Orient aviation

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MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

ALL CHANGE

Air NZ's Ansett buy-out prompts shake-up

Chief executives depart at Air New Zealand, China Airlines and Vietnam Airlines

AAPA moves to Kuala Lumpur

- India's Jet setters
- ORBIS: the aerospace charity

Orient aviation

VOL. 7 NO. 10 SEPTEMBER 2000

COVER STORY

ALTERED STATES Page 16

Region's airline industry undergoing major transition

NEWS

EXECUTIVE PROFILE

FEATURE

SPECIAL REPORTS

COMMENT

INFLIGHT ASIA

A 16-page pull-out dedicated to onboard services and technology. In this issue: e-mail explosion in the air; Airbus and Boeing competing head-to-head on 'connectivity'; BA launches 'Biz beds' in Asia; Network: news and people moves.

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MIXED MESSAGES

There are contradictory messages being sent out by the aviation authorities in China. On the one hand, the Civil Aviation Administration of China (CAAC) has forbidden its airlines to fly ageing Russian aircraft beyond June 1 next year. On the other, there appears to be political pressure being put on Urumqi-based Xinjiang Airlines, in the northwest of the country, to acquire three new Ilyushin IL-96-300s.

The alternative to that Russian aircraft is, it appears, the Boeing 767-300 or, more likely, the 245-seat B767-400ER, which visited Urumqi in late July on the Asian leg of its world sales tour.

Xinjiang management and pilots, who took the controls on a demonstration flight of the B767-400, were reportedly impressed. So much so that Boeing executives must be hoping the CAAC will let the airline decide for itself.

Xinjiang is keen to rationalise its fleet. It has eight Russian aircraft – five Tupolev TU-154s and three Il-86s – and six B757-200s and two B737-300s. It also has five ATR72 turboprops.

The carrier, whose international routes are restricted to Moscow and the former Russian states, has ambitions to fly to Japan, Korea and possibly Hong Kong and Southeast Asia.

Today, the travelling public is more sophisticated in its choices. And, with one eye on safety, airline passengers would more than likely opt not to travel on a Russian-made aircraft if they had the alternative choice of a western jet with a proven safety record.

It would be a counter-productive move, we believe, for Xinjiang Airlines to add the Ilyushin 96 to its fleet. But one assumes the airline's management would have to follow the call of its master and the Beijing Government is said to be keen to strengthen relations with Moscow.

Meanwhile, sources have told *Orient Aviation* that in the last 12 months a number of airlines have agreed to orders with Boeing and Airbus Industrie for about 60 new aircraft, but all the deals have been blocked by the central government which, through the CAAC purchasing arm, has to agree to aircraft orders.

However, these same sources have said there are signs the political climate is changing. The major manufacturers are now involved in intensive lobbying with the CAAC. They are hopeful there could be some relaxation of China's big jet moratorium policy in the next couple of months.

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James Strong: IATA bound?

Gary Toomey: AirNZ bound?

Geoff Dixon: QF top job?

Qantas Airways chief executive, James Strong, gave out his most explicit views yet on his plans for life after Qantas, which may include the job as the next director general of the International Air Transport Association (IATA). During an August television interview he said: "I have actually agreed with the board of Qantas . . . that I would stay on until my eighth anniversary, which is toward the end of next year. At that stage then, there is a real possibility that that would be a sufficient term for me."

Strong's name has been mentioned as a serious contender to succeed the present IATA director general, Pierre Jeanniot, when the Canadian and former national airline boss retires. Many airlines believe it is time the person in the top IATA job comes from the region of fastest aviation growth – the Asia Pacific.

Meanwhile, there could be other more immediate changes afoot at the Mascot Sydney head office of the national carrier. Strong has two deputy chief executives – Gary Toomey (45), a star number cruncher, and ex-Ansett Australia executive and marketer extraordinaire, Geoff Dixon. Toomey is frequently mentioned as the preferred choice as the new boss of re-structured Air New Zealand (Air NZ), and it is assumed by most Australian industry observers that Dixon would accept the offer to succeed Strong at Qantas. Ironically, if Toomey was offered and did accept the AirNZ job, he would be moving across to the other side, i.e. the newly purchased Ansett Australia, which has been bought out by the Auckland carrier, the airline Dixon left to join Qantas.

PERSPECTIVE

ALTHOUGH the new executive line-up at the new Air New Zealand – forged from its purchase of Ansett Australia and the buy-in by Singapore Airlines (SIA) of 25% of Air New Zealand (Air NZ) – was not finalised at press time, the composition and balance of power of the Air NZ board is re-made. Executive chairman Sir Selwyn Cushing's new members are SIA's deputy chairman and chief executive, Dr. Cheong Choong Kong, his executive vice-president (commercial) Michael J. N. Tan and SIA board member and chairman of Australia and New Zealand Banking Ltd., Charles Goode. New AirNZ appointee is Ms. Liz Coutts, a director of several Australasian companies. Chew Choon Seng, executive vice-president (administration) and Huang Cheng Eng senior vice-president (marketing planning) respectively, are the alternates for Cheong and Tan. Air NZ now owns 100% of Ansett Australia and 49% of Ansett International. SIA, in turn, has bought 25% of the expanded AirNZ group.

GONE, GONE, GONE & GOING? Politics was widely assumed to be the motive for the sudden replacement of Sandy K. P Liu as China Airline's (CAL) chief, accompanied by the stepping down of CAL chairman, Chiang Hung-I. Within days of that news, Air New Zealand (AirNZ) chief executive, Jim McCrea, resigned, followed in August by "pink slips" for more than half of the 30-strong combined senior management of Air NZ and Ansett Australia.

CAL chief Sandy Liu: Out

At CAL, in a series of appointments influenced by the new Taiwanese national government of Chen Shui-bian, banker Christine Tsung Tsai-yi, 52, is the new president of CAL and also the first female to run a major airline in the region. Guiding her is the former Far Eastern Air Transport boss, ex-CAL pilot and new CAL chairman, Yun-ling Lee, 67, who said he had been reluctant to accept the job. Once appointed, however, he has taken a firm line on staff management with a new rule that a report of any mishap must be on his desk by fax, e-mail or letter within 12 hours. Former chairman, Chiang Hung-I, remains on the board, but Liu, whose father is a former chairman of the airline, is now chairman of CAL subsidiary, Taiwan Air Cargo Terminals.

Also out is the CEO of Air Niugini, Andrew Ogil, as a "result of policy and strategy differences" with the airline's board. A worldwide search is under way for Ogil's replacement who will have the daunting task of trying to restore the airline to profitability.

In August, Craig Wallace resigned as interim chief executive of Ansett, along with several of his senior colleagues. Survivors of the AirNZ ascension to power are John Dell as chief financial officer, Andrew David as chief information officer and general manager technology and Gary Kingshott as general manager of Ansett's international operations. Grant Lilley, ex-general manager regional sales and marketing will run AirNZ's international operations.

Vietnam Airlines' boss, Dao Manh Nhuong, officially left for health reasons. A favoured political son, former deputy director of the Vietnam's Civil Aviation Administration, Nguyen Xuan Hien, replaced him as president and chief executive.

STAYING A LITTLE BIT LONGER? Thai Airways International (THAI) president, Thamnoon Wanglee, is scheduled to retire in October and a committee has been formed by THAI to identify candidates for his job. However, the recent news that the proposed sell-off of 23% of the national carrier will be delayed once again has sparked speculation Thamnnon, soon to turn 60, might be more elastic about his departure.

RECOGNISED: Rolls Royce's Richard Hill, the engine-maker's head of company professional development, has been appointed an honorary professor of the Civil Aviation University of China (CAUC), in honour of his contribution to technical training schemes in China and in particular to the establishment of the joint Civil Aviation Administration of China (CAAC) Rolls-Royce training centre on the CAUC campus.

REGIONAL ROUND-UP

Estrada hints at policy review as Taiwan air dispute lingers on

Philippine President Joseph Estrada has ordered officials to work out a deal "in the shortest possible time" to end an 11-month-old airline dispute between the Philippines and Taiwan. Unofficial talks have opened, but there is still no sign of official negotiations.

President Estrada has also indicated the Philippine Government is willing to review its aviation policies, which many analysts consider give undue protection to Philippine Airlines (PAL). The Management Association of the Philippines is among groups to have complained about PAL interfering in policy decision-making. The dispute began last year after the Philippines suspended its 1996 air accord with Taiwan over claims Taiwanese carriers China Airlines and EVA Air were breaking the terms of the agreement by "poaching" traffic travelling from Manila through Taiwan to other destinations, particularly the U.S.

Manila's Trade and Industry Secretary, Manuel A. Roxas II, said in a statement business communities in both countries have urged both governments to pursue "a quick settlement of the row" because it has affected investments and exports, particularly in the electronics industry. Taiwanese computer giant, ACER, which has an assembly facility on the former Clark Air Force Base, has threatened to cut back on its investment in the Philippines because of the dispute.

Crowded skies

INDONESIA'S director-general of air communications revealed in August the government expects to grant operating permits to four new carriers before year's end – to add to the 110 already licensed to fly. Soenaryo Yosopratomo did not disclose their names but warned applicants in the pipeline they may not be as lucky. "Most will probably back down when they can't get the routes they want," he explained.

Not surprisingly, the government may be running out of routes to allocate. Around 60 more potential start-ups have registered to operate chartered and scheduled flights.

The vast majority of those licensed or applying are small charter operations, most with a single aircraft.

Philippine Airlines: under pressure over Taiwan dispute

Impulse sparks price war

AUSTRALIA'S fledgling domestic trunk route jet operator, Impulse Airlines, rocked the market in August with a record low A$33 (US$19) fare for a one-way flight from Sydney to Brisbane, an hour long journey which can cost up to A$350. Chief executive, Gerry McGowan, is promising more to come as the carrier prepares to meet tough competition from Sir Richard Branson's start-up rival Virgin Blue, expected to launch flights in September.

Incumbents Qantas and Ansett were quick to match Impulse's rock-bottom discounts. The 3,700 seats available at the low price – some 15% of Impulse's capacity, available only through Internet booking and for travel during a two-week period – were snapped up within 24 hours. Some 5,500 seats released by Qantas and Ansett at a similar price went just as quickly.

Air China's listing poser

A BEIJING backed newspaper in Hong Kong, Ta Kung Pao, added to the body of opinion that Air China, based in the mainland capital, is following in the financial footsteps of China Southern Airlines and China Eastern by going public. However, dates and details of the plan are a long way from being definite, especially as the carrier has not conformed to one condition of listing on either the domestic Shanghai or Shenzhen stock exchanges – it has not made a profit for two consecutive years.

ENGINEERING & MAINTENANCE

LUFTHANSA Technik AG (LHT) is the new majority joint venture partner, with Lucio Tan-controlled MacroAsia (49%), of the former engineering unit of Philippine Airlines (PAL), based near the Manila International Airport. Initially, the new company, which re-employed almost all the 1,400 staff of the former PAL division, will concentrate on maintenance of the PAL fleet. But Lufthansa Technik chairman, Wolfgang Mayrhuber, said at the contract signing in Manila that the two partners aimed to quickly turn the facility into a one-stop MRO centre that will offer its services to airlines "locally, regionally and internationally". In the same month, MacroAsia Corp's president, Lucio Tan Jnr, said the company intended to list on the Singapore Stock Exchange by September and use the funds raised to establish information technology joint ventures with international partners.

Domestic Chinese carrier, Sichuan Airlines, has awarded Ansett's Engineering Business Unit (EBU) the subsidiary's first contract – to complete major maintenance and modifications on three of the airline's Airbus 320s, scheduled to start in October and finish in March 2001.

SIA Engineering and Messier Services Asia Pte Ltd (MSA) signed off a deal in July that gives SIA Engineering a 40% stake in the landing gear and overhaul specialist. MSA is the only facility in the Asia-Pacific to offer overhaul services for the landing gears of the A330-340 family and the B777 aircraft.

The Hong Kong Aircraft Engineering Company (HAECO), Cathay Pacific's sister company, reported a profit rise of 152% in the first six months of the year over the same period in 1999. Asset disposals and deep cost-cutting measures were attributed to the improved result. Higher earnings from HAECO's holdings in Taikoo (Xiamen) Aircraft Engineering (TAECO) in China and Hong Kong Aero Engine Services (HAESL) added to the HK$267.3 million

(US$34.3 million) profit.

CODE-SHARES & ROUTES

UNDER the terms of a new Taiwan-Japan Air Services Agreement, Taiwan's EVA Air has launched twice weekly flights from Taipei to Haneda, Tokyo, breaking the monopoly held on the route by EVA rival, China Airlines. Japanese airlines have been granted four extra flights to Taipei as part of the deal.

Cathay Pacific Airways and Malaysia Airlines are code-sharing flights between Hong Kong and Malaysia, increasing the frequencies offered to passengers to 26 a week. Cathay also launched a twice-weekly service from Hong Kong to Karachi.

Continental Airlines of the U.S. will start non-stop flights from New York to Hong Kong from March 2001, dependent on government approval. At its launch announcement in Hong Kong, the carrier's senior vice-president of corporate development, David Grizzle, said the new service will be the longest non-stop route to be operated by a U.S. carrier (7,337 nautical miles) and also is the longest route to be flown by Boeing's B777 aircraft.

Chinese second tier carrier, Hainan Airlines, 25%-owned by foreign investors, has begun services to Macau staffed with a number of flight attendants recruited and trained in Canada. The airline has been granted rights to fly to Hong Kong and expects to start services early next year.

Philippine Airlines (PAL) has resumed services to Pusan, Korea and has operated a seat code-share on Gulf Air's twice weekly return flights from Manila to Abu Dhabi since July.

Singapore Airlines subsidiary, SilkAir, will launch direct flights from Singapore to Siem Reap (home of the Angkor Wat Temple city) from November, an extension of its current service to the Cambodian capital, Phnom Penh.

CARGO

CHINA Southern Airlines (CSA), based in Guangzhou, will build and operate Shenzhen Airport's biggest cargo centre (capacity for 250,000 tonnes) and plans to have the complex operating by early next year.

The facility will more than double Shenzhen's cargo handling capacity at a time when China is expected to be admitted to the World Trade Organisation. CSA is operating a wet-leased B747-400 freighter service between Shenzhen and Chicago. It is now negotiating for two B747 freighters of its own.

The Hong Kong Airport Authority said in August it could build a second airport terminal at Chek Lap Kok if the "blistering" rate of cargo growth continues. Deputy chief executive of the authority, Richard Siegel, said the original capacity design for air cargo was made eight years ago and should be re-evaluated.

In August, Dragonair, owned by both Hong Kong and mainland aviation interests, chose the Hong Kong-Shanghai route for its August inauguration of its all cargo service, using a B747-200 freighter. Dragonair will add two more freighter airplanes to its dedicated cargo fleet in 2001.

China Southern: Committing heavily in the cargo market

Across the highway in Hong Kong, Cathay Pacific began freighter services from Hong Kong to New Delhi, Penang and San Francisco in September, increasing the destinations serviced by Cathay cargo airliners to 19.

AIRPORTS

THE Civil Aviation Administration of China (CAAC) is considering a proposal from the Beijing Capital International Airport Corporation that it merge with Binhai Airport, in the coastal city of Tianjin, south of Beijing. The airport has signed Letters of Intent to invest in two domestic airports, one in Xian and one in Dalian. For the six months to June the Beijing airport posted a 21.5% drop in profit to 219.9 million yuan (US$25.73 million).

Not to be outdone, the government manager of the Shanghai Airport (Group) Co., which manages both of the city's airports at Hongqiao and Pudong, said it had set aside one billion yuan (US$120.3 million) to lift Pudong airport into an aviation hub for the Asia-Pacific region. Corporation chairman, Xia Keqiang, said in August he wanted to build a second runway at the year-old international airport, increase the number of aircraft gates at the terminal and build an express package facility. At present Pudong is operating just above 50% of its annual handling capacity of 20 million passengers a year.

LEASES

CHINA Southern Airlines will wet lease four aircraft from its newly absorbed partner, Zhongyuan Airlines, at the cost of 20 million yuan (US$2.4 million) a month.

LISTING

CHINA'S central aviation authorities have cleared Shangdong Airlines to issue B shares in an Initial Public Offering (IPO) on southern China's stock exchange in Shenzhen. The IPO, aimed at selling 35% of expanded stock in the provincial airline, is intended to raise funds to buy five Bomdardier CRJ commuter airplanes. The carrier has a fleet of 15 airplanes, including seven B737s.

And ...

The Civil Aviation Authority of Singapore (CAAS) said it would consider bidding for a share of Sydney Airport through its investment vehicle, Singapore Changi Airport Enterprise (SCAE) Pte Ltd, if the largest Australian gateway terminal is privatised.

From December 2002, the Philippines Civil Aviation Bureau will ban operations within its territory of all airplanes older than 20 years. One effected airline, Cebu Pacific, which has several DC-9s in its fleet, is considering Boeing 717s as replacement airplanes.

Safety chief quits

Dr Rob Lee, the head of Australia's air crash investigation body, is to leave the Australian Transportation Safety Board (ATSB) in November amid reports of low morale.

Dr Lee, director human factors, system safety and communications, confirmed his decision to* Orient Aviation *saying he wished to "move on to greener pastures". Insiders say it followed budget cuts, which, it is claimed, are limiting investigators' ability to do their job properly.

Also, morale among investigators is said to be "devastated" amid deep concern the independence of the ATSB is in jeopardy. His replacement is a career public servant, Carol Boughton, a former assistant secretary of the Aviation Industry Branch of Australia's Department of Transport.

BUSINESS ROUND-UP

QANTAS retains its investor sparkle

Savvy fuel hedging and healthy load factors on key routes allowed Qantas Airways, Australia's privatised flag carrier, to beat the analysts' forecasts and report a profit of $A517.3 million (US$305.2 million) in the year to June 30.

The 30.2% rise took into account one-off gains of $A82 million for the sale of the carrier's share in Equant and some new tax procedures. Stripped of these gains, annual profits were 14% ($A435 million) higher than in the same period in 1999, a result slightly above market predictions. Dividend was set at 59 Australian cents per share, compared to 32 cents in the last fiscal year.

The result should please British Airways (BA), a 25% shareholder in Qantas. BA's first quarter pre-tax profit fell 65%, to £8 million (US$12 .01 million), mainly due to a 44% fuel price increase. Revenue rose 4% in the period.

Cathay Pacific pax and cargo on a high

Cathay Pacific Airways has announced a net profit for the first six months of the year of HK$2.18 billion (US$279.9 million), up from HK$108 million a year earlier. The profit was fuelled by a rise in turnover of 23.1%, to HK$16.14 billion, and strong yields from the carrier's cargo division. Cargo turnover of HK$4.6 billion was up 28.6%.

Chairman James Hughes-Hallett said: "the much improved performance builds on the progress made in 1999 and reflects the continued recovery of our regional economies."

In the same period last year, the Hong Kong-based carrier reported bottomed out earnings, caused by a region-wide economic demise, a pilot sick-out estimated to have cost HK$500 million and miserable yields.

CX's deputy chairman and chief executive, David Turnbull, said despite the pick-up in load factor of 8.6 points passenger yields only increased by 3.5 % to 47.6 HK cents per kilometre, well below pre-economic crisis levels.

Fuel prices erode earnings of Korean carriers

Korean Air (KAL) recorded a 197.7 billion won (US$176.6 million) loss for the first half of the year, compared to a net income of 229.6 billion in the same period last year. The carrier attributed the decline to rises in fuel costs of 72.5% on a year-on-year basis – the national flag carrier does not hedge its fuel prices – and the cost of several new aircraft.

EVA Air: forecasting 36% rise in profit

A 17% increase in sales and sustained cargo demand could not compensate for the fuel price hikes.

KAL also paid increased insurance premiums as a result of a series of aircraft accidents, the last of which was the crash of a cargo airliner in England in 1999.

LIKE its home-base competitor KAL, Asiana Airlines' bottom line suffered a profit decline (35%) in the first half of the year, to 60.9 billion won (US$54.56 million).

The airline attributed higher fuel prices to the fall-off from net income of 93.1 billion won for the same period in 1999. Asiana has yet to entrench hedging in its corporate practices as a protection against fuel price fluctuations.

CAL forecasts higher profit

Taiwan's largest carrier, China Airlines (CAL) predicts its pre-tax profit for the financial year will increase to NT$2.25 billion (US$72.53 million) this year on operating income of NT$770.88 billion.

The predicted result, affirmed by the CAL board, represents a slight drop from the NT$2.72 million profit of the last fiscal year. However, the 1998-99 results were assisted by a one-time insurance pay out to the airline following a CAL airliner crash near Taipei in February, 1998, which took the lives of 202 passengers and crew onboard.

EVA earnings surge

EVA Air, an arm of the Evergreen transport conglomerate and Taiwan's second international carrier, has raised its pre-tax profit forecast for the financial year to NT$1.88 billion (US$71 million) or 36%, from NT$1.38 billion a year earlier. EVA revised its estimates after passenger and cargo numbers continued to improve during the first six months of the year.

Lower baht hits THAI

At Thai Airways International (THAI) a combination of higher fuel prices and a weakening currency pummelled its third quarter results, which recorded losses of 1.17 billion baht (US$28.7 million), compared to a profit of 2.56 million baht in the same period last year.

Costs related to flight operations climbed 51%, to 5.46 billion baht.

Foreign exchange losses were 3.58 billion baht after the country's currency slid into the 39 baht per U.S. dollar range in June, compared with just above 37 baht earlier in the year.

PAL still improving

More passengers and greater efficiency produced a 12-fold increase in net income of 793 million pesos (US$17.7 million) for Philippine Airlines (PAL) in the three months to June 30, compared to 65 million pesos for the same period in 1999. Benefiting also from cancellation of air services with Taiwan, PAL's first quarter revenue rose by 44% to 9.34 billion pesos.

Fees and fuel hurt Hainan

China's Hainan Airlines recorded a 60% drop in net income to 26.5 million yuan (US$3.185 million) from 66 million yuan for the same period last year.

Hainan said fuel costs increased by 70% for the first six months of the year and landing fees had doubled to 136 million yuan.

Red ink for Chinese airlines

The government controlled *China Economic Times* published figures from the Civil Aviation Administration of China (CAAC), which revealed mainland domestic carriers collectively had swung into loss in the first half of the year.

The CAAC said domestic carriers' lost 990 million yuan (US$119.6 million) in the first six months of 2000, mainly due to additional costs of 750 million yuan for fuel and a ban on ticket discounting for airlines.

Confidence is returning to Asia's airlines as economic gloom becomes history and market growth returns, prompting a wave of new aircraft orders and expansion plans.

But the revival in optimism is also being marked by sweeping transitions in management and ownership which promise watershed changes to the industry. TOM BALLANTYNE *reports.*

ALTERED STATES

At least six airlines across Asia will be operating with new chief executives before year's end in the biggest changing of the corporate guard the industry has witnessed in decades.

They involve some of the region's most prominent operators, including Taiwan's China Airlines (CAL), Air New Zealand (Air NZ), Ansett Australia and Thai Airways International (THAI), as well as national flag carriers Vietnam Airlines and Papua New Guinea's Air Niugini.

Air NZ's chief executive, Jim McCrea, resigned in July and a global search is underway for his replacement. An announcement is expected in September or early October.

His departure came as Singapore Airlines (SIA) finalised its purchase of 25% of Air NZ and the announcement of a total management restructure at the Air NZ-Ansett group (Air NZ now owns all of Ansett) which equated to a virtual corporate bloodbath.

At least 15 senior executives of the two airlines have departed, including the incumbent head of Ansett International, Craig Wallace.

There also have been persistent reports Malaysia Airlines' (MAS) majority shareholder, Tan Sri Tajudin Ramli, may take a step backwards as new blood is brought into the Kuala Lumpur management team, although insiders suggest it is unlikely he will withdraw completely from the fray.

CAL and Vietnam Airlines are already under new leadership. THAI's president, Thamnoon Wanglee, is scheduled to retire in October. The carrier has invited candidates to apply, saying applicants "must be between 45-60 years of age, able-bodied and have experience in running a big organisation with an annual budget or income of at least 50 billion baht (US$1.2 billion), or have held the post of director general or equivalent before".

Air New Zealand: Since it completed its buy-out of Ansett and restructured the group, 15 senior executives have left the two carriers including Air NZ chief executive Jim McCrea

Insiders say Korn Chatikavanij (36) president of Jardine Fleming Thanakom Securities, is front-runner to replace Thamnoon, whose term expires on September 30.

Troubled Air Niugini sacked managing director, Andrew Ogil, in June, with the board saying "the termination was due to irreconcilable differences, particularly in relation to a number of operational issues and business strategy". The carrier began advertising overseas for a replacement in August.

This revolution at the top is unfolding against a backdrop of more fundamental change involving a host of planned privatisations or partial privatisations and manoeuvring by cash-rich carriers to snatch cross-border equity stakes in potential partner airlines.

Shares in at least 10 Asia Pacific airlines are up for grabs or already have been secured, such as the SIA investment in Air NZ and the latter's buy-out of Ansett.

On the auction block are pieces of MAS, Air India, Indian Airlines, Garuda Indonesia, THAI, Thailand's Angel Airlines, Air Niugini and Biman Bangladesh.

In addition, there are significant developments on the Chinese front. Taiwan's CAL is reported to be attempting to purchase a stake in Shanghai-based China Cargo Airlines, to procure a slice of the mainland's lucrative and growing air cargo business. CAL's management has authorised an investment of up to

US$60 million annually in China, although this could be reviewed by its new management.

The largest shareholder in China Cargo, China Eastern Airlines, has been reported as saying CAL may take a 25% share.

At the same time, mainland Chinese newspapers have said Beijing's primary flag carrier, Air China, has begun preparations for a stock market listing. It would be the third mainland airline to do so outside the country after China Southern Airlines and China Eastern, both of which are listed in Hong Kong and New York.

Such a move fits with Beijing's renewed determination to force consolidation of the industry into three or four major airline groups. There are already clear signs this process is underway.

In August, China Southern absorbed small regional operator, Zhongyuan Airlines, with officials saying it was "part of a reorganisation and restructuring of the mainland's aviation industry" (see separate story, page 22).

The ongoing management and ownership reformation across the region is also being influenced by events elsewhere, with airlines in Europe and North America embroiled in merger negotiations which could ultimately impact on the existing structure of global airline alliances.

These include merger talks between oneworld's British Airways (BA) and Dutch operator KLM, currently a lead player in the Wings Alliance. And in the U.S., partnership talks are taking place amongst most of the majors, with United Airlines trying to buy out USAir and BA partner, American Airlines, attempting to woo Northwest Airlines, another Wings stalwart.

Malaysia Airlines: Qantas has confirmed "exploratory" talks about taking a shareholding in the airline. Possible changes have put a questionmark over the future of chairman, Tajudin Ramli (right)

All this raises the prospect of Wings totally disappearing from the alliance picture and its members being sucked into oneworld. Although MAS is not a Wings member it has close commercial relationships with both KLM and Northwest.

But MAS has now forged a code-share deal with oneworld's Cathay Pacific Airways while its alliance partner, Qantas Airways, has emerged as one of the major players in preliminary talks to buy a share of MAS.

As new helmsmen move – or prepare to move – into the hot seats at their respective airlines and prospective investors jockey for position, it is virtually impossible to predict precisely the ultimate outcome. What is certain is that momentous change is set to crystallise into a vastly altered Asian airline industry.

(Next page: THE PLAYERS)

AT A GLANCE

Malaysia Airlines: Talks underway with foreign airlines to take major stake. Strong reports of possible management changes.

Air New Zealand-Ansett Group: SIA finalises purchase of 25% of Air NZ. Search on for new MD and CEO after Jim McCrea resigns. At least 15 senior managers depart from Air NZ and Ansett in major reshuffle.

Ansett New Zealand: Will fly in Qantas livery from October under a franchise deal.

Air India: Major stake up for sale to foreign airlines as it heads for privatisation.

Indian Airlines: Major stake up for sale as it heads for privatisation.

Garuda Indonesia: Government clears financial restructure and tenders put out for audit of all operations as it heads towards privatisation.

Thai International: New chief to take over in October. To be part privatised later this year, but reports suggest there could be a delay.

China Airlines: Management replaced in restructure. Moves to buy stake in mainland China cargo airline.

China Southern Airlines: Absorbs Zhongyuan Airlines as the merging of China's airlines into three of four major groupings starts.

Air China: Begins preparation for stock exchange listing.

Biman Bangladesh: Government decides the airline will be part privatised.

Vietnam Airlines: New chief.

Air Niugini: Advertises overseas for new chief executive.

Angel Airlines (Thailand): Expected to announce a foreign airline partner in October.

THE PLAYERS

Thai Airways International: another delay in THAI shares sale "an open secret"

AUSTRALASIA

Singapore Airlines announced on August 8 it had completed its US$141 million purchase from Brierley Investments Limited (BIL) of 16.7% of Air NZ shares, bringing its total stake to 25%.

SIA will have three directors on the Air NZ Board; SIA's deputy chairman and managing dirدرctor, Dr Cheong Choong Kong, executive vice-president commercial, Michael Tan, and director Charles Goode.

Two days later, Air NZ executive chairman, Sir Selwyn Cushing, broke the news of a new integrated business structure for the joint Air NZ-Ansett group in what amounted to one of the biggest management clean-outs in Australasian airline history.

In essence, the executive committees of both airlines – a total of about 30 people – are now merged into a single unit of about 17 managers. "A number of executives have decided to leave the group at this time, to take up or seek positions elsewhere," explained Sir Selwyn.

They included Ansett chief Craig Wallace, chief financial officer, David Irvine, executive general manager ground services, Lyell Strambi, executive general manager human resources, Paul Birch, and chief information officer Ron Chambers.

The new general manager of Ansett International is Garry Kingshott, while Grant Lilly has been named general manager of Air NZ International. As yet there is no new group managing director or chief executive to replace Jim McCrea. Sources said in late September a number of candidates were being interviewed and an announcement was "several weeks" away.

The changes – there were some reports new part-owner SIA did agree to them although it was not entirely happy with a lack of consultation in the selection process – are designed to turn the group into a far more efficient business enterprise.

Sir Selwyn suggested the moves would deliver around US$120 million in increased revenue over a one to three year time-frame, a boost sorely needed as the new Australasian-Singapore owners, all linked to the Star Alliance, strive to compete with Qantas and oneworld.

Qantas has moved to counter some of the impact of the trans-Tasman union by announcing the first franchise of its brand to another airline, Ansett New Zealand, which is owned and operated by Tasman Pacific Airlines.

THAI president Thamnoon Wanglee: will retire at the end of September

From September it will be known as Qantas New Zealand, offering Qantas products and services, with aircraft flying in Qantas livery and front line staff wearing Qantas uniforms.

That development balances the books in terms of giving Qantas a New Zealand domestic presence to compete with the Auckland flag carrier on its home turf.

Faced with new competition on its major domestic trunk routes from newcomers Impulse Airlines and Virgin Blue, the 'Flying Kangaroo' has a wide variety of competitive pressures to confront.

MALAYSIA

Qantas has also been in talks with Malaysia Airlines about the purchase of an MAS stake, but strong reports from Kuala Lumpur that a deal involving 20% of the flag is close are way off the mark, according to Qantas chief James Strong.

"We have obviously had some discussions with Malaysian, but the level of development of that as portrayed in some reports is way ahead of the reality and certainly is not at the stage where people are talking about prices and offers and so on. We are having positive exploratory discussions," he told *Orient Aviation*.

While Strong attempted to dampen speculation, Kuala Lumpur remains awash with rumours. Chairman Tajudin Ramli, who owns 47% of MAS, 29% of that through Naluri Bhd., has refused to divulge his plans.

However, Naluri has confirmed in a statement to the Kuala Lumpur Stock Exchange it is in talks to sell its MAS stake.

"We wish to inform [you] that the company is in initial discussion with the government in respect of its investment in Malaysia Airlines. However, no decision has been made on the matter," it said.

There was no indication of the size of the stake to be sold.

It is known that apart from Qantas, the carrier has been talking to Swissair and to an existing shareholder, the Brunei Investment Agency, about increasing its investment.

Swissair has been attempting to sweeten its approach with a promise to make Kuala Lumpur's new international airport at Sepang its regional hub, a lure that can hardly be used by Qantas, which is strongly committed to Singapore and Bangkok.

On the other hand, in August MAS entered a code-sharing arrangement with oneworld's Cathay Pacific, underlining the complexity of the situation. To date, MAS has refused to commit to a single alliance.

It is widely agreed Naluri's holding will be cut back, either through a direct sale of part of that stake or a new share issue. It is also apparent MAS is looking for a major foreign partner.

The Malaysian Government has agreed to lift the foreign ownership limit for the airline from the current 30% (although only 16% is in foreign hands, with 9% of that with the Brunei agency) to 45%.

Negotiations with all interested parties remain in their early stages and there are a number of political hurdles for some contenders. For instance, Qantas may be nervous about investing in the flag airline of a country which has, at best, shaky political relationships with Australia.

Friction worsened recently following the sentencing of former deputy premier, Anwar Ibrahim, to nine years in jail for sodomy, with Kuala Lumpur reacting angrily to a comment by Australian Prime Minister, John Howard, that the trial and conviction appeared to be politically motivated.

In the end, Kuala Lumpur may baulk at any attempt by MAS to conclude a deal with an Australian airline. Although the government privatised MAS in 1994, the finance ministry still holds a golden share, which carries veto power in any major decision by the national carrier.

Meanwhile, one of the big questions is whether Tajudin will stay. One Malaysian business newspaper reported last month that Ahmad Tajudin Ali, executive chairman of Malaysia's national utility company, Tenaga Nasional Bhd, would become the new chief of MAS in September.

Insiders suggest this is unlikely because of Tajudin's deep commitment to the airline and his often expressed belief that it is an integral part of his vision of an inter-linked telecommunications and transportation business.

But while MAS is clearly moving towards a significant change in ownership and possibly leadership, it is far too early to say precisely how it will end up.

Commented Peter Negline, regional transport analyst for Jardine Fleming Securities in Hong Kong: "There are a lot of scenarios that are likely to play out and at this point the end game is unclear."

TAIWAN

Plagued by safety problems in recent years, China Airlines is now under new management.

At the beginning of July, Taiwan's new government implemented what was seen as a "house-cleaning" exercise at the national carrier. Out went 30-year CAL veteran, Sandy K. Y. Liu, to be replaced as president by Christine Tsai-yi Tsung, a consultant for a mass transit railway project in the southern Taiwanese port city of Kaohsiung before joining CAL. She has no airline experience.

Meanwhile, 68-year-old Lee Yun-ling, who had previously worked for 24 years with CAL as a pilot and senior manager, was persuaded to return as president. He has been quoted as saying he did not want the "daunting" job. Lee, who had been president and chairman of domestic operator, Far Eastern Air Transport, for the past seven years, replaced Chiang Hung-I, who remains a director.

The burning question now is what is going to happen to CAL's privatisation plans?

The airline is 71% owned by the China Aviation Development Foundation (CADF) which is controlled by the government. Until March, the foundation was attempting to sell 35.5% of its stake. The search for an airline partner was put on hold partly because of uncertainty caused by the Taiwanese presidential election.

Garuda Indonesia: in final stages of restructure. Focused on privatisation

The arrival of new management has caused some delay in plans to acquire a stake in mainland China's Shanghai-based China Cargo Airlines. It appears the deal will go ahead as CAL moves to prepare for the possible opening of cross straits air links and to secure a position in the booming Chinese freight market.

While no-one knows precisely when Taiwan–mainland China air routes will open commentators close to the issue say such a development is more likely now than ever before.

China Cargo services mainly long distance routes from Shanghai to cities in the United States, Japan, South Korea and France.

THAILAND

The Thai Government's 93% stake in Thai Airways International is scheduled to be trimmed to 70% – with 10% going to a strategic foreign airline partner – before the end of this year. That timetable is now widely expected to suffer yet another postponement with analysts saying a delay "is an open secret".

The battle for a foot in THAI's door is being fought between the two major global alliances, Star and oneworld. Qantas remains interested and Star's SIA, with United, Lufthansa and other members, are making a joint bid.

At present the joint Star Alliance bid – THAI is a founding member of the alliance – is the front-runner with president, Thamnoon Wanglee, consistently refuting suggestions that THAI aims to jump ship and cross to oneworld.

However, the arrival of a new president after Thamnoon retires in October may shift the balance. The question is: what will be best for THAI?

Most observers agree the carrier's position in Star has been weakened by the arrival in the alliance of long-time rival SIA.

They are not the only players. Air France has made strong overtures to THAI to convince it to link up with its alliance partner, with the U.S. carrier Delta Air Lines.

THAI's profitability remains marginal, with high fuel costs and foreign exchange losses keeping its financial performance flat. Holding back on a share sale to await increased efficiency and an improvement in management and image may be the government's best option.

It is also facing increased competition at home, with the national government pushing ahead with plans for further domestic and international liberalisation, which will see the national flag carrier face renewed competitive pressures.

Meanwhile, Thailand's second international scheduled carrier, Angel Airlines, is considering selling a stake after receiving offers from at least 10 different parties, according to chairman, Somchai Bencharongkul.

Somchai said a decision would be announced by October. He said three foreign airlines had expressed interest in an equity stake, but he would not divulge details. Other approaches had been made from investors from Europe, the Middle East and Asian countries.

The carrier badly needs foreign airline input. It resumed services in mid-July after a six-week suspension caused by monthly losses of up to US$1 million.

INDONESIA

Garuda Indonesia is in the final phase of its financial restructure and moving to prepare for privatisation within the next two years. The national government's Financial Sector Policy Committee (FSPC) has approved the proposed restructuring of some US$1.2 billion debt. This includes a partial guarantee by Indonesia's state-owned Bank Mandiri of the airline's US$610 million foreign debt to the European Credit Agency (ECA), a consortium of lending institutions from Germany, France and Britain.

The green light was critical because the ECA had demanded one of the country's state banks issue the guarantee as a pre-condition for agreement to the debt-restructuring proposal.

Garuda can now finalise details with its creditors. A conclusion is expected by the end of September.

With that off his mind, Garuda president Abdulgani can move towards refining details of the privatisation. The airline has undergone a major revamp with the help of Lufthansa Consulting and has put out a request for tenders for a total audit of the carrier's operations, a significant step towards proving its performance.

Abdulgani said the airline is expected to book a US$58 million profit after tax this year, and US$108 million in 2001.

INDIA

Air India's (AI) government owners plan to sell a controlling interest, up to 60%, by March next year, part of a plan to raise US$2.2 billion through asset sales. Foreign airlines will be allowed to purchase up to 26%, with 10% going to employees, 10% to domestic institutions and investors and 14% to an Indian company or airline.

Analysts regard the sale as critical to attracting international expertise to the carrier and force cost-cutting, higher revenue and higher profit on its operations. It lost US$17 million on sales of US$1 billion in the year ended March 31.

The government has appointed J M Morgan Stanley, a joint venture between J M Financial Services Ltd and Morgan Stanley Dean Witter, to help sell the stake. Despite it's troubles, AI appears to be winning some attention from potential bidders. India's biggest cigarette company, ITC, is understood to be behind plans to form a consortium, which includes Middle East operator Emirates and Swissair, to bid for 40%.

According to sources, three other groups have expressed some form of interest. They are SIA with India's Tata Group (the two attempted two years ago to set up a new Indian domestic airline), British Airways with Indian private domestic operator Jet Airways, and a group representing Air India's own pilots.

Zhongyuan Airlines: merged with China Southern Airlines

Meanwhile, the government's domestic airline, Indian Airlines (IA), is attracting early expressions of interest. Among those tentatively standing on the sidelines are the Tata group and ITC, along with local corporate giant, Reliance.

None of them is yet prepared to make firm bids for the carrier, but a Tata spokesman said: "We remain interested in aviation. We will wait and see what are the terms of the disinvestment and then see if it makes a business case for us. We have communicated this to the powers that be."

The government has proposed selling 51% of IA in a privatisation scheduled for completion by 2001-02.

VIETNAM

Dao Manh Nhuong has stepped down as president and CEO of Vietnam Airlines "for health reasons" and has been succeeded by Nguyen Xuan Hien, who was formerly deputy director general of the Civil Aviation Administration of Vietnam.

After an explosion in growth in the early to mid-1990s, Vietnam Airlines experienced hard times in the mid to late Nineties with a fall-off in tourism triggered by the spread of the Asian economic recession.

New chief Nguyen joins the airline as it shows signs of a resurgence. Recently, government negotiators agreed to increase the number of airline seats between Taiwan and Vietnam by 50%.

PAPUA NEW GUINEA

Wracked by losses and attempting to recover sufficiently to make it presentable for privatisation, the sale of a stake in Air Niugini may now be delayed as yet another new management team settles in.

The state-owned airline is looking offshore for a replacement for managing director Andrew Ogil, who was sacked in June. He was initially replaced with an acting chief executive, the airline's general manager commercial services, Michael Buleau. But advertisements for a new CEO were placed in overseas newspapers in August. It is not known how long the selection process will take.

Announcing Ogil's dismissal, deputy chairperson Nahau Rooney said: "At the moment, the airline needs a lot of push to make it turn around. A lot needs to be done in restructuring the company to make it business-oriented and profitable."

BANGLADESH

Bangladesh's national airline, Biman, has approved a partial privatisation plan, "If all goes well, we will be able to implement the privatisation plan by December," said Air Commodore Rafiqul Islam, Biman's managing director.

Under the plan, the government will retain 51% of the shares, 40% will be sold to strategic partners and 9% will go to Biman employees.

Government-appointed U.S. consultant, Citibank, has submitted a preliminary report on privatisation.

Islam would make no comment on potential partners, although he made it clear no offers would be accepted from airlines in South Asia because they are considered competitors.

The airline's board is preparing to turn the state-run corporation into a public company.

WHO'S NEXT?

China Southern takes over Zhongyuan Airlines; mergers to escalate

By Barry Grindrod, in Urumqi, northwest China

"China's aviation industry appears to be heading in the right direction – on paper. All we need now is some action," *Orient Aviation* wrote in July.

Right on cue, in early August, China's largest and best managed international carrier, China Southern Airlines, (CSA), announced it was taking over operational and management control of north central China airline, Zhongyuan Airlines, in Henan Province.

The merger merry-go-round ground into action.

The Civil Aviation Administration of China (CAAC) started talking about merging its 30-plus carriers into three or four major groupings more than two years ago. Since then there has been more talking than action. However, in July we reported the CAAC was fast-tracking the long-debated merger plans.

China Southern vice-president Capt. Li Feng Hua (left) and Xinjiang Airlines' president, Zhang Ruifu: future partners?

CSA's group vice-president, Captain Li Feng Hua, told *Orient Aviation* in an interview in Urumqi in July, that CAAC-controlled carriers, China Northern , China Northwest, China Southwest, Yunnan Airlines, Xinjiang Airlines, Zhejiang Airlines and Great Wall Airlines would eventually come under the management of one of the 'Big Three' carriers, Air China, China Eastern or CSA.

Over time, he said, other domestic airlines would be drawn into the groupings. Zhongyuan is the first airline to be acquired by one of the major carriers under the new policy.

However, there remains a questionmark over the future of several second tier carriers in China, including Hainan Airlines, Shanghai Airlines, Shandong Airlines, Sichuan Airlines and Shenzhen Airlines. Carriers like these are profitable, independent and ambitious. They would be expected to be unwilling to merge with other less successful companies.

But Capt. Li said together these carriers have a market share of less than 20% in China and they would find it difficult to compete on their own. Eventually, economic forces would dictate that they would have no choice but to join one of the major groupings, he said.

That remains to be seen, particularly with carriers like Hainan Airlines, based on Hainan Island, off the southern coast of China. The airline has a 60% stake in the island province's new Meilan Airport – one of the most modern in China – and has several hotel interests in one of the fastest growing holiday resorts in the country. Hainan Airlines also has the advantage of being listed on the Shanghai Stock Exchange.

Capt. Li argued, however, that the structure of the merger plan had been finalised and it was now simply a question of which airlines would align with which of the majors.

Sources told Orient Aviation geography is not a factor. For example, CSA, based in Guangzhou in the southeastern corner of China, and Beijing-based Air China in the north, are both reported to be wooing Xinjiang Airlines. This carrier has its home base in the isolated desert landscape of the northwest, operating from Urumqi.

The profitable airline will be attractive to those vying for its commercial favours.

But the same cannot be said for operators like China Northwest, which has lost millions in recent years. Capt Li believed a financial package, possibly including tax concessions, could be offered by Northwest's provincial government in Xi'an to make the airline appealing to suitors.

Whatever happens in such negotiations for loss-making carriers, airlines like Shanghai-based China Eastern and CSA, both listed on domestic and international stock exchanges, will have to be careful not to upset investor confidence as they negotiate the mergers.

CSA, even before taking over Zhongyuan, owned 60% of four other airlines, the respected and profitable Xiamen Airlines, Guizhou Airlines, Zhuhai Airlines and Shantou Airlines. Capt. Li said these carriers were being encouraged to use the CSA logo and CSA products on board. It was only a matter of time before managements were centralised, he said.

• *Zhongyuan Airlines started in the late 1980s. It operates five B737s and two Y-7s and has a staff of 560, including 80 pilots. The CSA Group will have 60% of market share at Zhongyuan's home base airport, Zheng-zhou, when it completes purchase of the domestic carrier.*

Call for unified safety push world-wide

By Tom Ballantyne in Seattle

Planemaker Boeing has called on other regions of the world, including Asia and Africa, to follow North America and Europe in setting up combined industry and government safety teams to work together on air accident prevention strategies.

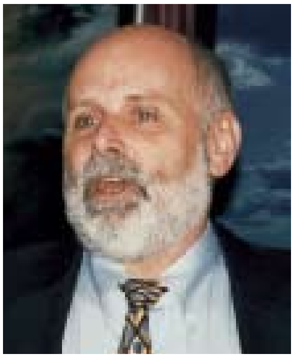
The planemaker's chief engineer, aviation safety system Paul Russell, believes the move will be a key strategy in reducing air crashes and eliminating existing differences in accident rates between regions.

"To improve any situation you must first recognise you have a problem. In the U.S. and Europe, industry and government have recognised the travelling public will not tolerate an increasing number of accidents," he said.

In the U.S., the joint industry-government Commercial Aviation Safety Team (CAST) is devising and implementing programmes designed to significantly reduce the number of future accidents. In Europe, the Joint Safety Strategy Initiative (JSSI) is doing a similar job under the auspices of the Joint Aviation Authority (JAA). "CAST and JSSI are working in close co-operation to ensure the maximum effectiveness of accident prevention actions," added Russell.

While a Pan-America Aviation Safety Team (PAAST) is being formed, there is no equivalent organisation in either Africa or Asia, although the Association of Asia Pacific Airlines (AAPA) has official observer status at CAST meetings. The AAPA has been designated a regional team leader (RTL) to facilitate the flow of safety information between various components of the industry.

If a body similar to CAST is set up in the Asia-Pacific it would involve, in addition to the AAPA, organisations like the International Air Transport Association, the International Civil Aviation Organisation, individual airlines, international pilot unions, air frame manufacturers and Directors General of Civil Aviation.



Boeing chief engineer, aviation safety system, Paul Russell: indications accident rate is declining

"The U.S., Canada and western European have achieved a level of safety that is four times lower than the rest of the world. To achieve a single world-wide level of safety we must address the differences," he said. Boeing will continue to incorporate safety-enhancing technology in planes, added Russell.

"Boeing and Airbus are equipping their current production airplanes with such safety enhancements as Predictive Windshear Systems (PWS), Terrain Awareness Warning Systems (TAWS) and Global Positioning Systems (GPS). Despite this, we estimate by the year 2015 there will still be about one third of the fleet not equipped with these safety enhancements.

"The industry and regulatory agencies must assist in encouraging the retro-fitting of proven safety technologies," he said.

Russell said the aviation industry has achieved an exceptional level of safety. Worldwide, it has remained at 1.5 hull losses per million flights (in the U.S. and Western Europe the figure is 0.5) since 1974.

"There are promising indications the accident rate has started declining again in the last three years. However, it is too early to be certain of the trend," he said. "We believe there are a number of accidents, which vary by region and/or country, that will cause the public to lose confidence in the system.

"If the accident rate remains stable on a per departure basis, increasing departures will result in a growing number of accidents. Thus, the predicted doubling of flights over the next 15 years would result in a doubling of the number of serious accidents. This is unacceptable to the industry so we must embark on a series of actions that will reduce the accident rate," said Russell.

... AAPA playing lead in Asia

The Association of Asia Pacific Airlines (AAPA) is involved in a programme to increase safety co-operation between all sectors of the airline industry in Asia. This could develop into combined industry and government safety teams similar to such groups in Europe and North America.

The association was granted observer status at the U.S. based Commercial Aviation Safety Team (CAST) in May. This followed a safety resolution at the AAPA Assembly of Presidents in November 1999 that the organisation should participate in the U.S. Safer Skies initiative and the Flight Safety Foundation's Controlled Flight Into Terrain(CFIT) and Aircraft Landing Accident (ALA) task forces.

The CAST initiatives are based on two task-oriented groups, the Joint Safety Analysis Teams (JSAT) and Joint Safety Implementation Teams (JSIT), said Leroy Keith, the AAPA's technical director.

"Of most interest to the AAPA members is the CFIT/ALA JSIT and the products and tools they are developing to reduce these type of accidents," he said.

"The primary purpose of AAPA's involvement is to make sure the products of the CFIT JSIT are available to member airlines."

The AAPA has been asked to be Asia's regional team leader (RTL), tasked with facilitating the flow of information and Flight Safety Foundation tools to other aviation interests in the region, like air traffic control bodies, airports and regional airlines.

Member airlines have been invited to play the role of team leaders for their respective countries. The AAPA would monitor their progress.

Among the aims are development of training aids, ensuring integration and co-ordination with CAST and JSSI and assisting in regional implementation.

DIVIDED

Industry split over flight deck 'spy' cameras

Airline pilots in the United States are reacting strongly to moves that could lead to video cameras being installed in their cockpits to assist safety investigations. In the Asia-Pacific the issue also could emerge as a major topic of debate TOM BALLANTYNE *reports.*

When a SilkAir B737 plunged into Indonesia's Musi River in December 1997, on a flight from Jakarta to Singapore, killing all 104 passengers and crew on board, investigations revealed suspicions of pilot suicide.

Last October, when an EgyptAir B767 disappeared into the Atlantic Ocean killing 217 people, it took only days before a similar theory emerged.

The full facts will probably never be known. But the question accident investigators and regulatory authorities are now asking is: if airline cockpits were fitted with video cameras, would it resolve such mysteries?

In the U.S., where moves are underway to install cameras on the flight deck, pilots are preparing for a bitter fight to halt what they regard as a serious invasion of privacy. In the Asia-Pacific, where the topic is not on the agenda of most pilot unions, there is some cautious support for the controversial move. But there also are serious concerns video film might be used as evidence against them.

"The evidence and information recorded by cockpit video cameras would help aircraft accident investigators tremendously in reconstructing events prior to an aircraft incident or accident," said Captain Ng Kok Seong vice-president technical of the Airline Pilots Association of Singapore (ALPA-S).

"Unfortunately, these noble objectives of the accident investigators are not shared by all, especially those in positions of influence or power. They have other interests to protect or look after. The sad truth is such evidence has been used and is still being used to punish flight crew – if they are still alive."

Capt Ng, a Singapore Airlines pilot and an experienced accident investigator, stressed this was his personal view because ALPA-S had not formulated a policy on the issue.

U.S. National Transportation Safety Board chairman, Jim Hall: millions of dollars being spent on investigations that take years to complete, cameras could provide prompt and important information

Capt. Chris Manning, president of the Australian International and Airline Pilot's Association (AIAPA): stringent rules would be required to prevent videos being used in action against pilots

But his comments reflect those of pilots and unions around the region. Their fears may have some foundation.

In New Zealand, pilots are already embroiled in a long-running dispute with authorities over the use of cockpit voice recorder (CVR) information as evidence which led in March to an airline captain being charged with manslaughter after a fatal crash in 1995.

New Zealand pilots reject cockpit image or video recording proposals as "a waste of precious resources" that will not prevent accidents.

"To embark upon this course of action in this region would be to rush in where angels fear to tread," said Captain Stuart Julian of the New Zealand Airline Pilots Association.

"We seek the leadership of national governments, including those that are ICAO signatories and those that are not, to become active in implementing law to protect information collected for safety purposes. The inactivity by the lawmakers sends out a loud and clear message that abuse of sensitive safety information is OK.

"What is to stop them! Consider the example of an ICAO contracting state that experienced a fatal jet accident. After the accident investigation was complete the state sold the cockpit voice recorder tape to the media for profit.

"This was not illegal, but from the pilot point of view this was an abuse. This action is immoral, repugnant and a callous disregard for decency by anyone's standards," said Capt. Julian.

He added that after a series of aircraft losses in the past year the Asia-Pacific area is in need of a focused safety agenda that could give the aviation community renewed confidence.

"We have fertile ground for implementing well-researched and well-developed safety strategies. The airline buddy system is well suited to our area as a strategy."

The strong objections to the use of information from VCRs extend beyond New Zealand shores. "If flight recorders are to retain their integrity as safety devices they must be used only in the accident investigation process and only for the purpose of accident prevention, in accordance with international norms," argued Captain Ted Murphy, president of the International Federation of Air Line Pilot's Associations (IFALPA).

Could video be used in the same way? It may not be long before all pilots will have to confront the possibility of being on camera

while at work. In the U.S., the Federal Aviation Administration (FAA) and the National Transportation Safety Board (NTSB) have lent support to the concept of cockpit video cameras.

Earlier this year, NTSB chairman, Jim Hall, and FAA head, Jane Garvey, invited a consultancy group to appoint a special committee to make recommendations on the idea.

A final report is expected next year. If the U.S. opts to use the tell-tale equipment it could trigger a chain reaction in other parts of the world, including Asia.

Captain Paul McCarthy, head of the US Air Line Pilots Association safety committee, said cockpit crew are "vitriolic" in their opposition to the move. "We will absolutely fight any cameras covering the anatomy of the pilots," he added.

Or as one captain from USAirways was quoted as saying in the *Wall Street Journal*; "If they try to put them in [the cockpit], I'll have a place to hang my hat."

Asia-Pacific pilots, initially at least, are taking a more conservative approach. Captain Chris Manning, president of the Australian International and Airline Pilot's Association (AIAPA), said it was an issue the union would take "a very long, hard look at".

There is no doubt the cameras would help investigations, he said. "But what else do you use a video camera for? There will have to be some very stringent rules barring the use of such videos in any action against pilots.

"Besides, there are other ways of doing it. Do you change the whole of aviation because of one or two accidents which are clearly against the norm?"

Dr Rob Lee, director of the Australian Transportation Safety Board (ATSB) said there is no doubt videos would be an excellent aid to investigation. They would give a first-hand record of what cockpit instruments are displaying, or what pilots' hands are inputting, which is extremely important in reconstructing accidents.

However, he understands pilot sensitivity about the use of recordings. "We think it would be a good idea, but not without the full co-operation of all those involved, including pilots," he said.

NTSB chairman Hall notes cameras may not need to show the entire cockpit. "A camera focused on a cockpit computer screen might show it was a computer glitch, not pilot error which caused a crash. With that information, the glitch could be removed and future pilot deaths might be prevented."

"We're spending millions of taxpayer dollars on accident investigations that take years to complete. In some cases, cameras could provide prompt and important information, quickly improving safety on future flights."

Capt. Ng of ALPA-S said he understood why the FAA and NTSB were pushing hard for video cameras. "Unlike the analogue instruments of older aircraft, there is more information displayed on today's modern electronic instruments. In an aircraft crash, parameters displayed on such instruments prior to the crash are likely to be lost.

"While such parameters are normally recorded in the Digital Flight Data Recorder, this is not always necessarily the case. An example is a wrong port connection which may mean some missing pertinent and useful information in the readouts. In such cases the video cameras would come in handy," he said.

Of course, the video cameras also would give accident investigators the opportunity to view the crews' behaviour and actions before a crash. "As any accident investigator will tell you, the job is to determine the cause or causes of an accident. Their bigger objective is to prevent another similar accident or incident. They have no interest at all in apportioning blame on anyone, but to find the truth," added Capt. Ng.

A common problem is for interested parties to apportion blame to dead pilots who are not around to defend themselves, he said. "Information from cockpit voice recorders and flight data recorders is used freely to punish and prosecute pilots. There are many such cases that I know of. Hence the distrust of the international pilot community against the introduction of video cameras."

Capt. Ng said the aviation community and travellers will be better served if there is mutual trust between pilots and administrators/operators, who have to demonstrate they will honour the objectives of ICAO Annex 13, which is supposed to protect pilots from the use of such information against them.

It is not simply a matter of fitting a single camera into the cockpit. Safety experts say several will be required; at least three to capture instruments and controls, another to film the overhead instrument panel and one more to capture a wide angle view of events in the cockpit.

It is this wider view many pilots say raises serious privacy questions. Knowing of its presence could affect a pilot's response in an emergency, some believe.

While the release of cockpit voice recordings is prohibited in most countries, including the U.S., it is not uncommon for them to be "leaked" and played to an international audience.

Pilots argue there is no guarantee the same would not happen with video recordings, raising the spectre of families being able to see the last moments in their loved ones lives.

For cockpit crew, crash investigators and safety and regulatory authorities, the debate over cockpit video promises to be a long and controversial one.

Could video cameras in the cockpits of the doomed SilkAir and EgyptAir aircraft have solved what happened on the flight decks in the moments before the planes fell from the sky?

The number of new airlines that have succeeded in Asia in the past decade can be counted on the fingers of one hand. India's Jet Airways is one. As the country's most successful private domestic operator it has drawn a survival blueprint for others to follow. TOM BALLANTYNE *reports.*

JET setters

Naresh Goyal, chairman of India's Jet Airways, could never be accused of lacking ambition. His goal is simple; to achieve standards that will make his company "the world's best domestic airline" by the end of this year.

This may sound like mission impossible for a carrier that did not exist a decade ago, but to Goyal, a flamboyant and irrepressible entrepreneur in his early fifties, anything is achievable if approached in the right way.

"We began with the mission of building a world class domestic airline in India. Seven years later, it is a matter of pride with us that we have largely achieved what we set out to do," he told *Orient Aviation*.

Established in a market dominated by state-owned Indian Airlines (IA) and operating in an often uncertain, sometimes chaotic, aeropolitical climate, Jet launched in May 1993 with a fleet of four Boeing B737-300 jets flying to 12 destinations.

It has emerged as the country's leading private domestic airline with a fleet of 30 planes – 13 New Generation B737-400 and -500, 12 Next Generation B737-700 and-800 jets and five ATR 72-500s – operating more than 195 daily flights to 39 destinations across India.

"We have a market share of around 37% and the number of passengers carried has grown from 663,000 in 1993-94 to 4.8 million in the year ended March 31, 2000. Gross revenue has risen in the same period from US$43.21 million to US$463 million," said Goyal.

Jet was named the India's best domestic airline for 1999, the fourth year running it has lifted one of the Indian travel and tourism industry's top awards, based on "excellence in hospitality, performance, inflight and ground services".

Getting there has not been easy. Jet has

Jet Airways chairman, Naresh Goyal: an ambitious, flamboyant and irrepressible entrepreneur

had to manoeuvre its way through economic downturn, high local operating costs and fierce competition from IA and the other primary private operator, Sahara Airlines.

That included India's first air ticket discounting war, which erupted last year as IA and Sahara reacted to stagnant market conditions. Jet's response was cool. Initially, it refused to join in.

"We held back for a time because we believed with the domestic aviation industry's marginal economic results at best, a discount war could only lead to the industry becoming sick," said Goyal.

India's domestic carriers pay around 2.5 times more for fuel than ruling international prices (a result of duty and taxes), leaving little room for flexible fare structures.

"Ultimately, we were forced to match these discounts to maintain market share as corporate and individual air travellers were under their own pressure to reduce travel costs. Fortunately, with the onset of the high season in October 1999 our competitors reverted to pre-discount fare levels. This year all domestic airlines have stayed away from discounting," said Goyal.

Competition, however, remains "intense", said the Jet chairman, but the airline's market share continues to grow.

"We are well aware that, like all other businesses, we need to keep pace with a rapidly changing world. We still have a lot to achieve in consistency, reliability and quality if Jet Airways is to maintain its position in the market," said Goyal.

The carrier needs to expand its network, he said. Jet's primary hub is Mumbai, with secondary hubs at Delhi, Calcutta and Chennai. Goyal believes the regional market in India is untapped and has huge potential for growth.

To exploit this market Jet bought five ATR 72-500s and is conducting a traffic-cum-economic study to identify more regional routes. The airline may add three ATR 72s to the fleet later this year.

Jet is awaiting government clearance to import four additional New Generation B737 jets which will increase its fleet to 29 aircraft. Ten more are on order for delivery between January 2001 and May 2003. These will partly replace earlier leased B737s airplanes.

Jet has one of the youngest fleets in the world with an average age of 2.7 years per aircraft.

Underpinning operational expansion will be increasing utilisation of information technology (IT).

"The proper and timely use of IT will help Jet Airways increase its productivity and reduce the cost of doing business. Given this recognition, we are studying technology to introduce online bookings, several other important value additions and a yield management system. We will look at concepts like electronic ticketing in due course, once there is significant penetration of Internet lines and usage," said Goyal.

In July, Jet announced a tie-up with Indian mobile telephone providers, Orange in Mumbai, and Sterling Cellular in Delhi, which will allow latest flight schedule details to be accessed through mobile phones.

Called Jetmobile – it will be operational around October – it incorporates an option for customers to set a trigger prompting an incoming alert if a flight they have booked is delayed more than 30 minutes.

Jet Airways plans to set up a training academy with state-of-the-art facilities in Mumbai. It will house a B737-800 Level D full flight simulator with the latest visual system and a B737-400 Level 4 fixed base Crew Training Device.

Meanwhile, there are more changes afoot in India's skies. The government is formulating a new civil aviation policy, which includes the privatisation of the country's two state-owned operators, IA and Air India.

Goyal pointed out the new policy is still in draft form, but he "strongly welcomes" the initiative. There had not always been a level playing field between the government-owned airlines and the private carriers, he said, especially in the area of allocation of facilities.

"There is no question of the new policy being a threat to Jet Airways. It offers quite a few opportunities. I am confident that in the long term the government wants the private airlines to flourish and to encourage a competitive industry for the benefit of the consumer," said Goyal.

The chairman said he particularly welcomed private sector participation provided for in the draft policy. Also, he is happy with the plan to set up an autonomous Civil Aviation Authority as the regulatory body and the intention to enact a new Civil Aviation Act that will cover all aviation legislation.

Looking to the future, will Jet Airways seek international horizons? Goyal is cautious. The airline's current operating permit restricts it to domestic routes.

"The government will need to revise its policy, take the necessary legal and administrative steps and allocate routes before we can give serious attention to this. All I can say at this stage is we would be interested," said Goyal.

Although carefully worded, it provides a clue to future possibilities. As a domestic carrier, government rules preclude Jet Airways from joining global alliances. But it does have more than 115 interline agreements will international partners, including frequent flyer deals and extensive marketing agreements with British Airways and KLM/Northwest Airlines.

Goyal said Jet had asked the Ministry of Civil Aviation to reconsider a ruling that does not allow it to have more frequent flyer links with overseas operators.

"Around 27%-28% of our revenue is earned in foreign exchange and we are looking to increase that by more extensive sales and promotional efforts in the overseas markets, such as the U.S, Canada, the UK and the Gulf," he said.

Given the dramatic changes taking place in Indian aviation, the chances are Jet Airways has ambitions that extend beyond its current role of a domestic airline. Chairman Goyal is not a man to stand still when opportunities await.

GOYAL: a profile

Jet Airways chairman, Naresh Goyal, has been involved in the aviation industry for more than 30 years.

Immediately after graduating in 1967 with a degree in commerce, he worked for Lebanon International Airlines.

He was appointed public relations manager for Iraqi Airways in 1969 and from 1971-1974 was regional manager for Royal Jordanian Airlines. In May 1974, he founded Jetair Limited to provide sales and marketing representation to foreign airlines in India.

A year later, he became regional manager of Philippine Airlines in India.

Over the years Goyal has acquired vast experience and expertise in all areas of the airline industry.

As chairman of the GSA company, Jetair Limited, and its sister companies, International Cargo Carriers Ltd., National Travel Service, France Air Ltd. and Jetair Tours Ltd., he refined his knowledge of passenger and cargo traffic operations and the promotion and development of tourism.

In 1991, he took advantage of deregulation India's newly introduced Open Skies policy to set up Jet Airways.

A Jet Airways B737-800: young fleet

CHANGING PLACES

By Barry Grindrod
In Kuala Lumpur

After 34 years based in the Philippines, the Association of Asia Pacific Airlines (AAPA) has moved to Malaysia and officially opened the doors of its new Secretariat in Kuala Lumpur on August 7.

A ceremonial gong was struck and a commemorative plaque unveiled by the guest of honour, Malaysia's Minister of Transport, Datuk Seri Dr Ling Liong Sik at the event, attended by official guests from the Malaysian government, civil aviation department, airports and Asia's airlines.

"Any organisation, like an individual, experiences growing pains as it gains in stature and changes with changing circumstances. So it has been with the AAPA," said AAPA deputy chairman, Abdulgani, who is president and chief executive officer of Garuda Indonesia.

"Again, like an individual, who at a certain stage in life finds that he needs to move his home for the benefit of his family and his career, the AAPA has decided to change its home, to start afresh for the benefit of its members and the further development of its structure. The airline industry in Asia has been through some difficult times recently, but we now see renewed growth, more stable currencies and opportunities to return to markets temporarily given up at the height of the crisis. We, and our regional airline colleagues, are optimistic about the long-term prospects of the industry.

"However, every new, positive development in the airline industry brings with it new obstacles and new regulations, charges or taxes. For that reason airlines will always need a common voice, a spokesman and lobbyist to articulate our common concerns about issues which affect our service to the consumer, our safety and security and our continued viability as providers of international air transport.

"That is why we need an effective trade association, which can operate with minimum bureaucracy, at reasonable cost, but with maximum impact. All of that can best be done from the AAPA's new home in Kuala Lumpur."

The AAPA executive committee at its first meeting in the new Secretariat offices in Kuala Lumpur. Back row left to right: AAPA director general Richard Stirland; Cathay Pacific Airways chief operating officer, Philip Chen; Air New Zealand general manager, international affairs, Graeme McDowall. Front row: Malaysia Airlines chairman, Tan Sri Tajudin Ramli; AAPA deputy chairman and Garuda Indonesia president, Abdulgani; Singapore Airlines deputy chairman and CEO, Dr Cheong Choong Kong.

Back in 1966 four Asian airlines, Philippine Airlines, China Airlines, Korean Airlines and Malayan Airlines (which included Singapore air services until 1972 when Singapore Airlines was launched) joined together to form the Orient Airlines Research Unit.

It soon became the Orient Airlines Association (OAA) and membership grew steadily over the years. In 1967, Japan Airlines, Garuda, Thai International Airways and Air Vietnam joined. The latter withdrew its membership in 1975, but its successor, Vietnam Airlines, enrolled in 1998.

Qantas Airways and Cathay Pacific Airways joined the fold in 1970. Two years later, Malaysia Airline System and Singapore Airlines were stand-alone carriers, both joining the OAA. Air Niugini, which left the AAPA recently, and Royal Brunei Airlines became members in the Seventies and All Nippon Airways and Air New Zealand added their names to the association roll call in 1988.

During the Nineties, EVA Air, Asiana Airlines, Ansett Australia and Dragonair completed the current line-up. In the mid-Nineties the OAA changed its name to the Association of Asia Pacific Airlines to better reflect the geographical spread of its membership. Former Cathay Pacific and Dragonair director, Richard Stirland, was appointed director general in 1994.

Today, the 18 AAPA member airlines carry more than 85% of traffic in the region. Their standards of service have become a yardstick for the industry as a whole world-wide.

The AAPA said it is "not a cartel, a pressure group or an exclusive club. The AAPA is an organisation devoted to the development of safe, efficient and environmentally friendly air transport by airlines which are both profitable and service oriented".

The roles of the AAPA Secretariat staff are to collect data, perform analysis, liaise with governmental organisations and regulatory authorities in Asia, Europe and the U.S., draft position papers, write reports and press releases and act as the focal point for co-ordination of AAPA activities.

The AAPA Secretariat, which has a staff of 18, is housed at Kompleks Antarabangsa, 9th Floor, Jalan Sultan Ismail, 50250 Kuala Lumpur. Tel: (603) 245 5600; Fax: (603) 245 7500 SITA: KULAPXD.

Malaysia's transport minister, Datuk Seri Dr Ling Liong Sik, pictured left, unveils a commemorative plaque in the new AAPA Secretariat office. Looking on is AAPA director general, Richard Stirland, and AAPA deputy chairman Abdulgani.

Viewing the new offices (from left): Philip Chen, chief operating officer Cathay Pacific Airways, Dr Cheong Choong Kong, deputy chairman and CEO Singapore Airlines, Richard Stirland, Dr Ling Liong Sik, AAPA commercial director Carlos Chua.

Malaysia Airlines' executive vice-president (airline), Dato Bashir Ahmad, left, and chairman Tan Sri Tajudin Ramli, chat with Graeme McDowall, Air New Zealand general manager of international affairs.

Senior staff at the AAPA's Kuala Lumpur Secretariat (from left): Tee Heap Chuan, research & statistics manager, Lim Phaik Hoon, finance and administration manager, Y. C. Hwang, technical manager, Asharat Ali, commercial manager.

Looking to the future: Malaysia's transport minister takes in Kuala Lumpur from the AAPA Secretariat office

AAPA director general: Richard Stirland, front centre, technical director, Leroy Keith, left, and commercial director, Carlos Chua, right, in Kuala Lumpur with Secretariat staff

Why the AAPA has moved its base

By Richard Stirland
Director General of the Association of Asia Pacific Airlines

Geography is an immutable affair; continents, islands, oceans remain fixed in place, at least for the span of recorded history of *homo sapiens*, although geology tells us that matters were not always so.

Man has, however, diminished the limitations placed on his activities by the dictates of geography through technology: progressively transport by land, sea and air has made the world accessible to all.

The communications revolution has, in the last few years, virtually abolished any appreciable sense of time or distance, while the pervasive influence of the Internet is inexorably eroding the final barrier of language diversity. Neither H.G. Wells nor Aldous Huxley predicted a global village gossiping in an all-encompassing chat room of mid-Atlantic mediocrity, yet it looks gloomily imminent.

In such a world of instant communication and increasing uniformity of language, culture and knowledge, does the location of any international organisation really matter to its efficiency and success?

Could not the United Nations be situated in the Bahamas or the World Bank in Tahiti?

The answer, today and tomorrow and probably forever, is no. In spite of all the advances made in telecommunications, video conferencing and other technological aids to effacing the realities of geography, the U.N., the World Bank and other organisations are going to remain situated in the traditional centres of political and economic activity, at the crossroads of that endless peregrination of the great and the good around the globe.

The phrase "intangible but real benefits" has often been used to justify many otherwise unjustifiable decisions and actions, but in terms of choosing a home, a headquarters, even a holiday, the phrase has both weight and veracity: location is everything. But the definition of precisely why one place is better

than another is frequently elusive.

In the age of the Internet and political correctness simple assertions of ease of access or cultural superiority seem inadequate.

All of which weighed in the balance when the decision was made to move the Secretariat of the Association of Asia Pacific Airlines (AAPA) from Manila to Kuala Lumpur, although one should quickly add that it would be otiose to compare the AAPA to global institutions such as the World Bank.

Nevertheless, some of the factors influencing the decision were ones which are relevant to any organization, regardless of its size or importance, because they are fundamental to success and to the long-term credibility which location can bring. It should also be borne in mind that unlike Europe or the United States, Asia has changed out of all recognition over the past 40 years, with massive transfers of economic, political and commercial clout.

Any trade association with international membership must be sensitive to these movements. In spite of communications wizardry, it needs to be at or near the centre of activity, on the well travelled path of itinerant experts and professionals, in the proximity of its peers. Its members should feel that coming and going to meetings is at worst a relatively painless affair, and at best a pleasurable and even stimulating experience.

The staff, if recruited in an international environment, should be confident that their quality of life will not be adversely affected by their career choice. If recruited locally, the increasing globalisation referred to above means that their education, their skills and their outlook should match the quality found elsewhere.

Sadly, the passage of time since the Second World War has not been kind to the Philippines, or the capital Manila. Age has brought much of its sclerosis with little of its compensations of maturity, wisdom, sophistication or grace. Meanwhile most of the rest of Asia has moved onwards and upwards.

In practical terms, and ironically given the nature of the AAPA's function to promote the development of air services in the region, one of the most noticeable and deleterious effects of this decline has been the diminution of air service to and from the Philippines.

According to a recent article in *Flight International* magazine, the Philippines CAB estimates that the number of seats operated in and out of the Philippines dropped by 66% since 1997, to 4.7 million.

Of course, a delegate to a meeting or a staff member of the association visiting another country needs only one seat, perhaps once or twice a year, but lack of space is a much more critical issue and bigger deterrent to travel for an airline or association employee with a free ticket than it is for the normal passenger.

Furthermore, it is not just a matter of seats which influences travel decisions, but also on-line destinations. Manila is served by 29 international passenger airlines, other than PAL, operating to 42 destinations with same plane service. But these numbers are in a way deceptive, simply because so many of the services and the frequencies are devoted to the labour traffic upon which the economy of the Philippines is dependent.

'A vote for relocation was a vote for rejoining the mainstream of Asian development and progress'

No less than six of the 29 carriers are based in the Middle East, and 25% of the 42 destinations served are in that area. A further fourteen points, such as Nauru and Karachi, have one or two flights per week and only 11 destinations have daily or greater frequency.

Air service, as we have seen so many times, is both a stimulant and an outgrowth of economic activity: once introduced there is an iterative process which causes both to grow in tandem.

Eastern Europe and Vietnam are case studies of this basic economic dictum. But, whether the weakness of the Philippines economy is a direct result of the lack of air services or vice versa is secondary to the fundamental fact that both are indicative of deeper problems.

The *Far Eastern Economic Review* commented only last month: "The fact is, there is much this government (of the Philippines) needs to do to build some strength in the economy – including long-term investment in education and physical infrastructure. The deplorable condition of the latter only wears down existing investors and sets them thinking about faster shipping times, and indeed, the quicker commutes they may gain by relocating."

And not just investors, but other organisations and individuals, who, after years of seeking improvement and making allowances, finally heed the siren call of other locations and take the painful decision to go. Nowhere is perfect in all aspects and as mentioned above, there needs to be much weighing of pros and cons before a decision is reached, but many such decisions look inevitable, even tardy, with hindsight.

So, I believe, it will increasingly appear with the AAPA decision to move to Kuala Lumpur. Inevitably there are also regrets, not least the staff left behind. But the AAPA Secretariat owes a greater loyalty to its collective membership of airlines than it does to tradition or sentiment. Only a small minority of the present membership participated in the decision more than 30 years ago to establish a regional airline association in the Philippines and until recently the majority had never dispassionately reviewed that decision. Having done so, they made a rational decision based solely on facts.

The Secretariat has, since that decision was made, been frequently asked whether one of those facts was the recent policy of the Philippines Government towards air services between Taiwan and Manila. The emphatic answer is "no", but of course it is acutely embarrassing for any trade association to have an internecine struggle among its members on its doorstep, just as embarrassing as defending the indefensible aspects of the airport in Manila and its approaches.

There is, however, a tangential link, in that the fundamental forces at work in the Philippines and its neighbours have, like tectonic plates imperceptibly, but irresistibly moving apart, created a widening gap of economic strength and competitive ability. Instead of striving to address the fundamentals, the government in the Philippines, in its wisdom, has chosen to tackle the symptoms, or as the *Far Eastern Economic Review asserts*, to blame somebody else. So it is with the cessation of air services between Taiwan and the Philippines.

The basic philosophy underlying this approach to problems is ultimately not conducive to the maintenance of an environment in which international organisations can flourish, because it is a denial of reality; matters may change in the future, but at present, I believe, a vote for relocation was a vote for rejoining the mainstream of Asian development and progress.

GROWIN

They both opened within days of each other in 1998, they both boasted technology deemed fit for the new millennium and both, when the moment of truth arrived and they were supposed to swing effortlessly into action as beacons of Asia's economic dynamism, stumbled badly.

Moreover the timing of their births in the midst of the Asian financial crisis was, to put it mildly, unfortunate.

But that is about where the similarities between the Kuala Lumpur International Airport at Sepang and the Hong Kong International Airport at Chek Lap Kok, off Lantau island, end. JONATHAN SHARP *reports.*

When compared to Hong Kong's new airport, Kuala Lumpur International Airport (KLIA) appears to have suffered the more difficult infancy. Costing 10 billion ringgit (US$2.7 billion), it replaced the airport at Subang which could not cope with demand arising from Malaysia's growing economy.

But if it nurtured dreams of giving nearby Singapore Changi International Airport a run for its money, it may have to wait a while.

The fall-off in business as a result of the Asian crisis and the periodic haze problem afflicting Southeast Asia from Indonesian forest fires have been negative factors that could not be blamed on KLIA planners.

Malaysia's unorthodox route of imposing capital controls to protect its economy may also have dented KLIA's early prospects, according to David Dodwell of Hong Kong-based consultants Forrest International. "What the government has done in the last two years has lowered the possibility of Kuala Lumpur posing a challenge to Singapore."

But other shortcomings, which have prompted analysts to forecast that the airport will remain underused, would appear to be self-inflicted.

Early computer network problems that resulted in flight delays and misplaced baggage were fixed. But the most common complaint is KLIA's distance from Kuala Lumpur, 70 kilometres (44 miles) to downtown, and the lack of a railway to the capital.

Letters to the press complain about waiting for taxis, which are expensive at 67 ringgit for the trip. As the *Economist Intelligence Unit* noted, many travellers to and from Singapore, which accounts for half KLIA's international routes, prefer the overland route.

Completion of an airport railway may silence such criticisms, but KLIA also has suffered awkward problems with its handling of air cargo. The airport's Advanced Cargo Centre, which is operated by a fully-owned subsidiary of Malaysia Airlines, has drawn unending adverse publicity, including about theft of cargo.

As the Airfreight Forwarders Association of Malaysia (AFAM) noted, after two years of operation the cargo problems could no longer be regarded as teething. The government's objective of turning the airport into a regional cargo trans-shipment hub was being undermined. AFAM president Walter Culas has blamed the deteriorating service level on

Grow

Hong Kong International Airport: formidable growth

The four to five percent forecast growth per annum in Kuala Lumpur would not impress at the more ambitious and hugely more expensive Hong Hong International Airport (HKIA).

It had a similarly stuttering debut to the Sepang airport that forced cargo operations to beat a humiliating retreat to the old airport at Kai Tak while glitches were fixed. But HKIA not only survived the painful birth, it has flourished and established itself as a world class facility. Criticism persists about some passenger facilities, including the range and standard of departure area food outlets plus the distance to be travelled by mini-subway train to the more far-flung gates. The retail sector has not yet lived up to expectations both for merchants and customers, with the latter saying the selection of shops is humdrum.

In June, Victor Fung, chairman of the Hong Kong Airport Authority that runs the airport, said he was turning to an outsider, Dutchman Hans Bakker, to boost retail operations as the airport's new commercial director.

Dr Fung said he was looking at Bakker, a veteran of Schiphol International Airport, to "dramatically strengthen our team", and the initial reaction to his appointment was positive. One retailer said an innovative leader was urgently needed as competition from other airports in the region was growing.

Efforts to increase retail revenue have included the introduction of duty-free outlets for arriving passengers. Other steps to improve the passenger terminal include the use of airside trolleys and the development of a "cyber zone" with Internet cafes, high-technology shops and a cinema. "We will be doing a lot more to make the terminal perhaps a little warmer, more friendly," said Dr Fung. This year the airport's commercial operations are reported to have grown strongly, enabling the Airport Authority to cut by 10% the 30% rental discount that retail tenants gained during the Asian financial crisis.

Whatever the shortcomings, the traffic figures are formidable. Passenger numbers in June were 2,748,000, 16.7% up from June 1999. Cargo grew at 19.4%. Hong Kong is the world's second busiest air cargo centre, after Memphis. In the 12 months to June this year, more than 32 million passengers and 2.14 million tonnes of freight passed through the

G PAINS

Kuala Lumpur International Airport: short-comings

what he terms "bad management from top to bottom".

Analysts see a brighter future for KLIA. "Things are going to get better for them, it's a matter of how quickly and in what time frame," said Peter Negline of Jardine Fleming.

He said the recovering Malaysian economy would inevitably generate more travel and some airlines that pulled back from Malaysia during the financial crisis were returning or expanding services.

A code-share pact between MAS and Cathay Pacific Airways will add eight flights a week between the two centres. Both sides were upbeat about the route. "We see huge growth," said Cathay Pacific's chief operating officer Philip Chen.

Negline said KLIA should be able to keep costs below those in Singapore. "As long as it keeps a competitive cost advantage, then it's always going to be on the radar screen."

Malaysia's national airport operator, Malaysia Airports Holdings (MAH), which manages KLIA as well as the country's other airports, may get approval for a hike in charges at KLIA in July next year when a three-year tariff moratorium expires, according to Malaysian press reports. However, the rise is expected to be modest to preserve a competitive edge. MAH has appointed Othman Mohd. Rijal, former secretary-general of Malaysia's Ministry of Finance, as managing director. The government, majority owner of MAH, often appoints former top officials to government-run companies. KLIA wins praise for its passenger service. Richard Stirland, director general of the Association of Asia Pacific Airlines, rates KLIA more user friendly than Hong Kong airport.

A more sour view from a Kuala Lumpur resident is that KLIA is more user friendly because it is less used. That spacious feel, however, may not last.

Transport Minister, Dr Ling Liong Sik, said he is confident that KLIA, which recorded 13.1 million passengers last year, could achieve an annual growth rate of four to five percent over the next few years.

Orient Aviation attempted several times to seek comments from KLIA's managment. At press time there had been no response.

ing strong

airport. This compares with the calendar year records of 30.8 million passengers in 1996 at Kai Tak and 1.9 million tonnes of cargo in 1999. Hong Kong, having about half the world's population within five hours' flying time, has direct links operated by over 60 airlines to some 130 destinations in more than 40 countries.

The Airport Authority is commissioning a study to make sure the HKIA achieves its potential capacity of 87 million passengers and nine million tonnes of cargo annually. The Authority is expected to receive a debt rating soon to set up conditions for a bond issue or other form of financing to fund ambitious expansion plans. The original target was for the airport to start turning a profit within three to five years from the opening and Dr Fung said he was sticking to that forecast, although the strong traffic figures suggest he may be on the conservative side.

The authority has posted its first operating profit after adjusting its depreciation policy. For the year to March 31, 2000, the Authority reported a consolidated operating profit of HK$291 million (US$37.7 million) compared with a loss of HK$36 million for the first nine months of operation from July 1998, when the airport opened, to March 1999.

The airport's consolidated loss narrowed to HK$168 million from HK$388 million from July 1998 to March 31 last year. The Authority said a review of depreciation policy resulted in an increase in the useful lives of certain fixed assets. The depreciation charge was cut to 36% of operating expenses compared with 42% in 1998/99, representing a reduction in the charge of about HK$538 million in current and future financial years.

Forrest International's Dodwell said Hong Kong's location, route network and air cargo facilities point to immense competitive strength in future. He stresses Hong Kong must cement its air and trade links with China in general and the Pearl River Delta in particular. A step in this direction is a marine cargo terminal at the airport, opening early in 2001, for vessels that will bring freight from nearby Chinese ports to be sent out by air from HKIA. So also is the launch of a sealed truck service taking cargo direct from the airport to Bai Yun airport in Guangzhou where it passes through customs.

Jardine Fleming's Negline said there might be lessons to be learned from looking back at the airport's poor start. "But I definitely think there's no need. It's much more important for the government, the airport and the airlines to look forward because growth over the last 18 months has been unbelievably strong.

"It's more a matter of making sure they keep that kind of growth up and also to make sure they don't start spilling some of that traffic."

Some analysts have questioned whether China's entry into the World Trade Organisation will lead to Hong Kong, the traditional gateway to the mainland, being bypassed as more passengers and cargo fly directly to and from China. Negline doesn't think so. He said it would be naive to suggest that Hong Kong would monopolise the growth in traffic arising from China's accession to the WTO.

But he added: "Hong Kong is by far the largest airport in Asia outside Japan and I expect it to maintain that mantle. Will some of the Chinese mainland airports record higher levels of growth? It's quite possible. But will they grow in the next 10 years to threaten Hong Kong? Not at all."

On the eve of Australia's Olympic Games ...

It's 'fun and games' at Sydney Airport

By Tom Ballantyne

Sydney's revamped international terminal has been opened in plenty of time for mid-September's Olympic Games rush. But the facility's officials are confronted by problems on several fronts.

When Australia's Minister for Finance, John Fahey, opened Sydney's upgraded terminal in late July it should have been a time for celebration. With the Olympic Games starting on September 15, the country's primary travel gateway finally has an ultra-modern airport to welcome visitors.

But as officials bathed in the glow of their new world class facility, dark clouds were moving on to the horizon and threatening to spoil the party.

Within days of the opening ceremony the airport's air traffic control centre came close to total shutdown as the second power blackout in a month caused widespread disruption.

Dozens of flights were delayed and the government, facing mounting concern over the airport's ability to cope with coming Olympic traffic, was forced to announce an immediate inquiry into why the airport's power failed.

The blackout followed several other problems, including serious concerns about a new baggage handling system.

Amidst these technical glitches, tension continues between the Sydney Airport Corporation Ltd. (SACL) and international airlines over proposed increases in aeronautical charges that could see fees double from November. That issue is currently the subject of a "consultation process" between the SACL, the airlines and their representative body, the Board of Airline Representatives of Australia (BARA).

It also is the subject of legal action in Australia's Federal Court, where a large group of airlines are claiming the charges are designed to recoup part of the cost of revamping the international terminal, which carriers say SACL promised not to do. They are also seeking damages for extra costs incurred due to disruption during the work.

Despite that, the SACL said it is "well satisfied" with the ongoing consultation with airlines on the aeronautical pricing proposals, which have been continuing since December last year when the Draft Aeronautical Pricing Proposal was released.

The SACL said the pricing proposal is aimed at offering strong value to the corporation's airline customers, providing incentives for future investment and securing a fair return on aeronautical assets at Sydney Airport.

Sydney Airport: problems

BARA executive director, Warren Bennett, said relations between international airlines and the airport authority remained "tense".

That is hardly surprising. After more than a year of ongoing disruption caused by the work, the new baggage system broke down in late June and 300 bags missed their international flights. On July 3, about 6,500 international passengers were delayed and 2,000 pieces of luggage were left behind when the US$25 million system collapsed again.

Then, on July 6, a power cut caused a radar blackout, sparking angry allegations from unions that staff cutbacks and cost pruning were causing problems.

On August 1, the airport's main air traffic control centre teetered on the verge of total shutdown when power was lost again. Departing flights were held up and arrivals restricted as eight of 12 ATC positions were shut down. Airservices Australia later accepted responsibility for power fluctuations that tripped a transformer safety switch and cut power to the operations centre. Radar and communications equipment were kept running by a back-up battery power system, but terminals still had to be closed down to prevent batteries from going flat. "They've had a couple of warnings about power outages at Sydney Airport," commented BARA's Bennett. "The whole distribution system should have been thoroughly checked after the problems we've had in the past."

After an urgent meeting with Airservices and Department of Transport officials, Federal Transport Minister, John Anderson, appointed a firm of electrical engineering consultants to conduct an independent review of the airport's power supply system.

All of this is detracting from what should be a time for celebration, the successful completion of the international terminal upgrade, part of a US$1.2 billion infrastructure programme associated with Sydney Airport.

The number of international visitors to Australia should rise to 8.4 million by 2008, with 6.5 million of them using Sydney Airport.

The international terminal has been expanded by about 40% in area, including 10 new aircraft parking positions (total 34) and new apron space. There are 40% more check-in counters (total 192) and larger inbound baggage reclaim units giving a 40% increase in baggage handling capacity.

The terminal also has increased retail space and the passenger throughput increases by 35% to more than 7,000 per hour. Transport facilities, including car parking, taxi ranks and coach areas have been expanded and there is a new underground rail terminal with fast train access to the city and suburbs.

Customs and immigration facilities have been upgraded and new security screening points installed using the latest technology.

Hong Kong falling behind Singapore in logistic services

By Jonathan Sharpe

In the long-running rivalry between Singapore and Hong Kong, the pro-Singapore camp has found an unexpected backer in Hong Kong.

In the field of logistics, says a new study conducted by Hong Kong's Lingnan University, Singapore is winning hands down and Hong Kong is putting at risk its entire strategic position in the Asia-Pacific region by failing to invest in logistics infrastructure and technology.

Hong Kong may have the world's largest and most advanced air cargo facility at Chek Lap Kok airport and one of the busiest container ports, but it is sadly behind Singapore in the provision of third-party logistics (3PL) services.

"It is crucial for Hong Kong to enhance, as a matter of urgency, the technological quality of its logistics infrastructure," says the report, entitled "Economic Impacts of Logistics Centre Development in Hong Kong."

Harping on Hong Kong's supposed shortcomings vis-a-vis Singapore may be a calculated tactic to gain attention, but the study, commissioned by local companies Kerry Logistics and LC Surveyors, reels off some eyebrow-raising figures.

Singapore is Asia's leading logistics hub with more than 30 3PL firms and Hong Kong would need to invest HK$4.7 billion (US$609 million) per year over five years just to catch up with logistics hubs such as Singapore.

According to the report, among the benefits of 3PL investments would be the creation of about 75,000 jobs over five years, among which 65% would be permanent, with the rest lasting two to five years. By comparison, investment in the airport terminal is expected to generate 26,500 jobs over nine years.

The problem, the report says, is that the private sector does not have adequate incentives to invest in the 3PL industry as the investment rate of return (IRR) is not attractive.

"The private sector IRR in the case of the 3PL industry is lower than the opportunity cost of capital, as represented by the long-term yield on exchange fund bills and notes," it says.

The solution is for the Hong Kong Government to provide the sort of active assistance that Singapore supplies: land concessions, R & D subsidies and relevant education and job training.

Lingnan University's Professor Ho Lok Song, who helped research the study, said he had been taken aback by how far Hong Kong lagged behind Singapore.

The report has been submitted to the Hong Kong Government whose initial response, Professor Ho said, was positive. "They said that if someone hadn't done this, they would have hired somebody to do the same," he said.

Hong Kong has not been entirely flat-footed in the logistics sector. For example, the Hong Kong Airport Authority has issued tender documents to 15 companies shortlisted to operate two new logistics centres. The deadline for tender documents to be returned is October 31.

Sadly, many visitors to Farnborough 2000 will always associate the air show with the place where they first heard news of the tragic Air France Concorde crash in Paris.

Despite questions about the future of supersonic travel across the Atlantic, the UK air show reflected renewed confidence among Asia-Pacific airlines as they rebound strongly from the region's economic crisis. PATRICK GARRETT *reports from Farnborough.*

Asia looms large at Farnborough

The latest contract for Airbus Industrie from Singapore Aircraft Leasing Enterprise (S.A.L.E.) made the local lessor the biggest A320-family customer in the Asian region, with 50 firm orders booked. The eleven additional aircraft – eight A320s, and its first three A319s – are due for delivery from the end of 2002. It also ordered IAE's V2500 engines to power the new aircraft.

Established in 1993, with its headquarters in Singapore, S.A.L.E. has A320 family aircraft in operation with America West, British Mediterranean Airways, Iberia, JetBlue Airways and Qatar Airways.

"As S.A.L.E. increasingly becomes recognised as a major player on the global leasing stage, this deal endorses our ability to work with Airbus and our financing partners to deliver innovative and flexible solutions to our customers," said S.A.L.E. managing director, Robert Martin.

From the U.S., lessor CIT Aerospace announced a letter of intent for 35 single-aisle Airbus aircraft and 15 A330s. The company already has 30 Airbus aircraft on order.

The Toulouse-based manufacturer also unveiled a firm commitment from GE Capital Aviation Services (GECAS), for 42 single-aisle family aircraft, including a first-time order for its latest A318. GECAS has selected CFM56-5B engines for both types.

It was quite a week for the world's two large jet manufacturers. Airbus showcased orders worth US$17.8 billion and rival Boeing USS$15 billion. Taking into account options and purchase rights, Boeing's sales figures topped US$20.7 billion for 208 airplanes.

Boeing chose the Farnborough event to reveal a recent GECAS commitment for up to 149 new aircraft, a combination of options and purchase rights for the Boeing 777 longer-range derivatives, 777-200ERs (extended range) and Next-Generation 737s.

Sichuan Airlines: first Embraer customer in China

A definitive agreement is still pending for deliveries between 2001 and 2007. Regional GECAS clients include Jet Airways, of India, Korean Air and China Xinhua Airlines.

Boeing confirmed commitments from lessors ILFC to order 40 jetliners: eight new 777 Longer-Range derivatives, 25 777-200ERs (extended range) and seven Next-Generation 737s. Delivery of the 777 models is scheduled for 2002 through 2009. The 737s will be delivered between 2003 and 2005. A definitive agreement is still to be signed.

ILFC was the first leasing company to order the B777 and has now committed to 67 of the twinjets, placing some in the east from China Southern Airlines to Aeroflot and Emirates.

ILFC boasts the first operating lease in the history of commercial aircraft industry and made important inroads in Asia, including the first A320s in China, with Sichuan Airlines, and the first B737-400s at Hainan Airlines.

GECAS was joined at Farnborough by All Nippon Airways (ANA), EVA Airways and Japan Airlines, the three Asian launch customers for the longer range B777, at a special event hosted by Boeing Commercial Airplanes president Alan Mulally.

The new 777-200 derivative will be the world's longest-range commercial aircraft, capable of routes such as New York to Kuala Lumpur. ANA chose the Farnborough show to announce its order for six Longer-Range B777-300s.

Later, Singapore Airlines (SIA) confirmed its intent to exercise options for two 777-200ERs and one 777-200.

Korean Air (KAL) confirmed an order for a new Boeing 747-400 freighter scheduled for delivery in November 2001.

As Asia's largest cargo operator and the second after Lufthansa in the world, KAL has a freighter fleet of four MD-11s, seven B747-200s and five 747-400s.

Boeing Group chairman and CEO, Phil Condit, arrived at Farnborough in style on board the Boeing Business Jet for its first display as a complete product.

Fitted with an executive interior and eight-foot high blended technology winglets, which add around 200nm to the range, the demonstration BBJ has two bathrooms (each with its own shower), bedrooms, office, a meeting and dining room, lounge and crew rest facilities.

One shower is a new invention – the Aquajet – with advanced filtration and sterilisation, allowing multiple uses of the same five gallons of water. As water is heavy the system is seen as an important development and a hot contender for first class facilities on future ultra-large aircraft.

On board, Condit was keen to show off the Connexion system (see Inflight Asia), Boeing's new mobile broadband initiative that will provide commercial airline and business jet travellers real-time, high-speed, two-way access to e-mail, Internet, corporate Intranet and live news and entertainment while in flight.

Meanwhile, his main rival used one corner of the Farnborough airfield to "park" a life-size billboard flaunting their mammoth A3XX aircraft. On day one of the show, Dubai-based Emirates became the first airline to commit to the plane, with a Memorandum of Understanding (MoU) covering firm orders for five passenger aircraft and two freighters. Air France followed with an announcement for 10 A3XXs. ILFC became the first U.S. customer with five firm orders. All are dependent on an industrial launch expected at the end of 2000.

Shortly after the show, Airbus hosted China Eastern Airlines (CEA) at its final assembly facility in Hamburg, when the Shanghai-based carrier collected its first 122-seat A319. Ten A319s will join CEA's fleet in the next three years, on lease from GECAS.

The new CFM56-5 powered aircraft will replace the carrier's MD-82s.

CEA has an Airbus fleet of 13 A320s, five A340-300s and 10 A300-600Rs. In addition to the A319s, the carrier will receive seven more A320s by the end of 2001.

Regional aircraft manufacturers also had good news from Asia.

Bombardier's 1999 market forecast predicts the Asia-Pacific region will require 1,289 regional aircraft in the 20-119 seat category over the next 20 years. The Civil Aviation Administration of China (CAAC) forecasts a requirement for 400 such aircraft by 2018.

At Farnborough, the Canadian manufacturer announced that two more Chinese airlines have chosen CRJ Series jets to expand their regional services.

Under an agreement still subject to final approval by the Chinese Government, Shandong Airlines will acquire 10 70-seat CRJ700s to add to its five CRJ200s ordered in November. China Yunnan Airlines, a new customer, will take six 50-seat CRJ200 LR Series aircraft, with four options.

With six airline customers, Bombardier is the most successful regional aircraft manufacturer in China.

Additionally, Taiwan-based UNI Air signed a purchase agreement for a Q300 turboprop from Bombardier. The airline currently operates a fleet of 12 56-seat Dash 8 Series 300s and one Dash 8 Series 200.

A Bombardier CRJ700 development aircraft made an international show debut at Farnborough as the flight test programme heads towards certification in late 2000. The company also used the British show to launch the newest member of the CRJ family, the 86-passenger CRJ900 Series. First customer delivery is expected in the fourth quarter of 2002.

Fairchild Dornier, meanwhile, waited until after Farnborough to discontinue its 428JET programme – which was still listed with 113 orders and options – "due to changing market conditions".

None of the three prospective 428JET customers are based in Asia. Despite the cancellation, Fairchild Dornier's order book is still worth approximately $11 billion, more than $5 billion of which is firm.

Brazilian regional jet manufacturer, Embraer, claimed approximately US$4.25 billion of orders at Farnborough, including confirmation of a Letter of Intent signed earlier this year from China's Sichuan Airlines for five ERJ 145s. Sichuan, Embraer's launch customer in China, was established in 1986.

First delivery of the 50-seat Rolls-Royce AE 3007 powered aircraft is scheduled for October 2000. The engine maker's share of the order is worth up to US$30 million.

In an upbeat market forecast, Rolls-Royce managing director, airlines, John Cheffins, predicted strong demand for its engines across all sectors of the civil market. "The new generation of widebody aircraft makes up almost half the civil market. This week's agreement with Boeing to offer the Trent 600 for development of the 747 and 767 means the Trent family is now accessing 90% of this sector."

The China Aviation Industry Corporation (AVIC) has selected Honeywell's Primus Epic CDS/Retrofit System for its fleet of Y-8 cargo planes. The Chinese Y-8 is equivalent in size to the U.S. C-130. It is flown by China Postal Airline and commercial cargo operators. AVIC also signed a Memorandum of Understanding with Pratt & Whitney Canada for the PW150 for the Y8F600 development programme.

Primus Epic CDS/R will include a three-display electronic flight instrument system (EFIS) for the Y-8. It will incorporate Communication, Navigation, Surveillance/Air Traffic Management (CNS/ATM) functionality such as a GPS global positioning system for navigation, VHF Data Link and Communication Management, a TCAS traffic alert and collision avoidance system, as well as integration of Honeywell's Enhanced Ground Proximity Warning System (EGPWS).

Both parties expect to retrofit between two and five aircraft each year over 10 years in a contract worth US$25 million. The first system will be installed in time for the Zhuhai Air Show in November, with Chinese certification expected in 2001.

All Nippon Airways: joined Japan Airlines and EVA Air at a Boeing 777 Longer Range customer celebration

Boeing flew more than 60 international journalists to the U.S. for a 10-day tour of its facilities in Seattle, Long Beach, St Louis and Orlando. The message was simple; the company is much more than an aircraft manufacturer. *TOM BALLANTYNE* and *BARRY GRINDROD* were there.

CHANGING FACES

Boeing is transforming itself from products to solutions, says boss Condit

Boeing Company chairman and chief executive, Phil Condit: company to be a leader in the new global market economy

Times have been tough for the Boeing Group's chairman and chief executive, Phil Condit.

Little more than two years ago, following the merger with McDonnell Douglas, and under pressure from disappointing financial results, the word in aviation circles was Condit's days were numbered. The rumours were hardly surprising.

In 1997, Boeing's commercial aircraft division recorded a net loss of US$1.6 billion. In 1998, it did better, but still lost $266 million. On turnover of US$36.8 billion, it made grim reading. Worse still, European rival, Airbus Industrie, appeared to be winning both the public relations and sales battles.

Today, Condit is still in the chair, but there is a buoyant mood spreading through the corridors of a born-again Boeing.

He has forced through fundamental changes in the corporate philosophy of the aerospace giant and gone far down the road towards integrating Boeing and McDonnell Douglas into a single entity. More significantly, Condit has instigated watershed changes in all aspects of the company as Boeing gears up for major globalisation.

Boeing is fighting back and, Condit conceded, he has no wish to re-trace the steps of recent times. Financially, the skid has stopped. Last year, commercial aircraft earned $38.4 billion, producing a net profit of $2 billion. Across the company, including military and space products, it reported sales of $58 billion and an overall net profit of US$2.3 billion.

When Condit, Boeing commercial aircraft president, Alan Mulally, and chief financial officer, Mike Sears, faced the media at the start of the Boeing tour, their talk was about scaling greater heights and "reaching for new frontiers".

It also was about leveraging Boeing's core businesses – commercial aircraft, military aircraft and missile systems and space and communication – so each benefits from the other, utilising breakthrough technologies and improving production methods in all corners of the business.

Condit, Mulally and Sears, along with Boeing Company president, Harry Stonecipher, said building passenger jets will always be a primary income earner, but it will grow less important. Today, commercial aircraft account for two-thirds of total revenue, with military hardware around 21% and space and communications nearly 7%. In coming years, while the passenger jet business will grow, revenue from it is expected to fall to around 50% of the pie. By boosting earnings from military and space sales, Boeing aims to protect its bottom line from the impact of volatile cycles in the commercial aircraft market.

Condit expects space and communications to grow fastest over the next decade, but he added "good double digit operating margins, 10% to 13%" are expected from all the core businesses. In the passenger jet sector, Boeing plans to involve itself more in the service business, areas such as aircraft maintenance and electronic commerce. This will extend to possible involvement in the privatisation of air traffic control.

CFO Sears outlined Boeing's six-pronged strategy plan; product-focused team organisation, employee involvement, adding value, supplier integration, improvements in quality and cycle time and globalisation.

While he expects revenue to dip from last year's $58 billion to $50 billion this year and $51 billion in 2001, he estimates operating margins to grow from 5.5% to more than 8%. "Our goal is profitable growth and shareholder returns in the top 25% of the S & P 500 (rating firm Standard & Poor's list of top 500 performing firms)," said Sears.

Boeing would continue to expand its product lines to take advantage of technological advances and adapt to market needs, said Condit. At the same time the company would seek ways to reduce costs and improve production methods.

"We will lever our core strengths. Our customers are adapting to a rapidly changing world and a global market economy. For example, commercial airline customers are concentrating more on their core businesses and as a result are less interested in maintenance and modification of their aeroplanes," said Condit. "Our services in maintenance and modification represent a little less than 5% of commercial airplane revenue, but that's an opportunity which will grow."

He estimated the potential of the service market was about the same size as new commercial aircraft. "The boundaries will change," he said.

Condit said the same opportunities applied in the defence and space divisions. In defence, the U.S. government once maintained and modified its aircraft in major depots. "Boeing is now doing a lot of that work. Service work is growing to around 25% of our aircraft and missile systems revenue today".

He believes the intellectual capital and the global brand of Boeing is creating more opportunities that will allow the company to break new ground. "We have great intellectual capital. It is our people. Some 189,000 Boeing employees work in 62 different countries. They hold about 100,000 college degrees with 64,000 of those being in science related disciplines."

Chief financial officer, Mike Sears: operating margines to increase

LICK THAT

Boeing was so proud the U.S. postal service decided to issue a 33 cent postage stamp in celebration of its B747, that the company had a unique "roll-out". On the 23 metre (76 feet) front doors of its Everett factory through which 1,300 B747s have rolled off the production line since 1969 it painted a jumbo copy of the stamp.

To get an idea of scale, in the bottom right hand corner of the photograph is a motor coach.

The Everett assembly facility is listed in the Guinness Book of Records as the largest single standing building in the world under one roof.

Nevertheless, the merger of Boeing and McDonnell Douglas and the two vastly different corporate cultures had presented challenges with personnel. There were still employees from the former McDonnell Douglas who were rankled at the take-over and the end of programmes such as the MD-11 aircraft.

Condit said Boeing is recognised almost everywhere in the world. "We have customers in 145 different countries. In the next 24 hours three million people will board over 42,000 flights on Boeing jetliners. There will be 6,000 Boeing military aircraft in operation around the world. There will be 335 satellites that we launched go overhead," he said.

"The one core competency that best defines Boeing is large scale system integration. It's true whether we are talking about the B777 or the Joint Strike Fighter, the space shuttle or the international space station. We have a great opportunity to leverage this intellectual capital, our global brand, our large scale system integration expertise into dramatic results."

Condit said there would be a growing number of partnerships with international companies, even with competitors. It already works with BAE SYSTEMS – a member of the rival Airbus Industrie integrated company – and is currently involved in a joint bid with BAE for a stake in Korean Aerospace.

The Boeing chief does not believe new businesses can be grown without fundamental external relationships. "There are places where our system integration capability gives us an opportunity, but we don't know the customers," he said.

"In 10 years there will be many more formal partnering relationships around the world, which will open markets we can play in, but play with a partner."

That includes the new privatised European aerospace group, European Aeronautic Defence and Space company (EADS), which includes Airbus Industrie. "EADS is a company which has the same kind of elements as Boeing – space capability, military, commercial – and it is a natural combination. There is an opportunity for some interesting relationships with EADS," said Condit.

"It will take a little while for these partnerships to develop. We will find some areas where we can co-operate and other areas where we can compete very directly."

"Boeing is transforming itself from products to solutions. We have a very well balanced company and three healthy core businesses. We are going to be a leader in the new global market economy."

Boeing's dream team

Phantom Works' elite make it all happen

By Tom Ballantyne

Dave Swain and his 4,000 staff at Boeing's Phantom Works do not really care whether the problem has to do with a commercial transport jet, a deadly missile or the space shuttle.

Their job is to find the right solution as quickly as possible. If there is new technology to be discovered, ideas to be expanded or futuristic concepts explored and designed, it falls right into their laps.

Not only that. They are responsible for innovation across The Boeing Company, finding answers that will cut production costs, increase quality and performance and provide growth opportunities.

Oh, yes, and some of the stuff is "black"; that means top secret projects for the U.S. Department of Defence.

If that all sounds too complicated, Phantom Works president Swain, who is also senior vice-president of engineering and technology of the Boeing Company, has a simpler way of describing it. "We turn dreams into reality," he said matter of factly.

The term Phantom Works originated with McDonnell Douglas in 1986 as the name of its research and development organisation. The concept was retained as a best practice by Boeing in its 1997 merger with McDonnell Douglas.

Operated as a virtual organisation – it's

Phantom Works president and Boeing Company senior vice-president of engineering and technology, Dave Swain: head of virtual organisation

4,000 employees are spread across 12 U.S. states and Washington DC, working on more than 500 advanced technology projects.

They typically work in small, integrated teams which can be quickly formed and mobilised to help customers meet their near-term challenges as well as long-term needs. If an expert is needed in a specific area he or she can be drawn from any part of the company.

Their work has made a huge contribution. A Phantom Works team developing 3-D modelling, simulation and virtual reality tools, for instance, found ways to cut design cycle time and cost in half, eliminate the need to build costly prototype hardware and produce more efficient, supportable, higher performance systems.

Manufacturing process teams have pioneered the use of high-speed machining, friction stir welding, automated fibre placement and stitched resin film infusion for producing large, monolithic metallic and composite structures that are stronger and lighter than multi-piece structures and much faster and cheaper to produce.

While solving problems, designing new techniques and working on research programmes is the mainstay of their work, Swain said one of the key jobs they are tasked with is integrating innovation across the entire Boeing company. That means ensuring that developments in all areas of commercial aircraft, space and communications and military aircraft and missile systems are utilised throughout the company.

"Phantom Works is shaping the future of aerospace through the development of total system and system-of-system solutions. Such solutions are based on Phantom Works' ability to combine the best of all the different products, technologies, processes and intellectual talent that Boeing has into a single, integrated, low-cost approach to meeting customers' needs," he said.

The shape of things to come

It may look like a futuristic flying wing – and it is – but like every other new jet design, if airlines demand it, Boeing will build it, according to George Muellner, vice-president and general manager of the big planemakers' innovation engine, Phantom Works, writes Tom Ballantyne.

He was talking about the Blended Wing Body, or BWB, which has the potential to change the shape of commercial aviation, allowing airlines to operate as they have never operated before.

If research data is anything to go by, the world's carriers may soon be saying they don't care what it looks like, as long as it does what the aerospace scientists say.

Why? Compared to traditional "tube and wing" aircraft, the BWB would have 25% lower take-off weight, 10% better aerodynamic efficiency and require 25% less thrust in a plane carrying between 250 and 600 passengers.

Even better, it would have a range of around 12,000 nautical miles (nm), far outstripping its conventional rivals. The longest haul B747 on the drawing board, the proposed B747X Stretch, would fly marginally under 9,000 nm, while the B767 has a range of less than 7,000 nm and the newest B777 around 8,860 nm.

"It turns out this is probably the most efficient way to use aerodynamics," said Muellner at a briefing in Long Beach, California.

He said by integrating engines, wing and body into a single lifting surface, a blended wing body transport design promises significant aerodynamic and structural efficiencies which don't only translate into greater range and fuel economy, but also lower manufacturing costs, greater reliability and safety.

The idea of a flying wing is not new. Phantom Works has been conducting research on the technologies involved since the early

1990s. It is one of a number of new concepts the planemaker's scientists have been investigating. But there are clear signs the BWB has incredible potential to become reality. Later this year, in co-operation with NASA, the U.S. National Aeronautics and Space Administration, Boeing will be flying a 35-foot wingspan model.

"We are really bullish about the ability of this to considerably change the face of commercial aviation," explained Muellner. Designers are looking at three different models, the smallest carrying around 250 passengers and the largest about 600.

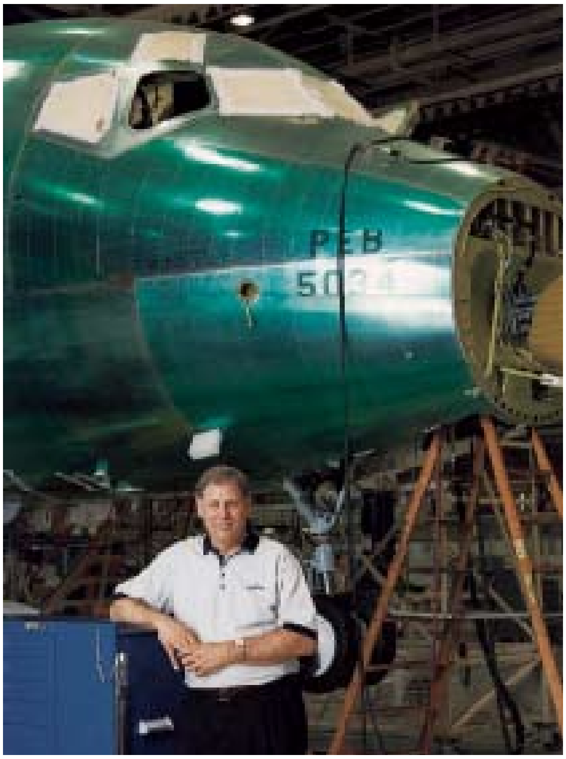
It has a number of design advantages, including the ability to vary the size of the central, passenger-carrying portion of the aircraft while using the same basic wing extension. Muellner said the aircraft would present no difficulties at existing airport facilities. "The wingspan is not an issue. The large passenger number version will be inside the 80 metre 'box' used by today's large aircraft."

The BWB would be a single-passenger deck aircraft with space for cargo below. And for Boeing it has major potential in other fields. It would make a very large and extremely efficient commercial or military freighter, or a military refuelling tanker.

The design does raise some questions involving passenger acceptability; many travellers would not have windows. Muellner said this could be overcome by allowing passengers to see exterior views on their personal video screens.

While the concept may be revolutionary, the economics of the plane could make it difficult to ignore. By 2010, if the BWB has sufficient orders, it could become the B787.

George Muellner, vice-president and general manager of Phantom Works: bullish about the Blended Wing Body aircraft



B717 vice-president and general manager, Jim Phillips, in front of an airplane ordered by Impulse Airlines on the B717 Long Beach assembly line

B717 on the move – literally

With Bangkok Airways and Australia's no-frills domestic operator, Impulse Airlines, preparing to expand their B717 fleets, the Boeing 100-seater is moving ahead steadily after a slow start on the production line – and in more ways than one, writes Barry Grindrod.

For the first time in the aviation industry, a motor industry style moving assembly line has been introduced at the former McDonnell Douglas facility in Long Beach, California.

To begin with, the B717 assembly, now housed in a transformed hangar once used for the MD-80, is using what Boeing calls a "pulse" line on which the aircraft moves at just 1.25cm (0.5in) an hour.

By the end of 2001, the assembly will be a continuously moving line, covering a distance of 75cm (30in). "When the time comes for the airplanes to change position in the hangar, we can now do it in 20 minutes. Before it took a whole shift with a lot of people standing around," said 717 vice-president and general manager, Jim Phillips.

Orders, productivity and morale have increased from the depressed days after it was decided to cease production of the MD-80. Three more MD-11s, all cargo aircraft for Lufthansa, are to be assembled before the line closes.

"The B717 operation is 20-30% more efficient than the MD-80," said Phillips.

The working environment has been completely re-shaped. Engineers work alongside the mechanics, from a series of offices in the middle of the hangar. "They can see the planes taking shape," added Phillips.

By mid-August there were 149 firm orders and 149 options for the B717, with additional customer commitments.

Bangkok Airways will take delivery of its first of two B717s in October. It has also agreed to lease two B717s from Pembroke Capital. Impulse will double its fleet of five B717s when it leases another five in the first nine months of 2001.

A school party of orphans arrive at the plane in Nairobi unannounced and are given a tour of the 767-400 by Boeing crew

'Demo' tour diary

By BARRY GRINDROD, who travelled on the B767-400ER from Farnborough to Nairobi, Urumqi and Hainan

To the uninitiated a world tour on a brand new so called 'experimental' B767-400 would appear nothing less than a romantic adventure. Especially when about 30 people have a plane designed for 245 passengers all to themselves.

Boeing's Glenn Germann, for one, would beg to differ. Daily, it was his job to chart the flight plan between countries and to co-ordinate with Jeppesen to gain the necessary overflight approval from the respective, and sometimes nervous, civil aviation authorities en route to the destinations of Boeing's latest baby.

It was certainly easier said than done, especially when you have "experimental" stamped on your fuselage which, in reality, amounted by this time to little more than one or two uncertificated premium first class seats (not to be used on take-off and landing) and an exhibition in the mid-section of the plane.

For those of us on board, it was a journey on a showcase US$120 million airplane, a whistle-stop tour designed for the jet to strut its stuff to potential customers. The stakes were high for all at Boeing on the transcontinental sales pitch and the sense of competition ever present.

Rival Airbus, alerted to the schedule by the appearance of a tour itinerary on the Internet, and Russia's Ilyushin, were already nibbling at the sales doors of some of the airlines Boeing intended to visit, the tour team had been told.

As one of a handful of operations men among the 20 something Boeing staff on board the B767, Germann was up long before day break and always among the last to go to bed as he poured over the flight plan maps for the next leg of the journey.

By the end of the European sector, which started in mid-July with the B767 visiting Austria, Germany twice, Cyprus, the Czech Republic, Poland and Heathrow and Gatwick Airports in London, before arriving in Farnborough for a week on display at the air show, Germann's colleagues had voted him the tour's hardest worker.

That first leg went well. Very well. John Quinlivan, vice-president and general manager of the 767 programme, said it had "gone as well as I could have possibly hoped and better than expected". He should know. He has been as close to the 767 as anybody, right back to its launch in the early 1980s.

Germann could have been forgiven for thinking his preparation for the next section, the Asian leg, would have served him well and a few more hours sleep would be coming his way as the plane headed for China. Wrong.

At the last moment, it was decided to add an extra 14,400km (9,000 miles) to the 34,000km tour and detour to Africa. Kenya Airways is the launch customer in Africa for the B767-400. It was felt appropriate to show the airline management and staff what they were adding to their fleet.

For Germann it was back to the drawing board, working quietly with his maps and his computer at the back of the first class cabin, pausing occasionally to liaise with Captain Richard "Buzz" Nelson on the flight deck.

As we approached Nairobi it was late evening. Quinlivan had prepared his presentation for the next day, 767 brand management director, Ken McClellan, had called the entire tour team together, including maintenance and administration staff, for a final briefing. They would be on hand, too, to mingle with guests at the static display or on the demonstration flight.

It did not take an outsider like *Orient Aviation* long to realise this was a major team effort. "We have a great team on this tour. It's important. One person can spoil it for the rest," said Quinlaven.

Before touchdown Boeing's security man, Lance Weldon, reported that Nairobi rated a seven on an international scale of nine for crime. Staff were confined to the hotel after dark. Next day Boeing made a presentation to Kenya Airways senior management. In the following two hours an estimated 1,500 plus staff toured the aircraft. One hundred guests were invited on a one-hour airborne safari 'demo' flight. Among the visitors were a disarming bunch of orphans who had turned up unexpectedly with their teachers to look at the aircraft.

The next leg, a 14-hour flight to the isolated city of Urumqi, in the deserts of northwest China should have taken off at 6am. But there were more problems for Germann.

The flight plan he had submitted overnight and which had been confirmed had, according to the Nairobi air traffic staff, not been confirmed. More problems for the ever-patient Germann and a delay of more than two hours. The big question? Would the Urumqi authorities allow the plane to land after midnight? If not, it would mean another detour and a night on the ground in Ankara, Turkey, reported McClellan. Thankfully, the Chinese said yes, but the airport immigration staff were not pleased about the delay. After procedures were completed it was 3:30am before the maintenance staff checked into their hotel after preparations for the day's activities a few hours later. The bad news for the tour party was that the day off scheduled for the stopover in Beijing a few days later was cancelled to allow the airplane catch up on the time lost in Kenya.

Urumqi-based Xinjiang Airlines was the host airline that day, although China Southern pilots had flown north from Guangzhou to test their skills on the B767 flight deck.

Xinjiang operates six B757-200s, with three on order, two 737-300s and eight Russian jets, five Tupolev 154s, three Ilyushin 86s. and five ATR 72s.

The airline is reportedly keen to introduce the B767-400 to its fleet, but politics is said to be a mitigating factor. Two days after Boeing left, Ilyushin was scheduled to arrive with its Il-96, a similar size aircraft to the B767 but four times cheaper at US$30 million.

It is said the Beijing Government wants to be seen to be giving more support to Russia.

Next stop was Hainan Airlines. Hundreds more people toured the plane, there were more demo flights for pilots, and more management and guests to meet. We had left Farnborough only four days ago, but it felt like forever. We had flown across three continents engaged hundreds of people in tours, demo flights, banquets and traditional toasts. And all on little sleep.

Orient Aviation left the airborne caravan in Hainan from where the air show moved on to Beijing, Shanghai, Tokyo, Taipei, Bangkok, Singapore and, finally, Seoul, before the airplane and its team returned to Seattle and a well-deserved rest in mid-August. Word has it Germann was asleep long before Seattle came into view!

B767 FACTS

The 767-400ER, at 61.4 metres (201ft 4 inches), is 6.43 metres longer than the B767-300. Improvements include additional wing span (51.9m), increased take-off weight capability and an all-new main landing gear. Its interior is similar to the B777. The aircraft will carry 245 passengers in a typical three class configuration and 304 in two classes. Engine choice is either the Pratt & Whitney PW4000 with 63,300 pounds maximum thrust or the General Electric CF6-80C2 with 63,500 pounds thrust. Major customers to date are Delta Air Lines, the launch customer, with an order for 21 aircraft and Continental Airlines (26).

The B767-400 in Beijing

NEWS EXTRA

Coup hits Air Pacific hard

Fiji's tourism industry has been forced into heavy discounting to lure back visitors who have abandoned the Pacific island holiday destination after a coup by rebels, writes Tom Ballantyne.

Flag carrier Air Pacific and resort hotels now awash with empty rooms, are trying to persuade Australian holidaymakers – the backbone of the island's tourism industry – to return with package holidays more than 30% below normal prices.

Part owned by Qantas Airways, Air Pacific has been badly hit. It suspended flights to Japan and heavily curtailed services to Australia after the May 19 coup led to the toppling of the elected government.

In August, the carrier suspended its twice-weekly flights to the neighbouring Cook Islands, only launched in June.

"It is most unfortunate, but the crisis in Fiji has made customers reluctant to transit Fiji en route to the Cook Islands," said Air Pacific's managing director and chief executive, Michael McQuay.

It is understood tourism numbers have slumped by 60%. Ironically, it is widely agreed tourists have little to fear visiting Fiji. The tourism resort areas are well away from the capital of Suva and there have been no reports of trouble in their vicinity.

The kidnapping of the prime minister and members of the government, followed by weeks of tension as they were held captive by rebels in Suva's Parliament House, shattered Air Pacific's prospects.

Ten days after the crisis erupted the airline announced a record after-tax profit of US$9.7 million for the year to March 31, 48% up on the previous year. Revenue rose 27% to US$23.6 million. Air Pacific may take several years to fully recover from the aftermath of the country's second indigenous led coup.

Help us raise US$250,000 for ORBIS

THE International Aerospace Forum in Hong Kong and *Orient Aviation* have joined together to help raise US$250,000 in the next 12 months for the ORBIS flying eye hospital. This unique aerospace-linked charity has saved or restored the sight of 26,000 people in the Third World and trained more than 48,000 doctors and nurses in almost 20 years.

This is the ideal charity for the aviation industry. Can YOU help?

The China Connection

China, more than most countries, has a special association with Project Orbis. It has an estimated 7-10 million visually impaired among its 1.2 billion population, but Orbis says between 5-7 million cases are curable.

Orbis has conducted 81 programmes in China since 1982, 24 on board the Orbis aircraft and 57 hospital-based surgical, nursing, biomedical engineering and community health training programmes.

More than 1,700 Chinese patients have had their sight restored through Orbis; more than 6,530 Chinese doctors and 5,300 nurses have been trained through the project's programmes.

The Orbis team flew to China in June where they visited Chengdu and Taiyuan. Earlier in the year, the project spent a month in Bangalore, India, and a month in Cuba.

In August the flying hospital will be in Tashkent, Uzbekistan before, later in the year, visiting Varna, Bulgaria, Ahmedabad, India and Mandalay, Myanmar.

It was A.L. Ueltschi, the founder of U.S.-based FlightSafety International, and now chairman of ORBIS, who helped acquire the first ORBIS plane, a 20-year-old DC-8, and since then he has been a major benefactor contributing millions of dollars to the cause.

Orbis breaks down all barriers. It was in the former Soviet Union before Glasnost where Russian and American doctors worked side by side, it flew to Cyprus and brought Turkish and Cypriots together for the first time since the Turkish invasion of the island in 1972 and Jewish and Arab doctors have worked shoulder to shoulder in places like Iraq and Jordan.

The ORBIS DC-10 flying eye hospital

The ambassador of light

By Barry Grindrod

Project Orbis has been called the ambassador of light. It is hard to think of anything more appropriate.

Orbis is a unique and quite remarkable charity that, for almost 20 years, has dedicated itself to fighting "avoidable" blindness in Third World countries. It is known world-wide for its flying eye hospital, a DC-10, fully-equipped with an operating theatre and teaching facility.

In that time, Orbis has circled the globe four times and implemented more than 400 medical programmes in 80 countries. It has saved or restored the sight of over 26,000 people and trained more than 48,000 doctors and nurses in sight saving skills. Its training of the trainers programme has meant Orbis has been able to reach an estimated nine million visually impaired men, women and children.

Because it depends on its DC-10, the charity has very strong aviation connections. For example, its pilots give their services free in vacation time, airlines give Orbis staff free tickets to meet up with the plane, engineering companies often service the aircraft free of charge and airports make contributions to cover landing charges.

And for that reason, *Orient Aviation* believes Orbis is an ideal charity for the aerospace industry.

But we, as an industry, could do much more to help those less fortunate than ourselves.

That is why *Orient Aviation* has decided to play its part. In cooperation with the International Aerospace Forum, which has test marketed an aerospace auction concept and raised over US$40,000 for charity in recent months, we are committing ourselves for one year to raise money for Orbis.

With your support we hope to receive at least US$250,000 in pledges by the Paris Air Show in June, 2001.

In every issue we will update readers on the progress of the International Aerospace Forum/*Orient Aviation* Orbis charity drive and list the names of individual and corporate contributors. Nothing is too small. It could be a direct gift from a company, an airline or an individual or, say, the proceeds from a charity golf day. These gestures could be enough to remove cataracts from the eyes of someone who has lived in a world of darkness for years.

Another way to help would be to offer items for auction by the Aerospace Forum. Earlier this year, a Hong Kong businessman bid US$28,888 for a back seat ride in a BAE SYSTEMS Hawk 100 and a day with the Red Arrows aerobatic team at the Farnborough Air Show. Among other aerospace memorabilia were limited edition, autographed models, prints and art work.

Regular online and live auctions will be held throughout the year to add to ORBIS coffers.

Fax or e-mail you pledges to us. Fax: (852) 2892 2846; e-mail: orienta@asiaonline.net

GOOD TIMES ROLL ON

Consolidated revenue passenger kilometres (RPKs) of the Association of Asia Pacific Airlines (AAPA) members in May increased 14.1% and passengers carried (PAX) rose by 11.7% compared to the same month last year.

This contrasts with growth of 24.4% and 20.6% respectively in the previous month. The growth rates for April were revised after incorporating Garuda Indonesia's (GA) January to April 2000 figures. The growth reported by Garuda Indonesia for April may be attributed to, among other things, the increase in Muslims taking part in the Haj pilgrimage to the Middle East. This also applied to other member airlines from Muslim countries. Capacity rose by 7.2% in May, which resulted in a load factor of 71.5%, up 4.4 percentage points. Ten airlines had another very healthy month in terms of RPK growth. Philippine Airlines (PR) 40.1%, Asiana Airlines (OZ) 24.0%, Cathay Pacific Airways (CX) 21.9% and Vietnam Airlines (VN) 20%, registered the highest growth.

All Nippon Airways recorded the highest passenger load factor (PLF) increase, up 11.3 percentage points. Eight other carriers reported PLF growth, which ranged from China Airlines (CI), with an 8.2 percentage point rise, to Royal Brunei's 0.3 improvement. Ansett Australia (AN), Asiana Airlines, EVA Air (BR) and Korean Air registered a drop in PLF of between 0.2 to 3.8 percentage points.

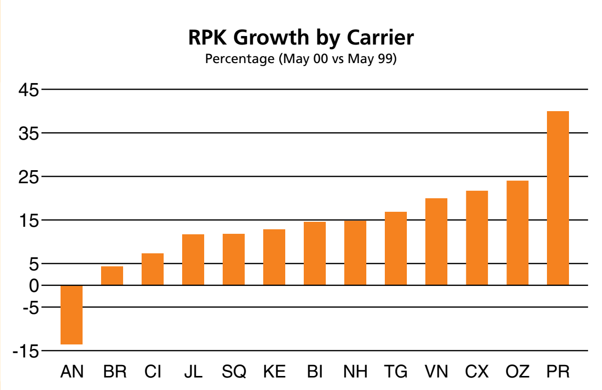
Airlines with a PLF above 70% were Philippine Airlines (79.1%), Asiana Airlines (76.9%), EVA Air (76.1%), Cathay Pacific (74.0%), China Airlines (73.7%), Korean Air (72.0%), Japan Airlines (71.9%), Vietnam Airlines (71.8%), Singapore Airlines (70.6%) and All Nippon Airways (70.2%). Ansett Australia (44.7%), registered the lowest PLF.

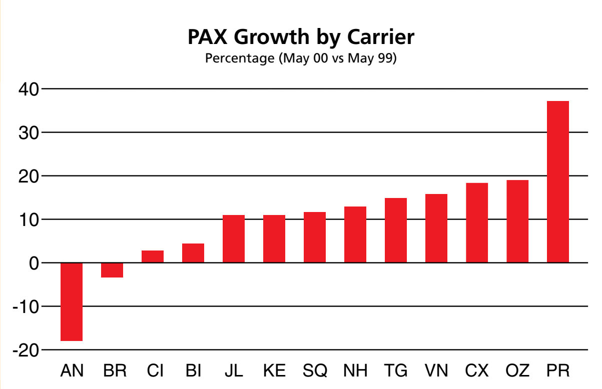
Cargo Results

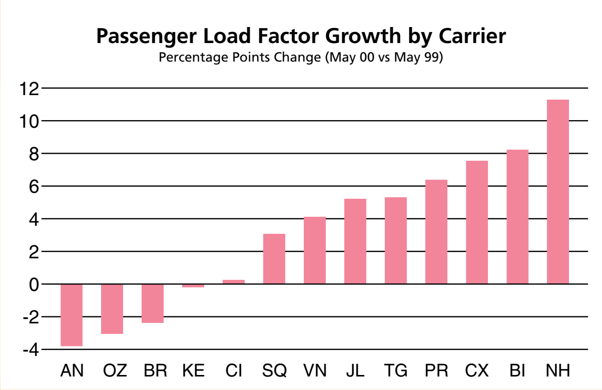
Freight traffic (FTK) in May also recorded a healthy growth, but at 11.5% eased in comparison with the much stronger growth of the previous four months. Capacity (FATK) expanded by 13.1%, which contributed to a 1.0 percentage point decrease in freight load factor (FLF) to 68.7%. Five airlines showed significant FTK growth: Philippine Airlines (49%), China Airlines (23.5%), Vietnam Airlines (22.8%), Asiana Airlines (15.4%) and Korean Air (13.6%).

Only five airlines posted improvements in FLF, ranging from 0.2 to All Nippon Airways' 11.5 percentage points rise. Taiwan's EVA Air posted the largest decline, at 6.6 percentage points. Only its Taipei rival, China Airlines (83.5%), managed to record a FLF of more than 80%, closely followed by EVA (79.1%), Korean Air (77.7%) and Asiana Airlines (76.7%). The remainder ranged from Cathay Pacific with 69.8%, to Philippine Airlines(29.4%).

Results for the 12 Months to May 31, 2000







Passenger traffic and the number of passengers carried for the 12-month period under review grew by 10.2% and 10.1% respectively. A moderate increase in seat capacity (6%) contributed to a 2.8 percentage point improvement in load factor to 73%.

With the exceptions of Ansett Australia and Royal Brunei Airlines, all airlines experienced encouraging growth in traffic during the period. Five airlines had significant traffic growth: Philippine Airlines (81.4%), Asiana Airlines (23.8%), Korean Air (13.3%), Thai Airways International (11.3%) and Singapore Airlines (10%).

Nine airlines posted a rosy load factor of more than 70% for the 12 months to May. Four airlines achieved more than 75%: Asiana Airlines (76.6%), Vietnam Airlines (75.8%), Singapore Airlines (75.6%) and EVA Air (75%). Ansett Australia experienced a sharp decline of 10.9 percentage points to 54.6%.

Cargo Results

Freight traffic in the period under review rose by 17.6%, while capacity increased by 15.6%, which resulted in a modest 1.2-percentage point load factor improvement to 70%.

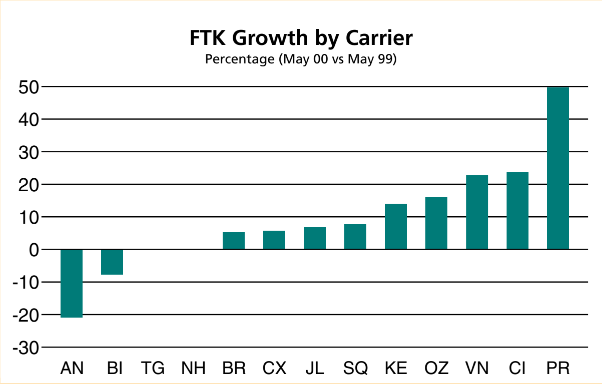
With the exception of Ansett Australia, all airlines enjoyed relatively robust freight traffic growth. The notable achievers were Philippine Airlines (87.1%), followed by Asiana Airlines (32%), China Airlines (29.3%), EVA Air (23.4%) and Vietnam Airlines (20.5%). Ansett Australia was the only airline to register a negative growth in freight traffic in the 12-month period.

Positive growth in FLF (with no more than 10 percentage points) was experienced by the majority of the airlines. There were, however, four airlines which posted negative growth. China Airlines (84.1%), EVA Air (80.0%), Korean Air (75.8%) and Asiana Airlines (75.4%) had the highest load factors. Philippine Airlines registered the lowest with 30.5%.

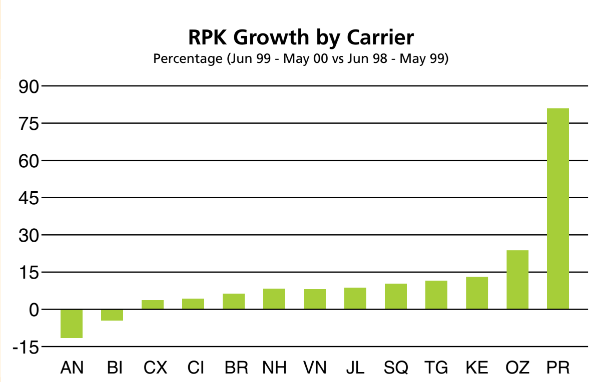
Summary

Asia's economies have been dominated by strong growth, driven by exports and domestic demand, in the past five months. The key passenger and cargo indicators continue to produce figures that consistently reflect the economy in this region.

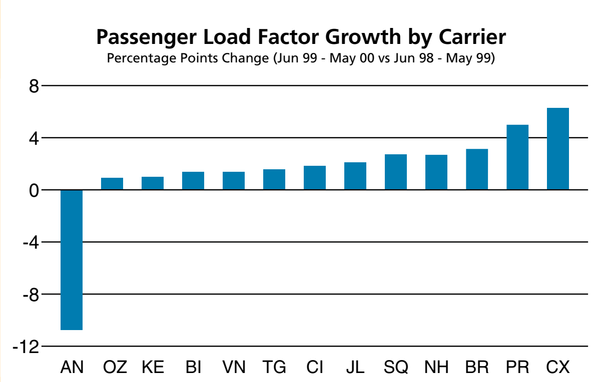
The consolidated results for May, however, could not match the record-breaking month of April. Nevertheless, double digit growth in RPKs, FTKs and PAX were recorded, which seems to indicate this is a medium-term pattern. The current healthy traffic trends should continue, in line with strong growth in intra-regional trade and tourism.



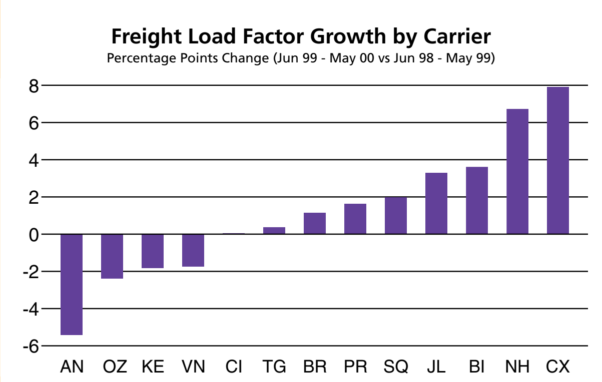
FTK Growth by Carrier
Percentage (May 00 vs May 99)



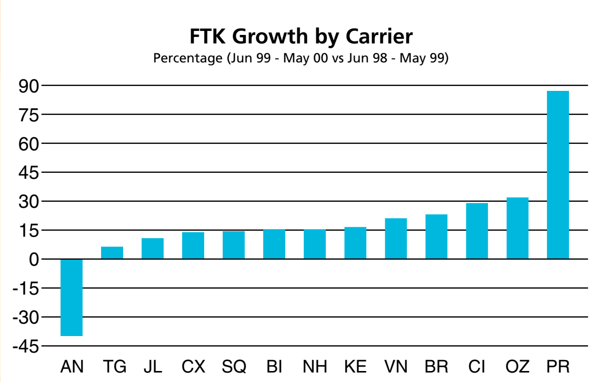
RPK Growth by Carrier
Percentage (Jun 99 - May 00 vs Jun 98 - May 99)



Passenger Load Factor Growth by Carrier
Percentage Points Change (Jun 99 - May 00 vs Jun 98 - May 99)

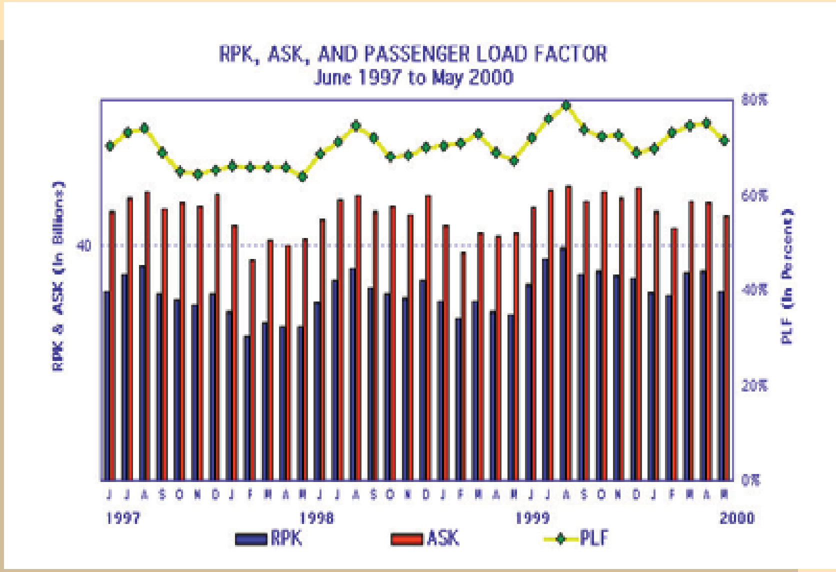


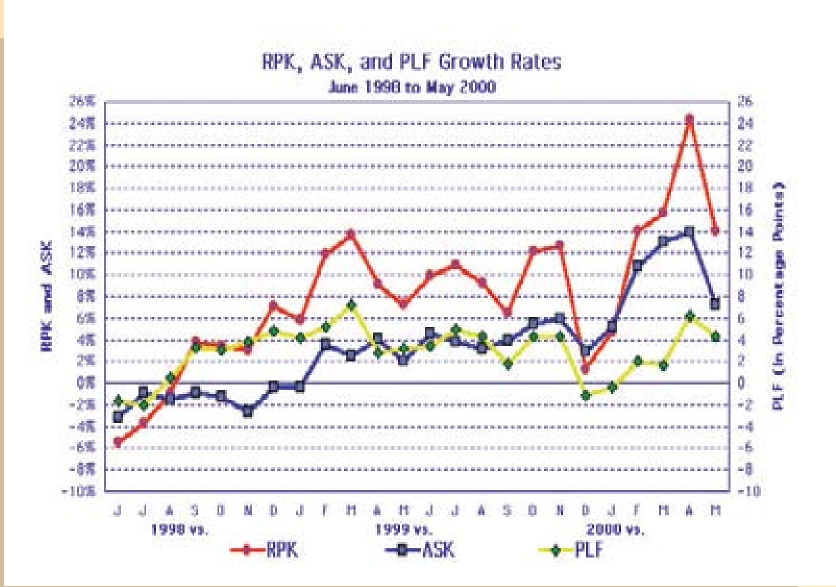
Freight Load Factor Growth by Carrier
Percentage Points Change (Jun 99 - May 00 vs Jun 98 - May 99)



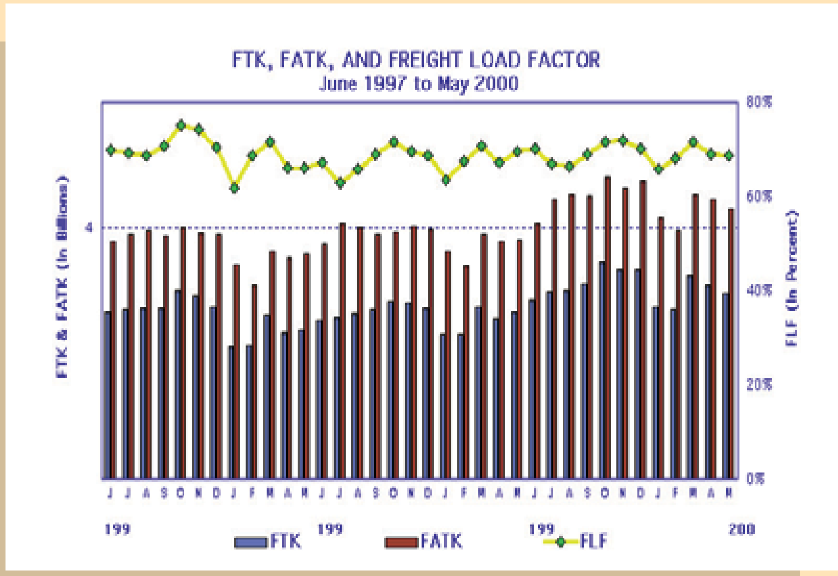
FTK Growth by Carrier
Percentage (Jun 99 - May 00 vs Jun 98 - May 99)

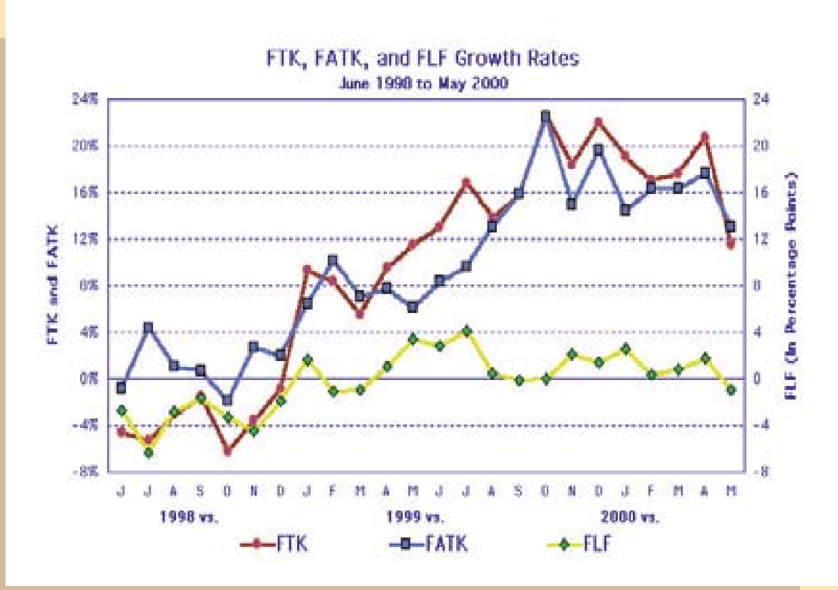
Monthly international PAX statistics of AAPA members





Monthly international cargo statistics of AAPA members





AAPA monthly international statistics (MIS)

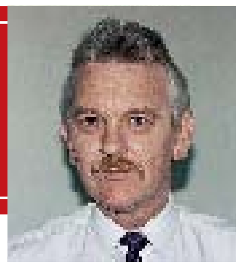
*IN THOUSANDS

		RPK	ASK (000)	PLF (000)	FTK %	FATK (000)	FLF (000)	RTK %	ATK (000)	PAX
2000 to 1999	MAY-00	32,260,259	45,122,049	71.50	2,952,745	4,301,382	68.65	5,986,291	8,455,044	7,637
	APR-00	35,733,366	47,524,222	75.19	3,076,866	4,464,085	68.92	6,337,300	8,831,189	8,372
	MAR-00	35,569,846	47,661,773	74.63	3,232,454	4,521,412	71.49	6,491,464	8,898,775	8,329
	FEB-00	31,579,225	43,206,887	73.09	2,688,920	3,950,615	68.06	5,620,926	7,923,238	7,808
	JAN-00	31,995,380	45,764,728	69.91	2,738,980	4,154,686	65.93	5,728,665	8,361,959	7,646
	DEC-99	34,523,111	50,087,619	68.93	3,325,537	4,749,945	70.01	6,563,956	9,338,159	7,928
	NOV-99	34,921,857	48,155,313	72.52	3,322,624	4,631,329	71.74	6,606,451	9,048,654	7,922
	OCT-99	35,694,366	49,369,498	72.30	3,452,401	4,815,147	71.70	6,813,877	9,343,171	7,989
	SEP-99	35,196,596	47,627,583	73.90	3,110,713	4,508,556	69.00	6,424,454	8,880,739	7,752
	AUG-99	39,611,062	50,216,421	78.88	3,001,903	4,527,665	66.30	6,709,252	9,144,752	8,872
	JUL-99	37,762,856	49,651,983	76.06	2,984,749	4,454,114	67.01	6,509,268	9,020,581	8,522
	JUN-99	33,519,343	46,465,054	72.14	2,850,503	4,062,152	70.17	5,967,416	8,334,988	7,651
	TOTAL	418,367,268	570,853,129	73.29	36,738,395	53,141,086	69.13	75,759,319	105,581,251	96,426
1999 to 1998	MAY-99	28,263,079	42,095,605	67.14	2,647,993	3,802,727	69.63	5,298,873	7,676,358	6,835
	APR-99	28,728,939	41,686,022	68.92	2,549,191	3,793,029	67.21	5,226,265	7,620,905	6,945
	MAR-99	30,738,205	42,133,054	72.96	2,746,329	3,885,626	70.68	5,596,512	7,768,521	7,277
	FEB-99	27,682,433	38,989,498	71.00	2,297,484	3,395,887	67.65	4,850,622	6,974,795	6,745
	JAN-99	30,557,281	43,488,672	70.26	2,300,769	3,631,038	63.36	5,120,766	7,643,220	6,955
	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
	JUN-98	30,510,903	44,429,977	68.67	2,521,962	3,747,788	67.29	5,342,515	7,795,031	6,890
	TOTAL	376,751,883	536,034,903	70.28	31,291,792	46,142,231	67.82	66,020,669	95,336,959	86,693
1998 to 1997	MAY-98	26,366,842	41,238,300	63.94	2,373,122	3,583,422	66.23	4,803,698	7,351,332	6,241
	APR-98	26,328,423	40,077,420	66.10	2,326,553	3,519,166	66.12	4,769,279	7,197,144	6,377
	MAR-98	27,019,777	41,094,943	65.75	2,601,116	3,630,707	71.64	5,106,217	7,380,462	6,448
	FEB-98	24,734,434	37,626,771	65.74	2,120,187	3,082,988	68.77	4,409,246	6,532,268	5,993
	JAN-98	28,854,186	43,664,419	66.08	2,106,109	3,410,482	61.75	4,782,808	7,414,969	6,520
	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
	JUN-97	32,280,946	45,890,041	70.34	2,643,866	3,778,706	69.97	5,634,978	7,946,536	7,340
	TOTAL	362,019,593	536,475,349	67.48	30,977,030	44,545,242	69.54	64,517,830	93,460,448	83,407

Percentage point change

		RPK	ASK	PLF	FTK	FATK	FLF	RTK	ATK	PAX
Apr 00 to May 99	APR-00	14.14	7.19	4.36	11.51	13.11	-0.99	12.97	10.14	11.73
	MAR-00	24.38	14.01	6.27	20.70	17.69	1.72	21.26	15.88	20.55
	FEB-00	15.72	13.12	1.67	17.70	16.36	0.81	15.99	14.55	14.45
	JAN-00	14.08	10.82	2.09	17.04	16.34	0.41	15.88	13.60	15.76
	DEC-99	4.71	5.23	-0.35	19.05	14.42	2.56	11.87	9.40	9.93
	NOV-99	1.33	2.99	-1.13	22.00	19.59	1.38	12.16	10.94	2.49
	OCT-99	12.64	6.01	4.27	18.33	14.91	2.07	16.75	11.61	11.48
	SEP-99	12.12	5.49	4.27	22.58	22.50	0.05	18.67	12.69	10.35
	AUG-99	6.43	3.89	1.76	15.77	15.93	-0.09	12.34	9.17	7.37
	JUL-99	9.24	3.19	4.37	13.90	13.10	0.47	12.86	7.42	8.86
	JUN-99	10.96	3.77	4.93	16.81	9.69	4.08	14.83	7.45	12.20
	MAY-99	9.86	4.58	3.47	13.03	8.39	2.88	11.70	6.93	11.04
Apr 99 to May 98	APR-99	7.19	2.08	3.20	11.58	6.12	3.41	10.31	4.42	9.52
	MAR-99	9.12	4.01	2.82	9.57	7.78	1.09	9.58	5.89	8.91
	FEB-99	13.76	2.53	7.21	5.58	7.02	-0.96	9.60	5.26	12.86
	JAN-99	11.92	3.62	5.26	8.36	10.15	-1.12	10.01	6.77	12.55
	DEC-98	5.90	-0.40	4.18	9.24	6.47	1.61	7.07	3.08	6.66
	NOV-98	7.12	-0.36	4.89	-0.77	1.95	-1.88	2.78	0.96	6.02
	OCT-98	3.07	-2.70	3.82	-3.49	2.73	-4.49	-0.71	-0.82	2.45
	SEP-98	3.41	-1.30	3.09	-6.22	-1.92	-3.29	-2.02	-0.42	2.28
	AUG-98	3.86	-0.92	3.33	-1.51	0.75	-1.59	0.57	0.84	2.13
	JUL-98	-0.93	-1.56	0.47	-3.07	1.09	-2.83	-2.65	0.71	-0.54
	JUN-98	-3.65	-0.88	-2.05	-5.33	4.31	-6.41	-4.97	1.39	-4.02
	MAY-98	-5.48	-3.18	-1.67	-4.61	-0.82	-2.68	-5.19	-1.91	-6.13

I.T. DINOSAURS WILL BE LEFT WANTING



TURBULENCE

By Tom Ballantyne

Some airline managers may think the endless hoop-la surrounding information technology and electronic commerce is in danger of running out of control. It's hardly surprising.

The pace of developments in the use of the World Wide Web, Internet communications and electronic cyberspace is phenomenal. Yet, to many of us, so much of it seems like science fiction.

We may have grasped their importance, but the transformation from face-to-face dealing with customers to this almost whispy, distant contact over the ether is extremely difficult for some to handle.

A lack of ability to properly utilise these new tools could mean an airline's downfall. Conversely, successful IT implementation could bring renewed profitability through significant cost-cutting and revenue growth, but this scenario may be incomprehensible to anyone unable to think outside the traditional square. This uncertainty is clearly shown by the vast differences in the way individual airlines are approaching new technology. Some – mostly the bigger operators – are spending significant money on a technological metamorphosis. Others are simply nibbling at the edges of what is available. A few have not even started yet.

One of the problems of the new e-technology world is it costs money. Recent economic recession and budgetary nervousness mean the airline bean counters require solid assurance of returns on investment before they release funds for IT development.

At the moment, despite the vast amount of publicity surrounding new electronic ways of doing business and the benefits they are predicted to bring, the global average IT outlay among airlines in 2000 remains at around 2.5% of revenue, which is only marginally higher than in 1999. That figure comes from an annual global IT trends survey released at the Farnborough Air Show in July by airline communications giant SITA, jointly commissioned by *Airline Business* magazine.

The survey claims to show airlines are increasingly recognising IT as a strategic issue of vital importance to airline profitability.

Investment levels are one obstacle to the implementation of a successful IT strategy for an airline, along with the lack of skilled IT and airline people, cited the survey.

Another barrier to rapid adoption of IT systems in aviation is the need to upgrade or replace legacy systems – older systems – even though the survey shows the move towards Internet technology is both encouraging and clearly underway.

There is a vacuum between what is technically possible in today's Internet world and what the airline industry is achieving.

So if IT will bring such big gains on the business front to aviation what is holding back its acceptance? Could it be because 67% of the 150 carriers represented in the survey had no one at board level with specific responsibility for IT. Without proper board involvement – and more importantly the mantle of responsibility on at least one board member – it will be very difficult to create the long-term corporate IT strategy which is necessary to successfully implement change at airlines.

'The key word in e-business is not 'e', it is 'business'. No business is created without a clear strategy'

Somebody had better send them a message soon because if they don't move fast they will be directing an airline which does not need directing any more.

As SITA's director general, John Watson, said, some 87% of carriers have begun the transition to Internet technology, with almost a third of respondents to the company's survey expecting to complete the changes by the end of 2000.

"There is a widening gap between the leaders and the followers. Airlines face increasing competition from web-wise players. The competitive edge will go to those companies which embrace and integrate IT and e-business into their whole operation," Watson said.

He's right. Airlines that have focused on e-commerce are already reaping the benefits, whether through online ticket sales, business-to-business (B2B) dealings or other aspects of IT use. The SITA survey showed that over two-thirds of airlines do not have any B2B e-commerce applications. Of those which do, the main focus for applications and integration is airframe/engine manufacturing (64%), spares and repairs (64%) and alliance partners (41%). Airlines expect to see average cost savings of approximately 13% by 2003 from these e-marketplaces. Half of them are planning to have B2B links in place in the next two years.

Interestingly (perhaps shockingly), over a quarter of respondents admitted not knowing what cost benefits may result from B2B. "Most airlines have woken up to the potential and the cost benefits of B2B and are looking to Web technologies to maintain their competitiveness," said Watson.

"The key word in e-business is not 'e', it is 'business'. No business is created without a clear strategy."

Recent developments, with airlines (including competitors) coming together to form Internet air ticket outlets and B2B groupings, are a pointer to the future. A third of carriers in the SITA survey are not selling tickets through web-based services. Those which are, online sales account for about 10% of total sales. But the survey concluded 4% of the latter expect to be selling more than half their tickets on the Web within 12 months, 13% within three years and 10% within five years. However long it takes there is a danger airlines which don't get their IT act together quickly will be dealing with virtual customers ... the ones which don't exist.