp, Wellington Ng
Tel: (852) 2504 3995

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

Design & Production
Ü Design + Production

Colour Separations
Twinstar Graphic Arts Co.

Printing
Lammar Offset Printing Company Ltd

Distributed by
Wilson Press Ltd

ADVERTISING

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

South East Asia
Tankayhui Media
Tan Kay Hui
Tel: (65) 9790 6090
Fax: (65) 299 2262
E-mail: tkhmedia@singnet.com.sg

The Americas / Canada :
Barnes Media Associates
Ray Barnes
Tel: (1 203) 372 7738
Fax: (1 203) 372 8763
E-mail: rvbarnes@snet.net

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

Association of Asia Pacific Airlines Secretariat
Suite 9.01, 9/F,
Kompleks Antarabangsa,
Jalan Sultan Ismail,
50250 Kuala Lumpur, Malaysia.
Director General: Richard Stirland
Commercial Director: Carlos Chua
Technical Director: Leroy Keith
Tel: (603) 245 5600
Fax: (603) 245 7500

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

WRITING IS ON THE WALL

The signals coming out of Malaysia and Thailand indicate that the two flag carriers, Malaysia Airlines (MAS) and Thai Airways International (THAI), are to remain under government control for longer than potential investors had been led to understand in the last 12 months.

However, these are not surprising developments when the current domestic political circumstances of the two countries are taken into account. In Thailand, the new government will be a coalition, with its leading member party, Thais Love Thais, fervently advocating that Thailand keep the ownership of its 'aviation farm' within national borders. Despite assurances from THAI that 20% of THAI will be sold off to private interests, insiders are beginning to doubt that the March deadline for the sale can be kept.

In Malaysia, the national government, for reasons that are not yet totally clear, bought the 29% of MAS that was formerly owned by Malaysian entrepreneur, Tan Sri Tajudin Ramli. As a result, the Government owns 60% of the loss-making national carrier. At some stage, unless it receives a waiver from the government – and that is possible – it is obliged to make a general offer for the remainder of MAS now that it holds more than 35% equity in the loss-making carrier. Once again politics have complicated the possible sale of some of MAS to foreign interests. Malaysia's leaders fear foreign board members would make decisions at MAS that would reflect badly on the government. So what could the future hold for those airlines?

On the positive side, both THAI and MAS enjoy good reputations when it comes to gracious inflight service and substantial and efficient route networks.

Conversely, it is no secret that government controlled airlines take longer to react to changing economic circumstances, stall decisions if they interfere with political objectives and often tolerate weak managers and staff unions frightened that jobs might go under a management with objective [foreign] input at board level.

But keeping airlines in government hands can be costly for the taxpayer. Even lean and mean airlines are cautious about their future in an increasingly competitive aviation environment.

In one way or another the writing is on the wall for flag carriers controlled by governments. They will either have to shape up to new standards of performance under their political fathers or they will have to accept at least partial privatisation to stabilise revenue and convert their enormous present and potential assets into economic reality.

BARRY GRINDROD
Publisher/Managing Editor

The Association of Asia Pacific Airlines members and contact list:

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

All Nippon Airways
President and CEO, Mr Kichisaburo Nomura
Director, Public Relations, Mr Koji Ohno
Tel: (81 3) 5756 5675 Fax: (81 3) 5756 5679

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

Asiana Airlines
President, Mr Park Sam Koo
Managing Director, PR, Mr Hong Lae Kim
Tel: (822) 758 8161 Fax: (822) 758 8008

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

China Airlines
President, Ms Christine Tsung Tsai-yi
Director, Public Relations, Mr Scott Shih
Tel: (8862) 2514 5750 Fax: (8862) 2514 5754

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

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

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

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

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

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

Philippine Airlines
Chairman, Mr Lucio Tan
VP Corporate Communications, Mr Rolando Estabilio
Tel: (632) 817 1234 Fax: (632) 817 8689

Qantas Airways
Managing Director, Mr James Strong
Director of Public Affairs, TBA
Tel: (612) 9691 3760 Fax: (612) 9691 4187

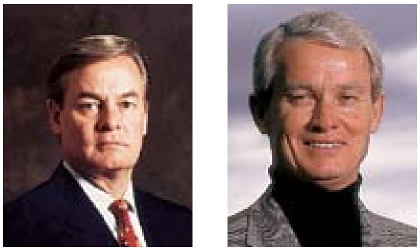
Royal Brunei Airlines
Chairman, Dato Paduka Awang Haji Alimin Bin Haji Abdul Wahab
Tel: (673 2) 343 368 Fax: (673 2) 343 335

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

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

Vietnam Airlines
President and CEO, Nguyen Xuan Hien
Dep Director, Corp Affairs, Nguyen Huy Hieu
Tel: (84-4) 873 0928 Fax: (84-4) 827 2291

TOUGH CALL: Lobbying is intensifying across the world aviation community as the April voting date approaches for the election of Pierre Jeanniot's successor as director general of the International Air Transport Association (IATA). According to interested parties (particularly in the Asia-Pacific), the short list is down to four candidates, with two Asia-Pacific aviation leaders, Qantas Airways' chief executive, James Strong, and John Swire & Sons executive director and former Cathay Pacific Airways chairman, Peter Sutch, the favoured contenders. A representative of one lobbying bloc said Strong, who will soon hand over the Qantas reins to his deputy Geoff Dixon, is appealing because of his reputation for strong financial management, his winning media style and his record of turning a variety of companies around during his career. Now Europe-based, Sutch has impeccable airline and management credentials and knows the business from the inside out. Gifted and admired as a consummate communicator, manager and corporate diplomat, Sutch is equally attractive as a prospective IATA D-G.



The two front runners for the IATA director general's job following the retirement of Pierre Jeanniot,
Peter Sutch (left) and James Strong

PERSPECTIVE

PROMOTED: Following four highly successful year in Singapore, and over eight years working with the Asian region, Airbus Industrie's popular Regional Communications Director Sean Lee is returning to France to take up a senior position at the head office corporate communications department in Toulouse. He will be succeeded in Singapore by Anthony Phillips, who joins Airbus from the International Air Transport Association in Geneva. Phillips previously worked for Airbus on a consultancy basis in Hong Kong.

EVERYWHERE! British Airways (BA) chief executive Rod Eddington is now a non-executive director of Qantas Airways, in keeping with his position as representative of BA's 25% shareholding in Qantas Airways. Eddington is a former executive chairman of Qantas rival, Ansett Australia. Before his move to his native Australia he was managing director of Cathay Pacific Airways from 1991 to 1996. In May last year he stepped into the BA top job after Lord Marshall dismissed his predecessor, Bob Ayling, six weeks earlier. Ayling held the BA-designated directorship at Qantas until his sacking. While Eddington did his "gardening" duty. Lord Marshall was BA's representative on the "down under' flag carrier's board.

NOW WHAT? Following the sudden, but widely predicted Sunday afternoon sacking in January of Swissair boss, Philippe Brugisser, Malaysia Airlines (MAS) must wonder if the interest the SAir group has expressed in taking an equity share in its operations could proceed. SAir chairman Eric Honegger hardly gives heart to MAS after he told *Orient Aviation* "the Malaysian state welcomes our interest. Discussions are ongoing with MAS" (cover story page 20) SAir has or is considering either withdrawing or selling costly equity purchases in South African Airways and Portugal's TAP as well as taking a brutal look at methods to stem bottom line haemorrhaging at its majority-owned airline losers, Belgium's Sabena and France's Air Littoral, AOM and Air Liberte.

HOPE? Dr. David Pang (57), the new boss of the Hong Kong Airport Authority may not know much about the Hong Kong airport [yet], but he knows what he likes. The mainland China-born, western educated, ex-chairman of greater China for chemical multi-national, Dupont Inc. told the Hong Kong media in January: "I've been a frequent flyer. I have missed flights several times. I have developed strong opinions of what a good airport should be." *Perspective* hopes he also considers comfort and passenger convenience as he goes about his management and infrastructure enhancements at the Hong Kong International Airport. His ideas might be aided and abetted by a visit to Sydney International Airport where all passengers rest, eat, drink, read, shop and relax airside in hip and commodious style.

CENTRES OF ALLIANCE: Numerically superior airline alliance, the Star Alliance, opened its Asian regional centre in Bangkok last December, in a smart move to manage the exponential demands of its burgeoning 15-airline network worldwide. Chief executive officer of the Star Alliance, Friedel Rodig, cut the inaugural ribbon at the new business centre in Bangkok at a ceremony which was attended by Juergen Weber, Lufthansa German Airlines' chairman and CEO. Lufthansa is currently the lead airline in Star. The Star Alliance world-wide has 100 full-time staff and another 600 staff from its member airlines working on Star Alliance services and strategies.Rodig retired on February 1.

POACHED: New Air New Zealand-Ansett Group boss, Gary Toomey, made his first moves on the Trans-Tasman aviation chess board with the appointment of former Qantas senior financial managers, Adam Moroney and Kevin Turnbull as the group's chief financial officer and group general manager business performance respectively. Toomey also has appointed the former chief executive of Internet company Pacific International (Australia), Jochen Bonitz, as the carrier's e-commerce group general manager. Peter Harris, a former deputy director of the Australian Transport Department and the Australian Civil Aviation Safety Authority, is the airline group's new general manager government and international affairs.

DEATH OF A PIONEER: Founder of Colorado-based freighter airline, Atlas Air, and passionate aviator, Michael Chowdry (46), died on January 24 just after taking off for an aerobatic display in the U.S. Pakistan-born and bred Chowdray established his freighter airline in April, 1993. By the turn of the millennium he had turned it into the third largest cargo airline in the world and was ranked 309th in the *Forbes* List of the U.S.'s 400 richest people in 2000. In an interview in the January 2001 edition of *Airline Business* Chowdray said: "A lot of people like playing golf. For me it is very relaxing to be in the cockpit flying." Chowdray's first client was China Airlines in Taiwan. Other key customers of Atlas Air are or were Korean Air, Malaysia Airlines, the key mainland Chinese carriers and Hong Kong-based Dragonair.

REGIONAL ROUND-UP

Cathay Pacific denies report of delaying aircraft orders

Cathay Pacific Airways, while reporting that last year it carried the highest number of passengers and cargo in its history, denied regional January media reports that it would miss a March deadline to order new aircraft to its fleet.

A company spokesman said Cathay would proceed with the delivery of 10 aircraft this year, but that it was under no time constraints to make additional airplane orders, including buying the new Very Large Aircraft – either from Airbus Industrie or Boeing.

In the December/January 2000-2001 issue of *Orient Aviation*, Cathay's chief executive, David Turnbull, said: "We have to start placing orders next year." The big question mark is over fuel. Just when, how and what Cathay Pacific will order will depend on the fluctuations of fuel prices, he explained.

"Manufacturers are quite full at the moment. If airlines start losing money [because of high fuel costs] some may start shedding some of those orders. I would rather be a buyer when others are trying to dispose of ordered aircraft," Turnbull added.

Cathay Pacific Airways: 10 additional aircraft joining its fleet this year

China Eastern says fleet will top 100 by 2006

SHANGHAI-BASED China Eastern Airlines (CEA), China's third biggest carrier, plans to boost its fleet to 100 planes from the current 69 within five years. The *Shanghai Daily* reported CEA will buy five Airbus aircraft for long-haul flights and 25 Boeing planes for shorter routes. However details of the means of financing the deals of the listed airline remain vague, with an airline spokesman reporting the carrier will raise the funds either by issuing new shares or with a commercial loan. Last year the Civil Aviation Administration of China (CAAC) approved CEA's request to add Airbus A320s and A319s to its fleet during the next two years.

Shanghai Airlines on track for IPO

ACROSS the road from CEA Shanghai Airlines, which is part-owned by China president Jiang Zemin's son, is working towards its goal of an Initial Public Offering (IPO) this year following approval in 2000 from the Beijing Government to list (*Orient Aviation*, December 2000). Jiang Jnr (Jiang Mianheng) wants to sell 200 million A shares to domestic investors, about 40% of the paid up capital of the airline, the carrier's spokesman, Shi Dachun said.

Shi told Shanghai media representatives the cash raised would fund an increase in the airline's fleet by 16 aircraft to 34 (mainly Boeing airplanes) and would include the delivery of two Bombardier CRJs by early 2002. Shanghai Airlines' two biggest shareholders are Shanghai United Investment – controlled by Jiang Jnr – and the Bank of China International, the investment arm of the Bank of China.

Pressure on new Japan carrier Air Do to clear debt

ONE OF Japan's fledgling carriers, Sapporo-based Hokkaido International Airlines, better known as Air Do, is finding out just how tough it is to stay in the black operating in a country with the world's highest airport user charges.

Japan's Construction and Transport minister has disclosed the domestic carrier has failed to pay more than 300 million yen (US$2.6 million) in fees for using facilities at Tokyo's Haneda Airport and Sapporo's New Chitose Airport since November.

The Ministry is pressuring the airline to clear its debt, although local analysts believe it will be given some time to try and resolve the issue. This is because the government does not want to see a new airline fail, a development which would reflect badly on the handling of aviation deregulation in Japan.

Air Do's predicament has drawn more attention to the high fees charged at Japanese airports, a burden local and international carriers have been lobbying to have reduced for a long time. The airline began offering cheap flights between Sapporo and Tokyo in December 1998 but has been losing customers in the face of discounting by its bigger rivals. Air Do is unable to match their frequencies. It currently operates 12 flights a day, or six round trips, and pays around 150 million yen (US$1.3 million) a month in airport fees (see Under Pressure, Page 24).

AIRPORTS

Haneda allows overnight flights

JAPAN's aviation authorities have lifted the ban on overnight flights at Tokyo's Haneda Airport to ease the near manic demand for slots at Tokyo's main airport at Narita. International charter flights can now use Tokyo's domestic Haneda airport overnight, from 2300 to 0600 – outside normal operating hours, but the night flights have been capped at no more than 10 per hour.

Beijing, Tianjian airport tie-up

THE parent of Beijing Capital International Airport Company has agreed to merge operations with nearby Tianjin Binhai International Airport, state-run media reports said. The move unites one of China's largest airports with a far smaller one that is often underused.

Hong Kong commissions study

A CONSORTIUM led by Asia-Pacific Airport Consultants (APAC) has won the tender for a nine month Hong Kong International Airport Strategic Overview of Major Airport Development (SOMAD) Study.

The SOMAD contract, valued at US$4.8 million, will put together a strategic development plan to manage the international airport's growth following China's entry to the World Trade Organisation and the scope of expansion for the airport's cargo operations. The SOMAD also has been asked to identify the best location, timing, capacity and configuration of a new passenger terminal at the 30-month old airport. Sixty-three airlines fly to 130 destinations from Hong Kong. The Hong Kong Airport Authority is building a US$5.5 million marine cargo terminal adjacent to the airport, which is scheduled to open this March.

Deals done . . .

JAPAN Airlines (JAL), the 80% owner of JALways has bought the remaining 20% of the regional leisure carrier. JALways began aviation life as 80% JAL-owned Japan Air Charter in 1990, It became JALways in late 1999, when it was upgraded to a scheduled airline providing 116 services on 10 routes for Japanese tourists to Hawaii, Guam, Bangkok and Saipan. All former JAL leisure only destination routes have been transferred to JALways, whose cockpit and cabin crew are recruited offshore and based outside Japan. Korean Air has raised its sales target to six trillion won (US$4.74 billion) this year, up from 5.6 trillion won last year, company president Shim Yi Taek said. He also said the airline planned to sell 16 aircraft and buy 14 new ones. China's Hainan Airlines has completed a sell and leaseback deal on 10 Fairchild Dornier 328 aircraft for 1.1 billion yuan (US$146.3 million) to an aircraft leasing company based in the southern island province of Hainan. The airline will transfer 1.1 billion yuan in bank loans to the leasing company. State-run Air India plans to double its fleet of 24 aircraft over the next five to seven years. The Indian Government wants to sell 40% of loss making Air India by March. At press time Thai Airways International (THAI) board's approval to purchase two B747-400s was intact, despite a recent change of national government in Thailand. THAI management announced each aircraft would cost US$147 million with funding and or loans expected to pay for the new planes – to be delivered in mid-year – to come largely from state-owned banks. Last October, THAI's directors approved in principle the purchase of five new aircraft for the carrier's fleet.

And a deal killed . . .

THE AUSTRALIAN government's consumer watchdog, the Australian Competition and Consumer Commission (ACCC), vetoed the bids of both Qantas Airways and Ansett Australia to buy Australian eastern seaboard regional carrier, Hazelton Airlines, in late January. The ACCC said neither bid gave due attention to the retention of Hazelton's slots for regional services into Sydney Airport. About 24% of the airline's slots – Hazelton was founded by World War II pilot, Max Hazelton, more than 35 years ago – are not classified as permanent regional slots and could be transferred to interstate services. For both Ansett and Qantas this slot allocation was a compelling attraction, especially since the Australian Government

Indonesia fails to reach conclusion on SilkAir crash

AFTER a three-year inquiry into the 1997 crash of a SilkAir Boeing 737 over Sumatra that killed all 104 people aboard, Indonesia closed the probe by reaching no conclusion, but rejected U.S. flight investigators' claims of possible pilot suicide. The U.S. National Transportation Safety Board said investigations "strongly supported" that the crash could be "explained by intentional pilot action." Investigations by Singapore authorities showed that the Singaporean pilot, Tsu Way Ming, was psychologically sound and financially solvent despite having large debts at the time of the crash and a history of disciplinary problems.

Meanwhile a preliminary report by the Aviation Safety Council of Taiwan on the October 31 crash of a Singapore Airlines (SIA) B747-400 at Taipei's Chiang Kai-shek International Airport did not reach a conclusion about why the pilots attempted to take off from the wrong runway. Seventy-nine passengers and four crew members died as a result of the crash, in which the airliner caught fire and broke apart after hitting concrete barriers and construction equipment on a runway parallel to the one the aircraft was assigned.

After being required by the Taiwanese civil aviation authorities to remain in Taiwan since the crash of SQ006, the three pilots were finally permitted to return home to Singapore in December. The crew's "release" from Taiwan was only permitted after high level SIA officials pledged they would return the pilots to Taiwan on request from the government and international teams investigating the crash.

announced it would not build a second Sydney International Airport and that the prime property would be privatised.

Qantas confirms interest in Air Niugini

The Papua New Guinean Government has announced up to 49% of national carrier Air Niugini will be set aside for overseas investors. Current policy limits any one overseas shareholder to 25%.

Qantas chief executive designate, Geoff Dixon, has confirmed Qantas' interest in the carrier.

Events are moving fast. The sale, by tender, will be completed by the end of March and the study undertaken by advisors identified 28 airlines as potential investors. That seems a little optimistic, but a short list will be announced by March 1 and a winner named by the end of the month.

See Rescue Mission. Page 30.

Routes . . .

CONTINENTAL Airlines said it expected its non-stop Hong Kong to New York service, starting on March 3, to be profitable by year end. Royal Phnom Penh Airways, owned by a son of King Norodom Sihanouk has begun flights between the Cambodian capital and Bangkok to accommodate a rising number of tourists visiting Cambodia. All Nippon Airways and Thai Airways International will operate 18 joint flights a week as part of a marketing deal under the Star Alliance. Japan Airlines is adding 20% in seat capacity on Tokyo-Seoul flights to meet increased demand. Greek private airline, Galaxy Airways, signed a contract with Pacific Airlines of Vietnam to operate a Boeing 737-400 on its behalf between Ho Chi Minh City, Hanoi and Taipei. China Southern began twice-weekly services from Guangzhou to Sydney via Melbourne, plus a once a week direct flight. Air China is considering re-launching its passenger and cargo service from Hong Kong to London. The service was suspended in 1998 due to the Asian financial crisis. A Hong Kong newspaper, *Ming Pao*, said Hong Kong airlines were planning to launch direct flights to China's westernmost region, Xinjiang, as part of Beijing's push to develop the western hinterland.

Lufthansa Technik busy in Asia

Germany's MRO giant Lufthansa Technik (LFT) is busy breaking new ground in Asia. In January, it announced it is to set up a component workshop in the southern China city of Shenzhen.

The move comes only four months after the company's joint venture with MacroAsia Corporation, Lufthansa Technik Philippines (LFP), started operation in Manila after taking over Philippine Airlines' maintenance and engineering division.

The Shenzhen facility, a joint venture between Lufthansa Technik Shenzhen and two Chinese companies, will service high-grade aircraft components.The component shop and servicing centre for wheels and brakes is expected to start operation in the second half of this year.

LFP, meanwhile, received its first engine for overhaul in January, a CF6-50 from parent company Lufthansa.

Engineering and Maintenance: Special Report. Page 41

China Airlines: outstanding financial results in 2000

And in finance . . .

THE YEAR of the dragon was indeed a good one for China Airlines (CAL) which chose the eve of the Chinese Lunar New year in January, the year of the snake, to announce it had achieved record operating revenue in 2000.

It is predicting more success in 2001 with increased market share.

Taiwan's national carrier said an internal audit showed operating revenue of NT$71.9 billion (US$2.2 billion) last year, an increase of 18.2% compared to 1999.

Passenger revenue was NT$ 40.5 billion, up 14.3% on 1999, and cargo revenue NT$ 26.2 billion, a rise of 24.4%. Profit before tax was NT$ 2.8 billion. Return on sales was 7.1%, the highest in the past three years.

Passenger available seat kilometres (ASKs) rose 8.2% and revenue passenger kilometres (RPKs) increased 13.9% compared with 1999.

For cargo, available tonne kilometres (FATKs) rose 24.8%. Freight revenue tonne kilometres (FRTKs) growth fell a little short of the capacity increase at 22.1%.

Load actors were high with passenger load factor topping 76% with freight at 83.1%. Unit costs dropped 5.4% in 2000. Staff productivity increased 18.6%.

Malaysia Airlines: Prime Minister Mahathir Mohamad has expressed reservations about foreign investment in MAS

Thai Airways International: Thailand's new coalition government wants to review all privatisation projects

MARKING TIME

TOM BALLANTYNE reports

Nationalistic and political pressures in Malaysia and Thailand frustrate potential overseas airline investors.

The planned sale of major stakes in two of Southeast Asia's major operators, Malaysia Airlines (MAS) and Thai Airways International (THAI), to foreign airline partners appears to be hanging in the balance in the face of political uncertainty and local nationalist pressure on their government owners.

After months of discussion between government officials and potential buyers, Malaysian Prime Minister Mahathir Mohamad, apparently fearing a backlash from voters accusing him of 'selling off the farm', has expressed reservations about any foreign buy into MAS.

The government reclaimed control of the airline in December after purchasing the 29% of the loss-making flag carrier owned by telecommunications tycoon Tajudin Ramli, who is heavily in debt. He failed to turn round the carrier's fortunes after five years of effort.

Finance Minister Tun Daim Zainuddin said the government would keep the MAS stake it bought from Tajudin's holding company, Naluri Bhd, for the moment and would consider a sale to a foreign carrier later.

The development seems to represent a back flip by the Malaysian Government, which was keen to find a foreign partner for MAS and had raised its authorised foreign ownership ceiling from 30% to 45%, to increase the airline's appeal. It had even suggested it might tolerate a foreign chairman.

Meanwhile, in Thailand, officials of a new government, elected on January 6, have promised a total revision of all state enterprises scheduled for privatisation.

This includes government-owned THAI and a stake slotted for sale to a foreign airline. A frequently delayed public offering is scheduled to take place by March with the trade sale to a foreign partner following later. But that timetable is now under a cloud.

The Thai Rak Thai (Thais Love Thais) Party, which is expected to lead the new coalition government under leader Thaksin Shinawatra, promised it will put a hold on all 59 state enterprise corporatisations now underway. Phadhadej Dhamcharee, adviser to Thaksin, said the enterprises were "golden geese" with combined assets of four trillion bhat and the party would not allow them to be owned by foreigners.

Thai Rak Thai opposes the sale of any shares in government enterprises to foreigners and said foreign interests will be subordinate to local needs. THAI plans to place in the market 157.5 million new shares, most likely limited to local investors, with another 127.5 million shares expected to be sold to a strategic foreign partner.

THAI president, Bhisit Kuslasayanon, said the public offering is likely to be made in March. A spokesperson for the airline told *Orient Aviation* this timetable had not changed, with the carrier continuing its preparations for the public offering. "If circumstances change as a result of political decisions or for any other reason then we will cope with that when it occurs," she said.

Staff at THAI and MAS are in the dark as to what the future holds for them and the airlines. In Kuala Lumpur, where in late January Tajudin remained in overall charge of the day-to-day running of the airline despite no longer holding any stake, officials were refusing to comment on the situation.

At press time the announcement of a new chairman and managing director/chief executive was expected soon. Observers believe the airline's existing executive vice-president airline, Bashir Ahmad, may take over as chief executive.

But one official said privately: "It is all a total mystery to us. We have no idea what will happen."

The developments in Southeast Asia are highly significant because if a halt is put to foreign airline investment in two carriers that have had more than their share of financial and managerial problems it could deprive them of much needed management expertise and business input.

It also may slow moves towards further liberalisation of the region's airline industry. This is at a time when many carriers elsewhere are fighting for an easing of foreign ownership rules and a dismantling of trade barriers to allow them more freedom to raise the vast amounts of cash necessary to fund the costly business of expanding an airline.

It is generally recognised government ownership places too many restrictions on the ability of international airlines to make speedy decisions and to operate viably in a global marketplace. That trend has become transparent with carriers such as Singapore Airlines, now extremely active on the offshore equity investment front. SIA owns 49% of Britain's Virgin Atlantic Airways and 25% of Air New Zealand.

Qantas, which itself owns 46% of Fiji's Air Pacific and is in turn 25% owned by British Airways (BA), is lobbying the Australian Government to lift foreign ownership limits which restrict any single offshore party to holding just a quarter of its shares.

Although denied by both BA and Qantas, that is largely being interpreted as a manoeuvre designed to allow BA to take a bigger stake.

MAS chairman, Tajudin Ramli: a good deal

SAirGroup chairman, Eric Honneger: "we are interested in developing a partnership with MAS"

Developments are moving in the same direction elsewhere. Air India is now on the auction block. It will be sold by the Indian government this year with up to 49% available to a foreign airline in partnership with local interests.

Philippine Airlines' majority shareholder, Lucio Tan, also is looking to sell and has reportedly attempted to generate interest among foreign airlines. Indonesia's Garuda is being prepared for privatisation and a foreign strategic partner. Papua New Guinea's Air Niugini is up for grabs (see Page 30). A foreign airline partner is likely to be allowed a 49% stake.

These moves are in contrast to what now appears to be happening in Southeast Asia. There has been a growing sense of nationalism in both Malaysia and Thailand and the governments of both nations are attempting to find a delicate balance between the needs of the airline and the demands of their people.

Almost certainly the foreign airlines which have shown an interest in the 10% of THAI or the more than 25% of MAS proposed for offshore sale now have more time to consider their tactics.

Interest in both airlines has waxed and waned and there is some evidence that in recent times the ardour of some foreign operators has cooled.

Air France, Delta Air Lines, Lufthansa, United Airlines, Qantas and British Airways have all been associated with potential bids for THAI, although privately officials from these airlines have voiced reservations regarding the size of the stake available. They believe 10% is too little to allow them a real say in management.

With MAS, the main contenders have been Qantas, KLM Royal Dutch Airlines and Swissair's parent, the SAirGroup. SAir chairman, Eric Honegger, told *Orient Aviation*: "Having partners in the Far East market is very important for us. Bangkok and Kuala Lumpur are two interesting hubs. Therefore we are interested in developing our partnerships with various Far East carriers, MAS being one of them.

"Where are we today? The Malaysian state welcomes our interest. Discussions are ongoing."

However, it is understood Qantas is no longer interested in equity, although it is keen on some form of commercial relationship.

Peter Negline, regional transport analyst at JP Morgan Chase in Hong Kong, said it could make sense strategically for Qantas to look seriously at MAS. "SIA has been moving increasingly into Qantas's backyard and MAS could offer a vehicle for Qantas to counter any perceived pressure.

"However, the real cost of any deal is complicated because Qantas pulled out of Malaysia in 1998, which limits the synergies that can be realised. Failing further developments, we think, with a new CEO on the way (Geoff Dixon) and given conditions in the Australian domestic market, that Qantas will stick to its knitting."

MAS is in a far more precarious financial position than THAI, which is it least reporting profits, some US$107.8 million in its latest year, ending September 30.

MAS has developed into something of a fiscal basket case. It has had three years of net losses, including a US$68 million deficit in the year to March 2000 and is heading for a fourth. The market is forecasting losses in the current year could rise to US$158 million. Little wonder Tajudin, carrying close to a billion ringgit (US$263 million) in debt, wanted to sell out.

In the end he got a good deal thanks to an agreement he struck with the government when he bought into MAS in 1994. For his 29.09%, it paid him eight ringgit a share, or US$471 million, exactly what he bought it for in the first place. The current price per MAS share is less than half of that figure.

Some local analysts question the government's decision to pay the price, describing it as a bail-out and suggesting Tajudin should have been made to pay for his failure to add any value to the airline during his time in charge.

But Malaysian Finance Minister Daim said in an interview with local media that Tajudin had been a reluctant seller and had not scurried back to the government when he was in trouble.

"Tajudin did not make any offer to sell back to the government. In fact, he had offers from others. He was quite free to sell to them. However, the Malaysia Airlines' proposition (for the share sale) is too important for the government not to be attracted," he said.

Both the government and Tajudin place much of the blame for the woes of MAS on the recent Asian financial crisis, but outsiders disagree, suggesting while this may have been a contributing factor, poor management and planning also played significant roles.

By late January the government had another problem to solve. Its purchase of the stake means it now holds 60% of MAS. Under Malaysian stock exchange rules anyone holding in excess of 35% has to make a mandatory offer to buy the remaining stock from other shareholders. It was believed the government would ask the Securities Commission (SC) for a waiver of the rule.

Daim said there were still foreign airlines interested in MAS, but he refused to name names. The government's priority was to complete the takeover of MAS. Regulatory approval of the acquisition has yet to be finalised. "We will handle the takeover first. I have not decided what to do with MAS," he added.

One group which does not want any foreign involvement is the airline union, the Malaysia Airlines Employees Union (MASEU). It has asked the government not to sell to an individual or to a foreign company. Union president Alias Aziz said union members would be "very comfortable" if the government retained control.

Nationalism is at the core of the rethink in Thailand and Malaysia. Malaysian Prime Minister Mahathir has expressed reservations about foreign interests in MAS on several occasions in recent weeks.

"We have to see the conditions they would insist upon should they buy into the airline because Malaysia Airlines has social obligations in this country," he said. "If foreign

THAI president Bhisit: still working towards a March share offering

interests come in they would want to insist that social obligations should not be a part of the duties of Malaysia Airlines. So we have to consider what will happen after that."

Mahathir's main thrust pertains to the obligation government places on MAS to subsidise ticket prices on its domestic operations. This is a burden that over the years has added tens of millions of dollars in costs to the carrier's bottom line.

Critics say the failure of Tajudin to fight these subsidies and demand domestic ticket prices be increased, contributed significantly to his inability to achieve profitability.

However, in recent weeks the government has said it will accept a rise in domestic ticket prices.

Said JP Morgan Chase's Negline: "Foreigners should be sensitive to domestic political issues which may affect timing or options available to the government. Resentment about selling the farm, especially too cheaply, to foreigners will be one of these constraints."

Nevertheless, he favoured the import of foreign talent. "We believe that the Government should seriously review the advantages of bringing in investors or management from abroad, domestic issues notwithstanding. In particular, the business needs new, tough managers who have no political baggage or allegiances, but who can start with a clean slate. A foreigner helps circumvent many problems," said Negline.

While a question mark now hangs over foreign involvement, the government at least appears to be looking at other ways of resolving the domestic subsidy issue. Daim has said he will look at the option of splitting the national carrier's domestic and international operations into two separate companies as part of a possible restructure. "Let me think it over. There are many options. I'll accept the best option," the minister told reporters in Kuala Lumpur.

He said MAS had been under severe stress, internally and externally, and this affected its operations. But despite the poor financial condition of MAS, the company has strong underlying assets and very sound growth potential. "It would seem much of the negative sentiment against MAS is centred on the lack of confidence in the dominant shareholder to steer the company out of its current problems. The market's preoccupation with the current problems of MAS should not diminish the true potential of the airline and its real value," he said.

The question for MAS and THAI is whether they can take full advantage of such true potential if management strategies aimed at attracting equity from strategic foreign airline partners are stymied.

Qantas Airways: it is believed the airline is no longer interested in an equity stake in MAS

UNDER PRESSURE

JAL chief Kaneko calls for a "grand design" to ease Tokyo's airport congestion while airlines continue to press their claims for lower user charges at Japan's airports

By Barry Grindrod

Congestion and user fees are continuing to fuel the long-running airport debate in Japan.

Japan Airlines (JAL) president, Isao Kaneko, has called for a "grand design" for Tokyo's cramped airports to be developed, to replaced the present piecemeal approach to the airports' expansion into the 21st century.

And with pressure mounting on the Japan Government to increase international traffic at Tokyo's primarily domestic Haneda Airport, Kaneko, who is chairman of the Scheduled Airlines Association of Japan (SAAJ), believes emphasis should be placed on catering for local air traffic in the short term.

The SAAJ believes expansion at Haneda is preferable to a new third airport to serve Tokyo. With a second runway at Narita opening in 2002, if a fourth runway was built at Haneda, the world's sixth busiest airport, on reclaimed land in Tokyo Bay the capital's domestic airport capacity would be adequate until about 2035.

"We have to think beyond 2035," said Kaneko. "Our suggestion would be firstly to enlarge Narita and Haneda and then think about how to expand capacity beyond that, either by further enlargement of each airport or by building a new airport. We need a grand design."

While looking at ways to ease the congestion, Japan's airport charges still remain three times higher than any country in the world, despite continued lobbying by international and local carriers for a decrease in the fees.

One reason for the high charges, say the airlines, is the building and expansion of unnecessary and under-used airports in the regions. These facilities are being subsidised from charges levied at the larger airports.

In late 1999, in a detailed position paper, the Foreign Airlines Association in Japan (FAAJ) called for a 50% cut in airport user charges. The FAAJ said this was ignored by the country's civil aviation authorities. The organisation issued an updated paper 12 months later in late 2000.

JAL president and chairman of the local airlines' association, Isao Kaneko: thinking beyond 2035

The FAAJ said it continues to be disappointed by the authorities apparent lack of interest in its claims. The only movement in airport charges in the last 12 months has been a decision by the struggling New Kansai International Airport to cut fees by about 8% to encourage more airlines to fly there.

The last action by the Japanese Government was in 1999 when it reduced landing fees at secondary and tertiary airports by 33%, a move Kaneko described as "some light relief".

While helping the local airlines, it did little for the international carriers.

In its most recent position paper the FAAJ said "in the eyes of outside observers, Japan seems to lack a carefully thought out plan on the development of airports".

The FAAJ report is particularly critical of Narita Airport where it says the building of the second runway is "too little, too late" and even then it will not be used to its full potential.

"This is of great concern to the airlines," said the paper. "If the airport facilities are used efficiently, to their full potential, charges can be lowered and travellers will enjoy a wider choice of flights.

"Although the distance between the two Narita runways is sufficient to allow them to be treated as independent runways (by air traffic control) independent operation will not be allowed in the to present plans.

"In addition, although it is obvious the second runway could easily be enlarged to a length of well over 3,000 metres, it will never

Haneda Airport: Japan's primary domestic airport is the sixth busiest in the world exceed 2,500 metres.

"The reason is apparently to minimise the noise level in the surrounding vicinity."

The FAAJ paper suggested the Narita Airport Authority would set maximum noise levels much lower than elsewhere in the world when the second runway is opened next year. Even now no other single runway international airport serving a major capital city, even those much closer to the city centre, are restricted to 370 daily movements by noise restrictions, said the paper.

The FAAJ also said some thought the Ministry of Transport was artificially restricting slots at Narita to force flights to use the under-utilised Kansai airport.

"It is extraordinary that an airport built 75 kilometres from the city centre should still suffer so many restrictions due to noise and that parallel runways at Narita may not be used as efficiently as parallel runways at airports serving London, New York City and other highly urbanised areas," said the paper.

"The Narita Airport Authority has argued that the present level of landing fees is reasonable on the grounds that demand for Narita slots exceeds the supply. The argument is not appropriate for a monopoly supplier franchised by the government."

The FAAJ said the NAA had earned an "over-recover" from landing fees at Narita which had enabled the second runway to be pre-paid by the users of the first runway. The airlines were expecting a significant reduction in landing fees when the seond runway opened.

The report also was critical of the development of a second runway that began in 1999 at Kansai airport. It said the airport was already under-utilised and was not making a profit. The paper said the existing man-made island on which the runway and passenger terminal stood was sinking and was undergoing expensive remedial work. The FAAJ believes the seabed is unsuitable for building another artificial island.

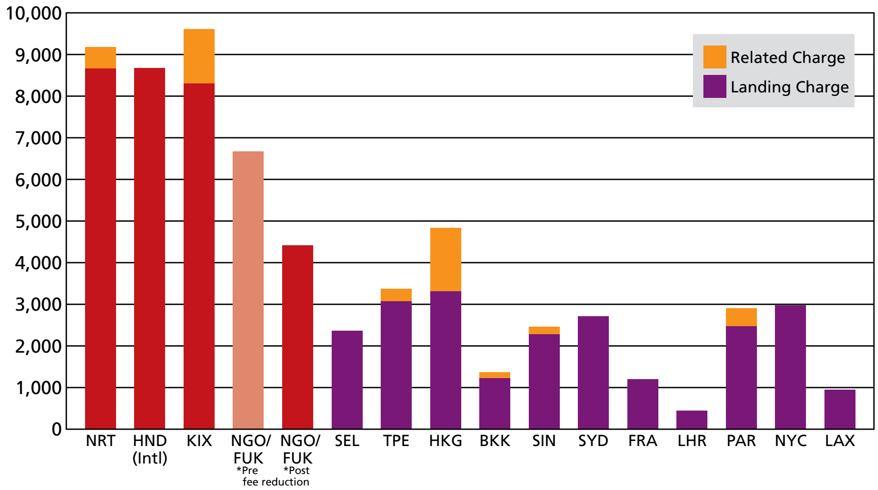
The IATA Airport Consultative Committee has also opposed the building of a second runway.

In addition to Kansai and Itami airports in the area a third airport was being built at Kobe which will further dilute Kansai traffic.

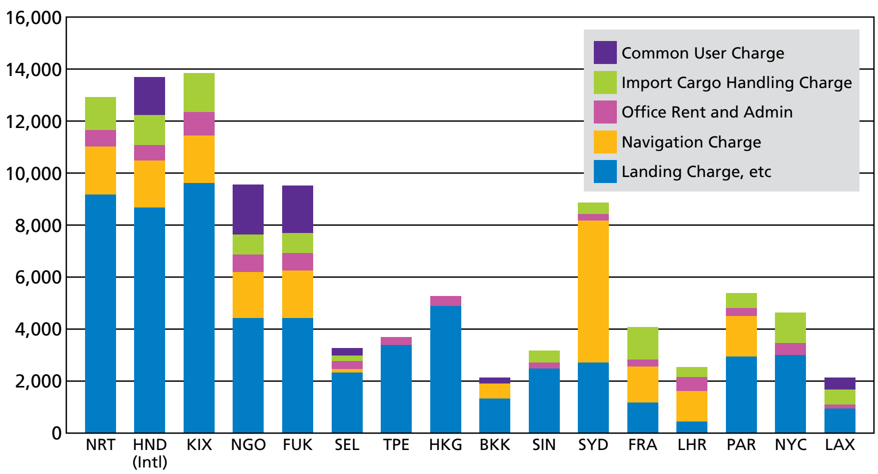
"It is hard to imagine when all these new facilities will be efficiently utilised. Four runways within such a small area are also bound to cause difficulties for air traffic control and sub-optimal flight paths," said the FAAJ paper.

It added that many towns and prefectures in Japan regarded a domestic or international

Landing Charges in Year 2000 *(in US$)* *based on a B747-400 aircraft*



Cumulative Port Charges in Year 2000 *(in US$)*



airport as a prestige symbol.

"Airlines do not object to expensive prestige facilities, which are not strictly necessary, providing we are not asked to pay for them," said the paper.

While JAL, All Nippon Airways and Japan Air System support the international airlines in their calls for lower airport charges, the three Japanese international carriers claim they are paying more public aviation charges than any of their overseas competitors.

JAL spokesman, Geoff Tudor, said charges, including items like fuel tax, which more than doubles local carriers' fuel expenses, account for 24% of domestic operations costs and 14.3% of total operations costs.

This compares to 3% in the U.S for public aviation charges and the world average of 6.9%, according to International Civil Aviation Organisation (ICAO) data.

Tudor describes the Japanese Government's insistence that the effect of the high charges is non-discriminatory to all airlines flying within Japan and operating to and from Japan, as "small-minded".

"Japanese carriers have to pay high charges on every flight, domestic and international, while foreign carriers have to pay them only when they fly into Japan. Thus the airlines of Japan carry a far higher disproportional ratio of public charge costs within their total operating costs than their foreign competitors," said Tudor.

The JAL spokesman pointed out that if the burden of charges levied on local carriers was only 3% as in the U.S., operating margins would increase 11.3%. If charged according to the global standard of 7%, margins would rise 7%.

"The impact of high charges on Japanese carriers has meant they have had difficulty in making real profits and have been forced to make apparent profits by selling assets," said Tudor.

Qantas crews queue up for a chance to fly the demanding 13-hour non-stop round trip to Antarctica. TOM BALLANTYNE *was on board one of the most recent seasonal charter flights*

ICE COOL

As domestic flights go Qantas Airways Flight QF2901 is unique in every sense of the word. For a start, the B747-400 is in the air for more than 13 hours. Secondly, the non-stop journey covering almost 10,000 kilometres will begin and end at Sydney's Kingsford Smith International Airport.

By the time the aircraft touches down from its journey passengers will have seen the highest, driest, windiest and coldest continent on earth and its amazing scenery. And they will have followed, from the comfort and safety of their airplane seats, in the footsteps of famous explorers and modern day adventurers.

On charter, these are the world's only Antarctic sightseeing flights. Heading south from Sydney, the flights cross the vast expanses of the southern ocean to the South Magnetic Pole, located off the Antarctic coast near the French base of Dumont D'Urville.

The pilot in command on my flight, Captain John Dennis, set course for the Antarctic coastline, past Commonwealth Bay, the Mertz and Ninnis Glaciers and the Cook Ice Shelf towards the trans-Antarctic Mountains.

Said senior check captain Dennis: "When you are flying across the Pacific on a normal commercial flight, from 35,000ft you could probably see about 150kms ahead. Down here we are at 16,000ft and I can see the trans-Antarctic mountains from 500kms away.

"All I say to people is that my photographs, the videos, the whole lot are simply a prompt to my memory. The reality is far more spectacular than the image. Some things you simply have to see with your own eyes," he said.

For passengers, gazing down on pristine tracts of ice and snow, massive icebergs, ever-moving ice shelves, glaciers and craggy mountain peaks, it is an unforgettable experience.

But none of it happens without days of preparation and intricate flight planning for the Qantas crews. Capt. Dennis, who has commanded 17 of the charter flights, begins studying Antarctic weather forecasts five days before the flight, reviewing Internet-available satellite imagery.

A day before the flight he obtains a preliminary forecast from the Australian Bureau of Meteorology. On the morning of departure he is up at 4am to check the weather again.

"This is very different from a normal commercial service. There is a lot more to it," said Capt. Dennis.

"When you fly the Pacific you are looking to avoid upper level clouds, clear air turbulence, thunderstorm activity, that sort of thing. In this case, the extra planning is necessary because you need to develop a picture of the weather pattern. You are looking for low level, maximum time viewing opportunities

The Antarctic mountains can be seen from 500 kilometres away in the cockpit as against high altitude flying.

"You also are dealing with a continent where the weather pattern changes incredibly quickly, unlike anywhere else in the world."

Qantas has permission to use 17 different air routes over an area stretching from Australia's Casey Base to the Ross Ice Shelf. This allows flexibility and enables flights to avoid areas of forecast cloud cover.

The charter flights have been operating for seven seasons and fly between November and February. Load factors now consistently top 85%. The "ice tours' are growing in popularity with tourists visiting Australia. However, getting them off the ground was far from easy.

Qantas had to receive approval from the International Antarctic Treaty Organisation through the Australian National Antarctic Research Expeditions (ANARE). It had to prepare a full Environmental Impact Study (EIS), a huge undertaking for the airline, which had to satisfy concerns about such things as noise pollution, aircraft emissions and impact on wildlife.

All the criteria were met, but the carrier still has to update the EIS annually. Each flight completes an Antarctic environment log, containing information on route, positions and altitude, wind temperature, fuel use and a host of other details.

Flights operate under Instrument Flight Rules (IFR) and never fly below 10,000ft above sea level. However, there are further checks and balances ensuring the aircraft is thousands of feet clear of terrain at all times.

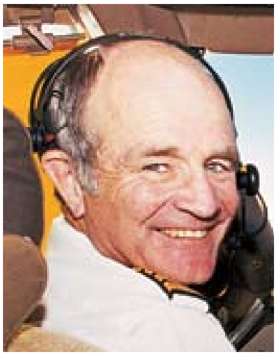
For Qantas crews Antarctic flying has demands beyond any other routes. No captains, no matter how experienced, can command a flight unless they have first flown there as an observer.

There are special Emergency Procedures (EP) – Antarctic survival techniques – for cockpit and cabin crew.

"All possible eventualities are covered. A Civil Aviation Safety Authority (CASA) requirement is that we carry Antarctic survival gear for every passenger," said Capt. Dennis.

Under no circumstances are an aircraft's

Ice flows clearly visible to sight-seeing passengers



Capt. John Dennis: Antarctic weather patterns unlike anywhere else in the world

drag devices extended by pilots. "We do not use speed brakes. The rationale is if you had a problem with retracting, the amount of fuel required would be too high," he said.

Qantas depart for Antarctica with full fuel tanks, far more than is required.

"We want to cover every contingency. Safety is very much the primary consideration," said Capt. Dennis.

In November, 1979, an Air New Zealand DC10 crashed into Mount Erebus in the Antarctic while on a sight-seeing flight. All 257 passengers and crew on board died. In the years between the crash and the start of the Qantas flights there have been massive advances in air traffic control and navigation technology. Rules are strict.

Alternate landing airports in an emergency would include Hobart in Tasmania, or Invercargill or Dunedin in New Zealand.

Throughout its flight, QF2901 is tracked by The Australian Advanced Air Traffic System (TAAATS) nerve centre at Brisbane through ADS (Automatic Dependent Surveillance). Communication is maintained with controller-pilot data link communications (CPDLC), High Frequency (HF) radio and even satellite telephone.

Once the flight passes south of 60 degrees latitude it transfers from magnetic to true navigation, essential because of the magnetic variation close to the South Magnetic Pole. While crew are in contact with Australia for the entire flight, they also deal with the McMurdo U.S. base, which is in charge of airspace over Antarctica.

Interviews with members of the Australian Antarctic expedition team on the ground are broadcast over the cabin sound system. A camera mounted in the cockpit allows passengers a pilot's-eye view of the approach to the ice fields on the cabin video screens as well as the take off and landing from Sydney Airport.

It takes about four hours to reach Antarctica and the aircraft spends the next four hours over the ice. Passengers are issued with two boarding passes to enable those seated in the middle rows to change to window seats midway through the tour.

On the return journey there is "The Captain's Flying Lesson", a live video tour of the aircraft's flight deck conducted by the pilot in command. Each flight includes commentary by a team of Antarctica experts, a representative of ANARE and Antarctica videos are shown.

"The flights are a wonderful way of making people aware of a glorious asset. The Antarctic is the wildest place on earth and this is a very environmentally friendly way of seeing it," said Capt. Dennis.

FACT FILE

The return trip from Sydney to Antarctica is 9,960 kms (5,385 nautical miles)

Flight Time:	**13 hours 13 minutes**
B747-400 take-off weight:	**391,000kgs**
Fuel load:	**172,300kgs**
Average cruise fuel flow per hour:	**10,500kgs**
Fuel used:	**145,100kgs**
Landing weight:	**245,900kgs**

Papua New Guinea's Air Niugini has lurched from one crisis to another in the past decade and an angry government has finally decided to act.

In a reversal of policy an expatriate has been hired to head the airline and fast tracking privatisation is the order of the day. Finding a strategic airline partner to invest in the carrier also is the top priority, reports TOM BALLANTYNE *from Port Moresby.*

RESCUE MISSION

Papua New Guinea (PNG) Prime Minister, Sir Mekere Morauta, is a man who does not stand on ceremony. When he disclosed late last year that state-owned carrier Air Niugini (ANG) was finally to be privatised, he left no one in any doubt about his views.

"Air Niugini is the perfect example of how the seeds of the future are being devoured by inefficiency, neglect and political cronyism in state-owned companies," he said at the privatisation announcement.

He was saying what industry observers have known for years. Under a succession of managers, ANG has been losing money hand over fist. Scarred by bureaucratic meddling, bad planning and fiscal mismanagement, it filed for bankruptcy in 1998, during Asia's economic downturn and following a dramatic fall in the local currency, the kina.

After much talk, but little action, this time it appears the government is serious. Sir Mekere has set an ambitious timetable that, barring the vagaries of PNG's often volatile political scene, will see a major stake of up to 49% in ANG sold to a strategic airline partner by April.

The remainder will be auctioned off within 18 months in a public offering, with shares earmarked for employees, PNG individuals, business interests and institutions.

The PNG Prime Minister has clearly had enough of ANG being a constant drain on the national budget. He has moved with speed and has brought in a new chief executive, Australian Peter Roberts, to revive the airline and hired a team of consultants to drive through the privatisation programme.

They have their work cut out. Some sceptical local critics believe the time frame is unrealistic.

But acting general manager of the government's Privatisation Commission, Joe Tauvasa, a strong proponent of the ANG sale for several years, is convinced the deadline can be met.

A former ANG chairman, he told *Orient Aviation*: "It will be tough, but I also think it is achievable. We must get this done and we must get it done properly so it can be a model for the privatisation of other government entities which will follow later."

CEO Roberts is no slouch when it comes to running airlines, but he emphasised his job was not solely to make the carrier profitable in time for privatisation. "I'm here to make it (ANG) profitable, privatisation or not, and I'm saying we are going to make it proud and profitable," he said.

A former Qantas manager and CEO of India's Jet Airways and Pacific carriers, Air Nauru and Air Vanuatu, Roberts predicted ANG would be back in profit by the end of 2001.

At this stage, the size of the profit is not important. "Just achieving a turnaround which would be an enormous fillip," Roberts told *Orient Aviation*.

He is the first expatriate to head ANG since German-born Dieter Seefeld resigned in early 1996 in a move designed to "facilitate localisation" of the carrier. Since then a succession of PNG chief executives have failed to

Air Niugini : successful bidder for 49% of carrier announced by March 31 revive the airline's fortunes. The decision to call in a non-national to head the rescue mission came after a great deal of soul-searching by the PNG Government.

Founded in 1973 as a combined entity of the PNG Government, Ansett Australia, Qantas and domestic operator Trans Australian Airlines, ANG and its state owners are interested in re-establishing old ties.

Unofficially, sources close to the sale say the government would like to see Qantas as a serious bidder, although the names of other potential buyers are being bandied around. They include Singapore Airlines, Air France and Taiwan's EVA Air. Air France already has a deep interest in South Pacific aviation through links with French territories in the region.

Port Moresby would like a similar arrangement to the Qantas relationship with Fiji's Air Pacific. Qantas holds around 46% of Air Pacific stock and works closely with the Fiji carrier on its regional network. The two operate code-share services and Qantas leases aircraft to Air Pacific.

"We have been particularly encouraged by Qantas' flourishing partnership with Air Pacific, which like Air Niugini is a small carrier with a limited capacity to develop on its own behalf. Air Niugini stands to benefit considerably from such an alliance," said Sir Mekere.

Roberts also recognises benefits from such a link.

ANG , which has 1,500 employees, operates a single Airbus A310, three Fokker F28-4000s, five Fokker F28-1000s and one De Havilland Dash 8-200. It flies to five overseas destinations – Singapore, Honiara, Manila, Brisbane and Cairns – and 20 domestic ports.

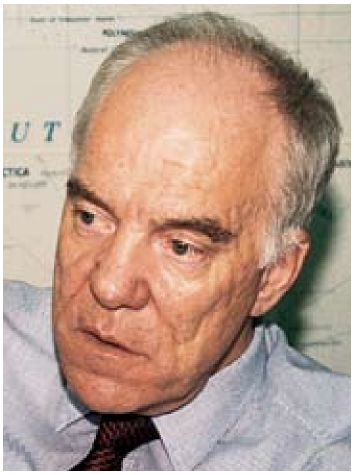
Roberts is putting emphasis on increasing revenue through network improvements, better aircraft utilisation and an intensive marketing campaign.

He wants to see staff numbers reduced to around 1,200, but is cautious about the cost-cutting agenda.

On one ANG flight his attention was drawn to a member of the cabin crew wearing a shirt with frayed cuffs. It was the result of cost cuts that saw the annual replacement of shirts stopped. He immediately took steps to ensure crew got new shirts.

"Cost-cutting pressure is understandable, but what has essentially occurred in the last three or four years has been pretty black and white. Costs were being cut in the wrong places," said the new chief executive.

Roberts said ANG's crew, pilots and flight attendants are as good as anyone's and the airline has an excellent operational pedigree. There is no penny-pinching in training pilots or in engineering; since arriving he has brought in a new engineering general manager, poached from Canadian Airlines.



Air Niugini chief executive Peter Roberts: emphasis on increasing revenue

Acting general manager of the government's Privatisation Commission, Joe Tauvasa, a strong proponent of the Air Niugini sale

He and his team are working on new schedules and ways of using aircraft more productively. "We are operating the Airbus about nine hours a day. Probably it should be 13 hours. We are running about 47% seat load factors. The unit cost of the aeroplane is quite attractive, but we want to get a lot more people on board. On our current schedule we leave it in Brisbane three nights a week for 15 or 16 hours at a time," said Roberts.

He thinks Fokker F28s could be used more productively. "We need to be focused and have priorities that suit commercial opportunities," he said.

Another possibility could be a partnership with a European airline that flies to Asia – Singapore, Jakarta or Manila. Roberts said there are sixth freedom rights available that can be used to offer tickets to take passengers on ANG to PNG and Australia. More code-sharing arrangements with Asian airlines, such as Philippine Airlines, are being considered.

Roberts believes ANG could build Port Moresby into a gateway to the North Pacific, in much the same way as Fiji is a gateway to the South Pacific.

"This is potentially the gateway to Micronesia. Air Niugini could create a hub out of Moresby to Palau, which is not too far away. Then there is Truk, and Ponape, which are the unsung paradises of the Pacific," he said.

Domestically, he aims to build through traffic to potential major tourist locations. "Port Moresby is not an attraction, but other parts of the country have magnificent attractions. Madang is basically attractive in every way so let's tailor our schedule to take people to Madang easily and efficiently.

Also on the home front, Roberts is keen to see ANG pick up regular charter work with the big mining companies that abound in resource rich PNG.

Roberts will not say how much the airline has been losing, or where debt levels stand, but insiders suggest when he arrived the books were in a mess. There has been no public release of audited accounts or an annual report for five years.

The Prime Minister pointed out that the national government injected US$25 million into the airline in 1998 and the investment was spent "almost overnight". "Everyone knows Air Niugini has been unable to fulfil its potential and has struggled to keep pace with the rapid changes taking place in the industry in the region," said Sir Mekere. "Its prices have been rising and its services have been deteriorating.

"That money, which should have gone towards schools, aid posts, rural development projects and so on, was used up almost overnight. And Air Niugini will need more in the future. The government simply does not have the money."

One of the toughest tasks for the sale advisers will be to accurately work out ANG's worth. Potential airline investors will have their own, probably modest, ideas. If government wants to attract a suitable equity partner it cannot set its sale sights too high.

As Sir Mekere said: "At this stage a number of airlines are interested in Air Niugini. The nature and extent of their interest will be tested in the weeks ahead as the sale process enters the formal tendering phase."

Inflight Asia at a click

From this issue the *Inflight Asia* pull-out supplement goes electronic. For the best in breaking news, inflight service and cabin management trends and people moves in our industry go to the *Orient Aviation* web site **www.orientaviation.com** and click on *Inflight Asia*.

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

Offshore crew search

Despite employee opposition, increasing numbers of airlines that are expanding their Europe-Asia services are recruiting offshore. For the Europeans – and Americans – it means hiring and integrating mainly Chinese language speakers into their cabin crews. In Asia, the process is reversed as Asia-Pacific based airlines go offshore in search of flight attendants fluent in English and the major European languages of their increasing numbers of European passengers, reports CHRISTINE MCGEE.

Language fluency, cultural comprehension and cost-cutting have dictated the choice by two more of the world's leading international carriers to increase recruitment of cabin crew offshore.

On January 15, Japan's All Nippon Airways (ANA) launched a hiring campaign in Europe aimed at initially employing 50 English-speaking cabin crew – with proficiency in a second European language – for its Europe-Japan services. The foreign based flight attendants will begin working on ANA's London-Tokyo, Frankfurt-Tokyo and Paris-Tokyo services from August this year.

"By employing cabin attendants with diverse cultural backgrounds and language skills, we will be reaching new heights by responding more accurately to the needs of our customers from around the world," said ANA chief executive Kichisaburo Nomura.

All Nippon Airways CEO Kichisaburo Nomura: recruitment of off shore flight attendants takes ANA to new level of service quality

The recruitment campaign, which is expected to be expanded to take on more foreign-based ANA crew in the next 12 months, will contribute to the cost-cutting measures outlined in the airline's medium-term corporate plan.

Rival Japanese international carrier, Japan Airlines (JAL), established its first offshore cabin crews in Taiwan, and has now six offshore cabin crew bases world-wide. The flight attendants provide JAL with crew fluent in Mandarin, Cantonese, Fukienese, German, English and Portuguese, working from Hong Kong, Singapore, Frankfurt, London, Sao Paulo and Shanghai. Ten per-cent (674) of JAL's cabin crew staff of 6,569 are non-Japanese hired and based outside Japan.

As well, JAL Group subsidiary JALways has 620 female Thai nationals among its cabin staff of 1,034 (the remainder are Japanese) and Japan Air Asia employs 150 Taiwanese female cabin crew.

Separately, Lufthansa German Airlines, a partner in the Star Alliance with Asia-Pacific carriers, Ansett Air New Zealand, Singapore Airlines and Thai Airways International, has put onboard the first of 60 native mainland Chinese flight attendants hired by the airline for its Frankfurt-China (including Hong Kong) routes.

The crews "provide Chinese speaking passengers with inflight services in their own language," said a Lufthansa spokeswoman in Hong Kong.

The development follows Lufthansa's establishment last year of a code-share with Beijing flag carrier, Air China.

Lufthansa operates European-bound daily flights out of Beijing, six flights a week from Shanghai to Frankfurt and 10 services from Hong Kong.

The 60 new cabin crew, which Lufthansa said would increase to a team of 100 by the third quarter of 2001, undergo two months of cabin training at Lufthansa's Frankfurt training crew headquarters, including classes in German language.

CX rent housing for crew

Hong Kong-based Cathay Pacific Airways has leased 130 apartments in a residential complex in the New Territories to house some of its overseas cabin crew. It is the first time the carrier has rented accommodation for crew rather than pay individual housing allowances.

Cathay Pacific's general manager inflight services, Quince Chong (left), said the company will monitor crew responses to the accommodation scheme and decide if the cash allowance system should be changed and if there was demand for an increase in the rented accommodation offer.

DVT: SIA calls for more research

Doctor warns 'clotting' can strike anywhere in the aircraft, including the flight deck

Several Asia-Pacific carriers are moving swiftly to upgrade advice onboard to prevent the onset of Deep Vein Thrombosis – dubbed economy class syndrome – among their passengers following a number of widely reported cases in recent months, including the death of a 23-year-old British woman after a long-haul flight from Sydney to London last October. *CHRISTINE MCGEE* reports.

In January, a 43-year-old chief executive of the U.S. operations of global advertising agency, JWalter Thompson (JWT), called his boss from the U.S. East Coast yuppie haven, the Hamptons, to say he was quitting one of the best jobs in his chosen industry.

His reason? He said as he recovered from Deep Vein Thrombosis (DVT), that had its onset late last year, he had decided he did not want to risk his life with a job and the frequent flying that went with it.

His widely reported decision probably sent a shiver down the spines of most airline bosses in the U.S., if not the rest of the world. Apart from the litigation his decision could set in train, this man was different to most publicly reported cases of airline passengers diagnosed with DVT. He did not develop DVT in economy class. He was a premium travelling passenger who had not spent his long flying hours in a cramped seat waiting – or hoping – for assistance from uninterested cabin crew. He had plenty of room to stretch his legs and move around a spacious cabin.

SIA senior vice-president marketing services, Yap Kim Wah: "We recognise rising public concern about DVT

In Australia, in the same month, a Qantas flight attendant was admitted to hospital with DVT after a 15-hour flight and is now recovering. Once again the circumstances were unusual. Cabin crew are constantly moving around the cabin and they certainly have access to plenty of water to prevent inflight dehydration – a factor believed to contribute to the onset of DVT.

As these varied circumstances emerge about passengers who suffer from DVT after an aircraft journey emerge, airlines are being asked searching questions about what really causes DVT, if airlines have long known that this risk existed for their passengers and if airline managements have glossed over, or at worst, hushed up the flying problem.

There are no documented, medically supported answers to these questions yet, but in the meantime, carriers world-wide are moving quickly to ensure they are protected against legal actions from passengers – including the present class action being put together by an Australian legal firm. Airlines also recognise they must alleviate passenger fears about DVT developing.

Last year, long before the inflight death of the soon-to-be-married British traveller after her 24-hour journey from Sydney to London, Singapore Airlines (SIA), along with several global carriers in the region, were publishing exercise and health tips in inflight magazines

What is DVT?

Also known as Economy Class Syn drome, Deep Vein Thrombosis (DVT) is described as the formation of clots in an individual's circulatory system which block the normal flow of oxygen-filled blood through the body. Risks of such clots increase in the dry reticulated air environment of the airline cabin that thickens the blood and increases the risks of clots forming.

The clots formed during the flight begin to circulate through the system of passengers after they disembark and can travel to the heart, lungs and brain.

Flight crews, including pilots, have been struck down by DVT and PTV programming to assist passengers' blood circulation while flying. However, it is clear that such information is insufficient and also insufficiently highlighted.

In February, SIA called for airline industry bodies to formulate and "adopt uniform codes of practice to ensure all airline passengers are provided with proper, concise, health information before and during their flights". "The linkage between DVT and long-haul flights is still medically unclear and SIA will encourage further industry wide research into this and other issues," a January 12 statement said.

SIA's senior vice-president marketing services, Yap Kim Wah commented: "We recognise rising public concern about the DVT issue. SIA has been at the forefront of providing information on travel health through our inflight video system since early last year."

The Singapore flag carrier is now distributing this information to passengers in a brochure given to passengers when they book SIA tickets and on its website for passengers booking their flights online. The same information is being displayed at SIA check-in counters and in laminated cards in each aircraft seat.

The two videos on travel health screened onboard will be condensed in one 15-minute programme screened on one of SIA's 21 video channels. An abbreviated version – two minutes long – will be shown before each movie is screened when passengers will be alerted to the health videos by cabin crew.

SIA said its videos will offer advice on countering stress, jet lag, reducing motion sickness and heart conditions as well as DVT and patients with asthma, diabetes and pre-existing heart and chest diseases.

Sensible eating and in-seat exercise help to stave off health problems

The Narita experience

More than 25 of his patients, including a 65-year-old United Airlines (UAL) pilot, have died in the last eight years after coming off airline flights at Narita Airport, outside Tokyo, Japan, a Japanese doctor has said.

Toshiro Makino, who set up his clinic at Tokyo's Narita International Airport in 1992, said in late December: "I opened my clinic in 1992 and have seen the number of deaths rise each year as more people travel by air.

He said all 25 passengers collapsed shortly after they left the aircraft and all of them died in the airport hospital.

In a January report in the *Asian Wall Street Journal*, Japan Airlines (JAL) spokesman, Geoff Tudor, said JAL has started a study of DVT, but has decided in the interim to give more prominence to information about travel health on the airline's website.

He added in a separate newspaper interview that DVT was not unique to airline travel. "It can happen to people sitting in chairs, cars or trains for a long period of time who don't get up and exercise.

"Fundamentally, it is up to each traveller to be aware of their own health condition and use a bit of common sense," he added.

Toshiro Makino who runs a medical clinic at Narita Airport, Tokyo, said in a recent press interview: "We should not underestimate the danger of this syndrome. It could happen to anyone, whether you are sitting in economy class or first class or in the cockpit. That is why I prefer to actually call this aircraft syndrome," he said.

ECM seeks court ruling

Hong Kong-based Emphasis Custom Media (ECM) announced in an early January circular to its customers that it was about to seek legal redress from three of its former video department staff, Rainbow Fong, Rosanna Kwok and Estella Fung, based on allegations they had breached their terms of employment with ECM.

The three women resigned from ECM on January 2 and now work for a new Hong Kong company, Creative Airspace. They paid compensation to ECM in lieu of their short notice to quit.

ECM editorial director, Peter Morgan, said the company had been forced to consider the action following the sudden departure of the three staff who joined Creative Airspace 24 hours after leaving ECM. The principal of Creative Airspace is Belinda Bradford, a senior executive at ECM until she resigned last year to set up on her own. ECM described Creative Airspace as "a start-up rival".

Morgan said he had been told one of the ex-ECM video department staffers, who now worked at Bradford's company, had contacted an established ECM client to solicit business for Creative Airspace.

In a widely circulated notification Morgan said: "On advice from our legal advisers, Emphasis sends [this] to inform customers it intends to seek legal redress from three former [ECM] employees in the Hong Kong courts for breach in the use and disclosure of confidential and proprietary information as outlined in Time Warner's compliance manual (ECM is wholly-owned by Time Warner). If you are approached by the rival company and/or the named three persons please let us know."

Independently, ECM parent, AOL Time Warner, put the inflight entertainment company on the market in the last quarter of 2000, on the basis that the company's best prospects for growth lay with an owner who specialised largely in software, sales and programming to airlines.

KAL feels chill of U.S. barometer

Only China and Japan seen as growth markets for 2001

By Jonathan Sharp in Seoul

In September and October last year, as seasonal temperatures fell, Korean Air (KAL) noticed something else was cooling off: its cargo traffic to the United States.

For a carrier whose cargo operation is the second largest in the world and the largest in Asia, the slowdown was of profound significance. The message was also clear: the U.S. economy, whose phenomenal period of sustained growth has been so crucial to Asia's export-driven economies, was slackening.

A little later in the year, other carriers began remarking on the same trend. Both Federal Express and United Parcel Service said volumes were flat in the weeks following the U.S. Thanksgiving holiday, which they also attributed to the easing of the American economy.

The numbers tell the story: in January cargo traffic out of South Korea was 35% less than in January 2000, which was, admittedly, a boom period. KAL is now forecasting cargo traffic to contract 1.6% by volume in 2001 compared with last year, with U.S. traffic down 2.8% , Europe down 3.5%, Southeast Asia down 5.4% and Oceania down 4.8%. Only the China market (plus 6.1%) and Japan (plus 3.8%) are seen as growing markets.

The unsettling news about cargo traffic came as KAL was preoccupied with several key ventures designed to bolster its cargo operations, particularly on trans-Pacific routes.

On October 11 last year a US$102 million cargo facility was opened by KAL at New York's JFK airport, which allowed the airline to double its U.S. eastern seaboard cargo capacity to more than 200,000 tonnes per year.

The complex also aims to become a logistics base for KAL's partners in their SkyTeam alliance, namely Delta Air Lines, Air France and AeroMexico. "The new facility illustrates Korean Air's optimism about the growth of the trans-Pacific market," KAL said at the time the New York complex opened.

That optimism may have been tempered by now, but the airline is far from being panicked.

Kim Jin Hong, general manager of KAL's cargo marketing team, said that while export prospects to the U.S. were decreasing, especially for electronic products, he anticipated a soft landing for the U.S. economy, not a more bumpy one, and 2001 growth in the United States would be moderate. "It will not be a crisis," he said.

However, he added: "The United States is losing buying power, and we are already feeling that in Korean Air."

KAL's mood can hardly have been heartened by forecasts released by South Korea's central bank late in December that falling prices and

Korean Air Cargo: Forecasting a 1.6% drop in volume this year over 2000 slackening demand for computer chips, an air cargo staple, would cause growth in South Korea's total exports to slow to 8.1% in 2001 compared with an estimated 21% in 2000.

The bank also said growth in the country's gross domestic product would probably slow to about 5.3% in 2001 – in line with KAL's estimate of 5-6% – from an estimated 9.3% last year and about 11% in 1999.

On the brighter side, Kim said he expected fuel prices should decrease by about 10% in 2001, an important plus for KAL which has as yet no fuel hedging policy to cut costs. KAL said rising fuel prices were partly to blame for the airline's 197.7 billion won (US$176.6 million) loss recorded in the first half of 2000.

KAL is setting considerable store by the SkyTeam alliance both for its cargo and passenger operations.

SkyTeam partners followed up the launch of the alliance in June 2000 with what it said was the world's largest cargo airline alliance, SkyTeam Cargo, introduced in September.

The alliance said customers of the cargo extension would have access to a combined fleet of 1,070 aircraft making 6,810 daily flights to 411 destinations in 100 countries.

February 1 was the scheduled starting date for the alliance's express service, called Equation, based at Air France facilities at Paris's Charles de Gaulle airport.

Equation will take in 70 destinations in Europe, but if successful will extend world-wide, Kim said. Express delivery, for example, from Seoul to Lisbon where Korean conglomerate Samsung has a factory would take 24 hours compared to the present time of almost seven days.

Following Equation the alliance is to offer three other products, called "Dimension", "Cohesion" and "Variation".

Dimension, SkyTeam Cargo's primary service, will handle shipment requests for all commodities not requiring special handling specifications, while Cohesion will offer customised shipping by collaborating with shippers and forwarders to provide solutions for some or most links in the logistics chain.

Variation is a specialised service for shipments such as valuable, live and perishable goods and commodities requiring special handling.

Kim acknowledged that membership of the freight alliance involved a steep learning curve for KAL, but it was vital as rising demands for just-in-time inventory delivery to a myriad of destinations made co-ordination with other airlines essential. "If we continue in the same way as before, then the future could be very gloomy," Kim said.

** Freeway restrictions to Inchon Airport to pose cargo logistical problems*

** KAL learns from cargo chaos that followed opening of Hong Kong's new airport*

On the future of SkyTeam, CSA/Czech Airlines is to join in April and KAL said discussions were being held for other airlines to join. KAL officials declined to say who they were other than one could be from southeast Asia, a second based in Latin America and a third representing Africa.

Korean Air Cargo executive vice-president, Won-Young Lee, and Delta Air Lines Logistics senior vice-president, Anthony Charat, toast the launch of Skyteam Cargo

The officials said the optimum number of members for the alliance was seen as being between seven and nine. "If you have more than 10 members, you won't have com-monality of products," said one official.

"It will take some time to reach the level which we are trying to accomplish with the other alliance members," he said. "We call it a marathon, not a sprint."

Fifty kilometres, or just over a marathon distance, is how far passengers will have to travel from downtown Seoul to the new airport nearing completion at Inchon, east of the city, which will be the centre for international flights while cramped Kimpo will focus on domestic services.

KAL acknowledges the extra distance is a problem, particularly because in the first years of operation there will be only one highway to Inchon, with access to that road limited so as to avoid traffic snarls.

KAL will continue to use Kimpo as a supporting facility for its cargo operation at Inchon, which will have twice the space for freight than at Kimpo. The new facility will be able to handle 800,000 tonnes a year at the opening, rising to up to one million tonnes in 2003.

A railway link is due for completion in 2005, but KAL and Inchon officials say it may not be finished on schedule.

That sounds as if Inchon may suffer from some of the access headaches experienced by other new airports in the region, including in Kuala Lumpur and Shanghai.

As far as cargo is concerned KAL seems determined to avoid the embarrassment of high-tech glitches suffered by the freight facilities at Hong Kong's Chek Lap Kok when that airport opened in 1998.

KAL has shied away from installing fully automatic freight handling systems for the bulk of its operations at Inchon, preferring a more conservative – and cheaper – approach.

"Our experience in Korea, the United States and in Europe is that semi-automatic (systems) are much more workable and efficient for us than full automation," said an airline spokesman.

And KAL says it has no ambitions to become the world's top air cargo airline. Being top dog for its own sake is an irrelevance, Kim said. Instead, he said, in view of the complexities of the globalised economy, "we want to be the number one logistics provider".

After all, a bigger cargo operation carries bigger risks in light of current economic uncertainties. "Look at the world economic situation: it's looking a little shaky."

Indeed.

Major revamp for JAL cargo

By Tom Ballantyne

As Japan Airlines (JAL) continues to restructure its sales and marketing activities the carrier's senior executives are seriously studying the possibility of setting up a totally separate cargo subsidiary.

Insiders say the airline may already have moved on the issue except for a number of complex issues involved in splitting the freight arm away from the core airline. If cargo is separated traffic rights belonging to JAL would have to be transferred.

The freighter fleet cockpit crew structure is also currently integrated with JAL and crew separation would reduce flight operations efficiency. JAL operates nine B747 freighters.

In the meantime, the airline has moved to beef up its cargo marketing operations by forming a new wholly owned subsidiary company, JAL Cargo Sales, to handle air cargo sales and marketing activity in Japan. It was formally incorporated in January and starts business from April.

JAL Cargo Sales will be capitalised at 50 million yen (US$452,499) and will have a staff of 110 throughout Japan. Expected sales revenues, based on current cargo performance, are forecast at 90 billion yen (US$814.5 million). Some 60 billion yen (US$543 million) of this will come from international cargo sales, 20 billion yen (US$181 million) from domestic cargo and 10 billion yen (US$90.5 million) from domestic mail sales.

A spokesman for JAL said establishing JAL Cargo Sales Ltd. is a continuation of the airline's restructuring strategy for sales and marketing activities. It has already launched JAL Sales Network in Japan for handling passenger marketing and sales. From April, these activities will be supervised by JAL Sales Network Company Ltd., a 100% JAL-owned subsidiary company established in November 1999 which began business operations in last April.

Since April, JAL's cargo division has operated as an "in-house" cargo company to focus on the special nature of the cargo industry and cope with changes in the business environment.

"The in-house company's sales and marketing fields consisted of two main divisions, one covering JAL cargo operations at overseas branch offices and another, separate in-house company for cargo sales and marketing in Japan. This time, the latter Japan division will be shifted to JAL Cargo Sales Ltd., almost without change," said the spokesman.

"JAL Cargo's new in-house organisation is aimed at developing the independence of the cargo division, defining management responsibility more clearly and maintaining and improving cargo business profits. The unit is responsible for the production of annual business plans for revenue and profits.

"It is required to make financial statements based on revenue and expenses and to react quickly to changes within the cargo industry to achieve set profit targets."

A restructured organisation is improving management of turnover and cash flow and service quality.

The changes are all based on strategies announced in the airline's current corporate plans to strengthen JAL Group sales cost efficiency and develop greater sales and marketing professionalism.

Singapore to develop online aviation facility

The Singapore-based Cargo Community Network (CCN) has begun development of an electronic marketplace for the air freight industry that will enable airlines to auction cargo space to the cargo community on line, writes Tom Ballantyne.

Owned by Singapore Airlines, TDB Holdings Ltd and the Singapore Aircargo Agents Association, CCN provides e-commerce and Electronic Data Interchange (EDI) services to the air freight industry, allowing cargo and airport handling agents to do business.

It has selected the world's largest network operator, Equant, to design and develop its Cargo Portal, which will be branded as CCN-Exchange.

CCN-Exchange also will allow cargo agents and freight forwarders to place Requests For Quotations for cargo space to be fulfilled by the airlines.

The application, based on BEA WebLogic Personalization Server, will allow CCN to target airlines, cargo agents, freight forwarders and, in the future, shippers, through the Internet.

The move is designed to provide greater reach for CCN to market its products, including schedules, cargo bookings, space availability and track-and-trace capabilities.

Through its application services division, Equant is one of the world's leading suppliers of business community exchanges (including cargo community systems) with customers that include buyingpower.com, AirCharterExchange.com, Cargo Community System Japan and Priceline.com.

CCN started operating a cargo community system in 1992 and is operational in Singapore, Malaysia, the Philippines and Indonesia, with plans to expand to other countries.

Watch out, Hong Kong

New U.S.-China flights a wake up call, says UPS

By Jonathan Sharp and Tom Ballantyne

Hard on the heels of a winning the right to operate into China, U.S. fast freight giant United Parcel Service (UPS) has announced a US$6 billion order for 60 A300-600 freighters from Airbus Industrie.

Only days later in January, rival Federal Express (FedEx) further boosted the French planemaker's A380 super jumbo fortunes, becoming the launch customer for the freighter version with a 10-strong order.

The orders underscore forecasts that the Asia-Pacific region will have to cope with a huge increase in available cargo capacity within the next decade and beyond.

Also in January, the U.S. Department of Transportation (DoT) finalised the award of 10 new direct flights to China of which UPS won six. If it receives operational authority from Beijing, services are expected to begin on April 1.

UPS became the fourth U.S. carrier with rights to fly directly to mainland China, alongside United Airlines, Northwest Airlines and Federal Express. UPS currently serves China through Hong Kong, from which it operates 16 weekly flights.

Two extra flights went to United, giving it a total of 21, one to Northwest to add to its 15 existing flights and one to FedEx, which already has 10 weekly China frequencies.

UPS said it could improve transit times and operate more efficiently by flying directly to China instead of using current routes through Hong Kong.

Like other U.S. carriers, UPS chafes at what it sees as Hong Kong's lack of an open skies aviation policy, a stance UPS described as scandalous.

Hong Kong, which at present moves more air cargo annually than the whole of the mainland, is in danger of missing out and being bypassed as mainland facilities improve, said UPS managing director in Hong Kong, Damian Bond.

"I think someone's going to get a very nasty wake-up call in a couple of years' time."

The decision in favour of UPS was recognition of the importance and huge potential of the China cargo market, especially in light of the U.S. granting of Permanent Normal Trade Relations (PNTR) to the mainland and China's impending entry into the World Trade Organisation (WTO).

UPS: China flights green light followed by an aircraft order for 60 A300-600 freighters

UPS, whose China business has grown 50% in the last year, believes that China trade will continue to grow rapidly. The company forecasts business will move towards increasingly high-grade products, particularly as Taiwan shifts its industry into south China to take advantage of low labour costs.

UPS and others play down fears that a slowing U.S. economy, coupled with rising fuel prices, will take some of the gloss off the China business, at least in the short term.

"I think we are just putting our toe in the water...China will be delivering higher quality products to the market. America will probably end up being the highest buyer again," said Bond.

Understandably FedEx, which has served China directly since 1995, said it would be difficult and expensive for UPS to play catch-up. UPS plans four flights a week from its Ontario, California hub to Shanghai and Beijing and a further two from Newark, New Jersey.

FedEx already has a wider network, including routes to Shenzhen in the dynamic Pearl River Delta region adjoining Hong Kong.

UPS placed a firm order for 30 aircraft in late 1998 for service within the continental United States. The new order for 60 supersedes options for the 30 aircraft (taken in 1998) and also includes options for an additional 50 aircraft.

The acquisition of the A300-600s will be spread over nine years. The aircraft will join a fleet of 238 jets that includes 231 Boeing 727, 757, 767 and 747 aircraft and McDonnell Douglas DC-8s.

In November, UPS announced a decision to add the MD-11 to its fleet, starting in late 2001, by acquiring at least 13 converted MD-11 freighters from Boeing.

IN BRIEF...

- CHINA SOUTHERN AIRLINES (CSA) has opened a new cargo drop-off station at Hartsfield International Airport in Atlanta. The station will allow CSA to offer second-day freight service to China via Chicago. The Atlanta drop-off station is in addition to CSA's New York drop-off site at JFK Airport.

- SOUTH KOREA's Ministry of Construction and Transportation said it hopes a free trade zone at the new Inchon Airport will be operating by January 2005. The airport itself will open in March. The first phase of the zone is estimated to cost US$45 million.

- DRAGONAIR has launched a new Internet track and trace service for its cargo customers at its website www.Dragonair.com . Dragonair operates one wet-leased Boeing 747-200 freighter and will add two Boeing 747-300s to its fleet in 2001.

- MALAYSIA AIRLINES has removed Ralph Gotz as head of much-criticised MAS-Kargo, which has been dogged by a raft of problems, including thefts and complaints of misplaced shipments.

- HONG KONG AIR CARGO TERMINALS LTD (HACTL) signed an agreement with logistics service provider Expeditors Hong Kong Ltd for the company to become a Superlink Airport Direct customer. Superlink Airport Direct, launched in 1999, is a one-stop integrated delivery service that HACTL provides for agents, freight forwarders and consignees.

By Tom Ballantyne in Washington

Envirotainer president, Daniel Martinwall: his containers send an alert if the temperature inside rises and deliver their shippers an e-mail if they have been damaged!

Cool idea

Daniel Martinwall is standing in the exhibition hall at Washington's plush Marriott Wardman Park Hotel, but his mind is focussed on an air freight container packed with perishable goods sitting in a warehouse in Atlanta.

His laptop computer displays a map of the Georgia city and it zooms in on the precise location of the container. With the touch of a key, figures on the screen reveal the exact temperature inside, then a graph reading of what it has been during the past 24 hours.

And there is more. If someone opens the container door and the temperature falls, an alert will be transmitted that warns him the contents could be in danger. Or if the container is dropped, an e-mail will arrive saying: "Hey, someone dropped me!"

It's all done through sensors, a Global Positioning Satellite (GPS) link and the Internet. Martinwall is clearly excited about the possibilities. That's because the Swedish executive is president of Envirotainer, a cool business which supplies temperature controlled air cargo containers to airlines world-wide for the shipping of perishable goods.

And within 12 months every one of its 3,000 containers will be similarly wired, offering customers unprecedented access to real-time tracking and the status of their shipments, whether they are parked at a warehouse in Atlanta, aboard a freighter above the Pacific or sitting on the dockside in Tokyo.

Martinwall said Envirotainer, 80% Swedish-owned, is not only introducing this new technology to its product, it is also pushing forward with an aggressive expansion of operations in the Asia-Pacific.

Already an international group with depots across North America, Europe and South Africa, it handles Asian business – customers include Singapore Airlines, Korean Air and Japan Airlines – through contracted ground handlers at various airports.

But over the next six months it will open depots in Singapore, Hong Kong, Tokyo and Australia, in either Sydney or Melbourne.

"We think by June we will be in 29 locations around the world. We believe the Asia-Pacific, particularly Australia and New Zealand, will be a fantastic market for perishable goods and we are going to focus on these areas."

The business of transporting temperature sensitive goods – not only foodstuffs such as fruit, vegetables and dairy products, but also pharmaceuticals and electronics – is booming. According to Martinwall, 20% of all air cargo is temperature sensitive and is the fastest growing area of air freight.

Envirotainer has US$16 million in annual turnover, but the company president predicts it will rise to at least US$100 million in four years. The key to this growth is what Martinwall describes as the world's only active temperature controlled container.

It is an insulated container, but it is set up with dry ice and batteries. A thermostat controls a fan, which keeps the correct amount of cool air flowing to maintain a precise temperature.

"In a normal insulated container the temperature over time gets closer and closer to the ambient temperature, but with temperature control we can maintain it for at least 72 hours. That covers virtually every long-haul air route in the world. Even if the flight is delayed that is no problem. It can stand in the sun outside the aeroplane and maintain the right temperature," explained Martinwall.

When transporting perishable goods any temperature variance can be costly with airlines losing millions of dollars annually in claims made over damaged cargo. While estimates vary, Envirotainer believes that, depending on the product, somewhere between 5% and 25% of goods are lost because something goes wrong in the temperature supply chain.

Envirotainer does not sell its containers, which come in standard air cargo LD-3 and LD-9 configuration. They are leased to carriers on a daily or monthly basis and don't have to be returned to point of origin. "If a customer wants to lease a container from Tokyo to London, we give him the container in Tokyo and he can leave it in London and we take care of it. You don't have to bring it back," he said.

Martinwall said En-virotainer was no longer just a container company. "We are building up a lot of value-added services, such as providing online services like communicating with our containers through GPS. We are offering global solutions for the air transportation of sensitive goods, providing a door-to-door unbroken cool chain. We also provide logistic services and knowledge of temperature sensitive goods."

One example is Worldwidefresh, an online perishable handling and transportation management tool offering the latest research information and advice on shipping perishable foodstuffs.

Available to anyone at www.envirotainer.com, its features include a list of various vegetables, the temperature at which they should be stored and how long they will remain fresh at specific temperatures.

Special Report

SIA pooling plan for A380 MRO

Signing multi-billion dollar orders for the ground-breaking Airbus A380 super jumbo was the easy part for the Asia-Pacific's launch customers, Singapore Airlines (SIA) and Qantas Airways. Now the hard work begins and SIA believes the airlines need to work together, reports TOM BALLANTYNE.

The arrival of the massive double deck Airbus A380 jet, formerly known as the A3XX, on global air routes may be five years away, but in Singapore and Sydney airline engineering executives are already beginning to lay the groundwork to handle the world's newest aircraft type.

Singapore Airlines (SIA) and Qantas Airways may be commercial rivals, but it is clear there will be no shortage of co-operation between the two airlines as they prepare for the enormous maintenance and engineering challenges ahead and tool up for the arrival of the A380.

Oh Wee Khoon, senior vice-president commercial for the SIA Engineering Company (SIAEC) and David Forsyth, general manager aircraft operations for Qantas, agree that initially no airline will have enough A380s in its fleet to justify the high cost of setting up heavy maintenance facilities solely for its own use.

"Co-operation will become more essential for the A380 for several reasons. Firstly, we expect the investment requirement for the likes of training, tooling and hangar facilities to be high. And it's not the type of plane, like a B737, of which an airline will have large numbers in its fleet. There will be more opportunity for co-operation," said Oh.

Added Forsyth: "The industry is very good in this way. For example, we can compete head-to-head with Ansett and Air New Zealand and SIA on a commercial basis, but on an operational level we all help each other." Qantas has already talked to local rival Ansett about operating Airbus aircraft, he said.

SIA has proposed a regional joint venture, under which airlines can pool their resources to handle some A380 work.

Forsyth said the concept "has got a lot of merit" although Qantas would establish its own line maintenance facilities. "You need an economical fleet size to justify setting up for heavy maintenance. It may well be that a number of airlines do band together. Collectively they may have 20-25 A380s and that would justify a joint venture."

SIA has ordered 10 A380s with 15 options. Qantas has signed for 12 of the Very Large Aircraft (VLA).

Oh envisages a range of other A380 joint ventures which would involve manufacturers and airlines in engines, landing gear, thrust reversers and avionics maintenance aimed at making the upkeep of the plane as economical as possible.

SIAEC holds a 40% stake in a landing

gear shop joint venture with Messier Dowty in Singapore, which would be able to handle A380 undercarriages.

It recently signed a deal with Rolls-Royce to set up a Trent 800 (it powers the B777) overhaul facility in Singapore. It will be on-line by the end of this year and will later be able to cope with its A380 engine, the Trent 900. Qantas has not yet selected an engine for its VLA, but would be interested in co-operation in this area.

SIA, its engineering division and Qantas will have top technical officials stationed in Toulouse working hand-in-glove with Airbus on every aspect of the plane's systems as the design and production process continues through first flight, testing and introduction into operation.

SIA and Qantas have different challenges in preparing for the 2006 arrival of the jet. SIA already operates the latest Airbus types. Qantas does not.

The Australian airline, however, has ordered 13 A330-200 and -300s for delivery from 2002. "By introducing the A330, an existing proven Airbus aircraft type, into our fleet first it means that when the A380 comes along we will have the experience of the A330 behind us," said Forsyth.

Qantas will take delivery of its first A380 about 12 months after SIA. Emirates also will have the VLA in service before Qantas which will allow the Australian carrier to benefit from any teething problems it may experience.

"To some degree that was deliberate on our part," said Forsyth. "While there is a commercial advantage to being the first airline to introduce a new type, operationally it is high risk."

SIAEC's Oh does not agree. "That was probably true with the older aircraft types 10 or 15 years ago. Today, we have major advancements in production methods, simulation and information technology. Modern aircraft have a very stringent testing requirement," he said.

"As one of the early operators of the B777 we did not face any great difficulties with the aircraft compared to some initial B747-400 customers. The overhaul engineering and maintenance (OEM) mindset and how they design and test aircraft has changed a lot in 10 years.

"It is probably right that launch operators have to make a little more effort during the introductory phase, but aircraft are a very different product nowadays."

Another aspect of the preparation will be hangar space to house the biggest passenger jet in the world. SIA has a master plan for two new hangars for the A380, to be commissioned in late 2002 or early 2003.

Qantas is studying alternatives because of existing congestion at Sydney airport where its engineering facility is located.

Both airlines are setting up project teams to cover every aspect of the introduction of the new planes.

"Being distracted from current operations is a major risk factor. For us the short time-frame of introducing a new aircraft type (the A330) and a new manufacturer is a risk. Obtaining the necessary skilled people is another risk. Making sure the project is well co-ordinated and managed across a number of areas in the company is yet one more," said Forsyth.

All A380 customers face the same challenge, said Oh. "It's not about competition between the carriers. We are all interested in making it (the introduction of the A380) work to provide a good service to customers.

"I don't think there is a key moment in the process where the task will become easier or more difficult. It will simply be an ongoing process. People will be making a lot of trips to Toulouse, " he said.

Singapore Airlines: has plans for two new hangars to house the massive A380s

Qantas Airways: hopes to benefit from following SIA into service with its A380s

JONATHAN SHARP *takes an in-depth look at China's MRO facilities*

AMECO joint venture is

Walter Heerdt, the German general manager of the Air China-Lufthansa joint venture Aircraft Maintenance and Engineering Corporation (AMECO), is not only willing to comment on rumours that the corporate marriage is on shaky ground, he positively insists on doing so.

He said a misleading headline published last year in a German newspaper after a press tour of AMECO's facility at Beijing's Capital Airport gave rise to suggestions the joint venture might not be renewed after the present contract expired in three years time.

"My message was very clear. First of all there was no need for urgency at that time to start negotiations (on renewing the deal) because there is still enough time. Both parties know what they want and this joint venture will continue – 100% sure," said Heerdt.

Talks were under way about prolonging the deal, he said, and he was personally confident that a positive conclusion would be achieved this year.

He said he had a "trustful working relationship" with Ma Kuiliang, chief executive officer and general manager of the venture. "We are trying to run the company as one person."

If differences of opinion arise between them they are resolved behind closed doors. "And then we go out with one voice. This is very important to the outside world and also very important to our employees – to make sure they see there is one general management of this company and there is one opinion," said Heerdt.

In a separate interview, Ma told *Orient Aviation* he was confident the joint venture would continue, but he acknowledged there were contrary voices in the Chinese airline industry establishment.

He said a "few people" in Air China and the Civil Aviation Administration of China (CAAC) did not want the venture prolonged in its present form, with one view being that AMECO should go its own way, while another favoured bringing in another partner to join Lufthansa.

But Ma described this as a small problem. He believed the majority in favour of the present partnership with Lufthansa would prevail. "There is no doubt about it," he said.

AMECO was established between the mainland flag carrier Air China (60%) and Lufthansa (40%) in 1989 and describes itself as the first and largest joint venture that offers aero-engineering services in the Chinese aviation industry.

Looking ahead, Heerdt said while Air China remained a core customer AMECO was working on expanding its international business. The current breakdown of business is 54% from the Air China group, 25% from other domestic operators and 21% international.

He said AMECO would like to double its international business by the end of 2003 with the main growth in airframe overhaul. "We are getting down to turnaround times which are competitive (with airframe overhaul). We have competitive prices and our quality is OK as well."

Heerdt said that AMECO's Boeing B737 and B747 D-check lines were "pretty well loaded" and in April the company would carry out its first B767 strut modification and had started with B777 heavy maintenance.

"The product spectrum we have at this time is pretty good for the Chinese market and also very good for the international market," said the general manager.

To add to that spectrum, AMECO is heading towards freighter conversions, which Heerdt saw as an increasingly significant market in China. "This is something which is

GAMECO: looking for locations to add to its Guangzhou base

GAMECO

The year 2001 is shaping up as one for critical decisions by the Guangzhou Aircraft Maintenance Engineering Co Ltd (GAMECO), moves that could see the ambitious firm extend its reach well beyond its present base in the capital of south China's Guangdong province.

The key driving factor is the long-heralded consolidation of the fragmented Chinese airline industry, in which 10 airlines under the Civil Aviation Administration of China (CAAC) are to restructure into three or four groups. GAMECO is clearly determined to be no slouch in exploiting the opportunities thus offered.

secure

AMECO: looking to double its international business by the end of 2003. Philippine Airlines is among its overseas customers

not finally decided, but we are in advanced talks."

He cited the Chinese government's stated aim of developing western regions of the country that are poorly served by road and rail links.

"I personally think there will be a market for quite a number of narrow-body freighters inside China. If you look at the Chinese B737 fleet, there are quite a few ageing aircraft and maybe some of the airlines are going to convert them."

China's accession to the World Trade Organisation (WTO) would provide another boost for freighter business.

Obviously the long-planned consolidation of Chinese aviation, whereby 10 airlines under the CAAC are to combine into three groups under Air China, China Southern Airlines and China Eastern Airlines, offers the prospect of more domestic work for AMECO.

According to a proposed blueprint, Air China will merge with China Southwest, one of the mainland's six largest carriers.

Heerdt said China Southwest was already a major customer for AMECO, with business including four recent 737 D-checks, landing gear overhaul and RB211 overhaul.

He could not forecast what the final merger line-up would look like, but added: "When this merger takes place, I wouldn't see it as a disadvantage. If the anchor fleet of one of our shareholders is getting bigger, I am expecting more work from that."

Despite the prospects for new business AMECO is not contemplating a major expansion of its physical facilities or 3,800-strong workforce. Heerdt said AMECO's capacity was still sufficient for its local and international business. "However, in the medium and long-term we could have such expansion."

He said AMECO was looking at opening a plating shop. There had been such a facility previously, but it was closed for environmental reasons.

In the coming year revenue growth would come from productivity increases rather than expanding staff numbers. He said AMECO was expecting to achieve a pre-tax profit margin above 10%, although no details were available.

The accumulated investment in the company is about US$200 million and revenue this year will be about RMB 1.4 billion (US$169 million). Asked what would be top of his wish list to improve AMECO's productivity, he cited better English-language skills in the Chinese workforce. At present the need to deal in two languages was adding to administrative costs and "putting friction into the gearbox of productivity".

Time will solve this problem as China enters the WTO and more foreign companies enter the mainland. "But I would wish we could turn the clock a little bit faster on this issue."

on the acquisition trail

Other prominent issues on the radar screen include the scheduled completion in mid-2003 of the new Baiyun (White Cloud) airport at Guangzhou and China's entry into the World Trade Organisation (WTO).

All offer big potential for GAMECO, founded in 1989 and a joint venture of China Southern Airlines Co Ltd (50%), the U.S.'s Lockheed Aeronautics Service-International (25%) and Hutchison Whampoa (China) Ltd (25%) from Hong Kong.

"Obviously consolidation (of the industry) is one of the biggest issues happening right now in China," said Dan Lange, who has been general manager of GAMECO since 1994.

Under the restructuring proposals China Southern, mainland China's biggest airline in fleet size, will pick up a number of other airlines, he said. According to draft plans still to be finalised, China Southern is due to merge with China Northern based in Shenyang in northeast China, Xinjiang Airlines in Urumqi in the far west and has already acquired Zhengzhou-based Zhongyuan Airlines.

"That should have a very positive impact on us," said Lange, who added that he expected the mergers to be completed this year.

The overdue rationalisation of the airline sector offers expansion opportunities for GAMECO. "The airline consolidation has left us with the potential of picking up the maintenance centres of consolidated airlines," Lange said. "We need another location besides Guangzhou."

Specifically, GAMECO has been in talks with the Chengdu Southwest Aircraft Maintenance Co with the idea of possibly buying it. The GAMECO board had approved the idea and Lange himself has been a frequent visitor to Chengdu in Sichuan province to look into such a deal.

GAMECO is also examining the possibility of setting up a maintenance centre in Shenzhen, the booming mainland city adjoining Hong Kong. China Southern, which is by far the largest GAMECO customer, launched an all-cargo service to the United States from Shenzhen last year.

Lange said a key constraint in GAMECO's fast growing operations was lack of capacity, a problem to be eased with the move to the new airport. Facilities there, for which GAMECO is investing between US$90 million and $100 million, will include hangars with three bays for maintenance and one for paint. The maintenance bays will be sized for the future "super jumbos" such as the Airbus A380 and stretched versions of the Boeing 747.

But costs will be relatively high at the new airport compared with those at present facilities, eroding one of GAMECO's best competitive selling points.

As a result the company is thinking of basing its components and training businesses outside the new airport, thereby avoiding paying a 2% revenue fee charged by airport authorities. Shenzhen and its neighbour Zhuhai are among possible bases for these two units.

The training side is critical in a country without a long tradition in modern aircraft maintenance skills. The workforce, which has expanded from an initial 600-plus to the present 2,220, is young, with an average age of 28.

GAMECO general manager Dan Lange: the impact of WTO membership "would not be felt overnight ... but it will open up more business opportunities for us"

Zhuhai, a two hour drive from GAMECO's base in Guangzhou and close to the Hong Kong and Macau borders, is to be home to another of its joint ventures. In May last year GAMECO signed a deal with Germany's MTU for a new engineering and maintenance facility scheduled to begin operations some time next year.

An estimated US$180 million will be invested in MTU Maintenance Zhuhai covering construction, tools and technology. The venture will perform maintenance and repair work for the IAE V2500 and other engine families.

GAMECO has grown from a line maintenance plant to a facility offering heavy maintenance such as C and D checks plus component overhaul and repairs.

The annual growth rate has averaged more than 28%. "The company is extremely healthy from a balance sheet standpoint, with no debt on the books," said Lange.

He warms to the prospects offered to GAMECO by China's accession to the WTO, although the potential gains are less easy to quantify.

At present, GAMECO's third party work for customers other than China Southern stands at 20-25% of the total. "Our focus is primarily on China, not the international side because the market here is big enough to keep us at capacity. Our philosophy basically is to develop capabilities for China Southern and then market to third parties," said Lange.

"But with the new Baiyun airport and WTO you are going to see more international flights both by China Southern and international carriers coming to Guangzhou. This obviously will have a very favourable impact on us both for line maintenance as well as availability to do letter checks for new airlines flying in."

He said the impact of WTO membership "would not be felt overnight". "It's going to be slow. Everything in China is done gradually, but it will open up more business opportunities for us."

Sichuan needs to 'move fast'

The goal of Sichuan Snecma, the joint venture aero engine maintenance company based in Chengdu, capital of Sichuan province in the heart of China, is to service and deliver one engine a week in 2006.

That target may seem ambitious for a small company in operation only since April last year whose output is still a fraction of that target. But Patrice Perreau-Saussine, Sichuan Snecma's general manager, sees opportunities in the rapidly developing Chinese aviation scene that make him – and the shareholders who have invested US$21 million – confident that after a modest start the venture will be a success.

Sichuan Snecma is a partnership between the Snecma Group's Snecma Services (51%), Chengdu-based China Southwest Airlines (35%), Willis Lease Finance of the United States (7%) and Beijing Kailian Aviation Technology (7%).

Its core business is the Boeing 737's CFM-56 engines, for which it is the first repair shop in China approved by the Civil Aviation Administration of China (CAAC).

However competition is likely to appear on the mainland at the end of this year. "So it is important that we move very fast," said Perreau-Saussine.

The partnership with China Southwest is also clearly important. China Southwest is not only Sichuan-Snecma's main customer at present, it is expected to link up with national flag carrier Air China in the anticipated consolidation of the fragmented Chinese airline sector.

Air China has 19 Boeing 737s, with more than 40 engines to be overhauled or repaired. "That is very interesting for us," said Perreau-Saussine, who predicted that Air China could soon be one of Sichuan Snecma's main customers.

Perreau-Saussine pointed to the rapid pace of development in Chengdu, where a new airport is approaching completion and to the learning-skills and flexibility of the company's staff of 200, many of whom came from a plant that repaired Russian engines.

China's low manpower costs are an obvious boon. Perreau-Saussine said Sichuan Snecma expected to start turning a profit in 2002.

However, problems remain, particularly the high cost of transportation of materials and equipment, which Perreau-Saussine said was a countrywide problem, not confined to the Sichuan area.

He forecast that Sichuan Snecma had sufficient staff until 2004 or 2005, but the company aimed to upgrade its facilities so as to be able to handle engines flying on the latest generation of Boeing 737s, at which point more personnel would be needed.

HAECO on overseas quest

By Jonathan Sharp

Freighter conversion market booming at China subsidiary TAECO

Don't be surprised to hear within the next year that Hong Kong Aircraft Engineering Company Ltd (HAECO), which along with sister company Cathay Pacific Airways is part of the Swire Group corporate family, has spread its operational wings far beyond its present range.

In January, HAECO personnel were sent on missions scouting out expansion possibilities outside of Asia, according to P.K. Chan, managing director and a 32-year-old veteran of HAECO, which describes itself as Asia's largest aeronautical engineering company in terms of capability. "I can assure you we are looking for some facilities outside Asia," said Chan. "We want to develop ourselves into a global service provider."

Chan, or "PK" as he is better known at HAECO headquarters at Hong Kong's new Chek Lap Kok airport, is intent on being able to offer services where customers need them, not just in Hong Kong or at HAECO's subsidiaries and associates in mainland China.

He did not say exactly where HAECO was looking for expansion opportunities, but Europe and the United States are obvious targets. Chan said the company, which celebrated its 50th anniversary last year, would prefer the expansion to take the form of joint ventures. "But if the business case justifies it, then we may press on ourselves."

Chan said the expansion plans were not mature yet. "I hope that something will be coming up this year."

HAECO's ambitions do not end there. Chan said the company was looking at setting up partnerships with manufacturers of Airbus components. HAECO has traditionally been strong in the B747 component overhaul business, but now the Airbus population is increasing in the region, particularly with Cathay Pacific Airways and Dragonair in Hong Kong, HAECO is investing in increasing its capability on Airbus aircraft.

The reason for the timing of this move is that the Airbus aircraft that Cathay and Dragonair bought in the early 1990s are exiting their components warranty. Now HAECO reckons there is a market for supplying these components.

But Airbus component manufacturers are themselves planning to set up in this region, and therefore HAECO decided to initiate talks with Airbus component makers, starting early last year. HAECO is now close to signing several joint ventures this year.

Chan said HAECO is also thinking of expanding facilities at Jinan, in China's Shandong province and home of Shandong TAECO Aircraft Engineering Co Ltd (STAECO), in which HAECO has a 20% shareholding.

STAECO at present provides line and heavy maintenance and modifications on narrow-body aircraft including the Boeing 737 and SAAB 340.

Chan speaks with particular pride about Taikoo (Xiamen) Aircraft Engineering Co Ltd (TAECO) in the coastal city of Xiamen (Chan himself was born near Xiamen).

Incorporated in 1993 TAECO is a joint venture with HAECO, which is the largest shareholder with 45.46%.

It has two hangars that can accommodate four B747s simultaneously and a third will be operational by the end of 2002. Starting with 747 operations, TAECO is extending to work on the 737, 757, 767, A330 and A340.

In December, TAECO completed its first full passenger-to-freighter conversion for Japan Airlines on a B747-200 aircraft.

TAECO is at present the only company outside Boeing authorised to perform B747 freighter conversions under the Boeing Supplemental Type Certificate (STC).

Ashok Sathianathan, HAECO's general manager (commercial), was enthusiastic about the conversion market. "Our cargo conversion business has really taken off," he said.

TAECO will carry out two more conversions this year for Dragonair, which recently bought two Singapore Airlines B747s for modifying into freighters and a contract is close at hand for 15 more conversions, with three of them already firmed up.

The business mix is that combi conversions are carried out at HAECO while TAECO handles the full conversions.

Sathianathan said HAECO was expanding from conventional maintenance in a bid to differentiate itself from other MROs.

TAECO has now taken over much of the heavy maintenance for Cathay that used to be done in Hong Kong, releasing capacity to sell to others beside traditional customers such as Cathay and Dragonair. The Cathay workload now stands at 42%.

The steep costs of operating in Hong Kong in general and at Chek Lap Kok in particular have driven HAECO to spread its activities into areas with a cheaper cost base. The need to cut costs was particularly imperative during what Sathianathan called the rough, tough years of the Asian financial crisis when HAECO was obliged to lay off staff.

Competition remains tough but HAECO's profitability is looking brighter. The group's profit attributable to shareholders for the first half of 2000 was HK$267.3 million, compared to HK$63.2 million for the same period in 1999. Expect a further improvement when the full year figures are announced.

A Japan Airlines B747-400 was TAECO's first full freighter conversion

GE wins major JAL deal

GE Aircraft Engines clinched a US$345 million contract in January to supply Japan Airlines (JAL) with powerplants for three 767-300 extended range aircraft and eight 777-200ERs. The deal includes spares.

JAL ordered the Boeing aircraft in November last year. The agreement included the sale of JAL's 10 ageing MD-11 aircraft to the manufacturer.

Pratt & Whitney and Rolls-Royce were also contenders for the engine contract.

JAL has opted for the GE CF6-80C2B7F for the B767-300ER and the GE90-94B for the B777-200ER. The engines have the highest thrust rating of all models in each engine series. JAL's fleet of B777-200s are powered by Pratt & Whitney engines.

Another version of GE's CF6 engine is used by JAL to power its 40 B747-400 aircraft and seven of the carrier's 22 B767-300 aircraft.

JAL had earlier selected another version of the GE90, the GE90-115B, to power eight B777-300 Longer Range aircraft in an order announced in March last year.

The airline will be using the new aircraft on a variety of routes from 2003.

"GE's continued investment in the GE90 through the -94B and -115B is driving market preference," said David Calhoun, president and chief executive officer of GE Aircraft Engines.

Seventeen customers have ordered 201 GE90-powered 777 aircraft with 50 options. The engine value of the firm orders is more than US$6.7 billion.

UNDER THE MICROSCOPE

Blunder puts pressure on Australia's safety bodies

By Tom Ballantyne

Australia's air safety regime is in political and operational crisis in the aftermath of an embarrassing maintenance blunder by major operator Ansett Australia and widespread complaints about the safety regulator, the Civil Aviation Safety Authority (CASA).

With CASA conducting a major investigation into Ansett's lapse – the airline failed to conduct a required check on its Boeing B767-200 fleet for two years – the authority itself is now being audited by the country's air safety investigator, the Australian Transportation Safety Board (ATSB). The board wants to know why proper oversight was not maintained over the airline.

In the midst of this furore, smaller airlines have accused CASA of being too lenient on Ansett, failing to impose any penalties and allowing it to put aircraft back into operation before the checks were completed.

Ansett voluntarily grounded the seven jets on December 23, but they were flying again by the end of the month. But two of the planes had to be taken out of service again on January 18 after inspections found hairline cracks in the planes' tails.

As the row developed over CASA's handling of the issue, a former authority chairman, Dick Smith, launched a verbal broadside at senior aviation bureaucrats, describing the ATSB as a "basket case" plagued by political interference. He wants it to be given total independence like the U.S. National Transportation Safety Board (NTSB).

If that is not enough for Australian Transport Minister, John Anderson, who is under siege from the national opposition political party for his handling of safety issues, two key transportation and safety officials had quit their posts by mid-January.

Ms Carol Boughton, director of safety investigations at the ATSB, handed in her resignation, insisting she was leaving not because of recent events, but to join a family business. She took charge of the ATSB investigators last year after long-time head Dr Rob Lee left, frustrated at what he claimed was political interference in investigators' work.

It was also confirmed Peter Harris, a deputy secretary in the Department of Transport, is leaving the public service to take up a position at Ansett.

While there has been simmering unrest in Australia's air safety community for some time the Ansett affair has brought concerns to the surface.

The airline grounded the B767-200s after discovering safety checks recommended by Boeing had not been done.

In the middle of the busiest travel period of the year, Ansett was forced to take a huge lump of capacity out of the sky. With a major CASA investigation underway, senior management is clearly red-faced.

At a special meeting of CASA on January 9 Ansett general manager, technical operations, Trevor Jensen, told the regulator a highly experienced Ansett technical officer received notification from Boeing two years ago warning him

of the need for a major overhaul of ageing 767s after 25,000 take-off and landing cycles.

The officer interpreted this as meaning 50,000 cycles overall and, because Ansett's planes were then at only 25,000 cycles, he filed it. The notification came to light again just three days before Christmas and Ansett acted immediately although the groundings affected the travel of 18,000 passengers. Jensen described the event as a "human factor" failing.

"The guy has come forward and is so embarrassed. He is going through retraining," he told CASA.

The airline proposed a nine-point plan for reform, including measures to establish why its procedures failed to pick up the mistake. CASA accepted the explanation, causing further controversy when it granted the carrier a dispensation to resume flights on condition the work was carried out within 90 days and fortnightly inspections were made on each jet.

The regulator launched a full-scale audit of Ansett's safety procedures. CASA chief, Mick Toller, wants a report on the investigation quickly and has ordered an internal inquiry to find out how its own staff missed the inspection deadline.

Ansett's Jensen said the airline would continue to provide any information CASA wants. "Removing aircraft from our operation at Christmas time was obviously a hard call, but not a difficult decision. Although we apologise for any disruption that was caused to passengers, our decision to ground the aircraft was based on our commitment to safety. Our stance is that safety is of paramount importance at any time of the year," he said.

After news of the latest groundings, Jensen said the airline had accelerated B767 inspections, alerted CASA again and acted to bring aircraft subject to the checks into the hangar early.

"The kind of cracking we've detected is not an uncommon occurrence in aircraft. They are designed to be damage tolerant and withstand these minor airframe cracks. Nevertheless, there will be no compromise to the safe operation of our aircraft."

Others have also been caught up in the controversy. Boeing is unhappy over the language used by the ATSB in its announcement that it would investigate the Ansett affair and CASA's role. The investigator said it would include in its inquiry "an examination of Boeing aircraft airworthiness".

That raised the Seattle planemakers hackles, with spokeswoman Lori Gunter saying Boeing had demanded immediate action when

CASA chief, Mick Toller: ordered an internal inquiry

the oversight was uncovered. She said the incident had been about a mistake by Ansett and no one had questioned the airworthiness of the B767s involved.

The ATSB later clarified its comment, and said the reference to Boeing related to the "relationship between the manufacturer and the airline operator to ensure the maintenance of continuing airworthiness".

One of Australia's new trunk route jet operators also entered the debate. Impulse Airlines executive chairman, Gerry McGowan, accused CASA of treating major airlines more leniently than smaller carriers. He suggested the latter would not have been allowed back in the air as quickly as Ansett.

He pointed to a recent grounding of a regional operator, Yanda Airlines, and said he doubted if its breaches were as serious as Ansett's. "I guess my only comment is there always should be a level playing field." A CASA spokesman rejected the claim.

CASA has begun to address some of its problems by hiring more skilled inspectors, but publicity surrounding the Ansett affair as well as adverse media reports throughout 1999 and into 2000 about alleged safety problems involving Ansett's rival Qantas Airways – most of them unsubstantiated – have undermined public confidence.

It did not help CASA's case when news broke last November that Toller himself had breached safety procedures by failing to correctly document an aircraft defect on a plane hired for a private flight. He was counselled on the matter by one of his area managers, but survived calls from opposition politicians that he should be stood down.

It is believed the Federal Government is considering a review of the system, particularly in relation to how major airlines are allowed to "self administer" many aspects of safety regulation.

Former CASA chairman Dick Smith argues the ATSB is far from independent and claims past investigations into CASA have failed to dramatically change an aviation "mateship system" which meant the regulator was too soft on airlines.

He believed airlines should be prosecuted for safety breaches. "Airlines are breaking safety rules. You can be a major airline and break any aviation rule and you never get fined," he added.

Nevertheless, industry insiders point out that whatever arguments are being put forward for changes to the system, Australian aviation and its airlines continue to boast a safety record unparalleled in the world.

At the same time the system is never likely to be placed under more of a microscope. In addition to the CASA investigation of Ansett and its own internal inquiry and the ATSB investigation into CASA, the U.S. Federal Aviation Administration is due to make a regular audit of aviation safety administration in Australia this year.

Impulse Airlines: its executive chairman, Gerry McGowan, has accused CASA of treating major airlines more leniently than smaller carriers.

SriLankan looking for an MRO partner

By Tom Ballantyne

Colombo-based flag carrier, SriLankan Airlines, plans to make a serious foray into the third party engineering business within the next 12 months, probably through a joint venture with a major international maintenance, repair and overhaul (MRO) firm.

The airline's chief executive, Peter Hill, confirmed talks have taken place with Germany's Lufthansa Technik, U.S. giant GE and Cathay Pacific Airways' sister company, Hong Kong Aircraft Engineering Company (HAECO).

"The potential here is enormous because we have a very high skill base at relatively cheap rates," he said.

Hill believes airlines such as SriLankan would be attractive to "some of the big boys" as they sought more cost-effective ways to complete work.

SriLankan, in the midst of a business recovery plan following a part privatisation in 1998 – when Middle East carrier Emirates Airline took a 40% stake – is looking to "mix and match" some work with its Dubai-based minority partner. Both carriers operate Airbus jets.

"It makes sense for them to take on some of the heavy maintenance on certain types of aircraft and for us to maybe do the same for them on others," said Hill.

After disposing of its veteran fleet of Lockheed Tristars, the last of which left in late January, SriLankan has been embroiled in a complex fleet changeover, introducing Airbus A330s, which has seen the airline's seat capacity rise by 40% in 12 months.

"It was a massive changeover and I don't think many people realised the size of the undertaking," said Captain Richard (Dick) Hutton, chief technical officer (operations and engineering).

"Training aircrews and engineering personnel, upgrading ground handling equipment and flight dispatch, establishing engineering cover in outstations and flight dispatch, all were massive things to do in one year. I am proud of the work everybody has done here."

Hutton, a former Canadian Air Force pilot, holds an unusual position in terms of global airline operations; he is in charge of both engineering and flight operations.

"The philosophy emerged when Emirates arrived here. There had been a perception of a lack of communication between engineering and flight operations. There needed to be a better correlation and working relationship between the two," he said.

Hutton believes other airlines should seriously consider adopting the SriLankan model. "We are finding there is a very close integration between our performance monitoring people in flight operations and our projects and development section within engineering.

SriLankan Airlines: dramatic improvement in on-time performance

"The projects and development manager cannot do his job without the assistance of the performance guys in flight operations. It makes sense for it all to come under one manager."

The work pressure has not only involved the arrival of A330s. While this was going on, SriLankan engineering organised a complete refurbishment of the A340 fleet it has been flying since 1994. This included upgrading the IFE system. Work on the last aircraft was completed during December.

According to manager aircraft maintenance, Ian Dunning, the programmes placed a lot of pressure on his 1,200 staff, 450 of them trained technicians. But they responded magnificently to the challenge, he said.

Today SriLankan's on-time record, which had dipped as low as 55% in the Tristar days, is well above 90%.

One hundred and ten Sri Lankan Tristar pilots were converted to Airbus aircraft in a four-month period between November and March last year. "For a small airline that is a remarkable feat," said Hutton.

Aircraft utilisation has improved since Emirates entered the picture. The A340 now operates an average 14.7 hours a day, close to the highest in the world. The A330 flies 14.5 hours a day, significantly higher than the 13.8 hours the airline had expected. The short-haul A320 works around 7.5 hours a day.

"There were a lot of problems when I arrived at the airline, but none that were not fixable. The Sri Lankans had a good infrastructure in place that needed only a little fine-tuning for it to improve. There are some very capable people here, in fact some of the best I have known in the business," said Hutton.

"In engineering, they have all the right ideas. The airline was a little short on tools to do the job and a little short on management and organisational skills in my early days here. There is still some room for improvement, particularly in the areas of materials and logistics procurement," he said.

The airline's policy is to localise as much as possible. In flight operations there are 220 pilots, half of them local. The expatriates include about 40 Filipinos.

SriLankan has about 10 crews per aircraft, fairly high by international standards, but necessary because of the long-haul routes it flies. When another three aircraft join the fleet, probably in 18 months to two years, around 50 more pilots will be required. Eight Sri Lankan cadets are in training and 20 more will begin courses in 2001.

Healthy HAESL's model role

John Paterson, director and general manager of Hong Kong Aero Engine Services Ltd. (HAESL), acknowledges luck played as big a role as anything else in the engine overhaul company's ability to ride out what he describes as a "pretty savage downturn" in the aviation industry in the late 1990s.

HAESL, a joint venture between Hong Kong Aircraft Engineering Co Ltd (HAECO) (45%), Rolls-Royce (45%) and 10% investor Singapore Airlines Engineering Company Limited (SIAEC), was formed to provide local capability for Rolls-Royce customers in Asia.

Its base in Tseung Kwan O in Hong Kong's New Territories was chosen to avoid the high costs involved in operating at Hong Kong's new airport at Chek Lap Kok, which replaced Kai Tak in July 1998.

Cathay Pacific Airways has obviously been a core customer, which might have seemed a mixed blessing at a time when the carrier was enduring serious financial travails.

But, as Paterson pointed out, the blow was cushioned by the fact other carriers were coming on line with Rolls-Royce engines and, at the same time, HAESL's business in overhauling Rolls-Royce Trent 700 and 800 series engines was taking off.

"We were affected (by the downturn), but not in a particularly drastic manner," he said.

"Now we are quite well split between Hong Kong-based carriers and the third party market. It's fair to say that having a good broad range of customers is a pretty healthy situation to be in, not reliant on the ups and downs of one particular customer."

Cathay retired some of their aircraft earlier than they might otherwise have done, so that caused some short-term drop in business. But Cathay has also leased some older aircraft to other carriers and these aircraft's engines are being sent to HAESL.

He said HAESL's Trent engine business included work for Emirates, Singapore Airlines, Thai Airways International, Garuda Indonesia and Malaysia Airlines. "We cover everywhere from the Middle East to Australasia." He said business is also split between Trent engines and the RB211 series. The facility as well has the capability for IAE V2500 engines.

HAESL, which employs 650 employees, has started recruiting more staff, looking at hiring 30-40 this year, about the same as last year. "We are growing the business."

Paterson said HAESL had exceeded the expectations of its shareholders. A similar business model was being applied to a new joint venture, Singapore Aero Engine Services Ltd (SAESL), in which HAESL has a 20% shareholding, Rolls-Royce 30% and SIAEC 50%.

SAESL, which is expected to have similar customers to HAESL, is due to come on line in January 2002. "The idea is that we are trying to work together in developing capability where the market demands it. The aim is to increase capacity rather than increase competition," said Paterson.

Picano strengthens SR Technics' hand

When Erwin Stillhard was appointed SR Technics sole representative in the Asia-Pacific in 1996 it was seen as a gamble, writes Barry Grindrod. But being "on the ground" has paid dividends for the Zurich-based aircraft maintenance company and its Asia-Pacific executive director.

So much so that the company has appointed Frenchman Pascal Picano as SR Technics' sales and marketing man for China. A fluent Mandarin speaker, Picano previously worked with Snecma for five years in Beijing.

A third person is expected to join the regional team later in the year.

"Pascal has a wealth of experience in China and his main duty will be to further develop new business in China's aircraft maintenance market for SR Technics," said Still-hard. Picano will be based at the company's Hong Kong office.

SR Technics major customers on the mainland are China Northern Airlines, China Eastern Airlines (CEA) and flag carrier Air China. It carries out MRO work on Pratt & Whitney 4000, CFM56-5B -5C and -7 engines, component support and, for CEA major checks such as C- and D/4C checks of its widebody aircraft fleet.

Pascal Picano: new sales and marketing man in China for SR Technics

SR Technics executive director Asia-Pacific, Erwin Stillhard: negotiations underway with five mainland airlines

The company is in talks with five other Chinese carriers. "In the light of further consolidation in the Chinese airline market, we will, of course, focus our endeavours on potential future combinations," said Stillhard.

SR Technics has worked with a number of Asian airlines since the late 1960s. It started with Douglas aircraft and, in the mid-1980s, added Airbus to its portfolio.

In 1999, the company struck its largest deal in the region when it signed a 15-year power-by-the-hour contract with Cathay Pacific Airways to maintain its CFM56-5C4 engines which power its growing fleet of A340-300 jets.

SR Technics client list in the region has included Garuda Indonesia, Thai Airways International, Japan Airlines, China Airlines, Malaysia Airlines, Korean Air, Philippine Airlines and Biman Bangladesh Airlines.

Most recently it signed a maintenance agreement with China Airlines for the CFM56-7 engines that power its B737-800 aircraft.

Meanwhile, the Swiss company is still seeking a joint venture partner to set up a maintenance base in the region.

U.S. TRADE FIGURES SOUND A WARNING

Association of Asia Pacific Airlines (AAPA) members once again reported double-digit growth in passenger traffic in October. The consolidated revenue passenger kilometers (RPKs) and passengers carried (PAX) rose by 10.6% and 10.2% respectively compared to the same month in 1999. Seat capacity increased at the slower rate of 7.6%, which pushed the passenger load factor (PLF) up 2.0 percentage points to 74.5%.

Five airlines reported more than 10% RPK growth year-on-year – Vietnam Airlines (VN – 47.4%), China Airlines (CI – 44.7%), Garuda Indonesia (GA – 29.3%), Philippine Airlines (PR -26.3%) and Asiana Airlines (OZ – 11.3%). No airlines reported negative RPK growth.

PLF growth moderated in the month under review. Airlines that recorded significant PLF improvement in October were China Airlines (12.1 percentage points), Garuda Indonesia (8.4) and Vietnam Airlines (7.5). Four airlines registered load factors above 75%: Thai Airways International (TG – 77.8%), Singapore Airlines (SQ – 77.4%), Garuda Indonesia (76.5%) and Japan Airlines (JL – 76.3%). On the other hand, EVA Air's (BR) load factor dipped below 70% for the first time in 2000. Philippine Airlines and Royal Brunei Airlines (BI) also registered load factors of less than 70%.

Cargo Results

After 17 consecutive months of double-digit growth, freight traffic slowed considerably in October, with freight tonne kilometres (FTKs) increasing by only 3.9% year-on-year. Capacity rose 6%. This resulted in a freight load factor (FLF) of 70.3%, down 1.4 percentage points.

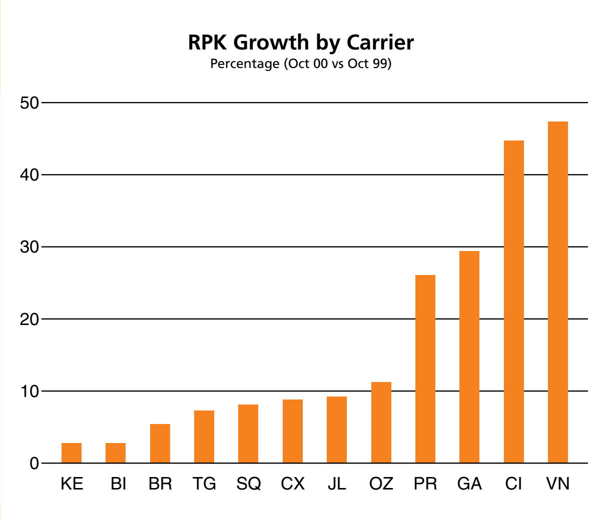
Only three airlines posted FTK growth of more than 10%: Philippine Airlines (21.2%), Vietnam Airlines (14.4%) and China Airlines (11.7%). Six carriers registered between 0.2% and 9.9% FTK growth. The three remaining airlines to submit figures posted negative growth of between 2.4% to 18.8%.

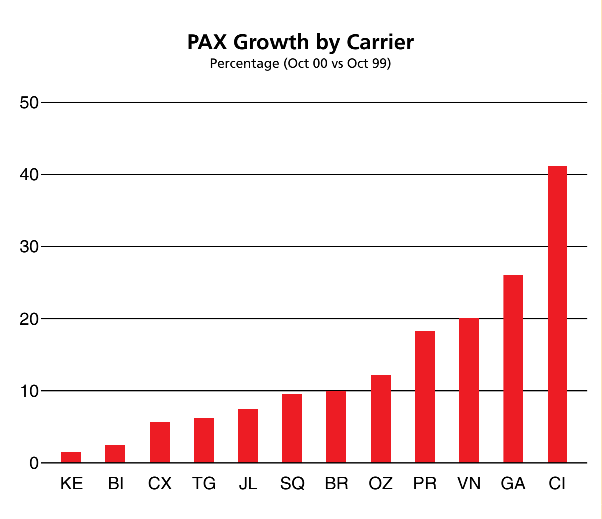
Only three airlines registered an improvement in FLF: Asiana Airlines (7.4 percentage points), Korean Air (KE – 2.8) and Philippine Airlines (2.0). Nine airlines suffered a FLF decline ranging from 1.2 percentage points (Singapore Airlines) to 23 percentage points (Garuda Indonesia). Five carriers managed a load factor of over 75%: China Airlines (82.1%), Asiana Airlines (79.8%), EVA Air (78.5%), Korean Air (75.6%) and Cathay Pacific Airways (CX – 75.2%). Four airlines recorded load factors of 50% or less.

Results of the 12 Months to October 31, 2000

The consolidated RPKs and the number of passengers carried for the period under review increased by 12.4% and 10.2%, respectively. Seat capacity rose by 8.3%, which resulted in a 2.8-percentage point improvement in load factor to 75%.

All carriers registered RPK growth during the 12 months to October 31. The majority posted impressive growth: Garuda Indonesia (57.0%), Philippine Airlines (49.0%), Asiana Airlines (22.7%), Vietnam Airlines (17.0%), Cathay Pacific Airways (12.6%), Korean Air





(12.1%) and China Airlines (10.0%). Singapore Airlines and Thai Airways International recorded 9.8% and 9.4% respectively. Japan Airlines posted 8.6%. EVA Air (3.6%) and Royal Brunei Airlines (1.2%) had the lowest growth.

Three carriers recorded more than five percentage points improvement in PLF during the twelve-month period: Garuda Indonesia (8.8-percentage points), Philippine Airlines (6.8) and Cathay Pacific Airways (5.7). Korean Air, by contrast, experienced a 1.0 percentage point fall in its load factor.

With the exception of Philippine Airlines (69.8%) and Royal Brunei Airlines (58.7%), all carriers managed a PLF in excess of 70%. The carriers to exceed 75% were Garuda Indonesia (79.3%), Vietnam Airlines (77.3%), Asiana Airlines (77.1%), Singapore Airlines (76.5%), Cathay Pacific Airways (76.2%), China Airlines (75.8%), EVA Air (75.4%) and Thai Airways International (75.3%).

Cargo Results

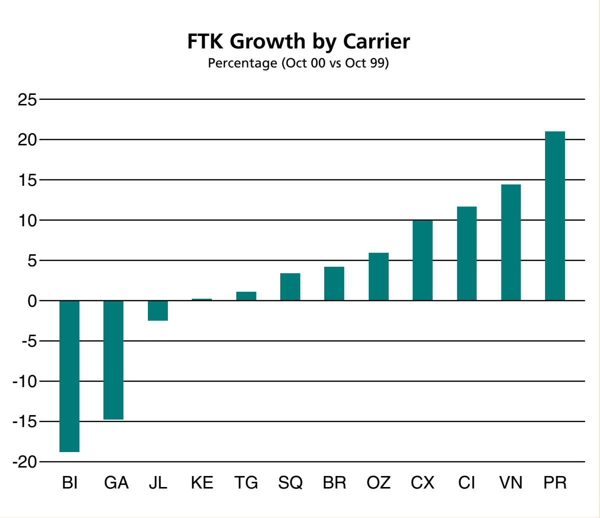
The consolidated FTKs rose by 14.8% while capacity increased by 13.8% for the twelve-month period. This resulted in a 0.6 percentage point increase in load factor to 70.4%.

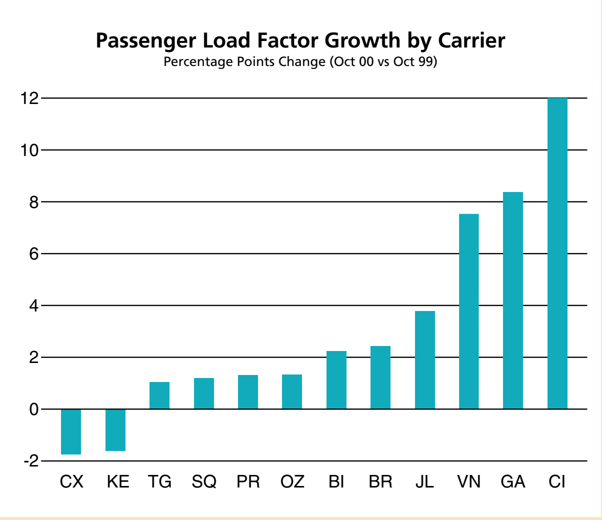
The majority of the carriers benefitted from bullish world trade driven by the U.S. economy during the previous 12 months achieving strong traffic growth. Philippine Airlines (42.4%), Vietnam Airlines (28.5%) and China Airlines (27.4%) achieved the highest growth.

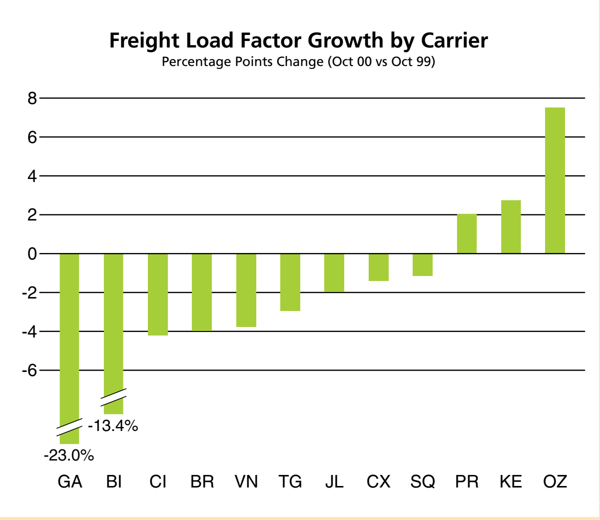
Cathay Pacific Airways (3.5 percentage points) showed the largest improvement in FLF. EVA Air came next with a 2.7 percentage point rise in load factor. However, three carriers experienced negative FLF growth during the twelve-month period.

China Airlines (84.0%) posted the highest FLF. Its Taipei-based

Asiana Airlines: one of only three airlines to record a freight load factor improvement in October







Vietnam Airlines: over 47% growth in RPKs year-on-year

international rival, EVA Air (80.9%), and Korean operators, Asiana Airlines (76.9%) and Korean Air (76.6%), were the other carriers with the most impressive load factors.

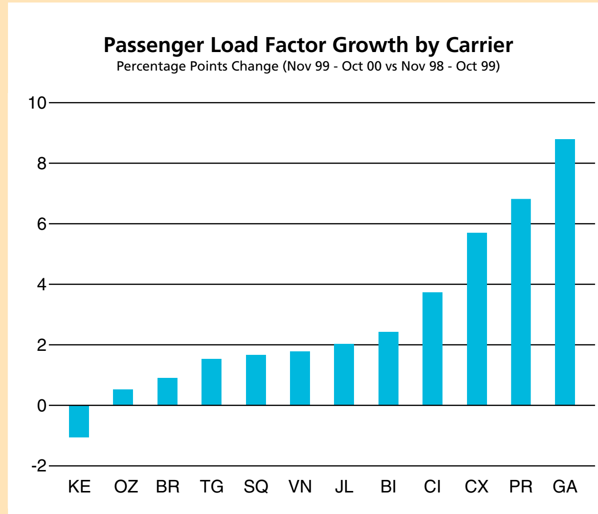
Summary

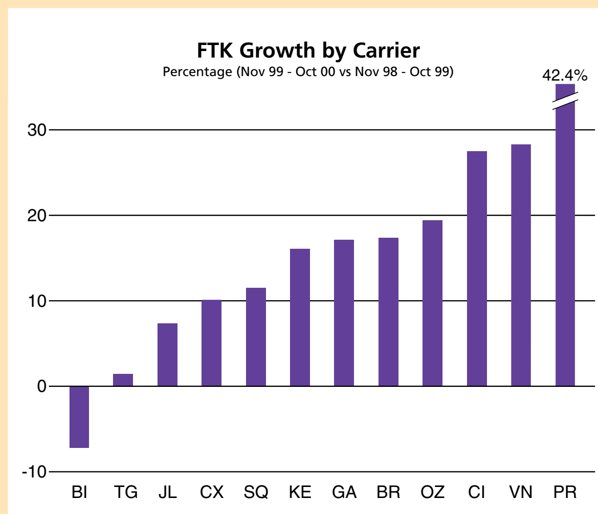
October started the last quarter of Year 2000 with mixed traffic results in passenger and freight. Passenger traffic maintained its strong growth with both revenue passenger kilometres and passengers carried exceeding 10% growth.

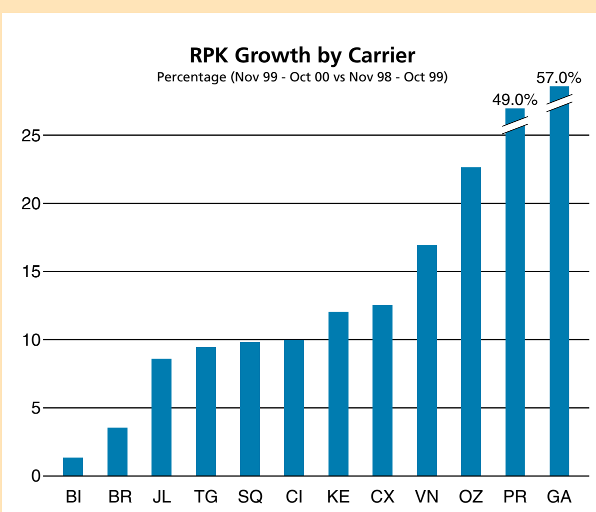
The freight traffic results, however, told a different story. After an unprecedented run of double-digit growth over 17 months, FTKs experienced subdued growth of less than 4% year-on-year.

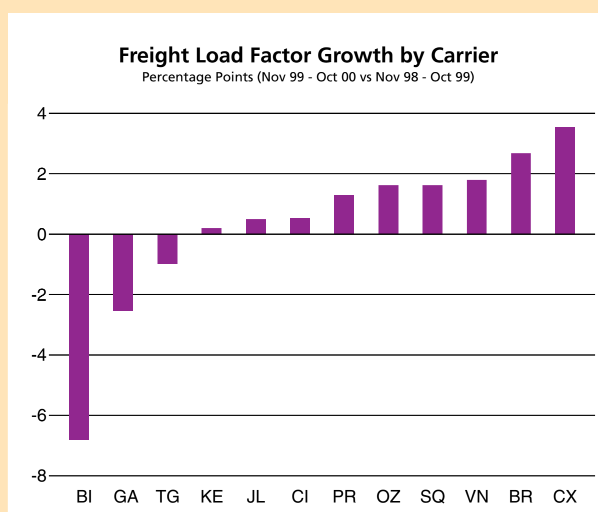
The indication is the bullish trade market that spurred the growth has eased off significantly. Confirmation of this came from the U.S. Commerce Department, which reported that the country's economic growth had decelerated in the third quarter to 2.4% – the lowest rate in four years – as compared to 5.6% in the second quarter. Imports slowed and this adversely affected countries in the Asia-Pacific for which the U.S. is their prime export market.

Although passenger and freight traffic continued to register load factors above 70% this may soon change if traffic demand begins to ease and capacity continues to expand at the present rate.

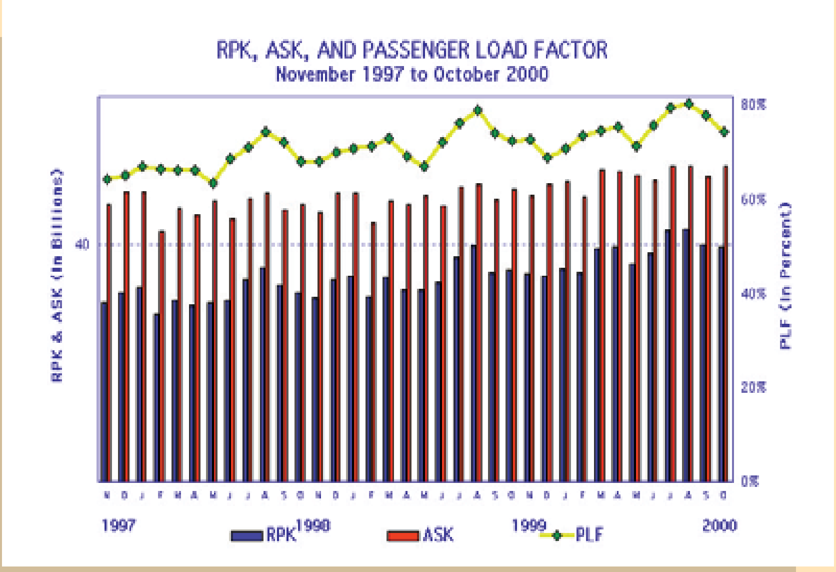


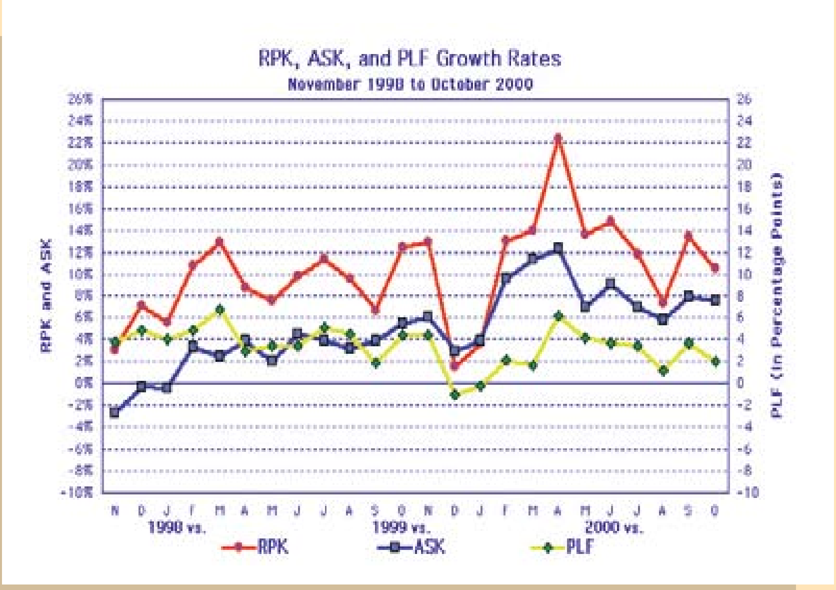




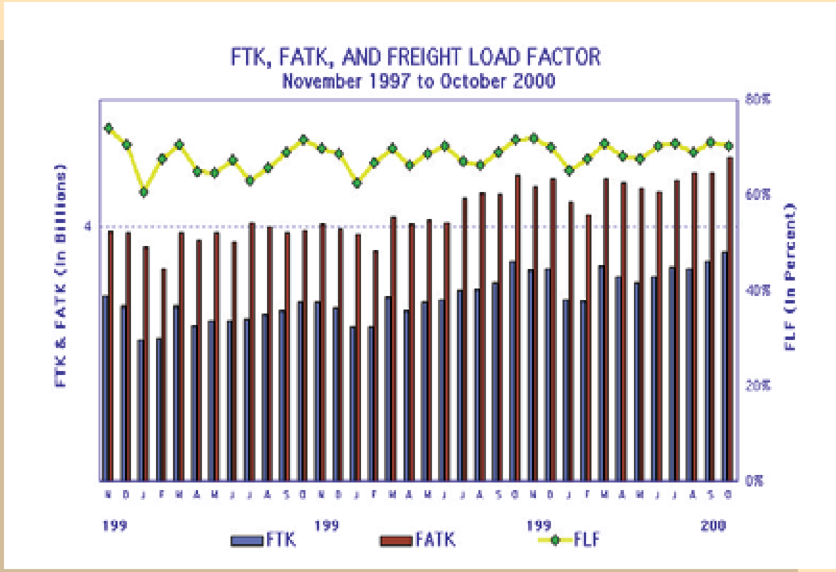


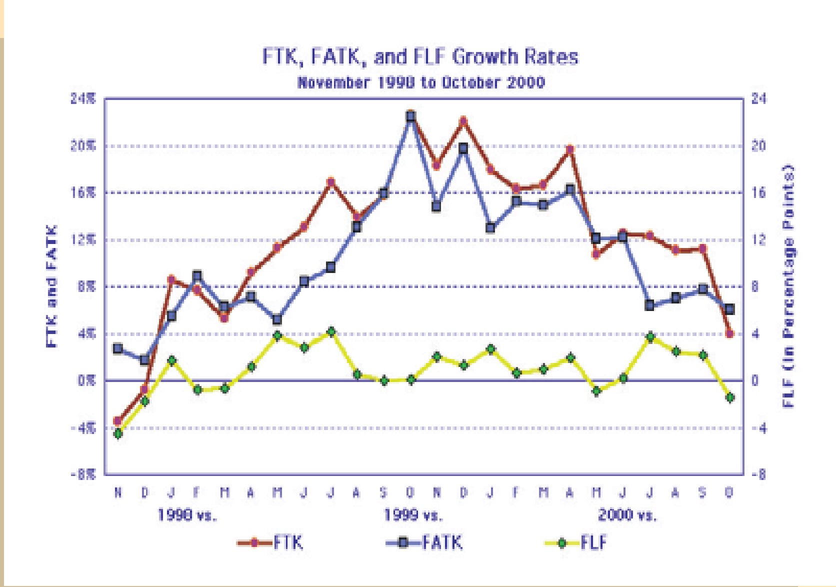
Monthly international PAX statistics of AAPA members





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)
OCT-00	39,557,848	53,125,430	74.5	3,587,007	5,100,237	70.3	7,297,198	9,971,150	8,823
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
NOV-99	35,001,965	48,164,824	72.7	3,322,652	4,628,269	71.8	6,614,490	9,048,863	7,939
TOTAL	459,473,717	615,122,241	74.7	38,955,066	56,077,234	69.5	81,976,881	112,420,243	102,280

1999 to 2000

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
OCT-00	10.6	7.6	2.0	3.9	6.0	-1.4	7.0	6.7	10.2
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
NOV-99	12.9	6.0	4.4	18.3	14.8	2.1	16.9	11.6	11.7

Calendar Year

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
2000[5]	389,859,390	516,846,963	75.4	32,306,680	46,702,655	69.2	68,789,313	94,032,652	86,393
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

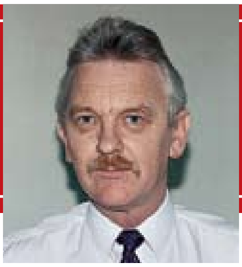
Calendar Year

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
20006	12.3	8.1	4.2	12.8	10.8	2.0	12.8	9.3	10.3
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 - Oct 2000 are subject to revision as actual data for QF (Jul 2000 - Oct 2000), AN (Oct 2000) and NH (Oct 2000) are not available.
3. KA and NZ do not participate in this report.
4. AN data from Jul 1998 onwards. VN data from Jan 1998 onwards.
5. CY denotes Calendar Year (January - December). Year 2000 to date - From Jan 2000 to Oct 2000.
6. Year-on-year comparison: Jan - Oct 2000 v. Jan - Oct 1999

A NEED TO KNOW MORE



TURBULENCE

By Tom Ballantyne

Dealing with a passenger death on flights is nothing new for airlines, particularly during long-haul trips. For some people, especially the elderly, flying can be stressful as well as exciting.

However, airlines are being forced to refocus their attention on passengers' inflight health following widespread publicity about Deep Vein Thrombosis (DVT), which has been tagged "economy class syndrome" by the media.

The contention is that circulatory disorders, and in some cases deaths, have occurred among passengers following blood clotting after long hours of inactivity in the air.

There is nothing new in the issue. Stories have appeared in newspapers over many years about unfortunate travellers struck down by DVT. It has suddenly leapt to prominence again following several high profile incidents of DVT.

Indeed, international carriers, including those around Asia, are now hurriedly introducing in-seat exercises and advice to help combat DVT.

It's not surprising given the threats of legal action and the possibility of multi-million dollar compensation pay-outs.

The nub of the issue is whether airlines have done enough to warn their customers of the risks. DVT has become a serious issue and airlines must re-evaluate their approach to something that has, to a large extent, been swept under the carpet.

Many airlines, including several in the Asia-Pacific, have already announced they will print DVT warnings on tickets. Other measures include brochures to be handed out to passengers when they purchase a ticket and increased emphasis on the problem through articles in inflight magazines.

Airline managements need to keep several things in mind as they strive to counter claims by some people that they are more interested in packing as many passengers as possible into aircraft cabins rather than caring for their well-being inflight.

From a legal standpoint a warning on the ticket is probably one solution, but it does not really solve the problem. How many people read the fine print on their ticket? Hardly anybody, I would think.

So airlines have a moral as well as a legal responsibility here.

It may be overstating the situation to suggest if they do not handle this properly governments might step in and order them to print cigarette-style health warnings prominently on the front of tickets.

Singapore Airlines (SIA) demonstrated just how seriously the airline industry is taking the subject when it announced in January it would introduce an information brochure on healthy air travel when customers book tickets. "We recognise international public concern about the DVT issue," said Yap Kim Wah, senior vice-president for marketing services.

'From a legal standpoint a warning on the ticket [about the threat of DVT] is probably one solution, but it does not really solve the problem'

SIA claims to be the only major airline currently providing passengers with health information through inflight video. If it is, it will not be for long. Air New Zealand and Ansett are jointly working on producing a short in-flight video on the subject. In January, Thai Airways International also announced it was making onboard exercise the subject of an inflight video although DVT was not specifically mentioned.

A large number of other regional majors, including Qantas Airways, Cathay Pacific Airways and Japan Airlines, have also made it clear they are taking steps to do more to warn passengers about possible health risks when flying.

There is a touch of irony about the emergence of the recent publicity on DVT. Passengers probably have more leg room now than they had 10 years ago, particularly in the business and first classes, thanks to new ergonomically designed seats on which airlines have spent millions of dollars. A lot more money has been invested in improving inflight service and planemakers have made huge strides forward in re-designing aircraft cabins to make them more spacious.

Nevertheless, DVT is not going to go away. Perhaps this is an issue that warrants a joint approach by airlines to bring some uniformity to the way passengers are informed of the potential risks of inactivity on long flights.

Should information about health risks and the need to have some form of exercise while flying be part of the emergency procedures demonstration at the beginning of each flight?

Videos included on the inflight entertainment system are all very well, but they can be a little like printing a warning on the ticket. Passengers may not necessarily take any notice.

Something else needs to be done. The evidence that DVT is a major problem remains largely anecdotal, although the number of alleged cases points to a strong likelihood the issue is very real.

Airlines should get together – perhaps through the International Air Transport Association (IATA) – and fund a world-wide study to prove the statistical case and look at remedies.

There is no point conducting such a study on a regional basis because it is a universal issue. In other words, airlines need to do far more than simply meet their legal obligation to inform passengers. They need to take on the moral responsibility of ensuring, as far as they can, the continued health of the people in their care while they are occupying an aircraft seat.