VOL. 7 NO. 5 MARCH 2000

Orient aviation

MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

AT THE CROSSROADS

Asia shows early interest in major U.S. global skies thrust

CX explores regional freighter fleet plan

Big changes in the air in India

Sydney airport faces legal action by airlines

SPECIAL REPORT *on regional, commuter aviation in the Asia-Pacific*

Orient aviation

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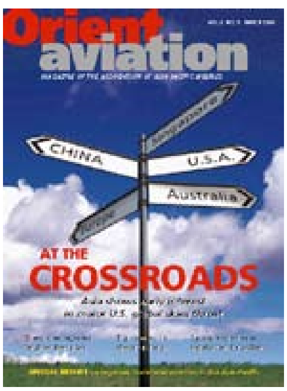
COVER STORY



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INFLIGHT ASIA

A 16-page pull-out dedicated to onboard services and technology. In this issue: JAL doctor calls for inflight nurses; studies in rage, airlines get analytical; Vietnam Airlines' new uniforms, the people's choice; a pilot's IFE view - problems; inflight trials swipe fraudsters; Network: industry news.

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SMALL BEGINNINGS

It was about 18 months ago that the Civil Aviation Administration of China (CAAC) started to state publicly that it was making the development of its woefully inadequate short-haul feeder and commuter network a priority for improvement.

There are those in the industry who spotted the potential in this market long ago and have, until now, been unable to convince the CAAC and many of the airlines of the merits of such services.

Big has been seen as beautiful in the past, but with a decline in the domestic market in the last couple of years, airlines have at last woken up to the gross inefficiencies of using large jets on uneconomic domestic routes.

Shandong Airlines, steered by its far-sighted president, Sun Dehan, was an exception to the above rule. He has already built up a very successful commuter network.

Having used Saab 'props' to good effect, Mr Sun is now moving into the regional jet market. As our special report on regional and commuter aviation reflects, manufacturers like Bombardier and Fairchild Aerospace are breaking serious ground in China. Bombardier's sales chief in the region, Jim Dailly, described it as "the tip of the iceberg".

In addition to Shandong, Hainan Airlines, Shanghai Airlines, Changan Airlines and China United are adding small jets to their fleets.

But while the airlines are rallying to the call, the CAAC has to do its bit. As Mr Sun has said, there needs to be better policies on ticket pricing, a streamlining of airport operations to allow for quick turnarounds and better airport infrastructure to cater for the commuter business.

While the CAAC has put a freeze on the purchase of big jets, other than to replace aircraft, it's good the regulator has not applied the same constraints on the regional market.

There are, however, rumblings of over-regulation in China, with the CAAC interfering in the management, financing and operations of airlines, including second-tier carriers.

There are early signs of another boom period ahead and commuter jets will play their part in it. It's important managements are allowed to manage their airlines to take best advantage of improving times.

Carriers like Shandong, Hainan and Shanghai have shown they have the management and the vision to pioneer a relatively untapped market by buying commuter planes. They deserve to succeed.

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CONVICTED: Following his conviction in Korea's largest tax evasion case, lawyers for the Korean Air chairman, Cho Yang Ho, were considering possible grounds for an appeal against his four year prison term at press time. The airline boss was fined US$26.7 million in addition to his prison term and the carrier itself was punished with a US$48.1million fine, a Korean Air spokeswoman said.

Mr Cho's conviction was not the end of the woes for the Cho family. The younger brother of the convicted tycoon, Cho Su Ho, the boss of the Hanjin Shipping Company, was on trial separately in February. However, the father of the two men, Cho Choong Hoon, now 80, has escaped indictment because of his age and poor health.

Last October, Korea's National Tax Service alleged companies associated with the Hanjin Group, including the Seoul-based airline, evaded 444.9 billion won in taxes and transferred abroad US$442 million in foreign currency from rebates on airplane purchases. In 1999, Mr Cho replaced his father as chairman of Korean Air in a top level reshuffle intended to improve the airline's declining safety image, following a string of airplane accidents and incidents.

BAD HABITS: Until recently, when it came to bad behaviour onboard, Chinese mainland passengers rarely went beyond boorish displays of arrogance and bad manners. But a report in the *South China Morning Post* on February 12 indicated that rowdy behaviour inflight has well and truly arrived for mainland passengers.

When a Cathay Pacific Airways' flight from Johannesburg, South Africa, landed in Hong Kong, six people were arrested by police after a brawl involving a reported 30 people broke out just before the aircraft landed at Hong Kong International Airport.

According to the newspaper report, two groups of mainland passengers had bickered during the 14-hour flight. The irritation cumulated in a refusal by two passengers from one group to accept the safety direction to make their seats upright before landing. Punches flew and a glass was smashed before the cabin crew re-gained control of the section of the economy cabin. One positive aspect of the ugly incident was the co-operation between Cathay Pacific Airways and the Hong Kong police. The captain radioed for assistance and six people, four of whom were treated for minor injuries at a Hong Kong hospital, were then arrested. They were later released on bail, pending further action.

PUFFED OUT: Despite intense pressure from some very unhappy nicotine-addicted passengers, Japan Airlines (JAL) is to get tough with travellers who flaunt the airline's no-smoking rules onboard. From April, the airline announced conditions of carriage would be revised to permit smoking offenders to be offloaded at stopovers. Additionally, the inconvenienced passengers will be put on a JAL blacklist to prevent them booking on future flights of the airline. Unlike several other countries worldwide, Japanese law does not include powers to enforce bans on inflight smoking, so it was necessary to alter conditions of carriage, said a JAL spokesman.

Korean Air chairman, Cho Yang Ho: sentenced to four years in jail

FOREVER MICKEY: Such punitive measures will not be in force at JAL's new sponsored venture, the Broadway Theatre, to be part of the proposed Tokyo DisneySea. Planned to open in the autumn of 2001, a date that coincides with the airline's 50th anniversary, the theme park "will draw on the myths, legends and lore of the ocean as the inspiration for its attractions and shows", the airline says. The JAL Broadway Theatre will stage American hit musicals in an early 1900s style setting. JAL is already the official carrier for the Disney theme park in Tokyo.

COMING HOME: Canadian Peter Buecking, until last month one of Cathay Pacific's top executives, is to return to his homeland to set up the oneworld alliance central management team. Based in Vancouver, the team of 12 will co-ordinate joint customer service, information technology, marketing and financial activities (see page 38).

SOMETHING OLD, SOMETHING NEW: Following an avalanche of protests after its unveiling last year, not totally justified in the view of many, Cathay Pacific Airways has made some changes to the decor of its vast Wing lounge complex at Hong Kong International Airport.

Some members of the Cathay Pacific's Marco Polo Club objected vociferously to the minimalist design of the Wing, conceived and executed by London-based architect, John Pawson, and hankered for some of the old, rather than the new, in the lounges. Cathay listened. The result is now being unveiled to the media, in a strategy intended to spread the news fast.

OVER & OUT: In January an air traffic controller at Hong Kong International Airport was suspended following an incident when a fully loaded Dragonair airplane was involved in a 'near-miss' with a SilkAir aircraft. The SilkAir flight was over-flying Hong Kong from Singapore, en route to Xiamen, China. At one stage, the two planes were only 1.3 nautical miles apart. The results of the investigation will be released by March.

Last year, an expatriate flight controller was re-assigned by the Hong Kong Civil Aviation Department after an incident in which he gave wrong instructions to a China Airlines (CAL) plane at the Hong Kong airport. The CAL captain aborted his take-off to avoid an airplane taxi-ing onto the runway.

COMINGS AND GOINGS: Speaking at a Boeing sponsored round table conference in Singapore in February, Boeing chairman Phil Condit, said the aircraft manufacturer was considering setting up a Southeast Asian office and that Singapore appeared to be the right place for it.

Meanwhile Airbus Industrie, which has had a regional representative office in Singapore for several years, has re-organised the location of its Southeast Asian sales team and taken its members back to its head office. But the Toulouse-based airplane maker is keeping its able Asia-Pacific regional communications manager, Sean Lee, in Singapore.

GOODBYE AIRLINES? If Air New Zealand, already a 50% owner of Ansett Australia, succeeds in buying the remaining equity of the Australian carrier from Rupert Murdoch's News Corp. a most interesting question is: What will Ansett's executive chairman, Rod Eddington, do?

REGIONAL ROUND-UP

Rift throws THAI's Star Alliance future into doubt

THAI Airways International's (THAI) membership in the Star Alliance is hanging in the balance as management awaits a report from global consultants, Credit Swiss First Boston, on whether it should opt out of the group.

In February, THAI president, Thamnoon Wanglee, admitted for the first time the airline, a founder member of Star, is unhappy about the potential impact on its earnings of the impending arrival of Singapore Airlines (SIA), expected to join the alliance in April.

He disclosed the decision to review membership came after financial figures showed SIA cost THAI US$10 million last year by taking over some non-alliance code-sharing agreements on flights to Europe with Star's Lufthansa German Airlines.

Worse, the German flag carrier plans to move its Southeast Asian hub from Bangkok to Singapore, while SIA will use Frankfurt as its hub in continental Europe. That move is likely to cost THAI even more money.

Mr Wanglee said the consultants are studying "the pros and cons" of remaining in Star. He was scheduled to meet SIA and Lufthansa officials in late February to discuss the issues.

The rift came as THAI continues preparations for a share sale later this year that is expected to bring in a strategic partner. Qantas Airways and British Airways, members of the rival oneworld grouping, have already expressed an interest in purchasing a stake and if THAI leaves Star this would open the way for it to switch groupings.

The public offering of 335 million shares was supposed to occur around mid-year, but it is now expected to take place in the final quarter. The timing is likely to be affected by THAI's ultimate alliance decision and investor sentiment.

Mr Wanglee himself is also due to retire in October and the airline would likely want to have a new president at the helm for the sale.

The shares will be distributed in three tranches; the first tranche to a strategic partner, the second to foreign institutional investors through a private placement and the third to the general Thai public and the airline's employees.

The Finance Ministry will see its stake diluted from about 93% to 70% after the privatisation.

THAI unhappy about impending arrival of Singapore Airlines into the Star Alliance

KAL launches major pilot recruitment drive

BELEAGUERED Korean Air (KAL) has announced plans to hire 240 new pilots this year in a bid to boost its safety image. The number represents an increase of 40% over 1999.

Of these, 130 will be expatriate captain recruits who will join the 147 overseas captains already flying on the line. The remaining 110 pilots will come from the Korea Aviation University, the military and KAL's own flying college on Cheju Island.

KAL has had a string of accidents and incidents in the last three years that has led to it being fined and stripped of a number of profitable routes by the South Korean Government. In recent months the carrier has invested US$200 million in upgrading its safety programmes.

As part of the ongoing upgrade, KAL has adopted U.S. FAA flying time standards. This means that the maximum number of hours a pilot can fly on 30 consecutive days has been reduced from 180 hours to 120 hours.

KAL's major recruitment programme is also necessary because the carrier will take delivery of 30 new planes by the end of 2001.

The move is timely. In January, the Canadian Transport Ministry dispatched half a dozen aviation officials to Seoul to conduct an extensive safety audit on KAL's operations. *The Asian Wall Street Journal* reported it was believed to be "the most extensive on-site audit by a government of a major foreign airline's operations". Failure to meet the Canadian standards could result in KAL being barred from flying to the country.

The one-week audit covered flight operations, crew, pilot training and maintenance.

United attempts to block CX-American code-share

UNITED Airlines has asked the U.S. Department of Transportation to "dismiss or defer" a joint code-share application for services to the U.S. by oneworld alliance partners, Cathay Pacific Airways and American Airlines.

In its submission to the DoT, United, a founder member of the Star Alliance, cited "a restrictive U.S.-Hong Kong agreement and Hong Kong's past denial of similar applications for code-sharing by United and others" as the reason.

Under the code-share deal, scheduled for implementation in the summer, Cathay Pacific would place its CX designator code on American Airlines' domestic services beyond Cathay's

Korean Air: major pilot recruitment campaign underway gateway cities as well as flights between the US and certain Latin American points. American would use its designator code on Cathay flights between the U.S. and Hong Kong as well as on Cathay's intra-Asian services from Hong Kong.

The Hong Kong-U.S. air transport agreement does not authorise code-sharing between U.S. and Hong Kong carriers. However, the two governments have had discussions about revising the agreement and formal talks are scheduled for April.

As it stands now, the U.S.-Hong Kong bilateral agreement does not allow the proposed code-share, said United's vice-president of international and regulatory affairs, Michael Whitaker. "Unfortunately, policy-makers in Hong Kong have consistently been opposed to any liberalisation that would allow code-sharing or competing intra-Asian services by United or other U.S. carriers," he said.

"This would create a level playing field that would benefit the SAR (Special Administrative Region of Hong Kong) and the travelling public at large. But until Hong Kong agrees to open its air service agreement to competition by all carriers, Cathay and American cannot expect the U.S. Government to give them preferential treatment."

Mr Whitaker said liberalisation would strengthen Hong Kong's position as a pre-eminent gateway to China and as a regional and international aviation hub.

Cathay dismissed United's accusation that competition was being stifled on Hong Kong's air routes. Recently, chief executive, David Turnbull, pointed out 65 airlines flew to Hong Kong and as many as nine different airlines flew between Hong Kong and Bangkok.

A government spokesman said it adopted a "progressive liberalisation" approach to air services.

Garuda expects profit target to double

ONGOING local political turmoil aside, Indonesia's national carrier Garuda is more upbeat than it has been for years. The airline's president, Mr Abdulgani, said he expects net profit in 1999 to be more than US$68 million, almost double the targeted figure.

"We survived and now we see the way ahead for growth," he said, confirming load factors and yield have risen faster than expected. Garuda plans to open new domestic routes, increase frequencies and lease six new planes this year – including two wide-bodies – to meet rising demand.

"We are still in the process of executing the leasing arrangements. We do not know what type of aircraft we will take yet," he added.

During the Asian economic crisis, Garuda trimmed its fleet from 58 to 42 aircraft and ceased operations on 17 international routes.

But there are still problems to overcome, not least the impact of the nation's continuing political unrest on tourism. "We hope security will improve and the situation will be much better this year," said the president.

Conflict over size of THAI stake on offer

NEWS of a dispute is emerging over how much of Thai Airways International (THAI) should be made available to foreign airlines when it is privatised, probably later this year. After suggestions offshore carriers – several are interested in taking a stake – should be allowed up to 23%, a committee studying the share issue has concluded it should be limited to 10%.

Sources said the lower figure is a compromise between THAI executives on the committee and other members, but said it was the THAI representatives who apparently opposed the 23% stake to strategic partners fearing rival airlines would jeopardise operations.

Meanwhile, some good news for THAI ... and Boeing. THAI is to receive US$503 million in backing from the U.S. Export-Import Bank to buy five of the Seattle planemaker's jets. The guarantee covers most of the US$584 million cost of four Boeing B777s and one Boeing B747.

"Asia is one of our most important markets and traffic growth is picking up," said Boeing spokesperson May Kulthol. "It's the best financial solution for all parties."

CLK to handle extra flights

THERE are signs of better economic times in Hong Kong with the Civil Aviation Department giving the nod for the new Hong Kong International Airport at Chek Lap Kok to handle an extra five flights an hour from March. The limit of flights taking off and landing from the fledgling airport's two runways has been raised to 45 an hour and may increase to 50 at the end of the year.

Latest figures from the Airports Council International (ACI) showed Hong Kong was the world's second busiest cargo airport in October, with freight tonnage up 28.5%, to 201,150 tonnes, compared to the same month in 1998. It ranked 20th in passenger numbers with an increase of 6.9% in October, to 2.64 million. Last year, the airport handled 30 million passengers and more than two million tonnes of cargo.

PAL exceeds its expectations

THERE may be a hint of better times, too, for Manila flag carrier, Philippine Airlines (PAL). It has predicted "better than expected" profits for the year to March after beating its monthly target for December.

Net profit for December reached 240.4 million pesos (US$5.9 million) with revenue and cost-cutting exceeding expectations, said executive vice-president Henry So Uy. PAL had expected 182 million pesos (US$4.5 million) profit.

The airline's rehabilitation plan, approved by regulators last June, projected a net loss of US$16.4 million for the year to March 31. "We have an even chance to end our fiscal year with a better-than-expected bottom line, but a lot will depend on the movement of aviation fuel prices, which account for nearly a quarter of PAL's operating expenses," said Mr So Uy.

The promising results came despite a steep rise in aviation fuel costs and the suspension of direct flights between Taiwan and the Philippines in October. PAL also subsidised fares for Taiwan-bound passengers using its Manila-Hong Kong routes because of the dispute.

"While these were relevant issues, they did not appreciably affect PAL's operating results for the month, which saw the flag carrier expand seating capacity on many key international routes," said Mr So Uy.

In December, PAL's trans-Pacific traffic rose 27%, while its route to Osaka posted a 40% increase. Passengers to Hong Kong grew 19%. PAL also restored a regular service to Honolulu.

Operating revenue for the month totalled US$65.4 million, 2.3% ahead of initial estimates. Operating expenses were US$46.4 million, three percent lower than expected.

Briefly ...

Japan Airlines (JAL) has been contracted to operate a series of charter flights to Cuba from Osaka's Kansai International Airport in August. The charter programme has been arranged through Cuba's national government tourism organisation and its official travel company, Cubanacan. JAL will operate four back-to-back charters during a 17-day period, each carrying 350 Japanese tourists. The flights, using JAL B747s, will be routed via Vancouver.

Shanghai Airlines is to enter the regional jet market. It has ordered three Bombardier CRJ200s. (see page 44)

Korean Air has expanded its services to Dallas Fort Worth Airport in Texas by adding three non-stop services a week. It also has three B747 freighter services between DFW and Seoul.

Boeing has delivered two MD-11 freighters, modified from passenger planes, to Asian carriers. One went to Korean Air and the other to China Eastern.

Indian freight operator, Blue Dart Aviation, is set for expansion after paying US$9 million for a Boeing B737-200 from Malaysia's biggest air cargo business, Transmile, with reports it is negotiating to purchase a second, similar aircraft from the carrier. Blue Dart operates two former Indian Airlines B737s as freighters.

Transmile has a fleet of 10 B737-200s and three Cessna Caravan freighters. Four of the Boeings and the Cessnas are based in Kuala Lumpur for domestic and Southeast Asia flights. The remaining aircraft are leased out.

Air NZ set to take full control of Ansett

BY ALL reports, at press time, the wearying ownership problems of Ansett Australia are almost over. While half-owner Air New Zealand (Air NZ) was remaining stoically silent in late February, sources confirmed a deal was close to being struck under which the Auckland flag carrier will purchase the other half and take full control.

The remaining 50% is held by Rupert Murdoch's News Corp, which has been trying to opt out of its airline holding for several years. An agreement last year to sell the stake to Singapore Airlines (SIA) was stymied when Air NZ decided to take up its rights of first option over the shares. But at that time News refused to sell and the New Zealand airline's intervention was not well received by SIA.

It is not known how much Air NZ would pay to become sole owner, but News is known to have wanted around US$500 million.

Air NZ was not commenting at press time, but industry sources in Sydney and Auckland said an agreement was imminent. This also would end attempts by Ansett employees to organise a staff buyout of News Corp's share of the airline, a development unlikely to have been greeted with much enthusiasm by Air NZ.

If the latest development is confirmed it will come as a welcome relief to Ansett management, which has been operating amid doubts over future ownership, a situation affecting staff morale.

Facing the prospect of more serious domestic competition later this year, when Sir Richard Branson's Virgin Atlantic Airways launches its no frills Australian carrier, and a need for a speedy decision on desperately needed fleet modernisation, settlement of ownership issues should stabilise the situation.

The prospect of open global skies has been the centre of debate for years, but it has generally been regarded as a development of the distant future. But no more, if Washington has its way, reports TOM BALLANTYNE.

GLOBAL SKIES

U.S. leads the charge to further liberalise airways; early signs of interest in Asia

The U.S. has launched a vigorous campaign to persuade aviation trading partners to forge multilateral air treaties and move towards wider liberalisation of air routes. This includes a preliminary thrust into the Asian region where substantive talks with regional transportation officials are underway.

As *Orient Aviation* went to press, U.S. Secretary of State for Transportation, Rodney Slater, was heading for Singapore with a strong team of officials, including air service negotiators, for a planned meeting with Asian transport officials attending Asian Aerospace 2000, the region's biggest air show.

Their mission: to increase the pace of liberalisation and set the Asia-Pacific firmly on the road to aviation multilateralism.

After Singapore, Mr Slater moved on to Hong Kong, Beijing and Tokyo. In March, Washington plans to press its policy at an Asia-Pacific Economic Co-operation (APEC) meeting in Singapore, which will involve all Pacific Basin nations.

Coupled with a hectic round of visits to other regions, the U.S. is bent on using its not inconsiderable political muscle to alter the aeropolitical landscape of the globe at a far more rapid pace than anyone has anticipated.

Some Asia-Pacific nations are indicating definite, or at least tacit, support for a more rapid move towards multi-lateral air service agreements (ASAs) than would have been thought possible a few years ago.

Australian officials have had a number of discussions with their U.S. counterparts on the subject and Canberra has officially backed the multilateral approach, albeit under a programme which would be phased and cautious.

U.S. Secretary of State for Transportation, Rodney Slater: on a globetrotting mission to win support for far reaching U.S. liberalisation plan

AAPA director general, Richard Stirland: U.S. cabotage and ownership rules will remain a major stumbling block to any equitable agreement

Unofficially, transport officials from Singapore, New Zealand, Thailand and Taiwan have indicated interest in "serious discussions" and all signs suggest the timetable for air treaty multilateralism is rapidly moving up a gear.

Mr Slater's Asian trek will not result in any substantive agreements, but it is expected to lay the groundwork for more serious negotiations the U.S. hopes will lead to multilateral or plurilateral deals becoming realities.

There are serious issues in Asia likely to present barriers to widespread multilateralism. Not least in many quarters is the suspicion of U.S. motives; that Washington, as usual, wants free entry to everyone else's market while barring entry to its own.

And not all markets are ready for the "open road" approach, despite supportive statements at international meetings from government officials. Japan and China will be major obstacles to any regional-U.S. deal. So will the Philippines, which is moving in the opposite direction, in an attempt to protect its financially troubled national flag carrier Philippine Airlines from international competition.

The director general of the Association of Asia Pacific Airlines (AAPA), Richard Stirland, said the chances of securing multilateral agreements are better where there is an opportunity for the U.S. to deal with a single bloc such as the European Commission (EC). This means the negotiating authority is vested in a single entity representing a number of countries.

"Obviously, we are a long way from that situation in Asia. Secondly, it is not clear what additional benefits would accrue to the U.S. if a multilateral treaty is merely wrapped in those countries which already have open skies agreements with the U.S.

"Thirdly, the most likely scenario is an arrangement covering either soft rights or perhaps freighter operations upon which the exchange of hard rights for passenger operations could be built later."

Mr Stirland believed U.S. cabotage and ownership rules remain a major stumbling block to any agreement that can be regarded as equitable. He also points to the fact there is "surely going to be at least a hiatus in U.S. aviation policy during and immediately after an election year".

On its part, the U.S. argues that virtually all countries prohibit carriage of cabotage traffic by foreign airlines and says it has reason to believe this will be hard for many countries to change anytime soon.

Given the obstacles to establishing a viable operation in a foreign country, particularly in the dynamic competitive situation in the U.S., Washington questions the extent to which foreign carriers really want cabotage rights.

There is no disagreement in the U.S. capital that Mr Slater and his merry men are deadly serious about their mission. As one source put it, they are moving with "bona fide energy and commitment" on a regional/plurilateral front.

Mark Gerchick, a former deputy assistant secretary for international and aviation affairs at the U.S. Department of Transportation (DoT) and now head of Washington-based consultants, Gerchick Korens, said the renewed U.S. interest in moving beyond the bilateral system has a three-fold impetus.

"The first is a recognition we are approaching the successful conclusion of U.S. open skies as a liberalisation strategy, as the bulk of aviation nations – admittedly with a few key exceptions – have endorsed an open market with the U.S.

"The second is the rise of the international alliance phenomenon and the need to remove the operational constraints on multi-national airline groupings that a hodge-podge of bilateral agreements imposes, to the disadvantage of global travellers.

"The third is that many leading aviation nations, particularly in Asia, have adapted to an increasingly open market environment and, feeling more comfortable with a global competitive market, are prepared to take a further step."

Mr Gerchick said the endorsement by APEC leaders in Auckland last year of eight specific recommendations for improved regional air service appears indicative of this new, more open, attitude.

"A multilateral or plurilateral agreement could build upon the liberal bilaterals the U.S. has with several Asian economies and which Asian economies have begun to strike with each other. The Singapore-New Zealand open market bilateral, for example, appears to incorporate the recommendations endorsed by the APEC leaders," he said.

Former U. S. deputy assistant secretary for international and aviation affairs at the DoT, Mark Gerchick: Asian nations feeling more comfortable with a global competitive market

Mr Gerchick has no doubt there will be "considerable back-and-forth on the precise nature of any multilateral agreement". However, many in the U.S. and in other progressive aviation nations, he said, hope a draft agreement will provide for a comprehensive open market, rather than an "a la carte menu of liberalising provisions" from which to pick and choose and which could raise reciprocity concerns.

Some question whether a multilateral deal involving a grouping which consists only of the U.S.'s existing Asian open skies partners, such as Singapore, South Korea, Taiwan, Thailand and New Zealand, is workable.

The assistant secretary international aviation at Australia's Department of Transport, Tony Wheelens, said Canberra is committed to working towards multilateralism/plurilateralism in air agreements, but it would not jump in feet first.

Even in bilateral deals, policy still involved negotiating reciprocal agreements with like-minded bilateral partners when it is in the national interest.

"We cannot jump at open skies. Many of our bilateral partners do not want it and others will accept it only after pressure on their home markets is created by liberalised agreements with their competitors. Sequencing negotiations is therefore vital to ensure the national interest is maximised."

He pointed out negotiating multilateral agreements will be even more complex and many questions still need to be resolved.

Complexities aside, the U.S. began laying the groundwork for its push months ago.

The public drive began last December after 900 representatives from 93 countries at a U.S. DoT organised conference in Chicago, Beyond Open Skies, adopted a joint statement pledging to liberalise aviation markets.

Within days, Mr Slater had announced the U.S. was "prepared to begin discussions to implement a new international aviation policy architecture", including possible plurilateral mechanisms for achieving a more open global aviation system.

In February he said: "Our strategy is to advance, on any practical front, in arrangements that are bilateral, plurilateral, regional or global."

There is some suggestion the rush is precipitated by the possibility of a change in administration policy when President Bill Clinton's term ends later this year.

The Secretary of State has hardly paused for New Year cheer. He has already been to Central America and the Caribbean. After Asia, he heads for Europe and discussions with the European Commission in Brussels.

Mr Slater disclosed the European Commission has already invited the U.S. to enter into a dialogue toward creating a "trans-Atlantic aviation area". He said this dialogue could be the prelude to a future regional agreement and added the Association of European Airlines supports the discussions.

One problem; the ongoing deadlock between Washington and London regarding a new bilateral treaty, now the subject of often bitter debate round the negotiating table for a decade.

However, the strategy is clear. The U.S.

has signed 42 bilateral open skies agreements – six in the Asia-Pacific region; 18 in Europe/Africa; six in the Near East/Central Asia and 12 in the Western Hemisphere – in the past five years.

Since December alone, it has signed six; with Italy, Argentina, the Dominican Republic, Portugal, Namibia and Australia (a cargo agreement).

Washington intends to continue efforts to add more to the list, but at the same time wants to convince aviation partners to link these deals into multilateral/plurilateral agreements, initially on a regional basis.

It hopes as this progresses, more and more countries will have little choice but to jump on the bandwagon.

Apart from its dialogue with the EC, the U.S. is taking advantage of the fact APEC has embraced air transportation liberalisation. The subject is on the March meeting agenda in Singapore, where Washington will table a draft text for a multilateral air transport agreement for consideration and discussion by all APEC members.

The Organisation for Economic Co-operation and Development (OECD) also is examining both liberalisation and multilateralisation of air cargo services and intends to circulate a draft multilateral agreement this month, which member countries will discuss in June.

Dragonair: major beneficiary of new China-Hong Kong air services agreement

The U.S. has invited countries of the Caribbean (CARICOM) to discuss a regional Caribbean-U.S. aviation agreement. A draft multilateral agreement between African countries is also being circulated and the U.S. wants to talk to African leaders later in the year about wider agreements.

While all this is progressing, Washington is buoyed by the high level of air treaty activity presently occurring in Asia and elsewhere, all indicating a generally more liberal attitude towards international air routes.

In December, the U.S. signed an open skies freight deal with Australia, lifting all restrictions on capacity, aircraft type, code-sharing, traffic rights and routes.

The two still don't have an open skies passenger agreement, but they soon will; discussions are underway.

Even entry to China is slowly opening with the fruits of a new U.S.-China ASA signed last April about to emerge. In August, 17 new weekly flights were awarded to Northwest Airlines, United Airlines and Federal Express and a fourth U.S. operator can enter from April next year, adding 10 more flights.

There is a rush to get on board, with American Airlines, Delta Air Lines, United Parcel Service (UPS) and Polar Air Cargo all seeking to win the rights.

In another development in February, China signed a new ASA with Hong Kong following three years of talks.

That paved the way for Hong Kong Dragon Airlines (Dragonair) to boost its share of routes now dominated by Chinese airlines. Until now Chinese carriers have held rights to the bulk of traffic between Hong Kong and the rest of China, which are considered separate territories for aviation purposes.

The pact redresses that imbalance giving Dragonair the right to add capacity on lucrative routes such as Hong Kong to Shanghai and the ability to convert charter flights to other Chinese cities to scheduled flights.

India also has concluded a deal recently with Britain that allows for more flights and for Indian operators to carry passengers from the U.K. across the Atlantic to North America. Always considered a "tight" market in ASA terms, talks are expected to start soon between India and Thailand on a more liberal regime between the two nations.

Nevertheless, there is a great deal of nervousness in some parts of the region at the prospect of multilateralism, or even bilateral open skies. It wasn't so long ago some analysts were suggesting that, Singapore aside, the U.S. had little hope of forging many bilateral open skies deals in Asia.

U.S. sets out to win hearts and minds

The U.S. Department of Transportation (DoT) is sparing no efforts in hauling out fresh ammunition to support its push for multilateralism. As its officials set out to confront potential partners the department released a report claiming open skies agreements have resulted in major benefits for consumers.

The policy document – International Aviation Developments: Global Deregulation Takes Off – is the first in a series of reports from the department examining the effects of international air transportation developments.

According to the DoT, it shows that multinational alliances are providing improved and more competitive services in literally thousands of markets. As a consequence, they are stimulating demand and leading to pro-competitive changes in the industry structure.

The department found that in markets governed by open skies agreements, average fares declined dramatically compared to markets without open skies. The greatest decrease in fares occurred in services connecting interior U.S. and foreign points with transfers in gateway cities in both countries.

In these markets, fares dropped 17.5% between 1996 and 1998 where an open skies agreement was in effect, compared to a drop of 3.5% in non-open skies markets.

In gateway-to-gateway markets, fares increased slightly in non-open skies markets, but dropped 11.1% in open skies markets. Fares also shrank at a significantly greater rate where an open skies agreement was in effect in markets involving services between a U.S. gateway city and a beyond-gateway point in the foreign country, and between a foreign gateway and a behind-gateway point in the U. S.

Services resume between Taipei and Manila but ...

It's a shaky tr

Philippine and Taiwanese airlines relaunched services between the two countries in late February. The shaky truce brings to an end a four-month stand-off which had severed air links between Manila and Taipei and sparked one of the most serious regional bilateral aviation disputes in years.

Flights, banned by the Philippines for alleged pirating of sixth freedom traffic by Taiwan's China Airlines (CAL) and EVA Air – mainly to the United States – resumed under an interim agreement forged late January between government negotiators.

On January 28, both sides signed what is described as a letter of understanding which limits CAL and EVA to 4,800 seats a week between Taiwan and the Philippines, down from the 9,600 they had been allowed previously. The new limit is a compromise. Manila wanted it cut to 3,600, Taiwan to 6,500.

There will have to be more talks in an attempt to agree to a more permanent treaty. The nervous Philippines business community is concerned its government may now move against other Asian neighbours whose airlines it has complained about in the past.

Manila has made no secret of its displeasure with Hong Kong, Singapore and South Korea and has repeatedly stated its intention to seek revised air bilaterals with these nations.

The director general of the Association of Asia Pacific Airlines (AAPA), Richard Stirland, said the resumption of air services by the two sides was a welcome development, but he added "it was still hard to accept that capacity on any significant route in Asia should be reduced at a time of strong and sustained growth".

He also expressed fears the stoppage may have inflicted permanent damage on tourism to the Philippines and economic links generally.

Mr Stirland considered the inconclusive outcome of the dispute made it extremely unlikely the Philippines would pursue attempts to renegotiate agreements with other countries in the region such as Hong Kong or Singapore, or if they did that they would succeed.

"The Philippines really has to move on to an expansionist, open, hub-creating aviation policy for the good of the economy, rather than pursuing a narrow vision of regulated trade as applied to commodities such as rice, sugar and other staples," he said.

Other analysts and industry observers have generally taken a dim view of Manila's action, which is widely accepted as an attempt by Philippine President Joseph Estrada to protect financially troubled PAL and its owner, tobacco tycoon Lucio Tan, from foreign competition.

The months of often bitter rhetoric which flew back and forth between the two nations also raises serious questions about the future status of bilateral air treaties, once regarded as sacrosanct.

There were fears if Manila succeeded others might be tempted to do the same if

Singapore Airlines: UK approval for trans-Atlantic flights not forthcoming until US-UK air talks are completed

SIA frustra

It may appear a long way from Asia, but trans-Atlantic air routes are causing frustration for at least one of the region's big operators. Singapore Airlines (SIA) is determined to fly across "The Pond" from London to the U.S. in its own right and the ongoing stalemate between the U.K. and Washington air treaty negotiators is throwing a spanner in the works.

SIA already has permission from Washington, but London is insisting it will not give approval while air service talks between the U.K. and the U.S. remain unresolved.

And that now appears even further away after another round of U.S./U.K. talks ended in failure in late January.

Negotiators had been considering a U.K. proposal clearing the way for British Midland and two U.S. carriers to serve the U.S. from Heathrow, London's main airport.

"Both sides could not match what the other wanted," said a spokesman for the British transport ministry. "We wanted British Midland to fly out of Heathrow and they – well, you have to ask them."

U.S. Transportation Secretary, Rodney Slater, said the U.S. was "very disappointed the United Kingdom was unable to move forward on a proposal that would have restored air service between Pittsburgh and London and created balanced new passenger route opportunities to

uce

their airlines were in financial trouble. At the very least, if the Philippines takes action against other countries, the region could be faced with a series of disruptive bilateral air disputes.

It was the view within the industry that Taiwan's airlines had actually done little to broach the original 1996 agreement between the two countries.

More importantly sixth freedom traffic, where an airline carries passengers from one country (such as the Philippines), through its home base (Taiwan) to a third country (such as the U.S.) has become part and parcel of today's airline operations.

Dozens of Asian operators do just that from Australia to Europe through their home airports. That included PAL until it dropped Australian services in the face of fiscal woes.

In the end, Manila muscle appears to have bludgeoned the Taiwanese into some sort of submission.

It also should be noted there is still no mechanism in place to monitor the level of sixth freedom traffic, which will make policing the interim rules difficult.

Philippine Airlines: resumed flights to Taipei in February

The rights CAL and EVA used under the 1996 deal also were available to PAL. Analysts consider the fact that one of them either was unable or unwilling to take them up is hardly the fault of the Taiwanese.

PAL has been told the government talks will continue between Manila and Taipei with the goal of concluding a new full air service agreement.

The issue is unlikely to go away. According to sources in Taipei, Taiwan's approach leading to the signing of the MoU was to "agree in principle" to cargo capacity, permitted aircraft types and a reduction in direct passenger numbers to at least enable flights to recommence.

But the sources say the whole issue of fifth and sixth freedom rights is still on the table and as negotiators begin working towards a long-term solution there are bound to be more fireworks.

The interim pact contains a clause which states that if either side wants to scrap the agreement, they must provide 12 months prior written notice.

But as one observer pointed out, there was a similar clause in the original 1996 agreement and that did not deter Manila from giving just 30 days notice it was suspending flights.

ted by stalled air talks

and from Heathrow and Gatwick Airports for both U.S. and U.K. carriers."

The U.K. also rejected a U.S. proposal to allow cargo airlines from both countries to fly freely between the two nations as well as to third country destinations, Mr Slater said.

The breakdown was the latest hiccup in a decade of negotiations that have failed to produce a new aviation treaty. No date has been set for the next round, leaving SIA's plans – a request was first put to the British Government 10 years ago – in limbo again.

Separate efforts to convince London to change its mind also failed recently when talks between the British and Singaporean governments on SIA's request to operate services west from Heathrow ended in stalemate.

"This is another setback, not only for SIA but also for the consumer," said SIA deputy chairman and chief executive Dr Cheong Choong Kong in a statement.

He added that "the British government is being unfair" to travellers by continuing to deny SIA the right to fly the routes and said the real hurdle is the deadlock between Britain and the U.S.

"Britain has said it will not approve SIA's request while air talks between Britain and the United States are unresolved," he said.

What also must rankle SIA is that talks in February between the U.K. and India ended with an agreement which allows the 16 weekly flights operated by Indian carriers on the India-Britain route to carry passengers and freight from the U.K. to North America.

The availability of take-off and landing slots at Heathrow has been the major sticking point in the aviation dispute between the U.S. and Britain. Currently, United Airlines and American Airlines are the only two U.S. carriers allowed to use the airport, with British Airways and Virgin Atlantic Airways allowed to fly to the U.S.

If there is a new deal between the U.K. and the U.S., Continental Airlines and Delta Air Lines are considered the likely two U.S. carriers to benefit. "The British Government clearly is afraid of competition," said Continental spokesman Ned Walker. "The real losers are the British and American consumers."

Meanwhile, SIA's January announcement that it will purchase of 49% of Virgin Atlantic doesn't alter the Singapore flag carrier's ambitions. A spokesman for SIA said trans-Atlantic code-sharing with Virgin is allowed under the current agreement and is being discussed with the British operator.

"However, this does not alter the fact that we would like to operate our own trans-Atlantic services with our own identity as well," he added.

No date has been set for fresh U.K-Singapore talks.

IATA under pressure

Airlines must 'come to terms' with radical industry changes ahead

By Tom Ballantyne

The International Air Transport Association (IATA) is facing some of its tough est challenges as the airlines it represents come under a battery of conflicting pressures certain to force radical change through the aviation industry, according to one of the organisation's most senior executives.

Koki Nagata, IATA's Japanese-born director for international affairs, said two of the issues – the changing world regulatory environment and the dramatic pace of information technology (IT) advances – will be prime subjects for debate at the association's annual general meeting in Sydney in June.

Already, he has embarked on a global crusade to convince varying factions of the industry, from governments to airlines themselves, they need to work together to reshape air transport's decision-making chain.

And he has warned carriers they will have to come to terms with new complexities in their business dealings.

It is known senior strategists at a number of major airlines, including several in the Asia-Pacific, are deeply concerned at the growing complexity and conflicting interests of the various players in the air transport game.

Privately, they also worry that IATA, representing 269 of the world's airlines, is still mistakenly regarded by many outside the industry, including some government officials, as a "cosy club" of airlines interested only in getting together to agree on moves which will bring them more profits.

IATA is understood to believe it must radically alter this conception and play a key role in redefining air transport's future regulatory path.

Issues such as world economic development, technological evolution, infrastructure constraints, consumerism and financial demands are placing airline managements under unprecedented pressure, according to Mr Nagata.

They are dealing with conflicting demands such as air traffic delays, environmental issues and the ongoing globalisation of the air network. At the same time, they must wrestle with limitations caused by existing bilaterals and competition policies which vary widely from country to country.

He said there was a need for a high degree of co-operation, particularly with the spectre ahead of aviation's deeper involvement in GATS, the World Trade Organisation's free trade regulations.

With all this going on, the regulatory structure is being influenced by numerous organisations, from governments to the WTO, IATA and the International Civil Aviation Organisation (ICAO), the United Nations and the Organisation for Economic Co-operation and Development (OECD).

Mr Nagata pointed to an internal IATA

IATA's director for international affairs, Koki Nagata: on a global crusade

Industry Affairs Committee (IAC) paper that draws attention to the fact that until now airlines could generally deal with all of their business issues solely with transportation authorities.

"In the future it is more and more likely that member airlines of IATA will have to open new channels of communication on airline business matters with different ministries in respective countries," said the paper.

"Depending on the degree of change which this involves, the impact on business efficiency and economics enjoyed by airlines today could be immense."

IATA's Industry Affairs Commission has set up three task forces to deal with the challenges:

- International aviation issues: focusing on GATS and seeking improvements in the interface with ICAO and the way that organisation responds to pressures for economic liberalisation in air transport.
- Competition policy: to identify and meet specific competition law challenges, such as European Union exemptions, U.S. Department of Transportation efforts to "whittle back" immunities and recent Canadian and Australian investigations. This task force will also look at more comprehensive ways to entrench co-operation between competitors, necessary to protect the multilateral interline system.
- Code shares: while dealing directly with the need for improved transparency and procedures, it will look at other consumer concerns that might affect the environment for regulatory change.

Said the IAC paper: "Five principles must be respected, whatever the shape of the industry in the future.

"These are: consistent safety oversight, non-discriminatory access to infrastructure, the ability to ensure multilateral interlining, mechanisms to improve business efficiency and fair and equal opportunity."

Mr Nagata believes the preservation of the Multilateral Interlining Agreement (MIA) is particularly important. In a paper presented at the 35th Conference of Asia-Pacific region Directors General of Civil Aviation in Hanoi he made a strong call to all governments to press the issue with ICAO.

He said in the past five decades governments and airlines had built up a very efficient global air transport network, made possible through universal interlining.

But "the more liberal and competitive the market is, the more carefully competition rules should be applied.

"There is a view that competition and co-operation are two distinct and contradictory concepts, but we believe they can co-exist", he said.

"We would like governments to work with us through ICAO to ensure the standards and procedures that make the system work are maintained."

"It is incumbent on the industry to ensure that all proposed changes, whether they arise from ICAO, WTO, UNCTAD, the U.S. Government and EU or wherever, are assessed and critically reviewed and responded to as fullv and as positively as possible," he said.

Call to protect vital radio bands

By Tom Ballantyne

Airlines across the world are joining forces to fight off attempts by commercial interests in the telecommunications industry to commandeer radio bands that are becoming increasingly important to aviation operations.

Speaking out ahead of the crucial World Radio Conference (WRC) of the International Telecommunications Union, to be held in Istanbul in May, International Air Transport Association (IATA) director general, Pierre Jeanniot, has made a powerful call to carriers to move quickly to counter the threat.

The Association of Asia Pacific Airlines (AAPA), at its Assembly of Presidents in Tokyo last November, also passed a resolution strongly supporting all industry efforts to protect aviation frequency bands.

Both organisations, which between them represent most of the world's airlines, are aware government representatives attending the conference in Turkey have the power to re-allocate radio frequencies among users. They fear civil aviation could lose out in the process because it does not own the frequencies it uses.

Growth in the telecommunications industry has created huge demand for radio bands and other users are trying to take away some of aviation's allocation, according to Mr Jeanniot.

"Some of the users demanding more bands are doing so for commercial reasons only. But aviation needs its protected bands to ensure it can operate safely, efficiently and in an environmentally responsible way," he said.

The airline and aviation industry increasingly relies on communications and navigation satellites for safe and efficient operation. It has specific radio frequency bands or "space real estate" in a spectrum allocated to its use.

But even though aviation's frequency bands fall within what is classified as a "safety of life" service spectrum, Mr Jeanniot believes there is a danger commercial interests could win the day.

"In the future, aviation will rely even more on satellite – GNSS – frequencies for a variety of applications such as take-offs and landings in all types of weather and establishment of en-route positions that enhance safety or cost efficiency," he said.

"But a number of aviation's critical radio frequency bands, including those exclusively reserved for GNSS, are under serious threat.

"If aviation loses its protected frequencies at WRC 2000, the decision is irrevocable. This must not be allowed to happen. We must not allow the safety and operational efficiency of aviation to be compromised by the telecom industry's voracious economic interest. There is a battle to be won."

The AAPA agreed there is "considerable commercial pressure from other telecommunication operators for frequencies to be allotted without due appreciation of the consequences for aviation users."

In its November resolution, the AAPA said there is a need for high-level action by governments and aeronautical authorities to address the issue and pledged to counter any commercial pressure that seeks to re-assign or co-assign aviation frequencies to other users. The body also pledged to safeguard aviation safety.

The AAPA agreed to express its concerns to the Minister of Telecommunications in each member airline's country.

Perfect references for Inchon

A year ahead of opening its doors for business, officials at South Korea's Inchon International Airport Corporation (IIAC) have decided to ensure everyone knows precisely where their new facility is. And they do mean precisely.

In a first for Korea, they have adopted an International Civil Aviation Organisation (ICAO) standard reference system known as the world geodetic system – 1984 (WGS-84), which offers more accurate positional data on runways, flight routes and other major navigation facilities.

Airport officials say they have adopted the system as a safety measure that will eliminate any inconsistencies between traditional Korean co-ordinates and those used elsewhere.

In the past, individual countries have had their own geodetic network and national geodetic reference frame, a situation which has led to marginal differences in the official positioning of such things as runways and airports. ICAO wants everyone to adopt WGS-84, used to determine the latitude, longitude and height required for global air navigation, as a global positioning reference system.

Inchon, scheduled to open early in 2001, will be virtually completed by June. It will then be ready for a tough six months of trials which should see planes loaded with passengers land at the facility by October, according to the airport's officials.

They also have announced a deal with global information technology (IT) giant IBM aimed at making the passenger terminal "the perfect intelligent building for travellers", giving them direct Internet access to travel information.

IBM, working with the IIAC and Korea Telecom, will install 46 Internet-enabled passenger kiosks to dispense real-time information and services for travellers.

The move to make the World Wide Web directly available to every traveller came as the IIAC announced it would conduct test runs of all the airport's major facilities between July and December.

Comprehensive checks on landing, passenger departure, arrival procedures and luggage processing will be held in an effort to avoid the type of problems which arose when Kuala Lumpur and Hong Kong opened their new airports. Up to five test landings and take-offs of flights with passengers will take place.

Inchon will join a growing list of airports that have implemented IBM self-service kiosk programmes for travellers. They include Singapore Changi, London Heathrow, Italy's Rome and Milan airports and around 40 other facilities.

Sydney faces legal challenge from airlines

By Tom Ballantyne

Riled by Sydney airport plans to double aeronautical charges later this year, international operators have launched legal action in the Australian courts.

They are challenging the airport's right to hit them with new fees designed to recover the cost of modernising the international terminal.

The government-owned airport, which has privatisation in the pipeline, is managed by Sydney Airport Corporation Limited (SACL). It wants to increase airline customer income from US$64 million to US$138 million annually and is awaiting clearance for the price rise from the Australian Competition and Consumer Commission (ACCC).

The manoeuvre has sparked protests from the more than 40 international airlines operating through Sydney. The cost of turning around a Boeing B747 would jump 130%, from US$2,905 to US$6,635. Warren Bennett, executive director of the Board of Airline Representatives of Australia (BARA) has accused SACL of "arrogance".

As the debate about the proposal grew in February, six carriers – Qantas Airways, Cathay Pacific Airways, Thai Airways International, Air Pacific, British Airways and Aerolineas Argentinas – filed a claim in the federal courts seeking unspecified damages from the airport, from which they lease space.

A separate, but similar action was lodged by Ansett Australia and Air New Zealand. Other airlines are understood to be reviewing their positions. BARA itself is unable to take action to sue the airport because it is not a legal entity.

There are 56 airlines operating through Sydney airport and the carriers already involved in the legal action represent 70% of the tonnage throughput at the facility.

Their claim relates to an increase in operating costs as a result of two years of disruption while Sydney's international terminal was being rebuilt.

Carriers said that since rebuilding began in 1998 they have been forced to incur additional unreasonable costs, including the hiring of extra staff.

Qantas alone has had to hire 40 more staff until completion of the project, scheduled for May. SACL is spending around US$240 million modernising the terminal, with much of the work aimed at improving the facility ahead of the 2000 Sydney Olympic Games in September.

The government also is planning to privatise the airport, a move expected to bring in more than US$1.3 billion.

The airlines claim the airport management gave an undertaking it would not increase charges as a result of the project. They allege SACL has gone back on its word and that last year their charges rose by 110%.

A hearing on the claim is scheduled to take place on March 15. A spokesman for the airport said while he was disappointed airlines had chosen to pursue legal action despite exhaustive consultation throughout the construction process, SACL will defend its position.

"The Sydney Airport 2000 (SA2000) project is the largest construction project of its type in Australia and it is inevitable that some inconvenience would be experienced," he said.

"Despite the complexity of the project the airlines have been able to maintain their schedules throughout the construction process."

He added SACL was building a facility that would assist airlines in delivering a world class quality of service to their customers and benefits were becoming apparent on a daily basis.

"The SA2000 project is on time and on budget for completion in June this year in time for the Olympic Games," he said.

Big losses for Kansai

Japan's Kansai International Airport is not only surrounded by the waters of Osaka Bay, its finances are awash with red ink. The airport had an accumulated deficit of US$1.2 billion (133.3 billion yen) at the end of fiscal year 1998, the airport's Management and Co-ordination Agency has disclosed.

It said the airport is burdened with annual payments of US$370 million (40 billion yen) to US$463 million (50 billion yen) in interest on a loan covering 70% of the US$13.8 billion (1.5 trillion yen) project to build the island on which the airport sits.

But a decrease in aircraft arrivals and departures has prevented the airport from raising landing fees, the prime source of revenue. During 1998, the number of landings was 118,000, or 10,000 fewer than anticipated. It marked the first annual decline in landings.

The airport company president, Kiyoyasu Mikanagi, said at a news conference the number of passengers and the volume of arrivals and departures did increase during 1999, but indicated improvement in the fiscal position would remain difficult.

"We will try to do our best to cut costs and normalise airport operations in the middle and long-term," he said.

The company has been in the red since the airport opened in September 1994. Its deficit for fiscal year 1998 was US$217.6 million.

Revenue during the year was US$1.1 billion, down US$19.4 million on 1997, with expenses of US$1.3 billion.

There is particular concern that losses will continue to mount because there appears to be no feasible plan to climb out of the red, given the airport is unable to raise landing fees or the rent it charges on terminal space.

• In a special report on Japan's airports in the February issue of *Orient Aviation*, we reported that the Foreign Airlines Association of Japan was campaigning for a 50% reduction in landing fees, which are the highest in the world, at Japan's airports.

In the last year, international carriers have cancelled more than 100 flights a week to and from Japan's airports. Local carriers also are vigorously pressuring government to cut airport costs.

As Asian airlines invest in additional freighters ...

Cathay explores regional fleet plan

By Tom Ballantyne

Cathay Pacific Airways is seriously considering operating its own fleet of regional freighters – possibly Airbus A300s or Boeing B757s – to tap more of the market for feed into its long-haul international network.

If it opts to go ahead the tactic would help strengthen Hong Kong's position not merely as a central Asian hub, but as the primary air cargo gateway for the entire region, according to the Cathay Pacific's general manager cargo, James Barrington.

The manoeuvre would almost certainly intensify a regional hub war as major airports and their flag carrier airlines battle for domination of the Asia-Pacific freight markets.

Taiwan, the Philippines, Singapore, Malaysia, South Korea and Japan are among those vying with Hong Kong, pouring millions of dollars into facilities they hope will act as magnets to cargo operators. They will not sit back and allow Hong Kong to scuttle their ambitions.

Airlines are also buying more freighters to back up their home hubs. Last August, Taiwan's China Airlines placed a US$2.5 billion order for 13 B747-400 freighters with four options and EVA Air ordered three to join its fleet of nine MD-11 cargo jets and 10 B747 Combis.

Japan Airlines is converting a B747 passenger jet into a full freighter and Malaysia Airlines cargo division, MASKargo, said in late January it plans to add four B747 freighters to its cargo fleet in the next two years. It already operates five B747s and two B737-300 freighters and wants to lift its freighter fleet to 15 by the 2003/2004 financial year.

Cathay Pacific clearly recognises the potential for expansion on the cargo front. It operates two B747-400 and four B747-200 freighters and will add two more B747-400Fs to its fleet, one this year and the other in 2001. It also utilises three -200s operated by Air Hong Kong, which is 75%-owned by Cathay.

Cathay Pacific Airway's general manager cargo, James Barrington: "The future of Cathay Pacific is built around the requirement that Hong Kong becomes the major Asian hub"

Cargo operations now contribute a healthy 30% to Cathay's total revenue. And it is set to become an even bigger player in the freight market. It recently announced a key partnership with express freight major DHL, which has virtually dumped the Philippines to move its Asian focus to Hong Kong.

DHL already connects 15 major regional cities and will hub from the express cargo terminal at Hong Kong International Airport from March 6. Cathay will provide 32 overnight cargo and passenger flights a week between Hong Kong and four major destinations in DHL's network, Osaka, Seoul, Taipei and Singapore.

The potential for Cathay to operate its own regional freighter fleet emerged after the move from the old, cramped airport cargo facility at Kai Tak. Mr Barrington said the massive new cargo centre, operating 24 hours a day and currently only 50% utilised, has opened up the opportunity for all freight operators to grow.

The freighter fleet plan is currently under investigation. Mr Barrington stressed that no decision has been made to date. "If we don't grow somebody else will," he said.

Hubs like Singapore, Taipei and Seoul are as much competition to Cathay as airlines, said Mr Barrington. "The future of Cathay Pacific is built around the requirement that Hong Kong becomes the major Asian hub and if it is going to happen, it is going to happen in the next 12 to 18 months."

While no specific timetable has been set, this would appear to indicate a decision on regional freighters would need to be made quickly. The economics of using belly space in B747 passenger aircraft, with around 35 tonnes capacity, as opposed to medium-sized freighters offering around 40 tonnes, are finely balanced.

The decision to expand followed a busy 1999 when Cathay wet-leased 150 extra sectors of freight capacity from Atlas Air, more than ever before. The normal wet-lease requirement is around 40 sectors annually.

The carrier will continue to lease in future, but sees it as a "bridging exercise" to satisfy specific demand developments. "Once that demand becomes a constant off you go and buy the equipment. I don't think it takes a brain surgeon to work out that if you are in the game long-term then why should you pay a middleman," said Mr Barrington. "The markets we are in, primarily Hong Kong to Japan, the U.S., Europe and Australia, are long-term big trading lanes.

"So we cannot see any point doing anything other than buying equipment and then making a return on it over 20 years."

The freight fleet expansion is timely. The latest International Air Transport Association (IATA) Freight Forecast estimates that global growth in air freight traffic will average 5.5% a year through to 2003, marginally up on previous projections. Asian cargo growth is expected to be higher, although it is likely to vary considerably between markets.

Hong Kong Air Cargo Terminals (HACTL) has just announced it enjoyed a record year of cargo handling in 1999, ascribed to the strong growth in exports to major trading partners.

The city's leading air cargo terminal operator handled 1.58 million tonnes of cargo last year, a 20% year-on-year increase. It achieved a new daily handling record of 6,737 tonnes and 9,837 consignments on September 17 and a new monthly handling record of 162,186 tonnes in October.

The growth was primarily driven by the continued strong rise in exports to the U.S. and increased trade to Europe and Asia. North America continued to be the largest destination for Hong Kong exports, accounting for 31.5% of HACTL's total cargo volume, with Europe at 25.9%, followed by Southeast Asia with 22%.

"Looking forward, although it is too early to discern a trend for the year, the early signs are encouraging as volume has held up well during the first half of January, which is normally a slow month," said HACTL's director of marketing and customer service, Mark Ashall.

Cathay itself saw cargo load factors rise to 77.7% in November. From January through November the load factor was 70.8%, up from 64.6% in the first 11 months of 1998.

But Mr Barrington draws attention to an imbalance in the inbound and outbound cargo markets.

There was a massive boom in production at the high end of the market to satisfy the Y2K issue, with the major electronic companies

Lufthansa Cargo: management does not believe the Star Alliance should be the driver for cargo

Cargo alliances in world of their own

No question about it, airline cargo alliances will not become extensions of the major commercial groupings like Star and oneworld, according to Cathay Pacific Airways general manager cargo, James Barrington.

The proof is already there for all to see, he said. Cathay is a member of oneworld. Its primary European freight partner is Lufthansa, a leading Star Alliance player.

"We have had a joint venture with Lufthansa for 18 years. We have a very strong dialogue with one of the leading cargo airlines. It was our first joint venture and it's been our longest and most robust. It has not changed at all because of alliances," said Mr Barrington.

"Lufthansa doesn't believe Star should be the driver of their cargo division and I think they are probably right ... The *raison d'etre* for the passenger alliance does not automatically read across to the cargo side."

His point; oneworld and Star were developed as passenger alliances to provide a global passenger network and a global frequent flyer programme for business travellers.

"We see the cargo business as completely different. It's not a round-trip business, it's a one-way business. If what is on our pallets comes back we are in big trouble."

Cathay believes the most important alliance partner any airline cargo division needs is an integrator, said Mr Barrington.

Two of these, FedEx and UPS, operate their own planes and are unlikely to need an airline. That leaves DHL and TNT, the two integrators in the Asia-Pacific without a dedicated network operated by their own planes.

This is why Cathay has leapt into bed with DHL in a partnership which, it hopes, will lead to Hong Kong becoming the region's major freight hub, effectively building an airline within an airline by using the belly space of Cathay's passenger aircraft around Asia.

"This is where we see the future and where we see the high end of the market. We know the integrators basically have stolen the show 100% in the U.S. And in Europe, too, although to a lesser extent.

"In Asia, if we don't play the game they will eat our lunch. We cannot become an integrator, which leaves us with only one option; to work with somebody who has yet to become an airline," said Mr Barrington.

However, there is room for cargo co-operation with Cathay's passenger alliance partners. No one is sure yet what form that will take.

"There are some things we are looking at such as sharing information technology systems and ground handling, but we haven't got the big oneworld cargo idea out there yet," said Mr Barrington

Cathay's cargo chief said he sees the development of its relationship with DHL as being "probably of greater importance" than the development of a oneworld cargo alliance.

building up inventories.

"That has been great for the airfreight carriers, but frankly that's been an Asian outbound boom. The markets coming back from North America and Europe have been pretty weak. It has been a good year in which strong production in Asia has hidden a multitude of sins elsewhere," said Mr Barrington. "However, I don't think there was anybody in the freight business who didn't have a good year."

In 2000 he doesn't see much improvement in North America to Asia flows, although he does predict Europe to Asia business will strengthen because European economies are picking up.

Whatever happens, Cathay will continue to treat cargo as a core product and not a by-product to offset costs by filling belly space on passenger services.

Mr Barrington said there was nothing wrong with an airline buying space from an integrator such as Federal Express because it was cost-effective.

"But when there is a surge in express business it will take over the whole aircraft and you, as a general shipper, will get kicked off. When we tell people they have got confirmed space out of Sydney to Hong Kong or Dubai or Japan, that's it.

"If you buy space off an integrator you are always on a standby basis because at the end of the day their core customers are the people shipping express products from A to B, not the people filling up residual space on their plane.

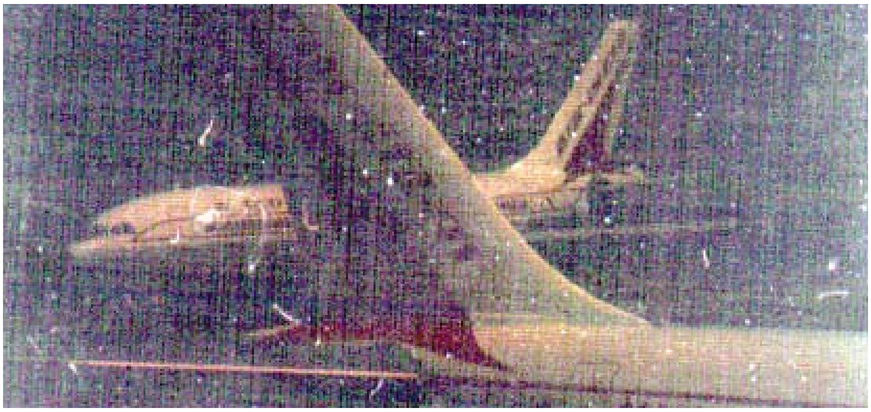
"It's a question of how you view the freight business and we view it as a core business. It is 30% of our overall turnover and that is bigger than almost any other airline in the world."

Cathay Pacific Cargo: a regional fleet would feed into its thriving international network

INDIA'S STATE-OWNED MAJOR AIRLINES TO BE PRIVATISED; DOMESTIC AIRLINES TO ENTER INTERNATIONAL MARKET IN MAJOR LIBERALISATION PLAN

BIG CHANGES IN THE AIR

Less than two years ago India considered merging its two struggling state-owned carriers, Air India and Indian Airlines. Now they are to be privatised separately. But as the industry comes to terms with a proposed new aviation policy there remain serious questions to be answered. Not the least of them in a country of volatile politics, is whether the Indian Government will last long enough to implement its plans. TOM BALLANTYNE *reports.*



Air India may lose route entitlements to privateers

India's potentially vast, much maligned and often chaotic aviation industry is preparing for landmark change as the government moves to dump most of its holdings in state-owned carriers and radically liberalise the nation's domestic and international skies.

Already six major airports are up for grabs. They will not be sold, but leased and they will probably end up being managed by foreign airport groups. Now, New Delhi has decided to off-load 51% of its domestic airline, Indian Airlines (IA), and is on the verge of announcing similar measures for flag carrier Air India (AI).

The government also intends to follow the path of several other Asian nations by opening the way for private airlines, such as Jet Airways and Sahara Airlines, to enter the international market. But it may take some time. The civil aviation ministry has proposed that in order to increase the attraction of AI and IA for investors, they should be guaranteed the use of international traffic rights for five years following privatisation.

Both Jet and Sahara will be lobbying for immediate access as soon as the new policy is official. Sources say they may be granted routes, but they will be sectors not utilised by AI and IA. In other words, routes that are financially unattractive.

AI fears the emergence of new local operators on some of its routes could seriously damage its financial position at a time when it faces stiff competition from foreign rivals and bottom line stress from soaring fuel prices and flat market conditions.

All of this represents a sea change for the incumbents, which have spent half their history burdened by ongoing bureaucratic meddling and awaiting the outcome of reports from endless government and industry committees on their future path.

However, as is usual in India there remain some critical questions to be answered before the future shape of the industry can be clearly defined.

The government has stated it intends to stand by its controversial policy of barring participation by foreign airlines in the bidding for IA. While offshore interests will be allowed to take up to two-fifths (40%) of a 26% stake to go to a "strategic partner", the foreign equity cannot come directly or indirectly from a foreign airline.

Analysts say keeping foreign carriers in the "untouchable" basket rules out the single item IA needs most, overseas airline management expertise.

The country's powerful Confederation of Indian Industry (CII) began lobbying in February to have the rules changed. It says allowing foreign airlines to hold a stake in a local carrier is common practice world-wide.

The CII's deputy director-general (infrastructure), Mrs M. Roy, said permitting foreign airline investment will help the industry to upgrade its technology and financial resources.

"We laud the steps taken by the government. However, the present policy does not encourage higher foreign direct investment and does not allow foreign airlines to invest in domestic airlines. This inhibits access to expertise available around the world," she said.

"In an era of increasing globalisation and stiff competition, air transport is becoming an essential mode of transportation which can propel, to a large extent, the economic growth of a country.

The government wants the strategic partner to run the carrier, but so far there has been no rush of interest. Even as the privatisation process was underway – the details have still to be worked out – IA reported a sharp fall in its audited net profit for the year ended March 31, 1999. It slumped to US$3.5 million, from US$11.3 million in the same period of 1998.

That was despite a 5.5% rise in operating revenue, from US$778.4 million to US$821.6 million, and a 13.6% increase in operating profit, from US$62.1 million to US$70.6 million. Passenger numbers declined from 8.4 million to eight million.

Hit by soaring fuel prices and vigorous competition from local rivals that has sparked domestic fare wars, the financial position is far from secure. In its review of the airline's accounts for the latest year, the Comptroller and Auditor General of India pointed out 21 of IA's 85 domestic services could not even meet the direct cash cost of operations. On international sectors – IA operates 32 – some 19 did not cover the cost of operating them.

After eight years of continuous losses IA has reported net profits for three consecutive years. But these results have been marginal. All the pointers suggest more tough times.

IA management welcomed news of impending privatisation. Chairman and managing director, Anil Baijal, said it would make the airline "more competitive and efficient" and help it to garner resources to become a top-class carrier.

Unions have expressed fears the development may lead to fewer jobs. IA has a staff of around 22,000 for 56 aircraft, giving it an employee-to-aircraft ratio of 393; among the highest in the world.

An Indian Government source said New Delhi is keen for one of the country's existing private operators, Jet or Sahara, to become the strategic investor.

Neither carrier is making any public comment on the possibility and will not do so until the details of the privatisation process are finalised.

However, both say privately they are not particularly keen on the idea, believing any benefits will be negated by the burden of managing IA's huge staff. Another negative is the 49% equity of the privatised airline that will remain in the hands of government, giving it ongoing power to interfere.

Also, IA needs to modernise its fleet. That means a big capital outlay, despite a government decision last year to inject around US$80 million into the airline.

Up to 26 ageing Boeing B737-200s, operated by subsidiary Alliance Air, need to be phased out soon. The rest of the fleet, 30 Airbus A320s, are about 10 years old and are the mainstay of operations.

It is possible the privatisation could take place in the first half of next year. The procedures to be followed will be drawn up by an Inter-Ministerial Group (IMG) chaired by the joint secretary of the Department of Disinvestment. One of its first tasks will be to select a global advisor for the proposed sell-off.

Apart from the 26% aimed at a strategic investor, the remaining 25% will go to the public, financial institutions and employees.

Meanwhile, the government's proposal to allow private airlines to spread their wings internationally has not gone down well with Air India. It does not use all its route entitlements because it does not have enough capacity to take advantage of all its rights.

The government view is others should be given the opportunity to pick up the unutilised frequencies. AI is understood to have asked New Delhi to delay the move so it can build fleet strength, fearing once existing domestics are granted rights AI will lose them permanently.

Authorities are showing every sign of losing patience with AI's continuing struggle to become a viable operator, although the airline has made some gains, mainly in terms of reducing losses rather than moving into profit.

It had a net loss of US$11 million from April to November last year, almost 76% lower than the US$45 million deficit it reported in the same period in 1998. Operating losses were also trimmed back by 74.4% to US$6.5 million.

"The fact AI has been able to achieve such a performance despite an additional burden of almost US$12 million on account of fuel price increases shows the steps being taken to rationalise the functioning of the airline are paying dividends," said one official.

"Though losses are coming down sharply, it is too early to say what the exact financial health of AI will be when the year closes. However, there is great optimism ... that the financial results will show we have been able to break even during the year."

Management has been moving to slash costs. It has closed uneconomical stations, downsized offices, reduced staff numbers and frozen recruitment in non-operational categories for offices abroad. Also, leave without pay has been introduced and the retirement age has been rolled back to 58.

AI has been exploring other avenues to increase revenue, such as selling old aircraft and seeking code-shares with other airlines.

A recently struck code-share deal with Sir Richard Branson's Virgin Atlantic Airways is expected to add US$7.2 million annually to the bottom line, with AI earning revenue for 64 seats on every Virgin flight between India and the UK.

The deal was finalised in January after Britain made Virgin a designated carrier, along with British Airways in operating flights between the two countries. It will launch Boeing B747 flights between Delhi and London from July 1.

Although AI is entitled to16 flights weekly to London, its fleet constraints mean it operates only 10.

As they re-adjust strategies to cope with the government's latest aviation policies, India's airline managers have one wish uppermost in their minds; that any decisions taken will be laid on a solid foundation ... before a new government can once again come along and throw them all out.

At least then they will know exactly where they are, a comfort they have seldom had in the past.

Indian Airlines: aircraft to employee ratio is 1:393

Brown upbeat on A3XX launch

Europe's Airbus Industrie, still on a high after winning more than half of last year's jet sales ahead of rival Boeing, is refusing to accept its proposed big jet, the A3XX, is dead, wounded, or even in mothballs.

In fact the planemaker thinks an apparent "cooling off" by potential buyers in their public statements on aviation's proposed new behemoth is a good sign.

According to Airbus Industrie vice-president for forecasting and strategic planning, Adam Brown, it amounts to normal airline posturing and a signal they are getting ready to negotiate deals.

Airbus, which has spent more than US$1 billion on the project, has begun a programme of visits to carriers around the world to determine demand and who is likely to order.

Speaking in Sydney, Mr Brown said this process should be completed by July. Airbus is hopeful the aircraft will be officially launched before the end of the year.

His comments followed public signals from several potential key customers that they are not yet ready to jump on a super jumbo bandwagon. British Airways, once the leading proponent of the need for a bigger jet, but now fighting off financial losses, says strategy calls for reducing capacity by 12% over the next three years.

Lufthansa German Airlines, Airbus's biggest customer, is also being cautious. "We're observing closely how development goes, but at the moment, we think it's too big," said spokeswoman Monika Goebel.

In the midst of a two-year recession and strapped for cash as they continue with rationalisation plans, Japan's All Nippon Airways and Japan Airlines are hardly in a position to spend big, even though the plane would seat a staggering 990 passengers in a single-class domestic configuration.

But Mr Brown remains confident the A3XX will be launched and will be the flagship of this century. He is "profoundly pessimistic" the airline industry's congestion problems will be resolved and believes promised improvements in air traffic control are not coming through fast enough, a situation which will demand a bigger jet.

"Fifty-five airlines will be operating the A3XX in 20 years," he said.

Airbus Industrie vice-president for forecasting and strategic planning, Adam Brown: 55 airlines will be operating the A3XX in 20 years

The project has already been delayed by the Asian recession, but if it is launched this year the first flight would be in 2004. The jet would enter service in 2005. Mr Brown is standing by forecasts of a world-wide market for some 1,200 extra large aircraft in the next 20 years, plus a further 300 or so very large freighters, worth around US$320 billion.

Indeed, in the Pacific alone – Qantas, Air New Zealand, Ansett, Air Pacific and Air Niugini – Airbus projects a requirement for 19 such large passenger jets by 2008 and a staggering 77 by 2018.

"That may sound incredible, but overall we predict that during the next twenty years the revenue passenger-kilometres carried each year by the major airlines of the Pacific region will more than triple, growing from 103 to more than 311 billion. This is an average growth rate of 5.7% per year," said Mr Brown.

With 476 new firm orders valued at US$30.5 billion, 1999 was the second best year in terms of order intake for Airbus. That gave it a 55% share against Boeing, which Airbus claims has 391 orders and a 45% share.

Airbus claims it also headed the league in the business of re-marketing used aircraft. Transactions by the Airbus Asset Management Division, which manages all Airbus used aircraft deals, involved 49 aircraft and 19 customers.

AIRPORTS EXTRA

Consultants called in to help KLIA

STILL stinging from an apparent inability to make any inroads into the domi nation of Singapore's Changi International Airport in the Southeast Asia hub stakes, the Malaysian Government has decided Kuala Lumpur International Airport (KLIA) at Sepang needs outside help.

Transport Minister Datuk Seri Dr Ling Liong Sik said international consultants are being brought in to help turn KLIA into a world hub for airlines. The experts have been successful in turning other international airports into hubs.

"We feel KLIA can make it as an international hub as we have a beautiful airport with its operating systems all working well. And we have also received service tenders for the handling of baggage and passengers from various airlines. We think we have a good product here and we can market it," said the minister.

"The experts will advise us and show us how we can market KLIA to the rest of the world," he said.

Dr Ling said for KLIA to be marketed successfully, the transport ministry would have to conduct massive research and come up with an appropriate package to highlight the airport's competitiveness.

Early start

IT REMAINS at least four years away from completion, but Thai authorities have begun to organise the phased changeover of flights to Bangkok's new Nong Ngu Hao airport. The country's Permanent Secretary for Transport, Mahidol Chantrangkun, said all international flights and domestic services with foreign-bound transit passengers will operate from the airport from 2004.

Initially, the existing facility at Don Muang will remain operational, handling all non-transit domestic and charter flights.

Nong Ngu Hao, in Samut Prakan, is forecast to handle 28.8 million passengers annually when it opens in 2004, of which 25.7 million will be international travellers.

This figure is predicted to rise to 50 million by 2006.

By then, the new airport will take over all domestic flights, leaving Don Muang to serve only state, cargo and charter flights and emergency landings.

It is estimated Don Muang will handle 7.5 million passengers after the changeover.

BA executive predicts big changes ahead with ...

Alliances 'an interim step'

By Barry Grindrod

British Airways (BA) commercial director Carl Michel has no doubt about the benefits of alliances. To the airlines, at least.

He told *Orient Aviation* in February that BA's membership of the oneworld global grouping had, officially, saved it $500 million in its first year. He said the figure was "conservative" and that $650 million was nearer the mark.

This is a healthy figure and particularly so considering BA's current financial plight. In February, it announced a third quarter loss of 71 million pounds (US$114 million) to December. A fares war to win passengers on North Atlantic routes and fuel costs were cited as the main contributors to the deficit.

And it's going to get better. He said an alliance membership would be worth 15-20% of the market capitalisation of the airline partner in about two years.

But the youthful Mr Michel, who has been tipped in some quarters to succeed Robert Ayling as chief executive, believes alliances are only an interim step to sweeping changes in the airline business in the years to come.

"We have an industry where the economics point towards consolidation," he said during a visit to Hong Kong.

And in 10 to 15 years time he believed it could be a case of for alliances read mergers. "The full hog," as he put it. And that could apply to the major alliances, too. He believed the partnerships will involve equity swaps, synergy benefits and joint purchasing.

"Why should we have different fleets of B737s and computer systems?" he asked. "If an airline is developing a new seat why not develop it with our oneworld partners?"

An important consideration then and now with alliances was that the partners retained their uniqueness and cultural differences.

Mr Michel stressed this giant leap was a long way off. In the shorter term there would be a great deal of opposition to the idea. The regulatory authorities would not allow wholesale mergers and politicians and staff would be against the move, he said.

In coming years the present alliances will grow. Some partners "will jump ship or shift camps", said Mr Michel.

British Airways' commercial director, Carl Michel: economics point towards consolidation

On the revenue side, there will be greater network connectivity with better feed and higher yields. On the cost saving side, airlines will co-operate on developmental issues, he said, and synchronise schedules "to release holds on assets". "A classic example is where an airline flies long-haul and the aircraft then sits on the ground for 12 hours before flying back. Why not let another carrier utilise that aircraft during that time," said Mr Michel.

"We have a lot further to go to do things together, be it networks, joint purchasing or IT development, which is horrendously expensive. At oneworld we have spoken about these things, but it is still at the examination stage."

Mr Michel said he was encouraged with Asia's recovery in the last six months. BA was performing well out of Singapore and Hong Kong, but in Japan "there was still some way to go".

BA pulled out of Korea during the worst of the recession, but the re-opening of the Seoul route is being kept under review. Mr Michel said BA would like to fly to Shanghai where its bitter rival Virgin Atlantic Airways has exclusive rights. Virgin has recently been awarded two more route rights to the Chinese city by the civil aviation authorities in the UK. BA has appealed the decision.

Cargo also is performing well in Asia. BA has six freighter services a week between Hong Kong and the UK.

How does Mr Michel view the recent Virgin-Singapore Airlines (SIA) deal in which SIA has agreed to buy a 49% stake in the British carrier? "It will be interesting to see how SIA calls the shots at Virgin. This is a gradual Singaporisation of Virgin. It will be very interesting. The culture of the two airlines is very different," he said. "But both airlines have a good product. The most immediate effect will be felt by Qantas."

See Match That. *Inflight Asia*.

On the fast track

Carl Michel is an Oxford University graduate and a Fulbright scholar who joined British Airways in 1995.

In 1996, he was seconded to Deutsche BA, the airline's German subsidiary domestic carrier, where he was instrumental in restructuring the loss-making airline. It included reducing the fleet's four aircraft types to a single fleet of 18 B737-300s. Other steps were streamlining the route network by eliminating unprofitable routes, offering a one-class cabin with competitive fares and significantly improving on-time performance. Deutsche recently announced its first profit.

Mr Michel returned to BA as head of business development before becoming commercial director in August last year. Mr Michel has spearheaded BA's recently announced US$1 billion inflight upgrade and is credited with the push to increase premium travellers.

He denies that BA is re-inventing itself as an airline for the rich, as has been suggested in the British media, but he said there is a gentle shift away from low yield transfer business.

The airline was looking for an "improved pound" on point to point and leisure traffic.

Air Niugini up for sale

By Tom Ballantyne

The government of Papua New Guinea (PNG) has announced plans to sell its financially beleaguered flag carrier, Air Niugini (ANG). Privatisation is set for late this year with finalisation of the transaction by early 2001.

No details have been released of potential foreign ownership limitations, but Prime Minister Sir Mekere Morauta said he wanted "ordinary Papua New Guineans" to own between 25% and 30%.

This may indicate a substantial portion of the carrier could go to local institutions or companies, with room for a major foreign partner. An offshore stakeholder would almost certainly be limited to a maximum of 49%.

The government made no mention of retaining a "golden share" to give it veto power, but will have to lay down conditions to protect the carrier's obligations to serve the domestic routes that are so important to PNG's social structure.

The sale faces opposition from unions representing airline workers. The National Airline Employees Association said it is "totally against the privatisation exercise".

Said acting president of the association, Paul Balamus: "This is a national company and the national interest must be protected. Privatisation, we believe, is too fast because Air Niugini has just come out of the corporatisation process. It is only a year and we have not really seen the results in terms of making money."

Mr Balamus claimed the union had lost more than 300 workers through the corporatisation process at the airline.

The sale of ANG, which has been going through a corporatisation process for several years, is part of a wider privatisation scheme aimed at raising an estimated Kina 1.6 billion (US$512 million) for government coffers.

Also on the auction block are the PNG Banking Corporation, Telikom and the PNG Electricity Commission.

Dr Ross Garnaut, a member of an international advisory group to the PNG Privatisation Commission, said the government assets would be sold through a transparent public tender process with the government going for the "maximum price possible".

That may be difficult with ANG, which has struggled to make profits for several years after a series of blows to its operations from factors outside its control. Business on its two busiest domestic routes disappeared; a volcanic eruption wiped out Rabaul and an ongoing guerrilla conflict ended services to Bougainville.

Then the Asian economic crisis ravished international revenues with the value of the local currency plunging, sending the carrier's costs soaring.

At one stage, Australia's Qantas Airways was reported to be interested in managing the carrier, but it backed off after the government insisted on conditions the Sydney-based flag carrier felt would make it impossible for the venture to achieve real profitability.

• *Air Niugini has been expelled from the Association of Asia Pacific Airlines (AAPA) for non-payment of dues. It joined the AAPA in the mid-1970s.*

oneworld role for Buecking

A top Cathay Pacific Airways executive, Peter Buecking, has been chosen to head the oneworld alliance's central management team.

Mr Buecking, who joined Cathay in 1982 and is its sales and marketing director, will take up his new Vancouver-based role in April.

The announcement of the setting up of oneworld's central management team was made in February, the grouping's first anniversary. Mr Buecking will establish a team of about a dozen executives to co-ordinate and lead joint customer service, marketing, information technology and finance activities.

The rival Star Alliance grouping already has an alliance management board, chaired by Lufthansa German Airline's Friedel Rodig.

Oneworld's decision to follow suit is perceived as a move towards a more formal structure for the major airline partnerships, although in both cases the big decisions are made by a governing body, the chief executives of all member carriers.

The decision to base the oneworld central management company, or oMC, in Canada is strategic, following the purchase of oneworld member, Canadian Airlines International, by Star's Air Canada.

Cathay Pacific sales and marketing director, Peter Buecking: new oneworld challenge

While it remains unclear what will ultimately happen to Canadian Airlines in terms of the alliance – it is still officially a oneworld member – its loss would be far from disastrous. U.S. member American Airlines covers North America well.

Oneworld said the oMC will carry out much of the work currently spread across project teams drawn from the member airlines. It is a move which will achieve greater cost efficiency while speeding development times, monitoring quality standards and ensuring individual carriers are all on the same wavelength.

"It's been an excellent first year. I feel privileged to have been asked to play a central role in firmly establishing oneworld as the world's number one airline alliance," said Mr Buecking

Oneworld's founding members – American Airlines, British Airways, Cathay Pacific, Qantas Airways and Canadian Airlines – were joined by Finnair and Iberia in September. Two other carriers, Aer Lingus and LanChile, will enlist later this year.

Regional, Business and Commuter Aviation

SPECIAL REPORT

COUNTING THE COST

By Tom Ballantyne

In mid-February, Australia's shattered general aviation (GA) industry was counting the cost of the contaminated Mobil fuel affair, which grounded 5,000 aircraft and continues to push hundreds of small aviation businesses to the brink of bankruptcy. It is the worst crisis in the country's GA history

Estimates of the damage start at around US$100 million. But with legal action underway against the oil giant and ongoing problems with tests designed to check affected fuel systems and engines, it is becoming clear this unprecedented catastrophe will have a longer term impact on an aviation industry which had a global reputation for excellence.

At press time around 1,000, mostly privately owned, aircraft remained grounded. Almost all of the commercial GA fleet is back in the air.

An emergency industry summit held in Sydney by the Aircraft Owners and Pilots Association (AOPA) warned the Australian aircraft sales market may be hit by the crisis; in other words, the re-sale value of Australian planes will be affected in the long term.

Worse, there are doubts whether manufacturers' warranties remain valid, even after fuel systems and carburettors have been cleaned and aircraft cleared to fly. Australia's Civil Aviation Safety Authority (CASA) received written advice from one U.S. aircraft manufacturer, Piper, saying it believed fuel systems in affected planes should be completely replaced.

The decision is being left up to owners, but they may have to wait for parts. The crisis has caused a serious shortage of parts, with suppliers having to order additional spares from overseas, mainly the U.S.

American airframe and powerplant manufacturers are also being extremely cautious about issuing their own cleaning or maintenance recommendations due to fears they may become liable if anything goes wrong.

AOPA president, Bill Hamilton, said a notice from one parts supplier that contaminated components should be replaced had resulted in some aircraft, cleared to fly, being grounded again.

He said a number of engineers had withdrawn maintenance releases on the aircraft because of liability concerns.

The contamination has shaken administrators and operators alike and the crisis is likely to become a case study for GA industries around the world.

The problem first arose in December after a light plane suffered engine failure during take-off at an airfield near Melbourne. CASA grounded aircraft and ordered owners and operators to look for black deposits in fuel systems as evidence of the contamination, now identified as Ethylene Di-Amine (EDA).

> *'Fuel contamination brought hundreds of businesses to a standstill'*

The deposits form when the contaminant in the fuel reacts with the copper in aircraft fuel system parts made from bronze or brass.

Thousands of planes had their fuel systems drained before returning to operations, but problems resurfaced in January when the contamination appeared in a white or clear form, previously undetected. These deposits formed when the contaminant reacted with carbon dioxide in the air and form in fuel tanks.

In January, the white substance was found to be harmless, but CASA's director, Mick Toller, defended the decision to ground aircraft. "If you are going to get it wrong, always get it wrong on the safe side. My belief is that we didn't, that it was a sensible precaution, but I am delighted that we are now able to give the ability for some aircraft to get back in the air," he said.

Airline jet fleets were not affected. The fuel involved is Mobil 100/130 Avgas, used in piston-engined aircraft. Mobil produces more than 30% of Australia's aviation fuel and the tainted supplies come from the company's Altona plant, near Melbourne.

Big regional operators, such as Hazelton Airlines, Eastern Airlines and FlightWest, also escaped the drama.

But hundreds of businesses throughout Australia's eastern states, from crop sprayers to pilot training schools, freight operators, small air commuter firms and charter companies, had their operations brought to a standstill.

Mobile has not evaded responsibility for the problems, openly admitting the contamination arose due to a process it used in refining. However, it has not admitted legal liability.

It initially put together a US$10 million aid package then announced its intention "to fairly compensate its customers for their direct business losses resulting from the avgas contamination issue and subsequent CASA airworthiness directives".

The company said the program is designed to compensate Mobil's aviation customers who have incurred direct business losses, without the need for legal action.

The AOPA has hired lawyers to launch a class action on behalf of its members in securing a settlement of claims relating to costs and losses associated with its contaminated fuel.

A second class action is also underway, taken primarily on behalf of operators of aerial agriculture, air charter and flying training businesses that have suffered significant financial losses.

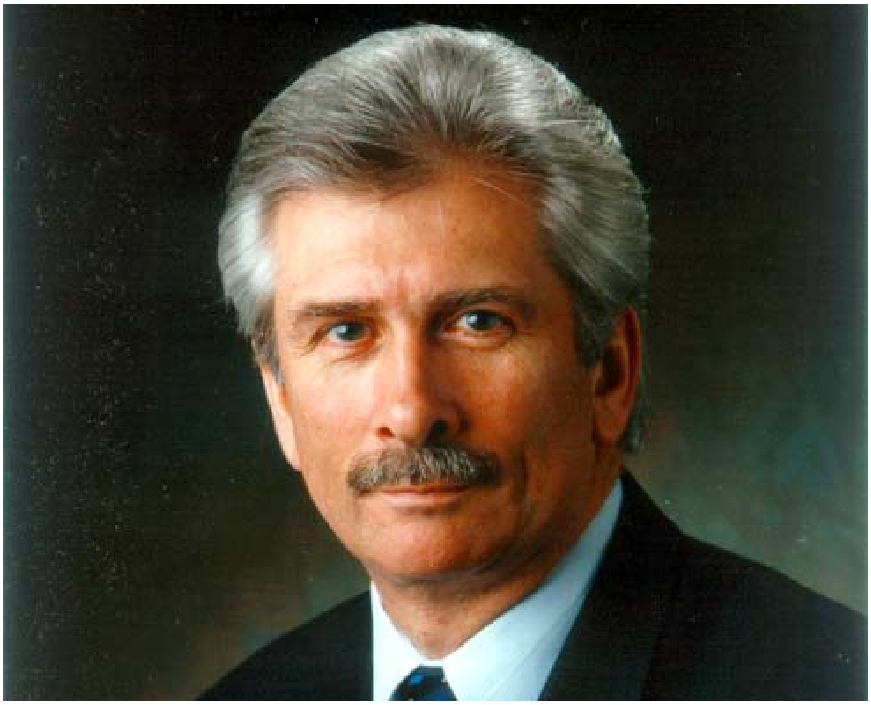
One aspect worrying aircraft owners is the unknown long-term affects of EDA. "CASA is continuing to investigate this issue," said a spokesman.

The Australian Government Senate has launched an inquiry into the affair.

History repeats itself for Eccleston

Asia hand duplicates success with Fairchild

Barry Eccleston, executive vice-president, business development at Fairchild Aerospace has been in the industry for a long time. Starting out with Rolls-Royce in 1970 as a flight test engineer he moved through the ranks to vice-president marketing at Rolls-Royce North America. In 1994, he became president and CEO of International Aero Engines (IAE), manufacturer of the V2500. But 18 months ago, Mr Eccleston walked away from the top job to handle world-wide marketing, sales and customer support for Fairchild. PATRICK GARRETT *asked him why.*



Barry Eccleston, Fairchild Aerospace executive vice-president, business development: the 328JET "like a little rocket ship"

Engineers are not best known for being romantics, but Mr Eccleston is clearly an exception. "I was lucky enough to have the opportunity to get in on the ground floor of the V2500 programme at IAE. We developed the company, built the programme, sold it and, of course, I later on went back to be president. That was terrific.

"This may sound a little romantic, but actually it's true!"

"When Fairchild came along they basically offered another opportunity to do the same thing, but this time in the airframe business. I had the opportunity to once again get in on the ground floor of what I think is going to be a major revolution in the airline business, the next generation of regional jets, so I jumped at it. It's not everyone who gets a chance to do it once, but I'm lucky enough to do it twice!"

And for an engineer, the 328JET has the attraction of a rather unconventional development programme. Outgoing Fairchild chairman and CEO, Carl Albert, acquired the Dornier company in 1996. And he told his new engineers that turbofans were the way ahead; it was time to think about adding a jet to the Dornier family. To his surprise they had already planned a jet derivative of their turboprop Dornier 328. "Almost instantly the engineers whipped out designs from their drawers!" said Mr Eccleston.

DASA, Dornier's previous owner, apparently had little appetite for the engineers' proposals, but Carl Albert did. For less than US$100 million, and in little over a year, the programme was accomplished. "Turning the turboprop into a jet was remarkably simple!" added Mr Eccleston.

However, turning new aircraft into firm orders is not quite so easy. Yet the 328JETs FAA and JAA certification was completed in July 1999, and deliveries began in August. By the end of 1999, Fairchild had landed orders for 178 aircraft, one-third of the 543 regional jets and under 100-seat airliners ordered by operators world-wide last year. Brazil's Embraer booked 186 orders, while Bombardier of Canada came in with 172. The remaining seven went to British Aerospace.

Nineteen of the Fairchild 328JETs were ordered by Hainan Airlines in mainland China, a country Barry Eccleston knows well from his IAE days. "I'd worked with a lot of the large Chinese carriers, China Eastern Airlines, China Northern, Sichuan Airlines, people that had bought the Airbus with our V2500, but not with Hainan."

Hainan, based on Hainan Island off the south coast of the mainland, had operated Fairchild Metroliners since 1994 and Mr Eccleston's customer support role put him into immediate contact with the Chinese carrier. However, the 328JET sales initiative

ultimately came from the Chinese side.

"They actually came to us and said they would replace the Metros with 328 props, but the discussion quickly changed to 'why don't we go straight to 328JETs?' That's typical Hainan, of course. They are a very progressive airline. They are not like most of the other carriers in China. They tend to move ahead quicker than everyone else and that's exactly what they did here."

What makes Hainan different from the rest?

"The economy is strong in Hainan, but also I believe they have a very go-ahead management. They do have a small shareholding from outside the country (the U.S.) that gives a little bit of Western style to their management. Certainly their management style is a lot more aggressive. They make decisions a lot quicker, they enact decisions a lot quicker," said Mr Eccleston.

"The other Chinese carriers still have quite a strong influence and relationship from Beijing, via the Civil Aviation Administration of China and China Aviation Supplies Corporation. Hainan also has that, but they seem to be able to make the decisions and work quicker within the Chinese framework."

Although Beijing put a stop to the airliner buying spree in 1998, this has not effected Fairchild.

"Beijing referred to a slowdown in what was called the medium and large size aircraft. We actually have not seen any effect on our marketplace. The Hainan deal was done about a year ago," said Mr Eccleston.

"We've also seen a steady flow of interest from other Chinese carriers and we have several proposals on the table. We have several negotiations going on at the moment. Our sales and marketing activity does not seem to have slowed down, indeed, if anything, it seems to have intensified."

Industrial co-operation is also a feature of those negotiations.

"If you're going to sell any aeroplane in China, then you're going to be asked the question about technology transfer; 'can we make parts for you in China?' Obviously we're looking at this the same as everyone else does, but we haven't made any decisions yet," said Mr Eccleston.

"The 328JET comes from an existing basket of suppliers, most of them already making the 328 prop. With the 728JET we've pretty much chosen our risk-sharing partners and they basically all come from Europe or North America. At the moment there is nothing I can point to for the Asia-Pacific."

Hainan received the first of its 328JETs on November 3. If the 20 options are exercised the deal would be worth US$464 million. The 32-seat 328JET is powered by two Pratt & Whitney PW306B turbofans, incorporates Honeywell Primus 2000 integrated avionics and has a range of 900 nautical miles.

But what was it about this aircraft that lured the British-born engineer away from the top job at IAE? "The engineers in Germany are very, very good in terms of quality engineering, thoroughness; almost conservatism. We refer to it in-house as the Mercedes Benz of aeroplanes!"

"From the pilot's point of view the performance is remarkable; very short field performance and an extremely high climb rate – like a little rocket ship. That's great for the pilots but it's also great for the customers.

"Our biggest 328JET customer is Atlantic Coast Airlines, which operates out of Washington Dulles Airport. Operating in the north-eastern corridor is very difficult because there is a lot of traffic, a lot of bad weather. They love this aeroplane. They can climb out of the airport quickly, out of short fields quickly, and be above the rest of the traffic and the weather. It's basically because it's a straight-wing, high-wing aeroplane. It's not going to go as fast as a swept wing competitor in cruise, but on a 250nm stage length, which is the average distance these aeroplanes fly, it's quicker because we climb quicker."

Then Fairchild 728JET family targets the upper end of the under 100-seat aircraft market. Lufthansa became the launch customer for the 70-seat 728JET in 1999, signing for 120 orders and options. Production of the 728JET prototype is scheduled to begin later this year, with first flight slated for 2001 and certification and delivery in 2002.

"The 728JET is our new 'clean sheet of paper' design. The attraction for me is the cabin interior. We're building an aeroplane to go into what is currently the regional jet marketplace, but we're building it to airliner standards of cabin comfort. Today's regionals are still flying around 'long thin tubes', not airliners."

But while the mature regional airline market in the U.S. is making a switch away from turboprops, is Fairchild making a mistake trying to bring China directly into the regional jet age? Barry Eccleston doesn't think so.

"My previous experience has taught me airlines in China want state-of-the-art aeroplanes. They don't like to be perceived to be buying either used aeroplanes, or old design aeroplanes. And they want to be seen to be buying from successful manufacturers. That was certainly my experience when I worked with Airbus on the engine side and did the A320 deals there," he said.

"Distances in China are pretty long and the speed of the jet is much more productive for them than the turboprop. Where the turboprop could win in China is with short fields, but our 328JET, because of its high-wing, straight-wing design can operate out of short fields very well and I think that was another reason that attracted Hainan Airlines."

And according to Mr Eccleston the airline loves their first two regional jets.

"They've asked us to accelerate delivery of additional aeroplanes and we're looking to see whether we can do that. It's not just an issue of building the aeroplane, but also training the pilots."

Ground school for cabin and maintenance staff is performed in Germany, with simulator

China's Hainan Airlines ordered 19 328JETS with 20 options training in Holland.

Unlike Fairchild's home bases in North America and Europe, the Asia-Pacific does not present a developed regional airline marketplace.

"There are good reasons for this. One, the distances are very long. Two, there are a lot of people moving; a regional operation in Japan uses a B747! There isn't a developed market place for us to go and sell to, so we have to take each country as it comes and each has its own characteristics," said Mr Eccleston.

"If you asked me to bet where there will be the next sales campaign, I'd probably say Australia. The potential arrival of Virgin Australia causes them to look again at the whole competitive system there. Simply, in terms of the geography and demographics of the country it looks like a great market for a 70-100 seat jet like the 728."

New Zealand has the same profile of long distances and sparse population. Indonesia and the Philippines also are both natural markets for Fairchild, but "we're waiting for both of these countries to emerge from their economic woes." The same is true of Korea.

"In Singapore, SilkAir have some Fokkers and we've talked about the eventual replacement of those aeroplanes, but I'm not going to say it's a sales campaign, it's just a discussion. Taiwan has 728JET potential for the secondary cities. We've talked to them quite a lot. They're expressing a lot of interest, but there is no campaign as yet.

"Japan has potential for the 728JET, probably to replace the Nippi YS-11, but there's no real action there at the moment.

"India is also 728 country. We are talking to a couple of carriers."

Fairchild recently delivered a 328JET to Tahiti-based charter carrier, Wanair, to operate regular jet services throughout French Polynesia. The carrier flies Beech and Citation aircraft from the island of Papete.

Mr Eccleston has over 25 years of contact with this region, but says there is no magic recipe for working the Pacific Rim. "I think the recipe, if anything, is to have experience. I think particularly the Chinese and Japanese markets tend to respect technical experience. You deal with them all differently. There ain't no magic formula, but of course it helps to have a product which is perceived as state-of-the-art in the western world!" he said.

It also helps to be starting a sales drive just as Asia-Pacific is recovering from a recession. Barry Eccleston says he has always remained optimistic. "My judgement and experience of the people is they have the ability to turn things around very quickly."

Deregulation a plus for the RJX

By Patrick Garrett

Deregulation has created good demand for the RJX product in Australasia, said British Aerospace Regional Aircraft vice-president marketing, Nick Godwin. Elsewhere in the region, however, the market has "a long way to go" with low yields and 'Asian flu' still effecting carriers' profitability.

Some BAe competitors are overly optimistic about the size of the world market and fail to consider the increased production rate of regional jets fighting for those sales, said Mr Godwin. He also is sceptical about the profitability of rivals launching brand new programmes – Fairchild's 728/928JET, Embraer's ERJ170/190 and the Bombardier BRJ-X – up against cheaper derivative programmes from Boeing, Airbus, and BAe's own new Avro RJX.

In programme cost, he said, "we're a factor of ten times lower than all the new aircraft, which don't offer anything significantly greater. We think we'll have more flexibility in the way we can trade because we're not writing-off a development bill at three to six million a copy."

The RJX programme involves replacing the Avro RJ's LF507 engines with the advanced Honeywell AS977-1A powerplant. Otherwise, the airframe of the three RJX variants will be basically unchanged from their RJ-series predecessors. The RJ itself was developed from the BAe 146 with fresh engines, digital avionics, FADECs and passenger cabin. The RJX-70 (70-82 seats), RJX-85 (85-100 seats) and RJX-100 (100-112 seats) should therefore offer airlines the prospect of operational commonality with both types.

"It's a key part in our initial strategy, because a lot of the early prospects are going to be 146 operators or RJ operators who want supplemental aircraft," said Mr Godwin.

Beijing-based Air China, Ansett Australia, Ansett New Zealand and Qantas Airways all operate the Avro RJ/BAe 146.

"The RJX programme is not yet formally commercially launched, but we are confident of getting it launched early this year. We have some proposals signed, but they are conditional on us finding other launch customers. There is one Asian customer in discussions," he said.

RJX entry-into-service is scheduled for 2001. Nevertheless, outside Australia and perhaps Taiwan and Japan, Mr Godwin said regional aircraft are not yet operated very profitably in the Asia-Pacific.

"You basically lose money on the feed in order to facilitate the long-haul routes. In some countries the local services are regarded as essential, so fares have been artificially restricted. That doesn't make for profitable operations. It's always tough to justify smaller aircraft in the region, but that will change I'm sure as market forces apply, alliances take a grip, markets mature and the yields harden."

A BAe 146-100 operated by BAE SYSTEMS' corporate air travel department is the first aircraft to be painted in the new company identity

Recession a plus for Bombardier

Carriers opt for smaller aircraft

By Patrick Garrett

After an impressive year for new orders, James Dailly, vice-president Asia-Pacific sales for Bombardier Aerospace, Regional Aircraft (BARA) laughed, but would not be drawn on his bonus last Christmas. "Well, let's put it this way," he deadpanned, "I think I'm pretty secure in the position for the time being."

Two years ago, however, few sales executives would have risked joking about their own future in the uncertain Asian marketplace. Confidence has evidently returned.

In the 13 months between January 1, 1999 and January 31, 2000, Bombardier sold 22 new regional jet and turboprop aircraft in the Asia-Pacific. Some would cite this as evidence the crisis was over, but Mr Dailly points out his regional boom was partly spurred on *by* the crisis. "In Japan, they're still having some difficulties – they're not filling the large equipment. They had to start looking at some smaller regional aircraft," he told *Orient Aviation*.

"We really captured the market by convincing the country's largest domestic operator, Air Nippon, to choose our Dash 8 over the ATR, and Japan Airlines (JAL) chose our CRJ over Embraer."

Air Nippon, a subsidiary of All Nippon Airways (ANA), placed a firm order for three 56-seat Dash 8-Q300 planes and JAL's domestic route carrier, J-Air, signed for two 50-passenger CRJ200 series regional jets.

J-Air is based in Hiroshima and provides domestic services in southwest Japan. The new Bombardier customer holds options on three additional CRJ aircraft. It currently operates five 19-seat turboprops that are now too small because of growing load factors on the airline's route network. Bombardier says the CRJ enables J-Air to use more efficient, high-speed aircraft to provide additional frequencies, offering more profit potential.

Another Japanese operator, Nagasaki Airways, placed a firm order for one Q200 turboprop for its regional airline operations in Nagasaki Prefecture on Kyushu, Japan's westernmost province. Delivery is scheduled for the first quarter of 2001. Nagasaki Airways, established in 1961, will fly the Q200 on the Iki-Fukuoka and Iki-Nagasaki routes. Planned utilisation is about 2,000 hours a year.

"We selected the Q200 because of its unrivalled performance, low operating costs, proven reliability and outstanding passenger appeal through its Noise and Vibration Suppression (NVS) system," said Nagasaki Airways president, Kazutaka Muraoka.

Japanese newcomer, The Fair Inc. of Tokyo, was only established in 1999, but began by acquiring two Canadair Regional Jets from a European operator to commence operations midway through this year. Now it has ordered two new CRJs from the manufacturer, to be delivered in its third year of operations in 2002. The first two 50-seat jets, based in Sendai, will serve business-oriented routes such as Hiroshima-Haneda.

Vice-president Asia-Pacific sales for Bombardier Aerospace, Regional Aircraft, James Dailly: a good year

"The CRJ has proven to be particularly effective on routes with high business travel potential where speed and frequency are significant determinants to successful revenue growth," said Jun Okawara, president and chief executive officer of The Fair Inc.

The Fair Inc. and ANA made a co-operative agreement for the CRJ operation in which ANA will provide the newcomer with assistance, including inflight operations, flight crew, maintenance and engineering services.

"They saw what the Regional Jet was doing elsewhere in the world. They felt there was a good opportunity for the aircraft in their own market, Japan," said Mr Dailly.

"In Japan there is a large market for any manufacturer and we've now begun to penetrate that market. We have a handful of operators now, both Dash 8s and Regional Jets, and we see the market exploding in the next few years."

Reflecting on the psychology behind the sales surge Mr Dailly identified a "pent up demand" for regional aircraft that had developed during the economic downturn. All it required was a trigger.

"I think to a large extent the market was watching the Kendell-Ansett purchase of the CRJs. That spurred a lot of airlines into reflecting upon their regional aircraft strategies, and thinking about how they could change the way they're doing business. That is to be more economical and profitable using regional aircraft of capacities that are more suitable for them."

According to Bombardier, in the Asia-Pacific 66% of the flights in the largest domestic markets are on routes of less than 400 nautical miles and are being flown by large 100-plus seat jets. It claims regional aircraft, with between 20 and 90 seats, are able to provide high-frequency point-to-point services over short distances at a profit, whereas major airlines operating the same routes with large jets would incur losses.

The Kendell Airlines purchase of 12 CRJ200s at the end of 1998 was pivotal for the Canadians. "As we entered different campaigns it became pretty clear there were a lot of 'short fuses'," added Mr Dailly, referring to the speed that initial offers were turned into firm sales.

Recently, Qantas Airways ordered a 50-seat Q300 turboprop on behalf of its wholly-owned Brisbane-based subsidiary, Sunstate

Airlines. The aircraft is due to enter revenue service in March, plenty of time before the Sydney 2000 Olympic Games. It will join the six 36-seat Dash 8 Series 100 and Q200 aircraft already in the Sunstate fleet.

Its route network along Australia's east coast has long been recognised as the world's longest turboprop network.

"In 1999 we more than doubled the number of Dash-8 sales over 1998, not just in the Asia-Pacific, but world-wide. We see a very strong market for turboprops in the year to come."

But despite a good year, Bombardier is not immune to production problems. Delivery of the first Dash-8 Q400s is running two to four months behind schedule.

SAS Commuter in Denmark recently received the first of the stretched 66-78-seat aircraft some three months late. UNI Air in Taiwan is also waiting for an aircraft originally due last autumn.

"We're working closely with them," said Mr Dailly, adding that only Dash-8 Q400s are effected by the delay and delivery dates are expected to be back on track by mid-year. According to the manufacturer it has been a complicated programme from which they "have learnt a lot". The company hopes to ramp up production to 34-36 aircraft per fiscal year.

There also has been much speculation about Bombardier's plans in the upper end of the regional jet market. Offering airlines the CRJ-900, a 90-seat stretch of the CRJ-700, has been described as a shrewd move to beat similar-sized rivals to market. However, others have worried about the 90-seater's narrow cabin and the programme's effect on the as yet unlaunched BRJ-X-90 or BRJ-X-110 in the 90-115-seat market.

James Dailly said there has been "significant interest" from the Asia-Pacific airlines in the BRJ-X.

"We've had detailed discussions with a number of operators. There's a very real possibility of launching the programme."

Responding to concern that entering the larger regional jet market put Bombardier on a dangerous collision course with Boeing and Airbus, Mr Dailly admitted "there are those that think that, but at the end of the day we are specialists in regional aircraft and they are not. The BRJ-X is designed for regional networks and operators and the economics will show."

Bombardier stresses its product is not a downsized aircraft, but rather purpose-built. It expects to make announcements "soon" regarding authority to offer.

China breakthrough

But it's the 'tip of the iceberg' for Bombardier

China is now proving a happy hunting ground for Bombardier after years of trying to make a breakthough in this potentially huge market.

The most recent CRJ200 deal in China was with Shanghai Airlines, for three aircraft to operate routes that cannot be served economically by the airline's fleet of Boeing 737, 757 and 767 aircraft.

However, the CRJ's regional airline launch customer on the mainland was Shandong Airlines who signed for five of the type in November, in a contract valued at US$116 million. Shandong Airlines is headquartered in Jinan, capital of Shandong Province, about 500 kilometres south of Beijing.

"Shandong Airlines is acquiring Bombardier's CRJ200 aircraft for expansion and growth on our regional routes throughout the Peoples' Republic of China," said airline president and chairman Sun Dehan. "The CRJ will join our fleet of 737s and Saab turboprop aircraft on a variety of scheduled revenue passenger services as well as charter and VIP operations."

Despite being a younger market, Mr Dailly said the Chinese are thinking in a similar way to the U.S. and Europe. "There's an overwhelming preference for jets, despite, in a lot of cases, the turboprop makes the most economic sense. Where you might promote the turboprop, the preference is jet, even if it is more expensive."

However, Bombardier still see a strong future for their turboprop family in China.

"There are some cases where the turboprop makes the only real sense because of the performance capabilities and the shortness of some of the sectors," said Mr Dailly.

Last April, Changan Airlines, of Shaanxi Province in central China, placed an order for three 78-seat Q400 Dash 8 aircraft.

In China, in particular, Bombardier has been working hard to push the benefits of operating purpose-built regional aircraft. A recent symposium in Beijing, co-sponsored with the Civil Aviation Administration of China (CAAC), briefed airline and regulatory authorities on the growth of regional airlines elsewhere in the world and the existing business opportunities for Chinese operators.

Some projections put China's domestic traffic growth at 5% per annum, well below the 20% of recent years. With load factors reported as low as 30% on some routes, smaller aircraft become more attractive. The expansion of regional services is one of the CAAC's top priorities.

Bombardier is conducting a feasibility study for a CRJ training centre with a simulator in China, in conjunction with Canada's CAE Electronics and Shandong Airlines. The company is also discussing siting a CRJ spares depot in Beijing with the China Aviation Supplies Corporation (CASC).

"For a number of years we've been watching China, trying to pursue various opportunities with little result," said Mr Dailly. "But in the last 12 months, we've captured Q-400 and CRJ customers. These jets are the tip of the iceberg. Now we have that initial penetration I see orders beginning to flow like we haven't seen before!"

The CAAC's own figures forecast a requirement for 400 regional aircraft in China by 2018. According to Bombardier's own 1999 market forecast, the Asia-Pacific, as a whole, will require 1,289 regional aircraft in the 20-119 seat category (worth US$27.6 billion) in the next two decades.

Shanghai Airlines: ordered three CRJ200s

Trislander back in business

By Patrick Garrett

U.K. aircraft manufacturer Britten-Nor man is itself based on an Island – the Isle of Wight just off the English coast – and possibly therefore has a unique perspective on the needs of its many clients in the archipelagos of the Asia-Pacific.

Over a quarter of the Britten-Norman aircraft operating in the world, some 240, are in this region. They are spread across Cambodia, China, India, Indonesia, Japan, Malaysia, Pakistan, the Philippines, Taiwan, Thailand, Australia, Fiji, Kiribati, Micronesia, New Caledonia, New Zealand, Papua New Guinea, Solomon Islands, Tahiti, and Vanuatu.

And last year, the British company re-opened a production line that had closed in 1984 to service an order for mainland carrier, China Northern, for three Trislander aircraft. Britten-Norman re-launched production of the type, confident there could be more orders in the pipeline from China.

The three 16-passenger, triple-engined BN2A-MkIII aircraft are set for delivery between September 2000 and January 2001. The airline intends to use them in short-haul commuter and aerial tourism roles and is apparently contemplating more orders.

It will replace ageing single-engined Harbin Y-5 biplanes – the Chinese variant of Russia's rag-and-string Antonov-2.

The aircraft contract is valued at US$4.8 million and will be followed by a customer support contract to include aircrew and engineering training and aircraft spare parts.

Britten-Norman commercial manager, Guy Palmer, told *Orient Aviation* that although the China Northern order was the impetus to re-start production, it was the likely prospect of additional sales in China that made the process financially viable.

Britten-Norman will assemble the first aircraft at its Bembridge, Isle of Wight, factory from a kit delivered from its manufacturing facility in Bucharest. They have built "green" aircraft in Romania for three decades and as state aviation facilities there are privatised they are likely to buy the factory.

Subsequent aircraft will be flown from Bucharest for avionics and interior fitting in the U.K., before delivery to the customer's operating base at Shenyang airfield in north-east China.

The aircraft had to be robust, with excellent short take-off and landing capability, able to be operated from unprepared airstrips and requiring only minimum maintenance. The high wing piston-engined aircraft – able to carry a pilot and nine passengers – successfully completed its first flight on June 13, 1965.

The Trislander: China Northern has given the aircraft type a new lease of life

China Northern's choice, the Trislander, was first shown at the 1970 Farnborough Air Show. The third engine increased power by 50% and created space for up to 18 passengers. Eighty Trislanders have been built.

Mr Palmer said although technology transfer was not part of the deal, Britten-Norman would be happy to discuss local manufacturing if the Chinese market proved big enough.

Eighteen China Northern pilots will undertake a three-week type conversion course in the U.K. at the request of the airline. Twelve engineers also will spend two weeks at Bembridge learning the maintenance programme. A Britten-Norman engineer will relocate to China Northern's base at Shenyang throughout the staggered delivery period of the three aircraft.

According to Mr Palmer, China Northern wanted piston power for its high frequency short-sector operations, while the safety benefit of three engines was also valued. In addition, the operator required an aircraft with STOL flexibility, capable of operating from semi-prepared grass airstrips.

At one time in China there were around 1,000 general aviation aircraft, mainly Y-5s, but a spate of crashes motivated the CAAC to restrict these suddenly risky small-scale operators. Now, the CAAC is actively supporting a few carefully selected general aviation operations.

Elsewhere in the Asia-Pacific things have been quiet for Britten-Norman, Ian Wilson, the company's head of sales and marketing, told *Orient Aviation.*

However, government programmes are under discussion in Thailand, the Philippines and Malaysia but Mr Wilson thinks Indonesia will take longer to recover. However, he said the company is confident of making commercial sales in Japan and Taiwan in 2000.

"Japan has been a good market. We delivered the first aircraft about 20 years ago. Over a dozen aircraft are flying in the outlying islands and they have been seen as very reliable and safe. The Japanese are very conscious of safety. Once they've got something, and they trust it, and the JCAB put the stamp of approval on it, that tends to encourage the operators to stick with what they know," said Mr Wilson.

Prior to the recession in Asia, Taiwan was a solid client, but Britten-Norman was not alone in securing sales. "The flurry in aircraft activity probably caused some of the safety problems there. They virtually took one of every aircraft type in the world! We are now seeing the benefits of our aircraft having a proven track record as the Taiwanese authorities clamp down on the country's bad record."

In Papua New Guinea, where over 30 Islanders operate, the biggest competition for new sales is the used aircraft market with a second-hand Islander trading for US$200,000, compared to a new one at $800,000, said Mr Wilson.

Avions de Transport Regional (ATR) senior vice-president marketing and sales, Alain Brodin, admits the heyday of the turboprop has passed, but there is still a big market for ATR to explore.

'Props' still proving their worth

PATRICK GARRETT *reports*

... and Asia is keeping the salesmen busy

"We had a good year. We delivered 35 aircraft and sold another 30. This is an improvement on 1998," Toulouse-based ATR's Alain Brodin told *Orient Aviation*. Fourteen ATR 42-500s and sixteen ATR 72-500s were ordered by 11 airlines.

In 1999, 13 different carriers shared the 12 ATR 42s and 23 ATR 72s the company delivered.

"The turboprop market is not as large as before. It exists and will exist. We are adamant about that. But we would be fools if we didn't recognise the market is not as big as it once was and therefore we don't produce as many aircraft as we did."

He maintains present sales volume matches the company's revised business plan, but he is not expecting the kind of orders that came out of the U.S. in the 80s and 90s. "Those huge orders from American Airlines and Continental – they're gone."

The good news for ATR is the emphasis has shifted to Asia.

ATR says market forecasts show a world-wide demand in the 40-70 seat turboprop sector of around 70 aircraft per year for the next 20 years. The forecasts are based on regional networks developing in parallel with jets and turboprops and the replacement of older turboprops.

ATR expects to secure contracts for around 30 of those 70 sales each year, for the next 20 years. Turboprop commuter competition has narrowed in the last few years with the departure of the production lines of Fokker, British Aerospace and Saab, so those orders will mostly be shared with Bombardier.

"We don't have a jet in our basket. A jet, of course, would be helpful," said Mr Brodin.

Turboprops far from dead, said ATR's senior vice-president marketing and sales, Alain Brodin

The consortium had originally planned to launch the "Airjet" product by 1999, while in partnership with British Aerospace (BAe), but BAe did not commit to the project. Joint venture negotiations also were held with Embraer and Fairchild, but neither bore fruit. It's now defunct.

Mr Brodin said the 20% stake a group of French aerospace companies, including ATR parent, Aerospatiale Matra, are taking in Brazilian regional jet producer Embraer is more linked to military business. However, the Frenchman said there will be what he terms a "rapprochement" between ATR and the South Americans in the civil market.

"Embraer does not manufacture large turboprops anymore and we don't have jets. Bombardier has turboprops and jets and that gives them a certain advantage because the marketplace wants to have the ability to go from one to the other. So we are going to have a consolidation of ATR and Embraer activity."

He said a partnership would bring benefits to both sides. ATR would add jets to their portfolio and Embraer would have access to ATR's turboprops as well as to its "very significant expertise and commercial presence".

Mr Brodin is particularly proud of their recent successes in India "which nobody else has done in terms of jets or turboprops," and he added that with an ATR presence "nearly everywhere" in the Far East there is plenty of synergy between the two companies.

Despite immense poverty in India, 200 million of the one billion plus population has the financial means to travel by air, according to ATR. Poor road and rail infrastructure and sprawling cities make commuter aircraft a compelling proposition for carriers like Jet Airways, which received its first ATR 72-500 last October. Deliveries of the five-aircraft order are due to be completed by April.

Jet Airways' new ATR 72-500 services will extend its network, provide air connections between new city pairs and establish air linkages that feed passengers from smaller cities to the major hubs in India. It currently connects 30 destinations with 26 Boeing B737 aircraft operating over 155 flights daily.

"ATR will form the nucleus of a modern regional aircraft fleet and become a workhorse aircraft as we now provide this new and much needed feeder operation," said Jet Airways' chairman Naresh Goyal.

The Jet chief is pleased with his purchase and has said he will add to its ATR fleet.

ATR has an industrial agreement with Hindustan Aeronautics (HAL) for the progressive co-production of the ATR42, but this has yet to be triggered in the absence of Indian orders for the type.

The Indians have been given customisation work and ATR42 parts production for their domestic market. Over a period of six years, HAL's share of the manufacturing work could rise to 50-60 percent of each ATR42. The partners gauge demand at around 100 aircraft in the country, including Indian Airlines, the coastguard, the army and the air force.

A joint ATR/HAL proposal for ATR42s was accepted by the board of state-owned Indian Airways over a year ago, but elections in India and the arrival of a new transport minister have slowed the process.

However Mr Brodin thinks securing the first deal with privateer Jet Airways sent out a signal the aircraft were chosen on their merits and not just because of technology transfer agreements.

Vietnam Airlines' interest in new aircraft has been re-awakened as their traffic figures recover from the slump produced by the region's late nineties recession. Discussions with ATR were re-activated at the end of 1999. "I'm hoping something will happen this year," said Mr Brodin.

After a breakthrough order of five ATR72s from China's Xinjiang Airlines, with five options, ATR is talking to a number of other Chinese airlines. "The Chinese market has huge potential for us," said Mr Brodin. China has had technology transfer agreements in place since 1989; the Xian Aircraft Corporation produces rear fuselage sections for the European company.

Like its neighbour India, China presents a uniform regulatory environment for regional carriers to operate successfully. In other parts of Asia geographical and political fragmentation mean that even a short 200nm hop might transit a third country and a plethora of different regulations. Restrictive air service agreements or customs and immigration formalities can easily negate the time and cost advantages of commuter aircraft operating trans-border over short distances.

Indonesia and the Philippines are attractive to the turboprop manufacturer for different reasons. Both countries are geographically fragmented with a population spread across many hundred islands. Also, both need cheap transportation and have seen the fortunes of a number of their airlines slump in recent times forcing many passengers to take long journeys by ferry. However, the continuing unrest in Indonesia, already damaging to tourism, will delay orders from that country.

ATR says while the global trend is towards jets, even among the major carriers fleet rationalisation, following alliances or acquisitions of regional affiliates, will bring commercial opportunities for turboprops. Airlines will be more aware of the economics of the overall network when selecting aircraft.

Mr Brodin contends the Asian economic crisis effected lower cost regional carriers less badly than the big jet operators. Carriers have learnt the need for prudence. "You can't just put jets everywhere because they appear more modern," he said. ATR operators, Bangkok Airways in Thailand, actually benefited from a boom in traffic due to attractive exchange rates that are luring more tourists to the country. The Thai carrier recently added a new route to Luang Prabang in Laos, and ATR said that expansion could lead to more sales.

ATR operates an Asian spares and support centre in Singapore and a simulator in Bangkok. Only one simulator is required for both of the company's products because of commonality between the ATR42 (48 seats) and ATR72 (68 seats).

Mr Brodin said hardware commonality between the types is close to 100%; even the engines only require a software change between the two types. Crew trained on one type need three hours of classroom training to qualify for the other, without any simulator time.

Mount Cook Airlines, Air New Zealand's wholly-owned domestic operator, also will find it easy to switch over to its new ATR aircraft, which began arriving last October. The seven new ATR 500 series aircraft will replace older ATR 72-210 models, introduced back in 1995. Deliveries were completed in February.

Both the new ATR 72-500 and the smaller ATR 42-500 feature a changed cabin interior. Overhead bin volume was increased by 40% and six-blade propellers and Dynamic Vibration Absorbers reduce noise and vibration in the wide cross-section cabin.

The ATR 72-500s feature new Pratt & Whitney Canada PW 127 engines, which improve take-off and landing performance, especially in hot and high conditions.

"Our choice of the newer ATR 72-500, after an extensive evaluation, is the result of our satisfactory experience gained in operating the ATR 72," said Andrew Miller, general manager of the Air New Zealand domestic airline group. "We have been pleased with the economy of the ATR 72 on our regional routes and we will continue to enjoy these benefits with this new version."

However, today, fuel economy is not just a question of direct operating cost, despite recent fuel price increases. The environmental cost must also be considered. ATR claims turboprops offer low gas emissions and only limited noise pollution. Recent studies show the 500 Series is comparable in energy usage (fuel per passenger kilometre) to rail transport and is superior to road transport.

Even in the aggressive U.S. regional market, turboprops are far from dead. New Zealand's ATR 72s were all sold to Delta Connection. But where the U.S. once accounted for some 40% of ATR orders, Mr Brodin said the marketplace has now shifted to Asia. "Most of our efforts and discussions are with countries that, as the British would say, are 'East of Suez'!"

Air New Zealand's wholly-owned domestic operator, Mount Cook Airlines has taken delivery of seven ATR72-500s

SITA's billion dollar man

By Tom Ballantyne


SITA Asia-Pacific president, Soon Hock Lim: Asian airlines under-spending on IT

Singaporean-born Soon Hock Lim may have been at the helm of SITA's Asia-Pacific operations for a mere five months, but he is already setting impressive targets for the global airline information and communications solutions provider

He aims to turn the company's regional turnover of US$256 million a year into a billion dollars worth of annual takings by 2007. "I have managed a billion dollar company before ... I looked at it and said, well it's not all that unachievable," SITA's Asia-Pacific president told *Orient Aviation* in Auckland.

Getting there may not be easy, but his dedication and an undisguised relish for the prospect of taking on the big guns of information technology (IT) – the IBMs and ARINCs of the world – is clearly etched on his face.

The former regional vice-president of computer giant Compaq and chairman of Plan-B Technologies in Singapore, an IT and telecommunications firm he founded in 1996, is convinced the US$1 billion target is realistic.

Since joining SITA last September he has drummed into his team the need for the company to build a critical mass and develop new product and fresh business models to boost its customer base and market penetration.

Just as critical, airlines have to be convinced they are not spending enough on IT. A recent survey commissioned by SITA among 150 of the world's top carriers proved the point.

Conducted by MSM Research Ltd, of the 60% of airlines which responded nearly all agreed IT should be on the strategic agenda for discussion at board level. Yet most spend less than 3% of revenue on IT, lower than invested 10 years ago. Nearly half of those polled expect that figure to remain the same or even decline in 2000.

Significantly, the survey showed that while North American airlines spend 4.2% of revenue on IT and European carriers 2.2%, their Asian counterparts outlay only 1.7%.

"If you use North America as a benchmark, there are a lot of opportunities in this region," said Mr Lim. "A lot of airline companies have been under-spending. I expect a lot more of them to increase their IT budget.

"I think they are beginning to realise it is becoming more and more a key strategic component of the order of business. If they don't harness it they are going to fall behind."

Mr Lim may be just the man to convince them. He is steeped in the future world of new technology. The holder of a Bachelor's Degree with honours in engineering, he worked with the Singapore Ministry of Defence before he threw himself into the fast-paced business of IT, working with a string of companies such as Sime Darby Singapore, Digital Equipment and Compaq before he joined SITA.

His mission is part of a global restructure of SITA, designed to transform it from a recognised leader in the field of communication networks to a company operating at the forefront of e-commerce.

Already focussing on delivering Internet Protocol (IP) networking and applications, desktop solutions, IT outsourcing and airport systems integration services, these key areas will be further developed. An announcement on a new operating structure, creating a separate commercial entity, SITA INC, is expected before the end of March.

Until now, SITA has not had a genuinely unified plan in the Internet arena, but it will soon announce a new Internet and e-commerce strategy. It has to build on the asset it has, the single end-to-end network, and lay on top of it more information services and applications with an Internet and e-commerce flavour, said Mr Lim..

"The underlying rationale must be that while we continue to grow our business and be successful in the network business, which is our crown jewel, there are a lot more opportunities in the desktop arena with desktop solutions and application services."

While continuing to pursue business across the entire region, he is targeting four major growth markets; Japan, South Korea, China and India.

With its large number of airlines and major airport developments, Mr Lim said China presented "tremendous opportunities". SITA signed a joint venture (JV) agreement in September with the Civil Aviation Administration of China (CAAC). "They are the ultimate partner you want. We basically want to go after the domestic business.

"In China, we are strategically well-positioned. We are doing well on the international front and I think the JV with CAAC will help us get a bigger piece of the entire air transport business in China."

Japan may be the second largest economy in the world, but is not the easiest market in which to do business, said Mr Lim. "It's got its own culture, it's own unique way of doing business and there are language and localisation issues. We have done well on the international front, but domestically we are fighting with entrenched competitors.

"I need to take a well considered position whether it should be the next priority after China. My strategy for Japan has to be very different from our businesses in other parts of the world, or even Asia.

"There are compelling reasons for us to get into joint ventures in Japan, using our technology and our industry know-how and the world-wide assets we have built up over the years as a selling point."

He believes SITA may also be able to tap into Japan's expertise in cutting edge technology.

Korea is also a huge market, he said. "Although we have a lot of people on the ground, on average we are only doing US$8-9 million out of Korean airlines. So if we put more effort in there I think the business could double or triple.

"I want to make sure we are not missing out in the Korean market. I'm not limiting it to airlines. There are immigration and freight forwarding opportunities. Korea exports a lot of products so the freight and forwarding industry is a big market."

He described India as a "latent" market with a lot of potential. Although it does have infrastructure problems, airports are in a hurry to upgrade and SITA believed these developments were in its favour.

Mr Lim sees openings to move into strategic partnerships with airlines to help them through the complexities of dealing with the electronic marketplace.

"I don't think we can fulfil all their requirements. But as far as possible we want to supply the majority of their needs so that SITA, at the end of the day, becomes a principal supplier and a strategic partner."

Mr Lim is determined to bring a new balance into SITA's business. It has about 165 customers in more than 40 countries in the region. But the top 35 customers contribute 80% of the revenue.

"To build a billion dollar company I cannot depend only on the top 35. As a company SITA must broaden its base, increase its depth of penetration in different market segments," he said.

SITA must have strong outsourcing and project management capabilities, said Mr Lim. "If we are going to be a key player in these two businesses, increasingly we have to be at least on the same level playing field as people like the IBMs or the ARINCS of the world. This is going to be very important. In the case of Asia-Pacific, I am in a hurry to build up these two competencies."

Mr Lim is determined to introduce new ways of doing business and this means innovation.

"SITA as a company ought to take the all important paradigm shift to recognise that while we maintain some of the traditional business models, we have to bring the newer ones in," he insisted.

E-xpansion in Asia

SITA may have big plans for the future, but it has already been flexing some serious e-commerce muscle around the Asia-Pacific, playing a key role in bringing Internet Protocol (IP) solutions to some of the region's major operators.

In late January, Qantas Airways and SITA announced that the airline's new US$60 million international telecommunications network was operational. The fully-managed network, called QIPNet, is based on advanced communications technologies connecting 1,280 workstations at 56 sites in 30 countries.

Qantas is not the only carrier well down the road of Internet efficiency with SITA. Its other activities in the region include:

- *Moving Cathay Pacific Airway's entire legacy system to IP within two years and introducing World Wide Web hosted services across the carrier's operations.*
- *Introducing similar IP access across Singapore Airlines' operations in a project to be concluded by August this year.*
- *Working with Qantas on a new baggage system designed to be ready for the 2000 Olympic Games. It will allow integration of baggage movements between airline, airport and hotels.*
- *SITA and Inflight ATI successfully completed a trial on board a Cathay Pacific B747-400 to enable airlines to validate, in real time, debit and credit card transactions during flights.*
- *It has a network outsourcing deal with the Asian airline-owned reservation system ABACUS under which SITA manages the network to provide service support for its 18 Asia-Pacific locations. It also is working with ABACUS to promote new technology that meets the CRS market.*

In January, SITA announced it is teaming up with U.S. aviation and aerospace industry supplier, AAR, to build a revolutionary electronic marketplace for the provision of products and services to the air transport industry.

The multiple application e-business solution will initially feature the auction-based supply of spare parts and is planned for launch in the middle of the year. The on-line marketplace will provide an Internet site enabling airlines, aviation/aerospace companies and other industry participants to source and buy and sell products and services instantly.

Among other features, the marketplace will facilitate seller auctions, reverse auctions, inventory listing services and a parts clearinghouse. Connecting the air transport industry through this e-business solution will create a more efficient, more informed and streamlined marketplace.

Testing times: Suzanna Darcy is type rated on all Boeing's production models

Suzanna has the right stuff

... but Boeing's crack test pilot is no Chuck Yeager lookalike

By Tom Ballantyne in Seattle

Suzanna Darcy looks out over the tarmac at Seattle's historic Boeing Field and says: "Every job has an image."

When the talk turns to test pilots, she suggests, what comes to mind is the Chuck Yeager type, a six foot, 200 pound hunk wearing cowboy boots.

She finds that more than amusing, which is hardly surprising. A diminutive 1.6 metres (five feet three inches) tall and tipping the scales at 60 kilograms (110 lbs), Ms Darcy could not be more different from the legendary Yeager, the first man to take an aircraft through the sound barrier.

But although she may not fit the mould, Ms Darcy definitely fits the bill. One of Boeing's top test pilots – currently the chief pilot on the U.S. planemaker's big twin, the B777 – she stresses she is not a woman pilot.

"I'm a pilot that happens to be a woman. Flying is not as subjective as a lot of other jobs. You can either fly or you can't and, in the end, the package doesn't matter."

Now 46, she has been with Boeing for 25 years, the last 15 of them as a test pilot. Like all the company's 35 flyers Ms Darcy is typed rated on every one of its production models.

Flying is all she has ever wanted to do since she was barely old enough to talk. "Seriously, I told my grandmother when I was three years old that I wanted to fly for a living."

Some might suggest that physically she has not grown much since. But in the world of experimental flying it hardly matters. "Our aeroplanes are made for someone 5 feet 1 or 2 inches up to 6ft 2 inches. I am well within that range. On the B777 we used someone 5 feet tall, who we borrowed from engineering, and a guy in our group, who is 6ft 3 inches, for the ergonomic work," said Ms Darcy.

"The whole flight deck was designed to be as comfortable for someone who is very small to someone very big."

You would never describe flight testing as mundane although the business has changed from the days of seat-of-the-pants flying, said Ms Darcy. "A test pilot is still required to be professional on the flight deck, but nowadays you also have to be professional at meetings. You have to be able to do it all."

Commercial aircraft test pilots have two specific areas of work. In experimental flying for initial certification they establish such things as stall speeds, take-off and landing performance and handling characteristics.

In production flying, the pilots test fly the 600 plus aircraft coming annually out of the factory for customers. Each plane undergoes three or four flights, or eight to 10 hours of production test flights, before delivery.

"They are two very different tasks, but we do go back and forth," explained Ms Darcy, who describes test pilots as "a bunch of perfectionists looking for perfection in an imperfect world".

The goal, she added, is "to find all the things that are not perfect before the aeroplane is delivered to the customer".

Pushing new and existing aircraft types to the edge of their performance envelope is all part of the job, as are development projects on new systems. As she chatted with *Orient Aviation*, Ms Darcy was preparing for a trip to Edwards Air Force Base with a test model of the B777-300, an aircraft for which Cathay Pacific Airways was the launch customer and which has been delivered to several Asian carriers.

She and her crew will be testing a supplementary electronic tail skid device which will automatically prevent the aircraft tail striking the runway by moving the nose down if the pilot over-rotates or rotates too slowly.

"We will be exploring new territory," explained Ms Darcy. The question which has to be answered is how much authority should such a device be given to over-ride a pilot's commands in the cockpit.

If successfully trialed, the electronic tail skid could become standard on the B777 and other Boeing types.

Does test flying still involve "hairy" moments? "I call them adrenalin hits," responded Ms Darcy. "That's where something takes you by surprise. I probably experience about one a year."

She believes test pilots are paid for more than being good flyers. "Like any job you can learn all the technical things, but there is an art to doing it. You have to put time as well as passion into the job to do it well and you have a whole bucket of experience you bring to the flight deck," said Ms Darcy.

"You know all the figures, you know what the aeroplane should do. But (if all is not well) you really do start off with something that doesn't feel right, doesn't smell right or doesn't sound right. Then you use that engineering thought process. And you think through which system it may be in. It's like being an investigator."

When there are gaps in the test programme the pilots have plenty of other job opportunities to keep them busy.

An airline selling a jet can hire a crew from Boeing to test fly the plane and display it to potential customers.

"We also re-fly fender benders," explained Ms Darcy. "If an airplane has been in an incident or an accident and you hire us to repair it for you, we will come and test fly the plane after it has been repaired."

She recalls one job involving a B737 that was "significantly" damaged. "It took a little excursion off the runway ... some days are like that. In fact there was $17 million worth of damage to a $35 million airplane. The airline wanted a new plane, but the insurance company said you have $18 million of new plane left so what's the problem.

"Our guys (Boeing technicians) fixed it. They said it would take them 28 days and it took them 28 days, working 24 hours in two shifts outside because there was no hangar space.

"The aircraft required two new engines, all new electronics, new leading edges, some new trailing edges, all new landing gear and a few other things. When we re-flew the airplane we had the original factory figures for all the testing and it flew as well, if not better, than it did out of the factory," said Ms Darcy.

'Hairy moments? I call them adrenalin hits ... I probably experience about one a year' – Capt. Suzanna Darcy

It's all in a days work for a Boeing company pilot whose only problem these days seems to be finding spare time to do the other things she loves, such as travelling on vacation and reading.

"We are big readers at our house and we've just bought a boat, although we are not sure if we should congratulate ourselves or shoot ourselves ... my husband (a family physician) has this vision of us camping ... and that's something we have not done in years," said the test pilot, briefly in family mode.

Pressure of the jet business has abbreviated Ms Darcy's light aircraft flying activities in recent times. She is, however, determined to get her float plane licence one day so she and her husband can hop up to the picturesque San Juan islands, about an hour north of Seattle, for dinner when the fancy takes them.

If she can find the time, getting that endorsement should not be anv problem for the crack Boeing test pilot.

Boeing acts on a tip from BBJ clients

With about 56 orders to date, more than double original projections, Boeing's Business Jet, the BBJ, has opened up a lucrative new niche for the big planemaker, writes Tom Ballantyne. Ironically, it also has sparked a study into whether the planemaker should offer winglets as an option on the single aisle B737 aircraft, the basic BBJ model.

It is ironic for two reasons. Firstly, the demand for winglets on the BBJ came from wealthy buyers who are far from expert in aerodynamics. Secondly, the people who build them are former Boeing employees who wanted to do winglets years ago, but the manufacturer said no.

Robert E. Sancewich, Boeing's marketing director commercial airplanes, said a full-scale study was conducted to determine if three metre long winglets were a viable option and what airlines would gain by fitting them on their B737s.

Today the winglets are an optional extra on the jet.

According to Mr Sancewich, the winglets have shown improved fuel consumption in cruise as well as assisting in take-off. "The pick-up in fuel consumption is between two percent and four percent, depending on what data you look at ... it could even be more than that."

The company has no doubts there are benefits, but for individual airlines it will depend on the type of flying their B737s do. On a short-haul flight, such as Singapore-Kuala Lumpur or Sydney-Melbourne, the extra weight will outweigh the gains in fuel consumption.

But for longer periods of cruise the savings will be significant.

Fred L. Kelley, BBJ spokesman, said customers asked for winglets and flight tests proved them to be right with over 5% improvement in efficiency.

"We did an endurance flight with a customer's 737. Our chief pilot and the customer's pilot flew the plane for more than 6,200 nautical miles," he said.

Improved year for HAESL

Hong Kong Aero Engine Services Limited (HAESL) handled around 175 engines in 1999, up from 146 the previous year, an increase of 20%. The engines were a combination of Trent 700, Trent 800, RB211-524, RB211-22B, and RB211-535s. At the end of the year it also received its first pair of V2500 engines, one of which has been completed for client South African Airways, writes Patrick Garrett.

The gains are certainly impressive. HAESL general manager commercial, Stephen Chu, puts it down to a combination of "bigger demand, more aggressive marketing and an improvement in our ability to take in more and still deliver".

In addition to local Hong Kong carriers Cathay Pacific Airways and Dragonair, HAESL clients include China Southern Airlines, Xiamen Airlines, China Yunnan Airlines, Xinjiang Airlines, Singapore Airlines, Malaysia Airlines, Thai Airways International, Garuda Indonesia, South African Airways, Emirates, Air Transat, Air New Zealand, Qantas Airways, Kitty Hawk, Royal Brunei Airlines, Air Atlanta Icelandic, International Air Lease, Orient Thai, Britannia Airways, Monarch Airlines, and Inter Lease.

"Our shop had been kept fairly busy all throughout 1999, with work coming in from customers in our designated territory as well as from Europe, the U.S. and Canada," said Mr Chu. "We worked closely with [Rolls-Royce overhaul] Derby to optimise utilisation of available capacity in the two shops.

"Business will continue to be looked at in a global context. Everybody is operating in a very competitive environment wherever they are located."

Commenting on the receding economic problems within Asia, Mr Chu said: "There are encouraging signs the worst is over, but it is likely the road to full recovery will be fairly lengthy and not without new challenges."

HAESL also performed work on the Trent for Cathay Pacific, Garuda, Malaysia Airlines and THAI.

After discussion with both Emirates Airline and Gulf Air, the former signed a contract in July last year for its Trent 700 and 800s. Nothing has yet been signed with Gulf.

HAESL continued machining casings for Qantas Airways' 524-Hs 03 module to allow for installation of Trent 04 modules. HAESL also is repairing two RB211-524 engines for the Australian flag carrier.

HAESL technicians inspect a Rolls-Royce Trent 800 engine in its Hong Kong test cell

A proposed joint marketing agreement discussed last year with Taiwanese carrier, EVA Air, for services on the V2500-D5 has not yet progressed. HAESL can handle the D5 modules, which are identical to those on the A5. However, It would have to use the proposed partner's test cell as a D5 does not fit the HAESL cell without alternative adapters.

Phase one (the finance sub-system) of a complete Enterprise Resource Planning (ERP) suite of systems from German software company, SAP, was implemented in mid-1999 at HAESL.

Company plans for an ISO 9000 certification have been delayed until sometime in 2001, but in the meantime it has embarked on a turn-time reduction project to improve productivity in the engine shop. HAESL says it also is looking at "business re-engineering" and evaluating Rolls-Royce "better performance faster" initiatives to see what works best in its organisation.

"Competition has been, and will remain, strong in the industry," said Mr Chu. "The MRO business [is being] given increasing attention because of the need for integration and reducing margins on sales of the engines."

GE expands in Malaysia

GE Engine Services consolidated its ties with Malaysia late last year when subsidiary GE On Wing Support, Inc., launched its operation in Subang.

Bill Vareschi, president of GE Engine Services, said the company's successful maintenance and overhaul joint venture with Malaysia Airlines, Aero '97, and Malaysia's growing aerospace industry were key factors in forming GE On Wing Support Malaysia Sdn Bhd.

GE also has an overhaul and repair Centre of Excellence in Kuala Lumpur along with similar centres in Xiamen, China and Singapore in Asia as part of its global network.

Its on-wing support network also has facilities in China and most recently opened in Seoul, Korea.

Initially, the Malaysian on-wing operation will work on CFM56, CF6-80C and Pratt & Whitney PW4000 engines, but plans also include support of GE's GE90-115B, the sole powerplant for Boeing's proposed 777X twinjet.

TRAFFIC GROWTH BLOSSOMS

After showing moderating results in September, the consolidated passenger traffic of the Association of Asia Pacific Airlines member carriers in October 1999 rebounded dramatically, reaching record revenue passenger kilometre (RPK) growth of 13%. This was the highest month-on-month growth rate since the 1997-98 crisis period. The number of passengers carried (PAX) was also impressive with an 11.2% increase. Capacity climbed 6.2%, resulting in a 71.9% load factor, up 4.4 percentage points.

The majority of AAPA member airlines performed exceptionally well with eight out of the 13 members reporting posting high growth rates.

Philippine Airlines (PR), which temporarily shut down in late September 1998 and only resumed international operations in the latter part of October that year, not surprisingly showed RPK and PAX growth at abnormally high levels. However, with significantly scaled-down operations, its actual RPK and PAX figures are still much lower than pre-crisis levels.

Sustained economic growth in Japan, Korea, Singapore and Thailand continue to fuel the increase in outbound travel. This was reflected in the double-digit growth of passenger traffic and the high load factors of Asiana Airlines (OZ), Korean Air (KE), All Nippon Airways (NH), Thai Airways International (TG), Japan Airlines (JL) and Singapore Airlines (SQ).

At the other extreme, Garuda Indonesia (GA), China Airlines (CI), Vietnam Airlines (VN) and EVA Air (BR) posted negative RPK growth. The continued socio-political unrest in Indonesia and the residual effects of the September 21 earthquake in Taiwan was still hobbling the travel industry in these countries.

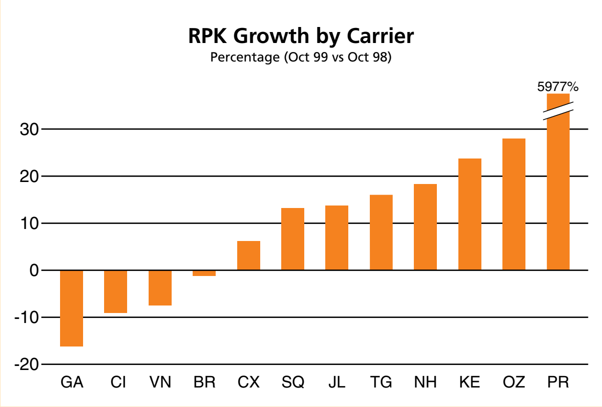
Philippine Airlines recorded a jump of 16.8 percentage points in passenger load factor (PLF), to 59.3%. Seven member airlines reported a PLF higher than 70%, led by Thai Airways International (76.7%) and Singapore Airlines (76.2%).

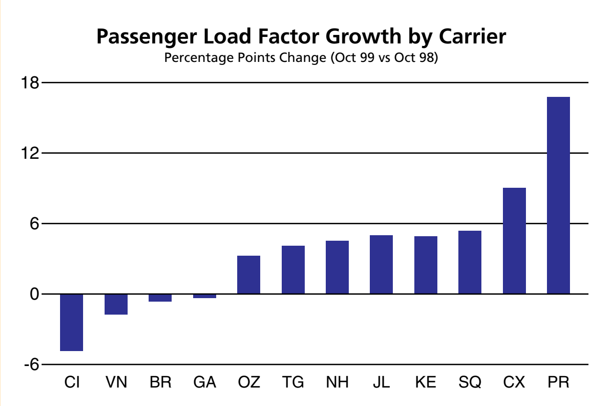
Cargo Results

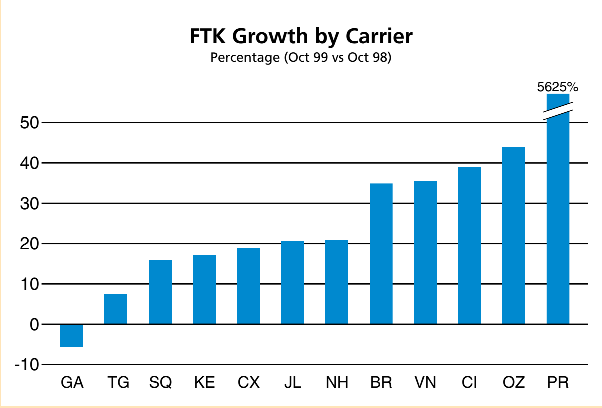
Mirroring the impressive performance in passenger traffic, freight also posted record traffic growth of 23.2% in October. Capacity grew at a slightly lower rate of 21.8%. This resulted in a 0.8 percentage point rise in load factor to 72.3%.

Another highlight in October was the freight tonne kilometre (FTK) level achieved by Korean Air, Singapore Airlines, Japan Airlines, Cathay Pacific Airways, China Airlines, EVA Air, Asiana Airlines, Thai Airways International and All Nippon Airways. The freight traffic of these airlines for October, the usual peak month for cargo business in the region, exceeded all recorded levels. Their growth rates ranged from 17% to 40.1%.

When compared with previous months' results, the majority of the member airlines' load factors showed a significant







improvement as freight traffic increased faster than capacity. Eight airlines posted a load factor of at least 72%, led by China Airlines (86.3%), EVA Air (82.5%) and Cathay Pacific Airways (76.6%). Despite a 5.7% contraction in FTKs, Garuda Indonesia posted the best improvement at 26.4 percentage points. Its load factor of 64% was the airline's highest since October 1991 when it reached 73%. Vietnam Airlines and Philippine Airlines, on the other hand, logged a load factor below 50%.

Results for the 12 Months to October 31, 1999

Passenger traffic for the period under review grew by 9.4% while the number of passengers carried rose by 10.1%. A moderate increase in capacity (2.6%) resulted in a 4.5 percentage point improvement in load factor to 72%.

Seven member airlines registered impressive RPK growth: Asiana Airlines (15%), Thai Airways International (14.9%), China Airlines (13.4%), Singapore Airlines (12.8%), Korean Airlines (12.3%), EVA Air (12%) and All Nippon Airways (11.3%). With the exception of Korean Air, Asiana Airlines and All Nippon Airways, the remaining five members listed above also registered significant increases in other passenger traffic measures.

The majority of AAPA members saw an increase in their load factor. Garuda Indonesia recorded the highest increase, at 14.8 percentage points, which was backed by a 27% reduction in capacity. Ten members posted a load factor of 70% or higher. Asiana Airlines and Vietnam Airlines reported the two highest PLF at 76.6% and 75.5% respectively. Philippine Airlines (63%) and All Nippon Airways (66.9%) logged the two lowest load factors.

Cargo Results

Freight traffic in the 12 months to October 31 rose by 10.4% while capacity increased at a more moderate pace of 9.7%. This resulted in a 0.5 percentage point improvement in load factor to 68.9%.

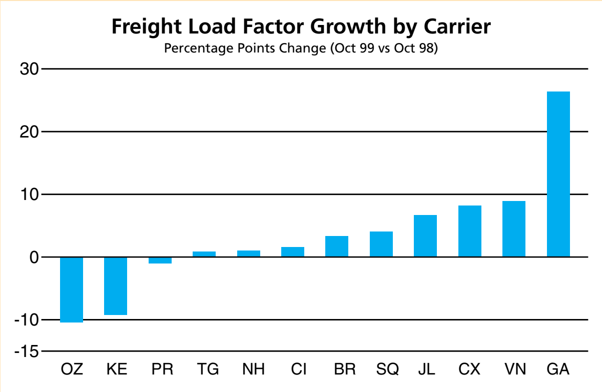
Except for Philippine Airlines and Garuda Indonesia, whose freight traffic declined by a staggering 42.9% and 28.2% respectively, all member airlines reported positive growth in this period. Six member airlines enjoyed exceptionally high FTK growth: EVA Air (23.6%), Asiana Airlines (21.7%), All Nippon Airways (17.9%), China Airlines (12.1%), Singapore Airlines (12%) and Cathay Pacific Airways (10.7%). Besides Singapore Airlines and Cathay Pacific Airways, Thai Airways International also posted across-the-board growth in all passenger traffic measures.

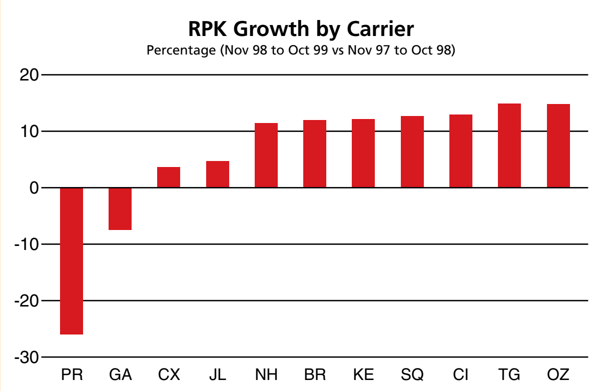
The majority of the AAPA members reported a deteriorating freight load factor due to a greater increase in capacity than in demand. Four member airlines registered a FLF better than 70%: China Airlines (83.5%), EVA Air (78.2%), Korean Air (76.5%) and Asiana Airlines (75.3%).

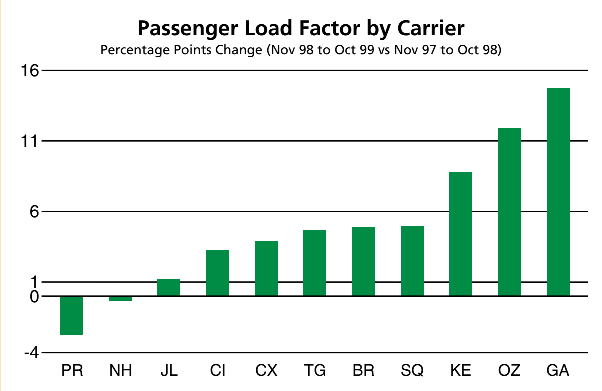
Summary

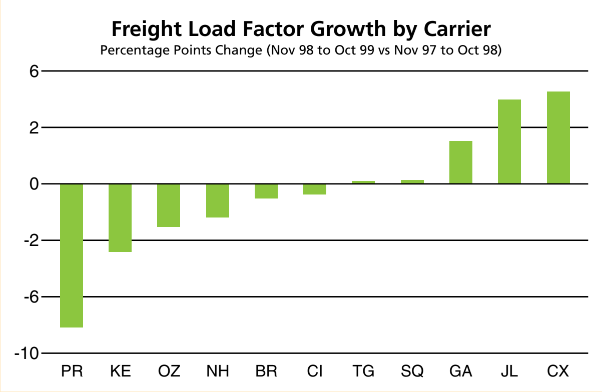
Based on October's figures, it is apparent that the aviation industry has belied predictions of a slow recovery. October posted record level figures, especially in freight traffic, which continued the positive trend observed in the previous months. Likewise, consolidated results for the 12-month period in both passenger and cargo traffic were expectedly impressive given that the comparison is being made between the pre-crisis and post-crisis periods.

Although some member airlines have yet to reach pre-crisis traffic levels, there remains no doubt about the portent.

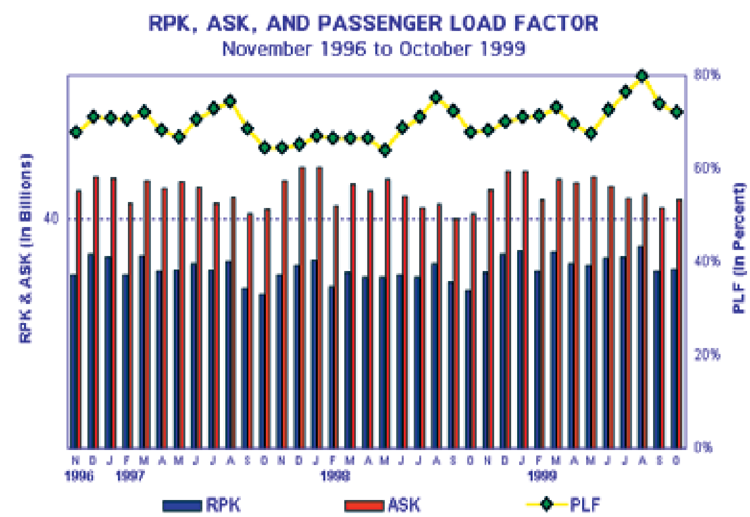


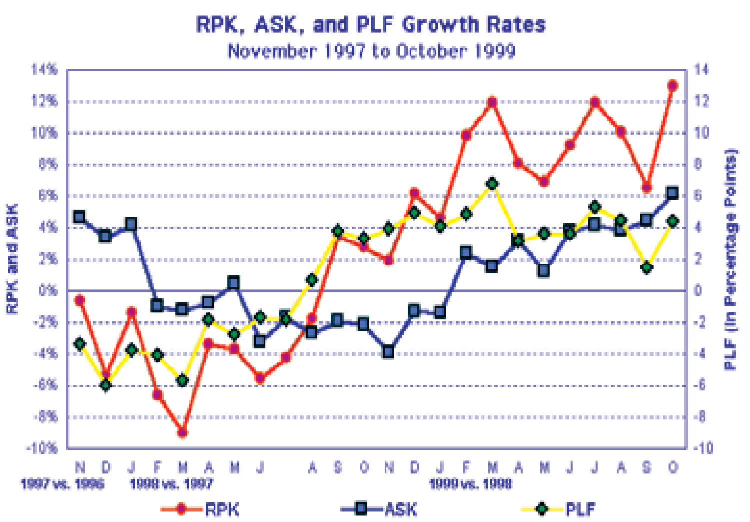




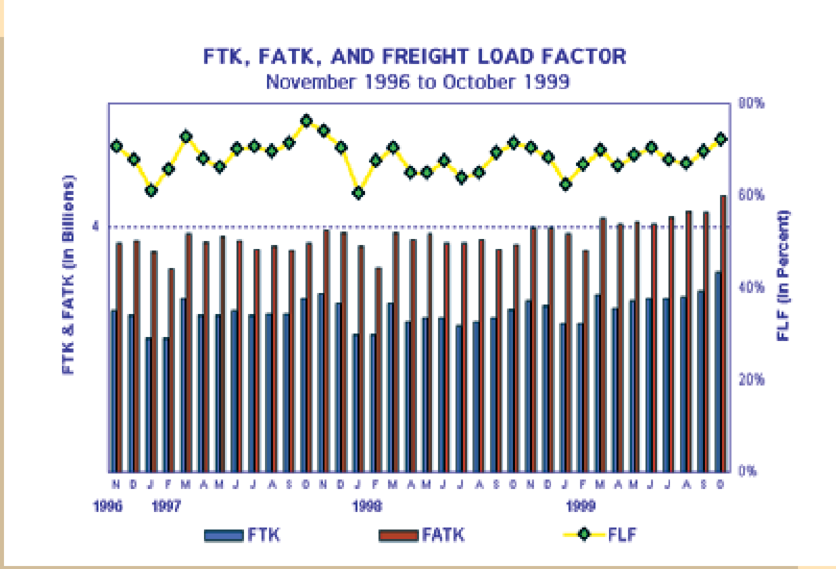


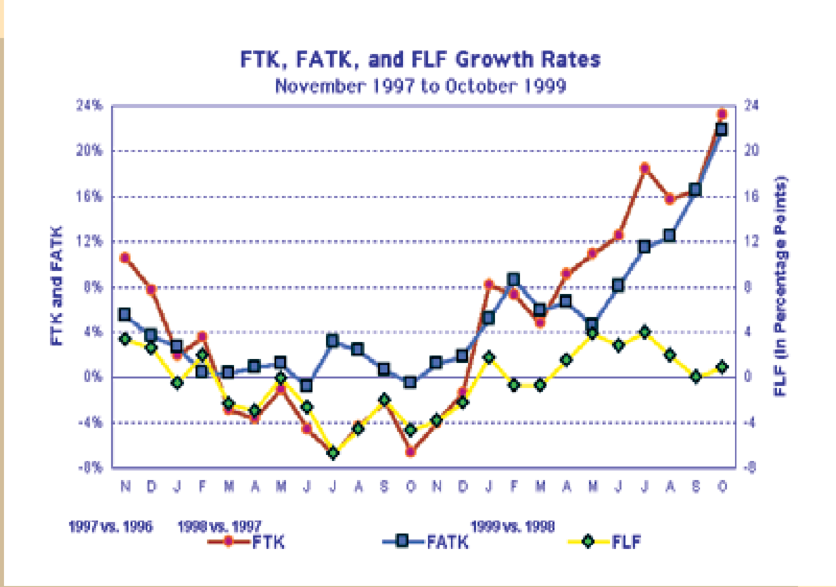
Monthly international PAX statistics of AAPA members





Monthly international cargo statistics of AAPA members





AAPA monthly international statistics (MIS)

*IN THOUSANDS

		RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK	PAX
1999 to 1998	OCT-99	31,175,644	43,334,337	71.94	3,259,228	4,509,502	72.27	6,182,021	8,497,363	7,295
	SEP-99	30,826,538	41,816,612	73.72	2,933,674	4,219,790	69.52	5,825,260	8,070,099	7,076
	AUG-99	35,194,712	44,200,406	79.63	2,835,640	4,237,149	66.92	6,118,377	8,313,201	8,172
	JUL-99	33,306,052	43,611,994	76.37	2,816,925	4,156,936	67.76	5,914,619	8,183,895	7,819
	JUN-99	33,057,236	45,627,007	72.45	2,829,103	4,024,718	70.29	5,902,079	8,222,369	7,522
	MAY-99	31,960,045	47,348,342	67.50	2,793,281	4,065,038	68.71	5,773,053	8,413,688	7,330
	APR-99	32,155,728	46,297,805	69.45	2,677,524	4,023,679	66.54	5,669,420	8,268,167	7,426
	MAR-99	34,227,332	46,818,276	73.11	2,877,111	4,122,554	69.79	6,047,421	8,426,876	7,763
	FEB-99	30,893,703	43,302,725	71.34	2,414,267	3,610,183	66.87	5,261,692	7,574,648	7,191
	JAN-99	34,284,350	48,281,164	71.01	2,413,981	3,871,605	62.35	5,575,361	8,311,763	7,481
	DEC-98	33,805,220	48,273,612	70.03	2,711,950	3,970,275	68.31	5,819,042	8,372,488	7,700
	NOV-98	30,676,873	44,922,845	68.29	2,792,604	3,971,937	70.31	5,615,258	8,073,025	7,056
	TOTAL	391,563,433	543,835,124	72.00	33,355,288	48,783,366	68.37	69,703,603	98,727,582	89,831
1998 to 1997	OCT-98	27,586,522	40,822,105	67.58	2,644,917	3,702,176	71.44	5,184,429	7,461,543	6,561
	SEP-98	28,932,189	40,033,009	72.27	2,516,228	3,622,028	69.47	5,195,046	7,344,604	6,558
	AUG-98	31,983,275	42,567,064	75.14	2,449,649	3,769,563	64.98	5,405,716	7,675,693	7,461
	JUL-98	29,763,469	41,885,162	71.06	2,378,607	3,729,019	63.79	5,129,145	7,570,262	6,904
	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
	DEC-97	31,844,853	48,894,782	65.13	2,748,860	3,899,399	70.49	5,699,407	8,348,642	7,314
	NOV-97	30,106,948	46,749,317	64.40	2,911,044	3,926,032	74.15	5,703,346	8,183,173	6,949
	TOTAL	361,597,393	533,924,774	67.72	30,360,302	44,928,793	67.57	63,813,502	93,796,880	82,718
1997 to 1996	OCT-97	26,834,051	41,727,675	64.31	2,832,822	3,722,489	76.10	5,325,555	7,529,453	6,459
	SEP-97	27,969,457	40,829,573	68.50	2,569,189	3,596,058	71.44	5,170,215	7,312,962	6,460
	AUG-97	32,565,007	43,735,913	74.46	2,562,241	3,681,754	69.59	5,578,402	7,661,961	7,550
	JUL-97	31,066,431	42,605,854	72.92	2,550,902	3,616,972	70.53	5,425,668	7,493,850	7,233
	JUN-97	32,040,636	45,425,520	70.53	2,633,630	3,757,756	70.09	5,603,114	7,883,779	7,250
	MAY-97	31,037,075	46,559,497	66.66	2,546,410	3,838,451	66.34	5,431,046	8,071,740	7,100
	APR-97	30,807,978	45,219,804	68.13	2,544,608	3,739,549	68.05	5,404,919	7,847,301	7,313
	MAR-97	33,599,094	46,670,864	71.99	2,825,859	3,879,309	72.84	5,959,385	8,115,181	7,762
	FEB-97	30,135,591	42,696,237	70.58	2,172,416	3,309,918	65.63	4,973,106	7,193,963	7,195
	JAN-97	33,232,107	47,001,275	70.70	2,188,475	3,581,885	61.10	5,289,208	7,859,914	7,406
	DEC-96	33,650,024	47,298,022	71.14	2,551,798	3,759,715	67.87	5,695,782	8,060,632	7,867
	NOV-96	30,285,351	44,699,284	67.75	2,633,045	3,720,108	70.78	5,462,729	7,788,413	7,138
	TOTAL	373,222,802	534,469,518	69.83	30,611,395	44,203,963	69.25	65,319,129	92,819,149	86,733

Percentage point change

		RPK	ASK	PLF	FTK	FATK	FLF	RTK	ATK	PAX
Nov 99 to Oct 99	OCT-99	13.01	6.15	4.36	23.23	21.81	0.83	19.24	13.88	11.19
	SEP-99	6.55	4.46	1.45	16.59	16.50	0.05	12.13	9.88	7.89
	AUG-99	10.04	3.84	4.49	15.76	12.40	1.94	13.18	8.31	9.53
	JUL-99	11.90	4.12	5.31	18.43	11.48	3.98	15.31	8.11	13.25
	JUN-99	9.23	3.77	3.62	12.51	8.00	2.82	11.09	6.34	10.70
	MAY-99	6.95	1.20	3.63	10.90	4.66	3.87	9.46	3.22	8.74
	APR-99	8.07	3.15	3.16	9.13	6.68	1.49	8.77	4.89	7.79
	MAR-99	11.94	1.53	6.80	4.85	5.90	-0.70	8.43	4.11	11.47
	FEB-99	9.82	2.42	4.81	7.36	8.58	-0.76	8.46	5.31	10.82
	JAN-99	4.62	-1.35	4.05	8.19	5.19	1.72	5.81	1.86	5.49
	DEC-98	6.16	-1.27	4.90	-1.34	1.82	-2.19	2.10	0.29	5.27
	NOV-98	1.89	-3.91	3.89	-4.07	1.17	-3.84	-1.54	-1.35	1.53
Nov 97 to Oct 98	OCT-98	2.80	-2.17	3.27	-6.63	-0.55	-4.66	-2.65	-0.90	1.57
	SEP-98	3.44	-1.95	3.77	-2.06	0.72	-1.97	0.48	0.43	1.52
	AUG-98	-1.79	-2.67	0.68	-4.39	2.38	-4.61	-3.10	0.18	-1.17
	JUL-98	-4.19	-1.69	-1.86	-6.75	3.10	-6.74	-5.47	1.02	-4.55
	JUN-98	-5.55	-3.21	-1.70	-4.52	-0.83	-2.61	-5.18	-1.92	-6.28
	MAY-98	-3.72	0.49	-2.79	-1.08	1.19	-1.49	-2.89	0.99	-5.05
	APR-98	-3.42	-0.74	-1.83	-3.58	0.86	-3.00	-3.56	0.45	-5.79
	MAR-98	-9.00	-1.20	-5.68	-2.90	0.35	-2.36	-6.41	-0.26	-10.28
	FEB-98	-6.65	-0.97	-4.05	3.52	0.45	2.00	-2.45	-0.01	-9.81
	JAN-98	-1.39	4.13	-3.75	1.96	2.75	-0.47	-0.38	3.82	-4.24
	DEC-97	-5.36	3.38	-6.02	7.72	3.72	2.62	0.06	3.57	-7.03
	NOV-97	-0.59	4.59	-3.35	10.56	5.54	3.37	4.40	5.07	-2.64

CAAC MUST UNSHACKLE ITS AIRLINES

TURBULENCE

By Tom Ballantyne

Now they have had a month to recover from the strains of entering the Year of the Golden Dragon the powers that be at the Civil Aviation Administration of China (CAAC) might well pause to reflect on future policy.

There is evidence the country's airline industry is growing increasingly edgy over the artificial constraints imposed by Beijing on its ability to expand and implement the sort of measures more commercially orientated counterparts in the rest of the world have at their disposal.

A number of issues need to be addressed, not least the continuing limits on fleet growth and a rather naive approach to air ticket discounting, which is placing a straightjacket on airline management's ability to be flexible in the marketplace.

Growth in the China market has been nothing short of remarkable in the past decade and the word seeping through from the mainland is an even more incredible boom may not be far away.

Some effort is being placed on developing regional airline networks and as that progresses it will spark a flow on to major trunk and international routes. Impending entry into the World Trade Organisation (WTO) makes a change of policy course imperative.

Writing in the *China Business Times*, economist Hu Angang, of the National Research Centre of Qinghua University in Beijing, suggested sweeping reforms are required to make the mainland's aviation industry internationally competitive. Mr Hu is regarded as something of a maverick, although the concept of sweeping reform is hardly alien to the CAAC.

It has been advocating airline mergers and radical change for some time now. The problem is reform appears to consist mainly of measures which are defeating the very goal they are supposed to encourage; efficient airline management and commercial returns.

Economist Hu thinks the People's Liberation Army must give up control of most of the country's skies. That makes sense.

He contends the market is over-regulated, with interference by the CAAC in management, financing and operations of airlines, not to mention appointments of senior executives. This all results in low efficiency and underutilisation of aircraft and equipment and poor competitiveness of mainland airlines in international markets, he says. He is right.

"Aviation is one of the few industries which retains the mixture of government and business and the features of the planned economy, with heavy military involvement and an over-manned bureaucratic organisation out of step with the needs of a modern economy," wrote Mr Hu.

The CAAC may point to a measure of success under its policy. Last year, the mainland's aviation industry posted a combined small profit of US$96 million following losses of US$294.3 million in 1998.

But although it had been growing at an annual 19% since 1979, the income of China's airlines accounted for only 2.8% of the global industry and less than the income of countries such as South Korea, the Netherlands, Singapore and Australia.

Also, while industry costs in the rest of the world fell during the 1990s in China they have risen.

That will not change until international and domestic operators are allowed the freedom to lift capacity and push revenue along.

CAAC minister, Liu Jianfeng, said his agency's "top topic" in 2000 is to make full use of existing planes instead of buying new ones. Airlines can purchase jets to replace old aircraft, but their overall capacity must remain the same.

No new capacity, yet a record 4.3 million Chinese took private trips outside the mainland last year, a staggering 52.2% increase over 1998. More than 1.93 million people, mostly tourists, travelled overseas, a rise of 60%.

While 1.32 million of these travellers went to Hong Kong and Macau, some 2.88 million journeyed to foreign countries. Mainland Chinese can now travel as tourists to 11 Asian nations and Australia and New Zealand.

Mr Liu said airlines operating international flights should spare no efforts to improve service and management to compete with their international counterparts. They can't do that with existing restrictions.

If mainland carriers are not allowed to pick up the slack and build for expansion the benefits of growth will be garnered by foreign operators.

Domestically, limiting ticket discounting is a barrier to growth. Air fares in China have risen by more than 20% annually since 1994. They are already high by world standards.

The CAAC says a pre-condition for discounting is the existence of a sound and well-ordered aviation market. While an "open slather" approach may be inadvisable, carriers need more commercial freedom. There is a risk that unless they get it a solid marketplace will be a long time coming.

Economist Hu wants the separation of government and airlines so carriers can operate as commercial companies. He said the domestic market should be opened up, with an end to carriers having monopolies on routes. They should be auctioned to the highest bidder, he believes. Again, that makes sense.

And if Beijing wants its international operators to be a powerful and meaningful force in global aviation it needs to push along its merger policy.

But no one at the CAAC seems to think much will happen this year, which is a pity.

Over the past few years the CAAC has done extensive work, quite successfully, on upgrading radar and air traffic control systems, modernising airports and lifting levels of safety to new heights.

All of that is continuing, but it is time to untie at least some of the shackles which are holding back the industry and to allow airlines to stand up and be counted on the world stage.