VOL. 7 NO. 7 MAY 2000

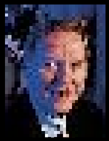
Orient aviation

MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

GOING GLOBAL

SIA advances toward its long-term goal of becoming a major world airline force

Executive interviews:



Mulally magic turns Boeing around

Little Air Macau beating the odds

SPECIAL REPORT: Information Technology and the Internet

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A 16-page pull-out dedicated to onboard services and technology. In this issue: Cathay Pacific rewards its cabin crew stars; Rockwell Collins buys IFE hardware rival Sony Trans Com; Japan Airlines report card on Sextant PTV system; first Asia-Pacific IFCA president: his vision for the association; Network: news and people moves.

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Twinstar Graphic Arts Co.

Printing
Lammar Offset
Printing Company Ltd

Distributed by
Speedmail Ltd

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

A QUESTION OF PERCEPTION

More people died from gun shot wounds in the U.S. last year than the total number of people killed in commercial air crashes since jet planes were introduced in the 1950s. The same analogy can be applied to road deaths in many countries.

More than 100,000 patients die every year in the U.S. because of mistakes made in hospitals. If hospitals adopted the same safety standards as the aviation industry there would hardly be any such deaths.

These interesting analogies were listed at an April International Air Transport Association (IATA) public relations conference in Japan.

If you have any information like this, pass it on, PR delegates were told. The reason? It's the public perception that counts. Unfortunately, there is one "CNN accident" every week, the conference heard; an accident big enough to make it onto the 24-hour, international television news station.

No sooner had that conference finished than there was another "CNN accident" and it was in the heart of Asia. A B737-200 belonging to secondary carrier, Air Philippines, crashed in the south of the Philippines, killing all 131 people on board.

Once again the safety spotlight was on Asia. At these times, it is worth bearing in mind those figures above.

It is also important to emphasis that Asia and the Pacific have some of the world's safest airlines; Cathay Pacific Airways, Singapore Airlines, Qantas Airways and the major Japanese carriers included.

While this is not the case in other parts of Asia, airlines in the region are spending more on safety and training budgets than at any time in their history.

Multi-million dollar measures include entering into long-term contracts with major internationally-acclaimed training organisations, modifying training techniques, improving English language skills, beefing up awareness training for cultural sensitivities and multi-culture crew mix, upgrading crew resource management training and, in some cases, adding more western pilots to their crews.

Last November, the Association of Asia Pacific Airlines' (AAPA) Assembly of Presidents passed a resolution to reinforce safety co-operation among its airlines. The association has been asked to spearhead efforts in the region to reduce controlled flight into terrain and approach and landing accidents as part of a global campaign by the Flight Safety Foundation.

All are steps in the right direction and should help improve the public perception of air safety in the region.

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THE ANSWER IS NO: Despite pressure from leading U.S. carriers and some regional airlines, the Hong Kong Government rejected writing an Open Skies Air Service Agreement when its advocates sat down to bilateral talks in Hong Kong in mid-April. Hong Kong's position is that an Open Skies agreement with the U.S. that would grant U.S. airlines universal access to its aviation market, without local carriers being given rights to fly into U.S. domestic cities, would "create an unlevel playing field".

Separately, it is expected the present chief executive of Hong Kong's airport authority, veteran civil servant, Billy Lam, may be moved elsewhere within the government. His job has been advertised and he has been invited to apply. But sources say the new AA board, led by entrepreneurial local tycoon, Victor Fung, believes a day-to-day boss schooled in the tough world of the market economy, rather than a bureaucrat, will be better equipped to boost the new airport's bottom line and build its competitive hub status in the region.

ROD GETS THE NOD: On April 26, as Orient Aviation went to press, British Airways (BA) announced the appointment of Rod Eddington as its new chief executive. And he wasted no time in 'clocking in' at one of the world's most prestigious airlines. The highly respected former Cathay Pacific Airways managing director and, latterly, executive chairman of Ansett Australia, Eddington started his new job on May 1. He succeeds Robert Ayling who resigned in March. The announcement ended extensive speculation that Eddington was the man sought by BA for the top job.

SERIOUS: George Snyder (47), most recently vice-president of safety and regulation compliance at Virginia headquartered U. S. Airways, has joined Korean Air's expatriate team in the safety and flight operations departments as the managing vice-president of corporate safety. A member of a number of international safety committees, including the International Air Transport Association Safety Advisory Committee, Capt. Snyder will be working with another recently appointed expatriate airline veteran, David Greenberg, Korean Air's executive vice-president of operations.

RETIRING: Thai Airways International (THAI) president, Thamnoon Wanglee, is set for a move in the last quarter of 2000, with plans for a break from the daily grind of the airline business. Thamnoon always intended to retire this year, but it is expected he will not step down until the partial privatisation of THAI is completed and the strategic investor in the carrier is chosen, a process set down for the last quarter of the year.

PULLING HIS WEIGHT: As senior special projects manager at Sydney-based Capital Events, David Huxley is heading a programme for Ansett Australia in which the airline is renting out its simulators to big business to enable companies to assess management skills of their top staff (See page 30).
He pulls a lot of weight in the aviation world and in more ways than one.
A former world class hammer thrower, Huxley holds three world records for hauling aircraft, including a British Airways Concorde and a Qantas B747-400 (pictured above), across the tarmac at Sydney airport using nothing but his own muscle power. His feats have won him recognition in the Guinness Book of Records.
For good measure, gentle giant Huxley has also hauled huge mining trucks even further distances. But now he has followed his mother's advice and opted for a less strenuous life, physically at least, pulling in new business for his employers.

SETTLEMENT: Korean Air has confirmed it has reached a collective compensation agreement to pay the bereaved families of 98 victims of its Guam, 1997 crash 250 million won (US$235,000) at press time per victim. Separately up to 14 Korean families of passengers killed in the crash will be paid US$30 million in compensation by the U.S. Govern-ment, as a result of an out-of-court settle-ment. It is believed the Federal Aviation Administration has agreed to pay individual families between US$500,000 and $5 million on the condition the relatives withdraw their compensation lawsuits. An investigation report by the U.S. National Transportation Safety Board ruled last November that the crash, which took 228 lives onboard, was due to both pilot error and the faulty radar system at Guam International Airport, which is in U.S. territory.

BOARD BOUND: After a tough but successful three years of growing joint venture Aircraft Maintenance and Engineering Corporation's (AMECO) business in Beijing, August-Wilhelm Henningsen is now a member of the executive board of Lufthansa Technik. Walter Heerdt, in his second stint at AMECO, is the new German general manager of the Air China/Lufthansa partnership.

STALLED: After 17 months without a possible sale in sight for its 71%-owned China Airlines, the quasi-governmental China Aviation Development Foundation (CADF), has renewed its contract with Salomon Smith Barney, the adviser leading the worldwide search for a CAL equity part-ner. Apparently, the CADF and CAL cannot find an airline that will agree to its sale terms, an issue complicated by a change of government and transportation minister in March. Tenure of the CADF's board expires in June and those still nursing ambitions of a part buy-in for CAL hope some fresh blood at director level will re-vitalise the sale process.

CHANGING HATS: After more than two decades with Cathay Pacific Airways, the last 10 in training management, John Bent has been appointed managing director, Asia at GE Capital Aviation Training (GECAT).

But he has not moved far. Bent is responsible for developing and managing the new GECAT aircrew training operation at the Cathay Pacific Flight Training Centre at Hong Kong International Airport (See page 32).

Bent spent 23 years with Cathay and served both as manager flight training and training services. With Cathay's Capt. Rick Fry, he was one of the first two pilots in the world to qualify for cross-crew flying on the A340 and A330 aircraft. Bent also spent 12 years with the Royal Air Force as a pilot and flying instructor.

A highly respected member of the aviation community, Bent has been a member of training committees with IATA, ICAO and the Association of Asia Pacific Airlines (AAPA).

REGIONAL ROUND-UP

Two months to identify all Air Philippines victims

At press time, investigators at the southern Philippines crash site of an Air Philippines Boeing 737-200 said it would take at least two months to identify the remains of the 131 passengers, mostly Easter holiday-makers, killed when the aircraft crashed as it was preparing to land at Davao City airport. All passengers and crew died, in the nation's worst air crash.

Publicly listed Air Philippines Ltd is the second largest carrier in the country after Philippine Airlines (PAL). Started by the wealthy Gatchalian family, it is widely reported in the Philippines media to be in the control of Lucio Tan, the majority shareholder in the national flag carrier, PAL. Poor visibility was reported around Davao Airport at the time of the early morning crash.

A few days later, a Qantas Airways B747 skidded on the runway at Rome's Fiumicino Airport after a landing gear strut collapsed as it taxied for take-off. Fuel spewed onto the runway as one of the engines scraped along the tarmac, according to reports. The airport's number three runway was closed for several hours after the incident. The airplane recently returned to service after US$100 million refit.

Air Philippines: two months to identify crash victims

Emirates 'launch customer' for A3XX

Emirates Airline is reported to be the launch customer for the 560-seat Airbus Industrie A3XX airliner, which the manufacturer plans to develop. New partners Virgin Atlantic Airways and Singapore Airlines (SIA) also have said, on the record, they could make a joint commitment to order the very large aircraft. Speaking in London, Virgin spokesman, Chris Moore, said the airline might well make a commitment. SIA deputy chairman and chief executive, Dr Cheong Choong Kong, is also reported to have said "it is a possibility we'd consider a joint bid". Cathay Pacific Airways' chief executive, David Turnbull, has said the airline is evaluating the A3XX and could be among the first to order.

Airbus has said if airlines appear ready to support the A3XX, it will begin offering the airplane to possible customers in mid-2001. A joint bid by Virgin and SIA, along with considerable interest from other leading Asia-Pacific carriers, could start to build towards the critical mass of 30-50 orders Airbus needs to fund development of the new airplane.

China's airlines told 'share and share alike'

China's scores of airlines have been told they must share revenue from April 1 by the nation's aviation regulator, the Civil Aviation Administration of China (CAAC), in an attempt to eliminate fierce discounting between carriers. A possible spin-off of the ruling could be a reduction in capacity of some loss-making carriers, although individual airline managements have proved resistant to recent attempts to reduce the number of unprofitable mainland airlines from continuing operations.

Mainland journal, *China Daily Business Weekly,* reported in mid-April that the CAAC wants the airlines to hand it 80% of the revenue domestic airlines will earn under the new domestic profit-sharing rule, with the remaining 20% to be shared by the airlines, CAAC finance director, Hai Liancheng said.

Change of plan, Don Muang will close

The future of Bangkok's Don Muang airport has changed again. Originally, the plan was for the existing airport to remain open as a domestic hub once the new airport at Nong Ngu Hao had been completed. But following protests that the cost of operating between the two facilities would prove excessive, deputy prime minister, Supachai Panitchpakdi, said approval was to be sought from the Cabinet to close Don Muang.

But there is growing concern the new US$3.2 billion Nong Ngu Hao – Snake Marsh – airport will not be ready to open on schedule in 2004.

Sources in Bangkok are tipping further delays in the bidding process before construction of the new passenger terminal can begin.

They point out there have been major setbacks already, caused by a prolonged dispute over the design of the new terminal. The project accounts for nearly half of the new airport's total investment.

Taiwan, Philippines talking about talking

TAIWAN and the Philippines, their air links still under suspension after the breakdown of a shaky agreement on rights, are talking about talking again. But no one is holding their breath for a speedy resumption of flights.

According to Manila's Civil Aeronautics Board (CAB) serious negotiations will not get underway until after Taiwan's new government is officially installed in May.

Philippine media reports claim CAB member and Department of Foreign Affairs assistant secretary, Franklin M. Ebdalin, has cited Taiwan's "lack of political will" to settle the dispute as a reason for the continued bilateral impasse.

In a March 14 resolution, the CAB withdrew its recognition of a January 28 interim agreement between the countries after failing to settle conflicting interpretations, particularly with regard to a seating capacity ceiling.

Until the dispute over the provisional agreement is settled, Taiwan's China Airlines and EVA Air will not be allowed to fly into the Philippines. Philippine Airlines (PAL) likewise cannot fly to Taiwan.

Most analysts lay the blame for the breakdown on the Philippines, suggesting the ongoing dispute is really about protecting local flag carrier PAL.

Government clears way for investment in Air India

INDIA's government has confirmed it will proceed with plans to allow foreign equity participation in Air India (AI), a move designed to pump cash into the carrier. But it will not compromise on maintaining overall government ownership.

Speaking at a meeting of the consultative committee on civil aviation, civil aviation minister, Sharad Yadav, said a formula for partial privatisation had not been finalised, but stressed the focus will be on "reviving the old glory of the national carrier".

There has been pressure for a radical restructure of Air India's operations and a major injection of government funds. However, Sharad said the government had no funds to invest.

There is a consensus that the carrier's fleet and routes should be rationalised to bring down losses. AI lost US$83.5 million in 1997 and $48.7 million in 1998. This dropped to around $20 million last year and forecasts for the current financial year project a loss of about $25 million. Sharad said a voluntary retirement scheme (VRS) has been approved to reduce staff numbers by at least 1,000. He said the carrier's workforce stood at 17,500, or 700 per aircraft, far higher than the international norm of 250.

The national carrier will need all the new efficiencies it can get. After years of restricted access, the government has cleared the way for an unprecedented one million extra seats to be added to the inbound and outbound market.

Thirteen new bilateral agreements have been signed in the past four months, including an open skies deal with the U.S. and expanded agreements with the United Kingdom, Austria, Romania, Uzbekistan, Turkemenistan, Oman, Thailand, Sri Lanka and Mauritius. The new capacity will be on stream by mid-year. About 40 more new bilaterals are pending.

Dragonair planning to fly cargo to Europe

Hong Kong-based carrier, Dragonair, is planning to launch its first cargo service to Europe in August, with three flights weekly: Hong Kong-Dubai-Manchester-Amsterdam, with the return flight operating through Dubai, Hong Kong and onward to Shanghai, China. Dragonair chief executive, Stanley Hui, told *Orient Aviation* in March that development of an expanded cargo network was a linchpin of the airline's plans.

Meanwhile, Philippine Airlines announced in April it had signed an agreement with Lufthansa German Airlines, effective immediately, for the Philippines' flag carrier to sell space on cargo flights between Manila and Frankfurt, a twice weekly service.

Air India: to cut staff by 1,000

BRIEFLY . . .

AIRPORTS . . . Work on Guangzhou's new airport, which the province hopes will rival Hong Kong's vast new complex, has begun. The state owners of the project have said they may have to raise money on the market to secure all funding needed for the project.

ORDERS . . . Japan Airlines (JAL) is the first carrier in the world to order the new Boeing longer range 777-300 aircraft. JAL announced an order for eight of the airplanes in April. Delivery of the first of the new aircraft to is planned for June 2004. Australia's Impulse Airlines has signed a deal with Boeing for five Rolls-Royce-powered B717s to be delivered through December. Sydney and Melbourne services will begin on June 5, progressively being built up to 12 return flights daily. The news has silenced detractors who suggested Impulse, which operates on regional non-trunk routes using turboprops, would never get off the ground pending the arrival of Sir Richard Branson's Virgin Express. He also hopes to be operating by mid-year, but he will be beaten to the starting line by Impulse.

Business Round-up

CSA back in the black

China's largest carrier, China Southern Airlines (CSA), returned to the black in the last financial year thanks to the rapid recovery of the region from the Asian economic crisis and a government ban on domestic airfare discounting.

Rapid growth in cargo revenue, particularly on international routes, and tighter cost controls at CSA also contributed to the earnings result.

However, the Guangzhou-based airline still returned a lower than expected profit of 82.4 million yuan (US$9.9 million) for 1999, after it recorded its first loss of 514.6 million yuan in 1998.

CSA said sales rose 12.2% to 13.3 billion yuan and that operating profit was 332.5 million yuan, compared to a 585.7 million loss in the same period in 1998.

The company said the strong yen in the second half of the year wiped out the company's first half net profit of 216.86 million yuan. CSA has almost one fifth of its outstanding loans written in yen for its leased aircraft.

In late March, CSA announced it would lease four B757-200 passenger jets from San Francisco-based Pegasus Aviation Inc., at a cost estimated between US$100-150 million per plane. Pegausus will buy the aircraft from CSA and lease them back to the airline. The carrier also began operating a wet-leased B747-200 freighter service between Shenzhen, southern China and Chicago, in a deal signed with Atlas Air Inc.

China Southern Airlines: after heavy losses in 1998, the airline made a profit of 82.4 million yuan last year

China National Aviation Corp (CNAC), a 43% owner of Hong Kong's regional carrier, Dragonair, returned to profit to December 31, 1999 , after reporting a loss in 1998 of HK$5.9 million (US$760,310). Profit was US$212 million, despite a decline in turnover of 13.7%.

Dragonair contributed a large part to the improved result as did the sector of CNAC's business which sells tickets for mainland airlines in Hong Kong. Cargo revenue rose by 52.9% and overall operating costs dropped 1.9%.

All Nippon Airways (ANA) expects a group loss of 15 billion yen (US$145.5 million) for the year to March 31, 2000, down from the 27 billion yen loss it previously forecast. ANA also said it had revised down its group pre-tax losses from 12 billion to two billion yen. A company statement attributed the improved figures to active cost-cutting measures and an improved domestic market.

In April, the airline launched a ferocious new foray into the market with the announcement it would shorten its mid-year peak fare season to 14 days from 47 days.

ANA also said it is considering reducing the peak fare period even more on the high volume traffic shuttle between Tokyo and Osaka. However, fares to be levied for the contracted short period are expected to increase by up to 8%.

Japan Airlines (JAL) has said its consolidated result is expected to show a net profit of 16 billion yen, 5 billion or 45.5% more than the June 1999 forecast. JAL is forecasting a non-consolidated net loss of 5.6 billion yen, compared to a 26.7 billion yen profit in the previous year.

Japan Air System revised upwards its group net profit for the year to March 31, to 1.1 billion yen (US$10.5 million), following an unexpected improvement in the domestic sector of its business.

Lucio Tan 'wants out'

Is Philippine Airlines (PAL) biggest shareholder, billionaire Lucio Tan, about to dump his interest and opt out of the aviation game? That's exactly what the country's Finance Secretary, Jose Pardo, told the press during a speech to the Foreign Correspondents' Club in Manila.

Neither Tan nor PAL confirmed such a move, but according to Pardo the airline chief disclosed his intentions at a private meeting on April 5. "I was taken aback," said Pardo.

"The more I talked to him, the more convinced I was that he really wants out. He said he is always getting blamed and he has seen how it affected the president's (Joseph Estrada) popularity."

The rub, according to Pardo, is that Tan wants to sell his majority stake – he has 53.7% of the airline – to dispel talk he enjoys special favours from his friend President Estrada. "If we could find a buyer for PAL, he is prepared to sell his holdings," said Pardo.

PAL is still undergoing reconstruction after coming near to liquidation two years ago. It ceased operations for 10 days in September, 1998.

But it is a long haul back. The carrier has reported losses for the past six years and has debts of some US$2.24 billion. It has recently been reporting an operating profit, but has yet to release its fiscal 2000 results.

Separately, Philippines' securities watchdog has approved Lufthansa's bid to buy PAL's maintenance and engineering unit. Lufthansa Technik will now service and overhaul PAL's fleet.

With every step it takes, Singapore Airlines ensures it fits into its long-term goal of becoming the world's premier carrier. In April, some hard won victories and approval from the New Zealand Government to purchase up to 25% of Air New Zealand took the Singaporean carrier further along its international path.

LOOK OUT WORLD!

Report by Christine McGee

STOP PRESS: On April 25, SIA announced it had reached a sooner-than-expected agreement with Brierley Investments to acquire 16.7% of Air New Zealand. Worth S$240 million (US$139.7 million), the deal is expected to be finalised in mid-year taking SIA's stake in Air NZ to 25%. It will not be part of Virgin's no-frills carrier in Australia.

Spring in Singapore, or at least April at Airline House, headquarters of Singapore Airlines (SIA) was indeed a month of promise for the emerging global carrier.

Within a three-week period, some of the pieces of its global equity strategy fell into place. On March 31, SIA announced it had completed all negotiations and was now the 49% owner of Virgin Atlantic Ltd.

A week later, with appropriate media fanfare, SIA formally joined the larger of the world's two global alliances, the Star Alliance, in a long-awaited initiation oft-quoted as capable of adding up to US$90 million in quick revenue to SIA's coffers.

Five days later, the carrier made its first and successful foray into the market for Air New Zealand (Air NZ) equity. It bought 8.3% of the Auckland-based carrier from sundry Air NZ shareholders. The purchase, estimated by analysts to have cost SIA US$71 million, was assumed to be the Singporean carrier's first step towards a much larger ownership in Air NZ.

On April 17, a few weeks after the New Zealand Government publicly rejected a suggestion a foreign carrier could hold up to

40% in Air NZ, SIA received approval to apply to the recently elected Labour government to purchase up to 25% of Air NZ, which in turn is 47%-owned by Brierley Investments Limited (BIL).

A widely held market view is SIA intends to buy 16.7% of BIL "B" class shares (New Zealand shares, which can be bought by foreigners) once Air NZ's deal to buy the remainder of Ansett Australia is completed: a process expected to be signed off in early May.

In a statement issued to the Singapore Stock Exchange on April 17, SIA said New Zealand law currently prevents foreign companies from holding more than 25% of Air NZ. However, SIA watchers anticipate the carrier will lobby the New Zealand Government to allow larger foreign equity to be taken up in the airline.

Analysts believe SIA will compromise on the size of a possible equity purchase and would be happy to add another 10%, for now, to its expected immediate purchase of up to 25% in Air NZ.

The New Zealand Government go-ahead also removes any lingering doubt in the market place that SIA can't complete major international acquisitions. The sceptics formed that view after the collapse last year of SIA's bid to buy 50% of Ansett Australia from Rupert Murdoch's News Corp.

"Dr Cheong (SIA's deputy chairman and chief executive Dr Cheong Choong Kong) has erased any doubts from some in the market that SIA can't complete any international deals, after the disappointments it has had with India, Taiwan's China Airlines (CAL) and Ansett," a regional analyst told *Orient Aviation*.

At the time of the planned Ansett deal last year, Air NZ, the other 50% Ansett owner, acted at the absolute last minute to execute its pre-emptive right to buy the remaining share of the Melbourne-based carrier. As a result, SIA had to withdraw its offer for the News Corp. holding and Air NZ will soon wholly own Ansett Holdings.

However, as recent events have revealed, SIA remained intent on taking equity in an Australasian carrier. Reports of secret negotiations between BIL and SIA continued to surface throughout the remainder of 1999 and into 2000. Among numerous other benefits, SIA would have a say in Ansett if it took a significant equity stake in its sole owner, Air NZ.

It may have been coincidence, say interested analysts, but discussions between the two parties intensified from last November, when BIL chief executive, Greg Terry, moved

'SIA has an extremely well balanced strategy of which one of their goals is to build home markets offshore. It is a three-pronged approach. "They will continue to grow organically at a reduced rate of 6-7% (from 9-10%). They will pursue their policy of securing equity in foreign airlines and they will develop their alliance relationships' . . . Jean-Louis Morisot, vice-president airlines and transportation, Goldman Sachs Asia-Pacific.

BIL's regional headquarters from New Zealand to Singapore.

However, the trans-Pacific negotiations, which led to SIA's 8.3% purchase of Air NZ in April, had its rough patches. Early in the year, SIA's chief executive, Dr Cheong, flew to New Zealand expecting to sign an agreement to buy into Air NZ. He left empty handed amid rumours, immediately denied by BIL's Terry, that chairman Sir Selwyn Cushing, who also is chairman of Air NZ, had altered the terms of the deal at the very last minute.

"I don't think many people really know what happened. I have heard 10 versions of the events and all of them are allegedly true," said one analyst.

A few days later, Qantas Airways, Air NZ's trans-Tasman and global alliance competitor, said it wanted to buy into Air NZ, a twist in the saga few industry insiders had anticipated. Qantas chief executive, James Strong, said publicly the Australian carrier and oneworld alliance member would pay up to US$1 billion for a stake in ANZ. Soon afterwards, BIL's chairman, Sir Selwyn, said an Air NZ/SIA deal "seems the best way forward".

Terry, who is an Air NZ director as a result of BIL's 47% holding in the airline, said in early April "he hoped a deal could be reached with SIA". In the meantime, Air NZ took itself off the market until the Air NZ/Ansett deal was done. At stake is a domestic Australasian market valued at press time at US$4.7 billion a year.

"The chances are quite good a transaction will be done," Terry told the *Asian Wall Street Journal* in early April. "The devil is in the details . . . and we're not far apart," he added.

SIA, aware some Air NZ shares were available, as was Qantas Airways, according to well-informed sources, moved in and bought 47.1 million Air NZ "B" shares off the main board, at US$1.49 each. At press time, Qantas told *Orient Aviation* it remains interested in Air NZ and said its offer will benefit both countries and both airlines.

Goldman Sach's vice-president airlines and transportation, Jean-Louis Morisot, who is based in Singapore, told *Orient Aviation*: "Assuming that in a few weeks time we hear from the [Australian] Foreign Investment Re-

Air New Zealand: SIA received government approval to apply for a stake of up to 25% in the airline view Board that the Ansett deal is approved, then BIL will be back in the market and SIA will buy [from them].

"I assume they are as close to a done deal as they can get at this stage, although I have no idea on price. It is difficult to say. After that, it is expected there will be a lot of SIA lobbying to raise the levels of permitted foreign ownership in Air NZ," he said.

Morisot said SIA would not settle for less than 25% of Air NZ. "They have turned down offers of less than that for other carriers. They walked away from China Airlines because they could not get 25%. I tend to think they will go for as much as they can.

"For a foreign investor, buying up to 49% seems to be the standard norm. If SIA could get that [in Air NZ] they will accept it, but if they could get 75% they could be happy with that, too.

"SIA's thinking is very liberal. It goes right across borders. They don't see things in national terms anymore. But in the short-term they accept that not everyone thinks the same way as they do.

"They are prepared to be patient – for five, 10, 15 years – whatever it takes, to achieve their goal of becoming a major global, as opposed to a leading regional airline.

These last few months have been watershed events in the post recession world in Asia, Morisot said.

"Firstly, we see that cross-border mergers are now acceptable since the completion of the Alitalia/KLM deal and now Air NZ.

'Secondly, before the Asian economic crisis very few Asian carriers were interested in joining an alliance. Most Asian carriers were not in one. Now, post-crisis, nearly everyone is spoken for. The Asian crisis really precipitated this consolidation with other airlines," he said.

SIA sees the future of the business in very changed terms, he added. "They see a world where 100% cross border mergers will happen.

"But in the short-term, SIA management accepts it will have to go along with the status quo of up to 49% ownership of foreign investments.

"They are following this strategy because they are concerned that new developments in technology and airline relationships is diluting the strength of its home hubs. One of their logical conclusions is to build markets offshore. When they tie up with Air NZ, for example, they will get a lot of synergies," he said.

Other analysts agree. Collectively, they also see the Virgin/SIA relationship as having tremendous potential in all markets – the power of the Virgin brand with the experience and service standards of SIA. They have the potential to take business from operators who assume they have consolidated their markets, industry experts claim.

"If they – Virgin and SIA – can think of a business plan that combines the qualities and value of both carriers, exploiting the names and their brand, they could be a formidable combination," Morisot said.

About Brierley...

Brierley Investments Ltd (BIL) was founded by the now Sir Ronald Brierley in 1961, in New Zealand. During the following 29 years, the investment group has gone through many changes – some of its critics would say reincarnations – in its structure and strategy.

Most recently, following the onset of the Asian economic recession, the group sold down assets, reduced debt and brought in a new management team to re-focus the group's development.

In September last year, BIL announced its intention to move its global headquarters to Singapore and in October a new chief executive, Greg Terry, took control. BIL listed on the Singapore Stock Exchange and formed a strategic alliance with the Madrona Venture Group.

In February 2000, Air NZ announced its conditional purchase of the 50% of Ansett Australia which it did not already own. BIL owns 47% of Air NZ, among several multi-million dollar investments.

Brierly and Air New Zealand chairman, Sir Selwyn Cushing: Air NZ/SIA deal 'best way forward"

Road show

Singapore Airlines (SIA) launched its road show in late April to promote its Initial Public Offerings (IPOs) for Singapore Air Terminals Services (SATS) and SIA Engineering after, at one stage, deciding to defer it.

Talks with THAI

New Star Alliance member, Singapore Airlines, along with alliance leading partner, Lufthansa German Airlines, held a two-day meeting with launch Star Alliance member and SIA regional competitor, Thai Airways International, in Bangkok after SIA formally joined Star in April.

"Contrary to reports, it was a business meeting. They talked about the establishment of a long-term shuttle between Singapore and Bangkok. There is already a quasi-shuttle in existence between the two cities, but the members of the alliance can draw a lot from it.

"The old thinking was about rivalry. Now there is scope for change in that thinking," said Goldman Sachs vice-president airlines and transportation, Jean-Louis Morisot.

Qantas guessing game

Qantas is ready to invest heavily in another airline, chief executive James Strong has confirmed.

Qantas is looking for a "significant shareholding" and is prepared to pay up to A$1 billion (US$610 million) to get what it wants, he said.

However, he ruled out interest in the part privatisation of Thai Airways International.

Of the 23% on offer later this year, only10% would be available to an overseas airline and that would not give Qantas enough influence, indicated Strong, who has led the airline to five successive years of record profits.

Let the guessing games begin.

Star carriers 'odds on' to take THAI stake

By Tom Ballantyne

As Singapore Airlines (SIA) officially joined the Star Alliance fold in April, moves were underway to ease any potential conflict with incumbent founding member, Thai Airways International (THAI).

Senior managers of both airlines met in Bangkok for what amounted to a mini-summit to thrash out avenues of co-operation. THAI president, Thamnoon Wanglee, said negotiations were aimed at finding constructive results that would lead to THAI and SIA taking a wider market share together. Additional talks are expected in May.

Meanwhile, it has emerged SIA will be part of a joint Star bid to buy 10% of THAI. The alliance is odds-on favourite to be selected as the Bangkok flag carrier's "preferred strategic partner".

At a press conference in Singapore after SIA joined the group, the delicate relationship between the two carriers dominated proceedings. Thamnoon, apparently determined to kill off any talk of THAI abandoning the alliance it helped set up, told reporters: "We are positive that Star will come to be the successful bidder."

Lufthansa chairman, Jurgen Weber, said Star members would bid as one group. "I want to make it very clear Star will be the successful bidder ... we will put in a strong bid as we want to keep THAI in Star, just as we did with Air Canada (which took over oneworld carrier Canadian Airlines)," he said.

SIA deputy chairman and chief executive, Dr Cheong Choong Kong, added: "Whatever we (at SIA) do, we will be part of a collective Star effort."

Weber said the core players in the bid for the THAI stake would be United Airlines, Lufthansa and SIA. Other Star Alliance members would be free to join the bid.

However, Kichisaburo Nomura, president and chief executive officer of Japan's All Nippon Airways, said at present the airline was not interested in the THAI stake.

THAI plans a road show in early September to promote the share sale to general investors, with the actual sale scheduled for two weeks later. The strategic partners will be selected in December.

SIA and THAI are rivals in the battle to be the dominant Southeast Asian airline, a competition in which SIA is regarded as being well ahead. Potential disagreements between the two carriers emerged because of SIA's growing commercial links with Lufthansa and the possibility THAI could suffer revenue erosion.

Thai International Airways president, Thamnoon Wanglee: "positive" that Star carriers will be the successful bidders for THAI stake

Analysts earlier this year suggested SIA had cost the Bangkok flag carrier around US$10 million in 1999 by taking over some code-sharing agreements with Lufthansa on European routes.

At the time Thamnoon firmly denied reports THAI was considering leaving Star as a result of the German carrier's arrangement with SIA. Such a move would be difficult anyway because THAI is deeply involved in the alliance's joint operations and reaps significant revenue benefits from it.

Also, the airline would be reluctant to leave a grouping which has now outstripped its competitors in size. Last year, without SIA, Star Alliance members chalked up combined sales of US$62.2 billion, around 25% more than primary rival, oneworld.

Nevertheless, there are differences between the two Asian members and some obvious concern exists in Thailand that the arrival of ambitious SIA in the alliance will push THAI into a subordinate role.

It is critical for THAI that any differences are resolved during the lead-up to the airline's partial privatisation later this year.

Among issues being considered by the two carriers are co-operation on commercial and marketing issues, maintenance, aviation training and safety standards.

Thamnoon believed if the two airlines fully co-operated, they would capture more market share together.

At present, several routes operated by the two carriers overlapped, said Thamnoon. They have similar networks emanating from Southeast Asia to Europe and North America and to Australia and New Zealand, China, Hong Kong, Taiwan, Korea and Japan.

The THAI president said on the northern route (Hong Kong, Korea, Taiwan and Japan) as well as on European and American routes THAI held an advantage over SIA because the distances from Bangkok were shorter. On routes like Australia, New Zealand and Indonesia, SIA had the advantage.

Under a code-sharing plan proposed by THAI, the carriers are considering joint services on the Bangkok-Singapore route.

Meanwhile, planning for the sale of 400 million shares – 300 million new shares and 100 million to be divested by the government – in THAI is well underway.

Ten percent of the shares on offer will go to the strategic investor, with the remaining 13% split between the public (8%) and THAI staff (5%). The government will keep 70% of its 93% in the national flag carrier.

Apart from Star, several other airlines have indicated interest in a stake, including Qantas Airways, Swissair and Air France.

SIA is the eleventh member of Star in April. Others are Air Canada, Air New Zealand, All Nippon Airways, Ansett Australia, the Austrian Airlines Group, Lufthansa, Scandinavian Airlines System, Thai Airways International, United Airlines and Varig Brazilian Airlines. Mexicana Airlines and British Midland Airways are scheduled to join later this year.

Star Alliance airline chiefs hinted in Singapore that Chinese carriers would be targetted for membership in the not-too-distant future. Lufthansa chairman Weber said the alliance wanted to cover all the leading aviation markets.

Mulally photos: David G. McIntyre

Mulally magic

All eyes on Asia-Pacific as Boeing boss puts planemaker back on course

By Barry Grindrod in Hong Kong

There appears to be a breath of fresh air blowing through the Boeing commercial airplane camp. Speak to senior executives and they will tell you its down to their youthful president of 18 months, Alan Mulally.

When he arrived for an interview in Hong Kong with *Orient Aviation,* with his top sales team in tow – senior vice-president sales and marketing, Larry Dickenson, and vice-president sales for the Asia-Pacific, Ray Conner, there were smiles all round.

Maybe it was a sign of relief now that the B777-X programme was on the road after launch customer, Japan Airlines, announced on March 31 that it had ordered eight of Boeing's newest model, the longer range derivative of the B777-300.

Or maybe it was that the morning meeting with Cathay Pacific Airways had gone well. Cathay's chief executive, David Turnbull, has said his management team is evaluating the longer-range B777-200/300 models, along with the Airbus A340-500/600. An announcement is expected later this year for the purchase of 15-20 new planes for Cathay's long-haul market.

In the shorter term, Cathay is expected very soon to formalise an order for eight to 10 planes "for immediate use". The fact the Boeing president flew into town in April reflected the importance the planemaker is placing on Cathay's future fleet plans.

Mulally, as expected, was giving nothing away about his Hong Kong discussions with Turnbull, other than to say Cathay had been a "terrific partner" over the years and had helped significantly in the B777 and B747-400 design.

In private conversation, Mulally's lieutenants use words like "inspirational" to describe their boss. They say he is a "great people person" who can communicate equally well with the recently disillusioned Boeing engineers or with airline customers over a drink. "Do what you have to do" is a message he often relays to his management team. They also talk about his strong family values.

Whatever Mulally's secret is, it appears to be working. In his 18 months as president he has turned the commercial airplane division around. "Boeing committed to a very aggressive increase in production to support our customers and we had some trouble ramping up the production. Our suppliers had a lot of trouble, too.

"When I was asked to come back [to the commercial airplane group from the space and defence division] Boeing had a lot of problems delivering airplanes."

It also was having trouble making money, but Mulally has turned a US$266 million loss in 1998 to a record operating profit of $2 billion in 1999.

Importantly, his new team put the schedule back on track. Boeing delivered a record 620 jetliners in 1999. Almost 100% were delivered on time.

His efforts had a setback earlier this year when the Society of Professional Engineering Employees in Aerospace (SPEE) staged a 39-day strike, once again backing up deliveries to customers. "This amounts to days and weeks rather than months. I expect us to be almost back on schedule by the end of the second quarter and to meet all our commitments by the end of the year," said Mulally. In 2000, 491 aircraft are due for delivery.

Mulally has also overseen the introduction into service of the B767-400ER and the smallest member of the Boeing family, the B717, during his presidency.

Would Boeing develop an aircraft bigger than the B747? "I don't know. It is something we are talking to the airlines about"

As the Asia-Pacific recovers from its worst ever recession, airlines are once again focussing on either expanding their fleets or replacing older, less efficient aircraft. It is anticipated that Cathay, Singapore Airlines, Malaysia Airlines, Qantas Airways, Thai Airways International and EVA Air will order new aircraft in the coming months. Ansett Australia could also be in the frame as a customer late in the year, depending on the final outcome of negotiations over its ownership.

Mulally describes the resurgence as "exciting times". He said Boeing expects 30%-40% of its new aircraft to go to Asia-Pacific carriers. In 1999, the planemaker placed 91 aircraft in the region, which constituted 79% market share in dollar terms and 68% in units. It took orders for an additional 43 aircraft, valued at $5 billion.

Mulally and his team prefer to judge performance in aircraft deliveries. "Orders move around a lot before aircraft are delivered"

"This year we are seeing some exciting order activity, but it's too early to tell exactly what share of the market we will have by year-end," said Mulally.

Much has been made of the market share of Boeing and its great rival, Airbus Industrie. Last year, Airbus crept past Boeing with 52% of orders, the first time the European consortium had overhauled the Seattle manufacturer.

But Mulally and his team prefer to judge performance in aircraft deliveries. "Orders move around a lot before aircraft are delivered. Over the last five years Boeing has averaged 65-70% of market share in orders, too."

And in a departure from the bitter slanging matches that have been a feature of the Boeing-Airbus rivalry in recent years, Mulally paid tribute to the Toulouse-based manufacturer.

"I think last year was terrific for Airbus; that they captured the orders that they did."

He qualified this by adding: "They are to be congratulated that they achieved 32% market share [in deliveries].

"Competition is good. There is absolutely room for two suppliers of commercial aircraft."

But is there room for suppliers of two very large aircraft (VLA)? Recently Cathay boss David Turnbull said the airline was evaluating Airbus's A3XX, but he said he wanted to see what Boeing had on offer, if anything, in the same market.

Previously Boeing said it did not see a market big enough to justify the development expense of a VLA by two manufacturers, but Mulally appears to be leaving the door ajar on the subject.

Would Boeing develop an aircraft bigger than the B747? "I don't know. It is something we are talking to the airlines about. There is a general feel that over time there is definitely a need for a 747-size airplane. People see more

Ordering jets on The Net

Boeing boss Alan Mulally believes that within two years people will order and configure an aircraft on the Internet. This, he said, would result in speedier deliveries.

"E-commerce is revolutionising the way the world works together. It will decrease transaction costs and time," said Mulally.

Boeing is one of four partners, with Lockheed Martin, BAE Systems and Raytheon, which have formed a global Internet trading exchange. It will be launched by mid-year.

The airline business is going to experience a consolidation of services, said Mulally, with airlines concentrating on the travel experience. Manufacturers, suppliers and service providers will offer "total solutions" or service packages. Boeing is developing this segment of the business through Boeing Aviation Services, which incorporates a whole range of joint ventures around the world.

"The airlines want us to do more, to provide packages. We have some great relationships in the Asia-Pacific like with China and Japan," said Mulally.

"In Japan alone, 20% of both the 767 and 777 is made by Mitsubishi, Kawasaki and Fuji Heavy Industries. Boeing only manufactures 30-35% of the actual airplane. We are the systems integrator, the one which makes it all work together. Our family is all around the world. We are not about being a U.S. company. Our vision is to work as one global company, which includes everybody.

"The companies that will prosper will be those with a global attitude."

E-commerce also will have a major impact on the plane, said Mulally. "Airplanes are like one node in the Internet in the sky. There will be a global network of fragmented routes around the world, with people going point-to-point. Soon broad band data will be delivered to the airplane. All the knowledge from the airplane will be transmitted to the ground. Everyone will know how the airplane is doing and they will be able to provide the spares and whatever it needs. Utilisation of the airplane will go up plus passengers will be connected to the world like they are in the home or the office."

and more a need for the B777 and B767 size aircraft on point-to-point routes.

"When it comes to airplanes larger than the 747 we could definitely do that. We can add more range to the 747 or add capacity quite easily. It would be great value for the customer.

"But we are going to have to see what the airlines want. We try and focus on the market and the customers."

Mulally said Boeing had "definitely not" ruled out producing a VLA. "I would not use the words ruling out. We are always looking for innovations and airplanes that will bring better and better value.

"It is pretty hard to make an airplane that is more capable and efficient than a 747," he said.

"Airlines see more and more airplanes and more people travelling point-to-point. Ten years ago, on the North Atlantic route, 75%-80% of all the flights were L1011s, DC-10s and 747s. They now make up less than 10% of the planes flying on that route and 777s and 767s dominate it.

"With the end of the cold war, liberalisation and deregulation, the travelling public, both business and leisure, want to go point-to-point, so airlines are developing point-to-point travel.

"There is always going to be room for some big airplanes, but we are not getting a lot of interest for anything much bigger than the 747.

"We know the airlines like the 747 and we will continue to improve the aircraft."

At the other end of the scale, Mulally denied the Boeing 717 had been a slow starter in the market. "It's about where we expected it to be," he said.

There have been 143 B717s ordered, but with regional jets predicted to make up about 17% of the world's 28,400 planes in the next 20 years, there is huge potential for the aircraft, said Mulally. "It will be great anywhere where there is a need for high frequency and shorter range."

Cathay Pacific Airways was the launch customer for the B777-300

China was one of the countries which had shown a serious interest in the aircraft, he said. Boeing forecasts China will need 1,600 new aircraft in the next two decades, of which 200 will be regional jets, 900 single-aisle aircraft and 400 will be intermediate twin-aisle planes.

The Seattle manufacturer also predicts air traffic on the mainland will grow about 9.3% in each of the years to 2020, compared to 6.3% in Asia and 4.7% in the world as a whole.

Looking to the future, Mulally said globalisation is moving at a speed which has exceeded all expectations.

"This is resulting in people wanting to get together for business and leisure. When you add this trend to the explosion in digital technology – which allows information to flow and people to be connected – I see an industry that is absolutely going to flourish. I see our estimates of travel growth of 4-5% a year as very conservative.

"In our industry, if you take travel growth plus alliances among the airlines, I think we will see a global transportation network that is more efficient and more capable. Plus all aircraft control will be satellite-based, so we will have a global grid of the air transportation system where airplanes are moving more efficiently point-to-point; all driven by globalisation and economic development," said Mulally.

BIOGRAPHY

Alan Mulally (54) became president of Boeing's commercial airplane division in September 1998. He also is a senior vice-president of the parent Boeing Company.

Before he took up the top job, Mulally spent 12 months as president of Boeing Information, Space & Defence Systems. Between 1994 and mid-1997, he was senior vice-president of commercial aircraft development where he was responsible for all development activities, flight test operations and certification and government technical liaison.

Earlier, Mulally, was vice-president of engineering and as vice-president and general manager of the B777 programme was one of the driving forces behind the development of the aircraft. There are 28 airlines operating 269 B777s. Another 460 are on order.

A native of Oakland, California, Mulally is a private pilot. He is married with five children

Mulally on alliances

Alan Mulally sees the time when Boeing will be sitting down in aircraft negotiations with alliance groups. "I see the alliances getting tighter and tighter. It will be driven by operational efficiency which, in turn, will be driven by the market and customers. They will want to go where they want when they want to, so frequency and value will drive the entire process. I see airlines satisfying that demand by working together more closely."

He said he did not see this trend as an opportunity for airlines to drive down aircraft prices. "Airlines will always pay for the value in the airplane. We need to make a return so we can invest in new airplanes."

oneworld: a new world for Buecking

The alliance's new global manager outlines the challenges he faces as head of the new central management team

By Barry Grindrod

Peter Buecking, the number one man in the oneworld alliance's newly established, Vancouver-based central management team, talked enthusiastically about his new job and his goal of establishing it as the leading global airline partnership before he left Hong Kong for Canada in April.

But it may prove costly around the bar.

For 17 years Buecking held senior positions at Cathay Pacific Airways, one of oneworld's founding members, latterly as its sales and marketing director.

He speaks with unequivocal fondness for his former employer. So much so "it has been decided I will have to buy a beer for everyone of my oneworld colleagues if I talk about Cathay in the possessive sense," said Buecking. In future, however, Cathay will be just part of the team, no more, no less, he stressed.

During his time at the Hong Kong-based Cathay, the 55-year-old has watched it grow from a successful regional airline into one of the world's most profitable carriers. He shared in its highs and, more recently, its lows as the Asian recession struck with a vengeance at the company's bottom line.

Significantly, it was during the early days of the downturn that Cathay, after repeatedly shunning potential suitors, started to explore the true merits of alliance membership. Buecking was one of the people assigned to the task. It gave him an insight into what was on offer.

As head of the oneworld management company (oMC), Buecking will be the link between the governing body, made up of the chief executives of the partner airlines, and the carriers themselves.

"There are two elements to the job; building a network with the right airline partners and enhancing the value of oneworld for customers and shareholders," he said.

Buecking talks a lot about the importance of alliances sending the right message to customers. He believes oneworld does it best. "The primary importance in Star seems to be about size and the number of aircraft. oneworld's philosophy is based on people, not planes," said Buecking.

Oneworld celebrated its first anniversary in February. The founder members are British Airways, American Airlines, Qantas Airways, Cathay and Canadian Airlines International, although Canadian's membership will be terminated following its recent takeover by Star Alliance member Air Canada. Finnair and Iberia joined the partnership in September and LanChile and Aer Lingus will be added to oneworld's list later this year.

Photo: Barry Grindrod

oneworld managing partner, Peter Buecking, outside Cathay Pacific City shortly before he left for his new job in Vancouver: "hugely challenging"

Buecking's brief includes identifying and negotiating with future potential partners. "One of my priorities is to ensure relationships between partners continue to grow," he said.

When there is a hiccup it will be his job to spot the warning signs and play honest broker when necessary.

The oMC managing partner is currently assembling his team of about a dozen staff, who will be based in Vancouver. The executives will co-ordinate and lead joint customer service, marketing, information technology and finance activities. Basically, the aim is to take pressure off the senior management of airline members where possible.

Buecking said the grouping had been looking at either Los Angeles or Vancouver as a base when news emerged of the Canadian Airlines buy-out.

"The Star Alliance and Air Canada have a dominant position in the Canadian domestic market place and we need to do something about it," he said. "The fact we established ourselves in Canada shows we are not walking away. We are looking at a variety of options to make sure we remain competitive.

"Vancouver is equidistant from London and Tokyo. It is a relatively low-cost place from which to operate and there is a skilled workforce available." It also happens to be the city where father-of-four Buecking grew up and took his first airline job, with Canadian Pacific.

Buecking said challenges for oneworld include establishing performance criteria across the alliance. There must be clear measures and incentives within each airline to motivate the member to deliver results to benefit the oneworld business plan. Also, innovation for customers is important as is speedy decision-making. At the same time, there is a need to recognise the varying corporate cultures of the respective members.

It was early days yet for alliances, but Buecking believed joint ventures and integration are going to play an important role. Just how far integration will extend is not yet clear.

When it came to subjects like equity swapping, much rests on politics and emotion. "We would need to have a sea change on how governments looked at airlines before there could be a massive sharing of economic interests," he said. Europe was leading the way in this direction, he added.

In the meantime, there is plenty of scope for sharing in areas like purchasing, product development, particularly with information technology, and improving oneworld facilities at airports.

Although oneworld is younger and smaller than its Star Alliance rival, Buecking believes the two groupings are close when it comes to branding and public recognition of the brand.

He has a three-year contract. "This is a hugely exciting and hugely challenging job," said Buecking. His goal is simple: to make oneworld the number one alliance in the world.

AAPA acts to assist radio band lobby

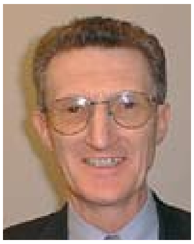
Asia-Pacific airlines will be strongly represented at the May World Radio Conference in Istanbul as the industry battles to prevent crucial radio frequencies, used by aviation operations, from being re-allocated to telecommunications interests.

The Association of Asia Pacific Airlines (AAPA) has agreed to provide a significant financial contribution to the cost of ensuring that aviation interests are properly represented.

The conference is expected to last for up to five weeks. For much of that time, Dr Alan Jamieson, managing director of Added Value Applications Ltd, a consultant to Air New Zealand, and Capt. Walter Estermann, of Ansett Australia, will be part of official delegations which will provide expert advice on how to safeguard aviation interests in the allocation of the radio spectrum.

"It is essential delegates with knowledge, experience and standing in the industry should be present throughout the conference to ensure the importance of radio spectrum allocation for future development of air navigation was properly appreciated and given recognition by governments," said the director general of the AAPA, Richard Stirland.

Capt. Walter Estermann



Dr Alan Jamieson

Mr Stirland said Dr Jamieson and Capt. Estermann would be representing the entire airline industry. Consequently, it was only fair the costs should be spread among the beneficiaries of their efforts to ensure that aviation needs are not sacificed to the demands of other industries in the telecommunication field. "It will be a sound investment and an insignificant amount in comparison to future economic benefits to the airlines from enhanced communication and navigation facilities," he said.

At the AAPA's Assembly of Presidents in Tokyo last November, delegates noted that failure to protect aviation frequency bands could put flight safety at risk. They also said there was considerable pressure from other telecommunications operators for frequencies to be allotted without appreciation of the consequences of that process for aviation users.

The Assembly passed a resolution which stated high-level action was necessary by governments and aeronautical authorities to address the issue. AAPA airline presidents pledged to counter any commercial pressure to re-assign or co-assign aviation frequencies to other users. It also promised to safeguard aviation safety.

The International Air Transport Association (IATA) is playing a leading role in fighting off attempts to commandeer radio bands by non-aviation users.

Said IATA director general, Pierre Jeanniot, recently: "Aviation relies on new technologies such as satellite-based communications, which have the potential to increase safety and reduce both air traffic control delays and aviation's impact on the environment. Aviation has always had use of the radio frequencies necessary to use these technologies."

If governments re-allocated these frequencies to growing mobile telecommunications services, the aviation industry's growth and on-time performance would be severely hampered, he warned.

Executive crash course

Ansett is renting its simulators to big business to use as a management tool for its high flyers. TOM BALLANTYNE *reports from Melbourne*

Ansett Australia has found a novel way to earn revenue from its simulators

Ansett Australia has found a new way to turn its $20 million flight simulators into revenue earning machines. It is renting them out for a unique scheme designed to put the country's high flying corporate executives to the test.

Under the programme, being run by a Sydney-based events and public relations group, Capital Events, two-hour virtual flights will be used to assess the management and planning skills of company directors and senior managers.

Traditionally, airlines lease out their spare simulator time only within the industry, mainly to other carriers for training. But Ansett has decided to "think outside the square", using the down-time not only to make money, but to spread the word about the effort it puts into training and safety.

The idea is the brainchild of Capital's senior project manager, David Huxley. He insisted the courses are not an excuse for highly paid executives "to have a bit of fun". They are a serious executive skills assessment tool designed to probe the strengths and weaknesses of upper management.

"It's another dimension. You are isolating executives, putting them in a different environment and confronting them with a series of challenges," said Huxley.

Most executives had been through many psychological tests and the simulator experience was a matter of saying "what else can we throw at you that will challenge your skills", said Huxley.

For Ansett it means the airline can make money from expensive simulators which would otherwise be sitting idle. The Boeing B767 simulator, for instance, is only 50% utilised on average because Ansett has only a small fleet of the aircraft. There also is spare time available on Airbus A320 and British Aerospace BAe 146 equipment.

"We still have, over and above the existing Ansett and third party requirements, some additional capacity. We are keen to use that capacity to generate revenue to supplement or offset the cost of our operation, or even to make some money," said David Saunders, manager simulator business operation for Ansett.

"This scheme has the dual advantage of fulfilling that outcome, but additionally it was an opportunity, in a subtle way, to promote our own brand. People visiting the centre get a better perception of the effort that goes on behind the scenes to maintain safety standards."

In other words, Ansett hopes the executives will have a positive experience, go back to their offices and spread the good word about the airline.

The courses will be run by a division of Capital Events called Real Aviation, which plans to offer clients around 150 sessions a year. An Ansett flight simulator instructor will be included in the package, which consists of a 45-minute briefing and introduction, followed by two hours of 'flying' and a post-flight assessment with the instructor.

Ansett instructor, Frank O'Grady, said the emphasis is not on putting people in ridiculous situations like experiencing engine failure or fire, but on keeping things simple. "We can't teach people in 45 minutes what it takes most people 20 years to learn," he said.

The highly paid 'pupils' will be taught the basics of cockpit instrumentation and flight and then be led through a flying experience that includes hands-on and automatic pilot control of the plane.

After 'taking off' from Melbourne's Tullamarine Airport and flying around for a while the executives are told to find their way back to the runway. How they cope with this is part of the assessment.

Said Saunders: "The emphasis is not on how well they fly the aircraft, but how they manage the processes involved in it, the complexities of suddenly having to deal with this completely alien environment. That's the great joy of the simulator. It takes somebody outside the room and puts them in a different environment where they are not distracted by other things. They are totally isolated. Then it is up to them to come to terms with it, gauge everything and go through all the processes."

Huxley stressed the simulator was not a stand-alone assessment tool, but one that can be used in conjunction with other ways of sizing up the abilities of top executives.

From the simulator experience a whole range of areas can be judged including observation, management skills, procedures, general awareness, attitude, planning and task comprehension as well as memory.

"We can identify a number of their strengths and weaknesses, but instead of taking a day or two to get there we can do it in a much shorter period of time," said Huxley.

Huxley believes the simulator project is the first of its type, but he expects other carriers to follow Ansett's lead.

Also on offer will be a Corporate Challenge, where managers can compete against each other to see who performs best.

As well, the product will be available as a corporate reward, a package which can be offered to senior executives or special clients "as a reward for exceptional performance or loyalty".

Having conducted trials for the assessment course, Real Aviation is ready to launch it.

Neither of the parties would quote prices, but it will not be cheap. Simulators cost several hundred dollars an hour to run and the assessment courses take four-and-a-half hours.

If successful, the airline will consider other ways of using the simulators as a revenue earner, said Ansett's Saunders.

Flying start for GECAT/Cathay venture

Philippine Airlines executives wasted no time when they attended the April opening of the new GE Capital Aviation Training (GECAT) operation at the Cathay Pacific Flight Training Centre adjacent to Hong Kong International Airport. They signed a training contract the same day.

It was the perfect start for the alliance. GECAT markets the aircrew training and simulator time at the Cathay Pacific facility. The 180,000 sq.feet facility, opened in May, 1999, includes 16 simulator bays, 32 state-of-the-art classrooms, 42 briefing rooms and 76 computer-based trainers (CBTs).

Training is available in the GECAT A320 full flight simulator and wet and dry training also can be provided in Cathay's A330/A340, B777, B747-400 and B747-200 simulators. GECAT will have B737-300 and -200 simulators on site in the near future and an A330/340 in place by March, 2001.

"Already we are thinking this will not be enough to meet demand. The likelihood is we will add a second A330/340 in 2001," said GECAT president, Nikos Kardassis, who approached Cathay about an alliance a year ago.

Kardassis, the former chief executive of India's Jet Airways, said demand for training in the region was growing so fast, as airlines recovered and expanded after the economic recession, that the centre will reach saturation point in four to five years. "Guaranteed," said the president, "maybe three years."

There is talk of building a second centre. The aim is to make the Hong Kong facility a one-stop shop that includes maintenance and cabin crew training plus programmes to cover areas like safety, flight operations and management, flight planning and avionics.

Kardassis said there had been a great deal of interest in the centre from airlines in the region. These included Vietnam Airlines, Air Macau, Asiana Airlines of Korea and TransAsia in Taiwan. Several major Chinese carriers are also talking to GECAT.

"This is a world-class facility. Cathay is a world-class airline," said the GECAT president.

Cathay will have first call on the simulators. The carrier is expanding its fleet rapidly to meet demand. Flight operations director, Capt. Ken Barley, said he expected the airline to increase its flight crews by 50% in the next five years and that they could possibly double in a decade.

CAL heads 'Down Under'

Taiwan national carrier, China Airlines, has signed a training contract with BAE SYSTEMS Flight Training (Australia) – Adelaide.

The first group to travel south was a team of 11 flight engineers who travelled to the Adelaide facility, previously known as British Aerospace Flight Training (Adelaide), in April for a full CPL/CIR course. They were not alone. Cathay Pacific, Qantas Airways, Dragonair and Royal Brunei from the Asia-Pacific had groups in-house at the time.

In July 14, CAL cadets will begin an ab initio *training programme at the centre.*

The training college also has signed an agreement with the National Taiwan University for students to complete the flying component of their aviation courses in Adelaide. A first group of eight students will start in May.

Pictured at the CAL signing ceremony from left to right: Ho An Hsin, manager CAL flight operations training centre, Capt. Chou Ye-Sen, acting director, CAL operations division, Keith Morgan, sales and marketing manager, BAE SYSTEMS Flight Training – Adelaide, Robert Naylor, marketing manager, SE Asia, BAE Systems Flight Training and Garth M. Martin, deputy manager, CAL flight operations training centre.

Crowded corridors

Safety fears; move to upgrade ATC in Seoul

By Tom Ballantyne

A joint report by South Korean and U.S. aviation authorities has voiced fears the 2001 opening of the new Inchon International Airport will create a serious safety problem in the skies around the Korean capital, Seoul.

The number of commercial and military aircraft flying from Korean airports has increased to the point where "safety and efficiency of flights are deteriorating rapidly", according to the report.

And it added the problem could increase dramatically after Inchon opened.

According to Korea's Civil Aviation Bureau (KCAB), which released some of the draft findings in April, military planes criss-cross commercial flight paths so often they are endangering the safety of domestic and international aircraft.

Fears focus mainly on an area stretching from Kimpo to the major U.S. base at Osan, about 30 kms south of Seoul. There are between 800 and 1,000 military daily flights from the military base and more than 700 civilian flights into Seoul's Kimpo airport.

The KCAB estimated that when Inchon opens civilian flights will rapidly increase to well over 1,000 a day, along with several hundred domestic services that will continue to operate from Kimpo,

U.S. officials are in discussion with South Korea "to optimise safety for air transport" and are "seeking ways to upgrade the air traffic control system of South Korea".

Kimpo Airport Seoul: more than 700 domestic and international flights daily

Court backs KAL; Asiana loses Guilin flights

Korean Air (KAL) has won an injunction against the Ministry of Construction and Transportion to have Seoul to Guilin, southern China, flights operated by its rival, Asiana Airlines, suspended.

The Seoul Administrative Court found the granting of the rights to Asiana had been unfair. It said a Memorandum of Understanding between Korea and China recognises that only one Korean airline should operate the route and since Asiana has taken over what used to be KAL's right, its service should be suspended.

KAL had stopped flying the route because of the economic downturn, which had led to a drop in passengers.

"We obtained the right to launch flights to Guilin in January, 1998, but the subsequent economic crisis resulted in a sharp drop in the number of outbound Korean travellers. Consequently, we had not been able to begin flights to Guilin and could not file a flight application until December last year. But the ministry returned our application," said the KAL suit, which alleged this constituted a clear violation of constitutionally guaranteed property rights.

The ministry argued it revoked the earlier allotment to KAL under guidelines which stated an airline will lose its route rights if it fails to launch services within one year.

Because of its involvement in a series of accidents in recent years, KAL is barred from launching new flights until May 2001.

Photo: Barry Grindrod

A Nepali military plane, being used for air-to-air shots, flies alongside the majestic Himalayan mountains on the route Necon Air takes for its sight-seeing passengers aboard the ATR42.

ATR's 'room' with a view

By Patrick Garrett

Jerome Charieras, ATR sales director for the Indian sub-continent, admits that after six years in the job, no client has chosen his product for the fine views from the passenger cabin alone. Until now, that is.

In January, Kathmandu, Nepal-based, Necon Air, took delivery of an ATR42-320 to improve its already popular Mount Everest sightseeing flights. The ATRs have an unusually small nacelle because it does not store the undercarriage, explained Charieras. It is partially the short, low nacelle that ensures clear views of the mountains for passengers, combined with more than one window per seat block.

Like all new aircraft in Nepal, the ATR was greeted with the Puja ceremony – a Hindu symbol was drawn on the aircraft before the ceremonial sacrificing of a sheep.

The ATR joins three ageing BAe (HS)748s. It represents a leap in technology by replacing a fourth 748 which crashed in September last year killing all 15 passengers and crew on board. Charieras is optimistic there will be more ATR orders from Nepal.

The company also lost its Cessna 208 Caravan in January last year when it crashed on takeoff killing four of the 12 people on board.

ATR trained the Necon Air personnel – three captains, three co-pilots, engineers and cabin crew – in Toulouse. An instructor spent the first two months in Kathmandu to support the ATR's entry into service and a service representative will be on site for a full six months.

The Nepal tourist season is from March to June or July and August to October or November, which avoid the harsh winter months and the summer monsoon rains.

The airline operates two Everest sightseeing flights each morning with the ATR, followed by six scheduled sectors around the country. The company's domestic route network covers Bhairawa, Biratnagar, Janakpur, Nepalgunj, Pokhara, Bhadrapur, and Patna (India).

Necon Air was the first private airline to operate scheduled services to India and although the Calcutta flight has since been suspended, it plans to launch new Indian routes to Lucknow and Varanasi. Nepal has many short strips only open to aircraft like the Twin Otter, but the turboprop ATR42 operates comfortably on 1,200 metre runways in Nepal.

Most visitors travel to the country to experience the breathtaking views of the Himalayas, and Mount Everest, the highest mountain in the world, in particular. Although the ATR42 will seat 46 passengers, on Everest flights a less-than-full load is preferred so passengers can take in the best views.

On the daily flights the aircraft heads east from Tribhuvan International Airport in Kathmandu and cruises alongside the world's greatest mountain range at 19,500 feet. The journey gives passengers eye-level views of the summits and a glimpse of the Tibetan plateau in neighbouring China.

First, Langtang Lirung (23,750 ft.) passes outside the window, then Gosaithan, (also known as Shisa Pangma), which towers up to 26,150 feet. Other highlights include the mountains, Gauri Shanker, Melungtse, Numbur, Cho Oyu, Pumori and Nuptse, until finally the aircraft approaches Everest. Known as Sagarmatha to the Nepalese and Qomolongma in Tibetan, climbing the 29,028 feet peak symbolises the ultimate human achievement for adventurers.

The clear thin air of the Himalayas makes the mountain peaks appear closer than they are. Often passengers can spot climbers toiling up the mountainside, their colourful climbing suites highlighted against the snow. But while English climber George Leigh Mallory explained he had to climb Everest "because it was there", most modern travellers with less stamina prefer the flying experience "because it only costs US$109 and takes one hour from Kathmandu in a modern, pressurised aircraft."

BEATING THE ODDS

Little Air Macau has survived, proving its critics wrong. But with 70% of its passengers originating from Taiwan how will it cope if, and when, direct flights resume between the island nation and China? No problem, its executives tell BARRY GRINDROD *in Macau.*

Air Macau is a small airline that has had to defeat the odds to succeed.

When the carrier took to the air for the first time in November 1995, with one A321 and just two destinations, Beijing and Shanghai, its deputy chief executive officer and commercial director, Zhou Yunda, knew few people outside Macau gave it a chance of success.

How could it survive, they asked? Less than an hour away by high speed ferry was Hong Kong, home of one of commercial aviation's most respected and profitable airlines, Cathay Pacific Airways, based in one of the world's busiest airports.

Over the border, to the north, was the operating might of a booming and highly regulated Chinese aviation market with a growing number of airlines fighting for a share of the market.

What's more, when Zhou's fellow deputy, Carlos Pimentel, arrived in the former Portuguese enclave from Lisbon in October, 1994, the Macau International Airport was no more than a building site. Work had just started on the passenger terminal and there was no sign of a runway.

"I was told we would be flying from the airport in November, 1995. I said I thought it was going to be difficult to achieve," Pimentel said.

But achieve it they did. The airport and Air Macau took off on schedule.

Almost five years later, the little airline with a big heart has proved its critics wrong and established a profitable niche in the region. It also has won a reputation for high operational and service standards. Partly for these reasons it is gearing up for expansion and is particularly set on the cargo market. It also is evaluating commuter services and long-haul destinations are in its next five-year plan. More fuel for its critics, perhaps?

Air Macau: looking to expansion in second five-year plan

Air Macau has a fleet of five A321s and three A320s. In five years, Zhou, who previously spent five years in New York developing US-China air services for the Civil Aviation Administration of China (CAAC), believes the airline will have added four or five new aircraft to its fleet.

But, and some commentators say it is a big but, there is a questionmark hanging over the airline: what will happen when direct flights start between China and Taiwan?

Last year, 70% of Air Macau's 1.3 million passengers were from Taiwan with the vast majority of them travelling to mainland China either on business or to visit relatives. Of the remainder, 13% were from Macau, 12% from China and 5% from other countries.

Direct flights between Taiwan and China have been banned since the Communists took power in China in 1949. In recent years, hopes of a resumption of services across the Taiwan Strait have been raised and dashed many times, according to the state of the political relationship between Beijing and Taipei.

But observers say Taiwan's newly-elected president, Chen Shui-bian, is prepared to be more conciliatory towards Beijing than his predecessors. They say he may bow to growing pressure to restore commercial, postal and communications links to China.

So far there is no indication of when this might happen, but executives at Air Macau are upbeat about the prospect.

"Direct flights do not worry us," said Zhou, with all the confidence of a man who thrives on challenges. Indeed, he believes Air Macau could play its part in any change in cross-Strait policy.

What is significant is that Zhou and chief executive officer, Li Keli, are appointees of the major shareholder, the China National Aviation Corporation (CNAC), an arm of Beijing's CAAC.

The CNAC also holds a majority shareholding in Hong Kong's Dragonair. The difference between the two carriers is that Air Macau's top management has mirror positions shared between CNAC and Portuguese staff.

The team, for the most part, appears to work reasonably well together, hence the healthy bottom line.

Last year, following a poor 1998 performance when Air Macau recorded its only loss due to Asia's economic recession, it bounced back with a 51 million pataca (US$6.6 million) profit. The airline expects to double that figure in 2000.

The reason for the optimism is Macau's relationship with China. In December last year, Macau returned to mainland sovereignty after 400 years of Portuguese rule.

"The central government in Beijing has been very supportive of Macau since the handover," said Zhou. Visitors to Macau from the mainland have risen 50% to 100% on a monthly basis since December, he added.

Air Macau flies to 14 points in China, including double daily services to Shanghai and daily to Beijing. It is looking to add five or six more destinations in the next five years.

The airline also flies to Seoul, Manila and Bangkok.

But there is no doubting the importance of Taiwan to Air Macau. The airline has 51 services a week to Taipei and 16 to Taiwan's southern port city of Kaohsiung.

In its second five-year plan, Air Macau aims to establish services to Japan. Negotiations between the respective governments are underway. It also wants to start operations to Vietnam and Cambodia.

It also has not ruled out long-haul services to Europe and the U.S., although the latter, said Zhou, is not high on its wish list in the short to medium term. He believes the airline can make a case for operations from Taiwan to, for example, Frankfurt via Macau. "Taiwan does not have any direct services to Europe. It takes them longer than flights that could travel via Macau," he said. "I want to make Macau a hub, it must become a hub."

Air Macau has been talking to southern China carrier, Hainan Airlines, about a commuter service joint venture. Zhou also wants the airline to increase its cargo revenue from the present 10% of the carrier's turnover to 15%. It is 13% in the current year.

Once direct flights are introduced between Taiwan and China, Zhou believes Air Macau's operations could become "more flexible", suggesting the carrier might be among those selected by the mainland to operate across the Taiwan Strait.

Already, Air Macau operates flights seen as a stepping stone to direct services. Travellers boarding flights in Taiwan or China can fly between the countries via Macau, stopping only for a token change of flight number.

Dragonair has a similar arrangement through Hong Kong.

But even with the addition of direct flights Zhou believes Macau will remain popular with Taiwan and its 23 million population, particularly the business community. Guangdong province is known as the iron rice bowl of China. Situated on the border with Macau, Zhou said Taiwanese companies had invested in more than 10,000 factories in Guangdong.

When it was decided to launch an airline in Macau, Zhou said the CNAC "did not want another Chinese airline". It chose Singapore Airlines (SIA) as a role model. Three SIA executives were seconded to Air Macau for the first two years of the start-up.

Macau has another factor in common with Singapore. With a population of around 430,000, its airline could not survive on originating traffic.

Carlos Pimentel said Macau needs 'Open Skies' to fulfil its potential. "The more airlines that come to Macau, the more Air Macau will benefit from the people they bring. We cannot generate enough traffic here," he said.

Pimentel believes Air Macau has greater

The Civil Aviation Administration of China (CAAC) certainly meant business when they started selecting the executives to run Air Macau on behalf of their subsidiary, the China National Aviation Corporation (CNAC)

"It was the first time in the history of the CAAC that they had competition for such positions," said Air Macau's deputy CEO and commercial director, Zhou Yunda (pictured above), a fluent English speaker. "I had to give a 30-minute presentation to a 17-man selection panel. I was then asked questions for one hour. Each candidate was then given points. I came out top."

Zhou graduated in English from Fu Tan University in Shanghai. After spending two years working for the CAAC in Beijing, he was posted to New York for five years where he worked as a sales manager at a time when the CAAC was developing air services between the U.S. and China.

Zhou then returned to Beijing to work in the CAAC's personnel department for two and a half years. Charged with forming a CNAC-linked tourism, sales and investment company, he turned it into a business that had a turnover of US$9 million a year after four years.

The Air Macau executive then moved to two aviation sales-related posts before going south for his big challenge in Macau.

Air Macau deputy CEO Carlos Pimentel: more potential from cargo than passengers potential for growth in cargo than in passenger traffic.

With this in mind, the airline is looking at the possibility of a cargo airline subsidiary which would involve other airline partners. Taiwan's EVA Air would be an obvious candidate. EVA, which is part of the giant Evergreen shipping group, took a 5% stake in Air Macau last year and has said it wants to increase its own cargo earnings to up to 60% of the airline's total revenue. Last year, 40% of EVA's revenue was from the cargo market.

"We are looking at a time-scale of two to three years, maybe less, to make this happen. EVA will be an important element in this," said Pimentel.

Improved transport infrastructure, including a rail link that will eventually run from Guangzhou to Zhuhai, and across the Pearl River to Macau International Airport, will benefit passenger and cargo operations.

"Looking back over the last five years I feel proud to have been involved in the dawning of a new airline. We have proved a lot of people wrong," said Pimentel.

Praise for China

Air Macau's director of flight operations, Capt. Vicente Serafim, flew with airlines in Portugal, Angola and Mozambique before finding his way to Macau in 1995, for the launch of the new airline. At 18 he was in charge of a small airline in Africa.

He became chief pilot in early 1999 and director of flight operations in June the same year.

The majority of the 34 air crew at Air Macau are from Portugal, but 15 pilots are former Philippine Airlines staff. Air Macau also has three mainland Chinese first officers, formerly with China Southern Airlines. A Briton, a Norwegian and a German add to the Air Macau melting pot of nationalities on the flight deck.

Capt. Serafim is full of praise for his young Chinese first officers. In his five years in Macau the director said there has been a major improvement in China's aviation industry. "The standard of English is improving. They have upgraded their radar stations and airports. China has improved in all areas," he said. "There are lots of countries I consider more difficult to fly in than China," he said.

Air Macau shareholding

China National Aviation Corporation (Group) Macau	51%
Servicos, Administracao e Participacoes, Limitada (SEAP)	20%
Sociedade de Turismo e Diversoes de Macau (STDM)	14%
Evergreen Airways Service (Macau) Ltd	5%
Macau Territory	5%
Other investors	5%

Information Technology

The IT revolution

Security and cost are major issues for airline industry

Tom Ballantyne reports from San Jose, California

During the International Air Transport Association's (IATA) airlines@internet conference and information management gatherings in San Jose, California, in April, there was little evidence airline fears about the dramatic speed and development of the e-commerce world into their business will abate.

Internet marketing and selling, new ways of communicating with customers and constant development of new computer applications are not simply adding new ways of doing business, they are totally re-engineering industry norms. The cyber technology is also forcing airline managements to re-think their attitudes to their businesses.

In many ways, revolution is not a strong enough word to describe the substantive changes the industry will have to undergo in the next few years if it is to deal with this new world.

In San Jose, it became clear there are two particular issues which need to be dealt with.

The first is Internet security and the second is cost. Everyone knows introducing new systems giving customers ready and immediate access to airline information, through computers and mobile telephones, has a high-risk element. There are hackers out there willing to play havoc with big business, including airlines.

They have done it in the past and they will do it again. Penetration or meddling with computer systems by outside influences could be disastrous for an airline's business. Methods will have to be found to prevent such episodes from happening.

Cost also is an issue. IT requires big investment bucks. Whether airlines like it or not, money will have to be spent introducing new systems. Carriers which fail to do so will fall by the wayside.

The IT companies are taking great pains to prove their new products will ultimately reap big rewards for those who use them. But they first have to convince airline boards and their bean counters of their case.

Finally, it also is clear that keeping up with IT is not simply a matter of buying a system and then looking to replace it in five or 10 years.

Developments are occurring at such a pace that spending on IT has now become a constant, involving upgrading as new elements arrive on the scene.

Airlines cannot keep up with that themselves. To maintain the pace they will need to outsource to experts.

All in all, the importance of IT has now become so great that IATA's airlines@internet and information management conferences are likely to become major events on the industry's annual calendar.

More than 300 airline and information technology industry executives gathered in San Jose in April for back-to-back conferences on e-commerce developments. They could hardly have selected a better location. Set in Silicon Valley, south of San Francisco, this is the heart of IT revolution country and home to giants of the computer industry and the World Wide Web like Cisco and Sun Microsystems.

In this report

'We have a straightforward relationship with travel agents. They hate us, we hate them'

Making money? It's easy for easyJet

By Tom Ballantyne

When it comes to running airlines the flamboyant Greek-born owner of British no-frills operator easyJet, Stelios Haji-Ioannou, knows exactly what he wants and how to achieve it. The aim is to make money and one of the keys to doing this is eliminating travel agents from the distribution chain.

"We at easyJet have a simple and straightforward relationship with travel agents. They hate us, we hate them and that's it," he said.

The result? There are no middlemen skimming off commissions on tickets and 100% of sales are direct to the customer either through telephone bookings or the Internet.

"We are still the world's only airline that has never paid a commission to anyone," he told delegates at the International Air Transport Association's (IATA) airlines@internet conference in San Jose, California in April.

The ratio of tickets sold directly through Internet bookings is rising steadily. "When I checked this morning my staff told me 61% of all sales last week were Internet bookings. Our target is to take it to 75% by the end of this year."

These are remarkable figures considering that today, on average, the world's airlines are selling well under 3% of their seats on-line. But Stelios is no ordinary airline chief. Since launching easyJet in 1995, he has turned every traditional norm of airline operations on its head and quickly established a profitable competitor in Europe's skies.

Like Virgin Atlantic's gregarious leader, Sir Richard Branson, he has been a thorn in the side of mighty British Airways (BA). He has a fleet of 18 Boeing B737-300 jets, now carrying 5.5 million passengers annually. He operates on 28 routes from three hubs at Luton and Liverpool in the U.K. and Geneva, Switzerland.

Another 32 B737-700s are on order for delivery through to the end of 2004, when the carrier will have 44 jets.

EasyJet owner, Stelios Haji-Ioannou: never paid anyone commission

The good news for Asian international carriers is that Stelios has no plans to fly routes beyond Europe. "I have looked at the economics. None of the figures add up for long-haul," he explained.

This does not mean a foray into skies outside Europe is out of the question. He does not rule out the possibility of transplanting a similar operation into a domestic market such as Australia or Canada.

Virtually everything Stelios does is aimed at making easyJet the first wholly Internet-oriented airline sales force in global aviation. As a play on BA's 'The World's Favourite Airline' slogan he coined the phrase 'The Web's favourite airline' for easyJet.

"The funny thing is it started as a joke, but now it is a very serious claim. We are the airline that sells more seats over the Internet than anybody else. A recent survey of net users showed we are the second biggest 'e-tailer' in the U.K. after Amazon.com. (the Internet book supplier)."

The first secret, according to Stelios, is the product is simple. "An easyJet seat is an easyJet seat is an easyJet seat. There is no business

easyJet: no frills, no delays

class. You can't even choose the seat. It's first come, first served," he said.

Because customers have never had to deal with travel agents they are accustomed to picking up a phone and booking. This makes it far easier for them to progress to signing up on the Web.

easyJet also gives an across-the-board discount of £5 for every Internet booked seat and runs promotions exclusively over the Internet.

Summer and winter schedules are published on the Net two months ahead of time, giving customers first choice.

"It is almost positive discrimination. What we have done is show you can educate the consumer to behave in the way you want them to behave," he said.

Apart from the cost-saving benefits in terms of distribution costs, he said high load factors are another result of Internet booking.

"Our load factors are better than those of BA. If you use the Net effectively you can fill your aeroplanes more easily. That is more valuable than cutting costs. The difference between a 65% and an 82% load factor is the difference between being unprofitable and being very profitable," said Stelios.

Electronic commerce has brought other revenue benefits. If the airline had not grown its e-ticketing business so quickly it would have had to move its telephone call centre to a bigger building.

"We have avoided that by making sure we grow Internet bookings faster than telephone bookings. My prediction is that eventually the call centre will become more of a customer care centre. It will deal with problem inquiries, complicated bookings and changes, rather than primary simple bookings," he said.

"The other benefit of the Net is it is infinitely scaleable. A call centre is limited by the number of people answering the phone. You can only take so many bookings. Over the Net, you can take as many bookings as you want, when you want and meet the demands of peaks and troughs."

Stelios also has turned rules on air fares upside down. Everybody else starts from full fare and then discounts. easyJet starts low and works up. Every ticket is sold under the same conditions and is for a one-way trip. They can be changed for £10 plus the difference in the fare.

"They are all sold on a first-come, first-serve basis. The price only goes up. We never discount at the last minute. We never lose our nerve.

"We never drop our pants. If the flight has a few empty seats we would rather fly with them empty than change the philosophy," said Stelios.

It was the first airline to sell coffee and snacks on board, rather than give them away free.

About the only promise easyJet gives its passengers is punctuality. More of its flights leave on time than any other British carrier.

"We are very strict on punctuality," he said. "You can force people to pay for their coffee, but at the end of the day you have to get them to the destination reasonably on time.

"As a result of being on time we have very satisfied customers. Quality is all about meeting the customer's expectation. So because we promise virtually nothing else we always meet their expectations."

The approach produces some surprising results. easyJet recently beat British Airways in a business magazine survey which found the carrier's reliability, customer service and inflight entertainment were better than on its big rivals.

"That is fascinating when you realise we don't have any inflight entertainment. It probably says more about IFE on BA planes than it does about us," said Stelios.

He may enjoy tossing barbs in British Airway's direction, but Stelios has no interest in applying for the recently deposed chief Robert Ayling's job running the big major. "I don't believe I know how to change a company like BA. I started with a plain sheet of paper and really that's the beauty of it. Turning round a supertanker like BA is a very different job," he admitted.

E-ticketing 'to save' airlines $1b by 2005

The International Air Transport Association's (IATA) new interline electronic ticketing system, designed to allow airlines across the world to join the e-ticketing revolution, will be operational by the middle of this year.

The development programme – the system is being constructed by IBM – was completed in February, a little over a year after work got underway. But with only three months to go before the launch and despite heavy lobbying, no airlines have yet subscribed to the system.

IATA went ahead with GlobalET to fill a black hole in airlines' e-commerce business.

While many major carriers have used e-ticketing for some time, their individual systems are not integrated and, apart from one or two airlines which have bilateral agreements with partners, cross-airline ticketing is impossible.

According to Andreea Dutescu, IATA manager business development, there is limited consumer flexibility. "Travellers using e-tickets today do not have the flexibility to fly, and if necessary re-book, on more than one airline on the same trip.

"And unless the e-tickets are issued by one of the few carriers with existing reciprocal agreements, airlines cannot support interlining of e-tickets," she said.

IATA's solution was to offer the industry a neutral, globally available, electronic ticketing service, which would provide airlines with an integrated interline electronic ticketing capability. It should also allow small airlines to enter the e-ticketing game without the big capital investment involved in setting up their own systems.

Interlining of e-tickets and access to the system for carriers large and small is critical because of the rapid pace of growth in electronic bookings.

In 1999, some 43% of corporate travellers used electronic ticketing, a 60% growth since 1997. Last year, an IATA survey found more than half of business travellers said they planned to use the Internet for their travel arrangements by 2004.

By 2005, IATA believes e-ticketing will be saving the airline industry US$1 billion annually in distribution costs. GlobalET will be service-managed and co-ordinated by IATA to ensure protection of airline confidential data and neutrality.

The system will also ensure transaction authenticity, integrity and payment through Digital Security Service & Clearing House.

Other key features are that it will fit with most airline existing business processes and practices and will provide the carrier with the ability to control ticket interchange flow.

It also gives airlines control over the data that can be accessed by other participants.

Airlines told computer security too lax

By Tom Ballantyne

You can tell instantly that Daniel T. Woolley has a military background. He is tall, square-jawed and straight-backed and he talks of global security, attack and defence technology, triggers and survivability.

It sounds as if there is a war to be won and there is. But the retired U.S. Air Force Reserve lieutenant colonel is not talking about the conventional battlefield. He is referring to the global Internet war zone and its susceptibility to incursion.

Today, Woolley is president and chief operating officer of Global Integrity, a company that specialises in e-commerce security. And he has a serious message for airlines. As their use of the electronic highway increases dramatically, he warns them not to be complacent and think they are immune from interference from computer hackers or other outside influences. They can cause serious corporate damage, he said.

Some 91% of organisations surveyed in the U.S. last year experienced hacking or penetration of their computer systems and, on average, between 13 and 21 company Web sites are "defaced" every day, said the security expert.

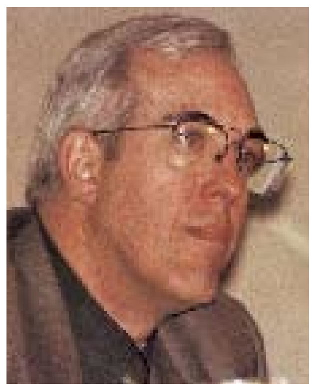
And it can happen to anyone. Woolley revealed the Russian military recently had to shut down its Web site for four days after hackers broke in and added graffiti.

His warning reflected a major concern at IATA's airlines@internet conference in San Jose that airlines and their high technology suppliers are not paying enough attention to computer security.

And even when managements think they have adequate security in place they fail to understand that total security is virtually impossible, said Woolley. Computer hackers are often not plying their trade to make money, but because they enjoy the thrill of wielding power over big corporations.

If they succeed the implications for airlines are immense. Under the 'guillotine' may be sensitive internal commercial information, personal data on passengers and staff, secret financial information, valuable strategic planning material and a host of other items which could be embarrassing or damaging if they reached the public arena.

There are others who share Woolley's concerns. James Ruth, manager of e.security at major electronics company, EDS, said security is a primary issue for airlines because 47% of consumers say lack of trust in the systems or privacy issues are what stops them shopping on the Internet.



Global Integrity president and COO, Daniel T. Woolley: airlines fail to understand that total security is virtually impossible

"Many people still think of security as having a guard at the front gate. Guess what?

"That doesn't work with computers and the Internet. Senior management does not understand this environment," he said.

According to Shawn Herman, from the Computer Emergency Response Team (CERT) at Carnegie Mellon University in Pittsburgh "while computer networks revolutionise the way you do business, the risk they introduce can be fatal to a business.

"Network attacks can lead to losses in money, time, products, reputation, sensitive information and even lives," he said.

A gauge of how serious the issue is taken is that CERT is sponsored by the U.S. Department of Defence.

Herman said in the rush to gain a benefit from using computer networks, organisations often overlook significant security issues. Also, engineering practices technology used by system providers are often not sufficient to prevent systems being vulnerable to attack.

"Network and system operators do not always follow best practice that would prevent such attacks or minimise damage," he said.

CERT data showed the problem is worsening. In 1997, there were 2,134 network penetration "incidents". That increased to 4,960 in 1998 and rose to 8,268 last year.

"Geographical and national boundaries play no role in the evolution of attack technology or the development of attack tools, so solutions must be international in scope," said Herman.

Avinash Kadam, chief operating officer of a leading Indian software house, Kale Consultants, told delegates. "Each time a security lapse is reported, or a hacker accesses a site containing sensitive information, it becomes a major news item.

"Add to this the fact the airline market is so intensely competitive and we have a mix of information that is a hacker's virtual paradise!" he said.

Kadam argued the industry needed to understand the basic issues involved in information security. It needed to design a strategy that ensures all sensitive and critical information is adequately protected at an acceptable level of risk against loss, improper use, compromise or unauthorised alteration or modification.

CERT's Herman said it was important to recognise that eliminating system attacks was virtually impossible and it was important to focus on the development of survivable network technology.

This was to reduce incidents caused by errors in software architecture, design or implementation and to ensure appropriate systems and management practices are used to resist, recognise and recover from attacks on networks and "to limit damage and to ensure continuity of critical services in spite of successful attacks".

Herman said the market for security products and services was growing faster than the supply of quality products and service providers. Airlines need experts to assist in this area, but they also had to be careful to choose the right experts.

Speakers agreed airlines needed to reassess their actions on security. The only way to approach the issue, they said, was through a system of continuous security management in every corner of the company.

On-line corporate travel move by BA

British Airways (BA) is to launch an on-line corporate travel agency as part of its continuing drive to lift revenue from its high yield, front-end business customers.

The site will be created by on-line business travel service GetThere.com and customised to meet the needs of small and medium-sized companies in Britain and Europe.

The move is part of a growing trend by international carriers to give birth to their own dedicated travel sites as a means of attracting more direct customers and trimming their distribution costs.

A number of Asian airlines are understood to be looking at similar projects to counter the growing impact of the fast-growing on-line travel agency sector.

BA's new service will be based on GetThere's Global Manager, an electronic travel system currently used by large corporations to book business trips for employees.

Smaller business will be able to use the same electronic tools to book air, car and hotel reservations. Although they can book flights on other airlines, BA will be the default choice.

The system will be able to identify staff-cleared travel business class fares or other employees who can only fly economy. It will allow employees to tag preferred airlines or hotels with which the company has negotiated discounts and firms can create their own customised sites within the portal.

Simon Parks-Smith, manager of British Airways' business-to-business ventures, said the new site was "an opportunity for us to use e-commerce" to reach small and mid-size European businesses.

For GetThere, based in Menlo Park, California, the link-up with BA gives the young company considerable marketing muscle without having to spend the vast sums of cash some dot.com companies must invest to build their brands.

Air NZ offers the personal touch

Air New Zealand (Air NZ), supported by an IBM-developed call centre, has introduced a computer telephony integration system to enhance its customer telephone booking system.

The new system provides advance caller identification, reduction of the airline's call handling time and enhanced customer service, offering travellers a personal way of booking flights.

It processes an average of 5,500 predominantly business calls every day for flights around New Zealand and internationally, as well as calls from New Zealanders booking travel on Ansett Australia services.

Air NZ said it chose IBM to deliver the computer telephony integration system (CTI) after a highly competitive bidding process conducted in 1998. In early 1999, a team of dedicated IBM business solution specialists began working with the carrier's computer professionals to integrate the new system into existing legacy operational systems.

"Going to tender we had a set vision of exactly what we needed to bring business value to the company and our customers," said Norm Thompson, Air NZ regional director for New Zealand, Australia and the Pacific Islands. "IBM kept within the scope of that vision and turned it into reality through excellent communication skills and outstanding commitment to the project."

IBM customer relationship management practice principal, Nick Redshaw, said the company pulled together a total solution based around the airline's existing systems and used IBM's DirectTalk, CallPath and MQSeries applications to deliver an effective result.

Air New Zealand: "we provide exactly what every passenger really wants, not what we think they should have"

The finished product seamlessly connects prospective passengers with one of 70 booking agents. Its sophisticated database accessing techniques bring up each passenger's personal details and flight history on an agent's terminal. This achieves new levels of personal service and results in a booking interaction that averages less than three minutes to complete.

When the telephone system receives a call made on one of several 0800 toll free numbers, it is answered by IBM's DirectTalk IVR (Interactive Voice Response) system, which is programmed to respond to customers using the keypad on their telephones.

While new accounts are immediately forwarded to the next available booking agent, regular Air NZ passengers key in their individual loyalty card membership number.

Intercepting the membership number, the CallPath software initiates a string of events that retrieves the customer's information from the airline's Point of Contact database. This Unix database contains every passenger's contact information, likes, dislikes and personal travel preferences, along with details of their flight history.

"The new system permits each booking agent to serve each customer as an individual, rather than a faceless flyer," said Thompson. "We can now fine tune our services to ensure we provide exactly what every passenger really wants, not what we think they should have. That's the bottom line."

1999: YEAR OF RECOVERY

Consolidated passenger traffic expansion of the Association of Asia Pacific Airlines (AAPA) members slowed to 1.4% in December, 1999, after brisk, non-stop growth since September, 1998.

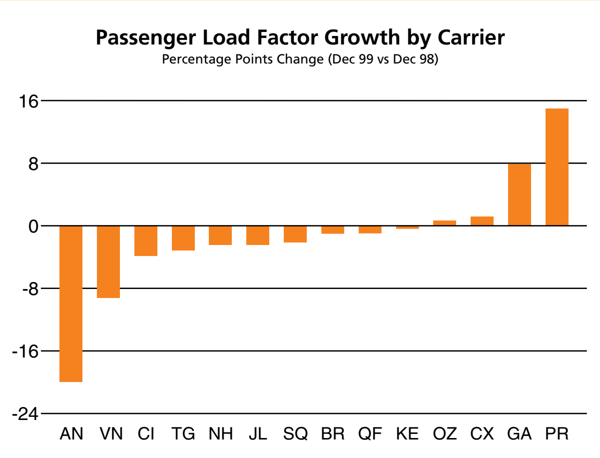
The increase in the number of passengers carried (PAX) also moderated to 2.7%. These decelerations in traffic may be largely attributed to travellers' apprehension about the effects of Y2K on airline operations. Capacity increased 3.1%, resulting in a 69% passenger load factor (PLF), down 1.1 percentage points. This was the first PLF dip since traffic began recovering from the Asian economic crisis.

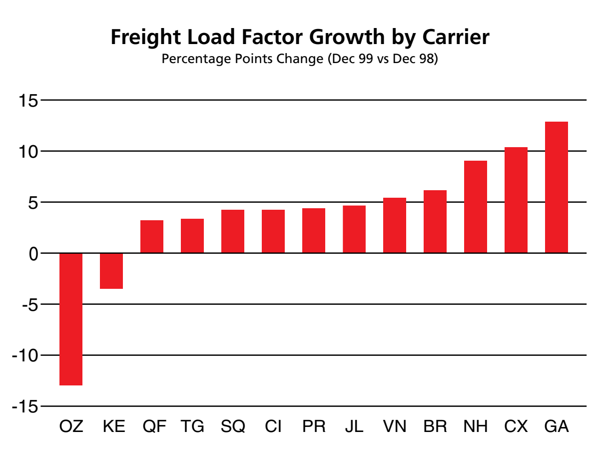
The majority of AAPA members had mediocre growth in December. Only three carriers logged double-digit growth: Philippine Airlines (PR: 75.6%), Asiana Airlines (OZ: 28.6%) and Korean Air (KE: 11%). Consistently strong performers, like Thai Airways International (TG) and Singapore Airlines (SQ), reported their lowest revenue passenger kilometre (RPK) growth for 1999, at 2.2% and 1.6%, respectively. Vietnam Airlines (VN: 3.7%) and Japan Airlines (JL: 0.5%) were other members which recorded positive growth.

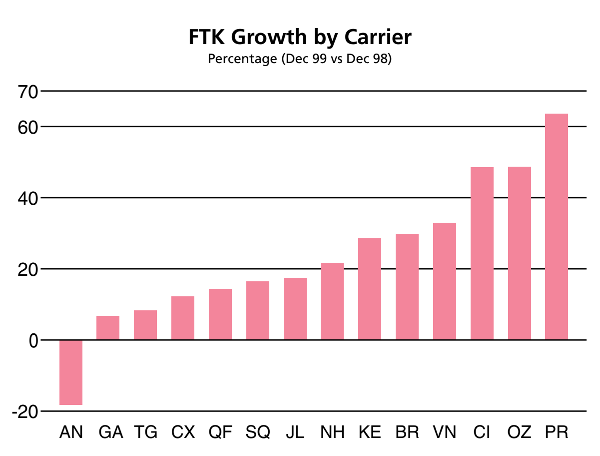
Fears about the Y2K bug, in addition to the usual passenger disinterest in travel at this time of the year, may have contributed to the negative traffic growth of Ansett Australia (AN: -23.6%), China Airlines (CI: -12.9%), EVA Air (BR: -8.3%), Cathay Pacific (CX: -5.7%), Qantas Airways (QF: -2%), All Nippon Airways (NH: -1.5%) and Garuda Indonesia (GA: -0.6%). Except for All Nippon Airways, these members reported a significant decline in PAX, too.

Most carriers' PLF also declined. Ansett Australia posted the steepest fall of 20.3 percentage points, to 49.9%. Philippine Airlines, on the other hand, had the greatest improvement, a 15-percentage point increase to 66.1%.

Only six member airlines reported a load factor above 70%: Asiana Airlines (75.6%), Singapore Airlines (73.7%), Garuda Indonesia (72%), Cathay Pacific (70.7%), Qantas Airways (70.1%), and EVA Air (70.1%).







Cargo Results

Freight traffic maintained its strong performance in the Christmas season, with an increase of 22.1% over December, 1998, the second highest monthly growth for 1999. Capacity rose 19.8%, resulting in a 1.4 percentage point increase in freight load factor (FLF) to 70.1%.

With the exception of Ansett Australia, 13 member airlines logged exceptional freight tonne kilometre (FTK) growth. Eleven posted double-digit growth which ranged from 11.6% to 63%: Philippine Airlines (63%), Asiana Airlines (48.7%), China Airlines (48.1%), Vietnam Airlines (33.1%), EVA Air (29.5%), Korean Air (28.6%), All Nippon Airways (21.9%), Japan Airlines (16.9%), Singapore Airlines (16.8%), Qantas Airways (14.3%) and Cathay Pacific (11.6%).

Garuda Indonesia and Cathay Pacific reported huge improvements in FLF, 13 and 10.4 percentage points respectively. Seven of the member airlines posted an FLF of between 70.1% and 88.4%. Taiwan-based carriers, China Airlines (88.4%) and EVA

Air (81.8%), logged the two highest FLFs. At the other extreme, Philippine Airlines recorded an FLF below 40%.

Results for the 12 Months to December 31, 1999

The calendar year saw AAPA member airlines bail out of the slump that was precipitated by the 1997/98 Asian economic crisis. Unlike the results reported in 1998, this year's results, when compared with pre-crisis figures, presented unquestionable traffic growth. The gradual recovery of the national economies in the Asia-Pacific region stimulated the tourism and travel industry, and resulted in the much-anticipated turnaround in air travel.

In the same manner, strong regional exports to the U.S. and robust intra-regional trade added impetus to the regional cargo business. Both passenger and freight traffic posted dramatic growth. Controlled seat capacity expansion resulted in significant increases in load factor.

In contrast, freight tonne kilometres (FTKs) grew slightly ahead of freight capacity growth with the resulting FLF comparatively higher than in 1998 and approximated the FLF in 1997.

Passenger Results

The year was marked with seasonal fluctuations, as opposed to the successive double-digit monthly passenger traffic growth reported in 1996, the last calendar year unaffected by the crisis. When compared to 1998, revenue passenger kilometres (RPKs) and the number of passengers carried grew by around 9.5%. Capacity, which enjoyed steady growth before the crisis, showed a tempered 4.1% expansion, which resulted in a 3.6 percentage point increase in PLF. Average load factor during the year was 72.4%, far surpassing the average 70.7% PLF of 1996.

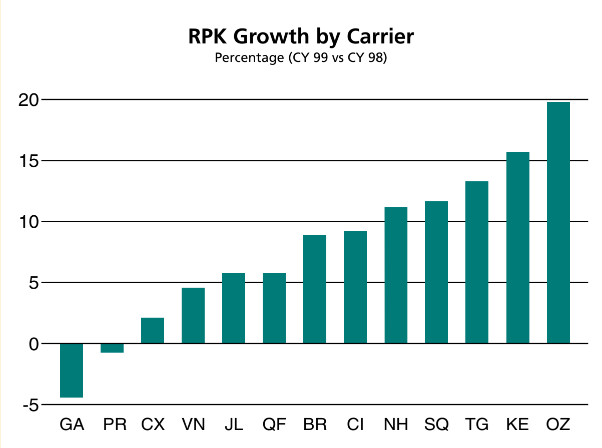
On a per airline basis, the majority of member airlines enjoyed an impressive recovery in passenger traffic despite seasonal fluctuations. In particular, Asiana Airlines (19.9%) and Korean Air (15.8%), two of the four AAPA carriers worst hit in 1998, reported the highest RPK growth in 1999. Next in line was Thai Airways International (13.2%), which reported a double-digit monthly traffic growth for most of the year under review as a result of renewed interest in Asian travel. Singapore Airlines recorded 11.8% growth in RPKs, followed by Taiwan's China Airlines (9%) and EVA Air (8.9%). The two carriers started the year at a fast pace, but traffic slumped in the last quarter of 1999 because of the knock-on effects of the September earthquake in Taipei.

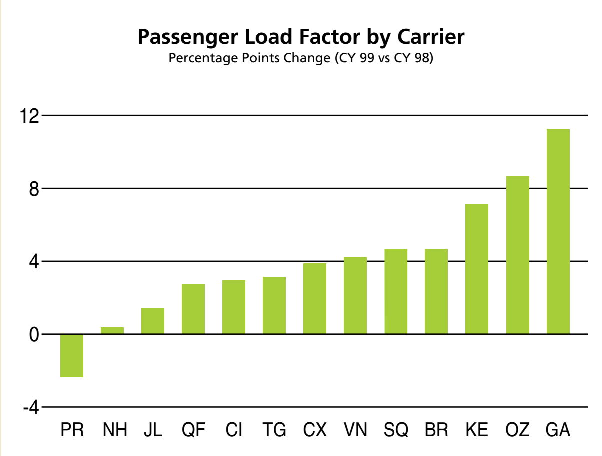
At the opposite end of the scale, Philippine Airlines and Garuda Indonesia, the other two carriers worst hit in the recession, reported negative growth, but their figures were not as bad as in 1998.

Seat expansion for AAPA carriers was more controlled in 1999, at 4.1%. Only All Nippon Airways with 10.4% logged a double-digit increase in available seat kilometres (ASKs). Three carriers reduced capacity. Garuda Indonesia, affected by continued national unrest, shed nearly 20% of its capacity, while Cathay Pacific and Vietnam Airlines reported a fall in ASKs of less than 4%.

Mirroring the dramatic improvement in passenger demand,

Asiana's passenger load factor of 76.7% surpassed all other AAPA carriers in 1999





coupled with managed capacity expansion, 11 member airlines reported PLFs of between 70.8% and 76.7%. Asiana Airlines (76.7%) and Singapore Airlines (75.1%) reported the highest PLFs in 1999.

Cargo Results

Cargo traffic started the year slowly, but showed remarkable strength going into the second semester. The consolidated freight traffic started showing double-digit growth in May, reached its peak in the traditionally strong month of October and sustained its strong momentum into the last two months of the year. After contracting in 1998, the FTKs of AAPA airlines in 1999 soared by 14.4%. The year's FTK figures also showed a remarkable increase compared to the previous two years. Capacity grew by 11.7%, resulting in a 1.6 percentage point increase in FLF to 68.5%.

The majority of member airlines showed a dramatic turnaround in their FTKs in 1999.

EVA Air (24%) posted its second successive year of more than 20% growth. A number of carriers whose cargo traffic declined or slowed in 1998 also posted huge increases in 1999. They were: Asiana Airlines (30.7%), China Airlines (20.9%), All Nippon Airways (20%), Korean Air (13.5%), Singapore Airlines (13.4%), and Cathay Pacific Airways (13.1%).

These carriers also surpassed their FTK levels of 1997 and 1996. Other members to report positive growth were Japan Airlines (9.4%), Thai Airways International (9%), Qantas Airways (7.6%) and Vietnam Airlines (4.4%). Philippine Airlines (-15.0%) and Garuda Indonesia (-18.5%) were the only members to post negative results.

The majority of the member airlines recorded an improvement in FLFs in 1999. However, the increase was not as impressive as their PLFs. Only five members, led by China Airlines (83.9%), logged a load factor above 70%, while five other members reported an FLF in the 31%-51% range.

Summary

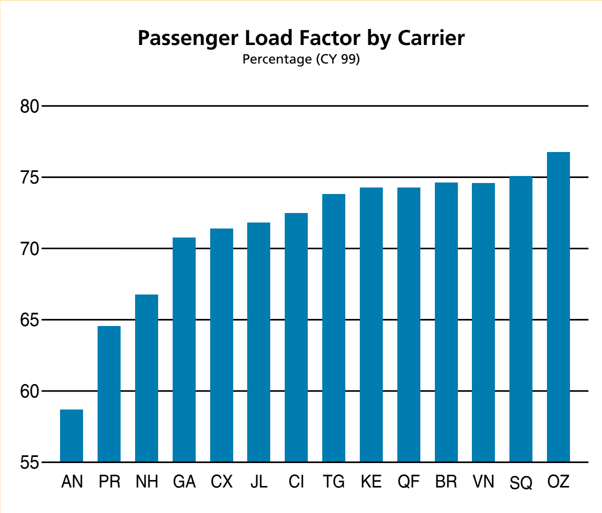
After more than a year of woes, AAPA member airlines have emerged from the ravages of the 1997/98 Asian economic crisis. The gradual recovery of the national economies in the Asia-Pacific region has stimulated the much-anticipated turnaround in air travel.

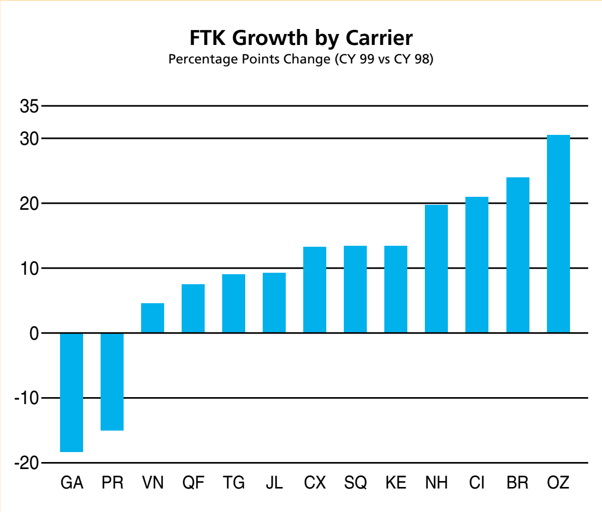
Inbound and outbound travel to and from Australia, Taiwan, Hong Kong, Japan and Singapore have reached their pre-crisis levels.

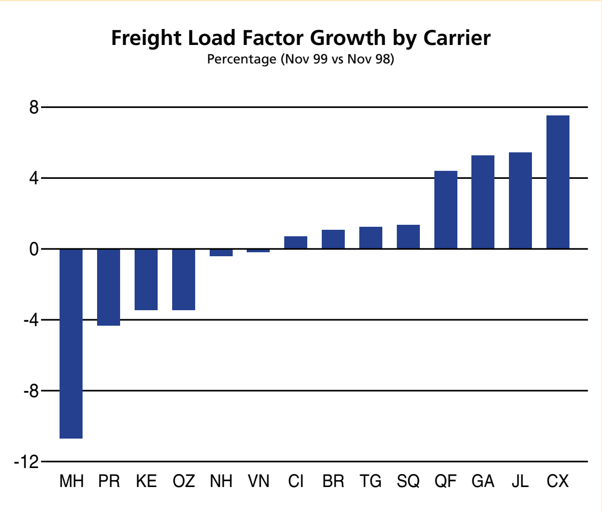
At the same time, strong regional exports to the U.S. and robust intra-regional trade added impetus to the regional cargo business. The aforementioned factors translated into a dramatic increase in both passenger and freight traffic.

On a per airline basis, the majority of the member airlines have recouped their 1998 passenger and cargo traffic losses.

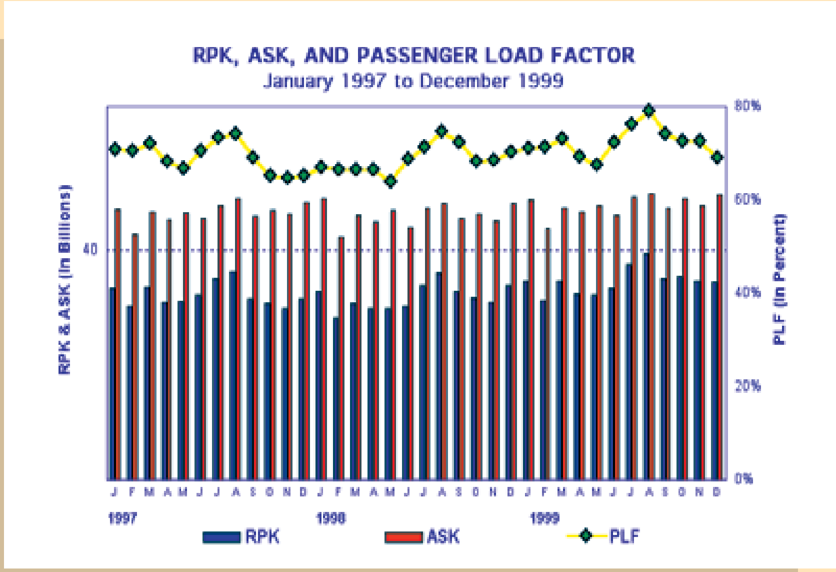
Thai Airways International and Singapore Airlines, the top performers in passenger traffic during 1998, continued to perform strongly in 1999. In terms of freight traffic, the two Taiwan-based carriers, China Airlines and EVA Air, showed resilience amid the drop-off in their passenger traffic. Korean Air and Asiana Airlines, two of the four members worst hit by the crisis, have performed exceptionally well in terms of cargo traffic, surpassing their 1996 and 1997 levels, although passenger traffic has yet to recover to pre-crisis levels.

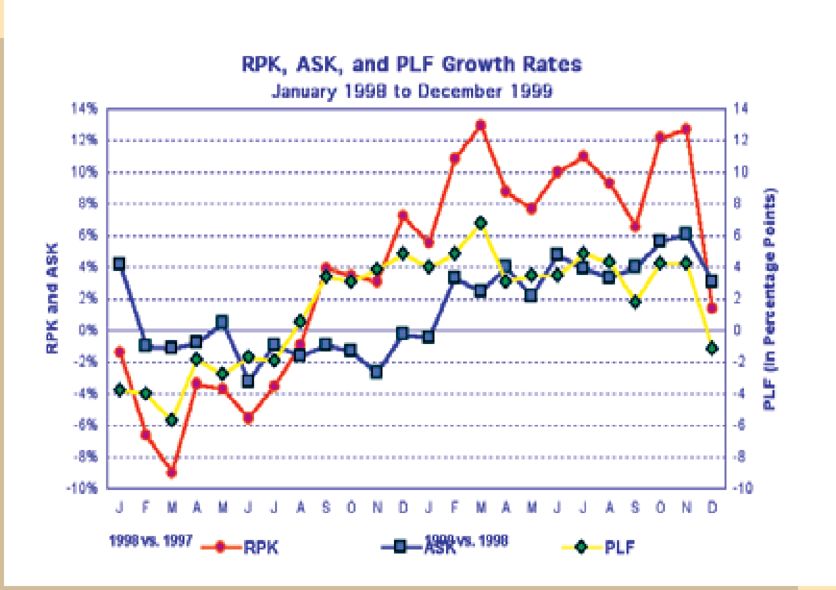




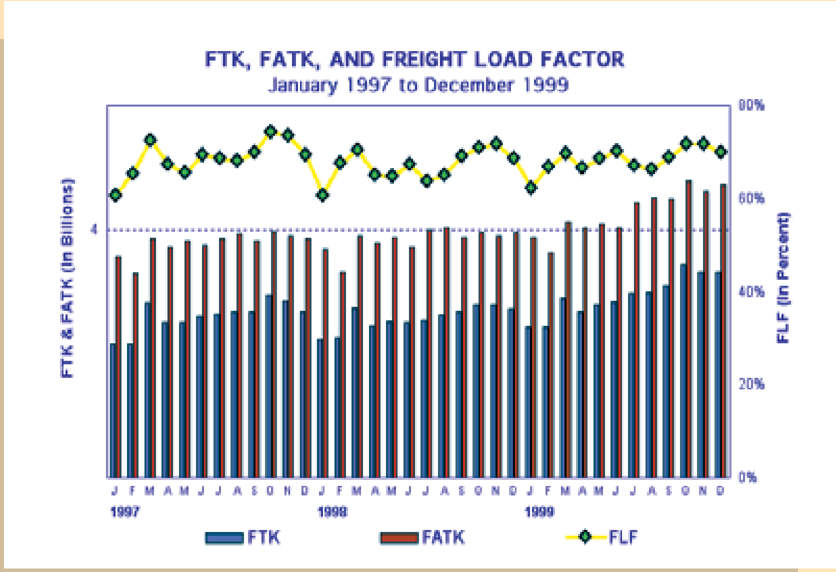


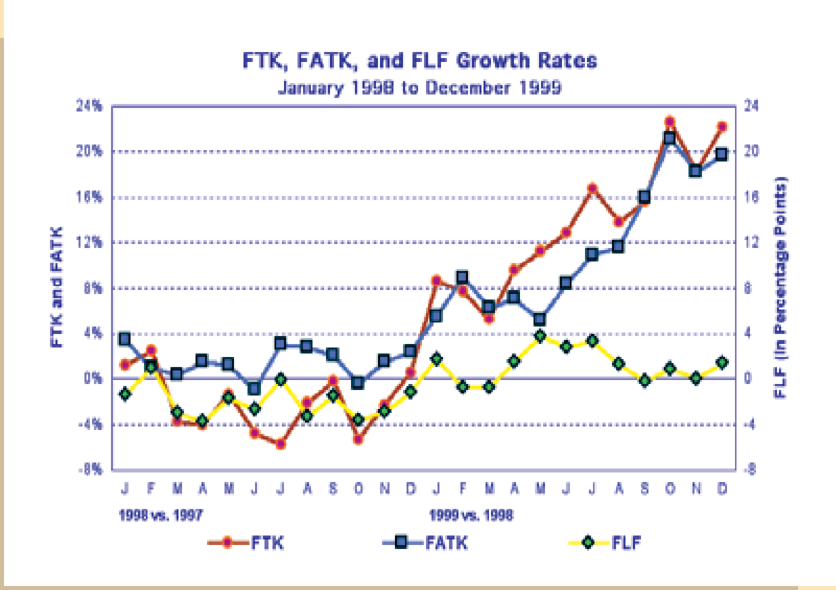
Monthly international PAX statistics of AAPA members





Monthly international cargo statistics of AAPA members





AAPA monthly international statistics (MIS)

*IN THOUSANDS

1999 to 1998

	RPK	ASK (000)	PLF (000)	FTK %	FATK (000)	FLF (000)	RTK %	ATK (000)	PAX
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	4,431,258	67.07	6,473,530	8,958,740	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
JAN-99	34,590,540	48,729,959	70.98	2,422,550	3,883,846	62.38	5,614,550	8,367,744	7,530
TOTAL	414,330,868	572,762,613	72.34	35,183,464	51,355,670	68.51	73,855,785	103,944,966	93,385

1998 to 1997

	RPK	ASK (000)	PLF (000)	FTK %	FATK (000)	FLF (000)	RTK %	ATK (000)	PAX
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
JAN-98	32,770,842	48,943,219	66.96	2,231,332	3,680,418	60.63	5,268,989	8,159,997	7,091
TOTAL	380,161,680	553,432,625	68.69	30,879,286	45,983,758	67.15	65,890,680	96,697,491	85,462

1997 to 1996

	RPK	ASK (000)	PLF (000)	FTK %	FATK (000)	FLF (000)	RTK %	ATK (000)	PAX
DEC-97	31,530,264	48,318,048	65.26	2,678,108	3,856,957	69.44	5,659,579	8,270,875	7,198
NOV-97	29,873,748	46,202,193	64.66	2,856,686	3,888,889	73.46	5,669,375	8,108,054	6,865
OCT-97	30,558,849	46,936,589	65.11	2,949,762	3,973,364	74.24	5,828,851	8,260,884	7,004
SEP-97	31,559,087	45,823,297	68.87	2,679,489	3,827,218	70.01	5,648,590	8,004,922	6,977
AUG-97	36,321,417	48,967,204	74.17	2,673,793	3,927,216	68.08	6,071,957	8,389,329	8,092
JUL-97	35,028,258	47,805,812	73.27	2,652,446	3,858,467	68.74	5,928,392	8,215,320	7,814
JUN-97	32,040,636	45,425,520	70.53	2,600,411	3,746,864	69.40	5,603,114	7,883,779	7,250
MAY-97	31,037,075	46,559,497	66.66	2,511,247	3,826,349	65.63	5,431,046	8,071,740	7,100
APR-97	30,807,978	45,219,804	68.13	2,509,240	3,727,631	67.31	5,404,919	7,847,301	7,313
MAR-97	33,599,094	46,670,864	71.99	2,807,076	3,868,138	72.57	5,959,385	8,115,181	7,762
FEB-97	30,135,591	42,696,237	70.58	2,155,514	3,299,479	65.33	4,973,106	7,193,963	7,195
JAN-97	33,232,107	47,001,275	70.70	2,168,689	3,568,524	60.77	5,289,208	7,859,914	7,406
TOTAL	385,724,104	557,626,340	69.17	31,242,460	45,369,096	68.86	67,467,522	96,221,262	87,975

Percentage point change

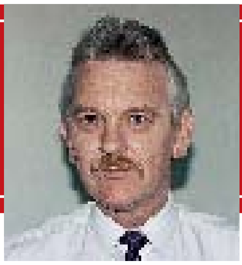
Jan 99 to Dec 99

	RPK	ASK (000)	PLF (000)	FTK %	FATK (000)	FLF (000)	RTK %	ATK (000)	PAX
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	10.92	3.35	14.83	7.55	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
JAN-99	5.55	-0.44	4.03	8.57	5.53	1.75	6.56	2.55	6.18

Jan 98 to Dec 98

	RPK	ASK (000)	PLF (000)	FTK %	FATK (000)	FLF (000)	RTK %	ATK (000)	PAX
DEC-98	7.20	-0.27	4.88	0.60	2.34	-1.18	2.76	1.03	5.94
NOV-98	3.06	-2.70	3.83	-2.36	1.57	-2.84	-0.68	-0.43	2.31
OCT-98	3.43	-1.28	3.11	-5.29	-0.43	-3.63	-2.04	-0.40	2.17
SEP-98	3.94	-0.96	3.41	-0.21	2.01	-1.52	0.76	1.29	2.13
AUG-98	-0.89	-1.60	0.54	-2.13	2.79	-3.26	-2.62	0.70	-0.43
JUL-98	-3.54	-0.91	-1.94	-5.74	3.07	-5.88	-4.91	1.40	-3.96
JUN-98	-5.55	-3.21	-1.70	-4.77	-0.99	-2.65	-5.18	-1.92	-6.28
MAY-98	-3.72	0.49	-2.79	-1.33	1.23	-1.66	-2.89	0.99	-5.05
APR-98	-3.42	-0.75	-1.83	-4.04	1.57	-3.72	-3.64	0.54	-5.78
MAR-98	-9.00	-1.19	-5.69	-3.77	0.35	-2.98	-6.41	-0.26	-10.26
FEB-98	-6.63	-0.97	-4.03	2.52	0.94	1.03	-2.44	-0.01	-9.80
JAN-98	-1.38	4.12	-3.74	1.17	3.43	-1.33	-0.38	3.81	-4.25

AGENTS OF CHANGE



TURBULENCE

By Tom Ballantyne

Ask any airline chief about his airline's relationship with travel agents, the millions of dollars in commissions they are paid annually for selling air tickets and future plans to eliminate the cash outflow this creates and you are asking for an evasive answer.

The usual response is something along the lines of: "No, we're not trying to get rid of them ... there will always be a place for travel agents in the distribution chain". What they are not saying is that place should involve selling as few tickets as possible.

Right now, airlines still need agents to sell most of their seats. But the truth is that carriers around the globe would like nothing better than to scuttle the profits agents reap from their business.

The seven or so percent paid out on every ticket sold through agencies on millions of fares annually is hardly chicken feed. In the long term, if airlines can make direct sales in the major part of their business, the impact on their bottom lines would be sensational.

Travel agents are aware of this, which is why more and more of them are moving into Internet sales to make it easier and faster for customers to book and pay for flights.

Be that as it may, the ultimate goal of any airline is to sell as many of its own tickets as it can. Indeed, one Internet research company, Jupiter Communications, has predicted airlines could eventually bypass travel agents altogether by going on-line to access customers directly.

Jupiter analyst, Fiona Swerlow, said there is still a long way to go, but the evidence is clear. Airlines in the United States and Europe are linking up to create their own on-line travel agents. These alliances will allow the operators to give the same choice as travel agents over the Internet, while saving on ticketing commissions.

"It's all about providing choice . . . which is difficult to do at any one supplier's site," she explained. "As airlines have no control over fuel prices and face resistance cutting staff salaries, ticketing commissions are fast becoming the area where they are looking to reduce costs amid growing competition."

She is absolutely right and it could happen quicker than many people expect. While it is generally agreed the Asia-Pacific is lagging a little behind Europe and North America in terms of electronic sales penetration, this region is not that far behind.

Electronic ticketing is now common and new ways of selling direct are being introduced at a rapid pace. Airlines across the region are being constantly encouraged to increase the pace by IT providers like IBM and SITA.

Any airline refusing to heed the message is in danger of being left behind as their competitors fine tune their electronic sales and marketing systems, introduce new efficiencies, save money and improve the bottom line.

This costs money, but the real question is about potential returns on investment. All the evidence points to that being substantial.

Just as importantly, airlines have to realise it's no longer simply about having a good site on the World Wide Web (WWW) and the facility for customers to book e-tickets.

An example: Cathay Pacific Airways recently went a step further by launching a service allowing customers with WAP (wireless application protocol) mobile phones to update frequent flier miles through their handsets. A series of other mobile Internet services will be launched before the end of this year.

This is just as vital for the future. E-ticketing is no longer simply about booking travel from a home computer or a laptop. WAP devices are expected to overtake personal computers as the most popular means of accessing the Internet in Asia, even before the U.S.

Allowing passengers to make travel arrangements – by computer or mobile phone – is going to become common practice. Airlines must offer these services and they must ensure potential passengers know they can receive just as good a deal doing it with the airline as they can through a travel agent.

The critical part of the formula is not so much the availability of the technology, but more the mindset of the traveller and how quickly business and leisure flyers become accustomed to making their travel arrangements in this manner.

In late March, one of the world's leading travel distribution systems, Amadeus, demonstrated how quickly the market is changing when it unveiled its Wireless Travel Management (WTM) solution, which allows flight bookings on more than 500 airlines at any time and any place. It uses WAP technology.

Initially, Amadeus has tied up with Scandinavian airline Wildroe, but it will rapidly become a global offering. Using this system, people can quickly check flight availability and book or cancel flights using their mobile phone in around two minutes.

None of this is likely to occur without a few glitches. That was shown a few weeks ago when a strike by flight attendants at US Airways revealed an unexpected hiccup in the e-ticket landscape.

Basically, passengers holding e-tickets for US Airways flights faced a dilemma. As they went in search of alternative transport they discovered that while other airlines and rail companies accommodate travellers with paper tickets, they wouldn't accept those with e-tickets. It seems computers at many different airlines do not yet communicate well enough to share information on tickets that have been issued electronically.

This caused some glee among traditional travel agents who warned travellers that without an agent they were on their own. One suspects they will not be gloating for too long.

While there will always be major Internet travel groups, it is highly likely airlines will, in coming years, dramatically increase the percentage of customers booking direct. Agents will have to find other ways to offer travel services.

On the other hand, airlines that sit back and await developments are playing a very dangerous commercial game indeed.