Orient aviation

VOL. 8 NO. 1 OCTOBER 2000

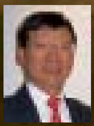
MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

Burning Money

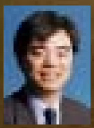
But is sky high fuel price set to peak?

Toomey for Air New Zealand's top job

Cargo Special:



Hui guides Dragonair into Europe



New aircraft, new challenge for Cathay's Tang

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BPA INTERNATIONAL ®

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INFLIGHT ASIA

A 16-page pull-out dedicated to onboard services and technology. In this issue: Dragonair bucks the trend with new uniforms; race to become first e-mail airline in Asia-Pacific; Internet spawns marriages of convenience; UK airline turns to Asia to improve its image; Network: news and people moves.

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

Publisher and Managing Editor
Barry Grindrod

Joint Publisher
Christine McGee

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

Special Correspondent
Patrick Garrett

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

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

Design & Production
Ü Design + Production

Colour Separations
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Printing
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ADVERTISING
Asia :
Wilson Press Ltd
Christine McGee
Tel: (852) 2893 3676
Fax: (852) 2892 2846

The Americas / Canada :
Robyn Tucker International Marketing
Robyn Tucker
Tel: (1-441) 295 8200
Fax: (1-441) 295 8210

Europe :
REM International
Stephane de Remusat
Tel: (33 5) 34 27 01 30
Fax: (33 5) 34 27 01 31

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

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A SPECIAL VISION

The rising price of jet fuel is worrying airlines around the world, as our cover story states. But there is one aircraft, yes, one aircraft, for which the problem is of particular concern.

Its customers are not worried about the rising price of air tickets – they can't afford them. In fact many of them can barely afford life's basics. And even if they could find the money, world travel, which so many of us in the airline industry take for granted, would be lost on them. They are visually impaired – blind.

The aircraft we are talking about is the ORBIS flying eye hospital, a DC-10 which has, along with its DC-8 predecessor, flown four times around the world and implemented more than 400 medical programmes, in 80 Third World countries, in almost 20 years.

Its job is to fight "avoidable" blindness among the under-privileged. Its crusading and remarkable team of volunteers, from pilots to surgeons to social workers and nurses, have given up their free time to save or restore the sight of 26,000 people. These same teams also have trained more than 48,000 doctors and nurses in sight-saving skills.

What better aviation charity could there be? It's for this reason that the International Aerospace Forum in Hong Kong, supported by *Orient Aviation,* hopes to raise US$250,000 over 12 months for ORBIS.

In September, the fund benefitted by US$64,200 from a black tie dinner and auction organised by four women in Hong Kong who simply believed ORBIS was a great cause to help. Companies like Airbus Industrie, Boeing, Rolls-Royce and BAE SYSTEMS contributed to the event.

We would like other individuals and companies to follow their lead and add to ORBIS's ever needy coffers.

In Asia, the flying eye hospital has a special relationship with China, where between seven and 10 million people are visually impaired. India also is high on ORBIS's agenda. It also makes regular trips to Eastern Europe, South and Central America and Africa.

Imagine the joy of having been blind for most of your life and, after a relatively short and inexpensive operation, being able to see? Many impaired children are ridiculed and old people are cast out by their families. ORBIS provides hope where often all hope has been lost for these people.

ORBIS is an incredible story, a remarkable charity. We would urge others in the industry to join us in helping to bring light into people's lives.

BARRY GRINDROD
Publisher/Managing Editor

PERSPECTIVE

UNANIMOUS: After a vote of the Thai Airways International (THAI) board on three short-listed candidates, the Bangkok-based carrier unanimously chose 28-year THAI veteran Bhisit Kuslasayanon to succeed Thamnoon Wanglee as the airline's new president and chief executive. THAI said in a statement issued on September 21 that Khun Bhisit, executive vice-president for customer services, would take on the top THAI job on October 1 following the retirement of Thamnoon at the end of September. Thamnoon, the carrier's president for the last six years, said in regional news magazine, *Asia Inc.*, that the astrology of THAI assured its success. He is a believer in the stars and said. "That is why I know our airline will be successful. We [THAI] follow the same astrological line as the city of Bangkok and that is auspicious for us."

Newly appointed THAI president Bhisit Kuslasayanon

SORTED: Speculation that present Qantas boss, James Strong, plans to step down as Qantas' chief executive next year was confirmed in September with the announcement that one of Strong's deputies, Geoff Dixon, will succeed him in the second half of 2001 (see p. 26). Six weeks into her chairmanship at Qantas Margaret Jackson said an orderly succession for the leadership was in place following the decision of Dixon's co-deputy chief executive, Gary Toomey, to run newly combined Air New Zealand and Ansett Australia. Peter Gregg is the new Qantas chief financial officer.

Francis Yuen: in charge of all Honeywell operations in the Asia-Pacific

MIDDLE GROUND: Peter Foster, leader of the five-man expatriate consultancy team that reigned briefly at Philippine Airlines (PAL) before PAL chairman, Lucio Tan, sacked them, is the new general manager commercial at Qatar Airways in the Emirate's capital Doha. Fellow PAL survivors, Mike Scantlebury, Andrew Fyfe, Richard Wald and Richard Nuttall, all former Cathay Pacific senior employees, are scattered around the region in a variety of posts.

INSIDERS OUT: From November Bernie Smith will be the new boss of AirServices Australia, following the decision of his predecessor, American Bill Pollard, to return to the U.S. after five years at the streamlined national air traffic control authority. Smith, an engineer and accomplished private pilot, is the present chief operating officer of the organisation.

Elsewhere in Australia's aviation industry, management matters are not so harmonious, as was demonstrated by the resignation of Dr Rob Lee from the country's recently restructured aviation accident investigation body. Dr Lee, until recently a director at the Australian Safety Transportation Board and before that the head of the publicly funded but independent Bureau of Air Safety Investigation (BASI) has resigned. Lee, in his new role of assistant director safety, is said to have charged privately that heavy-handed bureaucrats are needlessly interfering with proper aircraft accident investigations.

Ex-Cathay Pacific manager and PAL consultant Peter Foster now in the Middle East

VALUED: At press time, the necessary votes were cast to extend the reign of Deutsche Lufthansa AG's executive board chairman, and European leader of the 15-airline Star Alliance, Jurgen Weber, 58, until the end of 2003. At the same time, the supervisory board promoted Lufthansa Technik's boss, Wolfgang Mayrhuber, 53, to the executive board of the group, with responsibility for the national carrier, German Lufthansa Airlines and appointed him chairman of the airline's board. He succeeds Karl-Friedrich Rausch, 49, who will take on the new position of general manager of the board responsible for group infrastructure from the start of next year. Chairman of the group's supervisory board, Dr Klaus G. Schlede, said: "In view of the outstanding achievements of Jurgen Weber it is in the interests of the company to reach an appropriate agreement as soon as possible."

BIGGER THINGS: Francis Yuen, most recently the Beijing-based vice-president of Honeywell's Aerospace Asia-Pacific operations, is now in charge of all Honeywell's operations in the region. Yuen, whose professional pedigree includes the vice presidency, business development, of Singapore Aerospace and a stint as general manager of Singapore Aviation Services, has moved back to Singapore – Honeywell's regional headquarters.

HONED . . . South American commuter jet manufacturer, Embraer, has done the almost impossible and located and appointed a Portuguese speaking, Beijing-born and educated engineer as its chief representative in its new office in the Chinese capital. Mining engineer Guan Dongyuan went to Brazil in 1990 where he completed his postgraduate studies in mining and language studies at Sao Paulo Polytechnic and University of Sao Paulo respectively. Before his move to Embraer, the manufacturer that recently won its first order in China, from Sichuan Airlines, he ran the operations of Brazilian mining giant, Companhia Vale do Rio Doce, on the mainland. The first Embraer aircraft delivered to China, a 50-seat ERJ 145, one of an order of five, was handed over to Sichuan Airlines in Brazil on September 21. Two more will be delivered in November and December with the remainder to be handed over in the first half of 2001.

Embraer has appointed Guan Dongyuan as its first chief representative in China

LIKELY VIRGIN: When Singapore Airlines (SIA) was negotiating for its 49% share of Sir Richard Branson's umbrella airline operations, the top secret Virgin deal was dubbed by its executors at SIA as Operation Madonna. One of the singer's most popular hits was *Like A Virgin*. What was that about uptight Singapore?

REGIONAL ROUND-UP

PAL and Tan unhappy about new Taiwan air deal

Taiwan and the Philippines are set to sign a new air agreement that would bring to an end a one-year suspension of flights between the two countries. But the news again raised doubts about the future of Philippine Airlines' chairman Lucio Tan. He is said to be considering selling his 70% stake in the national flag carrier because PAL failed to win major concessions in the new accord.

In April, the reclusive billionaire was reported as "wanting out" of the airline because, according to the Philippines Finance Secretary, Jose Pardo, Tan wanted to dispel rumours he enjoyed special favours [relating to PAL] from his friend, President Joseph Estrada. In June, *Singapore's Straits Times* wrote Tan was prepared to sell his PAL stake for US$200 million, 75% less than an earlier asking price.

So far, Tan has said nothing publicly on the matter. PAL management also refused to comment on the "sale" when asked by *Orient Aviation* about the recent press reports. "We don't know anything about this yet," said an official in late September.

The air rights dispute started when the Philippines accused Taiwan's China Airlines and EVA Air of poaching sixth freedom Philippines' traffic, bound for the U.S. and Europe, through Taiwanese ports. Critics accused the Philippines Government both domestically and abroad of protecting PAL.

The original 1996 accord allowed 9,600 seats a week for each side. The new agreement will permit Taiwanese and Philippine airlines to each fly up to 4,800 passengers a week between Manila and Taipei. PAL wanted fewer seats and fewer flights.

To complicate matters, PAL is in the second year of a 10-year rehabilitation programme following its near collapse in 1998. The carrier has debts of more than US$2.2 billion. Encouragingly, it has started to record operating profits in recent months. It also has increased its fleet from 25 to 31 aircraft, opened new routes and raised frequencies to other destinations.

However, Tan told PAL shareholders in August the airline faced "daunting" financial and operational challenges. Rising fuel costs were a particular concern. A few weeks later, PAL president, Avelino Zapanta, said the carrier would revise its annual results projections as a result of accelerating fuel costs.

MAS wants fare rise

Malaysia Airlines (MAS) is awaiting the outcome of government deliberations on its request to increase fares by up to 50% on its loss-making domestic routes. Most analysts feel some increase will be allowed, but predict the permitted rise will be nowhere near MAS's

AIRPORTS

International credit rating agency Standard & Poor's has accorded an "A+" corporate credit rating in local currency and an "A" rating in foreign currency to the Airport Authority of Hong Kong (AAHK). The ratings are the first by an international agency to be given to an airport in Asia. Standard & Poors cited a robust service area, a diversified carrier base, strong financing, the capacity to expand and government support for its assessment.

"The ratings confirm that our efforts to position Hong Kong International Airport (HKIA) as the gateway of preference and the premier aviation hub of the region are paying off," said Dr Victor Fung Kwok-king, chairman of the AAHK.

HKIA handled 32 million passengers and 2.2 million tonnes of cargo in the past 12 months with a diversified carrier base of 65 airlines serving 130 destinations.

During August, the airport saw its sharpest growth in aircraft movements, 15,875 aircraft movements for the year 2000, a 10.7% rise on August 1999.

Malaysia Airports Holdings has said it is considering a possible bond issue to meet cash requirements put at over RM 1 billion. Some of the cash is needed to develop a new exhibition centre.

Burma has opened its largest and most modern international airport in the northern city of Mandalay, in the hope of boosting its weak tourist traffic.

The airport, unlike the capital's Mingladon Airport in Yangon, can handle B747s. It took four years to build and has a capacity for three million passengers.

China Airlines: will be flying direct to Manila again after the Taiwan/Philippines air rights accord has been signed

desired increase. "We have to look at these aspects first before making a final decision. We are not rushing it," said Transport Minister Ling Liong Sik.

Code-shares, new routes and agreements

Ansett Australia will launch a four times a week service between Hong Kong and Melbourne, Australia, on November 1, using a B767-300 aircraft. Ansett International general manager, Gary Kingshott, said the new route marked the first step in the expansion of Ansett's international network since the integration of Ansett and Air New Zealand began. Ansett Holdings Ltd announced an operating profit of A$101.6 million (US$59 million) profit, down from $38.8 million in the same period in 1999.

Cathay Pacific has signed a code-share agreement with Turkish Airlines, for flights between Hong Kong and Istanbul, starting on October 29. The agreement will see Turkish place its designator code on Cathay Pacific's twice-weekly services between the two cities. Twenty other additions to the Hong Kong carrier's new winter schedule include more flights between Hong Kong and Cebu, Denpasar, Hanoi, Jakarta, Kuala Lumpur, Surabaya and Taipei which will represent a 4% rise in seat capacity over the 2000 aummer schedule.

China Southern Airlines, the mainland's largest carrier, has signed a code-share with Japan Air Systems to exchange 111 seats per week on the Guangzhou-Osaka route.

Skymark, one of Japan's two no-frills start-up carriers, has shut down its Osaka-Sapporo and Osaka-Fukuoka services and doubled the number of daily return flights on its profitable Tokyo-Fukuoka route to six. Skymark's losses narrowed to 2.72 billion yen (US$25.6 million) in the nine months to July 31 compared to 3.53 billion yen in the same period a year ago.

Vietnam Airlines (VA) plans to add new destinations to its network as well as restore services cancelled during the Asian economic recession. There will be three direct services a week from Hanoi to Seoul. The new routes added to the network are Ho Chi Minh City to Osaka and Ho Chi Minh City to Melbourne. Within the region, VA is planning to launch a trans-IndoChina flight which will connect four points; Hanoi, Vientiane, Phnom Penh and Ho Chi Minh City.

Singapore Airlines has joined with the Macau Government Tourist Office to promote tourism in Macau. Under the terms of the deal the two will undertake joint promotional activities to increase visitor arrivals in the former Portuguese enclave from Singapore and Indonesia. Subject to mutual agreement this co-operation could be extended to other selected markets.

Dragonair has signed up its first customer for its A320 simulator. TransAsia Airways, of Taiwan, will start using the simulator on October 1.

Deals

Aircraft leasing company, CIT Aerospace, has signed a US$114 million deal with Korean Air to finance the lease of three new B737-800 aircraft, scheduled to be delivered to the Korean flag carrier next year. CIT also has completed an agreement with Wuhan Airlines, in western China, for the carrier to lease two B737-800s for eight years. The aircraft will be delivered in March and June next year.

Taiwanese flag carrier, China Airlines (CAL), has taken delivery of its third B747-400 long-range freighter, bringing CAL's cargo fleet to 14. CAL said in September that it increased its all-cargo flights from 41 to 53 a week.

Official reports from Vietnam say Vietnam Airlines will buy rather lease at least two of the three new ATR 72-500s planned for acquisition between 2001 and 2004. Price tag for three planes is being put at around US$62.5 million.

BUSINESS ROUND-UP

Shandong Airlines: shares of the mainland carrier rose 48% on Shenzhen Stock Exchange

Accounting change hits Air New Zealand hard

Air New Zealand (AirNZ) chairman, Sir Selwyn Cushing, said an accounting change, which recognised full liability for deferred taxation, pushed the Auckland-based carrier into a US$141 million loss for the year to June 30. The one-off charge of $187.1 million was applied after the Auckland-based airline assumed complete ownership of Ansett Australia. The adjustment brought the carrier's accounting into line with international and Australian practice. Sir Selwyn said earnings of the airline, now 25%-owned by Singapore Airlines, before amortisation, rentals, taxation, depreciation and interest, had increased by 14.3%. He added the underlying performance of the carrier, despite fuel price rises, was sound.

Malaysia Airlines' losses climb

Malaysia Airlines (MAS) 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 fuel costs remain a concern for the carrier. The statement added that MAS expected passengers carried to rise, but an improvement in yields is not forecast in the immediate future. The quarterly results were announced amid, as yet, unofficial reports that Qantas Airways' (QF) offer to buy a significant share in the airline had been "as good as abandoned". According to a report in the nation's *Business Times*, officials of the Malaysian Government's investment agency, Khazanah Nasional, believed the deal offered by QF for a 20% MAS stake favoured the Australian national carrier. Government officials said another interested party is in discussions with Khazanah for an MAS share.

China Eastern profits soar

Shanghai-based China Eastern Airlines (CEA), reported an 110% increase in profit, to US$24.6 million, for the first half of the year, although the result was boosted by aircraft sales of $12.15 million. Operating profit rose by 20% and turnover increased by 13%, slightly ahead of a rise in expenses of 12.6%. However, CEA's chairman, Li Zhongming, said yield dropped by 5.5% to 5.25%, but the overall load factor improved by 5.75 percentage points to 56.45%. Passenger traffic grew by 9%, broken down into domestic (47%), international (32%) and Hong Kong-China (21%). Cargo revenue increased by 32% to $120.7 million.

China Southern's healthy result

Increased passenger traffic and improved fleet utilisation largely contributed to a 46% increase in profit, from US$29.1 million to $40 million, for the first six months of the year at mainland China's largest airline, China Southern Airlines (CSA). The airline's chairman and president, Yan Zhiqing, said an improving regional economy, a government crackdown on fare discounting and new regulations governing the practices of travel agents contributed to the improved results. But he said fuel prices rose by 29.5%, which had eroded operating profit by 1.2%to 11.3%. Domestic traffic made up 78% of the carrier's passenger revenue.

Good times for CNAC

Heartening profit performances from Dragonair and Jardine Airport Services boosted the bottom line of mainland aviation investment company, China National Aviation Corp. (CNAC) by 56.2% in the six months to June 30. Profit attributable to shareholders was US$17.7 million, up from $11.4 million in the same period last year, although turnover dropped by 39.4%. CNAC's revenue fell 44% to $2.09 million, from $3.48 million. Dragonair, 43%-owned by CNAC and Jardine Aviation Services, in which the Hong Kong-listed investment corporation has a 40% equity stake, delivered $17.58 million of the half-year profit.

Shandong Airlines IPO debut

Shares in mainland Chinese regional carrier, Shandong Airlines, rose by 48%, to US30 cents, on their September debut on the Shenzhen Stock Exchange. The Initial Public Offering (IPO) will boost the carrier's profits as it prepares to replace its present commuter fleet of 30-40 seater aircraft with 50-seater Canadair small jets. The carrier, which is based in northeastern China, reported net income of US$3.4 million last year.

Beijing Airport profit drop

China's first listed airport operator, Beijing Capital International Airport, reported a 22% drop in first half profits to US$26.6 million, from $33.9 million a year earlier. The airport management said the profit decline was the result of high depreciation costs brought on by the completion of a multi-million dollar expansion programme at the airport last year. The airport's chairman and president, Li Peiying, said 31% of revenue came from non-aeronautical activities in the period, compared to 22% in the same six months in 1999.

Guangzhou Airport's investment plan

In its continuing search for funds, Guangzhou Baiyun International Airport said in September that it would sell 300 million shares to domestic investors to help fund the construction of its new airport. The government of the capital of the affluent southern Chinese province of Guangdong wants to re-locate and enlarge the present city airport, but can only afford to contribute 35% of the projected costs, according to the *Guangzhou Daily*.

Aviation fuel has become akin to liquid gold. As the cost of billions of litres of jet fuel reached record highs in September, airlines in Asia and across the world were forced to continue to re-assess their financial planning. Some have been more successful than others.

PUMPED UP

And there appears to be no respite on the horizon. TOM BALLANTYNE *reports*

There are serious concerns in the airline industry and among analysts that the ongoing global oil price crisis will spark a world-wide economic slowdown, stalling air traffic growth and threatening the recovery of Asia-Pacific airlines just as they are regaining strength following the region's own economic crisis.

The warning comes despite a September pledge from the Organisation of Petroleum Exporting Countries (OPEC) to increase supply by three percent to 800,000 barrels a day. Analysts and brokers remained sceptical that the undertaking will make any difference to prices, fearing there will still be serious effects on economies and equity and currency markets.

Peter Negline, transport analyst at Jardine Fleming Securities in Hong Kong, said high fuel prices are taking the edge off an otherwise excellent operating environment, although not all airlines are suffering badly.

Cathay Pacific Airways, for one, remains on track to set record high earnings despite a 60% higher fuel bill in the first half of the year compared to the same period in 1999.

But Negline said the longer-term concern about fuel price levels is if crude oil prices remain above US$30 a barrel (jet fuel is more expensive at more than US$40 a barrel in recent times) over the coming northern winter. That looks likely at this point and there might well be some slowing of world economic growth in 2001. "If this happens, then the party might come to a premature end," he said.

Negline is not alone in his fears. Peter Harbison, managing director of the Sydney-based Centre for Asia Pacific Aviation, also warned continuing high oil prices could slow global economic growth.

Passenger traffic growth in the Asia-Pacific has been encouraging in recent months, he said. "However, load factors have only increased marginally, reflecting increased capacity in the market and the return of some airlines and air services which withdrew during the economic crisis. The strong traffic growth has helped disguise the continuing low yields being experienced by several carriers.

"As a consequence, the indications are the discretionary part of the market, which forms the bulk, is still highly price sensitive. That market is unlikely to tolerate price increases – for example fuel-related rises – without impacting negatively on growth.

"Airlines feel the first winds of economic changes, so the latest traffic and load factor figures will be good indictors of where we are heading in both respects."

Cathay Pacific Airways chief executive, David Turnbull: an airline has to assume fuel prices will remain high

However, energy analysts say although airlines have been battered by soaring fuel prices, the price level may have peaked and there could be some relief by early next year.

But that prospect is not as optimistic as it appears. While they predict jet fuel prices will fall, they also forecast the cost will remain a long way above levels of the past couple of years.

Jet fuel prices have appreciated in line with the price of crude oil; a world-wide glut of oil disappeared when OPEC agreed to cut output in early 1998. The price of a barrel of jet fuel reached US$43 in mid-September, around US$20 higher than in 1999 and US$30 above the 1998 level.

"Jet fuel prices will not stay at the current high levels of US$43 per barrel," predicted Lisa Rothenberg of Boston-based Energy Security Analysis Incorporated (ESAI). But they will remain high relative to what airlines have seen over the past couple of years. Our outlook sees jet [fuel] prices moderating to near US$32 per barrel by January 2001. That will take prices back to January 2000 levels but they are $18 a barrel higher than in 1999."

The impact of additional fuel bills varies dramatically among Asia-Pacific operators.

Many of the major carriers have softened the blow through judicious hedging of fuel contracts. This is where an airline agrees in advance to take fuel from a supplier at a set price for a fixed period, which can range from a few months to more than a year.

It amounts to futures trading and if an airline opted to pay, say, US$25 a barrel for a portion of its fuel last year for a nine month period, it would now be reaping big benefits.

But if the price stays high the potential for further hedging is severely limited.

Even an airline like Qantas Airways, which has an aggressive policy, with over 80% of its jet fuel requirements hedged, has admitted these contracts are close to running out.

Chief executive James Strong said this financial year Qantas would have "the continuing impact of fuel costs, which will be quite significant despite our very effective hedging programme".

In the latest year Qantas' fuel bill amounted to US$466 million, a modest 10.4% of its costs. Nevertheless, during the previous year fuel was only 9.8% of costs, showing that despite hedging, fuel is growing as a percentage of overall expenses.

Air New Zealand is understood to have about 40% of its fuel hedged under contracts ranging between US$29 and US$35 a barrel. The Auckland flag carrier's fuel bill still increased by nearly 50% during its latest year.

Singapore Airlines would make no detailed comment on its fuel situation, but the carrier's shares dropped nearly 7% in August in the face of market concerns that even though SIA hedges as much as 60% of its fuel, margins will still be squeezed.

Analysts in Singapore estimate for every US$1 rise in the price per barrel of oil there will be a decline of 2.8% in the earnings per SIA share. If the average price for a barrel of jet fuel stays at around US$38 over the rest of SIA's financial year, ending March 31, 2001, some US$136.3 million, or around 16%, could be shaved off projected earnings. If fuel industry analysts are right and the price drops to US$32 then obviously the impact will not be as severe.

In SIA's case, fuel amounts to 16.4% of the company's expenditure. While the carrier would make no official comment from it's Singapore headquarters, SIA's general manager for peninsular Malaysia, B. K. Ong, told local reporters in Kuala Lumpur the increase in prices would obviously have some impact on operations "currently we see the impact as insignificant and manageable".

A spokesman for Japan Airlines (JAL) said the carrier uses about 35 million barrels of jet fuel annually. "So a dollar per barrel hike in fuel price translates into a US$35 million increase in our fuel cost, if we do not hedge at all. We do hedge, however, and the impact is muted in relation to the coverage ratio as well as the prices we hedged.

"Nearly 30% by volume of JAL's fuel contracts are linked to crude price benchmarks. This diversification helps mute the impact of high kerosene prices relative to crude prices," said the spokesman.

He said the time horizon on hedging contracts is nine to 24 months, and near-term cover ratio is usually 20% to 40%. "Depending on the market circumstances and our financial needs, our hedge ratio goes beyond 40% on occasions, but never exceeds 60%.

"In line with our hedge objective, which is to make our fuel cost less volatile and our profit more predictable, we have been constantly hedging on a rolling basis, and we are getting intended results. For the fiscal year ending March 2001, we have already fulfilled our basic hedge needs."

In 1997, JAL spent US$1.56 billion on fuel, 10.7% of total expenses. In 1998 it cut this back to US$1.3 billion, just 8.9% of expenses. But in 1999 it was US$1.36 billion, 12.6% of expenses.

ANA said that in the year ended March 31 fuel costs, including fuel tax (tax is levied on fuel used for domestic flights and represents about 35% of total fuel costs) were around US$1.2 billion, approximately 13% of total operating costs.

"Naturally, recent trends towards rising prices are a concern and will have an effect on operating costs. But ANA uses commodity derivatives to control the risk of jet fuel price fluctuations and this, combined with the appreciation of the yen, has helped lessen the impact of rising fuel costs," said a spokesman.

Korean Air (KAL) estimates it will use about 21.4 million barrels of fuel. "As a result, if there is a $1 increase in oil prices, Korean's fuel expenses will be up US$21.4 million," an airline spokesman said.

From a tax profit perspective, it would be 70% of that figure, or US$15 million. "However, the recent appreciation of the won to the US$ will be offsetting hikes in jet fuel price," he said.

"In addition, Korean Air is expected to achieve fuel efficiency improvement by replacing its old planes with new aircraft equipped with better technology, fleet modernisation and simplification."

Indeed, the carrier said average fuel consumption, gallon per ATK, improved 4.6% in 1999. Nevertheless, the contribution of fuel to operating expenses rose from 11.5% in the first half of 1999 to 16.1% in the same period this year.

Malaysia Airlines (MAS) is seeking government approval to raise domestic airfares, mostly to offset high fuel costs.

It needs to lift prices by up to 50% to fully meet the costs, but is understood to be seeking 20-30%. A MAS official said total fuel costs made up US$368 million, or 16.6% of total expenditure for the year ended March 31. This is was an increase from US$259 million, or 12.8%, the previous year.

While no precise figures are yet available, some other carriers are understood to have suffered extremely badly, including Philippine Airlines and Garuda Indonesia. And China's airlines have also been hard hit (see page 22). Fuel now makes up a staggering average of 31% of airline operating costs. Last November the figure was 22%, but the Chinese national government has raised jet fuel ex-refinery prices five times since then.

Air India is another operator suffering badly on the fuel front. Until last month the government did not even allow it to hedge fuel contracts and a decision to approve such

Japan Airlines: A one US dollar per barrel rise in fuel price would translate into a US$35 million increase in costs if the airline did not hedge dealings has come too late to help the carrier in existing circumstances.

According to Air India's (AI) managing director, Michael Mascerenhas, the airline's fuel bill will rise 28% this year. He is setting up a committee to study hedging, but with prices at current levels it will be some time before the airline can take advantage of this change in policy.

Even though AI uplifts 40% of its fuel needs abroad it also is hit by the benchmark pricing of the Indian Oil Corporation, based on ATF prices at Dubai, Doha and Singapore. Typically, Dubai and Doha quote high, while Singapore is 20-25% cheaper, Mr. Mascaren pointed out.

Meanwhile in September, the seven leading U.S.-based carriers – American Airlines, Northwest Airlines, US Airways, United Airlines, TWA, Delta Air Lines and Continental Airlines – increased passenger fares US$20 on round- trip domestic flights to cover higher fuel costs. The rise comes on top of a US$20 round-trip, or US$10 each way, surcharge added in January.

Unfortunately for Asia's airlines, their region has little say in the direction fuel prices take. ESAI's Lisa Rothenberg explained that much of the current spike in prices is due to events in the Atlantic markets.

"Both the U.S. and Europe are net importers of jet [fuel], which makes prices in these markets very susceptible to any supply-side events such as refinery outages or an off-specification shipment of jet fuel, both of which recently occurred.

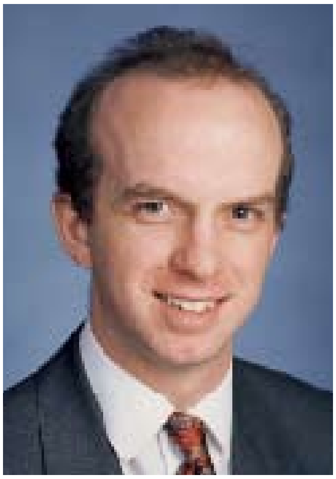
"The import dependence also increases price volatility. Another reason current jet prices are so high is the result of anticipation of deep refinery maintenance this fall (northern Autumn) which would remove some jet fuel supply from the market."

However, ESAI believes that with refiners facing profitable refining margins, maintenance will not be as deep as the trade press has reported.

"Once this is reflected in market data, it will take some of the strength out of jet prices. Over the next 12 months there is nothing in the fundamental data to suggest that the jet fuel market will weaken substantially. On the contrary, we see the market only tightening further as demand growth will outstrip growth in supply," said Rothenberg.

European jet production also has fallen because of new stringent specifications on diesel fuel. To meet this, refiners have had to divert some of the jet fuel pool into the diesel pool, reducing jet supplies.

"Now, with refiners facing the heating season (northern winter), the possibility exists that jet production will be further squeezed."



Analyst Peter Negline: party may come to a premature end

Passenger operations are not alone in facing fuel price pressures. Most airlines around the world, including Asia, introduced fuel surcharges on freight early this year and there may be more increases.

For instance, Japan Airlines at press time was planning to increase international air freight charges in October. With expanded cargo shipments for 17 straight months, it intends to raise freight rates on North and South American routes and within Asia by 5%, while goods moving between Japan and Europe will cost an extra 10%.

Korean Air, the world's fourth-biggest cargo airline, is raising cargo rates 10% on North American routes, which generate a sixth of its total sales. The higher freight charges follow increases in passenger fares in April.

However, the two largest express freight firms, United Parcel Service (UPS) and Federal Express (FedEx), have no plans to raise freight rates because existing jet fuel contracts help shield them from higher bills.

Speaking at a Bangkok meeting of the U.S.-Asean Business Council in September, UPS chairman and CEO, James Kelly, said the carrier probably would not raise rates again after imposing a 1.25% fee on fuel costs earlier this year, matched in August by rival FedEx.

FedEx president, David Cunningham, gave a similar assurance at the same gathering.

One sector that could benefit from the high fuel costs is aircraft manufacturing, although Airbus Industrie senior vice-president commercial, John Leahy, described it as a two-edged sword.

"The first reaction airlines have is to accelerate the retirement of older airplanes because the new equipment is much more fuel efficient.

"However, airlines tend to replace airplanes when they are making money. In the early 1990s, although fuel prices shot up, there was a recession in the industry and a lot of airlines, even though they wanted to replace airplanes, didn't have the cash to do so. So the balance needs to be right."

Right now the balance is favouring the manufacturers with airlines opting to accelerate replacement programmes.

Recently Cathay Pacific's chief executive, David Turnbull, said: "When you are running an airline you have to assume fuel prices will remain high. You can hedge as best you can, but when the hedge runs out and the fuel price is high, you have to pay it.

"I cannot forecast what the price will be, if I could I would be a billionaire."

Korean Air: the recent appreciation of the won to the US$ will help offset hikes in fuel prices

Fuel accounts for 31% of airline operating costs in China ...

MONOPOLY PROMPTS EXPLOITATION CLAIMS BY AIRLINES

INSIDE CHINA

By Jonathan Sharp

"We are so busy, we count the-time by seconds." With these words Su Liang, company secretary of China Southern Airlines (CSA), deflected a reporter's request for an interview after the Guangzhou-based airline presented its earnings report for the first half of 2000.

Su was not just giving a polite brush-off. CSA and several of its peers in the unruly world of Chinese commercial aviation have indeed been preoccupied in facing up to a raft of woes, some homegrown, others outside their control. And the prospect is of a tough grind ahead before Su and his colleagues have more time for press interviews.

Cut-throat competition, high operating costs and overall inefficiency that are the signature shortcomings of Chinese aviation and left many carriers in debt are not going to be resolved easily. As one Chinese economist, noted: a ticket on the Los Angeles-Beijing route cost him only US$30 more than one from Beijing to Urumqi in west China. "How is it an industry with such a fast rate of growth and the highest ticket prices in the world can lose money?" he asked.

Nevertheless CSA and Shanghai-based China Eastern Airlines (CEA), two of China's biggest carriers, logged rising first half profits and the aviation sector as a whole reported solid traffic growth, helped by a sound Chinese economy.

But soaring fuel costs took their toll. CSA reported a 29.5% rise in fuel costs while CEA said it had fared somewhat better thanks to cost-control steps, with fuel costs rising 19.1%.

Predictably the country's sole supplier of jet fuel, China Aviation Oil Supply, has been taken to task by airlines which have complained it is exploiting a monopoly. Fuel costs to airlines have risen at least 35% since last year and fuel accounts for 31% of the industry's operating costs, compared with 22% last November.

While expressing sympathy, China Aviation Oil Supply says China must import about 25% of its annual 4.7 million tonnes of jet fuel, so domestic prices are heavily dependent on overseas markets.

However, in China jet fuel is set at a premium to the international price. At the time of writing the cost to airlines was about US$45 per barrel as opposed to about $40 in the world market. And Chinese airlines, being associated with the government, do not hedge their fuel costs and are forced to bear the full brunt of current high fuel prices. By contrast, Cathay Pacific Airways is about 50% hedged.

CSA and CEA also have been active – albeit on a small scale – in heralded moves to consolidate the sector, crowded with 34 registered carriers. CSA's parent recently acquired the small Zhongyuan Airlines, based in the central city of Zhengzhou, and CEA said it was buying into another small carrier, Air Great Wall, headquartered in Ningpo near Shanghai. CEA also wants to sell a 25% stake in its cargo unit, China Cargo Airlines, to Taiwan's China Airlines – potentially a groundbreaking move in light of China-Taiwan political sensitivities.

In addition, Hainan Airlines has teamed up with its parent to buy into cash-strapped Changan Airlines based in Xian. As evidence of Changan's difficulties, a Hainan spokesman said the airline could not pay for three aircraft due to be delivered towards the end of the year.

A report by Goldman Sachs Investment Research forecasts more small scale mergers before the end of the year, but major consolidation such as pledged by the government's Civil Aviation Administration of China (CAAC), is one to three years away. This view was reinforced by a former CAAC official in

Air Great Wall is to be purchased by China Eastern as China's merger policy gains pace an interview with *Orient Aviation* in July.

The CAAC, easing its grip on aviation ahead of China's entry into the World Trade Organisation, wants to merge 10 carriers into three major groups based on China Southern, China Eastern and Air China in an unspecified time frame.

Impatience within the industry is evident. "Nothing radical has been adopted," complained one mainland aviation expert, saying progress would be slow until the CAAC drops its traditional role of airline operator and becomes strictly a regulatory authority.

The lifting of limits on foreign ownership of Chinese airlines, as has been suggested, but not yet implemented by Beijing, was overdue, the expert said. "The money for most Chinese carriers comes from bank loans and therefore the interest rate burden is very high. The injection of foreign capital would ease that load."

Pressure for more foreign involvement may be rewarded soon. The Hong Kong Commercial Daily reported Beijing is speeding up the drafting of regulations governing foreign equity investment in the aviation industry and details of measures raising foreign ownership limits on Chinese airlines and airports from 35% to 49% would be announced before year's end.

However, foreign airlines that might be interested in investing in Chinese carriers may be adopting a more cautious approach as the merger process unfolds, uncertain of the eventual value of their investment while the stronger players in China take over weaker, debt-laden brethren.

"We are still trying to get to grips with the financials of these lesser-known airlines," said Peter Hilton of Credit Suisse First Boston. "In the real world, such as the United States, these airlines would go broke, the bailiffs would sell off the airplanes and that would solve that."

That option would be too radical for China. "So a process of arranging weddings is occurring and it has certainly been an issue that has caused several potential offshore investors to pull back," said Hilton. "Cathay has held preliminary discussions with China Eastern about taking a modest stake, but it has now pulled back somewhat , and that's because this process of mergers leaves it not quite clear what it (Cathay) will be buying a modest stake in."

Jonathan Sharp is a former Beijing-based foreign correspondent for Reuters and has observed the development of its aviation industry closely.

All Nippon Airways: will launch a new carrier, Air Japan, on a regional route in January

JAL, ANA invest in JEX, Air Japan

Before breakfast on July 1, 1998, Mickey Mouse cut the ribbon that launched the first flight of Japan Airlines' subsidiary, JAL Express (JEX). It was a low-key affair for the no-frills service, which started with two B737-400s flying twice daily between Osaka and Miyazaki and Kagoshima.

Orient Aviation said at the time: "If JEX realises its full potential it could be a key indicator to the future of aviation in a country which traditionally has one of the most expensive aviation infrastructures in the world."

Was JAL re-inventing itself? Well, it appears to be continuing to do so. In September the national carrier increased the number of B737s transferred to the JEX fleet to eight. It is continuing its restructuring and placing greater emphasis on its low-cost subsidiary carriers. Officials have said the JEX fleet could eventually reach 20 aircraft.

From October, 80%-owned JALways will take over from JAL on routes to Saipan, from Tokyo and Osaka and the Fukuoka-Honolulu service.

New non-stop flights from Tokyo to Ho Chi Minh City, in Vietnam, increases in flight frequency to Hawaii, Paris and Manila and expanded code-share co-operation with Alitalia and American Airlines were other highlights of JAL's winter schedule.

All Nippon Airways also has made its operational move to cut costs by applying to the Ministry of Transport to start a new short to medium-haul carrier, Air Japan. With US$5 million capitalisation, Air Japan will begin a daily scheduled service between Osaka and Seoul, Korea, next January, using a B767-300ER.

Said ANA president, Kichisaburo Nomura: "Under our medium-term corporate plan, covering the four-year period ending March 2003, we are re-organising ANA's international route network to boost profitability. Air Japan is part of our overall international route network strategy.

"By gradually transferring to Air Japan selected short and medium-haul routes currently operated by ANA and by re-organising ANA's international route network at our Narita and Kansai hubs, we will be able to improve network efficiency, profitability and connectivity. This will result in a more competitive and flexible ANA Group in which the different airlines can meet specific network needs."

As Qantas finance guru lands top Air NZ job, Australian flag carrier earmarks Strong successor

BATTLE LINES DRAWN

By Tom Ballantyne

Australasia's major airlines are shaping up for a free-for-all air war next year following the September departure of Qantas deputy chief executive and chief financial officer, Gary Toomey, to become head of the new Air New Zealand – Ansett combine, now the world's 20th largest airline group.

The tantalising prospect of a head-to-head battle for market supremacy in an already highly competitive market, is made all the more certain because shortly after Toomey handed in his resignation, Qantas announced a successor to long-time chief James Strong.

Co-deputy CEO and marketing strongman, Geoff Dixon, will succeed Strong in the second half of next year.

For the past seven years Dixon and Toomey have been Strong's right hand men, forming a formidable team which has brought the Sydney-based flag carrier year after year of record profits.

Toomey, who takes up his post in December – predecessor Jim McCrea resigned earlier this year – should be well ensconced by then, ready to lead a rejuvenated Air NZ-Ansett, now backed by 25%-owner Singapore Airlines, into the fray.

The changes signal a watershed for both Australasian airline groups, finalising new management teams to take them into what promises to be a decade of intensified rivalry as they compete not only as individual airlines but as members of opposing alliances, Air NZ-Ansett with Star and Qantas with oneworld.

Toomey's departure from Qantas was not unexpected. Largely credited with driving the airline's financial success through persistent cost-cutting – Qantas has sliced more than US$300 million from its expenses in recent years – he had been tipped as a prime target for Air NZ chairman Sir Selwyn Cushing.

Other executives courted were Cathay Pacific Airway's deputy managing director Philip Chen as well as the Hong Kong carrier's corporate development director Tony Tyler. Apparently, neither of them wanted to move to Auckland.

Insiders say Toomey was keen to leave Qantas because it had become apparent Dixon was the Qantas heir apparent.

Elevated to the Qantas board as recently as August, insiders say Dixon had secured the backing of a powerful group within the board, the three British Airways (BA) directors who represent that carrier's 25% ownership. He has made numerous trips to London, mostly on matters relating to oneworld alliance issues.

New Air New Zealand chief executive Gary Toomey

Ian Thomas, an analyst with the Sydney-based Centre for Asia Pacific Aviation, noted that over the past six months Strong has taken a step back from the public spotlight.

"Strong has been invisible for the last few months. Dixon has been doing all the talking. It would appear to me to be an obvious settlement phase to get into the public mind that he really does have the ability to handle the airline," suggested Thomas.

This was confirmed by new Qantas chairman Margaret Jackson. After learning Toomey was being appointed to the Auckland post she moved quickly to clearly map out the Qantas chain of succession.

Air NZ believes it has a winner in Toomey.

"I have had the opportunity to observe his skill during the time he served as an alternate director on the board of Air New Zealand, when Qantas was a shareholder in our company and, more recently, from a distance as a business competitor. He impressed me on both counts," said Sir Selwyn.

Toomey, aged 45, said the challenge of moving to a lead role in a significant airline business that had its roots in Australia and New Zealand and was determined to grow its international competitiveness was "irresistible".

He faces a tough task, particularly with Ansett, where morale has been tested by five years of ownership and leadership changes. Wholly-owned by Air NZ, which in turn is now 25% owned by SIA, three years of stable management came to an end this year when Ansett Australia boss, Rod Eddington, left to take the helm of British Airways.

The corporate re-organisation of the Air NZ-Ansett group in August saw more than 20 senior executives leave, many of them from Ansett, including the head of Ansett International Craig Wallace.

Toomey will have to forge the new management team together and impose fiscal authority while meeting the challenges of attempting to claw back market share from a Qantas under the leadership of Dixon, a man recognised as a marketing expert.

Nevertheless, the Qantas Crown Prince will not have an easy life. Not only will he have a hard time maintaining profit levels shareholders have become accustomed to, there are serious threats on several fronts.

- New domestic competition in the form of Impulse Airlines and Virgin Blue is gaining strength by the day and both of the new carriers are expanding their fleets next year.
- Air NZ/Ansett, with SIA apparently ready to invest and help with fleet growth, aims to seriously contest Qantas on international routes it has dominated in recent times.
- Sky high fuel prices and rising levels of competition are placing pressure on the bottom line at a time the airline is embarking on a massive fleet modernisation programme likely to cost up to US$4 billion over the next few years.
- There are unconfirmed reports of cracks in oneworld, the BA-led global alliance to which Qantas is committed and on which it is reliant for major cost savings.

There is another question, too. How will the market view the changing of the guard?

Qantas stock has been battered by concerns over domestic competition and a change in a successful management team is bound to make investors edgy.

Toomey's steel trap financial mind and tough approach in running the Qantas treasury department has been the soul of Strong's micro-management of the business and his aggressive hedging policy on purchases of fuel, aircraft leases and foreign exchange have contributed millions of dollars to the bottom line.

There are those on the 12-member board who did not want to see him go and fear he could take a few other key financial brains with him across the Tasman.

Industry watchers appear to have few concerns about Dixon's ability to take over, believing he will maintain Strong's strategies. They were together at Australian Airlines (as was Toomey) and turned the government-owned carrier around before it was privatised and ultimately sold to Qantas.

When Strong dropped out of the airline industry, first to join a law firm and then a brewer in New Zealand, Dixon moved to Ansett as marketing director, where he immediately firmed his reputation by lifting it ahead of Qantas in the competition stakes.

After Strong returned to take control of Qantas, one of the first things he did was poach Dixon from Ansett.

One serious threat Dixon could face is on the alliance front.

There are serious concerns oneworld is struggling in certain areas. In September, the managing director of alliance development for American Airlines, a core oneworld partner, declared the Dallas-based operator is considering switching from oneworld to the Qualifyer group, in which Swissair and Belgium's Sabena are core members. This was later denied.

Mean while, there is little doubt filling the redoubtable Strong's shoes will be a tall order.

Strong appears to be a contender to succeed the director general of the International Air Transport Association (IATA), Canadian Pierre Jeanniot, when he retires in late 2001. It is a role perfectly tailored for Strong, who is admired throughout the airline industry.

For Qantas, of course, there will be life after James Strong, but it will likely be a very different world.

Cathay Pacific Airways chief operating officer, Philip Chen: one of three top Cathay executives to rule themselves out of contention in Auckland

Career dossier

GARY TOOMEY (45) has a Bachelor of Commerce degree from the University of Melbourne. Following his graduation in 1975, he joined chartered accountants Peat Marwick Mitchell and three years later moved to Parkhill, Lithgow & Gibson.

From 1981, he held executive positions in a number of Australian companies including the Phosphate Co-Operative Company of Australia, Arnotts Biscuits Limited and Australian Airlines.

He joined Qantas as finance director late in 1993 and served as executive general manager operations, executive director and chief financial officer of the company before being appointed deputy chief executive in 1998.

He is also a director of the Australia and New Zealand Banking Group, a position he has held since 1998.

He is a fellow of the Institute of Chartered Accountants, the Australian Society of Certified Practising Accountants, the Taxation Institute of Australia, the Australian Institute of Management and the Australian Institute of Company Directors.

GEOFF DIXON (left), 60, is currently responsible for all commercial activities at Qantas, including world-wide sales, marketing, network development, fleet planning, cabin crew, regional airlines and alliances.

He was appointed group executive general manager commercial in February 1994 after service as director of marketing and industry sales at Ansett between 1991 and 1994. He was general manager of marketing and corporate affairs at Australian Airlines, then government-owned, but later privatised and purchased by Qantas, between 1987 and 1990.

Dixon also held senior positions in a variety of industries in addition to senior postings in the Australian Government overseas service in New York, San Francisco and The Hague.

He is on the board of directors of Leighton Holdings and Air Pacific, is a member of the International Marketing Institute of Australia and serves on the boards of charities Mission Australia and the Starlight Foundation.

Stanley Hui and Kenny Tang have a lot in common. They cut their aviation teeth together as young men at Cathay Pacific Airways. Both went on to head its subsidiary, all-cargo carrier Air Hong Hong. Today, cargo is still very much a part of their lives. Hui is chief executive of Dragonair, a highly respected and profitable passenger airline that is putting growing emphasis on cargo. As such Tang, now Cathay Pacific's general manager cargo, is a competitor. JONATHAN SHARP *spoke to both men for this special report.*

HUI BOXES CLEVER

'Cargo a major focus for Dragonair'

At the end of July, Hong Kong-based Dragonair shed its label of being merely a regional carrier when it launched an all-cargo service to Europe via the Middle East. It was the airline's first step outside Asia, but as chief executive officer, Stanley Hui, makes abundantly clear, by no means the last.

As part of expansion plans on both the cargo and passenger sides, Hui said Dragonair was about to finalise the acquisition of two Boeing 747s, either the 200 or 300 models, for conversion into freighters. By 2002, the carrier should have a fleet of at least three 747 freighters – Hui stresses the words "at least" – and he was confident the number would rise to five in five years' time.

"Cargo is certainly going to be a very major focus for Dragonair," he said, noting that growth rates for cargo outpaced those for passenger traffic. "Whether we need to wet-lease aircraft in order to expand a bit faster, that is something that we are still looking at."

He said loads on the inaugural cargo service, which flies a wet-leased 100-tonne capacity B747-200 three times weekly to Manchester via Dubai and Amsterdam, plus once a week to Shanghai, had been very high both outbound and inbound, admittedly benefitting from the current peak season. It had been, he said, a "very good start".

Dragonair chief executive, Stanley Hui: Hong Kong's one airline, one route policy "a bit more flexible"

It also has been a very good year so far for Dragonair's traditional services flying 14 Airbus aircraft to 26 destinations in the Asia-Pacific, including 17 in mainland China. In July, Dragonair set a new monthly record for the number of passengers carried for the second time this year. Cargo traffic is also setting records, with nearly 55,000 tonnes carried in the first eight months of this year compared with 66,000 tonnes for the whole of 1999.

Cargo's contribution to Dragonair's revenue, which three years ago was about 6%, rose to 11% last year. This year, before the start of the freighter service, the contribution was up to 16% and Hui said with the planned expansion of the freighter fleet a figure of 30% would not be difficult to achieve.

Dragonair is already setting its sights for cargo operations beyond Europe, particularly the United States, which Hui said he would aim for in about two years time when the airline was better established in the European and Asian markets.

"If you want to go into the all-cargo business, I don't think you can miss out on the United States in the short or medium-term. When we are ready we believe we can go in and compete and get a reasonable market

share (in the United States)." Dragonair has applied to operate freighter services to a total of 23 points globally, and Hui said there was an extremely good chance that the airline would obtain permission for a U.S. route.

He discounted fears expressed in some European circles of excess cargo capacity on Asia-Europe routes. "If demand continues to develop in the way that we forecast, obviously with WTO (World Trade Organisation) issues settled for all countries, then no doubt global trade will continue to grow and that must bring about a lot more demand for air transportation."

Looking at the possibility of direct flights between China and Taiwan, Hui acknowledged that there may be an initial dip in cross-strait traffic that now passes through Hong Kong and Macau. But he believed it would be short-lived and more than compensated by the overall growth in the Greater China market as a result of warming political ties between the mainland and arch-rival Taiwan.

Dragonair has no plans at present to extend its passenger services outside the Asia-Pacific region. Hui said the carrier, which aims to more than double its fleet size in five years, had enough on its plate absorbing the new aircraft, including three passenger airplanes next year. "We are going to be busy for quite a while to come," he said.

Dragonair's leap beyond Asia to Europe, where Cathay Pacific Airways operates cargo services, has raised questions whether the Hong Kong Government has dumped its policy whereby only one airline is allowed to fly one route. Hui denied this, but said Hong Kong authorities are not being overly rigid in their interpretation of the rules, particularly in view of the government's stated wish to liberalise cargo operations.

"My understanding of the government policy is that the policy is still very much there, but at the same time they are exercising a bit more flexibility, depending on circumstances. If there is a very significant market and they reckon they need to bring in more competition, they will exercise more flexibility in designating a second carrier."

Hui also rejected claims that Dragonair was aiming for head-to-head competition with Cathay Pacific, which is a 17.79% shareholder. "We have always worked closely together, but at the same time there has also been competition here and there. So what is happening now is nothing very new."

Explaining the choice of Manchester as the British destination on the new cargo service, Hui said slots at Heathrow were more difficult to obtain, and the northern English centre was slightly cheaper.

"More importantly for cargo, whether you use the busiest gateway or the less busy gateway doesn't make a lot of difference as long you have very efficient trucking. Manchester has a great advantage of being not as busy (as Heathrow) and consequently, in terms of service levels, they are really what we would like to see."

Hui said Dragonair's staple mainland Chinese markets were performing well this year, with growth due to the strength of the Chinese economy. While Dragonair has traditionally been the airline of choice for passengers travelling between Hong Kong and the mainland because of superior service, Hui said the gap with Chinese airlines was narrowing.

Dragonair has said it is heading for its best year ever in its 15-year history, but the rise in fuel prices inevitably means some pain. "We are no exception, we are affected," said Hui, adding that fuel now accounted for 9.5% of operating costs as opposed to 6% previously.

He said the airline's hedging of fuel purchases had been a reasonable success. In addition, on the cargo side, the airline had implemented a fuel surcharge since mid-February. For passenger services, the commission paid to agents had been reduced and fares had been increased by a few percentage points. "All these measures have effectively helped to increase income."

It's the Year of the Dragon(air)

Dragonair: A year of milestones

The Chinese year of the Dragon has undeniably been auspicious for Dragonair in general and chief executive, Stanley Hui, in particular. In February, a new Air Services Agreement (ASA) brought the airline what it had long prayed for – equal access with Chinese carriers to the Chinese market. In June, Dragonair moved into its pupose-built headquarters, Dragonair House, at Hong Kong International Airport, a step seen as symbolising Dragonair's coming of age as an international carrier. In July, Dragonair stepped beyond its regional role by launching an all-cargo service to Europe.

Hui cites all these milestones as highlights of his time at Dragonair. But special mention goes to the development of cargo, which is hardly surprising. A long-time employee of Cathay Pacific Airways, Hui was in 1994 appointed chief operating officer of Air Hong Kong, Cathay's 75% owned cargo unit whose fortunes Hui helped to rescue.

When he moved to Dragonair in February 1997, the appointment might have seemed a poisoned chalice when Asia's economic crisis arrived with frightening suddenness in July of that year.

"At least we managed to go through that difficult time without really drastic measures in terms of staff redundancy. In that sense I think we did manage reasonably well," he said.

Hui will soon have new neighbours: a block adjoining Dragonair House will house the Hong Kong operation of the mainland's China National Aviation Co (CNAC), Dragonair's biggest shareholder with 43.29%. Hui says the link with CNAC was a factor in obtaining the new Hong Kong-China ASA.

"I think certainly as a very significant shareholder, CNAC has played their part to facilitate this agreement," he said.

Dragonair may be in a hurry to expand, but joining a global alliance is not high on the agenda, added Hui. "We are looking at alternatives and we are not in a hurry to decide one way or another. It is not a top priority."

Cathay's new freighters cannot come fast enough to cope with cargo boom

747F-ull

By Jonathan Sharp in Seattle

With Cathay Pacific Airways' cargo business riding high, it seemed fitting that the carrier's first new aircraft delivery for several months was a freighter, a Boeing 747-400 handed over on September 13.

A second follows next April and a third in August, bringing Cathay's cargo fleet to 12, including three B747-200s leased to its 75% owned subsidiary, Air Hong Kong. Three new freighter destinations – New Delhi, Penang and San Francisco – were added in September, bringing the total to 19.

"The aircraft we have are still not sufficient (to meet demand)," said Kenny Tang, Cathay's general manager cargo, adding that a B747-200 was on lease to meet traditional peak demand in the second half of the year.

Cathay Pacific Airways general manager cargo, Kenny Tang: double digit growth expected again this year

Cathay's latest traffic figures showed that it carried 16% more cargo in the first seven months of 2000 than in the same period last year. "Kenny's in the right business," joked Jim Edgar, Boeing's regional director, cargo marketing. "His career is onward and upward as long as he stays in cargo."

While a mood of mutual congratulation was predictable, the omens for cargo business do appear propitious, especially in Asia as several victims of the late-1990s recession bounce back. The demands of e-commerce and for just-in-time delivery of goods, the continuing strength of the U.S. economy plus the expected shot-in-the-arm for world trade supplied by China's entry into the World Trade Organisation (WTO) seem to be grounds for optimism for cargo carriers.

Reeling off a list of upbeat forecasts, Boeing's Edgar said that in the next 20 years, freight growth would outpace passenger growth in all major markets, not just in most markets as in an earlier prediction.

World air cargo traffic was expected to more than triple over the next 20 years and Asian freight markets would spearhead that growth, eclipsing the world average. Asian markets now had 42% of the world cargo market and this would rise to over half in 20 years' time.

An obvious beneficiary of such expansion would be manufacturers of freighter aircraft. Boeing said firm orders by Asian carriers for more than 20 747-400 freighters during the past year would mean that more than half of the world's 747-400F fleet would be domiciled in Asia.

Edgar said he had a problem believing that the double-digit growth logged by many Asian markets in 1999 could be sustained in the long term. "For the next five years we will be in the high single digits." He also questioned whether Hong Kong could maintain its stellar cargo growth, with mainland Chinese markets and airports opening up and more China trade travelling directly to and from global destinations instead of passing through Hong Kong.

Sounding a cautionary note over China entering the WTO, Edgar said he was not certain that accession would be achieved this year, as has been broadly anticipated, because of a mass of detail to be completed before entry can take place. He added that a lot of infrastructure and what he termed cultural business changes were needed before the full benefits of China's WTO membership were seen.

This was to Hong Kong's advantage. "If you are selling speed, which is what you are doing with air cargo, you are going to go for the place that maximises that, and makes it simplest. And that is what Hong Kong does."

Edgar did not foresee an over-capacity problem in the Asian market yet, noting that carriers like Taiwan's China Airlines, the second largest cargo operator in Asia after Korean Air, were re-fleeting, replacing older aircraft rather than just adding capacity. Boeing forecasts that average capacity growth will be about 6% per year.

Cathay's Tang said with the new freighter and passenger aircraft it was acquiring by September next year, cargo capacity would increase by about 13%, which he said was probably not far off the projections made by Boeing for the growth in the Asian freight market.

The longer range of the 747-400 freighter will enable Cathay to operate non-stop flights between Hong Kong and London.

In the west-bound direction, the flight will stop at New Delhi and fly directly back to Hong Kong on the return leg. The Hong Kong-London route will have three flights a week while the Hong Kong-Frankfurt service would increase to seven weekly flights from six. The Hong Kong-Paris route will benefit from the 25 tonnes in extra capacity that the new aircraft has.

Cathay does not plan to add more cargo destinations, but instead it will thicken the frequencies of existing services. Justifying this approach, Tang said cargo operations did not require a multitude of hubs, which were expensive to set up. In North America, Europe and to a lesser extent Japan, much of the movement of cargo from airports to final destinations was by truck.

Tang acknowledged a slowing of the U.S. economy might have an impact on Cathay's cargo operations. "I am sure that at some stage there will be some sort of landing, hard or soft (by the U.S. economy)...There will be ups and downs."

However Cathay took the long view, commensurate with the 20-plus year operating life of each freighter. He acknowledged there could be some pressure on yields as other carriers piled on capacity during the current peak cargo season. "It is not an easy business. We have to watch the competition." But, he added, Cathay was confident of achieving double-digit growth this year.

While cargo now accounts for 30% of Cathay's total revenue and is a star contributor to the bottom line, Tang said the airline did not intend to follow the course of carriers that sought to raise cargo-passenger traffic revenue proportions to 50-50. He also said Air Hong Kong, while it still had only three freighters, had managed to achieve double-digit growth in capacity for the last two or three years by operating more flights.

Tang said China's entry into the WTO posed threats as well as opportunities for Cathay as the mainland opened new airports and expanded others. But he noted that, for example, Guangzhou's Baiyun International Airport, which like Hong Kong feeds off the booming economy of the Pearl River Delta, was talking about a planned capacity of half a million tonnes annually. Hong Kong is currently handling two million tonnes and had a design capacity of 3.2 million tonnes.

He added that freight forwarders had already invested heavily in operations in Hong Kong and might be reluctant to move, even though costs might be lower elsewhere. The efficiency achieved by Hong Kong would be a key factor in any decision to shift a base of operations. "China needs more than one hub, and I am very confident that Hong Kong will be one of them," Tang concluded.

From toothbrushes to top 10 cargo carrier

Cathay Pacific's first flight with its first plane, a DC-3 nicknamed Betsy, carried all cargo

Eight years before Kenny Tang was born in 1954, a small regional freight operator started business by flying a DC-3 dubbed "Betsy" from Australia to Shanghai with a cargo of overcoats and toothbrushes. Tang knows that because he dug out the manifest from the archives of Cathay Pacific Airways, which had its origins with that DC-3.

Tang is responsible for all the cargo operations of Cathay Pacific, which is now one of the world's top 10 air cargo carriers. In 1946, Cathay carried a total of 15 tonnes of cargo. This year the figure for July alone was nearly 65,000 tonnes.

Naturally there were growing pains. Tang acknowledges that he was worried when the Asian financial crisis struck in 1997 and the airline's cargo division was forced to lower its prices. "Our philosophy is once you lower prices it's difficult to get them back up again," he said in an interview as Cathay was taking delivery of its latest freighter, a Boeing 747-400.

But he took comfort from the fact that Cathay's competitors had discounted even deeper and prices were now back at their pre-1997 levels. He also said that the cargo business suffered less than Cathay's passenger operations.

"In the end cargo was not that badly hit during the recession. Cargo revenue took a dip in 1998, but it was not as bad as the passenger side." He attributed the resilience of cargo business to the strength of the economies in the United States and, to a lesser extent, in Europe.

He said Cathay had long been worried about its costs. "We had that sort of feeling inside us in 1992. We believed that because we are in Hong Kong, our cost basis was bound to get higher," he said.

A productivity campaign launched in 1992 proved inadequate. "So we had to be more aggressive in 1997. There are now 2,000 fewer staff than in 1998," he added.

As for the future, Tang said there would be short-term bumps, but he is enthusiastic, particularly with China due to enter the World Trade Organisation. "We believe demand for cargo will remain strong. With the opening of China trade, the pie will become bigger."

Cathay's cargo arm is launching its own website that will eventually include trading patterns in the industry, flight schedules and trace and tracking of shipments. In addition, the airline recently became the first customer for a service provided by Hong Kong's main cargo handler, Hong Kong Air Cargo Terminal Ltd (HACTL), whereby freight is moved in sealed trucks direct from Hong Kong airport to Guangzhou's Bai Yun airport, where it undergoes customs procedures.

Hong Kong-born Tang joined Cathay in 1979 and prior to taking up his current position, he was chief operating officer of Cathay's 75 percent-owned Air Hong Kong cargo carrier.

During his (limited) spare time, Tang is chairman of the Life Education Activity Programme (LEAP), a charitable organisation educating children about the dangers of drug abuse.

Shot-in-the-arm for Fed Ex's Subic operation

By Tom Ballantyne

U.S. cargo giant Federal Express (FedEx) has introduced wide-body freighter flights between the company's EuroOne hub in Paris and the AsiaOne hub at Subic Bay in the Philippines to strengthen its global network and trim delivery times.

Five weekly direct MD-11 flights from the EuroOne hub at Charles de Gaulle (CDG) to Subic Bay have been added as well as 10 A310 flights a week connecting Europe, the Middle East, India and Asia. These flights will criss-cross between FedEx hubs at CDG, Dubai, Mumbai, Bangkok and Subic Bay. The Philippines hub, which can move 6,000 packages and 10,000 express documents an hour, currently has nine daily flights serving 17 major Asian markets, including three international gateways in China; Shenzhen, Shanghai and Beijing.

These link with trans-Pacific services to the U.S. and tap into FedEx's round the world flights over Anchorage. There are 260 intra-Asian FedEx flights weekly.

"Businesses around the world which compete based on their speed to market will benefit significantly from these system improvements," said David L. Cunningham, Jr., FedEx president, Asia-Pacific division.

The network reconfiguration is a critical element in FedEx' ongoing plans to position itself to take advantage of booming growth trends. According to a recent study by the McKinsey Company, 80% of goods manufactured around the world will be transported across borders by the year 2020, underpinning industry belief that express transportation has become the engine driving global commerce. FedEx launched its AsiaOne network in 1995 and its Paris hub in September last year.

"Our next step is to link these two powerful systems to form a compelling combination. We are strategically placing new flights, aircraft and services in Europe and Asia, where demand for our intercontinental network is especially strong, and also building on recent rapid growth in the two regions."

FedEx Express, a US$18 billion subsidiary of the Federal Express Corporation, delivers more than 3.3 million items to 210 countries every working day, employs about 145,000 people and has more than 43,000 drop-off locations, 663 aircraft and 44,500 vehicles in its integrated global network. It maintains electronic connections with more than 2.5 million customers.

Already, the Subic Bay hub has played a major role in the company's Asian expansion and business continues to climb

FedEx: spending US$2 billion a year on IT development

dramatically.

Although FedEx remains coy about releasing separate regional business statistics it is known revenue across the Asia-Pacific is increasing sharply, fuelled by electronic commerce and the region's economic recovery. In the first quarter of 2000 it was almost 30% up on the same period last year. That is way ahead of world-wide growth, where FedEx Corp reported a 9% rise in revenue to $18.3 billion in its 2000 fiscal year ending May 31.

FedEx faces challenges on three fronts:

- the rapidly increasing use of Information Technology (IT)
- pressure from customers for faster delivery times
- the disappearance of traditional core products

For example, the end of the FedEx letter – the express delivery of documents – is inevitable, according to John W. Allison, vice-president operations, planning and engineering for FedEx' Asia-Pacific division.

The reason: the arrival of electronic mail. "Probably the lone hold outs are the legal and finance community which love legal signatures, but when the electronic signature is finally accepted as legal then for all intents and purposes the document will go away," he told *Orient Aviation*.

"We have been moving our attention to boxes for a long time. As fast as FedEx is, it can't beat the speed with which you can send a memorandum by electronic means."

Documents still represent almost 50% of FedEx business, but today the revenue is largely in the box business, transporting packaged goods. About 70% of Asia-Pacific revenue is from moving high technology, value-added goods such as chips, semiconductors, aircraft and auto parts.

Reducing cycle times, he concedes, is becoming more difficult. However, cycle time can still be reduced by use of the Internet. "The combination of an express company and an Internet solution can make things faster. We are working on that," Allison added.

FedEx is spending around US$2 billion a year on IT development.

Will the use of e-commerce lead to a cut in freight rates? "I guess the short answer is yes. The long answer is that it is very complex, with reduced costs in one area often being used to merely offset costs rising in another area. It may not mean we can cut 10% off the price, but it enables us to slow down the increases," said Allison. "E-commerce is breaking down borders even more quickly than aircraft have done. It is continuing to shrink the whole business world."

Joint safety audit tabled

By Tom Ballantyne

Several of the world's leading national aviation regulators, including Australia and New Zealand, are studying the possibility of forming multinational air safety audit teams to conduct major safety checks on international airlines.

The U.S., Canada and the United Kingdom are also involved in the proposed plan, designed to allow joint action if a carrier from any country is found to be operating below acceptable safety standards.

Mick Toller, head of Australia's Civil Aviation Safety Authority (CASA), told *Orient Aviation* he approached his Canadian counterpart about the scheme earlier this year after learning that the regulator was conducting a safety audit on an un-disclosed Asian airline.

He told the Canadians they could be "sticking their necks into an international political noose" if they took action against the airline alone.

Toller suggested a number of major countries join forces and establish joint safety audit teams.

He said this was not an attempt to step on the toes of the International Civil Aviation Organisation (ICAO), which conducts systematic safety audits at a country level. It would, he said, be done at an operator level.

A similar plan was introduced by the U.S. Department of Defence (DoD), which audited domestic and international carriers used by DoD staff. The department spends more than US$2.5 billion a year on air travel.

Head of Australia's Civil Aviation Safety Authority, Mick Toller: pushing international safety initiative

However, Toller said his proposed joint audit initiative was being approached from a regulatory aspect rather than from the consumer side. "It's another tool whereby we can take action against somebody that worries us," explained Toller.

The plan could emerge as a strong element in global moves to reduce accident rates by 50%.

The International Air Transport Association (IATA) has introduced a system under which prospective new members must undergo an audit before acceptance. However, Toller believes IATA will find it much easier to audit new applicants than to audit existing members.

Another factor contributing to safety auditing of non-local airlines by national regulatory authorities has been the massive expansion of airline code-share arrangements.

Toller's final poser is CASA's role of checking foreign airlines. He is considering adopting the Canadian system of setting up a foreign airline-focussed international cell within the authority. He believes it is the best of its type in the world.

This is for two reasons. Firstly, there are a large number of Australian-registered aircraft operating in the fleets of foreign airlines.

Secondly, CASA checks foreign carriers flying into Australia."We check the plane on the ramp, check the pilots are licensed and that the books have been written up properly. It's a valid tool, but it is a fairly low level product audit," said Toller. He wants to do far more and this is the reason for introducing the international cell into CASA.

To this end, CASA is on a recruitment drive, initially hiring 80 new staff. With a current strength of around 600, Toller believes it should be an organisation of between 700 and 750.

Among those being head-hunted are exiled Australian pilots who left Australia following the 1989 domestic airline dispute in which hundreds of pilots lost their jobs.

Bidders shy away from Bangkok project

The number of companies in line to build the US$1.9 billion passenger terminal at Bangkok's controversial new Nong Ngu Hao airport is thinning out. Three foreign consortia have dropped out of the race.

Hyundai of South Korea, Ballast Nedam International of The Netherlands and Bouygues Batiment of France backed away from the project in September, leaving four other groups, all involving Japanese and Thai partners, to fight for the business.

The two winners were the Ch. Karnchang PLC and Bilfinger Berger Bauaktiengesellschaft AG of Germany.

With the latest date for completion of the new airport set for 2004, a New Bangkok International Airport Company (NBIAC) evaluation committee was studying qualifications of the final contenders and opened bids on September 23.

If the history of the project is anything to go by, the bidders may need a lot of patience. The airport has been dogged by controversy and delays for years. The project was shelved during the Asian economic downturn.

It was later revived, but with a substantially reduced overall budget. Nong Ngu Hao is now expected to cost around US$5 billion. The major creditor for the airport is the Japan Bank for International Co-operation (JBIC).

Over the past two years the terminal building has been the target of critics who slated the design and doubted if it could be built at the price the NBIAC wants.

Meanwhile, a number of major global airline groups are expected to bid for stakes in the Airports Authority of Thailand (AAT) and four of the country's biggest regional airports when they are privatised later this year.

Airport sources say as many as seven international airport groups have "expressed keen interest" in the privatisation of AAT, which operates Bangkok's existing international terminal at Don Muang. AAT is also a major shareholder in the NBIA project at Nong Ngu Hao.

The privatisation programme includes regional airports at Phuket, Hat Yai, Chiang Mai and Chiang Rai.

Proceeds from the privatisation are expected to be between US$640 million and US$850 million, with the money being used to partially finance Nong Ngu Hao.

A share deal for strategic investors would include management contracts. Among airports reportedly interested are Aeroport de Paris, Frankfurt Airport, the British airport group BAA, Copenhagen Airport, Singapore's Changi International Airport and a U.S. airport group.

F1 puts vroom into MAHB

By Laura Lee
in Kuala Lumpur

Malaysia's Kuala Lumpur International Airport (KLIA) in Sepang, which is currently operating at well below its capacity of 25 million passengers a year, hopes to achieve passenger volume of 15 million by the end of this year.

Given the improved economic conditions and the growth in tourism in the country, as well as the region, Malaysia Airports, which manages the airport, is looking at 7.2 million passengers for the first half of this year. Last year KLIA handled 13.2 million passengers.

According to Malaysia Airports Holdings Bhd (MAHB) executive director, Rosman Abdullah, the company has forecast an average of 4.7% in passenger growth from this year until 2010 for KLIA.

Currently, 46 international airlines fly into the KLIA and another 10 operate as freight carriers.

In September, Rosman pointed out airport charges are significantly below average rates when compared to Singapore, Bangkok, Taipei, Manila, Delhi, Hong Kong, Shanghai and Kansai. He said MAHB is negotiating with the Malaysian Government for an increase in June next year. While seeking a review in tariffs, Rosman said MAHB would continue its aggressive promotion of KLIA to position it as a regional hub, by emphasising its connectivity and frequency of services.

Kuala Lumpur International Airport: expecting an average 4.7% growth per year through 2010

At the same time, the company would drive its processes towards operational excellence in terms of efficiency and reliability. A KLIA hubbing committee has been established to look into this subject.

Meanwhile, there is a potential upside from the development of KLIA's existing 10,000 acre land bank in Sepang, which MAHB intends to exploit, along with its 50-year concession to operate KLIA.

MAHB's diversification into non-aeronautical business has paid off. Revenue has increased over the last few years, climbing above RM400 million (US$108 million) in 1999.

"We experienced better yield from the Formula One Grand Prix Championship last year, which was held at the Sepang International Circuit near KLIA, than any other function," said Rosman. The MAHB-organised event will be held this year from October 21-22.

Online travel in its infancy in China but ...

Matthew clicks

By Jonathan Sharp in Guangzhou, southern China

Last year when e-commerce enthusiast Matthew Ng walked into the office of the boss of China's biggest airline, China Southern Airlines (CSA), based in Guangzhou, he was promised only15 minutes of a busy executive's time to make his pitch.

When Ng left over 90 minutes later, the seeds were sown for www.et-china.com, billed as China's first non-government travel web site offering a comprehensive range of airline booking, ticketing and related travel services.

"We just clicked," said Ng of his gratifyingly long meeting with CSA president Yan Zhiqing. "He was well-versed in e-commerce. He was really into it."

Thirty-three-year-old Ng, who left China with his family when he was 20 and whose academic training took him to New Zealand, Australia and New York, said he approached CSA after researching e-commerce opportunities and focused on the airline industry in China, where online travel is still in its infancy.

Ng is now chief executive officer of et-china.com Ltd, which is a joint venture of CSA and an Australian e-commerce investment company. It employs 74 staff in Guangzhou, in the heart of the economically vibrant southern coastal region of China. Its publicity material states as its long-term objective: to be the preferred e-commerce service provider in Greater China.

With the galloping growth of e-commerce services in Greater China, which encompasses Taiwan, Hong Kong and Macau as well as mainland China, this will clearly take some doing. Financially speaking, Ng said he was aiming for gross sales of 100 million yuan (US$12 million) in the first year of operation. Breakeven point will be 250 million yuan.

There have been some early successes. The company counts more than 80 corporate clients on its books, including a number of foreign customers. Procter and Gamble, which has 2,000 employees scattered around China and a travel budget for them running to tens of millions of dollars, was a recent sign-up.

Chief executive officer of et-china.com Ltd, Matthew Ng: service aimed at business travellers

What does the et-china.com web site, which comes in Chinese and English, do? Because of its close ties with CSA, the site understandably promotes the services offered by the airline, which apart from its wide network in China, flies to more than a dozen overseas destinations, including Europe and the United States. An all-cargo service from Shenzhen to Chicago started in April and a passenger service to Australia is due to start in December.

But while CSA flight information is the default page on the web site, services for other domestic airlines are offered if the customer prefers. "We are not a captive web site for China Southern," said Ng.

Aimed mainly at catering for business travellers, the services include real-time flight information, selection of flight, preferred seating and meals, e-ticketing, multiple payment choices and hotel reservations. E-china.com is moving to expand its services offered for the rapidly growing cargo market.

E-china.com makes money from commissions on ticket sales – thereby entering the murky world of Chinese airline ticket pricing. The ostensible commission earned on a standard airline ticket for a domestic flight is 3%, with 9% for an international ticket. The reality, however, is quite different.

Despite efforts by Chinese regulatory authorities to curb price discounting in order to cut airlines' financial losses, such a practice is rampant, said Ng, who described a recent bid to standardise pricing as a "miserable failure". With discounting by airlines anxious to fill seats at any price, opportunities arise for middlemen to increase their commissions – depending on what the market will stand.

For example, a middleman might cut a deal with an airline to sell spare seats at a 50% discount and, if the demand picks up at the last minute, sell them on at a lower discount and take the profit. If demand still sags and the tickets can be sold only at even lower prices, the middleman takes the loss.

Despite the risks, Ng would welcome the fresh air of market forces. Like many associated with the Chinese airline industry he is impatient with the government's regulatory body, the Civil Aviation Administration of China, which operates a travel web site competing with e-china.com.

Ng already uses the blunt instrument of supply and demand to hire staff. "I offer to double their salaries right away."

STOP PRESS

SIA ORDERS 25 A3XXS

By Tom Ballantyne

Singapore Airlines will buy 25 A3XXs: ten firm orders and options for another 15 passenger and/or freighter 500 seat plus Very Large Aircraft (VLA). The US$8.6 billion order includes the cost of spares and installed engines. The winner of the engine order will be announced at the end of October, with the aircraft scheduled for delivery from 2006 to 2001.

That would take Airbus close to the necessary 40-50 figure it set itself to proceed with the development of the A3XX. Air France has already ordered 10, Emirates Airlines seven and leasing company, ILFC, five. Five other companies have expressed interest in the behemoth including Qantas Airways and Virgin Atlantic.

The focus is now firmly on the Asia-Pacific region which is vital to the success of the project. Speaking in Sydney in September, Airbus senior vice-president commercial, John Leahy, said Airbus was " very confident" SIA will be one of the launch customers.

"They were the first to announce publicly their interest in this aeroplane and Singapore has been pressing us for several years to build an all-new aeroplane in this category," said the Toulouse-based super salesman.

"One of the reasons the A3XX got so much momentum so early was from the encouragement and design help from Singapore, so we would have been extremely disappointed if Singapore had not followed up with a firm order."

SIA's senior vice-president, corporate affairs, Mathew Samuel, disclosed in early September the airline would announce a decision to buy the A3XX or Boeing's new B747 stretch "within two months".

Samuel said there had been a constant stream of Airbus and Boeing officials through SIA's Airline House headquarters. Although he would not give any direct indication of the final decision, SIA insiders said the A3XX was the clear favourite.

The carrier wrote a good deal. Leahy said launch customers historically receive the best price for their orders. "Launch customers are the ones who are putting down hard money now, five years or so before the aircraft's entry into service," he said.

Boeing did not win a single order but the Seattle company is not giving up.

As the race for SIA's business entered the home straight, both Airbus and Boeing released their 20-year global market forecasts. Once again, both believe the Asia-Pacific will be the major growth region during the two decades. Its share of global traffic is forecast to rise from 24% in 1999 to 29% at the end of 2019. Europe's share will increase 3% to 30%, while the U.S. can expect to see its share of the market fall from 38% to 31%.

Overall, the forecasts of the two manufacturers are remarkably similar. Airbus puts annual world average passenger traffic growth at 4.9% and cargo growth at 5.7%. Boeing suggests 4.8% and 6.4% respectively.

They both see revenue passenger kilometres lifting from 3.1 trillion this year to around 8 trillion in 2019. Where the rivals differ dramatically is in the number of aircraft required to handle the growth.

Airbus calculates that today's world fleet of 10,000 will rise 8.5% to 19,000. Boeing sees the number almost tripling.

In other words, Airbus remains convinced there is a much larger market for bigger jets like the A3XX. On the other hand, Boeing believes the increase in point-to-point traffic between secondary city pairs will create demand for more medium size, longer-haul aircraft.

"Considering what has been going on this summer (air traffic and airport delays) we think the world's airport infrastructure probably cannot even handle a doubling of the world fleet too successfully. This is why we see the market shifting to larger and larger aircraft," said Leahy.

Whatever happens, if the forecasts hold up there will be an ongoing revenue bonanza for Boeing and Airbus, with sales of passenger and freighter aircraft over the next 20 years projected to be around US$1.3 trillion.

Airbus Industrie senior vice-president commercial, John Leahy: "was very confident" SIA would order A3XX

SIA senior vice-president, corporate affairs, Mathew Samuel: predicted fleet decision "soon"

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
Aboitiz Air (Philippines)				
YS-11-100	RR Dart 543-10K	1	-	-
YS-11-600R	RR Dart 543-10/10K	2	-	-
Air Archipels (French Polynesia)				
Cessna Conquest 11		1	-	-
Beech King Air 200	Gar. TPE331-SA 2520	1	-	-
Air Asia (Malaysia)				
B737-300	CFM56-3	2	-	-
Leased in: GECAS				
Air Caledonie (New Caledonia)				
ATR42-320	PWC PW121	4	-	-
Do 228-212	Gar. TPE331-SA 2520	1	-	-
Aircalin (Air Caledonie International, New Caledonia)				
A310-325	PWC PW4156A	1	-	-
Leased in: AIFS				
B737-300	CFM56-3B2	1	-	-
Leased in:				
DHC-6-300	PWC PT6A-27	1	-	-
Air China				
B747-400C	P&W PW4056	8	-	-
B747-400	P&W PW4056	6	-	-
B747-200F/SF	P&W JT9D-7R4G2	3	-	-
B747-200 Combi	P&W JT9D-7R4G	1	-	-
Leased in: 1 Concord Asset Management				
B767-300	P&W PW4056	4	-	-
Leased in: 1 Mitsui & Co				
B767-200ER	P&W 4052/JT9D-7R4	6	-	-
B777-200	P&W PW4090	7	-	
B737-800	CFM56-4C4	7	4 (2000-01)	-
B737-300	CFM56-5C4	19	-	-
A340-300	CFM56-5C4	3	-	-
Leased out: 3 Cathay Pacific				
A318		-	8	-
L-100-300	AN 501-D22A	2	-	-
BAe 146-100	Lyc ALF502R-5	4	-	-
Y-7	WJ 5A-1	4	-	-
Air Do (Hokkaido Internationall Airlines, Japan)				
B767-300ER		2	-	-
Leased in: 2 (AWAS)				
Air Fiji				
DHC-6-300 Twin Otter	PWC PT6A-27	1	-	-
DHC-6-200	PWC PT6A-20	1	-	-
Leased in Air Vanuatu				
Beech Baron 95-C55	Cont IO-540	1	-	-
Y-12 Mk-II	PWC PT6A-27	3	-	-
EMB 110-P1	PWC PT6A-34	2	-	-
BN2A-20 Islander	Lyc O-540-K1B5	3	-	-
Air Great Wall (China)				
To be merged with China Eastern				
B737-200	P&W JT8D-17A	3	-	-
TU-154		2	-	-
(out of service)				
A320	CFM56-5B4	2	-	-
Wet Leased in: 2 from China Eastern				
Air HongKong				
B747-200F	GE CF6 50-E2	3	-	-
Leased in: 3 from Cathay Pacific				
Air-India				
B747-400	P&W PW4056	6	-	1
B747-300 Combi	GE CF6-80C2B1	2	-	-
Leased in: 1 from Citicorp leasing Inc				
B747-200	P&W JT9D-7J -7Q	4	-	-

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
A300B4-100/-200	GE CF6-50C2	3	-	-
A310-300	GE CF6-80C2A2	8	-	-
Leased in: 2 IL-62				
Leased in 1				
Air Kiribati (Kiribati)				
C-212-200	Gar. TPE331-10R	1	-	-
Y12 Mk11	PT6A-27	1	-	-
BN-2AIII-2	Lyc O-540-C4B5	1	-	-
Air Macau (Macau)				
A320-200	IAE V2527-A5	3	-	-
Leased in: ILFC				
A321-100	IAE V2530-A5	5	-	-
Leased in: ILFC				

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
Air Maldives				
A310-200	P&W PW-JT9D	2	-	-
Leased in: A. I. Leasing Inc				
Do 228-212	Gar. TPE 331-5A-252D	2	-	-
DHC-8-200	PWC PW123D	1	-	-
Air Mandalay				
ATR 72-212QC	P&W PW 127	2	-	-
Air Marshall Islands				
HS 748-2B	RR Dart 536	1	-	-
Do 228-212	Gar. TPE331-5A-252D	2	-	-
Air Moorea (French Polynesia)				
Do 228-212	Garrett TPE331-252D	1	-	-
Leased in: 1				
BN-2A/2B	Lyc O-540-E4B5	3	-	-
Leased in: 1				
DHC-6-300	PWC PT6A-27	2	-	-
Air Nauru				
B737-400	CFM56-3C1	1	-	-
Air Nelson (New Zealand)				
Fairchild Metros	Garrett TPE331-11U-611	6	-	-
Leased in: 6 Air New Zealand				
Saab 340A	GE CT7-5A2	12	-	-
Leased in: 12 Air New Zealand				
Air New Zealand				
B747-400	RR RB211-524E	3	-	-
Leased in: 1				
B747-400	GE CF6-80C2B1F	5	-	-
Leased in: 4				
B767-200ER	GE CF6-80A2	4	-	-
Leased in: 1 AFL (To Nov 2000)				
B767-300ER	GE CF6-80C2B6/F	9	1	-
Leased in: 4				
B737-200	P&W JT8D-15A	6	-	-
Leased in: 3				
B737-200QC	P&W JT8D-15A	1	-	-

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
B737-300	CFM56-3C1	13	-	-
ATR-72	P&W PW127	7	1	-
Leased out: 7 Mount Cook Airlines				
Saab 340A	GE CT7-5A2	12	-	-
Leased out: 12 Air Nelson				
Fairchild Metros	Garrett TPE331-11U-611	12	-	-
Leased out: 6 Air Nelson, 6, Eagle Aviation				
Embraer 110	PW PT6A-34	9	-	-
Leased out: 9 Eagle Aviation				
Air Nippon				
B737-500	CFM56-3C1	15	3	-
Leased in: 4 Mitsui and Co (1), Sumigin Lease (1), Japan Leasing Corp (1)				
B737-400	CFM56-3C1	-	1	-
B737-200	P&W JT8D-17	4	-	-
Leased in: 7 ANA				
A320-200	CFM56-5A1	8	-	-
Leased in: ANA				
DHC-8-Q300		-	1	-
YS-11A-500	RR Dart 543-10/10K	7	-	-
Leased in: 6 ANA				

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
Air Niugini (Papua New Guinea)				
A310-300	P&W PW4152	1	-	-
Leased in: 1 Gatex				
F28-4000	RR RB183-15H	3	-	-
F28-1000	RR RB183-15	3	-	-
DHC-8-200B	P&W PW123D	1		-
Airnorth (Australia)				
Emb 120ERJ		4	-	-
Fairchild Metro 23		4	-	-
Cessna 400 Series		10	-	-
Cessna 208B		1	-	-
Beechcraft B200		1	-	-
Air Pacific (Fiji)				
B747-200	RR RB211-524D	2	-	-
Leased in: Qantas				
B767-300ER	GE CF-6-80C2B6	1	-	-
Leased in: Mukai Kosan Company				
B737-700	CFM56-7B24	1	-	-
B737-800	CFM56-7B24	2	-	-
Air Philippines				
B737-200	P&W JT8D-7B/-9A/-17	11	-	-
Leased in: 4				
MD-82	P&W JT8D-2127C	2	-	-
Leased in: 2				
Air Rarotonga (Cook Islands)				
EMB110	PWC PT6A-34	3	-	-
Leased in: 2				

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
Air Tahiti Nui (French Polynesia)				
A340		1	-	-
ATR72-202	PWC PW124B	3	-	-
ATR42-500	PWC PW127E	3	-	-
Do 228-212	Gar. TPE331-5A-2521	2	-	-
Air Vanuatu				
B737-300	CFM56-3B1	1	-	-
Leased in: Qantas				
Saab 2000		1	-	-
Leased in: Saab				
Airlink (Australia)				
BAe 146-300		2	-	-
BAe 146-200		5	-	-
BAe 146-100		6	-	-
DHC-8-100		1	-	-
All Nippon Airways				
B747-400	GECF6-80C2B1F	23	-	-
Leased in: 7 Fuyo Sogo Lease (2), Sumisho Lease (1), Mitsui & Co Int'l (1), Mitsubishi Corp (1), Sumigin Lease & Partners (1)				
B747-200B	GE CF6-50E2	4	-	-
Leased in: 2 Orix Aircraft Corp				
B747SR	GE CF6-45A2	11	-	-
Leased in: 6 Nissho Iwai Leasing (3), Showa Leasing (3)				
B777-200/ER	P&W PW4090/4074	15	4 (2000/01)	-
Leased in: 15				
B777-300	P&W PW4090	5	11	-
Leased in: 4				
B767-300	GE CF6-80C2B2F	42	-	-
Leased in: 15				
B767-200	CF6-80A	11	-	-
A321-100	V2530-A5	7	-	-
Leased in: 1				
A320-200	CFM56-5A1	25	-	-
Leased out: 7 Air Nippon				
A340		-	5	-
Alliance Air (India)				
B737-200	P&W JT8D-17A	7	-	-
Leased in: 7 from Air India				
Angel Airlines (Thailand)				
B737-500		2	-	-
Leased in: 2				
Fairchild Dornier 328-100		1	-	-
Raytheon Beechjet 400A		1	-	-
Ansett Australia				
B747-400	P&W PW4056	2	-	-
B747-300	P&W JT9D-7R4G2	2	-	-
Leased in: 2 SIA				
B767-300ER	GE CF6-80C2	1	-	-
B767-200ER	CF6-80A2	3	-	-
B767-200	CF6-80A	7	-	-
B737-300	CFM56-3B1	22	-	-
A320-200	CFM56-5-A1	20	-	-
BAe 146-200	Lyc ALF502	7	-	-
BAe 146-200F	Lyc ALF502R-5	2	-	-
BAe 146-300	Lyc ALF502R-5	4	-	-
F28-4000	RR Spey 555-15P	2	-	-
Archana Airways (India)				
LET L-410 UVP-E	Walter M601E-21	4	1	-
Fairchild Dornier 328-100		-	2	-
Ariana Afghan Airlines				
B727-100C	P&W JT8D-7/9	2	-	-
B727-200	P&W JT8D-15	1	-	-

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
AN-12		1	-	-
AN-24RV	Ivchenko AI-24	2	-	-
AN-26		2	-	-
YAK-40	Ivchenko AI-25	1	-	-
DHC-6-300 Twin Otter		1	-	-
Asiana Airlines				
B747-400	GE CF6-80C2B1F	2	-	-
B747-400 Combis	GE CF6-80C2B1F	6-	-	
B747-400F	GE CF6-80C2B1F	4	3	-
Leased in: 2				
B767-300/ER	GE CF6-80C2B2F	11	2	-
Leased in: 5				
B767-300F	GE CF6-80C2B6F	1	-	-
B737-400	CFM56-3C1	22	-	-
Leased in: 15				
B737-500	CFM56-3C1	3	-	-
Leased in: 2				
A321-100/200	IAE V2530/33	4	4	-
A330-200	PW4168	0	3 (2004-06)	-
A330-300	PW4160	0	3 (2004-06)	-
B767-300F	CF6-80C2-B6F	1	-	-
B747-400F	CF6-80C2-B1F	4	3 (2002-07)	-
Bangkok Airways (Thailand)				
ATR72-200	PWC PW124B	8	-	-
Leased in: 8				
ATR42-300	PWC PW121	1	-	-
Leased in: 1 GIE				
B717-200		-	2 (2000-01)	-
Berjaya Air (Malaysia)				
BN-2 Islander	Lyc IO-540 KIB5	1	-	-
Y-12	PWC PT6A-27	1	-	-
Challenger 601-3R	GE CF34-3A1	1	-	-
DHC-7	PWC PT6A-50	2	-	-
Biman Bangladesh Airlines				
DC 10-30	GE CF6-50C2	4	-	-
A310-300	P&W PW4156A	3	-	-
F28-4000	RR Spey 555-15P	1	-	-
BAe ATP	PWC PW126	2	-	-

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
Bouraq Indonesia Airlines				
B737-200	P&W JT8D-15	6	-	-
Leased in:				
HS 748-2A	RR Dart 534-2	3	-	-
HS 748-2B	RR Dart 536-2	1	-	-
IPTN 212-100		3	-	-
IPTN N250		-	5	-
Cathay Pacific Airways				
B747-400	RR RB211-524G/H	19	-	-
Leased in: 17				
B747-400F	RR RB211-524G2	3	2 (2001)	-
Leased in: 1				
B747-200F	RR RB211-524D4	4	-	-
Leased in: 1				
B777-200	RR Trent 800	4	1	-
Leased in: 3				
B777-300	RRTrent800	7	-10 (Up to 2004)	
Leased in: 7				
A340-300	CFM56-5C4	14	1	2
A330/340			(Up to 2003)	
Leased in: 14, 3 from Air China				
A330-300	RR Trent 772	12	7 (2001)	-
Leased in: 12				
Cebu Pacific Air (Philippines)				
DC-9-41	P&W JT8D-9A/7B	12	-	-
Leased in: 12				
Negotiations under way for 10 B717s				
Changan Airlines (China)				
(to be merged with Hainan Airlines)				
Y-7	WJ5A-1	5	-	-
China Airlines (Taiwan)				
B747-400	P&W PW4056	13	-	2
Leased in: 7				
B747-400F	GE CF6-80C2B1F/5F 5	10	4	
Leased in: 2				
B747-200F	GE CF6-50E2/	8	-	-
P&W JT9D-7A/7Q/7R4G2/				
Leased in: 4				
B747-200B	P&W JT9D-7A/7Q	1	-	-
B737-800	CFM56-7B26	8	5	-
Leased in: 5; Leased out: 2				
MD-11	P&W PW4460/4462	4	-	-
Leased in: 2				
A300-600R	P&W PW4158	12	-	-
Leased in: 8				
A340-300	CFM56-5C4	-	7	1
A330-300		-	-	4
China Eastern Airlines				
A340-300	CFM56-5C4	5	-	-
Leased in: 1 BOT Financial Corp				
A300-600R	GE CF6-80C2A5	10	-	-
Leased in: 3				
A320-200	CFM 56-5B4	13	2	-
Leased in: 5 Leased out: 2 to Air Great Wall				
B737-300		7	-	-
Leased in: 1 SALE				
MD-82	P&W JT8D-217A	3	-	-
MD-11	P&W PW4460	3	-	-
MD-11F	P&W PW4460	3	-	-
MD-90		9	-	-
Yak-42D	WJ5A-1	7	-	-
Not in service				

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
China Hainan Airlines (Haikou)				
B737-300	CFM56-3C1	5	-	-
Leased in: 3 ILFC, 2 Communication Bank of China				
B737-400	CFM56-3C1	7	-	-
Leased in: ILFC				
B737-800	CFM56-7	5	-	-
Leased in:				
Fairchild 328JETS	P&W	5	14	20
Learjet 60	P&W PW305A	1	-	-
Beechjet 400		1	-	-
Raytheon Hawker 800XP		1	-	-
China Northern Airlines (Shenyang)				
MD-90	IAE V-2525-D5	11	-	-
MD-82	P&W JT8D-217A/C	24	-	-
A300-600R	P&W PW4158	6	-	-
Leased in: 2 AWAS				
A321		-	10	-
China Northwest Airlines (Xian)				
A300-600R	GE CF6-80C2A5	3	-	-
Leased in: 1 GECAS				
A310-200	P&W JT9D-7R4E1	3	-	-
Leased in: 3				
A320	CFM56-5B4	11	2	-
Leased in: 2				
BAe 146-100	Lyc ALF 502R-5	3	-	-
Leased in: 1				
BAe 146-300	Lyc LF507-1H	7	-	-
Y-7-100	WJ 5A-1	5	-	-
China Southern Airlines (Guangzhou)				
B777-200A/B	GE90-76BG01	9	-	-
Leased in: 8				
B757-200	RR RB211-535E4	18	-	-
Leased in: 15				
B737-300	CFM56-3C	22	-	-
Leased in: 13				
B737-500	CFM56-3C	12	-	-
Leased in: 7				
A320-200	IAE V2527-A5	20	-	-
Leased in: 10 Leased out: 2				
China Southwest Airlines (Chengdu)				
B757-200	RR RB211-535E4	13	-	-
Leased in: 5 GECAS (3) Leased out: 2				
B737-300	CFM56-3B1/B2	18	-	-
Leased in: 5				
B737-800	CFM56-7	3	-	-
A340-300		3	-	-
Tu-154M	Soi D-30KU-154	4	-	-
Not in service				
China United Airlines (Beijing)				
B737-300	CFM56-3B1	8	-	-
Tu-154M	Sol D-30KU-154	16	-	-
Il-76M		14	-	-
Canadair CL601	GE CF34-A-1A/3A	5	-	-
China Xinhua Airlines				
B737-300	CFM56-3B1/2	6	-	-
Leased in: 1 Boullioun				
B737-400	CFM56-3	3	-	-
Leased in: 3 Bouillioun				
China Xinjiang Airlines (China)				
B737-300	CFM56-3	2	-	-
B757-200	RB211-535-E4	6	3	-
Leased in: 3				

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
TU-154	D-30KU	5	-	-
IL-86	Hk-86	3	-	-
ATR-72		5	-	-
Dragonair (Hong Kong)				
A320-200	IAE V2500-A1	7	6 (2000-05)	-
Leased in: 5 ILFC Leased out: 1, Transasia				
A321	IAE V2500	3	-	-
Leased in: 3				
A330-300	RR Trent 700	5	2 (2001)	2
Leased in: 3 ILFC				
B747-200F		1	-	-
Wet Leased from Atlas Air				

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
Druk-Air (Bhutan)				
BAe 146-100	Lyc ALF502R-5	2	-	-
Eagle Airlines (New Zealand)				
EMB-110P1	PWC PT6A-34	9	-	-
Leased in: 9 Air New Zealand				
Fairchild Metro III	Garrett TPE331-11	6	-	-
Leased in: 6 Air New Zealand				
Eastern Australia Airlines				
DHC-8-100/200	PWC PW120A/123	15	-	-
Elbee Airlines (India)				
F27-200	RR Dart 552-7R	2	-	-
EVA Air (Taiwan)				
B747-400	GE CF6-80C2B1F	5	-	-
B747-400 Combi	GE CF6-80C281F	10	-	-
Leased in: 12 of the 15 B747s				
B747-400F	GE CF6-80C2B1F	1	2 (2001-02)	-
B767-300ER	GE CF6-80C2B6F	4	-	-
Leased in: 4				
B767-200	GE CF6-80C2B2F	4	-	-
MD-11	GE CF6-80C2D1F	3	-	-
Leased in: 1				
MD-11F	GE CF6-80C2D1F	9	-	-
Leased in: 2				
B777-200X		-	3 (2005-08)	-
B777-300X		-	4 (2005-08)	8 (-200/-300)
Everest Air (Nepal)				
Fairchild Dornier 228-100	Gar TPE331-5-252D	3	-	-
Leased in: 1 Danisk, 2 Adler Leasing				
Far Eastern Air Transport (Taiwan)				
B757-200	P&W PW2037	7	1	-
Leased in: 1 ILFC				
MD-82/83	P&W JT8D-217/219	9	-	-
Leased in: 4				
FlightWest Airlines (Australia)				
F28-4000		3	-	-

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
F100		2	-	-
EMB-120ERJ	PWC PW118A	6	-	-
BAe Jetstream J32EPs		4	-	-
Freedom Air International (New Zealand)				
B737-300	CFM56-3C1	2	-	-
Leased in: 2 Air New Zealand				
Garuda Indonesia				
B747-400	GE CF6-80C2	3	-	-
Leased in: 1 ILFC (To Mar 2005)				
B747-200	P&W JT9D-7Q	4	-	-
B737-500	CFM56-3-C1	5	-	-
Leased in: 5				
B737-400	CFM56-3C1	7	-	-
B737-300	CFM56-3B1	7	-	-
Leased in: 6				
DC10-30	GE CF6-50C	5	-	-
A330-300	RR Trent 700	6	3	-
Leased in: 6				
F28-4000	Spey Mk555-15H	2	-	-
F28-3000	Spey Mk555-15H	3	-	-
Hazelton Airlines (Australia)				
Saab 340A/B	GE CT7-9B	9	-	-
Leased in: 1 Finans Skandic AB, 1 NAB, 2 Scania, 2 Handelsbanken				
Fairchild Metro 23	Gar. TPE331-12 VAR	2	-	-
Leased in: 2 State Bank				
Impulse Airlines (Australia)				
B717-200		3	-	-
Raytheon Beech 1900D		13	-	-
Indian Airlines				
A300B4/B2	GE CF6-50C2/C	11	-	-
A320-200	IAE V2500-AI	31	-	-
Leased out: 1				
B737-200	P&W JT8D-17A	11	-	-
Dornier 228-200		3	-	-
Islands Nationair (Papua New Guinea)				
DHC-6-300 Twin Otter	PWC PT6A-27	3	-	-
EMB-110	PWC PT6A-34	3	-	-
J-AIR (Japan)				
BAe Jetstream Super 31	Gar. TPE331-12UHR	5	-	-
Canadair RJ 200		-	2	-
Leased in: 3 JAL Leasing, 1 Kanematsu Finance Co.				
Jagson Airlines (India)				
Fairchild Dornier 228-201	Gar. TPE331-5-252D	3	-	-
JALways (Formerly Japan Air Charter, JAZ)				
DC10-40	P&W JT9D-59A	4	-	-
Leased in: 4 Japan Airlines				
Japan Air Commuter				
YS-11A-500	RR Dart 542-10J/K	10	-	-
Leased in: JAS				
Saab 340B	GE CT7-9B	10	-	-
Leased in: 7 Mitsui Leaseb (2), Kougin Lease (1), Tajima Airport Terminal (1), Central Lease (1), Diamond Lease (1), Nihon Lease (1)				
Japan Air System				
B777-200	P&W PW4074	7	-	-
Leased in: 1 Sumigin Lease				
A300B4-2C	GE CF6-50C2R	8	-	-
Leased in: 5				
A300B2K-3C	GE CF6-50C2R	9	-	-
Leased in: 2				
A300-600R	P&W PW4158	19	-	-
Leased in: 7				
MD-90-30	IAE V2525-D5	16	-	-
Leased in: 3				

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
MD-81	P&W JT8D-217A/C	18	-	-
Leased in: 11				
MD-87	P&W JT8D-217/AC	8	-	-
Leased in: 2				
YS-11	Dart MK54Z-10J/E	12	-	-
Japan Airlines				
B747-400	GE CF6-80C2B1F	40	5	-
Leased in: 15				
B747-300	P&W JT9D-7R4G2	14	-	-
Leased in: 2 Leased out: 1 JAA				
B747-200B	P&W JT9D-7A	4	-	-
Leased in: 3 Leased out: 1 JAA				
B747-200B	P&W JT9D-7Q	8	-	-
Leased in: 3 Mitsibishi Corp (2) Leased out: 2 JAA				
B747-200B	P&W JT9D-7R4G2	3	-	-
B747-200B (F Mod)	P&W JT9D-7D	1	-	-
B747-200F	P&W JT9D-7Q	5	-	-
Leased in:				
B747-200F	P&W JT9D-7A	1	-	-
Leased in:				
B747-200F	P&W JT9D-7R4G2	2	-	-
Leased in: 2				
B747-100B SUD	P&W JT9D-7A	2	-	-
B747-100/100B	P&W JT9D-7A	3	-	-
Leased in: Mitsibishi Corp (1), Japan Air Charter (1)				
B767-300	P&W JT9D-7R4D	12	-	-
Leased in: 5 Leased out: 1 JAA				
B767-300	GE CF6-80C2B4F	7	-	-
Leased in: 4 Leased out: 2 JAA				
B767-200	P&W JT9D-7R4D	3	-	-
Leased in: 1. Nikko Lease				
B777-200	P&W PW4077	5	5	-
Leased in: 3				

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
B777-300	P&W PW4090	5	-	-
B777-300X		-	8	-
B737-400	CFM 56-3C1	8	-	-
Leased out: 5, JEX				
MD-11	P&W PW4460	10	-	-
Leased in: 8. Mitsubishi Corp (5), Kogin Lease (1), Fuyo Sogo Lease (1)				
DC 10-40	P&W JT9D-59A	16	-	-
Leased out: 4, JALways (formerly JAZ)				
Japan Asia Airways				
B747-300	P&W JT9D-7R4G2	1	-	-
Leased in: Japan Airlines				
B747-200	P&W JT9D-7A/7Q	3	-	-
Leased in: 3, Japan Airlines				
B767-300	P&W JT9D-59A	2	-	-
Leased in: 2, Japan Airlines				
B767-300	CF6-80C2B4F	1	-	-
Leased in: 1, Japan Airlines				
Japan Express (JEX)				
B737-400	CFM 56-3C1	5	-	-
Leased in: 5, Japan Airlines				
Japan TransOcean Air				
B737-400	CFM56-3C1	9	-	-
Leased in:				
B737-200	P&W JT8D-17	7	-	-
Leased in: 3. Nissho Iwai Corp (1)				
Jet Airways (India)				
B737-400/500	CFM56-3C1/3B1	13	-	-
Leased in: 10 GECAS (5), Nissho Iwai Corp (2), Boeing Eqipment Holding (2)				
B737-700/800		12	10 (2000-03)	-
ATR 72-500		5	-	-
Kendell Airlines (Australia)				
Saab 340A	GE CT7-5A2	8	-	-
Saab 340B	GE CT7-9A2	8	-	-
Fairchild Metro 23	Gar. TPE331-12 UAR	7	-	-
Canadair RJ-200	GE CF34-381s	8	4	12
Korean Air				
B747-400	P&W PW4056	26	2 (2001/02)	-
Leased in: 1. Indosuez Air Finance				
B747-400F	P&W PW4056	5	2 (2001)	-
B747-200F	P&W JT9D-7A/Q/7R4G2	7	-	-
B747-300	P&W JT9D-7R4G2	2	-	-
B777-200	P&W PW4090	3	3 (2000/01)	-
B777-300	P&W PW4090	4	2 (2002)	-
B737-800	CFM56-7B24	6	8(2000-01)	-
B737-900	CFM56-7B24	-	7 (2001/02)	1
A330-300	P&W PW4168/A	10	3 (2000/01)	3
A330-200	P&W PW4168	3	-	-
A300-600	P&W PW4158	23	-	-
Leased in: 3				
MD-11F	P&W PW4460	4	-	-
MD-82/83	P&W JT8D-217A/C/219	8	-	-
Fokker 100	RR Tay 650-15	10	-	-
Leased in: 2. Orix Aircraft Corp (2)				
Lao Aviation				
An 24RV	Ivchenko AI-24	1	-	-
ATR72	P&W PW127	1	-	-
Y-12-II	PWC PT6-27	5	-	-
Leased in: Harbin (CATIC)				
Y-7-100C3	WJ5A-1	3	-	-
Leased in: XAC				
Malaysia Airlines				
B747-400	P&W PW4056/GE CF6-80C2	16	5	-

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
Leased in: 1				
B747-300	P&W JT9D-7R4G2	1	-	-
B747-200F	RR RB211-524D4	2	-	-
B777-200	RR Trent 890B	11	6	-
B737-400	CFM56-3C1	39	-	-
Leased in: 4. Leased out: 3				
B737-500	CFM56-3C1	1	-	-
Leased in: 1				
B737-700BBJ	CFM56-7B26	1	-	-
A330-300	P&W PW4168	10	-	-
Fokker 50	PWC PW125B	10	-	-
DHC	PT6A-27	6	-	-
Mandala Airlines (Indonesia)				
B737-200	P&W JT8D-15/17	7	-	-
Leased in: 7. GECAS (3), PT. Pann (2), Sub lease from Transmile (2)				
Mandarin Airlines (Including Formosa Airlines, Taiwan)				
B747-400	P&W PW4056	1	-	-
B737-800	CFM56-7B26	2	-	-
Fokker 50	P&W PW125B	7	-	-
Fokker 100	RR Tay 65-15	2	-	-
Fairchild Dornier 228-202	Gar TPE331-252D	1	-	-
Fairchild Dornier 228-212	Gar TPE331-5A-252D	2	-	-
Merpati Nusantara Airlines (Indonesia)				
B737-200	P&W JT8D-15	3	-	-
Fokker 100	RR Tay 650-15	3	-	-
F28-4000	RR Spey 555-15H	10	-	-
Leased in: 6. Leased out 1				
F27-500	RR Dart 532/6-7	8	-	-
F27-Cargo	RR Dart 7	2	-	-
CN-235	GE CT7-7A	14	-	-
CASA 212	Gar. TPE 331-10-511	6	-	-
DHC-6-300/200	PWC PT6A-27	9	-	-
ATP	P&W PW120A	4	-	-
Mount Cook Airline (New Zealand)				
ATR 72-500	PWC PW127	7	1	-
Leased in: 7, Air New Zealand				

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
MIAT Mongolian Airlines				
B727-200	P&W JT8D-9A/17	2	-	-
A310		1	-	-
Y-12	PWC PT6-27	5	-	-
An-24	Ivchenko AI-24	11	-	-
An-26	Ivchenko AI-24BT	3	-	-
An-30	Ivchenko AI-24BT	1	-	-
Mi-8	TVD-117A	3	-	-
Myanmar Airways				
F28-4000	RR Spey 555-15P	2	-	-
F28-1000	RR Spey 555-15	1	-	-

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
F27-600	RR Dart 532-7	3	-	-
F27-400	RR Dart 532-7	1	-	-
F27-100	RR Dart 514-7	1	-	-
Myanmar Airways International				
B737-400	CFM56-3C1	2	-	-
Leased in: MAS				

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
Necon Air (Nepal)				
HS748	RR Dart 533/6-2	3	-	-
ATR-42		1	-	-
National Jet (Australia)				
BAe RJ70		2	-	-
DHC 8 100/200/300		5	-	-
BAe Jetstream J32		1	-	-
NEPC Airlines (India)				
F27-500	RR Dart 552-7R	8	-	4
Leased in: 2				
Nippon Cargo Airlines (Japan)				
B747-200F	GE CF6-50E2	7	-	-
Leased in: 2				
B747-100SRF	GE CF6-50E2	1	-	-
Pacific Airlines				
MD-82	P&W JT8D-217C	1	-	-
Leased in: U-Land Airlines				
Pakistan International Airlines				
B747-200	P&W JT9D-7A	6	-	-
B747-200 Combi	GE CF6-50E2	2	-	-
B747-300	RR RB211-524C2	5	-	-
Leased in: 5 Cathay Pacific				
B737-300	CFM56-3B1	6	-	-
A300-B4	GE CF6-50C2	9	-	-
Leased in: 2				
A310-300	GE CF6-80C2A8	6	-	-
F27-200/400	RR Dart 532-7	13	-	-
DHC-6-300	PWC PT6A-27	2	-	-
Pelangi Air (Malaysia)				
Fokker 50	PWC PW125B	2	-	-
Fairchild Dornier 228-202	Gar. TPE331-5-252	3	-	-
Pelita Air Service (Indonesia)				
Fokker 100	RR Tay 650-15	1	-	-
Leased in: GECAS				
Fokker 70	RR Tay 620-15	1	-	-
F28-4000	RR Spey 555-15P	4	-	-
Leased in: 1 GECAS				
DHC-7-103	PWC PT6A-50	6	-	-
CASA C212-100	Garrett TPE331-511C	4	-	-
BAe 146-200	Lyc ALF502-R5	1	-	-

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
CASA 212-200		8	-	-
Philippine Airlines				
B747-400	GE CF6-80C2B1F	4	-	-
Leased in: 4				
B747-200	CF56-5C4	3	-	-
Wet Lease: 3				
B737-300	CFM56-3B1/3B2/3C1	9	-	-
Leased in: 8				
A340-300	CFM56-5C	4	-	-
Leased in: 4				
A330-300	CF6-80E1A2	8	-	-
Leased in: 8				
A320-200	CFM56-5B4/P	3	-	-
Leased in: 3				
Polynesian Airlines (Western Samoa)				
B737-300	CFM56-3C1	1	-	-
DHC-6-300	PWC PT6A-27	2	-	-
BN-2A Islander	Lyc O-540-E4C5	1	-	-
Qantas Airways				
B747-400	RR RB211-524G	24	-	11
B747-300	RR RB211-524D4U	6	-	-
B747-200B/ SCD	RR RB211-524D4U	5	-	-
Leased out: 2 (Air Pacific)				
B747SP	RR RB211-524B2	2	-	-
B767-300ER	GE CF6-80C2B6	21	1 (2000)	-
Leased in: 3 Japan Leasing Corp (2), Dai-Ichi Kangyo Bank (1)				
B767-200ER	P&W JT9D-7R4E	7	-	-
B737-300	CFM56-3B2	16	-	-
B737-400	CFM56-3C1	22	-	-
Leased in: 1 ILFC				
BAe146-100		6	-	-
BAe146-200		7	-	-
BAe146-300		2	-	-
DHC-8-100		17	-	-
DHC-8-200		3	-	-
BAe Jetstream 31		1	-	-
BAe Jetstream 32		1	-	-
Shorts SD 360		4	-	-
Qantas New Zealand (formerly Ansett New Zealand)				
BAe 146-300	Lyc ALF502R-5	9	-	-
Leased in: 9 AWAS (7), Ansett Aust (2)				
BAe 146-200F	Lyc ALF502R-5	1	-	-
Leased in: AWAS				
DHC-8-100	PWC PW120A	4	-	-
Leased in: 3 DHC (5 years)				
BAe Jetstream 32EP		-	3	-
Royal Air Cambodge (Cambodia)				
B737-400	CFM56-3B1	1	-	-
Leased in: MAS				
ATR72	PWC PW124C	3	-	-
Leased in: 3				
Y12	PT6A-27	2	-	-
Royal Brunei Airlines				
B757-300ER	RR RB211-535E4	2	-	-
Leased out: 1 Qatar Airways				
B767-300ER	P&W PW4056	6	-	-
Leased out: 1 Region Air				
B767-300ER	GE CF6-80C2	2	-	-
Royal Nepal Airlines				
B757-200/C	RR RB211-535E4	2	-	-
DHC-6-300	PWC PT6A-27	8	-	-
Pilatus PC6-B2H4	PWC PT6A-27	1	-	-

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
Royal Tongan Airlines				
BAe 748-2B	RR 536	1	-	-
Leased in: Mt. Cook Airlines				
DHC-6-300	PWC PT6A-27	2	-	-
Ryukyu Air Commuter (Japan)				
DHC-8-100		2	2	-
DHC-6-300	PWC PT6A-27	4	-	-
Leased in: 4 Japan TransOcean				
Sabang Merauke Raya Air Charter (Indonesia)				
C-212-100	Garrett TPE331-5-251C	2	-	-
F-27-200	RR Dart-7 MK532-7	1	-	-
Leased in: 1				
Piper PA31-350	Lyc TIO-540-J2BD	1	-	-
Sahara India Airlines				
B737-200	P&W JT8D-15	4	1	-
Leased in: 2 PLM Int'l				
B737-400	CFM56-3C-1	2	2	-
Leased in: ILFC				
Shaheen Air (Pakistan)				
B737-400		1	-	-
Leased in:				
Shandong Airlines (China)				
B737-300	CFM56-3B1/3B2	7	-	-
Leased in: 2 (GECAS)				
Saab 340A		8	-	-
Leased in:				
Canadair RJ200		-	5	-
Y-7	WJ5A	1	-	-
Shanghai Airlines (China)				
B757-200	P&W PW2037	7	-	-
B767-300	P&W PW4056	3	-	-
B737-700	CFM56-381	4	2	-
Leased in: 3 (ILFC)				
Canadair RJ200		-	3	-
		2	-	-

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
Shenzhen Airlines (China)				
B737-300	CFM56-3B1/2/C1	6	-	-
Leased in: 6 China Xinjiang (2), Fluggesellscaft (2), AWAS (1), Metlife Capital Corp (1)				
B737-700				
Sichuan Airlines (China)				
A320-200	IAE V2527-A5	5	-	-
Leased in: ILFC				
A321	IAE V2500	2	2	-
EMB 145		1	4(2000/01)	-
Y-7-100	WJ5A-1	5	-	-
Tu-154M	Soi A-30KU	4	-	-

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
SilkAir (Singapore)				
A320-200	V2527-A5	3	2 (2001)	9
(A320/A319)	A319-100	V2524-A5	3	1 (2002)
Singapore Airlines				
B747-400	P&W PW4056	36	4	10
B747-400F	P&W PW4056	8	3	-
B777-200	RR Trent 884	13	13	18
B777-200ER	RR Trent 892	-	12	-
B777-300	RR Trent 892	5	-	-
A340-300E	CFM56-5C4	15	2	-
A340-500	RR Trent 553	-	5	5
A310-300	P&W PW4152	15	-	-
Skippers Aviation (Australia)				
DHC-8-100		2	-	-
Emb 120ERJ		1	-	-
Fairchild Metro 23		7	-	-
Cessna 400 Series		9	-	-
Beechcraft B200		2	-	-
Skymark Airlines (Japan)				
B767-300ER		2	1	-
Skyline NEPC Airlines (India)				
B737-200	P&W JT8D-17/17A	1	-	-
Skywest Airlines (Australia)				
Fokker 50	PWC PW125B	5	-	-
Solomon Airlines				
B737-300 CFM56-3C1		1	-	-
Leased in: Qantas				
DHC-6-310	PWC PT6A-27/34	2	-	-
DHC-5-310	PWC PT6A-27	1	-	-
BN-2A-8/9 Islander	Lyc O-540-E4C5	2	-	-
Southern Australian Airlines				
DHC-8-102	PWC PW120A	3	-	-
BAe 146-200	Lyc. ALF 502R	3	-	-
Leased in: 3				
Srilankan Airlines				
A340-300	CFM56-5C2	4	-	-
Leased in: 1				
A330		6	3	-
A320-231	IAE V2500-A1	2	-	-
L1011-500	RR RB211-524B4	2	-	-
L1011-100	RR RB211-22B02	1	-	-
L1011-50	RR RB211-22B02	1	-	-
Sunflower Airlines (Fiji)				
BN-2A Islander	Lyc O-540-E4C5	3	-	-
BN2A-27Islander	Lyc 0-540-E4C5	1	-	-
DHC-6-110	PWC PT6A-20	2	-	-
DHC-6-300	PWC PT6A-27	1	-	-
Shorts 330	PWC PT6A-45R	2	-	-
Cessna - 172M	Lyc 0-320-E2D	1	-	-
Cessna - 152	Lyc 0-235-L2C	1	-	-
Sunstate Airlines (Queensland, Australia)				
Shorts 360	PWC PT6A-65R	4	-	-
DHC-8-100/300	PWC PW120A	7	-	-
Thai Airways International				
B747-400	GE CF6-80C2B1F	14	-	-
Leased in: 2				
B747-300	GE CF6-80C2B1	2	-	-
B777-200	RR Trent 870	8	-	-
Leased in: 4				
B777-300	RR Trent	4	2	-
B737-400	CFM56-3C1	11	-	-
Leased in: 4				

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
MD-11	GE CF6-80C2D1F	4	-	-
A330-300	P&W PW4164	11	1 (2000)	-
Leased in: 3				
A300-600	GE CF6'P&W4158	18	-	-
Leased in: 5				
ATR72	PWC PW124	2	-	-
TransAsia Airways (Taiwan)				
A320	IAE V2500-A1	6	-	-
A321-131	IAE V2500-A5	6	-	-
ATR 72	PWC PW124B	10	-	-
Transmile Air Services (Malaysia)				
B737-200	P&W JT8D-9A	2	-	-
Leased in: Leased out: 2				
B737-200F	P&W JT8D-9A	5	-	-
Leased in: 1 Leased out:				
B727-200	P&W JT8D-15	1	-	-
Cessna Grand Caravan I	PWC PT6A-114	2	-	-
Uni Air				
MD-90-30	IAE V2525-D5	14	-	-
Leased in: 7				
DHC8-311	PW 123	12	-	-
DHC8-400	PW 150A	-	6	-
Fairchild Dornier 228-212	Garrett TPE 331-5A	2	-	-
BN-2A-26	AVCO Lyc 0-540	3	-	-
U-Land Airlines				
MD-82	P&W JT8D-217C	3	-	-
Leased out: 1 Vietnam's Pacific Airlines				

Airline/Aircraft	Engines	In Service Aug 31, 00	On Order (Delivery Date)	Options
Vanair (Vanuatu)				
DHC-6-310	PWC PT6A-27	5	-	-
BN-2A Islander	Lyc O-540-4C5	2	-	-
Vietnam Airlines				
B767-300ER	CF 6	3	-	-
Leased in: 4				
A320-200	CFM56-5B4	10	-	-
Leased in: 10				
Fokker 70	Tay MK 620-15	2	-	-
ATR 72-202	PWC PW124	5	-	-
Leased in: 2				
Virgin Blue (Australia)				
B737		2	3	-
Wuhan Airlines (China)				
B737-300	CFM56	6	-	-
Leased in: 3 ILFC				
Y-7-100	WJ5A-1	4	-	-
Y-5	HS 5	2	-	-
Xiamen Airlines (China)				
B757-200	RR RB211-535E4	5	-	-
B737-200/C	P&W JT8D-17A	5	-	-
Leased in: 2 GECAS				
B737-500	CFM56-3C1	6	-	-
Leased in: 4 ILFC (2), Braathens (2)				
B737-700	P&W JT8D	4	6	-
Yunnan Airlines (China)				
B737-300	CFM56-3B1/3C1	13	-	-
Leased in: 4 AWAS (3), GECAS (1)				
B767-300ER	RR RB524-211	3	-	-
B737-700	CFM 56	4	-	-
Zhejiang Airlines (China)				
A320-200	CFM 56-5B4-2	4	1	-
DHC Dash-8-300	PWC PW127	3	-	-
Leased in: 1 AGES				
Zhongyuan Airlines (China)				
To be merged with China Southern Airlines				
B737-300	CFM56-3C1	5	-	-
Y7-100	WJ5A-1	2	-	-

FLEET CENSUS PHOTO CALL

Page 48: **Close ties. A THAI jet parks alongside one of its aircraft in Star Alliance livery, of which it was a founder member** ***(Photo: Andrew Hunt).***

Page 50: **A new intake of EVA Air flight attendants being put through their paces in a mock-up at the carrier's Taipei training facility.**

Page 52: **Seeing double. Singapore Airlines planes** ***(Photo: Andrew Hunt)***

Page 53: **China Southwest Airlines and China Northern aircraft parked at Beijing's Capital International Airport** ***(Photo: Rob Finlayson).***

Page 54: **Cathay Pacific Airways aircraft at the new Hong Kong International Airport** ***(Photo: Rob Finlayson).***

Page 55: **China's national carrier, Air China** ***(Photo: Rob Finlayson).***

Page 56: **A Japan Airlines B747 freighter.**

Page 57: **A Royal Brunei Airlines plane landing at Singapore Changi International Airport** ***(Photo: Andrew Hunt).***

Page 58: **Vietnam Airlines flight attendants at Hanoi's Guilam Airport** ***(Photo: David Thurston).***

Air India attracts 'big boys'

By Tom Ballantyne

Despite its shaky fiscal position, potential buyers are taking an interest in Air India (AI) as more details emerge about government rules for the carrier's planned privatisation.

Air France and Delta Air Lines have been confirmed as almost certain bidders, joining at least four other potential investors seeking the 26% of the Indian flag carrier available to foreign shareholders. Forty percent will go to strategic investors with another 10% sold to employees and a similar amount to domestic institutions and investors. Most overseas bidders are planning to team up with local interests to snare the entire stake and effectively gain management control of the carrier.

The Indian Government was expected to invite formal bids in late September.

Participation by a big foreign airline or group of airlines, which would bring in badly needed international management expertise, is a key to reviving AI's fortunes.

British Airways (BA) has confirmed it is "very interested" and BA chairman, Sir Colin Marshall, has had talks with India's aviation minister. It has been suggested BA may team up with local private operator Jet Airways.

Virgin Atlantic Airways has also expressed interest. A visit to India in late September by Lufthansa German Airlines' Karl-Friedrich Rausch prompted speculation of interest although his trip was officially described as for "rest and recuperation".

Singapore Airlines is certain to take a serious look at AI, considering its interest in the Indian market.

Air India: Singapore back in the frame?

SIA's attempts to launch a domestic carrier in India in partnership with Tata Industries some years ago were ultimately stymied by government rulings on foreign airline ownership in the domestic market.

There have been numerous reports in the Indian media that SIA will team up with Tata again to bid for the AI stake. SIA's senior vice-president, corporate affairs, Mathew Samuel, said the Singapore flag carrier will not comment on the issue until Indian Government advertisements calling for interest from other airlines are published.

"We are looking at several markets, including Africa. India would continue to be an important global business area for SIA although not necessarily on the airline's network alone," said Samuel.

It has also been reported that India's biggest cigarette company, ITC, plans to team up with Middle East operator Emirates and Swissair for the stake. The country's largest industrial firm, Reliance Industries, has confirmed it is interested and is looking for an offshore airline as a partner.

The sale of AI is part of a wide-ranging privatisation programme. The Indian Government hopes to raise some US$2.5 billion from the sale of shares in 33 state-owned entities.

The funds raised from auctioning AI will all go to the government, leaving no cash benefit for the airline. But the government hopes the carrier's fortunes will be boosted by membership in a major global airline alliance and the ability to raise funds for fleet expansion and modernisation through its new part owners.

Era ends for PAL engineers

German overhaul, repair and maintenance giant, Lufthansa Technik, formally took over Philippine Airlines (PAL) engineering division in September and about 90% of its 1,500 staff.

Cash-strapped PAL sold its maintenance operation in accordance with the provisions of its survival (rehabilitation) plan, which stipulates the disposal of the airline's non-core assets to help pay off US$2.2 billion of debt.

PAL chairman, Lucio Tan, officially handed over the facility, which has been in PAL hands for almost 50 years, to the president and chief executive officer of what is now known as Lufthansa Technik Philippines (LTP), Thomas Gockel.

The engineering division was one of PAL's major operating units. The department operated a 226,000 sq metre maintenance base at the Ninoy Aquino International Airport complex in Paranaque, outside Manila, and a small hangar at the Mactan International Airport in Cebu.

The Manila base includes a four-bay hangar able to accommodate four widebody aircraft, an engine overhaul shop with test cell, several repair and overhaul shops and a logistics and equipment inventory.

The unit traces its origins to 1946, five years after PAL was founded, when a small repair division was formed to provide minor maintenance work for the flag carrier's fledgling fleet. Repair work was initially done at the Nielsen Airport, in Makati.

The facility moved to the Manila International Airport in 1954 and then to the PAL Technical Centre at its present site in April 1982.

KEY INDICATORS HOLD STRONG

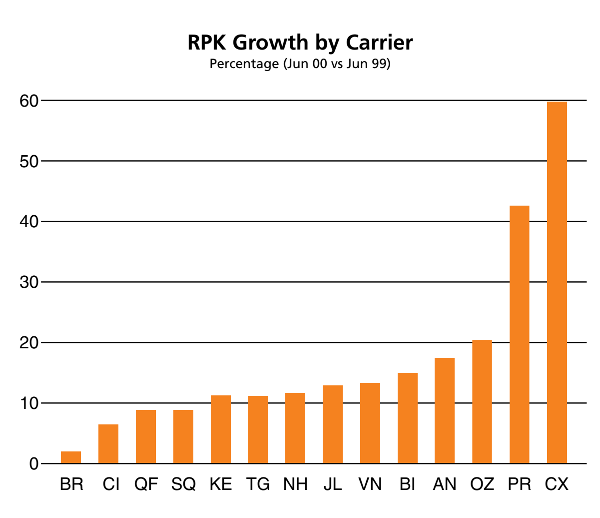
The consolidated revenue passenger kilometres (RPKs) of Association of Asia Pacific Airlines (AAPA) members increased 14.8% and passengers carried (PAX) rose 11.7% in June compared to the same month in 1999. Capacity grew by 9.3%. This resulted in a healthy load factor of 75.9%, up 3.6 percentage points.

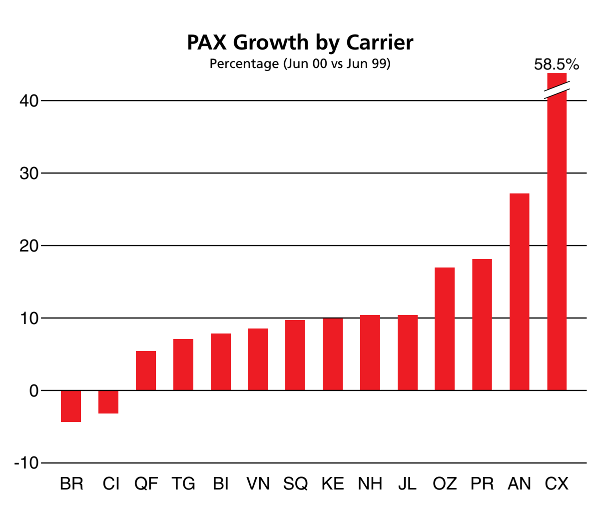
All member airlines recorded impressive growth in RPKs, with 10 reaching the double-digit mark. They were Cathay Pacific Airways (CX - 58.6%), Philippine Airlines (PR - 41.7%), Asiana Airlines (OZ - 19.8%), Ansett Australia (AN - 17.1%), Royal Brunei Airlines (BI - 14.6%), Vietnam Airlines (VN - 13.1%), Japan Airlines (JL - 12.8%), All Nippon Airways (NH - 11.5%), Thai Airways International (TG - 10.9%) and Korean Air (KE - 10.9%).

Cathay Pacific's RPK growth in June this year was partly due to a pilots' pay dispute in 1999 which resulted in two weeks of flight disruptions that hit RPKs hard in the comparative month.

Cathay Pacific (16.4 percentage points) and All Nippon Airways (11.1 percentage points) recorded the largest increases in passenger load factor (PLF). With the exception of EVA Air (BR), Korean Air, Asiana Airlines and Qantas Airways (QF), which recorded falls of between 0.3 and 2.5 percentage points, the remaining airlines enjoyed increases from 0.4 (Singapore Airlines – SQ) to 10.8 (Ansett Australia) percentage points.

All but two airlines registered PLFs of above 70%. The top seven airlines had a PLF well over 75% – EVA Air (81.1%), Asiana Airlines (80.3%), China Airlines (CI - 80%), Japan Airlines (78.4%), All Nippon Airways (77.5%), Cathay Pacific (77.4%) and Singapore Airlines (77.4%). At the other end of the scale, Royal Brunei Airlines recorded a 64.3% PLF.





Cathay Pacific Airways: largest increase in passenger load factor in June of 16.4 percentage points

Cargo Results

Freight traffic, up 12.4% in June compared to the same month last year, continued to register good growth. Capacity expanded at almost the same rate, which contributed to a very marginal percentage point increase in freight load factor (FLF) to 70.5%.

Six airlines recorded double-digit FTK growth: Vietnam Airlines (36.2%), Philippine Airlines (26.6%), Cathay Pacific (22.9%), Korean Air (22.3%), China Airlines (16.4%) and EVA Air (14.6%). Five airlines had negative FTK growth.

Five airlines increased their freight load factor over June 1999. All Nippon Airways, with a 20.1% reduction in freight capacity, posted the biggest improvement of 13 percentage points. The remaining airlines experienced declines ranging from 7.3 percentage points (Royal Brunei) to 0.1 percentage point (Asiana Airlines).

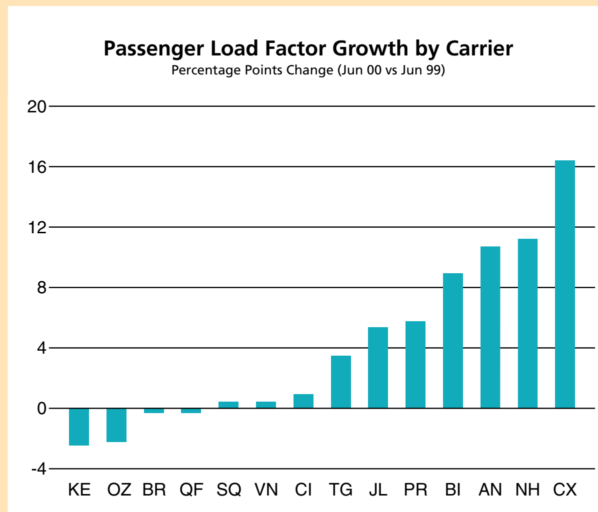
A strong export market continued to have significant impact on airlines' cargo businesses as reflected by load factors. EVA Air recorded the highest FLF (86.1%), followed by China Airlines (84.9%), Korean Air (79.9%), Asiana Airlines (76.6%) and Cathay Pacific Airways (73.2%). The remaining carriers posted a FLF below 70%, with Philippine Airlines (26.2%) recording the lowest.

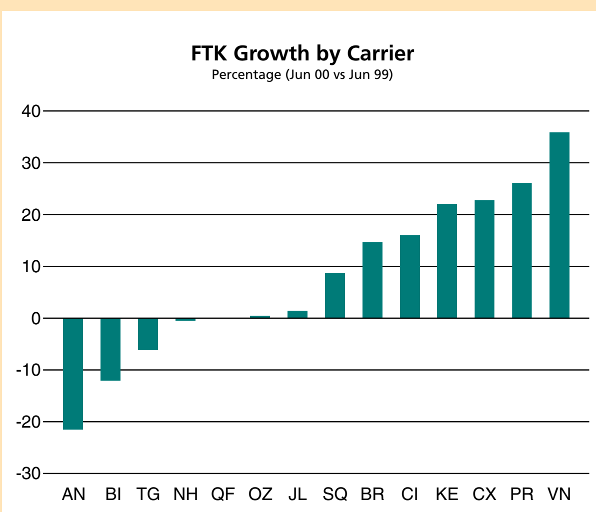
Results for the 12 Months to June 30, 2000

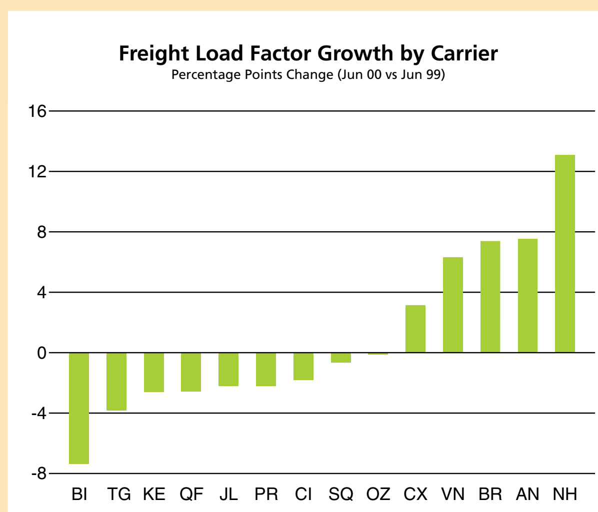
Passenger traffic and the number of passengers carried for the 12-month period to the end of June 2000 grew by 10.5% and 10.0% respectively. Seat capacity, with the practice of prudent allocation, expanded by 6.1%. This led to a 2.9-percentage point improvement in load factor to 73.6%.

With the exception of Royal Brunei Airlines, all airlines continued to register growth in passenger traffic during the period. Philippine Airlines (74%), Asiana Airlines (24.1%), Korean Air (13%), Thai Airways International (11.5%) and Ansett Australia (11.4%) all

Korean Air: strong cargo performer in the last 12 months







reported double-digit traffic growth.

Airlines' overall PLF for the 12-month period was healthy, which reflected the resurgence of Asian economies. All airlines recorded a PLF improvement with Cathay Pacific (7.9 percentage points) emerging with the highest growth rate.

Eleven airlines filled more than 70% of their capacity. Asiana Airlines (76.5%), Vietnam Airlines (75.8%), Cathay Pacific (75.7%), Singapore Airlines (75.7%) and EVA Air (75%) were the star performers.

Cargo Results

Freight traffic in the 12 months ending June 2000 rose by 17%, while capacity increased 14.9%. This resulted in a 1.3-percentage point rise in load factor to 69.3%.

All airlines enjoyed good growth in freight during the period. Philippine Airlines (78.1%) continued to head the list, followed by China Airlines (29.3%), Asiana Airlines (27.8%), Vietnam Airlines (23.8%) and EVA Air (22.7%).

Ansett Australia registered the largest increase of nine percentage points in FLF. Taiwanese carriers, China Airlines (84%) and EVA Air (80.5%), posted the highest FLF. Load factor for all other AAPA airlines ranged from 30.2% (Philippine Airlines) to 76.8% (Ansett Australia).

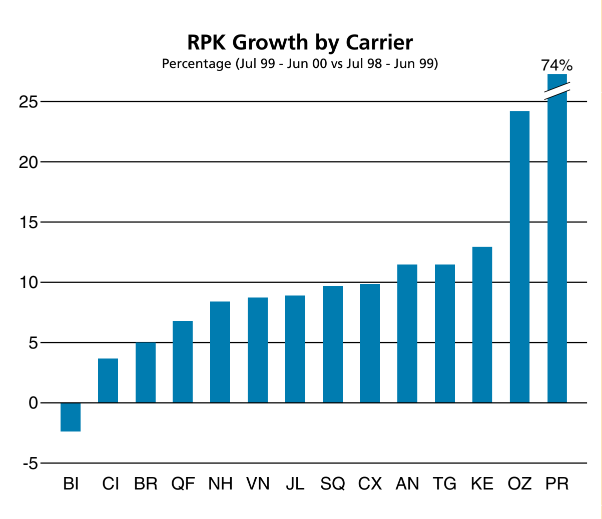
Summary

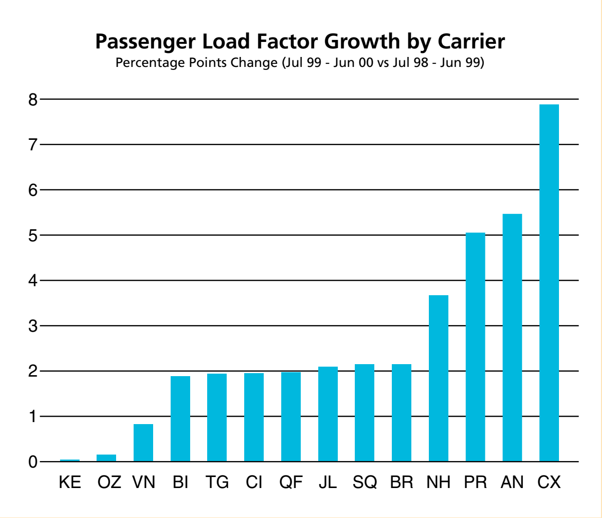
The consolidated results for June continued the established medium-term trends of strong, double-digit growth recorded in all key indicators of RPK, FTK and PAX.

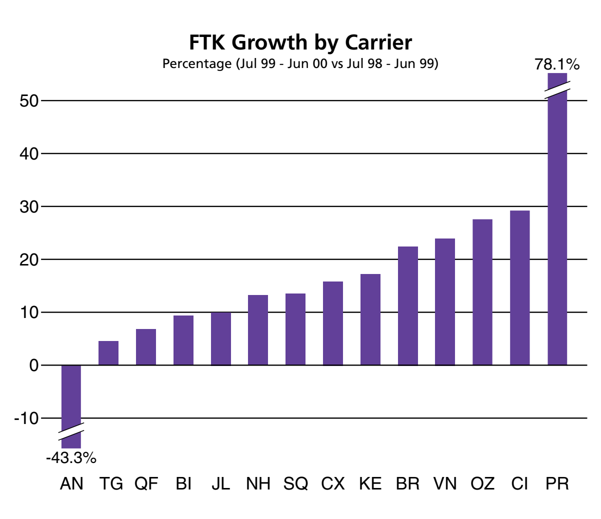
The results reflected the robust economic growth in the region, which was initially spearheaded by the surge in electronics demand world-wide. Overall consumer sentiment in the region continued to improve.

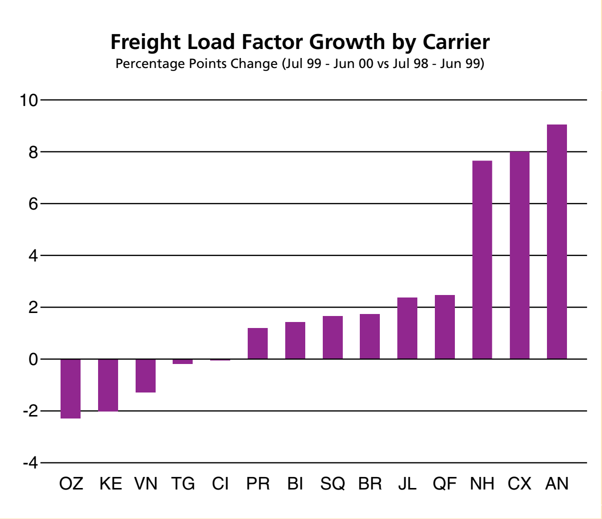
Increased consumer spending was the factor driving the demand. The tourism market also improved in the light of aggressive promotions by various countries in the region.

The economic outlook for the next few months remains positive although there is concern the export market may be slowing down as demand in the electronics sector looks set to peak soon, particularly in the U.S. market.

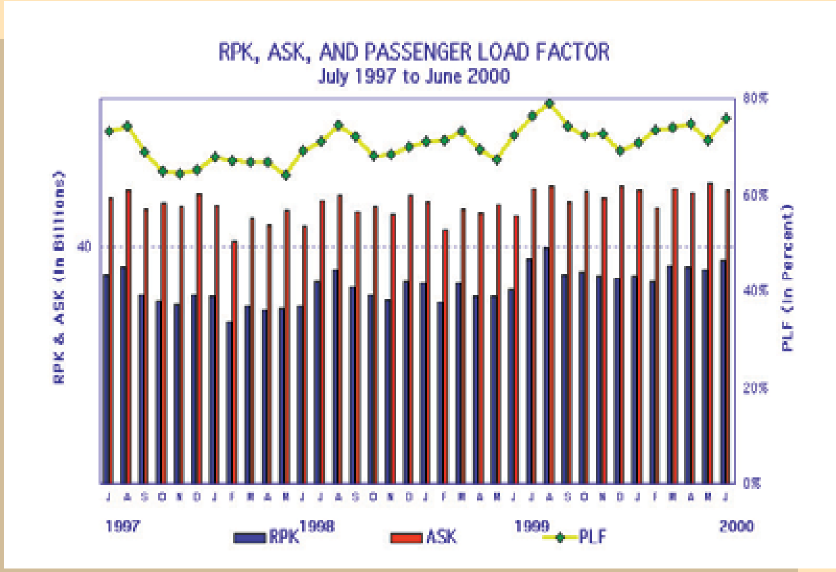


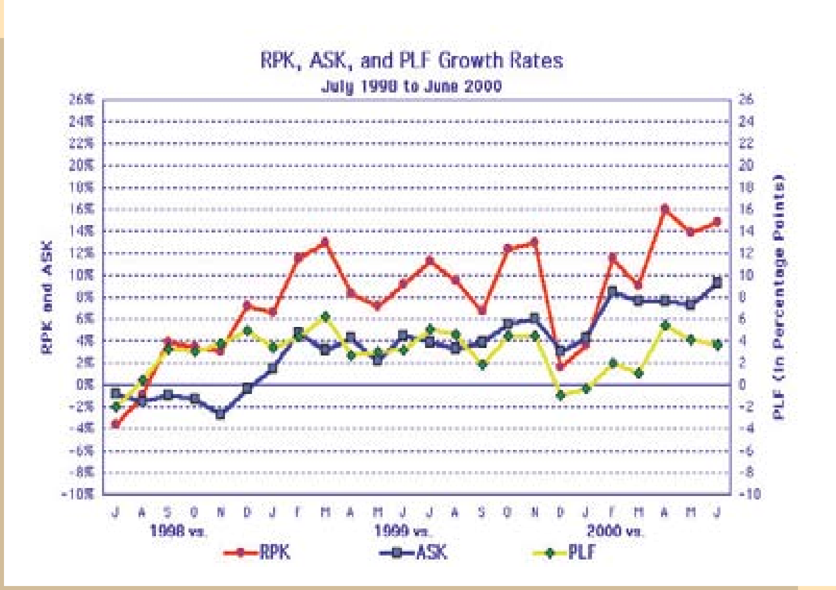




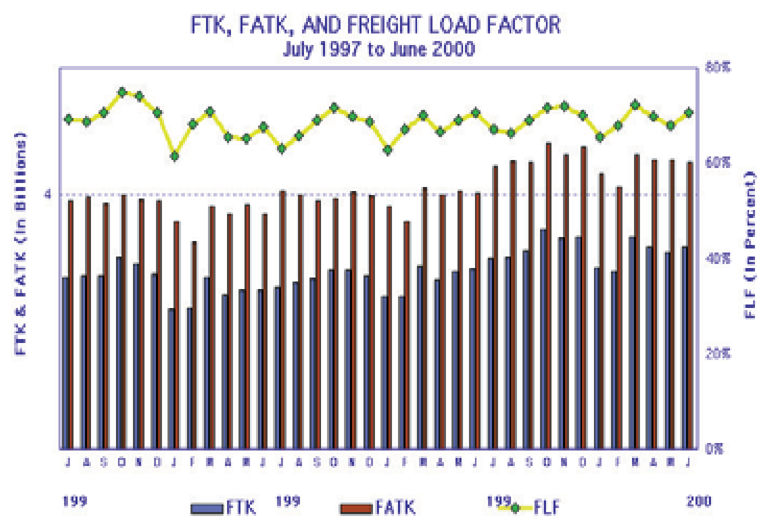


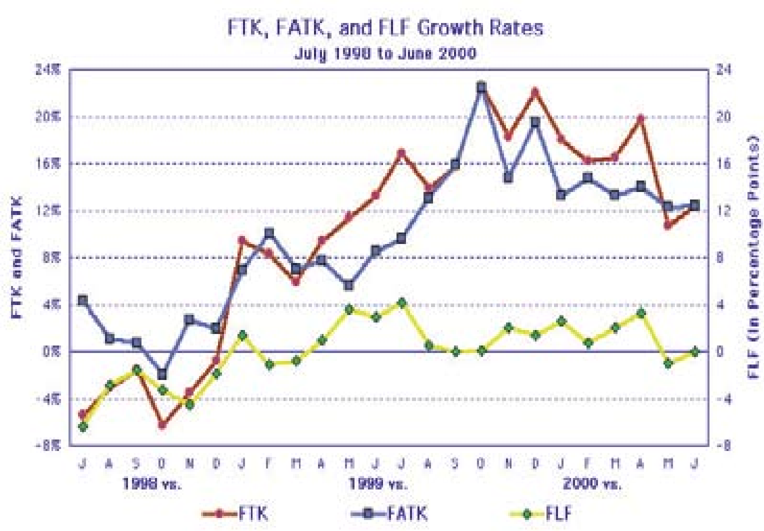
Monthly international PAX statistics of AAPA members





Monthly international cargo statistics of AAPA members





AAPA monthly international statistics (MIS)

*IN THOUSANDS

2000 to 1999

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
JUN-00	37,568,295	49,528,761	75.85	3,180,098	4,508,492	70.54	6,720,131	9,067,145	8,364
MAY-00	36,079,937	50,601,762	71.30	3,091,032	4,552,249	67.90	6,497,311	9,193,083	8,142
APR-00	36,686,662	49,103,822	74.71	3,181,302	4,554,603	69.85	6,633,255	9,066,188	8,381
MAR-00	36,800,116	49,707,599	74.03	3,342,589	4,635,315	72.11	6,808,808	9,199,763	8,323
FEB-00	34,059,926	46,434,169	73.35	2,796,024	4,113,705	67.97	5,999,313	8,379,288	7,917
JAN-00	35,047,680	49,531,337	70.76	2,838,402	4,333,272	65.50	6,131,975	8,882,570	7,715
DEC-99	34,612,362	50,110,454	69.07	3,325,734	4,746,309	70.07	6,573,078	9,338,728	7,947
NOV-99	35,001,965	48,164,824	72.67	3,322,652	4,628,269	71.79	6,614,490	9,048,863	7,939
OCT-99	35,775,017	49,380,385	72.45	3,452,443	4,811,928	71.75	6,821,985	9,343,214	8,007
SEP-99	35,286,401	47,644,830	74.06	3,110,746	4,505,421	69.04	6,433,467	8,881,324	7,771
AUG-99	39,724,567	50,241,980	79.07	3,002,017	4,524,174	66.36	6,720,716	9,146,206	8,895
JUL-99	37,892,218	49,705,495	76.23	2,985,358	4,451,934	67.06	6,522,813	9,025,434	8,548
TOTAL	434,535,146	590,155,418	73.63	37,628,397	54,365,671	69.21	78,477,342	108,571,806	97,949

1999 to 1998

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
JUN-99	32,733,655	45,299,900	72.26	2,829,049	4,011,517	70.52	5,886,833	8,179,490	7,490
MAY-99	31,667,890	47,137,914	67.18	2,792,540	4,055,776	68.85	5,758,227	8,383,215	7,305
APR-99	31,619,251	45,609,976	69.33	2,657,487	3,993,721	66.54	5,613,793	8,174,752	7,315
MAR-99	33,731,230	46,191,771	73.02	2,867,885	4,092,587	70.08	6,007,706	8,340,767	7,657
FEB-99	30,530,965	42,812,699	71.31	2,406,429	3,583,483	67.15	5,233,173	7,506,478	7,105
JAN-99	33,799,176	47,530,259	71.11	2,404,225	3,824,651	62.86	5,536,634	8,200,576	7,360
DEC-98	34,069,916	48,633,225	70.05	2,725,900	3,971,873	68.63	5,852,445	8,416,987	7,736
NOV-98	31,002,293	45,423,334	68.25	2,808,035	4,030,426	69.67	5,658,692	8,107,316	7,106
OCT-98	31,834,831	46,798,068	68.03	2,816,432	3,930,777	71.65	5,741,855	8,291,194	7,239
SEP-98	33,071,696	45,845,247	72.14	2,686,997	3,889,143	69.09	5,718,535	8,134,623	7,220
AUG-98	36,259,636	48,662,044	74.51	2,635,468	4,003,331	65.83	5,944,859	8,512,899	8,149
JUL-98	34,032,672	47,850,157	71.12	2,555,231	4,060,586	62.93	5,668,730	8,395,111	7,595
TOTAL	394,353,210	557,794,593	70.70	32,185,679	47,447,871	67.83	68,621,481	98,643,407	89,277

1998 to 1997

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
JUN-98	29,974,562	43,384,624	69.09	2,497,984	3,697,416	67.56	5,269,942	7,650,577	6,777
MAY-98	29,562,302	46,095,150	64.13	2,507,353	3,842,309	65.26	5,233,008	8,047,335	6,703
APR-98	29,175,472	43,758,401	66.67	2,429,491	3,704,450	65.58	5,135,409	7,713,716	6,760
MAR-98	29,876,646	44,753,718	66.76	2,708,025	3,824,426	70.81	5,477,224	7,903,471	6,830
FEB-98	27,387,008	40,896,918	66.97	2,221,041	3,255,524	68.22	4,755,489	6,999,117	6,335
JAN-98	31,702,419	46,823,414	67.71	2,196,373	3,576,285	61.41	5,137,366	7,865,082	6,893
DEC-97	31,805,839	48,807,862	65.17	2,747,128	3,895,889	70.51	5,694,213	8,337,309	7,297
NOV-97	30,078,196	46,683,222	64.43	2,909,607	3,923,367	74.16	5,699,310	8,174,559	6,936
OCT-97	30,785,517	47,412,525	64.93	3,003,231	4,007,698	74.94	5,860,284	8,326,299	7,078
SEP-97	31,841,431	46,273,088	68.81	2,728,234	3,860,062	70.68	5,685,905	8,066,882	7,069
AUG-97	36,601,573	49,432,999	74.04	2,718,923	3,960,093	68.66	6,106,548	8,453,037	8,194
JUL-97	35,322,430	48,273,759	73.17	2,698,954	3,892,663	69.33	5,965,344	8,279,652	7,913
TOTAL	374,113,394	552,595,680	67.70	31,366,344	45,440,182	69.03	66,020,042	95,817,035	84,785

Percentage point change

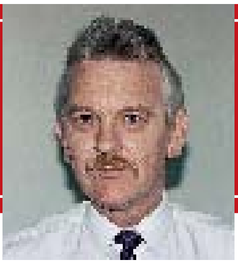
July 99 to June 00

	RPK	ASK	PLF	FTK	FATK	FLF	RTK	ATK	PAX
JUN-00	14.77	9.34	3.59	12.41	12.39	0.01	14.16	10.85	11.67
MAY-00	13.93	7.35	4.12	10.69	12.24	-0.95	12.84	9.66	11.47
APR-00	16.03	7.66	5.39	19.71	14.04	3.31	18.16	10.90	14.57
MAR-00	9.10	7.61	1.01	16.55	13.26	2.04	13.33	10.30	8.69
FEB-00	11.56	8.46	2.04	16.19	14.80	0.82	14.64	11.63	11.43
JAN-00	3.69	4.21	-0.35	18.06	13.30	2.64	10.75	8.32	4.82
DEC-99	1.59	3.04	-0.98	22.00	19.50	1.44	12.31	10.95	2.73
NOV-99	12.90	6.04	4.42	18.33	14.83	2.12	16.89	11.61	11.72
OCT-99	12.38	5.52	4.42	22.58	22.42	0.10	18.81	12.69	10.61
SEP-99	6.70	3.93	1.92	15.77	15.85	-0.05	12.50	9.18	7.64
AUG-99	9.56	3.25	4.55	13.91	13.01	0.52	13.05	7.44	9.15
JUL-99	11.34	3.88	5.11	16.83	9.64	4.13	15.07	7.51	12.55

July 98 to June 99

	RPK	ASK	PLF	FTK	FATK	FLF	RTK	ATK	PAX
JUN-99	9.20	4.41	3.17	13.25	8.50	2.96	11.71	6.91	10.52
MAY-99	7.12	2.26	3.05	11.37	5.56	3.60	10.04	4.17	8.97
APR-99	8.38	4.23	2.65	9.38	7.81	0.96	9.32	5.98	8.21
MAR-99	12.90	3.21	6.27	5.90	7.01	-0.73	9.69	5.53	12.11
FEB-99	11.48	4.68	4.35	8.35	10.07	-1.07	10.04	7.25	12.15
JAN-99	6.61	1.51	3.40	9.46	6.94	1.45	7.77	4.27	6.77
DEC-98	7.12	-0.36	4.89	-0.77	1.95	-1.88	2.78	0.96	6.02
NOV-98	3.07	-2.70	3.82	-3.49	2.73	-4.49	-0.71	-0.82	2.45
OCT-98	3.41	-1.30	3.09	-6.22	-1.92	-3.29	-2.02	-0.42	2.28
SEP-98	3.86	-0.92	3.33	-1.51	0.75	-1.59	0.57	0.84	2.13
AUG-98	-0.93	-1.56	0.47	-3.07	1.09	-2.83	-2.65	0.71	-0.54
JUL-98	-3.65	-0.88	-2.05	-5.33	4.31	-6.41	-4.97	1.39	-4.02

REPUTATIONS AT STAKE



TURBULENCE

By Tom Ballantyne

Australia has an enviable record in the field of air safety and deservedly so. It's not perfect but then what is. It also has an air accident investigation branch with world class expertise and facilities, which is why it has been called in to help investigate major crashes such as the Korean Air disaster in Guam and the SilkAir B737 downing in Indonesia, among others in the region.

Sadly, that reputation is now on the line after some recent disturbing developments. The air safety community around the world has been surprised at the decision of Dr Rob Lee to step down from his position as head of Australia's air accident investigators in November, to move on, as he says, to greener pastures.

As we reported in September, his staff is in turmoil and morale is at rock bottom, not simply because of his impending departure, but because of developments during the past 12 months.

Dr Lee, a familiar figure at international conferences and high level safety meetings, is not speaking in detail about his decision ... yet. But those who know him say he took it out of frustration and disillusionment with budget cuts which have made it difficult for investigators to do their job adequately and, more ominously, internal politics.

Of course no-one is irreplaceable. The important point is who is replacing him. Investigators will now be under the direction of a career public servant with no operational or technical experience in crash investigation. No matter how able or competent that person is, this is troubling news.

Until last year Dr Lee's title was director of the Bureau of Air Safety Investigation (BASI). A restructure saw BASI become part of a new Australian Transport Safety Board (ATSB), along the lines of the U.S. National Transportation Safety Board (NTSB).

Land and sea safety also comes under its wing. Dr Lee's new title was director human factors, system safety and communications.

While there was a certain level of good sense in bringing the various disciplines of crash investigation together, allowing investigators from different areas to communicate better and learn from each other, it also marked a period of fundamental and significant change.

The old BASI was a publicly funded, independent, investigation agency within the Department of Transport and Regional Services, reporting directly to the Minister. It existed solely for the purposes of air safety and its core function was to promote safe aviation by disseminating information and safety recommendations based on the investigation of selected occurrences and on the results of research.

It was completely separate and independent from the Civil Aviation Safety Authority.

'Air safety investigation MUST be totally and transparently separate from any form of government pressure'

Insiders say the restructure gave the DoT's public service mandarins the opportunity they had been looking for to rein in a group they believed had been acting far too much like non-public servants.

They appear to have succeeded by pushing out a fiercely independent director who was dedicated to telling politicians and the aviation industry precisely what the situation was, whether they wanted to hear it or not.

Apparently, there have also been moves to redefine job descriptions and shift responsibilities, which is extremely unsettling to a tried and true system.

One investigator has been pulled off a crash investigation, without justification in the view of safety professionals. It happened during the investigation of a crash in South Australia of a commuter turboprop belonging to Whyalla Airlines. Eight people died when the plane went down in the sea on May 31.

The "powers that be" discovered this investigator had once made several flights as a pilot for Whyalla and, fearing this might cause controversy, removed him from the team.

Some may have seen it as a wise course of action, particularly when charges of "cronyism" have been flying around over the past year from critics of the regulatory and investigative air safety system.

But Dr Lee and his senior staff were furious. The investigator in question had drawn these facts to the attention of his superiors before he was assigned to the job. He had flown for Whyalla, but it had been four years ago on a small number of flights and only to keep up hours to maintain his transport pilot's licence.

An extremely experienced investigator, his ability to conduct his part in the accident inquiry absent of bias was unquestioned. Yet he was being pulled off for apparent political reasons.

The question is: can career public servants act as Dr Lee has? Can decisions be made without consideration of how political masters would react or what impact they might have on a public service career path?

These are valid questions because air safety investigation *MUST* be totally and transparently separate from any form of government pressure. There must be no hint of political interference. Also, it is a highly technical area in which a wide understanding of the safety arena and all its complexities is vital.

Whether members of the ATSB's air crash investigation branch are justified in their concerns or not may take some time to fully emerge.

But Australia's Minister of Transport, John Anderson, needs to seriously consider what is happening in the field of air safety investigation and he needs to take steps to ensure that those who carry out the work can do so free of any suggestion of civil service or political interference.