VOL. 7 NO. 4 FEBRUARY 2000

Orient aviation

MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

25 years after the Fall of Saigon...

Equity deals put alliances to the test

Japan paying price for high airport fees

The Man Who Bombed the President's Palace

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Orient aviation

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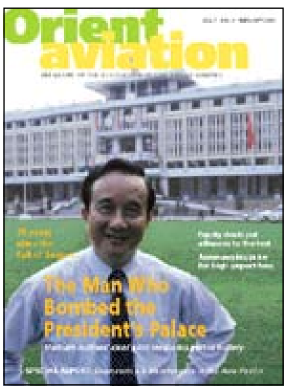

Vietnam Airlines' chief pilot Capt. Nguyen Thanh Trung outside the former palace in Ho Chi Minh City which he bombed in 1975

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NEWS

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INFLIGHT ASIA

A 16-page pull-out dedicated to onboard services and technology. In this issue: Sex on planes. Is it the latest cabin management issue? Vietnam Airlines new uniforms; the people's choice; Airline doctor calls for full time flying nurses; Asia-Pacific readies for its first IFCA president; Network: industry news.

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JAPAN SERIOUSLY OUT OF STEP

For years the airline industry has been complaining about the extortionate charges at Japan's airports. Narita and Kansai charge three times more than the world average. Even class two airports, Fukuoka and Nagoya, are more expensive than any other airport outside Japan.

The airlines, international and local, in Japan the International Air Transport Association and the Association of Asia Pacific Airlines have been beating, and are continuing to beat, on the door of the Ministry of Transport for a more realistic approach to pricing.

But apart from a little bit here, a little bit there, it has fallen on deaf ears.

In the past the airlines have been able to ride the wave of escalating fees thanks to generally higher air fares in Japan, and a fair degree of government protection. But no more. Today, it's a free market.

Ticket prices have plummeted. And recovery is not a word readily on the lips of people in Japan when referring to the Asian economic recession, although elsewhere in the region it is almost history.

Yet through all this airport charges have stayed unhealthily high.

Well, the chickens may be coming home to roost. The Foreign Airlines Association of Japan (FAAJ) report an average of 100 flights a week have disappeared from flight schedules in the last year.

The FAAJ claims that any concessions made by the regulatory authorities have favoured the local airlines. The local carriers do not disagree, but point to a crippling fuel tax they must pay that is not applicable to overseas airlines. But, all in all, they stand united.

There are disturbing views aired by overseas and local airlines alike. Basically, they believe the MoT cares little about transport as long as the trains run on time. Great!

Jobs for the boys (retired civil servants) with airport building companies, the airlines claim and approval of unnecessary white elephant projects may be good for the aforementioned companies, but are bad news for the carriers who have to pay for them.

But the pressure is mounting on the government to tackle the problem. More co-operation, more transparency and more modern thinking is required by the MoT and its airport authorities. The warning signs are there. Japan cannot afford to be out of step any longer.

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TOUGH: Korean Air (KAL) made company history in January when it appointed Harry Greenberg as its first non-Korean executive vice-president and chief operating officer of flight operations, safety and security divisions. Mr Greenberg spent 28 of his 35-year aviation career at Delta Air Lines in the U.S. where he was vice-president of flight operations before he retired.

In 1999, he worked as a consultant for KAL as it began to implement its revamping of flight, safety and security operations, including the new US$30 million flight training programme with Seattle-based FlightSafety Boeing and the honing of the airline's fleet to four aircraft types.

"Korean Air is an excellent company with dedicated people, but sometimes during the life of a company it is necessary to achieve a new focus. I am here [Korean Air] to help establish that focus," he said.

KAL has had a series of high profile accidents and incidents in recent years which has led to the government imposing tough sanctions on the airline. These have included stripping KAL of lucrative domestic and regional routes.

In the most recent accident a B747-200 freighter crashed shortly after take-off from Stansted Airport in the UK in December, killing all four crew on board.

Mr Greenberg will be busy.

WOOING: Australian states Queensland and Victoria have gone out of their individual ways to convince Sir Richard Branson he should set up the headquarters of his planned no-frills Australian airline within their borders. Queensland has offered a cut in payroll tax, relocation costs and staff training programmes and incentives.

Not to be outdone, Victoria is reported to have promised to build Sir Richard a new terminal that the airline would have to share with another no-frills start-up, also planned for 2000.

Virgin Australia is planning to invest US$33 million (A$50milllion) and create more than 500 jobs when it decides where to base its Australian headquarters, airline operations and reservations call centre. A location decision is imminent. Meanwhile, the newly knighted Sir Richard has been busy elsewhere. In India he is about to bring much-needed comfort to the sub-continent's London bound travellers when Virgin begins three services a week on the Delhi-London run with Air India. Pushed by the national government, Air India has agreed to code-share with Virgin on the service because the Indian flag carrier only has enough planes to use 10 of the 16 authorised slots on the service. The Virgin boss announced the three times a week round trip with a blowing – literally – of his trumpet in the country's capital in January.

TRANS TASMAN VIRGIN: The UK operator's domestic foray may not stop at Australia's borders. Virgin officials have confirmed privately to *Orient Aviation* that talks are taking place with New Zealand airports with a view to launching trans-Tasman services.

Described as "preliminary" discussions, such a move would add to the pain of Virgin's arrival, bringing new heights of competition to what are already hard fought routes between Australian and New Zealand cities.

Harry Greenberg has been appointed as Korean Air's first non-Korean executive vice-president and chief operating officer of flight operations, safety and security divisions

Meanwhile, airline executives at Virgin Atlantic are becoming sensitive about the coverage of the Australian venture. They are keen to point out it is under that umbrella of Virgin Express and not the international arm of the airline.

YES TO THE 3XX: Airbus Industrie might be right after all, it seems. When he was asked at an industry lunch in Hong Kong about his airline's view of the Very Large Transport aircraft, Hong Kong-based Cathay Pacific Airways CEO, David Turnbull, jocularly said: "Well, we have two full planes leaving here for London tonight within 30 minutes of each other and we could shove (pause) ... hmm, PUT them all on one plane. Yes, we are interested in the A3XX." But beyond that Mr Turnbull was playing his cards pretty close to his chest.

WATCH THIS SPACE: In the early 1990s Vietnam was flavour of the month, tourists and businessmen were flooding into the country and the national carrier, Vietnam Airlines (VN), could do no wrong. Its revenue and load factors had been spiralling upwards at an enviable rate.

But then the country and the airline went into economic decline. But last year, after several years of losses, VN was back in the black, albeit helped by government tax breaks.

It is now looking to add five aircraft to its fleet, B777s or A340s are the options.

Oh yes, and expect changes at the top before the end of 2000, insiders told *Orient Aviation*.

BENEATH CONTEMPT: A top-ranking security investigator in Thailand has claimed that corrupt customs officers are in the pay of a Golden Triangle drugs lord.

The allegations state the drug barons tell customs officers the names of couriers or naïve travellers who are carrying small to medium amounts of illegal drugs for them. The customs officers home in on them at Bangkok International Airport where they are arrested.

The purpose? To convince foreign nations that the anti-drugs campaign is working. Meanwhile, said the investigator, huge quantities of drugs are smuggled out of the country in cargo holds.

OUTSPOKEN: Only weeks into the job, new China Eastern Airlines (CEA) chairman, Li Zhongming, lost no time in speaking to the *Shanghai Daily* where he announced the first round of talks on the mergers of the three score plus mainland airlines into ten operators will take place in February. Until his promotion, Mr. Li was president of the Shanghai-based airline. He named Shen Zejiang as president and Xiao Liyuan, Zhiong Xiong and Wu Yulin as vice-presidents. Cao Jianxiong, CEA's former chief financial officer, resigned at the time of the December management revamp.

OVER AND OUT: Top Ansett Australia executive, Ron Rosalky, has been dispatched to the carrier's regional subsidiary, Kendell Airlines, where he has replaced the former Kendell CEO, Geoff Breust. Ansett also replaced the senior pilot management team at the NSW carrier and has brought in six Ansett Australia captains to oversee the checking and training responsibilities required as the airline introduces Bombardier's Canadair jets into the fleet.

REGIONAL ROUND-UP

MAS winging it? Airline admits alliance talks as losses mount

IN A statement to the Kuala Lumpur Stock Exchange on January 18, Malaysia Air lines Systems (MAS) revealed it was in talks to join a global alliance to help it compete better with its regional rivals.

The MAS statement said the Kuala Lumpur headquartered carrier was now discussing with several parties the possibility of joining a global alliance, widely tipped at this stage to be the proposed partnership of KLM Royal Dutch Airlines, Northwest Airlines and Alitalia.

MAS's announcement represents an about turn on the airline's past stance of going it alone. It is believed to be influenced by the continuing losses at the airline, its large debt and the harsh reality of competing with regional rivals that already have joined the oneworld or Star alliances or have code-shares with the global groups.

The carrier has more than a dozen code-shares including Star Alliance member, Ansett Australia, and Virgin Atlantic Airways, now 49% owned by MAS arch rival, Singapore Airlines.

Last November, MAS chairman Tajudin Ramli, said he expected the airline to reverse losses of US$159 million in 1998-99. But the airline has announced a larger than expected loss of US$116.6 million for the six months to September 30. Efforts to stem the losses have included cessation of 14 domestic services which have been long-term loss-makers.

A report by news agency Reuters said a KLM spokesman commented the European airline was committed to its commercial relationship with MAS and added KLM was "aware" of speculation that it also could be buying a stake in MAS. The airline denied any plans for a foreign buy in (see cover story).

Cathay Pacific on fast track expansion

CATHAY Pacific Airways' chief executive, David Turnbull, told guests at an industry lunch in Hong Kong the airline will revive a plan, shelved in 1997, to double the carrier's passenger traffic to 20 million by expanding to new routes and stepping up the frequency of services to established destinations.

Mr Turnbull, also the vice-chairman of the airline, said the carrier's yields fell 30% during 1997 and 1998. "Yields have not yet picked up," he told the 100-strong audience at the China (Hong Kong) International Aerospace Forum luncheon, "and to be honest, I don't think they ever will."

Cathay Pacific Airways: to order more aircraft this year

Citing improved cash flow and lowering of debt, he said Cathay now intended to expand frequency to all its Asian destinations, dispatching flights every two to three hours and flying to every one of its markets outside the region up to twice daily. New cities being considered for Cathay services are Tehran, Riyadh, Cairo, Pakistan and additional cities in the United Arab Emirates.

The airline's management is now looking at the Airbus A340-500/600 and the B777X as it weighs a decision to place a large order for long-haul planes this year. "If Airbus Industrie does build the A3XX, we certainly could be a customer," he added.

Lucio Tan buys up PAL creditor bank

PHILIPPINE Airlines' (PAL) chairman, Lucio Tan, said PAL would soon fly to Sydney, Seattle, Frankfurt and cities in Canada and the Middle East. Since the near meltdown of PAL last year, the flag carrier, in which Mr Tan has a controlling share, cut back its services outside the region to Riyadh, Dahrahn, San Francisco, Los Angeles and Hawaii.

Meanwhile, Mr Tan, a fabled donor to the political coffers of Philippines president, Joseph Estrada, continues to attract controversy after it was revealed he will be the buyer of the 30% stake in the Philippine National Bank (PNB) that will be put up for sale by the national government in April. Mr Tan already owns 50% of PNB, which has a loan of US$80 million out to PAL and Mr Tan.

Cap to stay on mainland capacity

ANNOUNCEMENTS of mainland mergers, initially planned for 1999, and continuing capacity caps on all the major carriers will be the hallmarks of the first quarter of aviation in China, the Civil Aviation Administration of China (CAAC), the mainland's aviation regulator, said in January.

There was much comment and speculation about mergers among China's 30 plus airlines in 1999 with all but a handful making heavy losses. Changes were promised by the end of the year by the CAAC, but *Orient Aviation* in November told readers not to hold their breath.

Firstly, the mergers proved unpopular with the airlines and rumours circulated of heated closed door disputes. Secondly, as the financial position of China's major carriers improved during the year observers said the pressure was off the CAAC to push through its reforms. Year-end came with a deafening silence. But streamlining of the mainland airlines is a question of when rather than if. The big question is when and who?

As a marker for the industry, China Southern Airlines (CSA) company secretary, Li Yongzhen said: "There has not been a strong rebound in passenger traffic despite the easing Asian financial crisis. CSA's load factor is just above 60 per cent, compared to 65.3% in 1997 and 78% in 1994-95.

Hainan borrows to buy commuter jets

HAINAN Airlines' chief Chen Feng must have good contacts in Beijing's corridors of power. He is one of China's most successful and charismatic entrepreneurs. He talks big and backs his words with action. The Hainan boss, based in the southernmost part of China, known as the Hawaii of the East, has obtained a domestic loan of US$132.9 million from the Agriculture Bank of China to pay for 10 of the 19 Fairchild Aerospace 328 jets the airline ordered last year. The new commuter fleet, purchased for approximately US$226 million, is to be used by Hainan to ensure it grabs the majority share of the developing feeder airline market on the mainland. The airline also has options on 20 more airplanes, which will take the value of the entire deal to US$464 million.

Hainan took delivery of its first 32-seat Fairchild 328 Jet, powered by two P&W Canada PW306B turbo fans, from the manufacturer in Germany on November 3. The aircraft has a range of 900 nautical miles.

It was only in the early 1990s that Mr Chen, charged by the mayor of the province with forming an airline, toured Hainan looking for investors and had to explain to people the meaning of the word 'stock'. Initially he was not impressed. "I told them I was not talking about paper aeroplanes," he once told *Orient Aviation*.

Today, he has a profitable airline and significant interests in airports and hotels.

No new Taiwan deal for the Philippines

THE Taiwanese and Philippines governments still cannot resolve the dispute over air rights that has produced the cancellation of the air service agreement between the two countries. In the latest bout, Civil Aeronautical Administration director, Chang Yu Heng, said Philippine Airlines' (PAL) application to operate a daily Manila-Taipei-Manila service has been rejected.

He said the route will only be approved if the Philippines' Civil Aeronautical Board "grants designated Taiwanese carriers all traffic rights", a condition that PAL repeatedly says it can't meet.

"We fully realise that meeting this demand will have an adverse effect on the national interest," said PAL president Avelino L. Zapanta. "If you give sixth freedom rights to Taiwanese carriers you can kiss your national flag carrier goodbye. It's a fact."

The row between the two countries centres on PAL's objections to the Taiwanese carriers picking up traffic in the Philippines and routing it through Taiwan to the U.S. PAL claims it is an abuse of the 1996 agreement while the Taiwanese carriers assert what they did and want to continue to do, is a proper application of their sixth freedom rights under the treaty.

On October 1 last year, the Philippines Government cancelled regular scheduled flights to and from Taiwan. The Philippines Government sought, but failed, to reach a negotiated settlement with the Taiwanese bureaucrats and the bilateral agreement between the two countries was cancelled. The final links between the airlines' operations in Taiwan and the Philippines closed down on December 31. Since then, PAL has been particularly hurt by the ongoing dispute as the Manila-Taipei route made money for the struggling national flag carrier.

China Airlines equity sale delayed again

THE proposed sale of 35% of China Airlines, planned to take place in December, has been delayed until at least the end of February. The state-run *Central News Agency* said the decision was made because the current price of China Airlines (CAL) shares was too low. CAL is 71% owned by the quasi government organisation, the China Aviation Development Foundation (CADF).

In the last 18 months, the CADF has been trying to reduce its holding in CAL, but with no success. A year ago, Singapore Airlines (SIA) formally withdrew from its plan to buy a large stake in the carrier, reportedly because of conflicts over management control.

In June last year, brokers Salomon, Smith Barney were given six months to find another buyer. CAL president, Sandy K. Y. Liu, told *Orient Aviation* there are a number of airlines in 'the frame'. Insiders say they don't believe a firm prospective buyer, yet to be identified, will come from within the region.

Cambodia gambles on open skies to woo tourists

CAMBODIA has announced an open skies policy to lure more international airlines to launch services designed to bring more tourists to the country's famed temples.

One carrier, Vietnam Airlines, has already taken advantage of the new deal, launching flights from Ho Chi Minh City in southern Vietnam to Siem Reap in northern Cambodia, which is near the site of the Angkor Wat temples.

Tourists previously had to fly through the Cambodian capital, Phnom Penh, or via Bangkok to reach Angkor, the stone ruins of an abandoned 12th century royal city.

But the move has failed to win universal support from local tour operators and the nation's national flag carrier, Royal Air Cambodge. The airline fears heightened competition will hurt its revenue.

Tourism officials believe visitors will be encouraged to fly direct to Siem Reap, hurting the tourism business in Phnom Penh.

Cambodian Prime Minister Hun Sen announced the new policy in December, saying regional airlines will be allowed to fly direct to Siem Reap. A government official said carriers from such places as Taiwan, Hong Kong, Malaysia, Singapore, Thailand, Vietnam and Indonesia are now free to launch flights.

Thailand's Bangkok Airways is currently the only foreign carrier serving Siem Reap.

The upgrading of Siem Reap airport to handle larger aircraft is due for completion in March. More than 184,000 visitors flew in to Phnom Penh and Siem Reap in the first nine months of 1999, compared with 136,000 in the same period of 1998. The government expected tourist arrivals to increase by an annual 30%.

Anti-trust move by Air NZ, United Airlines

STAR Alliance partners Air New Zealand (Air NZ) and United Airlines have jointly filed for anti-trust protection in the United States, a move they say will enable them to strengthen their alliance relationship and offer more benefits and services to their mutual customers through increased co-ordination of their networks.

"If granted, anti-trust immunity will enable Air New Zealand and United to share information, allowing both carriers to offer consumers the benefit of their combined networks", said a statement from Air NZ.

The US Department of Transportation, which will rule on the request, has approved several other applications for anti-trust immunity between U.S. and foreign airlines, mostly in Europe. Without such protection partner airlines are unable to co-operate openly on pricing and other critical marketing fronts.

Sentimental CFMI says thanks with bubbles

WITH a single bottle of champagne and a note of thanks to the entire production team, CFM International shipped its last CFM56-3 engine to Boeing for its installation on the airplane manufacturer's final classic B737, to be delivered to CSA Czech Airlines this month.

CFMS International is a 50/50 joint venture between Snecma of France and General Electric of the U.S. When Boeing selected the CFM engine to power its B737-300, -400 and – 500 series in 1981, the company predicted it would sell 400 airplanes. Nineteen years, 1,867 aircraft and 3,975 engines later, the aircraft has put CFM in the record books as the largest selling supplier of aircraft engines in the world. Although the final installed engine has left the company's shop, CFMI will produce 20 to 30 spare engines per year for the next several years. Well done!

Singapore Airlines: will join an alliance, but is attempting to show it will not operate in a commercial straightjacket

Malaysia Airlines: may suffer if Kuala Lumpur International Airport is not developed quickly into a major regional hub.

FOR SALE

Tom Ballantyne reports

Testing times for global alliances as Asian airlines open their doors to investors

The ownership structure of the Asian airline industry is set for a radical shake-up amid developments – including Singapore Airline's (SIA) purchase of a 49% stake in Britain's Virgin Atlantic Airways – which have thrown the shape of global airline alliances into a state of uncertainty.

At least 16 carriers in the Asia-Pacific and the Indian sub-continent – half of them government-owned – are preparing for partial privatisation or seeking major investors (see table).

Many of these sell-offs will take several years to finalise, but the intensity of the drive towards a more shareholder-driven structure for the region's airlines is extremely significant and will, ultimately, completely alter existing ownership norms.

A significant number are certain to involve cross-border equity stakes, heightening the pressure on governments to ease foreign ownership regulations as alliance arrangements and investment make a mockery of existing rules.

It was an easing of such regulations by Canberra that cleared the way for Virgin to plan a 'raid' into Australia's skies.

Meanwhile, SIA's move into Virgin may have serious implications for the Star Alliance, which the Singapore carrier is due to join in April.

Coming only days after Virgin disclosed it plans to launch a wholly-owned domestic airline in Australia, of which SIA could also be a part, the tie-up will put SIA into direct and, potentially, hostile conflict with Star members Ansett and Air New Zealand (Air NZ). The three carriers already have a major tripartite commercial agreement, including numerous code-share flights.

Just how SIA will balance its commitments to Star while being part owner of an Australian operator competing furiously with Ansett – and possibly fighting Air NZ on trans-Tasman routes – is intriguing the industry. It will put the oft-stated alliance intention of competitive co-operation, or co-operative competition, to the test.

But SIA is clearly attempting to show that although it is prepared to enlist in an alliance it will not operate in a commercial straightjacket.

One respected industry airline analyst believes the Virgin move has wider implications, representing a key strategic move by what he calls "Singapore Inc" – SIA, Singapore Changi International Airport and government – to cement the position of Singapore as South Asia's airline super hub.

Peter Harbison, managing director of the Centre for Asia Pacific Aviation (CAPA) believes Changi Airport will prosper at the expense of Bangkok and Kuala Lumpur airports, as Star partners develop services with SIA through Singapore.

"The SIA-Virgin deal could well see the end of the British airline's code-share links with Malaysia Airlines (MAS) and result in its operations from Europe switching from Kuala Lumpur to Changi Airport.

He said broader interests are motivating 'Singapore Inc.' to secure not only Star business, but flights from all other alliances. Singapore is a major hub for British Airway's (BA) oneworld.

"Is there a new solution, where SIA/ Singapore/Changi can equally tie in oneworld, already powerfully represented there, as well as the Air France/Delta alliance and even KLM/ Alitalia/Northwest's Wings alliance?

"The outcome, given SIA's market presence and huge war chest, could be a new hybrid version of global alliances," said Mr Harbison.

He added what SIA is doing "offers a model for how to position a national aviation system to gain maximum benefit from the international market place" and said it could also re-shape global alliances.

The development also could be a dangerous threat to the viability of Malaysia's brand new US$2.3 billion Kuala Lumpur International Airport at Sepang and the US$3 billion greenfields facility planned for Bangkok.

While no one involved in the Star Alliance is making any public comment, sources within the group say recent events are the subject of intense debate and genuine concern about the future structure of the alliance.

As the SIA gambit and Virgin's move into Australia reverberated through Asian and world airline circles, the push towards privatisation heightened. Among major operators seeking new ownership involvement are Ansett, Asiana Airlines, Korean Air, Philippine Airlines, Air India, China Airlines (CAL), Garuda Indonesia and Thai Airways International (THAI).

In addition, there was intense, but unfounded, speculation in January that MAS was on the verge of a debt restructure plan which will see the Netherlands' flag carrier KLM Royal Dutch Airlines take a stake. A spokeswoman for MAS denied the rumours, although it is known the SIA/Virgin tie-up has placed the Malaysian operator, which has US$2.6 billion of long-term debt, under pressure.

In other developments:

- On his way back to London after announcing his Australian domestic plans Virgin's Sir Richard Branson completed a code-sharing deal with Air India (AI). He said he might be interested in taking a stake in the Indian flag carrier. That would give SIA an interest in AI through its Virgin shareholding.
- Financial advisers to THAI have advised the government to sell 400 million shares this year, up from the planned 300 million. That will reduce the state's holding from 93% to 70%, with further stock sales to come.
- Taiwan Transport Minister, Lin Fong-cheng, said the government would not allow mainland Chinese capital to acquire shares of Taipei-based CAL. The China Aviation Development Foundation, which owns 72% of CAL shares, is to relinquish half the holding to prospective private investors.
- Garuda Indonesia has reached an agreement with foreign creditors to re-schedule its US$1.8 billion debt, critical to its recovery plan and likely to help speed up its move towards privatisation. The carrier, now being assisted by Germany's Lufthansa Consulting, has rejected a suggestion SIA might be brought in to manage its operations.
- Talks, however, are understood to have taken place between SIA and Indonesia's state-owned regional carrier, Merpati Nusantara, about a management deal. Merpati is in dire financial straits and many of its aircraft are grounded. SIA has not commented on the issue, but Merpati president, Wahyu Hidayat, said the carrier is "open" to the possibility of SIA acquiring a stake.
- Outside Asia, Canada's biggest airline, Star alliance member Air Canada, has bought 82% of rival Canadian Airlines, a oneworld partner, causing more uncertainty on the alliance front.

Consultant Peter Harbison: SIA's market presence and huge war chest, could result in a new hybrid version of global alliances

SIA is paying around US$984 million for 49% of Virgin, a sum that includes an injection of US$80 million in new capital. It makes no secret of its plans to make more equity investments in other airlines – not only in Asia – although the Virgin move follows several failed attempts elsewhere.

These included an effort to start a new Indian domestic airline with industrial group Tata Industries and aborted deals to take a share in CAL and Ansett Australia. SIA also tried to purchase part of Qantas in 1992 and last year lost out, in a joint bid with Lufthansa German Airlines, for 30% of South African Airways.

The purchase of half of Ansett from News Limited was virtually a done deal until the other 50% owner, Air NZ, decided to take up its right under an agreement to buy the shares SIA wanted. As it turned out, News Limited ended up refusing to sell to Air NZ.

It appears the process rankled SIA and its highly astute deputy chairman and chief executive officer, Dr Cheong Choong Kong. Despite persistent media reports the deal is still on the agenda, all the signals from Singapore indicate this is not so, especially as SIA has found another way into the Australian domestic market through Virgin.

Said Dr Cheong: "...our acquisition of a 49% stake in Virgin Atlantic ... neutralises the sour taste of the false start with Ansett. Indeed, with the options now available to us, the failure of our Ansett attempt may prove to be a blessing in disguise."

If SIA is deeply involved with Virgin Australia it would seem illogical for it to pursue a big Ansett stake, particularly as News Limited's chief, Rupert Murdoch, is now said to be seek-

ON THE MARKET

Privately owned		Government owned	
Airline	*Amount for sale*	*Airline*	*Amount for sale*
Air Philippines	**Up to 50%**	**Air India**	**Up to 40%**
Angel Airlines (Thailand)	**Up to 15%**	**Air Niugini (PNG)**	**Seeking investor**
Ansett Australia	**Up to 50%**	**Biman Bangladesh**	**Up to 40%**
Ansett New Zealand	**Seeking investor**	**China Airlines**	**Up to 35%**
Asiana Airlines	**Up to 50%**	**Garuda Indonesia**	**Up to 50%**
Korean Air	**Seeking investor**	**Indian Airlines**	**Up to 51%**
Philippine Airlines	**Up to 40%**	**Pakistan International Airlines**	**Seeking investor**
Shanghai Airlines	**Seeking investor**	**Thai Airways International**	**23%**

ing US$650 million, way up on the original US$500 million asking price.

For SIA, already a powerful international player in Australia, Virgin is not only about the market 'Down Under'. It is a key link in the carrier's plans to extend its network from Europe across the Atlantic to the U.S., using a British, now partly-owned, partner.

Complicating matters, British Midland (BM), another UK operator and Virgin competitor, is due to join the Star Alliance soon, clouding the map on which SIA will operate in Europe in conjunction with alliance partners. BM also plans to launch trans-Atlantic services this year and, as a Star partner, would expect to be able to code-share with SIA.

Mr Harbison is convinced developments over the past month could have a significant impact on aviation in Asia. He believes Virgin is moving towards a new strategy of global aspirations and membership of a major alliance, although Sir Richard Branson denied this.

"We have no plans at all to join any alliances. This is the marriage we want and this is as far as we want it to go," he said.

Nevertheless, Mr Harbison said Virgin is moving into Asia, which could have great significance for airline competition – and for one or two key hub airports. "If Virgin does want to join one of the global alliances on equal standing, it needs more assets in its war chest.

"A position in the Indian market – with its enormous potential – along with a foothold in Australia and a growing list of associations in northern Asia would add much greater substance to its profile," said Mr Harbison.

He considered the alliance position in Asia "keenly poised", with SIA apparently about to commit to Star, MAS moving towards the Wings grouping and the possibility that THAI, now a Star member, may explore other options, depending on which foreign carrier ends up holding shares.

"The list of permutations is a long one. The outcome will possibly secure the future of at least one airport and greatly affect the roles of several airlines," said Mr Harbison.

MAS chairman, Tan Sri Tajudin Ramli, has acknowledged the potential danger of the Virgin/SIA deal and pointed out MAS may suffer if Kuala Lumpur International Airport is not developed quickly into a major regional hub.

"While we recognise there are some threats to us here, there are also a lot of opportunities that can be created," he said, conceding MAS could lose its code-share arrangement with Virgin on the Kuala Lumpur

Singapore Airlines deputy chairman and chief executive, Dr Cheong Choong Kong: "the failure of our Ansett attempt may prove to be a blessing in disguise"

to London sector.

Despite some speculation about SIA's intentions with Star, a spokesman for the airline told *Orient Aviation* membership would be confirmed in April. This "does not preclude us from entering into bilateral strategic arrangements with airlines outside Star. We are certainly thinking about opportunities that may arise following our decision to buy 49% of Virgin, including Richard Branson's plans to enter the Australian aviation scene. But it is premature to talk about how this would impact on our code-sharing arrangements with Ansett," he added.

SIA's position on equity participation in other airlines has not changed, he said. "Our objective is to grow into a global group of airline and airline-related companies."

With around US$1 billion of reserve cash and another US$1.3 billion to come from the planned sale of airport and engineering units, that undertaking is bound to cause extreme nervousness among some of SIA's rivals.

There may be more income to come. Sir Richard Branson said SIA can expect to reap huge profits within three years from its share buy.

Final documentation on the deal was expected to be complete by the end of January.

Sir Richard had a warning for long-time rival BA: "We will be meeting every two months to plot how to compete with our mutual friend – British Airways," he said.

Under the deal, SIA and Virgin will have agreements on code-sharing, frequent-flyer programmes and shared access to passenger lounges and airport facilities.

"This deal is all about growth. The synergies derived from linking two perfectly complementary route networks will allow both airlines to grow faster than either can manage on their own," said SIA CEO Dr Cheong.

"One important benefit SIA will gain from this association with Richard Branson is that we Singaporeans will be infected by his *joie de vivre* and begin taking ourselves a little less seriously. Richard Branson clearly has fun when he does business," added Dr Cheong.

That tongue-in-cheek remark conceals a steely determination at SIA to dominate Asia's skies and continue with a strong growth pattern and improvements in economic performance. "This is a long-term investment ... It will have a positive impact on our EVA (economic value added)," he said.

What is becoming apparent is that within Star SIA will be operating an alliance within an alliance, giving it enormous power and influence, but who the members are will very much depend on the outcome of the planned share sale process at several Asian airlines and elsewhere.

Deal puts markets in a spin

Airline shareholders may well have been tearing their hair out as the rash of developments in the industry sparked sharp swings in the value of stock. Whether they were doing it out of joy or despair depended where their cash was invested.

Shocked Qantas Airways investors saw the airline's shares sink to an 11-month low of US$2.27, well below the highs of over $3.25, on the news Virgin was shaping up to enter the domestic market.

The deal knocked US$567 million off the value of Australia's flag carrier, although by late January the stock had recovered to around the $3 mark.

In London, British Airways shares also dropped nearly 5%.

Not surprisingly, SIA shares soared following its Virgin purchase announcement, rising some 9.1% at its peak, its biggest one-day gain in six months.

While MAS's fortunes may be hit by the new partnership, its shares also surged on (apparently unfounded) speculation KLM Royal Dutch Airlines was preparing to take a stake in the Kuala Lumpur-based national carrier.

Battlefield Australia!

By Tom Ballantyne

Qantas Airways and Ansett Australia are gearing up for a battle royal as three new competitors prepare to launch cheap, no-frills services on the country's primary domestic air routes. It will present the incumbents with their most serious market challenge ever.

Observers believe the development has the potential to forever alter the Australian domestic airline industry, although both existing operators do not appear eager to launch a no-frills offshoot themselves.

The most serious aspect of new no-frills carriers for Qantas and Ansett is that one of the start-ups is no 'bunny'. It will be a division of the mercurial and newly knighted Sir Richard Branson's Virgin Atlantic Airways, a man who has been a thorn in the side of Qantas' oneworld partner British Airways for years.

Worse still, Singapore Airlines (SIA), already a powerful player in the Australian international market, has just bought 49% of Virgin and may use its new equity stake to leverage even more presence in skies 'Down Under'. (See separate story).

Sir Richard said SIA would decide "in the next couple of months" if it wished to take part in the Australian domestic operation. "We would be delighted to have them in. I think it's possible. The investments are not very considerable. Without the need to buy planes, the start-up would need to be capitalised at about US$30-US$40 million. With aircraft, it could go up another couple of hundred million dollars.

"If SIA did come in, they would not have to put in any extra money. It is possible to fund that airline through Virgin Atlantic," said the entrepreneur.

A spokesman for SIA, Rick Clements, said; "We are seriously considering various options presented by our purchase of the Virgin stake and Richard Branson's proposed entry into the Australian aviation scene."

Meanwhile, two other local firms also intend to enter the fray, although there remain doubts about their capacity to raise sufficient finance for their start-ups. Backers will be very nervous about funding airlines that will have to compete against big money operators.

They are:

- Impulse Airlines, an existing Sydney-based regional carrier which plans to lease 10 Boeing B717s and fly major trunk routes between Brisbane, Sydney, Melbourne and Adelaide.
- Spirit Airlines, a start-up which wants to lease two Boeing B737-400s and, initially, link Melbourne, Sydney and Brisbane. Spirit said it would expand the fleet to seven jets within four years. Observers believe it is the least likely to succeed.

Established in 1993, Impulse operates a fleet of Beech 1900 turbo-props on a regional network out of Sydney.

Ansett executive chairman Rod Eddington: "Branson will take customers from us ... we have to be even more focused ..."

Owner Gerry McGowan is understood to be talking with Boeing about new aircraft.

The head of Spirit is Mike Dixon, a former pilot with Trans Australian Airlines (later Australian Airlines and now part of Qantas). The new carrier is modelled on the Texas-based, low-cost airline Southwest and other no-frills services in England and Canada.

The newcomers want to launch flights by July, but the timetable is far from certain. They have to gain air operators' certificates (AOCs) from Australian regulatory authorities, a process which insiders say will take at least six months. The Impulse application is complicated because the B717 will be a new type in Australia.

Ansett and Qantas have reacted cautiously to the newcomers. Neither will announce counter plans until they know details of the operations of their new rivals.

When last facing low-cost start-ups in the early 1990s – two versions of the ill-fated Compass Airlines – both airlines lost several hundred million dollars in a bitter and vitriolic price war that raged over a three-year period.

With Asia emerging from its economic recession and the need for profitable performance driven by nervous shareholders, neither Qantas nor Ansett want a repeat performance. Ansett in particular is in a difficult position. It is in the midst of major restructuring and rationalisation and has only just moved back into profit after several lean years.

Sources at both carriers suggest while they will react with aggressive discounting campaigns when the time comes, it will be a carefully measured response using their highly sophisticated yield management systems to ensure the impact on revenue and profits is not dampened.

The prospective new operators are promising one-way fares of US$65 or less on flights between the major state capitals, compared with more than US$130 currently on offer in the marketplace from the major airlines.

Ansett has ruled out launching its own low-cost subsidiary, although Qantas is still studying the option. Ansett executive chairman, Rod Eddington, said the airline has "neither deep enough pockets nor the ability" to set up a new operation.

"Branson has a strong global brand. He has plenty of money. He already runs airlines. He will be a serious competitor and he will take customers from us," he told staff in an internal memo. "We have to be even more focused on our Business Recovery Plan agenda than ever before, particularly on our cost reduction initiatives."

Qantas chief executive, James Strong, has indicated a response to the budget airlines may be made in the early part of the year, although he feels a July launch by Virgin is optimistic.

He prefers an aggressive discounting campaign to starting up a second airline, even though its partner, British Airways, launched its own no-frills carrier, Go, to compete with similar competition in Europe.

The arrival of a wholly foreign-owned domestic operator in Australia would have been impossible 12 months ago, with foreign investment rules limiting offshore ownership to below 50%.

That all changed when the Australian Government amended the rules and put Australia on the path towards liberalisation.

Brainwashing part of CAL's safety blitz – page 34

CAL: the 'Comeback Kid'

After a year of ups and downs, China Airlines is back in the money

By Barry Grindrod in Taipei

China Airlines' president Sandy K. Y. Liu: an extraordinary first year in office

Responsibility appears to rest easily on the broad shoulders of China Airlines' (CAL) chief Sandy K. Y. Liu. It needs to. Historically, to be president of Taiwan's national carrier, with all the political baggage it carries, albeit through no fault of its own, has never been easy.

In more recent times demises like the Asian recession and the tragic September earthquake in Taiwan, have tested CAL to the full.

And if all that was not enough, a poor safety record, very much the responsibility of the airline, has brought CAL extra governmental, operational and financial pressures.

Mr Liu's first year in office – he was confirmed as president in mid-1999 after five months as acting president – has been nothing short of extraordinary. A whole range of events from the good, the bad and downright ugly ended in December when CAL announced it was increasing its pre-tax profit forecast by 39%.

In August, CAL placed the largest aircraft order in Taiwan's aviation history and the biggest in the region for four years. Within 24 hours it signed purchase agreements for 13 Boeing B747-400 freighters, valued at US$2.5 billion, with four options, and seven Airbus A340-300s with options for an additional A340 and four A330-300s. The Airbus order was worth US$1.8 billion.

A few days later CAL's safety record was in the spotlight again, but for the worst reasons when one of its MD-11s flipped over on landing at Hong Kong's Chek Lap Kok airport and caught fire. Three people died and more than 200 passengers and crew were injured.

Although he was limited in what he could say about the accident at the time of this interview, Mr Liu said an ongoing investigation has revealed, to his "relief", that the cockpit crew, contrary to early reports, acted properly in the circumstances and pilot error was not a factor in the crash (see elsewhere in this story).

The airline's woes mounted in late September, however, when Taiwan was hit by a massive earthquake that killed an estimated 2,000 people.

Load factors slumped by 9% in October, but after six weeks passenger and cargo traffic had exceeded 1998 levels, with 73% and 85% load factors respectively in November!

On September 30, CAL was forced to cease services to the Philippines after Manila pulled the plug on the air services agreement between the two countries. The Philippines Government claimed CAL and EVA Air were poaching sixth freedom traffic on the route between Taiwan and its country and that they were hurting Philippine Airlines.

Add these circumstances together and it makes the profit forecast announcement by the CAL board at the beginning of December all the more remarkable.

Consider the figures:

Pre-tax profit forecast to increase to NT$2.8 billion from NT$1.725 billion.

In the first three quarters of the year passenger and cargo revenue rose 22.8% over the same period in 1998. Pre-tax profit totalled NT$2.5 billion. This performance resulted in a 6.2% reduction in unit cost, a 6.6% yield increase and a 7.8% improvement in productivity.

CAL predicts its revenue for 1999 will be NT$61.2 bullion, up 18% on 1998. Net operating profit is expected to reach NT$1.6 billion, compared to a loss of NT$3.9 billion last year.

Not for the first time, CAL has proved to be the region's leading 'comeback kid'.

And fifty-one-year-old Mr Liu has seen it all before. A 30-year stalwart of the national carrier, CAL has been his life. He has worked in just about every division of the airline as he climbed the management ladder. His father is a former chairman of CAL.

Before he agreed to take on the hottest of hot seats following the crash of another CAL airliner in 1998, he thought long and hard before accepting what he describes as "a great challenge".

At the time, CAL staff were still recovering from the crash of the A300-600 jet as it approached Taipei's Chiang Kai Shek airport which killed 201 people. Four years earlier, another A300-600 crash killed 264 passengers and crew in Nagoya, Japan.

An extensive safety programme covering all of the airline's operations was already in place when Mr Liu took over the reins, but safety has continued to be his priority. No one can accuse CAL of not addressing the problem (see separate story).

Company sources say Mr Liu is a tough taskmaster. "He has very high standards, but he applies these standards equally to himself as he does others," said a source.

Only time will tell if CAL has managed to exorcise its safety demons, but there is no denying the contribution of the fiscal gurus to the airline's improved performance. Although the turn around in the Asian economy has played its part in the CAL recovery, cost control has been the underlying cause of the carrier's performance.

But unlike many other airlines in the region not one staff member has lost his or her job. "We guaranteed staff would not be asked to take furloughs or be laid off," said the president.

Staff cuts have been achieved through natural attrition, although some CAL employees have been retrained and moved to other areas of the company. In 1998 CAL had a payroll of 9,200 staff. The budget for 1999 increased it to 9,400. By mid-December, the figure had fallen to 9,030.

THE FUTURE:

"The market is looking prosperous", said president Liu and CAL is honing its operations to exploit the improving economic situation.

During 1999 CAL reduced the number of its aircraft types from seven to five. It rid itself of its remaining A300B4-200s and B747SPs. Between 2000 and 2003 CAL will introduce new Boeing and Airbus aircraft to replace its B747-200s and the MD-11s. By 2007, maybe earlier, CAL will have just three aircraft types in its fleet; B747-400 passenger and freighter jets, B737-800s and Airbus A340/330s.

Its fleet plan, said Mr Liu, is based on renewal rather than expansion although its aircraft options will allow it adapt to market conditions. By 2007, CAL will have a minimum of 60 and maximum of 69 planes, depending on market conditions.

Mr Liu said CAL spent four years developing the company "bible", its strategy for the next 10 years. At best it could make CAL hugely successful. At worst CAL could continue to be blighted by its poor safety record. One has to ask how many more comebacks can a 'kid' make.

Mr Liu will be hoping to ensure that comebacks are a thing of the past.

Will an airline buy into CAL?

China Airlines' chief, Sandy K. Y. Liu, kept his cards close to his chest when he talked to *Orient Aviation* about the sale of 35% of the stock in his airline.

It was only days to the original date planned for the completion of the sale – the end of December. The decision has now been shelved until the end of February. The stock is half of government-controlled China Aviation Development Foundation's 71% holding.

"Yes, there has been a lot of interest," he said. Banks? "Yes," he replied. Airlines? "Yes," he repeated. More than one? Again: "Yes".

"You will know soon", he said. But alas the stock sale was delayed until the end of February.

Analysts said the deferral was caused by CAL's recent stock performance. But Mr Liu told *Orient Aviation* a delay would be beneficial to CAL because prospective buyers would see the airline's improved position unfold.

And then, just possibly, a clue from the president's tight lips about his plans for CAL. Yes, China Airlines is investigating the benefits of alliances. "But we will wait for a result (of the sale) before we decide on the way to go," said Mr Liu.

Could the buyer be a member of a major alliance? Time will tell.

MR LIU'S VIEWS ON...

CAL's MD-11 crash in Hong Kong

"Based on all known facts this was totally different to the Taipei and Nagoya accidents. I spoke to Albert Lok, the Hong Kong CAD director, and the investigating committee and they said while there are many areas where there are big questionmarks about the crash, they confirmed that we cannot identify this incident as pilot error related (on this basis Mr Liu said CAL had downgraded it from an accident to an incident).

"The CRM between pilot and co-pilot, there is no question (they acted properly) if you read our aircraft CVR and FDR (transcripts) ... I am not happy that we did not land the aircraft safely, but I am somewhat relieved, based on known facts, that all our efforts focused on flight safety related issues such as training and pilot discipline in the last year have proven we are serious about it."

Mr Liu said the investigators are concentrating their efforts on conditions at Hong Kong International Airport and the structure of the aircraft. He confirmed CAL is co-operating with Boeing, the U.S. National Transportation Board (NTSB) and the Federal Aviation Administration (FAA) in studies into three similar accidents involving MD-11s.

The Philippines air rights dispute

"As the national carrier of Taiwan we have served this route for many years and likewise Philippine Airlines. We hope the agreement can be re-instated, not just for the sake of the airlines, but also for business and tourist customers.

"As an international commercial airline we are selling the network. We are not selling the sector ... if any given route has to miss out on fifth and sixth freedom traffic that route has no future.

"The Taipei-Seoul route has been suspended for seven years (a Government decision when Korea opted to recognise China instead of Taiwan). It was an important sector, but we have managed very well without the services.

"If the Manila situation is not resolved we will diversify to other areas."

Promising signs

CAL pulling no punches in safety drive

The acting director of China Airlines' (CAL) operations division, Capt. Chou Yu-Sen, is not a man to beat about the bush.

"Any pilot who does not meet the standards will be grounded," he said. The words are quietly spoken, the smile is warm, but there is no hiding Capt. Chau's determination. It has already happened in a few cases.

They are given every opportunity to prove themselves, but the days of the much-criticised, autocratic "macho" military pilots ruling the CAL cockpit 'roost' are numbered.

Lack of communication on the flight deck in Taiwan, Korea and China, all of whom hire a high percentage of ex-military men, has contributed to accidents and incidents in recent years. CAL has admitted it has had a 'cultural' problem with its older, former military pilots.

Capt. Chou is a former military pilot. But since then he has worked in Singapore and helped Taiwan's second international airline, EVA Air, set up their training department after it was launched in the late 1980s. Attitudes are changing, said Capt Chau.

Since the CAL Taipei crash two years ago, which killed 201 people, every CAL pilot has had to return to school to be tested and, where need be, re-trained. The trainers, too, have been re-trained.

With the assistance of consultants Lufthansa Technik, CAL has introduced strict new English language standards, compulsory cockpit resource management (CRM) classes for all flight crews and up to nine months "brainwashing" or crew pre-qualification (CPQ) courses, for new military recruits and *ab initio* graduates.

It's a cliché, but no stone has been left unturned. A 48-point "continuous improvement project" or *gai jin* as it is called in Chinese, is in operation and constantly under review. It covers everything from pilot qualification and selection to improving flight standards and upgrading CRM and LOFT training to language skills in the air and on the ground. It also incorporates updating operations manuals and establishing performance monitoring systems.

The maximum age for former military pilots eligible to join CAL has been lowered to 40. Only two were accepted in 1999. Instructor pilots and check captains also have felt the heat in the last 12 months. All of them had to be re-certified and take a 14-day enhancement course. Of the 135 tested, 15% failed the written or oral examination.

"They took it too lightly," said CAL president Sandy K. Y. Liu. "They thought it was more ceremonial than practical."

They were told they would only be allowed one re-test. Anyone who failed would be stripped of their instructor/check captain role. All but two passed the second time.

Acting director of operations Capt. Chou Yu-Sen: pulls no punches

CAL knows it has to play hard ball. But are they playing hard enough? The airline's expatriate pilots are its strongest critics, but even they concede CAL has made recent significant improvements.

The standard of English, they say, has shown a sharp improvement; CRM less so, but it is still better than a couple of years ago. There are allegations that some local pilots are given "an easy ride" by some of their ex-military superiors.

CAL has a shortage of pilots and a vigorous recruitment campaign to build its cockpit ranks is under way world-wide. By the end of 1999 the airline had 783 cockpit crew: 363 captains, 315 first officers, 39 cruise captains and 66 flight engineers.

Of these, 393 are ex-military pilots, with 200 *ab initio* graduates and 124 expatriates. An advertising campaign for expatriate cruise captains attracted 120 applications up to mid-December. The operations department is fast becoming a melting pot of nationalities. CRM will be ever more critical and the need for good English more important. Recruitment of native speaking English pilots has helped foster better attitudes on the flight deck, sources told *Orient Aviation*.

CAL has established a mandatory English language standard for its local pilots: Test of English International Communications (TOEIC). The airline has three English instructors and all local flight crew have to take a test to achieve TOEIC 550 level. This includes new military recruits. TOEIC 600 is necessary to upgrade to captain.

Anyone who fails the test will be relegated to ground duties. In the past CAL has cancelled schedules to accommodate extensive pilot training. This was particularly the case after the Taipei crash in 1998.

While the current shortage of pilots continues CAL president, Sandy Liu, said the airline would continue to cut back on schedules to facilitate training of new and existing pilots if necessary.

Meanwhile, CAL's Flight Safety Office has expanded in the last two years. It has 18 staff covering flight operations, maintenance and ground handling.

Two years ago, it had 16 aircraft equipped with Flight Operations Data and Analysis (FODAS) monitoring equipment covering 7,046 sectors. By the end of 1999 it was expected that all aircraft, with the exception of the B747-200s, would be installed with FODAS and be monitoring an estimated 30,000 sectors.

Flight crews are becoming increasingly relaxed about onboard monitoring, said acting deputy director in the Flight Safety Office, C. H. Cheng. There also is an increase in the number of confidential reports submitted by flight crews and ground personnel.

In the summer it will start services to Canada, taking over the routes of its subsidiary carrier, Mandarin Airlines. Recently, three inspectors from the Canadian Government visited Taipei and toured CAL's operations, maintenance and inflight service departments. "They told us they were very impressed with what we were doing," said Capt. Chau.

Only time will tell.

AA 2000 could be record breaker

Asia back in business

The economic blues appear to be lifting as the world's aviation industry emerges from its recessionary shell to display its wares at the first major international air show of the new millennium, Asian Aerospace 2000 in Singapore, writes Tom Ballantyne.

All the big guns – planemakers, engine manufacturers and suppliers – will be on hand with big contingents of senior executives and salesmen at the region's biggest show ever, with record numbers of visitors expected.

Organisers predict the upsurge in business confidence will see the 1998 attendance figures of nearly 24,000 – 4000 of them international visitors – outstripped.

The show, from February 22 to 27, gets underway as the Asian Development Bank (ADB) predicts the region's economies are recovering faster than expected, with overall growth set to rebound strongly this year.

"Industrial production and exports in most of the crisis affected economies are on the rise and in many cases, capital outflows have reversed," according to the ADB, which said Singapore, South Korea, Taiwan, the Philippines and Thailand are leading the way.

This trend is reflected by the international interest in the show. Both the U.S. and European aviation industries will be strongly represented.

The U.S. Ambassador to Singapore, Frank Green, said the U.S. aerospace industry enthusiastically welcomed Asian Aerospace as it provides the most significant networking opportunities for aerospace companies in Asia.

"Not only does this region represent the fastest growing market for large commercial aircraft, but military programmes are also dependent on the Asia-Pacific for sales. In the next few years there will be a significant increase in sales within both aircraft sectors."

Asian companies, too, are looking to the show to help boost business and win a bigger share of the global aerospace pie.

"We have looked at AA 2000 as a key event for us," said Wee Siew Kim president of Singapore Technologies Aerospace (ST Aero).

"We will be taking full advantage of the event to showcase our capabilities. As the first major international air show of the new millennium it will draw key industry and government officials from around the world, offering a valuable marketing opportunity"

In addition to hosting the world's top aerospace companies and key military and commercial trade visitors, AA 2000 will also feature two major international aviation conferences – the Millennium Air Power Conference (MAPC) and a special International Civil Aviation Organisation (ICAO) conference

The ICAO Special Directors-General Asia-Pacific Conference, hosted by the Civil Aviation Authority of Singapore (CAAS), will bring together directors-general of civil aviation from Asia-Pacific countries and senior representatives from various international and regional aviation organisations.

It will focus on developments in the use of satellite-based technology for aircraft navigation and surveillance to enhance airspace capacity and aviation safety.

Significantly, more than 75% of exhibitors are from outside Asia, clearly reflecting a recognition by the global industry that the Asia-Pacific will be playing a critical role in their future business.

Exhibiting companies from the U.S. and Europe include Airbus Industrie, Boeing, British Aerospace (BAe), Rolls-Royce, Dassault, Lockheed Martin and Raytheon Systems, along with Brazil's Embraer and Bombardier from Canada. Asian exhibitors include China National Aero-Technology Import and Export (CATIC), Singapore Technologies, Hindustan Aeronautics and Indonesia's IPTN.

The AA 2000 flying display programme will feature three aerobatic teams for the first time; Patrouille de France, the Australian Air Force Roulettes and the Black Knights of the Republic of Singapore Air Force. Several exhibiting companies also have indicated their intention to put their top-line military and civilian aircraft in the flying display.

One of the features of the aircraft static display will be a large number of business jets, a reflection of current stiff competition in the Biz Jet market. At least 13 business jets are scheduled to appear, from the manufacturing plants of Bombardier, Cessna, Dassault, Gulfstream, Fairchild and Raytheon.

Business Success in Aircraft Maintenance

SR Technics

Total Customer Care: The Competitive Advantage of SR Technics

Aircraft maintenance work is a complex blend of preventive, scheduled and unscheduled work. More and more of today's highly reliable aircraft parts are maintained "on condition", which means there are no fixed time limits for maintenance actions, but through a careful monitoring of operating parameters actions are triggered when needed, before acute failure. In this way the safe in service times of components and engines are maximised and the maintenance costs minimised.

The true maintenance costs of an operator are thus not just given by the costs of its maintenance department plus those of purchased services, but have to include also the impact of the maintenance on aircraft availability, of passenger dissatisfaction due to technical irregularities and other operational consequences of the maintenance.

To establish an optimised maintenance concept requires both an intimate knowledge of the operational characteristics of an airline and extensive technical knowledge on the reliability performance of aircraft, engines and systems. Many satisfied "total care" customers of SR Technics give proof that such an optimisation does not require an integrated maintenance department, but can be realised in a well managed customer-supplier relationship with a powerful external service provider.

An important success factor in such a relationship is the definition of its optimal, comprehensive scope. As an example, a time and material contract for engine services gives no incentive to the service provider to actively monitor the engine performance data, to induce preventive maintenance actions and to determine the optimal timing of removals – all factors that can significantly influence the total engine costs to an operator.

For SR Technics "total aircraft care" does not mean that all services have to be provided by our staff, from our operations. It means that we are supporting the optimisation of maintenance procedures across all activities, from line through base to heavy maintenance and that we support the build up and training of adequate support systems and resources – either within a customer's organisation or as part of our own operation.

SR Technics' "total aircraft care" concept is at the same time the best approach to aircraft safety as in parallel to the comprehensive cost optimisation the concept also includes the monitoring of all safety aspects of individual maintenance tasks as well as their total integration into a safe, airworthy aircraft.

While comprehensive technical support is one of the most attractive customer values SR Technics provides, some features of specific products of SR Technics are also unique among the industry: heavy maintenance

SR Technics signed a 15-year power-by-the-hour contract with Cathay Pacific Airways last year to maintain the airline's CFM56-5C4 engines which power its fleet of A340-300 aircraft.

"SR Technics demonstrated a clear understanding of the powerplant and its overhaul process, including the optimum and efficient utilisation of all available resources to support this long-term arrangement," said Cathay's engineering director, Derek Cridland.

In 1996, SR Technics established its regional office in Hong Kong headed by Asia-Pacific executive director Erwin Stillhard. The company has worked with a number of Asian airlines since the late 1960s. Since then its customers have included China Eastern Airlines, Garuda Indonesia, Japan Airlines, Thai Airways International, China Airlines, Malaysia Airlines, Korean Air, Air China, China Northern and Biman Bangladesh.

visits for DC-10, MD-11, A310 and A330/A340 with record fast turn-around times, efficient and fast overhaul services for JT8D, PW4000, CFM56-5 and CFM56-7 engines, component availability services and field team assistance at any location for specific tasks.

Ongoing Changes in the Marketplace

A few years ago the marketing and sales of technical services was mostly an affair between engineers. Customers were happy to find someone who took care of aircraft and engines and entrusted him to design the support as it best suited him. Today operators intricately optimise their aircraft utilisation according to the needs of their network and clientele. As a consequence they demand highly customised maintenance, optimally supporting their operation and business mission.

Despite this need for more and more custom tailored technical support there is a growing trend to outsource maintenance. This trend is related to the ongoing changes in the maintenance industry. Cost pressures, the ongoing market globalisation and technological advances induce a consolidation of the many small maintenance organisations across the world into larger, globally active units with the necessary size and financial power to offer modern aircraft support at competitive prices.

In the domain of engine services this consolidation process is already well advanced. In this field the airlines have unfortunately left the initiative to the manufacturers. As a consequence there is now an acute danger that the global engine service market will be dominated by the manufacturers, a monopolistic situation that is certainly not in the interest of aircraft operators.

In other areas the consolidation process is slowed down by the fact that many of the service providers are part of a state-owned and protected airline. There is no question that eventually market forces will prevail and what is intended to be a protection of the many small and increasingly uneconomical maintenance operations will actually work against them. Protected from the fast ongoing changes in the markets, the small operations may find themselves stranded between the emerging big, industrially managed and globally active market leaders.

SR Technics' Reaches for Global Presence

SR Technics was fortunate to have itself prepared just in time for these ongoing changes. As a legally separate business entity, being on its own, SR Technics had to transmute its structures from a functional airline department into a customer and product oriented business activity. This entailed the establishment of product oriented cost accounting systems, a review of the product portfolio and the launch of a proper sales and marketing strategy.

On the strategic level SR Technics decided early on to leverage its capabilities in the globalisation of the industry by taking a lead in this process. The aim is to set up a network of strategically placed operations which provide technical support in their respective regions, adapted to the needs of the local markets, but always at the quality and performance levels which constitute the uniqueness of SR Technics. SR Technics is currently engaged in a series of discussions on partnerships and joint ventures that will form the basis of our global activities.

SR Technics on the Road to Success

The rigorous transformation of the Swissair Technical Services into SR Technics Ltd. has already borne fruit which is reflected in its business figures: from 1995 to 1998 the sales of services outside the SAirGroup increased by more than 50%, reaching CHF 525 million, or 48% of the total sales. In the same period the maintenance unit costs for the Swissair fleet were reduced by 19% despite more than 20% re-evaluation of the US Dollar against the Swiss Franc. Productivity and profitability could be continuously increased. The assets, consisting among others of all spare parts, rotables and spare engines of the Swissair fleet were successfully managed in support of the business activities, resulting in an attractive return on investment.

The high level of expertise and the business orientation of SR Technics were also key for SR Technics to be selected as an important partner by Boeing for its DC-10/MD-10 aircraft conversion programme. SR Technics provides the total work planning and will modernise and convert a series of DC-10 aircraft in its own premises to MD-10s with its advanced two men flight deck.

Key figures
(values in million CHF)

	1997	1998
Revenue	1,060	1,116
EBIT	53.5	63
Net Profit	26.4	52
ROIC	20.1%	225.5%
Employees	2,849	3,093

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From the Swissair Group to SAirGroup

The Swissair Brand is recognised globally as being a synonym for safety, punctuality and world class service. Swissair has gained this envious position through a long term, systematic cultivation of a spirit of excellence in all activities that are key to the performance of a first class airline: aircraft operation, inflight product, technical support, ground support, catering, information services etc.

Recognising that excellence in these fields has become an important asset in its own right. In 1996, the Swissair Group changed its corporate structure. Within the Group, renamed to SAirGroup, all the services now operate as legally independent business units. Their mandate is no more restricted to serve the Swissair fleet, each activity is expected to develop its own successful market position within its own business area and to profit from the global liberalisation of airline services.

Different from other airline groups that concentrate their activities to the core of the passenger transport it is SAirGroup's explicit strategy to encourage and support these related fields to expand their activities in their own markets. The example is set by the former Swissair Catering that has become the world's second largest caterer under the name of Gate Gourmet.

SR Technics Ltd was well prepared for this new challenge. It already had a long-standing tradition to offer its excellent services to partners within the KSSU (KLM Royal Dutch Airlines, Scandinavian Airline System (SAS), Swissair and UTA) consortium and to other customers world-wide. SR Technics has seized the opportunity to build a successful entrepreneurial activity in its own right in the evolving market of technical aircraft services for commercial airliners.

In the last 12 months the burden of operating the world's most expensive airports took its toll on Japan with foreign carriers slashing an average of 100 flights a week from its major points. Some carriers have pulled out of the country altogether.

Take note, Sydney and China, say airline representatives, while also issuing a warning to other countries, including India, which are thinking of pumping up revenue at the expense of airlines. In January, the Sydney Airports Corporation applied to double its user charges. If approved, Sydney will become one of the world's most expensive airports.

The Foreign Airlines Association of Japan (FAAJ), which published an eye-opening position paper last summer, are campaigning for a massive 50% reduction in fees with government, airports and building companies sharing the load.

TOM BALLANTYNE *in Sydney and* BARRY GRINDROD *report on one of the region's most contentious aviation issues – airport user charges.*

CHARGED UP

Airports are natural monopolies and its time they became more competitive, says AAPA chairman and Air New Zealand chief Jim McCrea

Asia's airlines face significant increases in operating costs by the end of this year as some airport owners move to dramatically lift charges, compounding growing fears among carriers that wider private ownership of airport facilities is forcing carriers to pay more for terminal and runway services.

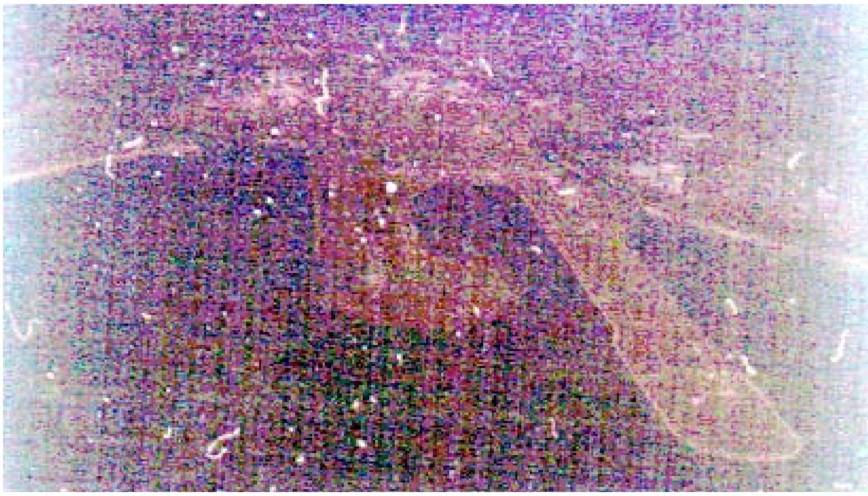
Australia's Sydney airport, still government owned but heading for privatisation, has applied to more than double its charges. If the Australian Competition and Consumer Commission (ACCC) approves the move the airport's income from airline customers will rise from US$64 million to US$138 million annually.

The manoeuvre has sparked a storm of protest from the 40 plus international airlines operating through Sydney. The cost of turning around a Boeing B747 will jump 130%, from US$2,905 to US$6,635, if the proposed increases win ACCC support.

Warren Bennett, executive director of the Board of Airline Representatives of Australia (BARA), which represents all the international carriers operating through Sydney, accused Sydney Airports Corporation Limited (SACL) of "arrogance" and warned more new charges are in the pipeline.

Observers warn such developments could become commonplace as more regional airport authorities look at privatisation or part-privatisation and new owners strive to eke out improved profits for their shareholders.

The Sydney move came just weeks after the chairman of the Association of Asia Pacific Airlines (AAPA), Air New Zealand's Jim McCrea, expressed deep concern about rising costs in areas airlines cannot control, including airways and airports charges.



Sydney Airport: facing major opposition from airlines over proposed doubling of charges

"They are of major concern to us and in Australasia they are a particular concern. It's interesting that as airports are privatised and sold, not long afterwards the new owners re-value the assets and on the basis of re-valuing put the charges up and still maintain they are only recovering the cost of capital or retaining their rates of return," said Mr McCrea.

"That's a circular argument and an invidious argument and something that has got to be sorted out in competition terms."

Mr McCrea described airports as natural monopolies. "I have no problem with free enterprise and deregulation. I call for it. But there are a number of infrastructural assets that have privileged natural monopoly positions and they seem to be free to charge as they choose.

"In other words, competition laws are either non-existent or light-handed, while in the airline industry competition law is very interventionist and so there is quite a difference."

Elsewhere in Asia, China's largest airport, Beijing Capital International Airport (BCIA) is to raise charges for domestic airlines this year by up to 50%.

The airport also launched a share offer for retail investors in January. BCIA is attempting to offset the heavy cost of its recent US$108 million facelift.

Sources believe international operators

may be hit with fee increases later.

The airport's existing charges were set in 1992 and operating costs have risen considerably with the opening of a new terminal last October and plans to expand runway and taxiway facilities. A dual listing of the airport on the Hong Kong and New York stock exchanges, to raise around US$400 million, is imminent.

Also, late last year the Airports Authority of India (AAI) announced plans to raise its route navigation facility charges at all domestic and international airports by 7.5% in 2000, an increase aimed at substantially lifting revenue. Worse, the new charges are planned to be retrospective from February, 1999.

At the same time AAI, which is in the process of offering 30-year leases on six of its leading airports to private companies, asked India's Civil Aviation Ministry for permission to raise landing and parking fees at all international airports by 12.5%.

In Australia, if the proposed increases are granted at Sydney, the country's major gateway, they would come into effect on November 1, following the 2000 Olympic Games. Prior to the introduction of the new fees there will be lengthy hearings that will undoubtedly involve a series of torrid submissions from angry airlines, including local majors Qantas and Ansett.

SACL chief executive officer, Tony Stuart, strongly defends the charging restructure. He said it is long overdue and is necessary to sustain a truly world class gateway for Australia. The new charges would result in an average fare increase of US$6.66 from Sydney to London when passed on to passengers by airlines.

"Reducing delays and congestion and improving facilities and services against a backdrop of increased noise related operational constraints has required significant capital investment over recent years," said Mr Stuart.

"While [we are] expecting the airlines will react to any increase in costs, the airlines – and their passengers – are benefiting significantly from the improved runways, taxiways and terminal facilities through fewer delays, less congestion and better traffic flow.

"Delays cost everyone money – particularly airlines – and we have worked hard to improve the situation to where 88% of flights in and out of Sydney operate on time, well ahead of comparable airports in the U.S. and Europe."

He said the new charges represented a "fairer, better balanced system" and that within operational and regulatory constraints, Sydney is a highly efficient airport. Independent surveys showed its operating cost per passenger is half the international average, according to Mr Stuart.

If approved, Sydney's charges would be comparable with Vancouver, London Heathrow, Washington DC and Amsterdam international airports, but still below the international average.

"Landing charges at Sydney Airport have been artificially low for many years, which means that Australian taxpayers have, for a long time, provided a de-facto subsidy to the airlines and their passengers. The proposed restructure will remedy that situation and allow us to maintain the massive investment we have been making in Sydney Airport to bring it to world class standard," said Mr Stuart.

AAPA chairman and ANZ chief, Jim McCrea: concerned over escalation of charges

His explanation has done little to temper the anger of airlines. Said BARA's Mr Bennett: "The proposed increases are totally unreasonable. If approved, landing fees will rise from A$2.92 (US$1.90) per tonne to A$8 (US$5.20) per tonne, terminal charges will increase from A$7.90 (US$5.13) per tonne to A$18 (US$11.70) per passenger. Also, there will be a new parking charge of A$55 (US$35.75) per 15 minutes. SACL is displaying the worst characteristics of monopoly behaviour."

More new charges are in the pipeline, he said, including a checked bag screening (CBS) fee to pay for a security project critical to handling passengers during the Olympic Games. The cost of the project has ballooned from US$13 million to US$21 million, with CBS now expected to cost about US$1.60 a passenger at Sydney, three times the likely cost

Airlines give Sydney thumbs down

As public relations go, Sydney Airport could hardly have selected a worse time to announce huge charge increases. The news only heightened existing anger among airlines about the airport's performance.

Indeed, carriers were so annoyed at what they claim is poor service at Australia's primary air gateway they were in the process of leaking details of a confidential internal airline survey to local media when airport officials dropped their fees bombshell.

The survey, which consisted of a series of "quality-of-service" reports compiled by major operators like Qantas Airways, Ansett Australia, Singapore Airlines, British Airways, Cathay Pacific Airways and Japan Airlines, rated many of the airport's facilities and services as "very poor" or "poor". They complained airport staff were either difficult to find or arrogant when approached about problems.

The reports, covering the year to the end of October 1999, rated the condition of ground services and facilities such as runways and aprons, taxiways, arrival and departure gates, aerobridges, ground service and storage, check-in and baggage facilities.

Among the complaints were:

- **Baggage processing facilities are unreliable. In September alone United Airlines had five separate departures delayed due to failure of the baggage system or its inability to cope with demand.**
- **British Airways claimed safety was being compromised because speed limits for ground vehicles were not being enforced.**
- **Japan Airlines complained it sometimes took 20 minutes for aircraft to be pushed back from aerobridges.**
- **Singapore Airlines complained about freight storage and equipment, saying facilities were congested with not enough bays.**
- **Passengers also expressed frustration at baggage delays, the lack of information at the airport and the "rough treatment" of their baggage.**

at other airports.

He said a number of major airline customers had already lodged serious concerns with the ACCC regarding SACL's "lack of accountability, responsiveness and operational management".

Adding to the irritation of airlines is that when the government privatised the country's other major airports – Sydney is the only one remaining under state ownership – it introduced a formula for aeronautical charges designed to ensure fees were reduced.

"It is incredible then that the only remaining government-owned airport, Sydney, should expect airlines to accept an increase in overall aeronautical charges," said Mr Bennett.

In 1998-99, Sydney Airport had a throughput of 21.8 million passengers (7.4 million of them international, 13.1 million domestic and 1.3 million regional), with 281,300 aircraft movements. More than 43 international and 13 domestic and regional carriers operate through the facility.

Forecasts suggest it will experience a 7.5% increase in international services during the five-month period of the current schedule season, from November 1999 to March this year.

Beijing Capital International Airport: will raise charges for domestic airlines to offset the heavy cost of its recent facelift

Meanwhile, the International Air Transport Association (IATA) has said it is studying the proposed high percentage increase at Sydney Airport. "From a prima facie examination the proposal will be aggressively challenged by the IATA Australia Task Force Group," said an IATA spokesman.

"More detailed information will be sought from the SACL. Once the necessary information has been made available meaningful discussions with SACL can then start. Depending on the outcome of the discussions, further action could be taken."

Over 100 flights a week to Japan's airports withdrawn in last year

High costs take their toll in Japan

By Barry Grindrod

British Airways: pulled out of Osaka after 30 years.

Pressure is mounting on the Japanese Government from international and local airlines to slash its sky high aviation charges "as a matter of priority".

Recently Finnair withdrew its services from Kansai, bringing the number of flights cancelled by international carriers at all Japan's airports in the last year to more than 100 a week.

The 45-member Foreign Airlines Association of Japan (FAAJ), which represents 56.2% of all international flights from Japan, has called for a 50% cut in charges. Collectively they are by far the most expensive in the world.

They include landing fees, navigation charges, airport terminal rents, airport terminal common user charges and cargo handling fees.

Japan Airlines (JAL), All Nippon Airways (ANA) and Japan Air System (JAS) are standing shoulder to shoulder with the FAAJ and are jointly petitioning the government to demand lower fees.

A fuel tax of 26,000 yen (US$247) for every 1,000 litres uplifted, levied specifically on the local carriers and totaling 100 billion yen a year for JAL, ANA and JAS, is an added "crippling" burden, according to a JAL spokesperson. The U.S. is the only other country to impose such a tax, but it is 17 times lower than Japan.

Local carriers have also called for a reduction in the aircraft property tax.

"The Japanese carriers have not changed or deviated from their mission of asking government to reduce charges. We are at it every day. Our president, Mr Isao Kaneko, is constantly referring to it in interviews," he said.

An added frustration for the industry, said sources, is that aviation issues are left to the bureaucrats and little is done. "Politically, transportation, in the air or on the ground, is not seen as important," said one source.

Last year the FAAJ published a position paper which it called "a plea for help".

"In the past, although airlines complained vigorously, the high charges could be covered by the generally higher market fares obtainable in Japan," said the paper.

"Until the opening of Kansai airport, there were insufficient landing slots available near the main population centres of Japan. And until recently, Japan's Ministry of Transport (MoT) took steps to limit deviations from the fares approved and published by the Japan Civil Aviation Bureau (JCAB). That policy has changed. The earlier attempts to influence the market have ceased.

"The airline community is happy to accept a free market for passenger tickets and airfreight prices in Japan, in common with most other countries, (but) in the changed environment airlines find it increasingly difficult to pay the enormous cost of operating to Japan.

"The consequence of the high costs and changed environment is plain for all to see. Formerly airlines were queuing up to be allowed to fly to Japanese airports. Landing slots were in short supply and rationed. This is no longer true.

"In the last year, every international airport in Japan, including Narita, has had services withdrawn and cancelled. At least 10 airlines have withdrawn completely from Kansai airport since it opened (in 1994).

"Many airlines are wondering how long they can afford to continue operating the remaining services."

Said the source: "Airlines are paying three times the global average in charges at Kansai and Narita. Why? Because the MoT is still looking at it from an old-fashioned point of view; that the airlines should pay. Airports are not perceived as an economic engine for the economy as they are in other countries."

The FAAJ's position paper said ticket prices in Japan for some international destinations are as low as 20,000 yen (US$195) for a round trip. This meant it would take 70 passengers to cover the landing fees and navigation charges.

The FAAJ's position paper said because Japan's charges were so much higher than other countries, radical new approaches were necessary to redress the problem.

It was critical of practices and decisions that have burdened airlines with unnecessary costs.

In general, Japanese airports only handled 26 aircraft movements an hour. In contrast, several single runway airports in the world handle over 40 movements per hour without compromising safety. "This suggests Japanese airports have considerable under-utilised capacity ... there is surely an obligation to use the facilities as efficiently as possible allowing unit costs to be reduced," said the paper.

It also raises questionmarks over:

- Allowing Itami Airport to continue operations after the opening of New Kansai Airport.
- Approving development of a third airport in the region at Kobe.
- Allowing construction of a second runway at Kansai "without consensus on the need for this huge new expenditure".
- The building of a new international terminal at Nagoya Airport when a new airport is scheduled to replace it in 2005. It was not justified, claimed the report.
- Given the cost escalation that has accompanied each new airport facility in Japan, the paper said it viewed the prospect of a new Central Japan International Airport "with misgivings".

A source told *Orient Aviation* the Kobe project, for example, had been on the stocks for 20 years, but there was "no justification for the airport". He said there were a number of "white elephant" airports in Japan. "They (the development) are part of government measures to boost the economy," said the source.

A 3.8% reduction in Japan's Air Navigation Facility Charge in January was a step in the right direction, but did not significantly alter the comparative picture, said the FAAJ paper. "To be consistent with ICAO principles, air navigation charges should be justified by the level of service provided," it added. "According to aviation experts in this field, the amount of information provided by the JCAB was not sufficient to determine if Japan's charging level for air navigation services was appropriate.

"If Japan could fund navigation services directly from landing fees or other sources, as practised in several other jurisdictions, that would be ideal."

Office rents and common user charges at airport terminals in Japan also rank as the highest in the world. "The airport building companies are monopoly franchises ... the airlines wish to see evidence they are being efficiently run with no unnecessary waste," said the paper.

"According to the ICAO Council on Airport Charges 'airports should maintain accounts that provide a satisfactory basis for determining and allocating costs to be recovered'."

At present, the Nagoya Airport Building Company did not do this, said the paper. There also was strong evidence the Fukuoka and Nagoya building companies had made good profits for many years and both have proposed to heavily increase their charges. "The foreign airlines wish to ensure their past reserves have been fully utilised to pay for the new terminal facilities."

The FAAJ is also unhappy that the Narita Airport Authority is charging airlines the same rent for Narita Terminals 1 and 2. "Terminal 1 is far from complete. It will be at least six years before Terminal 1 will reach the same standards as Terminal 2, which opened eight years ago." The FAAJ said it was premature to impose high rent increases at Narita Terminal 1.

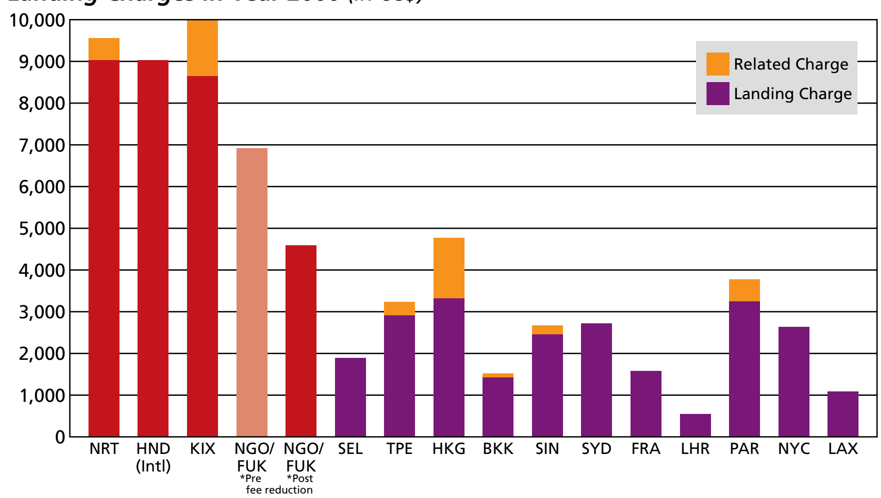
It urged the Japanese Government to "incentivise" airport building companies to reduce costs. "For example, airports in other countries raise a higher share of revenue from non-aeronautical concession fees like duty free goods, compared to airports in Japan," said the paper.

On January 1 Japan introduced overflight charges for aircraft crossing its airspace. "The FAAJ maintains the capital and operating cost of the air navigation infrastructure in the Naha Flight Information Region (FIR) does not justify the same level of charges as the Tokyo FIR," it said. The FAAJ wants them reduced.

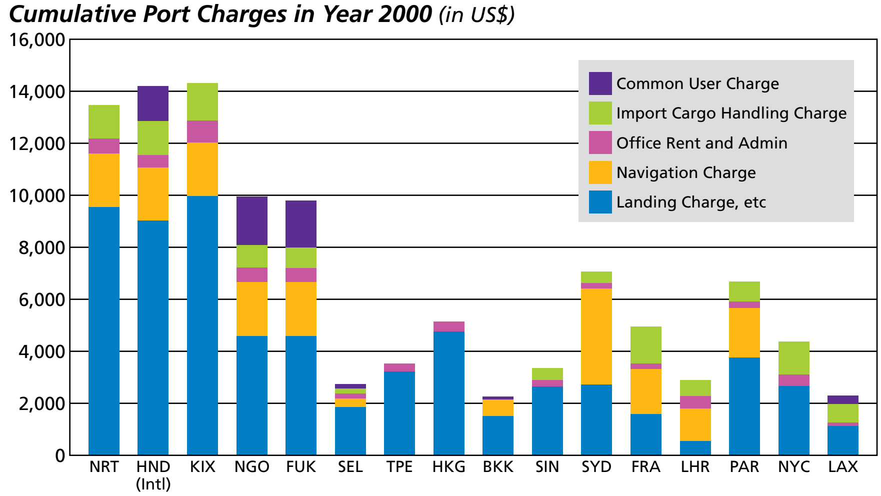
"The world trend in air navigation charges is moving away from the systemwide charging approach, with its inherent cross-subsidisation between different users, to focus on route and location specific charging, thereby aligning costs to the services being provided. The FAAJ urges the MoT to follow this trend in Japan."

The first vice-chairman of the FAAJ and Cathay Pacific Airways regional manager for Japan and Korea, Michael Whitehead, said the FAAJ and the IATA Joint User Charges Board

Landing Charges in Year 2000 *(in US$)*



Cumulative Port Charges in Year 2000 *(in US$)*



would continue to campaign for a reduction in charges. "We will not go away," he said.

None of the services cancelled in the last year had been resumed, he said. Cathay cut four flights from its Japan schedule last year. "Many of us are just hanging in there with marginal profitability or we are losing money. In these circumstances foreign airlines will have fewer services. The Japanese carriers faced with high costs and low air fares also will continue to struggle.

"The government claims it is losing money, but we just don't know. I feel the amount of information revealed to us is insufficient."

British Airways (BA) cut nine flights last year and has pulled out of Western Japan altogether. "We had been flying to Osaka for close to 30 years, it was a hard decision to make," said BA's regional manager and FAAJ second vice-chairman, Tony Marwick.

"One of the big drivers in the industry today is that people are demanding lower and lower fares. We have to find ways of becoming more efficient. Airports have to do the same.

"We, the airlines, have to look at the airports as partners and work together along those lines."

Mr Marwick said airport authorities in Japan needed to look at how airports overseas maximise their opportunities. "Look at London Heathrow. It is a very big airport, has very good services and it is managing to reduce its costs," he said.

"Gatwick is a single runway airport, Narita could learn from it."

At the end of the day, any decisions rest with the Japanese Government. *Orient Aviation's* source did not give cause for optimism: "The number of ministers of transport over the last 30 years has been astounding. They have never been in the job long enough to achieve anything.

"Many of them are not even bothered about aviation. They let the bureaucrats get on with it.

"It's not like the Department of Finance or the Department of Trade and Industry which, politically, are important offices. With the MoT, as long as the trains run on time they are happy."

But JAL's spokesperson was more upbeat. "We argue that the infusion of additional government funds is needed to enhance facilities at core airports. Increasing the operational capacity of these airports would lead to lowering the unit cost of airport charges per flight.

"Landing fees and other public charges at class one airports continue to be conspicuously high by global standards. But public support is growing and further cost mitigation is expected in the future."

IATA in 'relentless' push for fee cuts

The International Air Transport Association (IATA) Japan User Charges Task Force, the group tasked by IATA member airlines to negotiate Japan's charges, is actively involved in discussions with the airport authorities in Kansai and Narita to secure a reduction in both airports' charges.

"The IATA Japan User Charges Board will press on relentlessly until we get concrete results and a more favourable outcome for the airline industry," said an IATA spokesman.

IATA and the Association of Asia Pacific Airlines (AAPA) have been active in recent years in both campaigning and lobbying for lower airport user charges in the region.

In September last year, after prolonged negotiations with IATA, the AAPA and the airlines, the Hong Kong Airport Authority agreed to reduce landing and parking charges at the new Chek Lap Kok airport by 15% from January 1. It also reduced rents by 23% in the passenger terminal.

This followed a decision earlier in the year by Singapore to lower landing charges and retail rents by 10% at Changi Airport until the end of 2000.

The AAPA's 42nd Assembly of Presidents, held in Manila in December, 1998, passed a resolution calling for tighter control of airport and aeronautical charges. It urged governments, airport owners and air traffic service providers to adhere to the ICAO principles for governing charges and to avoid levying other fees, like fuel surcharges and terminal building charges, which are not attributable to airline users.

It also urged governments to establish an oversight or control scheme for supervising and monitoring the activities of airport operators, air traffic services and airport authorities to ensure charges remained true to ICAO principles.

FAAJ claims discrimination

In October 1999, the Ministry of Transport announced it was to reduce landing charges from 15% to 40% at New Kansai International Airport in June this year for new flights. For existing flights a "volume discount" is planned ranging from zero to 7%.

The FAAJ said the volume discounts were "highly discriminatory" in favour of national carriers. An airline with daily flights to Kansai will receive no benefit, it said. Those with three daily flights will receive a 1% advantage. Only Japan Airlines and All Nippon Airways have sufficient flights to benefit by higher reductions of up to 7%. "It is unfair, discriminatory and contrary to the principles of ICAO of which Japan is a member, said the FAAJ.

Landing charges at Kansai for international flights are 2,300 yen a tonne and 1,900 yen a tonne for domestic flights. In some cases it can be as low as 1,300 yen a tonne for local flights. "These discriminatory charges represent reductions of 17% to 43% in favour of domestic flights," said the FAAJ.

"The FAAJ deplores the fact that the MoT has still not corrected this non-compliance with ICAO principles, but instead has announced a new charging structure which deviates even further from them."

It was also angry the MoT did not consult the International Air Transport Association or the Board of Airline Representatives which, said the FAAJ, is standard procedure.

The group's position paper also pointed out that the reduction in landing charges at category two airports, the Air Navigation Facilities Charge and the introduction of the overflight charges had benefited the local carriers as domestic flights at the category two airports far exceeded international services.

Landing charges also were lower for domestic flights at Haneda airport.

"This is discriminatory," said a Japanese source. "It is a most unsatisfactory way to do things. But local carriers, because of their volume of traffic and frequencies, do pay more than the international carriers."

AIRPORT EXTRA

Airlines to be offered incentives for Pudong move

SHANGHAI'S new Pudong International Airport is gearing up for a big increase in international flights this year as more services are transferred from the old Hongqiao Airport.

According to Du Chuncai, executive vice-president of the Shanghai Airport Group Company, nearly half of the flights operating into Hongqiao will be moved to Pudong during the coming summer.

The two facilities had a combined total of 451 daily flights during 1999, a figure expected to rise to 480 in 2000.

Mr Du said the company will soon recommend new policies to the Civil Aviation Administration of China (CAAC) to encourage airlines to make the move to Pudong. It will include a suggestion to increase ticket prices for flights at Hongqiao while reducing prices for flights at Pudong.

Despite the opening of Pudong last year, Honqiao will not be closed. It will undergo a major renovation this year.

Pudong Airport will eventually have four runways capable of handling 320,000 flights and about 80 million passengers annually. After refurbishment, Hongqiao Airport will have the capacity to handle more than 30 million passengers a year.

Inchon hopes to cash in on casino plan

THE Korean Government thinks it may have hit on a gilt-edged idea to attract more travellers to Seoul's massive new airport at Inchon, scheduled to open at the beginning of 2001.

It may allow casinos to be built at the facility, adding gambling to the lures it hopes will help the airport become the new air hub of northeast Asia.

The Ministry of Construction and Transportation has confirmed a request has been made to the Ministry of Culture and Tourism to allow casinos at the airport.

An official said casinos have been successfully implemented at several international airports, including Amsterdam's Schiphol as well as several airports in the state of Nevada in the U.S.

The ministry's proposal calls for the operation of small casinos at the airport's passenger terminals. If the plan wins approval it may take some time. Several regulations in the Tourism Promotion Law may have to be rewritten.

Under the law, casinos for foreigners can only operate at five-star hotels in the country's major tourist centres, including Seoul, Pusan, Inchon and Cheju Island.

Contaminated fuel creates havoc in Australia

CASA grounds 5,000 planes

By Tom Ballantyne

Contaminated fuel has ravaged eastern Australia's general aviation (GA) sector with at least 5,000 aircraft grounded and dozens of small companies facing closure amid mounting losses.

At press time, the Civil Aviation Safety Authority of Australia (CASA) disclosed the planes would remain grounded for at least another week, despite earlier hopes that a fuel safety test might have been available quickly.

CASA ordered the groundings on January 10 – the second time it has taken such action in two months – after a problem involving contaminated fuel from oil giant Mobil, first discovered in December, had not been resolved.

The Aircraft Owners and Pilots Association (AOPA) believes the crisis could cost the industry more than US$30 million and threaten 7,000 jobs.

The acting Prime Minister and Transport Minister, John Anderson, said he respected the recommendation of an independent scientific expert, Professor David Trimm, that planes stay grounded. "We don't want to get this wrong. The consequences could be disastrous," said Mr Anderson.

Mobil has already put together a compensation package. The external relations manager for Mobil, Ms Samantha Potts, said the delay in the development of a safety test for fuel made the company's A$15 million (US$9.75 million) compensation package even more important. "We totally support the decision that the planes stay grounded until everyone is satisfied we have the right test," she said.

A CASA spokesman, Peter Gibson, described the contamination as possibly the worst in the world.

The big airline's jet fleets are 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.

'There are hardly any aircraft left flying in the eastern states'

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.

"This whole thing is so serious and the financial ramifications are horrendous. There are hardly any aircraft left flying in the eastern states," said AOPA president Bill Hamilton.

He said it could take months before all contaminated aircraft were ready to fly again. The crisis was costing the industry A$5 million (US$3.25 million) a day, with many businesses forced to close down.

The problem first arose after a light plane suffered engine failure during take off at an airfield near Melbourne. After an investigation 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. The deposits form when the contaminant in the fuel reacts with the copper in aircraft fuel system parts made from bronze or brass.

But after thousands of aircraft had their fuel systems drained and businesses put planes back in the sky, problems re-surfaced early in the New Year.

CASA is working urgently with Mobil to develop a standard field test that engineers can use to determine if aircraft have been contaminated. It also is urgently developing procedures for cleaning the contamination from fuel systems, but said this might take some time.

None of this helps small aviation companies forced to meet the costs of operations.

The crisis could not have come at a worse time for crop spraying firms and farmers, who are in the middle of the spraying season.

And Victoria's largest flying school, the Royal Victorian Aero Club, is typical of training establishments. In December club president, Peter Dwyer, estimated the cost of grounding the fleet of 20 planes at around US$26,000. With the latest grounding that will soar into hundreds of thousands of dollars in losses, he said.

New carriers take to the skies in Indonesia

A fledgling scheduled domestic Indonesian operator, Indonesian Airlines, has announced it will launch services in March, serving 30 local destinations with 10 Boeing B737-200s. Two other new carriers, former charter company, Pelita Air Services and Mentari Airlines, intend to follow suit later in the year.

The new airline's president, Rudy Setyopurnomo said the company was set up early this year with investment totalling US$40 million. It acquired its licence from the Directorate General of Air Communication in September.

"We plan to operate only one type of low-cost aircraft, the Boeing 737-200. The fleet will be extended to a more recent model of the 737 in the future," he said.

Mr Setyopurnomo, a former vice-president for corporate planning at Garuda Indonesia, said the airline would be flying to most of the destinations served by the now defunct Sempati Air.

Meanwhile, another prospective new entrant has emerged with plans to enter Indonesia's skies in February. Private charter operator, Camar Nuansa Airservice, said it is confident of generating US$2.44 million in net profit in 2000.

"The prospects for this business are very good, especially in relation to cargo. We also are expecting some profit from passenger services. We have received orders to take Indonesian workers to regional countries like Malaysia," said commercial director Jasman Karimin.

The company will initially operate cargo services from Jakarta to Balikpapan and Batam with stopovers at Kuching in Malaysia and Seletar in Singapore. Passenger services will include flights from Jakarta to Bandung in West Java, Bandarlampung, West Nusa Tenggara, East Nusa Tenggara and Irian Jaya.

Camar's president, Captain Almirul Bawono, said the airline was also negotiating with Royal Air Cambodge to provide chartered services for Cambodians residing in Australia and New Zealand to fly to Phnom Penh.

"The passengers will be flown by Ansett Australia or Air New Zealand to Bali, where they will be transferred to our planes to go to Phnom Penh via Singapore," he said.

The company has invested US$1.5 million to finance the initial preparation, including the procurement of three Boeing B737-200s and two Russian Antonov An-12s for operations in 2000. It plans to increase the number of planes to 15 within five years.

25 years after the fall of Saigon, Orient Aviation *speaks to ...*

The man who bombed the presidential palace

On April 8, 1975 Captain Nguyen Thanh Trung entered Vietnam's history books with an incredible act of daring that is credited with accelerating the end of the Vietnam War – one of the South Vietnamese Air Force's most experienced fighter pilots bombed his president's palace before defecting to North Vietnam.

Saigon fell to the Communists three weeks later.

Capt. Trung, now chief pilot with Vietnam Airlines, became a national icon. But until this extraordinary interview only his close family and friends knew his act was also a personal crusade to avenge the death of his Viet Cong father who was killed by the South Vietnamese Army 13 years earlier.

He also told Orient Aviation that between daily bombing missions he was secretly planning, at great risk, the great symbolic act of the Vietnam War with the Communist top brass. In the end, as he sat in his F-5 fighter on the runway at the Bien Hua air base, he had only a 10 second window to activate or abort the one-chance mission.

EXCLUSIVE: BARRY GRINDROD *speaks to Vietnam Airlines' chief pilot whose mission in the Vietnam War made him a national icon*

COUNTDOWN

It was 1963 and 15-year-old Nguyen Thanh Trung was sitting in class taking a geography lesson at his boarding school in my Tho.

As usual, school started at 8am, but this day was going to be like no other for the teenager. It changed the young Trung's life forever.

At about 9am a friend entered the classroom and quietly came over to him. He whispered in his ear: "Your father has been killed."

"My father was a Viet Cong. We knew he lived a dangerous life. The South Vietnamese Special Forces had tortured another Viet Cong and he had given my father's name," said Capt. Trung.

"They hid by the side of the road and waited for my father to pass and then they shot him.

"When my friend told me I felt terrible, I loved my father very much, but I could not do anything. I just looked ahead at the blackboard. There were 50 children in my class. I could not tell them my father was a Viet Cong.

"As I sat there I made a decision. I asked myself who was responsible. I decided I could

Capt. Trung points to the spot on the roof of the former presidential palace where one of his two bombs hit

not blame the man who shot my father. The South Vietnamese Government and President Diem were to blame.

"I decided there and then that when I was older, if I had the opportunity, I would bomb the President in his palace."

Even at the end of the day he could not talk to anyone. Not even his family. He caught the ferry to go home to Banh Tre that night, but before he reached the family's house a friend told him his mother and young sister had been thrown in jail and the army was watching the house.

"I could not go back to school because the dormitories was closed. I stay on the ferry all night sailing to and fro across the Mekong River thinking about my father and my mother and sisters in prison."

In those days the U.S. presence in Vietnam was small. But in each province there were U.S. advisors helping the South Vietnamese and its unpopular regime under President Diem battle against the threat of invasion from the Communists in the North.

Some time later the president was killed in a military led coup, but Capt. Trung was still determined to make the regime pay for his father's death and bomb whoever was in office in the palace.

"There was a lot of killing going on. I would walk to school and sometimes see the bodies in the road. They used to hang the dead women on fences along the road. It was a warning to others who might turn against the regime," he said.

Capt. Trung spent the next six years at school, by which time the Vietnam War was dominating the world headlines.

He joined the South Vietnamese Air Force and trained at U.S. air bases in Texas, Louisiana and Mississippi.

When he returned to Vietnam he became a first lieutenant and a member of the elite 534 Squadron. He flew two to three bombing missions daily on the Viet Cong and later the advancing North Vietnamese Army in South Vietnam. But a day never passed without Capt. Trung thinking about his eventual goal.

"An old and trusted friend of my father approached me and asked me to go into the jungle and speak to the Viet Cong commaner. I told him my plan. He agreed with it, but said the time must be right and he would choose it," said Capt. Trung.

Towards the end of 1974 as the war was turning against the South Vietnamese, Capt. Trung and the North Vietnamese began planning the palace attack. A 10-day period from April 1-10 was chosen.

Capt. Trung faced two major hurdles.

Happy family: Capt. Trung poses at home with his wife Thi Cam and youngest daught Thanh Muong, who was only eight months old when she was imprisoned with her mother after her father bombed the presidential palace

Firstly, the most difficult problem had to be resolved – how to seize an F-5 fighter jet to carry out the raid. Secondly, Capt.Trung had to have a safe place to land after the mission.

Only three people was aware of the plan, including the prime minister of North Vietnam. He wanted Capt. Trung to fly to Hanoi. This was ruled out because it would be easy for him to be intercepted and shot down.

There were no runways long enough for an F-5 to land in the southern provinces occupied by the North. At first, it was decided Capt Trung would fly to Loc Ninh, eject from his plane and be picked up on the ground.

Then, on January 10, the Communists captured Phuoc Long. It had a badly damaged runway, but it was a short flight from Saigon for an F-5. However, the runway was only 3000 feet long, very short for the fighter.

For the next two months, 200 Viet Cong worked non-stop repairing the runway for Capt Trung's arrival. To keep the secret the workers were told the runway was to be used by North Vietnam planes flying South.

"I managed to get the information I needed about the runway: the length, the width and the surrounding terrain," said Capt Trung. "I then started to practise stopping my F-5 within 3,000-feet on my return from missions.

"The first time I tried a short field landing in an F-5 one side of the main landing gear collapsed. The second time the main gear tyres burst. The third time the nose gear collapsed.

"I was summoned by the head of the South Vietnam Air Force, Gen. Minh. He wanted to know why one of his top pilots, who had never damaged an aircraft, had had three accidents with F-5 planes on landing in such a short time.

"I told him I was very upset that the South Vietnamese had withdrawn and left our land to the Viet Cong. I said I was not sleeping well, I was worrying. He said he was not happy about the withdrawal either and accepted my explanation."

About this time word had reached the South Vietnamese that the Communists had a man inside the air force and a special mission was being organised. A Viet Cong under interrogation had said he did not know the man's rank, name or mission but he was from Bien Hoa, Capt. Trung's town.

"There were 10-15 pilots in the air force from Bien Hoa, but only one other was in 534 Squadron," said Capt. Trung. "They chose to interview him first because he had a sister whose husband had taken part in an anti-government demonstration and spent time in jail.

"He knew all about me, but he did not say a word. I told my contact in the Viet Cong about this and he said not to worry. He would know as soon as any decision was taken to drop the interview with the first pilot and interview me and would get me out before the South Vietnamese Intelligence had time to

pick me up. I was never interviewed."

Capt. Trung had devised an ingenious way to 'hi-jack' his F-5 for the mission thanks to an idea thought up by the U.S. "In those days, there were many planes in the air at any one time. It was very difficult to understand pilots when they were all talking on the radio at once.

"It was decided that only the fleet captain should talk on the air and the wingmen should use sign language with their hands or their head to communicate with each other."

On the morning of April 8 everything was ready for the most audacious raid of the war. For it to work it depended on 10 crucial seconds.

"Four aircraft at a time would normally line up on the runway to take off for a mission. The captain would take off first and at five-second intervals the others would follow, one by one.

"If we had a problem we would show one, two or three fingers to the next aircraft and they would take off ahead of you. You had five seconds to rectify the problem or else you stayed behind.

"There were only three planes taking off on the morning of April 8. I was number two. A lot was rushing through my mind; my family, who I thought would suffer most for my actions and my father. But when I pulled the cockpit shut I shouted to myself: 'GO!'

"I signalled two fingers to the captain – electric problem – and to number three pilot. I was worried the leader would say somthing

Capt. Trung at work with Vietnam Airlines where he is chief pilot

U.S. Embassy was on initial 'hit' list

It was a beautiful January day in Ho Chi Minh City as Capt. Nguyen Thanh Trung drove his car to the former presidential palace. It is now a museum and a monument to the dramatic events of April 1975.

His wife, Thi Cam, who was thrown in jail with her two young children within 50 minutes of her husband's attack on the palace, sat beside him.

Orient Aviation and aviation consultant Jim Eckes, were in the back seat.

He received a warm welcome by staff in the gatepost office and his car is waved into the grounds – vehicles are not normally allowed in. The Vietnamese national flag flutters atop the grand structure and fountains dance amid the perfectly manicured lawns.

But look around and the relics of war are not far away. In one corner, shaded by a clump of trees is a tank. This is no ordinary tank. It's the one captured for posterity by the newsreel cameras of the day as it broke down the front gates of the palace on April 30, 1975.

Nearby is an F-5 jet, not the one used by Capt. Trung in his historic attack – his plane has pride of place outside the legislative building in Ho Chi Minh City – but one like it.

In this peaceful setting it is hard to imagine the confusion that reigned on the day Capt. Trung made his first run on the palace.

The first two bombs missed their target and exploded in the gardens where we now stood.

"I was surprised because the F-5 was usually so accurate. Then I noticed the "mill sight" was set at 30 degrees for strafing. It should have been at 80 degrees for bombing," said Capt. Trung.

He re-set the sight and made his second run. His two bombs crashed into the roof of the palace.

As we enter the building he points to the grand staircases. "They have been re-built. The bombs came through three floors and completely destroyed the original stairs," he said.

Casualties, he said, were very low.

President Thieu escaped unhurt. In fact, said Capt. Trung, no one was seriously injured or killed.

Capt. Trung leads the way to the flat roof where two large circles are painted on the ground. Inscribed in the circles, one in Vietnamese and the other in English, it states that these are the exact spots where Capt. Trung's bombs dropped.

A twisted section of shrapnel from one of the bomb casings stands on a plinth near one of the circles.

But then, 25 years on, Capt. Trung drops another hitherto unknown bombshell. Two of his four bombs were earmarked for the nearby U.S. Embassy. But his plans changed when his first run on the palace failed.

Three weeks later the U.S. Embassy rooftop was used to evacuate staff and their relatives in helicopters, a dramatic and now famous scene captured by press photographer, Hugh Van Es. It has been used thousands of times over the years as the definitive picture of the end of the war.

"It's amazing. I watched Capt Trung attack the palace from my hangar at Tan Sun Nhat Airport," said Mr Eckes, who was vice-president of charter operator, Continental Air Services, in Saigon during the war.

"I could see the smoke and rang my friends at the U.S. Embassy to find out just what was going on. Little did they know, even to this day, that they too had been in Capt. Trung's sights until the first two bombs missed their target.

"Many people believe that the palace bombing may have hastened the end of the war. It had been thought it may not come till June."

to the tower. He did not."

"The captain thought I had stayed behind, the tower thought I was joining the others on the mission. Nothing was said."

Within a matter of minutes he was homing in on the building that had been the object of his attention for almost 13 years.

But while so much had churned through his mind before take-off, Capt. Trung said he felt no emotion during the mission. "I had to keep my mind on the task ahead," he said.

The plan was for the first two bombs to strike the palace, the second two – a fact never revealed before – to hit the US Embassy (see separate story) and then for him to strafe a fuel dump on his way to Phuoc Long.

When the first two bombs fell short of the palace, the two earmarked for the embassy were used on a second run at the prized target.

His incident-packed practices on 3000-feet landings paid off. He landed at Phuoc Long on his third attempt.

He spent the next 12 days at a Viet Cong jungle camp and in line with his hero status he was promoted to captain in the North Vietnamese Air Force and decorated. He was then summoned to Danang.

But Capt. Trung had little time to celebrate. With the Communists now on the outskirts of Saigon, he was called upon to return to the city and bomb Tan Sun Nhat airport.

His co-fighter pilots, hand-picked for him, had previously flown Russian Mig-17s. For the attack, they were to fly Cessna A-37s which had been captured from the South Vietnamese air force. It was to be their first bombing mission in skies they had never flown.

After three days of intense ground school and flight training, the flyers moved from Danang to Phu Cat, where four attack aircraft had been prepared. On April 28 they took off for Saigon. "The weather was terrible. We flew at 500 feet in a straight-line formation. "My pilots vowed that if I was shot down they would follow and die with me," said Capt Trung.

Because we were in South Vietnamese aircraft we came under anti-aircraft fire from the Viet Cong. Luckily, they did not hit us," he said.

But the aircraft made it to Saigon area and, remarkably the air was clear over the airport. Each dropped their four bombs on the airport, causing extensive damage. Twenty eight aircraft were destroyed.

Thirty-six hours later the North Vietnamese marched into Saigon and raised their flag above the bomb-damaged palace.

On April 13 Saigon fell to the North Vietnamese. Confusion raged in the city. Prisoners in the Saigon jail managed to release themselves after the guards ran away. Among the prisoners were Capt. Trung's wife, Thi Cam, and her two daughters, five-year-old Thi Thvong and 8-month-old Thanh Muong.

They had been arrested within 50 minutes of the palace bombing. Thi Cam had been tortured as the South Vietnamese attempted to find out the whereabouts of her husband from her. She did not know where he was, nor did she know of his mission.

The family joined thousands of refugees on the road out of Saigon. They walked for almost two days to Mrs Trung's family home in My Tho. Later, on May 2, she had an emotional reunion with her husband in Bien Hua.

"My actions were not only for my father. I wanted to end the killing of my people. They had suffered so much for so long," said Capt. Trung. "It's like a game of chess. If somebody wins the game stops, but if nobody wins the game goes on.

"It was obvious to me that South Vietnam was going to lose the war. If I had thought the South would win, I would have helped the South. It was about ending the game, stopping the killing."

Capt. Trung, now the father of four children, was in the air force for 18 years. He saw action again in 1978, flying combat missions during Vietnam's 'seven day war' in Cambodia. Unlike many of his friends and compatriots he has never thought of leaving Vietnam. A film has been made of his life story.

He joined Vietnam Airlines in 1990 as a Tupelov 134 captain. Today the airline has a modern fleet of Boeing B767s and Airbus A320s. Capt. Trung flies the B767 on Vietnam Airlines' international routes. His two daughters are flight attendants with the airline and one of his two sons is a pilot cadet.

25 year wait for face-to-face meeting

Aviation consultant Jim Eckes has waited 25 years to meet Capt. Nguyen Thanh Trung face-to-face.

He last came into contact with him as he escaped in a Beechcraft Baron from Tan Sun Nhat airport, two days before the fall of Saigon when Capt Trung and his attack team swooped in to bomb the airfield. One of the aircraft made two passes on the Beechcraft, but the pilot, Gene Rainville, now senior vice-president marketing for Gulfstream, avoided the fire.

"We saw the South Vietnamese markings on the aircraft, but we knew a number of them had been captured by the North," said Mr Eckes, who was vice-president of charter operator Continental Air Services. Days earlier, he had arranged for Pan Am's last commercial flight out which took off with almost 800 people on board. It was a feat that Hollywood made into the movie *Last Flight Out*.

Two days later, in Bangkok, Mr Eckes read the raid on Saigon airport was led by Capt Trung.

Last year, *Orient Aviation* told Mr Eckes' story. The Hong Kong-based consultant said he would like to meet Capt. Trung to talk over old times. Several weeks later, Capt. Trung rang *Orient Aviation* and invited us to Vietnam.

In January, the two men met and struck up an instant friendship. Surrounded by old maps, photographs and other memorabilia, they talked about their last 'meeting'. "I think I know which of my aircraft shot at you. Number four was out of radio contact for five minutes. I thought he had been shot down, but he must have seen you. He is still in the air force I will ask him," said Capt. Trung as he poured Mr Eckes another cup of tea in his chief pilot's office, at the airport he bombed 25 years ago.

"When I talk about these happenings, it all seems such a short time ago."

Capt. Trung and Jim Eckes talk over old times

Japan Express: JAL is doubling the fleet of its subsidiary with the addition of four B737-400s

JAL opts for low cost route with JEX, JALways

By Tom Ballantyne

Japan Airlines (JAL) has opted for a big increase in the use of low-cost subsidiaries in its efforts to cope with the industry's fast changing business environment, a move it hopes will offer more flexibility to react rapidly to events.

The strategy, announced in the carrier's plans for the upcoming fiscal year to March 31, 2001, will include transferring more Boeing B737-400 aircraft to domestic subsidiary, JAL Express (JEX), to build more productive regional flight operations.

It also will develop J-Air, the JAL Group's Hiroshima-based regional commuter airline, by introducing Bombardier CRJ-200 50-seat regional jets, the first airline in Japan to use such aircraft.

On the international front, JAL will transfer more routes to subsidiary JALways, formerly known as Japan Air Charter (JAZ). JALways, which has been operating JAL routes predominantly between regional cities in Japan and Hawaii on a wet-lease basis, will now fly these routes under its own name and will expand its operations to Guam and Saipan during the coming financial year.

"Expanded use of lower cost subsidiaries will strengthen JAL Group airline management, in line with JAL's current 1991-2001 mid-term corporate plan announced in March 1999," said an airline spokesman.

JAL itself also will be lifting frequency and capacity on international routes in response to signs of economic recovery. On trans-Pacific routes, frequency from Tokyo to Los Angeles and to Honolulu will increase. It will use more flights or higher capacity to lift its presence on some European services.

"On certain Asian routes, where there is clear evidence of economic recovery, bigger aircraft will be introduced, such as the B747-400 on the Tokyo-Bangkok route. Frequency will be increased on the Nagoya-Tianjin (China) service and during the year frequency on the Osaka-Seoul route will be increased by five to seven flights a week, eventually reaching 14 flights per week (twice daily)," said the spokesman.

Additional capacity provided by the new B runway at Haneda Airport will allow expansion of domestic routes after July.

"By making more use of lower cost subsidiaries, JAL Express (JEX) and Japan Transocean Air (JTA), JAL will improve productivity. During the year, JAL will transfer four B737-400 aircraft to JEX, which will be put into service on local routes." This will double the fledgling carrier's fleet to eight B737 jets.

JAL's fleet will remain at 134 airplanes during the year. This will comprise of 78 in international service, 47 aircraft on domestic routes, a reduction of one, with the freighter fleet increasing by one to nine.

GOOD MILEAGE

By Tom Ballantyne, in Melbourne

Distance is no object as new Ansett/Air NZ venture pitches its MRO expertise worldwide

The formula sounds simple. Take two medium-sized aircraft maintenance divisions, merge their operations and end up with a significant player in Asia's regional maintenance, repair and overhaul (MRO) market. So big, in fact, it could even grab a growing share of business from Europe and the Americas.

For Ansett Australia and its half owner, Air New Zealand (AirNZ), doing just that has already involved two years of meticulous planning, a handful of unique challenges and the prospect of several more years of effort before the parts become a genuine whole.

Not that the new Ansett Australia and Air New Zealand Engineering Services (ANNZES) will be waiting until then to convince customers to take advantage of its MRO offerings.

According to John Vincent, the company's chief operating officer, one of the first tasks of a newly appointed trans-Tasman managerial team – under American-born chief executive officer Bill Jacobson – has been putting together a commercial department, including a sales and marketing team.

While the two separate airline engineering divisions shared a stand at Asian Aerospace in Singapore two years ago, at the same event in February they will debut as a single entity under the ANNZES banner.

As the phased merger of the two divisions continues, the aim is to drive expansion by chasing new third-party customers with the promise of quality work, competitive pricing and speedy turn-around times.

By putting the two businesses together, Ansett and Air NZ already have introduced a significant market player. The combined turnover of Ansett Australia Engineering and Air New Zealand Engineering Services is around US$490 million. The plan is to lift that figure to around US$650 million within five years, with 40%, or nearly US$200 million annually, coming from third-party contracts.

Yet while ANNZES has officially been established on both sides of the Tasman Sea, its only employees will be the combined management team of executives co-ordinating the firm's various MRO centres.

Maintenance and engineering staff will remain on the payroll of the two airlines and assets such as hangars, spare parts and specialised tooling equipment will belong to the carriers.

That is because of the unique issues involved in a merger of companies in different countries, not to mention union concerns and regulatory issues.

"No one has done this before that we are aware of," explained Mr Vincent. "A number of airlines have separated their engineering business, but we are not aware of anyone who has done it and then combined two businesses in two sovereign states.

"We are being very careful and working through the issues cautiously with the unions and with organisations like Australia's Civil Aviation Safety Authority (CASA) and Civil Aviation New Zealand to ensure we meet the business regulatory requirements."

No one involved doubts the move makes sense. "This is not a downsizing exercise," said Mr Vincent. "The whole thrust of ANNZES is that we want to create a maintenance repair and overhaul business that is world class competitive, that will take on increased third-party work and will actually expand. The whole thrust of it is job expansionary."

The two airlines each have a strong engineering product line with surprisingly little duplication.

Ansett works on Boeing B737-300s, B767s and Airbus A320s in Melbourne. In Auckland, Air NZ has Boeing B747 and B767 lines. Under the plan, all heavy D-checks on B767s will be moved across the Tasman to Auckland, although lighter checks will continue in Australia. New B737s being purchased by Air NZ will be supported in Melbourne.

Similarly, engines and components will be supported substantially at their current locations; the CFM56 in Melbourne, the CF6-80C2 at Auckland and the JD8 in Christchurch.

"It all fits together very well," commented Mr Vincent. "Even if you look in the component area we have highly specialised capability here in Melbourne around hydraulics, mainly because of the A320, which has sophisticated electro-hydraulics systems.

"Similarly we have a lot of avionics capability, mainly driven by A320 technology. If you look at Air NZ, they have a lot of capability in pneumatic systems which we don't have.

"There will be some work that's taken out of one location and put into another, but the commitment we have given to our people is that for each parcel of work that's moved one way there will be a parcel of work of roughly equivalent size moved the other way."

ANNZES aims to create Centres of Excellence aimed at doubling the volume in each geographical location, driving efficiency and making pricing more competitive.

Mr Vincent said customers' priorities are quality, price and turn time. Quality is number one. Price and turn time are equal second.

"In the areas of engines and components we believe we are already world class or approaching world class on quality and price. We recognise we must improve our turn times and we have a significant programme in place that will achieve this end.

"At Ansett we achieve our current turn times in most cases with only one shift; a five-day, Monday to Friday day time shift.

"We know we can drive our turn time down hugely when we put on additional shifts – afternoon shifts and seven-day-a-week shifts. The business plan provides for this move forward."

Where is ANNZES right now? The management team will be in place by February, co-ordinating activities on either side of the Tasman. There will be a progressive roll-out of production units over the next 12 to 18 months, beginning with materials management, then components, engines, airframes and support areas such as technical services and quality assurance.

The two airlines rejected a 'Big Bang' approach – a virtual overnight merger – mostly because of concerns amongst workers about leaving the employment of established carriers many had worked with for years.

According to Mr Vincent, the transfer of the workforce to the ANNZES payroll could take two or three years.

"We decided that doesn't have to happen on day one. There is no reason why we can't put the management team in place and leave the employees where they are and, over a period of time, demonstrate that we can make a success of the business.

"One of the challenges we are going to have is to convince people that working for a successful aircraft engineering business is better than working for a successful airline. That's not going to be easy."

ANNZES chief operating officer, John Vincent: third party contracts crucial to future success

Mr Vincent stressed the joint venture did not emerge as a result of the two airlines joining the Star Alliance last year, but was more about global trends in the MRO business.

"We recognised the world of MRO is rapidly becoming global... by putting the two organisations together we become a significant player in this region. That is necessary because if we don't, whether its Lufthansa or GE or Pratt & Whitney or Boeing, then we are going to wake up one day and find these big players are well and truly established in our backyard.

"The objective of us joining forces is to create an organisation which has a significant critical mass in the region."

ANNZES does not fear competition with the big guns. The airlines' recognition in the third-party MRO market is quite strong. Mr Vincent said Ansett carries out a reasonable amount of engine work in Asia and points to Air NZ engineering as proof of the pudding.

"They have been able to go into the very highly competitive JD8 market in the U.S., right into the heartland of competition. They source engines from all over the U.S. They get JD8s from everywhere, including Europe and South America."

Mr Vincent does not view location as a huge competitive disadvantage. "There is no doubt it is an issue. It may be for Europe, particularly with airframes, although I think we are close enough to Asia to be able to bring airframes down here and still be competitive.

"But we don't think it is a real issue when it comes to components and engines. Allowing for the relative cost of shipping a component, even an engine which is physically much bigger, when compared with the value, we believe in terms of price and turn time we can justify work being delivered here.

"Once you have the volume and demonstrate to people you are viable, have good quality and are reliable, then you can negotiate some good shipping deals. You can reach the point where the cost of shipping the engine there and back is reasonably attractive in the context of total cost to the supplier," he said.

ANNZES will not be restricting its sales drive purely to airline work. It will be looking for as many opportunities as possible. Air NZ, for example, overhauls industrial jet engines used in such facilities as pumping stations.

What has not been decided to date is how to brand the company. While ANNZES is the shorthand name for the merged entity, a logo will have to be chosen as a banner for the company's wares.

"We are being very cautious in looking at how best to use the recognised brands of the two airlines so people know they not only sending work to a high quality engineering company, but also to a company with roots in two airlines which understands an airline's needs.

"As an airline we know that if your maintenance providers do not have an airline background they do not really understand what drives you, what frustrates you and what makes you tick," said Mr Vincent.

As it sets out to lift its presence on the global MRO front, ANNZES wants everyone to know its airline roots.

Pratt & Whitney on the prowl

At Singapore's Asian Aerospace '98 Pratt & Whitney (P&W) president Karl Krapek made some firm predictions. He admitted that until 1997, Pratt had never overhauled one of its own JT8D engines. With some 12,000 in service, this was a vast market left untapped, which he described as "amazing". The company, he added, should have attacked it "years ago".

He predicted the after-market would prove a growth area for a good five years, into the early years of this new millennium, and that Asian crisis-related deferrals could free up factory space that would be occupied by this expansion.

And he added that P&W was now going out there to claim for itself 10% of that sizeable JT8D after-market.

As Asian Aerospace 2000 neared, P&W grabbed a last minute addition to its order book from Asia with a 10-year agreement from Japan Air System (JAS) for a fleet management programme for their JT8D-200-powered MD-80 aircraft.

SIA Engineering: successful joint venture with P&W

Previously Ishikawajima Harima Heavy Industries (IHI) in Japan had done the work. Robert Weiner, P&W's vice-president engine services, said they were particularly pleased to win the contract against strong local competition.

Signed in late November, the deal offered cost savings and turn time improvements, which reduced the cost per engine-flight-hour for the customer, said Mr Weiner. The fleet management programme is based on "power by the hour" with JAS paying per engine flight hour.

As part of the agreement, dedicated P&W technical staff are assigned to JAS's base in Tokyo and the engine-maker's overhaul centre to focus entirely on JAS work.

The new agreement covers 63 engines in the JAS fleet and has an estimated value of nearly US$150 million.

The full-scale overhaul and maintenance work will be performed at P&W's Columbus engine centre in Georgia, USA, Columbus opened in 1996 and is dedicated to the JT8D engine family. Since its opening the centre has handled about 200 engines, 70% of them during 1999.

"We're doing very well in Columbus," Mr Weiner told *Orient Aviation*. "We've done a tremendous amount of work implementing flow lines and reducing our turn time. In fact, turn time is down to 45-50 days. We're doing about 15 8Ds each month and we'll ramp this up significantly over the next few years. We'll at least double last year's total in 2000."

Mr Weiner said he expected to achieve the targeted 10% share of the 8D market by the end of this year. However, he said P&W's 1999 share had only been 3% to 4%, which clearly underlines the benefits awaited from the on-going turn time reduction programme.

At Asian Aerospace '98, Mr Krapek contrasted his company's strategy to that of GE Engine Services, which aggressively targets maintenance work on rivals' products. "Pratt isn't interested in doing the other guy's engines ... I've got plenty of growth in my own engine market to take care of first," he said, but added that when P&W take on an airline with a mixed fleet of engines, it will handle rivals' powerplants.

Now it seems that P&W is taking more interest in competitors' engines and that is what has happened in Singapore. P&W bought a 51% stake in SIA Engineering's engine overhaul business in 1998 and among the 240 engines handled last year was its first heavy overhaul of a rival engine.

The first CFM56-5 went through the shop in November, although the company had handled light overhaul of the engine the previous year. Now it is handling two heavy overhauls each month and is beginning to look for third party CFM56-5 clients and possibly a repair capability

"That's our first non-Pratt engine and it won't be the last!" said Mr Weiner. "The Singapore joint venture is the first step. Now we're looking at many other opportunities around the world to go well beyond the CFM56-5. We already do a fair amount of GE and Rolls-Royce engine repairs and we'll be expanding that, too."

The Singapore joint venture was originally registered under P&W's old Eagle Services brand name and it still goes by that title, even though the rest of the business switched to Pratt & Whitney Engine Services last year. Like the rest of its global business, the Singapore centre employs flow lines to boost quality and turn-around times.

"Flow lines are unique to P&W. We first tested them in our military manufacturing business. We used to take 72 days to build a military engine, but with flow lines it was down to just 17 days by the end of the year. We took the same concept and applied it to the overhaul world," said Mr Weiner.

The standard approach was for an engine to sit in a bay while the mechanics came in with their tools and a bin for parts. They took a bunch of parts off and then the tools and parts went out and the mechanics fetched more tools for the next operation. Everything came in and out of one bay. Flow lines are different.

"It's more like a Toyota or GM assembly line ... the engine moves from one station to another so there is five stations to tear down an engine and each station has dedicated mechanics, dedicated tooling, dedicated part rack, dedicated everything. Every day, every 22 hours roughly, the engine moves to the next station. After disassembly the sixth station is re-assembly so it's everything in reverse."

According to Mr Weiner the flow line method requires significantly less shop space, because in the bay concept you have to have an individual bay for every engine in process. "In flow line there's no limit to volume. When volume increases you just turn up the speed and put more people on them. Flow line is dependent solely on your manpower."

Instead of moving every 22 hours, increased demand would mean engines had to move down the chain every 11 or even 5 hours. But even with flow lines, turn time improvements cannot surely continue indefinitely? Mr Weiner disagrees.

"In my view the limit becomes just the 'touch-time' on an overhaul or repair. When we started on turn time reductions, a stator took about 50 days. We are on about 25 days now. But the 'touch-time' on stators is probably only about 1.5 days, so the limit becomes 1.5 days. When you get down to 1.5 days you can implement process improvements too. There's a long way between where we are now and reaching 'the end'."

Although 1999 was Singapore's first full year of operation improvements have been significant. "We reduced turn time significantly on the PW4000s. We were overhauling them in a little over 50 days at the end of the year. It was more than double that when we took over."

Such productivity increases are opening up capacity in the 800-worker shop. P&W is aggressively seeking third party business in a shop that was once purely handling the Singapore Airlines fleet.

Flow lines for the JT9Ds also are in progress, through which Mr Weiner wants to funnel the Asia-Pacific fleet. "There's still a good market there for JT9Ds," he said. Flow lines for the CFM56 engine will also be introduced this year.

Last year there were rumours of a plan for a P&W joint venture for the JT8D and V2500 in mainland China, but Mr Weiner put them into perspective. "We are expanding extremely quickly right now, so we're looking at overhaul facilities all over the world, including possibilities in China."

A busy P&W sales team also recently signed contracts with Asian carrier Air Maldives and Aloha Airlines in Hawaii. Air Maldives opted for a US$30 million powerplant fleet management programme as part of its plan to expand its mixed PW4000 / JT8D driven A310-300 fleet. P&W will provide a complete array of off-wing maintenance and engine overhauls under a five-year agreement announced last December.

Earlier in the year Aloha Airlines chose P&W's Columbus centre for overhaul and repair of its JT8D engines and engine modules. John C. Buckingham, vice-president maintenance at Aloha, said he was pleased the OEM was now involved in JT8D MRO. "As a smaller airline we count on our ability to develop integral, mutually beneficial relationships with our vendors."

The engine services division has become increasingly important to the P&W bottom line. By 1999, Mr Weiner said it brought in "over US$1 billion" – excluding parts – compared to about US$200m annually in the mid-nineties.

"We have come a very long way in just a few years as a truly full-service engine supplier," Mr Weiner added. "These airlines and others like British Airways, America West, Delta and American Airlines are seeing the value we can bring to their operations as we move from being simply a supplier of engines and parts to an integrated partner in managing airline engine fleets."

The P&W vice-president also was keen to set the record straight on his division's size compared to rival GE Engine Services. "When you compare overhaul and repair work of Pratt & Whitney Engine Services with GE Engine Services we are very close. If you include United Technologies Corporation aerospace services [Pratt & Whitney, Pratt & Whitney Canada and Hamilton Sundstrand] we're slightly bigger than GE."

Japan Air System: signed a 10-year deal with Pratt & Whitney

Mr Weiner was tight-lipped about what announcements are in store for February's Asian Aerospace, but more third party contracts would seem to be a good bet. "Last year we reduced turn time by an average 50% across the world. This year we plan to do the same, becoming the fastest across the world on all our overhaul and repair businesses.

"That sets the stage for P&W to go out and really grow the business. We've packaged our services so that we are really a full service provider to the airlines through flight management programmes and material management programmes. This year promises further growth and programmes in place in the world where we're not at today."

JAA approval for GAMECO

The Southern China maintenance facility, Guangzhou Aircraft Maintenance Engineering Company (GAMECO) has had its JAR-145 certification renewed by Europe's Joint Airworthiness Authority.

Included in the new certification are Airbus A320 and A321 aircraft up to C-3 Check level and MD-11 series line maintenance. GAMECO was originally certified by the JAA in 1998. Since 1998 it has carried out 25 C checks on A320s and a similar check on a A321 for mainland carriers, China Southern Airlines, CNAC Zhejiang and Sichuan Airlines.

GAMECO is approved by the U.S. Federal Aviation Administration, the Civil Aviation Administration of China and JAA to perform all levels of maintenance checks for B737, B757, B767, B777 as well as A320 and A321 aircraft.

Based at Guangzhou's Baiyun International Airport, GAMECO is a joint venture between China Southern Airlines, Lockheed Martin Aeronautics International of the U.S. and Hong Kong-based Hutchison Whampoa (China) Ltd.

R-R's global view

PATRICK GARRETT *spoke to Rolls-Royce aero repair and overhaul's senior vice-president, Bill Madison, about business prospects for MRO in the new millennium.*

According to statistics from management consultants The Canaan Group the aero engine maintenance, repair and overhaul (MRO) business is booming. It calculates the industry generated income of US$24.48 billion globally in 1997.

Rolls-Royce's Bill Madison said over the next decade the figure is expected to grow by more than US$1 billion annually and will top US$40 billion.

In the next 20 years, based on predicted deliveries of nearly 17,000 jet aircraft, Mr Madison pegs demand at more than 43,000 engines, including spares, valued at US$251 billion.

Corporate aircraft could account for an additional US$19 billion of engines. Spare parts alone for the period could be worth US$150 billion, he said.

Although the Asia-Pacific, including China, is not top of the predicted aircraft deliveries league, it is the highest value market to the engine makers because of the higher proportion of large, widebody aircraft required, with larger (above 45,000lb), more expensive powerplants. The aftermarket potential is immense. "With such staggering revenue being forecast, the race for market share has caused all MRO providers to re-evaluate their strategies," said Mr Madison.

A Rolls-Royce Aerospace Repair and Overhaul Council (AROC) was formed in 1997 consisting of senior management from the world-wide repair and overhaul subsidiaries and affiliates, the Rolls-Royce OEM Customer Facing Business Units, BMW Rolls-Royce and Industria de Turbo Propulsores. The council defines policy on global issues and measures performance of individual businesses against these standards.

Rolls-Royce has reacted to the effects of major industry rationalisation – mergers, acquisitions, industry-wide consolidation and changing alliances and structures within airlines – with a series of partnerships and joint ventures. Their strategy is particularly evident in Asia-Pacific.

HAESL, a 50:50 joint venture with Hong Kong Aircraft Engineering Company (HAECO), a sister company of Cathay Pacific Airways, was launched in Hong Kong in 1997.

In 1998, another joint venture was announced in Singapore – SAESL – owned 50% by SIA Engineering Company, 30% by Rolls-Royce and 20% by HAESL. It will become operational in 2002.

And last year International Engine Component Overhaul Pte Limited (IECO), a joint venture company owned equally by Rolls-Royce and SIA Engineering Company started in Singapore.

The 4,000 sq metre facility boasts a full range of processes, including the refurbishment of nozzle guide vanes and compressor stators for the region's sizeable RB211 and Trent fleet.

Mr Madison said the major aero engine OEMs have all identified MRO services as a significant business opportunity and have organised aftermarket services ranging from line maintenance to world-wide logistics and from engine buy-back and lease to servicing rival OEM products.

Among its many products Rolls-Royce claims to operate "the world's largest, specialist, aero gas turbine leasing company", Rolls-Royce & Partners, with a portfolio of 91 engines. GATX Capital took a 50% stake in the business in 1998.

The evolving MRO strategy seems to be bearing fruit.

In a growing market for repair and overhaul Mr Madison said that about half of Rolls-Royce civil aero engines world-wide go through its own shops.

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.

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.

Bishop's move a blessing for Star

British Midland opens up Heathrow slots for alliance's Asian carriers

By Tom Ballantyne

It is hardly surprising that Sir Michael Bishop, chairman of the UK's second largest airline, British Midland (BM), should opt for the luxury of the Ritz Carlton Hotel when he visits Sydney, in Australia. The exclusive property overlooking the leafy splendour of the city's botanical gardens is most definitely his style.

When in London the dapper, quietly spoken and cultured executive always checks into the Savoy, a hotel synonymous world-wide for style. It is therefore perhaps not surprising he should stamp his own very special individuality on his airline's headquarters – a splendid stately mansion surrounded by extensive grounds at Castle Donington in the English Midlands.

But beyond these cultured surrounds, not to mention his avid passion for opera and, in particular, the famed D'Oyle Carte company, there is no mistaking the driven businessman with an eye for success.

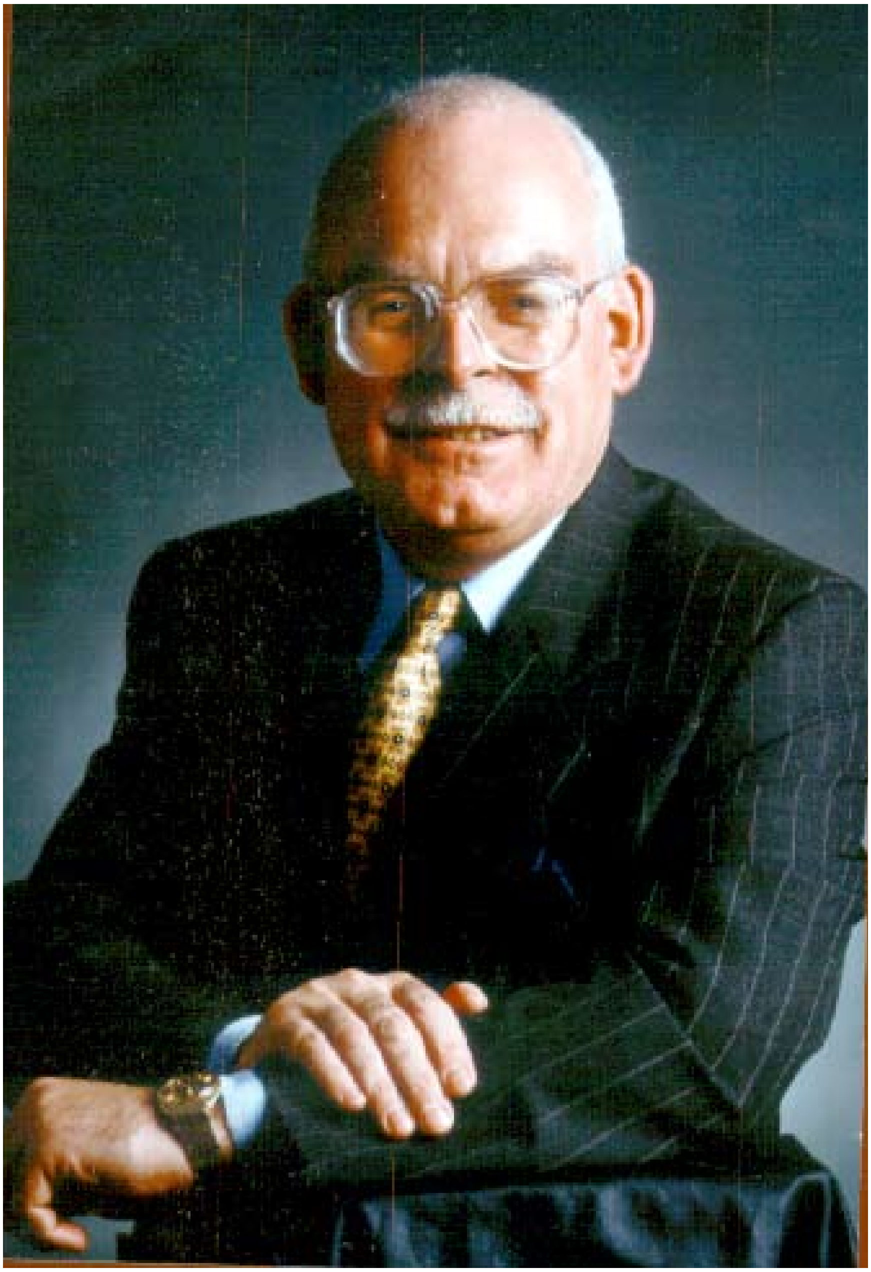
The hard, no-nonsense edge may result from an Antipodean connection; a Wellington, New Zealand-born grandmother and a father who hails from Melbourne, Australia.

Many in Asia may regard BM as a purely European regional operator, but it is about to become a major player in the region's airline scene, even though there are no plans to launch flights into the region.

What is drawing BM into Asia's web is its imminent arrival as the latest member of the United Airlines-led Star Alliance, a move expected to take place officially in April.

For Star partners such as All Nippon Airways, Air New Zealand (Air NZ), Ansett Australia and Thai Airways International (THAI), it opens up significant opportunities for expansion of code-share opportunities and European feed through a carrier controlling the second largest number of slots at Europe's most vital hub, London's Heathrow Airport.

BM code-shares previously in place with airlines belonging to Star rival oneworld



British Midland chief Sir Michael Bishop: man of style

– Qantas Airways, Cathay Pacific Airways and American Airlines among them – have already been halted, Sir Michael explained in an exclusive interview with *Orient Aviation*.

Often accused of being decidedly undynamic in his development of BM, Sir Michael, who along with partners owns 60% of the airline, has shrewdly manoeuvred his charge into a prime position.

Courted by a swag of suitors, he opted for Star late last year. Under the deal, 40% stakeholder Scandinavian Airlines System (SAS) agreed to sell half its stock to Star stalwart Lufthansa German Airlines for US$148.2 million, giving it a 20% holding in BM and valuing the airline at around US$740 million.

The decision shook UK big gun and oneworld leader British Airways (BA) to the core. It reacted by accusing Sir Michael of "selling out to the Germans", a comment Sir Michael described as "unfortunate", although BA quickly toned down its language.

"I think they were just frustrated. They are a pretty good business, but now find themselves in a more competitive position at Heathrow than many other European airlines do in their home bases," he said.

The reason is the Heathrow slot situation. BA has dominated Heathrow for years, currently holding around 38% of slots, moving nearly 27 million passengers annually through the airport.

BM had 13.7% of slots, carrying 5.4 million passengers a year. Add its new Star partners – until now the alliance had no British member – and the coalition has 27% of Heathrow slots, dramatically altering the competitive picture.

For BA, it was already a torrid market. In the UK there are not only major scheduled airlines with which to contend. "There is a whole tier of charter airlines operating package holidays also offering seat-only sales, such as Britannia and Airtours. Then there is another tier of low-cost airlines such as EasyJet, Ryanair and Virgin Express," said the BM chief.

Sir Michael revealed BM looked carefully at entering the low-cost market. "We decided to remain a full-service airline mainly because our network hub at Heathrow is a full-service airline hub. It is an airport where people are changing flights and where the majority of high yield traffic in the UK actually flows, so it would be incongruous for us to have a low-cost airline at a high-cost airport.

"To make money in low-cost airlines you actually have to have a very tailored specific business which you can really only start from a fresh piece of paper. You can't convert an existing full-service airline into a low-cost airline," he argued.

BM's entry into Star will lay accusations of lack of dynamic expansion to rest, although Sir Michael smiled and suggested in his experience "most dynamic airlines go bust ... Virgin being the exception to the rule".

In a ruthlessly competitive business BM has stayed the course, he added.

"The business plan we have adopted in going into Star will mean BM will double in size. Over the next five to seven years staff will rise from the present level of 6,500 to 12,000 and the fleet will increase from 52 to 90 aeroplanes," said Sir Michael.

That growth depends on a new bilateral air service agreement between the UK and the U.S. Sir Michael plans to launch flights across the Atlantic this year. Already, with clearance from the UK Government to operate to Boston, New York, Washington and Miami, BM has lodged applications for six other U.S. routes. Approval from Washington is pending.

To achieve all this BM will need long-haul aircraft to supplement its current fleet of shorter haul Boeing B737 and Airbus A320 types, which serve 29 cities in Europe and 17 British domestic destinations. A bidding war is underway between the two big planemakers for six jets – either B767-300s or A330-200s – for likely delivery in the second quarter of 2000.

"We have no plans to operate our own services into Asia at the moment. But we shall have to see how the industry develops long-term. From what I hear down here in Australia there is quite enough competition already," said Sir Michael.

With Star, however, BM will have no problems offering its customers Asian capacity. It already has extensive commercial arrangements, some involving code-shares, with carriers such as Singapore Airlines, Ansett, Air NZ, THAI, Malaysia Airlines and Royal Brunei Airlines. Arrangements with Star partners will be strengthened and expanded.

"With the alliance there is a whole cocktail of different commercial arrangements which will be much easier to enter into. I think it is the platform for a very dynamic period of growth for BM," said Sir Michael.

In his mid-fifties, Sir Michael has brought a new, younger generation of managers into the company to underscore this new vitality. Chief operating officer James Hogan, appointed last year, is in his early 40s. A range of other new executives are in their mid to late 30s and early 40s.

One of their tasks may be preparing the company for a stock market listing. "As far as BM is concerned a flotation is now an option, but we have no timetable planned for when it might be," said Sir Michael.

The cash is not required to buy aircraft. Resources are in place for that. Nevertheless, there has been much speculation in British markets about a listing.

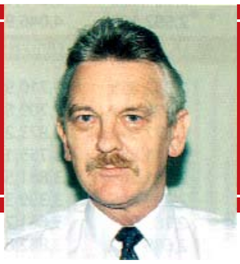
Sir Michael said a flotation would only become a reality if there is regular incremental profits; a good and increasing profit stream is required to meet the criteria of the market.

In the past, he has always ploughed income back into the business for subsequent stages of development, a manoeuvre which has served BM well since it was established in 1983.

"The prospect of going into the Star Alliance and the business plan we have adopted for the first time, provides us with the potential to produce the kind of results which the stock market would want to see to justifv criteria for an Initial Public Offering (IPO)."

British Midland's entry into the Star Alliance will put pressure on British Airways at Heathrow Airport

RECOVERY YES, BUT BIG CHALLENGES AHEAD



TURBULENCE

By Tom Ballantyne

The airline industry breathed a huge sigh of relief as 2000 arrived without any sign of the you-know-what bug. Santa, however, did not deliver any turn of the century 'big bang' solutions to the issues facing carriers in coming years.

Everyone remains cautious about growth levels and there is still a great deal of uncertainty over the pace of economic recovery in various parts of the world, including Asia.

The volatile path of global stock markets post January 1 is clear evidence of this. Share prices soared to record levels as a wave of Y2K relief enveloped investors, then dipped alarmingly before picking up again.

Of greater concern is markets everywhere react immediately to the whims of the New York Stock Exchange. They do so because what happens in New York underlines the reality that a recovering Asia can have its progress severely dented by developments elsewhere and that they are matters over which the region has absolutely no control.

These are factors airline managements are learning to live with. Putting Y2K to rest must not detract industry focus from the task ahead, which in many ways is far more formidable.

The issues have been well covered in the pages of this magazine; the pace of liberalisation, dealing with the challenges of information technology, achieving global standardisation on the safety and regulatory fronts and finding sustained profitability in viciously competitive markets.

Also there are regional issues which refuse to go away and have the potential to impact detrimentally on the smooth development of airline operations in Asia and beyond.

The China/Taiwan question is a perfect example, as is ongoing friction between North and South Korea and social unrest in parts of Indonesia. These political issues pose a constant threat to regional stability. If they get out of hand they can do serious damage to business, tourism and airlines.

There are internal airline issues too. While it has made extraordinary progress on the aviation front, Beijing continues to place powerful official brakes on the expansion and emergence of its carriers.

Asia's airline industry will never be entirely complete until mainland operators are truly immersed in the regional aeropolitical landscape, with all the freedoms and operational flexibility their regional counterparts have.

After a horrendous fiscal period in the late 1990s, incumbent airlines also face new threats of competition from unexpected quarters.

In Australia, changes to foreign investment rules will allow a foreign airline, Britain's Virgin Atlantic, to launch a wholly-owned domestic carrier in the country.

This move takes on added significance for Qantas Airways and Ansett Australia, airlines which at the same time may have to face two other start-ups, Impulse and Spirit, on their primary trunk routes.

In Indonesia, a handful of charter carriers are being given scheduled status to enter the domestic market at a time when it has been severely depressed by the economic downturn.

The Philippines continues to buck open skies trends through its ongoing battle with Taiwan over direct air routes. None of this may make sense to many observers, but that does not really matter. It is happening anyway and has to be dealt with.

Several IATA 'report cards' issued over the turn of the year clearly show indicators for future industry expansion are mixed and that these developments are not occurring at a time when airlines are at the peak of an economic cycle.

While IATA's Annual Average Growth Rate (AAGR) forecast for scheduled international traffic over the five years to 2003 is estimated at 5.02%, the figure is down by 0.5 percentage points on the passenger forecast from 1998-2002 and 1.5 percentage points lower on the 1997-2001 figure.

Passenger growth prospects vary significantly between regions, driven by differing economic expectations. In Asia, traffic growth forecasts are driven by the increasingly evident upswing in economies such as Thailand and Korea, but also they have been offset by the continued stagnancy of the Japanese economy.

The AAGR for Japan is estimated to be just 2.6%, a drop of 1.5 percentage points on the 1998-2002 forecast.

Economic problems in South America, previously one of the high growth areas of IATA's Passenger Forecast, have had a significant impact on airlines. The five-year AAGR for traffic to and from Brazil, for example, is projected at just 3.9% compared with 8.4% 12 months earlier.

The 1999-2003 Passenger Forecast is derived from IATA's annual survey of the world's major airlines, airports and civil aviation authorities, so it provides a good barometer of industry sentiment, representing the consensus opinion of aviation's leading forecasting and strategic planning experts.

On another front, the association's 1999 Corporate Air Travel Survey said growth in this sector would continue, which is good news. It pointed out that in 1997 some 40% of corporate air travellers expected to be using the Internet for their travel arrangements by 2002. Now, more than 50% expect to be doing so by 2004. In addition, 43% of corporate travellers used electronic ticketing in 1999, a 60% growth from 1997 levels.

There is another point the industry needs to make, particularly to those who, in the absence of Y2K problems, suggest the hundreds of millions of dollars spent on anti-bug measures represents money wasted.

Maybe we shall never know what might have happened if the money had not been spent, but the exercise has been invaluable. Perhaps for the first time in history it has shown the global aviation industry and all its various components can work together with a single goal.