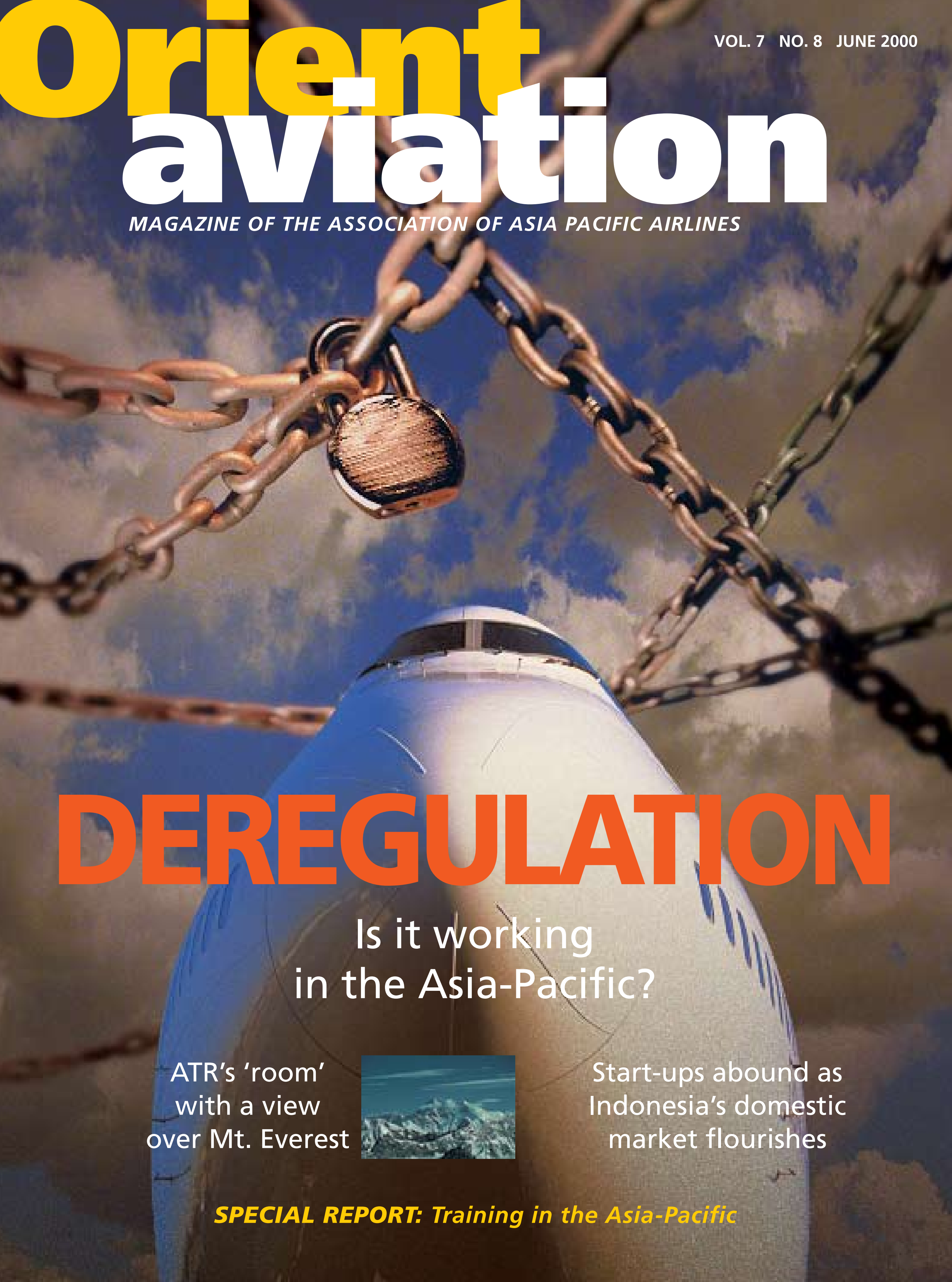

Orient aviation

VOL. 7 NO. 8 JUNE 2000

MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

DEREGULATION

Is it working in the Asia-Pacific?

ATR's 'room' with a view over Mt. Everest

Start-ups abound as Indonesia's domestic market flourishes

***SPECIAL REPORT:** Training in the Asia-Pacific*

Orient aviation

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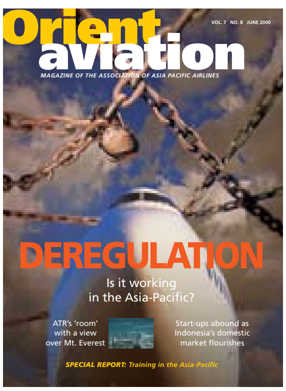
Is it working?



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INFLIGHT ASIA

A 16-page pull-out dedicated to onboard services and technology. In this issue: IFE manufacturers need to lift their game, says Airbus Industrie; when live TV does not need to be live TV; top survey lists six Asia-Pacific carriers in its seven five-star airlines; PEDS problems still a mystery; Network: news and people moves.

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REAL HOPE IN INDONESIA

As a supporter of the underdog, this writer would love to see Garuda Indonesia progress to a healthy economic life.

After years of mis-management and corruption by Suharto cronies and, more recently, a crippling environment of economic and social upheaval, as we report on page 26, there appears to be real hope this will eventually be achieved.

Those close to the aviation industry in Indonesia talk about the good old days, pre the mid-1980s, when Garuda had a fleet of more than 90 aircraft, made money and was respected on the world aviation stage. These same people will tell you about the airline president who insisted on re-investing every cent the carrier made. He said if he put the money in the bank, as had been specifically requested by the government, it would disappear, siphoned off into some disguised Suharto family account. Yes, it was that bad.

Needless to say he was replaced, and after being 'raped and abused' by a succession of puppet managements, Garuda moved to the brink of bankruptcy, accumulating massive debt.

Then came the fall of Suharto. It coincided with a peaceful and sincere 'people's protest' by the long suffering Garuda staff. It was a turning point for Garuda.

Since then two bankers, first Robby Djohan and now Abdulgani, have been put in place to turn Garuda around. It is working. Garuda, whose workforce has been slashed by one third, is making money again.

Abdulgani admits there is still a way to go. The airline appears to be making the right noises and has won the respect of those that matter among his creditors. The president is close to finalising a deal with them to restructure the US$1.36 billion of debt. He is confident Garuda will be in good enough shape to privatise in 2003.

As Indonesia starts to rebuild, both physically and psychologically, the aviation industry is booming. But care, great care, needs to be taken. Stability is a fragile commodity in Indonesia.

It is said that the country has 50 carriers, with the number of start-ups increasing each month. One wonders how the country is going to support them all. And internationally, the all important tourist industry has still to be won back in large numbers to add substance to the national bottom lime.

But so far so good. A victory for the good guys? Let's hope so.

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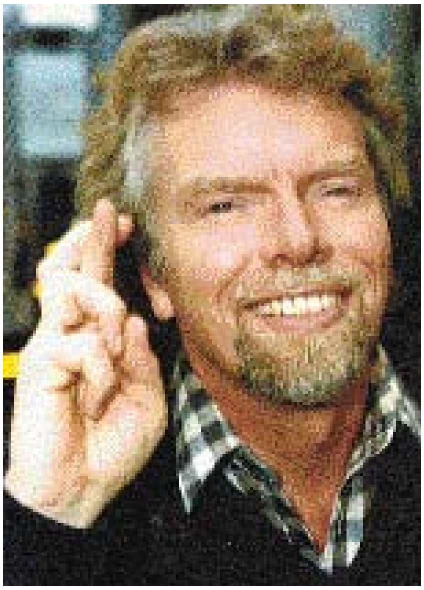
HEAVY-HANDED: Sir Richard Branson, owner of the no-frills start-up, Virgin Blue, has apologised personally to several small Australian companies trading with the name Virgin in their titles after they received letters from Sir Richard's lawyers instructing them to wind up their businesses. Several of the companies, which had been trading under names incorporating the word Virgin long before the British airline group arrived in Australia, were told to disconnect their telephones and hand over their stationery for destruction in 14 days by Coudert Brothers solicitors.

Said Sir Richard, as the protests escalated: "I am disappointed to hear the harsh tone used and I will certainly be speaking directly with the solicitors about taking a more gentle and understanding approach. I am dreadfully sorry." The aforesaid lawyers were instructed to withdraw actions from anyone who "had honestly and innocently" been trading in the past using the name Virgin.

WATCHDOG: Included in Singapore Airlines' (SIA) sparkling annual results was confirmation of accounting firm, Arthur Anderson (AA), as its Special Investigator following the arrest of the former SIA supervisor of cabin crew allowances for alleged misappropriation of US$20.32 million (S$34,955,064) from the airline. SIA said Teo Cheng Kiat was arrested on January 19 by the Commercial Affairs Department and charged with Criminal Breaches of Trust. A week later SIA launched civil proceedings to recover the monies. AA was appointed to look into the civil circumstances "under which Teo had (allegedly) misappropriated the monies, to provide general litigation support services when necessary and to conduct an independent review of relevant payment systems in SIA," said SIA. Criminal and civil proceedings continue.

LONG HAUL: Global carrier British Airways (BA) will be a more active player in the Asian market under new chief executive, Rod Eddington, said the airline's commercial director on a May swing through the region. Carl Michel admitted the carrier, which shares membership of the oneworld alliance with Cathay Pacific Airways and Qantas Air-ways, had been cautious about stepping up its role in the region even as the Asia-Pacific recession fades away. Eddington remains a non-executive member of News Corp.' board.

Meanwhile, BA chairman, Lord Marshall is to take up the BA board vacancy at 25%-owned Qantas Airways created by the forced departure of ex-BA CEO, Bob Ayling. It was deemed "inappropriate" for Eddington, until April 30 the executive chairman of Qantas rival, Ansett Australia, to fill the seat. Gary Pemberton, the former Qantas chairman who has decided to opt out of the aviation rat race, has accepted a board directorship from mining multi-national Rio Tinto as an occasional respite from his Queensland race-horsing interests.



Virgin chief Sir Richard Branson apologises for treading on "Virgin" toes in Australia

NAUGHTY LUCIO: Lufthansa German Airlines boss, Jurgen Weber, flatly denied any interest in purchasing Philippine Airlines (PAL) when *Orient Aviation* asked him about the subject in Frankfurt in May. Absolutely no interest at all, he said emphatically, to a report said to have emanated from the office of Lucio Tan, majority owner of the Manila-based carrier.

HOUDINI: Tan Sri Tajudin Ramli, the largest, single shareholder (29%) in Kuala Lumpur-based Malaysia Airlines (MAS), used his considerable central government connections to put together a new debt repayment schedule for MAS's parent company, Naluri and another Tajudin company, Celcom. Plans have been approved to restructure loans to the companies of US$735 million and to retire undisclosed amounts of separate debt. It is believed a condition of the scheme, put together by Malaysia's Corporate Debt Restructuring Committee, requires the MAS chairman to sell off some of his airline holding, but it will allow him to retain his majority grip on the carrier.

CYBER AVIATION: Like so many other companies in Hong Kong, mainland China's China National Aviation Corp (CNAC) has jumped into corporate bed with Young Turk, Richard Li, the second son of the richest man in the Special Administrative Region (SAR) of China. CNAC and a Li company, Cyber Works, have formed an alliance to create a minimum of three Internet portals which will offer businesses and consumer travel and aviation-related information. CNAC owns 43% of Hong Kong Dragon Airlines (Dragonair) and is the Hong Kong general agent for eight mainland carriers.

LEVEL PLAYING FIELD: After extended negotiations, Canada-based commuter and business aircraft manufacturer, Bombardier, has accepted a World Trade Organisation (WTO) directive that government subsidies to the company are to be cut out. Now Bombardier has launched a public campaign to force Brazilian manufacturer and emerging Asia-Pacific market rival, Embraer, to do the same with its ProEx central government subsidies. Until Embraer complies, Bombardier is vulnerable to being regularly undercut in price by the Latin American jetmaker.

INSIDER APPOINTMENT? Karel Miert, the European Union commissioner who refused to approve the British Airways (BA) /American Airlines partnership on anti-competitive grounds, is joining the board of SAir, the holding company which owns a major BA rival, Swissair.

At the same time, Hannes Goetz, who piloted Swissair's first flight into Hong Kong in the early seventies, has said his farewells around the world and handed over control of the transport, logistics and airline services conglomerate to Dr Eric Honegger.

PRESERVED: Hong Kong's Cathay Pacific Airways is pushing ahead with plans to establish an aviation museum at its complex, Cathay City, adjacent to the Special Administrative Region's international airport. The airline's chief executive, David Turnbull, is a driving force behind the project and airline management has contacted a firm of leading architects – lets hope it is not the airport's designer, Sir Norman Foster – for preliminary discussions on the project. The museum will focus on Cathay's 54-year-old history as well as the story of Hong Kong aviation in gen-eral.

REGIONAL ROUND-UP

Cathay pioneers first commercial trans-polar flight

Cathay Pacific Airways' pioneering spirit has been a feature of its 54-year history. In May the airline made its mark again when one of its long-range Airbus A340-300s completed the first ever commercial trans-Polar flight from Canada.

The flight, between Toronto and Hong Kong, with 127 passengers and 16 crew on board, took 14 hours 59 minutes, which saved almost three hours on the route that normally includes a technical stop at Anchorage, in Alaska.

After it left Toronto Pearson International Airport, the A340 flew along the "Polar 2" route, statistically the shortest for the time of year. Polar 2 tracks directly north over Hudson Bay and passes within 50 nautical miles of the North Pole. The jet then flew south through Russia, Mongolia and China to Hong Kong.

Two years ago, Cathay was the first airline in the world to operate a trans-Polar flight from New York, In 1990, the airline launched the first non-stop trans-Pacific flights between Hong Kong and Los Angeles.

Indonesia wraps up SilkAir crash probe

THE Singapore Government reported in May that the Indonesian Aircraft Accident Investigation Commission chairman and chief investigator, Oetarjo Diran, informed it that the investigation into the December, 1997, crash of a SilkAir B737-300 in Sumatra is completed, said *Flight International* magazine.

Although the final report is not yet written, the Indonesian authorities said it should be circulated by the end of the year.

All 97 passengers and seven crew on the flight, en route from Jakarta to Singapore, were killed in the crash. There was no distress call and the cockpit voice recorder and flight data recorder had stopped before the descent began, the investigation has revealed

Singapore police said they are looking at the possibility the accident was "suicide-cum-murder" and are focussing their attention on the aircraft's captain, Tsu Way Ming.


Indonesia has finished its investigation into the 1997 crash of a SilkAir B737-300

FAA suspends Qantas maintenance work permit

FOLLOWING a string of operational incidents, mostly minor in nature, Qantas was hit with more bad news in May when the U.S. Federal Aviation Administration (FAA) suspended the carrier's permit to perform bearing work for U.S.-registered aircraft.

The action followed a review of procedures in Qantas's bearing and seal workshop by the US authorities in April. Fears Australia's Civil Aviation Safety Authority (CASA) might impose a similar ban of its own were quickly dismissed after an urgent review by the local body.

CASA said it had some concerns about the workshop, mainly to do with inadequate documentation and the risk that old parts could become mixed up with new replacement parts.

Qantas executive general manager aircraft operations, David Forsyth, said the matters raised did not affect the safe operation of its aircraft or certification approval of its Australian maintenance operations.

"Issues raised by the audit, which led to the temporary suspension of this certificate, included the use of alternative materials. Recommendations in a manufacturer's engine manual referred to chemicals and cleaning solutions banned in Australia for environmental reasons. In this instance, the FAA had issues with the alternatives that we identified," said Forsyth. Qantas is taking action to satisfy the FAA requirements.

The carrier is close to completing the construction and fit-out of a new seals and bearing workshop at the airline's Sydney Jet Base. (See Turbulence, page 50)

Changi regains top spot in airport poll

COPENHAGEN, Singapore Changi, Helsinki Vantaa and Vancouver international airports head the list of passengers' favourites, according to the International Air Transport Association's latest Global Airport Monitor.

The report measured passenger satisfaction from responses to 60,000 interviews at 57 major airports world-wide, for a broad range of customer service attributes. A particular feature of this year's study is the increased competition for the top places. The gap between the "best in class" airports and other top performers is closing and the top end of the scale is becoming notably more clustered. This reflects airports' investment in either upgrading facilities or focusing on customers.

Significant improvement in approval ratings was observed at Japan's Nagoya, Birmingham, Brussels and New York's JFK airport, all ranking within the top 10 in terms of most improved airports over 1998.

Ranked second to Helsinki Vantaa by business travellers last year, Singapore Changi regained the top position for overall business passenger satisfaction for 1999.

New Asian airports at Kuala Lumpur and Hong Kong received favourable approval for service performance, ranking highly for overall passenger satisfaction, comfortable waiting area/lounges and speed of baggage delivery.

Copenhagen, Zürich Kloten, Hong Kong, Amsterdam Schiphol and Oslo were perceived to be the top performers overall for ground transportation to and from the airport.

Air India taking 'short cut' to expansion

STATE-owned Air India has called for bids to lease up to six Airbus A310 jets and up to two Boeing B747-300 Combi aircraft, a move designed to meet expansion needs through a lengthy wait for clearance to modernise its fleet with new planes.

Spokesman Jitender Bhargava told reporters that "considering the financial state of the airline and the long system we have in the procurement of aircraft, we are taking the shortcut to expansion by taking aircraft on lease".

Air India wants to reduce the number of models in its fleet of 26, which includes five different types. After leasing new planes it plans to sell three Airbus A300B4s and seven older B747-200s. Although this will reduce the size of the fleet, capacity will actually increase because the jets being sold are old and have to spend a considerable time out of service undergoing maintenance.

Currently, Air India gets only three and a half hours daily use from it's B747-200s.

The airline intends to take delivery of the new planes between November this year and next March.

Taiwan grounds two carriers for safety flaws

IN May, Taiwan's Civil Aeronautics Administration (CAA) suspended flights by two domestic carriers, U-Land Air and Daily Air, in May for apparently failing to meet safety regulations.

U-Land (UAL) was ordered to halt flying for two weeks after an investigation of engineering practices and financial records revealed a failure to adhere to maintenance and repair schedules, as well as the airline's alleged disregard for other regulations that could affect flight safety.

Two aircraft were grounded May 4 and the rest of the five-strong fleet on May 16. CAA director-general, Chang You-heng, said a series of inflight engine stalls and runway problems led the CAA to believe the situation was serious, prompting an investigation.

CAA records showed UAL had withheld employees' wages for six weeks following a financial crisis.

The carrier also owed the CAA US$357,000 in airport operation fees. Financial problems had caused a personnel shortfall and resulted in the safety problems.

Days earlier, the flights of small domestic carrier, Daily Air, were suspended for a month after a series of safety incidents and accidents in recent years. The suspension followed a recent helicopter crash as well as plane crashes in 1998 and 1999.

Opening date set for Inchon airport

South Korea's new US$5.2 billion airport at Inchon, near Seoul, will officially open in March next year, two months later than planned. By the time operations are underway the facility will be 51% owned by foreign investors.

The country's Ministry of Construction and Transportation said the stock will be sold this year to raise foreign capital to help pay some of the $3.2 billion in borrowings used to part finance the project.

Despite the sale, Inchon will remain firmly in control of the airport management company. Any single foreign shareholder will be limited to a 15% stake.

Construction of the new facility was 92.8% completed by early May, according to the Ministry.

China Southern sign engine shop deal with MTU

China Southern Airlines (CSA) and German OEM company, MTU, have entered into a joint venture to build and operate a US$180 million engine maintenance facility in Zhuhai, southern China.

The centre is expected to open in 2002 and to have overhaul capability for 150 engines a year by 2006.

Guangzhou-based CSA has close ties with Zhuhai. The airline's flight training centre is based in the city as are its subsidiary companies, Zhuhai Airlines, and the Zhuhai Helicopter Company.

In brief:

• A 45-year-old China Airlines captain died after suffering an apparent heart attack at the controls, 20 minutes into a flight from Taipei to Ho Chi Minh City, in Vietnam. The first officer took command of the plane and returned the aircraft safely to Taipei.

• Hong Kong-based Dragonair's cargo operation continued its record-breaking run in April with an uplift of 7,155 tonnes, a double-digit rise on the same month a year ago. The airline is expected to start long-haul, dedicated cargo services to Europe in the near future using a B747 freighter.

• Bangkok Airways has become the first airline in Asia to commit to the B717-200 with an order for two of the 125-seat aircraft. The planes will be leased from Pembroke Capital Ltd. The first will arrive in October. The aircraft will be used between Bangkok and tourist destinations like Cambodia, Laos and Singapore.

• U. S. carrier, Delta Air Lines, plans to set up its Asian hub at Korea's new Inchon Airport, outside Seoul, when the facility opens next year. Significantly, it will join Korean Air, Air France and Aeromexico in a new alliance to be launched in June.

• One of Japan's new low-cost airlines, Skymark Airlines, listed on Tokyo Stock Exchange's "mothers' market" for emerging companies on May 31.

BUSINESS ROUND-UP

Asia recovery boosts SIA profit 12.6%

Group profit for Singapore Airlines (SIA) rose 12.6% to S$1.2 billion (US$695 million) for the fiscal year to March 31, as a result of improvements in traffic and continuing recovery in the Asian-Pacific's economies.

Profit before tax increased to S$1.46 billion, a rise of 31% over the same period 12 months ago. Operating profit for the group, which includes the airline and its subsidiaries and associate companies, rose 33.4% to S$1.14 billion. Earnings per share climbed 13.4% to 91.4 Singapore cents. Several one-time gains boosted the results, and pushed revenue up by 14.2% to S$8.9 billion.

Among these were the sale of spares and spare engines, sale of an A310-200 and the sale and leaseback of four B747-400 airplanes, which "yielded a higher surplus of $192 mil-lion", the airline's report on its results said.

Capacity is predicted to grow by 6% this fiscal year, with increases in passenger traffic largely dependent on the pace of the regional economic recovery.

Said the carrier: "With the recovery in key Asian economies, the company's (the parent airline) operating profit for the year rose by 48.9% (S$269 million) to S$817 million."

SIA also received a S$371 million special dividend, which was the result of a capital restructuring undertaken before Singapore Airport Terminals and SIA Engineering Company proceeded with their Initial Public Offerings (IPO) in May.

The sale of five million shares in Delta Air Lines of the U.S., 320,000 shares in Swissair and a third of the company's share in data network company, Equant N.V. (sold by subsidiary SilkAir) added S$169 million to its coffers.

Group expenditure for the year rose 1.8% to S$7.76 billion and the airline's costs rose S$858 million (13.2%) to S$7.385 billion. Fuel costs rose 27%.

Acquisition of 49% of Virgin Atlantic Limited, the holding company of Virgin Travel Group Limited, which in turn owns Virgin Atlantic Airways, Virgin Holidays Ltd, Virgin Aviation Services (90%) and other companies in the travel group, cost SIA S$1.65 billion.

Despite a tragic earthquake and the cessation of flights between Taiwan and the Philippines last year after an air rights dispute, Taipei-based China Airlines (CAL) posted a net profit of NT$2.75 billion (US$89.3 million) in 1999.

China Airlines: Dramatic reversal in financial fortunes in 1999

This was a dramatic reversal on the NT$2.19 billion loss in 1998, in which the crash of an A300-600 at Chiang Kai-shek International Airport, killing 203 people, played a major factor.

Revenue of NT$60.9 billion in 1999 was a 17.3% rise over the previous year.

The airline said a change in management structure and a wide range of reforms had been responsible for the turnaround.

"China Airlines went all-out in 1999 to implement its fleet renewal and simplification programme and to carry through three major tasks: assurance of flight safety, enhancement of service quality and cost control," said a CAL spokesman.

As a result, he said, unit costs dropped 5.2% compared to 1998, passenger operations yield rose 6% and staff productivity soared 11.6%.

Passenger load factor for the year was 70.5% from 68.1%, cargo performed even better, 83.9%, compared to 83.3% in 1998.

In the first quarter of 2000, operating income increased 11.7% over the same period last year, to NT$15.5 billion. Operating profit was NT$480 million.

In China, ambitious second-tier carrier, Hainan Airlines, has reported a 59% jump in net profit in 1999, to 135.7 million yuan (US$15.6 million). Hainan, listed on the Shanghai Stock Exchange, recorded a 33% rise in turnover.

The result is additional evidence the economy is improving in China. Earlier Shanghai-based major, China Eastern Airlines (CEA), reported a net profit of 150.6 million yuan for 1999, compared to a loss of 481.1 million yuan a year earlier. Guangzhou-based China Southern Airlines (CSA) also returned to the black in 1999 with an 82.4 yuan million profit against a loss in 1998 of 514.6 million yuan.

Official media on the mainland said the combined profit of China's airlines in 1999 was 790 million yuan, against losses of 2.4 billion the previous year.

A major reason for the turnaround was restrictions on ticket discounting imposed by the Civil Aviation Administration of China (CAAC). This proved unpopular with some carriers, but they managed to find loopholes in the regulations to thwart the ruling. Indeed Hainan, CEA and Air China were punished for this although exact details were not published.

On April 1, the CAAC put a total ban on discounting and ordered airlines to share 80% of their revenue. The CAAC later reversed its decision for Hainan, a resort destination for tourists and allowed the airline to sell tickets discounted by up to 35% for eight domestic routes out of the island. A similar policy may follow with other tourist destinations.

Is aviation deregulation in the Asia-Pacific working? One Asia-Pacific analyst says no, but given the diverse cultural canvas on which government regulators have to paint, it is not surprising progress towards more liberal domestic skies experience hitches. In many countries the process is in its infancy. As TOM BALLANTYNE *reports, views on the progress of deregulation vary dramatically.*

DEREGULATION

Testing times. Only the financially fit will survive, say experts

The presidents of Japan's two airline majors, Japan Airlines' Isao Kaneko and All Nippon Airways' Kichisaburo Nomura, may be fierce rivals in the marketplace, but when it comes to the regulatory revolution occurring in their country's domestic skies they stand united.

Both men insisted to *Orient Aviation* that the ongoing deregulation of their home industry, including the February introduction of new rules that removed the shackles on fare pricing and introduced the freedom for airlines to fly on whatever domestic routes they want, is definitely a plus.

"From the airline's point of view deregulation is certainly a positive and natural development," said Nomura. And, said JAL's Kaneko, it is "a major business opportunity".

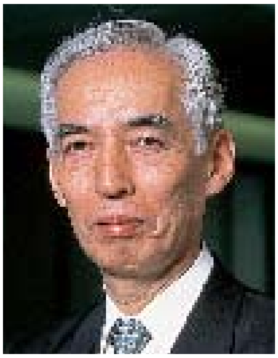
The Japanese airline mandarins were reacting to a report which lambasted regional attempts to deregulate domestic airline operations. The report suggested deregulation has the potential to be "downright destructive" and warned that without adequate infrastructure and oversight the concept is seriously flawed if applied to real practice.

The Centre for Asia-Pacific Aviation (CAPA) study does not only deal with Japan, although it accused regulators there of paying "little more than lip service" to deregulation. In Australia, where deregulation was introduced in 1988 and recent changes cleared the way for foreign airlines to wholly own domestic carriers, deregulation has been an "unqualified failure", claimed Sydney-based (CAPA).

According to authors, Peter Harbison and Ian Thomas, loosening the regulatory strictures across local skies in several countries has promised much, but delivered few sustainable market benefits in the region.

It is a tough view and some analysts and airline officials are just as caustic about the report as Harbison and Thomas are about regional deregulation, pointing out it looks seriously at only three markets – Japan, Australia and India – yet makes sweeping statements about all of Asia.

All Nippon Airways president, Kichisaburo Nomura: "we have to try and adapt ourselves to the (business) climate"



Japan Airlines president, Isao Kaneko: "deregulation presents a major business opportunity"

Others believe CAPA makes valid points and raises critical issues. Jean-Louis Morisot, vice-president airlines and transportation, Goldman Sachs, Asia-Pacific, who described the report as "pretty good, but controversial" believes some critical questions are raised, but others are obscured.

He said aviation policy is an area where many governments tend to display a lot of schizophrenia. "India has been one example. In Australia, there are elements of that, where they stand for something in aviation terms, but that leads to contradictions in other areas of policy," said Morisot.

'The possibility of global cross-country mergers ... somewhere down the line could spell the end of aviation and some of the familiar brand names as we understand it."

Airline chiefs, though disquieted at the speed that some measures are being introduced in their markets, generally accept times have changed. It has resulted in more competition and more pressure on their bottom lines, but they insist they are ready to cope with the new reality.

As ANA's Nomura puts it: "All business corporations have to live within the business climate that surrounds them. The market principle is built on the principle of survival of the fittest. So as deregulation proceeds, we in the business have to adapt to the climate."

But CAPA warned the existence of incumbent flag operators may even be at serious risk if deregulation is not handled properly. "Times have changed. Without a resilient domestic base, most international airlines simply will not survive. And, even with that base, they will need to take the right decisions on international alliances to ensure their viability as competition grows," said the CAPA document.

Morisot does not rule out such developments, and suggested that in five or 10 years what is happening today with domestic and international deregulation may well have produced quite traumatic change.

"The possibility of global cross-country mergers – and we have already seen them, like Air New Zealand and Ansett or the recent near marriage of Alitalia and KLM – could lead to all sorts of things somewhere down the line that could spell the end of aviation and some of the familiar brand names as we understand it."

Different governments have different aeropolitical stances, depending on whether they have a domestic market, or whether they are a hub or an origin-destination (O & D) market, said Morisot. "Hubs will typically gravitate around the most liberal aeropolitical stance – the Netherlands, Switzerlands and Singapores of this world – while typically O & D markets, certainly the countries where the government is more supportive of the airline, will gravitate to more protectionist policies."

Airline industry analyst with Salomon Smith Barney in Hong Kong, Peter Negline, does not take a negative view on deregulation, although he is concerned about discriminatory measures between domestic and international services.

"Most governments in the region are increasingly supportive of deregulation. But industry dynamics, infrastructure constraints and the impact of the Asian financial crisis have raised the price of rapid liberalisation," he said.

Negline said the issue is dominated by large vested interests and it is important to ensure the means justify the ends. "With widebody capacity more the norm than the exception in Asia, Asian carriers can always offer part of their inventory at heavily discounted prices. In recessions, often entire inventories are sold at deep discounts. Established carriers also have the advantage of revenues from cargo operations," he said.

Already, in one form or another, Australia, Japan, India, Taiwan and New Zealand have deregulated their home markets. Indonesia, Malaysia and Thailand are experimenting with domestic deregulation. The Philippines appears to be turning inward, protecting its carriers rather than opening up the market. China, with its unique problems, is approaching each new development in its own way.

But wherever they are, most big airlines face the same challenges; the twin pressures of encroaching domestic deregulation and fast increasing liberalisation on the international front.

CAPA believes the odds are stacked in favour of incumbents and that to survive, newcomers must negotiate formidable barriers to successful entry. But incumbents think newcomers are being given too much help.

Qantas chief executive, James Strong, has always made it clear the big carrier does not fear competition, either domestically or internationally. But he has called on the Australian Federal Government to reconsider the pace of deregulation, and has warned the industry may be wiped out if too much encouragement is given to new carriers.

The Qantas boss, referring to the launch of Britain's Virgin Blue in Australia later this year, said too rapid deregulation of the market could be against Australia's interests. "If you are not careful about the pace at which that is driven, you may end up with no aviation industry in Australia other than a sort of outpost of another operation."

He warned of an impact on regional air travel outside the primary domestic trunk routes and argued newcomers and foreign airlines investing in Australian markets will "cherry pick" lucrative routes. This could trigger an inevitable rationalisation of air services to regional Australia as incumbent airlines, including Qantas, are forced to scale back less profitable operations.

Goldman Sach's Morisot agrees with Strong and said allowing newcomers to "cherry pick" the most profitable routes will give incumbents the justification to stop serving some unprofitable services. "That applies to Australia, but also to Japan. In Australia, we have not seen the new entrants targeting secondary routes whereas that could very well be a possibility for a small entrant with much lower costs and smaller planes to develop a successful business," he said.

Governments want to encourage start-ups, but this impacted on incumbents by forcing them to cut costs and look at outsourcing work offshore, causing job losses, added Morisot.

Nor does government seem to think about the fate of shareholders of publicly-listed incumbent airlines. "What do current shareholders of these airlines think of an industry where regulators are so keen to always push the envelope in terms of deregulation, exposing the incumbent airlines to an increasing degree of risk and competition. That basically means the return prospects for their investments are almost always nullified," said Morisot.

An Ansett Australia spokesman told *Orient Aviation*: "Of course liberalisation creates challenges for airlines, both for Qantas and us. But we all recognise the world is becoming globalised and increasingly market-driven. The new policies reflect those facts although from time to time it creates pain for us, we live with that."

Qantas Airways: has called on the Australian Government to reconsider the pace of deregulation, warning the industry may be hurt irreparably if too much encouragement is given to new carriers.

The Australian Government rejected any suggestion it is pushing change too rapidly and insisted existing carriers are under no threat from moves to boost domestic competition.

Australian Minister of Transport, John Anderson, said: "For competitive reasons we believe it is a good thing to have other domestic carriers. Qantas and Ansett are excellent airlines and tough competitors. The government is confident they will continue to flourish."

Said Salomon's Negline: "Australia's choice to allow 100% foreign-owned domestic carriers can be seen as a response to the dismal failure of Compass I and II (two start-ups which collapsed in the early 1990s). This destroyed local investor confidence in start-up airlines and hampered the prospects for domestic financial support for other candidates. The strength of the Australian air travel market over recent years is well documented and has not escaped the attention of foreign aviation types.

"Deregulation of such markets offers a lot of opportunities for all concerned, but airport constraints and the like make the success of any new start-up entirely dependent on their resources and the resolve of the sponsors."

Morisot added that allowing total foreign ownership is "a fairly bold move, even in the context of today's aviation", and said Australia is at the "bleeding edge" of deregulation.

"There are a lot of very protectionist countries that are at one extreme and certainly Australia is very much at the other extreme. That concept is a novel one. It is totally uncharted waters as far as I can see. But it is difficult to see others in the region following suit."

Japan is particularly interesting as a study in deregulation because its domestic airline industry has been as strictly regulated as any country over many years. Harbison and Thomas said in their report that with little possibility of a level playing field, Tokyo has put no legislative or regulatory safeguards in place to equalise the situation.

Incumbents JAL, ANA and Japan Air Systems (JAS) hold the advantage in every operational area, dominating available airport slots, maintaining long-established brands and existing with secure well-integrated infrastructures, they said. As a result, new entrants like Air Do and Skymark represent less of a threat to established airlines than Japan's popular bullet trains.

JAL's Kaneko said the impact of newcomers so far "has been negligible, due to low frequencies and their concentration on just two trunk routes". Said ANA's Nomura: "I view deregulation favourably and the new entrants favourably. Deregulation means the passenger will choose. Therefore it is essential we strive to become the one that will be chosen."

With freedom to set fares, both airlines are already hitting the market with a wide range of innovative tickets. Some 80 million Japanese fly domestically each year.

"From April 1, we have been able to introduce a new, more flexible and diversified range of domestic air fares, with bigger discounts and far greater seasonal variation," explained Kaneko.

Head of the Centre for Asia Pacific Aviation and co-author of its report, Peter Harbison: deregulation of domestic airline operations has the potential to be "downright destructive"

Analyst Peter Negline: upbeat about deregulation, but is concerned about discriminatory measures between domestic and international services

Fare deregulation is giving both ANA and JAL new opportunities to compete by being more creative. They are taking full advantage of the opportunity.

Tony Concil, formerly with ANA and now with the International Air Transport Association (IATA), wrote in a recent IATA publication that unlike earlier fare deregulation, which resulted in airlines setting up parallel fare structures, the extension of freedoms means carriers "are appealing to the public with the diversity of fares and discounts. There is a definite emphasis on differentiation within the marketplace".

Airport infrastructure does remain a problem, particularly slot availability at Tokyo's domestic Haneda terminal. Nomura said new runway space at Haneda is expected to go some of the way towards easing the problem.

From July, Air Do and Skymark each will receive three new slots at Haneda and nine other slots that are being set aside for new entrants not yet in the market. In five years, the government will take a portion of Haneda slots and redistribute them, meaning Skymark, Air Do and others may be granted more slots.

Kaneko pointed out Haneda slot capacity has filled up and is still not sufficient to sustain the potential demand to and from the Tokyo metropolitan area. "It is extremely difficult to open new routes or to expand frequency on existing routes. An extra allocation of slots, effective July 1, has helped a little, but it is not enough."

Overall, airlines and observers feel that despite the limitations caused by congestion, air travellers in Japan have benefited from deregulation through wider choice, better service and lower fares, although there remain concerns in some areas.

Concil said that with the new freedoms, there is a concern some regional centres may suffer from downgrading or elimination of direct services to Tokyo as the major carriers move to maximise profits on lucrative trunk routes.

Kaneko said JAL had no plans to reduce its domestic network. "Rather, we are downsizing capacity on trunk and

Air Do: represents less of a threat to incumbents than Japan's bullet trains.

regional routes at slack periods when demand is low. We also are transferring regional routes to our lower cost subsidiary, JAL Express (JEX) and our Okinawa-based affiliate, Japan Transocean Air."

ANA is in a slightly different position. Originally an all-domestic carrier, it operates a large number of loss-making or marginal domestic services and will be rationalising some services. Its latest business plan called for "renewed emphasis on route profitability and an ambitious reorganisation of the existing route network to better match market demand and maximise efficiency".

It will do that through closer co-operation with subsidiary, Air Nippon (ANK). ANA also is setting up a low-cost international carrier.

At JAL, Kaneko has a caveat about deregulation; that it could be even more effec-tive if the burden of public charges – high landing fees and Japan's unique and crippling fuel tax – were to be lightened, which would give carriers even greater flexibility on pric-ing.

"Domestic airlines are severely handicapped by these charges, which account for some 24% of domestic operating costs and 14 % of total operating costs," he said.

In India, CAPA believes that "more by luck than good management" the government's stuttering attempts at domestic deregulation have produced two ambitious new carriers capable of mounting a serious and lasting market challenge. But, it argued, route and price controls remain, entry costs are high and airport facilities and access for start-ups are restrictive. Despite that, of all the CAPA markets studied, it believed this was the one country with the best chance of success.

Air India defended its government's deregulation policy and said the comments about India in the CAPA report do not appear to be fair to New Delhi, which had made sincere attempts to deregulate the domestic airline market since the early 1990s.

A spokesman for Air India, Jitender Bhargava, said while it is true that two carriers – Jet Airways and Sahara – have succeeded, there were many other airlines that have shut down their operations after a few months or years in spite of the government liberally issuing licences.

"The government should not be deprived of the credit which it richly deserves for ushering in a new era in Indian domestic aviation," he said.

Market analysts in India believe the ongoing success of new entrants, like Jet and Sahara has occurred because state-owned Indian Airlines (IA) has performed so badly. This situation may change once the planned privatisation of IA is completed. Indeed, deregulation has forced the state carrier to perform better.

Indian Airlines: Analysts believe the success of some new entrants has been made possible by its poor performance

This does not mean new entrants are totally happy. Jet Airways chairman, Naresh Goyal, has repeatedly called for a "level playing field" in the domestic aviation sector, and says aviation infrastructure and basic facilities for airlines at airports need to be improved.

IA also has complained it is forced to continue operating loss-making regional routes "in the public interest", while new competitors can concentrate on more profitable trunk routes.

This is a complaint that also has come from flag operators elsewhere, such as in Malaysia and Thailand.

Clearly, the deregulation experience of Asian nations has been mixed. Indonesia has freed its skies and there is growing competition. The Philippines, too, has a large number of domestic rivals, but profits are extremely small. Many of the carriers may not survive.

In Thailand, aviation department head, Sawat Sitthiwong, has proposed the Ministry of Transport and Communications liberalise aviation from September by scrapping the monopoly Thai Airways International has on three principal routes from Bangkok to Chiang Mai, Hat Yai and Phuket. This is on condition the number of flights are not reduced.

Liberalisation must be carried out gradually to prevent airlines from destructive competition, said Sawat. His department has completed a new domestic air fare structure which will need government approval. It will introduce minimum and maximum rates per route, instead of the present fixed fare, and give airlines more flexibility in ticket pricing.

One country where wide-scale liberalisation has been operating for years is Taiwan, although air fare levels remain under forms of control and are kept at low levels for flights to offshore islands.

This regulatory environment has not inhibited either fierce competition or some suspect practices by airlines. Domestic carriers were selling blank tickets to travel agencies, virtually telling them to name their own price, to fill seats. Even beetle nut vendors were illegally selling discounted tickets.

Taiwan's government has banned these practices, but they reflect the desperation of some airlines to attract customers. The difference in ticket prices among those carriers can vary by 50%.

In mainland China it might be argued dramatic deregulation has already taken place, at least in terms of the transformation of the industry from a single government-owned airline market to one in which there are now individual and semi-private carriers.

It will be years before true western-style deregulation arrives on the mainland. Beijing continues to struggle with controls of its airline industry, including limits on aircraft pur-chases, route designation, fare levels and, particularly, ticket discounting.

In its report, CAPA said: "Simplistic deregulation measures being applied in this region often have no prospect whatsoever of achieving their stated goals."

That may be an over-statement. Governments will eventually reach their goals. As Goldman Sach's Morisot puts it; there is no set route to deregulation. "All these places must find their own answers. It's difficult because in many cases they will have different allegiances and different levels of links with the airline. There is always the competing lobby of the hotels, the restaurants and the whole tourism industry," he said.

"Deregulation is always going to be different in different countries, depending to which of their constituents the government chooses to listen," he said.

"We're here to stay," says McGowan

Impulse by name, but not by nature

By Tom Ballantyne

If Gerry McGowan, executive chairman of Australia's new trunk route entrant, Impulse Airlines, was nervous at taking on the big boys at Qantas Airways and Ansett Australia when his first flight launches on June 5, he did not show it.

Never mind that Impulse's arrival represents a watershed in Australian domestic aviation and a potentially damaging David and Goliath struggle for survival, he was confident of success. "Stand aside, we're coming through," is his message to incumbent competitors. "We will provide a viable third choice for business travellers and make flying affordable for ordinary people. These guys don't like competition. They want to protect their patch. That's understandable. But we are here to stay."

Whether that proves true in the long-term remains to be seen, but McGowan admitted he is gambling everything he has worked for over the past 18 years. His carrier is not exactly a newcomer to the Australian scene. Impulse has operated on regional routes for years with Beech 1900D turboprop aircraft.

But the step up to Boeing jets with an order for five B717-200s, the first time this type has operated in Australia, and trunk route entry is a big one. "They (Qantas and Ansett) don't frighten us. We have just got to stick to our strategy. We all take risks no matter what we do. We are very confident about it," he said.

McGowan has more than the incumbents to worry about. Sir Richard Branson's new Australian domestic "no frills" entrant, Virgin Blue, expects to start up by September.

And even before taking off, Impulse and Virgin have had an affect on the market.

In May, both Qantas and Ansett moved swiftly to match Impulse's newly-announced one-way discount fare of A$139 (US$80) between Sydney and Melbourne, which is the country's major trunk route and one of the busiest sectors in the world.

While the incumbents have fares lower than that in the marketplace, the difference is the Impulse offer has no conditions attached. The fare will remain the same year round.

Impulse Airlines: Stepping up from turboprop aircraft to B717s to take on "the big boys"

Nevertheless, Australian travellers can look forward to a smorgasbord of cheap flights as Qantas and Ansett move to defend their market shares. The competition will make it difficult for the majors to maintain revenue flow and healthy yields.

Qantas has already attracted the attention of Australia's Competition and Consumer Commission (ACCC) on several fronts. Firstly, it suddenly announced the introduction of jet services on a secondary route, Newcastle-Melbourne, which happens to be a key part of the Impulse regional Beech turboprop network.

Some observers believe it was the big airline's way of sending a message. If you come on to our patch, we can come on to yours.

Then, as Impulse prepared for its jet launch, Qantas found itself in a furious argument with Canberra Airport management over Impulse check-in and baggage facilities.

Angry that its passengers would have to pass through space being used by Impulse, the carrier said it had not been consulted on the changes. Qantas withdrew from common-user facilities and set up its own security screening.

That prompted Canberra Airport managing director, Stephen Byron, to accuse Qantas of intimidation. "It is a clear signal from Qantas it will be heavy-handed with anyone who has anything to do with Impulse," he said.

ACCC chairman, Alan Fells, is closely monitoring all moves made by Qantas and Ansett against the newcomer.

As for Virgin Blue, it is keeping a relatively low profile as it prepares for its launch. Chief executive, Brett Godfrey, said he was ready for a July start-up, although most analysts believe September is the more likely date.

The carrier will phase in a fleet of five B737-300s for its services and initially focus on the heavily trafficked east coast routes of Brisbane-Sydney-Melbourne. These aircraft will be replaced from around March next year with 10 New Generation B737-700s.

Godfrey believes there is room on the country's trunk routes for Virgin and Impulse. Ten aircraft are to be added to the market by the two airlines, which represented about 10% of what is on offer. Godfrey said there was a market for 35 more aircraft operating trunk services.

"When [the defunct] Compass was flying, back in the early 1990s, they had the affect, on average, of lowering fares by 30% and driving up demand by 60%. This is a huge market and yet you have only two airlines flying it. The potential is quite dramatic," said Godfrey.

Australia's domestic aviation scene is approaching a watershed which has not been seen since two versions of Compass Airlines failed to survive beyond infancy in the early to mid-Nineties.

SIA boost for A3XX

It was not quite a firm order, but the confirmation from Singapore Airlines (SIA) in May that it is in discussion with Airbus Industrie to take up to 16 of its 555-seat A3XX jets - a plane that has not yet been officially launched - marked a watershed for the European planemaker.

Middle East carrier, Emirates Airline, had already announced it would order six of the high capacity transports, but Airbus really needed to get the ball rolling with a true commitment from a major airline in Asia, the region which will lead the world in traffic growth this century.

For SIA to agree to go public is almost as good as a signature in the order book. The announcement will almost certainly encourage other airlines to follow suit.

It may well mark the moment that decided the hugely expensive aircraft project will go ahead.

The development must give rival Boeing some serious food for thought about its future vis-a-vis a mega jet.

Having said previously it would not enter the market, Boeing Commercial Airplane Group president, Alan Mulally, told *Orient Aviation* in April a decision would rest "on what the airlines want".

Already, there are strong signs that several other Asian operators may be close to following SIA's lead in ordering the A3XX.

Hong Kong's Cathay Pacific Airways has expressed serious interest. Qantas is closely studying the aircraft.

Signs from Japan, where Airbus thinks it also could be a big hit on heavily travelled domestic routes, are not quite so optimistic. All Nippon Airways is "still gathering information".

Japan Airlines has stated firmly it has no plans to order for now.

"We're not considering it at the moment," said Isao Kaneko, president and chief executive, who cited a need to lower operating costs.

After spending around US$1 billion in development, analysts suggest Airbus needs orders for at least 30 of the A3XX, possibly with purchases from Europe, North America and Asia.

That may not be necessary. Orders and options from Emirates and SIA would already amount to 26 and the manufacturer may enter into production if it receives one more order from Asia.

The Emirates aircraft are for delivery in 2006, but SIA could become a launch customer, wanting delivery from late 2005.

"Singapore Airlines has been one of our key partners in the design of the A3XX. We are especially proud to count a carrier of this stature in our group of potential launch customers.

"The airline's declared interest in acquiring the aircraft marks a significant step towards the formal launch of the programme before year end," said Airbus Industrie chief executive, Noël Forgeard.

CX to increase fleet by 25% in 18 months

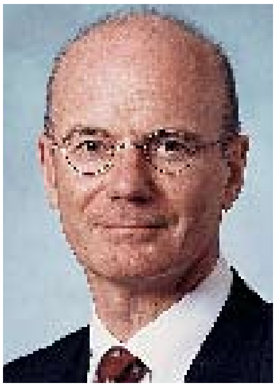
A couple of years ago Cathay Pacific Airways was busy laying off 3,000 staff and retiring its 12 B747 Classics from the fleet, as the Asian recession bit deep. Chief executive, David Turnbull, described it as a "gruesome" time and told *Orient Aviation* the airline was digging in for a long-haul recession.

But after a remarkable turnaround in the last 12 months, the famine has become a feast as rapid growth in passenger and cargo traffic has seen Cathay once again become the darling of the big jet manufacturers.

In the next 18 months, the Hong Kong-based airline will add 15 widebodies to its fleet of 65 aircraft at a cost of US$1.5 billion. This is an increase of almost 25% on its present fleet. The carrier will also recruit an estimated 1,420 extra staff.

More orders of new aircraft models, as many as 20, to be delivered over the longer term, are expected later in the year.

In May, Cathay announced it had ordered nine new planes, four Airbus A330-300s for delivery in the second half of 2001, one Boeing B777-200 to arrive in December and one Boeing B747-400 freighter due at Cathay in April 2001. It will also lease three A330s. Sources said Cathay is taking the planes from Korean Air although neither carrier will confirm the move.



Cathay Pacific chairman, James Hughes-Hallett: right time to expand

In the last six months, Cathay has ordered three Airbus A330-300s for delivery in the first half of next year and two Boeing B747-400 freighters scheduled for Hong Kong in September this year and August 2001. Also, it arranged to lease an A340-300 from ILFC, to be delivered in January 2001.

Cathay is already busy with a recruitment drive. The fleet expansion will create new jobs for 1,000 cabin crew, 220 pilots and 200 ground crew.

"With Asian markets picking up we feel it is the right time to expand the airline. This will strengthen Hong Kong's role as Asia's leading hub," said the airline's chairman James Hughes-Hallett.

In the first three months of 2000, Cathay carried 2.78 million passengers, 8% more than in the same period last year.

It also transported 171,619 tonnes of cargo in the same period, 11.7% more than in 1999.

The new aircraft will allow Mr Turnbull to move closer to his goal of flying to major cities in the region every two to three hours and twice daily to major long-haul points.

The political, economic and social convulsions in Indonesia that followed the 1998 people's ousting of the nation's dictator Suharto drove down the country's aviation industry in their radical wake. With the rupiah collapsing as fuel prices were rising, and foreign visitors staying away in their millions as the social upheaval continued, Indonesia's airlines were stripped bare of comfortable patronage and forced to fight for survival.

Two years on, under a new leader, Indonesia is slowly recovering from its national trauma. In the aviation industry, progress to good health is moving a little faster, but the chiefs of the major airlines, Garuda Indonesia and Merpati, admit their recoveries are fragile. Remarkably, new hope has influenced a host of new airlines to start up business. TOM BALLANTYNE *reports.*

HOPE, at last

But what are the chances of Indonesia supporting 50 airlines?

Indonesia has hardly been out of the headlines in the last two years as its people endured terrible hardships in their struggle for social change and the nation's economy flirted with bankruptcy. It followed that it was not a happy time for the country's aviation industry.

But that was the past. In the present, say the heads of Indonesia's two state-owned carriers, Garuda Indonesia and Merpati Nusantara, there are signs of a genuine recovery in their business.

They added, however, that there is still a long way to go before their financial concerns were over and that events also could go very wrong, very quickly, in these unpredictable times.

There are good reasons for their cautious optimism, said Abdulgani, president of state-owned flag carrier Garuda Indonesia and Wahyu Hidayat, president director of Merpati. Both airlines are operating in the black after years of losses, with Garuda, now a shadow of its former bloated, mis-managed self, planning to privatise in 2003.

Abdulgani is closing in on a deal with creditors – insiders say it should be finalised by July – to finally restructure debts of US$1.36 billion that have been hanging round the carrier's neck for too long.

He is confident, he told *Orient Aviation*, Garuda can meet its privatisation timetable.

At Merpati, the road to full recovery will be longer. When Wahyu took charge of Merpati, it was a virtual disaster zone. Last year, more than half of its 68-strong fleet was grounded, mainly because there was no money for maintenance.

Today, Merpati is slowly putting its planes back in the air and Wahyu has recently reported a pre-tax profit of US$12.3 million for 1999. "Merpati is still alive. We are improving. We are ready to compete," he said.

Garuda Indonesia president, Abdulgani's goal: privatisation in 2003

It is the first sign of black ink in three years for the carrier, but even now analysts suggest this figure may not translate into a bottom line profit.

But there is far more to the airline industry in Indonesia than Garuda and Merpati. Estimates vary, but there are about 50 carriers holding operating licences in the country: most of them small charter companies and ambitious start-ups.

Captain Almirul Bawono is an example of one of them. He is in a very different position to the heads of the state-owned airlines.

He is president director of Camar Nuansa Airservices, a tiny charter airline which operates a single Antonov 12, leased from Bulgaria. It carries cargo within Indonesia and to Cambodia and Malaysia.

When *Orient Aviation* spoke to him in May, he was in good humour. In a few weeks, a Boeing B737-200 was due to arrive at his airline. He hoped the new airplane would open the door for Nuansa to become the country's latest domestic passenger operator, although initially the jet will fly on lease with another local airline.

He will not say who, but it may well be Merpati, which has publicly stated it will lease aircraft through other operators.

Garuda, Merpati and Nuansa, as they recover and expand, reflect a new optimism sweeping through Indonesian aviation, with passenger traffic recovering strongly and many start-up and charter carriers set to compete for rights to fly scheduled domestic services.

The contenders include Nuansa, Pelita, Avipatria, Mentari, Bayu Indonesia, Jatayua

Indonesia, Air Wagon and Mega Air. There are even three Air Indonesias, tagged locally as Air Indonesia 1, 2 and 3. All of them want to join incumbents Garuda, Merpati, Bouraq, Mandala and Dirgantara on domestic routes.

All this may seem like a recipe for commercial disaster, but most industry observers say this is not so. Former secretary general of the Indonesian Air Carriers Association (INACA), a Bouraq executive and respected aviation analyst in Indonesia, Benny Rungkat, said the industry was decimated during the economic downturn.

Pre-crisis, airlines were operating with average load factors of around 75%. By 1998, they had plunged to a pitiful 35%. Last year, they clawed their way back to 60%. Rungkat believes the passenger loads will reach 70% by the end of 2000.

Even then, the country's five existing scheduled carriers are operating only 85 aircraft on domestic routes. Three years earlier, 225 planes were servicing the same routes. The cutbacks were not only domestic. As well as trimming local services, Garuda reduced international services by 40% and cropped its overall fleet from 58 to 42.

In January, Rungkat predicted traffic would increase by 6% this year. Already, this figure looks woefully conservative. Domestic and international traffic is soaring, at 14% and 12% respectively.

Abdulgani puts the situation in perspective. "Before the (economic) crisis the flow of traffic was about six million passengers a year. Today, that figure is between three and four million passengers annually. This means there is an incredible capacity for growth. Even if traffic only improves to 1996 levels, there is room for many more aircraft," he said.

None of this means happy days are here again, or that the future is rosy. The airline chiefs are realistic. Ongoing social unrest in some parts of Indonesia is a constant concern to them. Recent troubles, and in particular the East Timor crisis, seriously damaged its all important tourism industry and it is only just recovering.

There are also worrying signs on the economic front. Indonesian statistics body, BPS, estimates growth this year may be 1.5%, well below an earlier prediction of 4%. The re-evaluation is the result of a weak rupiah and renewed national security problems.

According to Rungkat, exchange rates are "still galloping like a mad horse" and with 90% of airline operating costs in U.S. dollars, this is bad news.

On another front, Rungkat believes the Jakarta Government must take immediate steps

'There is an incredible amount of room for growth in the Indonesian airline market' – Garuda Indonesia president, Abdulgani

to liberalise its skies, although not everyone agrees with him.

"And the government must immediately put a halt to Garuda and Merpati subsidies. It is the money of the taxpayer and the poor. These airlines have to stand on their own two feet," he said.

That is a clear reference to a government decision late last year to convert US$150 million of debt owed to another state-owned corporation into equity and pump around US$60 million a year into Garuda.

Abdulgani's defence of the special arrangement is straightforward. Ultimately, that money will help produce a healthy Garuda, which will earn the government a good sale price at auction. Also, a thriving Garuda can only be good for Indonesia and its economy, he said.

Germany's Lufthansa Consulting, which has several managers in place in the airline's headquarters in Jakarta, is helping Garuda to rebuild its future.

Last year the airline recorded a profit of US$60 million and although he will not give a precise projection, Abdulgani said this year's result would be "far higher than in 1999 (financial year)".

A key to continuing success will be finding a strategic international airline partner through privatisation and enlisting in a major alliance. But Abdulgani insisted there were no favourites on either front.

At Merpati, signs of recovery and renewed profitability are boosting staff morale. The 1999 pre-tax profit of US$12.3 million followed losses of US$82 million in 1998 and US$52.2 million in 1997.

Wahyu attributed the better result to improvements in the airline's operation and the re-scheduling of some of the debts of US$213.5 million Merpati has incurred.

He said agreements had been reached with more than 90 foreign and domestic creditors, mostly vendors, leasing companies, repair centres and maintenance support providers to repay US$90 million.

The carrier is still working on a schedule for repayment to local business partners, including Garuda and state-owned aircraft manufacturer IPTN. Merpati owes US$20 million to Garuda for aircraft leases and maintenance and US$10 million to IPTN for leases.

When the crisis hit, Merpati had about 90 aircraft. It had to dispose of some and ground others. At one stage last year, it was operating only 29 planes. That number is up to 35 and there are plans to lift this to 42 as part of an expansion programme. There are still more than 25 aircraft sitting on the tarmac doing nothing.

Indonesia's potential start-ups are certainly not lacking in ambition.

Indonesian Airlines Avipatria (IAA) had hoped to launch services in January, but it is yet to get off the ground. President Rudy Setyopurnomo has said the carrier plans to use 10 B737-200s, fly to 30 domestic destinations and concentrate on high yield business traffic.

Avipatria aims to cash in on a number of the routes flown by the defunct Sempati Air, the biggest casualty of the economic crisis. Sempati went bankrupt and halted flights in June last year. It operated 24 domestic and five international routes.

As for Captain Bawono, and his tiny Camar Nuansa, his ambitions are far more modest.

In the hurly-burly of Indonesian aviation and all the uncertainties surrounding it, that may well be a wise course of action.

Merpati Nusantara: once a 'disaster zone', now operating in profit

Cargo takes centre stage in 'open skies' feud

Hong Kong 'neither laggard nor liberal'

Authors of U.S. and Hong Kong reports in war of words

By Jonathan Sharp

Strong language is flying around Hong Kong about the hoary, but increasingly high-stakes issue of the Special Administrative Region's (SAR) "open skies" status – or lack of it. Specifically, the sparring focuses on whether the SAR, a byword for business freedom, is risking its position as the pre-eminent air cargo centre in Asia by sticking to hidebound and self-serving policies.

And the debate is becoming sharper as mainland China's entry into the World Trade Organisation is no longer a distant prospect, but seems to be rapidly approaching, offering uncertain challenges to Hong Kong as a trade gateway to the Chinese hinterland.

A new and sometimes robustly worded contribution to the debate is a study entitled "Air Cargo at Hong Kong's Service" compiled by consultant David Dodwell, executive director of Forrest International and Dr Zhang Anming of the City University of Hong Kong.

They argue in their 75-page analysis that Hong Kong does indeed face hurdles if it is to fend off long-term threats from, for example, Shanghai and Taipei.

They say prices for air cargo handling at Hong Kong International Airport (HKIA) at Chek Lap Kok remain higher than at most other Asian hubs and while there is a case for saying premium prices should not be surprising given the premium location of Hong Kong, "the pressure for high levels of efficiency, productivity and finely-tuned services will remain acute".

But they add that some key inhibitors of growth are being dealt with. An unwieldy customs regime that has put Hong Kong at a disadvantage to Singapore in trans-shipment business is being addressed by forthcoming Hong Kong legislation. Costs are also coming down, partly as a result of the Asian financial crisis.

The HKIA is the fourth busiest cargo airport in the world and the busiest outside the U.S.

Co-author of the Hong Kong report, David Dodwell: analysis dismissed US study's estimates of investment and job as "quite literally incredible"

At a press briefing accompanying the release of the study, Dodwell characterised Hong Kong as being "not a laggard, nor a liberal". He certainly did not subscribe to the view espoused by backers of the United States' bid to secure an open skies agreement that more thorough liberalisation by Hong Kong was crucial to the territory's air cargo growth.

"The growth of air cargo business through Hong Kong over the past two decades has been stronger than any other economy in Asia – evidence which strongly contradicts suggestions that the hub's air cargo regime is not highly liberal, or that competitive development has in some way been hampered by the absence of a formal 'open skies' agreement with the United States," he said.

The release of the Dodwell-Zhang analysis came on the heels of air service talks between the U.S. and Hong Kong governments that ended in stalemate.

Cathay Pacific Airways chief executive, David Turnbull: "We will make Hong Kong a hub and American carriers will not make Hong Kong a hub."

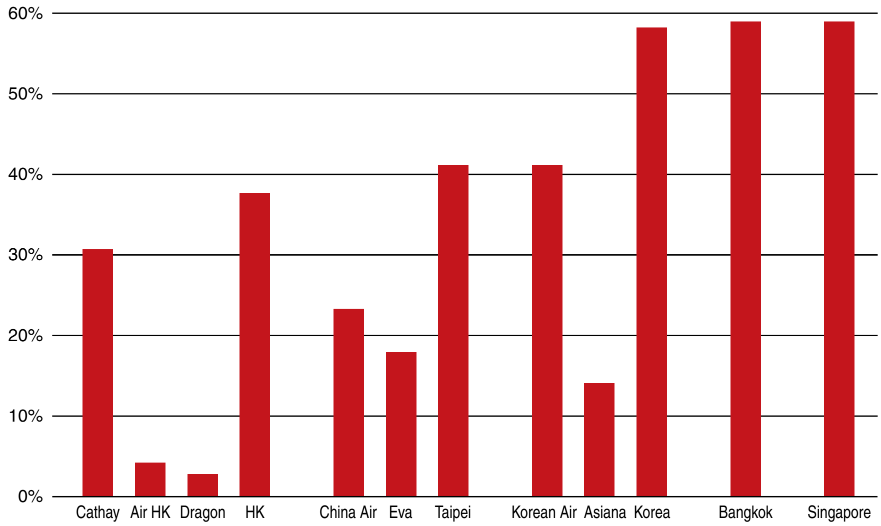
Dodwell and Zhang maintain the key to strengthening Hong Kong as an air cargo centre lies with improving transport and other links with the ballooning economic activity in the adjoining Pearl River Delta area of China. Awarding more freedom to U.S. carriers to allow them to set up hubs in Hong Kong would be of secondary value, they argue.

The study was funded by Cathay Pacific Airways – hardly a disinterested party in the feud with the U.S. over air traffic rights. Cathay Pacific chief executive, David Turnbull, took up the subject at a May press conference called not to discuss aviation accords, but to announce fleet expansion plans.

"The United States is pressing very hard for open skies," he said. "But what the Americans mean by open skies and what we mean by open skies is entirely different."

Dodwell and Zhang seek to knock down the perception that Cathay has a monopolistic lock that inhibits competition in air cargo services in Hong Kong, saying its market

Cargo market share of home carriers



The world's top 15 cargo airlines (in RTK)

Rank	Airline	Country	Type*	RTK million
1	Fedex	USA	I	9,988
2	Lufthansa Cargo	Germany	C	5,696
3	UPS	USA	I	5,575
4	Korean	South Korea	C	5,225
5	Singapore	Singapore	C	4,919
6	United	USA	C	4,767
7	Air France	France	C	4,595
8	British Airways	UK	C	4,277
9	Japan Airlines	Japan	C	4,088
10	KLM	Netherlands	C	3,885
11	Cathay Pacific	Hong Kong	C	3,297
12	American	USA	C	3,176
13	Northwest	USA	C	3,145
14	China Airlines	Taiwan	C	2,871
15	Delta	USA	C	2,764

** C – Passenger and freight operator ("Combi" carriers)*
F – All freight operator, i.e., 100% cargo share of total RTKs
I – Integrated services operator
Source: Airline Business, November 1999. Year ended December 1998 or March 1999.

dominance is in fact weak.

The study's figures show that Cathay accounts for almost 31% of air cargo carried through the Hong Kong hub.

"In Singapore, alleged to be highly liberal because of the existence of an 'open skies' agreement with the U.S., Singapore Airlines accounts for 59% of cargo carried through the hub, while in Seoul, another 'open skies' hub, Korean Air accounts for 44% of cargo traffic, with Asiana accounting for a further 14%."

The Dodwell-Zhang analysis reserves its most scathing language for earlier studies done by the Washington DC-based Campbell-Hill Aviation Group (CHAG) on behalf of Federal Express – again not a neutral outsider.

The CHAG study categorises major Asian economies' aviation regimes in three groups: "highly liberal/open skies", "partially liberal" and "highly restrictive". In the "highly liberal/open skies" category are Taiwan, South Korea, Malaysia, Philippines and Singapore, while Hong Kong, Indonesia and Thailand are seen as "partially liberal". China and Japan are listed as "highly restrictive".

Dodwell and Zhang say the categorisation is "wholly inaccurate and misleading" by "arbitrarily categorising Asia's aviation regimes in accordance with U.S. success in negotiating 'open skies' agreements on behalf of U.S. carriers".

The categorisation ignores objective measures of a liberal regime such as the number of carriers serving a hub, the number of carriers competing on each route and the pace of growth in aviation activity.

Dodwell and Zhang are even more dismissive of the CHAG study's estimates of investment and job creation that might result from full liberalisation of integrated air express services.

CHAG says full liberalisation by Hong Kong would lead to the creation of 916,500 jobs by the year 2003 and an additional US$57 billion in cumulative foreign direct investment. Dodwell and Zhang call these estimates "quite literally incredible".

Dr Brian Campbell, CHAG's founder and president, is equally forthright in responding to Dodwell and Zhang. He said in an interview the authors of the Hong Kong analysis had taken issue with the CHAG study "frankly because they were paid to take issue with it. There's no analysis in there. It's all pure opinion and a lot of their logic is very flawed".

He said the Dodwell-Zhang study was "dead wrong" in criticising CHAG's liberal-restrictive categorisation of Asian centres. "The measures that they (Dodwell and Zhang) suggested – like how many carriers are on a route – don't measure openness *per se*. Openness is a concept of both breadth and depth. You might be deep in the number of competitors, but if they can only do one thing instead of six things, you really don't have an open regime."

Campbell hit out at the stance adopted by the Hong Kong Government and Cathay Pacific. He said Cathay had unlimited sixth freedom rights for the United States, while U.S. carriers had only extremely limited fifth freedom rights for Hong Kong.

Campbell also charged that the Hong Kong Government was more interested in defending the interests of the foreign owners of Cathay (the carrier is 45% owned by British-controlled Swire Pacific) than those of the Hong Kong economy and tax payers – "which is absolutely appalling".

"The U.S. is simply asking for unlimited fifth freedom authority and they are saying no. That is the levelling of the playing field that must take place." Campbell also brushed aside Cathay's arguments for cabotage access to the U.S. as "transparently phoney" because tiny Hong Kong could not offer comparable cabotage rights.

"Hong Kong can't deliver Hong Kong-China rights to anybody, certainly not to the U.S. and rights to operate within Hong Kong

– between Hong Kong and Kowloon – are no use to us. But Cathay would like the right to operate between Los Angeles and New York or anywhere else in the United States. And until they can give something of value they are never going to get that."

Cathay understandably sees things differently. Chief executive Turnbull said in May: "We find the balance of opportunity between the two of us is very unbalanced and we tend to lose the argument very often. We will make Hong Kong a hub and American carriers will not make Hong Kong a hub."

On cabotage, Dodwell and Zhang said it could be argued that no Asian-based air express integrator could compete successfully in the air express business without cabotage rights to carry air cargo in the U.S. This was because of the "just-in-time" character of much air express business which made the loss of hours between pick-up and delivery critical, they said.

No Asian carrier could compete meaningfully with U.S. carriers if it had no control over cargo once it made landfall and had to pass this cargo on to a U.S. domestic carrier for transport to its destination.

In the interview CHAG's Campbell developed his case for full liberalisation of air express and air cargo services at Hong Kong, particularly in light of China's impending accession to the WTO.

He concluded that Hong Kong risked losing business to China unless the territory fully liberalised access. China was investing heavily in airports and other infrastructure and Hong Kong could eventually be bypassed.

"Our Hong Kong study found that if Hong Kong does not liberalise its air express and air cargo regime, Chek Lap Kok will not only lose share to China, but its absolute level of traffic in the forecast year 2003 would not be much higher than 1996 levels and it would be lower than the 1999 total."

He said WTO would bring in a lot more investment, which was going to bring more modern industry and distribution. "And that's going to create a two-way requirement for transportation: components coming in, finished goods going out."

He believed the Pearl River Delta area was going to transform itself away from textiles, toys and jewelry into high-technology goods, which are very air-dependent.

"It's going to absolutely require the Chinese to liberalise. If you want to play in the WTO and you want to play in the global market place, you are going to have to be modern.

"You can't stick your head in the sand. And Hong Kong, with its regulatory philosophy right now is very vulnerable to being caught in the backwash."

Singapore Airlines: accounts for 59% of cargo carried through its "liberalised" hub, while Cathay accounts for only 31% in Hong Kong

Cargo targetted for GATS

A senior official of the International Air Transport Association (IATA) has warned airlines not to ignore the dangers inherent in World Trade Organisation (WTO) moves towards including aviation in a liberalised global trade regime, writes Tom Ballantyne.

Koki Nagata, senior director external relations of IATA, said some carriers might think the failure of the WTO round at Seattle late last year signalled a halt to efforts to widen aviation involvement in GATS (the General Agreement on Trade in Services).

"They are wrong. The focus on aviation is stronger than ever ... aviation is the only area in which negotiations are moving on and the WTO and the industry are speaking to each other. So we want to alert member airlines it is very much alive," he said.

He was speaking last month after a breakthrough workshop in Bangkok, which brought together 130 airline, government aviation authority and WTO officials.

Inclusion in GATS, in a wide sense, would have a profound affect on the industry, leading to the dismantling of the bilateral agreement system which has served airlines well for years, Nagata said.

One of IATA's major concerns is that WTO officials do not fully understand the complexities of the airline business. Just as bad, airlines do not understand the WTO, he said.

GATS includes aircraft repair and maintenance, computer reservation systems and the sale and marketing of air services. Nagata said cargo is being targeted and there is mention of catering, ground handling and aircraft wet leasing. But the WTO ultimately has its sights set on the entire industry.

"The OECD is pushing for cargo to come under the WTO system, but it is very complex because 80% of cargo is still carried by combi aircraft. It is difficult to imagine one classification of cargo being treated on a multilateral basis while others are still bilateral. No one will be able to manage this.

"I think it will be extremely difficult to accommodate cargo rights within the WTO system because of the reality that the majority of cargo is transported on passenger aircraft," he said.

Mr Nagata also warned that under GATS the business of dealing with government might become a nightmare. Traditionally, airlines deal with their Ministry of Transport. Under a global trade regime Ministries of Finance, Foreign Affairs, Trade, the Environment and others will become more deeply involved and carriers will have to deal with all of them.

"We are talking about a major shift in power in the aviation industry," he said.

He added ICAO had been a "little dormant" in this area and needed to wake up.

BONANZA

China's growing freight market a focus of U.S. attention

By Tom Ballantyne

Cargo and air express is booming in the Asia-Pacific. Growth in traffic across the region is showing massive increases, in some cases up to 30%, setting the scene for a fierce battle amongst operators to capture business and expand hub operations.

Leading the charge are the world's major consolidators – Federal Express, UPS, DHL and Emery – closely followed by airlines from within and outside the region, who are moving to lift freight capacity and grab a larger slice of the takings.

The latest figures suggest growth in the longer term may outstrip a Boeing market report projection that the Asia-Pacific air express market will grow by at least 18% annually till 2017.

As China emerges as a major source of freight growth, one of the biggest battles is between global giants FedEx and UPS to win the lion's share of new capacity being allowed into the mainland under a renegotiated U.S.-China air services agreement.

Both carriers want all 10 of the extra frequencies available and are furiously lobbying Washington to get their way. A decision was imminent as *Orient Aviation* went to press.

Little wonder. The Atlanta, Georgia-based international express courier operator, UPS, disclosed its China revenue leapt 50% in the first three months of this year, faster than any other of its global markets. It also reported Hong Kong, Singapore and Taiwan each registered 30% rises, with overall 20% recorded across the Asia-Pacific.

That is way above the company's worldwide performance, which saw turnover for the three months rise 14%, to US$7.2 billion.

FedEx, the world's largest express freight operator, does not normally disclose regional breakdowns, but John W. Allison, vice-president operations planning and engineering in the Asia-Pacific, told *Orient Aviation* its Asian business grew 28% in the three months to February, the carrier's third quarter, outperforming all the carrier's other international regions.

Washington sources say it is probable the new frequencies will be split.

While the China arena is attracting major attention, all the freight integrators will beef up their hubs in preparation for ongoing growth. In May, DHL Worldwide Express broke ground for a US$34 million hub facility at the Singapore Airport Terminal Services (SATS) Express Courier Centre 2 (ECC2).

And U.S.-based supply chain management company, Emery Worldwide, has announced it will develop its Singapore Asia- Pacific headquarters into one of three global "superhubs".

"We are looking at additional facilities in Singapore because this is certainly the intermediate spot for consolidation and distribution for third party logistics work," explained Emery president and chief executive officer, Roger Piazza.

Korea's cargo market is flourishing. Outbound flights topping 90% load factors

The competition between the major express companies has never been so intense, although they are all operating from different major hubs. FedEx's major hub is at Subic Bay in the Philippines. UPS hubs in Taipei, while DHL has recently moved its principal regional hub from Manila to Hong Kong, where it is working closely with Cathay Pacific Airways.

Meanwhile, airlines and airports are reporting significant lifts in freight volume, signalling a strong flow-on from the regional economic recovery. Among them, Hong Kong's Chek Lap Kok officials have been seeing regular increases, with cargo shipments up 18.5% in April to 185,000 tonnes.

That was reflected in the performance of local operator Cathay Pacific, which saw its cargo business grow 11.7% to 171,619 tonnes during the first quarter of the year.

Malaysia Airports' cargo movements at the new Kuala Lumpur International Airport, in Sepang, and at the old Subang airport rose 27.5%, with international cargo volume rising by 29.6% to 117,100 tonnes from 90,400 tonnes in the same quarter last year.

Malaysia's Minister for Transport, Dr Ling Liong Sik, said KLIA is expected to handle 500,000 cargo tonnes through this year, a staggering 40% increase on 1999.

It will remain behind Hong Kong, with around four million tonnes, Singapore with 1.5 million tonnes and Bangkok with 750,000 tonnes, but ahead of Jakarta's 250,000 tonnes.

In India, where exporters have been complaining about a lack of cargo capacity at Delhi's Indira Gandhi International Airport, new shipment clearing records are being set.

Last year, the airport handled 161,859 tonnes of freight, up 11.9% from 144,564 tonnes the previous year. The Airport Authority of India is planning expansion of cargo warehouses, a move which should ease congestion and see a further increase in business.

One of the worst hit nations during the economic collapse, Korea, also is seeing a return of good times, with passenger carriers increasing their services and freight operators lifting capacity.

Load factors on outbound cargo flights from Korea exceed 90%, with inbound services maintaining a level of up to 80%.

And airlines and airports across the region are nearly all experiencing similar improvements in volume and load factors.

The competition between hub airports does seem to be making some of the rivals nervous. In Taiwan, a report prepared for the Ministry of Transport and Communications has warned efforts needed to be speeded up to improve cargo infrastructure, otherwise the country will fail to make it as a regional hub.

The Institute of Transportation's report assessed the competitiveness of 10 major airports in the region. It found if Chiang Kai-Shek airport failed to accomplish all its expansion projects within three years, Taiwan's position as a cargo trans-shipment centre would fall away by 2005, when upgrading projects or construction of new airports are completed in neighbouring countries.

Asia-Pacific revenue up 23% as ...

Lufthansa cashes in

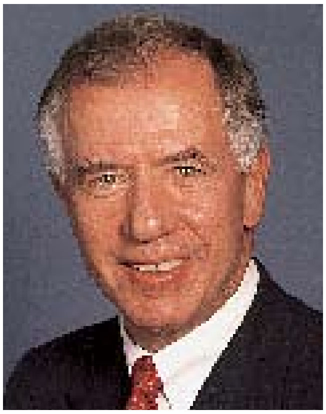
By Barry Grindrod in Frankfurt

Jürgen Weber, the man who joined Lufthansa German Airlines as an engineer 23 years ago, and as its chairman has spearheaded the carrier's growth into one of aviation's world behemoths, was in good form as he mingled with more than 100 specially invited international media guests in his home territory.

It was understandable. Earlier, in a specially prepared hangar at Frankfurt/Main International Airport, Weber, who has been the carrier's chairman since 1991, announced that in "a difficult business year" in 1999 the Lufthansa Group had made a pre-tax profit of just under DM2 billion (US$920 million).

Only once, in 1998, had the company topped last year's result. The operating profit of DM1.4 billion "exceeded all expectations". Net profit was DM1.2 million, compared to DM1.4 billion in 1998. This is almost one third of the DM3.9 billion profit forecast by the International Air Transport Association for its 260 member airlines in 1999.

The affable, 59-year-old chairman said the industry was "beset by problems such as the Kosovo conflict, escalating fuel prices, crippling infrastructure bottlenecks, a strong expansion in capacity on offer and an economy on the back burner". Despite this, Lufthansa maintained a leading position in Europe, with turnover up 9% to DM25 billion.



Lufthansa chairman and CEO, Jürgen Weber: well prepared for 21st century

The Asia-Pacific region, along with the carrier's German home market, played a key role in Lufthansa's bottom line result, said chief financial officer, Dr Karl-Ludwig Kley. "Our strategy of continuous market development paid off [in the Asia-Pacific]," added Dr Kley.

Passenger sales in the region increased 23% in 1999 and represented 12% of Lufthansa's sales figures world-wide.

Lufthansa, the world's second largest passenger carrier, provides 84 flights a week to Germany from 15 Asia-Pacific gateways: Singapore, Hong Kong, Beijing, Shanghai, Tokyo, Nagoya, Osaka, Seoul, Bangkok, Jakarta, Manila, Ho Chi Minh City, Dehli, Bombay and Madras.

"In terms of capacity, we are the number one European airline in Asia," said head of corporate affairs, Christian Klick. "Even at the time of the Asian economic crisis we did not withdraw any of our services. Some of our rivals did cut services, but our decision was the right one. It was a short-term dip and some of the passengers who travelled with our rivals are now loyal Lufthansa passengers."

Lufthansa entered into a strategic bilateral alliance with Singapore Airlines (SIA) in 1997 and with Japan's All Nippon Airways (ANA) in 1998. In April, along with SAS Cargo and SIA, Lufthansa, the world's leading scheduled cargo carrier, signed an extensive cargo alliance.

SIA and ANA are the newest members of the Star Alliance, in which Lufthansa was a founder member, along with Thai Airways International. Air New Zealand and Ansett Australia joined Star last year.

Dr Kley told the press conference the Star Alliance and Lufthansa's bilateral partnerships contributed around DM500 million to the airline's consolidated net profit in 1999, about the same amount as in record-breaking 1998.

In the first quarter of this year, Lufthansa Group revenue is up 18.3% over 1999, to DM6.2 billion. The airline is forecasting an increase in operating profit of 10% for 2000.

E-commerce, said Weber, will play a key role in future developments (See P.44).

Weber on THAI, PAL and China

The Star Alliance was close to its optimum size, Lufthansa chief Jürgen Weber told Orient Aviation *in Frankfurt,but he added there are two holes that need to be filled.*

One is in India and the other is in China. He believes it could be up to five years before a Chinese carrier will be ready to join the grouping. Air China, which is a 60% joint venture partner with Lufthansa Technik in the Beijing-based Aircraft Maintenance and Engineering Corporation (AMECO), may be a leading contender.

Weber confirmed Lufthansa would be bidding later this year for the 10% of Thai Airways International on offer to a strategic partner. He said it would be a lone Lufthansa bid, but the Thai Government could require other Star partners to share the equity stake. "We will be the leader," he said confidently. Will Lufthansa be successful? "We will have a good chance if a decision is taken for business and economic reasons," he said.

Lufthansa, Singapore Airlines and SAS Cargo recently signed a cargo alliance. Although SIA and SAS are members of Star, Weber said there is no reason to mix the two and sees the passenger and cargo alliances working in parallel in the future.

Weber is dismissive about reports in the Philippines that Philippine Airlines (PAL) chairman, Lucio Tan, was in talks with Lufthansa about the sale of his majority shareholding to the Geman airline. "We have not been asked to talk to PAL and we would never be interested in a PAL shareholding," he said holding his thumb and first finger together to form a zero.

Lufthansa Technik recently agreed to purchase PAL's maintenance and engineering facility. The airline's consulting arm also is working with PAL.

'Daily fiasco' of flight delays must improve

Airborne traffic jams over Europe are costing Lufthansa 100,000 tons (101,650 tonnes) in wasted fuel every year, said Lufthansa's chairman and CEO, Jürgen Weber. This was enough to fly an Airbus around the world more than 880 times.

Lufthansa's jets fly 38 hours of holding patterns every day as a result of European air traffic control failing to keep pace with rapidly increasing requirements and airport congestion, he added.

"We will continue to exert pressure here and seek agreement with politicians in order to alleviate and finally completely eliminate the daily fiasco of flight delays," Weber told reporters at the airline's annual press conference in Frankfurt. He said his airline may take legal action if the situation does not improve.

"We simply must not allow the citizen to associate world mobility with traffic jams on the roads and traffic jams in the air.

"Mobility must be seen again as the life blood of a flourishing economy. To this end we need an anti-traffic jam programme in the European skies. This means a harmonisation of European air traffic control, an opening of additional air space currently used exclusively for military flights and a better joint European planning process for air space capacity.

"It is unacceptable for our customers and our employees to be hampered again and again by such insufficiencies in the sky and on the ground.

"What we can do to alleviate the situation, we are already doing. Our promise still stands: we are working on improving handling times by closely examining our own handling processes in our "operational excellence" campaign, by making additional reserve capacity available – an investment of eight additional aircraft – and by insisting on the highest level of punctuality.

"We have intensively lobbied both in Berlin and Brussels for a solution to the infrastructure problems. The federal government is aware of the problem, our own association, the AEA [Association of European Airlines], has been activated, and we are relying on the efforts of the European Union Commissioner of Transport.

"Yet air traffic does not rest on one but three pillars; air traffic control and airport growth must keep pace with air traffic itself," said Weber.

Lufthansa German Airlines has a fleet of 303 aircraft, including those of its subsidiary, Condor, that has an average age of 7.6 years

MAS boss to sell shares, but maintain control

The Malaysia Airlines (MAS) chairman, Tan Sri Tajudin Ramli, will sell a portion of his stake in the Kuala Lumpur flag carrier, but he is likely to remain at the helm of the airline and in overall control.

The sell off – he holds a 29.09% stake through one of his companies, Naluri Bhd – is part of a complex restructure of debts incurred by Naluri and another of his companies, Celcom Sdn Bhd.

In mid-May, Tajudin told reporters in Kuala Lumpur creditors had agreed to extend the repayment schedule for debts of US$724 million incurred by both firms.

Naluri, in which Tajudin holds a 47.41% stake, is MAS' largest single shareholder. It has won approval to restructure debts of around US$263 million over an extended period of five years and will raise funds through disposal of assets required to be repaid to at least half the secured creditors within two years.

Although he declined to name which assets would be sold, citing creditor-client confidentiality, Tajudin confirmed the sale of at least part of the MAS stake was among the terms agreed with creditors.

Asked if this would lead to a change in ownership of MAS, he replied: "I don't think so."

His disclosure confirms persistent reports over some months that part of the airline would soon be on the table for prospective bidders. It is known discussions have taken place with Dutch airline KLM with the aim of the European carrier taking a possible strategic stake in MAS.

Tajudin said there was no specific timetable for selling the assets. Naluri had yet to initiate talks with any parties, including possible foreign investors.

Asked about MAS joining a global alliance, possibly Wings, the KLM-Northwest Airlines grouping, Tajudin said a study of the issue was almost complete. "An announcement could possibly be made in a month," he said.

SINGLE-MINDED

SAirGroup opts to build its own world alliance

By Barry Grindrod

It was perhaps significant that on the day *Orient Aviation* met the outgoing chairman of the SAirGroup board, Hannes Goetz, and his successor, Eric Honegger, the Star Alliance airline chiefs were meeting in Singapore to welcome Singapore Airlines (SIA) into their fold.

SIA had been formerly aligned with Swissair, along with American carrier, Delta Air Lines. Both have now jumped the Swissair ship to ally themselves with major global groupings.

But Goetz and Honegger, speaking in Hong Kong, were adamant Swissair would not be joining either of their former partners in a major world alliance.

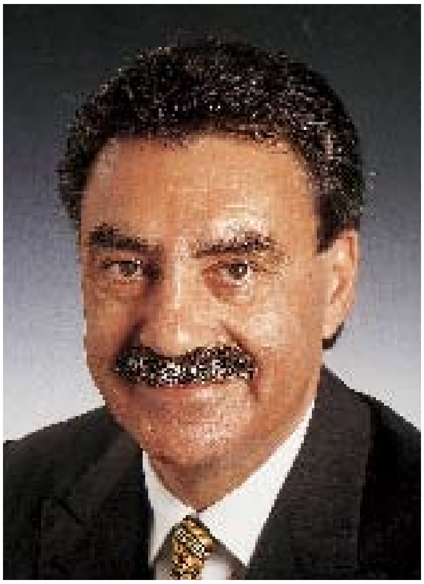
The reason is simple. The SAirGroup is building its own global empire, not just with its airline division, SAirLines, but with all four of the group's corporate divisions, which also includes SAirServices, mainly airline maintenance and engineering, information technology and ground handling, SAirLogistics, which is cargo and SAirRelations, catering, retailing and hotels.

Hence when Goetz was asked about his company's strategy in Asia he replied: "To grow, grow, grow." They already have aviation-related business and hotel ventures in China, Hong Kong, the Philippines and Australia. The same philosophy applies to other parts of the world.

Honegger explained the reasoning behind the Zurich-based company's philosophy. "Other airlines like to focus on the airline business. We are the opposite. We focus on airline-related businesses. They are more stable and require less capital. They do not have the same heavy economic cycles as airlines, which means we can iron out the downturns of the airline business."

Last year was a case in point. While the group's turnover is approximately 50% from both sectors, in 1999 the profit split was one third from airlines and two thirds from airline-related companies.

Goetz said its airline catering businesses are already established globally; maintenance and engineering has recently acquired global status, and ground handling is semi-global.



'Other airlines like to focus on the airline business. We are the opposite. We focus on airline-related businesses. They are more stable and require less capital'

– SAirGroup's new chairman of the board, Dr Eric Honegger

The airlines group is looking for Asian, Pacific and U.S. partners.

Three years ago in March, 1998, SAir established Qualiflyer, a mainly European alliance in which the SAirGroup holds an equity stake in each of the members. At present it comprises Swissair, Crossair (SAirGroup stake 70%), BalairCTA (30%), all of Switzerland, Sabena (49.5%), of Belgium, TAP (34%) and Portugalia (42%), of Portugal, LTU (45%), of Germany, Air Europe (45%), Volare (34%), of Italy, Air Littoral (49%), AOM (49%), of France, and its most recent venture, LOT Polish Airlines (38%). Recently it was agreed the group should acquire an 85% share in Sabena.

The group also has a 35% stake in Luxemburg-based cargo carrier, Cargolux. In 1999, the group extended beyond Europe when it acquired a 20% stake in South African Airways.

Goetz described them as "partnerships with a little bit of leadership from Swissair".

Before entering the alliance the partners have to agree to become a part of the group's IT platform, have to be willing to harmonise their fleets on a medium to long-term basis and to harmonise their route networks.

"The Swiss home market is very small. If we want a considerable market share in Europe we have to go out of Switzerland into Europe and build up our Qualiflyer European alliance group," said Honegger. "This will make us an attractive partner for U.S. and Asian airlines for code-shares and possibly alliances."

SIA opted out of its relationship with Swissair, said Goetz, because it wanted an airport base in a European Union (EU) country where it made it easier to feed and de-feed. It chose Frankfurt, base of Star Alliance leader, Lufthansa German Airlines. Switzerland has to negotiate its air rights on a country-to-country basis because it is not a member of the EU.

Delta is severing its links with Swissair in August because it wanted to enter an alliance with Air France. "They invited us to join with them but when we looked at our network, particularly when we added Sabena's routes, we had the same network as Air France," said Goetz.

"It's a pity. We had a good alliance across the Atlantic, better than oneworld, better than Star. We had anti-trust immunity and Open Skies with the U.S., but U.S. people want to visit Paris. Fortunately we had American Airlines knocking at our door and we have started to work with American," said Goetz.

"Where it will end we do not know.

American is part of oneworld. Cathay is part of oneworld and we have a very good code-share with Cathay between Zurich and Hong Kong.

"Oneworld does not have the depth because the U.K. and the U.S. do not have air traffic, anti-trust or Open Skies agreements."

Switzerland had the agreements with the U.S. which meant the Swissair-led alliance had a clear advantage over the major groupings, according to Goetz.

Goetz said he was in Asia to bid farewell to the group's "friends and partners" and to introduce his successor. He also was delivering a message; the SAirGroup was going places, many places, and they wanted like-minded companies across the aviation board to join them on the mission.

The Portfolio:

SAirLines: Swissair, Crossair, Balair/CTA Leisure
SAirServices: SR Technics, Swissport, Atraxis, Avireal, SAirServices Invest
SAirLogistics: Swisscargo, Cargologic, Logistics Invest
SAirRelations: Swissotel, Gate Gourmet, Rail Gourmet, Restorama, Gourmet Nova, Nuance Global Traders

Asia looms large on SAir's wish list

China has a high priority in the SAirGroup's expansion plans. It recently opened an inflight kitchen in Shanghai and would like another in Beijing. It has hotels in Beijing and Dalian, through its Swissotel company. The group would like to add hotels in Shanghai and Guangzhou to its China properties.

Swissair flies five times a week Zurich-Beijing-Shanghai. It is seeking one or two more traffic rights and, by adding Sabena's three traffic rights, hopes eventually to start daily services to Beijing and flights three times a week to Shanghai. The airline has a code-share agreement with Beijing-based Air China.

Goetz said Swissair is looking to build its traffic rights network throughout the region. It is also looking for partners with its engineering and maintenance company, SR Technics, and wants to add retail outlets at airports through its subsidiary Nuance Global Traders.

The SAirGroup is particularly close to Cathay Pacific Airways. Swissair has rights for five flights a week into Hong Kong and Cargolux has one. It has a code-share with Cathay between Zurich and Hong Kong which offers nine flights a week in total.

Last year SR Technics won a 15-year power-by-the-hour contract with Cathay to maintain the airline's CFM56 engines on its fleet of A340-300 aircraft. It recently signed a Memorandum of Understanding for a 50-50 component management joint venture, a deal which is expected to be finalised in June.

Goetz said they had been talking to the airline about possible involvement in its freight and inflight catering divisions. Gate Gourmet, which has an inflight kitchen in Hong Kong, bought Cathay Pacific Catering Services kitchens in Darwin and Sydney in 1999.

The group is also a major player at Hong Kong International Airport where it has a number of retail outlets.

The SAirGroup is also keeping a close eye on Thailand. It is a contender for the 10% equity stake on offer in Thai Airways International (THAI), but the airline has said it would like to see Star Alliance airlines succeed in the bid, probably a joint bid by Lufthansa and SIA.

SR Technics also has expressed interest in THAI's maintenance facility at U-Tapao. Gate Gourmet has an inflight kitchen in Bangkok.

The Swiss group also has a shareholding in Manila's MIASCOR inflight kitchen.

How Swissair dealt with its darkest hour

Goetz spoke emotionally about Swissair's worst ever accident in 1998 when a MD-11 crashed off the coast of Nova Scotia, Canada, killing all 229 on board.

"Tears are still close to the surface throughout our organisation. There are still flowers in our [flight] 'ops' room," he said.

"It also brought to the surface the strength and solidarity of the organisation. We all helped each other. We employ 68,000 people and we were all going through something very terrible.

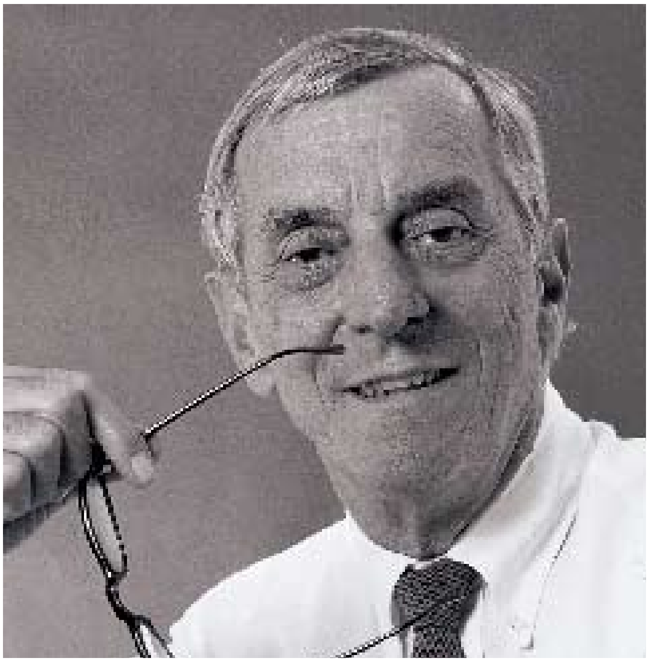
"We checked our records and we did not see any drop in passenger numbers.

"Perhaps it was because of how we handled it. We faced the public and we faced our employees, we did not try and hide. This helped."

Speaking of his first reaction when he heard the news Goetz said: "I could not believe it. I moved out to the emergency centre at the airport early in the morning and I was in a dream. Reality and unreality seemed so close.

"And we still do not know the reason for the crash." Goetz said the accident report was expected at the end of 2000 or early 2001.

Earlier this year, Crossair had its first accident in 25 years when a Saab 340 crashed killing all on board.



SAirGroup outgoing chairman, Hannes Goetz: "we did not try and hide"

FLIGHT DECK SOFTWARE: MORE INFORMATION, PLEASE

In previous issues I have covered the subject of software in the cabin and outside the aircraft in the airspace environment. Finally, I am addressing mission critical software on the flight deck.

Recently, on a typical automatic approach to Hong Kong International Airport, I followed through on the controls as the flight management software did its thing. Conditions were a little tricky with a gusty crosswind and decreasing headwind wind-shear. The auto-pilots (three on a coupled auto land approach) became more and more active as we neared the runway. During the flare a sudden negative wind-shear had the throttles racing forward and backward like a cyclist pumping up his bike tyres.

The touchdown was very smooth and right smack on the centre line. "Well done", I said to myself. My aside highlights a very important point about aircraft flight management software. It is not a real pilot at all, but rather a summation of several pilots' digitalised inputs. To date, apart from a couple of minor software glitches, I have nothing but praise for the software on Boeing's aircraft.

To digress for a moment, I have said in the past and continue to maintain that line pilots feel increasingly isolated from the manufacturer by the new training environment.

Regulatory bodies and manufacturers in their wisdom decided over a decade ago that the "teach them what they need to know" philosophy excludes a considerable amount of in-depth or behind the scenes information. This surprises me in 'the information age'.

Today, a large part of an airline pilot's life is spent carrying out amendments. This thankless chore involves regularly replacing the pages of a multitude of manuals. Without the updated manuals a pilot has little chance of knowing what is going on out there.

All this time-consuming amending ensures the system remains transparent, relevant and up-to-date. This is not the case with software updates. Apart from the monthly Flight Management Computers (FMC) navigation data update, installed by the company's navigation department, a pilot receives very few software amendment notices. I hasten to add this is not an oversight by the regulators, manufacturers or airline management, but rather a deliberate policy.

While there are manuals about aircraft systems, SOPs, abnormal procedures, emergency procedures, ATC rules and procedures, company regulations, regulatory documents, air navigation publication and so on and so on, there is not a single software document I have to amend! Perhaps this important area of modern aircraft operation needs to be addressed in future. Why?

I have no idea if the software I use every day has been amended since I last used it. Sure, if the manufacturer decides I need to know, then a need to know bulletin will be issued and some months after the event I will see it and read it. By that time I will have flown many sectors blissfully unaware that the system has changed.

When I go on line, I am constantly bombarded by critical update notices. Most are free and bug proof, but not all. There are so many of them, but the point is they are needed. In fact in many cases they are essential to maintain the flow of information to my computer's hard drive.

It seems unimaginable to me that in the highly automated and technical world of modern airline operations there is not a similar, if not greater number of updates happening to mission critical software on a daily basis. But how would a pilot know? He/she has no manual to inform him, let alone keep him/her up-to-date.

I would like to have something that would help me bridge the leap of faith in software design, implementation and currency. I am sure regulators and manufacturers and, to a lesser degree, airline management, have ready answers to my various questions.

They might say I don't need to know how, why and whether the software I use works. In other words trust the system. I do trust many areas of the system. If I have a question about the aircraft flight controls I can go, in the first instance, to an airline's operations department engineering expert. Or I can delve further by going to the hangar. If I want a more in-depth answer I can get it from the manufacturer, through the airline company system.

Similarly with ATC, flight planning and all other areas of the airline system, I can obtain information. But the software area? Where is the software information within operations? Where is the information at the hangar? Sure, some airlines have a software company representative in the hangar, but not many that are easily accessible to a line pilot. Finally, where is the manual?

I believe there are some very real concerns the system is not mature enough to cope with that the software revolution that is underway. Maybe regulators need to look more closely at this area to ensure the flight safety of present and future aircraft, passengers and crew. In the meantime, I will continue operating the aircraft's system software on the line with a healthy degree of caution and vigilance.

The Captain is a long-haul pilot with an Asian airline.

Friendly rivals

New Hong Kong training centres to provide one-stop shops for Asia's airlines

By Barry Grindrod

John Bent and Felix Hart have been good friends for years. Both are Hong Kong-based seasoned pilots with thousands of commercial and military flying hours under their belts who have strong professional and personal respect for each other.

Bent spent 23 years with Cathay Pacific Airways, the last 10 in training management. Hart was at the controls of regional carrier Dragonair's first flight 15 years ago and has been its chief pilot and general manager operations.

But in recent months the roles of the two men have changed. They have been thrown head-to-head in the tough, competitive world of flight training.

A few weeks ago, Bent left Cathay to become managing director Asia at GE Capital Aviation Training's (GECAT) new operation. It opened in April and is based in the Cathay Pacific Flight Training Centre, adjacent to the Hong Kong International Airport. He did not move far!

Last July, Hart was appointed general manager of Dragonair's flight training centre. It opened for business on June 1, in the recently completed Dragonair House, a paper aeroplane's throw away from Cathay's headquarters at Chek Lap Kok.

Talk to the two men and the compliments flow thick and fast in each other's direction, but as Hart said: "The competition is very real, of that there is no doubt."

Although there is a big difference in the size of the two centres – Cathay has 14 simulator bays and Dragonair two – both companies are marketing the potentially lucrative A320 market.

The GECAT operation, a joint venture with Cathay, also has, in addition to its simulator bays, 32 state-of-the-art classrooms, 42 briefing rooms and 76 computer-based trainers (CBTs).

General manager Dragonair training centre, Felix Hart: aiming for self-sufficiency

GECAT managing director Asia, John Bent: plenty of irons in the training fire

At the moment training is available in the GECAT A320 full flight simulator and wet and dry training can be provided in Cathay's A330/340, B777, B747-400 and B747-200 simulators. Originally, GECAT had said it would have B737-300 and -200 simulators on site soon, but Bent told *Orient Aviation* this would now be either one or the other as "something else" was under review.

An A330/340 simulator will be delivered in the second quarter of 2001. A340-500/600 and B777 long-range simulators will be added to the bays when the new aircraft models are available.

Both the GECAT and Dragonair facilities aim to be one-stop shops. GECAT will provide maintenance and cabin crew training as well as programmes to cover areas such as safety, flight operations and management, flight planning and avionics.

The A320 Dragonair training school is equipped with its full flight simulator plus a cabin emergency evacuation trainer and CBTs. It also provides Flight Management System (FMS) and electronic centralised aircraft monitoring (ECAM) instruction.

The centre will receive certification and approval from the Hong Kong Civil Aviation Department in June and Europe's Joint Airworthiness Authorities (JAA) and the UK's Civil Aviation Authority in July.

Unlike Bent, who has retired from the professional cockpit, Hart flies on the line and is a UK and Hong Kong qualified Type Rating Examiner (TRE). Dragonair aims to be a JAA Type Rating Training Organisation (TRTO), which requires a TRE in charge.

Hart said the desire of the airline's shareholders – the mainland's China National Aviation Corporation is the majority partner – is to make Dragonair self-sufficient in training. The airline has an all-Airbus fleet of five A330-300s, six A320s and two A321s, with two A330s, six A320s and one A321 on order up to 2004.

It has a pool of 140 pilots, that will increase to more than 240 in the next four years. Currently, A320 Dragonair pilots use the Airbus training centres in Beijing and Toulouse while the A330 flight crews utilise Cathay's simulators for recurrent training and Airbus equipment for transitional training. The goal of self-sufficiency may result in an A330 simulator being installed in the second bay at the Dragonair centre.

Across the road, joint venture partner Cathay will be the core customer at GECAT. The training company will manage the simulators and scheduling as well as sales and marketing for third party business. The airline's fleet of 65 aircraft could grow to 95 in the next five years and the pilot population will increase by at least 50% to around 1,500.

Bent said there is a great deal of interest in the joint venture facility from airlines in the region. Philippine Airlines signed a contract on the day the centre opened. Bent conceded GECAT is talking to five possible clients.

Both men regard China as an attractive market and each of them is in discussions with several mainland airlines.In the next 20 years it is estimated China's airline fleet will more than triple from 530 to 1,600 aircraft. Bent calculates about 16,000 pilots will be needed to fly those airplanes. Hong Kong, he said, will provide those mainland pilots with exposure to international aviation standards and aviation English without having to travel great distances for training. Carriers from Taiwan, Korea, India, Vietnam and Macau also are showing active interest in the services offered by the two centres.

Hong Kong is well-positioned geographically for aviation training and the support of quality airlines like Cathay and Dragonair at the facilities adds to their appeal. Generally, Asia's carriers send their pilots around the world for training; a time-consuming, expensive exercise.

However, Hong Kong is not a cheap place in which to operate. The sites around the new airport constitute some of the most expensive real estate in the world and both training centres must pay rent to the Airport Authority for their facilities.

When Cathay ordered its first Airbus aircraft in the early 1990s, Bent, the airline's flight training manager, flew on line aboard Dragonair's A320s to familiarise himself with the Airbus cockpit. In those days, Cathay was Dragonair's major shareholder and managed the airline. Bent and Hart worked closely together and the ex-Cathay man speculates that one day the training centres may even work in co-operation. Hart will not entertain this prospect for now and would only say Dragonair is talking to more than one company interested in joining the venture.

Whatever the future, Messrs Bent and Hart are breaths of fresh air in style in these days of cut-throat business dealings. As both men said, given regional economic stability there should be regional business for everyone.

GE Capital Training Services (GECAT) president Nikos Kardassis: a hands-on boss

Global brief for hands-on Kardassis

Call it sales talk if you like, but GE Capital Aviation Training (GECAT) president Nikos Kardassis believes a flight training centre in Hong Kong, with the active support of an airline like Cathay Pacific Airways, is "a dream come true".

He does, however, speak from experience. The youthful, 44-year-old Kardassis was chief executive of India's Jet Airways from 1994-1999, before he joined GECAT.

He started the airline from scratch shortly after deregulation was introduced in India and, together with his management team, built an airline that not only has survived – unlike most other private start-ups in India – but prospered in his time as boss.

The Jet fleet has expanded from an initial three aircraft to 30. "I know many airlines in Asia will welcome an opportunity to send their pilots to a one-stop training shop in Hong Kong rather than posting them here, there and everywhere around the world. I would have welcomed the opportunity at Jet to have our pilots trained by an airline like Cathay," he said.

When fully up to speed, about 20 instructors will be working at the GECAT centre under contract. These will include a number of Cathay instructors and examiners.

Kardassis cut his aviation teeth with U.S. carrier TWA during the 1980s and early 90s. He was vice-president international before he moved to Jet Airways.

He is a hands-on man, which he demonstrated in his negotiations with Cathay Pacific. Rival FlightSafety Boeing also was looking to nail its flag to the Cathay mast. It is now among others hoping to become involved in Dragonair's training centre, situated close by the GECAT operation.

"I am very much hands-on. My time at Jet taught me it is the only way to run an airline," he said. Kardassis first started talking to Cathay in mid-1999 and a Letter of Intent was signed in September.

GECAT, established in 1998 as a subsidiary of GE Aviation Capital Services, has two large training centres for corporate and business aviation training in the US.

It entered into the commercial aviation field in the same year when it purchased Raytheon's eight-bay facility at Gatwick Airport, outside London. Under a joint venture agreement with Thomson-CSF, and its commercial aviation training arm, ORBIT, it took over operations at an eight-bay centre at Heathow Airport and a four-bay facility at East Midland's airport in central England.

GECAT has signed a Letter of Intent with Crossair for a regional aviation training centre in Basle, Switzerland. Talks also are underway with a prospective partner for a venture in South America.

"Flight training is expensive. Airlines are keen to outsource," said Kardassis.

Flying schools taking off in China

By Patrick Garrett

When a new Shanghai flying school advertised flying lessons they had quite a shock. Around 9,500 people replied. It is perhaps a sign of better times in China.

They are certainly promising times for Cessna, according to Bill Harris, international sales manager of Cessna's single engine division. "It's very exciting, we have delivered a couple of Cessna 172 Skyhawks to the Shanghai school [one in November 1999 and the other in January this year]."

The Shanghai enterprise is spearheaded by one of China's major carriers, China Eastern Airlines (CEA). An initial class of 30 trainees has been selected.

The school is designed for private aviators, not a training ground for commercial pilots. It also is an example of how the mainland's airlines are looking at ways of attracting extra revenue as the Civil Aviation Administration of China (CAAC) pressures them to improve their bottom lines. CEA's ambitious plan is not limited to aviation. According to Harris, the airline group also wants to develop a golf course, housing and other recreational facilities.

Flying clubs, it seems, are catching on fast. China's Broad Air Conditioning, the first non-aviation company on the mainland to own a business jet (a Cessna Citation), is in the process of opening a flying school. Broad has acquired a fleet of three C172 Skyhawks and plans to its their own airfield.

Cessna also has sold a C172 to An Yang, part of the Sports Flying Federation, which co-ordinates China's parachuting, paragliding, gliding and aerobatics activities in international competitions.

The federation has a network of 57 schools across China and is trying to revitalise a number of them through local private investment. An Yang's C172 supplements its PT6A Firecracker aircraft, which is similar to Russia's Yak-52. Some Japanese students have already made use of An Yang's cost-effective route to a private licence, training exclusively on the Skyhawk.

Cessna is working to certify the Shanghai enterprise and An Yang as Cessna service centres to support the existing Cessna Sales Team Authorised Representative (CSTAR) facility at the Civil Aviation Administration of China (CAAC) flying school in Chengdu.

"I think there is a good opportunity that we'll be looking at Cessna pilot centres in China," said Harris.

With 225 Cessna flight schools in North America, the company claims it has the largest flight training network in the world. However, general aviation in China, with 1.2 billion people, is something altogether different. "It's a challenge. You have to look a little differently at the way you do business to meet the needs of the Chinese. We've got a few seeds planted and we hope to be able to develop that market," said Harris.

At February's Asian Aerospace 2000 show in Singapore, Cessna announced the sale of six new 172R Skyhawks to Singapore Airlines. The aircraft will be added to their fleet of five new-generation Skyhawks that were delivered in April 1998 and are based at the Singapore Flying College at Jandakot Airport, outside Perth, Australia. The college was established to meet the needs of *ab initio* pilots away from the restricted airspace of Singapore.

Harris admits some customers are concerned Cessna does not offer an aircraft which qualifies as a "complex trainer" for pilots to progress towards. "We understand that, but there is some value in having people fly different types of airplanes as they mature and gain more experience in their flying. There are some basic airmanship skills that can be transferred, but there's also the requirement to be able to interface with the cockpit."

The idea is to learn to not just fly a Cessna, Harris added.

Cessna restarted production of single-engine piston aircraft in 1996, but the two-seater C152 did not feature in the new product line, much to the surprise of some customers. "What we found was many students learn a lot by observing other students flying," said Harris. "With a C172 it allows you to put a student in the back of the aircraft to observe a fellow student training. He or she can learn from the other people's mistakes and gain confidence from seeing others make the same mistakes as they do. Observing is educational and cost-effective."

Han Kuk University in South Korea has taken four C172s in recent years to train *ab initio* students, some of whom eventually join national carrier Korean Air. Philippine Airlines (PAL) is another Skyhawk client. PAL has been looking to use its aircraft for third-party training. Harris predicts that while the U.S. will handle much of the training for Europe, Australia can expect to reap the benefits of a boom in demand from Asia. In 1999, Cessna delivered 899 single-engine piston models, up 14% from the previous year. Order placements rose nearly 60% against the previous year. "More people have learned to fly in our aircraft than any other," said Harris, adding that he was one of them.

Cessna 172 Skyhawk: proving popular in China

Voice recognition means reality check for ATC training

By Tom Ballantyne

When it comes to touting the benefits of his company's range of air traffic control (ATC) simulators George Watts tells it straight.

The sales and marketing director of Melbourne-based Adacel Technologies considers there is one key difference between its new generation MaxSim series of ATC research and training aids. As he puts it: "Our system works."

That may sound like a statement of the obvious, but not so according to Watts. Australia's Adacel recently won a contract to provide ATC simulation software to the U.S. National Air and Space Administration (NASA) FutureFlight Central facility to enable it to operate the world's leading research and development facility for airport simulation.

"It may appear a little tongue-in-cheek to say our system works and others don't, but that was the case with NASA," said Watts. " A competitor of ours originally had the contract, but it couldn't get its software to work. We demonstrated we could make it work and the contract was passed to us."

This is not an isolated case. Adacel also is negotiating deals to replace competitors' software for two large ATC simulator operators in Europe where the same problems arose.

In fact, Adacel may be on the verge of clinching a number of orders for training simulators from providers of air traffic services.

It is understood to be close to a deal with the U.S. Federal Aviation Administration (FAA) for an ATC simulator that has been developed around speech recognition technology.

Developed in consultation with Air Services Australia, the ground-breaking simulator system was initially called the Automated Trainee Evaluation and Excercise Generator (ATEEG). It was renamed MaxSim and has been attracting interest around the world.

For trainees it brings a new level of reality to simulation. The student can sit at a computer wearing headphones, looking at a display which accurately represents an operational ATC radar.

With aircraft and flight information on screen, the trainees can issue commands such as increase or decrease altitude and the aircraft will respond as in real-time situations.

No one is needed to play the role of pilot and the system does not require any sort of specialised hardware. It can run on standard PCs and does not require training to use.

According to Watts, this is a classroom trainer the student can take home and use to go through "self-paced" learning. It does not need an instructor looking over the trainee's shoulder.

But MaxSim is not only about *ab initio* training. "We can turnkey. We are a one-stop shop for ATC simulation. We go from the *ab initio* desktop trainer through to tower simulation in the workplace environment. It can be networked to a high fidelity radar simulation and can be integrated for a full control centre exercise," said Watts.

Adacel claims its simulation systems offer an accurate and realistic depiction of airport surroundings which allows training and research at an unprecedented level of realism by using fully-integrated voice communications to augment and extend realism.

It can train for any tower location with multiple databases, for emergency procedures and to trial new procedures and routes under varying load conditions.

The latter is a critical element in modern airport and air service operations, where managers want to trim costs and maximise their airspace and runways.

The company's systems are already installed in 35 countries. The U.S. features significantly in Adacel's future business goals.

Previously, the FAA has not been a major advocate of ATC simulation. However, the administration has realised that significant amounts of money can be saved on several fronts, including research into runway incursions and noise abatement, which costs authorities hundreds of millions of dollars annually.

In other words, the FAA now considers if it uses simulators to adequately train controllers to deal with these issues it can curb many of the cost over-runs. If this attitude persists there could be a market for several hundred training simulators across the U.S. alone.

The Asia-Pacific is not being ignored. Adacel also is "keeping very close" to the Civil Aviation Administration of China.

China's pilots opt for 'greener' climes

By Barry Grindrod

Chinese airlines are watching their yuan very carefully these days. The Civil Aviation Administration of China (CAAC) has called on airline managements to work smarter and cut costs.

But, say sources, one area where cost-cutting has had little impact is pilot training. Although China now boasts several state-of-the-art training facilities, including Airbus Industrie in Beijing, FlightSafety Boeing in Kunming and China Southern in Zhuhai, members of the powerful pilot lobby insist on travelling to the clear blue skies of Miami, Adelaide, Toulouse, Auckland and the like for instruction.

And while that may be good for some, its bad news for the companies that have invested millions of dollars into training facilities in China and now cannot fill their classrooms and simulators schedules.

Sources agree there is little hope of changing the trend short-term because, apart from enjoying the change of lifestyle, the pilots are often able to double their salaries by saving a large slice of their allowances while having a sponsored life abroad.

"The pilots are the most powerful people in an airline. Invariably, the Communist Party secretaries at the airlines are pilots," said one source.

"This means they have the ultimate power over the president of an airline. If he has the courage to insist on his pilots training in China then it's more than likely that a complaint will be made to party chiefs in Beijing and he will be removed. It's obvious that most presidents are not going to rock the boat."

Now, where possible, training organisations in China are busy trying to arrange programmes which will see pilots split their training between home and abroad, thus ensuring some revenue from the China facilities.

Twelve months ago people were asking ...

What's WAP?

But are travellers finding the mobile phone application makes life easier

By Tom Ballantyne

Wireless Application Protocol, or WAP, is unlikely to be the be-all and end-all its promoters would like people to believe it to be. In fact the system, designed to enable Internet access via the mobile telephone, is no replacement for a laptop computer, according to IBM research scientist Stefan Hild.

WAP, believes Hild, will simply become another channel in the fast-growing web of e-commerce opportunities. Twelve months ago nobody really knew what WAP technology represented.

"Now, this technology is maturing and people are talking about it. It has been positioned as the Web for the mobile phone. I am questioning whether this is a good description for WAP. I argue this is a very dangerous description, despite the fact it has grasped the imagination of the users," said Hild who has been involved in a team developing WAP at IBM's laboratory in Zurich, Switzerland

The problem, it appears, is WAP has been over-hyped. Privately, those involved blame the mobile phone manufacturers who have boldly pushed it as the Internet gateway of the future, a small and totally mobile unit that will allow travellers access to the Web at any time, wherever they are.

Hild said WAP would be a critically important element in the airline-customer contact chain, but he believes its uses will be far narrower and more specific than touted.

WAP has earned itself a bad name with some people because the system has sometimes been used in inappropriate projects.

For example, in Europe one scheme allowed users to order flowers, but the actual cost for the connection was higher than the cost of the flowers, said Hild.

CNN is offering a service for people to read headline news on their mobile phones. But even when edited, headline news produces a display which is too long for the small telephone display. Hild does not believe a WAP phone is the best means to browse news information. WAP will complement existing

IBM research scientist Stefan Hild: WAP will not replace laptop

channels but, according to Hild, is "probably not the right device on which to book a flight because it's a very complicated transaction. I still see the Web as the ideal channel for trip planning and booking".

The Web also gives a level of security WAP cannot match at the moment, said Hild. "On the other hand, because WAP and other mobile phone devices are ubiquitous they are ideal for executing last-minute transactions and for providing electronic or automated notification and guidance information."

Hild said WAP has three points in its favour over the Web:

- Unlike the Web, WAP telephones are authenticated when they are switched on. "Whenever the user interacts with one of our servers we know who the user is and we can tailor our service operation to that user, said Hild.
- WAP phones are location aware. This "gives us the capability to provide very accurate personalised information to the user. If they are in the wrong terminal we can let them know".
- WAP is reachable. "Unlike PC browsers, we have the capability to push information to them."

IBM is working with Swissair on a WAP service called Easy Check-in, launched last December. The airline gave 160 WAP enabled mobile phones to some of its most valued customers for check-in use.

They can check in up to 24 hours in advance, from home or the airport. An electronic boarding card is delivered to the telephone. The boarding card is refreshed when changes arise.

The service has been popular, with about 7,700 requests for information – some 66 daily. It has handled 1,500 updated flights and 363 passengers have checked in using the system.

Forecasts vary but projections suggest there will be at least 500 million WAP enabled phones in use by 2003. Nokia and Motorola have their WAP models on the market and the arrival of an Ericsson version is imminent.

However, there is more to WAP than mobile telephones. The technology, basically a micro-browser on a chip measuring five square millimetres, can be embedded in luggage tags as a location device. "You can turn everything into a WAP capable phone, a browser that can interact with the user or simply be a sensor," said Hild.

Japan has a similar system, called i-mode. In the U.S. there is another version HDML.

i-mode rings changes in Japan

Japan Airlines (JAL), supported by NTT DoCoMo and IBM, has announced increased access to a host of its services through mobile telephones and hand-held electronic devices.

Passengers who register their mobile phones using NTT DoCoMo's i-mode technology will be able to access all travel needs.

The i-mode technology is available only in Japan and is a concept similar to WAP.

"Our i-mode service is conducting 40,000 transactions a day. We want to develop and enhance this service further," JAL director of product planning and marketing, Tomohiro Nishihata, told delegates at April's IATA@ internet conference in San Jose.

Ticketing twist

Customers call the tune in Internet auctions

There was a time when airline marketing departments set the seat prices on their aircraft and travellers decided whether they could afford them. Now, thanks to the Internet, customers have a chance to set the price in a complete role reversal.* PATRICK GARRETT *looks at an American company which has brought "auction in reverse" to Asia.

In January, Hong Kong's Hutchison Whampoa signed a deal with the U.S. pioneers of the so-called "buyer-driven business model", priceline.com. Priceline.com turns traditional retail methods on their heads by asking consumers to set their own prices for travel, car and home finance products. And soon, even petrol. Companies can opt to accept or refuse the offers.

Hutchison plans to leverage its extensive Internet presence to introduce the priceline.com system into China, Hong Kong, Singapore, Taiwan, India, Indonesia, Malaysia, the Philippines, India and Vietnam.

How ready all these markets are now for such radical change is open to question because the penetration of home computers is not as high as in the U.S. However, through the spread of cyber cafes and the Internet in schools and libraries more people have some access to this cyber technology.

As in so many of the new business paradigms, the Internet has been the enabling factor. It allows customers to haggle and bargain directly with sellers through computers in real time in a way that brings a flavour of an Oriental bazaar to the modern business world. Indeed, perhaps customers in this region are already more prepared for the priceline.com approach than in the west.

But for big business, discounting is never as quick as scratching out the price on a blackboard. Traditional "last minute" air travel involves travel agents and advertising. And announcing discounted prices can risk eroding official prices.

The priceline.com model avoids these problems.

Customers approach airlines with the price they are prepared to pay (this may also offer shrewd market research opportunities) and because the pricing could be entirely flexible a carrier need not reveal what price it will ultimately accept for a seat.

Another beauty of the system is the customer provides credit card details up front. If an airline is prepared to accept the price, bang! The deal is done. Speculative travellers cannot use the system to check out how low prices go without committing to buy. And because none of these prices are published and could always be a one-off, it may also reduce the temptation for airline price wars.

Customers enter their details into the site – where and when they want to go, the number of tickets, credit card details, and how much they want to pay.

Priceline.com then searches for an airline willing to release seats at that price and promises an answer within one hour. If it finds tickets at that price, priceline.com immediately purchases them and charges the credit card. By opting to accept connection flights travellers can increase their chances of obtaining tickets at their price. If the first offer is not accepted users can try again with a higher price, different travel dates or airport alternatives.

'Priceline.com believes it accounts for over 3% of all leisure airline tickets sold in the U.S.'

From a yield management perspective the priceline.com model is attractive. Passengers cannot specify the carrier or the departure time – only the day. In the U.S., priceline.com domestic flights will always depart between 6am and 10pm, but international flights could be at any time during the day. Travellers cannot earn frequent flyer points, are not eligible for upgrades and although they can specify they are prepared to take one or more stopovers, they have no choice of routing.

Priceline.com only guarantees "you will always fly on a major full-service U.S. or international airline or its affiliate". This rule gives carriers total control in filling their empty flights or steering passengers away from full ones.

Because the passenger has no choice over what time of day the flights depart it is unlikely many business passengers would choose to go the priceline.com route. The airlines are therefore not under-selling tickets to existing customers.

The key is that passengers who are prepared to fly at any time of day on any carrier for only the absolute minimum price are the passengers who otherwise would simply NOT have flown.

Although marketeers are careful not to devalue products through an over-abundance of discounts, airlines balance this with the knowledge that there is nothing more worthless to them than an empty seat after the doors have closed.

In November, priceline.com announced that American Airlines, United Airlines and US Airways would join their airline service. Now they work with all eight major full-service U.S. airlines as well as more than 20 international carriers, including a number of Asian airlines. Priceline.com declined to name which Asia-Pacific carriers take part in the programme. The company believes it accounts for over 3% of all leisure airline tickets sold in the U.S.

Priceline.com also exploits cross-marketing angles. One scheme is seductively named "Free Bonus Money". By signing up for an offer from a choice of different businesses (credit card providers, magazines, telephone companies etc) potential travellers can add up to $70 to their bid price, paid by their sponsor. The bid price is therefore increased at no "direct" cost to them.

Priceline.com recently announced a co-marketing agreement with web travel sites, Travelocity.com and Preview Travel. As part of the alliance, all three sites will offer customers the ability to either name their own price through priceline.com or purchase published fare tickets through Travelocity.com and Preview Travel. The group will share a total customer base estimated at more than 20 million. Adding parts of Asia to the "buyer-driven business model" could make significant differences to the wav all airlines deal with leisure passengers.

Virgin Blue opts for QSI e-pay system

Virgin Blue, Australia's new budget carrier, will provide prospective passengers with an e-payments system developed with Australian-headquartered QSI Payments and be operated in partnership with MasterCard International's Internet Gateway Services (MIGS) payment system.

Passengers of the airline, planned for launch this July, will be encouraged to use the e-payment facilities that will be integrated into Virgin Blue's Open Skies flight booking system and call centre facilities.

Australia's QSI, which recently received a US$12 million funds injection from international financiers, Goldman Sachs, is committed to supplying Virgin Blue with a complete e-payment architecture system that will allow clients to book tickets either on the airline's web-site or through the call centre.

The start-up carrier plans to adopt QSI's pin-based debit and electronic cheque Internet payment gateways once services have been operating for a few months.

Virgin Blue will use QSI's Mail Order Telephone Order (MOTO) and SSL+ payment gateway to secure and process passengers' credit card bookings. Said MasterCard Asia-Pacific president, Andre Sekulic in May. "Virgin Blue is the first airline in the region to utilise an e-commerce payment solution through MIGS," she said.

JAL e-trial

Japan Airlines (JAL) began selling e-tickets on its international routes on May 22, initially on services to Los Angeles and New York from Tokyo and Osaka but for its frequent flyers and for award tickets only. Following a trial period, of three to four months, JAL passengers to North America will present a receipt for their tickets, purchased by credit card, and the required personal identification documents in exchange for a boarding pass.

A passenger using e-mail under testing on board one of the three Condor A320 aircraft

Breaking new ground

Lufthansa German Airlines has achieved a world first by installing technology on three A320s belonging to its subsidiary, Condor Berlin, capable of sending e-mails from an aircraft seat.

Although still in the initial testing stage, a basis for Internet communications from the aircraft cabin has been established. The three A320s are fitted with a wireless local network. Ground stations at Berlin-Schönefeld and Palma de Mallorca transmit messages to the Internet before or after a flight.

Lufthansa, which aims to install the online capability throughout its fleet, is now discussing the options with providers and manufacturers.

Airline group chairman and chief executive officer, Jürgen Weber, told reporters at its annual May press conference in Frankfurt that the 21st century would not only be the age of real networks, but above all it would be the era of the virtual networks of electronic communication via the Internet and e-business.

"In the e-business we are adjusting to new business models and using all the opportunities and savings potential that electronic networks offer," he said. E-commerce, in particular, would play a key role. In March, a new company Lufthansa e-Commerce GmbH joined the group fold. Initially, it will support sales and distribution via the Lufthansa InfoFlyway web site.

Weber said soon every customer will be able to plan their entire trip from the booking to the purchase and payment of their e-ticket anywhere in the world from home, via a laptop computer or WAP mobile phone while on board an aircraft.

The three Condor A320s are playing a pioneering role in the new age that's dawning.

CARGO SUSTAINS MOMENTUM

The year 2000 began with modest growth in consolidated passenger traffic for Association of Asia Pacific Airlines (AAPA) members: revenue passenger kilometres (RPKs) grew by 3.3% while the number of passengers carried increased by 4.6%. Capacity rose slightly higher (3.8%) than the rate of traffic, which resulted in a load factor of 70.1%, down by 0.4 percentage point.

Compared with 1999 passenger traffic growth, this month's numbers reflected a lacklustre performance by AAPA members. Only Philippine Airlines (PR - 53.2%) logged double-digit RPK growth. However, with the exception of China Airlines (CI) and All Nippon Airways (NH), both of which reported negative RPK growth, all other members posted moderate traffic increases, which ranged from 0.6% to 7.7%.

The majority of the carriers' passenger load factor (PLF) declined. All Nippon Airways posted the sharpest deterioration in PLF, down 6.2 percentage points to 59.1%. Philippine Airlines, on the other hand, recorded the best improvement with an 8.3 percentage point increase to 67.5%. Eight member airlines had load factors above 70%.

Cargo Results

Freight traffic in January 2000 sustained the double-digit performance of 1999 and soared by 17.1%. A slower expansion in capacity (13%) resulted in a 2.3 percentage point increase in freight load factor (FLF) to 66%.

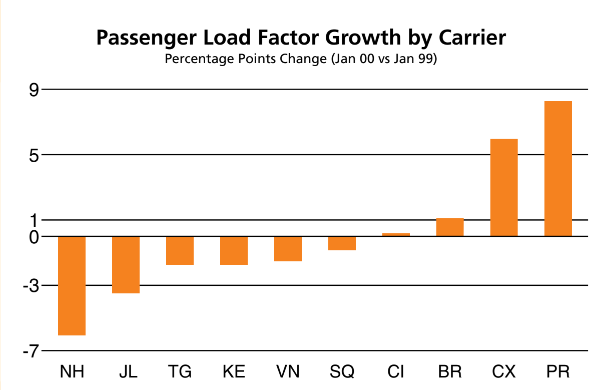
The majority of AAPA member airlines showed exceptional freight tonne kilometre (FTK) growth. They included Vietnam Airlines (VN - 52.1%), Philippine Airlines (41.4%), China Airlines (34.1%), EVA Air (BR - 19.5%), Singapore Airlines (SQ - 13.0%) and All Nippon Airways (12.3%).

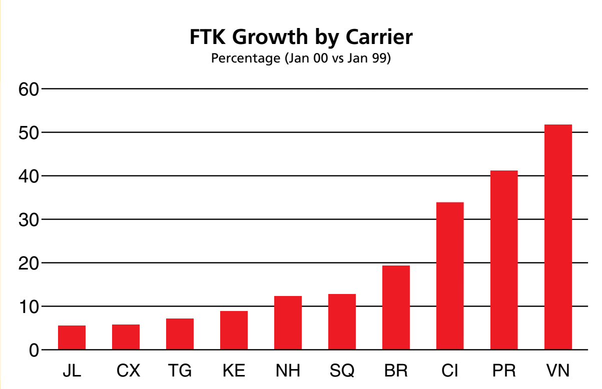
In terms of FLF growth, most AAPA carriers posted a remarkable improvement. All Nippon Airways reported the best results, up 14.4 percentage points to 60% FLF, after a 14.2% reduction in freight capacity. Taiwan-based carriers, China Airlines (81.2%) and EVA Air (75.5%), rated highest in FLF, while Philippine Airlines was the lowest at 25%.

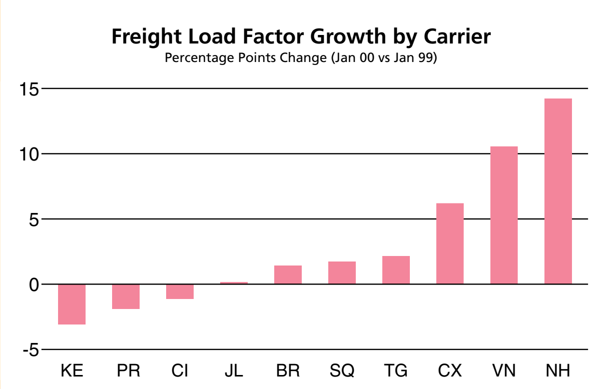
Results for the 12 Monthes to January 31, 2000

Passenger traffic and the number of passengers carried for the year under review grew by 9% and 9.2%, respectively. A moderate growth in seat capacity (4.2%) pushed the load factor up by 3.2 percentage points to 72.2%.

All member airlines posted positive growth in traffic during the 12-month period. Four airlines, in particular, recorded







at least 10% RPK growth: Korean Air (KE - 15.2%), Philippine Airlines (14.1%), Thai Airways International (TG - 12.2%), and Singapore Airlines (10.7%).

Eight members logged a load factor above 70%: Singapore Airlines (75%), EVA Air (74.7%), Vietnam Airlines (74.5%), Korean Air (74.1%), Thai Airways International (73.5%), China Airlines (72.4%), Cathay Pacific Airways (CX - 72%) and Japan Airlines (JL - 71.6%).

Cargo Results

Freight traffic in the 12-month period grew by 14.4%. Freight capacity increased at a slower pace (12.1%) which produced a 1.4 percentage point improvement in FLF to 69.3%.

Nine carriers registered rises in traffic during the 12 months, led by EVA Air (23.9%) and China Airlines (22.5%).

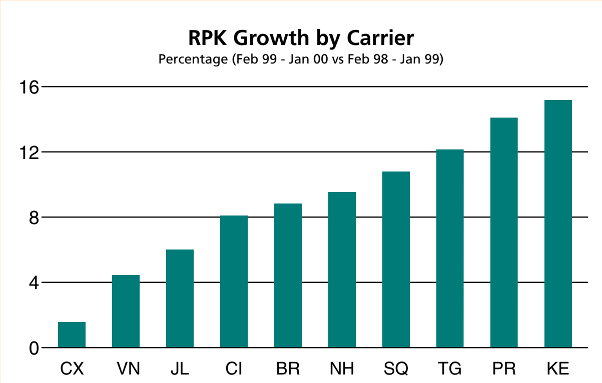
The majority of members also showed improvement in FLF. Cathay Pacific reported the largest improvement with an eight percentage point FLF increase to 71.7%. China Airlines (83.8%) and EVA Air (79.3%) recorded the two highest FLFs. Philippine Airlines logged the lowest FLF (30.7%).

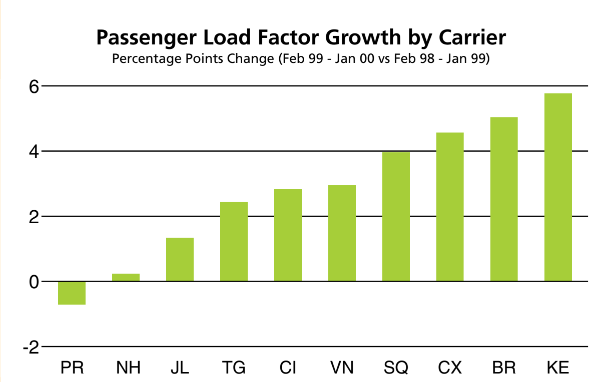
Summary

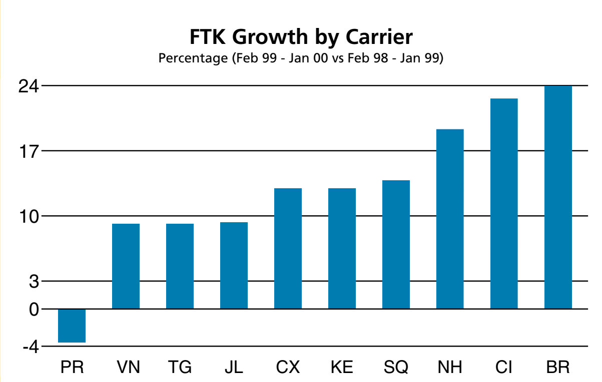
With the usual depression observed in passenger traffic at the beginning of the year, January's reduced growth in air travel was not a big surprise. Also, fears about the effects of the Y2K rollover cannot be discounted and might have had a more enduring impact on loads than anticipated.

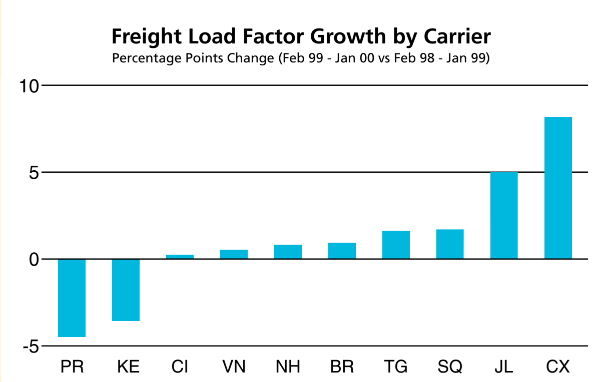
Fortunately, the start of the year brought about increased trade by air, which contributed to sustained growth in the freight business for the majority of AAPA members. This trend may also be attributed to the expanding inter-regional trade and the continuing improvement of the Asia-Pacific economies.

Vietnam Airlines: recorded a passenger load factor of 74.5% in the year to January 2000

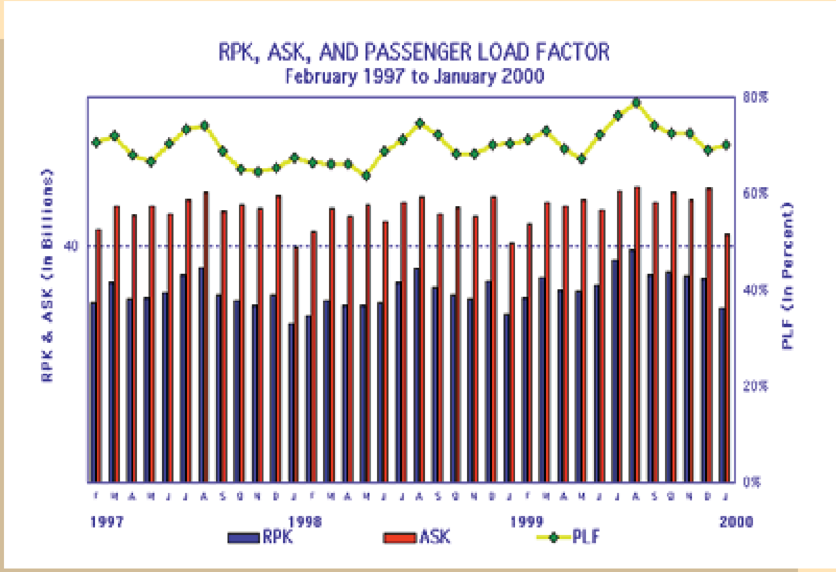


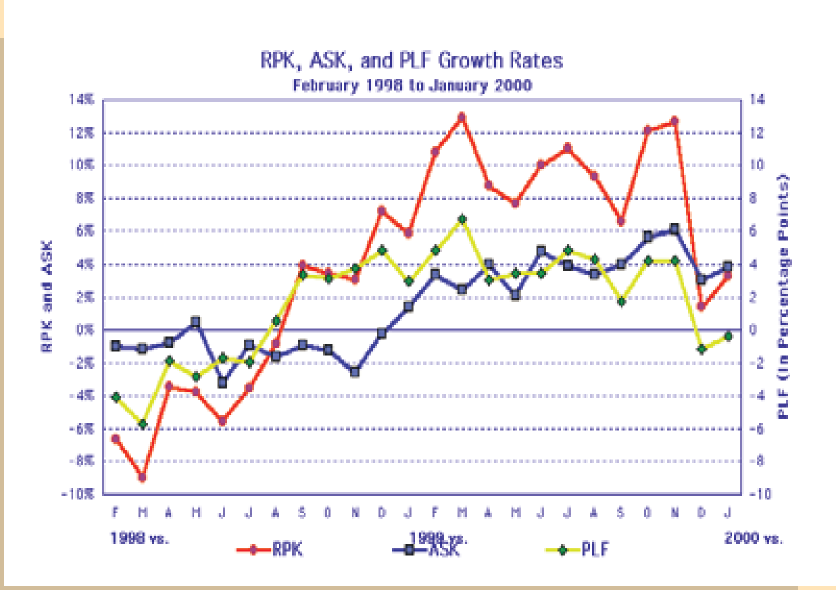




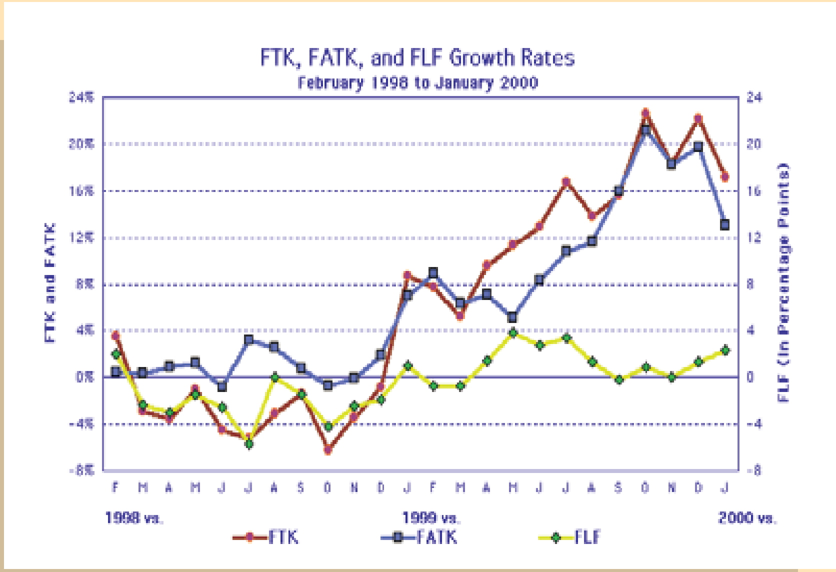


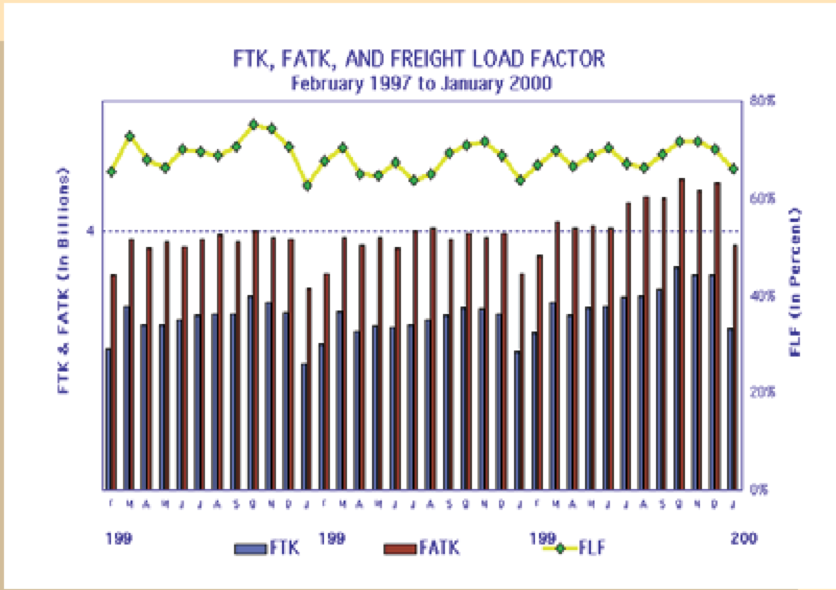
Monthly international PAX statistics of AAPA members





Monthly international cargo statistics of AAPA members





AAPA monthly international statistics (MIS)

*IN THOUSANDS

2000 to 1999

	RPK	ASK (000)	PLF (000)	FTK %	FATK (000)	FLF (000)	RTK %	ATK (000)	PAX
JAN-00	29,307,379	41,840,708	70.05	2,483,686	3,763,866	65.99	5,233,754	7,618,383	6,696
DEC-99	34,273,367	49,669,054	69.00	3,313,433	4,727,000	70.10	6,529,375	9,277,544	7,830
NOV-99	34,684,585	47,745,675	72.64	3,309,500	4,609,005	71.81	6,571,972	8,989,463	7,834
OCT-99	35,449,964	48,939,189	72.44	3,437,930	4,792,340	71.74	6,777,410	9,281,637	7,901
SEP-99	34,947,855	47,212,313	74.02	3,097,860	4,486,440	69.05	6,389,214	8,821,249	7,664
AUG-99	39,348,933	49,788,546	79.03	2,989,911	4,505,110	66.37	6,673,668	9,083,688	8,770
JUL-99	37,508,381	49,218,819	76.21	2,971,911	4,425,710	67.15	6,473,530	8,959,412	8,427
JUN-99	33,291,885	46,053,940	72.29	2,838,389	4,039,831	70.26	5,934,831	8,275,666	7,561
MAY-99	32,175,850	47,792,746	67.32	2,803,467	4,082,843	68.66	5,804,819	8,469,217	7,366
APR-99	32,369,409	46,676,294	69.35	2,688,021	4,039,650	66.54	5,701,284	8,316,650	7,461
MAR-99	34,515,836	47,245,483	73.06	2,888,032	4,137,201	69.81	6,087,192	8,480,215	7,808
FEB-99	31,174,263	43,690,596	71.35	2,422,460	3,621,146	66.90	5,297,941	7,623,153	7,235
TOTAL	409,047,707	565,873,362	72.29	35,244,600	51,230,143	68.80	73,474,989	103,196,277	92,551

1999 to 1998

	RPK	ASK (000)	PLF (000)	FTK %	FATK (000)	FLF (000)	RTK %	ATK (000)	PAX
JAN-99	28,371,200	40,302,666	70.40	2,120,314	3,331,112	63.65	4,752,134	7,053,206	6,404
DEC-98	33,800,057	48,189,372	70.14	2,712,941	3,947,355	68.73	5,815,696	8,356,190	7,625
NOV-98	30,787,673	44,998,002	68.42	2,799,134	3,898,969	71.79	5,630,973	8,049,058	7,023
OCT-98	31,605,840	46,334,912	68.21	2,804,516	3,956,421	70.89	5,709,827	8,228,236	7,156
SEP-98	32,801,451	45,384,195	72.28	2,679,807	3,868,446	69.27	5,687,520	8,072,629	7,125
AUG-98	35,998,403	48,182,911	74.71	2,626,287	4,036,902	65.06	5,912,663	8,448,457	8,057
JUL-98	33,788,119	47,369,898	71.33	2,545,604	3,995,089	63.72	5,637,588	8,329,958	7,505
JUN-98	30,263,787	43,967,789	68.83	2,514,464	3,726,437	67.48	5,312,776	7,732,083	6,795
MAY-98	29,882,897	46,786,290	63.87	2,518,814	3,884,192	64.85	5,273,916	8,151,421	6,741
APR-98	29,755,772	44,883,718	66.30	2,453,566	3,771,834	65.05	5,212,267	7,882,379	6,890
MAR-98	30,575,411	46,112,047	66.31	2,744,004	3,892,857	70.49	5,577,233	8,094,151	6,964
FEB-98	28,131,428	42,280,272	66.54	2,248,817	3,324,838	67.64	4,851,231	7,192,933	6,489
TOTAL	375,762,037	544,792,072	68.97	30,768,268	45,634,452	67.42	65,373,824	95,590,701	84,775

1998 to 1997

	RPK	ASK (000)	PLF (000)	FTK %	FATK (000)	FLF (000)	RTK %	ATK (000)	PAX
JAN-98	26,807,950	39,747,212	67.45	1,950,290	3,113,043	62.65	4,442,322	6,764,981	6,054
DEC-97	31,530,264	48,318,048	65.26	2,737,295	3,873,538	70.67	5,659,579	8,270,875	7,198
NOV-97	29,873,748	46,202,193	64.66	2,898,073	3,900,154	74.31	5,669,375	8,108,054	6,865
OCT-97	30,558,849	46,936,589	65.11	2,992,199	3,985,117	75.08	5,828,851	8,260,884	7,004
SEP-97	31,559,087	45,823,297	68.87	2,716,330	3,838,583	70.76	5,648,590	8,004,922	6,977
AUG-97	36,321,417	48,967,204	74.17	2,709,545	3,938,306	68.80	6,071,957	8,389,329	8,092
JUL-97	35,028,258	47,805,812	73.27	2,688,568	3,870,446	69.46	5,928,392	8,215,320	7,814
JUN-97	32,040,636	45,425,520	70.53	2,633,630	3,757,756	70.09	5,603,114	7,883,779	7,250
MAY-97	31,037,075	46,559,497	66.66	2,546,410	3,838,451	66.34	5,431,046	8,071,740	7,100
APR-97	30,807,978	45,219,804	68.13	2,544,608	3,739,549	68.05	5,404,919	7,847,301	7,313
MAR-97	33,599,094	46,670,864	71.99	2,825,859	3,879,309	72.84	5,959,385	8,115,181	7,762
FEB-97	30,135,591	42,696,237	70.58	2,172,416	3,309,918	65.63	4,973,106	7,193,963	7,195
TOTAL	379,299,946	550,372,277	68.92	31,415,223	45,044,170	69.74	66,620,636	95,126,328	86,624

Percentage point change

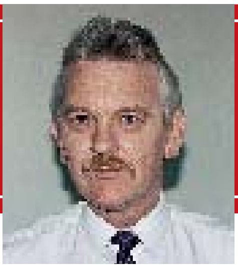
Feb 99 to Jan 00

	RPK	ASK	PLF	FTK	FATK	FLF	RTK	ATK	PAX
JAN-00	3.30	3.82	-0.35	17.14	12.99	2.34	10.13	8.01	4.55
DEC-99	1.40	3.07	-1.14	22.13	19.75	1.37	12.27	11.03	2.69
NOV-99	12.66	6.11	4.22	18.23	18.21	0.01	16.71	11.68	11.55
OCT-99	12.16	5.62	4.23	22.59	21.13	0.85	18.70	12.80	10.41
SEP-99	6.54	4.03	1.75	15.60	15.98	-0.22	12.34	9.27	7.56
AUG-99	9.31	3.33	4.32	13.85	11.60	1.31	12.87	7.52	8.84
JUL-99	11.01	3.90	4.88	16.75	10.78	3.43	14.83	7.56	12.28
JUN-99	10.01	4.74	3.46	12.88	8.41	2.78	11.71	7.03	11.27
MAY-99	7.67	2.15	3.45	11.30	5.11	3.82	10.07	3.90	9.26
APR-99	8.78	3.99	3.05	9.56	7.10	1.49	9.38	5.51	8.29
MAR-99	12.89	2.46	6.75	5.25	6.28	-0.68	9.14	4.77	12.12
FEB-99	10.82	3.34	4.82	7.72	8.91	-0.74	9.21	5.98	11.49

Feb 98 to Jan 98

	RPK	ASK	PLF	FTK	FATK	FLF	RTK	ATK	PAX
JAN-99	5.83	1.40	2.95	8.72	7.01	1.00	6.97	4.26	5.78
DEC-98	7.20	-0.27	4.88	-0.89	1.91	-1.94	2.76	1.03	5.94
NOV-98	3.06	-2.61	3.76	-3.41	-0.03	-2.51	-0.68	-0.73	2.31
OCT-98	3.43	-1.28	3.11	-6.27	-0.72	-4.20	-2.04	-0.40	2.17
SEP-98	3.94	-0.96	3.40	-1.34	0.78	-1.49	0.69	0.85	2.13
AUG-98	-0.89	-1.60	0.54	-3.07	2.50	-3.74	-2.62	0.70	-0.43
JUL-98	-3.54	-0.91	-1.94	-5.32	3.22	-5.75	-4.91	1.40	-3.96
JUN-98	-5.55	-3.21	-1.70	-4.52	-0.83	-2.61	-5.18	-1.92	-6.28
MAY-98	-3.72	0.49	-2.79	-1.08	1.19	-1.49	-2.89	0.99	-5.05
APR-98	-3.42	-0.74	-1.83	-3.58	0.86	-3.00	-3.56	0.45	-5.79
MAR-98	-9.00	-1.20	-5.68	-2.90	0.35	-2.36	-6.41	-0.26	-10.28
FEB-98	-6.65	-0.97	-4.05	3.52	0.45	2.00	-2.45	-0.01	-9.81

A RESPONSIBILITY SHARED



TURBULENCE

By Tom Ballantyne

If you have been reading Australian newspapers over the past few months you might be forgiven for thinking the national carrier, Qantas Airways, has closed down its maintenance department and decided to trust the safety of its flights to the Gods of Fate rather than engineering excellence.

The headlines have been continuous and they have nearly all, unashamedly, borne an underlying suggestion that somehow there is something going wrong at Qantas and that its safety standards are being eroded.

"Minister to grill Qantas on safety"; "Qantas crash jet forced to abort flight"; "Qantas to face fresh scrutiny"; these are just a few examples of the headlines, but you get the idea.

Of course, Qantas remains an extremely safe airline. Safer than most. It has what can only be described as a phenomenal safety record; no fatalities in the jet age. It still maintains its fleet and its operational procedures at levels well above those required by regulations.

It is among many carriers in Asia and elsewhere which have contributed hugely to making air travel the safest form of transportation known to man.

So what is this frenzy of media attention all about? It began last September when one of the carrier's B747-400s ran off the end of a runway at Bangkok's Don Muang International Airport.

There have been other incidents.

A B747 jet scraped an engine along the runway at Perth when the aircraft was hit with strong winds during landing; an emergency chute deployed in flight during a flight to New Zealand; a regional jet turned back to Darwin after an engine fire warning and the undercarriage of a B747 collapsed just before takeoff Rome.

But, with the exception of the Bangkok incident, most of these incidents represented no threat to life or limb.

The bizarre nature of the coverage was highlighted in May when a B747 (the same aircraft involved in the Bangkok accident) twice had to return to Hong Kong because of a generator failure.

This event was something akin to a light bulb blowing in your home. Yet it was represented in some Australian newspapers almost as if Qantas had suffered a disaster and the jet in question was jinxed.

In some respects, there is something of the "knocking down the tall poppy" syndrome about it all. At times, it almost appears as if some sections of the media are willing something to happen to show that Qantas is human after all. But then it is.

Qantas managing director, James Strong, knows this and he must be having a difficult time coming to grips with some of the adverse publicity being heaped upon his charge.

Indeed, *Orient Aviation* carried an interview with Strong in April – this columnist was the only journalist with whom he agreed to talk in-depth about safety matters – in which he pointed out investigations of all the recent incidents have revealed no evidence of systematic failure in safety or operating systems.

'Qantas should be taking a long hard look at its relationship with the media'

In other words, they were mostly the kind of incidents which happen to big airlines in day-to-day operations and although every incident is a concern, this did not mean Qantas's approach to safety was falling apart at the seams.

What has happened to Qantas over the past 12 months should become a study in crisis management for all carriers.

It shows no matter how good your reputation is, if the media gets hold of a bone it may refuse to let it go and everything can all get out of hand.

Qantas should not only be conducting its own inquiry into the separate incidents. It should be taking a long hard look at its relationship with the media and how its public relations machine reacted to it.

I have always contended that if Qantas had properly briefed reporters after the Bangkok incident it would have subsequently received a better press.

Politicians have even become involved. Australia's deputy prime minister, John Anderson, called a meeting with Strong and aviation regulator Mick Toller in May to "discuss" safety issues at the airline.

Anderson later said he had accepted Strong's assurance there are no systematic problems at Qantas.

It is good that Australia's Civil Aviation Safety Authority (CASA) has begun a full-scale safety audit of Qantas, although it must be said that this had already been scheduled and had nothing to do with recent press coverage.

However safe Qantas might be, persistent adverse reporting might eventually have some impact on public perceptions. To a large extent, the public does not understand safety issues. They don't understand the levels of redundancy in aircraft systems and tend towards the view that if the least little thing goes wrong big jets will fall from the sky.

It may be unfortunate, but to a great degree the image is shaped by what the public read or hear through the media. The truth of the matter is that some sectors of the media, like the general public, don't fully understand the airline business.

It is up to airlines, as much as it is to journalists, to provide a foundation on which reporting of the industry, and individual airlines, can be balanced and fair.