Orient aviation

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SIA to be first Asian carrier in the world to operate A3XX

WHAT MAKES SIA TICK ?

'We recognised if we were to grow and either become or remain a number one airline we had to have the best'
— SIA chief executive Dr Cheong Choong Kong

- Asiana Airlines re-invents itself thanks to the Asian recession
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NEW! AIR CARGO FOCUS every issue

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No magic formula, says airline chief Dr Cheong

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INFLIGHT ASIA

A 16-page pull-out dedicated to onboard services and technology. In this issue: Inside the Airbus A3XX dream cabin; Malaysia Airlines to save 33% on cabin crew training time; Inflight banking? It's closer than you think; Electronic chess sets add to PEDs safety concerns; Network: news and people moves.

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A RIGHT ROYAL AIRLINE

No airline drives a harder bargain than Singapore Airlines (SIA) suppliers will tell you. But what you see is what you get with SIA. Hard and demanding on the one hand, but fair and completely above board on the other, they say.

Profit margins may be small they claim, but *all* of them want desperately to be on SIA's shopping list. It's the 'royal' seal of approval in the business.

It's incredible how an airline from an island republic of four million people has, in just 28 years, become one of the most influential – and profitable – airlines in the world.

Just what makes this proud airline tick, we ask in our cover story? Chief executive Dr Cheong Choong Kong, who joined SIA two years after its launch, explained modestly to Tom Ballantyne that "we stay with the basics of management, time-honoured basics". There is no magic formula, he said.

Analysts say what sets SIA apart from most of its rivals is long-term planning, solid research and a knack for taking a calculated risk at just the right time.

Such an extroverted corporate strategy surprises many outsiders moulded on an international image of Singapore and its companies as staid, conservative and afraid to say boo without permission from the central government.

But what can be staid about buying 49% of Virgin Atlantic Airways or working its slow way to 25% of a merged Air New Zealand and Ansett Australia? Is it dull to try and set up an airline in India, fail and then try and buy into the market again via a privatised national company or now maybe Air India?

And there is certainly nothing routine about splashing out US$9.9 billion for 25 A3XXs and six Boeing B747-400 freighters in recent weeks.

There is also another dimension to SIA's success, which is important for the region. Along with airlines like Cathay Pacific Airways and other airline leaders it has helped raise the bar in airline standards world-wide. In particular, inflight service in Asia, for which SIA has become a byword, is a yardstick by which all other airlines are judged today. SIA, no doubt, will keep pushing that bar higher.

Together these SIA elements have produced an awesome airline, even to its deadliest rivals. We expect they will continue to surprise us.

BARRY GRINDROD
Publisher/Managing Editor

PERSPECTIVE

COMPROMISE: The national government news agency of Malaysia reported on October 19 that the government may be prepared to relinquish its golden share in national flag carrier, Malaysia Airlines (MAS), if its withdrawal would help financially precarious MAS find partners willing to invest equity in the airline. The golden share gives the national government power to veto decisions that influence strategy and ownership of MAS. Malaysian transport minister, Dr Ling Liong Sik, said: "If the golden share is a hindrance to the continued development of MAS, and if it discourages foreign investment, then we may have to think it over again." Following the minister's statment MAS shares rose as much as 9.1%, its biggest one-day gain in almost five months. A few days earlier, Malaysian Prime Minister, Mahatir Mohammad, said his government would allow more foreign investment in domestic ports and airline companies.

LEADER LANDS: Insiders expect new Air New Zealand (AirNZ) boss, Gary Toomey, to completely re-structure the new combined operations of Air New Zealand and Ansett Australia when he takes formal control in the group's Auckland offices on December 1. Nobody will be safe from the beady eye of Toomey's scrutiny according to sources close to him when he was co-deputy chief executive at Qantas Airways – even if you are a New Zealander of long AirNZ service. The "X" factor is the influence new board members from Singapore Airlines will have on the shaping of the executive term.

MESSY: Brewery funded PB Air, whose chairman is a former Thai Airways International (THAI) president, Chatrachai Bunya-ananta, is suing Thailand's second international carrier, Angel Air, in the country's criminal courts in an attempt to recover 20 million baht (US$477,000) in aircraft leasing fees.

Angel Air is accused by PB Air of issuing six bad cheques for the rental of 75-seater Fokker airplanes. PB Air said the company has the assets to settle the debt, but won't realise them. Angel Air began flights in September 1998, but ceased operations last June with accumulated losses of 400 million baht. It resumed Bangkok-Hong Kong flights on July 22.

Angel Air president, Somchai Bencharongkul: His airline is accused of issuing bad cheques

MORE CHANGES: Thailand's minister for transport and communications, Suthep Thaugsuban presented retiring Thai Airways International (THAI) president Thamnoon Wanglee and three THAI vice-presidents, Captain Sa-ad Sobsatrasorn (operations), Kamol Thammanichanond (accounting) and Suthin Sanguansat (special projects) with commemorative plaques at an official retirement ceremony on September 30. Former executive vice-president for customer services, Bhisit Kuslasayanon, the airline's new boss, is carefully assembling additions to his management team in preparation for THAI's eventual part-privatisation – put off again until 2001.

NECESSARY SURGERY: Hong Kong's Airport Authority chairman, Victor Fung, is replacing local civil servant, Billy Lam, with new chief executive, David Pang, an engineer and former chairman of Greater China Dow Chemicals, effective on January 1. At the same time Fung was preparing to announce the winner of a tender process to author a Strategic Overview for Major Airport Development Report in late October. A third competitive cargo terminal is in the offing as is a dedicated Cathay Pacific Airways wing at the 30-month-old island airport. Earlier in the year, Fung brought in ex-Schiphol Airport senior executive, Hans Bakkers, as commercial director.

NO SHAME: After taking advice from a Zhuhai Air Show organiser about the best hotels in the area *Orient Aviation* was referred to "a new venue that is very nice" and she gave us a mobile telephone number for bookings. The number belonged to an agent who asked that the cash for the rooms be immediately deposited in his personal bank account. He then sent us the banking details.

PART-TIME LOVE: For two weeks in late September and October, the media of this industry had a brief respite from the tireless work China Southern Airlines' U.S. PR, Jeff Ruffolo, does for the mainland's largest airline. Now we know why, via one of his press releases. He was at the Olympic Games in Sydney and covered beach and regular volleyball for the U.S. radio network, Westwood One/CBS radio sports.

ARISE SIR SEDDIK

WHEN Boeing's top salesman and aeronautical engineer, **Seddik Belyamani** (right) walks into pressured negotiations with airlines he comes armed with years of experience selling his Seattle wares.

What he does not advertise is he also comes carrying a title. Seddik Belyamani is really Sir Seddik, an honour bestowed on him by the king of his native Morocco at a White House ceremony in Washington D.C. in June. And it was not the first time he had received regal recognition.

Ten years ago, the father of the present king also knighted Sir Seddik. Rival Airbus claims it is not surprising then that **Air Morocco** is a Boeing client, which they put down to the "Seddik Factor" . But don't think good relations with his king have changed Belyamani's habits. He still signs his multi-million dollar contracts – US$22 billion worth of Boeing airplanes at the last count – with a non-descript silver pen given to him by his mother at his Boston wedding more than 30 years ago.

REGIONAL ROUND-UP

China Southern Airlines in merger mode and it's paying off quickly

China Southern Airlines (CSA) has been quickly demonstrating the benefits of mergers following its acquisition of Zhongyuan Airlines in August.

What's more, CSA has now confirmed it has lodged an application with the Civil Aviation Administration of China (CAAC) to approve a merger with another carrier, thought to be Shenyang-based China Northern. If this is confirmed it will strengthen CSA's hand considerably with China Northern geographically complementing CSA in the north of the country. A decision is expected by the end of this year.

The CAAC is aiming to consolidate China's 34 airlines into four or five groupings to increase efficiency and improve management.

It took just 30 days for China's largest operator to start making the deal pay with its newly-acquired Zhengzhou airline.

In that time CSA increased market share from 60 to 65.5%, cargo and mail loads rose by more than 33% and daily aircraft utilisation increased by an average of 30 minutes, reported CSA vice-president Zhang Rui'ai.

"Our merger plan was to effectively use both airlines' existing physical resources and route network, optimise the route structure and expand our marketing activities," said Zhang. "We are also blending the flight schedules, seat management and inflight and ground handling services of the two airlines."

Within one month, the merged company had operated 1,071 flights and flown 2,237 hours. These included 48 additional domestic flights, eight charter flights between Zhengzhou and Hong Kong and nine international tourist charter flights. A number of flights duplicated by the carriers pre-merger were discontinued.

CSA also reconfigured two Zhongyuan Boeing 737s, adding first class cabins to be used on routes to Beijing and Shanghai.

Other steps taken by CSA included:

- raised fares 30% which had been artificially lowered by a "fares war".
- adjusted cargo pricing for on-time delivery
- closed three unprofitable cargo stations in Zhenghou, Mengzhou and Qinyang and opened two new offices in Luoyang.
- added an "air mail transit service" which has generated approximately 427,000 yuan (US$54,000) in revenue.

China Northern Airlines: may be part of the China Southern group by end of year

Another merger in the wings

Regional operator, Shandong Airlines, is a fast rising player in the merger game. In late September it bought unprofitable Shanxi Airlines and is now said to be close to striking a deal with one of the CAAC's Big Six carriers, China Northwest Airlines.

What is unusual here is that the smaller airline is taking the initiative. China Northwest has been riddled with debt for years. It is reported to owe nine billion yuan (US$1.1 billion) and has been looking for a buyer.

Shandong, on the other hand, is profitable, well managed and has pioneered a successful feeder network with a fleet of commuter planes. Its forward thinking president, Sun Dehan, has broken the regional aviation mould in China where, in the past, big was beautiful.

The merger would make Shandong China's fourth largest airline. A decision is expected on the merger by the end of the year.

Rolls-Royce wins A3XX bid

Rolls-Royce has won the highly competitive bid to supply its Trent 900 series power plants for Singapore Airlines' 25 A3XX Very Large Aircraft.

SIA's US$8.6 billion order included installed engines, but not spare engines. These will add another US$245 million to the price tag.

"Both the Trent 900 series and the alternative proposed by the GE/Pratt & Whitney Alliance met our technical requirements and both manufacturers submitted attractive proposals. But having put all the relevant factors in the melting pot we decided Rolls-Royce had the edge," said SIA deputy chairman and chief executive, Dr Cheong Choong Kong.

No fleet decision by Qantas before year end

Speculation that Qantas Airways may announce a firm order for up to 10 A3XX Very Large Aircraft plus options following an October board meeting were dispelled by its chairwoman, Margaret Jackson.

She told the Australian Stock Exchange that the airline was still considering fleet upgrade options and expected to complete an evaluation by December.

In June, Qantas, which has an all-Boeing jet fleet, announced an expression of interest in the A3XX. Some observers believed this could have been a ploy to drive down Boeing asking prices on its future B747 models. Ms Jackson said the airline was assessing a 300-seat aircraft in addition to the A3XX.

Taiwan, Philippines flights back on track

After 12 months of bad words, bad blood and the suspension of air services between Taiwan and the Philippines, something akin to normal service was resumed in early October. The dispute started when the Philippines accused Taiwan carriers China Airlines (CAL) and EVA Air of poaching sixth freedom Philippines traffic through Taiwanese ports. The government suspended the 1996 air services agreement with Taiwan. A brief resumption of services in February soon collapsed.

The Philippines was accused at home and abroad of trying to protect its national carrier, Philippine Airlines (PAL), which is US$2.2 billion in debt and undergoing a rehabilitation (survival) programme. Further pressure was put on the country when it was revealed that Taiwan was planning to extend a hiring ban on Filipino workers as a result of the aviation dispute, according to the news agency *Agence France-Presse*.

The initial ban in June was said to have cost US$300 million in potential earnings by Filipinos who make up 35% of the 300,000 foreign workers in Taiwan. There were also signs of Taiwan companies withdrawing investment in the Philippines.

A new air treaty was signed between Taiwan and the Philippines on September 26.

Under the new deal, CAL and EVA are allowed to carry 6,500 passengers a week on the Taipei-Manila and Kaohsiung-Manila routes. PAL had objected to this, wanting the original 9,600 quota slashed by half to 4,800. Taiwan's Far Eastern Air Transport (FAT) have approval to carry 450 passengers a week to destinations other than Manila and Cebu. Taiwan will also be allowed charter flights for a maximum of 3,100 passengers a week. Cargo volume has been increased from 270 to 360 tonnes a week.

CAL said that by December 1 it would have 18 flights a week operating between Taiwan and the Philippines offering a total of 3,866 seats. PAL is operating a three-times-a-week A330-300 service.

Struggling Air Niugini appoints 'expat' CEO

Troubled Papua New Guinea flag carrier, Air Niugini (ANG), has appointed Australian Peter Roberts, a former head of South Pacific airline Air Vanuatu, as its new chief executive. He is the first expatriate to take the helm since German-born Dieter Seefeld resigned in early 1996 in a move he said was designed to "facilitate localisation" of the carrier.

Qantas Airways: fleet evaluation still underway

Since then a succession of Papua New Guinean CEOs failed to turn around ANG's performance.

The carrier flirted with bankruptcy in 1998, during Asia's economic crisis and after a dramatic fall in the local currency, the kina.

And over the past decade the airline's two biggest domestic routes, from Port Moresby to Bougainville and Rabaul, were lost; the first, Bougainville, was due to a civil war. Rabaul was virtually wiped out by a volcanic eruption.

Roberts' early airline experience was at Qantas Airways where he became planning director.

He left Qantas in 1981. His subsequent involvement in the airline industry includes five years in Vanuatu as founding managing director of Air Vanuatu.

This was followed by a period as CEO of Jet Airways in India and 18 months as head of tiny Pacific carrier, Air Nauru, as it prepared for corporatisation.

He also was the first chief executive of Australia's Norfolk Jet Express.

Roberts succeeded Papua New Guinean, Andrew Ogil.

Fleet upgrade denial

The *Air New Zealand* – Ansett Australia Group went on record in October to deny press reports that it planned to order 50 aircraft in a US$3 billion overhaul of its fleet.

Clarifying the situation, a spokesman for the group said 11 aircraft on order would be delivered in the next calendar year. Executive chairman, Sir Selwyn Cushing, has indicated an additional seven jets could by required to implement development and fleet replacement plans currently under review.

In Brief

Biman Bangladesh Airlines expects to invite bids for a 40% stake in the carrier in November following approval from the government.

BUSINESS ROUND-UP

New planes a sign of better times for Garuda

The Garuda Indonesia revival continues with finance director, Emirsyah Satar, forecasting an operating profit of more than double the 1999 figure of 135.5 billion rupiah (US$15.3 million).

Another sign of better times ahead is a decision by Garuda to lease seven B737s to cope with rising demand. The planes will be delivered between November and January and will cost the carrier about US$1.5 million a month.

"Some of the planes will replace old ones and some will serve new routes," said president Abdulgani.

Garuda re-activated its Jakarta-Seoul service at the end of October having closed the route at the height of the Asian economic crisis two years ago. It also will re-open some domestic routes and increase frequencies on others.

With the assistance of German company, Lufthansa Consulting, Garuda has completed the first stage of its restructuring, started in 1998. It recorded a net profit of 409.6 billion rupiah in 1999, after a net loss of 2.23 trillion in 1998.

Garuda was staring bankruptcy in the face when President Suharto was ousted from power. A clear out of Suharto men at the airline was followed by the severing of contracts with a number of sub-contractors linked to the Suharto family.

Abdulgani, and his predecessor, Robby Djohan, have been responsible for winning the confidence of creditors and staff alike and putting the airline back on a profitable course.

Garuda Indonesia: to lease seven B737s

Star boost for ANA

Star Alliance membership has increased the competitiveness of All Nippon Airways (ANA) and this is expected to be reflected in a big rise in interim profits to be announced in November.

ANA joined Star one year ago. In the year to March, the number of ANA passengers rose 12.6% on international routes and 3.5% in the domestic market. The continuing recovery in international demand and an ongoing cost-cutting programme means that Japan's second largest carrier expects to see interim profits leap 138% to 36 million yen (US$330 million) for the half year to September 30. Sales are expected to rise 3.6% to 486 billion yen.

A group net profit of six billion yen is anticipated. This compares to 4.1 billion yen in the same period last year.

In the last financial year ANA posted a group loss of 15.2 billion yen because of special payments to early retirees and losses on asset liquidations.

Fuel costs KAL dear

Higher fuel costs will likely push Korean Air (KAL) into the red this year. "Fuel costs will be more than 900 billion won (US$793.3) this year as a result of a 70% surge in fuel prices, up sharply from last year's 612.5 billion won," a KAL financial division team manager, Yoo Kyong Pyo, told the *Reuters News Service*.

Yoo said fuel costs will account for 19% of total expenditure this year compared to 16% in 1999 when KAL had a net profit of 259.3 billion won, including extraordinary gains from the sale of seven aircraft.

Interestingly, Yoo also told *Reuters* that 140 billion won paid in fines by chairman Y. H. Cho for tax evasion in the first half of the year will also weigh significantly on the bottom line.

Cathay to invest $256m in e-business

by Barry Grindrod

Asia's top airlines are continuing to dig ever deeper into their pockets to invest millions of dollars in e-business projects as competition in electronic commerce and marketing intensifies throughout the travel industry.

In mid-October, Cathay Pacific Airways announced it was to invest over HK$2 billion (US$256.4 million) in more than 30 e-business projects in the next three years. Many would be implemented in the next six months.

Singapore Airlines (SIA) said it will to spend S$100 million (US$57 million) to streamline its group business operations into one e-business platform.

Cathay Pacific's chief operating officer, Philip Chen, said by 2003 it was expected electronic commerce would help to reduce the airline's expenditure by more than HK$500 million a year. Online purchasing, including a major reduction in inventory carrying costs, will contribute significantly to the savings.

Among the projects will be a new flagship Web site, a new cargo Web site, an online travel exchange and an e-marketplace.

"We are serious about becoming the leading e-business airline in Asia and we are well on the way to making e-business an integral part of all our operations," said Chen.

To this end, almost a year ago, Cathay established an e-business programme office. There will soon be more than 150 staff working on the various projects, which are grouped in five areas; passengers, cargo, procurement, Cathay staff and future possibilities.

Passengers: the Web site will include new features such as notiFLY which alerts the traveller to any changes in flight status and provides online mileage checking, real-time flight information and online booking – in eight languages.

Chen said that more than 90% of Cathay's Hong Kong passengers use the Internet regularly.

By 2005, the carrier predicts 25-30% of ticket sales to be made online. But Chen said he still expected most bookings to be generated through agents. The airline was not in competition with travel agents, he said. They were key partners.

Cathay Pacific Airways chief operating officer, Philip Chen: determined to become airline leader in e-business

A Web site for travel agents is among the new projects. It will give agents in key Asian markets access to Cathay's products and fare information. The airline is helping to launch the Travel Exchange Asia portal offering online ticket sales to travel agents and customers.

New e-service tools like broadband access in airport lounges, wireless access at lounges and gates and the introduction of e-mail and Intranet on Cathay aircraft are among other projects.

Cargo: the new Web site will provide shippers with access to real-time information about deliveries and online customs information. It will have an improved tracking service and, soon, an online cargo booking facility.

Procurement: Within the next three years Cathay expects to be carrying out between 35-50% of its purchasing on the Internet. It is one of 13 airlines participating in Aero-xchange, a new purchasing portal allowing carriers to lower inventory and make joint purchases. Along with three other Asian carriers, SIA, All Nippon Airways and Japan Airlines, Cathay was among the 10 founding airlines of Aeroxchange.

Staff: A state-of-the-art Intranet will link Cathay's 13,000 staff in 179 cities. Other projects will include e-learning.

Even before this latest move, Cathay has been playing a pioneering role in e-business with a number of world and regional firsts. It was the first airline in the world to announce plans to install inflight e-mail, first in the world to link its Airbus aircraft electronically to its maintenance centres and the first to auction air tickets online. Also, Cathay was the first airline in Asia to provide WAP-based travel services.

• SIA said its introduction of mySAP.com would bring greater cost-savings, increase productivity and improve decision-making.

It used engineering maintenance as an example. "Essential data required to support routine checks or fault diagnosis is currently obtained from several different systems," explained SIA. "With mySAP.com they can obtain the information quickly from a single source, through the efficient integration of engineering data. In addition, SIA employees will be able to access mySAT.com e-services via a Web-based portal."

SIA will replace its Legacy systems, including those in the areas of finance, logistics, human resource and chain supply management, with mySAP.com solutions.

Major subsidiaries, including Singapore Airport Terminal Services (SATS), the SIA Engineering Company, SilkAir and SIA Properties, are included in the standardisation.

In the beginning ...

January, 1995: Cathay launched its U.S. Web site with the e-mail-based Cyber Traveler programme. It was the first airline to offer special fares and exclusive offers to Internet users.

Ten months later, Cathay held the first-ever Internet auction of airline seats in the U.S. Three more auctions have been held.

These events sowed the seeds for the expected e-commerce harvest of coming years.

Singapore Airlines (SIA) was launched 28 years ago when Malaysia-Singapore Airlines divided and went their own ways. Two years later, in 1974, mathematics professor, Dr Cheong Choong Kong, joined the infant SIA. Today, the national carrier of the island republic of just four million people and Dr Cheong, the region's longest serving chief executive, are synonymous.

The airline he has led since 1984 is emerging as one of the world's most influential airlines. It is, arguably, the most profitable and one of the most innovative carriers in the sky. Dr Cheong explains to TOM BALLANTYNE *what makes SIA tick.*

SIA deputy chairman and chief executive, Dr Cheong Choong Kong: "no secret formula ... we stay with the time-honoured basics of management"

BULL RUN

SIA's world vision is becoming a reality

It has been a pretty good 12 months for Singapore Airlines (SIA), the airline many consider the world's best. It has certainly proved the most consistently profitable operator.

The "bull run" started in October last year when deputy chairman and chief executive, Dr Cheong Choong Kong, announced Singapore Airlines was to join the global Star Alliance.

On the business front, he and his management team began to make significant progress in their oft-stated aim to build a global group of airline and airline-related businesses.

A US$770 million investment bought SIA 49% of Britain's Virgin Atlantic Airways group and another US$140 million increased its holding in Air New Zealand (Air NZ) to 25%, a stake which also gives it a powerful say in Ansett Australia, wholly-owned by Air NZ.

A new First Class cabin that leapfrogged opposition offerings was bedded down, along with the introduction of other inflight entertainment innovations to keep it ahead in the customer service race.

Then came a stunning US$8.6 billion order for Airbus Industrie's proposed new super jumbo, the 555-seat A3XX; firm orders for 10 and options on another 15.

SIA will be the first carrier to operate the jet when it comes into service in 2006. Consolation came for Boeing a few days later with a US$1.1 billion order for six B747-400 freighters, with options on an additional nine.

The SIA Group revenue in 1999-2000 was up 14.9% to US$5.2 billion. Operating profit increased 33.4% to US$663.4 million.

Despite pressure from severe market competition, a period of regional economic gloom and heavy spending on new aircraft and service upgrades, not to mention investments over the past five years, the SIA Group has toted up operating income in excess of US$3.1 billion. It has no debt and more than $1 billion cash-in-hand to help fulfil its goals.

Just how does SIA do it? Based in a small republic state of just four million people with no domestic aviation market and only established in 1972, SIA's growth in recent years has been phenomenal.

Dr Cheong does not claim any secret formula. The former University of Malaysia associate mathematics professor, who joined SIA in 1974, said there is nothing academic about his down-to-earth approach to the complexities of the airline business.

At 59, Dr Cheong's energy defies his age. Sitting in his expansive office on the top floor of Airline House, he looks fit and relaxed. He talks matter-of-factly, no grand gestures, no great claims.

Even when he says his goal has been to make SIA the best airline in the world, it's said with the knowledge that, at best, he has achieved that ambition or, at least, is very close to it.

Born in Malaysia in 1941, Dr Cheong is quick to reject any suggestion the success is built on his own business philosophy. "It is not my philosophy, but the way the company does things," he said. "It is more the culture of work. The culture of doing business within the company."

There are some constants in that, he added. "We stay with the basics of management, time-honoured basics. Take customers, for example. We think customer all the time. And competition; we believe in competition. I believe much of our success is due to the way we have been used to competing from the earliest times. That competition has honed many of our skills.

"We don't go blindly for the latest management fad. We are open to new ways of doing business and new ways of thinking, but it is this adherence to basics, of prudence of financial management for example, which makes it work."

Another critical cog in the "global company" strategy is there is no glass ceiling for non-Singaporeans at SIA.

Back in 1993, when many other Asian carriers were moving to reduce expatriate numbers and "nationalise" their staff, Dr Cheong was telling his senior executives his company had to search the world for the best, recruit them and allow them to reach the highest ranks, wherever they came from.

It is an undertaking he has delivered on. "It's not just us trying to be fashionable," he said. "We recognised if we were to grow and either become or remain a number one airline we had to have the best. And if we are going to be number one, not just in this region but in the whole world, then we must be served by the best in the whole world.

"Because you are competing with global players, it is arrogant to think the best in the world can only be found in tiny Singapore. So starting in the early 1990s we recruited overseas university graduates to work for us. It wasn't a question of finding the best and bringing them in as chief executive or senior vice-president, but bringing them in at the lowest executive level and letting them work their way up like Singaporeans."

Dr Cheong believes globalisation means having businesses based all over the world, not just flying there.

He is more optimistic than ever that open skies and liberalisation are inevitable. "It's a philosophy that should be espoused by any self-respecting airline. How else can you grow? How else can you succeed in a market with your own skills and merits if you don't have free competition?"

He thinks there is nothing schizophrenic about the two apparently diverse paths SIA is taking in its expansion quest; being a Star Alliance member on the one hand, yet setting up its own global stable of airline and airline-related companies on the other.

That may appear to be building an alliance group within an alliance group, but not so, according to Dr Cheong. SIA needs the world as its market because it does not have a substantial home market in which to grow, he said.

"Why should we apologise for that? In this day and age just about every other industry has been, or is being, globalised. Look at the banks and look at the Telcos. The airline industry is practically the last major bastion of protectionism," he said.

Some growth comes through alliances, but this is an artificial way, he suggested, because part of the reason alliances came into being was to circumvent protectionist walls, the regulatory environment and ownership limits which place brakes on airline globalisation.

"Now, alliances have a *raison d'etre* of their own and not just as a means of overcoming protectionistic values. Being a member of an alliance with the right partners has its own merits. One example is the affiliation of frequent flyer programmes which strengthen your product immensely and give you a big marketing edge over other airlines with less extensive frequent flyer networks," said Dr Cheong.

"At the same time we want to be a successful large group of airlines and airline-related companies for a slightly different set of reasons. Our growth rates out of Singapore have been declining over the years and the reasons are not difficult to see.

"It's a small home market and when you reach a certain size, as we have, every additional point of growth is harder to achieve. How many more frequencies can you add to London or Sydney and how many more new destinations can you add to your network when you are already flying to practically all the major destinations of the world.

"So if you can't grow at a satisfactory clip the traditional way, then we can grow vicariously through our investments in smaller airlines which, because they are smaller, are capable of higher rates of growth than we can achieve on our own. That is something quite different from the rationale behind membership of alliances."

Both are important as separate, but parallel goals, he insisted. "Where they overlap is some of the airlines we have taken equity stakes in happen to belong to the same alliance. And it's not difficult to see because the airlines we are interested to invest in and the airlines we would like to be our partners in an alliance have the same characteristics. We look for the same criteria."

There have been suggestions SIA wants to ultimately control the airlines it takes a stake in. Not so, said Dr Cheong,

"We are not interested in a majority stake, a majority meaning more than 50%. We would like the airline to retain its national character because I think that would make us more acceptable to the home market, which is important for pure commercial, if not ideological, reasons.

SIA fleet

SIA has a fleet of 93 aircraft with an average age of five years and eight months. It has 48 jets on firm order and options for another 48.

SIA has 36 B747-400s with four more on order and 10 options. In addition, the fleet includes nine B747-400 freighters with eight more ordered.

There are 18 B777s, with 25 on order and 18 options. It also has 15 Airbus A310s.

There are five A340-500s on order and five options. SIA has announced an order for 10 A3XX Very Large Aircraft and 15 options.

The airline's route network, including flights of wholly-owned subsidiary, SilkAir, and freighter-only destinations, extends to 92 cities in 42 countries. The carrier has 613 passenger flights a week departing Singapore.

Singapore Airlines: ambitions to be an international household name

"Attaining the equity stake requires a lot of effort from the very top and making the equity partnership work also requires a lot of effort so unless the stake is significant it's not worth our while."

Dr Cheong insists SIA "would not force itself" on its equity partners. "We would be very happy to extend co-operation in any area, but it has to be with mutual consent and the effort must be to the mutual benefit of all parties."

With significant equity, however, SIA certainly insists on having a say in important decisions. Dr Cheong, now on the board of Air New Zealand, along with two other SIA directors, was on the selection committee which picked former Qantas Airways' deputy managing director and financial guru, Gary Toomey, as the new chief executive of the Air NZ group.

He does not mind talking about giving assistance to Australia's Ansett, now wholly owned by Air NZ. "We would be very happy to give it (assistance), to grow Ansett International into a truly major international airline in time. We have to recognise that right now it has hardly started, but we want it to develop into a true competitor to Qantas," he said. That must be bad news for the Flying Kangaroo, long-time rival and member of the opposition oneworld alliance.

Dr Cheong does not pretend that SIA is immune from potential problems, particularly those which are global in nature. Its operating surplus went down by about 30% during the Asian recession. But it pays to have a well distributed route network, he said.

"If you look at our network you will see it is very well balanced over the globe. Our routes to North Asia, to Europe, to the U.S. and to Australasia are all important to us and of comparable weight.

"When we had the recent Asian economic crisis we were able very quickly to deploy our equipment from the weaker region to the rest of the network.

"It also helps to have a strong balance sheet. This means when you have a short-term problem you don't stop investing in the future. You carry on with your fleet re-equipment, your cabin re-configuration.

"Not many airlines can afford to do it because if you don't have a strong balance sheet it would require a lot more nerve.

"But after all is said and done, I must confess we are not invulnerable. If we have a global recession, particularly a long standing one, we would be affected and we would be hurt like everyone else."

Just how much spare cash does SIA have?

Virgin Atlantic Airways: SIA paid US$770 million for a 49% stake in the British carrier

"It's still over a billion dollars ... between a billion and two billion. It fluctuates quite a lot," he said.

This comes from a programme of sale and lease-back of aircraft. "We don't want to be exposed to the movement of aircraft values. It didn't matter so much in our earlier history when our fleet was small, but as our fleet grows bigger there's a lot of money tied down in these assets and we don't want to be exposed. So every time you sell and lease-back an aircraft the sale gives you a lot of cash," said Dr Cheong.

Having that money allows SIA to maintain its lead in the costly field of Information Technology (IT) and IFE, central planks in its reputation now and in the future. "It's not just IT, which has been with us for a long time, but it's more the technology associated with the Internet and all these new developments which allow us to leapfrog the competition provided we have the will and the willingness to spend.

"This technology opens up a new green field and everybody is starting at the same level. We certainly have the will and we have the financial resources to carry it through. We see tremendous opportunities and we will harness this new technology for a lot of things, but in particular for customer servicing and to improve our sales," he said.

What makes SIA a successful airline is a little bit of everything, said Dr Cheong. "You can't put your finger on one thing and say; 'hey, that's it'. Whether it is the cabin crew, or the most modern fleet or the best inflight entertainment system, they are all part of the entire fabric.

"There is no magic formula, although one cannot deny luck may play a role at times."

So, what does the future hold for SIA? "I would hope we would have achieved our mission to be a very large and a very successful global group of airlines and airline-related companies, able to be a household word not just here and not just among the cognoscenti, but with everyone all over the world," said Dr Cheong.

Many would argue SIA is already a long way there.

Retirement? Family will have its say – Cheong

Will he go or will he stay? The rumour mill has been busy in recent months inside and outside Airline House as staff and industry observers ponder the future of Singapore Airlines without Dr Cheong Choong Kong at the helm.

His latest three-year contract expires in mid-2001 when he reaches 60. But as yet Dr Cheong has not made a decision on whether he will stay on ... even if he is given the option to do so. "I can't be presumptuous in assuming it will be renewed," Dr Cheong modestly told Orient Aviation.

"Also, I am not sure whether my family and I would agree I should carry on at this frenetic pace."

Dr Cheong promised his family a few years ago he would delegate more responsibility, but it has not quite worked out that way.

"I am, like the others in the company, working more furiously than ever before," he said. "This is simply because the industry is changing so fast and there are so many opportunities that require my attention.

"But whatever it is, whether I leave next year or in three years time, there is no worry about succession. People have been identified and there are contingencies in case plans go awry for whatever reason".

Dr Cheong has devoted more than 25 years of his life to the company, serving in personnel, planning and information technology before being appointed CEO in 1984. He is a dedicated family man and looks forward to the time when he can spend more time with wife Anne, his 28-year-old television producer son, a 21-year-old daughter studying economics in Sydney and a second daughter, aged nine.

SIAEC moves to become A3XX regional MRO base

By Tom Ballantyne

Asian operators of Airbus Industrie's new 555-seat A3XX should co-operate on maintenance and engineering and set up joint spare parts depots for the region's future fleet of mega European-built super jumbo jets, according to SIA Engineering Company (SIAEC) president and chief operating officer Mervyn Sirisena.

He said the proposal would benefit all airlines, reducing operating costs and making the big new jet – the book price is around US$240 million each – more economical to operate.

And because SIAEC's 87% owner, Singapore Airlines (SIA), will be the first carrier in the world to fly the plane when it enters service in 2006, Sirisena is convinced his company will be ideally placed to take the lead in a co-operative A3XX maintenance, repair and overhaul (MRO) venture.

The Asian A3XX fleet is expected to emerge as the largest in the world with the region's long-haul carriers the main target for Airbus salesmen. SIA has placed a firm order for 10 and taken 15 options, all of which it expects to take eventually.

Five or six other major regional players are likely to place orders, particularly those that ply the primary international trunk routes from Australasia and Asia to Europe and North America.

While Boeing is pressing hard to secure interest in its rival proposal, the Boeing 747X Stretch, potential Airbus buyers are Qantas Airways, Cathay Pacific Airways, Thai Airways International (THAI), Malaysia Airlines (MAS), Korean Air, Taiwan's China Airlines and Japan's All Nippon Airways and Japan Airlines. Major mainland Chinese operators such as Air China, China Southern and China Eastern, will also be interested in time as their international markets grow.

There are even more prospects in the Middle East, where Emirates has already placed an order for five planes.

That means the possibility of the regional fleet of A3XX growing to at least 100 aircraft, perhaps within five years of the plane's arrival on the commercial scene.

Placed at Asia's major air crossroads and one of the region's biggest and most respected MRO businesses, Sirisena believes SIAEC, which became a listed company in May this year, is in the box seat to take a significant portion of the A3XX business.

Maintenance co-operation between rival airlines would not be unique, although it would be highly unusual on this scale. Japanese competitors, All Nippon Airways and Japan Air System, have jointly maintained aircraft types, including the Boeing 777.

But according to Sirisena, with a high capital asset acquisition such as the A3XX it would make perfect sense on a broader basis.

SIA Engineering Company president and chief operating officer Mervyn Sirisena: duplication of independent A3XX MRO facilities does not make sense

SIA Engineering Company senior vice-president commercial Oh Wee Khoon: "We aim to make Singapore a centre of technical excellence for the A3XX"

SIA's outlay alone on the A3XX is said to be US$8.845 billion.

"Airbus, in trying to deliver this new aircraft type to its customers, has the objective of keeping the cost of operating it as low as possible," he said. "We must believe that Airbus will need a comprehensive, well-established service provider in this region to deliver that and we must believe we are in the position to do that."

Sirisena will not say whether any discussions have taken place with Airbus, but there is a strong suggestion the topic has been raised with the Toulouse planemaker and that it may favour a co-operative maintenance approach as another powerful selling point.

Airbus itself could be a partner in the venture, an arrangement that would fit well with recent developments in the MRO sector, where joint ventures between airlines, manufacturers and suppliers have become the order of the day.

Sirisena argued that duplication of independent A3XX MRO facilities by a number of large airlines does not make sense. By not doubling up on very expensive maintenance infrastructure, airlines could potentially save millions of dollars annually in operating costs as well as spending on what would amounts to pricey duplication of spare parts.

Meanwhile SIAEC is not wasting any time waiting for other operators to make their views known.

A new type of aircraft with new technology requires plenty of lead-time in terms of training and adjustment of facilities, said Oh Wee Khoon, senior vice-president commercial.

Two new hangars capable of taking the A3XX are being built and planning is underway to cope with new technologies such as laser welding, higher pressure hydraulics, fibre optics and more digital systems.

"SIA's decision to be the first airline to operate this aircraft gives us a unique chance to build up our experience," said Oh.

"Our approach is not to wait for other airlines to agree to a (co-operative) arrangement, but to be totally ready and to have our core shop prepared so we can go to these customers with a concrete maintenance deal. We aim to make Singapore a centre of technical excellence for the A3XX."

SIAEC is no stranger to joint venture operations. Hived off from SIA as a separate company in 1992, it now has 13 joint ventures located in Singapore, China, Taiwan, Hong Kong and Ireland with original equipment manufacturers. These include engine makers Pratt & Whitney and Rolls-Royce (SIA has selected the Rolls-Royce Trent 900 engine for its A3XXs).

In China, it is a 10% partner, along with Cathay Pacific Airways and Japan Airlines, in Taikoo Aircraft Engineering Company (TAECO) at Xiamen in which Cathay's sister company, the Hong Kong Aircraft Engineering Company (HAECO) is the majority shareholder.

In July, it expanded into the major repair and overhaul of A330/340 and B777 landing gear, investing in a joint venture which gave it a 40% stake in Messier Services Asia.

The latest joint venture, announced in October, was an agreement with BFGoodrich Aerospace Aerostructures Group to partner in the repair and overhaul of aircraft nacelles, thrust reversers and pylon components.

SIAEC has built up a list of more than 70 customers from Asia and elsewhere. Major heavy maintenance customers include Polar Air Cargo, Canadian Airlines, Asiana Airlines, Ansett Australia, Air Nuigini and Federal Express. Major line maintenance clients include British Airways, Qantas, United Airlines, Northwest Airlines, THAI and MAS.

With SIA deputy chairman and CEO, Dr Cheong Choong Kong, as chairman, SIAEC increased operating profit 42.2% to US$52 million in its latest financial year to March 31, even though group revenue dipped 14.3% to US$333.7 million.

But growth and development of new business opportunities, such as benefiting from the A3XX's arrival, remain the order of the day. Sirisena said subsidiaries contribute around 15% of net income. "We would like to improve that figure."

Work for SIA and wholly-owned subsidiary SilkAir represents about 78% of SIAEC's business. Fifty percent of the remainder is for U.S. customers, 30% from the Middle East, 20% from Europe and 10% from the rest of Asia.

The target over the next five years is to develop third party work to 40% to 50% of the business.

Big is beautiful for Changi

It may be more than five years away, but the authorities at Singapore Changi International Airport have preparations to handle the arrival of the world's first high capacity jet transport well in hand, writes Tom Ballantyne.

Indeed, within days of the announcement by Singapore Airlines (SIA) that it will be first to operate the 555-seat A3XX, with firm orders for 10 of the jets and 15 options, insiders at the Civil Aviation Authority of Singapore (CAAS) were suggesting industry observers might choose not to believe in coincidences.

They were referring to the not-so-accidental coming together of two separate strands in the A3XX story; SIA taking delivery of its first big jet in early 2006, which just happens to be when Singapore's Changi airport will complete construction of Terminal 3 (T3).

Costing S$1.5 billion (US$882 million), T3 will extend the airport's capacity by 20 million passengers a year to 64 million, which is expected to be sufficient until 2020.

Eight of the 28 new aerobridges at T3 and other supporting infrastructure will be designed to handle the A3XX.

According to CAAS manager public relations, Albert Tjoeng, the existing runway length, width and pavement strength at Changi can cope with the big jet.

"Our existing taxiway width and pavement strength are also able to support the aircraft. However, a slight widening of the runway-taxiway and taxiway-taxiway intersection areas is required for the aircraft to make a turn easily," he said.

A computer generated image of Singapore Changi International Airport's Terminal 3

Mr Tjoeng added that some aerobridge gates at the existing Terminals 1 and 2 can be converted to accommodate the A3XX. "In our recent terminal building expansion projects, we have identified suitable gate holding rooms and expanded them to accommodate the larger number of passengers waiting to board the A3XX.

A third arm will also have to be added to our existing aerobridges to serve the upper deck of the A3XX.

"As for the large number of passengers arriving simultaneously, the capacity of our existing processing facilities is able to handle the additional passenger load carried by the A3XX. Where necessary we would increase the number of service counters to expedite the processing of the larger volume of passengers."

Indeed, the aircraft is expected to cause few problems at the major hub airports it will serve. Airbus Industrie took pains to design it to fit inside a square measuring 80 metres by 80 metres, which will allow it to use existing B747 gates.

During the design process, as well as working closely with 20 major global airlines, it also held detailed discussions with officials at all key airports. SIA has said it intends to deploy the jet on its high-density routes to London, Los Angeles, San Francisco, New York, Tokyo, Hong Kong and Sydney. Other airlines that purchase the A3XX, or Boeing's rival B747X stretch, would operate it on similar routes.

U.S. seeks landmark plurilateral air treaty

Singapore, New Zealand, Brunei and Chile in groundbreaking talks

By Tom Ballantyne

The U.S. is in negotiation with four Pacific Rim countries – Singapore, New Zealand, Brunei and Chile – in an attempt to reach a landmark plurilateral open skies air treaty. The deal, if successful, would be a major breakthrough in moves towards global aviation liberalisation.

The first round of talks were held in Honolulu in August. Negotiators from the five countries were scheduled to gather again from October 31 to November 2, also in the Hawaiian city.

Significantly, two of the region's primary air powers, Japan and Australia, attended the first series of discussions as observers and are expected to be present again when round two gets underway. News of the talks and those taking part was confirmed to *Orient Aviation* in Washington by Susan McDermott, deputy assistant secretary for aviation and international affairs at the U.S. Department of Transportation.

The development follows a seven-year drive by the U.S. to sign up trading partners world-wide to bilateral open skies treaties. Over that period it has concluded 47 open skies agreements, six in the Asia-Pacific, 23 in Europe/Africa, six in the Near East/Central Asia and 12 in the Western Hemisphere. It also has concluded 13 other bilateral agreements which fall short of open skies but are characterised as major liberalisations.

Late last year, U.S. Secretary of Transportation, Rodney E. Slater, signalled Washington's intention to move to another phase, seeking multilateral air rights deals in various regions of the world.

McDermott said the U.S. strategy is to advance on any practical front in arrangements that are bilateral, plurilateral, regional, or global. "We intend to continue our efforts to pursue open skies markets with our bilateral partners. We also intend to make as much use as possible of existing regional forums. The Asia Pacific Economic Co-operation group (APEC) has embraced air transportation liberalisation and the U.S. and four of our APEC partners are in negotiation on a plurilateral open skies agreement. These nations are Singapore, Brunei, New Zealand and Chile.

"We hope this will become the template for other similar regional agreements, or even better, for other nations to sign the emerging agreement," she said.

A New Zealand official involved in the first round of talks in Honolulu described it as an "exploratory meeting" of a group of negotiators "from like-minded economies".

U.S. Secretary of Transportation, Rodney Slater: US presidential elections could lead to personnel and policy changes

He pointed out the issues were extremely complex. "We are operating outside the conventional mould. Air services negotiators are used to bilateral negotiations so working on a plurilateral basis is a totally new experience."

Japanese and Australian officials who were observers at the plurilateral talks could not be reached for comment. They were attending a special air services meeting of APEC's Transportation Working Group in Miyazaki, Japan, at press time.

However, it is known the five-cornered plurilateral talks found their genesis in APEC's support of air liberalisation. Item three on the agenda of the Miyazaki meeting, chaired by Peter Harris, head of the Australian delegation, was a report on steps to liberalise air services, including "exploration of plurilateral arrangements".

All the participants at Honolulu were able to start from relatively common ground. All of them have liberal air service agreements with each other, although the arrangements are not identical.

The question of Washington's stance on cabotage will certainly be discussed. Another issue is regulation of computer reservation systems. The U.S. uses a different regulatory model from other nations. Ownership and control rules are likely to be raised and there will be keen debate on what could happen when other nations want to enlist in any plurilateral agreement forged by the original five countries.

There are a number of Asian nations seriously interested in the possibility of entering a multilateral aviation arrangement, including Australia, Thailand, Taiwan, South Korea and Malaysia.

Even though it has attended the negotiations as an observer, Japan is likely to be a tougher nut to crack, given its long history of contentious contact with Washington officials on air treaty matters.

Despite these difficulties, the Honolulu talks represent a concrete development on the road to wider liberalisation of the world's skies. No time frame has been set for reaching agreement, but Washington sources said the U.S. is keen to push ahead rapidly.

This is partially because of the impending U.S. Presidential elections, which may bring a change of government and potential alterations to trade policy.

Transportation Secretary Slater has been a driving force for open skies and if he is replaced it is not known who his successor will be or how policy on air service agreements might change.

In October, he released a report which found that last year average fares to open skies countries declined by 20% overall compared with 1996 and approached 25% in connecting markets that have particularly benefited from the development of multinational networks.

Asia-Pacific traffic to "more than triple" by 2019

By Jonathan Sharp

With barely a backward glance at the painful days of the late-1990s Asian financial crisis, Airbus Industrie's new 20-year market forecast places airlines of the Asia-Pacific region squarely in the driving seat of global civil aviation growth.

Annual revenue passenger kilometres carried by the region's airlines will grow at an annual average rate of just under 6.1% a year, compared with 4.9% growth globally, the forecast says. This is slightly lower than the Airbus forecast for the Asia-Pacific last year. Annual traffic carried by the region's airlines will more than triple to 2.25 trillion RPKs.

In addition, Asia-Pacific airlines will take delivery of 4,239 passenger aircraft in the 20-year period, an average of 212 per year or 24% of all passenger jets delivered worldwide.

"We are convinced the airlines of the Asia-Pacific region are going to be a major driving force behind the development of what will remain one of the world's great growth industries," said Adam Brown, Airbus vice-president – market forecasts, in presenting the forecast in Hong Kong.

Coupling predictions for passenger traffic and freighters, and based on year 2000 catalogue prices, Airbus estimated the value of 4,385 new aircraft delivered to airlines and cargo carriers during the next 20 years to be worth US$490 billion.

The Toulouse-based company, whose difference of opinion with Boeing over prospects for the Very Large Aircraft has shaped up as one of the industry's more interesting dogfights, said Asia-Pacific airlines would lead world demand for the largest category aircraft, taking more than half of all deliveries of aircraft such as the A3XX superjumbo.

Justifying its projection for tremendous growth potential in Asia, Airbus said with more than half the world's population and just a quarter of world RPKs, the region's airlines fly less than half the world average RPKs per head of population. In the United States, every man, woman and child makes more than two air trips a year on average. In India more people travel on the railways in a single day than on all the nation's airlines annually.

Adam Brown, Airbus Industrie vice-president – market forecasts: 127% increase in flights in next 20

Brown cautioned that if oil prices were to double from present levels, there could be a 6-8% drop in the Airbus forecast. But this would not be a complete disaster for manufacturers producing aircraft with twice the fuel efficiency of 30 years ago.

Airbus predicts over the next 20 years, Asia-Pacific airlines' average flight distance will increase from 1,393 kilometres to 1,475, they will manage to increase speed by five kph and raise passenger load factor by a "whopping" 4.7 percentage points.

"By 2019, we predict they'll be operating just over 1.2 million seats compared with about 440,000 today," Brown said, adding the forecast was for a 127% increase in the number of flights by the region's airlines.

"Of course, if the infrastructure proves unable to handle so many flights, there are only two possibilities: either the airlines will be unable to meet demand, or they'll need more Very Large Aircraft than we predict."

Understandably, Brown devoted much of his presentation to arguments in favour of VLAs. He said that to handle rapidly growing traffic in high-density markets, Asia-Pacific airlines will need significant numbers of a new generation of aircraft larger and more economical than anything flying today.

"The requirement will build up progressively, to reach 196 aircraft with an average of 519 seats by 2009 and 707 aircraft with an average of 613 seats by 2019," he said.

The Airbus Global Market Forecast predicts by 2019 58 airlines will operate 1,235 passenger aircraft of above 400 seats on 92,450 monthly flights linking 584 airport pairs. Twenty-eight of these carriers, operating 57% of the aircraft would be based in Asia-Pacific while North America, with only nine users, would represent 17% of the market. Of the top 10 routes served by VLAs in 2019, only routes from London to New York and Los Angeles would not be serving the Asia-Pacific region.

Tokyo's Narita Airport will be the largest user of VLAs on international routes, utilising the capacity of 116 of these aircraft by 2019, while flights from Hong Kong will use 83, Singapore 56 and Bangkok 47.

Brown said 1,235 VLAs in service in 2019 would account for 6.4% of the world fleet total of 19,000 aircraft. This is consistent with the situation in the past 10 years, when passenger models of the largest aircraft, the Boeing 747-400, made up about 8% of the world's fleet.

"Today, 747s account for 19% of the Asia-Pacific airline fleet and we predict that by 2019, despite higher than average traffic growth, Very Large Aircraft will account for just 17% of the region's fleet."

Of course Boeing, which promotes stretch versions of the B747, thinks otherwise about the VLA market, predicting a need for only 87 passenger aircraft larger than the 747-400 in 2010 and 500 passenger and cargo aircraft in that category in the next 20 years.

Airbus cargo forecast, see page 37.

IATA forecast

International Air Transport Association (IATA) director general, Pierre Jeanniot, said the 2000-2004 IATA passenger and cargo traffic forecast is the most optimistic for three years. This has been "fuelled in a large part by a new positive outlook for Asia".

International passenger traffic is predicted to grow 5.6% a year and cargo 6.7% in the four-year period, he said. During the first seven months of 2000, passenger traffic grew 8.6% and cargo 11.8%. In Asia these figures were 11% and 16% respectively.

Back from the brink

Asia's economic crisis allowed Asiana to re-invent itself

By Jonathan Sharp

Back in the halcyon pre-Asian financial crisis days, a duck with a chair strapped to its back would have made money in the airline business, according to an industry commentator quoted at the recent Asia *Airfinance* conference in Hong Kong.

Once the crisis struck in 1997, a lot of thus-equipped ducks would have come a terminal cropper, but interestingly, as Richard Stirland, director general of the Association of Asia Pacific Airlines, noted, many airlines that could have been driven into bankruptcy avoided that indignity.

Some seemed to come close to the abyss, however, and few closer than Asiana Airlines, born 12 years ago as South Korea's second civil airline.

At the Hong Kong conference Asiana's Ghil Byung-Wui, senior vice-president finance and accounting, recounted how the airline survived that jolting wake-up call.

As the crisis unfolded in late 1997, Asiana had a fleet of 50 aircraft and was preparing for delivery of a Boeing 747-400 combi in November and five aircraft in 1998, projecting a 56-strong fleet by the end of that year.

The airline had 93 domestic flights daily and 186 international flights weekly, including services to Brussels, Vienna and Frankfurt in Europe and to Honolulu, Cairns and Macau.

The crisis made itself felt initially in the currency markets, with the exchange rate of the Korean won falling from 800 to the U.S. dollar before August 1997 to 1,640 won in February 1998. Simultaneously, the cost of borrowing money soared, said Ghil. "Some days we borrowed money at higher than 30% per year."

Passenger traffic plummeted from the fourth quarter of 1997 and was down 20.9% in the first quarter of 1998 from the same period in 1997, down 23.4% in the second quarter and 20.9% in the third quarter. Load factors in the domestic passenger market in the first quarter of 1998 were 52.7%, 53.5% for international flights and 68.9% for cargo.

Interest costs accounted for more than 20% of gross revenue in the first half of 1998.

It hardly helped that during the crisis foreign travel by South Koreans came to be deemed an unpatriotic act. "It may have been natural to judge that Asiana could not have survived," said Ghil.

As so often in business, the problems afflicting Asiana were as much self-inflicted as beyond its control. In the mid-1990s Asiana embarked on a major fleet expansion, requiring large-scale investments that became dramatically more burdensome as the crisis struck.

However, Ghil said, as early as the first months of 1997 warning signals of an impending disaster were sighted – and ignored. Engrossed in expanding Asiana's network, airline officials were over-optimistic in their traffic forecasts and neglected proper analysis of profitability and cash flow.

Asiana Airlines: turned adversity into triumph

Ghil said that Asiana, after a brief period of breast-beating and admission of mistakes, responded promptly, switching the airline's priorities away from expansion and back to the bottom line.

In January 1998, top Asiana managers approached aircraft manufacturers Boeing and Airbus Industrie to explain the airline's plight and to ask for adjustments in delivery schedules. "As Asiana was the first in responding to the crisis, we were able to make agreements with both manufacturers to re-market some aircraft and cancel or defer some others," Ghil said.

Fleet size decreased from 50 to 42. Money-losing destinations, particularly in Europe, were cut and the airline focused on northeast Asia, which contained the most profitable routes.

Downsizing left a workforce surplus of 1,400 personnel. Asiana handled this with one year's unpaid leave for just-hired junior staff and one-month unpaid leave for all employees. Ghil said the scheme worked so well that all staff were recalled by April 1999.

Fares were increased by an average of 18.2% on domestic routes and 15.2% on international routes. Code-share agreements were implemented in 1998 with American Airlines, Singapore Airlines and China Southern Airlines.

An asset revaluation in October 1998 helped, as did a fund-raising exercise in 1999 which garnered US$550 million, partly from an IPO and also from an injection of funds from its Asiana parent, Kumho Group.

And of course the market improved. After bottoming out in the first half of 1998, traffic and load factors improved in the second half of that year and continued to rise in 1999. The won stabilised and the interest burden lightened, although it was still high by historical standards.

The cure having done its job, what are Asiana's plans?

Ghil said firstly it would focus on northeast Asia taking advantage of South Korea's geography, placing it between Japan, the present biggest market in the region, and China, the future largest market. Asiana also looks beyond its neighbours, as it can fly non-stop to any cities in North America and Europe. But said Ghil: "For long-range operations to each continent, we will limit ourselves to trunk routes with minimal frequency in order to maintain Asiana's presence on both continents."

Alliances also are very much on the agenda. "I hope we can make a decision to join global alliances such as oneworld or Star as soon as possible," said Ghil.

Based on forecast annual traffic growth of 8.5% in the domestic market, 7.5% internationally and 5.7% in cargo, Asiana is projecting average annual revenue growth of 8.7 percent in the next five years.

Sounding almost grateful that the Asian crisis occurred, Ghil said the economic turmoil was "appreciated" because it enabled Asiana to re-invent itself. "It provided a great momentum for Asiana to start again," said the executive.

No more small talk for S.A.L.E.

Asian lessor to go global and double aircraft portfolio

By Tom Ballantyne in Singapore

Singapore Aircraft Leasing Enterprise (S.A.L.E.) is poised for major expansion. It will open permanent offices in Europe and North America in the near future and double its portfolio of aircraft to at least 60 within five years.

Launched in 1993 as a 50/50 joint venture between Singapore Airlines and U.S. lessor Boullioun, it has aircraft leased world-wide, but its only office has been the company's Singapore headquarters.

With its overseas offices established, by mid-2002 S.A.L.E. will have set up its own marketing and structured finance capabilities in-house for the first time, managing director, Robert J. Martin, told *Orient Aviation* in an exclusive interview in Singapore.

The expansion marks a watershed development for a firm Martin is determined to position "as the premier Asian-based lessor with global placement power".

He said locations for the new offices were now under discussion, but no decisions had been made. However, they will be situated at major aviation hubs.

The European office, possibly in London or Dublin, Ireland, will be responsible for Europe, the Middle East and Africa. The office in North America, probably on the west coast in either the U.S. or Canada, will cover North and South America. Permanent staff, now at

S.A.L.E managing director, Robert J. Martin (centre) with company secretary, Gerald Khoo (left) and chief financial officer Phang Thim Fatt: The company welcomes competition

29, will likely rise to around 50.

"This will give us both marketing and structured finance people in each of the three major time zones, or 24-hour coverage of the market," said Martin. "From our perspective, it is crucial to have a global marketing presence and to be able to move aircraft around the world between different regions."

S.A.L.E. has fast become a powerful tool in Singapore's four-cornered drive to become Asia's premier aviation and aerospace hub, together with Singapore Airlines, Singapore Changi International Airport and its infrastructure and a broad range of aircraft and aerospace maintenance and repair companies.

It has grown rapidly in the past few years, holding a portfolio of 27 Airbus A320 and

Boeing B777 aircraft, leased to 17 airlines in 12 countries. Customers include Alitalia, Korean Air, China Eastern Airlines, Malaysia Airlines, Emirates Airline, America West, British Mediterranean Airways, Iberia, jetBlue Airways, and Qatar Airways.

Martin announced at the Farnborough Air Show in July that S.A.L.E had ordered 11 more A320 family jets, including three A319s. That followed a purchase announced a year earlier, at the Paris Air Show, for 23 A320s. S.A.L.E. is the largest Asian customer for the Airbus A320 family

Two of six B777s on order have been delivered and there are options on another 10 of the aircraft.

When it began business, S.A.L.E. operated mainly with seconded staff and most of its capabilities were outsourced. Projects principally involved debt/equity arrangements for single aircraft.

Times have changed. S.A.L.E. became a genuine corporate in 1997 when the Singapore Government's investment arm, Temasek, and GIC came aboard as shareholders committing capital of US$375 million. Today, the seconded staff have left and the lessor has used only $218 million of its capital which leaves plenty to support future growth.

"We had a good year last year. We are in an ever increasingly competitive market. There are always new players trying to enter the market and there has been some consolidation amongst our competitors. But despite all that we had an increase in before-tax profit last year of around 33%. We have a portfolio that yields more than $100 million annually in leasing revenue," said Martin.

He intends to supplement the portfolio with other aircraft types. The Airbus A330 is being considered. "Principally, we will begin in that market by looking at sale/leaseback. There is the possibility of an order in the future, but no decision has been taken," he said.

Another area under close scrutiny is the freighter market, particularly in Asia. S.A.L.E. believes freighters are an important component of the aviation market performance. It will not be the first time it has dabbled in this area. In 1996 it conducted a freighter transaction for Korea's Asiana Airlines.

Martin sees a large demand emerging in Asia for both passenger and freighter aircraft. "What is important is that carriers build their fleets in a way that when we are hit with the next downturn they have flexibility within their fleets to increase or downsize aircraft size depending on demand and to manage their overall capacity within the fleet.

"We are going to have to move away from having only 10% of Asia's aircraft on operating leases and move closer to the global average which is 19%. Although, by our own calculations, that average will rise to between 25% and 30% within 10 years."

This increase is underway, he believed, with airlines such as SIA in the market for sell/leaseback deals on reasonably new aircraft. "This is a welcome development for the market and for the airlines themselves. It frees up their capital to focus on other parts of their business," said Martin.

The current state of the Asian leasing market must be looked at in context, he added. In 1998, there were a number of deferrals of aircraft orders as a result of the economic recession in the region. "They could not defer the aircraft in 1998 and 1999 because they were too close to final production. So the deferrals that took place were in year 2000. That means we have, if you want, a bow wave of deliveries that have been pushed back by between two and four years and which still have to be delivered," said Martin.

'There hasn't been a large Chinese (aircraft) order for two to three years. I expect to see one sometime in the next two years'

"In terms of deliveries we will see the requirement for financing, for some sale/leaseback in delivery, during the next two to four years and in particular some deliveries coming through in Korea as well as here in Singapore.

"I also expect to see some activity in the Chinese market. The Chinese traditionally have only ordered one or two years ahead of delivery. There hasn't been a large Chinese (aircraft) order for two to three years. I expect to see one sometime in the next two years as the airlines begin to replace their fleets. Their load factors have come back. We have seen the overhang of excess capacity in China being whittled away so there will be demand for new aircraft."

At the same time there is likely to be a movement of aircraft out of China, planes that were delivered in the early 1990s. "We have not had many aircraft move out of China into other markets and that's a challenge the market is going to face over the next two to three years. I don't think it will be difficult to find customers, but it is something people need to plan for in advance. That's the crucial thing. And in particular to make sure that everybody is aware of the issues of moving aircraft between registry," said Martin.

S.A.L.E is far from concerned by planemakers like Boeing entering the capital services industry with deals such as supplying refurbished freighters.

"We are not scared of competition," said Martin. "We have competition from the world's largest company in GE and from one of the world's largest insurance companies in AIG through its subsidiary ILFC. We work very closely with Boeing. In particular, during the Asian downturn we worked closely with the company to ensure certain customers were able to take aircraft they had ordered.

"We welcome Boeing doing value added business. Asia is a classic example of where Boeing's approach could be very helpful. In particular, where you have a number of widebody aircraft that need to be moved on to allow newer widebodies to come in.

"Freight conversion is a good example of how Boeing can use their existing skills and add value to the market. We are looking at how we can work best with Boeing, using its skills for freight conversions and our skills in the leasing market.

"To date, we have not seen Boeing Capital running head-to-head with us at all. It has stuck to the financing market as opposed to the operating lease market. We continue to look for ways to work with both Boeing and Airbus, particularly with rollovers of large widebody fleets of which there is going to be a large number over the next five years." said Martin.

Robert Martin is insistent about one thing; S.A.L.E.'s future does not lie in being a niche regional player in the leasing game. "It is important for us to have a global reach in our aircraft placement power and with raising debt.

"Otherwise, if there is a regional downturn and we cannot place aircraft in other regions we are going to find ourselves with aircraft on the ground," he said.

China, land of opportunity for the lessors

It's been a fast learning curve for Howard Dugger, assistant vice-president Asia for CIT Aerospace, since he started visiting the region almost a year ago.

"If measured by the opportunities we are seeing in the market then I would have to say the outlook is good," said Dugger.

CIT has 11 airline clients in the region, including three in China. Dugger has been covering a lot of ground. As he said: "The economic conditions for most of my airlines have recovered to a point where demand is again outpacing capacity. This, coupled with some important lessons learned from the last downturn, has me talking to everybody."

Airlines have accepted the operating lease product as a viable alternative to aircraft financing, said Dugger. "They like the flexibility of staggering their lease expirations so they can shed capacity quickly if load factors decrease. They are now accepting the concept of acquiring "used" aircraft that helps keep capital available for operations and is not tied up in the value of an aircraft.

"Also, the backlog at manufacturers Airbus Industrie and Boeing has caused many airlines to consider leasing new aircraft from the leasing companies. In some cases the manufacturers' product line is booked through 2003 whereas the leasing companies still have aircraft available in 2001."

Dugger said he was more bullish about China than any other country in the Asia-Pacific. "There are so many market dynamics going on in China that it is difficult to make projections about the future of aircraft leases.

"There are issues about withholding taxes, the potential break-up of the Civil Aviation Administration of China (CAAC) and its control over the airlines. There is the question, too, of the ongoing mergers of the CAAC-controlled airlines into a handful of major groupings," he said.

"Also, there are rules in place meant to slow down the rise in capacity ("zero-sum rule") that influenced the airline losses in 1998. This rule says the only way to put aircraft into China is to take out aircraft on a one-for-one basis. This rule also helps the airlines roll out their older aircraft and upgrade with new technology. CIT is in a good position to take advantage of these opportunities by packaging both new and old aircraft together.

"For instance, if XYZ airline wants to roll out used 757s, we can arrange a short-term sale/leaseback on the 757 and take the 757 out of its fleet once the new aircraft is delivered. This helps the airline obtain cash for the old aircraft while modernising its fleet with the latest technological offering from Boeing or Airbus.

"Recently, CIT signed an agreement with Wuhan Airlines where we will purchase two B737-800s at delivery from Wuhan and lease the aircraft back to the airline for eight years.

"This transaction was a win/win for both parties. CIT was able to acquire two quality assets and Wuhan was able to obtain cash that allows them to finance other capital projects.

"For example, if Wuhan had Regional Jets (RJs) on order, they would be able to use the cash obtained from the sale/leaseback to put down on progress payments for the RJs. More and more airlines in China are ordering RJs because they see a potential 'untapped' market and the government has no restrictions on the importation of this type of aircraft."

Dugger said in the past there have not been many opportunities to lease RJs because of the international financing products offered by many banks.

This is slowly changing. CIT hopes to acquire a number of RJs through sale/leasebacks in China.

"We see a definite trend for the RJs that is here to stay, especially on the Embraer and Bombardier products," said Dugger.

CIT Aerospace has a portfolio of more than 250 commercial aircraft leased to more than 85 airlines. In mid-year CIT ordered 35 additional A320 family aircraft and 15 A330 jets. Deliveries will begin in 2002. This followed an earlier order for A320s and five A330s.

The lessor has 10 Boeing 737NGs on order, with options for additional units as well as rights to convert them to 767-300s and -400s.

Wuhan Airlines: a new CIT client with sale and leaseback deal

CIT's Asia-Pacific client list:

All Nippon Airways: B747-400
Asiana: B737-500, B737-400, A321-200
China Eastern: A320-200s (4)
China Northwest: A320-200
Korean Airlines: B737-800s (3), A330-200
Philippine Airlines: B737-300
Malaysia Airlines: B747-400, B777-200
Singapore Airlines: B747-400s (3)

To Be Delivered:

Asiana: A321-200s (2 in 2002, 2003)
Wuhan Airlines: B737-800s (2 in 2001)
Japan TransOcean: B737-400s (2 in 2001)
Ansett Australia: B737-300 (2001)

More airlines are opting to lease aircraft, but it's ...

A delicate balancing act

In 1986, approximately 60% of airlines leased some or all of their aircraft, but now the figure is closer to 85%, said David Farrell, vice-president – marketing for leasing company GE Capital Aviation Services (GECAS), discussing airline financing in the aftermath of the Asian financial turmoil.

The current leasing level, Farrell told the Asia Airfinance Conference in Hong Kong recently, showed airlines, including some of the strongest globally, chose a hybrid of different types of financing that included at least some leased aircraft. The prime motivation behind this was the need to provide sufficient operational flexibility in an increasingly competitive environment.

According to Farrell, determining the correct balance of owned and leased aircraft in an airline's fleet involved taking four key factors into account: structural factors in the industry as well as financial, operational and strategic considerations specific to the airline itself.

As for the industry's structure, he said it was now less stable than in the past. Trends that underlined this included the erosion of regulatory stability, of national ownership of airlines and government financial support for them.

In addition low-cost start-up carriers were establishing market presence and challenging the notion that it was difficult for new entrants to quickly gain a foothold in the marketplace.

Regarding financial considerations, Farrell said airlines should take a broad range of factors into account, including the opportunity cost of capital employed in relation to possible higher payoff uses of funds.

Financial leverage considerations were of paramount importance and airlines needed to assess whether capacity to raise debt could or should be conserved for other capital projects.

In discussing operational requirements, Farrell said features of growing and dere-gulated markets included quick changes in competitive tactics and this made the exercise of fleet planning all the more difficult.

"In such a volatile market airlines will need the ultimate flexibility in terms of shorter lead times to delivery, the ability to add aircraft to routes quickly and ability to regauge to smaller aircraft to react to competition by increasing frequency share."

A financing strategy should also enable an airline to keep pace with the latest changes in aircraft technology.

Farrell said strategic factors to be considered included whether the business tasks relating to the financing and management of aircraft, along with the risks of aircraft ownership, could be substantially outsourced.

Of the various ways of acquiring aircraft, Farrell said operating leasing had the advantage of lowest up-front financial commitment and the shortest lead-time to delivery of aircraft as lessors often had a substantial position in near-term deliveries of new narrow-body aircraft at least. However, he said the separation of ownership and operating risk characteristic of operating leases meant the airline would not be able to share in any future upside in an aircraft's value.

Farrell explained that, particularly through the recent economic turmoil in Asia, airlines employed sale and leaseback strategies in effect to adjust the proportion of leased and owned aircraft for the purpose of establishing greater fleet flexibility, as well as to realise profits, generate cash and reduce financial leverage.

From a leasing company's viewpoint, given past cyclical trends of the airline industry and structural differences between the airline industry and the financial services industry, Farrell said it seemed a natural division of labour for airlines to outsource aircraft residual value risk to specialist industry players, including operating lessors. This was because lessors could manage risk more efficiently by holding diversified portfolios of different aircraft types on lease to many different airlines throughout the globe.

He said GECAS had formed a Fleet Advisory Service group in 1998 to provide comprehensive fleet planning solutions for clients and had executed a number of transactions for clients throughout the region, including the lease of 20 new generation aircraft to an Asian flag carrier, while simultaneously purchasing 23 aircraft from the airline.

As a result, Farrell said, the airline was able to reduce the number of aircraft types it operated, trim capacity, and replace older narrow-body aircraft with the latest technology equipment.

He said on account of the availability of comprehensive solutions from operating lessors and others, airlines are not bound by past decisions on how to finance their fleets. "Purchase and leaseback facilitates opportunities to [either] fine tune or completely change the financing mix as circumstances change – but timing is key."

Saab Leasing re-organises in Asia-Pacific

The departure of Saab Aircraft Leasing vice-president sales and marketing Australasia, Peter Greensmith (right), will lead to the re-organisation of the company's Asia-Pacific marketing arm from January 1.

Saab will merge its Tokyo and Sydney regional marketing operations in the Australian city with Morgan Falkengren, vice-president marketing and sales in Tokyo, to assume overall responsibilities throughout the Asia-Pacific region. Johan Berggren will remain as vice-president finance in Sydney.

There are 11 Saab operators in the region with a fleet of 66 Saab 340s and two Saab 2000s.

Falkengren has been with Saab for 17 years and has worked on military and commercial programmes. He has spent the last 12 years in Hong Kong and Tokyo.

Greensmith, who also has been with Saab for 17 years, opened the Australasian office in 1994 after spells in the UK and Hong Kong. One of the characters of the industry, Greensmith is to explore new opportunities in the regional aviation industry in Europe.

CARGO INDUSTRY HAS A 'GREAT WALL' TO CLIMB

INSIDE CHINA

By Jonathan Sharp

Those looking for insights into the air cargo market in China as the world's most populous nation prepares to join the World Trade Organisation are well advised to listen to two Hong Kong-based academics who are in the midst of a research project to study just that topic.

The preliminary assessment of Zhang Anming of City University and Cheung Waiman of the Chinese University of Hong Kong is that the Chinese air cargo sector is in its infancy and there are considerable constraints to its growing up.

As an illustration of its distance from maturity, mainland China is the world's ninth largest trading nation, but its air cargo volume is currently only slightly more than that moving through its newly reclaimed territory of Hong Kong.

While China is devoting huge resources to developing its aviation infrastructure, its usage of information technology that is commonplace elsewhere – and for some cargo-moving procedures mandatory – is low in China.

Customs clearance procedures that have long been consigned to the back of the filing cabinet outside China are still in place and the plethora of government ministries and departments militates against an industry such as cargo which, by definition, requires the integration of a large number of procedural and infrastructure components.

Professor Cheung has focused on cargo facilities at Shanghai's brand-new Pudong International Airport and found them wanting by comparison with the edge-of-the-envelope facility run by Hong Kong Air Cargo Terminals Ltd (HACTL) at the Hong Kong International Airport.

"The way they handle cargo at Pudong is very different from the way they handle it at HACTL. The number one priority at HACTL is to get cargo in and out as soon as possible. But this is not what I have seen in Shanghai. They are relatively well-equipped compared to the old facilities, but they are not as automated as HACTL," said Cheung.

As an industrial and business centre at the head of the enormous Yangtze River economic catchment area, Shanghai has a greater potential than the political capital, Beijing, to be a major air cargo hub.

But being the capital, Beijing has traditionally attracted more foreign airline attention and has been favoured when the state regulator, the Civil Aviation Administration of China (CAAC), negotiates air rights with foreign countries and distributes routes to Chinese cities.

"Therefore the situation in Shanghai is that, especially at peak seasons, you have cargo to fly out, but not enough flights, so you end up trucking the cargo to Beijing to be sent overseas," said Cheung.

What does China need to do? Many things, but both Zhang and Cheung emphasised the backwardness of Chinese customs procedures.

While China had started to introduce electronic exchange of data between the various components of the cargo industry, customs clearance still required shippers and forwarders to send staff to customs offices to have numerous documents approved and stamped. "The clearing process is still backward and creates uncertainty," said Zhang.

Added Cheung: "The use of IT will really help the air cargo industry. But it is not happening as we would like. There are too many broken linkages in terms of information."

Shippers may also be discriminated against if they choose a non-Chinese airline to carry freight. The letter of the law may say that cargo has to be in place at a terminal 24-hours before the aircraft departs, but a certain bending of the rules can be achieved if a Chinese airline is selected and delivery deadlines can be shifted dramatically closer to flight departure times.

The administrative structure in China does not help much. The CAAC is in charge of aviation, another department handles ground transport while the Ministry of Foreign Trade and Economic Co-operation runs trade. For a foreign investor interested in developing an integrated services industry, there is a bureaucratic Great Wall to climb.

In the broader picture of Chinese aviation, China still lacks "open skies" and there is no mention yet of offering fifth freedom rights to foreign airlines, although there has been some relaxation with regard to the lesser third and fourth freedoms. "I don't think fifth freedoms are in their thinking yet," said Zhang.

China's preoccupation at present is to consolidate and restructure its own air industry to make sure it can survive against better-financed and experienced foreign opposition before taking bold steps towards open skies. "Let's face it," said Zhang, "the CAAC is still a state enterprise, as are the three main carriers (Air China, China Southern Airlines and China Eastern Airlines), so naturally they want the market to be protected."

China still has only about 600 civil airliners – while the United States has carriers with more aircraft – so it is clearly wary of taking on the big overseas players.

Chinese airlines may be competitive on costs, but that is because of cheap labour and facilities, not productivity. "In terms of labour productivity they are in the bottom one third of world airlines," said Zhang.

China has become less secretive as it opens up its economy, but Zhang and Cheung said it was by no means easy to glean information for their study. "You talk to airlines and Customs and they may have the data somewhere in their system," said Zhang, but it was hard to get hold of the information either because of a lack of resources on the Chinese side to process the data, or a lack of awareness of how important data analysis can be.

Cheung added: "Or sometimes they do realise how important the data is and they are not willing to share it."

Jonathan Sharp is a former Beijing-based Reuters foreign correspondent and has observed the development of China's aviation industry closely.

BOOMING

And it's just the start. China trade set to 'explode'

By Tom Ballantyne in Washington DC

Asia's air freight business is on a roll as the region surges out of a period of economic difficulty. But, according to the chairman of the Airport Authority of Hong Kong (AAHK), Dr Victor Fung, the current boom is only the tip of the iceberg.

He told air cargo industry executives at the biannual International Air Cargo Association (TIACA) conference and exhibition, Air Cargo Forum 2000 (ACF 2000), held in Washington DC recently, the truly big impact on trade will occur with China's accession to the World Trade Organisation (WTO). The ramifications would be felt around the world as its biggest potential consumer market gradually opened to global business, said Fung.

Furthermore, there were clear indications the air cargo world was focussing its full attention towards Asia.

Even without China, figures show an unprecedented surge in Asian business. And they are improving by the month. During the first five months of this year, total air cargo handled in the Asia-Pacific was 6.6 million tonnes, up 13.7% over the same period in 1999.

International Air Transport Association (IATA) figures for the first seven months of the year show while world-wide freight grew 11.8%, traffic in the Asia-Pacific was way ahead with an increase of 16%. Speaking in Singapore in October, IATA director general, Pierre Jeanniot, said average annual growth rates in freight traffic through to 2004 are projected at 6.7%, the most optimistic forecasts for three years, an optimism largely fuelled by the positive picture in Asia.

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The forecasts are supported by aircraft manufacturers' predictions of strong demand for freighter aircraft. Already a big business – air cargo is worth US$45 billion a year worldwide – according to Boeing the world freighter fleet will double from 1,676 airplanes in 1999 to nearly 3,200 by the year 2019.

Boeing vice-president marketing, Randy Baseler, told ACF 2000 the Seattle planemaker has had firm orders for more than 20 B747-400 freighters from Asian operators in the past year alone, When delivered more than half of the world's jumbo jet freighter fleet will be operated by Asian airlines.

"We will see particularly robust growth in Asia," said Baseler. "Compared to the world average annual growth rate of 6.4% per year (this is slightly below the IATA forecast), intra-Asia will average 8.6%, Europe-Asia will average 7.2% and North America-Asia will average 7.7%. This phenomenal growth will increase the market share of the Asian markets."

But while the mood toward business in Asia was, at times, euphoric in Washington, there were calls for the industry not to get carried away. There was work to be done if maximum benefits were to be drawn from the boom.

AAHK's Fung said economies in Asian countries have regained vitality and are prospering again, but warned strong demand for both imports and exports carried by air will generate more volume than the industry can handle.

"The cargo industry must be prepared to cope with increasing demand," he said.

Tom Weidemeyer, president of global express freight giant UPS, said the industry needs to work with governments in Asia and elsewhere to dismantle antiquated customs procedures, high tariffs and limitations on foreign investments.

"In places like Japan, we believe the government can do a lot more to open up the aviation sector. We believe it should allow night-time flights into (Tokyo's) Haneda Airport ... a move that would improve air service and have tremendous economic benefits," he said.

However, much of the talk was about an emerging China. Fung said with entry into the WTO, China's service sector will open to international participation in all major areas including wholesale and retailing, advertising, telecommunications and the Internet, banking and financial services, professional services and, as far as airports are concerned, tourism, freight forwarding and logistics.

"China is gearing up to meet all the challenges. Over the past 20 years, the Chinese civil aviation authorities have invested well over US$11.6 billion in airport development, expansion and relocation projects involving some 70 airports. Beijing, Shanghai and Guangzhou airports are just the beginning of an overall opening up of more international and domestic networks," said Fung.

"Currently there are 142 airports in China, of which 22 can handle aircraft the size of Boeing 747s and 97 can handle Boeing B737 sized jets. Of these 31 are open to international routes. Some 20 airports will be built or modified in the western region which has been designated for large-scale development by the Chinese central government."

As the country evolves into a market-driven economy, airport management is becoming more modern, entrepreneurial and commercially orientated, he added.

"I think the fundamentals are very strong and I can see there is going to be an explosion in terms of trade.

"Everybody has focussed on the whole idea of distribution in China. Central government is looking very hard at that and the idea

Chairman of the Airport Authority of Hong Kong, Dr Victor Fung: China gearing up to meet its challenges

of the need for a lot of airports is because there will be a great deal of movement by air. China is going to be an even stronger competitor globally on the outbound freight side of the business.

"China's exports up to now have been subjected to a lot of discriminatory practices. Now they will have protection under WTO rules so the flip side of WTO entry is Chinese exports are expected to be a lot more competitive globally."

Fung believed the real constraint on growth is not fiscal, but in the number of adequately trained people in the airport and airline industry. "The need (training and expertise) is monumental. I hope in this respect that Hong Kong and the Hong Kong International Airport will play an important role as an enabler and a trader Chinese talent and skills."

Fung said the Asia-Pacific accounted for almost 15.5 million tonnes, or 25% of the volume of international and domestic cargo handled globally in 1999.

"Nine of the world's 30 busiest airports are in the region with eight achieving a double-digit growth in 1999. This is the result of escalating trade activities between Asian nations and the rest of the world. In fact, half of all trade now takes place within our region ... proof the economic recession that almost crippled parts of Asia is well and truly over," said Fung.

That growth is set to continue because:

- taking population figures alone, the Asia-Pacific dominates the rest of the world.
- the Gross Domestic Product (GDP) per capita of the region's nations is relatively low which means there is still room for growth and development.
- the relative abundance and low cost of labour and land puts Asia at a competitive advantage to develop manufacturing industries and attract foreign investment.
- new infrastructure in major cities has been developed or enhanced and more world-class ports and airports have been, or are currently being, built.

"Judging from the huge amounts of money that have been committed by Asian nations, including China, in building new airports, in upgrading existing facilities for air cargo and passengers, I predict what we are seeing now is only the tip of the iceberg," said Fung.

Air Cargo Forum 2002 will be held in Hong Kong, only the second time the event has been staged in the region. Singapore was the host for the forum in 1984.

CHAT-UP LINES

Dubai-based Emirates Airline has created an Internet chat room for its cargo customers aimed at allowing everyone involved in the supply chain to communicate free from telephone, fax and email charges.

Branded SkyChain Online, it is the second phase of its Internet initiative, SkyChain, which saw the carrier become the first operator to facilitate international cargo bookings and shipment cargo updates online.

Unveiled at Air Cargo Forum 2000 in Washington DC, SkyChain Online allows all parties to communicate with each other in real time.

Ram Menen, Emirates director cargo, said the move placed the airline at the leading edge and enabled it to play a larger role in the logistics chain. "SkyChain Online realises our vision of an information pipeline through which information can travel and which enables anyone in the supply chain to extract and update the required information for the benefit of all.

"Rather than set up conference calls and send numerous emails or faxes, the importer can now set up a chat facility via SkyChain Online and get all the parties involved talking and resolving the issues with a fast, reliable and accurate flow of information.

For PAX, read cargo; big growth

Echoing its bullish forecasts for passenger traffic, Airbus Industrie predicts that airfreight traffic as measured in freight tonne-kilometres carried by Asia-Pacific operators will more than triple in the next 20 years, growing at an annual rate of 6%. This is roughly in line with predictions made by Boeing, writes Jona-than Sharp.

Airbus predicts the Asia-Pacific freighter fleet will triple in size from 112 aircraft today to 339 in 2019. Coupled with the need to replace 49 old freighters, this will create the need for 276 additional freighters. "We estimate that just under half this demand will be satisfied with passenger-to-freighter conversions, leaving a requirement for 146 new factory-built freighters," said Adam Brown, Airbus vice-president – market forecasts, in presenting Airbus's new 20-year market forecast.

Of the new freighters, 135 will be in the largest size category – with more than 80 tonnes capacity – representing a target market, as Brown says, for the Airbus A3XX freighter due to be ready for delivery after the passenger version.

Airbus says cargo traffic growth will differ in the various markets, ranging from 7.5% for intra-Asian flows to 4.2% for cargo from Europe to the Pacific.

The largest and fastest growing airfreight markets will remain those linking Europe and North America to the Asia-Pacific region, said Brown. Together these markets are expected to account for over 40% of global airfreight by 2019.

Airbus said based on its passenger aircraft forecasts, FTKs carried in the bellies of Asia-Pacific-based passenger aircraft would grow an average of 5.6% annually. Therefore, FTKs carried in all-cargo aircraft would need to grow faster than total airfreight. "In fact we forecast it will grow at an average annual rate of 6.6%," said Brown,

In making the forecast, Brown said, Airbus was assuming Asia-Pacific freighter operators would manage an increase in productivity. Consequently, to carry the forecast 6.6% annual growth in FTKs, their capacity as measured in available tonne-miles would have to grow at 6.4% annually.

He said even with the development of more time-definite services, cargo was less time-sensitive than passenger traffic and cargo carriers had almost no incentive to offer more than a once daily service. As a result, Airbus predicts the capacity of the average freighter operated by Asia-Pacific carriers would increase from 81.4 tonnes per aircraft today to 94.4 tonnes in 2019.

SIA stays with the Ark

Singapore Airlines (SIA) continued its spending splurge in October when it announced an order for six B747-400 freighters worth US$1.3 billion, including spares.

The announcement was some compensation for Boeing which lost out to Airbus Industrie in September when SIA opted for the A3XX Very Large Aircraft in preference to the B747 Stretch.

SIA, which is ranked the third largest cargo carrier in the world in freight tonne kilometres by the International Air Transport Association, has eight freighters on firm order. They will be delivered during the next five years.

The latest order includes nine options for passenger or cargo planes that were transferred from a 1994 order.

The new aircraft will be powered by Pratt & Whitney PW4000 series engines and join a fleet of nine freighters which SIA dubs Mega Arks.

"The expansion of the Mega Ark fleet augurs will for the future of SIA Cargo as it embarks on its corporatisation plan next year," said SIA's executive vice-president commercial, Michael Tan. "The additional freighters, which represent a capacity increase of about 10% annually, will help SIA Cargo cater to market development and growth. It will also further strengthen Singapore's position as a major international cargo hub in the Asia-Pacific region."

Singapore Airlines: six more Mega Arks to join the fleet

The airline's senior vice-president cargo, Hwang Teng Aun, said: "This aircraft order, together with other significant investments such as the SATS Airfreight Terminal 6, reaffirms our commitment to be a major player in the global air cargo business."

In 1999-2000, SIA Cargo carried more than 900,000 tonnes of freight (5.7 billion FTKs).

Revenue for the financial year was S$1.9 billion (US$333 million), up 18.9% on the previous year.

Singapore Airlines (SIA) has increased freighter services to the U.S. The arrival of the carrier's ninth B747-400 freighter in September has allowed SIA Cargo to introduce a daily operation to Los Angeles. Frequency to San Francisco has been raised to four flights a week. Three flights are part of the Los Angeles rotation.

The Los Angeles freighter will connect through Singapore to Hong Kong twice weekly, with North America bound flights continuing to New York and Chicago once a week.

The schedule changes represent a significant re-organisation of SIA's cargo operations and not only in North America. A twice-weekly cargo service to Osaka's Kansai airport has been introduced, a joint operation with Japan Airlines. These are in addition to a three-times-a-week joint freighter service to Tokyo's Narita Airport. Bangalore and Chennai in India, Copenhagen, Paris (jointly with Air France) and Penang in Malaysia also saw increased cargo services from October.

* Cathay Pacific Airways' cargo load factor for the first eight months of the year rose to 71.7% from 69.3% in the same period last year. It carried 17% more cargo. The carrier has three B747-400 freighters on order.

Korean Air: world's second largest cargo carrier at forefront of alliance

SkyTeam Cargo alliance hopes to add to ranks

By Tom Ballantyne

Korean Air (KAL), the world's second largest cargo carrier, has thrown its weight behind a major new global cargo alliance, declaring that despite the size of its own operations, no single airline can go it alone on the international freight front.

KAL Cargo has become one of the four launch carriers involved in SkyTeam Cargo, an extension of the SkyTeam passenger alliance, launched in June this year by Air France, Delta Air, Aeromexico and KAL.

The same four operators form the cargo quartet, but officials from the airlines said they hope other carriers will join.

The group, which offers cargo customers access to a combined fleet of 1,070 aircraft making 6,810 daily flights to 411 unduplicated destinations in 100 countries, disclosed its plans during the Air Cargo Forum 2000 in Washington DC.

Although dozens of airlines world-wide have commercial agreements covering various forms of co-operative cargo operations, observers predict the SkyTeam Cargo move will push other passenger alliance groupings towards more formal freight blocs.

KAL Cargo executive vice-president, Won-Young Lee, told *Orient Aviation* the key to the new operation will be to maximise the global route network of the four airlines supported by their 12 major cargo hubs around the world, with customers having access to a single point of contact for any shipping inquiry, no matter where they are.

"It is ironic that in today's economy, the global air cargo industry has been slow to offer customers streamlined products and services covering the world," said Lee.

"But the fact is, no single airline can do it alone. Korean Air Cargo is the world's second largest air cargo company. We welcome the resources and experience of our SkyTeam Cargo partners to create the world's strongest and largest global air cargo alliance."

He said KAL Cargo had closely studied the potential benefits of the alliance and believed the boost in business would be substantial, although he declined to specify figures.

He predicted cargo customers will choose the new alliance because of four major benefits: one-stop sales and service, a cohesive and global product line, integrated warehousing and information systems and the largest global network of flights available.

The alliance's fully branded product line will consist of four shipping options; Equation, Dimension, Cohesion and Variation. These are existing Air France product lines which will be adopted by all the alliance members.

Customers will begin gaining access to alliance products from January 1, with the launch of Equation, an express product designed for urgent deliveries, offering departure on the first available flight. Initially, it will be available in markets served through the Air France cargo hub at Paris' Charles de Gaulle Airport, but will gradually be expanded.

Variation is for special handling of shipments, such as perishables or valuables. Cohesion is a product involving customised shipping parameters with shippers and freight forwarders. Dimension is a standard freight service for goods not requiring special handling.

KAL expands in U.S.

Korean Air opened its new US$102 million cargo centre at New York's JFK International Airport in mid-October and its alliance partners will be among those to benefit from the facility which has almost 60,000 square metres of warehousing space.

"We are positioning Korean Air for profound growth over the next five to 10 years. The eastern U.S. seaboard is an important piece of our overall strategy to expand our position as a leader in the cargo industry," said spokesperson Ken Choi.

The complex allows KAL to more than double its eastern seaboard cargo capacity to above 204,00 tonnes a year.

Currently operating 12 freighter flights a week from JFK, KAL will expand its services to other prime east coast markets like Toronto, Atlanta and Miami.

The centre will become the main logistics centre for the SkyTeam alliance partners, Delta Air Lines, Air France and AeroMexico.

KAL's trans-Pacific cargo traffic grew by 16% in the first six months of 2000 over the same period in 1999. Choi expects the second half of the year to be even better.

The new JFK centre includes a nine acre aircraft ramp capable of loading and off-loading three B747-400s simultaneously. "This facility is massive and outfitted with the highest quality logistic services and state-of the-art warehousing facilities," he said.

BIG competition

By Tom Ballantyne

You cannot accuse Boeing of being backward in coming forward. The planemaker may be miffed at losing out to Airbus Industrie in the campaign to win Singapore Airline's (SIA) order for a high capacity passenger jet, but it is not giving an inch on the freighter front.

According to Boeing executive vice-president sales and marketing, Seddik Belyamani, when the world moves goods through the air, there is a 95% chance they will move on an aircraft built in Seattle.

But providing cargo space to operators in a booming freight sector is fast developing into the battleground of the future for the long-time airframe rivals, as well as a few others.

Boeing will have to fight to maintain the leadership gap. The momentous order from SIA for 25 A3XX jets – 10 firm and 15 options – includes the right for SIA to take some of the options as freighter versions.

Despite that, Seattle said it remained committed to the 747X family of airplanes. "Singapore Airlines continues to be one of our most important customers. They operate 47 of our 747s and 18 of our 777s," said the company in a statement shortly after the announcement of the A3XX order. "We are very confident in the viability of the 747X family in the long-term." Boeing delivered its ninth 747-400 freighter to SIA recently.

Nevertheless, officials are stepping up the freighter campaign. Both the B747X and the A3XX freighters will carry 150 tonnes, compared to the 120 tonnes of B747-400F.

According to Belyamani, the 747X Stretch will hold 126.57 cubic metres (4,470 cubic feet), more main deck volume and 49.55 cubic meters (1,750 cubic feet) extra lower-hold volume than the 747-400 freighter. A 747X Stretch freighter would have 23% more volume and the ability to carry 29,665kgs (65,400 pounds) more extra cargo than today's 747-400F.

In addition, a 747X Stretch freighter will carry equivalent payload on fewer decks (two on the B747 and three on the A3XX), with about 45,360 kg (100,000 pounds) less weight than its planned competitor.

Boeing's backroom boffins argue when compared to the A3XX, their new big freighter will offer 17% lower tonne-kilometre costs than the competition.

These are claims Airbus hotly disputes and insiders say the rivalry is not only on the high capacity front. The Airbus A310 has long been a favourite for conversion to freight carriage and there is big potential for conversions of its other types.

"While we have had great success with our freighter airplanes, we also are looking to the future," said Belyamani. Boeing Airplane Services (BAS) offers a full range of conversions for Boeing and Douglas jets.

In October, Boeing announced it is linking with BFGoodrich Aerospace and Inter-Continental Aircraft Services (ICAS) to develop a B737 passenger-to-freighter conversion programme, its first for the 737 family.

ICAS is an alliance of major Taiwanese companies, including Air Asia, China Airlines, Evergreen Aviation Technologies, and Aerospace Industrial Development Corporation, all members of BAS' international network of modification and engineering facilities.

"A 737 freighter modification programme is a natural extension of our freighter conversion capabilities," said Joe Gullion, president of BAS. "The 737 also is the best-selling jetliner of all time and is an ideal airplane to meet the needs of the feeder and niche freighter markets."

ICAS and BFGoodrich will perform airplane modifications at their facilities in Taiwan and the United States. The first 737 freighter conversion is expected to be ready for delivery in mid-2002.

The world-wide fleet of freighters is expected to double during the next 20 years. Of the 2,600 extra aircraft in the market nearly 70% will come from modified passenger and combi aircraft.

Big they will be, but the B747X and A3XX freighters will not be the largest cargo carriers in service. Boeing also is proposing to offer a massive new aircraft, the BC-17X (formerly the MD-17), to meet world-wide demand for heavy and outsize goods, such as satellites and construction and power generating equipment too large to fit in the doors of conventional freighters.

Growth in the "heavy lift" sector is forecast to be very strong, offering potential for a variety of players. Indeed, it was announced at the Air Cargo Forum 2000 that the world's largest cargo aircraft, the 250 tonne capacity Russian Antonov An225 "Mriya" is set to become available for commercial service in the second half of next year.

It was originally built to support the space programme of the former Soviet Union, but Antonov is renovating and modernising the original aircraft with a view to gaining a full airworthiness certificate for commercial use.

Bruce Bird, head of British specialist heavy lift charter cargo carrier, Air Foyle, which has a commercial partnership with Antonov and is marketing the AN225, said the plane's payload is unmatched. It is able to carry huge cargo loads up to 4,500 kilometres at a cruising speed of 800-850km an hour. "We have for some time been talking to potential customers in a variety of industries and are seeing a lot of interest," he said.

It all points to a freighter market which will not only be worth a lot of money, but it will be very, very big indeed.

SIA may convert some A3XX options into freighters

FOYLED!

Cargo chief takes U.S. to task over open skies policy

By Tom Ballantyne

U.S. Deputy Assistant Secretary for Aviation and International Affairs, Susan McDermott, came to the world's biggest gathering of air cargo industry executives in Washington DC, but she didn't quite conquer. Indeed, the senior Department of Transportation official got far more than she expected – a stinging rebuke from European cargo operators over U.S. aviation policy.

And Chris Foyle, chairman of the British Cargo Airlines Association (BCAA), did not only tear apart Washington's approach to air treaties, he demanded governments the world over opt out of the business of regulating.

With McDermott sitting only metres away, Foyle delivered a message which could as easily have come from airlines in Asia, South America or the Middle East. "Government should stop treating aviation differently to any other form of world trade. It should stop regulating for its own political advantage. It should stop manipulating the hopelessly outdated bilateral negotiating system to the economic advantage of its own airlines," he said.

"It should allow the market to govern the supply and demand for aviation and air services in the same way that it allows the free market to operate in almost every other area of economic life."

His harshest comments were aimed directly at Washington. In a barb which would have struck a chord among airline executives in Asia, Foyle pointed out the U.S. allows no foreign airline to operate in the U.S. domestic market, which represented nearly a quarter of the world aviation market.

"The U.S., in its open skies talks with European countries, demands full access to our unified single domestic market, but resolutely refuses to open up access for our airlines to the American market," said Foyle.

"... not a policy that sits comfortably with claims of holding the liberal high ground. To us it seems a case not of 'open skies' but more of 'open YOUR skies'."

His attack won support from Cargolux chief, Heiner Wilkens, who said the U.S. position on liberalisation was losing credibility. "What has come out is a lot of talk. What we expect is that when the U.S. is pushing for liberalisation it must be for everyone and not just to protect the U.S.," he said.

McDermott defended U.S. policy and said over the last seven years Washington had concluded 47 open skies agreements with partners which shared the principles embodied in the policy and she was "not the least bit concerned" about U.S. credibility.

"Yes, there are other aspects that are of concern to us because they have been raised by partners. We do listen and we do take them seriously. They are on the table. But we have never presented open skies as the end of the line on liberalisation," she said.

British Cargo Airlines Association chairman, Chris Foyle: "To us it (U.S. policy) seems a case not of 'open skies' but more of 'open your *skies'*

Foyle, who is chairman of specialist heavy lift carrier, Air Foyle, also attacked Washington over the contentious issue of U.S. rules on the operation of wet leased aircraft; when an aircraft is leased complete with crew.

The BCAA airlines – Channel Express, Air Foyle, Heavy Lift and Atlantic Airlines – are wet lessors, flying for carriers such as British Airways, KLM, Lufthansa, Finnair and others.

The largest wet lessors are American, but while they are free to ply their trade around the world, earning a large portion of the industry's US$4 billion annual revenue, no airline from outside the U.S. is allowed to wet lease its aircraft into U.S. airlines.

"Even more unfairly, if a UK airline leases to KLM or Lufthansa and tries to operate for that airline to or from the U.S., the U.S. refuses to recognise the wet lease arrangement and demands instead the UK wet lessor seeks fifth freedom rights," said Foyle.

With traffic to, from and within the U.S. accounting for around 40% of world air cargo movements, this effectively gives U.S. wet lessors a huge regulatory advantage.

"Our view is that the wet leasing market, which allows airlines to adapt their capacity levels to short-term demand requirements and innovate with experimental new services and routes without immediately committing to equipment, should be opened up," he added.

"Wet leasing an aircraft should be as easy as renting a car provided that reasonable safety concerns are met. That doesn't mean demanding the rest of the world adopt U.S. regulations, but that we mutually recognise the effectiveness of each other's standards."

Foyle also was highly critical of a U.S. government programme under which all U.S. government-controlled passenger and freight traffic is reserved for U.S. carriers, a policy he alleged was a form of state subsidy as blatant as any grant of cash aid.

Washington justifies the programme as a matter of national security. "The bottom line is these policies are nationalistic, protectionist and a form of subsidy which sits ill with a policy that claims to be in favour of liberalisation of air transportation," said Foyle.

McDermott said these issues were extremely complex and the Department of Defence had genuine concerns about departing from the programme.

She acknowledged the U.S. has not fully studied the open skies impact in the cargo arena. "Alliances between and among cargo carriers and other asset and non-asset based firms are just beginning. Clearly, a detailed analysis of the impact of open skies on cargo alliances, traffic, rates and industry structure is warranted," said McDermott.

"One thing is abundantly clear. The more open skies agreements we enter into, the greater the benefits for all parties."

China helping to destroy the RJ myth

By Jonathan Sharp

Possibly in response to an appeal by the chairman of the recent Asia Airfinance conference in Hong Kong for delegates to be controversial, Richard Stirland, director general of the Association of Asia Pacific Airlines, was just that.

He said hopes of selling many regional jets (RJs) in this region were doomed by the fact that pilots were at a premium and therefore operators wanted to get the highest possible number of seats on aircraft per pilot. "That means going for bigger aircraft rather than frivolous RJs," said Stirland.

As representatives of the main manufacturers of "frivolous" RJs were attending the conference, Stirland's provocative pebble in the pond, as he called it, succeeded in causing ripples. "If Richard is right," remarked Embraer's vice-president Asia, Far East and South Pacific, Peter Obeysekere, dryly, "I might as well pack up and go home."

However as a section of the conference was devoted to examining the prospects of the regional market in Asia, the RJ corner had ample opportunity to present its case.

Martin Craigs, executive vice-president of BAE SYSTEMS, said he had often been warned by colleagues that he was wasting his time in Asia because the local wisdom was that Asians did not travel on small airplanes, they flew only on wide-bodies. "This is clearly nonsense," Craigs said.

Noting that Taiwan's Taipei-Kaohsiung route was now carrying 20 million domestic passengers annually as opposed to two million in 1986, Craigs said there was clear consumer demand for the flight frequency as supplied by smaller aircraft.

Obeysekere, who announced that Embraer had just delivered the first of five 50-seat ERJ 145 jets to China's Sichuan Airlines, singled out mainland China as a key market for the Brazilian manufacturer, which had opened "full facilities" in Beijing to support its drive. He added that with the upturn of the economies in Asia, Embraer was setting up a regional headquarters in Singapore to be operational in November this year.

Neville Taylor, vice-president structured finance of Canada's Bombardier, told the conference that for the Asia-Pacific region, excluding China and Hong Kong, his company was forecasting a market of 1,090 aircraft seating between 20-99 passengers in the next 20 years, with 56% in the 40-59 seat range, 24% in the 60-79 seat range, 14% with 20-39 seats and six percent with 80-99 seats.

For China and Hong Kong, Bombardier forecast the delivery of 595 units in the next 20 years, with 36% of the aircraft having 60-79 seats, 35% with 40-59 seats, 17% with 20-39 seats and 12% with 80-99 seats. Bombardier, which has delivered its first regional jet to Shandong Airlines, said in September an undisclosed China carrier had ordered 10 of its CRJ200 aircraft.

Embraer has delivered the first of five ERJ 145s to Sichuan Airlines in China

Fairchild Dornier has had the biggest order for regional jets from China to date, with Hainan Airlines ordering 19 of the 32-seat 328JET model. Donald Weiner, Fairchild Dornier's vice-president Asia and Pacific sales, said due to the Asian recession, regional aircraft capacity dropped as much as 30% between 1996 and 1999. High growth rates were now returning, but from a low base.

He singled out Australia as providing one of the best opportunities for regional aircraft. "The Australian market, from a structural viewpoint, provides a template for regional-sized aircraft with scattered population centres and the diversity of its geography."

Weiner said China had huge potential, but there were infrastructure constraints and uncertainty over its economic development that might limit the size and timing of opportunities. Services between large Chinese cities had been developed using larger aircraft with multiple frequencies. "But many medium cities in China are either underserved or not served at all. As a result, secondary hubs need to be developed," he said.

Weiner said the Far East was still dominated by aircraft of 150 seats or more and a regional airline industry had yet to be developed in full. Still, over 700 aircraft of between 30 and 110 seats were forecast to be delivered over the next 20 years in the Asia-Pacific region. This figure may increase depending on infrastructure developments in China.

David Farrell, vice-president marketing of leasing company GE Capital Aviation Services, said the case for RJs in Asia was not as clear-cut as in North America and Europe and the market had yet to truly develop.

But he said there had been much activity in China, Japan and Australia, with the bulk of the firm orders to date in China. The Asian share of RJ deliveries was set to rise and would be good for maybe 300-400 units in the next decade, Farrell said.

He stressed that it was wrong to regard Asia as one market. There were, in fact, several markets, each with unique characteristics and requirements. He also said Asia was likely to remain a wide-body market simply on account of population density and traffic flows.

It was common on some of the denser intra-Asian routes to fly 45-minute sectors on a Boeing 777 or Boeing 747-400, "something unheard of in the markets where the RJs earned their stripes. And that is not likely to change any time soon," said Farrell.

TRAINING: A TALE OF TWO CULTURES

An airline's training culture is the core of its flight operations performance. Like an apple, if the core is bad, the outside gloss will only hide the truth for so long.

Like an apple, many airlines have a glossy exterior. Some have good flight safety records, other airlines have bad records. But what is the true state of a carrier's training culture?

To help understand flight training we need to look at the generally accepted training systems that exist in most airlines and see if we can begin to understand the prevailing culture. Of necessity I am restricting my comments to flight training and not ground training.

Ground training is a significant factor in how safe a pilot will be within an airline. This will be the subject of another article.

Airline training is not *ab initio* training. That is, pilots are not taught to fly aircraft unless that airline has an in-house *ab initio* training scheme. Very few, if any, airlines have such schemes in this age of deregulation.

Therefore, the raw material for an airline human resource manager is pilots who are already licensed and rated to an acceptable standard. The alternative source is pilot cadets from a company-sponsored training school course.

So what is the role of airline instructor pilots (IPs) if they do not teach pilots to fly? In fact, they have a multitude of tasks.

One of their prime tasks is transition or conversion training from one aircraft type to another. This begins when the new company recruit is assigned to a fleet. The IPs job is to train the pilot to fly a new type of aircraft as a first officer (FO) and to gain the all-important type rating.

There are different regulatory requirements for different countries. Generally, in the Asian region, the type rating is seat specific; i.e., a B738-FO type rating. In other countries, primarily in the western world, the type rating is not seat specific. For example, a pilot gains a type rating as a B738 pilot. Seat, seniority and rank designations are entirely a matter for airlines and not regulatory authorities.

In companies which have zero flight time simulators, mostly in the western world, a type ratng is gained after the final check in the simulator with a CAA/FAA check pilot (CP), or department examiner (DE). In Asian companies, the recruit must still pass training checks on the aircraft. This involves training in the aircraft before passing a final rating check by a qualified CP.

Sometimes the new company pilot may already possess a type rating for the fleet of the aircraft. The IP still has the task of training the pilot in the company's standard operating procedures (SOP), emergency handling and other supplementary techniques. In the process of training a pilot onto a new type some airlines use only captain-qualified IPs. Others use suitably trained and CAA/FAA approved FOs. Generally, the FO IPs are restricted to ground school lecturing and fixed base trainer (FBT) instruction. Some are authorised to carry out route training in the aircraft under the umbrella of a captain IP.

After the new pilot passes his type rating he is then subjected to a host of other training and checking challenges depending upon which system (Western or Asian) he has come through.

Generally, in the western system the new pilot, after completing route training and a period of consolidation (100 hours on type), will receive a higher category instrument rating. For example, a CAT II or CAT IIIB rating.

'In any discussion about training culture the differing cultures (Asian and Western) tend to withdraw to their respective corners and start pointing fingers at each other.'

In the mainly Asian system, the pilot will receive training towards gaining a higher fleet qualification. This may be a higher instrument rating qualification or it could be a higher route or other crew qualification.

Another task carried out by IPs is transition training of company pilots from one fleet to another, due to changing company commercial requirements. Thus an airline might mothball or sell a fleet and replace it with another aircraft type. These pilots are already experienced company pilots and require a different training programme from those of a new recruit variety.

Or the management may embark on an expansion programme that requires shorter-term pilot employment. For example, the need for contract captains and cruise captains during this phase.

These pilots are already type rated and generally very experienced pilots and need to be trained to company standards via a different training path from other company pilots.

Also, there are other miscellaneous tasks such as recency and recurrent training. Pilot recency requirements, due to periods of absence, have to be renewed. Various pilot qualifications have currency limits. A pilot may not fly as pilot in command (PIC) if he has not flown for 28 days. Or a pilot may need to renew his auto land certification if he has not completed many auto lands in the preceding six months.

Similarly, the company may have a programme of recurrent training like crew resource management (CRM)-Line Oriented Flight Training (LOFT) or cross wind, inclement weather or other flight safety related training programmes. Once again, there is a big difference in the Asian versus Western approach to CRM-LOFT philosophy.

In the Western concept facilitators are used to train CRM-LOFT techniques. In the Asian version IPs are used to run the simulator programmes. Given that LOFT training is all about learning to use, in a non-threatening environment, better communication and resource management skills, the Asian approach fails to achieve its purpose.

It can be seen there is a vast range of tasks for IPs to complete. The point is not so much what the tasks are, but rather how they are carried out. There are many different ways of achieving the same end.

More specifically, there is a definite difference between Asian and Western training culture. Whilst the words often spoken are the same, the concept is totally different. This is at the core of an airline training culture.

The problem is at this point in any discussion about training culture the differing cultures (Asian and Western) tend to withdraw to their respective corners and start pointing fingers at each other.

From a neutral perspective the aim of flight training should be to produce safer pilots for a company. A system that acknowledges its errors, analyses its mistakes and makes changes to its training methods is fundamentally a better system than one that does not.

Improving the design of training programmes and IP training skills is a fundamental concept in the Western system of flight training. For this reason, if for no other, Asian flight training methods must be changed. In the next issue I will highlight a new perspective on the airline flight training culture.

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

What do you think?

The views expressed by The Captain are his own. If anyone has other views or comments and would like to air them in *Orient Aviation* please e-mail them to the editor at: orienta@asiaonline.net

ROUND-UP EXTRA

Records fall at HKIA

Records tumbled at the two-year-old Hong Kong International Airport in September. Passenger numbers reached 32.88 million in the year to September. Air cargo also reached new heights with the HKIA handling 2.21 million tonnes in the year. Throughput of 201,000 tonnes was the highest September on record, according to the Airport Authority.

There were 15,515 aircraft movements in the month, 14% up on September last year.

KAL first into Inchon

A Korean Air (KAL) B747-400 became the first commercial aircraft carrying passengers to touch down at Inchon International Airport on October 17 after a 15-minute hop from Seoul's Kimpo airport. The flight, with 100 VIP guests on board including members of Korea's Ministry of Construction and Transportation, was part of extensive ongoing trials at the airport which is scheduled to open at the end of March.

KAL has formed a special task force to oversee all aspects of its operations at the new airport including flight operations, safety and security and traffic.

Long range decision for THAI

Thai Airways International (THAI) has won approval "in principle" from the government to spend 31.5 billion baht (US$758 million) to buy five aircraft to replace its MD11s. A final decision, however, is not expected until 2002.

THAI plans to purchase four long-range planes for European routes and a medium-range jet, according to Transport and Communications Minister, Suthep Thaugsuban.

A final decision will be taken by the THAI board, expected in about 18 months.

THAI has also sought government approval for refinancing 11.6 billion baht in debt that will become due over the next five years.

Code-shares, new routes and agreements

Two of China's big three airlines have signed code-share agreements with major alliance members that could have a bearing on their own future alliance aspirations. Beijing-based flag carrier, Air China, has signed a code-share deal with Germany's Lufthansa, a leading player in the Star Alliance. Shanghai's China Eastern Airlines (CEA) has finalised a code-share with oneworld's Qantas Airways.

Lufthansa and Air China will share seats on daily services between Beijing and Frankfurt, Air China's twice weekly flights between Shanghai and Frankfurt and Lufthansa's six-times-a-week service between Shanghai and its home base Frankfurt.

Air China can also put its code on German domestic flights from Frankfurt to Hamburg, Berlin and Munich.

Qantas will code-share on two weekly CEA Airbus A340 services weekly between Sydney and Beijing via Shanghai, while CEA will code-share on twice a week Qantas flights between Melbourne and Shanghai, which operates via Sydney.

CEA officials have indicated the airline is interested in eventually joining the oneworld alliance.

Japan Airlines and American Airlines extended their code-share arrangement on October 25. The agreement covers flights through Dallas to four destinations in Mexico – Mexico City, Guadalajara, Monterey and Cancun – and via Chicago and New York to three cities in Eastern Canada.

JAL serves Mexico City with its own twice weekly flights through Vancouver and offers passengers a daily connecting service via Los Angeles to Mexico City in co-operation with Mexicana Airlines.

Philippine Airlines (PAL) started twice-weekly direct flights between Cebu and Seoul in October, using an A330-300 aircraft. The services are geared towards leisure traffic. Koreans rank among the 10 largest visitor groups to Cebu and the neighbouring resort island of Boracay.

Singapore Airlines' regional subsidiary carrier, SilkAir, launched twice weekly flights to Siem Reap in northern Cambodia on November 3. It already flies to the Cambodian capital Phnom Penh.

Hong Kong-based Dragonair started twice weekly services to Kathmandu, Nepal, on October 29 using an Airbus A320.

British Airways (BA) wants to increase its services on the Beijing-London route from the present five flights a week to six, possibly using B777s, said BA's Far East general manager, Mark Russell, in October.

GOOD TIMES PROMISE EVEN BETTER TIMES

The July consolidated revenue passenger kilometres (RPKs) of the Association of Asia Pacific Airlines (AAPA) carriers rose by 12.1% and passengers carried (PAX) by 9.8% year-on-year. Seat capacity increased by only 7.2%, reflecting member airlines' cautious approach to capacity expansion. This resulted in a very high passenger load factor (PLF) of 79.8%, up 3.5 percentage points from July 1999.

All members continued to post excellent RPK expansion, with better than three quarters of them recording double-digit growth. Philippine Airlines (PR) emerged with the highest RPK growth of 43.4%, followed by Garuda Indonesia (GA – 25.8%), Vietnam Airlines (VN – 19.7%), China Airlines (CI – 18%), Asiana Airlines (OZ – 17.4%), Royal Brunei Airlines (BI – 15.4%), Korean Air (KE – 13.2%), Singapore Airlines (SQ – 12.6%), Cathay Pacific Airways (CX – 10.4%) and Thai Airways International (TG – 10.2%).

PLF was especially impressive in July. All member airlines, with the exception of Korean Air and Asiana Airlines, recorded improvement, ranging from 1.6 to 10.7 percentage points.

This led to half of the member airlines posting a PLF of above 80%. Leading the pack was Vietnam Airlines (84.4%), followed by Cathay Pacific (83.3%), EVA Air (BR – 82.9%), China Airlines (82.7%), Asiana Airlines (82.5%), Singapore Airlines (80.7%) and All Nippon Airways (NH – 80.3%). EVA Air, China Airlines and Asiana Airlines achieved two consecutive months of 80% plus load factor. With a PLF increase of 10.7 percentage points, Royal Brunei Airlines filled 69.5% of its seats, its best load factor since 1995.

Cargo Results

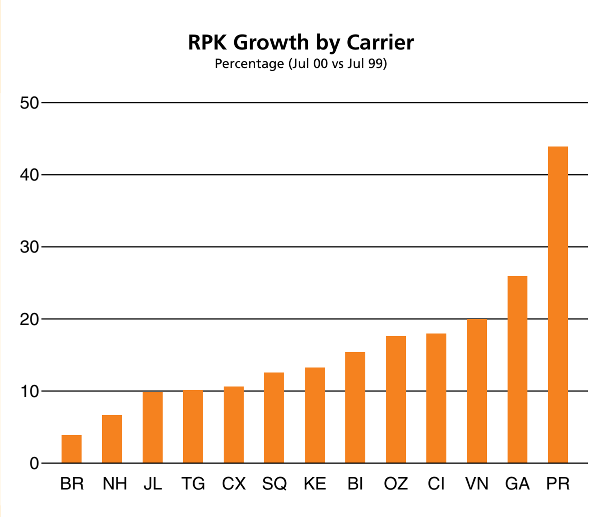
Freight traffic in the Asia-Pacific region maintained its growth momentum propelled by the buoyant global economy. AAPA members freight traffic rose 12.4%. Capacity expansion was moderate at 6.4%, boosting the load factor (FLF) 3.8 percentage points to 70.8%.

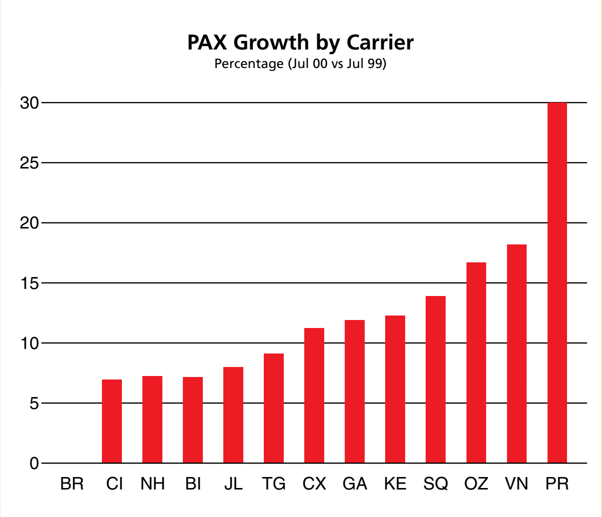
Seven member airlines posted strong double-digit freight tonne kilometre (FTK) growth in July. Philippine Airlines' traffic topped the list with 37.8% growth. It was followed by Vietnam Airlines (30.7%), China Airlines (23%), Garuda Indonesia (20.3%), EVA Air (18.2%), Korean Air (17.8%), and Asiana Airlines (16.1%). Royal Brunei Airlines was the only carrier to experience a drop in traffic compared to the same month last year.

All Nippon Airways reduced its freight capacity substantially, pushing its FLF up by 18.3 percentage points. The Taiwan-based carriers, China Airlines (86%) and EVA Air (83.7%), continued to post load factors well above 80%. The Korean carriers, Korean Air (77.9%) and Asiana Airlines (76.9%), were the other airlines with a healthy FLF. Philippine Airlines, with 33.1%, had the lowest.

Results for the 12 Months to July 31, 2000

Passenger traffic and the number of passengers carried for the 12-month period increased 11.8% and 10% respectively. Capacity





rose 7.2%, resulting in a 3.1-percentage point PLF increase to a robust 74%.

Except for Royal Brunei Airlines, all carriers registered positive RPK growth during the 12 months under review. Philippine Airlines grew by 68.8%. The carrier's substantial growth in both passenger and cargo during the 12-month period was partly due to the comparison with the base period that included September and October 1998 when the carrier's operation was seriously disrupted. Other carriers with double-digit growth were Garuda Indonesia (43.2%), Asiana Airlines (24.2%), Korean Air (13.3%), Thai Airways International (10.9%) and Cathay Pacific Airways (10.1%).

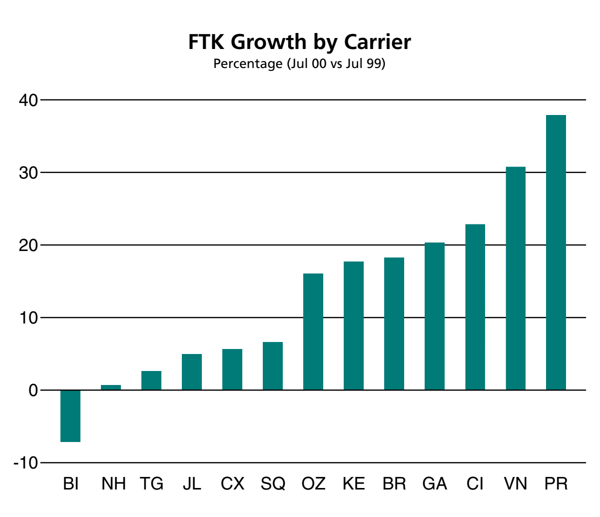
The improvement in PLF year-on-year was moderate. It ranged from 0.1 (Asiana Airlines) to 8.6 (Garuda Indonesia) percentage points. Korean Air was the only carrier to suffer a small decrease of 0.5 percentage point. With the exception of All Nippon Airways (69.9%), Philippine Airlines (69.6%) and Royal Brunei Airlines (57.0%), the rest of the carriers posted a PLF of more than 70%. Six carriers had an average of more than 75% capacity filled in the year to July 31, 2000 – Garuda Indonesia (78.5%), Asiana Airlines (76.5%), Vietnam Airlines (76.1%), Cathay Pacific Airways (76.0%), Singapore Airlines (76.0%), and EVA Air (75.1%).

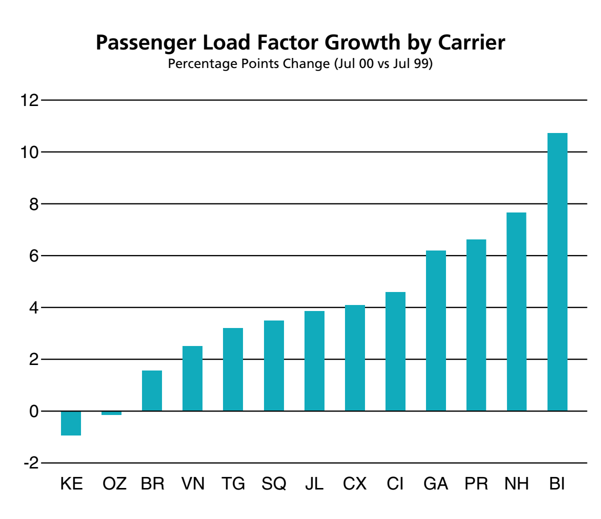
Cargo Results

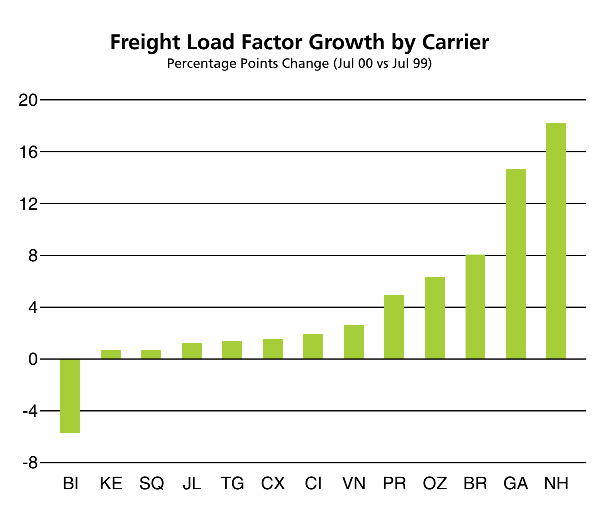
Freight traffic increased 17.3% and capacity 15.6% for the twelve-month period to July 31. Freight load factor improved to 69.9%, up one percentage point.

All carriers continued to benefit from the buoyant global economy and the bullish trade market. Trade was especially busy in Northeast Asia where the local carriers accounted for more than 70% of the total FTKs. Four carriers, including three from Northeast Asia, posted more than 20% FTK growth – China Airlines (29.9%), Vietnam Airlines (28.6%), Asiana Airlines (26.3%) and EVA Air (22.8%). Philippine Airlines' growth was 72.3% – attributable to the base period's low FTK between September and November 1998 due to disruption of operations.

All Nippon Airways recorded the largest increase in FLF at 10 percentage points. The next biggest improvement was 6.2 percentage points recorded by Cathay Pacific. Six member airlines experienced a decrease ranging from 0.1 (Thai Airways International) to 2.6 (Garuda Indonesia) percentage points. The Taiwan-based carriers, China Airlines and EVA Air, remained the dominant carriers in terms of capacity utilization with load factors of 84.2% and 81.2% respectively.







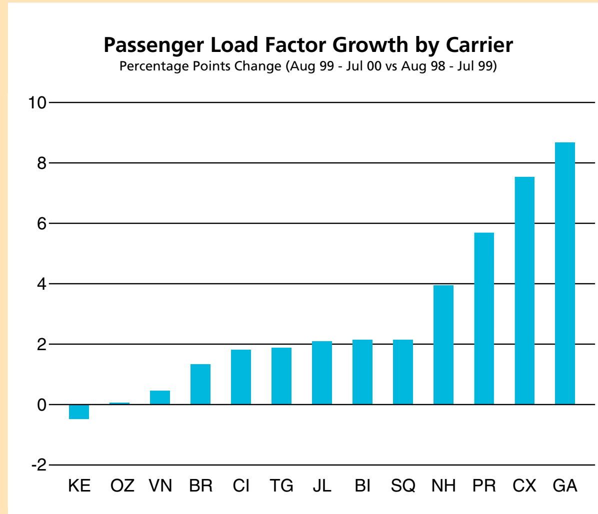
Royal Brunei Airlines recorded its best passenger load factor (69.5%) since 1995

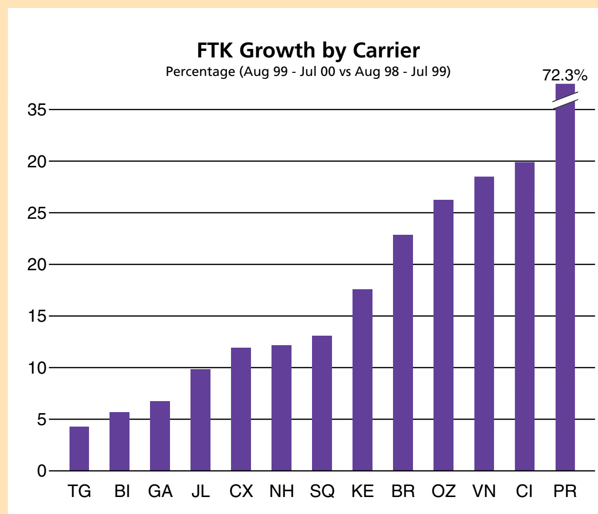
Summary

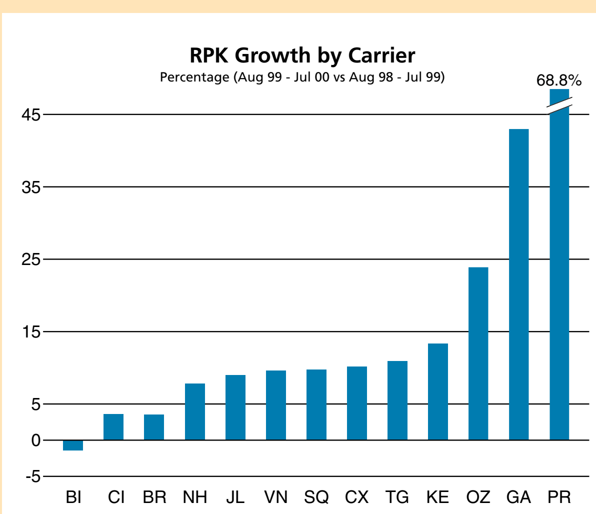
Moving into the second half of the year, major key traffic indicators continued to reflect impressive results, maintaining the strong momentum from the first half of the year. Both passenger and freight load factors recorded in July were the highest so far this year. Because of a traditionally stronger second half for member airlines, it is expected they will finish on an even higher note.

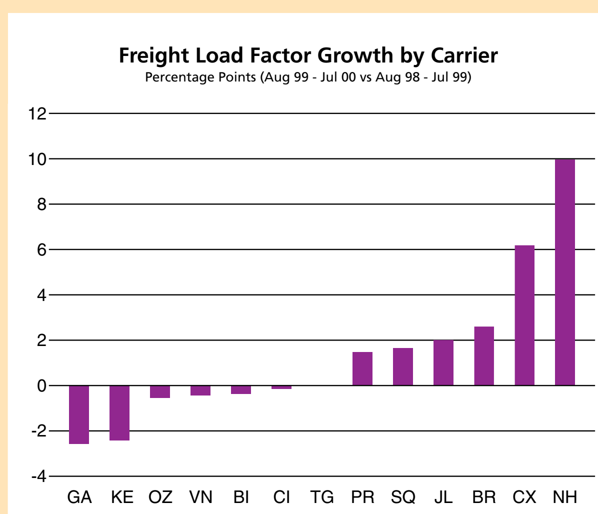
On the economic front, export growth – the main driver for the region's impressive economic growth to date – was gradually replaced by an increase in domestic demand. Consumer sentiment improved markedly as evidenced by import growth (from selected countries) in the second quarter of this year. In addition, the number of tourist arrivals/outgoing residents in the region also increased, reflecting growing consumer willingness to spend on travel. Whichever way, it spelt good news for member airlines in the Asia-Pacific region for now and in the immediate future.

There was, however, one niggling issue that could potentially develop into a major form of threat to the global economy and the member airlines for the remainder of the year – rising fuel prices.

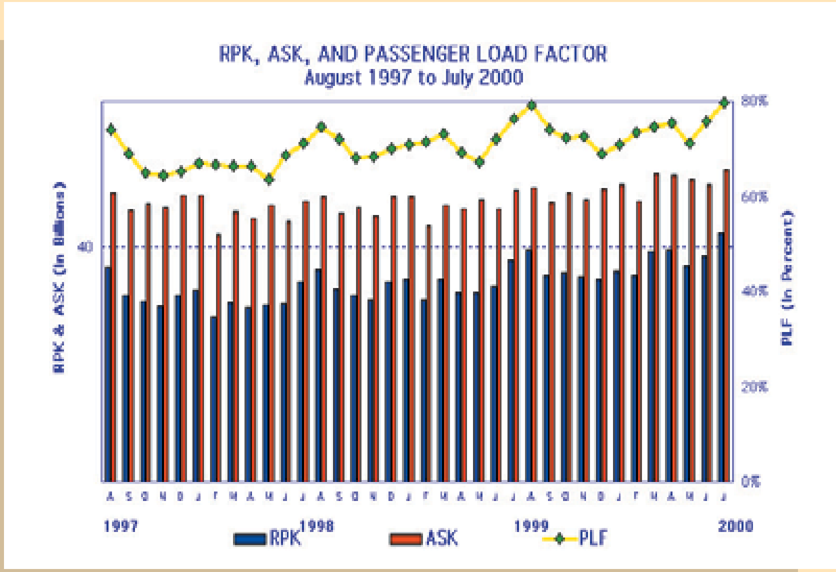


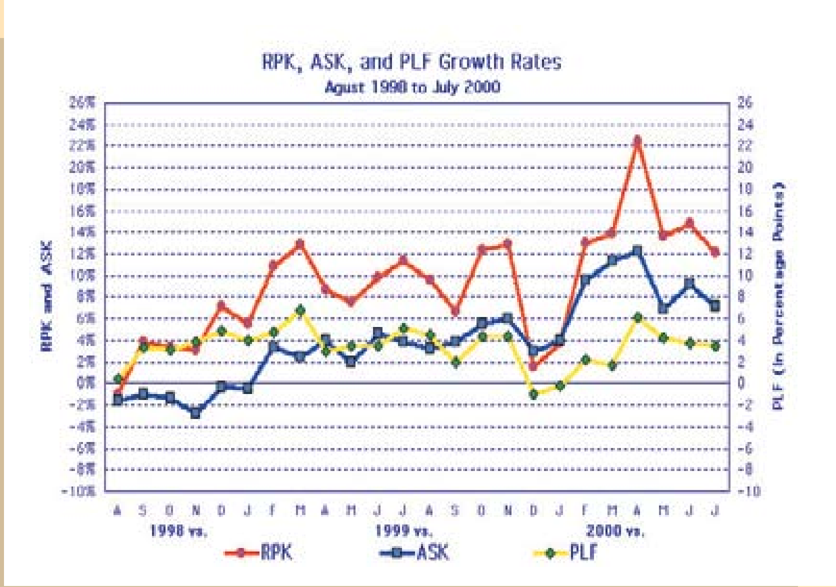




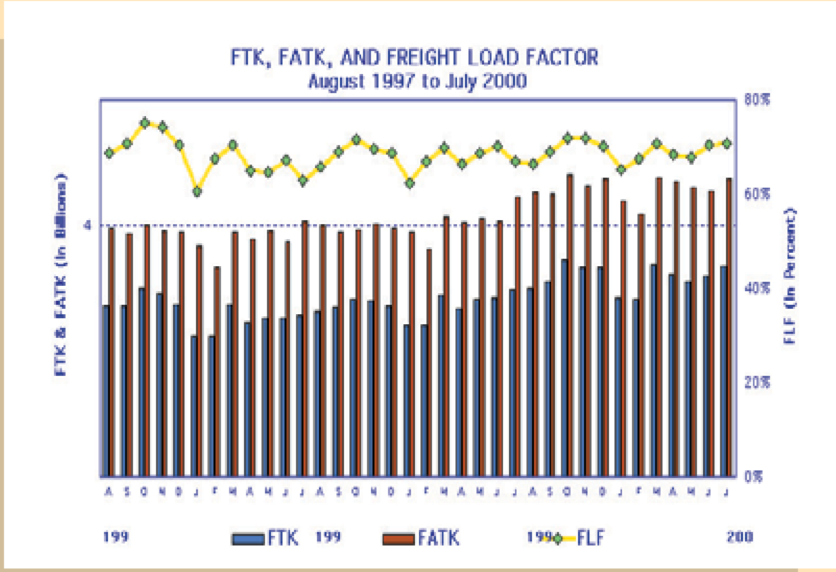


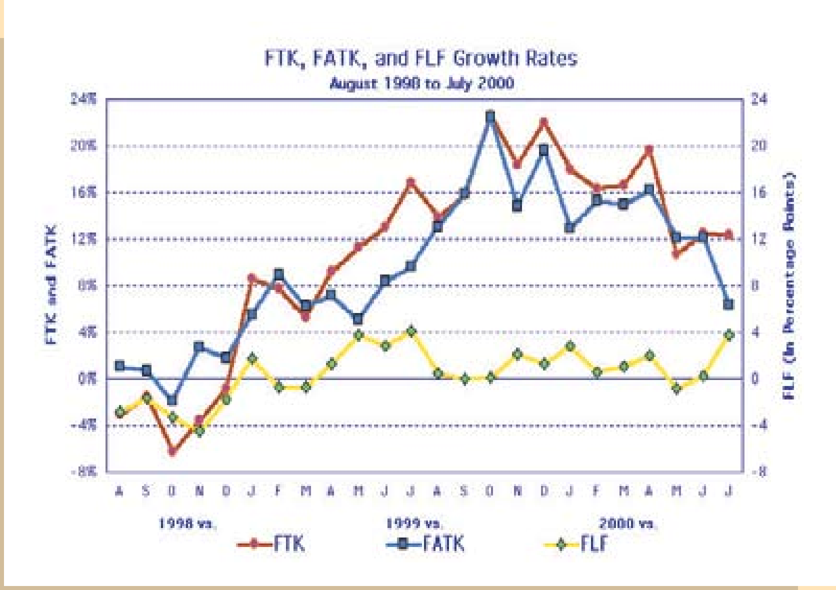
Monthly international PAX statistics of AAPA members





Monthly international cargo statistics of AAPA members





AAPA monthly international statistics (MIS)

*IN THOUSANDS

1999 to 2000

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
JUL-00	42,480,299	53,264,458	79.8	3,354,230	4,736,493	70.8	7,344,336	9,534,159	9,387
JUN-00	38,462,047	50,721,560	75.8	3,205,060	4,554,317	70.4	6,825,239	9,220,322	8,539
MAY-00	36,785,555	51,563,143	71.3	3,117,148	4,602,811	67.7	6,587,965	9,339,170	8,283
APR-00	39,588,941	52,408,645	75.5	3,206,711	4,696,924	68.3	6,844,787	9,505,943	8,656
MAR-00	39,330,412	52,620,044	74.7	3,368,597	4,755,519	70.8	7,001,375	9,582,087	8,585
FEB-00	35,223,148	47,901,122	73.5	2,818,197	4,172,994	67.5	6,111,261	8,570,603	8,084
JAN-00	35,872,893	50,662,344	70.8	2,858,084	4,386,228	65.2	6,226,028	9,037,317	7,883
DEC-99	34,612,362	50,110,454	69.1	3,325,734	4,746,309	70.1	6,573,078	9,338,728	7,947
NOV-99	35,001,965	48,164,824	72.7	3,322,652	4,628,269	71.8	6,614,490	9,048,863	7,939
OCT-99	35,775,017	49,380,385	72.4	3,452,443	4,811,928	71.7	6,821,985	9,343,214	8,007
SEP-99	35,286,401	47,644,830	74.1	3,110,746	4,505,421	69.0	6,433,467	8,881,324	7,771
AUG-99	39,724,567	50,241,980	79.1	3,002,017	4,524,174	66.4	6,720,716	9,146,206	8,895
TOTAL	448,143,607	604,683,788	74.1	38,141,620	55,121,388	69.2	80,104,726	110,547,936	99,976

1999 to 2000

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
JUL-00	12.1	7.2	3.5	12.4	6.4	3.8	12.6	5.6	9.8
JUN-00	14.7	9.2	3.7	12.4	12.1	0.2	14.4	10.6	11.6
MAY-00	13.6	6.9	4.2	10.7	12.1	-0.8	12.9	9.5	11.2
APR-00	22.4	12.3	6.2	19.7	16.2	2.0	20.3	14.3	16.0
MAR-00	13.9	11.4	1.7	16.6	14.9	1.0	15.0	13.0	9.9
FEB-00	13.0	9.6	2.2	16.3	15.2	0.6	15.4	12.4	11.7
JAN-00	3.7	4.0	-0.2	18.0	12.9	2.8	10.9	8.0	4.7
DEC-99	1.6	3.0	-1.0	22.0	19.5	1.4	12.3	11.0	2.7
NOV-99	12.9	6.0	4.4	18.3	14.8	2.1	16.9	11.6	11.7
OCT-99	12.4	5.5	4.4	22.6	22.4	0.1	18.8	12.7	10.6
SEP-99	6.7	3.9	1.9	15.8	15.8	0.0	12.5	9.2	7.6
AUG-99	9.6	3.2	4.6	13.9	13.0	0.5	13.1	7.4	9.1

Calendar Year

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
2000 [5]	267,743,295	359,141,316	74.55%	21,928,027	31,905,287	68.73%	46,940,991	64,789,601	59,416
1999	416,820,106	576,253,703	72.33%	35,277,459	51,519,550	68.47%	74,179,615	104,437,440	94,242
1998	382,106,292	557,130,177	68.58%	30,958,021	46,204,321	67.00%	66,141,448	97,199,731	86,198
1997	387,763,016	561,392,742	69.07%	31,741,381	45,688,853	69.47%	67,739,088	96,736,079	88,696
1996	374,365,998	529,442,583	70.71%	27,783,667	43,091,640	64.48%	62,557,622	90,816,037	86,703
1995	326,071,184	471,535,677	69.15%	23,838,488	36,487,508	65.33%	54,250,542	79,121,583	76,378

Calendar Year

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
2000 [6]	13.2	8.6	4.7	15.0	12.7	2.3	14.4	10.4	10.7
1999	9.1	3.4	5.7	14.0	11.5	2.4	12.2	7.4	9.3
1998	-1.5	-0.8	-0.7	-2.5	1.1	-3.6	-2.4	0.5	-2.8
1997	3.6	6.0	-2.5	14.2	6.0	8.2	8.3	6.5	2.3
1996	14.8	12.3	2.5	16.5	18.1	-1.6	15.3	14.8	13.5

Note:

1. The consolidation in Table 1 includes 16 participating airlines.
2. Data for Jul 2000 is subject to revision as actual data for AN (Jul 2000) & QF (Jul 2000) is not available.
3. KA and NZ do not participate in this report.
4. AN data from Jul 1998 onwards. VN data from Jan 1998 onwards.
5. Calender Year (January - December). Year 2000 to date - From Jan 2000 to Jul 2000.
6. Year-on-year comparison: Jan - Jul 2000 v. Jan - Jul 1999.

BA DEPARTURE NEWS A WAKE-UP CALL FOR KLIA

TURBULENCE

By Tom Ballantyne

When British Airways (BA) announced in October it planned to cut Kuala Lumpur from its network from next April, the news must have come as a great disappointment to the Malaysian Government and aviation authorities. They should not have been surprised.

There is little charity among airline managements these days when profits are at stake. And BA's profits have been hammered in recent times. What BA's new boss, Rod Edding-ton, told Kuala Lumpur (KL) was the British flag carrier had a shortage of pilots and planes and this was a step aimed at trimming operations. Besides, added the former Ansett Australia chief, the KL route, which BA has flown for half a century, has been consistently losing money.

BA is not the first to pull out of Malaysia since the US$2.4 billion showpiece Kuala Lumpur International Airport (KLIA) at Sepang opened in mid-1998. Qantas Airways halted services in April this year and Lufthansa German Airlines suspended operations in September 1999, also citing poor profitability.

All of this is a significant pointer to the future. These airlines are members of global alliances. BA and Qantas are in the oneworld group and Lufthansa is in the Star Alliance. There has been no secret in aviation circles that with Singapore Airlines (SIA) now in Star, Lufthansa was going to reduce its operations through Bangkok and KL and build up its business through Singapore, including more code-shares with SIA.

At the same time, BA and Qantas, who have an extremely strong presence in Singapore, want to strengthen that operation as a matter of strategic necessity. They delight in taking on SIA on its home turf as much as SIA takes joy from outdoing its rivals.

It was no coincidence that within days of announcing the KL pull-out, BA announced increased services from Australia to London ... through Singapore. These services will be code-shared with Qantas.

Most of these major airlines and alliance members do not much need KLIA. As analysts point out, Southeast Asia is awash with hubs. Bangkok, KL and Singapore are within relatively close proximity and Singapore is universally recognised as the main hub of the region. For the traveller it has always had, and will continue to have, far superior connections, long, medium and short-haul, than KL.

Malaysia may not like that, but it is a fact of life. Both oneworld and Star can feed their passengers into Singapore. If any of them are bound for KL it is less than an hour away on an extremely comfortable shuttle flight.

Attracting cargo throughput also has caused some angst at KLIA since it began operations.

A few Malaysian shippers truck goods to Singapore's Changi Airport rather than Sepang. Again, this is a result of better schedules and network access.

Malaysian authorities are refusing to give up on BA and nobody can blame them. They spent a lot of money building an airport at least equal to those in Singapore, Kansai, Hong Kong and, by next year, Korea's Inchon.

Malaysia's Minister of Tourism, Datuk Abdul Kadir Sheikh Fadzir, said attempts would be made to talk BA into changing its mind, or at least to decrease flights rather than abandon Malaysia altogether. I wish them luck, but I don't think they have much chance of success.

Despite the lobbying, statements from both the tourism and transport ministries said that while the British operator's decision is bad news they believe the pull-out will have little impact on visitor numbers. According to Transport Minister, Datuk Seri Dr Ling Liong Sik: "The tourism industry will not be affected as more tourists are coming in from other countries."

He believed an increase in visitors arriving from China, India and Taiwan will compensate. There is some truth in that argument. For example, Chinese tourist arrivals have been rising dramatically, from 150,000 in 1999 to 320,000 in the first six months of this year.

The problem is the vast majority of these passengers are leisure traffic and low yield travellers in terms of cash, and are not from the high spending business sector.

If there is to be a winner, it could be Malaysia Airlines (MAS). It can put on increased frequencies to London (if it can get the slots) to pick up the high yield business travellers and others who may have flown with BA.

But even that may be a problem. Why should BA frequent flyers swap to MAS when they will not receive oneworld frequent flyer points and when they can travel to Malaysia through Singapore with the minor inconvenience of a quick change of flights?

BA's regional general manager for Southeast Asia, Ken Ryan, said the decision was "purely commercial". Just how much BA was losing on the route is a matter of conjecture. The airline itself will not say. Transport minister Ling suggested it amounted to around US$17 million a year.

KLIA general manager, Abdul Rahman Karim, conceded BA's planned departure is "unfortunate and definitely negative" and said the impact of the BA decision on the airport's revenue and image was under study.

In an editorial, the local *Business Times* newspaper summed it up: "It only goes to show how challenging the times are and how much work remains to be done for KLIA to mount a credible assault on the highly established bases of Bangkok and Singapore ... BA's move is a stern reminder ... that to be forced to react to developments is to have fallen a step or two behind."

For Malaysia, the departure of a third major operator may serve as a huge wake-up call that money alone cannot buy a successful hub. Others also should heed the lesson.