Orient aviation

VOL. 7 NO. 9 JUL/AUG 2000

MA… …FIC AIRLINES

EXCLUSIVE interview with Airbus Industrie chief executive, Noél Forgeard

China's big challenge

FAA under pressure

PAL stopping the rot?

ASIA'S A3XX

SPECIAL REPORT: European investment in aviation in the Asia-Pacific

Orient aviation

VOL. 7 NO. 9 JUL/AUG 2000

COVER STORY

ASIA'S A3XX

Page 24

EXCLUSIVE:
Airbus Industrie chief executive Noel Forgeard talks to *Orient Aviation*

BPA INTERNATIONAL ®

NEWS

FEATURES

SPECIAL REPORT

COMMENT

INFLIGHT ASIA

A 16-page pull-out dedicated to onboard services and technology. In this issue: Big two caterers go "E"; Part Two of World Airline Entertainment Association special report; Network: news and people moves.

PUBLISHER
Wilson Press Ltd
GPO Box 11435 Hong Kong
Tel: Editorial (852) 2893 3676
Fax: Editorial (852) 2892 2846
E-mail: orienta@asiaonline.net

Publisher and Managing Editor
Barry Grindrod

Joint Publisher
Christine McGee

Chief Correspondent
Tom Ballantyne
Tel: (612) 9638 6895
Fax: (612) 9684 2776

Special Correspondent
Patrick Garrett

Hong Kong & China:
Wellington Ng
Tel: (852) 2893 3676

Photographers
Andrew Hunt (chief photographer), Rob Finlayson, Hiro Murai

Design & Production
Ü Design + Production

Colour Separations
Twinstar Graphic Arts Co.

Printing
Lammar Offset
Printing Company Ltd

Distributed by
Wilson Press Ltd

ADVERTISING
Asia :
Wilson Press Ltd
Christine McGee
Tel: (852) 2893 3676
Fax: (852) 2892 2846

The Americas / Canada :
Robyn Tucker International Marketing
Robyn Tucker
Tel: (1-441) 295 8200
Fax: (1-441) 295 8210

Europe :
REM International
Stephane de Remusat
Tel: (33 5) 34 27 01 30
Fax: (33 5) 34 27 01 31

Association of Asia Pacific Airlines Secretariat
Suite 9.01, 9/F,
Kompleks Antarabangsa,
Jalan Sultan Ismail,
50250 Kuala Lumpur, Malaysia.
Director General: Richard Stirland
Commercial Director: Carlos Chua
Technical Director: Leroy Keith
Tel: (603) 245 5600
Fax: (603) 245 2500

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

RIGHT MOVES IN CHINA

In our main story, "China's Challenge", a former official of the Civil Aviation Administration of China (CAAC) told *Orient Aviation* that all the recent talk of radical reform of his nation's aviation industry will become fact in the not-too-distant future.

He said a strategy paper being considered by mainland China's supreme policy-making body has recommended the country's airlines be restructured into four lead groupings in a bid to eliminate industry losers and promote the well-managed, the improving and the profitable airlines.

The aviation world has heard this talk before. So far it has come to nothing.

Somewhere along the way to policy implementation, the jobs of long-serving cadres have been threatened. Politics is blamed for aborting change.

This time it is different, said Zhang Baojian, now government and industry affairs director, North Asia for the International Air Transport Association (IATA).

The more worldly presidents of both the major airlines and successful second-tier carriers know the industry cannot achieve its much-mooted potential without weeding out the dead wood among carriers. Good airlines must be free from the CAAC's intervention in their management.

And this brings us to the other equally important reform. The CAAC, which has often been criticised for being regulator AND airline operator, is to concentrate on the regulating, said Zhang.

Operating China's top eight airlines, and none too impartially at that, is a throwback to the days when the CAAC was the only airline. In recent times, it has been accused of favouring its carriers in route allocation to the detriment of some better run provincial airlines, and protecting its 'friends' by imposing unworkable ticket pricing regulations that cancelled out competitiveness in the market.

But when it regulates the CAAC has not done too badly, particularly in the area of safety.

Today, China's record is as good, if not better, than most areas of the world. This is a great improvement on the early Nineties when airline accidents happened regularly.

China's aviation industry appears to be heading in the right direction – on paper. All we need now is some action.

BARRY GRINDROD
Publisher/Managing Editor

HATCHET BURIED: Rod Eddington is wasting no time pushing his new broom through British Airways (BA), but even those closest to the new BA chief executive were surprised to hear he had lunch with the airline's arch rival, Sir Richard Branson, owner of Virgin Atlantic Airways. They have at least one experience in common – both of them have spent many, many hours in the company of Singapore Airlines' (SIA) senior management discussing SIA equity in their individual airlines. In Eddington's case, it involved SIA's planned 50% purchase of Ansett, which he then headed. That deal fell at the last hurdle when the other 50% part-ner, Air New Zealand, blocked the sale. Sir Richard fared better. As sole owner, and therefore with no pesky partners to veto the deal, he sold off 49% of his airline group business to SIA earlier this year.

FLYING AGAIN: After a brief, fallow period as an executive director in the sedate London head office of Cathay Pacific Airways parent, John Swire & Sons, Peter Sutch, the former chairman of the Hong Kong carrier and Swire Pacific, is putting his name and experience into an airline, based in Italy. In June, the British media reported Sutch has accepted the position of chairman of transport company, Tolmount, which may soon list on London's Alternative Investment Market (AIM). At the annual IATA conference in Sydney, the legendary charmer said very little about the deal, but he did not deny it. Apparently, Swire king, Sir Adrian Swire, has given his blessing to the project. Sutch will keep his day job at Swire HQ.

WHAT? At the same IATA gathering, SIA chief executive, Dr Cheong Choong Kong was asked if rumours circulating the conference hall that he was about to move on from the airline to an even loftier position in Singapore Inc., a.k.a. the Singapore Government, were true. Quipped Dr Cheong: "It's the first I have heard of it. I'd better go home. There might have been a coup." So far its all quiet on the Airline Road front.

NON! Air France, one of the lead members of the new four airline alliance, SkyTeam (see regional round-up), continues to press its suit with Thai Airways International (THAI), with the goal of engagement in mind. The French flag carrier's latest offer is to make Bangkok its Asian hub if THAI will break away from Star and join with SkyTeam – which also includes Delta Air Lines of the U.S., Korean Air and AeroMexico. But THAI's president, Thamnoon Wanglee, is still saying non! He insists he is staying put with Star.

BETS ON: A rumour from who knows where, that Malaysia Airlines (MAS) would soon join the oneworld alliance, was news to the CEOs of the global alliance. One insider said Cathay Pacific Airways boss, David Turnbull, was highly unlikely to accept a direct competitor like MAS in the alliance, while another airline chief promised *Orient Aviation* "a very good bottle of red" if MAS ever signed on with oneworld.

CHAMPS: International Air Transport Association (IATA) director general, Pierre Jeanniot, presented representatives of England's Manchester Airport and Germany's Air Traffic Service provider, DFS, with its annual Eagle Awards at a ceremony during the air transport organisation's annual general meeting in Sydney in June. The Northern England airport was praised for its transparent revenue and costing systems. DFS earned its award for providing value for money, including reductions in charges over five years and "great strides in productiv-ity", said Jeanniot.

HOST WITH THE MOST: Qantas Airways and its boss, James Strong, who was the retiring IATA chairman of governors in Sydney, turned on a stylish harbourside banquet, opposite a luminous Opera House, with the food prepared by Qantas' signature chef, Neil Perry. Strong, however, was at the heart of the arrangements, right down to the flowers and music for the night. Strong instructed James Morrison, the star musical turn to only play for 15 minutes. Keep them wanting more, he advised. And they did.

COMING TOGETHER: Peter Buecking, managing partner of the oneworld Central Management Team, has one local and two old Asia-Pacific hands coming onboard in the first wave of appointments to the Vancouver-based oneworld global management team. Kathy Mullen, ex-manager alliances at Canadian Airlines is the new oneworld global project director, ex-head of London-based HSBC group marketing John McCulloch, joins the team as vice-president marketing and former Qantas Airways of Australia's eCommerce general manager David McNair, is the vice-president information technology.

RETIRED: Former AMECO Beijing's general manager, Zhang Hongying, is the new Air Macau boss, following the forced retirement, through illness, of Ke Li. Zhang's successor as general manager of AMECO, the Air China/Lufthansa Technik Beijing joint venture MRO, is Ma Kuiliang (above right). Ma was manager of AMECO's air maintenance sub-division after the partnership was established in 1989. After four years at Air China's representative office in Los Angeles, he returned home as vice chief engineer of the mainland's flag carrier. He was made director of AMECO's aircraft maintenance and overhaul division in December last year. He has teamed up at AMECO, for the fourth time, with Lufthansa Technik's representative and deputy general manager, Walter Heerdt (above left).

REGIONAL ROUND-UP

Garuda to investigate corruption claims

The practice of deep-rooted and wide spread corruption at Garuda Indonesia during the 1980s and 1990s has been common knowledge for years. Now an independent watchdog group has put a price on it – US$1 billion since 1989.

The last airline president to make money for Garuda during the Suharto years would only re-invest it, sources have told *Orient Aviation*. He refused to pay money into bank accounts because he knew it would be siphoned off. Not surprisingly, in the late 1980s he was replaced and Garuda steadily progressed towards near bankruptcy.

In June, Jakarta-based watchdog group, Indonesian Corruption Watch (ICW), reported to a parliamentary commission for transportation and infrastructure that most of the airline's massive debt is down to fraud and mismanagement of aircraft procurement and maintenance projects.

It's significant that since the downfall of Suharto in 1998 Garuda has had a new lease of life. Last year it recorded a net profit of US$61.7 million.

Garuda president, Abdulgani, and his predecessor Robby Djohan, both bankers, have restored normal business practice to the carrier. In 1998, on his first day in office, Djohan said his first job was to "get rid of the bad guys." This included the sacking of five sub-contrac-tors, all with links to the Suharto family.

Abdulgani has set up an audit team to look into ICW's report, although the airline described its claim of $1 billion lost through corruption as "not quite accurate".

The Garuda chief said the priority in the last two years has been to "solving problems related to negative cash flow and debt restructuring".

KAL founder member of SkyTeam alliance

IN AN ANNOUNCEMENT that was overshadowed by a proposed merger of United Airlines and U.S. Airways, the world's third globe-spanning alliance, SkyTeam, was unveiled in June.

Founding members, Delta Air Lines of the U.S., Air France, AeroMexico and Korean Air, said their target market is the business trav-eller. SkyTeam members "care more about you" says its press release, a claim that will require some effort to achieve as two other more established alliances, Star and oneworld, have been saying that to premium travellers for more than two years.

Founding members of SkyTeam, the world's newest global alliance, are Aeromexico, Air France, Delta Air Lines and Korean Air. It was launched in June

Partnership airlines, Delta and Air France, which also have had close ties to Korean Air over the years, have been forced to play catch-up in the alliance game as their major competitors continue to sign on partner airlines to fill global gaps in their networks. Korean Air, however, seems to have recovered from a low point in 1999 when it lost code-share partners after a series of high profile crashes that took hundreds of lives over a three-year period. Since then, the Seoul-based flag carrier has invested millions in flight training and re-training to purge the carrier of its past poor safety record.

Air France recorded 16.7% growth on its Asian services for the last financial year, with an average load factor of 81.8%, up 3.3% on the previous year.

Ansett NZ becomes Qantas NZ

FOR ANSETT read Qantas Airways. Well, in New Zealand at least. For the first time, Qantas has extended the franchise of its brand to another airline. The beneficiary is Ansett New Zealand Ltd, which will be known as Qantas New Zealand. Enthusiastic analysts say the deal reflects the competitive regional market. Ansett New Zealand was sold by News Corp. in March to a group of Australian and New Zealand investors.

Operated by Tasman Pacific Airlines, the airline will carry the Qantas livery and offer Qantas products and services. Qantas has 160 flights a week between Australia and New Zealand as well as providing services between New Zealand and the U.S., South America and Tahiti. "We are delighted we can extend our commitment to flights within New Zealand," said Qantas chief executive, James Strong.

August start for Japan's second offshore airport

CONSTRUCTION of a new US$7.1 billion offshore airport near Nagoya could start as early as August after the Central Japan International Airport Co. (CJIA) concluded negotiations with local fishery unions in June. Chubu International Airport, to be built in Ise Bay near Nagoya, in Aichi prefecture, central Ja-pan, should be completed by 2005. The company is awaiting a licence to start land reclamation work.

It will be Japan's second offshore facility, following the opening of the New Kansai International Airport in Osaka Bay in September 1994.

According to the *Nihon Keizai* newspaper, the fishermen agreed to the deal when the airport company agreed to increase payments to unions representing fishing interests in the Ise Bay region. The unions had demanded higher levels of compensation than initially offered by the airport developers.

Korean pilots given go-head to set up union

ONLY DAYS after Korean Air (KAL) pilots won their battle with the government, pilots working for South Korea's second international airline, Asiana Airlines, demanded the same rights.

Supporters of the formation of the union said more than 70% of the up and coming carrier's staff aviators would join if the government gave the proposal the go-ahead. However, all is not unified in the Asiana staff ranks. Members of another Asiana union, the 1,300 strong group of mainly engineers and administrative and maintenance staff want the pilots to join their union. "If they [pilots] form their own union, it will weaken our status," union officer, Kim Pil Suk, said in the *Asian Wall Street Journal*.

It has taken years of campaigning by KAL pilots to set up as an officially sanctioned company trade union. The breakthrough came after the carrier's 1,200 pilots threatened to go on indefinite strike from May 31.

In South Korea, airline pilots are classed as "security police"; civil servants who are not allowed to organise unions under Korean law.

Facing industrial action, KAL filed an application to scrap their status as quasi-civil servants, a move endorsed by the Korean Ministry of Labour.

"The company will accommodate the pilots' demand because we care about passengers' convenience," said a KAL spokesman. The cockpit crew had set up the Korean Air Flight Crew Union (KAL FCU) last August.

Alliances welcome new members

THE TWO major global alliances have welcomed their latest airlines into the fold: Lanchile and Aer Lingus are onboard with oneworld and British Midland and Mexicana Airlines were formally admitted to the Star Alliance in Vienna, Austria in June. At the gathering, the Star CEOs announced that the "airline network for Earth" is close to reaching its completion in terms of number of members, "with a few exceptions."

At the same meeting, Star announced that from July 1, a full-time company, headed by Lufthansa German Airlines' Friedel Rodig (CEO) and United Airlines' Bruce Harris (deputy CEO and chief administrative officer), will manage all activities of the alliance.

BRIEFLY . . .

ALL Nippon Airways Co. Ltd (ANA) has signed a code-share with Trans World Airlines (TWA) to handle US Postal Services for delivery of mail on several US-Japan routes. The Japan Ministry of Transport approved the deal on June 22.

API (Aerospace Products International), the Memphis, U.S., headquartered supplier of aerospace products and services has established a 24,000 sq. metre Asia-Pacific logistical centrein the Clark Special Economic Zone, at Clark International Base, north of Manila.

POPULAR Mark Hooper, Boeing Commercial Airplane regional communications director for the Asia-Pacific, the Middle East

Air India: Singapore Airlines rumoured to be interested in 26% strategic stake

and Africa, is now based in Hong Kong, at the Seattle manufacturer's new regional office in the Dragonair headquarters adjacent to Hong Kong International Airport.

JAPAN Airlines (JAL) and Air France expanded their code-share agreement in June to include daily flights between Paris' Charles de Gaulle Airport and the four European cities of Berlin, Munich, Copenhagen and Stockholm, as well as the Nagoya-Narita route in Japan. At the same time, JAL and U.S. carrier, Northwest Airlines, have signed a cargo code-share deal for trans-Pacific and Asian services, with the expressed intention of also improving information exchange systems for better tracking and tracing of cargo.

The two carriers already operate passenger code-share services between Osaka's Kansai Airport and Paris (started September 1994) and Tokyo-Noumea, New Caledonia (from January 1990).

OASIS International Leasing has signed a 10-year lease with Malaysia Airlines for a

B777-200ER with Rolls-Royce Trent engines it bought from Singapore Aircraft Leasing Enterprises. Oasis was set up in 1997 and is based in Abu Dhabi, United Arab Emirates.

THE Rolls-Royce Trent 500 engine, being developed for the long-range versions of the A340, flew for the first time on June 29. The engine was tested aboard a specially adapted A340-300 flying test bed at the airline manufacturer's Toulouse base and completed a 150 minute flight.

SINGAPORE Airlines (SIA) is considered by some analysts to emerge as the likely buyer of the 26% strategic investor stake in Air India, now that Virgin Atlantic Airways has withdrawn as a contender.

Meanwhile, the Singapore flag carrier launched a new high temperature-sensitive cargo service, COOLRIDER on July 1, using special containers that maintain temperatures between -20C and 20C degrees.

SOON after its Initial Public Offering, Singapore Airport Terminal Services (SATS) took a 20% stake, for US$1.6 million, in Taiwanese groundhandling company, Evergreen International Corp., an affiliate of EVA Air through shared parent ownership. SATS bought 15% of Evergreen Sky Catering in 1995.

New aviation press club

AVIATION writers from around Asia have held preliminary meetings aimed at formally establishing an Asia-Pacific Aviation Press Club. The aims are to foster better links and improve understanding between journalists and aviation business across the region.

Journalists from Japan, South Korea, India, Australia, Singapore and Hong Kong are among those who are supporting the proposal. A committee has begun work on a formal constitution for the new organisation.

The regional press club hopes it can become involved in a wide array of activities, including training and assistance to young aviation writers, organised lectures on industry affairs and the encouragement of closer contact between the media and industry executives to promote better understanding on both sides.

It is also intended the club will be open to industry officials, who would become associate members, either individually or on a corporate basis. While the Asia-Pacific Press Club would be an independent organisation it is seeking wide support from within the airline and aviation industry.

Interested aviation journalists and companies can contact Tom Ballantyne on E-mail, tomball@ozemail.com.au or by Fax on 61-2-9684 2776.

BUSINESS ROUND-UP

ALL NIPPON AIRWAYS (ANA) is in negotiations with staff unions to cut salaries by between 3% (non-management employees) and 5-6% (managers and directors respectively) for the period July 2000 to March 2003. ANA's losses for the last fiscal year widened to 15.2 billion yen (US$142.7 million) from 4.73 billion yen in the previous year. ANA said extraordinary losses, including large retirement payments contributed to the results.

HONG KONG'S AIRPORT AUTHORITY posted an operating profit of HK$291 million (US$37.6 million) for the year to March 31, after the facility's depreciation policy was overhauled which saved $538 million.

JAPAN AIRLINES (JAL) GROUP operating profit for the fiscal year increased by 37% to 44.89 billion yen (US$419.1 million), but pre-tax profit declined by 40% and there was a 26% drop in net profit. Revenue at the group's airline rose by 1.3% and profit increased by 26%.

PHILIPPINE AIRLINES (PAL) announced its first profit in seven years, US$1.06 million, and promptly announced it would be out of receivership in five years (see p. 38). The modest profit follows losses of US$242.4 million in the previous year and counters a prediction PAL would report losses of US$16.4 for the fiscal year 1999-2000.

Going, going, gone ...

AVIATION charity, the ORBIS Flying Eye Hospital, was presented with a cheque for part of the US$38,000 raised by the Hong Kong-based China (HK) International Aerospace Forum in June. The money was raised from a series of "Aerospace Auctions", initiated at the Singapore Air Show in February and concluded at a presentation at the Foreign Correspondents' Club in Hong Kong in June.

Top bid, US$28,888 was a back seat ride in a BAE SYSTEMS Hawk 100 and a day with the Red Arrows at this month's Farnborough Air Show, in England. Other items auctioned were a Concorde model in Pan Am livery, a four-metre long, free standing model of a Swissair MD-11 and a 45-year-old stainless steel B52 model.

Among the auction donors were Boeing, Airbus Industries BAE SYSTEMS, Rolls-Royce Engines, GE Engines, Space Models, SAAB and Short Brothers, with the electronic auction conducted courtesy of Yahoo!

Another auction for ORBIS will be held during Farnborough. The flying charity, which operates a DC-10 fully equipped as an eye hospital, is staffed with largely volunteer trained nurses and doctors who have saved the sight of thousands of adults and children in Third World countries, including thousands of mainland Chinese adults and children.

Pictured at Hong Kong Aerospace Forum cyber auction presentation: vice-president Orbis Flying Eye School Asia, Patricia Chew, one of Cathay Pacific Airways' founding pilots, Captain "Chic" Eather, forum president and executive vice-president of BAE SYSTEMS/EuroMandarin, Martin Craigs, and BAE SYSTEMS main board director, Sir Charles Masefield.

Big order for EVA; CAL next?

Taiwan's second international carrier, EVA Air, has placed a US$3 billion order with Boeing for up to 15 B777s.

In June, the carrier announced it had made firm orders for four of the B777-300s and three B777-200s with eight B777 options. Both the -300 and -200 jets will be powered by GE90 engines. Deliveries will begin in 2005. The planes will be used to fly between Taipei and the east and west coasts of the U.S. and to Europe.

Earlier this year, said *Orient Aviation* sources, EVA had been looking favourably at A330-200 planes until Boeing "made it an offer it could not refuse".

Sources say EVA has not ruled out Airbus, but decisions have been put on the back burner. The airline is also said to be evaluating the A340-500.

China Airlines (CAL), meanwhile, will provide Airbus with some compensation if, as sources say, it orders 14 A330-300s with seven options in August. It, too, is said to be looking closely at the A340-500.

Dragonair CEO Stanley Hui: more freighters could join fleet

The aircraft will be delivered between 2002 and 2007. The options are expected to be confirmed and delivered in the same time frame.

The carrier has a fleet of 50 jets. In August last year it ordered 36 aircraft; 17 freighters and 19 passenger airplanes for delivery through to 2007. It is to reduce its aircraft types to B747-400s, A340/330s and B737-800s, eventually retiring its four MD-11s and 12 A300-600Rs.

Sources also said CAL is hoping to spin-off its engineering and maintenance division by mid-2001.

CAL is understood to be looking for investors to take the entire facility or parts of it. Pratt & Whitney are said to be interested in the engine workshop.

In Hong Kong, ambitious regional carrier Dragonair is to lease two additional Airbus planes, an A320 and A321, to cater for expansion plans. But in a break with tradition – Dragonair has an all Airbus fleet – the carrier will wet-lease a B747-200 freighter from Atlas Air to serve Continental Europe and the UK from July.

"This is a big step for Dragonair," said chief executive Stanley Hui. "Exporters from China will certainly benefit, especially now that China's membership of the World Trade Organisation is assured and the mainland market is poised to open even further to global business.

"Dragonair is now well placed to take advantage of such developments. We may acquire one or two more freighters next year."

The airline only established its cargo department in mid-1997. It set a monthly uplift record of 7,155 tonnes in April.

Dragonair has a fleet of five A330-300s, five A320s and three A321s. Seventeen of its 26 regional destinations are in China.

BIG CHANGES AHEAD

China's airlines have long sought escape from the strictures of heavy political oversight and government control of virtually every aspect of their operations. They may soon have their way. TOM BALLANTYNE *spoke to a former senior CAAC executive about sweeping changes in the industry currently being drafted by the Beijing Government and on page 20* JONATHAN SHARP *explores the benefits of World Trade Organisation membership for Chinese carriers.*

CHINA'S CHALLENGE

Precluding a last-minute change of political heart, China is preparing to unveil a programme of sweeping reforms, which will bring landmark liberalisation to its commercial aviation industry.

The reform package will introduce new freedoms for airline management and dismantle the iron grip the Civil Aviation Administration of China (CAAC) has over Chinese mainland carriers.

According to former CAAC official, Zhang Baojian, who is now director of government and industry affairs North Asia for the International Air Transport Association (IATA), a paper proposing revolutionary deregulation of the airline business is being studied by China's State Council, the supreme policy-making body of the mainland Chinese government.

If the blueprint is approved, the CAAC, currently both regulator and airline operator, would be separated from its state-owned carriers. It also would strip the administration of its status as a government ministry. Instead, the CAAC would continue as a regulatory authority and oversee aviation and safety practice as a division of a new Ministry of Transport.

Under this proposed scheme, according to Zhang, the eight state-owned airlines, Air China, China Eastern, China Southern, China Northwest, China Northern, China Southwest, Xinjiang Airlines and Yunnan Airlines would no longer have to report directly to the CAAC.

But in what is the biggest re-organisation of the industry since the original single state carrier, CAAC, was divided into semi-independent airlines in the 1980s, there is a questionmark over the future of some of the state-owned carriers.

Hainan Airlines: could be among the airlines to be exempt from the mergers

It is more than a year since reports that the CAAC was to merge the country's 30 plus carriers into a handful of groupings appeared.

The original time frame for the mergers, set for the end of 1999, passed, but Zhang said the logistics were still being studied by the government.

Beijing favoured a model of four airline groups, he said, three centred on international carriers Air China, China Eastern and China Southern, with a fourth headed by the China National Aviation Corporation (CNAC). CNAC, the airline arm of the CAAC, holds majority shareholdings in Hong Kong-based Dragonair and Air Macau and has a small stake in Cathay Pacific.

However, there will still be room for the well-respected and well-managed second tier carriers. "Some of these airlines are very aggressive, very ambitious. Provincial carriers like Shanghai Airlines and Hainan Airlines will stay," said Zhang in an exclusive interview with *Orient Aviation* in June.

It will take 12 to 24 months before the whole re-organisation plan is fully implemented if it goes ahead.

The new structure will have particular significance in two areas; aircraft purchasing and ticket pricing. Airlines will be able place their own fleet orders and will not have to submit their requests for airplane leases or purchases to the CAAC for approval.

At present a carrier can request aircraft and after making its case to the CAAC, will be told of the decision. Alternatively, the administration places plane orders with the major manufacturers and then assigns them to airlines. It is not unknown for a carrier to end up with aircraft unsuited to its fleet or unwanted by management.

Air fares will be deregulated, which will lay the foundation for the country's major airlines to operate more commercially, said

Zhang. This could take place by the end of this year.

This move should avoid repetition of the recent chaos that resulted from the CAAC's failed attempt to control ticket pricing.

In a poorly timed move in 1998, soon after several Asian economies had fallen apart, the CAAC approved ticket discounting. Timed with a fall-off in passengers, mainland carriers recorded a collective US$362 million loss for the year.

CAAC officials moved to halt price-cutting in 1999 and then changed their minds again earlier this year. It allowed ticket discounting on selected routes. On April 1, policy changed again. Airlines were barred from offering discounted tickets. Instead, the carriers were instructed to share revenue between carriers to avoid a new price war.

In recent weeks, the CAAC has been working on new rules to allow all airlines to reduce prices to attract more passengers. Airlines are delighted. "It will bring market-driven thinking and flexibility into our business operations," said Li Yongzheng, a spokesman for China Southern Airlines.

"The re-organisation will allow carriers to have much more autonomy, but they will have to live and die by their decisions. They will not receive cross-subsidies to help them out. They will be able to focus on running their airlines rather than keeping their political masters happy. That is the fundamental change," Zhang said.

"Currently, the CAAC manages the day-to-day operations of the carriers. Even the airline presidents are appointed by the CAAC. Eventually, the carriers will report to the central government."

Zhang's comments are in line with recent remarks by senior mainland Chinese government spokesmen.

Zhang Zhongsheng, an official at the transportation department of the State Development Planning Commission, said a few weeks ago: "We will no longer control the airline companies to death, but encourage them to compete."

A significant policy change was introduced on May 31 when the Chinese Government agreed to increase maximum foreign investment in airlines from 35% to 49%.

Also, after years of complex negotiations and planning, the nation's skies are being slowly opened to international air carriers. Allowing non-Chinese carriers passage along vital new routes in the nation's vast interior will save carriers millions of dollars annually in operating costs (see story on next page).

Zhang said the China airline industry was serious about competing in the global arena and the growing number of mainland carriers joining IATA was proof of this commitment. He had been involved in negotiations with IATA in the early 1990s when the first three airlines signed up. There are now 12 Chinese airline members in IATA, with more to come.

President and CEO of Embraer, Mauricio Botelho: predicts a demand for 400 feeder aircraft in the next 20 years in China

"I have four applications in hand and two other airlines have approached us to apply. China will probably have 20 airline IATA members shortly," he said.

Airbus Industrie has forecast that air traffic growth in China's domestic market alone will outstrip the rest of the world, at 8.4% per annum, over the next 18 years.

Engine-maker Rolls-Royce predicts Chinese airlines will be carrying an additional 80 million passengers by 2020.

It is not only the large jet-makers that are anticipating business growth. Brazilian aircraft manufacturer Embraer recently announced its first order from China, worth about US$100 million, from Sichuan Airlines, at the official opening of its first Chinese representative office, in Beijing.

Said Mauricio Botelho, president and CEO of Embraer, at the official opening: "The Chinese market is a critical component of Embraer's global strategy because we forecast rapid growth for regional aviation in China."

He predicted a market of more than 400 feeder jets in China in the next two decades. The radical agenda for reform should free airline management from the "political game" they have to play as part of daily airline life.

Said Zhang: "No matter whether the carrier needs the aircraft or not, if the central government says OK, we need to buy some aircraft from the U.S, they buy them. Afterwards, the CAAC officials say to the airlines: ' You take five, you take three, no matter whether they need them or not,' " said Mr Zhang.

"Very often, after the carrier receives the unwanted aircraft, they will be leased to other companies, sometimes even foreign carriers like the recent Air China lease of three A340s to Cathay Pacific.

"Today, the priority of a Chinese carrier is to protect its position. The question of making money comes second. Of course, the CAAC cares about how much revenue airlines earn, but first and foremost it wants to keep control of the carriers. At present, even if an airline is not making money, if they have close ties with the CAAC the executives can still keep their backsides on their chairs," said Zhang.

"This will end under the new regime and airlines will become stronger and more competitive.

"The carriers will have the final say. Their first priority will be to make money and the second will be to report to the State Council. That's a complete shift. The carriers have been wanting such change for a long time," he added.

China National Aviation Corp (CNAC): tipped to head one of four airline groups in a restructured mainland airline industry

Everybody recognises China has huge potential. In the U.S., 90% of the population can afford to travel by air, but in China this figure is only 5%. However, the fare structure has to be redesigned to encourage growth.

Zhang said the CAAC had the "wrong impression" that fares have been too low. A ticket from Beijing to Shanghai, a 1 hour 40 minute flight, costs about US$110. In the U.S. a similar flight from Los Angeles to San Francisco officially costs around $150, but in the competitive market place travellers can purchase tickets for $75.

"This is a very small portion of an individual's income in the U.S, but the same amount of money in China represents a very large part of anyone's salary," said Zhang.

The CAAC and the airlines realise the problem is that their product is too expensive for the income of the local people. "If they want more passengers and they want to expand their markets they have to reduce their costs, which are extremely high, much higher than many foreign carriers," he said.

Zhang said Chinese airlines needed experience in international best practice. He believes inflight service is good, but there are problems with ground handling and airport infrastructure.

Nevertheless, standards are improving. In 1999, IATA trained 6,480 airline staff in China, across all areas of the industry, including staff working in yield management, management and ticketing. The numbers will rise this year.

Lifting restrictions on airfare pricing and capacity will give airlines a huge boost, said Zhang. Already, large numbers of mainland Chinese were travelling overseas, but it was just the tip of the iceberg, he said. As the economy improves and people have more disposable income, the travel industry will boom in the new deregulated market.

"Boeing and Airbus firmly believe that within 10 years we will need 1,000 aircraft. I agree," said Zhang.

Air route breakthrough

China is opening its skies to a growing number of international overflights. Even the military is playing the liberalisation game. TOM BALLANTYNE *was on board a historic Qantas Airways flight*

When Qantas flight QF2 crossed into Chinese airspace on June 23 – on a scheduled flight from London to Bangkok, it opened a new chapter in global air traffic history.

As the Boeing B747-400 crossed the border from Kazakhstan near Alma Ata, it inaugurated the world's first CNS/ATM (Communications Navigation Surveillance/Air Traffic Management) air route, blazing a trail which will save millions annually.

It slashes nearly an hour from traditional routes to and from Europe and allows airlines to bypass heavily congested airways across India and Afghanistan, which cost airlines massive amounts of money in delays. It also marks a watershed in Chinese air traffic services and the first move in an anticipated dramatic expansion of Chinese airspace.

Orient Aviation sources say an announcement by Beijing that military control over airspace will be eased is imminent.

While no details were available at presstime on the decision, it is expected the move will give Chinese civil aviation authorities new freedom to restructure air routes, many of which currently follow convoluted paths in order to avoid existing military air space.

Four new Polar routes, trimming up to five hours off flights to North America, also are expected to come on line in the next two years. This will allow airlines to fly some Asia-

Qantas Airways: Pioneering FANS flight through Chinese air space

North America routes non-stop for the first time from ports such as Bangkok, Singapore and Hong Kong.

Cathay Pacific has already pioneered a route known as Polar A2. In May it cut three hours off the regular Toronto-Hong Kong flight time in an Airbus A340.

Meanwhile, the new Route L888 – designed for use with the Boeing-developed FANS 1 (Future Air Navigation Systems) system – sweeps across isolated western China, south of Urumqi to Chengdu, turning south towards Kunming, then over Laos and into Thailand. The inaugural flight was the culmination of more than six years of co-operation between the Air Traffic Management Bureau (ATMB) of the Civil Aviation Administration of China (CAAC) and Qantas.

"A great tribute has to go to China. They have produced the world's first true application of CNS/ATM," said Captain David Massy-Greene, formerly with Qantas and now with Boeing Air Traffic Management Services.

Said Ms Lu Xiaoping, deputy director general and senior engineer with the ATMB: "We are delighted. It allows us to open up western China and make it as accessible as the eastern part of the country, using new technology without the high cost of radar coverage. We are working on other similar routes."

A number of airlines will soon be using the route, pending bilateral agreements and the suitability of their aircraft, which must be fitted with the FANS 1 suite, she added.

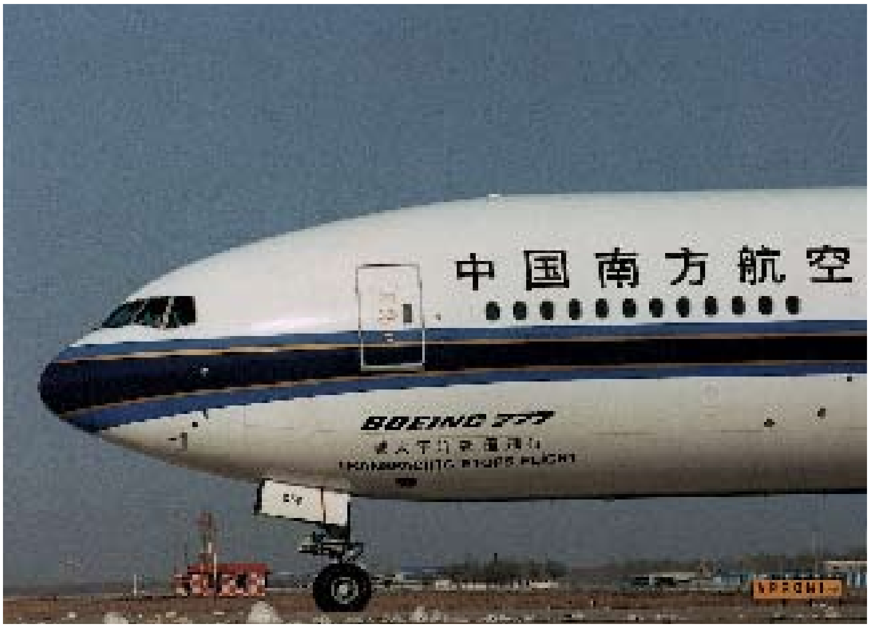
"To fly this route a data link is required for communications because of the unreliability of VHF radio in that particular part of the world," said Massy-Greene. "The navigation part is required for accuracy because of the terrain. The ADS (Automatic Dependant Surveillance) is necessary because this is all military airspace. Essentially, the military have said they are happy to have us flying the route but they want to know where we are. We require the data link, we require the navigation accuracy and we require the surveillance. That has not been the case in any other application."Added Captain Murray R. Warfield, Qantas manager regulatory affairs: "China's specialists have taken to the technology like a duck to water. They are so professional. It's been a terrific exercise."

Ironically, China has beaten the U.S. to the punch, putting a CNS/ATM route in place well ahead of the Federal Aviation Administration (FAA), which has so far failed to complete its end of the FANS bargain on trans-Pacific air routes.

Another bonus for Beijing is the modest cost of setting up the route, around US$3.5 million, which China can expect to recoup quickly from additional overflight charges.

WTO will open doors for China's airlines

By Jonathan Sharp



China Southern Airlines: putting a big effort into upgrading service standards

In 1999, people in the United States took five flights on average, while only one out of 20.5 Chinese took even one flight, according to Yan Zhiqing, president of one of China's major carriers, China Southern Airlines.

"This leaves much room for business," Yan said with considerable understatement. Also in 1999, of the top 30 world airports as measured by cargo volume, the only mainland Chinese airport to figure was Shanghai, at number 28, just below Brussels and above Sharjah.

Hong Kong, a fraction of the size of its mainland motherland, is number two on the list behind Memphis, while Taipei, capital of Taiwan which Beijing regards as a renegade province, is at 18. No mainland Chinese airport is in the top 30 as measured by passenger traffic or airport movements. Again, as China Southern's Yan might say, there is much room for business.

Now that China is poised to gain its cherished membership of the World Trade Organisation (WTO), core questions to be asked are how much room for business will there be and who is best placed to take advantage of it.

China, its economy expanding rapidly if unevenly as Beijing embraces the tools of capitalism under the wary eye of its communist rulers, is already proving highly profitable for some non-Chinese carriers. A Federal Express executive recently enthused over "phenomenal" growth in China business, while Ross Allen of DHL Worldwide Express said his company's China business was doing "extraordinarily well" this year.

Even before China's accession to the WTO has become a reality, Rolls-Royce is predicting that while airline passenger traffic in Asia-Pacific will grow 7.7% a year during the next two decades, the estimated annual growth rate for services within China is 9.9%. China Southern's Yan caps that forecast, speaking of an annual growth rate for air transport in China of over 10% in the next 10 years.

Few question that entry into the WTO will be a further boon for trade with China in general and air traffic in particular. "Long-term, it's like motherhood to say it's a good thing," said Peter Hilton, head of Hong Kong-China research at Credit Suisse First Boston.

Seasoned China hands sound a cautionary note, however, saying businessmen around the world have always been captivated by the prospect of making a fortune in China, but have often been disappointed. They may salivate at the thought of a 1.3 billion-strong market – the idea of selling toothbrushes for 1.3 billion sets of teeth or deodorising 2.6 billion armpits – but China has all too often proved to be an elusive Eldorado or, as one frustrated British businessman put it, a "tapped un-market".

Nevertheless, for the present there is no shortage of enthusiasm. A study by Credit Lyonnais Securities (Asia) Ltd (CLSA), for example, had no doubts about the positive impact of China's WTO entry on Chinese airlines, helping them to shake off the burden of debt that has afflicted many of them.

CLSA said increased trade and business with China would stimulate traffic for both passengers and cargo. At the same time competition would intensify for international routes as foreign carriers sent more flights to China.

"However, we believe growth will outweigh competition and bring more traffic to Chinese carriers, together with a boost from the provision of feeder routing services to international routes and organic growth from domestic demand."

CLSA is even more positive about prospects for air cargo. It said China's accession to the WTO would turn more manufacturers towards high-technology goods, in particular in the booming region of the Pearl River Delta adjoining Hong Kong and Macau. Much of China's air cargo in south China goes by road and rail to Hong Kong, where the chairman of the Special Administrative Region's Airport Authority, Victor Fung, speaks of a "blistering" rate of cargo growth.

CLSA's study said: "In the future, given improvements in China's infrastructure, such as more advanced airports, more international air traffic rights and the liberalisation of complex customs regulations, a lot of traffic volume will divert to Chinese airports."

Anticipating this trend, China's airlines are converting more passenger aircraft into freighters. China Air Cargo Corp will finish refitting a third MD-11 into a freighter by August and the company will spend 1.3 billion yuan (US$157 million) on a cargo handling centre at Shanghai's Pudong airport.

Flag carrier Air China is reported to have delayed buying a passenger aircraft to purchase a B747 freighter. And China Southern, which recently launched an all-cargo service between its home base Guangzhou and Chicago using an Atlas Air wet-leased B747-400, also is looking at converting passenger planes into freighters.

On the passenger side, Credit Suisse First Boston's Hilton agrees that Chinese airlines look to be obvious winners from WTO entry, but there are also challenges ahead and the rewards may be long-term rather than immediate. "The competitive environment may well intensify. As a result there may well be more volume initially, but not necessarily that much more in the way of profits."

Hilton also said standards of service offered by Chinese airlines had far to go to match those of the competition. At present travellers flying to China preferred foreign airlines because of obviously better creature comforts. He added that some travellers had concerns about safety on Chinese carriers, but this was "probably overblown".

Hilton said major carriers like China Southern and China Eastern Airlines were putting a big effort into enhancing service standards. But this would take time. "To build up a culture and a cadre of people that reflexively know how to do this operation, it just can't be done overnight."

Saying he was drawing a slightly flippant analogy, Hilton likened running an airline of the quality of Singapore Airlines to operating a high-class restaurant. "To staff a quality restaurant, you can't go out and train a handful of people, wheel them in and expect it to go like Maxim's [a Chinese chain of restaurants]." He said of the two Chinese airlines, China Southern seemed more innovative in trying to introduce features that were taken for granted overseas, but China Eastern was fairly effective in delivering a solid product.

He added: "Is the airline putting in the effort? Absolutely. Is it going to get there? I suspect it will. Can it be done overnight? Highly unlikely and that's why Beijing appears to be fostering investment."

China Southern Airlines president Yan Zhiqing: great business potential in China

Underscoring China's awareness of its need for outside technological help and investment, Beijing has suggested lifting the limit on foreign ownership in its three publicly traded airline companies from the current 35% to 49%.

Merrill Lynch commented that the easing of ownership restrictions would encourage foreign airlines to participate in equity in the bigger Chinese airlines. "In our view, the Chinese carriers are also receptive to working with the established foreign partners," Merrill Lynch said.

Listed on foreign stock exchanges, China Southern is already 35%-owned by foreign investors and China Eastern is 32% owned by outsiders. Hainan Airlines is 25% owned by U.S. financier George Soros. Merrill said expanding foreign ownership would help accelerate the consolidation of the Chinese aviation industry for which Beijing has been pressing.

The industry reported losses of three billion yuan (US$362 million) in 1998 as airlines cut fares in a bid to fill seats.

An as yet imponderable factor to consider is China's relations with Taiwan, which is also likely to gain WTO membership soon. Taiwan's transport minister has said it was technically feasible for the island to lift its decades-old ban on direct trade and transport links before the end of 2000.

And new president, Chen Shui-bian, pledged to review the "outdated, rigid and inflexible" ban a day after taking office in May. Whatever may transpire, Taiwan 's carriers are not coy about discussing plans to exploit such an opening. Sandy Liu, president of Taiwan's main carrier, China Airlines, said the airline was willing and ready to enter the mainland market. "In the past several years we've all prepared ourselves," said Liu, whose company recently opened its second China liaison office.

But analysts warn while skies seem bright for an aviation bonanza focused on China, an important key to success may lie elsewhere – on the other side of the Pacific Ocean. The extraordinary strength of the U.S. economy and its appetite for imports have been key drivers of the Asian economic recovery. If the American boom sputters, then rapid revisions may be required of the prospects for aviation in China – and indeed the rest of the world.

China Eastern Airlines: 32% overseas investors

Exclusive Photos: Hervé Goussé

The FORGEARD Interview

In an exclusive interview in late June, Airbus Industrie chief executive, Noél Forgeard, spoke to Orient Aviation's *publisher and managing editor,* BARRY GRINDROD *in Toulouse, shortly after the four Airbus partners made the landmark decision to form a single integrated company and signed the Authorisation to Offer the 555-seat A3XX-100 to the market.*

A relaxed Forgeard emphasised the importance of Asia to the A3XX programme. He also revealed he is not obsessed with market share and told how he deals with the stresses and strains of one of aerospace's hottest seats.

It had already been a long week and Airbus Industrie's 53-year-old chief executive officer, Noél Forgeard, was well into another long day when *Orient Aviation* met him at the Airbus headquarters in Toulouse.

He had risen early to fly back from Paris after a lengthy board meeting the previous day. A quick round of meetings, a glance at the in tray and he was soon to jet off again, this time to Zurich and Amsterdam.

Indeed, it has been a long year, but June 2000 will be written large in what is, to date, the relatively short, but quite remarkable 30-year history of Airbus Industrie. In that time, the company has risen from zero to nudging ahead in the market over its great rival Boeing.

Airbus is about to set new standards again with the development of the ground-breaking, double-deck, 555-seat A3XX.

On June 23, the supervisory board gave the go-ahead for the Authorisation to Offer (ATO) the A3XX to the market. On the same memorable day the four Airbus partners, DaimlerChrysler Aerospace of Germany, Aerospatiale Matra of France, BAE SYSTEMS of the UK and CASA of Spain, agreed, after 13 years of on and off negotiations, to incorporate the consortium into a single entity, the Airbus Integrated Company (AIC).

None of the early pioneers, concedes Forgeard, could have possibly foreseen their far-reaching impact on the industry.

Airbus calls the A3XX "the plane for the 21st century". It is also the plane for the Asia-Pacific, Forgeard agrees.

As if to emphasis the point, on June 30, Australia's Qantas Airways announced an Expression of Interest (EoI) for 10 A3XXs, the ninth EoI for the giant plane and the sixth to be made public. It joined Singapore Airlines (SIA), Emirates, Virgin Atlantic, Air France and U.S. leasing company ILFC.

SIA had been the second party to declare an interest, after Emirates, several weeks ago.

At press time, the nine companies had expressed interest in 62 A3XX aircraft. Forgeard was not giving anything away, but hinted more good news could be announced at July's Farnborough Air Show.

Other Asian carriers are known to be in

Airbus partners

The European Aeronautic Defence and Space Company (EADS) – made up of Aerospatiale Matra 37.9%, DaimlerChrysler 37.9%, CASA 4.2% – and BAE SYSTEMS 20%

the pipeline, including Malaysia Airlines and Cathay Pacific Airways, although the timing of their moves is unclear. The Japanese market, with its saturated airports and highly intensive domestic routes, must also be a strong contender for the new airplane.

Sitting in the empty Airbus boardroom with one leg slung over the arm of the chair, Forgeard was in a relaxed mood, despite the pressures of recent weeks, when he spoke to *Orient Aviation*.

He left no doubt about the importance of Asia to the A3XX programme, as the region also was to the development of the B747, the so-called "jumbo jet" which Boeing developed in the 1960s.

"Basically, the A3XX is the aircraft for Asia. It will fly to and from other areas, but the core of the market is bound to and out of Asia," said Forgeard.

"Sometimes we are asked if that is not a weakness. I always answer it is not a weakness because we are confident of the future of the economy of Asia.

"Of course, there will be up and down times, but long range we see Asia as the pioneering frontier of the world."

The events of June 23 were the culmination of Forgeard's work since he succeeded Jean Pierson as head of Airbus in April 1998.

"It was extremely important that we had the AIC in place at the time the ATO was made," said Forgeard. On the one hand the Airbus system has proved itself capable of developing major programmes like the A320 or the A340 as a GIE (Groupement d'Interet Economique or group of companies). But this time, because we are entering a new area of the market (with the A3XX), the challenge is so big we all thought it was necessary to have a normal organisation (the AIC) that will enable us to have a clear system design prime contractor. Today, Airbus Industrie and the various partners work by consensus, tomorrow (AIC is officially launched on January 1, 2001), Airbus is the prime contractor. There is a clear system design authority."

Forgeard's priorities in the last two years have been to establish the AIC and bring the A3XX to the market. But not, he stressed, at the expense of failing to maintain the momentum of the company he inherited.

"The A3XX will never hamper our will and ability to stand behind our other products or the level of development of our other major programmes, the A340-500 and -600, which will enter service in 2002," he said.

Work on the Very Large Aircraft (VLA) programme was effectively started in 1993. For two years in the mid-1990s Boeing was part of a joint feasibility study. It dropped out when it felt there was not a large enough market for the VLA. Recently, the Seattle manufacturer had a re-think and announced it will offer a stretch version of the B747X, with over 500 seats, to airlines.

The A3XX has blossomed under Forgeard's leadership. "The last two years have been critical for the project," he said. "In June, the shareholders felt it was time to push the button and sign MoUs (Memorandums of Understanding)."

Subject to the industrial launch at the end of 2000, Airbus should start collecting signatures from interested parties early next year, said Forgeard.

As Airbus chief, Noél Forgeard is unashamedly excited about the A3XX. "It is a very positive landmark in my business life," said the man whose varied career has included being an adviser on industrial affairs to the French Prime Minister.

"It is not too often in one's life one gets the opportunity to lead such a huge project.

"It is very exciting to think we are building a new way to fly for the new century. It is an aircraft that will still be flying in 50 years. It will influence millions of people in their daily lives for decades."

But how much of a gamble is the project?

Getting the message

Singapore Airlines, a winner of more inflight service awards than any other carrier and one of the world's most profitable airlines, was second off the rank after Emirates to sign an Expression of Interest for up to 16 A3XXs; 10 firm and six options.

How important was this support to Airbus? "In this business, as in all businesses, there are trendsetters and there are a lot of trendsetters in Asia. SIA is renowned for its professionalism and wisdom of fleet choice. SIA's expression of interest was an important endorsement for us," said Forgeard.

The Qantas announcement was also a "biggie" for Airbus. The Australian national carrier has, to date, been an all-Boeing fleet.

Forgeard agreed such endorsements sent a strong message to other alliance partners and competitors. It did accelerate decisions, he said.

So, did the SIA message influence Qantas, for example? Will the plan for Qantas to fly the A3XX on the Kangaroo route between Sydney and London have a knock-on effect with 25% shareholder and oneworld partner, British Airways (BA)?

Well, would it Mr Forgeard? "We never comment on a customer's intentions, but we know Mr Eddington (BA's chief executive Rod Eddington) well," he said with a smile. Beyond that he did not comment.

Emirates first to declare interest: Airbus Industrie chief executive, Noél Forgeard, with Emirates chairman, His Highness Sheikh Ahmed bin Saeed Al-Maktoum at the announcement Emirates was interested in 10 A3XXs, five firm orders and five options.

Forgeard is an affable person, warm, dry-witted and, as he said himself, likes the truth to be told. And so he is direct.

"Gamble? Oh no, this is not a gamble. It is a very carefully prepared file in which we are sure we can rely on the trend of the marketplace. We feel very secure with the number of aircraft (A3XXs) we can sell. We are very confident of the technical definition and the business position."

The carefully prepared file will show that Airbus forecasters believe there is a market for 1,208 aircraft in the VLA category; 1,500 including freighters. They believe 55% of this market is in the Asia-Pacific. China is an important part of that market. Forgeard believes it has huge potential.

The Airbus forecast estimates seven or eight Chinese airlines could take as many as 125 VLAs in the next 20 years. But Forgeard does not think China will be making an early move in the market. "It is not a mature market as yet. It will develop in steps," he said.

"It will build with smaller modules before, eventually, entering the VLA market."

Shanghai-based China Eastern Airlines, an operator of A340s, A320s and A300-600s, is in talks with Airbus for the long-range A340-500 and it has said it is interested in the A3XX down the line. Beijing's Air China and China Southern Airlines are other mainland carriers with an eye to the big jet.

China will become more important, too, through industrial co-operation. Chengdu Aerospace manufactures rear passenger doors for the A320, Xian Aircraft Company produces avionics access doors for the A310, A330 and A340 and fin parts for the A320. The Shenyang Aircraft Corporation supplies A320 wing ribs and A319/320 emergency exit doors.

"We have very significant industrial co-operation with AVIC (China Aviation Industries Corp.). We are confident of developing this relationship further," said Forgeard. "We will do this quietly, but progressively, without any great fanfare in the years to come."

Benefits of AIC to airlines

"From a customer point of view, the most important points are integration will allow us to streamline our support services, be more efficient and be more responsive. We want to be number one in support. From the view of the shareholder, we expect significant bottom line savings from integration – a minimum of 350 million euros (US$329 million) a year from 2004.

"We think there is some room for restructuring of our engineering operations. There are some overlaps in the various countries. By reducing the overlaps we can cope with the important growth we will have with the A3XX and A300M military aircraft.

"We expect more savings in purchasing and procurement by standardising proceedings and incorporating the best practices of each of the partners so we will have more leverage with suppliers."

Boeing's decision to offer the B747X Stretch

"It's an open, clear confirmation that all experts think there is a big market for an aircraft like the A3XX. It is funny to think how Boeing said for years there was a market for the large aircraft, but after working with us for two years said there was not. Now, four years later, they recognise there is a market and want to address it.

"Competition is good. Let the best win. We believe we have a double digit edge in direct operating costs compared to the competition."

Market share

"I am not obsessed with market share (with Boeing). Whether we have 55% or 42% is not an issue. The issue is that we are roughly on a par. What I want is to establish Airbus as a manufacturer of excellence, for innovation, for comfort with our family approach and customer satisfaction. We do not see aircraft as commodities, we consider them high tech goods."

Subsidies

The U.S. has repeatedly accused Airbus of receiving government subsidies giving it an unfair advantage in the marketplace.

"Subsidy is a very inappropriate word. Airbus is receiving no subsidy whatsoever for the A3XX. We receive for our new programmes refundable launch fundings which were agreed with great precision in the 1992 agreement between the U.S. and European Community. Our competitors receive direct support for military programmes which are often of interest to civilian aircraft activities.

"It is a very unfair debate. But nothing has happened because there are no grounds for any action."

Airbus – the past

Airbus Industrie celebrates its 30th anniversary in December.

"Genius engineers made a breakthrough in product technology, particularly fly-by-wire, and a highly professional customer focus team turned the technical success into a marketing success."

De-stressing: the Forgeard formula

Airbus chief, Noél Forgeard, has, as they say, been around a bit. His successful and varied career has ranged from being adviser on industrial relations to the French Prime Minister, to President of Lagardére and chief executive of Matra Hautes Technologies, which specialises in defence, space and telecommunications.

He knows the meaning of the word pressure and as CEO of Airbus Industrie he has his own way of dealing with it.

"Individuals react to different kinds of pressure," he said. "Self-management is very important in this kind of job.

"You can be burnt out with little pressure and can manage a lot of pressure without being burned out. I hope I am from the second category."

A father of three daughters and one son, Forgeard said he always keeps time for family life. "This is very important to me," he said. He also enjoys the fine arts.

"Every day I keep some time for me. Not a lot, but some," he laughed. "Even if it is doing nothing special, it's for me. Time to think of life."

His biography says Forgeard is well known for staying in close touch with the operational aspects of his businesses. In other words he is hands-on. It is for this reason, when he is in Toulouse, that he eats lunch in the staff canteen. It is also the reason why, when sales and support staff in some far corners of the world pick up the phone, they may find themselves speaking to their chief executive.

Born in 1946, Forgeard is a graduate of the prestigious Ecole Polytechnique and holds the Chevalier de la Legion d'Honneur.

The BIG battle

News in late June that Qantas Airways was the ninth company to express interest in the A3XX, for up to 10 of the aircraft, puts Airbus Industrie in a strong position in the Very Large Aircraft (VLA) market.

Qantas made its interest official on the same day the Airbus supervisory board approved the Authorisation To Offer (ATO). Emirates, Singapore Airlines, Air France, Virgin Atlantic and leasing company ILFC had also gone public at press time with their interest, while three other potential buyers for the 550-seat A3XX-100 were undisclosed. Airbus chief executive officer, Noel Forgeard, suggested to Orient Aviation *there could be other names added to the list before the end of July.*

Interestingly, no sooner had Emirates Airline and Singapore Airlines (SIA) declared their interest in May than Boeing moved in to ask carriers to consider its 500-seat B747X Stretch before they make a final decision on orders.

The B747X Stretch is being touted by Seattle as within a few percent of a brand new aeroplane, but so far the Toulouse-headquartered manufacturer is well out in front in the VLA race. Middle East carrier, Emirates Airline, wants five A3XX-100 jets with five options. SIA has expressed interest in 10 firm orders and six options. Air France put up its hand for 10 A3XXs and Britain's Virgin Atlantic could buy at least five and as many as 10 of the extra large aircraft. International Lease Finance Corporation (ILFC) has made an initial commitment to buy five A3XXs.

With Qantas' declared interest that adds up to 47 potential sales, plus an additional 15 potential orders unannounced by the end of June.

While many airlines will be tempted to follow SIA's lead and offer passengers an all-new jet, others operating large B747-400 fleets may opt for the lower introduction costs of the Boeing stretch.

In the end, sales may end up being split evenly between the two manufacturers. What is not in doubt is this is shaping up as a mighty Airbus vs Boeing battle.

Asia's A3XX

By Barry Grindrod

It's as simple as that and Airbus Industrie chief executive officer Noel Forgeard agrees. Without a significant commitment from the Asia-Pacific and from airlines flying long-haul into the region, there will be no A3XX, no double-deck behemoth capable of carrying up to 700 passengers that will, claims the manufacturer, revolutionise the way people travel.

In a region that has been the driving force behind the success of the B747, and where air travel is forecast to grow faster than anywhere else in the world in the next 20 years, Asia is the obvious breeding ground for the Very Large Aircraft (VLA).

If Airbus has done its homework correctly, half of the carriers operating an estimated 55% of the 1,208 VLAs by 2018 will be from the Asia-Pacific. These aircraft will fly on the world's busiest routes and from some of the world's busiest airports.

The early signs look good for Airbus. Singapore Airlines has expressed interest in ordering up to 16 A3XX aircraft. It is one of six companies to have made their intentions known publicly about the radical new jet with another three undisclosed. Other Asian carriers, possibly Cathay Pacific Airways and Malaysia Airlines, could follow suit shortly.

The flagship aircraft of the 21st century, the cruise ship of the skies, that's how Airbus Industrie sees the A3XX once it enters service in 2005.

Rival Boeing, now with a B747X Stretch on the stocks, sees it differently, of course. It predicts a much smaller market for the VLA, only 365 aircraft by 2018. That is why it has, belatedly, opted for a derivative of the B747-400 rather than a massive investment in a new product like the US$12.5 billion Airbus is spending on developing the A3XX.

But let's face it, the A3XX IS a revolutionary aircraft. Two decks, 550 seats in a basic three class configuration (around 700 if used in a single class; for example, on high density Japanese domestic routes) and, using the Airbus sales pitch, improved productivity and economics for the airlines and fast, efficient travel for the passenger.

What is not revolutionary is the cockpit,

which will offer the CCQ advantages of the Airbus family of aircraft.

Cruise liner of the skies? Well, Airbus talks in terms of some airlines incorporating casi-nos, gymnasiums, libraries, kiddies' play rooms and lounges on board.

For all the hype the big question is: will there be a big enough market for the VLA?

And whichever way you look at it, and this applies equally to the Boeing 747X Stretch, you cannot ignore the Asia connec-tion.

Airbus research shows that traffic growth in China's domestic market will lead the world in the next 20 years, at 8.4% a year. This will be followed by expansion on Europe-Asia routes (6.8%), Asia-U.S. (6.5%) and Pacific-Asia (6.3%).

Airbus Industrie's vice-president forecasting and strategic planning, Adam Brown, puts the position into perspective. "In the U.S. every man, woman and child make two trips by air every year," he said. The U.S. domestic market is projected to grow 2.8% a year to 2018.

"In India as many people travel on the train in one day as travel by air in a year," added Mr Brown. This parallel can be used to make a similar comparison with the world's most populous country, China.

Outbound travel from China is already beginning to flourish. The potential is enor-
mous.

At the end of 1998, airline fleets in the Asia-Pacific averaged 244 seats per aircraft, well ahead of any other region. Airbus predicts by 2018 this will rise to 310 seats, well ahead of the Middle East which will have an average per aircraft of 235 seats.

The world fleet of aircraft will number about 19,000 in 2018, of which the VLA will have a 6% share or 1208 airplanes, estimates Airbus.

The manufacturer believes 55 airlines will have the new aircraft in their fleets by this time, of which 48% from the Asia-Pacific region will be operating 55% of the VLAs. According to the research, this will compare to European carriers with 23% of the VLA fleet and North America with 18%.

Eight of the top 10 large aircraft hub dominating routes will serve the Asia-Pacific using Narita, Singapore, Hong Kong, Taipei, Sydney and Auckland.

Six of the top 10 major airports from which more than half of the VLAs will be used are in Asia; Narita, Osaka, Hong Kong, Singapore, Bangkok and Taipei. The remaining four are London Heathrow. New York's JFK, Paris and Los Angeles.

TEAMWORK

Airbus Industrie vice-president market development, large aircraft division, Philippe Jarry, has been closer than most to the A3XX during the research and development of the monster aircraft.

He and his team have worked closely with airlines, airports, passengers and the public for over four years. The participants have come from many countries and cultural backgrounds and have had diverse expectations and de-mands.

The consensus approach has taken more time and involved more harassment, said Jarry, but it has resulted in good value at the end of the day.

Airlines: Twenty airlines have been co-operating with Airbus in the design of the A3XX, including eight from the Asia-Pacific region.

Jarry called it "customer tunnel testing", as necessary for a market matched product as wind tunnel testing for the chief designer, he said.

There was never one answer to any one question in an airline sample.

To this end Airbus has used AITS (airlines input tracking system) CD ROMS. All questions raised by airlines, when, by who and what transpired are put on the CDs and circulated to all participants. "This is a practical way to have a practical dialogue with the airlines," said Jarry.

The airlines asked for more capacity, range, comfort, development capability and versatility with fewer operating costs and less impact on the environment.

To meet the request for extra passenger comfort Airbus lowered the floors and reduced the thickness of the airframe to provide more room.

The double-decker has 43% more floor space than the B747. Jarry said Airbus had "rediscovered the value and logic of building upwards".

The A3XX was two airplanes flying together, he said.

Airports: The mega jet design, 80 metres long, 80 metres wide, is important for efficient operation at the world's 50 major air-ports, which have all been in regular consul-tation with Airbus.

Worldwide airport and air traffic congestion will become worse before it gets better making a good case for the A3XX on high density routes, said Jarry.

Airbus senior vice-president commercial, John Leahy, said turn-around time would be 90 minutes at airports with lower deck loading and unloading. Intensive testing had been carried out with "passengers" to assess the most efficient and safe ways to board and exit the VLA.

Passengers: Around 1,200 frequent flyers have been surveyed worldwide to test the passenger market. This included the psychology of flying in VLAs, comfort and service expectations.

With the A3XX, Airbus and its legions of advisers are reshaping the world of air travel, he added.

Double-deck options

The 540 to 548 tonne MTOW A3XX-100 with 555 seats will have a range fully loaded of 14,200km (7,650nm) to 14,430km (7,800nm). The high gross weight 560 tonne version offered to allow airlines more trans-Pacific capability, will have a range of 15,100kms (8,150nm).

An extended range A3XX-100 variant will retain the 555-seat lay-out and offer a range of 16,200kms (8,750nm).

Airbus also will include in the family the 656-seat A3XX-200 with a range of 14,200kms (7,650nm).

A smaller 481-seat version, the A3XX-50R, with a range of 16,200kms (8,750nm), is also being considered. Another option, the A3XX-100S, would be designed for high frequency, short flights such as the Japanese domestic market.

An A3XX-100 freighter with a range of 10,400km (5,620nm) is expected to be ready for service in late 2007.

FedEx and Atlas Air are two carriers believed to have expressed interest in the 150 tonne capacity aircraft, which will have a range of 10,400kms (5,620nm). Other options will include Combi versions with either seven main deck pallets providing 473 seats and 37.9 tonnes of cargo with a range of 13,500km (7,270nm) or an 11-pallet layout, 421 seats and 51.3 tonnes of cargo with a range of 12,940kms (6,970nm).

Boeing s-t-r-e-t-c-h-i-n-g out

By Tom Ballantyne

Executives of Seattle planemaker Boeing may not want to publicly admit they have been slow in reacting to rival Airbus Industrie's long-touted plans to build a high capacity passenger jet, but Joe Sutter is not holding back.

The "father" of the jumbo jet who, in a 40-year career at Boeing, rose to chief engineer and is credited with developing the B747, admitted to *Orient Aviation* he has been "a little bit frustrated" over the past 10 years.

Why? "Because when we designed the initial B747 we laid it out so it could be stretched. The B747-400 has been around since 1988 and it's time for an improved version. I think these guys at Boeing have been a little lethargic."

Now a consultant to Boeing – his title is senior counsellor – Sutter finally won his way. Within days of an Airbus Industrie May announcement of potential orders for its 550-seat A3XX-100, he was part of a top-level Boeing 'hit squad' that arrived in airline boardrooms with the news Seattle is prepared to build a stretch B747. It also will seat more than 500 passengers.

Among its targets was Singapore Airlines (SIA), which has voiced interest in 10 firm orders and six options for the A3XX. But as Boeing vice-president product strategy and development, John P. Roundhill, put it, the Singapore flag carrier has not signed a firm order and it would not be the first time SIA has changed its mind. Cathay Pacific Airways and Qantas Airways also were on Boeing's priority Asian hit list. But on June 23, Qantas expressed public interest in the A3XX.

Roundhill is adamant the sales push is not a knee-jerk reaction to the success of Airbus. "I understand why that may be the perception. But we started developing this aeroplane very early in 1997 and we have gradually put more and more people on to the project. Our customers were well aware of that."

The focus has been on the B777X. "Now, we have committed to the 777X and we are ready to move on to the next big thing. We are responding to our customers. We are not running around because Airbus has made a few announcements," insisted Roundhill.

Father of the B747, Joe Sutter: Boeing slow to launch Stretch version

Boeing will move to "the next big thing" in two steps. Firstly, it will take the existing B747-400 and enhance it with the new-look interior and flight deck of the B777. That plane, still a 400-seater, should be available around 2002. The enhanced jumbo will then be stretched and fitted with new engines on what is virtually a new wing. Capacity will increase from 400 to between 480 and 505 seats, depending on airline configuration. Carriers will have the option of moving crew rest areas into the roof, which could provide up to 20 more seats.

It will weigh 474,000kgs (1,043 million lbs), compared to the B747-400's 413,636kgs (910,000 lbs). The range will jump from 13,995 kms to 14,450 kms. It will also fly faster at .86 Mach, instead of .85 Mach.

Boeing is working closely with the engine alliance, GE and Pratt & Whitney, as well as Rolls-Royce, to define the new engines. "We are very encouraged by the results of our work with them. Overall, the noise levels will be 5-6dB lower than the 747-400.

The key to the new plane "is all in the wing", according to Roundhill. "With Mr Sutter's help we have defined a wing that adds substantially to the fuel capacity. The total span of the wing is increased by 5.5 metres, so it's basically a 70-metre span. Basically, it's a brand new wing, all the way from the body to the inboard cell. The airplane also includes some enhancements to the outboard airfoils that allow the airplane to fly a little faster than today's 747-400."

Sutter said the idea of adding an insert and re-contouring the wing was used on the Boeing B707. He had urged the company to do the same again. " It was a good idea then and it's still a good idea. This is a low risk way of getting a hell of a good wing with more fuel capacity, a better flap system and better take-off and landing characteristics," he said.

Roundhill said the plane could be ready for delivery in 2005, the same time as the A3XX. Said Larry S. Dickenson, Boeing's senior vice-president sales and marketing: "Asian airlines operating big 747 fleets have made a substantial investment in the aircraft and it has been a very good airplane for them. It has made them lots of money. What we now have is an opportunity for them to have an even bigger 747. It will have all the benefits of commonality and infrastructure the airlines have invested in that fleet to serve these few markets where they need bigger aircraft.

"It is going to cost them a fortune to switch to a totally new airplane of that size [A3XX] with the infrastructure that is required to support it. This is a much safer approach and it preserves the equity they have invested in the 747 fleet." Boeing has built 1,300 B747s in 31 years. Six hundred are B747-400s. Two thirds of the -400 fleet are with 12 operators, of which nine are in the Asia-Pacific region.

"The introduction costs of a B747 stretch to a B747 fleet are basically about half of a brand new airplane. Ground handling equipment will be exactly the same and so will much of the toolbox," said Roundhill. "Because of the more aerodynamic shape of the 747 stretch we will basically have aerodynamics that are equivalent to a new airplane. If you wrap all that together, the seat mile costs on long range missions of the 747 stretch are in the order of 14% lower than the 747-400."

The cost of the new plane? Boeing is not saying yet. But insiders suggest it will be US$225 – $230 million, compared with the US$180 million list price of a B747-400.

As for Airbus accusations that all Boeing is doing is rolling out yet another derivative of its tried and true jumbo, Roundhill has a sharp response: "This airplane, even in the structure, will have essentially zero commonality with the original 747."

No change of mind for Sutter

Joe Sutter may have given birth to the B747, or the jumbo jet as it became affectionately known, and its distinctive upper "bubble", but he is no fan of full two deck airplanes. "We didn't like the double-deckers 30 years ago, and we still don't like them today," he said.

According to Sutter, the original 747 design involved two decks along the length of the aircraft, but the idea was ditched for two reasons. "One was emergency evacuation. When you extend an upper deck back you have to put doors all along the fuselage. To deploy the emergency evacuation slides and avoid mixing them up with the lower door slides is a very difficult technical challenge," said Sutter.

"Secondly, when you opt for a double deck design you squash the airplane down, it's like a football. When you put the passengers and all the baggage in the airplane you restrict the amount of revenue cargo you can carry. Some airlines make a lot of money out of revenue cargo, so it's a poorly balanced airplane. We still believe until you get a thousand passengers, double-decks will not make any sense and even then we would opt for a single deck airplane, something like the 747," he said.

Angel Air: restructuring after two years of operating losses

Angel's demise prompts questions

By Patrick Garrett and Tom Ballantyne

Thailand's Angel Air may be down, but it's not out. The country's efforts to liberalise its air routes, however, are looking fragile following the suspension of services by the country's second official flag carrier in June.

President and chief executive Somchai Bencharongkul said the closure was planned to allow for a complete restructuring of operations.

The carrier has appointed Virachai Vannukul, a former adviser to Bangkok Airways, as its chief strategist and adviser in an attempt to turn around the loss-making airline. Among Virachai's tasks will be the selection of more suitable aircraft.

The two B737s operated by Angel were wet-leased from Malaysia Airlines.

The carrier, in almost two years of operations, had been reporting monthly losses of more than US$500,000. It had failed to win government approval to raise capital by lifting its foreign shareholding from 15% to 49%.

One of the major problems facing secondary Thai airlines is that the industry is dominated by national flag carrier, Thai Airways International (THAI).

Angel Air had operated a service from Bangkok to Singapore, but it was forced to withdraw in the face of tough competition from THAI and Singapore Airlines.

Orient Thai, with two L-1011s and plans to add another four to its fleet, moved operations to Cambodia and operates services from Phnom Penh for Kampuchea Airlines, in addition to ad hoc charters.

Its chief executive, Udom Tantiprasongchai, told *Orient Aviation* he plans to take legal action against the Thai Government because of its failure earlier this year to renew an operating licence for his carrier in Thailand.

However, one carrier which is thriving is PB Air, whose executive chairman, Chatrachai Bunya-Ananta, is a former president of THAI.

PB Air, privately owned by brewing tycoon Piya Bhirombhakdi ("PB"), operates three 75-seater Fokker F28-4000 regional jets acquired from Scandinavian Air Services. In June, it launched a service from Bangkok and Krabi to Singapore, in addition to a varying roster of domestic routes.

Captain Jothin Pamon-Montri, a former THAI senior vice-president, has moved from being PB Air's senior consultant to the post of president. Until October last year, he also acted as a consultant to Angel Air.

He has urged the government to adjust its aviation policy to help private airline companies increase their business. One of the most important measures would be to allow them to operate on some routes that THAI does not want to fly, he said.

A more liberal domestic Open Skies policy was set to take effect from September 24 in Thailand, but Capt. Jothin told *Orient Aviation* the dominant position of the flag carrier would still make true competition difficult.

FAA challenged on overflight charges and security upgrade

POOR TIMING

Protests as new overflight fees allow little scope for consultation

By Tom Ballantyne

International airlines, including carriers from the Asia-Pacific, are making urgent moves to forestall the re-imposition of hefty overflight fees by the U.S. Federal Aviation Administration (FAA) on August 1.

Airlines do not question the FAA's right to introduce overflight fees, but are angry a consultation period is occurring after the introduction of the fees. The charges will add millions of dollars a year to the operating costs of carriers still recovering from the impact of the Asian economic crisis.

Richard Stirland, director general of the Association of Asia Pacific Airlines (AAPA), has written to the FAA's assistant administrator for financial services, Donna R. McLean, protesting the decision on behalf of its 18 members.

He criticised the timing of the fee announcement, which was made shortly before a June International Civil Aviation Organisation (ICAO) conference in Montreal.

At the conference – Economics of Airport and Air Navigation Services – principles for setting fees were to be discussed. They included that the charges should be established only after consultation with users.

"On the eve (of that conference) the United States Government can ill afford to send a message that a major proponent of the development of ICAO standards will actually act in contravention of the principles it wishes other states to adhere to.

"Rather, the U.S. Government should take this opportunity to set an example of the proper manner through which new charges systems are introduced," wrote Stirland.

The AAPA also objected that the fees were being introduced through an Interim Final Rule (IFR), which allows the FAA to begin charging during a period of consultation. "AAPA member airlines that overfly U.S-controlled airspace object to the IFR process in that it will not provide all interested parties with an adequate opportunity to meaningfully debate the issues," said Stirland's letter.

In a separate move, counsel representing a number of other international airlines – including Qantas Airways, Air New Zealand and Asiana Airlines – hand delivered a stinging letter protesting the action to the FAA's chief counsel, Nicholas Garautis, in Washington.

AAPA director general, Richard Stirland: not enough time for consultation before fees introduced

They also complain that a 120-day period for comment and submission, after which there will be a review before a final rule is introduced, does not end until October 4, more than two months after charging begins.

The FAA first attempted to hit airlines with overflight fees in May 1997. The U.S. Court of Appeals for the District of Columbia stalled the move. It contended the FAA had failed to adequately set the fee structure and had begun charging without proper consultation.

A decision to re-introduce the charges is no surprise to airlines, but they are upset they will have to send substantial cheques to Washington for regional flights operating thousands of kilometres away from the U.S. coast. While carriers fly in U.S.-controlled airspace, pilots make little use of FAA ATC services.

All Qantas, Ansett, Air New Zealand, Japan Airlines (JAL), Korean Air and Asiana flights operating between Australasia and North Asia have to fly through a lengthy section of U.S.-controlled airspace, which stretches from the Californian coast across the Pacific to north of Indonesia.

The fees apply to all flights that traverse U.S.-controlled airspace, but do not land on U.S. territory.

When Orient Aviation conducted a survey of the potential costs to Asian carriers late in 1997 it found Qantas and JAL would be hardest hit, with estimated annual fees of US$4.69 million and US$3.9 million respectively. Other regional airlines affected to varying degrees include Cathay Pacific Airways, Korean Air, Asiana, All Nippon Airways, Malaysia Airlines, Philippine Airlines, Singapore Airlines and Air Niugini.

The latest fees are, however, less than one third of the FAA's original charges. In the Oceanic area, most used by Asian airlines, charges will be US$20.16 for every 100 nautical miles, compared to US$69.50 in 1997.

Flights in the en route area (over U.S. land) will cost US$37.43 per 100 nautical mile.

The FAA argument is straightforward. Until now, airlines have not been paying for the air traffic control services it provides in these areas. "This rule assesses fees directly related to services provided by one of the safest air traffic control systems in the world," said Ms McLean. "The charging of overflight fees is consistent with the practices of almost every other nation and will recover most of the costs of the services provided."

The administration projects it will collect US$19.7 million a year from en route charging and US$19.9 million from oceanic fees, a total of US$39.6 million. The FAA said the total cost of providing overflight services will be US$50.4 million.

British Airways, KLM, Germany's Lufthansa and LTU and the Air Transport Association of Canada were signatories to the letter sent by Qantas, Air New Zealand and Asiana to the FAA. Canadian and European airlines will be effected by the fees for direct trans-Atlantic flights from Europe to Canada.

In the letter, the airlines' counsels questioned the speed at which the new fees are being introduced when there is no pressure from Congress on the FAA to do so.

"The deliberate manner in which the FAA has acted, taking more than two years to issue a second fee schedule, itself demonstrates the lack of real or legislatively imposed urgency with respect to the FAA's establishment of a revised overflight fee schedule," said the letter.

It added that giving affected parties an opportunity to comment on the proposed fees schedule prior to their introduction will "produce not only more informed agency decision-making, but also a reduced likelihood of controversy over the end result".The counsel urged the FAA to abandon the IFR under which the fees are being imposed and publish a Notice of Proposed Rule-making, which would require a lengthy period of discussion before the fees come into effect.

Privately, some Washington insiders suggest the FAA's budgetary problems may be responsible for its haste to introduce the new charges. FAA administrator Jane Garvey admitted at a recent White House press briefing the agency's budget is "strained and that's affecting our ability to deal with the growing number of flights".

She was speaking after the Senate had cut US$250 million off the amount President Clinton had requested for the FAA's operations. In addition, the administration asked Congress in March for an "urgent" $77 million supplementary contribution to the budget for this year, which has not been approved.

Garvey said if the agency did not receive the money it would not be able to hire an additional 170 safety inspectors and medical certification staff. This would mean 10,000 fewer inspections than in 1999. "In addition, we will have to reduce maintenance for critical air traffic control systems, which will result in more frequent equipment outages, increased time to restore these outages and greater air traffic delays during the busy summer travel season," she said.

There is another threat emerging to the FAA's overflight revenue. Pacific island nations, which have millions of square kilometres of air space under U.S. control, are taking action to reclaim their skies in the region.

The matter has been put before ICAO.

Bid to halt FAA security upgrade

U.S. Secretary of Transportation, Rodney Slater, has moved to halt the imposition of proposed tough new Federal Aviation Administration (FAA) rules which would force foreign airlines to adopt the same security regulations as U.S. operators, writes Tom Ballantyne.

His decision follows a wave of protest from foreign airlines and their governments that threatened retaliatory action, including the denial of landing rights to American carriers.

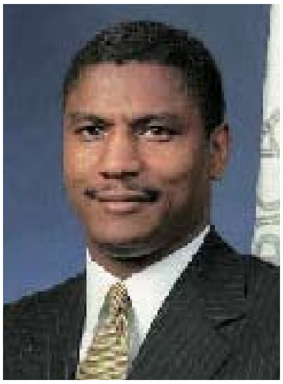
In a June 12 letter sent to the chairman of the U.S. Senate Judiciary Committee, Orrin Hatch, of which *Orient Aviation* received a copy, Slater said the cost of extra personnel, procedures and equipment for foreign airlines and airports would conservatively exceed US$2 billion over 10 years. His decision to back away from the regulation is being hailed as a victory for common sense.

The controversy revolved around section 322 of the 1996 Anti-terrorism and Effective Death Penalty Act, which required the FAA to change security programmes of foreign carriers for flights to and from the U.S. It would have required the airlines to introduce security measures "identical" to those imposed on American airlines.

In 1999, the FAA issued a Notice of Proposed Rulemaking (NPRM) about its intention to ensure the act was followed to the letter, a move that horrified airlines around the world. But in his letter to Hatch, Slater explained that a literal translation of the term "identical measures" in implementing security programmes would have perverse effects in many instances.

For example, Israel's El Al, which has some of the toughest security measures in the world, would be required to reduce its security.

"It would be unnecessarily expensive for U.S. and other foreign carriers, and unacceptably inconvenient to their passengers, to insist on all carriers implementing 'identical measures' to El Al for their international flights from these airports. On the other hand, it would be imprudent and unacceptable to El Al and



U.S. Secretary of Transportation, Rodney Slater: against FAA security plans

the State of Israel, for the FAA to insist El Al modify its security programme to a lower level of vigilance to make its measures identical to other carriers," wrote Slater.

He made it clear that although many countries had differing regulations on security this did not mean they were not as good as U.S. rules.

When public hearings were held after the FAA issued it's NPRM, there was "an overwhelming preponderance of opposing views expressed in statements to the hearing", Slater said. Of the 93 submissions made, 87 strongly opposed the literal approach.

The recurring concerns raised, many from foreign governments, addressed adverse security consequences, legal and operational constraints, economic burden and damage to international relations. "In addition to their staunch opposition, these governments have indicated they will take actions detrimental to U.S. national interests, including U.S. air carriers. We expect foreign governments to retaliate against U.S. carrier international operations by taking actions that include denial of landing rights, cutbacks in slots and curtailed expansion of service to new airports," Slater warned the U.S. Senate.

He also disclosed foreign governments and civil aviation authorities were threatening to impose reciprocal requirements at U.S. airports by requiring airline operations from the U.S. implement the same security measures when flying to their countries.

Slater said that as a result of technological advancement and improvements in the security area and the level of international cooperation on the security front, he believed the requirement of section 322 had already been fulfilled.

"We believe that ... the Department of Transportation and the Federal Aviation Administration should take no further action to implement security programmes based on a literal interpretation of the term 'identical measures'. Literal implementation... would be unduly restrictive, unnecessarily costly, and, in some significant cases, harmful to security programmes," said Slater.

STOPPING THE ROT

PAL is in the black, but will controversial chairman Lucio Tan walk away from the airline? TOM BALLANTYNE *speaks to PAL president Avelino Zapanta*

Philippine Airlines (PAL) chairman, Lucio Tan, is, not to overstate the matter, a reclusive character. The Chinese-Filipino billionaire, who made his fortune from beer and cigarettes, is said to fear being kidnapped. He hops from roof top to roof top in Manila in his private helicopter to attend business meetings.

Orient Aviation has been trying to interview Tan for several years, without success. The PAL majority shareholder and close friend of Philippine president, Joseph Estrada, relies instead on Manila government officials and his chosen few among the local press corps to put across his point.

In April, for example, they reported Tan wanted to sell his majority share-holding in the airline. A short time later he was quoted as saying he was in talks with Lufthansa German Airlines about an equity deal, said to be worth around US$800 million.

Not for the first time his words prompted strong denials.

Lufthansa chairman, Jurgen Weber, told *Orient Aviation* in Frankfurt his airline would never be interested in taking a share in PAL.

So what is going on? Does Lucio Tan want out? If so, how desperate is he?

One man who probably knows better than most is PAL's president, Avelino Zapanta. Last year, Tan brought him out of retirement to head the airline when he lost patience with his imported consultancy team of ex-Cathay Pacific Airways managers and sacked or transferred his most senior Filipino executives out of the flag carrier.

"He is a businessman and certainly if a good offer comes around he would be very happy to consider selling his shares in PAL," Zapanta told *Orient Aviation*.

The initial statement was made out of frustration, said Zapanta. Tan still "loves" the airline but was angry at ongoing allegations "of cronyism by his enemies who are envious of his closeness to the president".

Philippine Airlines president, Avelino Zapanta: Lucio Tan will sell his shares if he receives a good offer

The question is: who would want to make a "good" offer for an airline which closed its doors for 10 days and nearly went into liquidation two years ago with US$2.2 billion in debt? It has since re-emerged, under the supervision of Manila's Securities and Exchange Commission, with a tough 10-year rehabilitation plan.

Once the envy of the Asian aviation industry, PAL's slide into near obscurity and receivership is a sorry tale.

For many years it was the victim of mismanagement and corruption. The region's economic woes in the late nineties made matters worse and following a disastrous pilots' strike, PAL closed its doors in September 1998.

It was reborn as a shadow of its former self. The fleet was slashed from 54 to 25 aircraft. Staff numbers were cut by almost half to 8,000. And it's revival has been scarred by political infighting and haggling with creditors.

Zapanta acknowledges the difficulties, but said the signs that real recovery is underway are there for all to see.

PAL wants to find a strategic partner and it has not given up the idea of joining an alliance, he added.

Significantly, the president admitted there were no talks with Lufthansa or anybody else at this stage. He said: "We are not imposing ourselves on anybody because we know after our sad experience of closing down and being resurrected we are not that attractive (to investment).

"Nevertheless, we are working towards improving ourselves to a point where we will become a worthy partner to anybody who may want to work with us."

Irrespective of Tan's future interests in the carrier, Zapanta said PAL's mission is to complete its rehabilitation and be free of the receiver in five years. He talked enthusiastically of a flotation of the airline on the Manila Stock Exchange when it achieves three successive years of profit.

And although PAL recorded a profit last year, Zapanta's plans appear ambitious to say the least.

However, the airline's financial performance in 1999 could mark a critical turnaround in operations. Under the rehabilitation plan, a loss of 640 million pesos (US$16 million) had been projected for the year. Instead, PAL reported a US$1 million profit and, though small, the result represented a major step in the right direction, said Zapanta.

It could have been even better. Year-end income would have topped US$12 million had it not been for a 63% rise in the price of aviation fuel. Over the past six months, PAL has consistently exceeded targets for cost reduction and revenue flow and improved load factors in an economic climate which continues to be shaky.

The new fiscal year has started positively. Zapanta said PAL made US$9.5 million in April.

Philippine Airlines: added five planes to its fleet and is expanding its route network

It was about the same figure in May. "This will probably dip when the lean months come in, but we have the peak travel months of December, January and March to end the year positively. If we continue to get our act together we are confident we will report another positive year," he said.

Rationalisation of the organisation is continuing. One critical move, spinning off the maintenance and engineering division, will be finalised in mid-July. Control will be transferred to Lufthansa Technik, which has set up Lufthansa Technik Philippines with local airport service provider Macro Asia Corporation.

Zapanta said this meant up to 1,600 PAL staff will be transferred to the German company's operation and be removed from the airline's pay books. "That is a major area of improvement. We don't have the resources to train staff or upgrade facilities so it is best to spin them off."

The future is looking brighter on the fleet and network front. Creditors have allowed the airline to retain two new Airbus A340s that were supposed to be returned in April. They also agreed that two A340s should rejoin the fleet. One has already arrived and the second is due in July or August. This will boost the fleet to 31 jets.

Three Boeing B737-200s have been wet-leased from Air Philippines and are operating on services to Australia and other sectors such as Hong Kong.

The boosted fleet will be the mainstay of a modest network re-building plan intended to improve PAL's market presence. The carrier has re-launched services from Manila to Australia and in July plans to re-enter the South Korean market with flights to Pusan. Frequencies to Los Angeles will be increased.

"We are not in a hurry. We are studying all our old routes. Before we re-activate them we will make sure we can operate them profitably," said Zapanta.

"We will not give any consideration whatsoever to routes we can't show will be profitable."

Addressing the U.S. market is vital, he explained, because PAL must prepare for Philippine-U.S. open skies, which will come into affect in 2003. "That is a big threat and, one way or another, we have to be ready for it," said Zapanta.

Zapanta and others at PAL – including Tan – are unhappy about the open skies agreement. They blame the "Santa Claus attitude" of the former Ramos Government for "giving away the farm" and placing PAL in a competitive situation it was not ready to handle.

Meanwhile, management is putting a great deal of effort into working closely with staff and boosting morale, said Zapanta.

"Every month I talk to them about everything under the sun, the good, the bad, their concerns and how we can address them. Things are going OK."

If he manages to steer his charge to anywhere near the US$64 million net profit projected in the carrier's rehabilitation plan for 2000-2001, then OK will be something of an understatement.

Zapanta shrugs off Taiwan flights ban

Philippine Airlines (PAL) president, Avelino Zapanta, says the ongoing air rights dispute between the Philippines and Taiwan has had "absolutely" no effect on PAL. The Taiwan airlines were the ones hurting, he told Orient Aviation.

The bilateral blow-up with Taiwan, which led last year to the suspension of all air services between the two countries, is still in place.

PAL's complaints revolve around the alleged "poaching" of sixth freedom Philippines traffic bound for the U.S. and Europe by Taiwan carriers, China Airlines (CAL) and EVA Air, through Taiwanese ports.

Critics of the Manila flag carrier say it is hardly the fault of CAL and EVA that PAL placed itself in a position where it could not properly compete. They accuse President Estrada of protecting Lucio Tan because the PAL majority shareholder pumped millions of dollars into the presidential election campaign.

Zapanta insisted the Taiwan situation had done nothing to damage PAL.

"It's damaging them (the Taiwanese airlines), not us. That's why they keep on crying," said Zapanta. "This is a small route, we operated two flights a week with small aircraft.

"On the other hand, when the services were stopped we got back all the traffic they had been stealing from us on the trans-Pacific. The small amount of money we lost on the Manila-Taiwan-Manila operation has been more than compensated by what we have made on our trans-Pacific flights."

Asia backs noise initiative

By Tom Ballantyne

If various sections of the international aviation community fail to agree on a uniform global set of noise standards the International Civil Aviation Organisation's (ICAO) efforts to introduce Chapter 4 noise rules will collapse, according to the head of a new industry coalition.

Gerald L. Baliles, a former governor of Virginia and former chairman of the U.S. National Airline Commission, predicted this could lead to "a ruinous system of local and regional standards which would negatively affect the operation of the international aviation system".

Worse, the agenda would be captured by those who believe aviation should be subjected to punitive environmental standards, stripping the industry of the ability to expand its service options and enlarge market opportunities, he added.

Baliles was speaking during an extensive world-wide campaign to enlist backing for the proposed Coalition for a Global Standard on Aviation Noise.

He said a growing number of airlines, including many Asian carriers, have pledged their backing.

That is hardly surprising. Many airlines, having invested billions of dollars in Chapter 3 compliant fleets, are deeply concerned they will be overtaken by tougher Chapter 4 rules long before they have gained economic returns from their huge investment in aircraft.

The coalition is being set up in response to increasing concern about this debate and the emergence of wide differences of opinion between governments and the aviation community on the noise issue. This is highlighted in a bitter dispute between the U.S. and the European Union over the introduction of hush kits to make some aircraft Chapter 3 compliant.

Baliles said although the hush kit dispute is not the focus of the new coalition, attempts on both sides of the Atlantic to simplify and generalise the positions of either the Europeans or the Americans have produced misunderstanding and political posturing.

"These kinds of public disputes, with their accompanying rhetoric and the ability of government officials to resolve them, undermine the public's confidence that anything sensible will be done by ICAO to address the basic issue – the new Chapter 4 noise certification standard."

Baliles said noise is the number one environmental issue confronting aviation. It has the potential to "disrupt the global aviation industry, with dramatic economic consequences, around the world", he said.

The coalition is committed to a single noise standard under the auspices of ICAO and will work within the framework of:

- preservation of the international principle of a single global certification standard for noise reduction.
- protection of the airline industry's investment in the Chapter 3 aircraft fleet.
- assistance in the development of an effective and technically feasible new aircraft noise certification standard.

"The principles that underlie the coalition's efforts can – and should – apply just as readily to emissions and other concerns of the aviation communities. If consensus is not found, if airports, airlines, manufacturers, labour organisations, lenders and consumers fail to respond to these challenges in a co-operative and supportive way, the global economy will be seriously and adversely affected," he said.

Baliles said as the industry negotiates its way through the debate on aircraft noise – and emissions and climate change and other environmental issues – it has to keep the ultimate goal clearly in mind. It must focus on principles designed to broaden engagement.

"If we choose, instead, to dwell upon the issues that divide us, we will surrender the field to those whose agenda is not the promotion of aviation growth and the expansion of economic opportunity," he said.

Alliances face first real tests

Star's 'cause for

By Tom Ballantyne

Singapore Airlines' (SIA) 49% ownership of Britain's Virgin Atlantic Airways has been the subject of serious discussion at meetings of Star Alliance member airline chiefs, according to the president of U.S. giant United Airlines, Rono J. Dutta.

The verdict? "A cause for concern," said Dutta.

The reason is when Virgin owner Sir Richard Branson's new Australian start-up, Virgin Blue, launches services in September it will be competing directly with Star member Ansett Australia.

Complicating this situation is SIA's (regulatory approval was expected late June) 25% equity in Air New Zealand (Air NZ), the 100% owner of Ansett. SIA, which joined Star last year, has no direct investment in Virgin Blue, nor will it take any part in its fleet or operations oversight.

Nevertheless, it means a Star carrier has an indirect interest in the performance of a non-Star airline whose operations could impact on the bottom line of an alliance partner and its owner.

It is the first time any member of the world's biggest alliance has publicly voiced any measure of unease over SIA's involvement with Virgin. But clearly Ansett and Air NZ will be among those viewing the situation with some consternation; Virgin Blue will be hotly contesting Ansett's most critical bread-and-butter routes, Australia's primary domestic trunk airways between Melbourne, Sydney and Brisbane.

In reality, the Star Alliance has no say in member airlines' independent decisions on investment in other carriers. But Dutta, speaking to *Orient Aviation* during a June visit to Sydney, laid out the alliance's general "policy". There is absolutely no problem with a member carrier taking equity in another member airline, but investment in an airline which is a member of another alliance is frowned upon.

Equity in a "neutral" airline which is not a member of any alliance falls somewhere in between and the group's attitude will depend on the situation, he said. SIA's stake in Virgin comes into this category, but raises some questions because of the imminent Virgin Blue development.

Star should have no illusions about SIA's ambitions. The carrier wants to build its own global stable of airlines and aviation interests in which it will hold equity.

There is a growing belief among analysts and senior airline officials that Virgin will become a member of Star anyway, despite Sir Richard's repeated statements he wants to remain independent.

But for Star, such a move would create another dilemma; Virgin rival British Midland, now part-owned by Star's Lufthansa, is already a member.

Dutta (48) became United's president in June last year. In addition to overseeing the carrier's North American and international divisions, he is at the helm of the growing network of alliances and code-share agreements. He oversees all United's business activities relating directly to customers, including marketing, onboard services and cargo.

He believes all airlines will ultimately join one alliance or another and that so-called "boutique airlines" will not be able to survive without

British Airways: exploratory merger talks with Dutch flag carrier KLM

Merger

Merger is the word on the lips of many as some of the world's biggest airlines manoeuvre towards further consolidation of the industry, a move they regard as the next critical phase in their search for consistent profitability and a global and rationalised airline regime.

Confirmation in June that British Airways (BA) is in serious exploratory merger talks with Dutch flag carrier KLM quickly followed an announcement by the world's biggest operator, United Airlines, that it plans to buy US Airways, in a deal worth US$4.3 billion.

And that's not all. Within days, news emerged from New York that BA oneworld alliance partner, American Airlines (AA), had held "introductory and exploratory" talks with rival Delta Air Lines on the possibility of a merger.

At the same time, AA is reportedly considering a move to acquire Minneapolis-based Northwest Airlines, a long-time partner of KLM, although no discussions are understood to be underway yet.

The developments hold the potential to dramatically alter the industry's global landscape and force a re-alignment of alliance ties, although all the prospective deals face tough regulatory hurdles in Europe and North America before they can be concluded.

For instance, British no-frills operator easyJet has demanded a European Union competition inquiry into the proposed BA-KLM merger, suggesting it would contravene anti-monopoly regulations.

In the U.S., Washington regulators will be taking an serious look at United's move, fearing the possibility it could start a merger stampede which may see the number of primary U.S. carriers cut from eight to three or four.

The ultimate impact on Asian carriers, most of whom have already committed themselves to major alliance groupings, could also be profound, forcing them eventually to reconsider

concern'

doing so. There is probably room for four or five groupings, dominated by two large alliances like Star and oneworld, he added.

"You can no longer be a North American operator or a European operator or an Asian operator. You have to be a global operator," argued Dutta. "Ultimately, the customer wants to go global."

Changing traffic patterns are making alliances critical, he said. "It is important to note that 15 years ago most of the traffic growth was between primary cities of the world. Now there is a lot more fragmentation; growth in secondary direct markets. No single airline can meet the demand for all these direct flights on secondary routes."

That is one of the reasons United is unlikely to be an early customer for the new high-capacity Airbus A3XX. The big jet debate between Airbus and Boeing is an interesting one, he said. One manufacturer is arguing there is a market for many 550-seat aircraft and the other is saying that while there is a limited need for high capacity planes, the demand in the market is for smaller jets for secondary routes.

United clearly leans towards the Boeing view of the world, with Dutta saying current focus is on expansion of secondary routes, such as direct services between destinations like Chicago-Bangkok and Dallas or San Francisco to Tokyo.

This does not mean United will not eventually purchase high capacity transport. "Airbus and Boeing are probably both right. We will be watching developments closely. I suspect we will eventually buy a few of each (the A3XX and the B747 stretch)," he said.

United Airlines president, Rono J. Dutta: you have to be a global operator

With British Airways (BA) continuing to have problems both with its own performance and its relationship with oneworld partner American Airlines (AA), Dutta is not slow to tell his rivals where they are going wrong.

He thinks the BA/AA relationship faced insurmountable problems from the start for the simple reason their networks overlap in places. This is a red flag to government regulators, who immediately see it as creating more monopolistic markets, according to Dutta.

United, on the other hand, had been very careful to ensure its alliances were with partners whose networks are complementary, not overlapping.

The United president was critical of the BA move, under previous chief executive Bob Ayling, to place greater emphasis on business traffic at the expense of low yield economy passengers. "We think the strategy of simply rejecting economy passengers could be very dangerous. Business

(cont. on next page)

fever in the air

some hard-negotiated arrangements with existing commercial partners.

The Star Alliance, spearheaded by United, already has Thai Airways International, Air New Zealand, Ansett Australia, Singapore Airlines and Japan's All Nippon Airlines as members. Qantas Airways and Cathay Pacific Airways are in BA's oneworld. Japan Airlines (JAL) is not an alliance member, but has close commercial relationships with BA and Qantas. Malaysia Airlines (MAS) also is unaligned, but has ties with KLM and Northwest, leaders of the so-called Wings alliance. A fourth alliance grouping is led by Delta.

If some of the merger moves eventually come to pass it could virtually eliminate Wings and the Delta group, leaving airlines like MAS and JAL with little choice apart from joining Star or oneworld. The United-US Airways purchase is furthest down the track. If approved it would involve the latter's brand disappearing, with its fleet operating in United livery. It is a huge deal because, apart from the price, United would take on US Airways debt of $1.5 billion and $5.8 billion in aircraft operating leases; a total of $11.6 billion.

But United president, Rono Dutta, told *Orient Aviation* the merger "simply makes sense" because it gives the big airline access to areas within the U.S. where it is weak, such as the East Coast. "The new network will connect US Airways' eastern U.S. markets with United's east-west and international networks. They are totally complementary."

Dutta said United's Star partners in Asia also would benefit with new links into the U.S. It plans to connect "significant Asian capitals, including Beijing, Tokyo, Seoul and Singapore to US Airways' hub at Pittsburgh, as well as linking another of the carrier's hubs at Charlotte, North Carolina, to Sydney and Melbourne in Australia.

The boards of both airlines have approved the merger, which would be completed sometime next year if it wins government approval.

In Europe, the BA-KLM talks started after a failed attempt by KLM to merge with Alitalia.

BA's new chief, former Ansett and Cathay Pacific head, Rod Eddington, will make no detailed comment except to confirm discussions have been taking place.

However, a KLM spokeswoman said the talks "could lead to a fully-fledged merger, an alliance, a takeover or co-operation in various business areas".

A deal with BA might offer advantages such as opportunities for efficiencies, cost-savings, better choice of destinations and the possible integration of operations at London's Heathrow and Amsterdam's Schiphol airports, she said.

If the two carriers tie the knot, the union would create the world's fifth largest carrier in passenger terms after United, AA, Delta and US Airways. It would be far larger than Germany's Lufthansa and Air France.

(cont. from previous page)

and leisure passengers are synergistic and they cross subsidise each other. Many business travellers are leisure travellers when they are on leave and vice versa.

"Rejecting one for the other is a very high risk strategy," said Dutta.

BA's new chief, Rod Eddington, has distanced himself from Ayling's comments since he arrived in London and has said there is a place for all passengers on the airline. His views are very much in line with Dutta's comments.

Today's air travellers are different from those of years ago, said the United man. "Historically, airlines have seen themselves as a commodity. Clearly this is changing and changing rapidly. In the past, from the consumer's point of view, price was most important, but now time is more important than money.

"As a result, quality issues have become more important and this flies in the face of price-orientated thinking. We have to be much less commodity orientated, not just focussing on price but differentiating through quality and service and product," he said.

While Star is now the world's biggest alliance it is not finished yet. According to Dutta there are obvious "gaps" in membership, including China, India and Africa.

He is not predicting where it will all end, nor is he suggesting the Star brand will ultimately submerge the individual brands of its members to the point where they become a single entity.

"There is potential for it, but I am not predicting the outcome. That is a matter for time and the market place," he concluded.

NEWS

As Air NZ completes Ansett buy-outs ...

Change awaits

By Tom Ballantyne

Air New Zealand's (Air NZ) buy-out of Ansett Australia was completed on June 23. This followed approval of the purchase by Australia's Foreign Investment Review Board (FIRB). The move signals the formation of a new regional airline grouping which will be among the top 20 carriers in the world.

Air NZ's group managing director, Jim McCrea, said it was intended to complete a swift, smooth transition into a new business structure, with the announcement of new group executive appointments in July.

The Auckland flag carrier already owned 50% of Ansett and agreed earlier this year to pay Rupert Murdoch's News Corp. Ltd a reported US$350 million for the other half. Completion of the deal has been delayed while Air NZ ironed out some concerns with Australian authorities. It is understood these included conditions for minimum job losses at Ansett and the maintenance of services to regional Australia.

When he took the helm of Ansett in June, McCrea gave notice of a fleet expansion programme for Ansett International as well as the prospect of new strategic alliances.

He would not comment, however, on how many additional jets this might involve. Ansett International was looking at a number of opportunities and the United States is an obvious potential growth market, he said.

"You will soon see Ansett Australia and Air New Zealand working together in a single business group under their own brands. Integration will provide the airlines with the capacity to improve their positions in increasingly competitive markets.

Air NZ buy-out of Ansett puts the combined carriers among the top 20 airlines in the world

"Since the transaction was announced last February, joint Ansett and Air New Zealand teams have been working up plans for closer co-ordination.

"Our work to date has confirmed the initial forecasts that integration can deliver increased earnings before interest and taxation of NZ$256 million (US$121.6 million) a year."

Analysts are particularly interested in the new group's corporate structure. Insiders suggest there will be no replacement for former executive chairman Rod Eddington, who left to head British Airways at the beginning of May.

Rather, they believe Ansett will become a group brand with its own general manager. The major decisions will be taken in Auckland by an overall group management team and board which will probably soon include executives from Singapore Airlines. SIA is buying a 25% stake in Air NZ.

Given SIA can overcome New Zealand Government resistance and achieve its goal of expanding its stake to at least 40%, it appears certain the carrier will ultimately have a powerful say in the future direction of the Air NZ-Ansett group.

SINGLE-MINDED

SAirGroup opts to build its own world alliance

By Barry Grindrod

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Where it will end we do not know.

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

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

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

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

The Portfolio:

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

Asia looms large on SAir's wish list

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

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

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

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

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

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

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

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

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

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

How Swissair dealt with its darkest hour

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

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

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

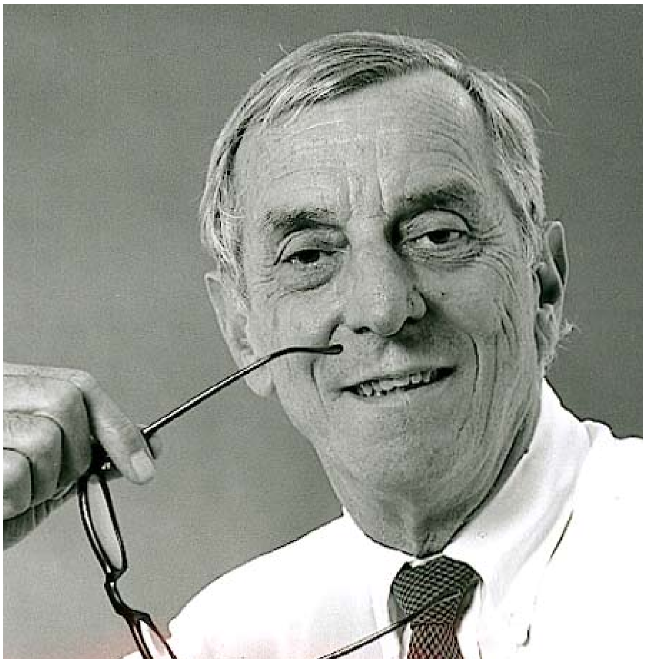
"We checked our records and we did not see any drop in passenger numbers.

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

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

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

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



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

By Tom Ballantyne in Sydney

Call for countries to relax foreign ownership rules

Backdoor re-regulation of the aviation industry, the course and pace of liberalisation, air safety, government failure to provide sufficient infrastructure and the complex and costly revolution in electronic commerce were among the critical issues for delegates attending the International Air Transport Association (IATA) annual general meeting in Sydney in June.

In a rapidly changing world environment airlines are facing challenges to their profitability and even survivability like never before.

By the end of the two-day meeting more than 450 airline executives had agreed to a series of landmark strategies designed to give airlines control of their own destinies.

They included:

- Endorsement of an IATA White Paper, Wings for the Future, which laid down five principles for liberalising air transport.
- A vow to rejuvenate and re-launch safety efforts to attempt to halve the accident rate by 2004.
- Backing for a resolution on a Global Customer Service Framework, aimed at fending off government moves to regulate the way airlines treat consumers.
- Agreement to promote awareness of e-commerce, facilitate the development of basic standards and support co-operative industry platforms to provide e-commerce solutions to airlines.
- Continuing commitment to an intensive campaign to win "the hearts and minds" of the public on environmental issues which could threaten airline operations.

Perhaps the most significant resolution is Wings for the Future. Despite the wide differences between some of IATA's 273 members on liberalisation, the association's carriers have reached consensus on the industry's most basic demands.

Members agreed to lobby their governments on the following principles:

- Ensure consistent safety and security oversight.
- Demand the availability of adequate infrastructure on a non-discriminatory basis.
- Push for the continued availability of the multilateral interline system.
- Call for industry mechanisms to improve business efficiency.
- Stress the need for open access to markets, giving all players a fair opportunity to participate in the sustainable growth of the global system.

IATA director general, Pierre Jeanniot: airline consensus that WTO approach to aviation is inappropriate

According to the IATA paper, there will be no single, smooth transition from the existing economic regulatory arrangements to a new system. "Several approaches will co-exist. IATA and its members will have to adopt an opportunistic approach to the subject to ensure governments are aware of the achievements of the global aviation system.

"It is essential these five principles are not compromised as the industry moves towards greater liberalisation. They should be accepted as an integral part of any future regulatory systems," it said.

Said IATA secretary general Pierre Jeanniot: "As an airline industry, our objective must be to take maximum advantage of the benefits of globalisation, while minimising its inconvenience. Among world airlines there is a wide consensus that the World Trade Organisation (WTO) approach is simply not appropriate - it is too much a case of one size fits all."

He believed the answer to the challenge of globalisation, in the context of aviation, is to encourage flexible and increasingly liberalised developments by like-minded groups of nations and airlines.

"In my view, a major step towards an increase in liberalisation would be for governments to further relax their rules on foreign ownership, leading to potential cross-border mergers. But will governments display the courage required to allow those to take place?" he asked.

As part of the campaign to influence the course of events, IATA and its members will launch an intensive offensive. It will not only work through the International Civil Aviation Organisation (ICAO), but also it make sure airline views are strongly presented during WTO negotiations on the General Agreement on Trade and Services (GATS), as well as during the development of inter- and intra regional liberalisation initiatives.

Delegates at the AGM expressed concern about re-regulation of the industry and Jeanniot warned of "de facto re-regulation of the airline industry by the back door" on at least three fronts.

These were shortcomings in aviation infrastructure which amounted to de facto rationing of capacity; increasing restrictions on aircraft use in the name of environmental protection and the notion governments needed to legislate on customers' "bills of rights" rather than allowing carriers to respond directly to consumer concerns.

"An industry that does not regulate itself often deserves to be regulated," he said.

In an effort to stave off that possibility airline chiefs endorsed the new Global Customer Service Framework, a set of guidelines aimed at clearing up confusion and helping carriers set up their own voluntary "customer rights".

On environment, airlines are moving to counteract misinformation about the industry. They are focussing on the need for a global cost-effective approach, through ICAO, to the impending Chapter 4 noise standard and working to ensure any future rules will co-exist with any new emissions rules.

Airlines want to protect aircraft values in a predictable framework for fleet planning, with standards performance, rather than design, based. They said a world consensus would need imaginative and flexible solutions.

An ICAO working group has been studying "market-based options" for reducing emissions. The four options are taxes, charges, voluntary agreements and emissions trading. IATA is proposing voluntary agreement, but is firmly against any new taxes.

"We have conducted an environment campaign test which indicates the travelling public is reasonably well-informed about the benefits of air travel and its actual environmental impact. Our task is to ensure we win the hearts and minds of our publics," said Jeanniot.

In the midst of this, airlines are acutely aware they have not mastered totally the economics of their business. As Jeanniot put it, carriers are reporting continuing, but inadequate profitability and are "squeezed between the twin pressures of fuel cost increases and yield erosion".

This is illustrated by trends in the two load factors - the actual and the break-even. Both of them are climbing and the gap between them is narrowing.

"The 'fat' years are not very fat and the preceding 'lean' years were very lean! In fact, looking at the last two years, collectively, the net profit should be about three times higher if we are to attract new investment and continue to invest in the latest fuel efficient, environmentally friendly technology," he added.

In this climate, IATA is concerned about the lagging state of aviation infrastructure.

Europe's air traffic control is in "a medieval state", said the secretary general. He added the lack of coherent vision in many parts of the world is resulting in deficient and inefficient aviation infrastructure.

"Governments and aviation infrastructure providers must recognise that over the foreseeable period demand for aviation products and services will continue to double every 10-14 years. And with the resumption of growth in Asia we have the potential of renewed capacity constraint on certain routes and airports such as Narita (Japan)," warned Jeanniot.

Ready for business

By Barry Grindrod

More than 60 representatives of operators, manufacturers, suppliers, leasing companies and governments from Singapore, China, Hong Kong, Japan, Thailand, Macau and the Philippines attended the plenary meeting of the Asian Business Aviation Association (ABAA) in Hong Kong in June.

With general aviation growing steadily in the Asia-Pacific region, the new association called the meeting to explore the potential of a business and commuter aviation organisation in Asia.

Driving force behind the association, Mark D. Turner, managing director of Metrojet Ltd and Heliservices (HK) Ltd in Hong Kong, said Asia's rebounding economy laid the foundation for general aviation to grow, although the industry is small in comparison with other parts of the world.

Some people had suggested there were not enough operators to justify a traditional business aviation association, said Turner. "I believe the embryonic stage of development of the Asian business aviation market demands a non-traditional role," he said.

"One where operators, manufacturers, flight service organisations and suppliers all have an equal stake. The high capital expenditure, high cost of operations and maintenance and the rudimentary understanding of what business aviation is about are all too much for one entity to carry. We each stand to gain from the efforts and credibility of a professional association.

"Our task must be to work with regional governments to highlight our contribution to the economy, our safety record, the efficiency we bring to the business consumer and the myriad other factors that make business aviation an essential part of all Fortune 500 companies.

"We have an opportunity to make business aviation a legitimate industry in Asia."

The International Business Aviation Council, the U.S. National Business Aviation Association and the Federal Aviation Administration have pledged support to the ABAA.

Said Turner, "in Hong Kong "aviation has traditionally been a synonym for 'airline'; all regard to costs, operations and safety is juxtaposed against that frame of reference." Today, all aviation regulations and costs are based on the Cathay Pacific Airways model, making it too expensive for most entrepreneurs to start a new flight operation, he said. "It is very difficult in the charter business to amortize on a per seat basis, particularly when you only have eight seats.

With the opening of Hong Kong's new airport there has been new life breathed into the aviation entrepreneurs who would like to see general aviation take off in Hong Kong and mainland China.

"Neither Hong Kong nor the Mainland Chinese government has much experience in business aviation."

In China, he said, the central government had undertaken a massive commitment to open the west of the country to bring prosperity to those living outside the green belt of the east coast.

Beijing had appealed for foreign investment, but it was unlikely Western companies would invest in places they could not reach in a timely manner, said Turner.

"Additionally, scores of airports are under development or are planned for construction in the next five years. These airports will assist the CAAC in developing a hub and spoke operation, making travel easier," he added. "As private aircraft sales in China continue, private pilot training increases and fixed base operations at these new airports are built to cope with this demand, another revenue stream emerges which will offer more job opportunities to the local public. In short, there is something in this for everyone."

The deputy director of the Hong Kong Civil Aviation Department, Alex Au, and chief executive of the Hong Kong Airport Authority, Billy Lam, both lent their support to the ABAA.

Mr Au said general aviation had suffered at Hong Kong's old Kai Tak airport because of slot constraints.

This had completely changed since the opening of the new Hong Kong International Airport, which has its own Business Aviation Centre. Since 1996, general aviation movements had grown about 6%, up from 450-500 movements a year to 680-700 movements annually.

The ABAA will meet at the Zhuhai Air Show in November when, if there is enough support, the association will be officially inaugurated.

Fees dispute at Inchon

As concern grows about rising airport charges around the world, the International Air Transport Association (IATA) has become embroiled in a dispute with the authorities at South Korea's Inchon International Airport, writes Tom Ballantyne.

The airport, scheduled to open next March, is proposing to set landing fees at US$5,000, nearly twice the US$2,700 charged at the existing Kimpo International Airport in Seoul.

Talks between IATA and the Inchon International Airport Corporation (IIAC) broke down after the global airline body demanded the fees be frozen at current Kimpo levels.

According to IATA officials, speaking privately during the organisation's annual general meeting in Sydney in June, IIAC representatives suggested it was "absurd" to apply Kimpo rates at a new facility which had cost billions of dollars to build.

They support their case by citing charges at other new airports in the region; $5,063 at Hong Kong's Chek Lap Kok, $5,087 at Shanghai's Pudong airport in China and $8,800 at Japan's Kansai airport near Osaka.

The IIAC contends if the cost of construction is fully reflected in fees, the turnaround charges would be three to four times the existing Kimpo rates.

But IATA, supported by Korean airlines and foreign carriers operating into Seoul, argues airlines will have to shoulder a huge financial burden because of the cost of moving from Kimpo to Inchon.

It is understood one compromise being considered is an increase in the charge coupled with discounts for a fixed number of years to take into account airline moving costs.

There is unlikely to be any early agreement, with IATA almost certain to continue taking a strong stance on the issue. The association and its members have become increasingly alarmed at soaring airport costs arising from multi-billion dollar new airports or modernisation of facilities.

Hong Kong views airport city plan

By Jonathan Sharp

It is hardly surprising Victor Fung admits to having sprouted a few gray hairs since taking the job last year as chairman of Hong Kong's Airport Authority, the government-owned body in charge of Chek Lap Kok (CLK) airport which marks its second anniversary in July.

Others might have ripped their hair out at the job's daunting difficulties after the US$20 billion facility's humiliating debut in 1998, when it seemed that everything from computers to toilets refused to behave as advertised.

Even after the glitches were fixed and the public relations furore had died down, grumbling continued both inside and outside the gleaming, Sir Norman Foster-designed passenger terminal. The landing fees are too high, bleated the airlines. The airport haemorrhages money because it is poorly run, moaned the insiders.

But Fung, born in Hong Kong but who started his career in a New York bank and served four years as a professor at Harvard Business School, was determinedly upbeat at a recent press briefing. While acknowledging that the airport has some way to go before breaking even, he pointed to rapidly growing traffic, especially air cargo which was growing at a "blistering" rate, as Asian economies recover their poise after the recession.

Already, after just two years the airport is commissioning a study, expected to take a year to complete, to ensure the airport achieves its potential capacity of 87 million passengers and nine million tonnes of cargo annually.

Present capacity is 45 million passengers and three million tonnes of cargo. In the year to the end of May, 31.6 million passengers passed through the airport and 2.11 million tonnes of cargo were handled.

To cope with what one Authority official described as a "berserk" rise in cargo, four new stands for freighter aircraft are on the drawing board to add to the existing 13.

Ideas to be considered under the new blueprint include another passenger terminal and an "airport city" to be built on 45 hectares of land with a convention centre, commercial space and hotels. "We want to build an airport city, an airport community," said Fung, noting that tenants could include companies working on the Disney theme park being built on the same island as the airport, Lantau. "This master plan will set the tone for the next decade of development."

Chairman of the Hong Kong Airport Authority, Victor Fung: blistering cargo growth

How to pay for it all when the airport still loses money? Fung said there was no thought of raising landing fees, which were cut by 15% on January 1 after howls of protest from airlines. However, as a first step towards a possible fund-raising exercise the airport is seeking a rating from Moody's Investors Service and Standard & Poor's.

This will set up conditions for a potential bond issue or other form of financing, Fung said.

"In the longer run we will be working to put the airport in a state which will be ready for privatisation should the government decide to do so."

EUROPEAN INVESTMENT IN THE ASIA-PACIFIC

Farnborough Air Show, to be held in England July 24-31, provides an important shop window for European aerospace companies. PATRICK GARRETT *finds out how European players are faring in the Asia-Pacific*

MTU China deal

MTU's joint venture with China Southern Airlines, MTU Maintenance Zhuhai (MMZ), broadens the European maintenance company's presence in China.

MMZ will be based in the Zhuhai Free Trade Zone, a couple of hours drive from China Southern's Guangzhou base and conveniently close to Hongkong and Macau, enabling easy transportation of work from outside China.

Although announced at the 1998 Zhuhai Air Show, it was not until May this year that the deal was consummated.

Following a feasibility study, MMZ is expected to begin operations in 2002. A total of US$180 million will be invested in the centre's construction and the necessary tools and technology.

The venture will perform maintenance and repair work for the V2500 and other engine families.

The project enables MTU to enter the high-growth Chinese market and also offers many of its present customers a new maintenance base in Asia. The European company's expansion strategy aims to boost its maintenance capacities and widen the range of products supported on a global scale. China Southern Airlines should profit from the infusion of technology from a major maintenance provider and from the opportunity to build its overhaul capacities while hopefully cutting its own maintenance costs.

"We see China as one of the most important markets in aerospace," said Dr Klaus Steffens, MTU's president and chief executive officer. "Therefore, we are proud of finding a reliable partner in China. Together, we will build up a leading maintenance facility, with state-of-the-art technology and strong customer orientation. I am sure MTU Maintenance Zhuhai will see a prosperous future."

MTU Maintenance, a 100% subsidiary of MTU, already has an Asian joint venture – Airfoil Services – with Malaysian Airline System (MAS) in Kuala Lumpur. The Germans hold a majority 69% stake and have transferred high technology repair processes, production systems and skills in marketing, quality control and staff training.

The operation began in 1993 with the repair of Low Pressure Turbine (LPT) blades on GE CF6-50s. The following year work expanded to include the High Pressure Compressor blades and vanes for that engine. In 1996, its expertise expanded to LPT blades on the GE CF6-80.

The Airfoil Services facility is located at Shah Alam, some 20km from the centre of Kuala Lumpur and only 30 minutes from the new international airport at Sepang.

The workshops are divided into a 1,630 sq.metre shop floor and 280 sq.metre store, with plenty of room for expansion.

The company said the "staff are their greatest asset... well-skilled, reliable, dedicated and easily available, and the labor cost is low".

The quality assurance system follows FAR and JAR rules. The facility is approved by European, American and Malaysian authorities. Customers include GE Aviation Service Operation (Singapore), Lufthansa Technik, Air India, Indian Airlines and Thai Airways International.

MTU also has established a marketing company in Thailand to focus on the civil engine maintenance business.

An artist's impression of the new MTU/China Southern Airlines joint venture facility in Zhuhai, in southern China to be opened in 2002

As contracts mount up ...

Snecma gives Asia big vote of confidence

The Snecma Group is well represented in Asia having opened six regional representative offices in the last decade in Beijing, Hanoi, Jakarta, Singapore, Taipei and Tokyo.

Simultaneously, it has strengthened its industrial base in the region through industrial co-operation agreements, sub-contracted manufacturing, maintenance, repair and overhaul (MRO) joint ventures and numerous training programmes.

"It reflects our determined strategy of entering commercial and industrial co-operations with our partners in Asia," said Michel Mussot, director for Asia in Snecma's corporate business development division.

Increasingly, following extensive training, technical assistance and technology transfer, large volumes of engine and landing gear parts are manufactured for Snecma in China, Taiwan, Singapore and Korea. The 18 Chinese contracts for engine parts alone have a value of US$4 million.

Such is Snecma's confidence in the quality of manufacturing in Asia that many of the parts require complex processes and the French group claims to be the only foreign aero-engine manufacturer outsourcing Limited Life Parts (LLP) to China. The mainland produces LLP turbine disks for three different engines and stages produced and a fourth RfQ is currently in progress.

Snecma aims to contract US$10 million production work annually to China within two years.

Overall in Asia, Snecma is estimated to have more than 40 production contracts running, worth more than US$15 million.

Last year, Messier Dowty, another Snecma company, launched a 50:50 joint venture with Singapore Aerospace Manufacturing to produce landing gear parts in Singapore and China.

And in the MRO field Snecma has three joint ventures in the region concentrating on the CFM56-3 engine, widebody landing gear and regional/military aircraft wheels and gear.

Snecma Sichuan Aero-engine Maintenance Co. is 51% owned by Snecma Services and 35% by China Southwest Airlines, with the remainder held by the Beijing Kailan Aviation Technology Company, an offshoot of the Civil Aviation Administration of China (CAAC), and the U.S. company, Willis.

The joint venture was incorporated in October 1999 and began operation on January 1, in Chengdu. It focuses on maintenance and overhaul of the CM56-3 engine.

Singapore's Messier Services Asia (split 60:40 between Messier Services and the SIA Engineering Company) and handles maintenance and overhaul of large landing gear for the B747, MD11, A340, and A300.

S.PRO, a 50:50 joint venture between Messier Services and Singapore Technologies Aerospace, is also located in Singapore. It concentrates on gear, wheel and brake maintenance and overhaul for smaller regional aircraft, fighter planes and helicopters.

Mussot added that "several other projects" are being developed to strengthen the Snecma presence in Asia and provide customers with a wider range of services and support.

To help develop the skilled local personnel for these and future projects in China, Snecma launched an Aero-Engine Maintenance Training Centre (AEMTC) in Guanghan, Sichuan province back in 1997. The centre, a partnership with GE Aircraft Engines and the CAAC is located at the CAAC Flying College.

A CFM56-5B Snecma/GE engine is one of five engines used for training at the Snecma/GE engine maintenance training centre at the CAAC Flying College at Guanghan, in Sichuan

The current training engines are two CF6-80C2 (one with PMC and one with FADEC), two CFM56-3s, one CFM56-5B and a CFM56-7 arriving soon.

To date, AEMTC has trained more than 1,200 mechanics and engineers from Chinese airlines and is proposing courses for staff from other airlines in the region. It has trained foreign personnel from Vietnam and Outer Mongolia.

Snecma has been active in local training programmes organised by the French Government and is deeply involved in European Union-sponsored programmes such as the Junior Managers Exchange Programme and the Association Européenne des Constructeurs de Matériel Aéronautique (AECMA) International Programmes.

AECMA, headquartered in Brussels, is a European aerospace trade association grouping together the 15 individual national associations and the major European aerospace companies.

Additionally, recognising the importance of personal relationships in implementing its corporate development strategy, Snecma has put considerable effort into running its own training programmes in China, Indonesia, Vietnam and elsewhere in the region. Topics have included commercial training, marketing, finance, management, human resources and quality control for engineers, managers and executives.

"These training programmes have allowed participants on both sides to develop strong personal relationships, which have been one of the key factors in the success of subsequent meetings," Mussot told *Orient Aviation*.

JOINING FORCES

The Rolls-Royce investment strategy in the Asia-Pacific is similar to its approach in many other parts of the world; working in joint ventures with customers and suppliers.

The UK company's interest in the region is obvious in the light of its own airline traffic forecasts. While world passenger travel is expected to grow at an average of 5% a year, Rolls-Royce expects the Asia-Pacific region to achieve a heady 7.7% growth, the highest in the world.

The region accounts for around a third of firm civil aerospace orders for Rolls-Royce. The high-thrust Rolls-Royce Trent engine family has established a dominant position through its sales to airlines and leasing companies around the Asia-Pacific. The Trent 800, which powers the Boeing 777, has a market share of 52%, while the Trent 700 on the Airbus Industrie A330 has 43% market penetration in the region.

Rolls-Royce has two joint ventures with Singapore Airlines (SIA). The first, International Engine Component Overhaul (IECO), a 50:50 joint venture with SIA Engineering (SIAEC), achieved S$8 million (US$4.64 million) sales during 1999, its first full year of operation. The chairman, Ian Lloyd, forecast the figure would rise by 30% this year.

Located close to Singapore Changi International Airport, it employs more than 60 people. Its core business is the refurbishment of RB211 and Trent nozzle guide vanes and compressor stators. The IECO facility is SIAEC's eleventh joint venture in its seven-year history. Its other venture with Rolls-Royce, Singapore Aero Engine Services Ltd (SAESL), should open its doors in 2002 and is effectively 40% controlled by the UK company (via its HAESL stake.) It will overhaul and maintain Trent engines for Singapore Airlines' B777 and A340-500 fleet and third-party customers.

SAESL will employ a new 120,000 pound test cell, commissioned in 1998. In Hong Kong, Rolls-Royce has had a significant presence since 1995 when Hong Kong Aero Engine Services Limited (HAESL) was formed as a 50:50 joint venture with Hong Kong Aircraft Engineering Company Ltd (HAECO). The company moved to a new a US$130 million facility at Tseung Kwan O in the north of the Special Administrative Region to coincide with the closure of the old airport at Kai Tak.

A Rolls-Royce powered Dragonair A330. The Trent 700 has 43% of the Asia-Pacific market

The Asia-Pacific region also sees a good share of Rolls-Royce manufacturing. In China, Xian XR Aerocomponents Ltd (XRA) is a US$30 million high-tech joint venture with the Xian Aero-engine Company (XAE), which manufactures aerofoils for Rolls-Royce and BMW/Rolls-Royce engines. It has produced more than 30,000 components since production began in 1998 and is becoming the single Rolls-Royce source worldwide for the casting and machining of certain aerofoils. BMW Rolls-Royce, whose engines power the Boeing 717, Gulfstream V and Bombardier Global Express, also has placed some parts production with Shenyang Liming Engine Manufacturing Company.

A long-term US$50 million manufacturing package from Rolls-Royce with CATIC was announced in November 1998. Part of the deal now involves machined rings sourced from XAE in Xian and Chengdu Aero Engine Group (CEGC).

More recently, the company sourced two packages via China Aviation Supplies Corporation (CASC) involving RB211-535 intercase parts from CEGC and cooling rings from XAE.

However, in the new knowledge-based economy training can be just as valuable as financial contracts or technology transfer. Rolls-Royce has provided technical and managerial training for Chinese organisations, including the Civil Aviation Administration of China (CAAC), State Development Planning Commission (SDPC) and Aviation Industries of China (AVIC). Since the CAAC first oversaw work on the Rolls-Royce Dart engine back in 1963, around 2,000 Chinese engineers, technicians and managers have received training from the UK company.

In the 1990s the UK company launched a new programme with the CAAC, initially focusing on specialist technical subjects, but later expanded it to training methods, English language and international management.

In 1997, a US$2.5 million custom-built training centre was opened at the Civil Aviation Institute of China (CAIC) at Tianjin to train engineers, technicians and managers. Rolls-Royce says that such programmes are "a bridge between east and west" and they certainly recognise the Chinese "thirst for knowledge".

Since then more than 700 CAAC employees have received specialist, management and technical training at the centre. In July 1999 they added a Rolls-Royce RB211-535E4, the most prevalent powerplant on Chinese B757s, to the training models bringing the centre's engine count to three.

A Rolls-Royce CAAC senior executive development programme has trained 300 staff, both in the UK and China. Rolls-Royce has conducted training courses for senior executives from large-scale state organisations throughout China to help them move from a planned to a market economy.

A collaborative research programme with the Beijing Institute of Aeronautical Materials (BIAM), the premier materials institute for Chinese aerospace, will look at ways Rolls-Royce can develop processing methods for non-burning titanium alloys.

In June, 14 scholarships were presented to students from Beijing University of Astronautics and Aeronautics (BUAA), the latest awards in a scheme with the university started in 1998. Rolls-Royce has enjoyed a close relationship with BUAA for over 30 years.

In Malaysia, Rolls-Royce contributed more than £120,000 (US$180,000) towards a multimedia laboratory, part of the country's strategy for a "super multi-media corridor".

Japanese aerospace companies, Kawasaki Heavy Industries, Ishikawajima Heavy Industries and Marubeni, as risk and revenue sharing partners, have 8%-20% of the Rolls-Royce RB211 and Trent programmes.

LHT invests in China, Japan, Philippines

Lufthansa Technik (LHT) has been heavily involved in China since 1989 when the Aircraft Maintenance and Engineering Corporation (AMECO) venture was launched; a 60:40 split between Air China and the German company.

The Beijing joint venture has the biggest aircraft hangar in Asia, employs more than 3,800 staff and services 42 Chinese and 25 international airlines.

This year LHT announced the development of a new facility on the mainland, the Shenzhen Lufthansa Technik Company Ltd. It signed a 30-year contract with Shenzhen Investment Holding Corporation and the Beijing Kailan Aviation Technology Company and the new partners will collaborate in supplying aircraft components.

The Shenzhen company expects to open its doors for business towards the end of the year. It will start with a US$3.7 million overhaul centre for wheels and brakes, but LHT is aiming for the facility to gradually expand into "an all-inclusive components service centre".

The European company has great expectations of the joint venture thanks to the new centre's location close to Hong Kong, in the midst of one of China's most important developing regions, with excellent infrastructure and comprehensive technological know-how from international firms already in the area.

LHT's 1999 financial report was released in May and its external business of DM3.6 billion (US$1.73 billion) represented nearly half of total sales. At its annual press conference in Hamburg in May, LHT executive board chairman, Wolfgang Mayrhuber, attributed part of the company's success directly to the expansion of its international service and production alliances."

A large LHT joint venture MRO facility in Manila should open this year, having signed a letter of intent (LoI) with MacroAsia Corporation in 1999. MacroAsia, a publicly listed corporation, at present provides support for aviation and logistics. Philippine Airlines, which expects to finalise the sale of its engineering facility to LHT soon, has signed an LoI with the joint venture partners for long-term servicing of its fleet. The new venture will offer MRO services to other domestic, regional and international carriers.

"Setting up locations in our most important markets mainly means closer proximity to the customer. It also helps us use our capacities flexibly," said Mayrhuber. LHT's Hamburg centre will focus on innovative design and development work.

Decisions on the best location world-wide for airlines to buy MRO work depends a great

Lufthansa Technik is a 40% partner in the AMECO maintenance and engineering joint venture with Air China in Beijing

deal on local labour costs. It is a global trend for higher-cost workforces to therefore concentrate on advanced product offerings.

LHT recently opened a Tokyo office, a decision which has brought the company "just a little closer" to its customers in Asia. It doubtless helped it land its first Japanese engine overhaul customer. This year, low-cost carrier, Skymark Airlines, signed a three-year contract for overhauls of General Electric CF6-80C2 engines on its two B767-300s, with work beginning this year in Hamburg.

"This decision reflects our interest in possible future areas of collaboration that will enable young airlines like Skymark to have their fleets serviced at advantageous prices," said Tetsuya Kobayashi, vice-president of the carrier's engineering department. Japan's MRO market is becoming increasingly receptive to international service providers.

In Europe, Lufthansa Technik indirectly landed another Asian client when it signed a contract with component supplier, Airline Rotables Limited, a subsidiary of Singapore Technologies Aerospace. Based at London's Stansted Airport, Airline Rotables will contract out repairs to LHT on all components and parts from a customer's Airbus A320 fleet.

The total volume of work involved has an estimated value of over DM10 million. Based on a flat rate per flight hour, the five-year contract covers the repair of avionic, hydraulic, pneumatic and mechanical components from three to five Airbus A320s belonging to Airline Rotables client, British Mediterranean Airways. The work will be done at LHT's largest facility in Hamburg.

Back in Asia, Lufthansa Group company, Lufthansa Technical Training (LTT), signed a Memorandum of Understanding (MoU) in January with the Civil Aviation Administration of China (CAAC) outlining a technology-oriented training programme for executives of the country's leading airlines. Two courses are being offered this year.

In the next two years 15 delegates from Chinese airlines and aviation organisations will complete a three-week training programme at Lufthansa Technik in Hamburg and Frankfurt. Instruction will focus on quality management, cost control, human factors and personnel development. The delegates, mostly young employees from middle and top management, represent the future decision-makers in China's airlines and aviation authorities.

LTT will conduct the seminars on theory and co-ordinate the practical part of the training with different LHT divisions. This is not its first training work with the Chinese. A similar scheme ran in May 1997 and LTT has been involved for years with training mechanics at AMECO in Beijing.

DASA on target in Asia

DaimlerChrysler Aerospace (DASA) says there is "considerable potential" in the Asia-Pacific region although "short-term fluctuations" have recently effected the value of business.

DASA is already meeting its parent company's long-term objective of securing 25% of its revenue in Asia. It is working hard on developing local industrial relationships through funding/co-operation models and offset packages.

The company established its Asian regional headquarters in Singapore a decade ago and has a network of offices and subsidiaries in Indonesia, India, Korea, Malaysia, Thailand, China and Japan.

DASA holds a 37.9% share in the Airbus Industrie consortium, shortly to become an integrated company, whose aircraft fly with more than 30 Asian airlines. The consortium is investigating co-operation with various Asian partners on the long-awaited A3XX double-deck aircraft.

Many major developments in civil aviation take their early roots in military research and DASA, along with European partners Aerospatiale Matra (Paris) and Construcciones Aeronauticas (CASA, Madrid) announced plans last year to form the European Aeronautic, Defence and Space Company (EADS), the largest European aerospace company. DASA suggests the new consortium will be attractive to Asian partners for link-ups because of its size and its track record on international collaboration.

DASA, with the MiG manufacturer, VPK MAPO, and the Russian arms trading organisation, Rosvoruzheniya, are planning a "MiG-29 Support Group" (MSG) to reduce the excessive costs of owning the aircraft.

Malaysia, which already operates the MiG-29, has shown interest in the group, and will be officially invited to participate in the next meeting of MSG nations.

Eurocopter Holding is another multinational enterprise – a 40:60 split between DASA and Aerospatiale – and it claims to be the world's largest producer and exporter of helicopters.

The bi-national company, founded in 1992, has placed 1,500 aircraft with 300 customers in the Asia-Pacific region.

In the region, Eurocopter's industrial links were inherited from the two founding partners and include licence agreements with IPTN (Indonesia) for the BO 105, Puma and Super Puma aircraft, PADC (Philippines) again for the BO 105, Hindustan Aeronautics (India) for the Alouette II and the Lama, and CATIC (China) for the Dauphin.

The BK 117 is a new Eurocopter model, jointly developed with Kawasaki Heavy Industries of Japan and currently being co-produced with the Japanese manufacturer on a 50:50 basis. Hindustan Aeronautics recently signed a co-operation agreement with Eurocopter for the new-generation Advanced Light Helicopter, a twin-engine 5-ton transporter. And a size smaller, the EC 120 helicopter, was developed by Eurocopter in conjunction with Singapore Technologies Ventures (STV) and China Aero Technology Import & Export (CATIC). The first delivery of the 4-5 seat single-engine light helicopter took place in December 1997.

Suppliers in demand

European consortium Airbus Industrie, which will become a single integrated company in January next year, is no stranger to wide-ranging international co-operation. The company boasts 1,500 suppliers in 27 countries, with significant production in the Asian region.

India's Hindustan Aeronautics (HAL), for instance, produces passenger doors for the single-aisle A320.

In Japan, Airbus tasks the manufacture of skin panels for A321 fuselage sections to Kawasaki Heavy Industries, whilst A319 and A320 shroud boxes are produced by Mitsubishi Heavy Industries.

Korea also takes a major share of Airbus contracts. Korean Air Aerospace Division manufactures upper fuselage shells for the A330/A340 family while Daewoo Heavy Industries supplies A320 fuselage panels and A330/A340 wing parts.

Mainland China always pursues an active policy on technology transfer and enhancing its local manufacturing capability. Chengdu Aerospace company won the contract to manufacture Airbus A320 rear passenger doors and in Xian, a booming centre for high-tech manufacturing, the Xian Aircraft Company produces avionics access doors for the A310, A330 and A340 and fin parts for the A320.

In Liaoning province, in the northeast of China, the Shenyang Aircraft Corporation supplies A320 wing ribs and A319/A320 emergency exit doors.

Australia is also a contributor to Airbus Industrie programmes, with AeroSpace Technologies of Australia (ASTA) manufacturing floor structures, main landing gear doors and centre line landing gear doors for the A330/A340. Meanwhile, BTR Aerospace produces main landing gear fairings for the A320 and A321, plus wing tip devices and winglets for the A330/A340.

Investment in local support for the growing fleet of Airbus aircraft in the Asia-Pacific has also been a major undertaking.

The Airbus Beijing Support Centre in China was opened in 1997 and boasts a total of 23 vendors on site.

The centre is only part of the Airbus complex jointly established by the China Aviation Supplies Import & Export Corporation (CASC) in Beijing. The training division has three simulator bays of which two are currently occupied with an A320 and an A330/340 simulator.

The centre also has two Flight Management Guidance Simulators (FMGS) for the A320 and A330/340. At US$250,000 each – a fraction of the US$17m for a full-flight A340 simulator – they familiarise crews with core systems. They are based around a personal computer and a Multi-Control Display Unit (MCDU), the pilot's main interface with the fly-by-wire aircraft.

Video And Computer Based Instruction (VACBI) is used to train flight and maintenance crews in aircraft systems.

Two Cabin Emergency Evacuation Trainers (CEET) are on site to provide flight attendants cabin safety training. Maintenance engineers also use them for door rigging and slide operation training. The facility also offers an APU mock up for practical engineering demonstrations.

The regional facility represents an investment of more than US$80 million by Airbus Industrie.

KEEP BIG BROTHER OUT OF THE COCKPIT

Big Brother is watching you. Or, at least, would like to.

As George Orwell said so prophetically in his famous novel 1984, I say so today. It was always only going to be a matter of time and technology before video recorders found their way into the cockpits of the worlds' airliners.

And now it has happened with the U.S.-led move to install them in cockpits.

Cockpit voice recorders have been with us for over 25 years. Do I object to them? No. On the contrary, I welcome any tool that helps to eliminate aircraft incidents and accidents provided that tool is used for the purposes of accident investigation and prevention.

The video recorder, like the voice recorder, is merely a tool in itself. But all tools need a handbook, an instruction manual that tells the operator how best to use the information collected on film. It tells users the benefits that may be gained and the dangers that may befall those who misuse the recorder. Like all powerful and dangerous tools there must be legislation to protect both those being recorded and those who record.

The information that is gathered by the video recorder has such enormous potential for misuse that new laws must be written. They must be narrow in focus, global in application and contain sufficient punitive powers that they are a true deterrent to those that would seek to misuse them.

Legal protection for all individuals and corporations involved in this issue must be guaranteed on a global scale if the equipment is to be successfully accepted and used for the purpose for which it is designed.

On the flight deck that means accident investigation and prevention. Unless and until this is done I am not prepared to support the use of additional recording equipment on the flight deck of civil jet transport.

The issue of recording employees at work is a contentious one. How many politicians, CEOs, schoolteachers and ordinary workers would agree to have their work environment monitored to such a degree? Not many.

The acceptability tests today seem to be based on the following general areas of public concern, safety, education and security.

If a perceived degree of risk to the public of death or serious injury resulting from the actions of an individual or group of individuals is just cause to have these people monitored at all times, where does one begin to define who should be constantly monitored?

Government policy groups could be a good place to start. Within the political power base of states there is huge potential to cause death and serious injury to the public. A flawed agricultural policy could, and has in the past, led to human suffering on a grand scale. Ill-conceived military expeditions have caused death and serious injury to millions of people all over the world. Similarly, most areas involving policy decisions on public safety, education and security carry with them huge public responsibilities that could need monitoring.

The military deserves to be constantly monitored. Command and control rooms of the various defence forces of states around the globe share an enormous burden to ensure that the terrible destructive powers they command are safely stored and controlled.

Law enforcement is an area where we are already seeing the use of video surveillance equipment. Interestingly it is the public being monitored not the police! However, great improvements have been gained in traffic safety. Even the most ardent opponent of red light and speed trap cameras cannot deny their effectiveness in changing driver behaviour for the better. Here is an area where, in some western states, video monitoring has been shown to have the necessary legal protection for both the driver and the camera user and the benefits have been shown to outweigh the dangers.

Civil industries which could need constant video monitoring are the electric power generating industry, the fuel oil and home heating supply industry, the transportation industry, air sea and land.

All of these industries have the potential to cause death and injury to the public on a grand scale. Of course, it almost goes without saying that the individual workers and crews that work in these industries need constant surveillance. Doesn't it?

Many pilots question the need for more performance measuring devices in the cockpit. A modern jet already has a Flight Data Recorder (FDR), Cockpit Voice Recorder (CVR) and a Flight Operating Data Acquisition System (FODAS). Would a video recorder add any more relevant information to the masses of data already available?

As a footnote, video cameras and recording equipment are already routinely used in simulators during CRM-LOFT training exercises. Here they play a valuable training role when used in a non-threatening CRM training environment. As I sit and watch the replay of myself and my crew's actions during our two-hour session I can't help my eyes wandering to that ever more prominent bald patch at the back of my head. It seems to me it is not all good that can be expected from the use of this new recording device unless of course you are a toupee manufacturer.

What a lot of pilots feel is that when other sections of the community involved with public safety, education or security, start to be monitored to the extent that pilots are monitored then the time will have arrived to move ahead with video cameras in the cockpit.

I have a feeling if this was the criterion it would be a long time before a video camera appeared on my flight deck.

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

DOUBLE DIGIT GROWTH

After two months of relatively flat growth, consolidated passenger traffic of members of the Association of Asia Pacific Airlines (AAPA) for February 2000 re-emerged strongly with double-digit growth. Revenue passenger kilometres (RPKs) grew by 11.6% and the number of passengers (PAX) by 11.2%. Capacity rose by 8.1%, resulting in a load factor (PLF) of 73.4%, up 2.3 percentage points.

Compared with the same period in 1999, member airlines registered a tremendous improvement in passenger traffic with eight out of 10 AAPA member carriers recording double-digit RPK growth. The top three performers were Philippine Airlines (PR) 63.%, followed by Korean Air (KE) 20.2% and Vietnam Airlines (VN) 17.3%. No member airline registered negative growth in this traffic measure.

The majority of carriers achieved a moderate increase in PLF with the exception of Korean Air and Singapore Airlines (SQ). Philippine Airlines recorded the best improvement with a 9.8-percentage point rise to 65.3%. Eight members had load factors well above 70%.

Cargo Results

Freight traffic in February 2000 maintained the growth momentum of previous months with another double-digit increase of 16.9%. Capacity rose 15.2% resulting in a 1-percentage point increase in load factor to 68.5%.

Nine member airlines had extraordinary freight tonne kilometre (FTK) growth, with China Airlines (CI) 41.3%, Philippine Airlines 38.1% and EVA Air (BR) 34.4% leading the pack. Five other member airlines recorded double-digit growth – Vietnam Airlines 19.9%, Singapore Airlines 18.0%, All Nippon Airways (NH) 16.6%, Japan Airlines (JL) 15.4% and Korean Air 11.7%.

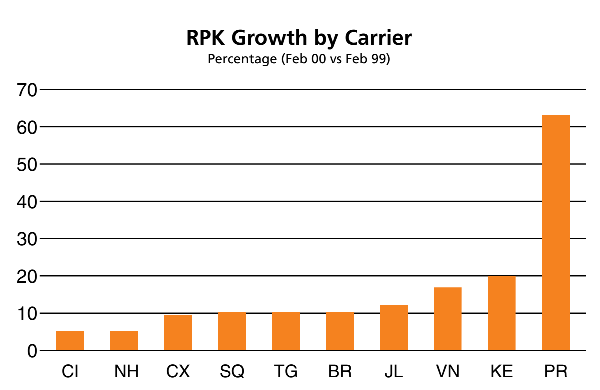
In terms of freight load factor (FLF), All Nippon Airways and EVA Air recorded the highest increase with 15.8 and 7.9 percentage points respectively. China Airlines (81.1%) and EVA Air (80.9%) posted the highest FLF. Philippine Airlines (30.1%) registered the lowest.

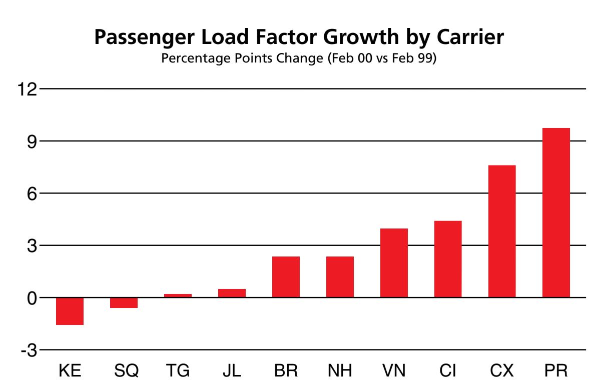
Results for the 12 Months to February 29, 2000

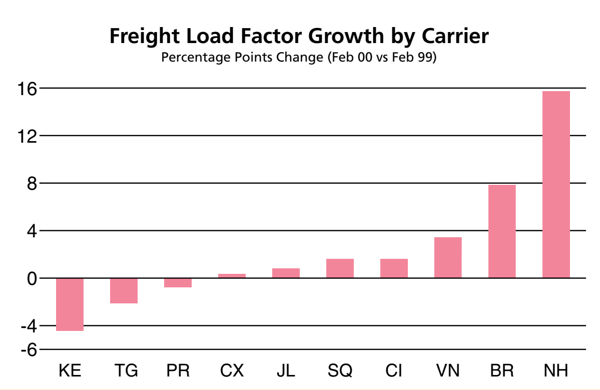
Growth in passenger traffic and passengers carried for the 12 months under review was 9% and 9.2% respectively. Seat capacity rose by 4.5%, consequently PLF leapt 3- percentage points to 72.3%.

All member airlines recorded positive growth in traffic during the 12-month period. The high flyers were Philippine Airlines (27.7%), Korean Air (15.2%) and Thai Airways International (11.7%).

With the exception of All Nippon Airways (66.5%) and Philip-







pine Airlines (65.8%), all AAPA airlines registered load factors over 70% – Singapore Airlines (74.9%), EVA Air (74.9%), Vietnam Airlines (74.9%), Korean Air (74.0%), Thai Airways International (73.6%), China Airlines (72.8%), Cathay Pacific Airways (72.6%) and Japan Airlines (71.6%).

Cargo Results

Freight traffic in the 12 months to February 2000 grew impressively by 15.1%. Freight capacity increased by 12.4%, resulting in a 1.6 percentage point FLF improvement to 69.4%.

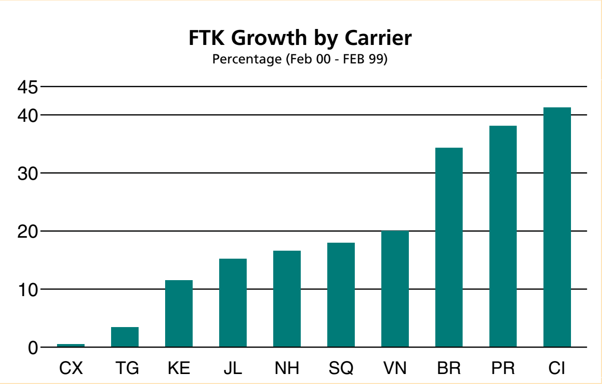
All carriers registered a rise in traffic during the 12-month period. Heading the list were Taiwanese airlines EVA Air (25.7%) and China Airlines (24.8%). The other AAPA airlines posted growth ranging from 9.2% to 19.8%.

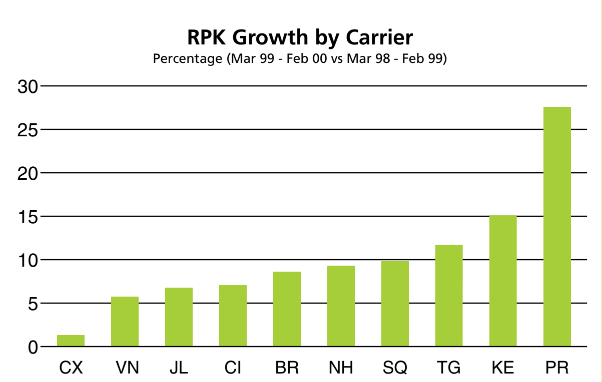
A majority of member airlines showed an improvement in FLF. Cathay Pacific Airways reported the highest increase of 8-percentage points. China Airlines (83.8%) and EVA Air (79.8%) posted the highest FLF. Philippine Airlines (30.6%), on the other hand, was the bottom of the AAPA table.

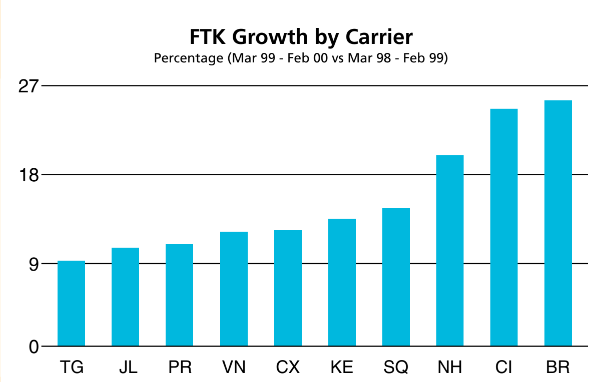
Summary

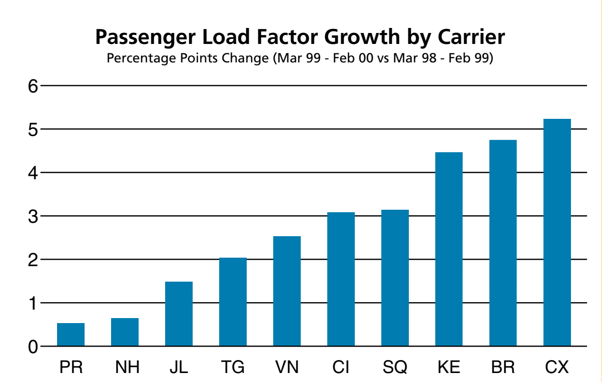
February 2000 saw double-digit rises in both passenger and freight traffic. This growth strongly supports the view that the temporary deceleration in passenger traffic growth in the two previous months, which straddled the end of the century, may largely be attributed to apprehension about the effect of Y2K (the Millennium Bug) on airline operations.

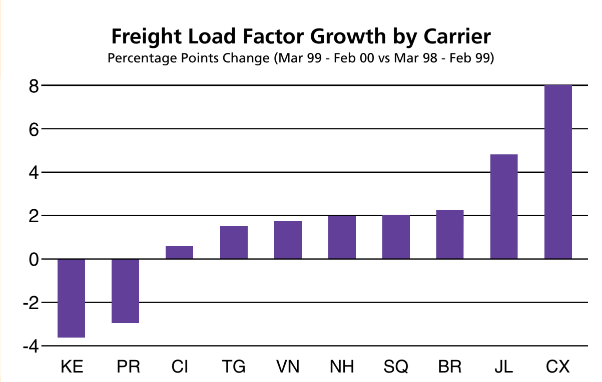
As economic regeneration in the region shows no sign of abating, traffic growth is expected to continue.





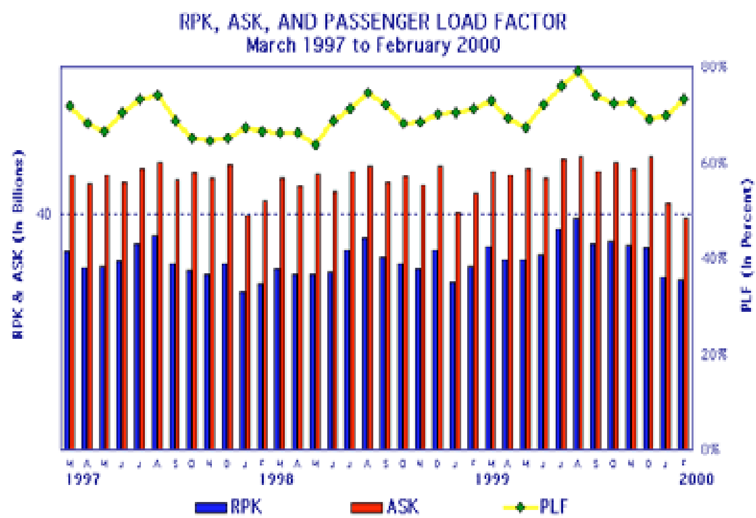


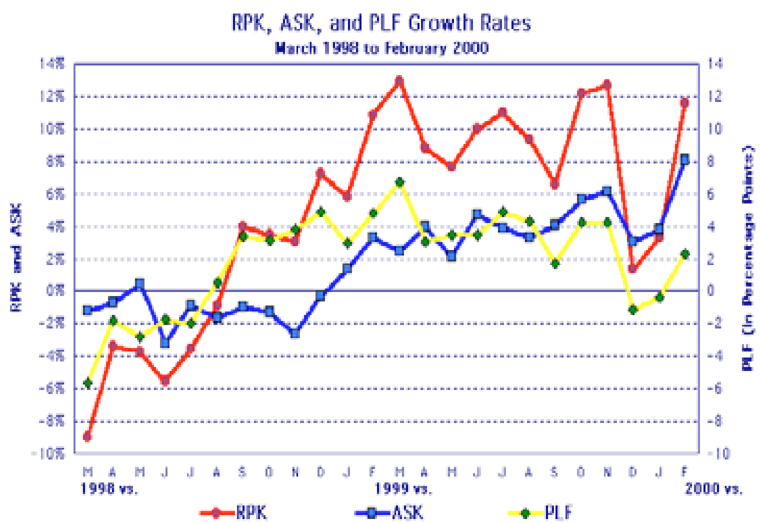




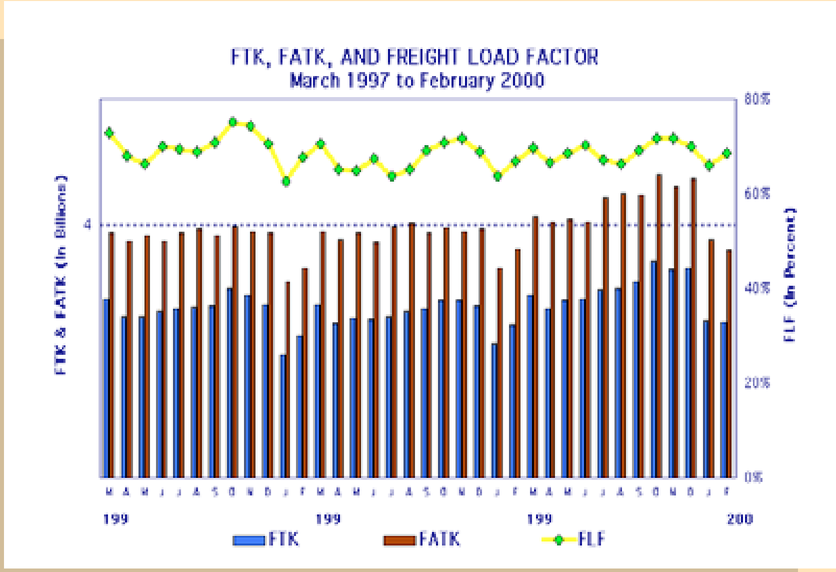

EVA Air: extraordinary freight tonne kilometre growth

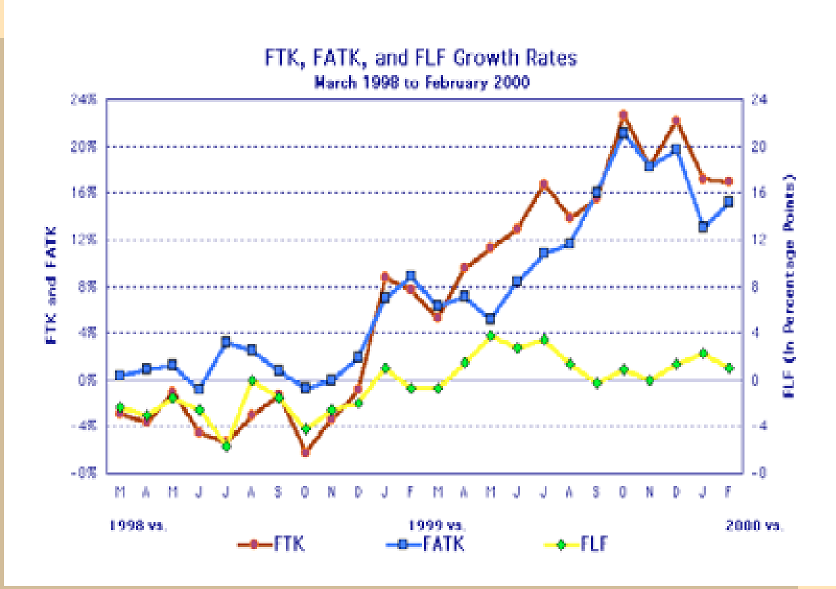
Monthly international PAX statistics of AAPA members





Monthly international cargo statistics of AAPA members





AAPA monthly international statistics (MIS)

*IN THOUSANDS

2000 to 1999

	RPK	ASK (000)	PLF (000)	FTK %	FATK (000)	FLF (000)	RTK %	ATK (000)	PAX
FEB-00	28,765,025	39,212,412	73.36	2,461,019	3,594,916	68.46	5,155,642	7,208,148	6,950
JAN-00	29,307,379	41,840,708	70.05	2,483,686	3,763,866	65.99	5,233,754	7,618,383	6,696
DEC-99	34,273,367	49,669,054	69.00	3,313,433	4,727,000	70.10	6,529,375	9,277,544	7,830
NOV-99	34,684,585	47,745,675	72.64	3,309,500	4,609,005	71.81	6,571,972	8,989,463	7,834
OCT-99	35,449,964	48,939,189	72.44	3,437,930	4,792,340	71.74	6,777,410	9,281,637	7,901
SEP-99	34,947,855	47,212,313	74.02	3,097,860	4,486,440	69.05	6,389,214	8,821,249	7,664
AUG-99	39,348,933	49,788,546	79.03	2,989,911	4,505,110	66.37	6,673,668	9,083,688	8,770
JUL-99	37,508,381	49,218,819	76.21	2,971,911	4,431,258	67.07	6,473,530	8,958,740	8,427
JUN-99	33,291,885	46,053,940	72.29	2,838,389	4,039,831	70.26	5,934,831	8,275,666	7,561
MAY-99	32,175,850	47,792,746	67.32	2,803,467	4,082,843	68.66	5,804,819	8,469,217	7,366
APR-99	32,369,409	46,676,294	69.35	2,688,021	4,039,650	66.54	5,701,286	8,316,650	7,461
MAR-99	34,515,836	47,245,483	73.06	2,888,032	4,137,201	69.81	6,087,192	8,480,215	7,808
TOTAL	409,047,707	565,873,362	72.29	35,244,600	51,230,143	68.80	73,474,989	103,196,277	92,551

1999 to 1998

	RPK	ASK (000)	PLF (000)	FTK %	FATK (000)	FLF (000)	RTK %	ATK (000)	PAX
FEB-99	25,783,882	36,278,778	71.07	2,105,280	3,119,989	67.48	4,493,903	6,452,299	6,250
JAN-99	28,371,200	40,302,666	70.40	2,120,314	3,331,112	63.65	4,752,134	7,053,206	6,404
DEC-98	33,800,057	48,189,372	70.14	2,712,941	3,947,355	68.73	5,815,696	8,356,190	7,625
NOV-98	30,787,673	44,998,002	68.42	2,799,134	3,898,969	71.79	5,630,973	8,049,058	7,023
OCT-98	31,605,840	46,334,912	68.21	2,804,516	3,956,421	70.89	5,709,827	8,228,236	7,156
SEP-98	32,801,451	45,384,195	72.28	2,679,807	3,868,446	69.27	5,687,520	8,072,629	7,125
AUG-98	35,998,403	48,182,911	74.71	2,626,287	4,036,902	65.06	5,912,663	8,448,457	8,057
JUL-98	33,788,119	47,369,898	71.33	2,545,604	3,995,089	63.72	5,637,588	8,329,958	7,505
JUN-98	30,263,787	43,967,789	68.83	2,514,464	3,726,437	67.48	5,312,776	7,732,083	6,795
MAY-98	29,882,897	46,786,290	63.87	2,518,814	3,884,192	64.85	5,273,916	8,151,421	6,741
APR-98	29,755,772	44,883,718	66.30	2,453,566	3,771,834	65.05	5,212,267	7,882,379	6,890
MAR-98	30,575,411	46,112,047	66.31	2,744,004	3,892,857	70.49	5,577,233	8,094,151	6,964
TOTAL	375,762,037	544,792,072	68.97	30,768,268	45,634,452	67.42	65,373,824	95,590,701	84,775

1998 to 1997

	RPK	ASK (000)	PLF (000)	FTK %	FATK (000)	FLF (000)	RTK %	ATK (000)	PAX
FEB-98	28,154,432	42,346,845	66.49	2,210,852	3,312,188	66.75	4,854,333	7,201,720	6,499
JAN-98	26,807,950	39,747,212	67.45	1,950,290	3,113,043	62.65	4,442,322	6,764,981	6,054
DEC-97	31,530,264	48,318,048	65.26	2,737,295	3,873,538	70.67	5,659,579	8,270,875	7,198
NOV-97	29,873,748	46,202,193	64.66	2,898,073	3,900,154	74.31	5,669,375	8,108,054	6,865
OCT-97	30,558,849	46,936,589	65.11	2,992,199	3,985,117	75.08	5,828,851	8,260,884	7,004
SEP-97	31,559,087	45,823,297	68.87	2,716,330	3,838,583	70.76	5,648,590	8,004,922	6,977
AUG-97	36,321,417	48,967,204	74.17	2,709,545	3,938,306	68.80	6,071,957	8,389,329	8,092
JUL-97	35,028,258	47,805,812	73.27	2,688,568	3,870,446	69.46	5,928,392	8,215,320	7,814
JUN-97	32,040,636	45,425,520	70.53	2,633,630	3,757,756	70.09	5,603,114	7,883,779	7,250
MAY-97	31,037,075	46,559,497	66.66	2,546,410	3,838,451	66.34	5,431,046	8,071,740	7,100
APR-97	30,807,978	45,219,804	68.13	2,544,608	3,739,549	68.05	5,404,919	7,847,301	7,313
MAR-97	33,599,094	46,670,864	71.99	2,825,859	3,879,309	72.84	5,959,385	8,115,181	7,762
TOTAL	379,299,946	550,372,277	68.92	31,415,223	45,044,170	69.74	66,620,636	95,126,328	86,624

Percentage point change

Mar 99 to Feb 00

	RPK	ASK	PLF	FTK	FATK	FLF	RTK	ATK	PAX
FEB-00	11.56	8.09	2.29	16.90	15.22	0.98	14.73	11.71	11.20
JAN-00	3.30	3.82	-0.35	17.14	12.99	2.34	10.13	8.01	4.55
DEC-99	1.40	3.07	-1.14	22.13	19.75	1.37	12.27	11.03	2.69
NOV-99	12.66	6.11	4.22	18.23	18.21	0.01	16.71	11.68	11.55
OCT-99	12.16	5.62	4.23	22.59	21.13	0.85	18.70	12.80	10.41
SEP-99	6.54	4.03	1.75	15.60	15.98	-0.22	12.34	9.27	7.56
AUG-99	9.31	3.33	4.32	13.85	11.60	1.31	12.87	7.52	8.84
JUL-99	11.01	3.90	4.88	16.75	10.92	3.35	14.83	7.55	12.28
JUN-99	10.01	4.74	3.46	12.88	8.41	2.78	11.71	7.03	11.27
MAY-99	7.67	2.15	3.45	11.30	5.11	3.82	10.07	3.90	9.26
APR-99	8.78	3.99	3.05	9.56	7.10	1.49	9.38	5.51	8.29
MAR-99	12.89	2.46	6.75	5.25	6.28	-0.68	9.14	4.77	12.12

Mar 98 to Feb 98

	RPK	ASK	PLF	FTK	FATK	FLF	RTK	ATK	PAX
FEB-99	10.82	3.34	4.82	7.72	8.91	-0.74	9.21	5.98	11.49
JAN-99	5.83	1.40	2.95	8.72	7.01	1.00	6.97	4.26	5.78
DEC-98	7.20	-0.27	4.88	-0.89	1.91	-1.94	2.76	1.03	5.94
NOV-98	3.06	-2.61	3.76	-3.41	-0.03	-2.51	-0.68	-0.73	2.31
OCT-98	3.43	-1.28	3.11	-6.27	-0.72	-4.20	-2.04	-0.40	2.17
SEP-98	3.94	-0.96	3.40	-1.34	0.78	-1.49	0.69	0.85	2.13
AUG-98	-0.89	-1.60	0.54	-3.07	2.50	-3.74	-2.62	0.70	-0.43
JUL-98	-3.54	-0.91	-1.94	-5.32	3.22	-5.75	-4.91	1.40	-3.96
JUN-98	-5.55	-3.21	-1.70	-4.52	-0.83	-2.61	-5.18	-1.92	-6.28
MAY-98	-3.72	0.49	-2.79	-1.08	1.19	-1.49	-2.89	0.99	-5.05
APR-98	-3.42	-0.74	-1.83	-3.58	0.86	-3.00	-3.56	0.45	-5.79
MAR-98	-9.00	-1.20	-5.68	-2.90	0.35	-2.36	-6.41	-0.26	-10.28

SUBSIDIES A FACT OF LIFE – BY ANY NAME

TURBULENCE

By Tom Ballantyne

The United States, egged on from the stands by Boeing, has launched a trans-Atlantic broadside clearly targeted at disrupting the complex funding required to ensure Airbus Industrie's mega-baby, the A3XX, gets off the ground.

Not for the first time the key word is "subsidy", with allegations the European planemaker will gain competitive advantage through the awarding of loans from the consortium members' various governments at more than preferential rates.

In the words of one U.S. trade official: "European aid to Airbus amounts to a government safety net, underwriting the project with cheap finance that is not available to any U.S. company."

Whether that is true or not is difficult to say. The level of the rates, the crux of the matter as far as Washington and Seattle are concerned, has not been disclosed in relation to loans already promised. These include the US$1.5 billion pledged by the German government to Daimler Benz's DASA unit and almost $1 billion from the UK government to BAE Systems.

All of this is to help defray some of the US$12 billion in development costs Toulouse is toting up to build the jet.

The question is, however, are they illegal subsidies or not? The European Union (EU) says no and under a 1992 treaty between the U.S. and Europe, Airbus can finance as much as one-third of the development costs of new aircraft from government loans.

Twaddle, says Washington (and Boeing). Such assistance violates a later 1994 World Trade Organisation (WTO) agreement requiring any government loans to be on commercial terms. Indeed, Boeing claims public documents suggest Airbus partners have enjoyed debt forgiveness and equity infusions from governments plus below market interest rates on loans, violating both the 1992 U.S.-European Union treaty and the 1994 WTO agreement.

The whole question of subsidies is a hoary old chestnut, arising at regular intervals and usually when the commercial stakes hot up between rivals, Airbus and Boeing.

There is little doubt a number of Boeing's executives are slightly nervous about the speed at which Airbus appears to be attracting business for its new jet. Seattle says it has been working on a stretched version of the B747-400 for several years. However, as reported elsewhere in this magazine, it was no coincidence Boeing was doing the rounds with its own very different extra large aircraft within days of Airbus announcing official interest from several airlines in ordering the A3XX.

The chasm between the two manufacturers in forecasting the need for a very large aircraft also is well known, so the thrust and counter-thrust is predictable.

To U.S. claims, the EU and Airbus simply say they have a right to apply the 1992 agreement, but also deny contravening the 1994 treaty. "We feel we are following those agreements to the letter of the law. We are doing what we are legally entitled to," said Airbus spokesman Mark Luginbill.

Of course, subsidy issues are commercially important because the funding sources and financial structure of new projects ultimately has an impact on the aircraft production costs and the list price to airline customers.

But let's not kid ourselves. There are subsidies and there are subsidies and there are subsidies by other names ... or no names at all. Over the years, the Airbus argument has been that Boeing itself is the recipient of massive "subsidies" through the gigantic contracts it receives from the U.S. Defence Department and from billions of dollars worth of space business.

Now that McDonnell Douglas has been sucked into the Seattle theatre of operations, there are those in the south of France who suggest this is even truer today. But is there anything wrong with that? Is it Boeing's fault it has built up a lucrative business outside commercial aviation?

On the other hand, can anyone blame Airbus for doing what any business in its position would do and seek out the best possible arrangements to financially underwrite it's development? No doubt the Airbus and EU legal brains have been just as painstaking in interpreting every word in the various treaties as their counterparts have been in the U.S.

There is nothing new about subsidies in the aviation business, both direct and indirect. Over the years dozens of airlines, including many Asian carriers, have been propped up with cash injections from their state owners. It continues to happen. Garuda Indonesia is receiving aid from its national government and many regard Manila's moves to protect Philippine Airlines as a form of subsidy.

Planemakers are no different. China and South Korea both do all they can to help their aerospace industries while, again in Indonesia, aircraft manufacturer IPTN would hardly have survived without massive political and financial backing.

Regulations and treaties in this area are a joke. Did the EU stop the French Government from propping up (subsidising) Air France when it was in trouble? Of course it did not. When it suits them, governments always have and always will continue to find ways of subsidising vital industries, either overtly or covertly.

Ask yourself this: if Airbus had not been "subsidised" and supported by the governments of its members and Boeing had not fattened its bottom line with juicy defence contracts, what would the price of a big passenger jet be?

It would be a pity if the U.S.-Europe subsidy controversy degenerated into a legal fist fight. No doubt this would delight international treaty lawyers who would reap a great deal of income from the argument. But it would be unbecoming of an industry which has pretensions to operate on a global scale in an atmosphere of liberalisation and free trade.