MAGAZINE OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES

Orient aviation

VOL. 9 NO. 7 MAY 2002

Focus on Japan

PUTTING ON A BRAVE FACE

ANA president, Yoji Ohashi, opposes the JAL/JAS merger plan, but is optimistic about the future

Fees row rumbles on as Narita opens second runway

Small carriers battle for survival

NO-FRILLS THRILLS IN MALAYSIA

IT spending on a charge in the Asia-Pacific airline industry — SPECIAL REPORT

A Wilson Press publication

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

The views expressed in this magazine are not necessarily those of the Association of Asia Pacific Airlines.

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FEATURE

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SPECIAL REPORT ... INFORMATION TECHNOLOGY

REGULAR FEATURES

ON THE MOVE

Let us not get carried away, but there are positive signs that better times lie ahead for the region's airlines.

Cathay Pacific Airways is the most recent carrier to announce small, but positive growth of 0.9% in passenger traffic for March as well as reporting a marked improvement in cargo volume (11.4%) compared to the same month in 2001.

And the airline is beginning to re-instate a number of flights, including services to North America, suspended after September 11 last year, "in a measured response to improved market demand". Other carriers in the region also have resumed suspended services or are to re-introduce them soon.

All Nippon Airways president, Yoji Ohashi, says in this issue that his airline's passenger traffic is returning to normal quicker than expected.

Taiwan's EVA Air laid off several hundred of its staff last year, but the carrier is re-hiring 100 flight attendants as traffic picks up. It also has restored salaries to pre-September 11 levels when cuts of up to 30% were made.

In our Information Technology (IT) special report, writer Kitty McKinsey describes how Asia's airlines are beginning to spend less time on security issues than in the months post September 11 and are investing more time and money in IT as a means to cut costs and boost profits.

Once again it's a sign of changing times. As Cathay's general manager for revenue management, Ian Shiu, said, people are travelling again. The down side for the airlines, said Shiu, is that "average fares are much lower than last year reflecting aggressive discounting and continued weakness in demand for front-end business travel".

All this may seem small beer, but not if you are, in particular, a U.S airline. Significant recovery for them is way off. Indeed, the International Air Transportation Association has predicted that the world's airlines will lose US$6 billion on international services this year.

Importantly, however, it appears confidence has been restored in air travel in the Asia-Pacific. How much the Association of Asia Pacific Airlines "Travel Moves People" media campaign helped is hard to exactly quantify, but it certainly played its part.

If nothing else the joint campaign showed the industry was prepared to roll up its sleeves and go out and persuade people the skies were safe. It could be said travel also moved the industry.

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PERSPECTIVE

Edited by
Christine McGee

Thousands queue for 29 jobs

Asia's workers, particularly its new job seekers, are suffer ing as the region endures an economic recession that has produced the highest unemployment rates in three decades. Nothing illustrated this more than the recent response to **Dragonair's** advertisement for 29 trainee flight attendants. Interviewers at the walk-in job centre in Hong Kong were swamped with thousands of hopeful applicants, all armed with their multi-lingual skills and expensively acquired tertiary qualifications. Dragonair, majority owned by the mainland Chinese aviation investment interests, is the preferred airline for regional travellers into greater China. It also is an airline intent on expanding its network to several new regional destinations once the industry shows convincing evidence it is emerging from its present economic doldrums.■

FINE TUNING:

Singapore Airlines' (SIA) deputy chairman and chief executive, **Dr. Cheong Choong Kong**, announced several new appointments in April in a series of management shifts intended "as part of an ongoing programme to develop SIA senior management members". Armed Force's recruit, **Bey Soo Khiang**, has been moved up from executive vice-president technical resources to senior executive vice-president technical and has had human resources added to his portfolio of responsibilities. At the same time, Dr. Chong handed over the administration of the company's internal audit division to senior executive vice-president (administration) **Chew Choon Seng**. Elsewhere **Paul Tan** is now acting senior vice-president West Asia and Africa following the appointment of his predecessor, **Cedric Foo**, as Singapore's Minister of State for Defence and **Syn Chung Wah** is senior vice-president partnerships and international relations. He is responsible for SIA's airline partnerships, including the **Star Alliance**, general sales agencies and international relations.

EXPANDING:

Singapore Aircraft Leasing Enterprise (S.A.L.E.) continues to spread its wings in key markets worldwide with the appointment of former senior **Dresdner Kleinwort Wasserstein** manager, **Charles B. Sala-zar**, as its new executive vice-president marketing (USA). The aircraft lessor's managing director, **Robert Martin**, said Salazar, based in San Diego in southern California, is responsible for developing new business in North and South America. Set up in Singapore nine years ago, S.A.L.E. now has four offices worldwide and a portfolio of 39 aircraft leased to 22 airline customers in 16 countries. Thirty-two airplanes, ordered from both Boeing and Airbus, are due for delivery to S.A.L.E. by 2008.

AT WORK:

Former chief executive of **Air New Zealand (Air NZ)**, **Gary Toomey**, a man who has had to shoulder – probably unfairly – most of the blame for the collapse of **Ansett Australia**, is working for **Boston Consulting** in the U.S. Toomey, an A class number cruncher and former co-deputy managing director of **Qantas Airways**, took on the CEO's job at Air NZ 18 months ago. He resigned six months later following the decision of the Auckland-based carrier to cut loose its then wholly owned loss-making subsidiary, Ansett Australia, in mid-year 2001.

AIRPORT BOOM:

On the day that a global aviation research company, **Skytrax**, announced its consumer panels had voted **Hong Kong International Airport (HKIA)** best in the world for the second consecutive year, (No. 2 Singapore **Changi Airport** and No. 3 **Sydney International Airport**) its management, the **Airport Authority (AA)**, called for expressions of interest for the construction of its SkyPlaza. The stand-alone retail, passenger and transport interchange complex, intended largely for tour groups and travellers going to and from mainland China, will offer dedicated group check-in services and a tour bus station. SkyPlaza will be connected to the airport by the Airport Express railway station and will be linked to the proposed 57 hectare SkyCity, the future home, among other developments, of Hong Kong's second convention and exhibition centre. Said **Hans Bakker**, the AA commercial director, who was recruited from **Schiphol International Airport** to add commercial and consumer vitality to the newly built HKIA, SkyPlaza is part of the AA's plan to make the airport "a leading international transport and logistics hub connecting the world with China by air, land and sea".

Meanwhile, both the soccer World Cup, to be jointly hosted by Japan and Korea in June, and the 2008 Olympics in Beijing China, have resulted in multi-million dollar expansion plans and, in the case of South Korea's Incheon International Airport, a new high profile boss. In April, the chairman of **Beijing Capital International Airport**, **Li Peiying**, said Beijing is to spend US$1.08 billion to upgrade the city's international airport in time for the first Olympic Games to held in Asia since Japan hosted them. The money will be spent on a second runway, a new passenger terminal, upgrading the present terminal building and general enhancement of the airport's facilities.

At **Incheon (IIA)**, the former vice-minister of construction and transportation in the national government, **Woo-byun Cho**, has been appointed as the new president and chief executive of the airport. His appointment was made in time to ensure all systems are in place at "The Winged City" airport to handle the hundreds of thousands of visitors expected to visit South Korea during the Soccer World Cup in June and the region's Asian Games. Plans for IIA, which recorded a better than expected performance in its first 12 months of operation, include construction of a third runway and concourse, a second cargo terminal (2004) and the development of a Free Trade Zone by 2005.■

REGIONAL ROUND-UP

AIR CHINA CRASH 'WILL NOT DELAY' INTRODUCTION OF MERGER PLAN

The crash of an **Air China** B767-200 in Busan, South Korea in April, which took 122 lives, is not expected to delay the introduction of China's long-awaited airline merger plan, *Orient Aviation* understands. However, it will push back the national flag carrier's plans for an initial public offering (IPO) overseas, say industry observers.

The Air China plane crashed into a mountain in bad weather on an approach to Busan's airport. There were 38 survivors, but the tragedy has raised, fairly or unfairly, safety questions about China's airlines. It also put the spotlight once again on South Korea's aviation safety record.

After a spate of serious accidents in the early 1990s, China put great emphasis on improving air safety and in recent years its operating record has been as good as anywhere in the world.

Ironically, Air China was deemed one of the safest carriers and, as if tempting fate, has been promoting its safety record on its web site and in its advertising material in recent months. Until the crash it had been accident free since its formation in 1955.

The Beijing-based carrier is scheduled to join **China Southwest Airlines** and the **China National Aviation Corp (CNAC)** in one of the three groupings of mainland China's nine state airlines.

The Beijing-based *China Daily* newspaper said the **Civil Aviation Administration of China's (CAAC)** minister of general administration, **Liu Jianfeng**, had stressed at recent conferences that if a serious accident occurred the mergers would have to be postponed because the regulatory body would be forced to turn its attention to air safety.

However, *Orient Aviation* believes the crash has been viewed as a "one-off", although sources admit the timing is unfortunate. Before the crash, a formal announcement about the new structure was expected no later than early June.

The crash occurred just weeks before thousands of foreign soccer fans will be heading to Korea and Japan to attend the **World Cup**. Last year, the **U.S. Federal Aviation Administration** downgraded South Korea's safety rating for failing to comply with international standards. Four months later, following improvements, the FAA restored the initial rating.

However, the Korean Government has ordered safety checks throughout its transport system to re-assure visitors of vigilance in all aspects of its aviation industry.

VIRGIN PUTS QANTAS UNDER PRESSURE

Sir Richard Branson has thrown the gauntlet down to **Qantas Airways** by signalling a speedy expansion of his Australian domestic carrier, **Virgin Blue**, which could include international services, writes **Tom Ballantyne**.

He has not decided yet whether to expand international services via **Virgin Atlantic** from Hong Kong, Shanghai and Tokyo to Australia, or use Virgin Blue itself on the routes. The Australian carrier could pick up air rights formerly held by defunct **Ansett Australia**. A number of destinations are under review.

Sir Richard said the airline is "going to expand unbelievably quickly" over the next two years, doubling in size and increasing market share from 12.5% to 25%. It is understood Virgin Blue has been jointly offered 30 new A320s and five ex-Ansett A320s by **Airbus** and **Singapore Aircraft Leasing Enterprise (S.A.L.E.)**. **Boeing** is finalising a counter offer involving new B737-800s and the larger B737-900. Virgin Blue operates 16 B737s and will take delivery of another 10 this year.

In mid-April, Australian transport company **Patrick Corp.** agreed to purchase 50% of Virgin Blue for US$138 million.

Growth of the Virgin airline empire will provide a major challenge for Qantas Airways, which in April announced it would launch its own low-cost international carrier, **Australian Airlines**, in October. Using four Boeing B767-300s it will fly to Osaka, Fukuoka and Nagoya in Japan, Singapore, Taiwan and Hong Kong. By early next year it plans to add Phuket in Thailand and Kuala Lumpur to its network.

At the same time, Sir Richard announced a bid would be made for four of Ansett's 15 former airport terminals – Melbourne, Adelaide, Brisbane and Cairns. Sources suggest **Singapore Airport Terminal Services Ltd (SATS)**, the **Singapore Airlines** subsidiary, also has shown interest in Ansett terminals, including Sydney. Apparently Sydney has drawn interest from around 15 potential interested parties.■

CATHAY EXPLORES FREIGHTER MARKET 'FOR NEW VENTURE'

Cathay Pacific Airways has neither confirmed nor denied reports that it is to purchase eight mid-range freighters to use in a proposed dedicated regional express cargo joint venture with **DHL International**.

The project is expected to start towards the end of this year, after the completion of a new express cargo terminal at **Hong Kong International Airport**, the site of the planned hub and spoke intra-Asian network joint venture. The initial contract will be for three years.

Already, Cathay and DHL have an agreement that puts DHL cargo into the belly space of overnight Cathay flights to Taipei, Singapore, Osaka and Seoul. Established in 2000, it will expire in March 2003.

The airline is said to be considering using A300s or B757 freighters. Reports say DHL may also lend financial support to the deal by buying aircraft for the joint venture. Cathay first discussed the possibility of developing a regional freighter fleet two years ago.

The joint venture will feed cargo into Cathay's profitable long-haul network and capitalise on the huge potential of the mainland Chinese market. Talks have been held with Guangzhou-based **China Southern Airlines** and Shanghai-based **China Eastern Airlines** about onward shipment from the two points. Both carriers are expanding their own cargo fleets.

Cathay currently has 12 B747 aircraft in its fleet with three leased to wholly-owned subsidiary cargo carrier, Air Hong Kong. Two B747-200s have been parked during the current economic slowdown which has seen the cargo division's contribution to the airline's overall revenue shrink considerably from its peak of 30% in 1999.

EXPRESS FIRMS CALL FOUL ON CHINA RESTRICTIONS

The world's largest express mail companies have warned a move by state-run postal monopoly, **China Post**, to limit deliveries by private companies in mainland China could be "catastrophic" for China's international trade.

The China Post ruling is also seen as a major test for free trade following China's entry into the **World Trade Organisation (WTO)**.

The restrictions, due to come into effect on May 6, limit deliveries by private firms of articles weighing more than 500 grams, require all prices to be higher than those of the postal authority and forbid deliveries to Chinese government and military offices, premises of the Communist Party and any item addressed to an individual.

The South China Morning Post quoted **Li Limou**, the general secretary of the **China International Freight Forwarders Association**, as saying the international express delivery market in China was a US$1.2 billion business and was growing by 30% to 50% a year.

China Post's **EMS** service, formed in 1995, has one third of the market with **UPS**, **FedEx**, **DHL Worldwide Express**, **TNT International Express** and Japan's **OCS** sharing the remainder. But the overseas companies were gaining on EMS, whose equipment, service and technology lagged far behind their foreign competitors, said Li Limou.

The restrictions would affect about 60% of international express deliveries.

In a joint letter to China's trade ministry, urging rejection of the proposal, the international operators said: "The effects on China's international trade, investment and diplomatic relations could be catastrophic, as the industry carries billions of dollars worth of goods and employs tens of thousands of staff."

FedEx Asia-Pacific president, **David Cunningham**, told the *South China Morning Post* there was no precedent for China Post's actions anywhere in the world.

"It is against the principles of fair play to which China signed up when it joined the World Trade Organisation," he said.

Cunningham said he was sure the Chinese Government would honour its WTO commitments and a solution to the problem would be found before May 6.

SIA ENGINEERING TO TAKE 25% STAKE IN GAMECO

In another step in its global ambitions, **SIA Engineering Company (SIAEC)**, has signed a conditional agreement to buy a 25% stake in **Guangzhou Aircraft Maintenance Engineering Company, (GAMECO)**, in southern China.

GAMECO is 50% owned by **China Southern Airlines**. SIAEC will purchase the holding of **Lockheed Martin Aeronautics Service International**. The remaining stake in the facility is held by Hong Kong's **Hutchison Aircraft Maintenance Investment**.

The listed Singapore maintenance, repair and overhaul (MRO) provider, which is 87% owned by **Singapore Airlines**, said it "will proceed to negotiate the detailed terms of the definitive agreement". No time scales were given, but any deal is subject to regulatory and Chinese Government approval.

SIAEC has 16 joint ventures with original equipment manufacturers and airlines in Singapore, Ireland, China, Hong Kong and Taiwan. In China, it holds a small stake in the **Taikoo (Xiamen) Aircraft Engineering Company Ltd (TAECO)**, which is majority owned by the **Hong Kong Aircraft Engineering Company Ltd (HAECO)**.

William Tan Seng Koon, SIAEC's chief executive, told *Orient Aviation* recently that his company's global portfolio would expand significantly in five years.

GAMECO has been under pressure for some time to cut its high costs and centralise the work of its fragmented network of facilities. The opening of the new **Baiyun International Airport** in Guangzhou, scheduled for 2003, will help. GAMECO is investing more than US$100 million in a new engineering facility at the airport, including a four-bay hangar.

THAI SIGNS DEAL WITH SR TECHNICS

Thai Airways International (THAI) has signed an agreement for two MD-11 **Heavy Maintenance Visits (HMV)**, including complete insulation blanket replacement, with **SR Technics (SRT)** in Zurich.

The new contract from a long-time customer is seen as a vote of confidence in SRT, a member of the **Swiss-air Group**, and a company that could have a new owner in early June. A number of tenders have been received for SRT from potential buyers and a decision is expected soon.

THAI is SRT's largest customer in Asia by volume. Its contract with the Swiss MRO includes a component and engineering services agreement for its MD-11s and a full service partnership covering the carrier's entire PW 4000 fleet of 25 aircraft. SRT has another deal for **Airbus** inventory management with an Asian airline in the pipeline that will be confirmed once its future is known. In 1999, it struck its biggest deal in the region by signing a 15-year power-by-the-hour contract with **Cathay Pacific Airways** to maintain the 49 CFM56-5C4 engines of its A340-300 planes.

CATHAY SIGNS RR ENGINE DEAL

Cathay Pacific Airways has signed a US$530 million "Total Care" agreement with Rolls-Royce for maintenance of Trent 700 engines that power its A330 fleet.

The airline, which has 20 A330s in its fleet, was the launch customer for the Trent 700 on the wide-bodied twinjets in 1995. The fleet has flown more than 450,000 hours with the lead engine approaching 20,000 hours.

Mike Terrett, **Rolls-Royce** president civil aerospace, said over 40% of all Trent engines in service were covered by Total Care packages. He said the engine-maker's aftermarket and services revenue had grown 50% in the last five years and increased 6% in 2001. Cathay has Trent 800s on its B777 twinjets and will have the Trent 500 on three A340-600s, set to be delivered in the next 18 months.

HAWKER IN SONIC CRUISER TEAM

Asia-Pacific research work on Boeing's futuristic **Sonic Cruiser** is growing. **Hawker de Havilland (HdH)**, the Australian firm wholly owned by **Boeing**, is the latest of seven companies to sign on with the international development team working on the aircraft.

The company is one of five from the Asian region, along with **Japan's Fuji Heavy Industries**, **Kawasaki Heavy Industries**, **Japan Aircraft Development Corporation** and **Mitsubishi Heavy Industries**, in the Sonic Cruiser team. Italy's **Alenia Aeronautica** and **Vought Aircraft Industries** from the U.S. complete the group.

Acquired by Boeing in late 2000, HdH manufactures commercial and military aerostructure components in Melbourne and Sydney. Parts are produced for most Boeing aircraft types, including the B737, B747, B757 and B777, as well as for **Lockheed Martin**, **Bombardier** and **Airbus** airplanes. Its work for the sonic cruiser will largely involve research into improved composites that could be used on the new plane.

EMIRATES NEEDS MORE MANILA FLIGHTS

The UAE's **Emirates Airline** has applied to the Philippines **Civil Aeronautics Board (CAB)** to raise the number of flights between Manila and Dubai from six to 14 a week to meet the vast growth in passenger and cargo demand since the figure was set 11 years ago, **writes Rene Mallari**.

Flag carrier, **Philippine Airlines**, has not served the route for four years although it code-shares with Emirates.

Since 1992, passenger traffic between the two cities has increased 174%, from 55,647 to 152,286. Cargo has leapt 111% from 2,395 tonnes to 5,058 tonnes in the same period.

Overseas Filipino Workers (OFWs) in the UAE number 150,000. Seventy percent are in Dubai, with the remaining foreign workers employed in Abu Dhabi. **Gulf Air** services Abu Dhabi, with only two flights per week.

Remittances of OFWs from the UAE to their families in the Philippines total US$270 million a year. In the next three years, some 30,000 additional jobs for OFWs will be available in Dubai alone. An increase in flights would generate more tourism for the Philippines, the airline said.

IN BRIEF:

Vietnam Airlines has signed a contract with **Pratt & Whitney** to buy nine engines to power the four Boeing 777s it ordered last year. **Qantas Airways** senior management and training captains are using **Dragonair's** flight training centre in Hong Kong to prepare for the introduction of A330s into the Australian carrier's fleet later this year.

Airbus (route) proving successful

The **Airbus** A340-600 completed a two-week route proving tour in April with a three continent, multi-city whistle stop tour. The first of two circuits, hosted by launch customer, **Virgin Atlantic Airways**, and enginemaker, **Rolls-Royce**, included London, Hong Kong, Shanghai, Tokyo, Taipei, Los Angeles and New York. In Hong Kong, **Cathay Pacific** staff **Carrie Pang** and **Cathy Wong** (pictured above) took the opportunity to check out the aircraft. Cathay will be the Asian launch customer of the A340-600 and will take delivery of the first of three aircraft later this year. It has been a successful few weeks for Airbus in Asia. In mid-April, **China Eastern Airlines** signed a contract for 20 A320s, scheduled for delivery from the beginning of 2003. Earlier, **Indian Airlines** announced it will buy 43 narrowbody aircraft in a deal worth US$2.1 billion. The order will comprise of the A320, A321, A319 family. Both airlines have taken CFMI engines.

BUSINESS ROUND-UP

EVA RE-HIRES STAFF, RAISES SALARIES AS BUSINESS IMPROVES

Taiwan's second international carrier, **EVA Air**, has re-hired staff and raised salaries in the expectation it will return to profit this year. It will particularly benefit from being granted extra flights by Taiwan's Government to Tokyo and Hong Kong.

The additional flights to Hong Kong are dependent on completion of a new air rights agreement between Taiwan and Hong Kong, but that could be some months away, possibly close to the end of the year. If the new agreement is signed EVA's flights to Hong Kong will increase from 16 to 49 and **China Airlines' (CAL)** services on the same route from 105 to 121 each week.

EVA announced a record profit of NT$2.51 billion (US$73 million) in 2000, but a year later posted a loss of NT$3.14 billion, its first loss in seven years. To counter the recession and the effects of September 11 EVA laid off up to 500 staff and cut salaries by between 10% and 30%.

In February, the airline's president, **Kitty Yen**, told *Orient Aviation* pay would be re-stored to pre-crisis levels when the market improved.

In April, she was good to her word when it was announced that EVA would re-hire about 100 flight attendants and increase salaries. EVA's sales rose 8% to NT$4.36 billion in February. Passenger load factor for January and February rose to 77.4% from 72.6% a year earlier.

Although there has been no official 2002 earnings forecast, the *Asian Wall Street Journal* said that internally EVA was predicting a net profit of around NT$600 million this year. Some analysts believe it could be as high as NT$926 million.

China Eastern Airlines: announced profit and ordered 20 Airbus A320s

Taiwan granted EVA all 13 additional weekly Tokyo flights under a new air agreement with Japan that took effect from April 18.

CAL's net profit last year was NT$1.79 billion, down almost 40% on 2000, but 19.8% above its forecast of NT$1.37 billion.

This year has started with record returns in the first quarter.

CAL reported a pre-tax profit of NT$800 million (US$24 million) for the first quarter of 2002. Operating income was up 5.9% to NT$18.24 billion on the same period in 2001.

Passenger revenue was NT$11.16 billion and cargo brought in NT$6.15 billion, increases of 4.2% and 9.5% respectively, and both record figures for the carrier. Passenger load factor was 78%, up 2.2 percentage points over last year. Cargo load factor was 75.7%, a rise of 1.3 percentage points. Unit yields rose for passenger and cargo by 0.9% and 1.5% respectively.

CSA POSTS WORSE THAN EXPECTED FIGURES

The net profit of China's largest carrier, **China Southern Airlines (CSA)**, fell 32.2% to 340.2 million yuan (US$41.1 million) in 2001, from 501.8 million yuan in the previous year. The result was below the market forecast of 400 million yuan.

Operating profit fell 14.2% to 1.68 billion yuan. Despite the fall in profit, operating revenue rose by 11.2% to 16.88 billion yuan. Passenger revenue increased by 13.6% to 15.06 billion yuan. The number of passengers carried rose by 13.5% to 19.12 million while cargo and mail increased by 12.7% to 398,000 tonnes.

Analysts speculated that ticket discounting could have contributed to the worse than expected result. CSA chairman, **Yan Zhi Qing**, said high jet fuel prices and keen competition had presented "great challenges" to the airline's operations. As a result of September 11, insurance costs had risen 44.7% to 123 million yuan.

Elsewhere in China, **China Eastern Airlines (CEA)** recorded a profit of 541.71 million yuan in 2001. However, 306.4 million yuan was a tax credit and an additional 96 million yuan was a retirement benefit obligation write-back.

The result was posted only days before CEA announced an order for 20 Airbus A320s in a deal valued at US$800 million. Delivery of the CFMI-powered aircraft will begin next year. CEA is **Airbus's** largest customer in China. Of its fleet of 70 planes, 43 are Airbus aircraft.

Hainan Airlines' spending spree in 2001 led to a 39% drop in net profit to 100.3 million yuan, from 164.8 million yuan a year earlier. Hainan bought majority interests in **Xinhua Airlines** and **Shaanxi Airlines** and increased its stake in **Changan Airlines** to 73.5%. It bought nine aircraft including a B737-800 and six **Fairchild** Dornier 328s.

It plans to purchase another 21 aircraft this year, including six B737-800s, three B767s and 12 more Dornier 328s.

AIR VANUATU TO THE RESCUE

Despite dipping into the red in 2001, South Pacific operator **Air Vanuatu** expects to be back in profit this year, according to the carrier's chief financial officer **Richard Holstein**. Last year's loss of A$1.4 million (US$735,000), following a A$1.1 million (US$572,000) profit in 2000, reflected a dramatic drop in the value of Australian and New Zealand currencies, markets providing 70% of Air Vanuatu's revenue.

Holstein said the airline was unable to counter the impact through increased fares because of the competitive situation.

Air Vanuatu is not in "dire financial straits", as reported recently in *Orient Aviation*. Holstein said the operator has been minimally affected by the events of September 11 and business is good. The airline has even helped revive the fortunes of the country's domestic carrier, **Vanair**, which was near collapse last year.

Air Vanuatu paid off outstanding liabilities, introduced new systems and procedures and handed it back to new management after eight months in a healthy state, said Holstein.

VIETNAM AIRLINES PASSENGER BOOM

Vietnam Airlines reported first quarter revenue of 2.67 trillion dong (US$175.8 million), 26.5% of its target for the year. Vietnam operated 9,143 flights during the period, carrying 1.02 million passengers, both 12% up on the same period in 2001.

Now that the long-awaited second runway at Narita Airport is operating and Japan's Fair Trade Commission appears ready to grant formal approval of the merger of Japan Airlines and Japan Air System, the country's aviation industry is at a watershed in its development. But not everyone is happy about the prospect of such radical change. All Nippon Airways believes the proposed merger is anti-competitive. Meanwhile, major carriers are complaining bitterly about high airport charges and Japan's small operators are fighting for survival. *Orient Aviation* reports from Tokyo.

BOWING TO PRESSURES

By Tom Ballantyne

As *Orient Aviation* went to press industry sources said Japan's Fair Trade Commission (FTC) was expected to formally approve the merger of two of the nation's three primary operators, flag carrier Japan Airlines (JAL) and Japan Air System (JAS), following the submission of a revised plan to the regulator by the carriers.

A linchpin in the new offer is believed to be JAL's offer to return up to 10 slots at Tokyo's Haneda Airport.

An FTC go-ahead for the merger would be a fundamental shift in the balance of power across Japan's skies and have far-reaching ramifications on the international front.

The move has been strongly opposed by All Nippon Airways (ANA), which, if the merger goes ahead, will see its dominance in the lucrative domestic market significantly eroded. ANA argues the move will reduce competition and cut consumer choice. Also the emergence of a duopoly of giants will be occurring in a fragile economic climate that is forcing Japan's smaller carriers to fight for their lives (see separate story).

Close call: aircraft of merger candidates Japan Airlines and Japan Air System and chief rival All Nippon Airways, at Japan's Itami Airport

Japan has been hardest hit of the major world economies in the global recession and this, coupled with the disastrous impact of terrorism, has virtually brought the Japanese aviation industry to its knees. Yet signs of a speedier than expected global recovery and an apparent improvement in Japanese domestic economic conditions in the first quarter of this year have brought hope of rejuvenation.

The opening of the second runway at Tokyo's Narita Airport on April 18 has finally released some congestion at the nation's primary hub although the controversy over user charges rumbles on (see separate story). In June, the World [Soccer] Cup – shared between Japan and Korea – promises a welcome, if temporary, boost in air traffic numbers.

Games of cat-and-mouse between Washington and Tokyo over their always contentious air services agreements continue unabated. According to sources, the U.S. has requested more talks. Japan said yes, but only to a meeting to discuss what should be discussed at formal talks!

Against this backdrop of industry uncertainty, the merger issue dominates the industry.

At present there are 90 million domestic passengers travelling annually on Japanese airlines. ANA has a 49% market share and JAL and JAS each have 24%. Both sides agree the result will be a two-airline group that remains diametrically opposed about the impact the merger will have on the market.

JAL estimates the merger will result in more than US$550 million in savings. But it has faced tough opposition and public scepticism about its motives. The airline's president, Isao Kaneko, conceded before the revised plan was submitted that a March report by the FTC highlighted potential competition problems and appeared to be highly critical of the plan.

"We are certainly aware the issues raised will not be easy to solve, but on the other hand we are not pessimistic about the outcome. Overall, we believe the Commission issued its report in the belief that more competition in the domestic airline industry is needed," said the JAL president. This is what integration between JAL and JAS is aiming for. The ultimate goal is to open up the domestic air travel market, now dominated by a single strong player, to make it truly competitive."

According to Kaneko, in a post-merger market airlines will benefit from keener competition, as will customers, shareholders, employees and other stakeholders. Internationally, where foreign airlines now have a 60% market share of international traffic out of Japan, compared to the 40% held by Japanese airlines, local carriers will be stronger and able to compete more effectively with their global rivals.

"We have to eliminate the contradiction of a theoretically deregulated domestic system that is practically handicapped by the shortage of airport capacity that has been continuing since 1986. The JAL/JAS integration is intended to resolve this contradiction by establishing a new operational framework for Japanese airlines that is more appropriate to the new era of competition.

"At the same time, the integration will present air travellers in Japan with greater choices in price and service than are possible under the present system," said Kaneko.

ANA president, Yoji Ohashi, described the merger as anti-competitive, and said it would be detrimental to the travelling public and would place JAL/JAS in a dominant position.

"Both JAL and JAS claim that domestic market share for the merged company will stand at 48%, shoulder to shoulder with ANA's 49%. However, a closer look reveals that where the three companies compete, the merged airline will realise market share of 60% and up to 70% on certain routes. This will ruin the competitive balance."

He added the new JAL/JAS company share of international routes would reach 80%. "Given this position of overwhelming dominance the merged airline would benefit across the board on domestic and international operations, with the consequence of negatively impacting the travel industry by denying passenger selection and exposing other related markets to potential losses."

In the meantime, the industry is praying for better economic conditions.

Most analysts agree a healing process will take place during this year. The rest of the region, much of which relies on Japan as an engine of tourism and air travel growth, will be hoping they are right.

A healthy and stable international and domestic Japanese aviation industry is a key to a renewed prosperity throughout the region. ■

Airports: vision required

User charges dispute clouds opening of Narita's second runway

By Daniel Baron

Japan's 7th Airport Development Plan, spanning the period 1996-2002, featured an ambitious collection of projects of varying purposes, some worthy, others dubious. While the government long pushed for the development of a large number of new airports throughout the country, it has recently reversed course, opting instead to concentrate on existing projects such as the expansion of Haneda and Kansai Airports, as well as new airports at Kobe and in Kyushu.

Critics of the government, however, assert that even the "rationalised" plan lacks a cohesive, long-term vision. Rather than being contributors to a system, each with clearly defined, complimentary roles based on sound forecasting, Japan's airports appear destined to remain identical pieces of an unfinished puzzle, adequately serving neither the airlines nor their passengers and thus diluting competitiveness of the country's airports as a whole in a regional context.

Japan's airports not adequately serving airlines or passengers

Representative of this is the current imbroglio between the International Air Transport Association (IATA) and the Narita Airport Authority (NAA) over new user charges that coincided with the opening of the airport's new second runway on April 18.

As this issue went to press, the two sides were in a stalemate after a period of negotiation that began in July 2001. IATA has urged a reduction in landing fees to 1,950 yen per ton from the current 2,400 yen, emphasising that the airport's concerns over land leasing costs are unfounded in light of strong demand for the new runway, which is fully subscribed. Nonsense, said the NAA, which initially wanted to raise fees. It refuses to go any lower than the current amount.

IATA points out that NAA posted a profit of 10 billion yen in fiscal year 2000 and that other airports in the region, specifically Incheon, Hong Kong and Singapore, reduced charges in response to September 11.

Peter Bysouth, chairman of IATA's Japan User Charges Board, stated that "NAA's refusal to budge from current prices will inflict painful long-term damage to an already fragile industry. The sad part of such a decision is its severe consequences for the competitiveness of airlines using Narita as a hub."

Geoffrey Tudor, director of public relations at Japan Airlines, concurs. "Narita Airport Authority appears totally oblivious to the situation. They don't seem to realise that they are partners with airlines in the same industry and should share some of the burden with us," said Tudor.

Industry sources suggest the root of NAA's intransigence is fear that lowering user charges would make Narita too attractive, in turn further accelerating the flight of carriers from Kansai. During the period January 2001 to January 2002, Kansai experienced a 12% drop in international aircraft movements and a 24% decline in international passengers.

The spat over user charges puts a damper on the celebration of Narita's long overdue capacity increase. In spite of the limitations with a shorter-than-hoped-for runway (2,180 metres), one of the most important airports in the world will finally be viewed as world-class, helping NAA put behind it decades of negative press. The new runway will bring a 27% increase in slots, enabling Japan's carriers to bump up capacity, particularly cargo capacity, and especially to China.

The airport will see seven new international airlines, including Mongolian Airlines, Vietnam Airlines, China Southern, China Airlines and EVA Air. Both of Taiwan's carriers had until now been at Haneda, a situation that was advantageous for passengers living in central Tokyo, though disadvantageous for the cargo services of the two airlines. The airport also will see an increase in domestic flights, bringing regional jets to an airport that at times was an almost surreal sight of nothing but B747s.

While the positives are many, Narita's appeal as a hub remains limited by constraints on operating hours and lack of shops and other amenities for transit passengers compared to newer airports such as Seoul's Incheon Airport and the Hong Kong International Airport. For users originating in or near Tokyo, the airport still requires a long and expensive train and/or bus ride.

Like Narita, Tokyo's Haneda Airport, already bursting at the seams, is set to begin special charter flights to and from Seoul for the World Cup and to implement relaxed rules for late-night foreign charters.

In addition, the Ministry of Land, Infrastructure and Transport (MLIT) has decided to construct a new runway at the airport, eventually increasing total take-offs and landings by 40%. The plan was conceived as the least controversial answer to calls for a third airport in the Tokyo metropolitan area. However, construction of the new runway will take about 10 years and the ministry has yet to propose a creative interim solution.

Creative solutions are needed at Kansai as well. The airport's operator, Kansai International Airport Company (KIAC), recently began a scheme of discounting as an incentive for existing carriers to increase services and for departed ones to return. This action, however, is thought to be too late to make a significant difference.

In the meantime, Kansai continues to sink deeper into the red. Calls by the airline industry to halt construction of a second runway have not been heeded, giving further credibility to the notion that Japan's airports are often developed on the basis of arbitrary and later intractable decisions, which, at the end of the day, merely perpetuate the challenges of the airports' customers.

Meanwhile, a survey conducted by KIAC in December 2001 revealed settlement of 11.9 metres since the beginning of the airport's construction and 2.1 meters since its opening. KIAC insists the final level of settlement will be between 12 and 12.5 metres and maintains that ground height will remain "safe enough for the airport [to] function".

Two other offshore airports are under construction. Kobe Airport is scheduled to become operational in 2004 with one 2,500 metre runway. Chubu International Airport will assume most of the functions now handled by Nagoya Airport, coming online in 2005 with one 3,500 metre runway.

Struggle for survival

By Daniel Baron

Their names – Fair, Skymark, and Air Do, for example – suggest a maverick spirit and a bold enthusiasm to compete in a market that had previously been neatly carved up by Japan Airlines (JAL), All Nippon Airways (ANA) and Japan Air System.

By using its aircraft as flying billboards Skymark Airlines earns US$1 million per year per plane

Yet Japan's post-deregulation upstart carriers are an odd lot. While fearless fledglings in other parts of the world have successfully developed a business formula with which to soar, Japan's smaller carriers still find themselves in a state of inertia. The country's operating environment has precluded the rapid or steady expansion seen by Ryanair, Jet Blue or, closer to home, Air Asia and Cebu Pacific.

Inability to secure slots at key airports, reliance on the major carriers for key functions such as ground handling and maintenance and leaner and meaner competitors have kept the newcomers a cottage industry.

Tokyo-based Skymark Airlines is a prime example of the challenges facing Japan's smaller carriers. The carrier was set up in 1996 by Hideo Sawada, the founder of H.I.S., the country's largest agency for discounted ex-Japan air tickets.

Originally conceived as an international carrier with a direct distribution pipe from the travel agency unit, Skymark soon opted for domestic services instead. It launched a single route in 1998 from Tokyo-Haneda to Fukuoka with two new B767-300ERs leased from ILFC. A 309-seat, high-density configuration was adopted to maximise capacity during peak hours, while allowing heavier discounting at off-peak times.

At the time, the airline's strategy was to hold down costs by outsourcing 80% of the operation, from reservations and ground handling to maintenance. Flight deck crews were recruited from recently retired pilots of JAL and ANA and from outside Japan.

Four years later, the ratio is the opposite. Soemu Kurashige, Skymark's manager of publicity and investor relations, explained that "in many areas we found costs were lower by doing things ourselves. Now that we have the know-how, we can retain control over key elements of the operation, while building a team-like spirit that is difficult to achieve when too much is outsourced." In-house training of first officers commenced last year.

Eager to be perceived as Japan's high-quality, low-cost airline, Skymark expanded onto the Osaka to Sapporo and Osaka to Fukuoka markets in the northern hemisphere spring of 1999, only to pull out in the summer of the following year, citing low load factors.

Shifting gears, the carrier then set its sights on building a customer base on the island of Kyushu, where Fukuoka is located. It has nurtured the local market to the extent that 55% of passengers originate there, earning it the image as the feisty local carrier. "We may be based in Tokyo," said Kurashige, "but Fukuoka views us as its home-town airline."

Hoping to leverage this, Skymark began targeting Kagoshima, also on Kyushu. In April, it launched a thrice-daily Haneda-Kagoshima service with a third B767-300ER. Unlike the first two, however, the latest aircraft will only seat 254 passengers.

Kurashige said it is intended the aircraft will eventually fly Skymark's first international route, from Haneda to Seoul, exploiting the government's policy to allow international flights between late night and early morning. The carrier is relying on the convenience of closer-to-town Haneda to attract inner city workers and residents in spite of, or perhaps because of, the odd hours.

While in each case the initial selling point of Japan's upstart airlines was ticket price, that advantage evaporated quickly as the majors matched fares. In the case of Skymark, the need to create new revenue sources prompted the company to offer its aircraft as flying billboards. Several companies, including Yahoo! Japan, have plastered the entire fuselage with their logos. The product or service advertised is incorporated into the inflight service in the form of infomercials or product sampling. Kurashige said the company earns approximately US$1 million per plane, per year, through the advertising.

With the price advantage gone, product differentiation has become crucial. Kurashige notes the "outside-in" advertising is marketed as part of the Skymark product. The carrier also attempts to stand out by offering a dedicated section of "lady's seats", a group of 10 seats in the front of the cabin assigned only to female passengers. The airline took the initiative to target such customers following trials in Tokyo of commuter trains with women-only cars.

Hokkaido International Airlines, also known as Can Do, has had a request for an extra injection of capital turned down

Kurashige said the section has been highly successful, adding that male passengers have not complained. It also has expanded economy class seat pitch to 34 inches on the third B767, giving it an edge over the 30-32 inches found on the other carriers' domestic flights.

For all its efforts, Skymark has yet to record what counts the most – a profit. The outlook for 2001 was positive until September 11, said Kurashige. While the carrier suffered only a small drop in load factor after the U.S. terrorist attacks, like so many others, costs for insurance and enhanced security measures wiped out hopes of ending in the black. Skymark is, however, forecasting a profit for the second half of the financial year beginning October 1.

It also stands to gain more prized slots at Haneda Airport if the JAL/JAS merger is given the green light by the Japanese Government. With the extra slots, the company plans to increase frequencies to Fukuoka (now six daily) and also is considering a Haneda to Hiroshima service.

Equally successful at not posting a profit has been Hokkaido International Airlines, which is also known as Air Do. Originally financially backed by Hok-kaido's prefectural government, Air Do was conceived as a subsidised shuttle for local bureaucrats and a tourism promotion tool. Its sole Sapporo to Haneda route has not delivered the goods, however. The prefecture recently rejected a request for a new injection of funds, forcing the carrier to pursue other ways to keep itself aloft.

In spite of the lack of a profitable precedent, yet another newcomer is about to take to Japan's skies. In August, Miyazaki-based Skynet Asia will launch six daily flights between Miyazaki and Haneda with leased B737-400s. Shoji Shimoda, Skynet Asia's president and CEO, spoke with confidence about his airline's ability to secure market share. "From the first day we will have the most daily flights in the market," Shimoda told *Orient Aviation*, "and with a very lean operation we will be able to charge less than our competitors."

When asked how his company can compete effectively with the majors, Shimoda explained that by handling all aspects of the operation in-house and by coming to the game with a frequency advantage, he planned to avoid the problems plaguing Air Do.

Brand is another factor. Shimoda pointed out his team created a name and livery that are not associated specifically with Miyazaki. Referring again to Air Do, he said "the word 'Hokkaido' may have sentimental value among the people living in Hokkaido, but may not mean much to those living elsewhere".

Like Skymark, Skynet Asia is anticipating its lower fares will quickly be matched by the competition (ANA and JAS). Shimoda stressed the airline planned to win over the hearts of Japan's fickle flyers with value-added services such as free transport of pets and no excess or oversized baggage charges. "Want to bring your surfboard? No problem," he said. The airline will also offer a seat pitch of 34 inches and provide beverage service and magazines.

Skynet Asia hopes to eventually fly from Miyazaki to Fukuoka and Osaka and ultimately to begin international service from Fukuoka to Korea and China.■

EXECUTIVE INTERVIEW

All Nippon Airways putting greater emphasis on Asia.

HOME BIRDS

There is much to be optimistic about, says upbeat president Yoji Ohashi: 'ANA should stand for Asia Nippon Airways'

As All Nippon Airway's (ANA) president and chief executive officer, Yoji Ohashi, prepared an April sign off on a revised business plan for the Japanese carrier he was surprisingly upbeat. Considering the circumstances, a furrowed brow may have seemed more appropriate.

Like everyone else in the industry over the past six months he has grappled with the fallout from terrorism, dramatic declines in traffic, major cost rises (US$75 million in additional insurance and security expenses alone), a troubled Japanese economy and uncertainty about the future growth of aviation.

Also on his horizon is the proposed merger of major local rivals, Japan Airlines (JAL) and Japan Air System (JAS), into an alliance that could topple ANA from its traditional role as Japan's leading domestic carrier (see separate story).

Yet as Japanese firms entered a new fiscal year on April 1, the 62-year-old Ohashi, a 38-year ANA veteran, was full of optimism. Passenger numbers are returning to normal more rapidly than anticipated, he told *Orient Aviation*. Speedy action to trim capacity and save money in the immediate post September 11 period successfully cut costs and introduced new efficiencies within the airline.

The opening of a desperately needed second runway at Tokyo's Narita Airport in mid-April came at precisely the right time, presenting a window of opportunity for Japanese airlines on both the international and domestic fronts. Now,

the new business plan is set to transform strategy and mark a paradigm shift in ANA's direction.

To cap it off, Ohashi offered good news on the financial front when he disclosed losses in 2001-02 will not be as bad as expected. After a $305 million profit the previous year, the dramas of 2001 – the industry downturn as well as the 9/11 aftermath – were expected to result in losses of US$83.3 million. That forecast deficit has been reduced to US$64.4 million.

Key elements in the revised plan are a major investment in information technology (IT), an area Ohashi believes is critical to the airline's future and one that promises big bottom line returns, as well as a massive increase in Asian regional operations.

There also will be greater co-operation with its Star Alliance partners and an upgrade of inflight service. The arrival of ANA's first freighter aircraft later this year reflects, too, a greater emphasis on cargo.

The September 11 terrorist attacks in the U.S. altered the industry landscape. ANA load factors initially plunged 50%, a result that was followed by predictions of a lengthy fight back.

But Ohashi pointed to encouraging trends. "From the middle of December we saw a recovery in international business traffic. From February, business was back to almost pre-9/11 levels. As far as international traffic goes we are very happy because it has come back a lot faster than expected."

Group tourist traffic has not recovered yet, but ANA's president believes Japanese tourists will soon take to the skies again. Domestically too, numbers are on the increase. By March, traffic was on a par with the previous year.

All of this must be tempered with the problem of low yields and the dangers posed by a JAL/JAS union. But, all in all, ANA is in far better shape than it probably has a right to expect.

In the group business plan formulated in February, it cut a further 400 staff from earlier job cut figures. This decision will take the ANA workforce of 13,780 to 12,700 by March 2003.

In the latest revised plan further savings have been achieved by postponing the recruitment of 200 cabin attendants from February to April and offering 12,000 employees, including 3,000 management staff, voluntary one month leave of absence on 60% of salary. By the end of March, ANA had trimmed US$8 million from personnel costs and made US$230 million in total savings.

Born in China, Ohashi is a graduate of the faculty of law at Tokyo 's Keio University. His career path has closely tracked that of his predecessor, Kichi-saburo Nomura, now the airline's chairman.

During his 38 years at ANA, Ohashi has worked in personnel, purchasing, business development and marketing and was the airline's representative for the Americas, based in New York. Before moving into the president's office 12 months ago he was senior executive vice-president, sales and marketing.

His interests include golf and literature, particularly poetry, which he takes great delight in quoting – even in interviews.

He often draws on the lessons of history when confronted by a challenge like the one that he is presently facing at ANA. "The Roman Empire was once exceedingly prosperous, however its former glory fell into ruin," said Ohashi. "What were strengths can become crucial weaknesses.

"Darwin wrote that it's not the strongest that survive, nor is it the most intelligent that extend their lifespan. He said only those able to adapt to change will survive."

This is the message he is trying to push through at ANA.

"The ANA Group is seeking to deal with an environment of change," said Ohashi.

While ANA will remain a global airline – it launched international services in 1986 after being the country's dominant domestic carrier for decades – the president sees many of today's opportunities lying closer to home.

"ANA should now stand for Asia Nippon Airways," quips Ohashi. "We want to increase flights throughout Asia, particularly to China where demand is huge. We would have liked to do it sooner, but the slots available out of Tokyo's Narita Airport were not sufficient."

That issue has been partially resolved by the opening of a second runway at Narita, which has provided ANA with 54 additional slots, an increase of its quota to 144.

It has moved quickly. Services from Tokyo to Hong Kong (previously daily), Beijing (daily) and Shanghai (twice weekly) have all been increased to double daily.

A rise in flights from Narita and other ports in Japan to additional Asian destinations such as Korea also are planned. "In all these places we will be able to link with our Star partners, expanding the reach of our own network. It is all about connectivity. Some 60% to 70% of our international passengers are transiting through Narita. This has always been important to us and now we have the resources to respond to that demand," said Ohashi.

Recent times have brought a rush of expanded code-share deals, both with Star carriers and other airlines like Korea's Asiana Airlines. In April, ANA signed an alliance agreement with two mainland China carriers, China Southwest Airlines and Shanghai Airlines, which will include code-share flights and frequent flyer links. There will be more such deals as ANA strives to leverage off its Star partners.

ANA long-haul travel has not been forgotten and re-building the international network is well underway following cutbacks post 9/11. Daily services are now operating to Paris and Frankfurt. Tokyo-San Francisco has been increased from five weekly to daily. Daily services to New York, Washington and Los Angeles have been maintained, although Chicago services remain suspended since November. Services to resort destinations Honolulu and Guam have been increased to daily. ANA now operates 56 weekly services to the U.S.

One area of concern is Australia, a market ANA had been serving through a code-share with Ansett Australia, until the Australian carrier collapsed earlier this year.

"The demise of Ansett is most regrettable and of deep concern to us. We don't fly to Australia and now we don't have a code-share partner. It is a serious problem and we don't have many options," said Ohashi.

However, it was a low yield leisure market and not critical to profitability. ANA has time to find an answer to the dilemma along with its Star partners.

With the new runway ANA has been able to expand domestic operations from Narita, where until now there have been only seven local services daily offered by all Japanese carriers. Now, this has risen

All Nippon Airways putting greater emphasis on the cargo market

to 18, with the prospect of an increase to 27. ANA will add two new domestic routes – Fukuoka and Sendai – to existing services from Narita to Nagoya, Osaka and Sapporo, again improving connections for international traffic. It will also code-share with two privately-owned domestic airlines, Nakanihon Airlines to Nagoya, and The Fair Inc. to Sapporo, Sendai and Osaka, a move designed to create a better hub for ANA and its Star Alliance partners.

Ohashi wants its subsidiaries, Air Nippon Airways (ANK), low cost international carrier Air Japan (AJX) and Air Hokkaido (ADK) to work more closely with ANA to strengthen its group network.

AJX, launched to service short haul and routes such as Guam and Seoul – it added Taipei this year – was hit by the 9/11 aftermath, with Guam being suspended for a time. However, there are plans to expand its routes.

Some marginal domestic routes have been transferred from ANA to ANK, but the parent company still operates many more domestic seat kilometers annually than ANK. This is the result of the transfer of three widebody aircraft, one B747-200 and two B767-200s, from ANA to ANK in 2001.

Air Hokkaido operates two De Havilland DHC-6-300 Twin Otters that fly local and inter-island services around Hokkaido.

ANA has a fleet of 141 aircraft. Ohashi said the airline will build its fleet around the B777 with six of the longer-range -300 types already on order and more purchases anticipated.

As Asian regional expansion continues, the B767 is a key component in ANA's plans. Six B767-300ERs will arrive this financial year. Three more, originally intended for delivery in 2002, have been deferred until next year when ANA will take delivery of three A320s on operating leases. All 11 of the carrier's older B767-200s will be retired by 2004, as will seven Airbus A321s.

More slots at Narita have allowed ANA to put additional emphasis on its cargo business. It will take delivery of its first freighter, a B767F aircraft, this year. In 2001, ANA's cargo revenue was US$530 million, around 5.5% of total sales.

The recession led to a dip in cargo volume in the past six months, but the airline expects to bounce back strongly. ANA's affiliate company, Nippon Cargo Airlines (NCA), operates nine B747 freighters. ANA will offer cargo space out of Narita to a variety of destinations around Asia and beyond with its first freighter. If successful, other freighter orders may follow.

ANA will not be ordering the Airbus A380 in the foreseeable future. However, two Star partners, Lufthansa German Airlines and Singapore Airlines, are among the first operators of the Very Large Aircraft and both will be flying the jets into Tokyo, opening the way for ANA to code-share services with the two carriers.

The Japanese airline has pushed ahead with a major upgrade of its inflight product, including the introduction of a new 24-seat Premium Economy class. The seat pitch and width is 20% more than normal economy class and passengers qualify for priority check-in at Narita Airport.

In April, the airline introduced a new business class seat, which incorporates an Audio and Video on Demand (AVOD) system, initially available on Narita-London flights.

For Ohashi, whatever the hurdles, he is convinced the airline industry remains a market full of promise. ■

CEREMONIAL WELCOME

When times are tight and staff cuts the order of the day, the hiring of new recruits by Japan's airlines may appear an anomaly. But on April 1 JAL and ANA did just that and with typical Japanese ceremony.

The start of the country's new fiscal year is the traditional hiring period when university graduates enter new careers with companies across the nation. "This is Japan," explained ANA president Yoji Ohashi. "You can't say things have changed and you are not going to employ new staff."

It is a serious business and during a lengthy ceremony each recruit is personally presented to the president. Ohashi, flanked by the ANA Group's senior officials, welcomed 249 recruits to the fold, 46 of them bound for subsidiary Air Nippon Airways (ANK), in one of the airline's hangars at Tokyo's Haneda airport.

At JAL, president Isao Kaneko welcomed 117 new staff to the airline. ■

ANA GROUP FLEET

All Nippon Airways

23 B747-400s, 3 B747-200LRs, 10 B747SRs, 16 B777-200/Ers, 5 B777-300s, 42 B767-300s, 10 B767-200s, 25 A320-200s, 7 A321-100s

On order:

9 B767-300ERs with deliveries between 2002-2004
3 A320s to be delivered in 2003-04

Withdrawals (between 2002-2004):

11 B767-300s
7 A321-100s

Subsidiary carriers:

Air Nippon Airways

1 B747-200, 2 B767-200s, 8 A320-200s, 2 B737-400s, 22 B737-500s, 6 YS11s, 2 DHC8-300s

Air Japan

8 B767-300s

Air Hokkaido

2 DHC-6-300 Twin Otters

Air Asia chief executive, Tony Fernandes: out to prove the doubters wrong

Many industry observers question whether a western-style, low-cost airline can succeed in Asia. They cite vast differences in market conditions and regulation as the stumbling blocks. In Malaysia, a brash newcomer is setting out to prove them wrong, reports TOM BALLANTYNE.

No-frills thrills

Passengers clamour for seats on Malaysia's Air Asia

Tony Fernandes, the 36-year-old chief executive of re-born Malaysian operator Air Asia, admits to sitting back with his management team once in a while and wondering about the remarkable turnaround in his airline's fortunes in a few short months.

It is hardly surprising. Since last December, when the struggling, loss-making domestic minnow was sold by car company DRB-Hicom to Fernandes's Tune Air, the young businessman has re-launched the brand, slashed costs, pushed load factors significantly upwards and made profits almost from day one – a result that is a full year ahead of expectations.

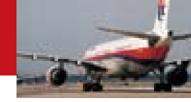
The three Boeing B737-300s – two more will arrive in June – are carrying 80,000 passengers a month. This is up from 23,000 a month before the carrier changed hands and it appears to be proving what many analysts believed impossible: that there is a place in the Asian market for a low-cost, no-frills carrier.

"Now Everyone Can Fly", is the message splashed across the fuselages of Air Asia's jets. Little wonder. Air Asia offers seats on domestic flights that are between 20% and 60% lower than flag carrier, Malaysia Airlines (MAS). The phone lines of the new carrier are running hot with travellers wanting to make reservations and calls have topped as many as 10,000 a day.

Probably most surprising is that this is the first taste of the airline business for Malaysian-born Fernandes. An accountant by trade, his background is the music business – his last job was Southeast Asia regional vice-president for Warner Music – a career that, ironically, included a spell with the music division of Sir Richard Branson's Virgin.

"I've had a life-long interest in planes and have always wanted to be my own boss. This [Air Asia] gave me a chance to get into the airline business, but I come with no ego and no preconceptions. I am here to learn. [With a lack of airline experience] I am more likely to be open to suggestions. Because of that we can think outside the square," he told *Orient Aviation*.

Air Asia describes itself as the first genuine no-frills, low-cost airline in Asia. It is modelled on the successful U.S.-based carrier, Southwest Airlines, and Europe's Ryanair and EasyJet. Indeed,



Fernandes has taken former Ryanair director of operations, Connor McCarthy, on board as an advisor and he has played a key role in planning.

Air Asia flys from Kuala Lumpur's former international hub at Subang, now a domestic facility, to Kota Kinabalu, Kuching, Labuan, Langkawi, Kota Bharu and Penang. Five new routes – Johor Bharu, Alor Setar, Kuantan, Miri and Tawau – are expected to be on-line before the end of the year.

For Malaysians the fares are a revelation. On Air Asia a one-way ticket to Penang, a 45-minute flight, is US$18 compared to more than $40 on MAS. A single ticket to Kota Kinabalu is $40 against $115 on MAS.

Air Asia competes directly with MAS on every route it serves, but there has been no move by the flag carrier to respond with matching fares.

Fernandes said relations with MAS chief, Datuk Mohamed Nor Yusof, are "excellent" and suggested the international airline may welcome its arrival. "We compliment each other," he said. MAS has been losing money on domestic routes for years. It wants to focus more on its international operations. An expanding young domestic is taking the heat off MAS in the domestic market.

Air Asia's main objective is to attract more Malaysians to flying, said Fer-nandes, who pointed out only 6% of the country's adult population travel by air. "There are a lot of people in the market and the combination of low fares and good destinations is a good way to introduce more local people to air transport.

"This is what is required to encourage local tourism and to stimulate the national economy. Air Asia's low fares are designed to target Malaysians who have never flown. It is not to compete with other air carriers," he said.

It is unlikely MAS would be able to compete with Air Asia's cost base, a business model that was established after it was bought by Tune Air. The no-frills carrier increased frequencies and raised aircraft utilisation from seven to twelve hours daily. Turnaround times were reduced from 45 minutes to 22 minutes. Pilots are required to do additional tasks, such as filling out load sheets. Cabin crews clean the planes between sectors.

The airline is more fuel efficient because Air Asia hedges its fuel prices and pilots burn less fuel through finer tuned operating procedures.

There is no business class, cabin crews on each flight have been reduced from six to three. Passengers pay for food and refreshments.

Improvements also have been made in marketing and distribution. A call centre with 30 phone lines was opened. On-line Internet booking was introduced in April.

Is Air Asia aiming to become like the UK's EasyJet, which does not deal with travel agents, but instead concentrates on booking on-line?

Fernandes is not sure yet. "We are going into uncharted territory for most Asian airlines and we have to see how the market responds to us. However, I am sure there will always be a place for travel agents in this region," he said.

Fernandes is certain there will a big future for a low-cost airline operation in Asia. "The fact we have done so well has demonstrated this. Many people would not have given us a chance, but I think the principle of no-frills air travel holds just as well in Asia as it does anywhere else.

"Price is a major factor for Asian travellers. People want cheap air tickets here in the same way as they want them in any other market."

Flying international routes is on the agenda, although not in the near future. The carrier has been working with Penang's state government with the intention of building a base on the Malaysian island state from which to connect to Southern China, including Hong Kong.

Fernandes said the carrier's five-year strategic plan was "moving faster and faster" but no one is being over-ambitious. "Basically, we want to move ahead steadily and be successful in our own country. You have to crawl before you can walk and walk before you can run. We are doing all this very, very carefully," he said.

By July, Air Asia has to transfer its operations from Subang to the new Kuala Lumpur International Airport (KLIA) at Sepang. The Malaysian Government has ordered the switch of all domestic jet operations to KLIA to improve connections for international and domestic flights.

While Air Asia agreed to the move it believed July was too soon and asked for an extension until the end of the year. The request was turned down.

"It [the transfer] will create opportunities and bring with it some operational advantages. For instance, fuel is cheaper at KLIA and, of course, it does offer a better environment for our expansion," said Fernandes.

"The government and the airport have been supportive and the move will have no impact on our cost base or our ability to remain a low-cost airline."

Air Asia's load factors are rising steadily. Langkawi flights, operating with load factors of 45% in the early days, reached 70% by March. Services to Kota Bharu, with similar low loads in December, have lifted to 65%.

By early April flights operating in eastern Malaysia were recording 85% load factors and services in peninsular Malaysia were travelling with 70% of their seats booked. The target is a system-wide load factor of around 76% by April 30. The breakeven figure is 57%.

Malaysia Airlines: it was losing money for years on its domestic routes. Now Air Asia says it is taking the heat off the national carrier in the local market

Fernandes said staff had to undergo "a huge paradigm shift" during the speedy transformation of the old, troubled airline to the new low-cost version. "They are a remarkable group of people who handled the changes extremely well. The atmosphere around here is fantastic," he said.

But however successful the airline becomes, everyone has to keep their feet on the ground, said Fernandes. "We always have to remember where we are coming from. Humility is a great thing."

If it continues to go from its present strength to ever greater growth, Air Asia could establish the blueprint for low-cost, no-frills operations in Asia.

International outcry as U.S. Customs' passenger list demands branded as ...

IMPOSSIBLE

By Tom Ballantyne

Airlines, lobby groups and governments worldwide have protested to the U.S. Customs Service following its threat to impose potentially massive fines on carriers and cancel their landing rights if they fail to meet tough new rules requiring advanced details of passengers and crew aboard flights heading for the United States.

The U.S. action has prompted countries to warn that any attempt to bar scheduled services of non-U.S. operators will inevitably lead to retaliatory action against American carriers by foreign governments.

International airline industry bodies, including the Association of Asia Pacific Airlines (AAPA) and the International Air Transport Association (IATA), have argued against the heavy-handed approach of U.S. Customs.

They are particularly angry said AAPA director general, Richard Stirland, by the "extraordinary" way in which the rules were implemented by the U.S. authorities. They did not even wait for the notice and public comment period to expire. He also criticised the U.S. move as the imposition of "impossible requirements of accuracy" on airlines.

The furore surrounds the Advance Passenger Information System (APIS), under which airlines have to transmit in advance to U.S. Customs the passenger and crew manifest, including passport, visa and other details of every person on each U.S. bound flight. Originally a voluntary measure, APIS became compulsory for all airlines flying into the U.S. from last December.

Under a phased introduction, the rule is becoming tougher by the month:

- from February 18, Customs began implementing a fine of US$5,000 for a first violation and $10,000 for any subsequent violations against any airline flight failing to file an APIS.
- from April 1 an APIS has to be 70% accurate otherwise the airline will face a $5,000 fine for each passenger or crew member whose details are missing, incomplete or inaccurate.
- from June 1 the required accuracy level will rise to 97%.
- from July 1, if 10 fines on the same flight are issued within a 60-day period, landing rights of the offending airline will be revoked.

There is no information available on any fines imposed on airlines to date, but carriers agree the 97% accuracy rule will be impossible to meet.

Although the introduction of the tougher regulations began in December, the U.S. Customs Service did not send out official notification of the deadline dates until February.

Even then, the U.S. authority merely sent a letter to IATA and asked it to inform its members of the new regulations.

IATA's senior vice-president operations and infrastructure, Gunther Mat-schnigg, told the customs service assistant commissioner, office of field operations, Bonnie G. Tischler, the association had received "extensive and nearly unanimous comments" from its members decrying the June deadline for 97% data accuracy and the threats of revoking landing rights.

"We indicated our belief [to them] that the 97% target is unrealistic and likely unachievable for any carrier on a consistent basis. Adopting this plan, as announced, will result in significant fines being imposed on carriers across the industry. Further, cancelling the landing rights of any airline which fails to comply with an unattainable performance target will likely result in retaliatory measures by other countries against U.S. carriers," said Matschnigg.

The AAPA Secretariat and its 18 member airlines agree with IATA and want U.S. Customs to review its action, said Stirland.

U.S. authorities have spent several years discussing achievable accuracy levels for APIS. Ultimately, it was agreed 80% was a reachable target, although it would be difficult to meet.

"The industry continues to face demanding financial and operational hurdles in light of recent events [September 11]," said Matschnigg. "We question whether this plan, with its unrealistic performance targets and potentially crippling fines, will encourage better compliance than the same approach using a more realistic data provision benchmark.

"We hope the Service will review this policy and adopt the previously agreed 80% data sufficiency target rate, at least for a specified interim period, during which further maturing of systems and technological enhancement of data-gathering processes can be explored in a co-operative service/industry effort."

> **'WE QUESTION WHETHER THIS PLAN, WITH ITS UNREALISTIC PERFORMANCE TARGETS AND POTENTIALLY CRIPPLING FINES, WILL ENCOURAGE BETTER COMPLIANCE THAN THE SAME APPROACH USING A MORE REALISTIC DATA PROVISION BENCHMARK'** – IATA

European governments are complaining about the manner in which the regulations have been pushed through without broad discussion. The European Civil Aviation Conference (ECAC) Security Working Group informed Washington the refusal of landing rights to any carrier would amount to unilateral action by the U.S. and "may be contrary to international conventions and/or existing bilateral agreements".

"In any case, their implementation would certainly place extreme practical difficulties on carriers operating into the United States and as a consequence, would severely inconvenience the travelling public," said the working group's statement.

The AAPA's Stirland said the threat of withdrawal of traffic rights is "completely outside the domain of the Customs Service", he said. The entire affair amounted to "overkill and failure to consult on a pretty draconian measure", he added. While the AAPA made it clear it supported and understood the U.S. needed to protect itself against terrorism, Asian airlines cautioned that the need to act quickly should not give way to actions that could eventually prove counter productive to the industry. ■

KLIA in big push to attract new airlines

By Tom Ballantyne

Kuala Lumpur International Airport (KLIA) is hoping to establish itself as a major Asian hub by attracting 23% more passenger traffic this year following the launch of a US$2.6 million marketing campaign.

Since it opened in 1998, KLIA has been living in the shadows of its Southeast Asian neighbours, Singapore Changi International Airport and Bangkok's Don Muang Airport. Its reputation was further tainted after major carriers British Airways, Qantas Airways and Lufthansa German Airlines withdrew operations from KLIA.

However, in recent months the airport has attracted several new carriers and has vowed to win back the services of the airlines that have left.

Operator Malaysia Airports Holdings Bhd's (MAHB) executive director of finance, Rosman Abdullah, said passenger volume is expected to reach 18 million this year, an increase of more than 23% over the 14.6 million passengers in 2001. KLIA is capable of handling 25 million passengers per year.

Numbers will be boosted by a recovery in international traffic and the government ordered transfer in July of domestic flights from the old hub at Subang, which is being used as a domestic airport.

KLIA officials believe at least 12 major airlines could either make Malaysia their hub in 2002 or increase frequencies. Eight new carriers will begin services this year. They are Kuwait Airlines, Syrian Airlines and Oman Airlines from the Middle East, Air Macau, Philippine Airlines and Qantas' new low-cost start-up Australian Airlines, which will begin operations in October, China's Xiamen Airlines and Egypt Air, which currently hubs through Singapore.

Six existing carriers – Lauda Air, Gulf Air, Emirates Airline, Saudi Arabian Airlines and Qatar Airways – are increasing frequencies. Malaysia Airlines is set to add more flights to its schedules, most of them resumptions of services suspended after September 11.

The link with China through Xiamen Airlines, which will start flights from Fuzhou in April, is significant because many Malay Chinese have roots in the Fuzhou area. Chinese visitors to Malaysia have been climbing steadily, from 160,000 in 1998 to 450,000 last year.

Shifting domestic operations from Subang, mainly those of low-cost carrier Air Asia, will provide better international and domestic connections for travellers.

With the added domestic services, daily flights through KLIA will rise from 354 to 585. Subang handles 2.1 million passengers annually.

Kuala Lumpur International Airport: landing charges among the lowest in the Asia-Pacific

Rosman said to become a hub, passenger volume was essential, as well as connectivity and increased frequencies. Changi is used by 59 airlines. KLIA has 43 airline customers.

"We are not looking for airlines to consider KLIA as a final destination but to make KLIA a transit for their destinations regionally," said Rosman.

"With increased connectivity, frequency and passenger volume, I am confident some of the big names in the airline industry will make a comeback."

He said the compounded annual growth rate (CAGR) of passenger traffic at KLIA has been 5% since its opening in 1998. It will remain the same until 2010. IATA forecasts the average rate of growth for the Asia-Pacific will be 4.5%, and Malaysia 5.8%. "With that, KLIA would have, by 2008, 25 million passengers. That is the capacity the airport is built for", said Rosman.

Another key to the apparent renewed success of KLIA is its landing charges, particularly during a period of industry downturn when aviation is counting costs. Landing a Boeing B747 at Changi costs around US$1,888.90. KLIA would charge the same aircraft US$1,083.33.

The Malaysian Government will underpin KLIA's thrust for new business. In late April it was finalising an incentive package to encourage more airlines to use the facility.

Already, there were some incentives given to new airlines or carriers which were increasing their flight frequencies, including waiving landing and parking fees for the first 12 months at KLIA.

"We have the lowest aeronautical charges in the region," said transport minister Datuk Seri Dr Ling Liong Sik, who described KLIA as an "economic energiser".

Much of the government assistance to KLIA is likely to come from more liberal air agreements with other countries by giving carriers fifth freedom traffic from Malaysia. Malaysia has open skies treaties with countries including the U.S., New Zealand and Austria.

Rosman expects an improvement in KLIA's financial performance this year, pushed along by passenger growth. In the last financial year, ended December 31, MAHB reported a 43% profit increase to US$47.4 million on revenue of US$234.5 million.

One questionmark over KLIA's future is the sale of a strategic interest in MAHB. Talks with The Netherlands Schiphol International NV group about taking a 30% equity stake were called off in April.

According to Rosman this was because Schiphol had changed its mind and opted to take only 15%. "Once you have 15% and you still want the rights as if you have 30%, naturally it is not good.

"If the deal was to go through, it would not do justice to the other 32,000 shareholders," he said.

MAHB has engaged a British consulting firm to assist in airport management, but has not ruled out a potential strategic partnership with other airport operators.

• *The KLIA Express Rail Link opened on April 13 and operates between Kuala Lumpur and the airport.* ■

Sydney sale could reach US$2.4b

By Tom Ballantyne

The fast-tracked sale of Australia's last government-owned airport, the primary hub at Sydney, should be completed by July despite concerns about the future of the now deserted Ansett Australia domestic terminal.

Previously postponed after the September 11 U.S. terror attacks, the privatisation of the Kingsford-Smith facility is back on course, buoyed by the airport reporting a trebling of profits in the six months to December 31.

Canberra wants the sale completed by June 30 and has been told it can expect between US$2.1 billion and US$2.4 billion for the airport. This is below the original estimate of US$2.6 billion projected prior to the suspension of the airport sale last September 24.

Briefings for potential buyers are underway. Three consortia are involved:

- Southern Cross, comprising the Commonwealth Bank, the Macquarie Bank and Germany's Hochtief Airports company.
- Sydney Gateway Group, involving AMP Henderson, Westpac, Deutsche Bank, Hastings Funds Management and Cheung Kong Infrastructure.
- Connect, comprising ABN Amro, Challenge and Fraport, which owns Germany's Frankfurt Airport.

The winning bid will be awarded the airport on a 99-year lease basis. The jewel in the crown of Australia's airport system, Sydney handles more than 26 million passenger movements and 500,000 tonnes of freight annually. This is more than half of the country's total traffic in both sectors.

The recent profit rise was not unexpected. During the last six months of 2001, both domestic and international passenger traffic fell 10% and aircraft movements plunged 16%. But the US$22.9 million income over the period, up from US$7.6 million on the same period in 2000, came as a result of a near doubling in aeronautical charges at the facility.

The Australian Consumer and Competition Commission (ACCC) approved the increases last May – despite angry protests from airlines – to enable the airport to achieve a more economic rate of return on its assets.

It is estimated the successful bidder will face around US$800 million in new capital costs for upgrading work, including the widening of existing runways to cope with the new Airbus A380 super jumbo. The new large aircraft is scheduled to enter service in 2006. Qantas Airways is among a number of big international carriers that has ordered the aircraft.

The new owner of the Sydney airport will have to ponder the fate of the huge, empty, domestic Ansett terminal, which previously handled more than 40% of domestic traffic. The carrier, which closed in March, had a lease on the terminal till 2019.

No frills' carrier Virgin Blue, now Qantas' only domestic rival, operates from a common-user terminal in Sydney and has expressed some interest in the Ansett terminal. But Virgin is reluctant to take it over unless the price is right. It has said it would use less than half of the facility for its relatively small operations.

Overseas buyers eye Indian airports

The Indian Government is to sell off four of the country's main airports, Mumbai, Delhi, Chennai and Kolkata, on 30-year leases to the private sector. Unlike past aviation privatisation plans, foreign interests are welcomed as bidders.

Among buyers understood to have shown interest in the airports are the British airports operator BAA, Aeroport de Paris, Frankfurt Airport and Amsterdam's Schiphol group. Also being targeted are Alterra, a joint venture between Singapore Changi Airport and Bechtel, as well as Malaysian and Middle East airport interests.

India's airports still need massive amounts of capital spending to bring them up to world standards. As well buyers remain nervous about government regulation and monitoring which could limit income prospects for any new owners of the airports.

One issue that could be a problem in the sale is staff numbers at airports. As with all government departments in India, staff numbers are extremely high. It is understood new operators at the four airports, which each employ about 7,000 government employees, will have to keep the same staff levels for a compulsory three-year period. After three years the companies will have the option to transfer the employees back to the Airports Authority of India, which would then deploy them at some of the 122 airports it presently operates around the country.

Potential owners would also want government undertakings on aeronautical fees pricing policy to ensure they have the ability to operate the airports on a fully commercial basis.

Auckland stake on the block

Auckland City Council has approved a plan to sell its 26% stake in Auckland International Airport, New Zealand's primary gateway. It expects the sale to be completed by December 31.

The facility recently posted a record first-half profit of US$15.3 million, up 23% on the same period the previous year. The city council is the major shareholder at the airport with the remaining shares spread among a large number of mainly New Zealand private interests.

Among potential bidders for the equity holding are investors who also are involved in consortia to purchase Sydney Airport. These include Australia's Macquarie Bank, Hong Kong-based Cheung Kong Holdings and AMP Henderson Global Investors.

INFORMATION TECHNOLOGY in the Asia Pacific

Leaders and

Even after September 11 Asia's top airlines have pressed on with cutting edge IT initiatives, but others,

After months of concentrating on post-September 11 security and just plain trying to stay solvent, Asian airlines are now taking a fresh look at how they can use information technology (IT) and the Internet to better serve customers, cut costs and boost profits.

The industry-wide crisis following terrorists' use of airplanes as bombs in the U.S. meant "we certainly saw (IT) spending restraint in the fourth quarter in 2001," said Hans Belle, vice-president of marketing in the Asia-Pacific for Sabre, the leading provider of technology, distribution and marketing services for the travel industry. "Quite a few projects and initiatives were placed on hold." Now, though, "in the first quarter of 2002 we are seeing a definite increase" in Asian airlines' spending on IT.

To be sure, e-commerce regional leaders like Cathay Pacific Airways and Japan Airlines (JAL) scarcely faltered in their ambitious e-business programmes, even after Septempter 11. But another "e" leader, Singapore Airlines (SIA), admitted the economic downturn that started even before September 11 prompted it to re-evaluate and re-prioritise its IT projects.

The ones that could bring immediate value to customers and were of strategic importance went ahead. "Those that are less critical were deferred," said Emmanuel Allix, senior manager of SIA's E-Commerce Centre (see separate story).

Some other Asia-Pacific airlines stopped dead in their tracks and took a hard look at whether they were getting a good return on their IT investments.

Although world airlines are increasingly viewing IT as a strategic investment to grow their business (rather than just an administrative matter of making computers run smoothly), their immediate reaction to the post-September 11 crisis was to slash IT budgets by 20%, reported U.S.-based IT-industry researcher Gartner Dataquest. No precise figures are available strictly for Asia-Pacific airlines, but SITA, the IT services company owned by the world's airlines, believed the cutback in the region was not as severe.

"I don't think the cutback was as dra-

Cathay 'a major e-

When killer typhoon Utor slammed into Hong Kong last July, it brought the city of seven million people to a standstill and disrupted one of the world's biggest airline hubs. The closure of Hong Kong International Airport caused hundreds of international flights to be cancelled over several days.

Not surprisingly, thousands of passengers were logging onto Hong Kong-based Cathay Pacific Airway's Web site to check the status of their flights. The burden on the company's computer system was overwhelming: the server had to generate millions of time-consuming database searches to serve up a fresh Web page for every user every time.

Overnight, though, Cathay Pacific's IT department came up with an ingenious solution: since each customer was usually only interested in one particular flight, the computer served up a static page with just that information on it, rather than a truly interactive page each time. Since the static pages were updated every half hour, customers did not notice the difference. And it dramatically reduced the load on Cathay Pacific's computers.

Reacting quickly to IT demands has become second nature to Cathay Pacific. "Information is one of the most

SPECIAL REPORT

laggards

hurt by the recession or lacking vision, have been left to play catch up. KITTY McKINSEY reports

matic in Asia," said SITA vice-president marketing and business development in Asia Brijdeep Sahi. "We in Asia were relatively less affected by 9-11."

He estimates the cutback in Asian IT spending was closer to 10% than the 20% reported worldwide by Gartner Dataquest. (On average, airlines spend around 3% of revenue on IT investment, but Asian airlines on average have not yet reached that benchmark, according to SITA.)

For three years, SITA has taken part in a survey of world airlines about their IT spending trends. It said that after September 11 airlines focused on immediate operational matters and less on long-term strategy. And while he will not name names, Singapore-based Sahi adds that "one or two Asian airlines in particular just stopped all spending on new investments. Some airlines just closed the door and said 'no more expenditures until we know where we are at'."

Thai Airways International (THAI) is one that admitted it curtailed IT spending. "We postponed IT projects," said Ohm Planichaya, THAI's director for pricing and marketing. But it has since rebounded: "In the first quarter of this year to March, our situation is quite normal."

Malaysia Airlines general manager IT planning and services Marzida Mohd Noor: airline trying hard to catch up on IT initiatives

Among the postponed projects: e-ticketing and domestic self-service check-in, which are being implemented on May 1, months later than originally planned.

But just like the market leaders in e-commerce, THAI firmly believes in the importance of IT and is striving to match the "e" competencies of its fellow members of the Star Alliance. "When we do any project, IT has a main role in the development process," said Planichaya.

Airlines like JAL, Cathay Pacific, Singapore Airlines and Qantas Airways have proved the benefits of making IT central to corporate planning. "IT is vital to our business," said JAL president Isao Kaneko. "JAL has been using the Internet since the early stages of this technological revolution. Unless companies upgrade systems and mechanisms to keep up with the pace and convenience of the Internet, they will be left behind."

JAL, which is investing 53 billion yen (US$400 million) in IT from 2001 to 2004, first began allowing Japanese

model'

important services an airline offers," said Patrick Garrett, Cathay's corporate communications manager.

The Hong Kong carrier, which is investing more than HK$2 billion in e-business over three years from 2000, has consciously set out to be Asia's "e" leader. Many analysts agree it has succeeded. "I think the Cathay model is a major model" for Asian airlines, said SITA vice-president marketing and business development in Asia Brijdeep Sahi. "In terms of knowing exactly who the customer is, the Cathay Pacific model is absolutely the right model."

Cathay's "e" innovations include downloadable trip planners for Personal Digital Assistants [PDAs, like Palm Pilots], and the world's first high-speed onboard data network that will allow passengers to send and receive near-time e-mail from their own laptops. Inside the company, employees receive on-going job training at their own pace in their own language through e-learning. *Finance Asia* magazine ranked Cathay as having the "best e-commerce strategy" among Asian companies in 2001.

In Hong Kong, Cathay's Web site is the most popular in the travel category, according to Internet measurement firm Nielsen//NetRatings (CQ). Peter Steyn not only tracks Internet usage as Nielsen//NetRatings' director in Hong Kong, but also is an avid traveller. He said he admires Cathay's Web site because of "the variety of services it offers, the ease of using it and the feeling of security" when buying tickets on-line.

Cathay Pacific's general manager airports, Rick Lang: recession would be "silly" time to slow IT investment

Times are tough after September 11, admitted Richard Lang, Cathay's general manager airports, whose customer offerings include new CXpress kiosks, ATM-like machines that allow customers to select their own seats and check frequent-flyer points.

Despite the recession, Lang said this would be a "silly" time to slow IT investment: "If you don't stay with it, you'll be left behind." Technology is moving so fast that "if you're going to invest, you've got to keep it up. Otherwise it gets primitive very fast. You're chasing a moving target." ■

Thai Airways International: shelved IT projects after September 11

customers to book domestic tickets on the Internet in July 1997. Other innovations followed, including reservations over Japan's unique and wildly popular NTT DoCoMo i-mode phones. Not only domestic tickets, but international tickets, can be bought on JAL's interactive Web site.

The benefits of IT are clear – it can cut costs, improve customer service, increase market share and improve company efficiency. "Internet technologies are changing the way airlines are managed and marketed," SITA said in its 2001 Airlines IT Trends Survey. "Airlines are now looking to benefit from the potential cost savings and business opportunities arising from having an IP (Internet based platform) and e-enabled global IT infrastructure."

In Asia, though, some of the same factors that hold back the development of e-commerce in general are putting the brakes on the airlines' moves to the Internet. In dealing with passengers, airlines' e-commerce efforts are inhibited by low Internet penetration in some countries, low credit-card usage and concerns about the security of Internet transactions.

In mainland China, where Internet penetration, though growing, is still low, mobile phones are ubiquitous. So China Southern Airlines, the largest airline in the mainland, is taking a uniquely Chinese approach to e-commerce, aiming most of its efforts at allowing customers to use their mobile phones for more services.

"IT is something in which we are proud to be leaders," said Jeff Ruffolo, public relations manager for the airline. "China runs circles around the rest of the world, especially the USA, in mobile technology," he added. "When you blend that with the biggest airline in China, you've got synergy. It's a winning combination."

China Southern was the first airline in China to sell e-tickets and it's now allowing customers to book and pay with a credit card over a mobile phone and then obtain a boarding pass from an electronic kiosk at Guangzhou's Baiyun International Airport.

Ruffolo said China Southern is driven by a vision of "offering a product someone will not get somewhere else". Over breakfast at a Hong Kong hotel, he looks frankly puzzled when asked whether China Southern might have delayed any of its IT plans after September 11. "We are on our own path," he replied. "We set our own agenda. China Southern is not going to bow to some terrorist whim."

Like China Southern, the region's leading IT-savvy airlines are concentrating on getting to know their loyal customers better and serving them more personally. Singapore Airlines, JAL, Qantas and Cathay Pacific all offer customers electronic alerts so they don't have to go to the airport too early if their flight is delayed. The message may be delivered by short message service or mobile phone. In addition, these four airlines increasingly are buying their own supplies – from headsets to uniforms – and handling cargo bookings over the Internet.

This level of "e" sophistication, though, is still a distant dream for some of Asia's carriers. Malaysia Airlines, for instance, has not even started to concentrate on using IT for B2C (business to consumer) interaction; it's still at the stage of using IT to make its internal operations more efficient.

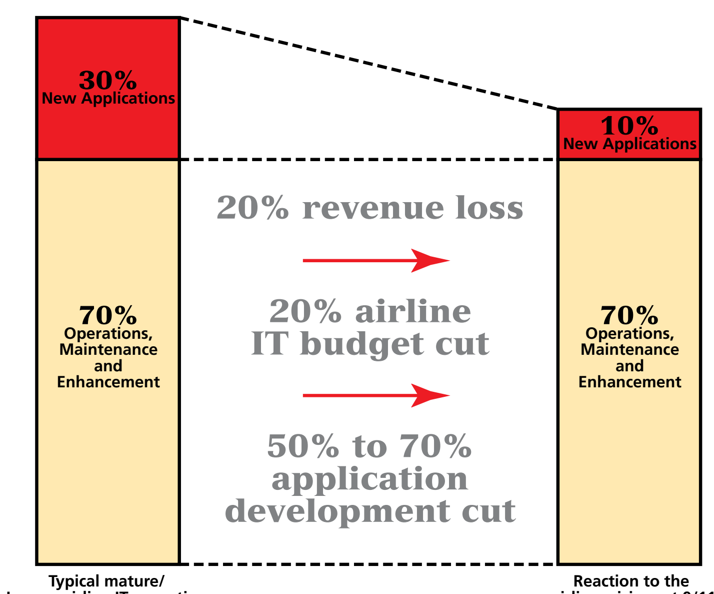
Marzida Mohd Noor, general manager of IT planning and services at Malaysia Airlines, admitted MAS "is lagging behind", an anomaly in a country with a fast-forward high-tech image. "We were not able to keep up with the country's image. We are trying very, very hard to catch up, " said Mohd Noor, whose passion for IT comes across clearly, even on a phone line from Kuala Lumpur.

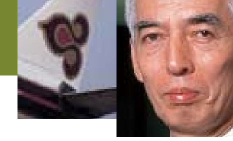
Like any company that has treated the IT department simply as a group of experts to keep computers running, rather than an integral part of the company's growth strategy, MAS's IT infrastructure is severely out-dated. "We have a lot of system applications in silos," Mohd Noor said, meaning they stand alone and cannot work together.

The reasons for the carrier's predicament can be laid at the door of its previ-

Immediate international reaction to the airline crisis post 9/11

(Source: Gartner Dataquest)





ous management under the controversial leadership of former chairman Tajudin Ramli, who is under police investigation for "possible criminal negligence".

In October last year, new chairman, Tan Sri Azizan Zainul Abidin, accused the Tajudin-led management of plunder for personal gain and inefficiency that had driven the airline to near bankruptcy. The airline had been on the verge of collapse, he said.

The IT department had lost valuable time during this period, she said. But now MAS management has come to recognise that, according to Mohd Noor, "e-business applications and solutions are a competitive necessity, not a competitive edge".

At the same time, she said there is more pressure within the company to show that new IT applications are bringing tangible business benefits.

For MAS, that means concentrating first on behind-the-scenes organisation that the customer doesn't see – the crew management system, software that plans crew leave around rosters rather than vice-versa, maintenance and engineering systems to ensure the right aircraft spares are on hand, and an integrated financial system replacing hand-written forms.

"We have managed to see some tangible benefits," Mohd Noor said. "When we implemented our revenue management system, we saw a 3% to 5% increase in revenues."

MAS takes the surprising view that September 11 actually helped its IT efforts by wiping out perceived advantages of some other airlines. "September 11 gives us a level playing field, showing us that a lot of airlines are in the same boat – highly leveraged, too many staff, inefficient and overexposed," said Mohd Noor. She illustrated her point by saying: "We never thought Swissair would be in the same boat as us."

Japan Airlines president Isao Kaneko: JAL has been using the Internet since the early stages of its "technological revolution"

MAS's IT priorities are typical of those of other airlines, even the region's "e" leaders. Sabre's Belle said airlines are focusing on decision support applications – flight planning, crew management, movement control of the fleet, software that enables managers to run real-time "what-if" scenarios encompassing the whole range of knock-on effects caused by bad weather that closes one major airport, for example.

The focus is the same whether companies are buying the systems for the first time or refining what they already have. "All of the larger carriers have decision support applications in key areas, but there continue to be modifications and upgrades," said Belle. "Providing a more integrated environment for all these applications is an ongoing effort."

Qantas's e-business initiative, launched in February, streamlines corporate human resources, payroll and financial systems, creates a new Internet-based procurement system and is developing new applications for its customer loyalty programme. "Each of these systems will integrate with the other to provide a common standard, making processes and functions easier and more efficient," said Qantas chief information officer Fiona Balfour.

Further back in the field, Royal Brunei Airlines is forging ahead with its IT spending, after announcing a multi-million-dollar 10-year plan to buy software systems and applications from Sabre for its reservations, airport check-in services, revenue management and loyalty operations.

For the future, with increased competition, IT will let airlines better track their customers' history and anticipate their preferences. "The freer a market becomes, the more pressure there is to be consumer-centric," said Sahi at SITA. The perils for any airline that doesn't get the message are clear, said Ruffolo at China Southern. "If you don't adopt IT and e-commerce initiatives, you will see the circus leave town. Other airlines are going to run circles around you." ■

CUSTOMER SERVICE DRIVES SIA'S STRATEGY

As befits a city-state where information technology is a national priority, Singapore Airlines (SIA) strives to be a leader in new technology adoption. "We constantly keep abreast of IT developments to see how we can leverage them to meet our business objectives," said Emmanuel Allix, senior manager of SIA's E-Commerce Centre. "Singapore Airlines views Information Technology (IT) as a strategic tool to enhance customer service, generate revenue and improve operation efficiency."

The first priority is improving customer service. If these IT initiatives result in cost savings for the airlines so much the better. Innovations like electronic ticketing and Internet check-in bring benefits for both the customer and the airline. Electronic ticketing "provides the customers with the convenience of paperless travel, at the same time saves the airline on handling costs of a physical paper ticket," said Allix.

"Internet check-in offers the customers a more convenient pre-flight experience by allowing them to check-in and select their seats from the comfort of their home two days before their departure. Once they have checked-in online, they only need to arrive at the airport 45 minutes before the flight, saving them some precious time."

Because of the importance placed on personal contacts and the convenience of travelling to a physical travel agency in most cities, Asians have proved rather reluctant to buy tickets on-line. Indeed, around the world, just 6% of airline tickets are sold over the Web. But, in Singapore, where citizens can even pay their taxes over the Web, SIA does see a growing trend in Internet bookings.

Allix said SIA continues to improve its Web site. With SIA Cargo's Webtrack, cargo agents can track shipments online; the siacargo.com website also allows freight forwarders to plan shipments using the on-line schedule planner. SIA last year was the only airline to receive honours from the IT trade magazine *CIO* for "effectively leveraging IT to deliver demonstrable strategic business value" to its business.

Despite SIA's postponement of some less critical IT projects because of the economic downturn that started even before September 11, Allix said "we continue to pursue IT projects of strategic importance to the company". ■

JOINT FORCES

Lufthansa Systems, Lido AeroNet 'connect' in Singapore

By Nicholas Fang in Singapore

The integration of Lufthansa Systems' Asia-Pacific sales office and its wholly-owned Singapore-based subsidiary, Lido AeroNet, will provide customers in the region with an aviation "one-stop shop" for products and services provided by the two information technology (IT) companies.

Formalised on January 1 this year, the move to bring the two companies closer together saw the integration of the Lufthansa Systems sales offices in Singapore and the Asia-Pacific region with Lido AeroNet.

The Lufthansa Systems Group encompasses 17 stand-alone subsidiaries and is divided into airline, aviation and infrastructure divisions. With 4,200 employees worldwide, it is one of the leading providers of innovative IT and e-business solutions for the airline and aviation market offering products such as its NetLine/Ops integrated operations control solution that assists in real-time monitoring of operations, providing early warnings of potential disruptions and solutions to prevent such disruptions.

Additionally, Lufthansa Systems develops and sells services ranging from IT strategy consultancy to customised applications and process outsourcing.

Lido is a provider of flight support solutions to airlines worldwide and prides itself on being an aeronautical information and services consolidator.

The heart of its operations is its extensive database with a worldwide provision of system-supported services. It leverages on these strengths to provide integrated solutions for the efficient management of its clients' operations.

Lido AeroNet, the Singapore subsidiary of Lido that in turn is a unit of the Lufthansa Systems group, was officially launched in November 2000 and serves the Asia-Pacific and Middle East markets.

It is also the research and development centre for Lido and was located in this region to capitalise on the availability of high-expertise, low-cost labour in the IT industry.

The company offers products such as Lido Flight Plan, a web-based flight planning solution and Lido Flight Watch, an airline operations control and decision support tool which combines advanced aircraft tracking capabilities with weather data processing and forecasting tools.

Lido signed a deal with Singapore Airlines two years ago for the national carrier to use Lido's flight planning facilities for eight years.

Lido AeroNet and Lufthansa Systems currently retain their individual brand identities. "This enables us to leverage off two powerful brands that are firmly established in the Asia-Pacific," said Lido group marketing and business development director Predeep Menon.

"We are able to capitalise on that trend by offering integrated solutions that cover all aspects of the airline operations."

Lido AeroNet sales director for the Asia-Pacific and Middle East, Axel Bensch, said the merger did not come as a surprise.

"After Lido AeroNet had successfully set up its operations here in Singapore, it made sense to move ahead with the integration of our activities," he said.

Despite its significant presence in the region for the past five years, Bensch said Lufthansa Systems stood to gain significantly from the integration.

Singapore Airlines: has an eight-year contract to use Lido's flight planning facilities

Menon added that because the two companies belong to the Lufthansa group, they had been partners in the past.

"It was more on a case-by-case basis, depending on what the customers required. Now we are able to go to the market with a combined, enhanced product and service portfolio," said Menon.

After the integration, Lufthansa Systems' regional sales and marketing teams in Sydney, Beijing and Singapore are now fully integrated with the Lido team in Singapore.

The integrated Singapore base offers data centre facilities, technical and operational consulting services, 24-hour regional help desk facilities, system integration and project management.

The ability to provide a comprehensive range of services is important given the increasing consolidation in the airline industry, said Menon.

"As airlines grow and consolidate, we find they prefer across-the-board packages and integrated solutions," he said.

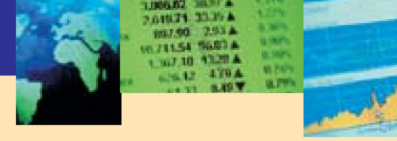
"Activities have primarily been sales and marketing. Now we will have full end-to-end services for our customers.

"We're talking about things like local support, a 24-hour help desk. So the first and foremost reason for the merger was to harness the synergies that could be gained on both sides, for the Lufthansa Systems group as a whole and also for Lido.

"It allows Lido AeroNet and Lufthansa Systems to extend their reach into the Asia-Pacific marketplace," he said.

The Asia-Pacific region is expected to be the fastest growing aviation market worldwide in the next 20 years, with China a key player. The region is likely to overtake the United States as the second most important market after Europe for the Lufthansa Systems group.

"A number of projects put on hold in the third and fourth quarters of 2001 after the September 11 terrorist attacks in the U.S. have recommenced and we are cautiously optimistic that the industry will recover in the second half of this year," said Bensch.



January 2001 Statistics

LOAD FACTORS 'TO GROW'

Compiled and presented by Kris Lim of the Research and Statistics Department of the Association of Asia Pacific Airlines Secretariat

PASSENGERS

The first month of 2002 – well into the post-September 11 period – saw passenger traffic of Association of Asia Pacific Airlines (AAPA) member carriers decline 7.9% year-on-year. Passengers carried were down by 6.1%, but capacity fell 5.8%, which resulted in a passenger load factor (PLF) decline of 1.7 percentage points to 73.2%.

January's figures were measured against a robust month 12 months earlier during which the Chinese New Year holiday was celebrated.

Long-haul air travel demand remained weak in Japan in particular. All Nippon Airways (NH), down 24.7% and Japan Airlines (JL), down 22.1%, continued to experience double-digit deterioration in revenue passenger kilometres (RPKs). Garuda Indonesia (GA), with a fall of 28.3%, posted the largest decline of AAPA carriers in January. Six other AAPA airlines also reported declining RPKs, but four carriers emerged with positive growth in January – Vietnam Airlines (VN) up 6.0%, Asiana Airlines (OZ) 3.2%, Royal Brunei Airlines (BI) 0.9% and Singapore Airlines (SQ) 0.3%.

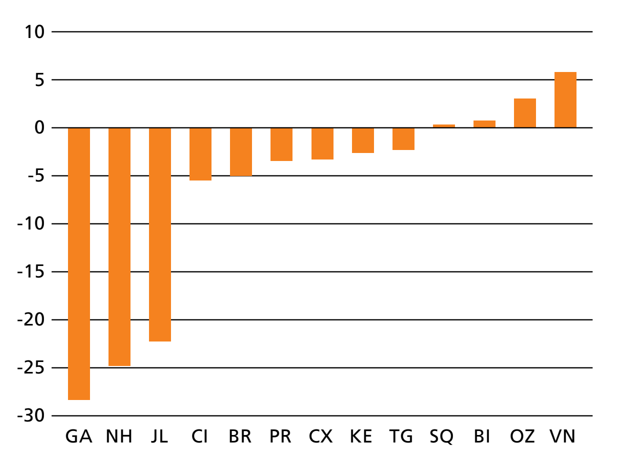
Philippine Airlines: in January recorded its highest passenger load factor since May 2000. Capacity reduction resulted in a 10 percentage point increase in FLF

PLF improved both on the back of a gradual traffic recovery post September 11 and by sensible capacity management. Five carriers reported improved load factors. Philippine Airlines (PR) emerged with the biggest improvement (5.7 percentage points) after a capacity reduction of 10.5%.

The carrier registered a PLF of 77.2%, by far its best load factor since May 2000. EVA Air (BR), Cathay Pacific Airways (CX), China Airlines (CI) and Asiana Airlines also registered improvements in load factor, mainly because of capacity cutbacks. Nine carriers experienced a PLF decline. Garuda Indonesia suffered a huge fall of 11.2 percentage points.

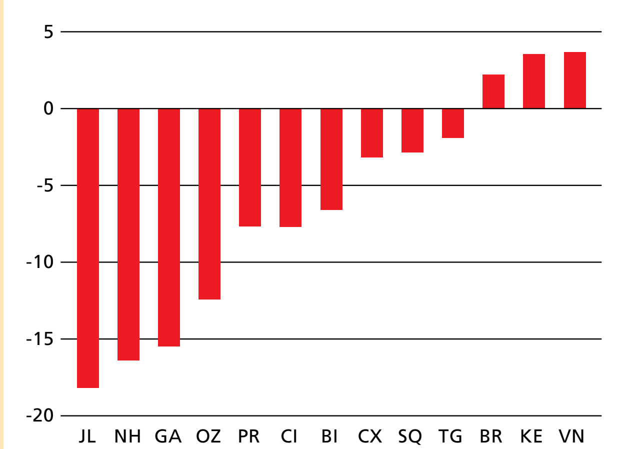
RPK GROWTH BY CARRIER

Percentage (Jan 02 vs Jan 01)



PAX GROWTH BY CARRIER

Percentage (Jan 02 vs Jan 01)



China Airlines: new freighters contributed to a 38.2% FTK increase year-on-year in January

However, nine airlines managed to fill more than 70% of their seats in January, led by EVA Air (77.8%), Philippine Airlines (77.2%), China Airlines (76.7%), Singapore Airlines (76.3%), Asiana Airlines (76.3%) and Cathay Pacific Airways (75.8%).

CARGO

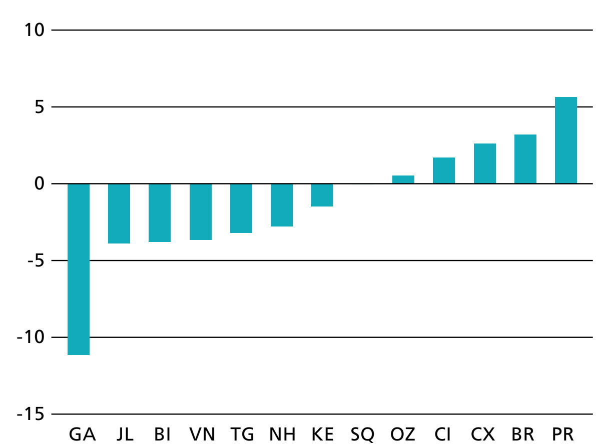
Air freight, a crucial profit generating operation for many AAPA member airlines, started to turn the corner to better times after a woeful year in 2001. Freight tonne kilometres (FTKs) grew 6.6% year-on-year, the first positive growth since February 2001. The freight load factor (FLF) increased by an encouraging 4.4 percentage points to 62.6% after a 0.8% reduction in capacity.

Although Chinese New Year may have played a part in year-on-year comparisons, it was welcoming to see that nine carriers reported FTK growth. The improvements ranged from a modest 2.2% (Thai Airways International – TG) to a high of 38.2% (China Airlines). China Airlines' strong growth was partly attributable to additional freight traffic generated by four new cargo aircraft. On the other hand, the two Japanese carriers, Japan Airlines and All Nippon Airways, Korean Air (KE) and Garuda Indonesia reported negative growth.

The combination of improved trade flows and capacity

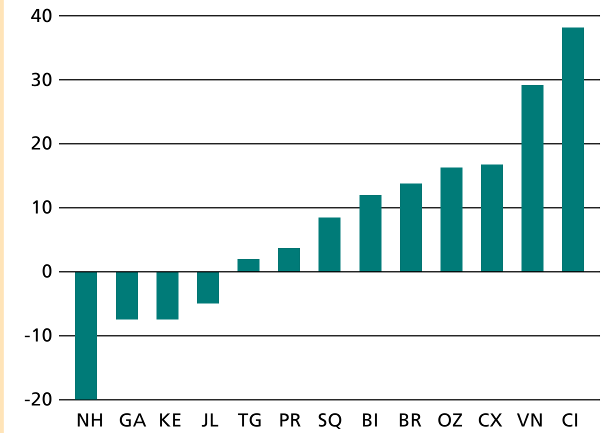
PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Jan 02 vs Jan 01)



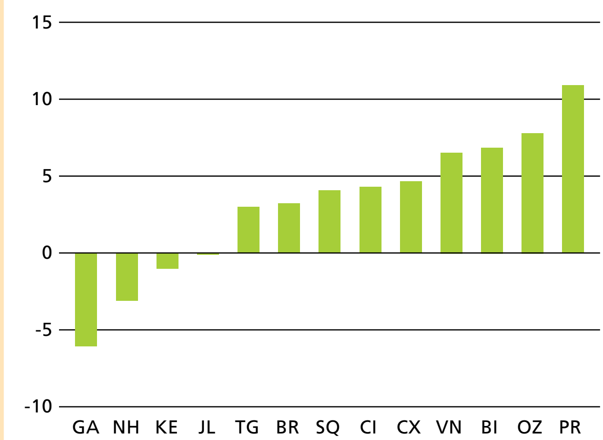
FTK GROWTH BY CARRIER

Percentage (Jan 02 vs Jan 01)



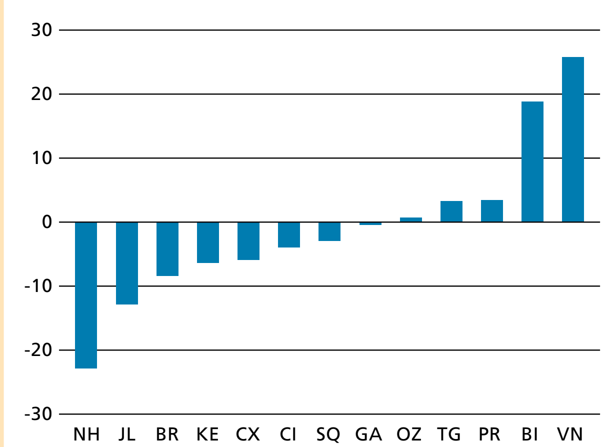
FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Jan 02 vs Jan 01)



RPK GROWTH BY CARRIER

Percentage (Feb 01 - Jan 02 vs Feb 00 - Jan 01)



cutbacks enabled the majority of the carriers to report rises in FLF. Philippine Airlines recorded an increase of 10 percentage points because of its aggressive capacity reduction – in excess of 30%. However, the FLF of four carriers, Garuda Indonesia, All Nippon Airways, Korean Air and Japan Airlines, declined.

Airlines from Korea and Taiwan posted load factors over 70%: Asiana Airlines (75.2%), China Airlines (73.0%), Korean Air (70.6%) and EVA Air (70.5%).

RESULTS OF THE 12 MONTHS TO JANUARY 31, 2002

PASSENGERS

AAPA member airlines posted a 5.2% decline in RPKs for the 12 months to January 31, 2002. Passengers carried fell 2.4% year-on-year. Seat capacity increased 0.4%, which resulted in a PLF decline of 4.2 percentage points to 71.0%.

CARGO

AAPA carriers' FTKs shrank 7.0% for the year to January 31 and capacity dropped by 1.0%. Load factor was 64.7%, a decline of 4.1 percentage points.

SUMMARY

This year is seen by many as a year of recovery. The U.S. economy is expected to pick up during 2002 (the U.S. Federal Reserve Board is predicting a growth rate of between 2.5% and 3.0%). Optimism also has emerged in the IT industry with International Data Corp (IDC) "cautiously" predicting in January a rebound in the Asia-Pacific IT market in the second half of 2002. The public sector, telecommunications industry and biotechnology companies are seen as the drivers of IT spending (*Asian Wall Street Journal*, Jan 2, 2002). The AAPA's January freight traffic growth appears to lend credence to this optimism and the forecast.

AAPA carriers' passenger traffic continued to ameliorate for the second consecutive month. Heavy discounting and close capacity management should see load factors record improvements in the first quarter of 2002. ■

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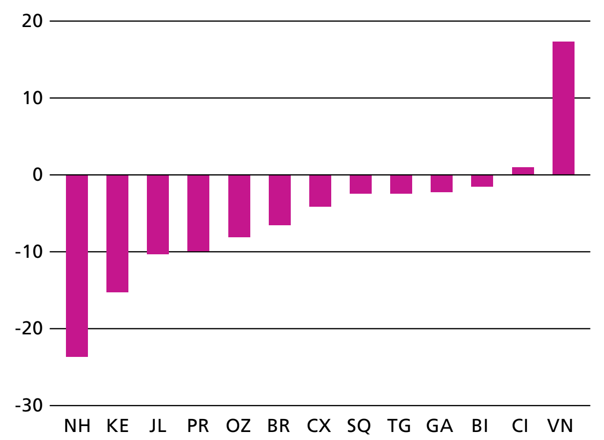
Garuda Indonesia: RPKs down 28.3% in January

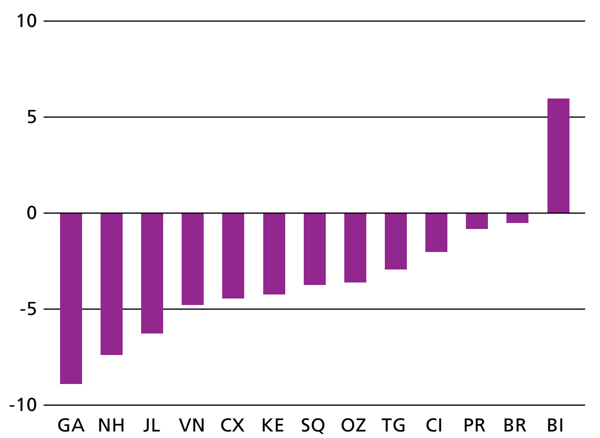
FTK GROWTH BY CARRIER

Percentage (Feb 01 - Jan 02 vs Feb 00 - Jan 01)



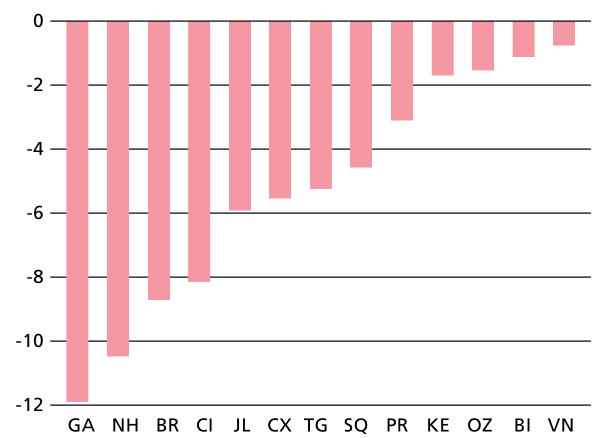
PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Feb 01 - Jan 02 vs Feb 00 - Jan 01)

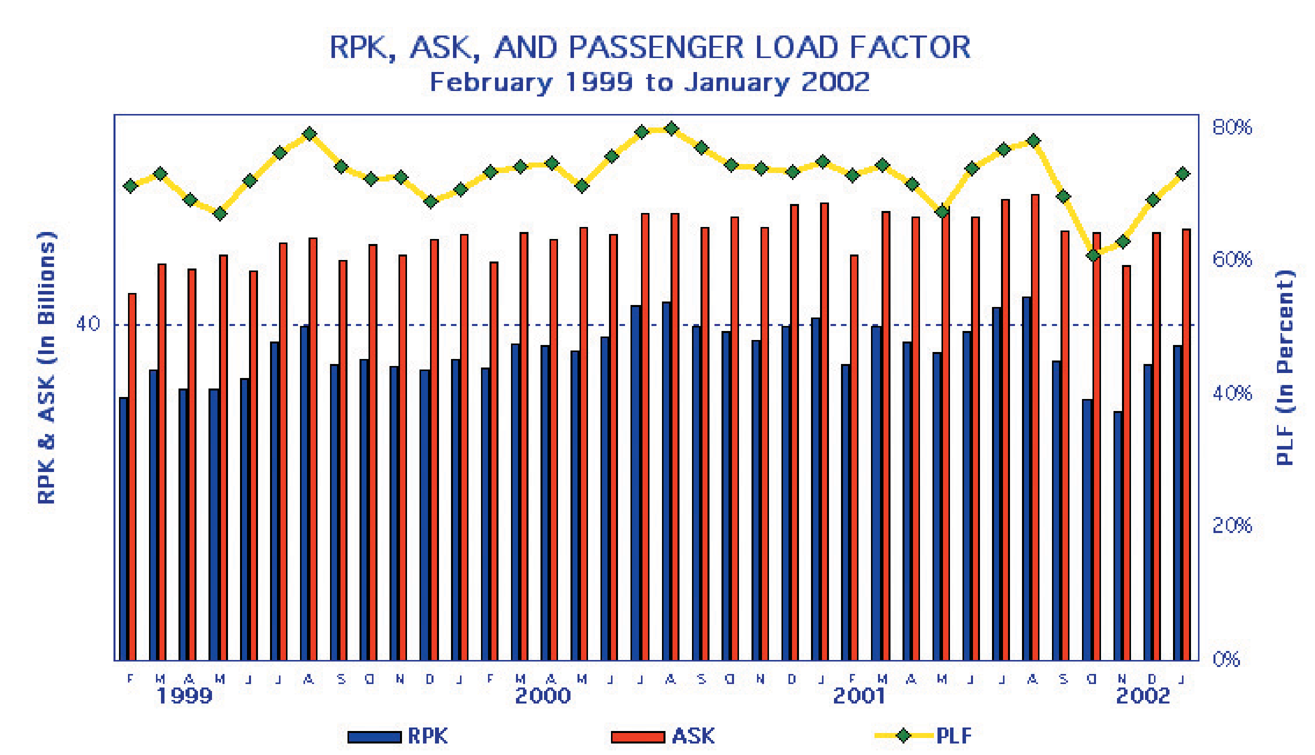


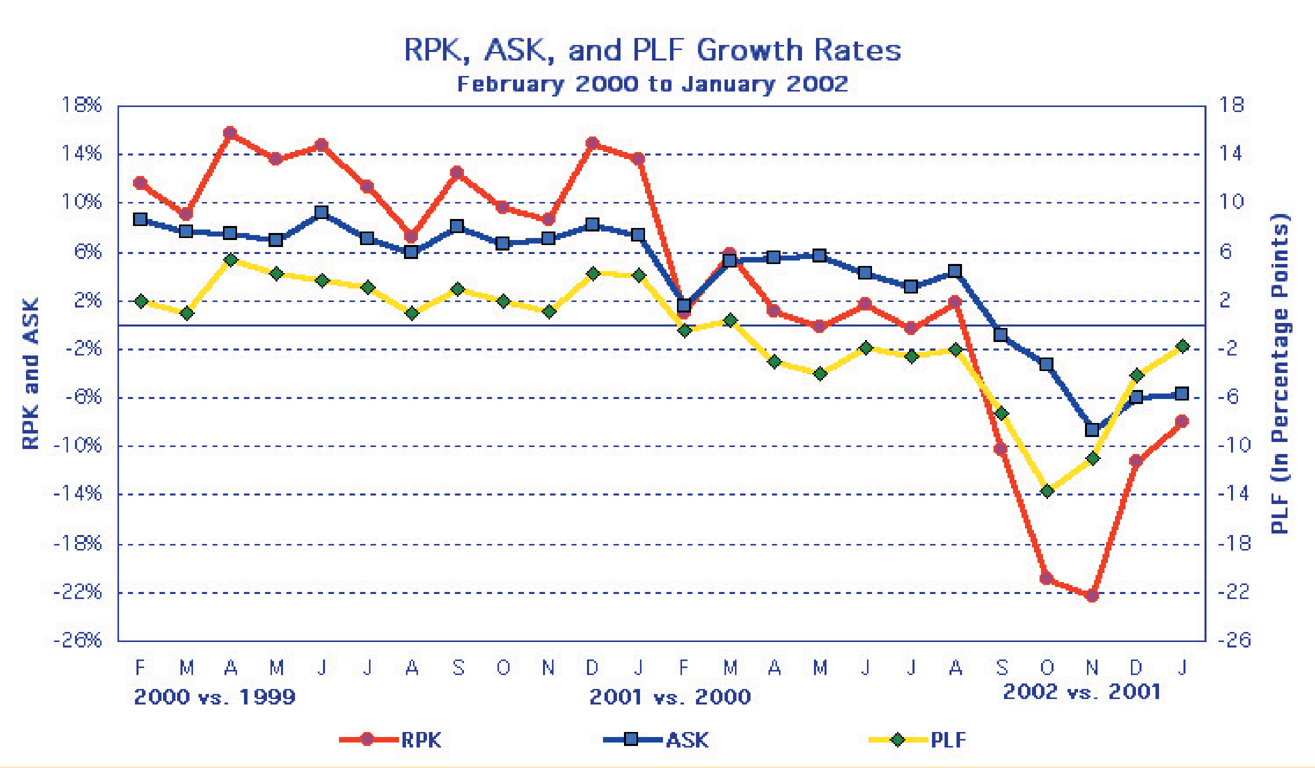
FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Feb 01 - Jan 02 vs Feb 00 - Jan 01)

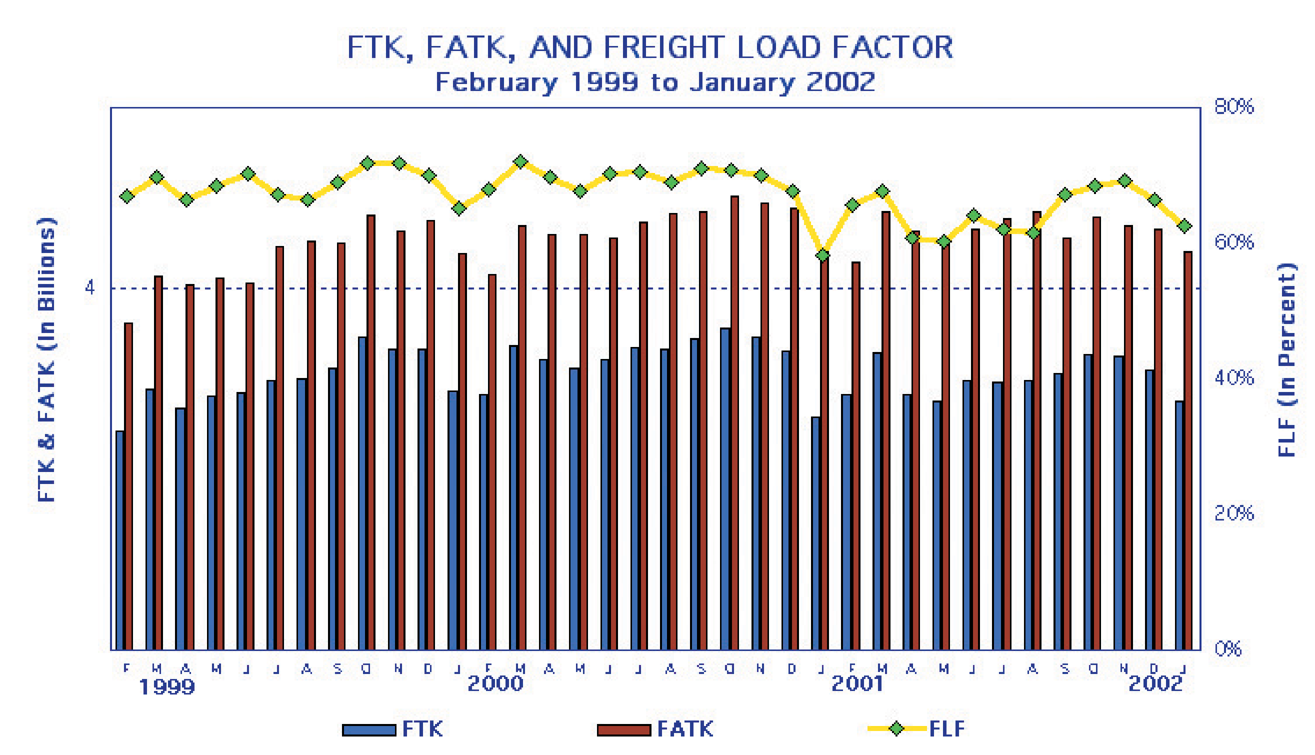


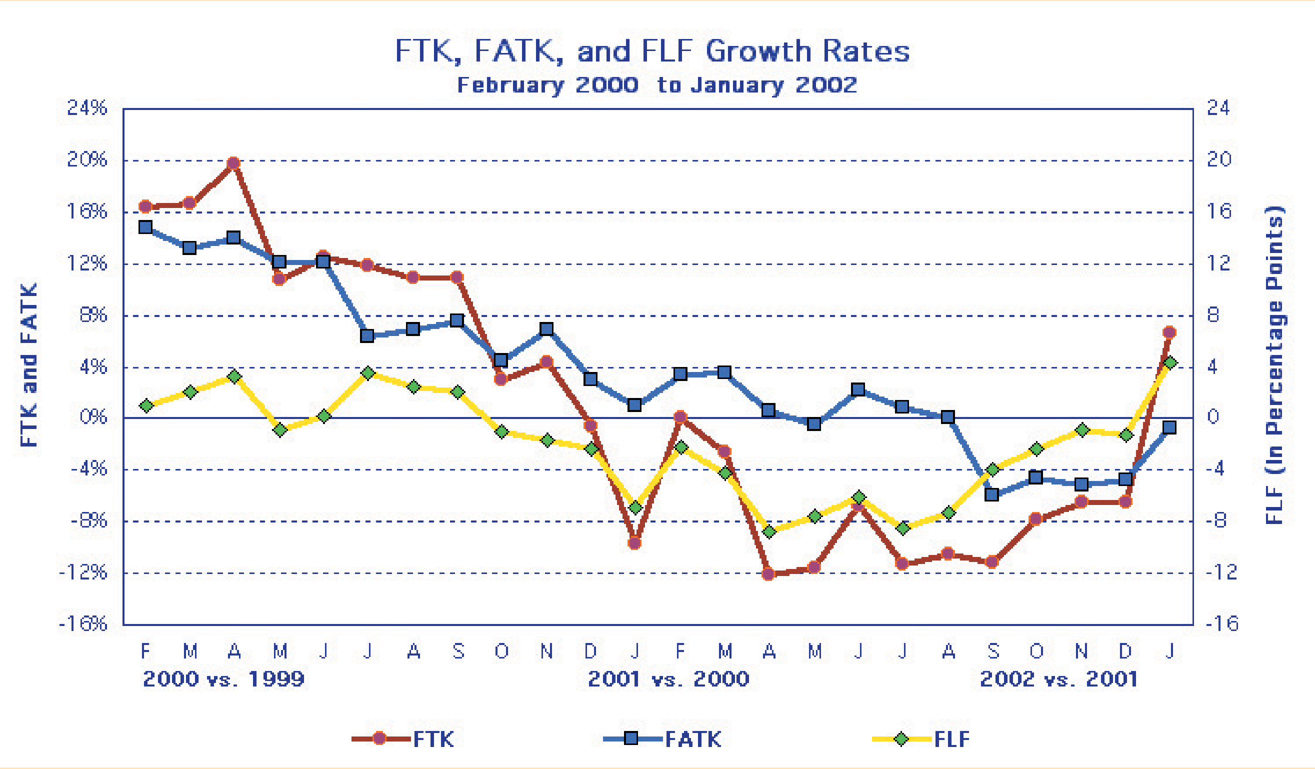
MONTHLY INTERNATIONAL PAX STATISTICS OF AAPA MEMBERS

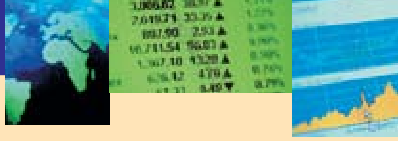




MONTHLY INTERNATIONAL CARGO STATISTICS OF AAPA MEMBERS







AAPA MONTHLY INTERNATIONAL STATISTICS (MIS) *IN THOUSANDS

2001 TO 2002

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
JAN-02	37,520,527	51,284,409	73.16	2,750,898	4,394,421	62.60	6,304,452	9,077,159	8,498
DEC-01	35,267,317	51,023,617	69.12	3,090,062	4,655,223	66.38	6,346,707	9,307,797	8,384
NOV-01	29,565,610	47,049,593	62.84	3,243,992	4,685,510	69.23	5,978,041	8,974,938	7,211
OCT-01	31,006,991	50,974,094	60.83	3,277,370	4,793,876	68.37	6,151,064	9,438,030	7,475
SEP-01	35,601,847	51,038,190	69.76	3,061,243	4,555,532	67.20	6,406,828	9,210,564	8,229
AUG-01	43,315,945	55,559,023	77.96	2,978,443	4,838,280	61.56	7,031,073	9,907,159	9,825
JUL-01	42,107,236	54,907,670	76.69	2,962,142	4,774,183	62.05	6,909,752	9,789,903	9,474
JUN-01	39,106,964	52,868,597	73.97	2,986,123	4,654,401	64.16	6,665,837	9,480,574	8,843
MAY-01	36,703,532	54,498,592	67.35	2,756,534	4,580,406	60.18	6,219,381	9,545,663	8,482
APR-01	37,878,796	52,884,118	71.63	2,819,388	4,633,547	60.85	6,378,428	9,456,088	8,713
MAR-01	39,816,317	53,462,196	74.48	3,280,160	4,848,967	67.65	7,024,088	9,725,854	9,078
FEB-01	35,142,724	48,196,685	72.92	2,818,661	4,293,850	65.64	6,123,623	8,700,352	8,011
TOTAL	443,033,806	623,746,783	71.03	36,025,015	55,708,198	64.67	77,539,272	112,614,080	102,223

2001 TO 2002

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
JAN-02	-7.92	-5.76	-1.70	6.58	-0.77	4.37	-1.55	-3.69	-6.13
DEC-01	-11.27	-5.92	-4.16	-6.55	-4.75	-1.28	-9.93	-5.61	-5.22
NOV-01	-22.28	-8.73	-10.95	-6.44	-5.21	-0.91	-15.13	-7.22	-16.44
OCT-01	-20.93	-3.26	-13.59	-7.84	-4.61	-2.40	-15.20	-4.28	-14.88
SEP-01	-10.31	-0.89	-7.33	-11.22	-6.00	-3.95	-10.86	-3.83	-5.63
AUG-01	1.77	4.40	-2.01	-10.53	0.06	-7.29	-4.07	1.80	4.40
JUL-01	-0.24	3.17	-2.62	-11.30	0.89	-8.53	-5.43	3.01	1.24
JUN-01	1.68	4.23	-1.86	-6.74	2.20	-6.15	-2.34	2.82	3.56
MAY-01	-0.22	5.69	-3.99	-11.56	-0.49	-7.54	-5.59	2.21	2.40
APR-01	1.13	5.44	-3.05	-12.07	0.60	-8.77	-5.21	2.65	2.12
MAR-01	5.79	5.17	0.43	-2.63	3.54	-4.28	1.66	4.03	6.96
FEB-01	1.03	1.60	-0.41	0.02	3.36	-2.20	0.59	2.24	-0.59

CALENDAR YEAR[5]

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
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
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
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
2000	462,466,095	617,787,854	74.86	39,020,611	56,255,588	69.36	82,533,153	112,874,721	103,527
2001	446,262,043	626,881,408	71.19	35,858,596	55,742,084	64.33	77,638,545	112,962,219	102,778
2002	37,520,527	51,284,409	73.16	2,750,898	4,394,421	62.60	6,304,452	9,077,159	8,498

CALENDAR YEAR[5]

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
1998	-1.46	-0.76	-0.49	-2.47	1.13	-2.47	-2.36	0.48	-2.82
1999	9.08	3.43	3.75	13.95	11.50	1.47	12.15	7.45	9.33
2000	10.95	7.21	2.53	10.61	9.19	0.89	11.26	8.08	9.85
2001	-3.50	1.47	-3.67	-8.10	-0.91	-5.03	-5.93	0.08	-0.73
2002[6]	-7.92	-5.76	-1.70	6.58	-0.77	4.37	-1.55	-3.69	-6.13

Note:

1. The consolidation includes 15 participating airlines. Consolidated Jan 2002 results are subject to revision as QF Jan 2002 numbers are not available.
2. KA and NZ do not participate in this report.
3. AN data from Jul 1998 to Jun 2001 only. VN data from Jan 1998 onwards.
4. CY denotes Calender Year (January - December).
5. YTD comparison: Jan 2002 v Jan 2001.