VOL. 8 NO. 3 DEC 00/JAN 01

Orient aviation

MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

ORIENT AVIATION PERSONALITY OF THE YEAR

The Turnbull Touch

Cathay Pacific's 'Midas' turns its fortunes around

Profit bonanza for AAPA airlines

Review 2000

Interviews with Boeing chief Phil Condit and SriLankan CEO Peter Hill, a man on a mission

TOP AWARDS FOR *Orient Aviation's Ballantyne*

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Cathay chief sees good times return

Photo: David Hallett

BPA INTERNATIONAL ®

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A 16-page pullout dedicated to onboard services and technology. In this issue: New Ansett International boss says service won't suffer despite ownership change; Swissair brings its new first class to Asia; inflight service winners in 2000; Inflight Asia 2000 – winners and the also-rans; Network news, people moves

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WHAT A SCORCHER

It's that time of year again. The time when, traditionally, we all look back on the last 12 months and, as the new year approaches, reflect on the last one.

It seems like only yesterday that we were using such emotive headlines as "What a Shocker" to describe the fiscal performances of airlines in the Asia-Pacific region in the depth of Asia's economic recession.

It was, in fact, two years ago and at the time not even the bravest pundits could see any light at the end of what appeared to be an interminably long tunnel.

Who would have thought that in just 24 months the Association of Asia-Pacific Airlines members would have turned a US$1.2 billion loss into collective profit of US$1.88 billion?

Who would have thought that from cancelling or putting aircraft deliveries on hold a couple of years ago, the region's airlines would once again be the darlings of the aircraft manufacturers? Patience and understanding in Seattle and Toulouse is now reaping them rich dividends.

None more so than Airbus Industrie, which has signed up Singapore Airlines and Qantas Airways as launch customers for the all new A3XX behemoth.

For "What a Shocker" now read What a Scorcher!

Why such a dramatic change? Well, the economies of the region have improved, but more than that the airlines experienced a massive learning curve. Managements, for the most part, acted quickly and astutely during the downturn although major, painful surgery, which cost thousands of people their jobs, was inevitable. But, as they say, no pain, no gain.

In mid-1998, *Orient Aviation* polled the chief executives of the AAPA membership and asked them how they saw the future. Most said the airlines would emerge better and stronger from the experience.

Rod Eddington, now head of British Airways, but then executive chairman of Ansett Australia and a former managing director of Cathay Pacific had this to say: "The well managed airlines will do it (the crisis) tough but they will survive without any problem."

All hit the nail on the head, but even they must have been pleasantly surprised by the speed of the recovery.

Now, as we report in this issue, there is promise of even better times ahead. On that optimistic note, Orient Aviation would like to wish all its readers a very merry Christmas and a happy and successful 2001.

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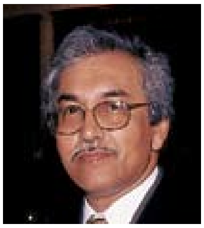
OFFICIAL: Malaysia Airlines' (MAS) Datuk Bashir Ahmad, one of three senior vicepresidents at the Malaysian flag, is set to be the head of MAS. The 25-year MAS veteran has been running the airline in all but title since the premature resignation of managing director Wan Malik, in 1999 and insiders are not surprised at the announcement. At press time, the Malaysian Government was preparing to buy the 29% share of the airline owned by Naluri Bhd, the holding company of present MAS chairman and majority shareholder, Tan Sri Tajudin Ramli (see p. 10) and then sell on the equity to foreign investors. The canny Naluri boss, who has publicly admitted he has no money, wants the government to buy back his 29% MAS share for the same price he paid for it in 1994 – 1.79 billion ringgit (US$471.1 million) or eight ringgit per share. MAS was sitting sullenly at 3.06 ringgit a share on the Kuala Lumpur Stock Exchange in late November.


Datuk Bashir Ahmad

PERSPECTIVE

DOUBLE SHUFFLE: New bosses have been installed at both Air China, the nation's flag carrier, and China Southern Airlines, the country's largest airline. President and pilot, Capt. Wang Li'an, who was brought from China Eastern to Air China, via the Civil Aviation Administration of China (CAAC), to improve the efficiency of the moribund carrier, was replaced by Wang Kaiyuan, a former vice- director of the CAAC. At the same time, senior Communist Party official, Li Jiaxiang, took over from the airline's top party official, Yuan Yaohui. Capt. Wang has not reached retirement age and is credited with turning around Air China in the two years of his reign. One media report said junior Air China officials had been accused of illegal activities and the top brass took the blame.


Wang Kaiyuan

Down south at China Southern Airlines (CSA), in prosperous Guangzhou, the reshuffle at the top, which resulted in the appointment of Wang Chang (42) as boss of the country's most aggressive carrier, stunned observers – and many senior managers in the airline.

Wang, formerly a vice-president of China Xinjiang Airlines and also the vice director general of the Urumqi Provincial Administration of the CAAC, replaced Yan Zhi Qing who will become president of CSA's umbrella company, the Southern Airlines Group and will remain a member of CSA's board. China Xinjiang Airlines, the far western Chinese airline is one of seven carriers ordered by the Beijing aviation authorities to merge with one of the three big airline groups, CSA, China Eastern Airlines and Air China. In the same clear out, legendary Capt. Yu Yanen, (64), relinquished his role as chairman of the group before he reached official retiring age.

On paper, Wang's official pedigree appears impeccable. A product of the post-graduate faculty of the China Social Science Institute, he has spent 25 years in aviation including running several government aviation services divisions before he moved to Xinjiang Airlines.

GROUNDED: Politics have stalled the plans of Taiwanese flag carrier, China Airlines (CAL), to buy a 25% stake in China mainland carrier, China Cargo Airlines, according to airline sources. Majority owned by Shanghai-based China Eastern Airlines, a spokesman for the cargo airline confirmed to the official Chinese media that CAL talks to buy the stake were "on hold". It has since been revealed that CAL has not filed any applications with the necessary government agencies to seek approval for the purchase. Meanwhile, leading Taiwan industrialists – mainly supporters of the anti-Communist Kuomintang political party – continue to call for erosion of Taiwan's bar on direct trade and investment in China. It is a policy shift, supported in principle by Taiwan's Chen Shui-bian the nation's [relatively] new president and the leader of the Democratic Progressive Party. Chen's party, perceived by Beijing as eventually leading Taiwan to political independence, ended five decades of Kuomin-tang rule in the island state when it won the national elections earlier this year.


CSA's Capt. Yu Yanen

Separately, the Chinese Government is finalising procedures to allow China Cargo Airlines to become the fourth mainland carrier to fly between China and the U.S.A Civil Aviation Administration of China (CAAC) spokesman said official documents for granting of the licence have not yet been completed but he added "the final announcement should be soon".

FAIR TREATMENT?

Following a week of committee meetings in November in Singapore, the International Federation of Airline Pilots Association (IFALPA) issued a statement which said its members "are particularly concerned with the status of the flight crew of SQ006 – a Singapore Airlines' B747-400 aircraft that crashed on take-off on October 31in Taipei with the loss of 83 lives.

"While they [the pilots] understand the government of Taiwan has an obligation to fully investigate this accident, they also believe that the continued detainment of the crew in Taiwan with the threat of prosecution does not serve to further the investigation of the accident," the statement said.

The association said the SQ006 cockpit crew should be allowed to return to Singapore and their families. "At the conclusion of the investigation they may return to Taiwan at the sole request of the Government of Taiwan," the statement concluded. On November 24, Ms. Lee Suet Yee, a passenger on SQ006, died in hospital in Taiwan, bringing the number of deaths from the crash to 83.

REGIONAL ROUND-UP

Air Niugini seek Qantas as partner in privatisation plan

Troubled Papua New Guinea (PNG) flag carrier, Air Niugini (ANG), has opted for a fast track to privatisation, annou-ncing an ambitious plan to sell a major stake to a strategic foreign airline partner within four months. While no one is commenting officially on who might be a preferred buyer, sources close to the sale suggest the PNG Government is keen to see Australia's Qantas Airways take part in the bidding.

Other potential buyers being mentioned privately are Singapore Airlines, Air France and Taiwan's EVA Air. Air France has a deep interest in South Pacific aviation through links with French territories in the region. Australian Peter Roberts was recently appointed chief executive at ANG, the first expatriate to take the helm 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 revive ANG's airline fortunes. The carrier filed for bankruptcy in 1998 during Asia's economic downturn and after a dramatic fall in the local currency, the kina.

No decisions have yet been made on the size of the stake that will be made available to a strategic airline partner. It will be under 50% with other shares being made available to PNG interests and ANG employees. Sources suggest the government is extremely interested in an arrangement similar to that involving Qantas and Fiji's Air Pacific. In that case, Qantas holds around 46% of Air Pacific and works closely with the Fiji carrier on its regional network. The two operate code-share services and Qantas has leased aircraft to Air Pacific.

ANG has 1500 employees and operates a single Airbus A310, three Fokker F28-4000s, five Fokker F28-1000s and one De Havilland Dash 8-200 to five overseas destinations – Singapore, Honiara, Manila, Brisbane and Cairns – and 20 domestic ports.

Shanghai Airlines to list?

Shanghai's second carrier, Shanghai Airlines, which includes the Bank of China in its list of six investors, is reported to be preparing to go public in 2001. Mainland newspaper, *Jiefang Daily*, said the *Civil Aviation Administration of China (CAAC)* had approved the carrier's request to list. The 15-year-old carrier has been unsympathetic to the CAAC's policy on mergers of mainland carriers, but it has been reported its management has agreed to some compromises on its future. Among them was a November agreement to share frequent flyer programmers with Beijing based Air China. A merger of Shanghai Airlines and Air China has been mooted because Air China is seeking a stronger presence in China's most glamorous city, but Shanghai Airlines insists it is "too early" to discuss mergers with other mainland airlines.

Shanghai Airlines: plans to list in 2001?

MAS and Northwest antitrust immunity

The U.S. Government has approved antitrust immunity for partner Northwest Airlines and Malaysia Airlines (MAS). The decision will allow a Northwest flight code to appear on MAS services on the Kuala Lumpur-Los Angeles route from January 1. Northwest designations will also be listed on MAS crewed flights from Tokyo and Nagoya in Japan to Kuala Lumpur. From September 1999, MAS and Northwest codeshared on Malaysia to U.S. flights and operated reciprocal benefits for frequent flyers.

AirNZ spreads wings

From April 1 next year, Air New Zealand (AirNZ) will expand its services to Europe via its Star Alliance partners, Singapore Airlines and Lufthansa German Airlines and increase its capacity to Japan and North America. The carrier also will cancel the AirNZ service from Los Angeles and Frankfurt on the same date. The new AirNZ summer schedule is the first announcement of a revision of the Auckland based carrier's services since it bought out Ansett Australia and Singapore Airlines bought an 25% share in an expanded AirNZ-Ansett partnership.

Let them privatise

India's national government announced in November it will sell 60% of international carrier, Air India, and 51% of government owned Indian Airlines by March 2001, as part of a government plan to unload 58 government controlled – and inefficient – state enterprises. At the same time the government gave its ringing endorsement to the establishment of two new domestic carriers, Crown Air and Royal Airways, and said another start-up Northstar, is set for lift off.

Battle to buy regional carrier Hazelton Airlines

After Ansett Holdings bid to buy eastern Australian regional carrier, Hazelton Airlines, for 0.90 Australian cents (0.46 U.S. cents) per share was rejected by the regional carrier's board, Qantas Airways countered with a $1.20 offer per share which the airline board accepted. A day later Ansett, which already owns 20% of the rural-based carrier, announced it would maintain its commitment to buy the remaining 80% of Hazelton which it does not own and will respond to the Qantas offer once it had the opportunity to consider the terms of that offer and related statements of Hazelton directors".

BRIEFLY...

AIRPORTS....Hong Kong International Airport (HKIA) has announced it will extend its present 15% discount on landing charges and related fees to January 2002. The HKIA also said it would reduce airline landing charges for the first 12 months by 50% and by 25% the following year for carriers operating new services from the airport. In 2001, HKIA will become the first Asian airport to install the Precision Runway Monitor, which is predicted to facilitate take-offs and landings every 60 seconds. Macau Airport chairman, Joao Sousa Moreira said in November that the enclave's airport would lose between 30-40% of its traffic if direct flights between Taiwan and China commenced. Transit passengers between Taiwan and China make up the bulk of the passengers using the five-year-old airport. Reportedly under pressure from the nation's monarch King Bhumobil Adulyadej, the first tenders for the New Bangkok International Airport will be put out next March – for the passenger terminal and concourse. The king also changed the airport's name from Nong Ngu Hao (Cobra Snake Swamp) to Suvarnabhumi Airport because he said the former name was too difficult to pronounce for foreigners.

ACQUISITIONS & LEASES... South Korea's Asiana Airlines has accepted its first V2500-powered A321 from U.S. based leasor, CIT Aerospace. Bangkok Airways became the first Asian carrier to operate the B717-200 when the aircraft joined the Thai regional carrier's fleet in November. A second B717 will be delivered to Bangkok Airways, Thailand's first private airline, next April. Cathay Pacific Airways has sought Requests For Proposals from Airbus and Boeing by December for up to 30 airplanes, including the new Very Large Aircraft. The Indonesian Airworthiness Authority has granted approval to PT Indonesia Air Transport, to operate the Fokker 50 turboprop aircraft. The domestic carrier has leased two F-50s from Irish lessor, Pembroke. Japan Airlines (JAL) will dispose of its 10-strong MD-11 fleet between 2002 to 2004 and replace them with Boeing extended range aircraft – two B767-300ERs and eight B777-200ERs, valued at US$1.6 billion. A JAL Group statement said the fleet replacements would improve group cash flow by ten billion yen, reduce its number of aircraft types and increase cockpit commonality across the JAL fleet. In the same statement, JAL said it would announce new fleet acquisition plans in the first quarter of 2001. Boeing will take the MD-11s and convert them to freighters for United Parcel Service. Vietnam Airlines signed a Letter of Intent in November to buy up to three extended ranges B777-200s at an estimated value of US$480 million. The airline also renewed the leases on three B767-300s, which the carrier has been operating since 1995.

CHINA... Fairchild Dornier, which has sold 12 328 commuter jets to China's Hainan Airlines, and has orders for seven more plus 20 options, will open an office in Beijing by year end to co-ordinate sales and customer services for its mainland clients. Rival Embraer set up a Beijing representative office in September. Pratt & Whitney engines have won a US$50 million contract from Air China to repair and overhaul the engines of the carrier's B747-200 and B767-200 fleets. Work will be carried out in P & W's Connecticut facilities in the U.S. British engine-maker, Rolls-Royce, is discussing proposals to be the engine supplier for China's proposed 50-60 seat commuter aircraft. China's major carriers, Air China. China Eastern and China Southern expect to pay an extra 400 million yuan (US$48.1 million) in fuel costs in 2000, according to official Chinese media reports.

FINANCIAL NEWS... Despite a downgrading by Standard & Poors (S&P), from a long-term Triple B-Minus to a Double B-Plus, following its purchase this year of the 50% of Ansett it did not own, Air New Zealand said its business is on track to generate its forecast benefits. A company statement pointed out

Ballantyne tops

Orient Aviation's chief correspondent, **Tom Ballantyne**, clinched the two top prizes at the **Australian Aviation Insurance Group's** Aviation Story of the Year awards in Sydney in December. Ballantyne was named Aviation Journalist of the Year for a series of cover stories in *Orient Aviation* on a range of issues including safety, liberalisation and the impact on airlines of high fuel prices.

The judges said he "demonstrated the greatest consistency and repeatedly produced articles of depth and intelligence about relevant aviation issues" in a category that was "extremely competitive with a high standard of entries". Ballantyne, who collected cheques totalling A$4,500, also won the Aviation Story of the Year for contributions to *The Bulletin* weekly news magazine. In the last three years, Ballantyne has won once and been short-listed twice in the **Royal Aeronautical Society's** aviation journalism awards with submissions from *Orient Aviation*.

the airline ranked sixth among the 20 airlines assessed by S&P and said its credit outlook had been removed from Creditwatch negative to stable. China Airlines (CAL) raised its 2000 pre-tax profit forecast to US$93.9 million, up 34% from its previous forecast. Abulgani, the boss of state-owned Garuda Indonesia told the nation's parliament be expected the airline to mount its Initial Public Offering (IPO) in 2003. Garuda has an estimated debt of US$1.6 billion, which is due to be restructured by year-end. Japan's two major international carriers put in strong performances mid-term in the financial year, despite surging fuel costs and a rising national currency. All Nippon Airways (ANA) reported a net profit of 31.9 billion yen (US$289.6 million) for the six months, compared to a 15.2 billion yen loss in the last full fiscal year. The Japan Airlines Group profit for the same period was 42.4 billion yen, more than twice the amount of the full year profit of 19.7 billion yen in 1999. JAL reported considerably improved demand for business class travel, which had been in decline, and an upturn in tourist travel. ANA said overall business class travel increased by 30% over the same period last year. Analysts are predicting Malaysia Airlines, on the anticipated verge of an ownership change, will report a loss of up 600 million ringgit (US$157.9 million) this year, compared to a deficit of 200 million ringgit in the 1999 fiscal year. In November, MAS announced a net loss of 398 million ririggit for the six months to September 30, compared with a 275 million ringgit profit in the same

Hazelton Airlines: Australia's Ansett and Qantas bid for the rural regional carrier in buy out

period last year.

ROUTES... Near neighbours, All Nippon Airways (ANA) and Korea's Asiana Airlines plan to operate code-shares from four Japanese cities that will link into international flights operated to Korea by Asiana on 84 services a week from December 27, pending Japanese regulatory approval. China Airlines (CAL) started a five times weekly scheduled service from Taipei to Medan and Penang in Malaysia on October 29 and has launched passenger charter services to Delhi, India and Hakodate in Japan. Korean Air (KAL) and Italy's Alitalia, which have had a code-share agreement since 1993, will increase their service between Seoul and Rome to three flights a week in December. Philippine Airlines resumed a four times a week service to Jakarta, Indonesia, via Singapore, in December after a 30-month break. Star Alliance carriers, Air Canada and Singapore Airlines commenced a code-share from Singapore to Toronto – via daily services to London and three times weekly flights through Copenhagen. Taiwan's aviation authority has granted approval to increase the number of domestic flights to Kinman Island near China, from 98 to 126 a week. The island, which is fortified by Taiwanese troops, is slightly more than three kilometres from Xiamen, the capital of Fujian province, China. Three airlines, UNI, TransAsia Airways and Far East Air Transport operate flights from Taiwan to Kinman. Vietnam's Pacific Airlines, which has had a rocky struggle to survive since the Asian recession struck in 1997, has re-launched its twice weekly services to Danang, Central Vietnam, from Hong Kong.

CARGO ROUND-UP

China Cargo Airlines, 70% owned by Shanghai-based China Eastern(CEA), is on the verge of winning clearance to become the fourth Chinese operator and the country's only all-cargo carrier to win clearance to operate services to the U.S. A spokesman for the airline said it was about to be granted a flight operating licence by the Civil Aviation Administration of China (CAAC), which will allow it to fly as an independent airline on its own routes. Until now it has only been allowed to service routes belonging to parent CEA. It expects official endorsement to fly to the U.S. before the end of December. China and the United States signed a three-year aviation pact in April last year. It allows each country to add a fourth carrier by April 2001. United Parcel Service has already been named as the fourth U.S. carrier to serve China. CEA, China Southern Airlines and Air China are the three Chinese carriers that presently fly to U.S and the three U.S. carriers serving Mainland China are Northwest Airlines, United Airlines and Federal Express.

In a survey recently published by *Cargonews China*, Shanghai emerged as the top Chinese airport for cargo and parcels in 1999 and Air China carried the most cargo and parcels in the same period.

THE AIR INDIA (AI) board is considering a return to the cargo business, with a proposal before it to acquire at least two cargo aircraft. The national flag carrier abandoned freighter operations in 1996 as losses mounted in its freight division. The acquisition of aircraft for the proposed service would be on an ACMI (aircraft, crew maintenance and insurance) lease basis, using aircraft with a capacity of not more than 60 tonnes. Initially, freighter services would target Europe and possibly the U.S. at a later date. AI currently holds around 13% of India's air cargo market using belly space in its fleet of 23 passenger jets, which offer a total capacity of 1, 000 tonnes a week.

KOREAN AIR (KAL) will buy two more Boeing B747-400F cargo jets, in line with plans to modernise its total freighter fleet. Costing around US$190 million each, the B747-400F carries around 120 tonnes of freight. KAL, the world's second largest air cargo operator, purchased two B747-400Fs earlier this year and plans to buy two more next year. Eventually it will replace all of its 16 older cargo planes with the latest Boeing model.

UNITED PARCEL SERVICE has increased its world flights to enhance services between the U.S. and growing markets in Europe, the Middle East and Asia, a move designed to enhance service reliability and reduce transit times. It added two additional weekly frequencies November using Boeing B767 freighters.

Meet the press: AAPA bosses (from left to right) Cathay Pacific Airways chief operating officer Philip Chen, AAPA director general Richard Stirland, Air New Zealand executive chairman Sir Selwyn Cushing, Garuda Indonesia president Abdulgani, Philippine Airlines president Avelino Zapanta and Malaysia Airlines' Bashir Ahmad answer questions after the Assembly of Presidents in Auckland, New Zealand

AAPA airlines make "brilliant" recovery from Asian recession

PROFIT UP 398%

By Barry Grindrod

Remarkable; that's the only word to describe the recovery of the 18 member carriers of the Association of Asia Pacific Airlines (AAPA) in the 1999-2000 financial year.

The collective after-tax net profit of AAPA members was US$1.88 billion. This represents almost a four-fold increase (398.1%) over the 1998-99 net profit of $378 million.

Operating profit was up 187.5%, to $2.75 billion, from $955 million in the previous year.

It was only two years ago that the headline in *Orient Aviation* read: "What A Shocker". Asia's economic crisis had bit hard. Political unrest, health scares and ecological disasters in the region added extra misery when AAPA airlines suffered a massive combined $1.21 billion net loss.

The AAPA annual report said net income for the last year had exceeded the highs of the mid-nineties and that operating profit had reached pre-recession levels.

"The improved performance was attributable not only to the recovery of Asian economies, but also to the success of implementing cost controls that are reflected in a tremendous increase in staff productivity," said the report.

Fourteen of the 16 AAPA airlines participating in the report (Air New Zealand and Dragonair did not contribute) made an operating profit. The exceptions were Malaysia Airlines and Royal Brunei Airlines. The two Japanese member carriers, Japan Airlines and All Nippon Airways, recorded an operating profit, but posted a net income loss.

The AAPA director general, Richard Stirland, said member airlines had made a "brilliant recovery" from the downturn of 1997-98.

"The seeds of recovery were being sown at the very instant the crisis was at its worst," he wrote in the annual report.

"As for learning lessons from the crisis and their application leading to the favourable results of 1999-2000, it would be nice to think this was the case. But the reality is that airlines and their varying fortunes are creatures of far greater forces. Their success or failure is ineluctably bound up with that of the countries they serve, or where they are based.

"This is not to deny the vital role of good management. The fact that Asian carriers had sound fundamentals, sensible route networks and modern aircraft fleets, plus managements that kept their nerve during the downturn and took the longer view, were enormously important in ensuring that when growth resumed, the airlines were able to respond to it and satisfy demand."

The recovery in global air traffic in general, and the Asia-Pacific region in particular, coupled with a strengthening of currencies, resulted in a 14.3% rise in combined operating revenue among AAPA member carriers to $50 billion in the 1999-2000 financial year from $44.4 billion in the previous year. This compared to a 14.9% decline in 1998-99.

However, $50 billion was still just under $4 billion less than the operating revenue recorded in 1996-97, the year before the recession struck.

Currency appreciation accounted for 61% of the increase in operating revenue in 1999-2000. Only Ansett Australia and Garuda Indonesia had a fall in operating revenue.

The yield in the last financial year improved 1.9% from US$0.57.5 cents to US$0.58.6 cents per revenue tonne kilometre. Although this was a reverse of the recent trend, the AAPA report said it could be temporary as continued tough competition and the growing percentage of long-haul travel will probably drive down yield in the future.

Operating costs for the year were $47.3 billion, a 10.4% increase over 1998-99, but most importantly they were 3.9 percentage points less than the increase in operating revenue.

The report said the ability to hold down costs, coupled with increased yield, led to much improved operating and net margins for the year, 5.5% and 3.8% respectively, as against 2.2% and 0.9% in 1998-99. Margins are now closer to those recorded in the late 1980s and early 1990s.

Direct expenses for system-wide operations increased 11.7% and indirect expenses 9.1%. Fuel and oil recorded the largest rise (20.2%). In comparison, international operating costs rose by 15.5%.

There was improvement in all three measures of staff productivity. Revenue per staff member was up 16.5% to $235,000, reversing a decline over the previous three years.

FLEET

The fleet of the 18 AAPA member airlines is 1,202 aircraft. This does not include smaller aircraft operated by regional and domestic subsidiaries.

Japanese carriers, Japan Airlines and All Nippon Airways, have the largest fleets at 152 and 143 planes respectively.

Boeing aircraft comprise 74% of the AAPA fleet and Airbus 22%.

The average age of the fleet is 8.06 years. This is slightly higher than in the previous year as a result of the slowdown in deliveries in 1999-2000.

FUEL FOR THOUGHT

There is huge uncertainty surrounding the future of the aviation industry in the Asia-Pacific region with the direction of fuel prices a major concern, said AAPA director general Richard Stirland, in the annual report.

"The traffic growth in 2000 has absorbed most of the slack in the system and load factors are now touching new highs," he wrote. "Deliveries from the manufacturers and the leasing companies are fairly well set in concrete for the coming year and there are no rows of parked aircraft in the desert to be re-activated. If growth continues at the rate of the past six months, all aspects of the system, aircraft crew, airport slots, airways, governmental facilitation and ground facilities will be tested to the limit.

"In terms of immediate yield improvement and profitability, this could be extremely good news for the airlines, enabling them to achieve the kind of margins which U.S.-based carriers achieved in 1998-99.

"On the other hand, such overloading of the system leads to the familiar ills of delays, passenger dissatisfaction, militant aircrew, pressure group griping and ultimately political interference.

"And this could be the least of the airlines' worries. The fuel price increases threaten to force the airlines back into the situation where higher fares are needed to cover fuel costs just at the time when oil prices in general cause the public to spend less on discretionary travel, leading to a vicious circle of declining load factors, rising costs and illogical rate-cutting.

"It would be foolish to make any prediction which way the market will go."

AAPA FINANCIAL REPORT AT A GLANCE (in US$ millions)

	1995/96	1996/97	1997/98	1998/99	1999/00	99/00 Vs. 98/99	Average annual growth
OPERATING REVENUE	51,012.98	53,879.69	52,030.77	43,761.13	50,010.47	14.3%	(0.5%)
Passenger	39,126.76	40,999.36	39,077.74	32,372.95	36,693.60	13.3%	(1.6%)
Freight	7,439.78	7,722.06	8,279.53	7,412.29	8,779.74	18.4%	4.2%
Others	4,446.44	5,158.27	4,673.50	3,975.88	4,537.14	14.1%	0.5%
OPERATING EXPENSES	48,276.54	51,774.18	49,921.90	42,806.31	47,265.77	10.4%	(0.5%)
OPERATING PROFIT	2,736.42	2,105.51	2,108.87	954.81	2,744.70	187.5%	0.1%
Other Income (Expenses)	(1,162.11)	(847.61)	(2,962.92)	(346.34)	(359.83)	(3.9%)	25.4%
NET PROFIT AFTER TAX	1,180.99	961.49	(1,210.81)	377.61	1,881.06	398.1%	12.3%

Note: Two of the AAPA's member carriers, Air New Zealand and Dragonair, did not take part in this report. Estimates were used for Ansett and Korean Air.

AAPA accused of complacency as...

Noise takes centre stage

The good times are back, but the 44th Assembly of Presidents of the Association of Asia Pacific Airlines (AAPA), which met in Auckland, New Zealand in November, heard caution was necessary in areas ranging from fuel prices to airport charges. But discussions were dominated by environmental issues, particularly noise, and the long-term affects new regulations may have on operations. TOM BALLANTYNE *reports from Auckland.*

The chairman of the Coalition for a Global Standard on Aviation Noise (CGSAN), Gerald L. Baliles, does not think Asia's carriers are doing enough to influence the outcome of the noise debate. He wants them to throw their combined weight behind moves to ensure world-wide noise standards are fair to all.

"To be candid, carriers and governments from the Asia-Pacific region are largely perceived around the world to be disinterested in the issue," Baliles told delegates in his keynote address at the opening of the Assembly. "The unfortunate fact is this matter is largely seen as a dispute between the United States and Europe. And again, unfortunately, carriers and governments in this region have done little overall to dispel that perception."

CGSAN membership crosses industry boundaries, including engine manufacturers, airports and planemakers as well as airlines from all regions.

Baliles, a former governor of Virginia in the U.S., warned that as the International Civil Aviation Organisation (ICAO) works towards a new noise certification standard, Asian airlines "run the risk of being left on the sidelines".

His plea came as the noise debate heats up. In the northern hemisphere, disagreement centres on the precise terms of the new noise standards being developed by ICAO.

Airlines are worried if rules are too tough the value of high cost assets – their multi-million dollar jet fleets – will be lowered. As

The chairman of the Coalition for a Global Standard on Aviation Noise (CGSAN), Gerald L. Baliles: disinterest in Asia

pressure from environmental groups grows there also is a danger airport infrastructure development may be restrained or tighter curfews imposed, impacting on airline schedules. All this will add millions of dollars to operating costs.

The AAPA agrees. Delegates meeting in Auckland endorsed a resolution re-affirming a position taken at the 1999 Assembly; while airlines recognise the environmental necessity of greater stringency and quieter aircraft, any change to the standards should not be unduly burdensome on the industry.

However, the latest resolution also urged carriers to take account of social and political realities of noise pollution and recognise future industry growth is dependent on continued public acceptance of aircraft operations close to residential areas.

At the same time, it reminded governments land use planning is the best way of dealing with the problem and residential areas should not be sited close to airports.

AAPA director general, Richard Stirland, conceded there has been some complacency, although some of the region's operators are heavily involved in the issues. Japan Airlines and All Nippon Airways, Qantas Airways and Air New Zealand are members of the International Air Transport Association's (IATA) environmental task force, he pointed out.

"This is a reflection of the political and social conditions in those countries. Japan, Australia and New Zealand are countries within the region where noise is a political and social issue and therefore their airlines have to be involved in this process.

"The reason this issue is being driven by Europe and the U.S. is because within Europe you have a situation where there is a great deal of opposition to noise by people living around airports ... and the U.S. has a lot of old hush-kitted aircraft.

"The reason there has been a degreee of complacency in this part of the world is because, on the one hand, there perhaps isn't the political pressure and the awareness of noise by residents in countries outside places like Japan and Australia and, secondly, airlines have very modern fleets which makes them rather complacent about increased noise stringency."

Baliles warned Asian airline executives there are global risks to their operations. The stakes are high and the global standard setting process is in jeopardy. If moves to

Executive Committee

The president of Garuda Indonesia, Abdulgani, is the AAPA chairman for 2001. Other airlines represented on the executive committee are Cathay Pacific Airways, Singapore Airlines, Philippine Airlines and Malaysia Airlines.

set a global standard failed, a "Balkanised" patchwork of local and regional standards and restrictions could emerge instead.

"All of you are interested in expanding, or at least maintaining, your current services to such important markets as London, Frankfurt, Paris, New York, Chicago, Los Angeles and Madrid ... yet these are some of the cities where pressure to do something about noise is greatest.

"If the ICAO process is unsuccessful and the global system becomes Balkanised, services to those cities will be restricted in order to address local political pressures.

"Your fleets might be relatively younger and quieter than those in other parts of the world, but the new service restrictions will not leave you unaffected. While airports may not ban your aircraft, they might reduce the number of operating slots or establish curfews; either action could drastically affect your ability to grow."

There also is a danger if airlines did not lobby their governments and take an active part in the debate, authorities in their own nations may simply end up adopting noise-related operating restrictions from Europe or North America.

Baliles said the ICAO Committee on Aviation Environment Protection (CAEP) has eight options left for analysis. Three simply include a new stringency level, with no phase out contemplated. The other five options feature both a new stringency and a phase out. "Any of the eight, if adopted, would change the valuation of your fleet and its potential uses."

Air New Zealand chairman, Sir Selwyn Cushing, said in an era of rising environmental concern airlines are an "easy target" for the growing noise and emissions control lobby "even though our contribution on both fronts is comparatively small and we operate to high standards of fuel efficiency and noise minimisation".

"If we are to address such issues with any prospect of success we need to utilise the collective strength we gain through organisations such as the AAPA," he said.

While the noise debate grabbed the spotlight, other major industry issues on the agenda at the AAPA Assembly included fuel prices, air traffic control congestion, moves by some authorities to introduce regulations covering passenger rights, safety, computer reservation system regulations and their relevance to airline internet sites and liberalisation.

ANZ's Sir Selwyn Cushing

Fuel Prices

Colin Fraser of Aviation Fuel Associates (AFA) highlighted to delegates the various factors affecting aviation fuel price. He concluded the severity of the Northern Winter would be the deciding factor in how long fuel prices remained at the US$35 a barrel level. But he said AFA is projecting jet fuel prices will reach $37 during the first quarter of 2001.

"Subsequently, increased oil production from OPEC and non-OPEC producers will flood the market during the first quarter of 2001 and, combined with sharply lower demand as a result of a consumer boycott of high prices and the traditional spring slump in energy demand, AFA ... forecast prices to drop to $27 per barrel by the end of the first quarter of 2001. Thereafter, crude oil prices will average $24 per barrel through the balance of 2001 with world jet fuel average prices at $25.50, or 60 cents per gallon."

Members of the Assembly expressed concern about continued high prices, but recognised aviation fuel is a relatively small segment of the fuel market, with demand growing more rapidly in this area than others.

Consequently, airlines are subject to market forces which fuel hedging could only partially alleviate. Members agreed the high cost of fuel made use of more modern aircraft and introduction of satellite-based air traffic management doubly important.

Air Traffic Control (ATC)

AAPA members endorsed a resolution calling for long-term planning, unified standards and efficient expansion of ATC facilities. Airlines vigorously rejected any suggestion that airline scheduling was a root cause of ATC and airport congestion.

Asian airlines are particularly concerned about the situation in Europe and the U.S. because all of them are impacted by delays.

Member carriers resolved to call on governments, ATC service providers and airport authorities to establish regular consultations with the airline industry to work towards a long-term solution for the ATC problems.

They want unified standards which must include universal commonality of ATC language and procedures. Meanwhile they rejected any restraint on airline scheduling as a method of improving ATC services. Airlines said this would be "both ineffective and anti-competitive".

Computer Reservation Systems (CRS) and Airline Web sites

The AAPA urged regulatory bodies not to consider the establishment of regulations to govern airline websites, but to maintain and enforce CRS regulations to maintain and promote fair competition amongst CRSs.

Members believed airline Internet distribution sites, whether established individually or collectively, should be considered as in-house distribution networks. They believed any regulation would hinder competition and interfere with commercial operations.

Airport Charges

High airport charges attracted attention. David Plavin, head of Airports Council International North America, addressed the Assembly on the relationship between airlines and airports. AAPA members felt many airports in the Asia-Pacific region occupied a monopolistic position because of their geographic position and scaled their charges accordingly. "In general terms, it is not so much the level of charges, but how those charges are arrived at and the transparency of the process," said AAPA director general Richard Stirland. "There is a fear the privatisation of airports will lead them to seek higher charges from the airlines in order to provide a return to their shareholders.

"Shareholders are entitled to returns, but unless there is some regulatory mechanism ... then the airlines can be held to ransom because of the monopolistic position occupied by the airports."

Philip Chen, chief operating officer of Cathay Pacific Airways, said it is logical that airlines and airports should be natural partners. "I think they should be able to work out terms to find solutions which are mutually beneficial," he said.

The Assembly resolved to call on airport authorities to ensure transparency in all cost information provided to airlines and to refrain from imposing unjustified charges. Airline chiefs also are seeking a reasonable, non-discriminatory, cost-based fee regime in line with ICAO principles.

Passenger rights: leave us alone, says AAPA

By Tom Ballantyne

Asian airlines are preparing to fight off any attempt to bring them under the wing of formal air passenger Bills of Rights which could regulate on such matters as compensation to travellers for delayed flights and poor service.

They have prepared a strategy to counteract the threat as authorities in the U.S. and Europe come under strong public and political pressure to impose such regulatory measures on airlines.

The message from the Association of Asia Pacific Airlines (AAPA) carriers: Leave us alone. We can look after ourselves and our passengers.

AAPA member airlines do not believe their governments will move to introduce similar rules, but suspect the U.S. may attempt to force foreign carriers flying into American destinations to comply, similar to Washington's attempts to force new security rules on international operators.

The U.S. abandoned these moves following a wave of international protest, particularly from foreign airlines.

Airlines in the U.S. have made voluntary commitments to passenger service standards by adopting what is known as the Customer First programme, while European airlines are considering a similar move.

"I believe carriers in Europe and the U.S. will find the legislation imposed on them will be a financial burden. It will increase their costs.

"Those carriers will eventually turn round and say to their governments they are having to bear the cost of, say, reducing the number of seats on aircraft or paying compensation for delays or offloading, whereas carriers based in Asia are not subject to these regulations and therefore not bearing these costs," said AAPA director general Richard Stirland.

"They will say they are suffering a competitive disadvantage and the way to rectify that is for the government in Brussels or Washington to impose the same requirements on foreign airlines... That's the danger."

Stirland said Asian operators were ready to fight such a move in the same way as they fought the imposition of U.S. security rules.

The Assembly pointed out Asian airlines always maintain the highest standards of customer service and continue to lead the industry in setting new standards.

These standards are already incorporated in airline service manuals and operational procedures, said delegates.

The Assembly resolved to call on aviation regulators to recognise a more effective way of enhancing consumer protection, other than increasing regulation, was to allow market forces to decide who does and who does not provide good passenger service.

Meanwhile, the AAPA is to encourage airport authorities and government agencies to support initiatives by the airline industry aimed at improving the processing of air travellers world-wide through a Simplifying Passenger Travel (SPT) programme.

The Assembly proposed one airport in the Asia-Pacific region be offically designated as a testing ground for new processes and technology.

Airlines recognised increasing volumes of passengers are travelling by air, especially in the Asia-Pacific region, and this would create a burden on airlines, airports and government agencies in terms of efficient facilitation at airports, said a resolution.

"Airlines are striving to improve the levels of service they provide to passengers. Airports are seeking to utilise their facilities and resources more efficienctly in dealing with passengers.

"Government agencies play a key role in all countries in facilitating passenger ease of entry and exit," it said.

Because of this there "is an urgent need to introduce cutting edge technology for passenger processing to speed up the process and reduce costs at the same time."

And it's getting even better...

The first nine months of 2000 showed a cumulative growth rate among AAPA member airlines of 12.5% in revenue passenger kilometres (RPKs), a 10.3% rise in passengers carried and a healthy passenger load factor of 75.5%.

Indeed, latest statistics show business is still surging. In September, both RPKs and passenger numbers grew 13%, with load factors rising to 78%.

Capacity in the nine-month period has risen 8%, leading to an improved load factor over 1999.

Freight has grown even more strongly, with freight tonne kilometres increasing by 14%, giving an average load factor of 69% for the nine months. In September, freight grew by 11%, with the load factor up at 71%.

Almost all AAPA member airlines experienced growth. On present trends, additional capacity scheduled for 2001 is unlikely to lead to a significant reduction in load factors.

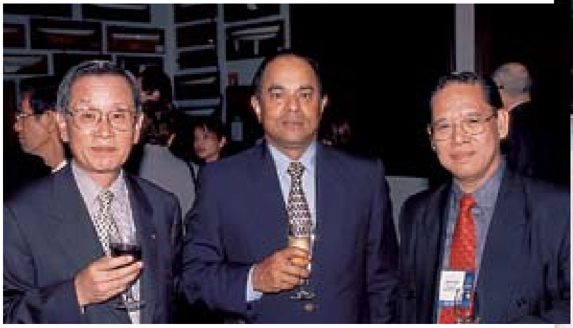
TRAFFIC UPDATE

	Sept 2000	Sept 1999	% change
Passengers carried (000)	8,765	7,771	12.8%
RPKs (000)	40,020,664	35,286,401	13.4%
ASKs (000)	51,426,742	47,644,830	7.9%
Passenger Load Factor	77.8%	74.1%	3.7 p.p.
FTKs (000)	3,458,883	3,110,746	11.2%
AFTKs (000)	4,857,183	4,505,421	7.8%
Freight Load Factor	71.2%	69%	2.2 p.p.

	Sept 2000	Sept 1999	% change
Passengers carried (000)	77,571	70,348	10.3%
RPKs (000)	350,301,542	311,430,762	12.5%
ASKs (000)	463,721,533	428,598,040	8.2%
Passenger Load Factor	75.5%	72.7%	2.9 p.p.
FTKs (000)	28,719,673	25,176,630	14.1%
AFTKs (000)	41,602,418	37,333,044	11.4%
Freight Load Factor	69.0%	67.4%	1.6 p.p.

ASSEMBLY CLOSE UP

Delegates and guests mingle at functions during the AAPA's 44th Assembly of Presidents held in Auckland, New Zealand, in November



Groundbreaking open skies deal may face alternative ASA

By Tom Ballantyne

Air treaty officials from a number of Asian and European nations have had informal discussions about the possibility of forging an alternative multilateral air service agreement to the Washington model which in November led to a plurilateral open skies deal between five Pacific Rim nations.

Orient Aviation learned of the latest liberalisation development during the Association of Asia Pacific Airlines' (AAPA) annual Assembly of Presidents in Auckland.

The world's first plurilateral air treaty – between the U.S., Singapore, New Zealand, Brunei and Chile – was signed at the Asia Pacific Economic Co-operation (APEC) Forum in Brunei in mid-November.

While U.S. Transportation Secretary, Rodney E. Slater, heralded the deal as the beginning of a new era in the liberalisation of international aviation, Washington's success in pulling the treaty together is regarded as largely symbolic because those involved already have bilateral open skies treaties with each other. It does not take liberalisation forward in terms of ownership and control rules, cabotage and some tariff barriers.

It is understood the drive to find a more meaningful non-U.S. driven "alternative" multilateral air treaty model is largely being driven by Australia, which believes if the strategy is successful, it will ultimately force the U.S. to give way on key elements of aviation liberalisation, such as cabotage.

Australian aviation officials will not comment officially, but it is known they have been working quietly and persistently behind the scenes, holding informal talks with a number of "like-minded" Asian countries as well as European nations.

They point out privately that while the U.S. has managed to seal an agreement among five APEC nations "there are 21 APEC economies and 14 or 15 of them are vehemently opposed to the U.S. model".

In essence, critics argue that U.S. open skies deals – both bilateral and multilateral – are largely designed to benefit its own airlines and win them open access to foreign markets while at the same time the U.S. market remains heavily restricted to foreign carriers.

Australian officials strongly stress Canberra is not against open skies or liberalisation. "We are publicly committed to advancing plurilateralism and multilateralism," one Australian official told *Orient Aviation*. "We think it is the best way to go and it's a formal part of our policy framework, but as for the current negotiation (the five-nation plurilateral deal), it is based on the U.S. open skies model and we have got some problems with it."

Philippine Airlines president, Avelino Zapanta: Philippines continues to adhere to a policy of progressive liberalisation

Along with Japan, Australia sat in on the first round of talks on the plurilateral treaty in Honolulu in August as an observer. What is not generally known is that Australian negotiators joined in formal discussions at the second round in late October.

They did not sign because there are important non-tariff barriers Canberra wants to see removed. "You cannot deregulate the sector on a bilateral basis, which is what the open skies process is. You must do it at a multilateral level. Open skies is just another generation of the bilateral agreements and it does not take us all the way. The big challenge we've got is trying to persuade the U.S. they have to do something their labour organisations and their airlines are not particularly keen on," said the Australian official.

If Asian nations can get together with European countries and produce an alternative multilateral aviation treaty stream which opens up truly liberalised multinational markets it is felt the groupings will be in a far stronger position to force the U.S. to open up its market to outsiders.

Reservations regarding the U.S.-driven model go beyond Australia. AAPA director general, Richard Stirland, said the association believes the U.S.-led plurilateral deal is a "signpost for the future". But it was the belief of many countries and many airlines that until there is a comprehensive and global revision of ownership and control criteria there will not be true open skies and a true basis for multilateral and plurilateral agreements shaping air transport rights, he said.

"If you take the example of most governments within the European Community, they don't believe a transatlantic common aviation agreement can be signed with the U.S. unless it is willing to relax restrictions not only on ownership and control, but also on cabotage and programmes such as Fly America."

One drawback in Asia is various nations are at different stages in liberalisation. Some, like Singapore and New Zealand, have a large number of open skies agreements. Australia signed its first in late November, although this was with New Zealand with which it already operates a single aviation market.

Speaking at a press conference following the AAPA Assembly of Presidents, Garuda Indonesia's president, Abdulgani, said his country's government had a "limited open skies policy" and has not declared when it might fully liberalise.

Philippine Airlines president, Avelino Zapanta, said despite reports of a declaration of open skies by President Estrada recently, the Philippines continued to adhere to a policy of progressive liberalisation.

"There has been no explanation of the details of such open skies except that if you listen very carefully to what he said he was talking about open skies on a bilateral basis, which to my mind is not so different from the progressive liberalisation that we are pursuing at the moment."

Air New Zealand chairman, Sir Selwyn Cushing, said the home governments of AAPA airlines have varied views on liberalisation.

"The general trend is towards privatisation of airlines and the relaxation of constraints on foreign investment, market access, operating capacity and fares. For governments, the consumer benefits from deregulation are irresistible. For airlines, the challenge of liberalisation is unavoidable," he said.

Qantas spends big

By Tom Ballantyne,

When Qantas Airways in late November announced a US$4.6 billion order for 31 new jets, including 12 Airbus A3XXs, it was not only one of the biggest spending sprees ever by an Asia-Pacific carrier, but also it cemented the future of the European planemaker's double deck, super jumbo.

The moment Qantas chairman, Margaret Jackson, chief executive designate, Geoff Dixon, Airbus Industrie chief executive, Noel Forgeard, and senior vice-president commercial, John Leahy, signed the contract at the Australian carrier's offices in Melbourne, the A3XX moved from a maybe to a definite entrant in the aircraft market.

Qantas Airways: its order for 12 A3XXs is the largest to date

At the signing ceremony, which had been a closely guarded secret until less than 24 hours beforehand and was attended by only a handful of local press and *Orient Aviation*, Forgeard insisted Qantas' decision alone – its first ever Airbus order was not the final trigger although it is difficult to interpret it otherwise.

"The A3XX is now a fact," he told *Orient Aviation*. "We always said this programme would be launched at the turn of this year and that is even more evident with the commitment of Qantas."

Now with 44 firm orders, Airbus is "right in the ball park of 40 to 50 orders" it needed as a launch base, he explained. "But it was always a matter of quality rather than quantity ... we now have orders from the three alliances; Qantas with oneworld, Singapore Airlines (SIA) with Star and Air France with SkyTeam.

"We are also on the five continents; in Australia, in Asia with SIA, in the Middle East with Emirates, in Europe with Air France and in the U.S. with (lessor) ILFC. So it's a very strong, well spread customer base," said Forgeard.

Probably more important, Forgeard agrees that with two key Asia-Pacific airlines in the bag, other major regional carriers such as Cathay Pacific Airways, Thai Airways International, Malaysia Airlines and Japan Airlines will have little choice but to follow suit if they want to compete.

The importance of the breakthrough deal with Qantas cannot be underestimated. The only Airbus jets Qantas had operated previously were four A300s it picked up by default through its purchase of the government-owned domestic and now defunct Australian Airlines some years ago. They were later sold.

In addition to the 12 A3XXs it ordered, the single biggest firm order for the jet to date, Qantas also committed to 13 Airbus A330-200s and A330-300s for delivery between 2002 and 2005. They will be used on Australian domestic routes and regional international routes.

Boeing failed to convince Qantas either to take its proposed B747X stretch, the competitor to the A3XX, or the big twin B777, instead of the A330s. But it did not lose out altogether. Qantas becomes the first customer to order Boeing's long-range Increased Gross Weight (IGW) B747-400 jets. It will take six of the aircraft, to be delivered between 2002 and 2006, to handle growth on long-haul routes.

Qantas confirmed it had taken options on all three types, but refused to say how many.

Chairman, Margaret Jackson, also steadfastly refused to reveal the cost breakdown for the 25 Airbus planes and the six Boeing jets, insisting the orders represent a 10-year fleet plan "package", with the total cost including start-up expenses, infrastructure, engines and spare parts. A decision on powerplant type will be made next year.

However, *Orient Aviation* has learned Boeing's portion of the pie will earn it US$1.2 billion. This means Qantas was essentially offered a deal it could not refuse by Airbus; 12 A3XXs and 13 A330s, with all the trimmings, for US$3.4 billion.

That is a bargain in anyone's book because the 12 A3XX alone should have cost close to US$2.8 billion at list price.

There is another point. Anyone who places an A3XX order now will not be able to take delivery from Airbus until 2007.

The decision by Qantas to break with tradition and go with Airbus was probably sealed when Singapore Airlines placed its order for 10 A3XX (with 15 options). Having a major rival and opposing Star Alliance member flying mega jets on the critical Kangaroo Route from Australia to Europe when Qantas did not have them may have amounted to commercial suicide.

Geoff Dixon, who will take over from long-time chief executive, James Strong, in March, said Qantas selected the A3XX for a variety of reasons, including its payload capability, operational and economic advantages and its development potential as the first of a new aircraft type.

"Importantly, it will assist us to meet growth at slot-restrained airports on key routes. The aircraft will also enable us to further enhance our onboard customer product consistent with our recognised tradition as a pioneer in the development of long-haul air travel," said Dixon.

As these new aircraft are introduced Qantas will retire its Boeing B747 Classic aircraft from the international fleet as well as the B767-200 from the domestic network. It will retain a large fleet of B747-400s, B767-300s and B737s.

JONATHAN SHARP *finds Phil Condit unmoved by A3XX orders*

Boeing chief sticks to his guns over VLA

While a growing number of eco nomic fortune-tellers predict a hard landing for the U.S. economy, with a potentially alarming impact on the Asia-Pacific region and its airlines, The Boeing Company's Phil Condit is not among them.

Relaxing jacketless in a Hong Kong hotel room during an arduous Asia-Pacific tour, the seventh chairman of the 82-year-old aerospace company told *Orient Aviation* he had seen "zero" sign so far of Boeing's customers re-negotiating or delaying airplane deliveries in anticipation of a slowdown.

Boeing had enjoyed a banner year in 2000 and Condit saw few problems down the road, offering two reasons for his optimism.

"The thing that has caused problems in the past tends to be that airlines get into an over-bought condition – over-capacity and dropping load factors.

"We are at record load factors today. So that rather than being in a position of having way too many airplanes, and then the economy drops, we are sitting here in the U.S. right now with load factors we have never had in history."

In addition, Condit said the resilience of the U.S. economy should not be under-estimated. "There is a lot of strength left in the U.S. economy, particularly on the productivity side.

"And while clearly there is a slowdown, I think there is a lot of reason to be optimistic that there is not a hard landing here and, in fact, the economy has a fair amount of resilience in it. If it were not for the productivity issue, I would be much more worried."

Interestingly, Kenny Tang, general manager cargo for Hong Kong's Cathay Pacific Airways, told reporters in late November he had seen no sign of cargo traffic falling away. Cathay, which saw load factors drop sharply even before the Asian economic struck in the second half of 1997, carried a record 74,062 tonnes of freight in October, and growth for the first 10 months of 2000 was 16.4% over the same period the year before.

Boeing chairman, Phil Condit: B747 Stretch could be launched in three to six months

For his part, Condit might have been excused for allowing a frown to cross his brow, as his regional tour coincided with the announcement that Qantas Airways had ended Boeing's decades-long hold on the airline by giving Airbus Industrie an important order, including a dozen A3XX super jumbos.

When reminded of this, Condit shot back that Boeing had sold 113 Boeing 777s this year (among several hundred other aircraft) and reiterated the company view that while it recognised there was a market for super jumbos, it was not big enough to justify the investment in a brand-new aircraft.

He said he had no doubts about the company's focus, even with the benefit of hindsight following a joint study with Airbus about prospects of very large aircraft (VLAs). Looking back, should Boeing have played it differently?

"Absolutely not. The conclusion we reached as part of that joint study is a conclusion that we hold today. A brand-new aircraft, all costs considered, was probably an $18-20 billion venture and the market was not big enough to produce a return on that kind of investment, and therefore we chose not to go ahead."

Condit said he guessed Boeing would launch its 747X, a stretch version Boeing is proposing as an alternative to the A3XX, in three to six months and added "it may well be a freighter that actually launches the market".

"We will sell a good number (of 747Xs) ... but that is still not where we think the centre of the market is," he said, returning to the theme that demand for airlines to fly point-to-point routes, instead of hub-to-hub services, meant a far higher need – and better investment return – for aircraft in the 777 category than Airbus-type behemoths.

"We will look back 10 years from now and decide who was right. I like the hand I am playing."

He noted that Continental Airlines and United Airlines were planning non-stop services between New York and Hong Kong with 777s. "These are not great big airplanes."

Condit denied that future 747 variants had an image problem because they were seen as being at the end of a venerable product line. "Planes are not bought on looks, planes are bought on their economics."

The Boeing chief dismissed suggestions that the smaller 717, which Boeing developed after it took over McDonnell Douglas three years ago, was struggling to achieve a critical mass in sales.

"We have made some real gains on efficiency in production and we have just committed going to a moving production line for the 717. Our goal is to get the costs down because that is going to be a market that is particularly cost-sensitive.

"With that in mind I still think we have a programme that looks pretty good over the long run."

THE TURNBULL TOUCH

The good times are back for Cathay Pacific with the airline's deputy chairman and chief executive doing it his way

By Barry Grindrod in Hong Kong

Cathay Pacific Airways' 45-year-old deputy chairman and chief executive, David Turnbull, is a reserved man and, some would say, almost shy. The public spotlight, a role shouldered comfortably by his predecessors at Cathay, does not sit as easily with Turnbull.

Not surprisingly, perhaps, Turnbull is not one to sing his own praises. He would rather let the balance sheet do his talking. Or, in the case of passengers, the airline experience.

And they have told quite a story in the four years Turnbull has been at the helm of Cathay Pacific. When he took over from Rod Eddington, who now heads British Airways, in November, 1996, Cathay "had had 25 years of good times" and there was nothing to suggest anything would change.

Within a year "the wheels were starting to come off" as the Asian crisis started to bite. By mid-1998, "all four wheels had come off" as the airline sank into the darkest days in its history.

In that year, Cathay reported a loss of HK$542 million (US$70.4 million), its first reversal in 35 years. At the time, then chairman Peter Sutch said he "did not expect any turnaround anytime soon" and predicted little improvement in 1999.

But long before then, in late 1997, Turnbull had called his young, but experienced, management team together – most of whom are still in their early to mid-40s – and left them in no doubt about the task ahead. "I told them we had to take action quickly. I told the guys if we did not get our cost base down then we would not be around. We would sink. It was as simple as that," said Turnbull.

The tough, but speedy decisions taken in those early months – including laying off 3,000 people at the airline, 5,000 including subsidiary companies – cast the die for what would be a quite remarkable recovery.

In 1999, as the regional economic crisis ebbed, Cathay made a HK$2.19 billion profit (US$281.1 million). The airline almost matched this figure (HK$2.18 billion) in the first six months of 2000.

Forsaking his number two office in downtown Hong Kong for a nearby coffee shop, which enables him to light up one of his "occasional" cigarettes, Turnbull told *Orient Aviation* in November he would take exactly the same steps if the recession was repeated.

And what pleases him particularly is that, to borrow a phrase from the late Frank

Sinatra, Cathay management decided to do it their way.

"I called my team together and told them we were going to deal with the situation ourselves. I decided there would be no consultants. We went through the company and looked where we could slim down.

"There was a lot of thought and some ignorance involved, but we got the cost base down," said Turnbull.

In fact, during Turnbull's tenure at Cathay, costs per available tonne kilometre (ATK) have been reduced by 25%. "Yields have fallen 25%, too, so we needed that reduction in ATKs," said the chief executive.

Psychologically, for a company that had prided itself in a jobs-for-life philosophy, the redundancies were hard to accept – at all levels. "At the time there was a shock-horror feeling. There were many who thought we had over-reacted, but as time went on they realised that what we were doing was necessary," said Turnbull.

The cuts were from top to bottom in the company. "People I had joined the company with left. But while jobs were lost, it was important we saved the other 25,000 jobs," he said.

Turnbull said the process took a personal toll. "It was very upsetting. But the shareholders were very supportive. Without that support it would have been impossible to do what we did. Their support made it easier," he said.

But as bad as the Asian recession was Turnbull said he has had a worse experience, although on a much smaller scale, in the early 1990s. Hong Kong was experiencing a confi-

Award citation

The Orient Aviation Personality of the Year award reflects the great strides forward Cathay Pacific Airways has made under David Turnbull's leadership, particularly the carrier's return to high profitability after the tumultuous years of the Asian economic recession.

Tough, hard-headed decisions were required and taken, not least the retrenching of 3,000 staff and dealing with a costly and disruptive pilots' dispute. Fleet orders were made and inflight service upgrades implemented.

From recording its first loss in 35 years in 1998, Cathay now has a healthy bottom line. It operates one of the world's youngest fleets, is expanding its route network and frequencies and is proving a world leader in the rapidly growing e-business market. Cathay's cargo division is enjoying record growth and passenger traffic is flourishing.

Other airlines in the region have performed well and are benefitting from cost cutting measures taken during the economic downturn. But we, and many people whose advice and views we have sought, are of the opinion that Cathay's performance under David Turnbull's leadership comes out on top.

dence crisis leading up to the 1997 transfer of sovereignty of the territory to China and Turnbull was head of the Cathay sister company, Hong Kong Aircraft Engineering (HAECO).

"It was my first job as a chief executive of a company. Costs were ballooning at HAECO and the lack of confidence in Hong Kong resulted in a brain drain," he said. "We had to curtail business. There were some months when we lost 60 engineers. Over a three-year period we lost between 400-500 engineers; 180-200 to Qantas in Australia, another 150 went to Singapore and 150 to Canada. Many of them have since returned."

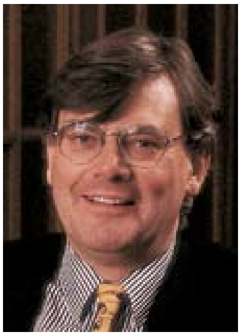
But the experience prepared him somewhat for the regional downturn.

Now with his thoughts very much on the future, Turnbull says: "The recession seems a long time ago."

But there is no room for complacency. "Management realises things must not run away from us," he added.

"In the first half of the year, when we announced record profits, passenger revenue was less than in 1996."

In the next three years, based on growth of 7% a year, Cathay's fleet of 65 aircraft, with an average age of about five years, will increase from 65 aircraft to between 75 and 80. Negotiations with Airbus Industrie and Boeing for new long-haul aircraft types, including the double deck A3XX, for delivery any time between 2003 and 2006, are ongoing. "We have to start placing orders next year," said Turnbull, although he would not be more specific.



The big questionmark is over the cost of fuel. Just when, how and what Cathay will order will depend on the fluctuations of fuel prices. "Fuel costs are over a US$1 a gallon, a year ago it was 50 cents," said Turnbull. "Manufacturers order books are quite full at the moment.

"If airlines start losing money some may start shedding some of those orders. I would rather be a buyer when others are trying to dispose (of ordered aircraft)."

When Turnbull became head of Cathay e-business was not a part of airline vocabulary. Today, the Hong Kong-based carrier is aiming to be a world leader and will invest over US$256 million in more than 30 e-business projects involving all aspects of the airline in the next three years.

"We are keen to push on as fast as we can in the IT and e-commerce side of things," said Turnbull.

The boss describes his four years at the top as "stressful but enjoyable". "Our recent success has been rewarding for everyone. Confidence has returned to the airline in the last 12 months.

"We have new products. We have moved to our new headquarters at one of the best airports in the world.

We have a new cargo terminal, new inflight kitchens, our new first class is fantastic and we have other products in the wings," he said.

So, where does Turnbull go from here? "This is not a job you can do for ever and after a time the company needs a different view," he said.

His legacy? "I would be perfectly happy to have brought in the new equipment (aircraft) opened new routes, tightened up the network and made money for the shareholders."

At 45, Turnbull has proved himself at the highest level earlier than most at Cathay. When Swire decides it wants "a different view" he will not be short of options.

A Moving Life Story

For someone destined for a career in the airline industry, it is rather apt that David Turnbull grew up on the move. His father was in the British Army and he spent part of his younger days living in Kenya, Germany, the Soviet Union – and London.

"I have always liked aeroplanes. As a nipper (small boy) I lived in London under the flight path and used to stand outside the house collecting registration numbers of planes as they flew overhead," he said.

In 1976, Turnbull joined Cathay Pacific's parent company, the Swire Group, after graduating from Britain's Cambridge University with an MA (Hons) in economics. His first six years were spent as a country manager with Cathay Pacific in Dubai, Malaysia and the Philippines.

After two years as manager, international affairs in Hong Kong, he worked for Swire in Australia and Papua New Guinea between 1985 and 1990.

He was appointed managing director of the Hong Kong Aircraft Engineering Company (HAECO) in 1990, a job he held for three years. He returned to HAECO in 1995 to spend one year as chairman. In between he worked at Cathay and became deputy managing director corporate development at the airline.

In 1996 he was made managing director of Cathay Pacific and 18 months later was named deputy chairman and chief executive of the airline.

Cathay Pacific's fleet will increase from 65 to 75-80 in three years

Little more than two years ago it was a small regional airline operating a fleet of tired Lockheed Tristars and flying the flag of a country troubled by years of civil war. The conflict continues yet SriLankan Airlines has been transformed and has big ambitions, reports TOM BALLANTYNE.

HILL'S CRUSADE

Sri Lanka IS safe for tourists, insists airline chief

The English-born chief executive of SriLankan Airlines, Peter Hill, is a man on a mission. He wants to spread the message that while civil war has taken its toll in Sri Lanka, tourists need have no fears for their safety. Indeed, he says, rather than a battlefield, visitors will find a holiday paradise awaiting them.

"You have a lot of people with vested interests outside Sri Lanka wanting to purport that the country is under constant siege. It is not," he said during an interview in his spacious office overlooking the island's capital of Colombo and beyond to the Indian Ocean.

Considering a suicide bomber had blown himself and two others to pieces outside the city's town hall the previous day, it appeared a brave declaration. But Hill is adamant. Fighting between government forces and the separatist Tamil Tigers is confined to the north of the country. No tourist has died in Sri Lanka as a result of the war and, despite armed troops, security and sandbagged emplace-ments in the streets, it is a safe country to visit, he said.

It is an important statement. Hill intends developing SriLankan into a major Asian operator with Colombo, sitting precisely half way between Sydney and London, emerging as a major strategic air hub. The 16-year conflict and world-wide publicity it attracts is probably the single biggest burden the carrier bears. Convincing potential customers this is a safe place to hub through is crucial.

As that campaign continues, SriLankan has taken qualitative steps down the expansion road. Now equipped with a modern fleet of Airbus jets, sporting inflight entertainment equipment equal, if not better, than most of its competitors and with a wealthy backer – cash-rich Middle East operator Emirates Airline – Hill is convinced the future is bright.

SriLankan Airlines chief executive, Peter Hill: from pulling pints to filling planes

Launched as Air Lanka in 1979 with two leased Boeing 707s and management assistance from Singapore Airlines, the airline has had its ups and downs. It carried 250,000 passengers in its first year and had steady growth and consistent, though modest, profitability through the 1980s and early 1990s. However, it hit turbulence in 1996 and 1997 and reported heavy losses and accumulated debts of nearly US$500 million.

Emirates acquired 40% of the carrier in 1998 after the government owners decided a strategic partner was needed. It was renamed SriLankan Airlines in July last year, sporting a revamped livery which retained the airline's traditional peacock logo but in more fluid lines of green, red and orange.

Hill, a former Emirates executive who had returned to the UK to run his own pub in London, was persuaded to stop pulling pints and head back east to take the reins in Colombo.

"Emirates brought in a new business plan that basically assessed the existing strengths of the airline and addressed some of the weaknesses. It laid the foundations for a way forward and that, in a nutshell, was to look at phasing out the Tristars and replacing them with a fleet of new Airbus aircraft," said Hill.

SriLankan has had Airbus A340s since 1994 and Emirates, as a launch customer for the Airbus A330, was able to negotiate "best favoured customer" status for SriLankan for nine A330s. "Emirates brought the capacity to bring in new equipment at a highly competitive rate at a time when SriLankan couldn't get finance to replace the older Tristars," said Hill.

The last Tristar left the fleet in January and SriLankan now has a fleet of two A320s, four A330s and four A340s, which carry more than 1.3 million passengers annually to 35

destinations in 26 countries. Colombo – Berlin was inaugurated in November and Jakarta will come on line in December.

Fleet modernisation had to be underpinned on other fronts, including corporate restructure and network reassessment. A focus on Sri Lanka's bilateral air service agreements was also vital. "When we came here the bilateral rights that SriLankan enjoyed probably hadn't been looked at closely for, in some cases, 20 or 30 years," said Hill. "In the first 18 months we talked with the Civil Aviation Authority and established a priority list of rights for negotiation. We have been immensely successful in improving all these rights. This country has twice, possibly more than twice, the rights it had two years ago. That's vital when you are developing a hub."

The trend towards greater liberalisation by many countries has helped. Australia is an example. Two and a half years ago, SriLankan had rights to fly there twice a week. This was increased to 1,300 seats a week, effectively four round trips with an A340, and then, more recently, to 3,000 seats.

There have been similar gains in Europe. When Hill arrived, SriLankan had four weekly flights to London, two co-terminalled with Amsterdam. This winter it will introduce its tenth flight, seven of them non-stop and the others through Dubai with full traffic rights.

"In the next two years we have the opportunity of developing this into a double daily – we have the rights – so that's not a bad track record for a small carrier, operating out of a comparatively small country, which has a fairly aggressive approach to business," said Hill.

SriLankan wants to be the preferred international airline of South Asia with a network running east-west and north-south, linking Australasia and the Far East with the Middle East, Africa and Europe.

And despite the proximity of bigger rivals on the Indian subcontinent or Southeast Asia, with its major hubs at Singapore, Bangkok and Kuala Lumpur, Hill is not cowering in fear of the competition.

Rivals Air India and Pakistan International Airways may have been strong once, but they are not any more, observed Hill. "If they were privatised and the new investors were ready to seriously re-invest in the airlines and the facilities they had to offer, they could become a serious threat in the future.

"But two and a half years on I still feel we have the opportunity of becoming, without too much effort, the preferred carrier of South Asia, bar none," said Hill.

India is a key to SriLankan's expansion strategy. "Companies starting up ventures in southern India are looking to base their activities in Colombo, which is quite a nice place to live," he added.

SriLankan flies to Madras, Mumbai, Delhi, Tiruchirapally and Trivandrum in India, as well as Karachi in Pakistan and Dhaka in Bangladesh. Developing this network is a priority, but is handicapped by a shortage of air rights into India.

Although Hill is reluctant to talk about it publicly, there is a prospect SriLankan could be a partner with Air India; shareholder Emirates has expressed interest in a stake in the Indian flag carrier when it is privatised.

And the future? "We have expanded quite rapidly in the last couple of years and have added seven or eight new destinations in that time. The next two years will be a period of consolidation," said Hill.

SriLankan performed well financially in the first six months of its last financial year to November 1999, but the second half was disastrous, mainly as a result of the security situation, compounded by escalating fuel prices.

There was an assassination attempt on Sri Lanka's president and a spate of bombings. "We can't ignore the security situation. It's a fact. When the media makes an enormous mountain out of it, even though it's not affected one tourist, we suffer as a result. The impact on our bottom line was pretty horrific," said Hill.

Three new A330s, which were to have been delivered in October and November this year and January next year, have been handed over "lock, stock and barrel" to Emirates to be added to its own fleet. Options on three more A330/340s remain, but no decision has been made on timing. Hill believes the A320s will be withdrawn from the fleet within five years, mainly because they are too small for most of the carrier's operations.

Management is concentrating on maximising revenue and reducing costs through improved productivity and aircraft utilisation. Prior to Emirate's involvement SriLankan was a typical government-owned airline, burdened with bureaucracy and a heavily unionised staff with a very anti-management philosophy.

Working standards have risen and remuneration packages have been improved along with reliability and on-time performance.

A new US$20 million catering unit will be completed within two years and the carrier recently formed a cargo division, introducing a dedicated freighter, an Antonov AN-12F, into the fleet. Management has bigger freighters in mind.

As it consolidates these gains, SriLankan needs other developments to support its goals, including the expansion of Colombo's airport, which is small by regional standards, with no aerobridges. The national government has development plans but, realistically, work will not be completed until 2005.

SriLankan can still move ahead through co-operation with partner Emirates. They have identical product and service standards and share a frequent flyer programme, Skywards.

However, the long-term future of SriLankan remains tied to the country's security situation. Hill will continue with his crusade to insist that its safe for tourists. Convincing outsiders will be an ongoing challenge.

SriLankan Airlines: transformed in the last two years

JONATHAN SHARP *and* CHRISTINE MCGEE *look back over a remarkable year of recovery for the Asia-Pacific aviation industry.*

JUST THE TONIC

If 1999 was the year that commercial aviation in the Asia-Pacific region was still in post-recession convalescence, then the dawning of the 21st century saw the patient emerge with something close to a clean bill of health, albeit not universally enjoyed and also coupled with a warning to watch out for a recurrence of symptoms.

As Richard Stirland, director general of the Association of Asia Pacific Airlines, noted in September, the crisis of 1997-98 seems only a dim memory, even though some of the region's economies are still struggling with the long-term consequences of the slump. The impact of the crisis on the region's aviation industry was less than feared, he said. "The tiger took actually nothing more than a brief cat-nap."

The region resounded during the year with positive news: airlines were thinking expansion, not attrition, hiring rather than firing. Vital signs such as load factors were up to sometimes embarrassingly tight levels, even if yields did not quite reach pre-1997 proportions. "I wish I had two more airplanes right now," sighed an executive of Cathay Pacific Airways, referring to his carrier's need for more capacity.

Speculation about who was downsizing switched to who was going to jump in to order more airplanes – with the Airbus A3XX, the world's largest civilian airliner, coming into the frame.

Analysts say the A3XX will define the fight between Airbus and Boeing for domination of the market for large jets and Asia-Pacific is shaping up as a key battleground.

Singapore Airlines is the first of the region's airlines in the queue for the Airbus "super jumbo". Qantas Airways joined them in November. Some analysts say a lack of Japanese enthusiasm for the A3XX could worry Airbus, since it needs orders from Japanese airlines to ensure long-term success.

China, on the brink of entering the World Trade Organisation, seems to offer immense – if as yet unquantified – opportunities for both passenger and cargo traffic. Chinese aviation may be a minnow in proportion to the country's size, but it is the world's fastest growing market. The long-awaited and overdue restructuring of the unruly mainland airline industry began gathering pace during 2000.

Airlines rode out the slump, the AAPA's Stirland said, not so much through learning new lessons but by re-learning old lessons, which include keeping one's nerve and maintaining a long-term view.

Cargo: has emerged as a star performer as "new economy" market demands increase

And the long-term outlook, according to leading forecasters, is bright for the global industry in general and Asia-Pacific in particular. In October, the International Air Transport Association (IATA) issued its most bullish passenger market outlook for three years, driven by world economic growth trends. "Asia is central to this rebound with growth of the newly industrialised economies back to mid-1990s levels and Japan predicted to recover slowly over the next two years," IATA said in its forecast covering the period 2000-2004.

Airbus Industrie said Asia-Pacific airlines would lead world demand for aircraft in the largest size categories over the next 20 years, taking delivery of 42% of all airliners with more than 300 seats. Boeing, famously less enthusiastic than Airbus about the market for ultra-large aircraft, nonetheless sees Asia-Pacific as clearly the most important region for Boeing wide-body airplanes.

Cargo, once the unglamorous relative in the aviation family, is now the star as "new economy" market demands increase. Boeing, which predicts that the world freighter fleet will double in the next 20 years, says air cargo growth is expected to exceed passenger traffic growth in every major region.

Few in this region disagree. Taiwan's EVA Air is so enthusiastic about cargo that it plans to generate 60% of revenue from cargo within the near future.

AND YET. The year 2000 may have been one to savour, but in the later months there was the sour taste of soaring fuel prices. Some airlines played down the threat, congratulating themselves on their aggressive fuel hedging policies. Others, including Chinese airlines that have no hedging opportunities, were less sanguine.

Safety, as ever, remained a concern, particularly after the crash of a Singapore Airlines Boeing 747 at Taipei's Chiang Kai-shek airport killed 83 people, the first fatal accident for one of the airline's own commercial flights.

In addition, falling currencies in some of the weaker southeast Asian nations, especially the Philippines, has raised questions over whether another Asian financial crisis is in the offing.

And what of the United States, that crucial engine of global growth and a key market for export-oriented Asian nations? Signs late in the year that the phenomenal American economy was slackening prompted analysts to speak of a "soft landing". We all hope so, especially in view of the well-established linkage between global economic forces and the health of the aviation industry.

Some airlines recall wisely after the event that they detected – and, to their cost, sometimes ignored – signs of trouble in their own performance even before the onset of the Asian financial crisis in July 1997.

So while we toast what for many has been a gratifying year, let's keep a weather eye on those traffic figures.

Singapore Airlines: launch customer for the double deck A3XX

Aircraft orders: it's back to business

In late September, SINGAPORE AIRLINES (SIA) placed firm orders for 10 Airbus A3XXs plus options for a further 15 passenger and/or freighter versions of the "superjumbo". As a consolation for Boeing, SIA also placed firm orders for six 747-400 freighters plus an option for nine more.

QANTAS AIRWAYS went two better in late November when it ordered 12 A3XXs among 31 new aircraft valued at US$4.6 billion. Thirteen A330-300 and -200s and six B747-400 IGW aircraft completed the order.

DRAGONAIR announced at the February Asian Aerospace 2000 show in Singapore it had signed to buy five Airbus A320s and three wide-body A330s, with options on two additional A330s. Two other new jets, an A321 and an A330 were to be leased. In November it purchased two B747-300 freighters from SIA.

In March, Airbus sold 10 A321 jets to CHINA NORTHERN AIRLINES.

CATHAY PACIFIC AIRWAYS announced in May that in the next 18 months it would add 15 widebodies to its fleet of 65 aircraft at a cost of US$1.5 billion.

EVA AIR announced in June that it had placed an order with Boeing for up to 15 B777s. It made firm orders for four B777-300s and three B777-200s with eight B777 options. Both the -300 and -200 jets would be powered by GE90 engines.

Sir Richard Branson's no-frills start-up airline in Australia, VIRGIN BLUE, said in late March it was to receive 10 new Boeing 737s in early 2001.

Australia's IMPULSE AIRLINES signed a deal with Boeing for five Rolls-Royce powered B717s.

JAPAN AIRLINES became the first carrier to order the new Boeing longer-range 777-300 aircraft. JAL announced an order for eight of the airplanes in April.

At the Farnborough air show in July it was announced that SINGAPORE AIRCRAFT LEASING ENTERPRISE (S.A.L.E.) had added eight A320s and three A319s to its Airbus fleet.

Also at the show ALL NIPPON AIRWAYS announced an order for six Longer-Range Boeing 777-300s, SINGAPORE AIRLINES confirmed its intent to exercise options for two 777-200ERs and one 777-200, while KOREAN AIR confirmed an order for a 747-400 freighter.

In October, GARUDA INDONESIA, continuing its fruitful path to international corporate governance, when it announced it was to lease seven B737s to replace its Fokker 28 fleet. Garuda's financial position continued to improve in 2000 following its year end 1999 results in which it made an operating profit of US$15.3 million after years of mounting losses.

Fuel costs spoil the party

When International Air Transport Association director general Pierre Jeanniot said in October that passenger and cargo traffic was growing faster in Asia than the rest of the world, he was not saying anything new, but nobody was heard complaining about listening to the good news again.

During the first seven months of 2000, IATA international passenger traffic grew by 8.6% and freight by 11.8%. "But the corresponding figures for IATA members registered in the Far East have been 11% in passenger traffic and no less than 16% in freight traffic."

Jeanniot said he saw much more robust economies in Asia and, for the most part, robust carriers in this region. However rapidly rising fuel prices posed questions about the resilience of some of those airlines as the year ended.

Singapore Airlines, highlighting its position as one of the world's most profitable airlines, reported in October that for the six months ended September 30, net profit jumped 93% to S$1.14 billion (US$651.4 million).

Passenger load factor improved 3.0 percentage points to 77.8% while cargo load factor was a 0.9 percentage point higher at 69.3%. SIA deputy chairman and chief executive, Dr Cheong Choong Kong, said he was fairly optimistic about near-term prospects, the only concern being rising fuel costs.

Earlier in the year SIA took important strides towards its long-term goal of becoming the world's premier carrier, becoming the 49% owner of Virgin Atlantic Ltd and finalising the purchase of 25% of Air New Zealand. In addition SIA made sure of making headlines by committing itself to be launch customer for the Airbus A3XX "superjumbo" with 10 firm orders and 15 options valued at US$8.6 billion. Rolls-Royce won the US$1.5 billion engine contract with its Trent 900.

The mood was equally upbeat at Hong Kong's Cathay Pacific Airways, which in August posted net profit for the first six months of the year of HK$2.18 billion (US$279.9 million), up from HK$108 million a year earlier.

The profit was bolstered by a rise in turnover of 23.1% to HK$16.14 billion and strong yields from the cargo division. Cathay Pacific deputy chairman and chief executive, David Turnbull, said despite the pickup in load factor of 8.6 points passenger yields increased by only 3.5% to 47.6 HK cents per kilometre, well below pre-economic crisis levels.

Turnbull plans to spend HK$20 billion on new planes and maintenance by 2003. A decision will be made on the A3XX and other new models in the second half of 2001.

The Hong Kong carrier, once thought of as an A3XX launch customer, has been notably cautious in its public pronouncements on the behemoth. This is partly explained by the airline's policy of "intelligent misuse" of aircraft, using long-range aircraft on shorter regional routes during the day and flying them on long-haul flights at night. Airline executives have questioned whether the A3XX can be used profitably in this way.

Japan Airlines, Asia's largest carrier by sales, said its pre-tax profit for the first half of its fiscal year more than doubled to 41.5 billion yen (US$380.8 million) from 18.75 billion yen as cost-cutting and revenue from increased passenger numbers offset increased fuel costs. Due to those costs Japan Airlines raised prices of some international tickets. The higher yields helped offset some of the impact of the yen's appreciation.

Boeing has projected that Japanese airlines will spend US$121 billion on new aircraft over the next 20 years, with mid-sized planes accounting for 55% of sales.

Qantas Airways beat analysts' forecasts and reported a profit of A$517.3 million (US$305.2 million) in the year to June 30. Smart fuel hedging helped. Goldman Sachs said in September that Qantas shares had remained strong "in view of its near-100% hedge ratio extending out to June 2001".

Other airlines did not handle the problem so easily. Lack of hedging eroded the earnings of Korean Air, which recorded a 197.7 billion won (US$176.6 million) loss for the first half of the year compared to net income of 229.6 billion won in the same period of 1999. The carrier attributed the decline to rises in fuel costs of 72.5% on a year-on-year basis and the cost of several new aircraft. KAL also paid increased insurance premiums as a result of aircraft accidents.

At Thai Airways International, a combination of higher fuel prices and a weakening currency hurt its third quarter results, which recorded losses of 1.17 billion baht (US$28.7 million) compared to a profit of 2.56 million baht in the same period in 1999. Costs related to flight operations climbed 51%, and foreign

Qantas Airways: another record year

exchange losses were 3.58 billion baht after the country's currency slide.

The fuel cost bugbear was a burden for Malaysia Airlines (MAS), which reported a net loss of US$33.7 million for the first quarter of the year, following a loss of $139.6 million for the 12 months to March 31. An airline statement said MAS expected passenger numbers to rise, but an improvement in yields was not forecast in the immediate future.

Mainland Chinese airlines, being associated with the government, do not hedge their fuel contracts. Nevertheless, the mainland's largest airline, China Southern Airlines, posted a 46% profit rise from US$29.1 million to $40 million for the first six months of the year thanks to increased passenger traffic and improved fleet utilisation.

The carrier's then president, Yan Zhiqing, said an improved regional economy, a government crackdown on fare discounting and new regulations governing the practices of travel agents contributed to the improved results. But fuel prices rose by 29.5%.

It was a similar story at Shanghai-based China Eastern Airlines, although it managed a 110% increase in profit, to US$24.6 million, for the first half of the year with the help of aircraft sales worth US$12.15 million.

A heartening performance by Hong Kong-based Dragonair bolstered the bottom line of the mainland aviation investment company, China National Aviation Corp. (CNAC) by 56.2% in the six months to June 30. Dragonair, 43%-owned by CNAC, elevated itself beyond its traditional role as a regional carrier by launching an all-cargo service to Europe via the Middle East at the end of July.


Philippine Airlines: a better year

Dragonair CEO, Stanley Hui, has made it clear cargo will be very much a focus for the airline and in November the airline confirmed it had bought two 747-300 combis from Singapore Airlines to be re-configured into freighters.

Most Chinese airlines agreed to impose a 15% fuel surcharge on airfares to offset the impact of rising fuel prices, state media reported in early November. The surcharge was capped at 150 yuan (US$18.12) per ticket.

Across the Taiwan Strait, EVA Air, which prided itself on its success in riding out the recession, raised its pre-tax profit forecast for the financial year to NT$1.88 billion (US$71 million) after passenger and cargo numbers continued to improve during the first six months of the year.

There was better news also at beleaguered Philippine Airlines (PAL). More passengers and greater efficiency produced a 12-fold increase in net income of 793 million pesos (US$17.7 million) in the three months to June 30. After the Philippines' year-long quarrel with Taiwan over sixth freedom rights that had disrupted air traffic between the two parties, something close to normal service was resumed in early October.

Air New Zealand (Air NZ) chairman, Sir Selwyn Cushing, warning fuel prices would hurt profits, told the company's annual meeting that volatile conditions in the Middle East indicated this pressure was not likely to diminish in the near term. An added woe for the carrier was the weak New Zealand dollar.

Earlier in the year, Sir Selwyn said an accounting charge pushed the Auckland-based carrier into a US$141 million loss for the year to June 30. The one-off charge of US$187.1 million was applied after Air NZ assumed complete ownership of Ansett Australia in mid-year.

Garuda Indonesia, after staring bankruptcy in the face during the Asian recession, saw more heartening times in 2000. Finance director, Emirsyah Satar, forecast an operating profit of more than double the 1999 figure of 135.5 billion rupiah (US$15.3 million). The airline posted a net profit of 409.6 billion rupiah in 1999 after a net loss of 2.23 trillion rupiah in 1998.

SAFETY REVIEW

*In April, the New Zealand courts ruled the captain of an **Ansett New Zealand** Bombardier Dash 8, which crashed in June 1995, should be charged with manslaughter. Investigators of the accident, which took the lives of five onboard, based some arguments for the charges on information from the cockpit voice recorders. The New Zealand decision provoked heated international debate with pilot unions insisting cockpit monitoring devices should be used exclusively to assist in determining the cause of accidents and for improving airline safety.*

*In the same month, **China Airlines (CAL)** announced the pilot of a CAL MD-11 which flipped over and crashed at Hong Kong International Airport in August 1999, was not at fault. The airline said a strong down draft caused the accident, which injured 22 passengers and took three lives.*

*On April 19, an **Air Philippine's** B737-200 crashed into a hill on approach to the southern Philippines city of Davao, killing 131 passengers and crew.*

*In May, the Singapore Government said the final report on the causes of the crash of a **SilkAir** B737-300 over Sumatra on December 19, 1997, was not yet written although investigations were complete. Indonesian investigators said the report should be ready by the third anniversary of the crash, which took the lives of all 97 passengers and seven crew onboard.*

*In June, 42 people aboard a **Wuhan Airlines** Y-2-100C died when the plane crashed on approach to the western Chinese city's airport in stormy weather.*

*In September, **Thai Airways International (THAI)**, which had received the final investigator's report on the loss of a THAI A310-200 in December 1998, on its approach to Surat Thani airport in Thailand, was accused of withholding details of the investigation from the Thai public. The crash, in which some passengers survived, happened after the pilot attempted his third go-around in poor weather.*

*On October 31, **Singapore Airlines** flight SQ 006, with 159 passengers and 20 crew onboard, crashed on take-off – in poor weather conditions – at Chiang Kai-shek International Airport in Taiwan. Seventy nine passengers and four crew died, either at the crash site or later in hospital. Singapore Airlines confirmed a few days later that SQ 006 was on the wrong runway at take-off and had hit excavation equipment being used to repair the tarmac.*

That Was The Year That Was ...

ACQUISITIONS

- On March 31, Singapore Airlines announced it had completed all negotiations and had become the 49% owner of Virgin Atlantic Ltd. On August 8, SIA said it had completed its US$141 million purchase from Brierley Investments Limited of 16.7% of Air NZ shares, bringing its total stake to 25%.
- The consolidation and restructuring by Chinese airlines gathered momentum. Deals included the acquisition in August by China Southern Airlines (CSA), China's largest airline, of small carrier Zhongyuan Airlines based in Zhenzhou. CSA was expected to complete negotiations for the purchase of China Northern Airlines by late December. China Eastern Airlines took over China Great Wall and regional carrier, Shandong Airlines, bought unprofitable Shanxi Airlines in late September. Hainan Airlines said it would buy Changan Airlines by December.
- Also in September German overhaul, repair and maintenance giant Lufthansa Technik (LHT) formally took over Philippine Airlines' engineering division and about 90% of its 1,500 staff. PAL sold its maintenance operation in line with the rehabilitation plan, which stipulates the disposal of the airline's non-core assets to help pay off US$2.2 billion of debt. LHT has also announced the development of a new facility on the Chinese mainland, the Shenzhen Lufthansa Technik Company Ltd
- In October, Ansett Australia launched a US$153 million bid for regional operator Hazelton Airlines.

AIRPORTS

- Kuala Lumpur's ambitions to become a key regional hub were dented when British Airways announced it would suspend its London-Kuala Lumpur route in March. It became the third airline to withdraw from Kuala Lumpur International Airport (KLIA) since the M$9 billion (US$2.43 billion) facility opened in 1998. Qantas ceased services in April and Lufthansa halted operations in September 1999. A BA spokesman said: "It has nothing to do with the KLIA, which is an excellent airport. It is purely a decision based on commercial realities."
- China's first listed airport operator, Beijing Capital International Airport, reported a 22% drop in first half profits to US$26.6 million, the result of high depreciation costs brought on by the completion of a multi-million dollar expansion programme in 1999.
- Guangzhou Baiyun International Airport said in September it would sell 300 million shares to domestic investors to help fund the construction of a new airport. Construction was scheduled to begin by late 2000.
- International credit rating agency Standard & Poor's accorded an "A+" corporate credit rating in local currency and an "A" rating in foreign currency to the Airport Authority of Hong Kong. The authority sought the rating as a first step towards a possible privatisation of the facility.
- Parts of the man made island on which the US$14 billion Kansai International Airport in Osaka is built are sinking faster than expected. An airport spokesman says parts of the island would be below sea level in the event of a major typhoon, but breakwaters would prevent flooding. Hydraulic jacks under the terminal building compensate for the island's sinking.

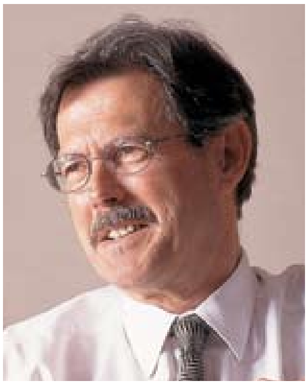
ALLIANCES

- In a statement to the Kuala Lumpur Stock Exchange on January 18, Malaysia Airlines (MAS) said it was in talks to join a global alliance. MAS's announcement represented an about turn on the airline's previous stance of going it alone.
- The world's third globe-spanning alliance, SkyTeam, was unveiled in June grouping Delta Air Lines, Air France, AeroMexico and Korean Air.
- Air New Zealand's buyout of Ansett Australia was completed on June 23.The Auckland carrier already owned 50% of Ansett. SIA bought a 25% stake in Air NZ in a two tranche deal completed in August.

AGREEMENTS...

- In February, China signed a new Air Services Agreement with Hong Kong following three years of talks. That paved the way for Dragonair to boost its share of routes dominated by Chinese airlines. The pact redressed that imbalance giving Dragonair the opportunity to add capacity on lucrative routes such as Hong Kong to Shanghai and the ability to convert charter flights to other Chinese cities to scheduled flights.
- In the same month, Japan Airlines (JAL) sold most of its stake in air courier company, DHL, to help it reach its target of eliminating 350 billion yen (US$3.5 billion) of its total debt of 1,525 trillion yen by 2003. JAL retains 6% of DHL.
- Global investment house and bank, Morgan

CHANGING OF



Long serving Air New Zealand chief executive, JIM MCCREA, resigned in mid-year

One year after being appointed China Airlines president, SANDY K. Y. LIU, was replaced

LADIES IN THE DRIVING SEAT: Consider the glass ceiling smashed. In 2000, Australian accountant and company director, Margaret Jackson became the region's first female chairman of a major airline at Qantas Airways. A few months later, China Airlines (CAL) named Christine Tsung Tsai-yi as its new president. See ON THE MOVE.

Stanley Dean Witter bought Asia-Pacific based leasing company, Ansett Worldwide Aviation Services (AWAS) in February. AWAS was the world's third largest aviation lessor at the time of the purchase from majority owner, TNT in Australia.

- **The Singapore Airlines Group successfully mounted Initial Public Offerings (IPO) for two subsidiaries, Singapore Air Terminal Services (SATS) and SIA Engineering. The May IPOs – for 13% of each of the two companies – added S$440 million net to the group's bottom line.**
- **A change of government in India accelerated implementation of a long mooted policy to privatise international flag carrier, Air India, and government domestic airline, Indian Airlines. Foreign investors in partnership with a local investor can bid for 40% of Air India. SIA has declared its interest in a strategic stake.**
- **With the northern hemisphere Spring in the air, the four partners in Airbus approved the company's Authority To Offer the A3XX. Singapore Airlines and Qantas Airways were among nine carriers to make an expression of interest.**
- **In July, Star Alliance members, of which Asia has several, established a full-time executive management team to oversee operations of the 15-member group, headed by Lufthansa's Friedel Rodig and with United Airline's Bruce Harris as his deputy. Star members fly to more than 830 destinations in 130 countries.**
- **In October, Philippine Airlines (PAL) chairman, Lucio Tan, announced he was organising a backdoor listing for the carrier to inject cash for expansion. Meanwhile, it is said he has authorised the government to broker the sale of his stake in PAL.**
- **Lufthansa German Airlines signed a code-share deal with Air China. It is seen as an early indicator that the China flag carrier could fill one of the few holes left in the Star Alliance world-wide network.**
- **A declining baht was blamed for Thai Airways International's latest postponement of its sale of 23% in its airline. With an election in January 2001, that latest date set is March 1.**

...DISAGREEMENTS

- **Despite pressure from U.S. carriers and some regional airlines, the Hong Kong Government rejected writing an Open Skies agreement when its advocates held talks in mid-April. Hong Kong's position is an Open Skies agreement with the U.S. that would grant U.S. airlines universal access to its aviation market, without local carriers being given rights to fly into U.S. domestic cities, would create an unlevel playing field.**

Throughout the year, the Taiwan-Philippines dispute over alleged abuse of air rights fluctuated between compromise and protectionism. By year end, China Airlines and EVA Air had had their rights to sell 6,500 seats signed off by the Philippines under a 1996 Air Services Agreement (ASA), but only after major Taiwan businesses in the Philippines threatened to go offshore. National flag carrier, Philippine Airlines persists in claiming the four-year old ASA does it unfair financial harm.

- **In mid-year, airline users of Sydney International Airport mounted a combined legal challenge to the operator's decision to increase user fees by 130%. The matter remained in the hands of the Australian legal system until year-end.**

DISAPPOINTMENTS

- **By June, China Airlines was forced to suspend plans to sell off a fifth of the carrier**

THE GUARD

After a hugely successful tenure, Qantas chairman, GARY PEMBERTON, retired

Thai Airways International president THAMNOON WANGLEE retired in October to private strategic investors after its designated lead financiers and brokers could not find a buyer after a six-month search.

- In Vietnam, talks between the country's aviation authorities and their U.S. counterparts, intended to sketch out a new Air Services Agreement quickly collapsed. U.S.-Vietnam diplomatic relations were restored in 1995. In principle code-share agreements have been signed and three U.S. carriers have applied to sell seats to Vietnam through partners.
- Pilots world-wide have reacted collectively in their opposition to a suggestion that video cameras be installed in cockpits to assist in accident investigations put by U.S. National Transportation Safety Board boss, Jim Hall, in mid-2000.
- Pilot power won out in South Korea, when Korean Air (KAL) allowed its pilots to form a union, following several crew led threats to mount continuing industrial action if their right to organise was refused. Despite this within weeks KAL pilots staged a two-day strike over pay. Since 1969, when North Koreans hijacked a YS-11 airplane, Korean air crews have been afforded special security status – a government rating which prevents them from forming or joining a labour union.

E-BUSINESS

- Cathay Pacific Airways chief operating officer, Philip Chen, said in October the airline will spend HK$2 billion (US$256 million) on up to 30 e-business projects in the next three years, with Chen predicting the projects will save Cathay up to HK$500 million a year by 2003.
- Singapore Airlines is spending US$100 million to integrate all business of the SIA Group on to the platform mySAP.com.
- Qantas Airways established Qantas Ventures in August to develop Internet-based products and services and to work with other companies to lower purchasing costs in catering and engineering and maintenance. It also includes the establishment of a corporate travel trade management programme, travel trade Web site and online freight and logistics services.

ON THE MOVE/NEWSMAKERS:

- Christine Tsung Tsai-yi, a consultant for a mass transit railway project in the Taiwan port of Kaohsiung, became the new president of China Airlines, the first female to run a major airline in the region. She replaced 30-year CAL veteran Sandy K.Y. Liu. It was a decision that had most people in the industry saying: Christine who? Guiding her is Taiwanese aviation veteran and new CAL chairman, Yun-ling Lee, from large domestic carrier, Far Eastern Air Transport. He is a former CAL pilot.
- At Qantas, former chairman, Gary Pem-berton announced his retirement and named fellow board member Margaret Jackson (47) – the region's first female chair of an airline – as his successor. Jackson is an accountant who sits on several banking and transport boards.
- Thai Airways International chose 28-year THAI veteran Bhisit Kuslasayanon to succeed Thamnoon Wanglee as the airline's new president and chief executive.

Cathay Pacific Airways: Spending US$256 million on e-business projects

- Air New Zealand chief Jim McCrea resigned as Singapore Airlines finalised its purchase of 25% of the carrier and the announcement of a management restructuring at the Air NZ-Ansett group. Gary Toomey, former Qantas deputy chief executive and chief financial officer, became head of the new Air New Zealand-Ansett combine. Qantas announced that marketing strongman Geoff Dixon would replace long-time chief James Strong in March, 2001. Rumours continue to circulate that Strong is favoured by some factions in the International Air Transport Association to succeed retiring director-general Pierre Jeanniot in 2001.
- Dr Rob Lee resigned as head of Australia's air accident investigators. Those who know him said he took the decision partly out of disillusionment with budget cuts that have made it difficult for investigators to do their job adequately.
- Dao Manh Nhuong stepped down as president and CEO of Vietnam Airlines "for health reasons" and has been succeeded by Nguyen Xuan Hien, formerly deputy director general of the Civil Aviation Administration of Vietnam. The new chief joins as the airline shows signs of a resurgence after experiencing hard times in the nineties.
- Troubled Air Niugini sacked managing director Andrew Ogil with the board citing "irreconcilable differences". The airline appointed Australian Peter Roberts, a former head of South Pacific airline Air Vanuatu, as its new chief executive. Roberts has also been CEO of Jet Airways in India and head of tiny Pacific carrier Air Nauru.
- Hong Kong Airport Authority chairman, Victor Fung, replaced civil servant Billy Lam with new chief executive David Pang. During the year, Fung brought in ex-Schiphol Airport senior executive Hans Bakkers as commercial director.
- And an airline changes partners. The former Ansett New Zealand carrier became Qantas New Zealand in a deal made up largely of private investors in a purchase from Rupert Murdoch's News group. The parent company is Tasman Pacific Airlines.

Y2K

- We have forgotten about it now but as the clock ticked towards midnight on December 31, 1999 several airline bosses and their top technicians missed the hailing of the midnight hour. They were either aboard their aircraft – to reassure passengers their operations were safe – or they were bunkered down awaiting news of possible technological mayhem. It was the biggest and most expensive assault operation of 1999 – defeating the Y2K bug. Through time, care and money across the industry it became the biggest non-event of the last year.

NOTABLE

- After 34 years based in the Philippines, the Association of Asia Pacific Airlines (AAPA) moved to Malaysia and officially opened the doors of its new Secretariat on August 7. The 18 AAPA member airlines carry more than 85% of traffic in the region. Their standards of service have become a yardstick for the industry as a whole.
- Korean Air (KAL) made company history in January when it appointed Harry Greenberg as its first non-Korean executive vice-president and chief operating officer of flight operations, safety and security divisions. KAL had suffered a series of high-profile accidents and incidents, which led to the government imposing tough sanctions on the airline. These included stripping KAL of lucrative domestic and regional routes. KAL's cause was not helped by the conviction of the chairman, Y.H.Cho, for tax evasion. Cho received a four- year prison sentence but has, so far, escaped the lock-up.

  Weeks later, Taiwan's China Airlines confirmed ex-Swissair captain Alfred Kupferschmied as the airline's first expatriate chief of operations.
- The *South China Morning Post* reported in February that six people aboard a Cathay Pacific Airways flight from Johannesburg were arrested when the airplane landed at Hong Kong. The arrests followed an in-flight brawl involving 30 people. The newspaper said two groups of mainland passengers had bickered during the 14-hour flight, culminating in a refusal by two passengers from one group to put their seats upright for landing. Punches flew and a glass was smashed before the cabin crew regained control of the section of the economy class cabin.
- Japanese airlines are using adhesive tape and other restraining devices to control unruly passengers. Japan Airlines (JAL), All Nippon Airways and Japan Air System began telling customers in April that they would forcefully restrain any passenger who threatened others or refused to heed orders by crew members. In April, flight attendants aboard a JAL flight to Los Angeles bound a drunken man to his seat with adhesive tape after he refused to stop shouting and pushing passengers and crew.
- After 30 years, European airplane manufacturer, Airbus Industrie, won more orders than rival, Boeing, in the U.S. in 1999. Airbus sold 55% of all new aircraft last year, at a value of US$30.5 billion. Boeing congratulated Airbus and added that the sales victory "should underscore the fact that Airbus no longer needs government subsidies to compete in the marketplace".

Thai International Airways' new president Bhisit Kuslasayanon: 28 years with the airline

- In May, a Cathay Pacific Airbus A340-300 completed the first commercial trans-polar flight from Canada.
- Three months later, Qantas Airways added its name to the aviation history books with its first CNS/ATM (Communications Navigation Surveillance/Air Traffic Management) flight (L888) across the Silk Road route in China. A few weeks later, controversy erupted about L888 because the technology only allows Qantas to use the route.
- As a result of allegations made by a local Independent watchdog, Garuda's boss, Abdulgani, sets up a team to investigate claims that former Suharto appointed Garuda senior executives were guilty of corruption and mismanagement in relation to aircraft procurement and maintenance projects for several large aircraft and 17 Fokker F28s.
- As China Southern Airlines reported in October: pigs can fly! In fact 700 live hogs flew in a China Southern Boeing 747-400 freighter from Chicago to Shenzhen for "processing". They were well cared for. China Southern said a host of U.S. government agencies was involved in approving the shipment and the hogs were fully inspected and approved by the Chinese Quarantine Bureau for more than two months prior to their first (and last) flight.
- Mid-year, in one of the industry's worst kept secrets, Air France and Delta played alliance catch-up by forming Skyteam with Asian partner, Korean Air (KAL) and Aeromexico. On a roll, the four carriers unveiled a cargo alliance, that will have several more partners, at the International Air Cargo conference in Washington, DC.
- Angel Air, Thailand's second international scheduled carrier, picked itself up from its Thai runway and restarted services to Hong Kong after its creditors grounded its small fleet earlier in 2000.
- In September, both of Japan's scheduled international carriers announced plans to shift operations to new low cost carriers in their groups. Japan Airlines increased the number of B737-400s it has transferred to JAL Express (JEX) to eight and All Nippon Airways announced plans to launch a low cost international subsidiary, Air Japan, in January 2001.
- The first effects of escalating fuel prices appear on the bottom lines of Asia-Pacific carriers, Hainan Airlines, Korean Air and Thai Airways International, who reported losses in their first half results.
- In a humbling October announcement, Malaysia's prime minister Mahathir Mo-hamad, endorsed a central government decision to relinquish its golden share – the right to veto any decision – in struggling flag carrier, Malaysia Airlines (MAS). MAS is seeking equity partners to help it re-structure and repay debt and the central government's ultimate control over MAS is unpopular with suitors.

Malaysia Airlines: Its government has offered to relinquish its 'golden share' if it would benefit the airline

GROWING PAINS

A Singapore academic, talking about the impact that fast-growing China will have in future on the economies of its smaller Asian neighbours, said the mainland was "a big panda bear coming to crush them". However, in terms of China's commercial aviation industry, the dawn of the new millennium saw the panda as not very big yet, enduring an untidy adolescence, and more worried about being crushed by others than doing any crushing itself.

But at least the year 2000 saw solid signs that China was moving towards the fundamental reforms needed to tackle some of its hallmark problems of over-capacity, bare-knuckle "fare wars" competition and general inefficiency that have thrown many carriers into debt.

As *Orient Aviation's* Tom Ballantyne reported in July, the mainland was considering a reform blueprint that would include giving airlines more freedom to run their own businesses and weakening the deadening grip of the industry regulator, the Civil Aviation Administration of China (CAAC).

The centrepiece of the proposed revamp involves folding weaker airlines into a handful of groups, former CAAC official, Zhang Baojian, told Ballantyne. Three of the groups are centred on international carriers Air China, China Southern Airlines and China Eastern Airlines, with a fourth headed by the China National Aviation Corporation.

Clearly that is easier said than implemented, as it involves the larger organisations shouldering new debt, surplus workers plus the raft of problems associated with blending managements and networks.

But 2000 saw consolidation gather momentum. In August, China Southern, based in the southern city of Guangzhou and ranked number one in terms of passengers carried in the mainland, acquired the small regional carrier Zhongyuan Airlines based in Henan province. China Southern boss Yan Zhiqing pledged to return Zhongyuan to profit "in the short term".

Later in the year China Southern was engrossed in moves to acquire Shenyang-based China Northern, whose route network would complement China Southern's in the south. A decision on what would create one of Asia's largest airlines is expected by year-end.

China Southern, which reported a 46.1% rise in first half net profit despite higher fuel prices, stretched its wings in international cargo, launching a service from Shenzhen to Chicago, later adding a Shanghai stop on the return leg. China Southern's outbound load factors were reported to be high but – like other carriers in the trans-Pacific market – the carrier had trouble filling freighters for the return leg.

Joining in merger moves Shandong Airlines, which sold its first shares to the public in September, said in the same month it had bought unprofitable Shanxi Airlines. "We want to expand in central and western China and strengthen our operations to compete with the bigger airlines," said Shandong Airlines' Zheng Bao'an, who added that the airline had won rights to fly to Hong Kong, Macau and Seoul.

Furthering its expansion plans, Shandong Airlines was reported to be close to a deal with China Northwest Airlines, a merger that would create the mainland's fourth largest carrier.

Earlier Hainan Airlines, which boasts U.S. financier George Soros as a key shareholder, said it was merging with cash-strapped Changan Airlines.

Not to be outdone, Shanghai-based China Eastern said it was buying into China Great Wall based at Ningpo, near Shanghai.

But the most intriguing news involving China Eastern, with implications far beyond the realms of aviation, was mid-year moves by Taiwan's flagship carrier China Airlines to buy a 25% stake in the mainland's China Cargo Airlines, which is majority-owned by China Eastern.

Beijing had said the proposed acquisition, which would have been one of the highest-profile business deals between the mainland and what it regards as a renegade province, was strictly a commercial matter between the companies. However, in December the deal was said to have been put on hold.

As additional evidence of a quickening pace of restructuring, China is reported to be hastening the drafting of rules that allow foreign investors to increase their stakes in mainland airlines to 49% from the present 35%. It is a move many Chinese airlines crave as a source of foreign capital and expertise as China readies itself for membership of the World Trade Organisation. A senior Beijing official said at the Zhuhai Air Show in early November that no final decision on this step had been reached. The promising outlook for Chinese civil aviation was clouded – as elsewhere – by rising fuel costs, with Chinese airlines bearing the added burden of being obliged to buy fuel at state-set prices with no option to hedge fuel purchases. Accordingly, mainland media reported in November that most Chinese airlines had agreed to impose a 15% fuel surcharge on airfares to soften the impact. However the spectre of indebtedness that has haunted Chinese aviation since its helter skelter expansion is not about to fade away.

China Southern Airlines: emerging as a leader in China's aviation merger and acquisition programme

WTO ENTRY 'WILL EASE' CHINA'S FUEL COST BURDEN

INSIDE CHINA

By Jonathan Sharp

Senior Chinese officials were disarmingly candid at the November Zhuhai Air Show about the pressing problems facing the mainland's aviation industry in the 21st century, but their prescriptions on how to overcome the hurdles were notable for their lack of detail.

They also acknowledged that several key decisions, including a proposed increase in the stakes that foreign investors can hold in mainland airlines, had still to be made.

Leading off a symposium on Chinese aviation at the start of the century, Bao Peide, vice-minister of the Civil Aviation Administration of China (CAAC), peppered his presentation with figures about Chinese aviation's progress since the mainland opened up its economy 20 years ago. These achievements included improvements in flight safety, which was now at its "most satisfactory" level ever, he said.

But he also spoke of an industry handicapped by rough-and-tumble competition, a sluggish reform programme, irrational organisational structure of aviation enterprises, low management standards and fragmented air transport production. He might also have mentioned the debts run up by many of the 30-plus airlines that have sprung up in China's pell-mell race to modernise.

What he did not say was that many observers, inside the mainland as well as outside, have long held that the CAAC, the country's regulatory authority, is partly responsible for such shortcomings.

Vice-minister Bao stressed that China welcomed an expanded role for foreign capital in mainland aviation. He said restrictions on foreign investment in airports and airlines would be "appropriately relaxed" – although he did not give any timetable.

After the symposium the vice-minister told *Orient Aviation* that no decision had yet been reached on raising the limit of overseas investment in mainland carriers from 35% to 49%.

The move has been in the air for many months and is craved by Chinese airlines desperate for foreign funds and expertise.

At the symposium, Sha Hongjiang, deputy director general of the CAAC's department of policies, laws and regulations, enlarged on how Chinese aviation will cope with entry into the World Trade Organization (WTO), a step which he said was fraught with challenges as well as opportunities.

Sha said WTO entry would help cut government-set fuel prices, which he said were the most important cost element of Chinese airlines, 24% of operating costs, and were much higher than that of foreign airlines.

Easing control over oil sales and distribution spurred by WTO entry would mean after about five years the domestic aviation fuel price in China would be in line with international prices, he said.

"At the same time, civil aviation enterprises may benefit when importing aviation supplies and equipment because of the general cut in tariffs on industrial products," Sha said. He also pointed to the opening up of the mainland's banking industry. "This will be beneficial for civil aviation transport enterprises, which are short of funds."

Sha did not play down the negative impact of a more free-wheeling trade regime, or the need to act quickly. "Time is pressing," he said. "There exists a gap between Chinese airlines in terms of the capability to compete internationally and their marketing tools are not as good as those of their foreign counterparts."

WTO rules meant that China could manage air transport "no longer in the way we did before, which requires a change in terms of both ideas and systems", Sha said.

'Easing control over oil sales and distribution spurred by WTO entry would mean after about five years the domestic aviation fuel price in China would be in line with international prices'

Listing the reform priorities, Sha referred firstly to much-publicised moves to consolidate airlines under the CAAC into three groups based on Air China, China Eastern and China Southern Airlines, but again he gave no timeframe for this radical restructuring.

Gao Shiqing, deputy director-general of the CAAC's department of planning, science and technology, made a plea for expansion of aviation in China's vast and relatively sparsely populated western region, whose development has lagged behind the more prosperous east but is now a policy focus of Beijing.

Gao suggested that some of the funds collected by the industry in the east should be allocated to the west and tax breaks should be granted.

He also made a pitch for more non-Chinese investment. "The civil aviation industry should not miss the opportunity to revise the policy of foreign investment ... and encourage foreign investment to enter the western region to construct civilian airports," he said.

Gao said foreign businesses should be encouraged to make joint investments with Chinese concerns in the west and set up feeder air transport enterprises in the form of joint ventures, cooperative deals or stock purchases.

To back his pleas, Gao invoked heavyweight support from no less a body than the Central Committee of the Chinese Communist Party, which has formally given priority to correcting the mainland's lopsided economic development, citing the potential in the country's far-flung corners for, among other things, tourism.

AIR FREIGHT BOOM KEEPS ON ROLLING

Passenger traffic recorded by the Association of Asia Pacific Airlines (AAPA) member carriers for August 2000 eased slightly after six consecutive months of double-digit growth.

The consolidated revenue passenger kilometres (RPKs) increased 7.6% while passengers carried (PAX) rose 6%. Seat capacity, meanwhile, increased by 5.9%. The load factor (PLF) improved by 1.3 percentage points to an impressive 80.4%, highlighting that August was the peak month in the travel calendar.

Seven of the member airlines recorded double-digit RPK growth. Philippine Airlines (PR), with 32.5%, again topped the list. The other six were Vietnam Airlines (VN – 20.2%), Asiana Airlines (OZ – 15.5%), Royal Brunei Airlines (BI – 14.5%), China Airlines (CI – 13.5%), Korean Air (KE – 10.9%) and Garuda Indonesia (GA – 10.2%).

Overall load factor growth was moderate. Royal Brunei Airlines (9.1 percentage points), All Nippon Airways (NH – 6.2 percentage points) and China Airlines (3.2 percentage points) emerged with significant improvement. Remarkably, nine member airlines filled more than 80% of their seats; China Airlines (84.8%), Asiana Airlines (84.6%), Vietnam Airlines (84%), EVA Air (BR – 83.8%), All Nippon Airways (83.4%), Cathay Pacific Airways (CX – 83.1%), Korean Air (81.4%), Singapore Airlines (SQ – 80.8%) and Japan Airlines (JL – 80.6%). No carrier recorded a PLF below 70%.

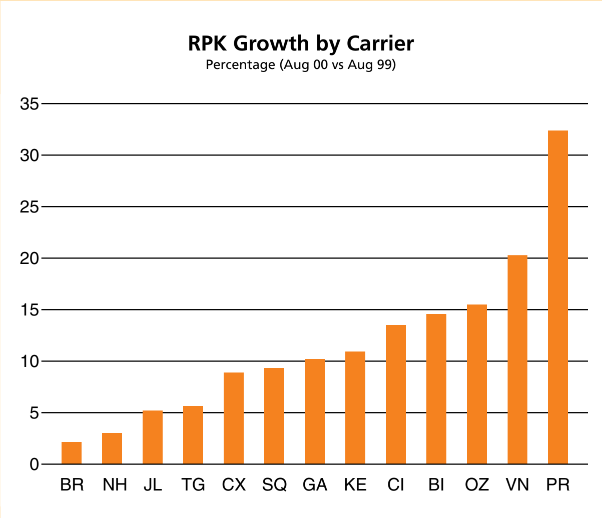
Significant highlights of August were:

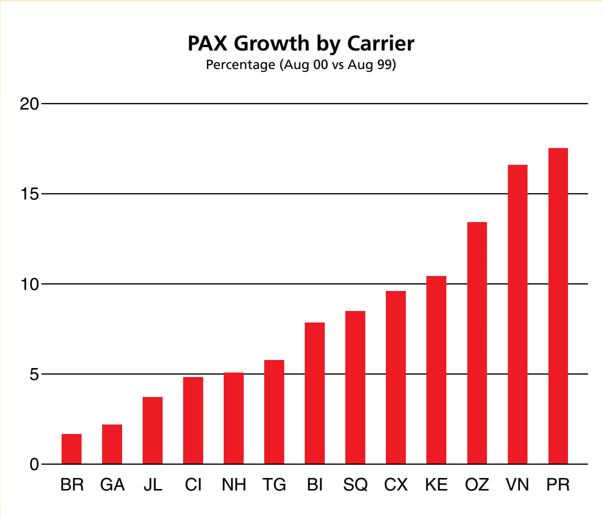
- Milestones in RPK and PAX levels: Seven carriers managed to record both their highest ever RPK level and PAX levels in August. They were: Royal Brunei Airlines, Cathay Pacific Airways, Japan Airlines, Korean Air, All Nippon Airways, Asiana Airlines and Thai Airways International (TG). EVA Air reported its highest RPK this month as well. Its best ever PAX level was recorded in July.
  Singapore Airlines recorded both the highest RPK and PAX levels in July.
- Load factors: All Nippon Airways and Asiana Airlines had their best load factors since 1995. Royal Brunei Airlines bettered July's 69.5% with 70.3% in August.

Cargo Results

Freight traffic, in contrast with the passenger sector, did not show any signs of slowing down. Freight tonne kilometres (FTKs) increased by 11.1% in August. FTK growth for the past eight months has been 14.7%. Capacity rose 7%, which resulted in a 68.9% load factor, up 2.6 percentage points over the same month last year.

Nine carriers posted more than 10% FTK growth. Vietnam Airlines (30.7%) recorded the highest increase. The others were: Philippine Airlines (18.6%), China Airlines (17.8%), Garuda Indonesia (16.7%), Asiana Airlines (16%), Korean Air (14.7%), EVA Air (13.8%), Singapore Airlines (11.8%) and Cathay Pacific Airways (11.2%). On the other hand, Royal Brunei Airlines experienced a drop in freight traffic.





All Nippon Airways again reduced its freight capacity which pushed its load factor (FLF) up by 16.5 percentage points. Garuda Indonesia was the only other carrier to reduce capacity. This resulted in a FLF increase of 12 percentage points. China Airlines posted the highest FLF at 82.4%. Another four Northeast Asia based carriers followed the Taipei-based carrier – EVA Air (77.6%), Asiana Airlines (76.8%), Korean Air (76.2%) and Cathay Pacific Airways (69.1%). Singapore Airlines (68.4%) and Thai Airways International (66%) were the other carriers with a load factor above 65%.

Results for the 12 Months to August 31 2000

Passenger traffic and the number of passengers carried for the 12-month period under review increased 11.6% and 9.7% respectively. Seat capacity increased 7.4% and resulted in a 2.8 percentage point increase in load factor to 74.2%.

With the exception of Royal Brunei Airlines, all carriers registered positive RPK growth during the 12 months. Philippine Airlines increased its RPKs by 64.7%. This was as a result of the comparison with the low base period when the carrier's operations were disrupted for two months. Other carriers registering strong growth were Garuda Indonesia (46.4%), Asiana Airlines (23.7%), Korean Air (13.6%), Vietnam Airlines (11.5%), Cathay Pacific Airways (10.8%) and Thai Airways International (10.1%).

Garuda Indonesia enjoyed the largest improvement in PLF in the 12 months under review with an 8.4 percentage point increase. It also recorded the highest PLF with 78.5%.

Both Korean carriers, Korean Air and Asiana, experienced a marginal decrease in PLF growth. Twelve carriers filled more than 70% of their seats during the period.

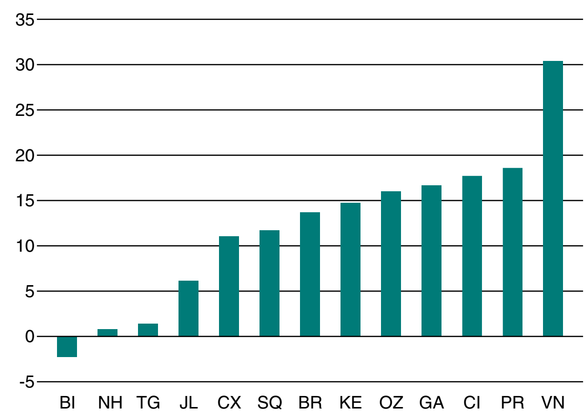
Cargo Results

Freight traffic increased 16.9% and capacity grew 14.8% for the 12-month period. The load factor topped the 70% mark at 70.1%, up 1.2 percentage points.

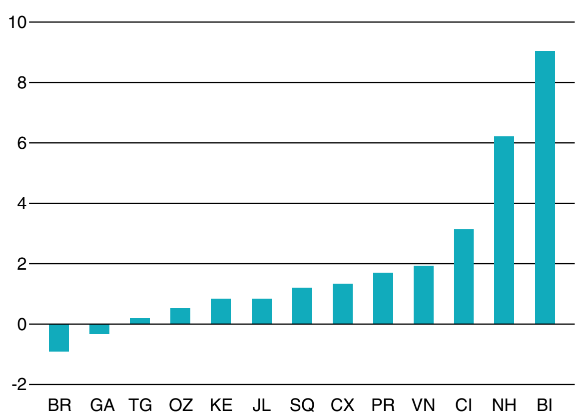
Bullish trade continued to spur FTK growth. Six carriers registered more than 20% expansion with Philippine Airlines leading the way with 68.3% (low base period). Vietnam Airlines was next in line with FTK growth of 30.7% for the 12-month period.

All Nippon Airways enjoyed a big improvement in load factor (up 12.2 percentage points) after slashing its capacity. Taiwan carriers China Airlines and EVA Air both posted the highest load factors of 84.3% and 81.2% respectively. Three more Northeast Asia based

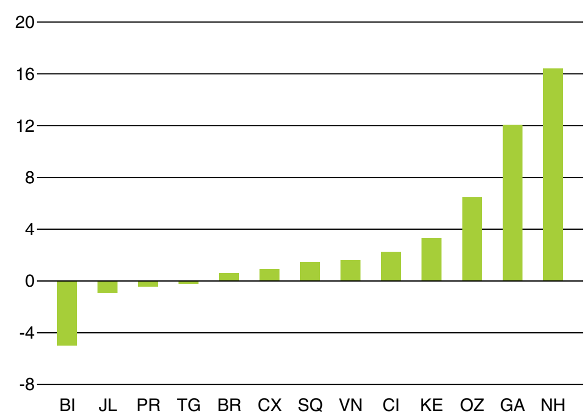
FTK Growth by Carrier
Percentage (Aug 00 vs Aug 99)



Passenger Load Factor Growth by Carrier
Percentage Points Change (Aug 00 vs Aug 99)



Freight Load Factor Growth by Carrier
Percentage Points Change (Aug 00 vs Aug 99)



Garuda Indonesia: largest improvement among AAPA carriers in passenger load factor in the 12 months to August 31

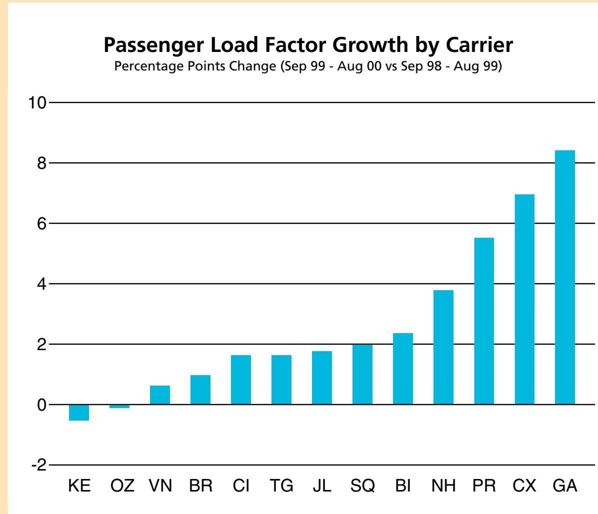
airlines posted FLFs exceeding 70% – Asiana Airlines (76.5%), Korean Air (76%) and Cathay Pacific Airways (72.9%).

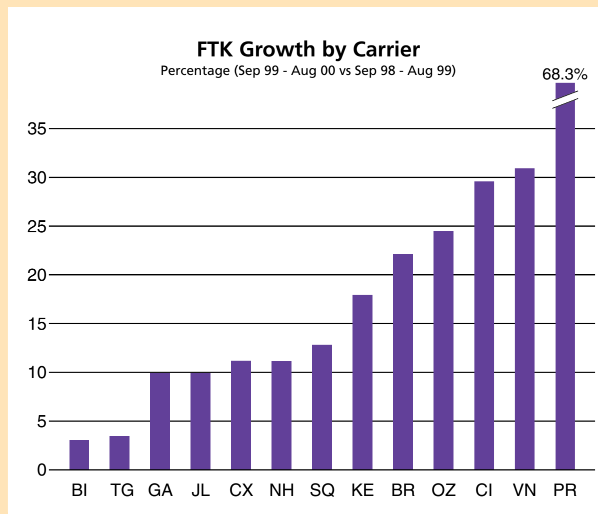
Summary

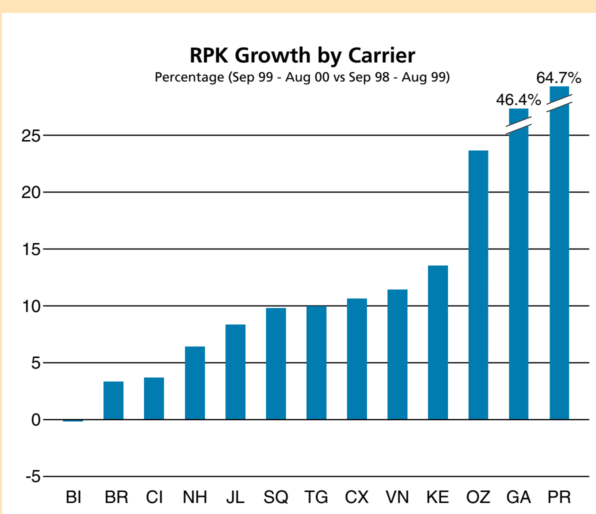
Seven member airlines registered their highest ever traffic levels in a month when overall growth of 7.6% was well below the 12-month average. This illustrates both the sustained rate of growth over the last 18 months and the probability that in the peaks further expansion will be restrained by available capacity.

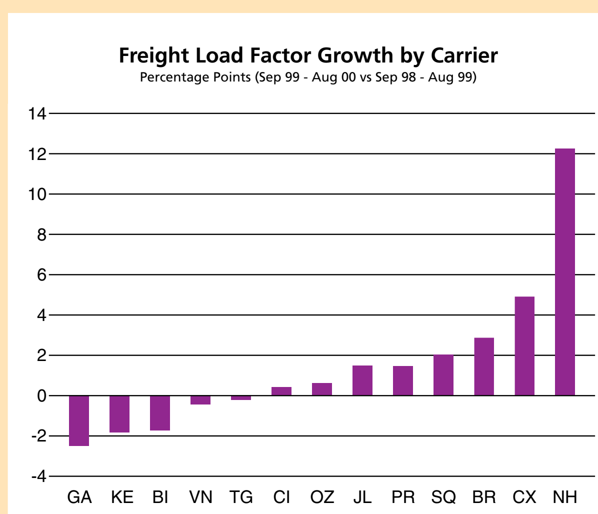
Freight traffic remained strong. this was the sixteenth consecutive month of double-digit growth since May 1999. Strong expansion in many Asian economies, initially propelled by the buoyant U.S. economy, helped maintain freight traffic growth.

The economic outlook remains positive for the immediate future (in spite of rising fuel prices) and for 2001, as growth will be more evenly spread. Most major Asian economies look set to achieve a GDP increase of 7% or more in 2001. However, economies such as Indonesia, the Philippines and Thailand, whose progress lagged behind others in the past year, also are expected to perform relatively poorly in 2001. Finally, Japan is forecast to grow by 2% in 2001.

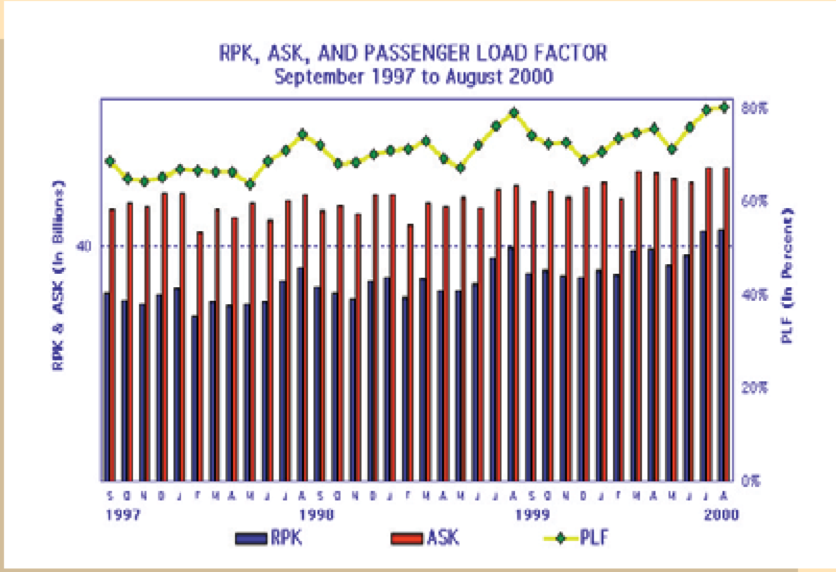


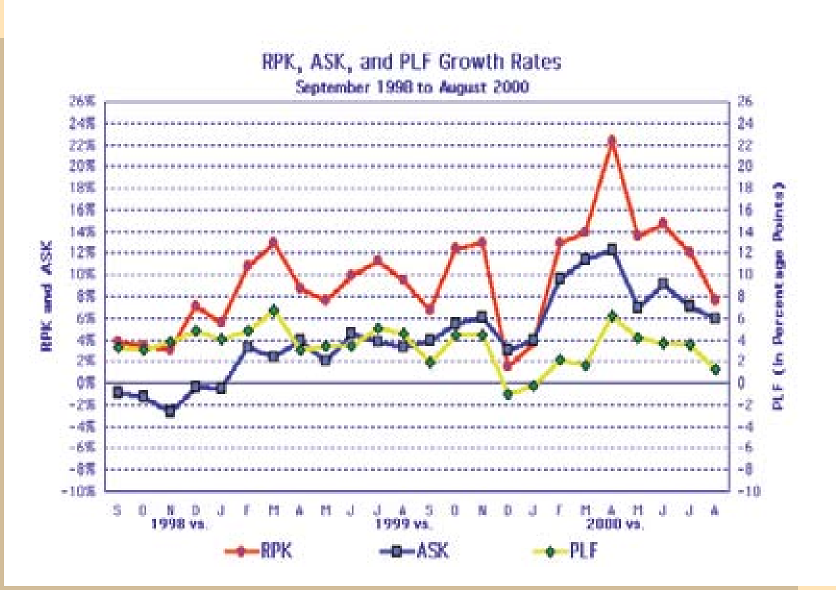




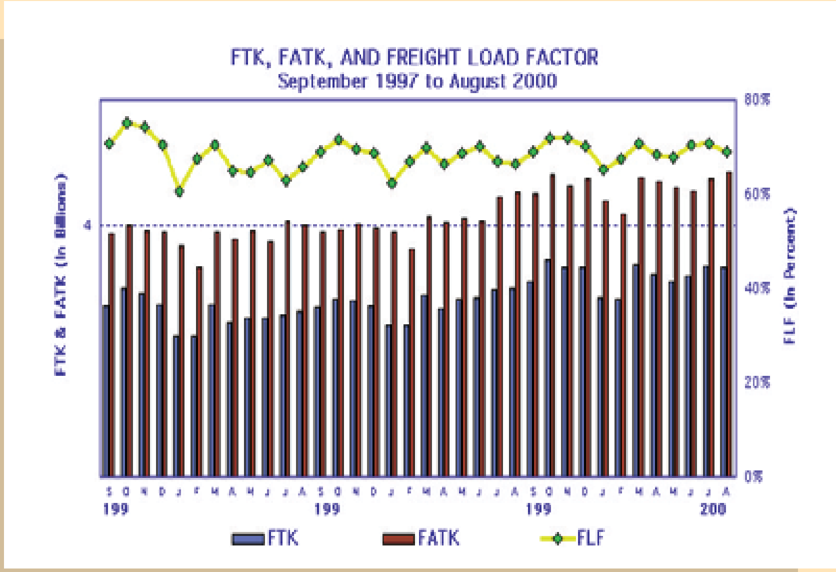


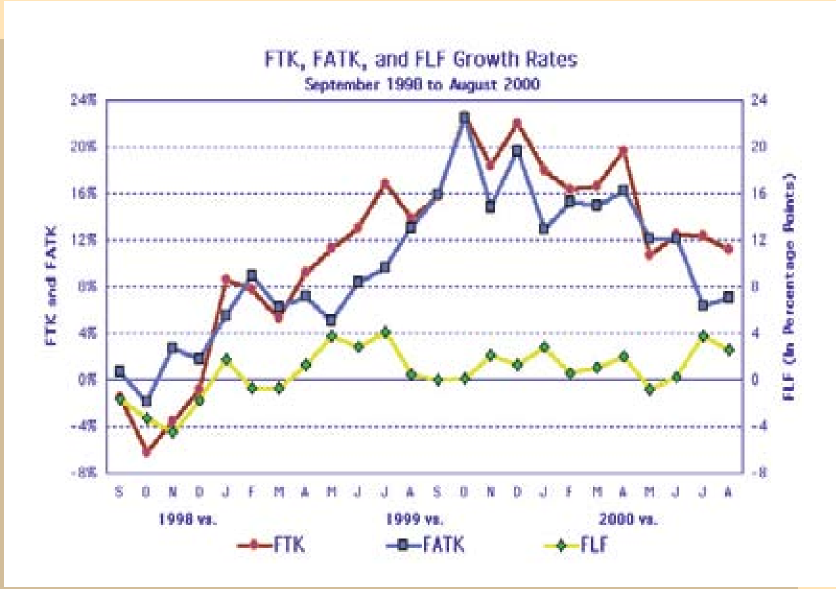
Monthly international PAX statistics of AAPA members





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)
AUG-00	42,758,467	53,212,678	80.4	3,335,893	4,841,138	68.9	7,354,703	9,740,555	9,425
JUL-00	42,480,966	53,264,458	79.8	3,354,230	4,736,493	70.8	7,344,336	9,534,159	9,387
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
OCT-99	35,775,017	49,380,385	72.4	3,452,443	4,811,928	71.7	6,821,985	9,343,214	8,007
SEP-99	35,286,401	47,644,830	74.1	3,110,746	4,505,421	69.0	6,433,467	8,881,324	7,771
TOTAL	451,178,173	607,754,486	74.2	38,475,495	55,438,353	69.4	80,738,713	111,142,285	100,506

1999 to 2000

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
AUG-00	7.6	5.9	1.3	11.1	7.0	2.6	9.4	6.5	6.0
JUL-00	12.1	7.2	3.5	12.4	6.4	3.8	12.6	5.6	9.8
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
OCT-99	12.4	5.5	4.4	22.6	22.4	0.1	18.8	12.7	10.6
SEP-99	6.7	3.9	1.9	15.8	15.8	0.0	12.5	9.2	7.6

Calendar Year

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
2000[5]	310,502,428	412,453,994	75.28	25,263,920	36,746,426	68.75	54,295,694	74,530,156	68,842
1999	416,820,106	576,253,703	72.33	35,277,459	51,519,550	68.47	74,179,615	104,437,440	94,242
1998	382,106,292	557,130,177	68.58	30,958,021	46,204,321	67.00	66,141,448	97,199,731	86,198
1997	387,763,016	561,392,742	69.07	31,741,381	45,688,853	69.47	67,739,088	96,736,079	88,696
1996	374,365,998	529,442,583	70.71	27,783,667	43,091,640	64.48	62,557,622	90,816,037	86,703
1995	326,071,184	471,535,677	69.15	23,838,488	36,487,508	65.33	54,250,542	79,121,583	76,378

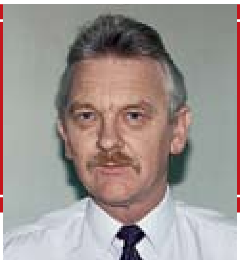
Calendar Year

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
2000[6]	12.4	8.3	4.2	14.5	11.9	2.6	13.7	9.9	10.0
1999	9.1	3.4	5.7	14.0	11.5	2.4	12.2	7.4	9.3
1998	-1.5	-0.8	-0.7	-2.5	1.1	-3.6	-2.4	0.5	-2.8
1997	3.6	6.0	-2.5	14.2	6.0	8.2	8.3	6.5	2.3
1996	14.8	12.3	2.5	16.5	18.1	-1.6	15.3	14.8	13.5

Note:

1. The consolidation in Table 1 includes 16 participating airlines.
2. Data for Jul 2000 – Aug 2000 are subject to revision as actual data for AN & QF (Jul 2000 – Aug 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. Calender Year (January – December). Year 2000 to date – From Jan 2000 to Aug 2000.
6. Year-on-year comparison: Jan - Aug 2000 v. Jan – Aug 1999.

ARE PASSENGERS' EXPECTATIONS BEING RAISED TOO HIGH?



TURBULENCE

By Tom Ballantyne

Great Expectations. Sounds like a good title for a book, but it also is what the world's air travellers are being encouraged to look forward to when Airbus Industrie's vaunted new A3XX finally takes to the skies in about five years time. The question is: will passengers end up with what they expect?

Quite rightly, Toulouse makes the point this aircraft has so much internal space it opens up all sorts of possibilities for the inflight service gurus. It is, after all, the jet of the 21st century and with the coming of a new millennium customers should expect more than they have had up until now.

The European planemaker's crack salesman, senior vice-president commercial, John Leahy, is obviously excited about the possibilities and you can hardly blame him. On-board casinos, duty-free shops, bars and dining areas, private staterooms and libraries of books and CDs are a few of the suggestions.

But airlines are getting a little nervous about some of this talk. So much so that at least one major Asian carrier has dropped Airbus a little note suggesting its executives tone down the sales rhetoric. Privately, other major airlines are voicing similar fears.

Their concern is in its attempts to sell the plane and outmanoeuvre rival Boeing, the European manufacturer may unwittingly be raising unrealistic expectations among passengers.

"What happens when people board and don't find casinos and the like?" asked one Asian airline executive. "They'll turn round and accuse us of being cheapskates for failing to deliver the goods."

This is a fair point. The A3XX is a giant, with 49% more useable space than today's Boeing B747. There will be only 35% more seats, meaning more legroom for everyone, even in economy. Clearly, the planemaker sees business class flyers receiving today's first class luxury, while premier ticket buyers will have the moon.

But few airlines, eager to improve margins and lift profitability in a notoriously cyclical industry, are unlikely to waste space on non-essential luxuries when a customer could be paying to sit there.

It is significant that even launch customer Singapore Airlines (SIA), famed for its inflight entertainment and service standards, has been very cautious about issuing any firm commitments on what it plans to do with all this space. Actually, it has not decided yet. Think tanks from the service department have only just started to toss ideas back and forth.

The latest A3XX customer, Qantas Airways, is also remaining cautious. Deputy chief excutive, Geoff Dixon, limited his suggestions to more modest offerings such as a creche for the kids or perhaps a small gymnasium.

With 44 firm orders for the A3XX in place, Airbus will now launch the project and that is

'Some airlines are nervous that passengers will expect the moon onboard the A3XX'

exciting. It has the potential to bring unheard of levels of comfort to passengers. It will bring better economics to the airline business, much as the B747 did when it appeared on the scene.

But let's not get carried away. Airlines will be very careful to ensure they get a maximum return on their investment of, for non-launch carriers, around US$216 million per unit, or about US$235 once all the extras have been added.

The luxury additions will undoubtedly be confined largely to the executive cabins and no one can tell me most airline's won't be making maximum use of potential seating space. In other words, economy passengers, in particular, should not get over-excited.

There are areas which cannot be used for seating. Under the stairways between decks is one example. Another is the area towards the nose, which, unlike the B747, cannot be used as a passenger cabin because of emergency evacuation considerations.

In its mock-up Airbus uses this for a spacious bathroom for first class, including a full-size shower.

As for duty-free shops and boardrooms, Leahy does stress such options are entirely up to the airlines. "I am absolutely certain some airlines will not have these facilities, but I am also positive some will," he said.

Some carriers have already talked to Airbus about casinos and private staterooms and the aircraft is specifically designed to allow for "a super premier class", he pointed out. But airlines remain nervous.

Airlines have plenty of time to come up with the ideas they can afford to implement. By 2006, when the A3XX enters service there will probably be IFE equipment on the market that is way beyond current expectations.

It is easy to talk about bringing cruise liner comfort to the sky. The reality is that jet aircraft are not cruise liners. Inflight service will remain a vital component of the competitive mix among leading operators, but their is a danger if passengers are encouraged to expect too much they will be bitterly disappointed when it is not delivered.