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50 YEARS

Japan Airlines celebrating a golden anniversary

Ansett R.I.P.?

Asia-Pacific Fleet Census UPDATE

U.S. terror attacks: heavy economic fall-out for Asia's airlines

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Japan Airlines' golden anniversary

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ALL ARE VULNERABLE

Nothing, absolutely nothing, can surpass the horror of September 11, when around 5,500 people lost their lives after three hijacked airliners on suicide missions smashed into the twin towers of the World Trade Centre in New York and the Pentagon in Washington.

That said, who would want to be an airline boss in these terrible times? Already running their businesses on a knife edge as the global economy continues to slide into a synchronised slowdown, now they must deal with the fall-out from collapsing passenger confidence brought on by the attacks and an anticipated U.S. military assault.

To cope, U.S. carriers are cutting services, slashing staff numbers and predicting fares will rise – for those who still must fly – to cover higher airport and inflight security costs.

In the Asia-Pacific, the new aviation world – post September 11 – is particularly vulnerable. Services from this region to the American Continent earn a substantial slice of airlines' collective revenue. Expect this to suffer, at least in the short-term.

As well, the region's carriers have a very large percentage of long-haul flights in their schedules compared to the U.S. majors. Therefore they are more vulnerable to sudden fuel price hikes and the costs associated with airport delays than European and American airlines.

To cap off this miserable scenario, some of these same airlines used air space over Afghanistan for their Asia-Europe services – the country that allegedly harbours the suspected mastermind of the September 11 U.S. slaughter, Osama bin Laden. Afghanistan is now a primary U.S. military target. Asia-Pacific carriers have two alternative routes; across South Asia and via the Middle East, but it will add time and fuel costs to their bottom lines.

But these factors, although very important, pale beside the intangible factor in the commercial airline business – when passengers decide to buy air tickets and why. At the moment airline travellers in the Asia-Pacific have some very good, if emotional reasons, not to fly – and these sentiments, even if they appear irrational, do not look likely to change in the foreseeable future. For this reason alone, times ahead will be very tough indeed.

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LOST INTEREST: Although much troubled, Thai Airways International (THAI) acting president, Somchainuk Engtrakul, said there were "quite a few" overseas airlines interested in taking a 10% stake in THAI, others say differently. A source told Orient Aviation *that Lufthansa German Airlines was the only carrier to have seriously thrown its hat in the ring while Air France "was still sniffing around". It is understood that THAI invited the Star Alliance partners to pitch for the stake, but they said they would leave it to Lufthansa. While 10% is a small interest, Lufthansa will see it as a foot in the door at THAI and put them in a good position to benefit if further investment opportunities arise for foreigners. The partial privatisation of THAI is on course to be completed by November. The Thai Government is reducing its shareholding from 93% to 70%. At one time, Qantas, Singapore Airlines, South African Airways and United Airlines had expressed interest, but they walked away from Bangkok long ago. Meanwhile, THAI is said to have committed itself to a future with the Star Alliance. There have been rumblings from government interests in recent months that THAI should not have allowed rival Singapore Airlines into Star and that it may be better off switching alliance groups. Sources say this is not now an issue.*

Acting THAI president, Somchainuk Engtrakul: "quite a few airlines" interested in investing in THAI. Others disagree.

PERSPECTIVE

NO RELATION: The demise of Ansett Australia which was grounded on September 13 by its administrator, has prompted the world's third largest aircraft leasing company, Ansett Worldwide, to completely distance itself from its namesake. Ansett Worldwide's vice-president marketing, Harry Forsythe, said the similarity in names arose from a common ownership which ceased in 1996. Keen to emphasise to customers, suppliers and financiers that there was absolutely no link between airline and leasing company, Forsythe said Ansett Worldwide was 100% owned by global financial services company Morgan Stanley. Ansett, the airline, was owned 100% by Air New Zealand, he stressed. Ansett Worldwide, which has a fleet of 173 aircraft on lease to 72 customers in 43 countries, has completed a rigorous review of business operations and has started implementing its new strategy of providing capacity solutions for airlines and aircraft operators.

LOYALTY REWARDED: Two leading Philippine Airlines (PAL) senior executives and a banker were unanimously elected to the new board of the national carrier along with 13 incumbent directors in August. The new directors are: So Uy, 56, PAL's executive vice-president commercial and special assistant to airline chairman, Lucio Tan; Jaime Bautista, 44, chief financial officer of the Lucio Tan Group and a former PAL CFO and banker Peter Favila, 53, who has been president of the Philippines' Allied Banking Group and the Philippines National Bank – a national financial institution now controlled by Lucio Tan.

Former PAL chief financial officer, Jaime Bautista, has been appointed to the PAL board

CAE CLOSE TO DEAL?: Sources have told *Orient Aviation* that CAE is close to signing a joint venture deal with China Southern Airlines that will give the Canadian simulator manufacturer a 49% stake in the airline's Zhuhai training centre. China Southern has been struggling to make the training centre pay for years. CAE is looking to expand its portfolio from manufacturer into the training arena. There also are reports that CAE may be interested in acquiring GECAT, which operates a training facility at Cathay Pacific City in Hong Kong.

TIDYING UP: The Star Alliance organisation has been tidying up its own house. Or should that be office. Star has closed its Los Angeles office, which employed 50 people, and is moving to smaller still-to-be-found premises on the U.S. East Coast. In addition to cost-cutting, the move will also make communication with its Frankfurt head office, which has also been reduced in size, more practical in terms of time zones. The Bangkok-based Asia office, however, has escaped the knife. In fact, it has added ex-Lufthansa staffer, Bernard Tymphol, to its payroll as regional director facilities and landlord. Meanwhile, Star's new chief executive, no-nonsense former pilot Jaan Albrecht, is busy whittling down over 100 potential projects to 20 or 30. There has been a lot of drifting up to now, with committee meetings producing a lot of talk but little action, *Orient Aviation* has been told. Albrecht is said to be looking for a greater focus aimed at making things happen.

SAD EXCUSE: We will refrain from naming names, but *Orient Aviation* was told by an executive of a supplier to a mainland Chinese carrier that he was aware it had an office in one of New York's World Trade Centre towers. After the terrorist attacks on September 11, he called the airline's mainland head office to offer comfort and ask if staff had managed to escape the blazing building in time. Yes, he was told, everyone got out. But almost in the same breath the airline representative pointed out that there would now be a delay in the paying of bills!

NO FRILLS BOSS: Qantas Airways chief executive, Geoff Dixon, chose a man after his own marketing heart when he appointed Denis Adams to head the Australian group's wholly owned, no-frills international carrier, Australian Airlines. Adams, until August Qantas' executive general manager marketing, said the carrier would be launched next July and would operate routes from its home country to Asian cities.

REGIONAL ROUND-UP

Politics rules again at THAI; Bhisit sidelined

Only days before Thai Airways International (THAI) president, Bhisit Kuslayanon, was sacked by his prime minister, Thaksin Shinawatra, and the entire board resigned in September, former president Chatrachai Bunya-Ananta described the situation at the national airline as "a right mess". "I blame it on the politics that interfere at the top level," he told *Orient Aviation*.

He proved prophetic.

A new THAI board of directors will be appointed in October and their first job will be to select a new president for the airline. Some may ask who wants the job after the demise of the popular and well-respected Bhisit Kuslayanon. But at press time there were 12 candidates, according to acting THAI president and Finance Ministry permanent secretary, Somchainuk Engtrakul. Six of the applicants were from government, three from THAI and three from the private sector.

A government appointee would not be popular given its track record of interference and that the airline still plans to press ahead with partial privatisation by November.

Bhisit will remain at the carrier as an advisor. Sources said the job will likely be in name only, to tide him over until he officially retires next year. A 30-year veteran at THAI, he took over from Thamnoon Wanglee last October. His problems started when the new government was elected in January. His job became a non-stop rollercoaster ride.

In March, a B737 exploded at Don Muang airport, killing one person and injuring seven, shortly before the prime minister was to board the plane. Thaksin initially claimed it was an assassination attempt, but this was later ruled out. It is now thought breaches of maintenance protocol were responsible for the explosion.

In April a new board was appointed, but Bhisit was omitted and told by the deputy transport and communications minister, Pracha Maleenond – who had appointed several close associates to the board – that his performance was being evaluated. Only after angry protests by union members about "jobs for the boys" was Bhisit confirmed as president.

Then came an exposé about lavish perks for board members and "friends" of THAI. In August, Thaksin called for an overhaul of the airline when pilots refused to fly with two union leaders, both flight attendants. They had accused THAI's pilots of being inefficient and said they did not deserve the pay rise the cockpit crews had demanded.

Former THAI president Bhisit Kuslayanon: a victim of politics

The crunch came after two bomb threats. The first, said sources, was thought to have been similar to many hoax calls airlines receive. The second arrived by e-mail and, according to Bhisit, was a deliberate attempt by his opponents to have him ousted. It worked.

Sources said Bhisit's downfall was that he was not a political player.

CAL clinches historic cross strait agreement

Many people have tired over the years of speculating on the timing of the removal of bans on direct flights between China and Taiwan. But the signing in September of the deal that will give Taiwan's China Airlines (CAL) a 25% stake in China Cargo Airlines, the cargo arm of Shanghai-based China Eastern Airlines, has, once again, raised hopes of a breakthrough.

"We have reached an agreement ... but in the end we still need approval from our respective governments," said CAL's China representative, Harris Wang.

CAL hopes to feed traffic from China Cargo into Taipei once direct links have been established with the mainland. China Eastern said it plans to launch a cargo service between Shanghai and Taipei via Hong Kong. It would cooperate with Cathay Pacific Airways on Shanghai-Taiwan routes. In August, CAL joined with two other Taiwan airlines, EVA Air and Far Eastern Air Transport, and the Taiwan Airport Service Co. to invest US$13.3 million for a 49% stake in a cargo terminal at Xiamen International Airport in southern China.

New low cost carrier for Qantas

Qantas Airways is expected to announce the launch of a new low-cost international carrier in October. Australian Airlines, as it will be known, will fly to destinations including uneconomic routes Qantas had dropped since the 1997-98 Asian economic crisis. They will include Beijing, Shanghai, Kuala Lumpur, Ho Chi Minh City and Seoul as well as Fukuoka, Sapporo and Osaka in Japan.

Australian will operate with one aircraft type and will fly between single city pairs with no connecting services.

The original Australian Airlines, a domestic carrier, merged with Qantas in 1993. The rights to retain the name and the logo were retained by Qantas.

Court rules 1998 PAL pilots' strike was illegal

At the time it appeared like a clear-cut case of industrial suicide. In June, 1998, with Philippine Airlines (PAL) plummeting towards bankruptcy and possible closure, 600 of its pilots, members of the Airline Pilots Association of the Philippines (ALPAP), walked off the job over a policy to force pilots to retire after 20 years service or 20,000 hours of flying. Orders to return to work by Manila's Department of Labour and Employment (DOLE) were ignored. DOLE ruled the action unlawful.

The pilots trundled back 22 days later, but by this time there were jobs for only 100 pilots because the fleet had been slashed to 14 operating aircraft. The airline closed its doors in September, but resumed business a few days later and vowed to re-build the airline.

But while PAL has been successfully putting the pieces together again, now operating 32 jets on a growing network, for two years the ALPAP has been petitioning the courts to have DOLE's ruling overturned.

In late August, the Court of Appeals in Manila upheld DOLE's decision that the strike was illegal. In a 15-page decision the court ruled that the strikers, by their actions, had lost their employment status with PAL.

The appeal court pointed out the Philippines' Labour Code forbid the staging of a strike if the Secretary of Labour had assumed jurisdiction of the dispute. The ruling said the union "took matters into its own hands".

SIA backs out of Air India bid

In early September, Singapore Airlines (SIA) announced it had decided not to proceed with its bid for Air India. It said political opposition in India was a key reason for the decision, which leaves its Indian partner, the Tata Group, as the sole bidder for the airline it once owned.

When the Indian Government announced in May it was to sell a 60% stake in the national carrier, with 40% on offer to a strategic investor, there was strong interest from bidders that included Air France, Delta Air Lines, the British-based Hinduja group and L. N. Mittal, which had ties with British Airways and Qantas Airways. One by one they have lost interest, citing political opposition and bureaucracy as the reasons.

An SIA statement said it had been hoped that SIA, in collaboration with the Tatas, would have been able to turn the ailing Air India around. "SIA did not think it would be an easy endeavour, but was surprised by the intensity of opposition to the privatisation of Air India from various quarters, including certain sections of political groups, trade unions and the media. In such an adverse climate, SIA is not confident that it could play a useful and effective role," said a statement.

Air rage crackdown by Malaysia Airlines

Malaysia Airlines (MAS) is taking tougher measures to counteract air rage following a rise in unruly passenger behaviour.

It recently refused to accept a passenger on a Kuala Lumpur-Brisbane flight because of his misconduct on a previous flight. A spokesperson for the airline said MAS, like all other airlines, was concerned about the recent increase in air rage incidents that directly affects the safety of passengers. "We will continue to ensure there is no compromise on this at all levels of operations," said the spokesperson.

There have been 20 reported incidents of unruly behaviour on MAS flights so far this year. This is the same number as was reported in the whole of 1996. In 1997, there were 35 cases reported, 96 incidents recorded in 1998, 60 cases in 1999 and 52 incidents last year.

In brief

China Airlines (CAL) and Snecma Services signed a Memorandum of Understanding in September to establish a joint venture to set up an engine maintenance, repair and overhaul shop at CAL's facility in Taipei.

China Southern Airlines has signed a ground handling agreement with China Northern Airlines and Xinjiang Airlines, which is the first significant step forward in the proposed merger of the carriers.

Macau International Airport set a record of 360,899 passengers in August, the highest since the airport opened in November 1995 and 20.1% higher than a year earlier.

Hong Kong International Airport recorded a monthly record of 3.14 million passengers in August. Passenger throughput for the 12 months ending August, 2001 was 33.9 million, up 4.5% on the same period a year earlier. There were 17,200 flights in August, an 8.4% rise on the same month in 2000. Flight movements year-on-year rose 10.9% to 194,400. Cargo fell by 3.1% to 2.12 million tonnes in the year.

BUSINESS ROUND-UP

Ansett closure follows record loss for parent Air NZ

Within 36 hours of Air New Zealand (Air NZ) announcing in September the biggest loss in New Zealand corporate history, NZ$1.425 billion (US$612.8 million), for the year to June 30, the doors of Ansett Australia, the subsidiary carrier which contributed most to the New Zealand flag carrier's financial humbling, were suddenly and controversially closed.

The events surrounding the decision by the Ansett administrator, Peter Hedge, of PricewaterhouseCoopers, are covered elsewhere in this issue, but Air NZ's actions that put Ansett into voluntary administration earlier in the week were clearly designed to safeguard its own future. Its loss included a NZ$1.32 billion write-down, which represented the book value of Ansett.

Air New Zealand: biggest loss in the country's corporate history

But under a NZ$850 million bail-out package for Air NZ, which needs approval of shareholders and bankers, both Singapore Airlines (SIA) and Brierley Investments will invest NZ$150 million by purchasing new shares in the carrier for NZ$0.37 cents each. If approved SIA will increase its stake in Air NZ from 25% to 34% and Brierley from 30% to 37%. The New Zealand Government will make available to its national carrier debt facilities worth NZ$550 million, repayable over two to five year terms.

Ansett lost NZ$165.4 million in a year of intense competition, high fuel prices and a weak dollar. Air NZ, excluding the write-down, lost NZ$173 million. This was propped up by asset sales and Air NZ operations, which made a pre-tax profit of NZ$98.4 million. Its losses on international routes, however, were NZ$51 million.

The future? Air NZ's board echoed the feelings of airlines everywhere when it predicted trading conditions remain very difficult, with fuel prices, exchange rates and global economic activity significantly impacting on profitability.

"With Tuesday's (September 11) terrible events (the U.S. terrorist attacks) yet to be fully understood and factored into global financial markets, significant uncertainty remains in the business outlook," said acting chairman Jim Farmer.

"Travel patterns, for both business and leisure customers, are influenced by global economic conditions and there is some evidence of a slowdown emerging in world economies with growth in air travel also slowing. This can also be expected to be affected by the recent terrorist events."

Hainan Airlines shows China's majors the way

Mainland China regional carrier, Hainan Airlines, has achieved what the country's major operators have failed to do – increase its profit in the first six months of the year to June 30.

Air China, China Southern Airlines (CSA) and China Eastern Airlines (CEA) have all reported either sharp declines in profits or losses. Indeed, the Civil Aviation Administration of China (CAAC) recently said the 10 carriers under its control had lost a combined total of two billion yuan (US$244 million) for the half year.

But Hainan Airlines, based on the popular southern China holiday island of Hainan, made a net profit of 51.9 million yuan, 96% up on the same period in 2000. Turnover increased 37.1% to 1.47 billion yuan.

It is believed Hainan fared better than its bigger rivals because it had limited exposure to international operations and is a small player in the cargo market.

In the last year, ambitious Hainan acquired three small mainland carriers, Changan Airlines, China Xinhua and Shaanxi Airlines. It plans more mergers and acquisitions before the end of the year.

CSA Group's net profit plummeted 42.1% year-on-year to 201.5 million yuan. A 17.9% rise in the average price of jet fuel was the major contributor to the bottom line decline of China's largest carrier.

Turnover was up 14.3% to 8.07 billion yuan over the same period last year. Traffic volume surged 23% to 1.45 billion revenue tonne kilometres and revenue increased 16.6% to 7.9 billion yuan.

"During the period under review the group's load factors and aircraft utilisation recorded steady growth as a result of the improving People's Republic of China economy and growing domestic demand for aviation," said a CSA statement.

"The growth in passenger volume and market transparency have been improved by new policies on discounting domestic airfares, control over agency marketing and the revenue sharing scheme for domestic routes implemented by the CAAC."

The outlook is brighter for the second half of the year, said the spokesman.

China Eastern Airlines Corp. said its first half net profit, based on international accounting standards, was 70.3 million yuan, down from 203.7 million a year earlier. Fuel prices, slowing of the global economy and competition on domestic and international routes were the major reasons for the profit decline.

Based on domestic accounting, CEA lost 226.5 million yuan, compared to a net profit of

70.9 million yuan in 2000. The airline said the gap between the two accounting standards was due to the big difference in depreciation charges on aircraft and aircraft components.

Turnover rose by 8.7% to 5.81 billion yuan. Passenger traffic increased 11.8% to 7.45 billion revenue passenger kilometres.

Dragonair profit up

Hong Kong's second carrier, Hong Kong Dragon Airlines, better known as Dragonair, posted a 28% rise in first half net revenue to HK$2.26 billion (US$289.7 million) according to CITIC Pacific Ltd, which has a 28.5% stake in the carrier.

Dragonair's positive result contributed to CITIC's interim net profit of HK$1.5 billion (US$192.3 million), up 7% on the same period last year.

But overall income from CITIC's aviation division was down 34% year-on-year. CITIC has a 25.5% stake in Cathay Pacific Airways, which announced in August a 39% decline in net profit.

PAL recovery continues

Philippine Airlines (PAL) recorded its second successive year of profit ending March 31, after six years of heavy losses. PAL reported net income of 419 million pesos (US$8.35 million), compared to a profit of 45.8 million pesos in 2000.

In a joint report, PAL chairman, Lucio Tan, and airline president, Avelino Zapanta, said PAL had met its financial commitments in the year and also paid US$14.2 million in debt repayments.

The airline is aiming for a one billion peso profit in the current financial year.

Despite an adverse operating environment the executives said PAL remained on target with its financial commitments to creditors, agreed under a rehabilitation plan sanctioned by the Manila Securities and Exchange Commission. The airline went into liquidation in 1998 with debts of US$2.2 billion.

PAL will upgrade systems controlling airline sales, accounting and revenue management and launch a real-time online booking service. It is improving its inflight service.

But Tan and Zapanta warned factors largely beyond PAL's control, including the unpre-dictability of jet fuel prices, the uncertainty of the global economy and intensifying competition, made it difficult to forecast accurately the course of PAL in such a tough environment.

Major reversal for EVA

EVA Air, Taiwan's second international carrier, which has put major emphasis on its cargo division in the last three years, lost NT$2.52 (US$73 million) in the first six months to June 30. The result compared to a NT$1.32 billion profit in the same period in 2000 and was put down to weakness in the cargo market, a lower New Taiwan dollar and increasing operating costs.

For the second time this year the airline changed its earnings forecast for the 12-month period to a NT$3.35 billion loss from an estimated NT$1.39 billion profit, predicted in July. In March, it had projected profits of NT$2.05 billion.

Woes continue for MAS

Malaysia Airlines' (MAS) first quarter loss demonstrated how much work the new management has to do to turn the carrier around. The airline lost 413.8 ringgit (US$109 million) after tax in the three months to June 30. This compared to a 128 million ringgit loss in the period one year earlier.

MAS said the increased loss in the quarter, compared to 2000, was due mainly to the reduction in profit from the sale of aircraft and spares.

During the quarter MAS turnover fell 1.9% to 2.11 billion ringgit from 2.15 billion in the same period last year. Both passenger and cargo load factors dropped to 62.7% and 57.4% respectively in the period under review.

Cargo services posted a pre-tax loss of 58.6 million ringgit. The catering services division lost 13.4 million ringgit in the quarter. Expenditure rose slightly to 2.57 billion ringgit.

MAS said it expected to reduce its losses on domestic services following the introduction of a 52% fare increase in August. It is reviewing its worldwide network and plans to streamline its engineering and maintenance division.

Passenger downturn fears in Sydney

The terrorist attacks in New York and Washington in September led to the Australian Government extending the deadline for binding bids for the sale of Sydney international airport.

"[The delay] followed approaches from bidders, given the tragic events in the United States and the subsequent level of disruption in the financial markets," said finance minister, John Fahey.

The attacks and the mid-September closure of Ansett Australia have sparked speculation that passenger numbers could fall at Sydney thus lowering the expected asking price of up to A$4.5 billion (US$2.3 billion) for the airport.

A bid by one of the three interested consortiums was in doubt after AMP's fund management group, AMP Henderson, withdrew it's A$520 million airport fund initial offering, blaming the upheaval in the domestic market.

ABN Amro, a member of a second consortium, has said passenger numbers could fall at Sydney because of the knock-on effect from the U.S. terrorist attacks. This would lower the airport's value. Flights involving the U.S. account for about 25% of Syney airport's business.

Shandong expansion

One of China's most innovative domestic carriers, Shandong Airlines, said shareholders have agreed to a plan to issue 110 million yuan denominated Class A shares to invest in two Boeing B737-800 aircraft, valued at 700 million yuan (US$84.6 million) and a 300 million yuan investment at the international airport in Jinan, Shandong's capital city.

Hainan Airlines: bucking the financial trend in China

Airline sector hardest hit following the terrorist attacks in the U.S.

DIRECT HIT...

That's the effect the September 11 terrorist attacks on the twin towers of the New York Trade Centre and the Pentagon in the U.S. have had on the world aviation industry.

As *Orient Aviation* went to press there were worrying developments, which supported industry views, that the aviation sector would be hardest hit by the terrorist attacks.

Major carriers in North America and Europe are ditching capacity and laying off thousands of workers. There is talk of bankruptcy for some airlines and governments have been asked to consider assistance packages to help avoid these threatened collapses.

At press time members of the Association of Asia Pacific Airlines (AAPA), which represents the major carriers in the region, were taking stock.

For most of the AAPA's big operators U.S.-Asia-Pacific traffic represents up to 25% of their revenue flights. Some, like Cathay Pacific Airways, had seen their stock plunge by 12% in the three days after the terrorist attacks.

While most airlines could not or would not put a figure on the cost of the cancellation or diversion of flights in the days following the attacks, Korean Air said it had lost 19 billion won (US$14.6 million) and its Korean rival, Asiana Airlines, 5.4 billion won in the four days between September 11 and September 14 alone.

Japan Airlines said it was facing a "serious situation". Cathay Pacific Airways predicted in the weeks to come that traffic would slow further. Pre the attacks, in August, its passenger numbers declined 5.3% compared to the same month in 2000. Philippine Airlines, which narrowly avoided closure three years ago and was successfully re-building its future, described the terrorist attacks as "a disaster" for the carrier.

In a statement issued by its Secretariat in Kuala Lumpur, the AAPA said: "The main focus for aviation today is safety and security, which is to tighten security to ensure safety."

By the third week of September, the region's long-haul operators were flying again to the U.S. All of them met the enhanced security regulations of the Federal Aviation Administration. Passengers now have to check in three hours before their flights depart.

But in the months to come airlines and airports in the region will be further reviewing security procedures. Fortunately, the collective outlay for security enhancements may not be as high for Asia-Pacific carriers as it will be for American airlines. The majority of the region's airports have much better security and surveillance systems than most other parts of the world.

But this is little consolation. No matter how you look at it, it is the industry consensus that a combination of a prolonged U.S. military engagement and a near or real recession will inevitably add up to very hard times for the region's airlines.

Attacks force security re-think

A statement by the Association of Asia Pacific Airlines (AAPA) Secretariat

‘The recent tragic events in the U.S. have had immediate effects on aviation worldwide. In the Asia-Pacific region its now business as usual as airports in Hong Kong, Singapore, Tokyo and Bangkok, which were congested with aircraft waiting for the re-opening of airspace and airports in North America after the terrorist attacks, have returned to normal operations. At the Kuala Lumpur International Airport in Malaysia, where the AAPA is based, increased security checks on baggage, passengers and cargo, and the increased visibility of uniformed Malaysia Airports Bhd security staff, were some of the actions immediately imposed.

Airlines in the region have been experiencing declining yields in the current operating year and had started making adjustments such as budgetary and job cuts. The terrorist attacks in New York and Washington will accelerate those declines in the near term.

The impact on the financial system of Manhattan Island and the already-weak global economy could lead to a world-wide recession, which in all likelihood will result in declining business and leisure travel and also cargo shipments.

Jet fuel prices have been escalating, which will in all likelihood increase based on the recent events.

The airlines and airports in the region will have to rethink their procedures regarding airport and airline security, which will impact airport capacity and frequency of flights. This coupled with the increased security measures and inconvenience to passengers, along with the fear of further security incidents, could deal a severe blow to aviation in general.

All of these factors when taken together are bound to have a negative effect on the AAPA members' profitability, even if ticket prices increase for the consumer, but that will be the price of increased security and safety.

The aviation authorities, airports and airlines must be careful not to over-react. Life and commerce must go on, safely but efficiently.

All the aforementioned is based on the September 11 attack. The consequences for aviation of any U.S. retaliatory action against the terrorists and the effects of that are too numerous to speculate on at this time. These will develop over the next few days, weeks or months to come.

The main focus for aviation today is safety and security, which is to tighten security to ensure safety.

The AAPA has in place a security committee to address these issues facing members, in line with its corporate goals of making air travel in the Asia-Pacific region a safe mode of transportation for all. The committee works in concert with similar committees in other global organisations to increase airline and passenger safety and security.’

Cathay re-routed within 48 hours

Taking no chances and losing no time, Cathay Pacific Airways reacted to the U.S. disaster by immediately re-routing flights safely away from what seemed the most likely target of American retaliation, Afghanistan, writes Jonathan Sharp.

The airline "basically took action straight away," an industry source told *Orient Aviation*. Afghanistan closed its air space altogether on September 17.

Most of Cathay's flights between Hong Kong and Europe fly over China and Russia, far north of the potential flashpoint, but services to Rome and Istanbul flew a more southerly route through Iran, which adjoins Afghanistan.

Clearances for the re-routed flights took only 48 hours. "The Chinese and Russian governments have been, shall we say, very helpful in this case," said the source.

The difference in time, and hence fuel costs, for the re-routed flights is minimal.

But they are more expensive. "The Russians and the Chinese charge a lot for flying over their airspace."

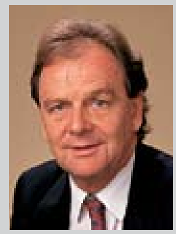
Re-routing easier for Cathay Pacific than other Southeast Asian carriers

Hong Kong-based Cathay is lucky in that its position on the south China coast makes it easier to move flights away from Afghanistan than for carriers flying to European destinations from, for example, Singapore and Bangkok.

It is not easy for flights from the more southerly Far East centres to cross to the trans-Siberian route because the Himalayas are in the way, acting as a barrier for a heavy aircraft.

The alternative diversion is across southern India and up through Saudi Arabia and Egypt, which the source described as "a long way for a short cut."

Ansett's fall softens U.S. blow for Qantas



While Qantas Airways will be hit by the international ramifications of the U.S. terror attacks, the impact will be softened as it strengthens its position in the Australian market place following the collapse of primary rival Ansett in the same week as the World Trade Centre and Pentagon attacks.

Qantas chief executive, Geoff Dixon (pictured right), said the fall in demand on U.S. routes following the tragedies would allow Qantas to re-deploy Boeing B747s onto domestic routes in the short term.

Qantas will review its US$4.6 billion, 10-year fleet plan and eventually revise its projections. Dixon said it was too early to change financial forecasts.

"We've been concentrating on the events in the United States," he said. American Airlines is a Qantas code-share and oneworld alliance partner. Flight 77, one of the two planes that flew into the World Trade Centre, was also known as QF3058. It was due to connect to QF8 out of Los Angeles to Sydney.

Serious situation, says JAL

"We are facing a Gulf War scenario when air traffic suddenly and spectacularly slumps as it did in September," said Japan Airlines international director public relations, Geoff Tudor. "And this is certainly the possibility here. The United States and trans-Pacific routes in general are a very big slice of our cake.

"For example, we have something like 10 flights between Japan and Hawaii on a one-way basis every day, so with that kind of impact, it's a pretty serious situation.

"Trans-Pacific business is approximately one-third of our overseas business. It is obviously not going to disappear entirely, but it will take a knock.

"This is obviously going to have an impact on our earnings, but right now it's impossible to say how much."

A 'disaster' for PAL

"For Philippine Airlines (PAL) this is a major disaster because trans-Pacific (traffic) is a major component of our operation," said PAL president and chief operating officer Avelino Zapanta . "We have about 23 flights a week to the U.S.

"It's perhaps around 30% of our total international operation. It has resulted in lost revenues to the tune of 30-40 million pesos (US$570,000-760,000) per day. It's a good thing it's a bit of a lean season now. The peak (in August) has passed. So flights are not quite full these days. But given that, it's going to be a very major chunk of our revenue that we will not be able to generate.

PAL president and chief operating officer Avelino Zapanta: airline has 23 flights a week to U.S.

"It might be a blessing in disguise that it happened at a time of economic slowdown."

It is one more sorry blow for PAL as it attempts to recover from US$2.2 billion of debt that almost forced its closure in 1998. Since then PAL has restructured and, with astute management, has posted a profit over the last two financial years. The events of September 11 in the U.S. could stall its progress.

Trying time – MAS

"We have stepped up our own security at the KLIA airport," said Ms Nordiana Zainal Shah, head of Malaysia Airlines (MAS) government and industry affairs.

"This is not as big as the Gulf War. In the Gulf War the skies were closed for much longer.

"Traffic is generally down anyway. When the whole regional economy is turning to the U.S., and they are facing a downturn, this rubs salt into the wound. It has been quite a trying time for MAS."

Worse to come – Cathay

"Whilst it is too early to quantify the exact impact of the recent tragic events in the U.S., we have to assume in a market that had already shown signs of weakening, these events will have only made things worse," said Cathay Pacific Airways director sales and marketing, James Barrington.

"We are reasonably sure that business travel between Asia and the U.S. will slow further. However, we do not yet have enough information to judge the intra-Asian markets.

"A significant part of Cathay's traffic flows come within Asia and we will need more time to see whether these hold up in the weeks ahead."

The analyst's view

Peter Hilton (pictured right) of Credit Suisse First Boston in Hong Kong said the short-term fallout from the disaster would be a significant reduction of airline profits in the second half of this year.

"There is not only the disruption, but at the moment air cargo has been affected and it's not clear when that will normalise."

He said there had been a wind-down in corporate travel even before the disaster. "A lot of companies will now see an additional reason to crank down on that."

Hilton said there might be a "substitution effect", in which some travellers will choose not to fly U.S. airlines.

"There could be a market perception that terrorism is more likely to focus on U.S. carriers. That might be a slight benefit for the Asian carriers, although compared with the other negatives, not sufficient."

Beyond the second half of this year the focal point is the U.S. economy. "For the airlines the key issue in terms of the share market is when might we start to see the U.S. economy recovering, because airlines will benefit from that," he said.

Cutting costs link to lax security

By Jonathan Sharp

Picture the scene: following a spate of bombing incidents, an airport in the Asia-Pacific region installs a screening system whereby arriving passengers have their check-in luggage passed through an X-ray machine. "I stood and watched this particular X-ray operator who sat filing her nails talking to another operator and looking straight at her. Meanwhile 35 bags went through and she didn't look once at the screen."

The witness to this apparently glaring example of slipshod airport security is no layman but an aviation security specialist, with previous service in the International Civil Aviation Organisation (ICAO), who talked to *Orient Aviation* on condition of anonymity about the highly charged issue of airport security following the September 11 attacks in the United States.

His view is that the closely co-ordinated hijacks, and the enormity of their consequences, represented a quantum leap in problems confronting the aviation industry that required a quantum leap in procedures to prevent a recurrence.

However, he cautions against rushing to simplistic judgements about the much-publicised laxness of security at American airports, noting that during his time at ICAO he inspected about 100 airports around the globe, and found every single one wanting in some respect, major or minor.

He cites a host of factors that may have contributed to the tragedy, including ever-growing pressure from the public and airlines to avoid long check-in times and painstaking security procedures that cost money to all concerned.

There is also the fact that American airports, unlike elsewhere, had never experienced a major attack previously. "Complacency sets in," he added.

He likens domestic air travel in the United States to a bus service, with huge numbers of passengers, meeters and greeters and airport staff allowed to mingle together. "There are a lot of quick movements."

He said the wealth of regulatory requirements for the control of aviation as issued by ICAO is predicated on the international aviation industry. Countries are encouraged to adopt similar measures for their domestic services. "But all the government regulatory focus tends to be on that which they are going to be accountable for, which is the international industry, not the domestic one."

He said a body like ICAO can provide only regulatory guidance and doesn't have the political will to censure. Following an ICAO inspection of an airport, the relevant administration is encouraged to correct any shortcomings. "But if they choose not to, that's their choice."

Airlines 'always on the backs of airport authorities to speed passengers through'

The problem of establishing proper security procedures is a global one. "If you look at the way aviation security tends to be organized around the world, not just in America, it is organised by contracted firms. How do these firms get the bids? Usually on the lowest tender and it can go to people who can cut the corners the most.

"You can have the situation where you get people coming off the street, given minimal training, put in uniform and shoved on to a screening point. If supervision standards slip, quality slips. These things can happen."

He said operators should not sit in front of X-ray machines for longer than 20 minutes at a time. "But a lot of countries can't afford to rotate staff like that."

He said screening was a process that had to be looked at in its entirety, checking myriad details including, for example, how duty free merchandise gets supplied to airside shops.

Incidents have occurred where security personnel have mistakenly assumed that arriving passengers have been screened already.

"We have had examples where people have got off flights with weapons, secreted them in toilets, then the hit team has picked up the weapons, boarded the flight and gone."

He said even some of the latest airports in the Asia-Pacific were creating problems by installing inadequate equipment that resulted in queues at screening points, putting pressure on operators to process people too quickly.

"Airlines are always on the back of the airport authorities to get these passengers through, because time is money."

The United States was in fact the first nation to introduce screening procedures on international flights. "So you can't point your finger at the U.S. and say they have traditionally lagged behind."

He said the aspect of the September 11 attacks that concerned him most was the access that the hijackers had to the flight decks of the commandeered aircraft. One of ICAO's recommendations is that the flight deck door should always be closed and locked so that it is inaccessible to people in the rest of the aircraft, but this is a recommendation for international flights, not for the domestic flights involved in the U.S. disaster.

"How many times have you flown where you've seen the cockpit door open, not even closed, let alone locked? That's a little bit disturbing."

He said ICAO had done a lot of work on armouring the bulkhead between the cockpit and the rest of the aircraft to prevent a scenario where the flight crew were incapacitated by some kind of device.

"Of course all that becomes nugatory if you leave the door open."

As extremist groups sought to maximise the impact on the world's consciousness, the 1980s saw an escalation, with aircraft blown up in the air. The destruction of Pan Am 103 over Lockerbie in 1988 was the most horrendous example.

"I think nobody has really thought that a human psyche could propel an aeroplane containing hundreds of people into structures containing thousands of people. I don't think anybody has got their head around that.

"We are obviously learning the hard way."

ANSETT R.I.P.?

By Tom Ballantyne in Sydney

It was the day Ansett died. A day of tears. September 14. Around Australia thousands of passengers arrived for early morning flights and found airport terminal doors locked. Flight attendants, some crying openly, mingled with confused travellers on the sidewalk, stunned by the curt, printed notices they had read which declared all Ansett flights were suspended indefinitely.

The carrier's 66 aircraft, from B747 jumbo jets to B737s and Airbus A320s to small turboprops, stood silent and desolate on tarmacs across the nation.

An airline and an Australian institution, was, apparently, at an end, after 65 years although, as *Orient Aviation* went to press, there were attempts being made to resurrect some of the airline's operations.

On September 13, the previous day, owner Air New Zealand (Air NZ) announced staggering after-tax net losses of US$598.5 million for its latest year. With Ansett's debts approaching US$1 billion, the Australian domestic carrier and its international arm were ditched by its shareholders and put into the hands of an administrator.

That move should have allowed it breathing space to seek solutions – and to keep it flying. Alas, that was not to be. By midnight, the administrator, PricewaterhouseCoopers, had uncovered a fiscal disaster in Ansett's books that was worse than anyone had believed possible.

Ansett required US$90 million simply to pay the bills that would have allowed it to fly for another 24 hours. The cupboard was bare. There was no choice, said administrator Peter Hedge, but to ground the fleet, close the doors and place the airline in liquidation.

"We have been raped. And some people have been standing by and watching the rape happen," said employee Maurice Bolus, who had been with Ansett for 29 years.

His views reflected the intense anger felt by the airline's 16,000 staff, who collectively blamed Air NZ management for driving the Australian carrier out of business.

It was a day of incredible emotion as Australia came to terms with the collapse. At Melbourne Airport an Air NZ jet with New Zealand prime minister, Helen Clark, on board was blockaded by angry Ansett workers. She was on a stopover on her way to Europe.

Ms. Clark was eventually airlifted from the airport by a police helicopter and travelled home on a New Zealand Air Force Orion aircraft that had been sent to collect her. Air NZ later cancelled flights to and from Australia. It faces long-term bans and boycotts by Australian unions.

Ansett Australia: doors closed after 65 years

Ansett rivals, Qantas Airways and Virgin Blue, quickly moved in to help. They honoured Ansett tickets and helped stranded passengers travel to their destinations. The Qantas regional domestic, QantasLink, placed aircraft on 34 routes previously served by Ansett subsidiaries, Hazelton Airlines, Kendall Airlines, Skywest Airlines and Aeropelican. They, too, had been grounded.

Ansett's fate had been sealed a few days before its liquidation when two key potential buyers, Singapore Airlines (a 25% shareholder in Air NZ) and Qantas, refused to mount a rescue mission.

They decided that Ansett's market share had been shredded by poor performance, safety problems, a strong Qantas and the arrival last year of discount operator Virgin Blue. In the end, Air NZ had little choice but to condemn its two-year attempt to forge a trans-Tasman airline grouping to the scrap heap as Ansett threatened to send Air NZ into bankruptcy.

And with airlines facing potentially disastrous market conditions following the tragic terrorist attacks in New York and Washington on September 11, no favoured buyer was ready to rescue Ansett.

In the event, major Air NZ share-holders, Brierley Investments and Singapore Airlines, each had to pump US$65 million into Air NZ, and the New Zealand Government had to guarantee a US$235 million standby credit facility to keep its flag carrier alive. The deal will increase SIA's equity in Air NZ from 25% to 34%.

No one yet knows if Ansett's demise is permanent. There is talk of a staff buyout. The Ansett Pilots Association said it had begun talking about a buyout to several leading investment banks and "a significant international airline" that it would not identify.

Industry sources suggested this could be Star Alliance partner Lufthansa German Airlines. The consortium has retained New York management buyout specialist, Kellin & Co. and legal firm, Corrs Chambers Westgarth, for its proposed bid.

Both the Australian and New Zealand national governments rejected proposals that would have required direct government investment to keep Ansett flying. In a strange twist in the sad saga, Air NZ attempted to persuade the Australian Government to take over Ansett, liquidate it and create a new, low-cost carrier called Ansett Two.

SIA had been regarded as the most likely Ansett buyer, but it stepped back from that possibility after its management discovered the perilous financial state of the airline.

In another unlikely development, Air NZ offered to sell Ansett to its rival Qantas, but the Australian national flag carrier also declined the offer after it decided Ansett's problems were too great for it to take on.

SIA's deputy chairman and chief executive, Dr Cheong Choong Kong, said the Singapore airline believed the combined equity injection and the New Zealand Government's credit facility were important and positive steps for Air NZ.

What has caused most anger in Australia is the refusal of Air NZ to take responsibility for an estimated US$260 million of cash entitlements, including long service leave and holiday pay, owed to Ansett employees.

Australian prime minister, John Howard, who described the collapse as "a very sad event", has announced his government is prepared to pay some of that money, raising funds through a levy on air tickets. But he made it clear he wanted the liquidator to "chase" Air NZ.

"There are grounds for believing Air NZ has a legal obligation to Ansett, particularly to employee entitlements," he said. Ansett's downfall also presents opportunities for others. It is unlikely Qantas alone will fill the void.

Sir Richard Branson's Virgin Blue could grow far more rapidly than it had previously planned, bringing in additional capacity and taking up slots and routes Ansett might ditch. It also has expressed interest in some of Ansett's regional domestic network.

Virgin Blue parent, Virgin Atlantic Airways, is 49% owned by SIA.

A refinanced and revitalised Air NZ may launch a domestic network in Australia in an attempt to win back market share it has lost through the demise of Ansett.

Air NZ is free to operate in Australia under the Australia-New Zealand single aviation market agreement.

However, it is unlikely domestic a Air NZ will be accepted in Australia, at least in the short-term, given its role in the controversial and emotional events surrounding the closure of Ansett.

Another newcomer also may be tempted to launch flights now there are no longer two "majors" in the Australian market. None of these options, however, will be easy.

STOP PRESS:
As Orient Aviation went to press...

- Australian unions threatened a boycott of Air NZ if it does not take responsibility for Ansett workers' estimated A$500 million in entitlements.
- New administrator Arthur Anderson began from square one after PricewaterhouseCooper quit when unions complained the firm had conflicting interests because one of its associated companies had Air NZ as client.
- NZ finance minister, Michael Cullen, talked about the possibility of Air NZ going broke and having to be put into the hands of an administrator. Cash injections from SIA and Brierley at risk as Air NZ share price plummeted to record lows.
- Qantas and Virgin Blue attempted to lease up to 30 jets from Ansett, but replacement of administrator delayed the deal.

Is this really the end?

By Christine McGee

Four years ago passengers worldwide voted Ansett International as having the best business class in the world. People loved flying on its international services and agreed its domestic arm was improving.

Eighteen months later, Singapore Airlines (SIA) came within a whisker of buying a significant stake in the carrier, a move almost everyone at Ansett endorsed. SIA said it would invest in upgrading the Ansett fleet and continue to build on the airline's service reputation.

But then corporate politics and trans-Tasman rivalry intervened. Air New Zealand vetoed the SIA investment and bought the remaining 50% of Ansett it did not own. The demise began.

Most of the Ansett management was either sacked or departed for pastures anew and the airline was left leaderless for eight months, until Gary Toomey took charge of Air NZ in January this year. Very quickly, he realised there was not enough money to go around. He was right.

The rest is sad history. At some stage, the question must be answered: who is to blame for this corporate fiasco and who should be held responsible for the loss of thousands of jobs at an airline where staff were motivated to build an ever better airline?

First flight: On October 25, 1951 a Japan Air Lines twin-engined Martin 202 takes off from Haneda Airport, Tokyo, for Osaka

CELEBRATION

Japan Airlines is one of the goliaths of the sky. It is Asia's largest airline and is ranked fifth biggest in the world by IATA in both passenger and cargo operations. As it celebrates the 50th anniversary of its first flight in October, BARRY GRINDROD *spoke to the pioneers of an airline that emerged from the ashes of war and helped restore pride to a people who were re-building their country and its ravaged economy.*

Then ... JAL's first headquarters

...and now. JAL's state-of-the-art headquarters

New uniforms from top Japanese fashion designer, Hanae Mori, commemorated the launch of the JAL Round the World service in 1967

At 07.43 on October 25, 1951, a twin-engined Martin 202, chartered from Northwest Airlines, lifted off from Haneda Airport in Tokyo bound for Osaka and Fukuoka with 41 passengers and crew on board. Japan Airlines (JAL) was in business and one of the country's great success stories had begun.

They were still dark days in Japan. The country, quite literally, had nothing to call its own after its surrender to the U.S. at the end of World War II in August, 1945. Japan was under U.S. Occupation and essentially controlled by the Supreme Command of the Allied Powers (SCAP).

A condition of the surrender was that Japan destroyed every aircraft it had – military, commercial and private. However, in 1951 SCAP sanctioned the go-ahead for a group of businessmen to launch what was to become Japan Air Lines.

But, and it was a big but, it still could not own or lease its aircraft. It was confined to marketing and selling tickets and cargo space and managing the ground handling. Flight operations and maintenance were run by Northwest Airlines personnel.

It was a start, however, and although the airline was restricted to limited domestic operations – overseas carriers BOAC, KLM, Pan Am, SAS, Alitalia, Air France and Northwest Airlines were operating international services to and from the country – for Japan and its embryonic government the carrier's launch was hugely important. Symbolically as well as physically it demonstrated the country was moving forward.

On August 1, 1951, the airline was incorporated with start-up capital of just 100 million yen, the equivalent then of US$277,778. In the same month SCAP authorised visas for overseas travel by Japanese for the first time since the end of the war.

International routes for JAL, however, would have to wait.

Staff were quickly hired. Kaisaku Sano, now 71 and back at JAL working part-time as an archivist, joined the airline in the first month of operations.

"I was in the ticketing sales and reservations department and one of less than 200

VIP passengers: the Beatles in 1966

JAL FIRSTS

ECO-JET

Since 1993, a specially equipped B747 has been the only scheduled aircraft in the world to be assisting in an air-sampling project to observe Greenhouse gases in the upper troposphere.

The aeroplane, equipped with automatic air sampling devices designed, built and installed by JAL engineers, have been used on more than 150 flights between Japan and Sydney, Australia. The aircraft takes samples at 12 points during cruise at every five degrees of latitude between 9,000 and 12,000 metres.

The purpose of the 10-year project, organised jointly by the Japanese Meteorological Agency and the JAL Foundation, is to monitor changes in various gases in the upper atmosphere and to observe and measure the effects of global warming.

JAL has won several awards in recent years for its environmental initiatives, including the eco-jet.

- *Japan Airlines was the first carrier to introduce flight attendants wearing national dress. However, the kimono was far more acceptable to passengers than staff, who said it was too impractical to wear while tending to passengers needs and almost impossible to put on in the small aircraft toilets. The wife of the JAL president came to the rescue by designing an easy-to-wear, three-piece kimono.*
- *JAL was the first airline to introduce a hot towel service with the oshiburi, a small, heated washcloth. The facility is now standard on many airlines worldwide.*

Fifth largest carrier of cargo in the world

Mitsunari Kawano (far left), who joined JAL in 1953, inspects a model of the U.S. supersonic transport in the mid-1960s. JAL reserved delivery positions on five of the jets, but the plane was never built.

staff employed for the airline start-up. It was a very exciting time," said Mr Sano, who had graduated from college six months earlier.

There was no shortage of people looking for jobs. For example, 1,300 women applied for 15 stewardess jobs.

In October, JAL received official approval to serve a number of domestic cities. On the same day of the historic Martin 202 first flight to Osaka and Fukuoka, services were inaugurated between Tokyo and Sapporo.

Sano worked out of JAL's somewhat modest head office, a three-storey wooden structure in the Ginza district, light years from the towering, earthquake proof, state-of-the-art JAL Building of today. Surrounded by the ruins of bomb-damaged buildings, the Ginza office was a former watch and clock shop. It was so small that when directors attended board meetings there they sat on tatami (fine straw) mats on the floor.

The first operations room-come-terminal at Haneda Airport was also tiny and soon became known as the "kennel". When passengers arrived to check in, a number of staff had to step outside to make room for their customers in the cramped space.

Sano said he had never expected JAL to fly beyond the shores of Japan.

His bosses, of course, knew better. To re-connect Japan to the world with its own commercial airline was the dream.

A major breakthrough came in April, 1952, when the Japan – U.S. Peace Treaty was signed. This allowed JAL to operate its own airline and a few weeks later the first Japanese pilots – some of whom had been working as stewards waiting for the time to come when they could take their place in the cockpit – went to the U.S. for training.


Mitsunari Kawano today: at 75 he is advisor to JAL subsidiary, Japan Asia Airways.

In its first year of operations JAL carried 99,568 passengers, but lost 1.2 billion yen. This was the equivalent at the time of US$3.5 million.

At the end of 1952, JAL moved up a few gears. It settled in a head office in Marunouchi, Tokyo's Wall Street, added four billion yen to its capitalisation and obtained a loan from the Japan Development Bank to buy additional DC-4s. After leasing five Martin 202s and one DC-4 from Northwest Airlines for a year, JAL acquired its own fleet of six DC-4s.

International ambitions were now within the realms of possibility as far as JAL's management was concerned, but it was not only JAL that had an eye on foreign climes. Several other Japanese companies had the same idea. However, JAL's management moved fast. They entered into negotiations with the government about investing in the airline. The result was the Japan Air Lines Law, passed in 1953.

It meant the Japanese Government had a 50% stake in JAL (the airline was not privatised again until 1987). In return the airline had permission to operate on all domestic trunk lines and overseas routes. A new company was incorporated although the Japan Air Lines name was retained. Capitalisation was raised to two billion yen.

JAL's first president, Seijiro Yanagita, spelled out the future: international flights would start within months.

A youthful Mitsunari Kawano, straight out of university, was one of the people employed specifically to prepare for the launch of the inaugural Tokyo-San Francisco service.

"It was very exciting for the JAL management and the people of Japan," said Kawano, a former JAL board member and personal assisant to the airline's second president, Shizuma Matsuo. At 75 years of age, he is still working regularly as an advisor to Japan Asia Airways (JAA), JAL's subsidiary serving Taiwan. "Those of us employed by the airline felt like pioneers."

JAL bought DC-6Bs to serve the transpacific route. Kawano was there to wave the first commercial flight away on February 2, 1954. There were five fare-paying passengers for the 27-hour flight to San Francisco via Wake Island and Hawaii. On the second flight only a woman and her child paid for tickets.

It was a humble, but significant, beginning. In the 1954 financial year, the airline's first full year of international services (transpacific until February 1955 when flights to Hong Kong began), JAL carried just 12,000 passengers. Today, JAL transports about 12,000 passengers A DAY on transpacific routes alone.

From the launch of the San Francisco service JAL never looked back. It grew rapidly, setting up new offices and opening routes throughout Asia and, steadily, in the U.S. and Europe.

In those early years, reflected Kawano, air travel was for rich people and business travellers. "We had first, business and tourist classes in our aircraft, but we had no tourists! Economy class tourists came much later," he said.

Kawano was rewarded for his work by being assigned to the Golden Gate city for five years. He returned to become secretary to the president, Shizuma Matsuo, who succeeded JAL's founding president, Seijiro Yanagita, in January, 1961. Kawano now became a prime mover in establishing European routes.

More planes were ordered; four DC-8s

in 1955 and four DC-7Cs the following year. Bangkok, Singapore and Taiwan came "on line" in the late 1950s, together with Los Angeles and Seattle in the U.S.

In 1959, JAL launched its first all-cargo flight – to San Francisco.

As JAL entered the 1960s it was opening overseas offices almost by the month. And, significantly, the airline entered the jet age on August 12, 1960, with a DC-8 service to San Francisco. The Convair 880 joined the JAL fleet in 1961.

The "road" to Europe was trailblazed in 1961 when a DC-8 began operating between Tokyo, Anchorage, Paris and London.

By the mid-Sixties there were several watershed developments at the airline.

Notably, JAL inked its first contract – for six B727s – with Boeing in 1964.

In the same year, Tokyo hosted the Olympic Games which, said Kawano, opened the gate for JAL's domestic market.

In 1964, outbound international tourism was given a major boost when the Japanese Government raised the amount of foreign currency its citizens could take out of the country to US$500 a year. "Up to around this time Japan was not rich. It was recovering from the damage of the war. But by the mid-Sixties the people had more disposable income to spend on air travel," said Kawano.

For many years there had been many more overseas travellers entering Japan than Japanese leaving the country. Today, the pendulum has swung dramatically with Japanese passengers now exceeding overseas passengers by five to one, said Kawano.

Kaisaku Sano was one of JAL's original employees. He never thought the airline would fly overseas

The first world fair to be held in Asia, in Osaka, in 1970, also gave Japan's domestic aviation sector a big boost.

The pace of growth in the Japanese market was timely. Boeing's new B747 had just come on the market and in 1966 JAL ordered three jumbo jets. The first one entered service in April, 1970. Today, JAL has 84 B747s.

Throughout the Seventies, Eighties and the Nineties JAL's expansion continued. A downside in the years that followed the opening of Narita Airport in 1978 has been airport congestion. JAL also has been plagued by the growth of U.S. carriers flying to and beyond Tokyo, giving rise to long and bitter air rights debates between the U.S. and Japanese governments.

As well, during the last decade, Japan's airlines suffered from domestic recession and the Asian financial crisis in general.

In the late Nineties, management embarked upon a wide-ranging restructuring and cost-cutting programme that continues today. This involves cutting JAL's staff level from 20,000 in 1997 to about 17,000 by March 2002, using offshore bases in Xiamen, China, and Singapore for maintenance and disposing of JAL's jobs-for-life philosophy. This allows the airline to hire cabin attendants on contract at lower pay scales to improve operating unit costs.

In March 1998, the accumulated deficit was wiped from the balance sheet using capital and voluntary reserves and subsidiary company debts were settled.

Since 1990, while revenue has declined 38%, unit costs have been cut 38% and unit labour costs are down 48%.

And while revenue per available tonne kilometre (ATK) is down to 65 yen from about 93 yen in 1990, costs per ATK have declined to 63 yen from about 91 yen 11 years ago.

When Isao Kaneko took over as president in 1998 he started with a clean sheet of paper (see separate story). In the last three years he has turned the company around.

After six years of no dividends, JAL's shareholders, under Kaneko, have received dividends for the last three financial years. Profitability has been restored to JAL.

In the days before JAL made its first international flight, a Pan Am official was quoted as telling a JAL executive: "Even if you start operating across the Pacific, you will be out of business in three months."

Thankfully, no one at JAL took any notice.

A Boeing 747-400 towers over an airport ramp worker at Narita Airport

THE JAL FLEET

At June 25, 2001, the JAL Group fleet had 172 aircraft

41 B747-400s	10 MD-11s	25 B767s
30 B747-LRs	5 B777-200s	19 B737-400s
3 B747-SRs	5 B777-300s	4 B737-200s
10 B747Fs	15 DC-10s	5 Jetstreams

The following aircraft are on order to replace JAL's ageing DC-10 and MD-11 fleet and will be delivered between 2002 and 2008.

5 B747-400s	11 B777-200ERs	4 Bombardier CRJ-200s
5 B777-200s	8 B777-300ERs	

The JAL Group includes: Japan Airlines, JALways (formerly called Japan Air Charter, it is now a scheduled carrier and will gradually take over JAL's routes to Pacific resort destinations), Japan Asia Airways (subsidiary serving Taiwan), Japan Transocean Air (Okinawa-based domestic carrier), JAL Express (domestic carrier), J-Air (regional commuter based in West Hiroshima).

KANEKO: preparing for the next 50 years

It is fitting that in Japan Airlines' (JAL) 50th anniversary year its president, Isao Kaneko, will become chairman of the Board of Governors of the International Air Transport Association (IATA).

He has worked at JAL for all but nine of its 50 years, having joined the airline in 1960 as a cargo traffic agent at Haneda Airport. At the time, it had a fleet of 23 turboprop aircraft.

How times have changed! When he became president the airline was going through one of the toughest periods in its history. It still is enduring hardship, but Kaneko has managed to turn a sick balance sheet into a healthy one.

"My task was to revitalise the company, after the board had decided to write off the deficit and loss-making assets, and to re-instate dividend payments to shareholders that we had been unable to make for six years," he told *Orient Aviation*.

He succeeded. In the last three financial years dividends of 6%, 6% and 8% have been paid to shareholders. In the 2000-2001 financial year to March 31, despite high fuel prices and a weak yen, JAL's net profit more than doubled to 41.02 billion yen (US$332 million). Sales were up 6.6% to a record 1.7 trillion yen.

Kaneko started his reforms by reducing the board from 30 to 15 members, which facilitated faster decision-making. Next he introduced a new level of executive directors to operate company divisions and report to the board. He then produced a JAL Group blueprint that concentrates on the core business of air transport.

JAL will no longer invest in the hotel ventures that have proved so costly in the past. JAL Hotels is now a management company with 53 properties worldwide.

The core business is the airlines. JAL and its airline subsidiaries, JALways, JAA, JAL Express (JEX), JTA and J-Air, have been centralised and streamlined. JAL, for example, is handing its regional domestic services to JEX and has shifted its eight B737s to the low-cost carrier. In 2003, it also will start transferring its 18 B767s, used on domestic routes, to JEX. In-house core companies are passenger sales, maintenance and cargo.

Self-supporting independent businesses, in addition to the JAL Hotels, will be information technology through JAL Infotech and JAL Trading, which buys everything from aircraft to wine and spirits. The hotels and trading arms plus AGP, an airport power supply provider, plan to list on the Tokyo Stock Exchange.

Those close to the president say he has brought a new air of transparency and accountability to the company. For example, JAL's safety record is published monthly on its home web page. It shows flight irregularities and the factors which caused them.

Japan Airlines president, Isao Kaneko: restored profitability to the carrier

Looking to JAL in five years time, Kaneko predicted the carrier would be one of the strongest and most efficient airlines in the world, both in quality and in size. It also would be one of the most advanced e-group enterprises, he predicted.

A second runway at Narita will open in April, 2002, and Kaneko is expecting the government to give the go-ahead in the current fiscal year for construction of a fourth runway at Haneda Airport. Completion would be several years away, but it will give JAL the opportunity to expand its fleet.

Kaneko said JAL would phase out its DC-10s by 2008, its MD-11s by 2006 and replace them with B777s and B767s. The airline is looking closely at both the A380 super jumbo and Boeing's sonic cruiser project. Significantly, JAL, which has so far not purchased Airbus aircraft, is also evaluating medium-sized Airbus planes.

JAL is to concentrate on its bilateral alliances with 19 airlines worldwide, rather than opt for a world alliance, said Kaneko, but this may change. The airline has an open invitation to join oneworld.

The challenges for the future, said Kaneko, include environmental issues like noise and emissions, maintenance of safety standards and improvements in infrastructure congestion for both airports and air traffic control.

The airline would need to be more customer oriented in the 21st century. This would include addressing health concerns and making travel barrier-free for disabled travellers, he said.

The re-engineering of the JAL Group was ongoing, but Kaneko is happy with progress. The company is in much better shape than it was when he became president in 1998. He told *Orient Aviation* he believed the airline was in a good position to take very favourable advantage of the next 50 years of its life.

Real-time IFE race intensifies

By Christine McGee

IFE suppliers are converging into more sophisticated technical groupings that are offering a broader range of services to lure airlines into buying new inflight communication systems for all classes of their airline cabins.

Airbus Industrie and European satellite manufacturer, Astrium, announced in September they would team with U.S. global communications provider, Arinc and Tenzing Communications Inc. (30% owned by Airbus and 10% by Cathay Pacific Airways), to install broadband communications systems in world airline fleets.

The new consortium, unveiled at the annual World Airline Entertainment Association conference and exhibition, held this year in Brisbane, Australia, will compete head-to-head with Boeing Connexion, a joint venture between the aerospace group and U.S. international carriers, Delta Air Lines, American Airlines and United Airlines. This venture was established almost two years ago and set out to achieve – via a different technology path – exactly the same goal as the new Airbus consortium, the design and implementation of seamless real-time passenger communications and entertainment inflight.

Airbus, with its Tenzing ties, has signed up customers for e-mail and Intranet services with fellow shareholder, Cathay Pacific, as well as Singapore Airlines, Virgin Atlantic Airways and Air Canada. This technology offers near time e-mail services via utilisation of current cockpit air-to-ground communications satellites and SITA terrestrial systems.

In contrast, the Boeing-led joint venture intends to leapfrog this technology by developing its own infrastructure of satellite communications systems across the world.

The Airbus/Astrium partnership provides the venture with additional engineering and technical expertise; essential intellectual input for the group if it hopes to keep up with passenger expectations of IFE access to Internet technology onboard future aircraft.

At the same conference, the region's leading IFE hardware manufacturer, Matsushita Avionics Systems Corporation (MAS), announced it was in negotiations with global electronic news provider, Reuters, to upload news every hour to aircraft via MASMedia, the company's interactive applications business.

Under the scheme, Reuters would provide its real time news in XML format, via current aircraft air-to-ground communications systems, to MAS System 3000-equipped aircraft, which allows passengers Audio and Video on Demand PTV viewing inflight. No information was available on costing of the service.

In another joint venture unveiled at the WAEA event, Thales Avionics Inflight Systems (formerly Sextant Inflight) announced it had signed an agreement with 110 volt-AC in-seat power manufacturer, KID Systems, to jointly market its products. Thales Inflight and KID Systems will now offer airlines a joint package of in-seat power and the Thales range of inflight entertainment systems and cabin support systems.

Meal appeal

Joint organisers, the International Flight Catering Association (IFCA) and the International Inflight Food Services Association (IFSA), will hold the fifth annual Asia-Pacific Inflight conference – Networking for Success – at the Sunray Lagoon and Resort Hotel, Kuala Lumpur, from October 17-19. Speakers and panel discussion leaders will look in detail at the current operating environment for the region's inflight catering industry and examine the growing influence of special meals and preparation processes that increasingly discerning 21st century airline passengers demand. Information and registration: www.ifsanet.com. Hotel reservations at telephone: (60-3) 7492 8000 or e-mail your booking to: hotelrsvn@sunway.com.my

The biz bed battle

Airlines are getting serious about bedding down as leading carriers in the Asia-Pacific follow the lead of British Airways and introduce flat or near flat beds in business class.

In August Singapore Airlines' (SIA) senior executive vice-president commercial, Michael Tan, announced the carrier would be flying with its first retrofitted "Raffles" (business) class cabin equipped with the fully flat Spacebed in November.

SIA intends to install the Spacebeds in the Raffles cabins of the 45 B747 Megatops and B777-ERs serving the airline's long-haul routes at a cost US$100 million over a 12-month period. It remains the only Asia-Pacific carrier to provide flat beds in the business class cabin.

The Singapore-based airline also will code-share with its equity partner, Virgin Atlantic Airways, in economy class and begin offering shared benefits to members of the frequent flyer programmes of both airlines.

In the same month, Hong Kong-based Cathay Pacific Airways began flying its new three-class A330-300s, which are equipped with upgraded first class flat beds and new business class seats that recline to 13 degrees for sleeping. Two aircraft are now flying with the three-class configuration that features the new business class, a bar, a private dressing room, Audio and Video-on-Demand inflight

entertainment and Tenzing inflight e-mail and Intranet passenger communication services.

In October, the airline completed work on its second lounge, The Pier, in the northwest concourse of Hong Kong International Airport. Cathay is upgrading its lounges network-wide, with Bangkok and Taipei the first airports to have the renovations completed. Work is planned to start in October at the airline's lounge at Charles de Gaulle Airport.

By Jonathan Sharp
in Hong Kong

Tse flying in the face of bureaucracy

Andrew Tse exudes frustration. As the boss of Helicopters Hong Kong Ltd and its partner, the Macau-based East Asia Airlines Ltd, he has soaring ambitions to expand, but he's facing fierce bureaucratic headwinds – sometimes from an unexpected quarter.

Tse wants to develop not only his core business, which is shuttling passengers on the 16-minute helicopter flight between Hong Kong and the region's gambling Mecca of Macau, but also to launch commuter services linking the two former European colonies with Shenzhen, mainland China's booming city next door.

On both fronts progress is proving hard to achieve with Hong Kong, belying its supposedly business-friendly reputation, throwing up some of the tallest hurdles. When Tse uses the words "ridiculous" and "stupid" – as he periodically does – he is usually directing his irritation at the Hong Kong regulatory environment.

After a difficult birth the Hong Kong-Macau service, which is currently operated by four Sikorsky 76C+ aircraft, is doing well enough that Tse predicts it will break even this year for the first time.

"In August, I am looking at a record for the month, in excess of 10,000 passengers. For the full year I am forecasting 16-17% growth," Tse told *Orient Aviation*.

Average load factor is now about 55%, although traffic demand is uneven. Tse said he is examining the possibility of investing in a 19-seat Sikorsky 92 with a stand-up cabin, costing US$15 million, in two years' time to meet peak weekend market.

Tse's helicopters, leaving at half-hour intervals and charging US$150 a trip, now carry just over 1% of the huge Hong Kong-Macau traffic, with the rest travelling by ferries that take about one hour for the journey across the Pearl River estuary. He says the most successful comparable helicopter operation in North America charges about US$100 for a 30-minute ride. "So if we can't make money, I think no one else can."

Tse would like to increase the flexibility of his flight schedules, but there are problems. Citing just one example of the bureaucratic maze that he has to negotiate, Tse says his carrier's first flight of the day from Hong Kong leaves at 9.30 am while the last departs officially at 10.59 pm.

"We don't call it 11 o'clock because once you go past 11 it's a new operating environment," he said.

Head of Helicopters Hong Kong Ltd and the Macau-based East Asia Airlines Ltd, Andrew Tse

Another difficulty is that his carrier still has the status of a charter operation rather than as a scheduled service. As a scheduled carrier the operation would be able to offer inter-line services with airlines.

The company would also be able to advertise. "At the moment we are not allowed to advertise because Hong Kong aviation law says any charter operator is not allowed to advertise to the public to promote schedules and so on."

But Tse reserves his biggest gripe for what he calls the Hong Kong Government's "excessive requirements" over the precise specifications of the carrier's helipad at the Shun Tak Centre beside Hong Kong harbour.

"I have been travelling around the world to see helipads, and nowhere has the kind of requirements that Hong Kong does. It's ridiculous," he said.

Tse complains that his carrier has to pay for his own infrastructure and then pay rent on it to the government at the rate of 4.5% of his revenues of HK$50 per outgoing and incoming passenger, whichever is the larger.

A new government-mandated departure tax of HK$80 – nearly two-thirds the cost of a ticket on a ferry to Macau – is not helping.

On his goal of developing services with Shenzhen, Tse said the carrier has been "going around and around for almost three years" in trying to obtain permission, beginning with an approach to China's controlling Civil Aviation Administration of China (CAAC) – an application that initially was not even accepted.

Tortuous negotiations over operating conditions are beginning to bear fruit. "We are almost there, but not yet. I am expecting some good news before the end of the year."

At present, he is looking at operating four flights a day from Shenzhen, with three to Macau and one to Hong Kong.

He sees more demand for flights to Macau, which is on the opposite side of the Pearl River from Shenzhen, than to Hong Kong, which is on the same side and already well served by land transport.

There is also a limitation of only one helipad at Hong Kong, while facilities at diminutive Macau are more extensive, with two landing pads and three parking pads. Macau also has refuelling facilities, which Hong Kong lacks. "I do expect to see demand such that there will be half-hourly flights between Shenzhen and Macau some time in the future," said Tse.

Inevitably a further obstacle exists, namely the high landing fees charged at Shenzhen which mean initially Tse's services will not be able to operate profitably.

His hope is, however, that mainland Chinese helicopter companies, which also have shown interest in launching services in the Pearl River Delta region, will help bring pressure to bear on the relevant aviation authorities to bring fees down to tolerable levels.

Photo: David McIntyre/Cathay Pacific Airways

Airborne: Cathay Pacific Airways' cadets celebrate their graduation to second officers in traditional fashion

HATS OFF

By Jonathan Sharp
in Adelaide, Australia

... to Cathay's captains of tomorrow

Hong Kong carrier takes to the schools to boost localisation programme.

Two days after Cathay Pacific Airways' mostly expatriate pilots voted overwhelmingly to intensify their eight-week work slowdown, 10 Cathay cadet pilots exuberantly flung their caps into the air as they graduated from training college at the BAE SYSTEMS Flight Training Centre in Adelaide, in southern Australia.

A key point about the new intake of nine men and one woman is that they are all Hong Kong residents, part of an expanding localisation programme that is inevitably seen as an attempt by Cathay to wean itself off costly – and often disgruntled – expatriates.

Launched in 1988, Cathay's Cadet Pilot Programme, which costs the airline about HK$1 million (US$128,000) per cadet for the 60-week course, trained an average of 12 students per year until 1998. The figure rose to 23 cadets in 1999 and increased to 26 in 2000.

This year 48 cadets are being recruited and Cathay Pacific's personnel director, William Chau, told reporters at the graduation ceremony the intake next year would be even larger, although he did not say by how many.

Applicants must have permanent residency in Hong Kong and preference is given to those born in the territory. Of the 10 latest graduates, seven are ethnic Chinese, two are westerners and one is Eurasian.

They are the first to be issued with a Hong Kong commercial pilot's licence directly from the training course. Previously recruits obtained an Australian licence, which later had to be converted to a Hong Kong licence.

The 10 newly-minted cadet pilots bring to almost 150 the number who have graduated from the programme – still far outnumbered by expatriates among Cathay's 1,400 pilots – and no locals have yet reached the rank of captain.

But Cathay's Chau made it clear the airline's ethnic and seniority ratios were set to change.

He said localisation was a "very important policy". "We have to try develop as many local pilots as possible."

Cathay currently has 37 local senior first officers and is expected to have several local captains within the next three years.

A forum has been established for locally recruited pilots to discuss issues with Cathay management, a move that Chau said had been planned from early this year before the latest industrial action by the pilots' union, the Hong Kong Aircrew Officers Association, began on July 3.

He said the loosely structured forum, which paralleled similar committees for other sections of airline staff, would discuss any issue except pay. If local pilots wanted to raise the vexed subject of work schedules, which is a key bone of contention between the union

and airline, then management would listen.

At the same time, Chau dismissed suggestions Cathay had any thought of replacing its expatriate personnel, saying that with Cathay's expansion rate such a goal would be almost impossible.

"Our target is to try to train as many local pilots as possible and see how far it goes," he said.

Cathay's commitment to the BAE SYSTEMS training programme in Adelaide was highlighted by the arrival of a Learjet 45 in Cathay livery, the first of two that are being provided to enhance the college's facilities.

Chau denied the cost of expatriate pilots, who enjoy housing and other benefits denied to the local recruits, was a prime consideration in the localisation drive.

"We have to demonstrate we are committed to helping Hong Kong as a community," he said.

Cathay also is actively helping the Hong Kong community find out more about Cathay as a possible career path.

Soon after the Adelaide graduation, 40 Hong Kong schoolchildren enjoyed aviation-linked activities at Cathay's headquarters at Chek Lap Kok airport in a two-day programme that included lectures, games and flight simulator rides.

Chau said the airline had to reach down to secondary school level in the hunt for potential recruits. Most nations have air forces that could inspire youngsters to seek a career in aviation.

But Hong Kong, whose defences have been handled by mainland China since Britain handed back the territory in 1997, has none.

Mainland China, or at least its commercial pilot training requirements, is very much a focus of attention at the BAE SYSTEMS training college, which is based at Parafield Airport near Adelaide.

Among the Cathay students' colleagues at the centre were trainees from China's Shanghai Airlines. Previous mainland customers have been China Xinhua Airlines and Xiamen Airlines. Some work has been done for China's civil aviation flying college near Chengdu.

Keith Morgan, the business development manager at the flying college, has no hesitation about naming China as a key growth area.

"I see mainland China as 30% of our potential market. Mainland China is where we should concentrate our efforts."

While most of China's pilot training has

'This is your (future) captain speaking...'

When Rebecca Chiu applied to join Cathay Pacific Airways' Cadet Pilot Programme, she did not tell her parents, knowing that the chances of her being accepted were slim. After all, the airline receives an average of 1,500 applications every year for an arduous selection process that takes three months. And, of course, it's a male-dominated sector of the industry.

Cathay Pacific Airways cadet graduate Rebecca Chiu is put through her paces in a simulator at the BAE SYSTEMS Flight Training Centre in Adelaide

"When I got the first interview, and I thought it had been quite successful, I told my parents," 24-year-old Rebecca said in an interview hours before she and nine other Hong Kong cadets – all men – graduated at the BAE SYSTEMS flight training college at Parafield airport on the outskirts of Adelaide.

She said her father was initially worried – "he thinks flying is a bit dangerous" — and queried why she did not want to pursue her Hong Kong University training in computer engineering.

"But I told him I didn't really like computers." Her real passion, she said, had been airplanes, inspired by visits to Hong Kong's old airport at Kai Tak to say farewell to classmates who, like many Hong Kong youngsters, left for education overseas.

"That's the time I got in touch with airplanes – and I found them so gorgeous," said Rebecca.

But she had no thoughts about becoming a pilot until a friend told her about a career presentation organised by Cathay and sent her an application form.

Initially she believed that her gender would be against her. "But later on, when I got to know more about the career...when the company finds any female who is suitable for a pilot, they will definitely hire them," she said.

Whatever misgivings Rebecca's father may have had about her career choice, he overcame them and both father and mother Chiu were among parents flown by Cathay to Adelaide to be proud witnesses at the graduation ceremonies held at Parafield.

Rebecca not only passed the 60-week training course, she excelled, picking up the award for Most Improved Cadet – despite a few bouncy landings while training on the college's light aircraft.

Such kangaroo-style landings will be less tolerated on the aircraft that Rebecca has been trained to fly – a Boeing 747. But it will be several years yet before she and the other graduates get their hands on the controls of an airliner, and possibly 15 years before she can aspire to be a captain.

Is that Rebecca's ultimate goal? "Yes, of course, that's what I got into the course for."

In the interview Rebecca was willing to discuss any subject – she misses Hong Kong for its shopping and karaoke – other than the sensitive topic of whether she plans to join the Cathay pilots' union whose members started a work slowdown on July 3.

Rebecca – and her Cathay escort at the interview – indicated to the questioner in unmistakable terms that such queries on this feel-good occasion were inappropriate.

previously been conducted domestically or in the U.S., China Southern Airlines has a training school in Jandakot, near Perth, in Australia and some training is still done in the U.S..

"I think they have been producing around 400-500 pilots a year," said Morgan, noting that recent Chinese orders for more than 30 Boeings, and expected significant orders from Airbus Industrie, would mean the pilot requirement could be higher for the next few years.

Both Boeing and Airbus are forecasting Chinese civil aviation will grow at almost double the industry norm for the next decade. "The growth rate is phenomenal," said Morgan.

Consequently, Morgan and his marketing staff spend a good deal of time in China drumming up business for the college. To assist their efforts a Sydney-based, Chinese-born freelance agent, who formerly worked for the Civil Aviation Administration of China (CAAC), has been hired.

Pilot training inside China suffers from the low level of English-language skills of both instructors and trainees, Morgan said.

'Our target is to try to train as many local pilots as possible'
– Cathay Pacific personnel director, William Chau

"The teachers are the glass ceiling. The teachers' level is the level of the students and it's low. You need to take native English speakers to China to teach English."

Morgan said he had sought to persuade Chinese authorities to give students six months of English-language training before sending them to Adelaide.

"This college is very experienced in training people with English as a second language. But if they did six months (of English) and we got them at a level of 3.5 on a scale of seven, we would be fine. But typically they are coming in at 2.5," he said.

"We give these kids hours and hours of free English-language training."

Apart from Cathay and Shanghai Airlines, the college's current customers are Taiwan's biggest carrier China Airlines, South African Airways, the Hong Kong Government Flying Service, Hong Kong's Dragonair and Qantas Airways. The college also caters for privately funded students, who comprise about 10% of the present 130-strong student body.

The college can accommodate up to 200 students but Morgan says: "We run best with about 160."

With abundant airspace, good weather and a varied surrounding environment that includes desert, mountains and ocean, the college advertises itself as an ideal training site, not least because under-utilised Adelaide airport is a few minutes' flying time away.

"Take these cadets to Sydney, Hong Kong or Los Angeles, they can't get in amongst the international traffic. They can do that here. From Parafield, within four minutes they can be flying an instrument approach to an international aerodrome. Access is easy for us," he said.

"If you had to build a model to do this training, this is probably what you would design."

ASIA-PACIFIC FLEET CENSUS UPDATE

(The Ansett, Hazelton, and Kendall fleets were grounded in September)

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
Aboitiz Air (Philippines)				
YS-11-100	RR Dart 543-10K	1	-	-
YS-11-600R	RR Dart 543-10/10K	2	-	-
Air Asia (Malaysia)				
B737-300	CFM56-3	2	-	-
Leased in: GECAS				
Air Caledonie (New Caledonia)				
ATR42-320	PWC PW121	4	-	-
Do 228-212	Gar. TPE331-SA 2520	1	-	-
Aircalin (Air Caledonie International, New Caledonia)				
A310-325	PWC PW4156A	1	-	-
Leased in: AIFS				
B737-300	GE	1	-	-
Leased in:				
DHC6 Twin Otter		1	-	-
Air China				
B747-400C	P&W PW4056	8	-	-
B747-400	P&W PW4056	6	-	-
B747-200F/SF	P&W JT9D-7R4G2	3	-	-
B747-200 Combi	P&W JT9D-7R4G	1	-	-
Leased in: 1 Concord Asset Management				
B767-300	P&W PW4056	4	-	-
Leased in: 1 Mitsui & Co				
B767-200ER	P&W 4052/JT9D-7R4	6	-	-
B777-200	P&W PW4090	10	-	-
B737-800	CFM56-4C4	7	4	-
B737-300	CFM56-5C4	19	-	-
A340-300	CFM56-5C4	3	-	-
Leased out: 3 Cathay Pacific				
A318		-	8	-
BAe 146-100	Lyc ALF502R-5	4	-	-
Air Do (Hokkaido Internationall Airlines, Japan)				
B767-300ER		2	-	-
Leased in: 2 (AWAS)				
Air Fiji				
DHC-6-300 Twin Otter	PWC PT6A-27	1	-	-
DHC-6-200	PWC PT6A-20	1	-	-
Leased in Air Vanuatu				
Beech Baron 95-C55	Cont IO-540	1	-	-
Y-12 Mk-II	PWC PT6A-27	3	-	-
EMB 110-P1	PWC PT6A-34	2	-	-
BN2A-20 Islander	Lyc O-540-K1B5	3	-	-

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
Air Great Wall (China)				
To be merged with China Eastern				
B737-200	P&W JT8D-17A	3	-	-
TU-154		2	-	-
A320	CFM56-5B4	2	-	-
Wet Leased in: 2 from China Eastern				
Air HongKong				
B747-200F	GE CF6 50-E2	3	-	-
Leased in: 3 from Cathay Pacific				

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
Air-India				
B747-400	P&W PW4056	6	-	1
B747-300 Combi	GE CF6-80C2B1	2	-	-
Leased in: 1 from Citicorp leasing Inc				
B747-200	P&W JT9D-7J -7Q	4	-	-
A300B4-100/-200	GE CF6-50C2	3	-	-
A310-300	GE CF6-80C2A2	11	-	-
Leased in: 3				
Air Japan				
B767-300	GE CF6-80C2B2F	1	-	-
Air Kiribati (Kiribati)				
Y12 Harbin	PT6A-27	1	-	-
Air Macau (Macau)				
A320-200	IAE V2527-A5	3	-	-
Leased in: ILFC				
A321-100	IAE V2530-A5	5	-	-
Leased in: ILFC				

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
Air Maldives				
A310-200	P&W PW-JT9D	2	-	-
Leased in: A. I. Leasing Inc				
Do 228-212	Gar. TPE 331-5A-252D	2	-	-
DHC-8-200	PWC PW123D	1	-	-
Air Mandalay				
ATR 72-212QC	P&W PW 127	2	-	-
Air Marshall Islands				
HS 748-2B	RR Dart 536	1	-	-
Do 228-212	Gar. TPE331-5A-252D	2	-	-
Air Moorea (French Polynesia)				
Do 228-212	Garrett TPE331-252D	1	-	-
Leased in: 1				
BN-2A/2B	Lyc O-540-E4B5	3	-	-
Leased in: 1				
DHC-6-300	PWC PT6A-27	2	-	-
Air Nauru				
B737-400	CFM56-3C1	1	-	-
Air Nelson (New Zealand)				
Fairchild Metros	Garrett TPE331-11U-611	6	-	-
Leased in: 6 Air New Zealand				
Saab 340A GE CT7-5A2		12	-	-
Leased in: 12 Air New Zealand				
Air New Zealand/Ansett Group				
B747-400	RR RB211-524E	3	-	-
B747-400	GE CF6-80C2B1F	5	-	-
Leased in: 4				
B747-400	PW4056	2	-	-
Leased in: 2				
B767-200ER	GE CF6-80A2	5	-	-
Leased in: 2				
B767-200	GE CF6-80A2	2	-	-
Leased in: 1				
B767-200	GE CF6-80A	6	-	-
B767-300ER	GE CF6-80C2B6F	4	-	-
Leased in: 3				
B767-300ER	GE CF6-80C2B7F	1	-	-
Leased in: 1				
B767-300ER	GE CF6-80C2B6	6	-	-
Leased in: 2				
B737-200	P&W JT8D-15A	6	-	-
Leased in: 3				
B737-300	CFM56-3C1	14	3	-
Leased in: 9				
B737-300	CFM56-3B1	23	-	-
Leased in: 2				
B727-F	PW JT8D-15	1	-	-
Leased in:				
A320-200	CFM56-5A1	20	-	-
Leased in: 3				
ATR-72-500	P&W PW127F	8	-	-
Leased in: 8				
Saab 340A	GE CT7-5A2	21	-	-
Leased in: 2				
Saab 340B	GE CT7-9B	8	-	-
Leased in: 8				
BAe146-300	ALF502-R5	11	-	-
Leased out: 8				
BAe146-200	ALF502-R5	7	-	-
Leased in: 2				
BAe146-200QT	ALF502-R5	2	-	-
CRJ200	CF34-3B1	9	3	-

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
F28-4000	Spey 555-15P	4	-	-
Fokker 50	PW100-125B	9	-	-
Leased out: 4				
Raytheon Beech 1900D		-	16	-
Fairchild Metros	Garrett TPE331-11U-611	12	-	-
Leased in: 5				
Fairchild Metros	TPE331-12UHR-701G	7	-	-
Embraer 110	PW PT6A-34	11	-	-
DHC-6	PW PT6A-27	4	-	-
Air Nippon				
B737-500	CFM56-3C1	15	3	-
Leased in: 4 Mitsui and Co (1), Sumigin Lease (1), Japan Leasing Corp (1)				
B737-400	CFM56-3C1	-	1	-
B737-200	P&W JT8D-17	4	-	-
Leased in: 7 ANA				
A320-200	CFM56-5A1	8	-	-
Leased in: ANA				
DHC-8-Q300		-	1	-
YS-11A-500	RR Dart 543-10/10K	7	-	-
Leased in: 6 ANA				

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
Air Niugini (Papua New Guinea)				
A310-300	P&W PW4152	2	-	-
Leased in: 1 GatexLeased out: 1				
F28-4000	RR RB183-15H	3	-	-
F28-1000	RR RB183-15	3	-	-
DHC-8-200B	P&W PW123D	1		-
Airnorth (Australia)				
Emb 120ERJ		4	-	-
Fairchild Metro 23		4	-	-
Cessna 400 Series		11	-	-
Cessna 208B		1	-	-
Air Pacific (Fiji)				
B747-200	RR RB211-524D	1	-	-
Leased in: Qantas				
B767-300ER	GE CF-6-80C2B6	1	-	-
Leased in: Mukai Kosan Company				
B737-700	CFM56-7B24	1	-	-
B737-800	CFM56-7B24	2	-	-
Air Philippines				
B737-200	P&W JT8D-7B/-9A/-17	11	-	-
Leased in: 4				
MD-82	P&W JT8D-2127C	2	-	-
Leased in: 2				
Air Rarotonga (Cook Islands)				
EMB110	PWC PT6A-34	3	-	-
Leased in: 2				

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
Air Tahiti Nui (French Polynesia)				
A340		1	-	-
ATR72-202	PWC PW124B	3	-	-
ATR42-500	PWC PW127E	3	-	-
Do 228-212	Gar. TPE331-5A-2521	2	-	-
Air Vanuatu				
B737-300	CFM56-3B1	1	-	-
Leased in: Qantas				
Saab 2000		1	-	-
Leased in: Saab				
Qantas Airlink (Australia)				
BAe 146-300/200/100		14	-	-
DHC-8-100		1	-	-
All Nippon Airways				
B747-400	GECF6-80C2B1F	23	-	-
Leased in: 7 Fuyo Sogo Lease (2), Sumisho Lease (1), Mitsui & Co Int'l (1), Mitsubishi Corp (1), Sumigin Lease & Partners (1)				
B747-200B	GE CF6-50E2	3	-	-
Leased in: 2 Orix Aircraft Corp				
B747SR	GE CF6-45A2	11	-	-
Leased in: 6 Nissho Iwai Leasing (3), Showa Leasing (3)				
B747-400F	GE CF6	-	1 (2002)	-
B777-200/ER	P&W PW4090/4074	16	-	-
Leased in: 15				
B777-300	P&W PW4090	5	-	-
Leased in: 4				
B767-300	GE CF6-80C2B2F	42	9	-
Leased in: 15				
B767-200	CF6-80A	11	-	-
A321-100	V2530-A5	7	-	-
Leased in: 1				
A320-200	CFM56-5A1	25	3	-
Leased out: 7 Air Nippon				
A340		-	5	-
Alliance Air (India)				
B737-200	P&W JT8D-17A	7	-	-
Leased in: 7 from Air India				

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
Angel Airlines (Thailand)				
A300-600R	P&W PW4158	2	1	-
Leased in: China Northern				
Archana Airways (India)				
LET L-410 UVP-E	Walter M601E-21	4	1	-
Fairchild Dornier 328-100		-	2	-
Asiana Airlines				
B747-400	GE CF6-80C2B1F	2	-	-
B747-400 Combis	GE CF6-80C2B1F	6	-	-
B747-400F	GE CF6-80C2B1F	4	2	-
Leased in: 2				
B767-300/ER	GE CF6-80C2B2F	11	1	-
Leased in: 5				
B767-300F	GE CF6-80C2B6F	1	-	-
B737-400	CFM56-3C1	20	-	-
Leased in: 15				
B737-500	CFM56-3C1	5	-	-
Leased in: 2				
A321	IAE V2530-A5	6	6	-
Asian Spirit (Philippines)				
DHC-7	PWC PT6A-50	2	-	-
YS-11A	RR Dart 543-10	3	-	-
LET 410	Walter M601E-21	2	-	1
Bangkok Airways (Thailand)				
ATR72-200	PWC PW124B	8	-	-
Leased in: 8				
ATR72-500	PWC PW121	1	-	-
Leased in: 1 GIE				
B717-200		2	-	-
Berjaya Air (Malaysia)				
BN-2 Islander	Lyc IO-540 KIB5	1	-	-
Y-12	PWC PT6A-27	1	-	-
Challenger 601-3R	GE CF34-3A1	1	-	-
DHC-7	PWC PT6A-50	2	-	-
Biman Bangladesh Airlines				
DC 10-30	GE CF6-50C2	4	-	-
A310-300	P&W PW4156A	3	-	-
F28-4000	RR Spey 555-15P	1	-	-
BAe ATP	PWC PW126	2	-	-
Bouraq Indonesia Airlines				
B737-200	P&W JT8D-15	6	-	-
Leased in:				
HS 748-2A	RR Dart 534-2	3	-	-
HS 748-2B	RR Dart 536-2	1	-	-
IPTN 212-100		3	-	-
IPTN N250		-	5	-
Cathay Pacific Airways				
B747-400	RR RB211-524G/H	19	-	-
Leased in: 17				
B747-400F	RR RB211-524G2	5	-	-
Leased in: 1Leased out: 3 (Air Hong Kong)				
B747-200F	RR RB211-524D4	7	-	-
Leased in: 1Leased out: 3 (Air Hong Kong)				
B777-200	RR Trent 800	5	-	-
Leased in: 3				
B777-300	RR Trent800	7	-	10 (Up to 2004)
Leased in: 7				
A340-600	RR Trent 500	-	3 (2002-03)	-
A340-300	CFM56-5C4	17	1	-
Leased in: 14, 3 from Air China				

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
A330-300	RR Trent 772	16	4 (2001-02)	-
Leased in: 12				
Cebu Pacific Air (Philippines)				
DC-9-41	P&W JT8D-9A/7B	12	-	-
Leased in: 12				
Changan Airlines (China)				
(to be merged with Hainan Airlines)				
Y-7	WJ5A-1	5	-	-
China Airlines (Taiwan)				
B747-400	P&W PW4056	13	-	-
Leased in: 7				
B747-400F	GE CF6-80C2B1F/5F 8	7	4	
Leased in: 3				
B747-200F	P&W JT9D-7A/7Q/7R4G2/	6	-	-
Leased in: 2				
B747-200B	P&W JT9D-7A	1	-	-
B737-800	CFM56-7B26	9	4	-
Leased in: 5				
MD-11	P&W PW4460	1	-	-
Leased in: 1				
A300-600R	P&W PW4158	12	-	-
Leased in: 8				
A340-300	CFM56-5C4	4	3	1
China Eastern Airlines				
A340-300	CFM56-5C4	5	-	-
Leased in: 1 BOT Financial Corp				
A300-600R	GE CF6-80C2A5	10	-	-
Leased in: 3				
A320-200	CFM 56-5B4	13	1	-
Leased in: 4 Wet Leased out: 2 to Air Great Wall				
A319		6	-	-
B737-300		7	-	-
Leased in: 1 SALE				
MD-82	P&W JT8D-217A	3	-	-
MD-11	P&W PW4460	3	-	-
MD-11F	P&W PW4460	3	-	-
MD-90		9	-	-
China Northern Airlines (Shenyang)				
MD-90	IAE V-2525-D5	13	-	-
MD-82	P&W JT8D-217A/C	24	-	-
A300-600R	P&W PW4158	6	-	-
Leased in: 2 AWAS Leased out 2				
A321		-	10	-
China Northwest Airlines (Xian)				
A300-600R	GE CF6-80C2A5	3	-	-
Leased in: 1 GECAS				
A310-200	P&W JT9D-7R4E1	3	-	-
Leased in: 3				
A320	CFM56-5B4	13	-	-
Leased in: 2				
BAe 146-100	Lyc ALF 502R-5	3	-	-
Leased in: 1				
BAe 146-300	Lyc LF507-1H	7	-	-
Y-7-100	WJ 5A-1	5	-	-
China Southern Airlines (Guangzhou)				
(including merged carrier Zhongyuan Airlines)				
B747-400F		1	-	-
B777-200A/B	GE90-76BG01	9	-	-
Leased in: 8				
B757-200	RR RB211-535E4	18	-	-
Leased in: 15				
B737-300	CFM56-3C	27	-	-
Leased in: 13				
B737-500	CFM56-3C	12	-	-
Leased in: 7				
A320-200	IAE V2527-A5	20	-	-
Leased in: 10 Leased out: 2				
China Southwest Airlines (Chengdu)				
B757-200	RR RB211-535E4	13	-	-
Leased in: 5 GECAS (3) Leased out: 2				
B737-300	CFM56-3B1/B2	14	-	-
Leased in: 5				
B737-800	CFM56-7	3	-	-
A340-300		3	-	-
China United Airlines (Beijing)				
B737-300	CFM56-3B1	8	-	-
Tu-154M	Sol D-30KU-154	16	-	-
Il-76M		14	-	-
Canadair CRJ200	GE CF34-A-1A/3A	5	-	-
China Xinhua Airlines				
B737-300	CFM56-3B1/2	6	-	-
Leased in: 1 Boullioun				
B737-400	CFM56-3	3	-	-
Leased in: 3 Bouillioun				
China Xinjiang Airlines (China)				
B737-300	CFM56-3	2	-	-
B757-200	RB211-535-E4	8	1	-
Leased in: 3				
IL-86	Hk-86	3	-	-
ATR-72		5	-	-
China Yunnan Airlines (China)				
B737-300	CFM56-3B1/3C1	13	-	-
Leased in: 4 AWAS (3), GECAS (1)				
B767-300ER	RR RB524-211	3	-	-
B737-700	CFM 56	4	-	-
Canadair CRJ200 (pending govt approval)		-	6 (2001-02)	-
Dragonair (Hong Kong)				
A320-200	IAE V2500-A1	7	4 (2001-05)	-
Leased in: 5 ILFC				
A321	IAE V2500	3	3	-
Leased in: 3				
A330-300	RR Trent 772	7	2	-
Leased in: 4 ILFC				
B747-200F	GE CF6-50E2	1	-	-
Leased in				
B747-300	PW JT9D-7R4G2	-	2 (2001)	-
Druk-Air (Bhutan)				
BAe 146-100	Lyc ALF502R-5	2	-	-

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
Eagle Airlines (New Zealand)				
EMB-110P1	PWC PT6A-34	9	-	-
Leased in: 9 Air New Zealand				
Fairchild Metro III	Garrett TPE331-11	6	-	-
Leased in: 6 Air New Zealand				
Eastern Australia Airlines				
DHC-8-100/200	PWC PW120A/123	16	-	-
Elbee Airlines (India)				
F27-200	RR Dart 552-7R	2	-	-
EVA Air (Taiwan)				
B747-400	GE CF6-80C2B1F	5	-	-
B747-400 Combi	GE CF6-80C281F	10	-	-
Leased in: 12 of the 15 B747s				
B747-400F	GE CF6-80C2B1F	1	2 (2001-02)	-
B767-300ER	GE CF6-80C2B6F	4	-	-
Leased in: 4				
B767-200	GE CF6-80C2B2F	4	-	-
MD-11	GE CF6-80C2D1F	3	-	-
Leased in: 1				
MD-11F	GE CF6-80C2D1F	9	-	-
Leased in: 2				
B777-200X		-	3 (2005-08)	-
B777-300X		-	4 (2005-08)	8 (-200/-300)
A330-200		-	2 (2003-05)	-
Everest Air (Nepal)				
Fairchild Dornier 228-100	Gar TPE331-5-252D	3	-	-
Leased in: 1 Danisk, 2 Adler Leasing				
Far Eastern Air Transport (Taiwan)				
B757-200	P&W PW2037	7	1	-
Leased in: 1 ILFC				
MD-82/83	P&W JT8D-217/219	9	-	-
Leased in: 4				
Freedom Air International (New Zealand)				
B737-300	CFM56-3C1	2	-	-
Leased in: 2 Air New Zealand				
Garuda Indonesia				
B747-400	GE CF680-C2B1F	3	-	-
Leased in: 1 ILFC (To Mar 2005)				
B747-200	P&W JT7D-7Q	4	-	-
B737-500	CFM56-3C1	5	-	-
B737-400	CFM56-3C1	14	-	-
Leased in: 7				
B737-300	CFM56-3B1	7	-	-
Leased in: 7				
DC10-30	GE CF6-50C	5	-	-
A330-300	RR Trent 700	6	-	-
Leased in: 6				
Hainan Airlines (Haikou, China)				
B737-300	CFM56-3C1	5	-	-
Leased in: 3 ILFC, 2 Communication Bank of China				
B737-400	CFM56-3C1	7	-	-
Leased in: ILFC				
B737-800	CFM56-7	7	-	-
Leased in:				
Fairchild 328JETS	P&W	16	20	-
Learjet 60	P&W PW305A	1	-	-
Beechjet 400		1	-	-
Raytheon Hawker 800XP		5	-	-
Hazelton Airlines (Australia)				
Saab 340A/B	GE CT7-9B	9	-	-
Leased in: 1 Finans Skandic AB, 1 NAB, 2 Scania, 2 Handelsbanken				
Fairchild Metro 23	Gar. TPE331-12 VAR	2	-	-
Leased in: 2 State Bank				
Indian Airlines				
A300B4/B2	GE CF6-50C2/C	9	-	-
A320-200	IAE V2500-AI	32	-	-
Leased out: 1				
B737-200	P&W JT8D-17A	11	-	-
Dornier 228-200		3	-	-
Islands Nationair (Papua New Guinea)				
DHC-6-300 Twin Otter	PWC PT6A-27	3	-	-
EMB-110	PWC PT6A-34	3	-	-
J-AIR (Japan)				
BAe Jetstream Super 31	Gar. TPE331-12UHR	3	-	-
Leased in:				
Canadair RJ 200		2	4	-
Jagson Airlines (India)				
Fairchild Dornier 228-201	Gar. TPE331-5-252D	3	-	-
JALways (Formerly Japan Air Charter, JAZ)				
B747		1	-	-
Leased in: 1, Japan Airlines				
DC10-40	P&W JT9D-59A	4	-	-
Leased in: 4 Japan Airlines				
Japan Air Commuter				
YS-11A-500	RR Dart 542-10J/K	12	-	-
Leased in: JAS				
Saab 340B	GE CT7-9B	11	-	-
Leased in: 7 Mitsui Leaseb (2), Kougin Lease (1), Tajima Airport Terminal (1), Central Lease (1), Diamond Lease (1), Nihon Lease (1)				
Japan Air System				
B777-200	P&W PW4074	2	-	-
Leased in: 1 Sumigin Lease				
A300B4-2C	GE CF6-50C2R	8	-	-
Leased in: 5				
A300B2K-3C	GE CF6-50C2R	9	-	-
Leased in: 4				
A300-600R	P&W PW4158	19	-	-
Leased in: 7				
MD-90-30	IAE V2525-D5	16	-	-
Leased in: 3				
MD-81	P&W JT8D-217A/C	18	-	-
Leased in: 13				
MD-87	P&W JT8D-217/AC	8	-	-
Leased in: 2				
Japan Airlines				
B747-400	GE CF6-80C2B1F	42	-	-
Leased in: 15				
B747 Classics	P&W JT9D	26	-	-

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
B747 Freighters	P&W JT9D	10		
B767-300	P&W JT9D-7R4D	12	-	-
Leased in: 5Leased out: 1 JAA				
B767-300	GE CF6-80C2B4F	7	-	-
Leased in: 4Leased out: 2 JAA				
B767-200	P&W JT9D-7R4D	3	-	-
Leased in: 1 Nikko Lease				
B777-200	P&W PW4077	5	5	-
Leased in: 3				
B777-300	P&W PW4090	5	-	-
B777-300X		-	8	-
MD-11	P&W PW4460	10	-	-
Leased in: 8. Mitsubishi Corp (5), Kogin Lease (1), Fuyo Sogo Lease (1)				
DC 10-40	P&W JT9D-59A	15	-	-
Japan Asia Airways				
B747-300	P&W JT9D-7R4G2	3	-	-
Leased in: Japan Airlines				
B747-200	P&W JT9D-7A/7Q	1	-	-
Leased in: Japan Airlines				
B767-300	P&W JT9D-59A	2	-	-
Leased in: 2, Japan Airlines				
B767-300	CF6-80C2B4F	1	-	-
Leased in: 1, Japan Airlines				
Japan Express (JEX)				
B737-400	CFM 56-3C1	8	-	-
Leased in: 8, Japan Airlines				
Japan TransOcean Air				
B737-400	CFM56-3C1	15	-	-
Leased in:				
Jet Airways (India)				
B737-400	CFM56-3C1/3B1	10	-	-
Leased in: 4				
B737-700	CFM56-7B22	10	-	-
B737-800	CFM56-7B24	9	7 (2001-03)	-
ATR 72-500	PWC PW127F	6	2 (2001)	-
Kendell Airlines (Australia)				
Saab 340A	GE CT7-5A2	8	-	-
Saab 340B	GE CT7-9A2	8	-	-
Fairchild Metro 23	Gar. TPE331-12 UAR	7	-	-
Canadair RJ-200	GE CF34-381s	12	-	-
Korean Air				
B747-400	P&W PW4056	25	2 (2001/02)	-
Leased in: 1. Indosuez Air Finance				
B747-400F	P&W PW4056	5	2 (2001)	-
B747-200F	P&W JT9D-7A/Q/7R4G2	7	-	-
B747-300	P&W JT9D-7R4G2	2	-	-
B777-200	P&W PW4090	5	1(2001)	-
B777-300	P&W PW4090	4	2 (2002)	-
B737-800	CFM56-7B24	8	6 (2001)	-
B737-900	CFM56-7B24	-	7 (2001/02)	1
A330-300	P&W PW4168/A	11	2 (2001)	3
A330-200	P&W PW4168	3	-	-
A300-600	P&W PW4158	18	-	-
Leased in: 3				
MD-11F	P&W PW4460	4	-	-
MD-82/83	P&W JT8D-217A/C/219	8	-	-
Fokker 100	RR Tay 650-15	10	-	-
Leased in: 2. Orix Aircraft Corp (2)				
Lao Aviation				
An 24RV	Ivchenko AI-24	1	-	-
ATR72	P&W PW127	1	-	-
Y-12-II	PWC PT6-27	5	-	-
Leased in: Harbin (CATIC)				

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
Y-7-100C3	WJ5A-1	3	-	-
Leased in: XAC				
Malaysia Airlines				
B747-400	P&W PW4056/GE CF6-80C2	16	5	-
Leased in: 1				
B747-300	P&W JT9D-7R4G2	1	-	-
B747-200F	RR RB211-524D4	2	-	-
B777-200	RR Trent 890B	11	6	-
Leased in: 9				

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
B737-400	CFM56-3C1	39	-	-
Leased in: 4.Leased out: 3				
B737-500	CFM56-3C1	1	-	-
Leased in: 1				
B737-700BBJ	CFM56-7B26	1	-	-
A330-300	P&W PW4168	9	-	-
DC10-30	CF6-50C2	1	-	-
Fokker 50	PWC PW125B	10	-	-
DHC	PT6A-27	6	-	-
Leased in: 1				
Mandala Airlines (Indonesia)				
B737-200	P&W JT8D-15/17	7	-	-
Leased in: 7. GECAS (3), PT. Pann (2), Sub lease from Transmile (2)				
Mandarin Airlines				
B747-400	P&W PW4056	1	-	-
B737-800	CFM56-7B26	2	-	-
Fokker 50	P&W PW125B	7	-	-
Fokker 100	RR Tay 65-15	2	-	-
Fairchild Dornier 228-202	Gar TPE331-252D	1	-	-
Fairchild Dornier 228-212	Gar TPE331-5A-252D	2	-	-
Merpati Nusantara Airlines (Indonesia)				
B737-200	P&W JT8D-15	7	-	-
Fokker 100	RR Tay 650-15	3	-	-
F28-4000	RR Spey 555-15H	17	-	-
(seven not in service)				
F27-500	RR Dart 532/6-7	13	-	-
(five not in service)				
CN-235	GE CT7-7A	13	-	-
(eight not in service) Leased out: 2				
CASA 212	Gar. TPE 331-10-511	9	-	-
(three not in service)				
DHC-6-300/200	PWC PT6A-27	8	-	-
Mount Cook Airline (New Zealand)				
ATR 72-500	PWC PW127	7	1	-
Leased in: 7, Air New Zealand				
MIAT Mongolian Airlines				
B727-200	P&W JT8D-9A/17	2	-	-
A310		1	-	-
Y-12	PWC PT6-27	5	-	-

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
An-24	Ivchenko AI-24	11	-	-
An-26	Ivchenko AI-24BT	3	-	-
An-30	Ivchenko AI-24BT	1	-	-
Mi-8	TVD-117A	3	-	-
Myanmar Airways				
F28-4000	RR Spey 555-15P	2	-	-
F28-1000	RR Spey 555-15	1	-	-
F27-600	RR Dart 532-7	3	-	-
F27-400	RR Dart 532-7	1	-	-
F27-100	RR Dart 514-7	1	-	-
Myanmar Airways International				
B737-400	CFM56-3C1	2	-	-
Leased in: MAS				
Necon Air (Nepal)				
HS748	RR Dart 533/6-2	3	-	-
ATR-42		1	-	-
National Jet (Australia)				
BAe RJ70		2	-	-
DHC 8 100/200/300		5	-	-
BAe Jetstream J32		1	-	-
NEPC Airlines (India)				
F27-500	RR Dart 552-7R	8	-	4
Leased in: 2				
Nippon Cargo Airlines (Japan)				
B747-200F	GE CF6-50E2	7	-	-
Leased in: 2				
B747-100SRF	GE CF6-50E2	1	-	-
Pacific Airlines				
MD-82	P&W JT8D-217C	1	-	-
Leased in: U-Land Airlines				
Pakistan International Airlines				
B747-200	P&W JT9D-7A	6	-	-
B747-200 Combi	GE CF6-50E2	2	-	-
B747-300	RR RB211-524C2	5	-	-
Leased in: 5 Cathay Pacific				
B737-300	CFM56-3B1	6	-	-
A300-B4	GE CF6-50C2	9	-	-
Leased in: 2				
A310-300	GE CF6-80C2A8	6	-	-
F27-200/400	RR Dart 532-7	13	-	-
DHC-6-300	PWC PT6A-27	2	-	-
Pelangi Air (Malaysia)				
Fokker 50	PWC PW125B	2	-	-
Fairchild Dornier 228-202	Gar. TPE331-5-252	3	-	-
Pelita Air Service (Indonesia)				
Fokker 100	RR Tay 650-15	1	-	-
Leased in: GECAS				
Fokker 70	RR Tay 620-15	1	-	-
F28-4000	RR Spey 555-15P	4	-	-
Leased in: 1 GECAS				
DHC-7-103	PWC PT6A-50	6	-	-
CASA C212-100	Garrett TPE331-511C	4	-	-
BAe 146-200	Lyc ALF502-R5	1	-	-
CASA 212-200		8	-	-
Philippine Airlines				
B747-400	GE CF6-80C2B1F	4	-	-
Leased in: 4				
B747-200	CF56-5C4	3	-	-
Lease in: 3				
B737-300	CFM56-3B1/3B2/3C1	7	-	-
Leased in: 7				
B737-400	CFM56-3B1/3B2/3C1	3	-	-
Leased in: 3				

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
A340-300	CFM56-5C	4	-	-
Leased in: 4				
A330-300	CF6-80E1A2	8	-	-
Leased in: 8				
A320-200	CFM56-5B4/P	3	-	-
Leased in: 3				
Polynesian Airlines (Western Samoa)				
B737-300	CFM56-3C1	1	-	-
B737-800	CFM56-7B	1	1	-
DHC-6-300	PWC PT6A-27	2	-	-
BN-2A Islander	Lyc O-540-E4C5	1	-	-
Qantas Airways				
(including Impulse Airlines)				
B747-400	RR RB211-524G/CF6-80C2B1F	24	-	-
Leased in: 1 (British Airways)				
B747-400ER	CF6-80C2B5F	-	6	-
B747-300	RR RB211-524D4U	6	-	-
B747-200B/ SCD	RR RB211-524D4U	4	-	-
Leased out: 1 (Air Pacific)				
B747SP	RR RB211-524B2	2	-	-
B767-300ER	RR211-524H/GE CF6-80C2B6	29	-	-
Leased in: 3 Japan Leasing Corp (2), Dai-Ichi Kangyo Bank (1)				
B767-200ER	P&W JT9D-7R4E	7	-	-
B737-300	CFM56-3C1	16	-	-
B737-400	CFM56-3C1	22	-	-
Leased in: 1 ILFC				
B717-200		8	-	-
A380	RR Trent 900	-	12	-
A330-200	CF6-80E1	-	7	-
A330-300	CF6-80E1	-	6	-
Regionals				
BAe146-100	ALF502R-5	6	-	-
BAe146-200	ALF502R-5	9	-	-
BAe146-300	ALF507R-5	2	-	-
DHC-8-100	PW120A	18	-	-
DHC-8-200	PW123	4	-	-

CARGO SLUMPS: DOWN 7.6% IN FIRST SIX MONTHS

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

In June, the consolidated passenger traffic of the Association of Asia Pacific Airlines' member carriers rebounded from May's mild contraction and emerged with subdued growth of 0.8% in revenue passenger kilometres (RPKs) and 2.4% in passengers carried (PAX). Capacity growth of 3.7% outpaced RPK growth once again, dragging the load factor down by 2.1 percentage points to 73.7% for the month.

Three carriers managed double digit RPK growth in June – Vietnam Airlines (VN – 33.2%), Royal Brunei Airlines (BI – 15%) and Thai Airways International (TG – 11.7%). In addition, seven other carriers reported growth, which ranged from a marginal 0.2% by China Airlines (CI) to 9.7% by resurgent Philippine Airlines (PR). Four carriers experienced traffic declines. A portion of All Nippon Airways' (NH) traffic decline may be attributed to the carrier's route network restructuring exercise implemented to meet market demand.

Restructured carriers, All Nippon Airways and Korean Air (KE), registered a drop in the number of passengers carried year-on-year. On the other hand, the remaining 12 carriers to submit statistics enjoyed positive growth, which ranged from EVA Air's (BR) 0.5% to Vietnam Airlines' 27.3% – the twelfth straight month of double digit growth for the latter carrier.

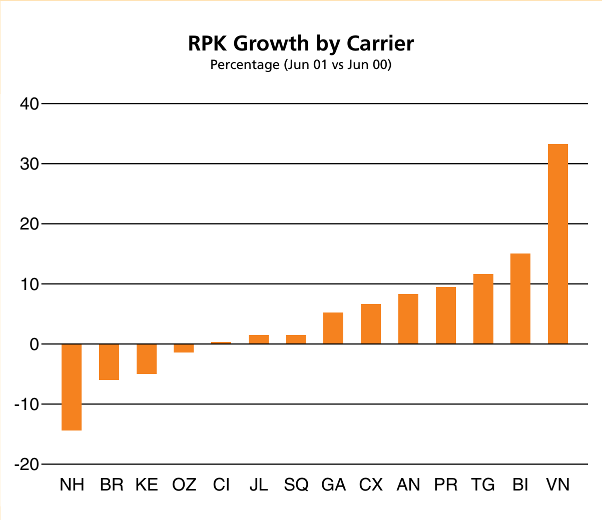
Although there were efforts to contain capacity growth in the face of declining traffic, many carriers still experienced a passenger load factor (PLF) decline as RPK growth remained one step behind. The decline in PLF ranged from 0.2 percentage point (Vietnam Airlines) to 4.9 percentage points (Garuda Indonesia). Only two carriers managed to post higher growth in RPKs than ASKs, which enabled them to show an improvement in their load factors – Royal Brunei Airlines (3.7 percentage points) and Thai Airways International (0.3 percentage point).

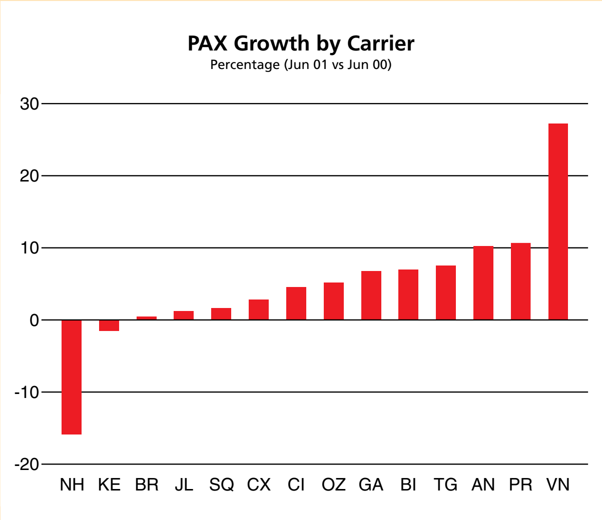
Twelve carriers filled 70% of their seats in the month under review, a sharp contrast to May of only four, partly due to seasonal effects. Among the twelve carriers, seven managed a load factor which exceeded 75% – Asiana Airlines (79.2%), EVA Air (78.5%), All Nippon Airways (76.7%), China Airlines (76.3%), Japan Airlines (76.3%), Singapore Airlines (76.1%) and Cathay Pacific Airways (75.8%).

Cargo Results

Consolidated AAPA freight traffic in freight tonne kilometres (FTK) shrank by 7.1% year-on-year, which was less severe than the previous two months' contractions of 12.4% in May and 12.6% in April. Capacity edged up 1.9%. This led to a decline of 6.3 percentage points in freight load factor (FLF) to 64.2%.

Four carriers reported FTK growth, compared to two in May





Vietnam Airlines: RPKs rose 33.7% in the second quarter

and one in April. Ansett Australia (AN) enjoyed a 26.5% increase in June – its third double digit growth in four months. China Airlines recorded a 7% rise, while Vietnam Airlines and Asiana Airlines (OZ) registered 3.3% and 1.9% growth, respectively. The remaining 10 reporting carriers experienced negative FTK growth ranging from 0.2% (Cathay Pacific Airways – CX) to 40.4% (Royal Brunei Airlines).

Thirteen carriers experienced a decline in load factor with four of them suffering double digit drops – Royal Brunei Airlines 19.0 percentage points down, Garuda Indonesia, 17.1 percentage points down, EVA Air, 14.6 percentage points down and All Nippon Airways, a fall of 12.2 percentage points. Asiana Airlines (0.2 percentage point) bucked the trend with an improved load factor.

The FLF of four carriers remained high – Asiana Airlines (76.8%), China Airlines (74.4%), Korean Air (74.2%) and EVA Air (71.5%). Six carriers sold between 50% and 69% of their cargo space in June. On the other hand, four Southeast Asia carriers registered a load factor well below 50%.

Results of the Second Quarter (April to June 2001)

The AAPA consolidated RPKs and PAX rose by 0.1% and 1.8% respectively, in the quarter under review – considerably lower than first quarter growth of 6.2% (RPKs) and 6.5% (PAX). There was an increase of 4.6% in capacity, leading to a 3.1 percentage point drop in load factor to 70.9%.

Traffic, however, was up for the majority of AAPA carriers. The largest RPK growth was registered by Vietnam Airlines (33.7%). Royal Brunei Airlines (21.6%) was the only other carrier to record double digit growth. Four carriers experienced traffic declines of between 0.3% (Singapore Airlines) and 15.3% (All Nippon Airways).

Philippine Airlines' road to fiscal recovery continued with traffic growth of 6.4% in the quarter. Its RPKs reached 3.2 billion, the level of traffic generated by the carrier prior to the Asian economic crisis in 1997-98. The number of passengers carried also recovered and surpassed 600,000 for the second consecutive quarter.

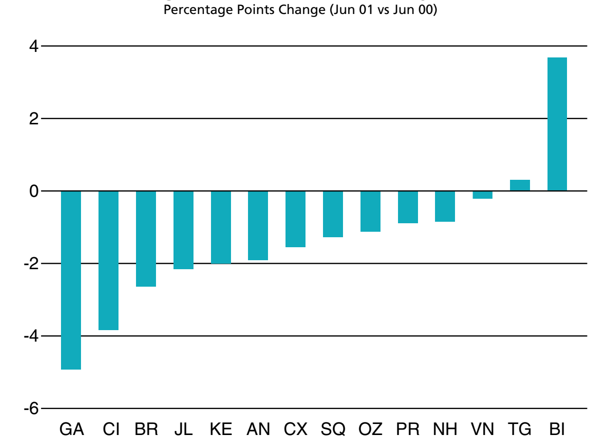
With the exception of All Nippon Airways, all carriers posted positive growth in PAX for the quarter. Vietnam Airlines (27.2%), Royal Brunei Airlines (11.4%) and Asiana Airlines (10%) posted the highest growth and were the only carriers to report two straight quarters of double digit growth in PAX.

Royal Brunei Airlines improved its PLF by 6.4 percentage points in the period. Load factors of the remaining carriers deteriorated, and ranged from a marginal 0.3 percentage point (China Airlines) to 8.2 percentage points (Garuda Indonesia). Ten carriers had PLF over 70% with EVA Air (77.1%) and China Airlines (76.1%) leading the pack.

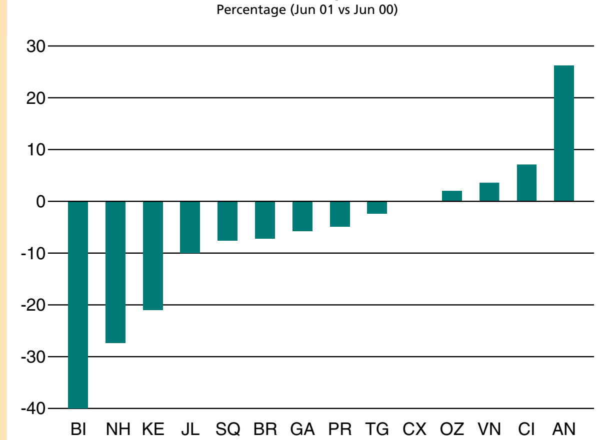
Cargo Results

Freight traffic experienced a significant contraction in the second quarter. The AAPA carriers' consolidated FTK shrank by 10.7% – more than double the contraction reported in the first quarter. Capacity rose only 0.3% in the same period, which caused load factor to fall 7.6 percentage points to 62.5%.

Freight traffic declined for most of the carriers. A number of carriers suffered double-digit contraction: All Nippon Airways (-



Passenger Load Factor Growth by Carrier
Percentage Points Change (Jun 01 vs Jun 00)



FTK Growth by Carrier
Percentage (Jun 01 vs Jun 00)

25.7%), Korean Air (- 21.3%), Royal Brunei Airlines (- 18%), EVA Air (- 13.0%), Philippine Airlines (- 11.9%) and Japan Airlines (- 10.6%).

In contrast, Vietnam Airlines (19.1%) and Ansett Australia (12.7%) enjoyed robust growth for the three-month period. China Airlines managed modest growth of 0.8% and is the only carrier to have posted consecutive positive quarterly growth since the first quarter of 1999.

Load factors of all carriers declined, ranging from 1.6 percentage points (Ansett Australia) to 15.9 percentage points (EVA Air). Only China Airlines, Korean Air and Asiana Airlines posted a FLF over the 70% mark. Philippine Airlines' FLF plummeted to 20.5% – the lowest ever recorded in just over a decade – after traffic fell 12.9% and capacity grew 15.6%.

Results of the 12 Months to June 30, 2001

The AAPA members' consolidated passenger traffic grew by 6.8% for the twelve-month period to June 30. The number of passengers carried was over 98 million, up 6.7% year-on-year. Capacity rose 5.6% and, as a result, PLF improved 0.8 percentage point, to 74.3%.

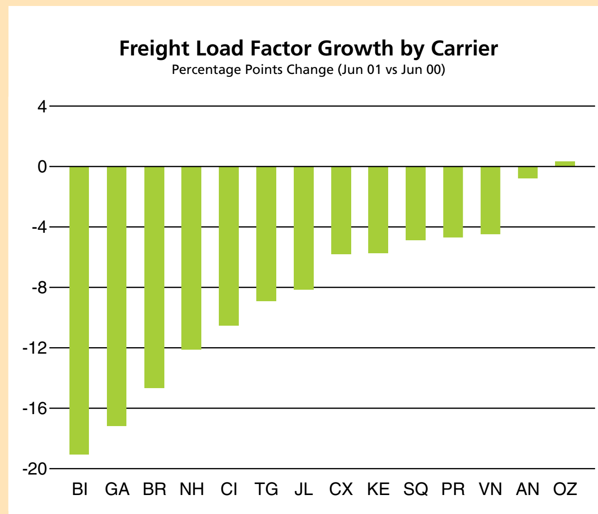
Cargo Results

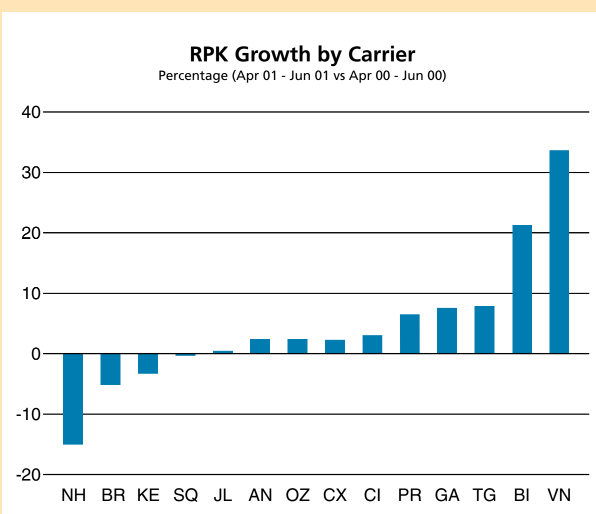
Freight showed a modest contraction for the 12-month period, down by 0.2%, reflecting the sluggishness of the global economy since the second half of last year. Capacity expanded by 3.6%, which led to a decline in FLF of 2.6 percentage points to 67.2%.

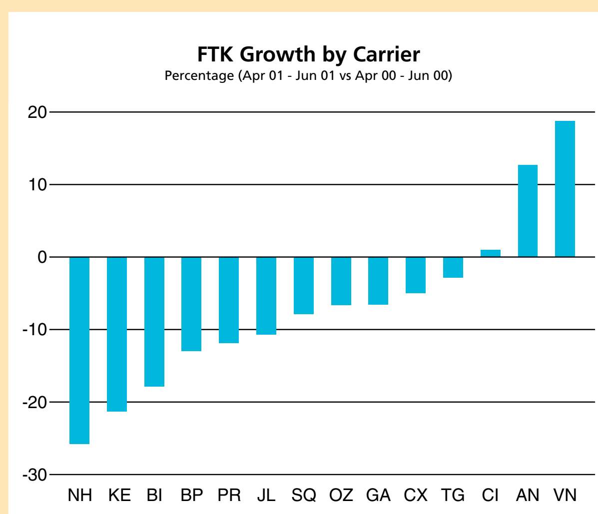
Summary

The first six months of 2001 produced a worrying traffic result, particularly in freight. During the period, passenger traffic rose 3.1%, only a shade better than the latest IATA number of 3% for the

Philippine Airlines: Healthy passenger traffic in second quarter but cargo plummeted







China Airlines: the only AAPA carrier to record positive freight growth since the beginning of 1999

same period. The AAPA member airlines flew 52 million passengers in the six months, compared to 50 million in 2000. The concern is that capacity growth has outstripped traffic growth since April and traffic growth is expected to be subdued, although with a slight upward bias for the remaining half of the year.

Freight traffic was disappointing, down 7.6% for the first six months. Asian countries reported weaker exports in the second quarter. Imports fell too, severely affecting cargo loads to and from North America. With capacity remaining in growth mode, up by 1.2% in the same period, FLF was down 6.0 percentage points, to 62.9%.

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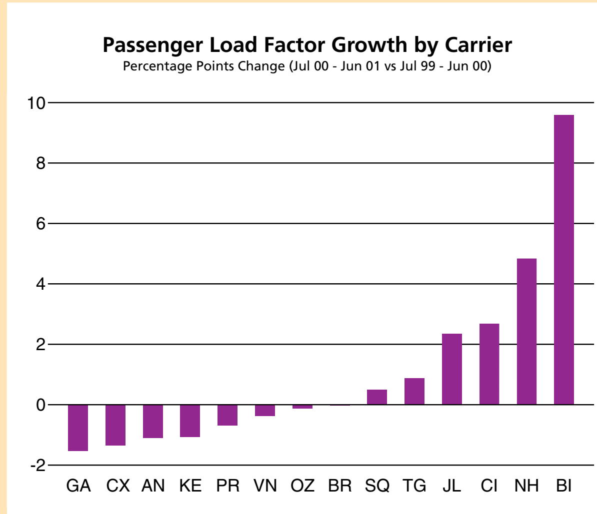
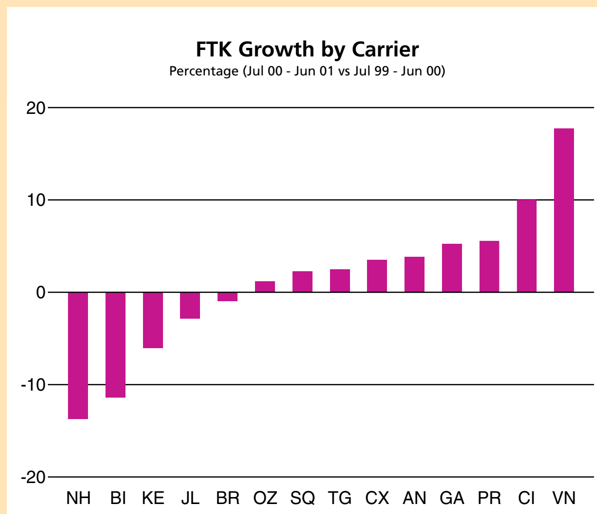
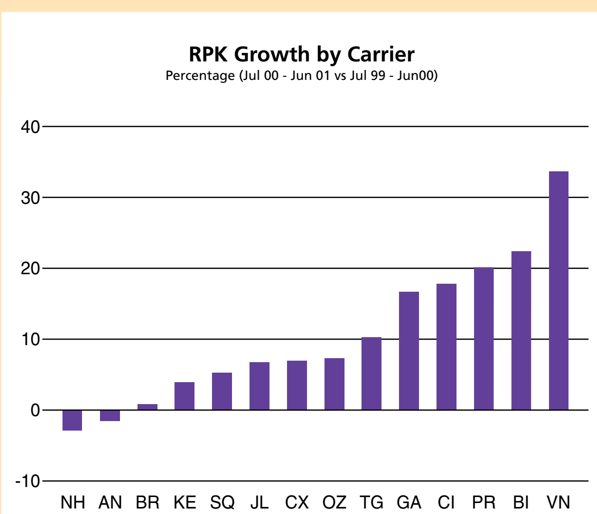
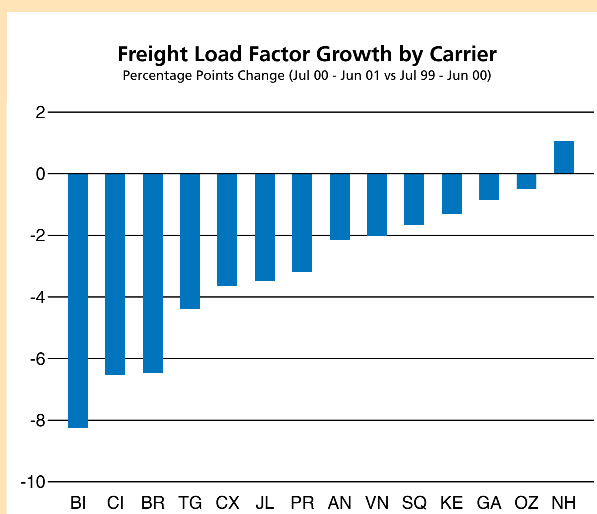
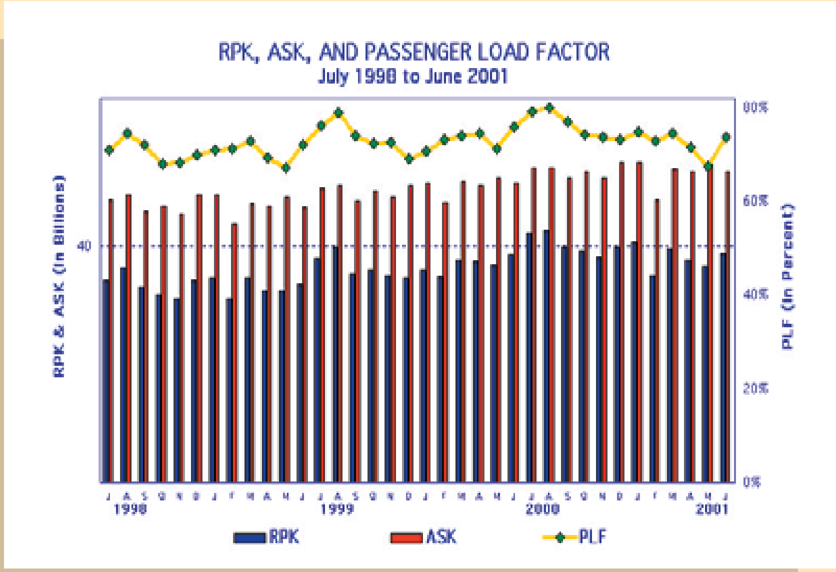


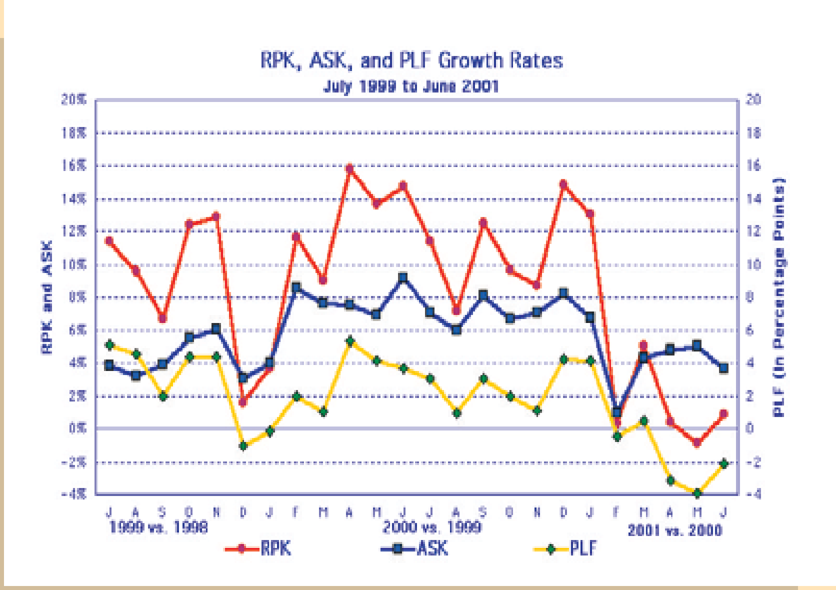




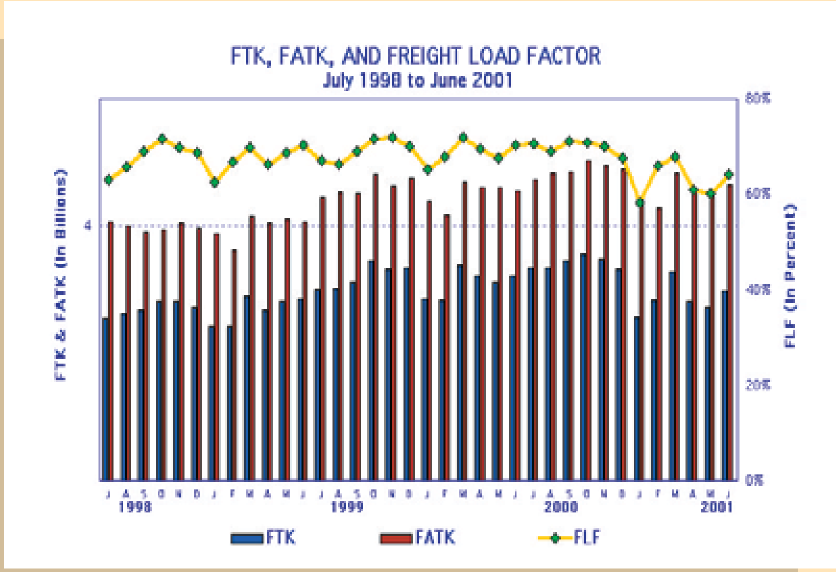


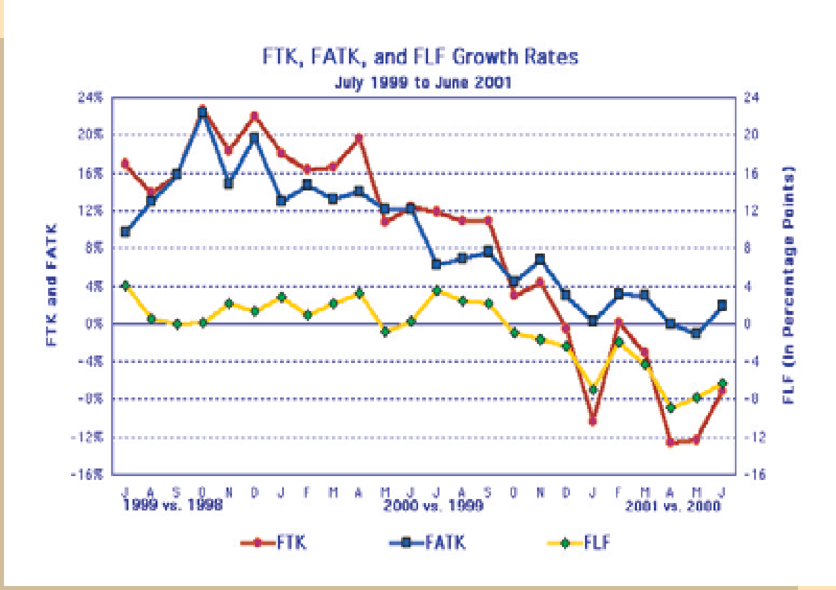
Monthly international PAX statistics of AAPA members





Monthly international cargo statistics of AAPA members





AAPA monthly international statistics (MIS)

*IN THOUSANDS

2000 to 2001

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
JUN-01	38,782,101	52,594,821	73.74	2,976,862	4,639,934	64.16	6,611,587	9,436,166	8,741
MAY-01	36,481,779	54,139,038	67.39	2,732,009	4,553,376	60.00	6,151,921	9,485,880	8,411
APR-01	37,593,207	52,560,896	71.52	2,802,533	4,604,379	60.87	6,317,544	9,389,071	8,666
MAR-01	39,516,817	53,018,109	74.53	3,266,306	4,821,183	67.75	6,972,083	9,653,899	9,034
FEB-01	34,904,256	47,888,140	72.89	2,822,702	4,283,837	65.89	6,099,155	8,663,278	7,966
JAN-01	40,552,393	54,065,390	75.01	2,562,234	4,396,241	58.28	6,333,638	9,354,263	9,016
DEC-00	39,744,563	54,234,897	73.28	3,306,664	4,887,447	67.66	7,046,451	9,860,647	8,846
NOV-00	38,040,505	51,552,700	73.79	3,467,407	4,944,456	70.13	7,044,098	9,673,473	8,630
OCT-00	39,213,125	52,689,409	74.42	3,556,216	5,025,502	70.76	7,253,911	9,859,762	8,782
SEP-00	39,695,907	51,498,288	77.08	3,448,015	4,846,064	71.15	7,187,257	9,577,705	8,720
AUG-00	42,563,884	53,219,304	79.98	3,328,928	4,835,287	68.85	7,329,682	9,731,918	9,411
JUL-00	42,210,457	53,221,980	79.31	3,339,584	4,731,881	70.58	7,306,299	9,503,672	9,358
TOTAL	469,298,993	630,682,971	74.41	37,609,460	56,569,588	66.48	81,653,627	114,189,733	105,581

2000 to 2001

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
JUN-01	0.83	3.69	-2.10	-7.12	1.88	-6.29	-3.13	2.34	2.37
MAY-01	-0.83	5.00	-3.96	-12.36	-1.07	-7.81	-6.62	1.57	1.54
APR-01	0.37	4.80	-3.15	-12.60	-0.03	-8.87	-6.12	1.92	1.57
MAR-01	4.99	4.30	0.49	-3.04	2.95	-4.23	0.90	3.26	6.45
FEB-01	0.35	0.95	-0.44	0.16	3.12	-1.97	0.19	1.80	-1.15
JAN-01	13.04	6.72	4.16	-10.35	0.23	-6.98	1.73	3.51	14.38
DEC-00	14.83	8.23	4.21	-0.57	2.97	-2.41	7.20	5.59	11.31
NOV-00	8.68	7.03	1.12	4.36	6.83	-1.66	6.49	6.90	8.70
OCT-00	9.61	6.70	1.98	3.01	4.44	-0.98	6.33	5.53	9.68
SEP-00	12.50	8.09	3.02	10.84	7.56	2.11	11.72	7.84	12.21
AUG-00	7.15	5.93	0.91	10.89	6.88	2.49	9.06	6.40	5.81
JUL-00	11.40	7.07	3.08	11.87	6.29	3.52	12.01	5.30	9.48

Calendar Year

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
1995	326,071,184	471,535,677	69.15	23,838,488	36,487,508	65.33	54,250,542	79,121,583	76,378
1996	374,365,998	529,442,583	70.71	27,783,667	43,091,640	64.48	62,557,622	90,816,037	86,703
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[6]	227,830,552	314,266,393	72.50	17,162,646	27,298,950	62.87	38,485,929	55,982,556	51,834

Calendar Year

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
1996	14.81	12.28	1.56	16.55	18.10	-0.86	15.31	14.78	13.52
1997	3.58	6.03	-1.64	14.24	6.03	5.00	8.28	6.52	2.30
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[6]	3.09	4.28	-0.83	-7.60	1.16	-5.96	-2.23	2.41	4.12

Note:

1. The consolidation above includes 16 participating airlines.
2. Data for Jan - Jun 2001 is subject to revision as actual data for QF Jan - Jun 2001 is not available.
3. KA and NZ do not participate in this report.
4. AN data from Jul 1998 onwards. VN data from Jan 1998 onwards.
5. CY denotes Calender Year (January - December). 2001 Year-To-Date (YTD): Jan 2001 - Jun 2001.
6. YTD comparison: Jan - Jun 2001 v Jan - Jun 2000.

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
Raytheon Beech 1900D	13	-	-	
Shorts SD 360 PW PT6A-65R		4	-	-
Qantas New Zealand				
BAe 146-300	Lyc ALF502R-5	9	-	-
Leased in: 9 AWAS (7), Ansett Aust (2)				
BAe 146-200F	Lyc ALF502R-5	1	-	-
Leased in: AWAS				
DHC-8-100	PWC PW120A	4	-	-
Leased in: 3 DHC (5 years)				
BAe Jetstream 32EP		-	3	-
Royal Air Cambodge (Cambodia)				
B737-400	CFM56-3B1	1	-	-
Leased in: MAS				
ATR72	PWC PW124C	3	-	-
Leased in: 3				
Y12	PT6A-27	2	-	-
Royal Brunei Airlines				
B757-200ER	RR RB211-535-E4	2	-	-
Leased out: 1 Qatar Airways				
B767-300ER	P&W PW4056	6	-	-
Leased out: 1 Region Air				
B767-300ER	GE CF6-80C2	2	-	-
Dornier 228-212	TPE331-5A-252D	1	-	-
Leased out				
Royal Nepal Airlines				
B757-200/C	RR RB211-535E4	2	-	-
DHC-6-300	PWC PT6A-27	8	-	-
Pilatus PC6-B2H4	PWC PT6A-27	1	-	-
Royal Tongan Airlines				
BAe 748-2B	RR 536	1	-	-
Leased in: Mt. Cook Airlines				
DHC-6-300	PWC PT6A-27	2	-	-
Ryukyu Air Commuter (Japan)				
DHC-8-100		2	2	-
DHC-6-300	PWC PT6A-27	4	-	-
Leased in: 4 Japan TransOcean				
Sabang Merauke Raya Air Charter (Indonesia)				
C-212-100	Garrett TPE331-5-251C	2	-	-
F-27-200	RR Dart-7 MK532-7	1	-	-
Leased in: 1				
Piper PA31-350	Lyc TIO-540-J2BD	1	-	-
Sahara India Airlines				
B737-200	P&W JT8D-15	4	1	-
Leased in: 2 PLM Int'l				
B737-400	CFM56-3C-1	2	2	-
Leased in: ILFC				
Shaheen Air (Pakistan)				
B737-400		1	-	-
Leased in:				
Shandong Airlines (China)				
B737-300	CFM56-3B1/3B2	7	-	-
Leased in: 2 (GECAS)				
Saab 340A		6	-	-
Leased in:				
Canadair RJ200		6	-	-
Canadair RJ700 (pending govt approval)		-	10	-
Bombardier Challenger 604		-	4 (2002-03)	-
Shanghai Airlines (China)				
B757-200	P&W PW2037	7	-	-
B767-300	P&W PW4056	3	-	-
B737-700	CFM56-381	6	-	-
Leased in: 3 (ILFC)				

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
Canadair RJ200		2	1	-
Shenzhen Airlines (China)				
B737-300	CFM56-3B1/2/C1	6	-	-
Leased in: 6 China Xinjiang (2), Fluggesellscaft (2), AWAS (1), Metlife Capital Corp (1)				
B737-700		5	-	-
Sichuan Airlines (China)				
A320-200	IAE V2527-A5	5	-	-
Leased in: ILFC				
A321	IAE V2500	2	-	-
EMB 145		4	1(2001)	-
Y-7-100	WJ5A-1	5	-	-

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
SilkAir (Singapore)				
A320-200	V2527-A5	4	1 (2001)	9
(A320/A319)				
A319-100	V2524-A5	3	1 (2002)	
Singapore Airlines				
B747-400	P&W PW4056	38	1	9
B747-400F	P&W PW4056	9	8	-
B777-200/ER	RR Trent 800	19	31	23
B777-300	RR Trent 892	5	3	-
A380-100	RR Trent 900	-	10	15
A340-300E	CFM56-5C4	13	2	-
A340-500	RR Trent 553	-	5	5
A310-300	P&W PW4152	13	-	-
Skippers Aviation (Australia)				
DHC-8-100		2	-	-
Emb 120ERJ		1	-	-
Fairchild Metro 23		7	-	-
Cessna 400 Series		8	-	-
Skymark Airlines (Japan)				
B767-300ER		2	1	-
Skyline NEPC Airlines (India)				
B737-200	P&W JT8D-17/17A	1	-	-
Skywest Airlines (Australia)				
Fokker 50	PWC PW125B	5	-	-
Solomon Airlines				
B737-300 CFM56-3C1		1	-	-
Leased in: Qantas				
DHC-6-310	PWC PT6A-27/34	2	-	-
DHC-5-310	PWC PT6A-27	1	-	-
BN-2A-8/9 Islander	Lyc O-540-E4C5	2	-	-
Southern Australian Airlines				
DHC-8-102	PWC PW120A	3	-	-
BAe 146-200	Lyc. ALF 502R	3	-	-
Leased in: 3				

Airline/Aircraft	Engines	In Service Aug 31, 01	On Order	Options
Srilankan Airlines				
(re-building fleet after terrorist attack)				
A340-300	CFM56-5C2	3	-	-
Leased in: 1				
A330		4	3	-
A320-231	IAE V2500-A1	2	-	-
Sun Air (Fiji)				
(formerly Sunflower Airlines)				
BN-2A Islander	Lyc O-540-E4C5	3	-	-
BN2A-27Islander	Lyc 0-540-E4C5	1	-	-
DHC-6-210	PWC PT6A-20	2	-	-
DHC-6-310	PWC PT6A-27	1	-	1
Sunstate Airlines (Queensland, Australia)				
Shorts 360	PWC PT6A-65R	3	-	-
DHC-8-100/200/300	PWC PW120A	7	1	-
Thai Airways International				
B747-400	GE CF6-80C2B1F	14	1	-
Leased in: 2				
B747-300	GE CF6-80C2B1	2	-	-
B777-200	RR Trent 870	8	-	-
Leased in: 4				
B777-300	RR Trent	6	-	-
B727-400		-	1 (2001)	-
B737-400	CFM56-3C1	10	-	-
Leased in: 4				
MD-11	GE CF6-80C2D1F	4	-	-
A330-300	P&W PW4164/4167/4168A	12	-	-
Leased in: 3				
A300-600	GE CF6'P&W4158	21	-	-
Leased in: 5				
ATR72	PWC PW124	2	-	-
TransAsia Airways (Taiwan)				
A320	IAE V2500-A1	3	-	-
A321-131	IAE V2500-A5	6	-	-
ATR 72	PWC PW124B	10	-	-
Transmile Air Services (Malaysia)				
B737-200	P&W JT8D-9A	2	-	-
Leased in:Leased out: 2				
B737-200F	P&W JT8D-9A	5	-	-
Leased in: 1Leased out:				
B727-200	P&W JT8D-15	1	-	-
Cessna Grand Caravan I	PWC PT6A-114	2	-	-
Uni Air				
MD-90-30	IAE V2525-D5	14	-	-
Leased in: 7				
DHC8-100		4	-	-
DHC8-200		1	-	-
DHC8-311	PW 123	14	1	-
Fairchild Dornier 228-212	Garrett TPE 331-5A	2	-	-
BN-2A-26	AVCO Lyc 0-540	3	-	-
U-Land Airlines				
MD-82	P&W JT8D-217C	3	-	-
Leased out: 1 Vietnam's Pacific Airlines				
Vanair (Vanuatu)				
DHC-6-310	PWC PT6A-27	5	-	-
BN-2A Islander	Lyc O-540-4C5	2	-	-
Vietnam Airlines				
B767-300ER	CF 6	4	1	-
Leased in: 4				
A320-200	CFM56-5B4	11	2	-
Leased in: 10				
A321		-	2	-
Fokker 70	Tay MK 620-15	2	-	-
ATR 72-202	PWC PW124	6	-	-
Leased in: 2				
Virgin Blue (Australia)				
B737-400		6	-	-
B737-700		3	7	-
B737-800		-	4	-
Wuhan Airlines (China)				
B737-300	CFM56	6	-	-
B737-800		2	-	-
Leased in: 3 ILFC				
Y-7-100	WJ5A-1	4	-	-
Y-5	HS 5	2	-	-
Xiamen Airlines (China)				
B757-200	RR RB211-535E4	5	-	-
B737-200	P&W JT8D-17A	2	-	-
Leased in: 2 GECAS				
B737-300		4	-	-
B737-500	CFM56-3C1	6	-	-
Leased in: 4 ILFC (2), Braathens (2)				
B737-700	P&W JT8D	6	4	-
Zhejiang Airlines (China)				
A320-200	CFM 56-5B4-2	5	-	-
Leased in: 2				
DHC Dash-8-300	PWC PW127	3	-	-
Leased in: 1 AGES				

IN FOCUS
(Photos by Rob Finlayson)

CARGO SLUMPS: DOWN 7.6% IN FIRST SIX MONTHS

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

In June, the consolidated passenger traffic of the Association of Asia Pacific Airlines' member carriers rebounded from May's mild contraction and emerged with subdued growth of 0.8% in revenue passenger kilometres (RPKs) and 2.4% in passengers carried (PAX). Capacity growth of 3.7% outpaced RPK growth once again, dragging the load factor down by 2.1 percentage points to 73.7% for the month.

Three carriers managed double digit RPK growth in June – Vietnam Airlines (VN – 33.2%), Royal Brunei Airlines (BI – 15%) and Thai Airways International (TG – 11.7%). In addition, seven other carriers reported growth, which ranged from a marginal 0.2% by China Airlines (CI) to 9.7% by resurgent Philippine Airlines (PR). Four carriers experienced traffic declines. A portion of All Nippon Airways' (NH) traffic decline may be attributed to the carrier's route network restructuring exercise implemented to meet market demand.

Restructured carriers, All Nippon Airways and Korean Air (KE), registered a drop in the number of passengers carried year-on-year. On the other hand, the remaining 12 carriers to submit statistics enjoyed positive growth, which ranged from EVA Air's (BR) 0.5% to Vietnam Airlines' 27.3% – the twelfth straight month of double digit growth for the latter carrier.

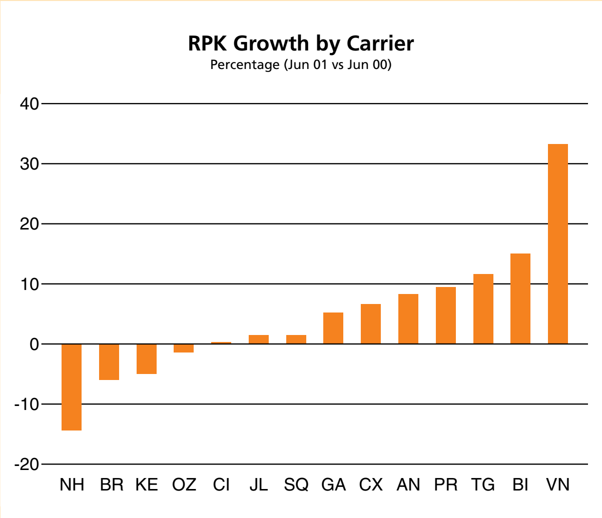
Although there were efforts to contain capacity growth in the face of declining traffic, many carriers still experienced a passenger load factor (PLF) decline as RPK growth remained one step behind. The decline in PLF ranged from 0.2 percentage point (Vietnam Airlines) to 4.9 percentage points (Garuda Indonesia). Only two carriers managed to post higher growth in RPKs than ASKs, which enabled them to show an improvement in their load factors – Royal Brunei Airlines (3.7 percentage points) and Thai Airways International (0.3 percentage point).

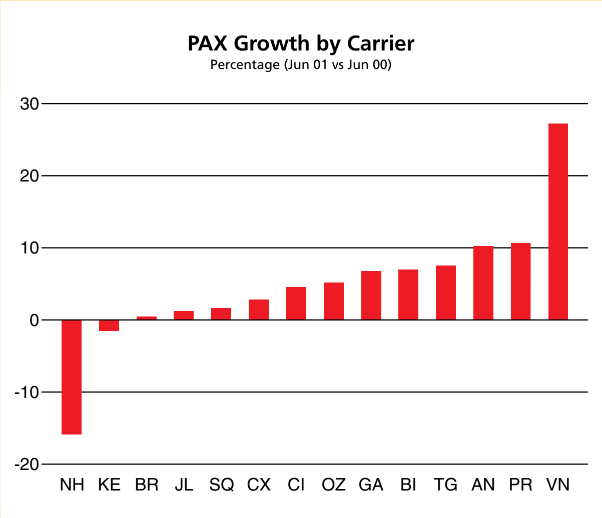
Twelve carriers filled 70% of their seats in the month under review, a sharp contrast to May of only four, partly due to seasonal effects. Among the twelve carriers, seven managed a load factor which exceeded 75% – Asiana Airlines (79.2%), EVA Air (78.5%), All Nippon Airways (76.7%), China Airlines (76.3%), Japan Airlines (76.3%), Singapore Airlines (76.1%) and Cathay Pacific Airways (75.8%).

Cargo Results

Consolidated AAPA freight traffic in freight tonne kilometres (FTK) shrank by 7.1% year-on-year, which was less severe than the previous two months' contractions of 12.4% in May and 12.6% in April. Capacity edged up 1.9%. This led to a decline of 6.3 percentage points in freight load factor (FLF) to 64.2%.

Four carriers reported FTK growth, compared to two in May





Vietnam Airlines: RPKs rose 33.7% in the second quarter

and one in April. Ansett Australia (AN) enjoyed a 26.5% increase in June – its third double digit growth in four months. China Airlines recorded a 7% rise, while Vietnam Airlines and Asiana Airlines (OZ) registered 3.3% and 1.9% growth, respectively. The remaining 10 reporting carriers experienced negative FTK growth ranging from 0.2% (Cathay Pacific Airways – CX) to 40.4% (Royal Brunei Airlines).

Thirteen carriers experienced a decline in load factor with four of them suffering double digit drops – Royal Brunei Airlines 19.0 percentage points down, Garuda Indonesia, 17.1 percentage points down, EVA Air, 14.6 percentage points down and All Nippon Airways, a fall of 12.2 percentage points. Asiana Airlines (0.2 percentage point) bucked the trend with an improved load factor.

The FLF of four carriers remained high – Asiana Airlines (76.8%), China Airlines (74.4%), Korean Air (74.2%) and EVA Air (71.5%). Six carriers sold between 50% and 69% of their cargo space in June. On the other hand, four Southeast Asia carriers registered a load factor well below 50%.

Results of the Second Quarter (April to June 2001)

The AAPA consolidated RPKs and PAX rose by 0.1% and 1.8% respectively, in the quarter under review – considerably lower than first quarter growth of 6.2% (RPKs) and 6.5% (PAX). There was an increase of 4.6% in capacity, leading to a 3.1 percentage point drop in load factor to 70.9%.

Traffic, however, was up for the majority of AAPA carriers. The largest RPK growth was registered by Vietnam Airlines (33.7%). Royal Brunei Airlines (21.6%) was the only other carrier to record double digit growth. Four carriers experienced traffic declines of between 0.3% (Singapore Airlines) and 15.3% (All Nippon Airways).

Philippine Airlines' road to fiscal recovery continued with traffic growth of 6.4% in the quarter. Its RPKs reached 3.2 billion, the level of traffic generated by the carrier prior to the Asian economic crisis in 1997-98. The number of passengers carried also recovered and surpassed 600,000 for the second consecutive quarter.

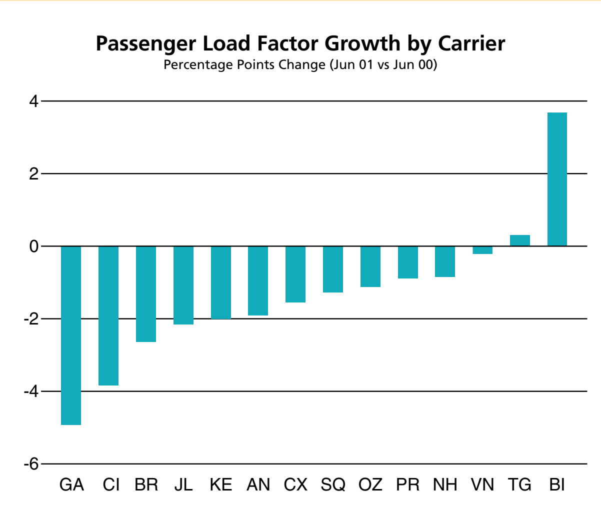
With the exception of All Nippon Airways, all carriers posted positive growth in PAX for the quarter. Vietnam Airlines (27.2%), Royal Brunei Airlines (11.4%) and Asiana Airlines (10%) posted the highest growth and were the only carriers to report two straight quarters of double digit growth in PAX.

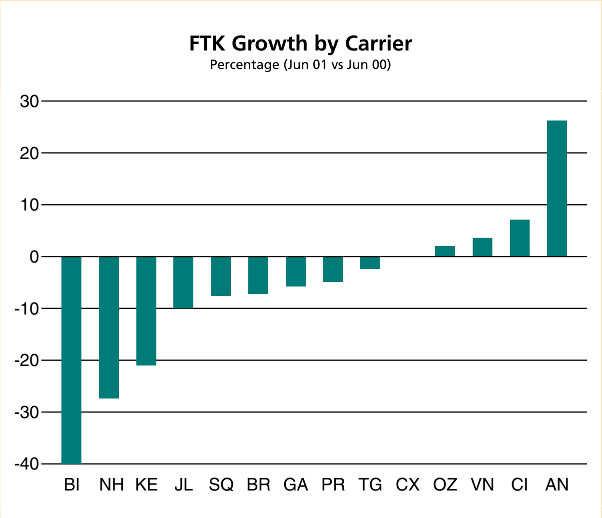
Royal Brunei Airlines improved its PLF by 6.4 percentage points in the period. Load factors of the remaining carriers deteriorated, and ranged from a marginal 0.3 percentage point (China Airlines) to 8.2 percentage points (Garuda Indonesia). Ten carriers had PLF over 70% with EVA Air (77.1%) and China Airlines (76.1%) leading the pack.

Cargo Results

Freight traffic experienced a significant contraction in the second quarter. The AAPA carriers' consolidated FTK shrank by 10.7% – more than double the contraction reported in the first quarter. Capacity rose only 0.3% in the same period, which caused load factor to fall 7.6 percentage points to 62.5%.

Freight traffic declined for most of the carriers. A number of carriers suffered double-digit contraction: All Nippon Airways (-





25.7%), Korean Air (- 21.3%), Royal Brunei Airlines (- 18%), EVA Air (- 13.0%), Philippine Airlines (- 11.9%) and Japan Airlines (- 10.6%).

In contrast, Vietnam Airlines (19.1%) and Ansett Australia (12.7%) enjoyed robust growth for the three-month period. China Airlines managed modest growth of 0.8% and is the only carrier to have posted consecutive positive quarterly growth since the first quarter of 1999.

Load factors of all carriers declined, ranging from 1.6 percentage points (Ansett Australia) to 15.9 percentage points (EVA Air). Only China Airlines, Korean Air and Asiana Airlines posted a FLF over the 70% mark. Philippine Airlines' FLF plummeted to 20.5% – the lowest ever recorded in just over a decade – after traffic fell 12.9% and capacity grew 15.6%.

Results of the 12 Months to June 30, 2001

The AAPA members' consolidated passenger traffic grew by 6.8% for the twelve-month period to June 30. The number of passengers carried was over 98 million, up 6.7% year-on-year. Capacity rose 5.6% and, as a result, PLF improved 0.8 percentage point, to 74.3%.

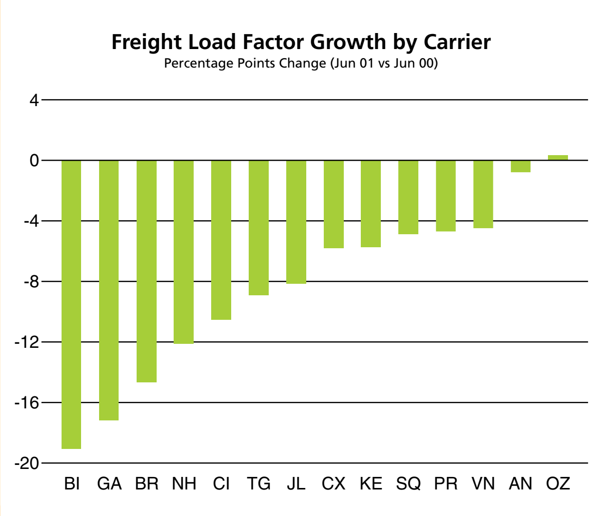
Cargo Results

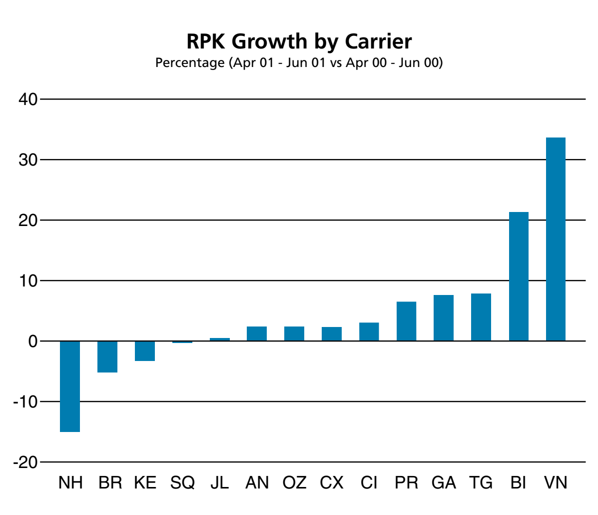
Freight showed a modest contraction for the 12-month period, down by 0.2%, reflecting the sluggishness of the global economy since the second half of last year. Capacity expanded by 3.6%, which led to a decline in FLF of 2.6 percentage points to 67.2%.

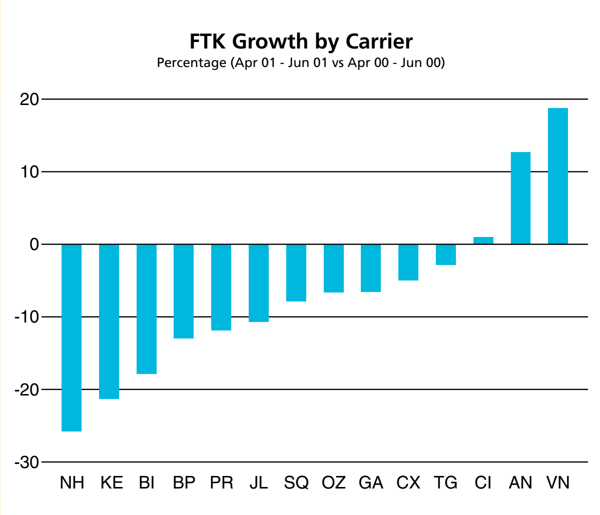
Summary

The first six months of 2001 produced a worrying traffic result, particularly in freight. During the period, passenger traffic rose 3.1%, only a shade better than the latest IATA number of 3% for the

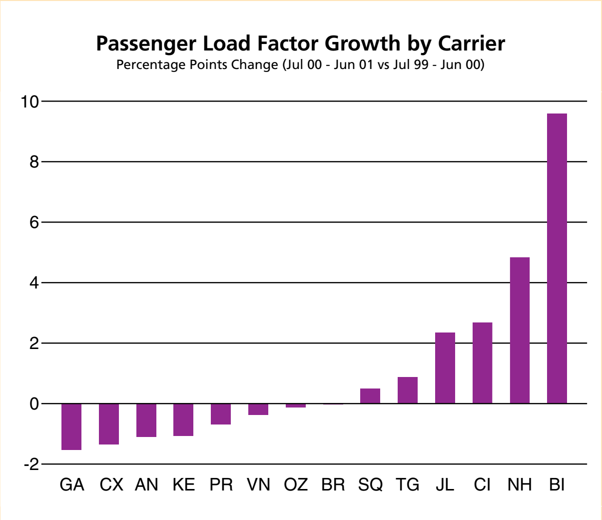
Philippine Airlines: Healthy passenger traffic in second quarter but cargo plummeted

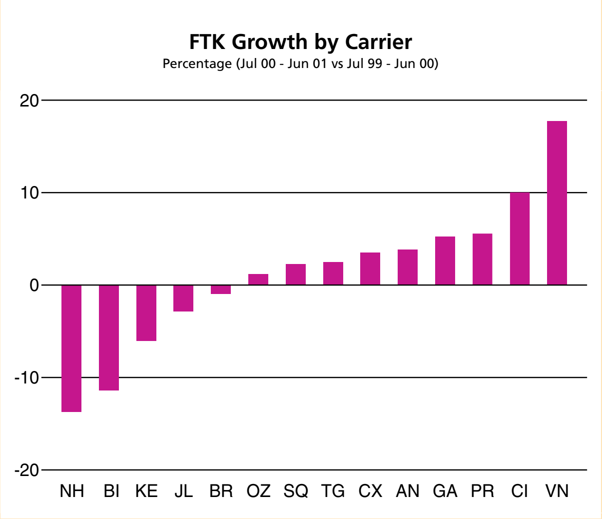






China Airlines: the only AAPA carrier to record positive freight growth since the beginning of 1999





same period. The AAPA member airlines flew 52 million passengers in the six months, compared to 50 million in 2000. The concern is that capacity growth has outstripped traffic growth since April and traffic growth is expected to be subdued, although with a slight upward bias for the remaining half of the year.

Freight traffic was disappointing, down 7.6% for the first six months. Asian countries reported weaker exports in the second quarter. Imports fell too, severely affecting cargo loads to and from North America. With capacity remaining in growth mode, up by 1.2% in the same period, FLF was down 6.0 percentage points, to 62.9%.

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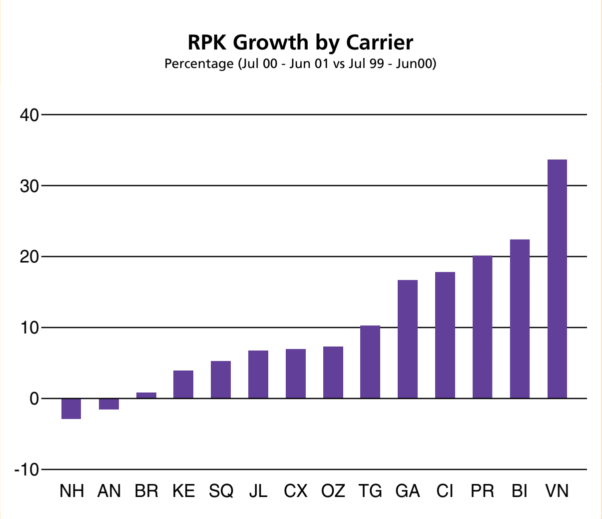
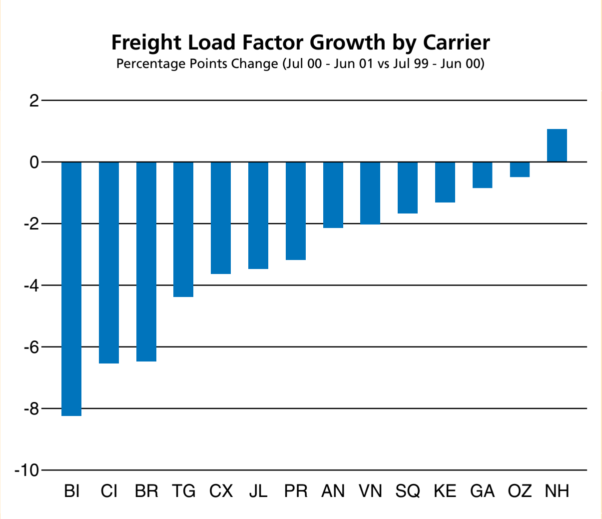
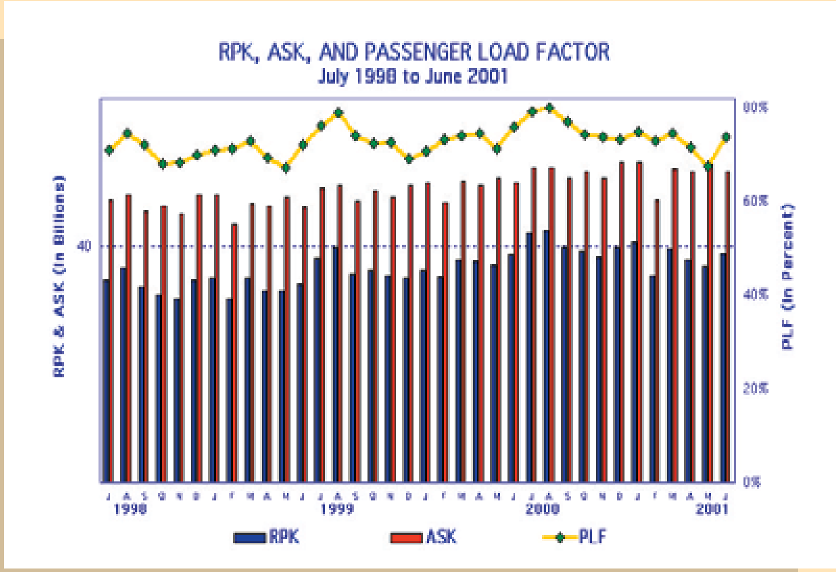
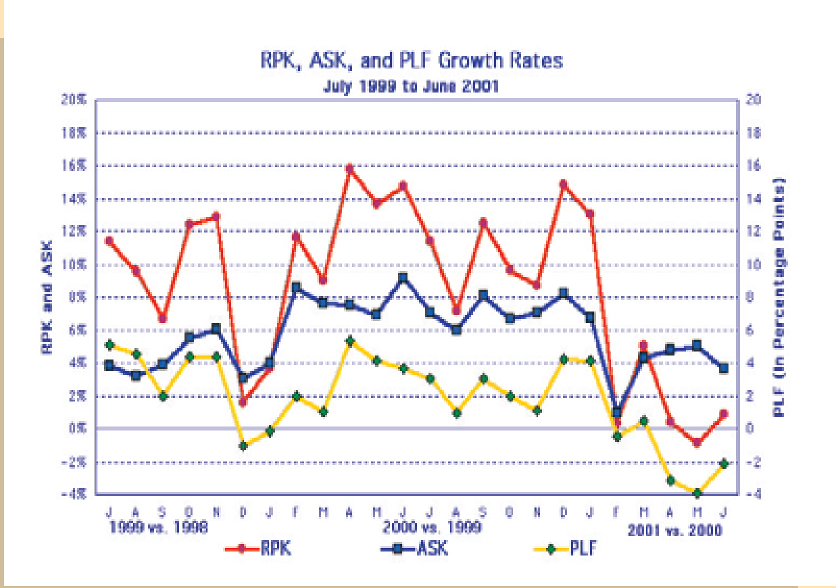


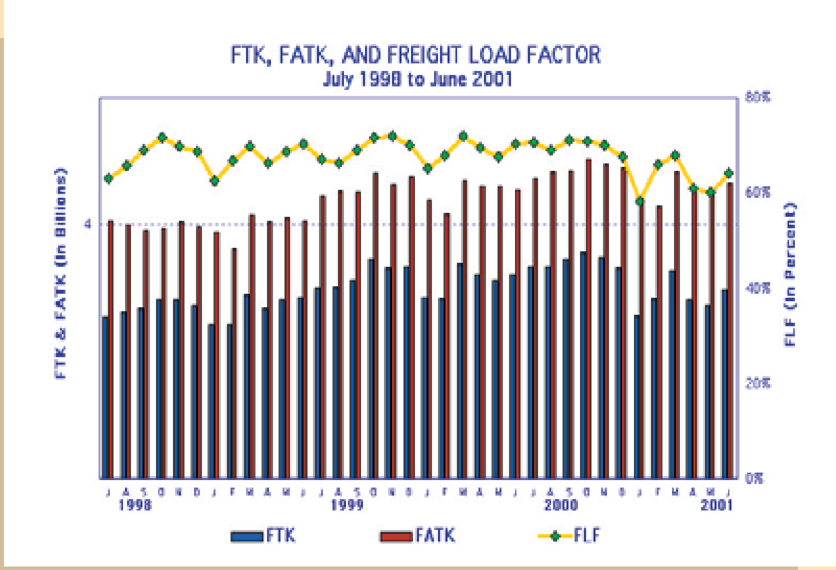


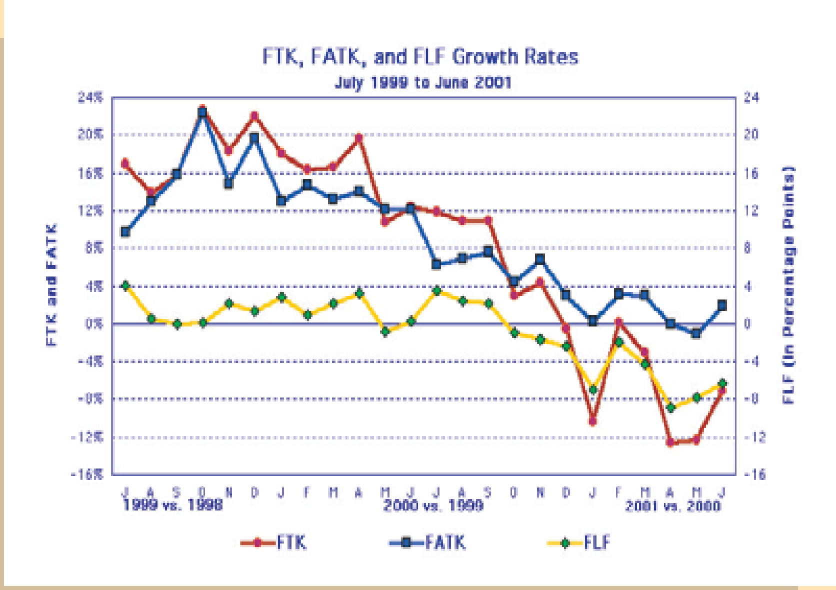
Monthly international PAX statistics of AAPA members





Monthly international cargo statistics of AAPA members





AAPA monthly international statistics (MIS)

*IN THOUSANDS

2000 to 2001

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
JUN-01	38,782,101	52,594,821	73.74	2,976,862	4,639,934	64.16	6,611,587	9,436,166	8,741
MAY-01	36,481,779	54,139,038	67.39	2,732,009	4,553,376	60.00	6,151,921	9,485,880	8,411
APR-01	37,593,207	52,560,896	71.52	2,802,533	4,604,379	60.87	6,317,544	9,389,071	8,666
MAR-01	39,516,817	53,018,109	74.53	3,266,306	4,821,183	67.75	6,972,083	9,653,899	9,034
FEB-01	34,904,256	47,888,140	72.89	2,822,702	4,283,837	65.89	6,099,155	8,663,278	7,966
JAN-01	40,552,393	54,065,390	75.01	2,562,234	4,396,241	58.28	6,333,638	9,354,263	9,016
DEC-00	39,744,563	54,234,897	73.28	3,306,664	4,887,447	67.66	7,046,451	9,860,647	8,846
NOV-00	38,040,505	51,552,700	73.79	3,467,407	4,944,456	70.13	7,044,098	9,673,473	8,630
OCT-00	39,213,125	52,689,409	74.42	3,556,216	5,025,502	70.76	7,253,911	9,859,762	8,782
SEP-00	39,695,907	51,498,288	77.08	3,448,015	4,846,064	71.15	7,187,257	9,577,705	8,720
AUG-00	42,563,884	53,219,304	79.98	3,328,928	4,835,287	68.85	7,329,682	9,731,918	9,411
JUL-00	42,210,457	53,221,980	79.31	3,339,584	4,731,881	70.58	7,306,299	9,503,672	9,358
TOTAL	469,298,993	630,682,971	74.41	37,609,460	56,569,588	66.48	81,653,627	114,189,733	105,581

2000 to 2001

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
JUN-01	0.83	3.69	-2.10	-7.12	1.88	-6.29	-3.13	2.34	2.37
MAY-01	-0.83	5.00	-3.96	-12.36	-1.07	-7.81	-6.62	1.57	1.54
APR-01	0.37	4.80	-3.15	-12.60	-0.03	-8.87	-6.12	1.92	1.57
MAR-01	4.99	4.30	0.49	-3.04	2.95	-4.23	0.90	3.26	6.45
FEB-01	0.35	0.95	-0.44	0.16	3.12	-1.97	0.19	1.80	-1.15
JAN-01	13.04	6.72	4.16	-10.35	0.23	-6.98	1.73	3.51	14.38
DEC-00	14.83	8.23	4.21	-0.57	2.97	-2.41	7.20	5.59	11.31
NOV-00	8.68	7.03	1.12	4.36	6.83	-1.66	6.49	6.90	8.70
OCT-00	9.61	6.70	1.98	3.01	4.44	-0.98	6.33	5.53	9.68
SEP-00	12.50	8.09	3.02	10.84	7.56	2.11	11.72	7.84	12.21
AUG-00	7.15	5.93	0.91	10.89	6.88	2.49	9.06	6.40	5.81
JUL-00	11.40	7.07	3.08	11.87	6.29	3.52	12.01	5.30	9.48

Calendar Year

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
1995	326,071,184	471,535,677	69.15	23,838,488	36,487,508	65.33	54,250,542	79,121,583	76,378
1996	374,365,998	529,442,583	70.71	27,783,667	43,091,640	64.48	62,557,622	90,816,037	86,703
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[6]	227,830,552	314,266,393	72.50	17,162,646	27,298,950	62.87	38,485,929	55,982,556	51,834

Calendar Year

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
1996	14.81	12.28	1.56	16.55	18.10	-0.86	15.31	14.78	13.52
1997	3.58	6.03	-1.64	14.24	6.03	5.00	8.28	6.52	2.30
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[6]	3.09	4.28	-0.83	-7.60	1.16	-5.96	-2.23	2.41	4.12

Note:

1. The consolidation above includes 16 participating airlines.
2. Data for Jan - Jun 2001 is subject to revision as actual data for QF Jan - Jun 2001 is not available.
3. KA and NZ do not participate in this report.
4. AN data from Jul 1998 onwards. VN data from Jan 1998 onwards.
5. CY denotes Calender Year (January - December). 2001 Year-To-Date (YTD): Jan 2001 - Jun 2001.
6. YTD comparison: Jan - Jun 2001 v Jan - Jun 2000.

BATTEN DOWN THE HATCHES

TURBULENCE

By Tom Ballantyne

Given the prevailing global economic climate, airline managers around the Asia-Pacific would be well advised to buy a tin of red paint and write the message: "Batten Down The Hatches" in large letters on their office doors.

They should not need reminding, but this is an industry where hard lessons of the past often go unheeded.

The truth is, despite downturns and crises such as the Gulf War and the Asian economic recession, as soon as some carriers get a sniff of improving conditions they begin acting like dogs on heat, banking expansion plans on optimistic projections of long-term traffic growth.

Be warned. Airlines are heading into another down cycle and it is going to be painful ... again. It also may last for several years and profitability (for those still managing to chalk up black ink in the ledger) will likely continue to spiral downwards.

Estimates vary, but analysts generally expect the world's carriers to record a combined deficit of around US$2.5 billion during 2001, well below the more than $12 billion they lost in the first half of the 1990s, but big enough to sound serious warning bells, especially in the light of the effects of Black Tuesday September 11, on global aviation.

We all know the primary factors. Record high fuel costs that refuse to ease, dismal foreign exchange rates against the U.S. dollar, stock market uncertainty, particularly in the U.S., and a total lack of any reliable direction on the way markets are going to move in the foreseeable future.

Also, there are rising business and operating costs, including labour demands for higher pay.

In normal times, and these are not normal times since the attack on the World Trade Centre in New York and the Pentagon in Washington, many of the above may have been considered temporary glitches in the unstoppable advance of a growth industry.

Whatever you want to call it, globalisation of world markets is placing immense pressure on the traditional norms of the airline business and demanding a total rethink of the way carriers do their operating core business.

There is a domino effect, with market nervousness now clearly flowing through to airlines. Cargo traffic is way down. There are plenty of passengers – and this could change – but because airlines are desperate to have them they have fallen into the old trap of cutting fares (thus yields) to lure the travellers.

Now, their lack of confidence is making inroads into the supply chain. Orders for new jets are slipping this year, a clear sign airlines are bleeding. Analysts point to major carriers removing capacity, measured by available seat miles, by accelerating retirement of aircraft.

Last year, airlines placed 1,081 net orders. According to Richard Aboulafia, director of aviation for consultants, the Teal Group, by mid-2001 there were 480 orders. But there were 100 cancellations. Now there could be more.

'Airlines are heading into another down cycle and it is going to be painful'

He projects only about 600 net orders this year and maybe half that in 2002. "We're well into the down cycle with a lot of denial. Orders have severely declined, both in quantity and quality. We're headed downward, possibly very, very downward," he warned.

Boeing has cut its forecast to 510-520 jets in 2002 from 530 and may revise it again, but boosted 2001's output to 538 planes from 530. Airbus Industrie lowered its target for 2003 to 400 jets from a previous figure of 450 aircraft.

There is mixed opinion among industry observers about whether this contraction will be worsened by a cancellation frenzy after airlines realise how tough life may be in the next few years, especially if there is a U.S.-led military assault against terrorist strongholds.

They do appear to believe the down cycle will last through until at least 2006.

There are still big orders coming in. For instance, an announcement was expected in mid-September from China for 36 Boeing jets, although those are understood to have been included in the company's revised projections.

In September, Vietnam Airlines signed a Letter of Intent to buy five Airbus A320 jets as part of its major fleet expansion plan.

The persistent issues of dwindling yields despite rising traffic and shrinking income and despite increased productivity, restructure and cost-cutting is ample proof that airlines are still not doing enough to find better ways of running their business.

Take a look at a financially successful carrier like British Airways. It is now making good money, but chief executive Rod Eddington, concerned about the future, has announced 1,800 job cuts for 2002 and warned there could be more in 2003.

Meanwhile, Qantas Airways is making heaps of profit, but its income is down nearly 20% on 2000. Chief executive Geoff Dixon hit the nail on the head when he said there were more than 300 airlines in the world, 220 of them major operators, and that was too many.

This means to survive and find a role to play in the future airline industry, many airlines are going to have to consolidate with others ... or not survive. It may require a quite dramatic alteration in attitudes, particularly those linked to notions of "the national flag carrier", but there is an urgent need for change.

And this need for change will become even more desperate over the next five years. Small to medium-sized carriers in the Asia-Pacific should pay close attention to the serious moves these big operators are making to prepare themselves for the coming years.