

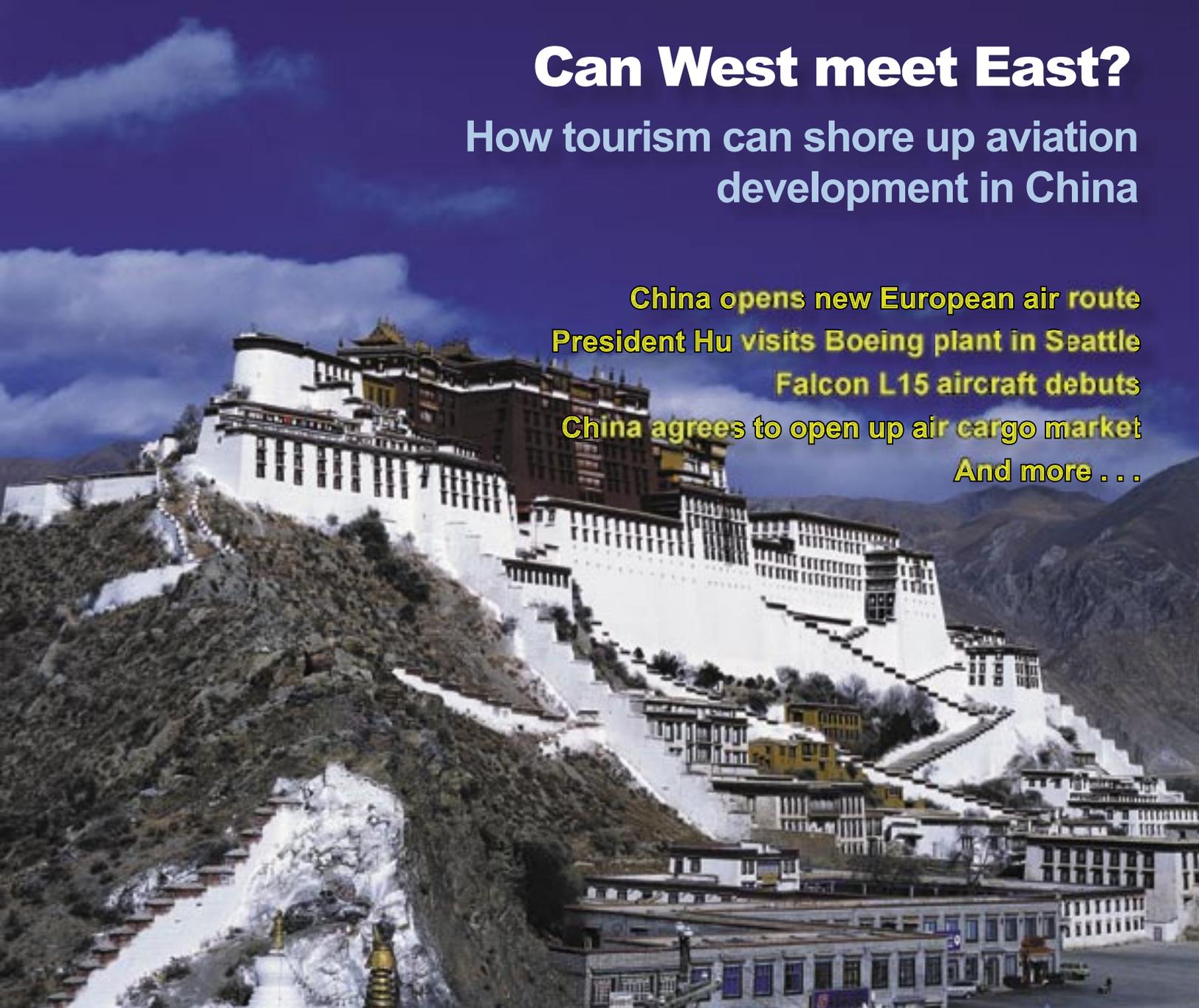
CHINA CIVIL AVIATION REPORT

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Can West meet East?

How tourism can shore up aviation development in China

China opens new European air route
President Hu visits Boeing plant in Seattle
Falcon L15 aircraft debuts
China agrees to open up air cargo market
And more . . .





Shanghai Pudong Airport expansion project



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Aviation Headlines

China agrees to open up air cargo market

China will further open up its air cargo market, said Yang Yuanyuan, Minister of the Civil Aviation Administration of China at The International Air Cargo Association (TIACA) Summit 2006, held in Beijing on April 14th.

This is the first time that the association has held its summit in China.

The TIACA includes airlines, airports and cargo-forwarding companies as members. At the summit, plans were unveiled for the construction of air transportation hubs to expand China aviation rights to foreign companies. There are also plans to establish cargo airline companies through joint ventures between Chinese and foreign counterparts.

Yang said that China has agreements on bilateral transportation with the United States, India and other countries.

In 2004, China and the US signed a landmark agreement to allow US air transport companies to set up cargo transport hubs in China.

President Hu visits Boeing plant in Seattle

Chinese President Hu Jintao visited the Boeing Everett manufacturing plant in Everett, Seattle, on April 19th as part of his State Visit to the United States.

Boeing Everett factory produces Boeing 747, 767 and 777 civil airplanes. It is currently developing the Boeing 787, which will be launched in 2008.

Hu received a warm welcome from the Boeing staff as he toured the factory and visited the assembly plant.

The first China-US aviation negotiation was held in Beijing from April 19th to 20th. The meeting focused on the implementation of Protocol of 2004 China-US Air Transport Agreement and how to further expand the China-US aviation relationship. Another round of talks will be scheduled.

The granting of Fifth Freedom Rights for air cargo in cities such as Haikou has encouraged foreign airfreight companies to do business in China. Fifth Freedom Rights enable an airline or freight forwarder to load and unload cargo or passengers at a particular destination and leave directly for another place without first having to return to its country of origin.

Yang said that the airfreight sector in China is booming. Five air cargo companies, such as Jade Cargo International Company Limited, Great Wall Airlines Company Limited, and Shanghai International Air Cargo Company Limited have been approved

for construction, according to Yang. They are expected to start business later this year.

In December of last year, China opened its logistics industry as part of its commitment as a member of the World Trade Organization, which allowed multinational companies such as United Parcel Service and DHL to set up business in China.

TIACA Chairman Gary Bartek said that China's rapidly growing air cargo sector represents a huge market that should not be neglected.

China's air cargo volume is predicted to maintain an average annual growth rate of more than 10 percent, exceeding the world average of 6.2 percent.

CATA to administer travel agent exams

The China Air Transport Association (CATA) will administer a qualification process for applicants vying to become civil aviation travel agents in East China.

The East China Regional Administration of the Civil Aviation Administration of China and CATA signed the transfer agreement of "East China Area Air Transport Sales Agent Management Work" in a ceremony held on April 6th.

During the ceremony, CATA-East China CAAC accepted the first applications for passenger and cargo travel agents.

The signing symbolizes the devolution of qualifying travel agents and agencies from the government to CATA.

On March 16th, CAAC issued a notice, the "Notification of Transferring Air Transport Sales Agent Qualification," transferring the administration of sales agents to CATA.



Officials and members of the China Air Transport Association and East China Regional Administration of the CAAC at the signing ceremony.

Shijiazhuang Airport, Pan-Am academy inspected

Vice Governor Fu Shuangjian of Hebei province and CAAC Minister Yang Yuanyuan visited the Shijiazhuang Airport and Beijing Pan-Am International Aviation Academy on April 8th.

Yang urged the Pan-Am academy to continue training excellent pilots for China civil aviation and establish Shijiazhuang as one of the main pilot development centers in China.

Located at the Shijiazhuang

Airport, the Beijing Pan-Am International Aviation Academy is the first private aviation academy in China. It mainly trains commercial pilots for domestic and Asian airlines. Established in 2004, the aviation academy employs international instructors.

Shijiazhuang Airport, on the

other hand, provides operation security service for Pan-Am, which currently has training contracts with over 10 domestic airlines.

Shijiazhuang is rapidly developing into an important base for China's civil aviation pilots.



Hebei Vice Governor Fu Shuangjian and CAAC Minister Yang Yuanyuan are greeted at the Shijiazhuang Airport

Based on current trends at Pan-Am, Shijiazhuang would become one of the three big commercial pilot training centers in China by 2007. The two other

pilot training centers are the Civil Aviation Flight University of China in Guanghan, Sichuan, and the Civil Aviation University of China in Tianjin. CAAC said that it would continue supporting the development of Shijiazhuang Airport through fund and policy assistance.

Prior to the mid-March regulation, exams for civil air transport sales agents were administered by the CAAC and its regional administrations.

On March 31st, CAAC and its regional administrations formally handed over the management of Class 1 and 2 travel ticketing agents and agencies to CATA.

According to the criteria, an applicant for sales agent should have

a registered capital of RMB 1.5-million for Class 1 and RMB 0.5-million for Class 2. He should also have at least three salespersons and an office with telecommunication facilities.

CATA said that foreign investors, including those from Hong Kong, Macau and Taiwan, can operate the management of Class 1 and 2 sales agents through a joint venture with a Chinese investor, subject to the approval of civil aviation authorities.

Naverus, CAST sign licensing agreement

Navigation solutions provider Naverus Inc. has signed a licensing agreement with the Center of Aviation Safety Technology (CAST), an agency under the Civil Aviation Administration of China.

Under the agreement, CAST will be the exclusive agent



Shi Dinghao of CAST and Dan Gerrity of Naverus sign the licensing agreement as other officials look on.

for licensing to Chinese airlines a product known as the Naverus RNP Availability Forecast service. The service will support Chinese airlines that use advanced performance

based navigation, known as Required Navigation Performance Area Navigation (RNP RNAV).

RNP RNAV helps in flight safety, efficiency and airspace capacity, all of which are important to the development of China civil aviation.

RNP uses Flight Management Systems on board the aircraft to fly precisely defined paths. Under the regulations for RNP operations in China, as in other countries, operators must take into account, for each flight, the predicted level of navigation precision that will be achievable by the aircraft's avionics.

The Naverus RNP Availability Forecast service translates information about GPS signal conditions, aircraft characteristics and local terrain to produce regular turnkey predictions of the navigation system performance available each day.

CAST will coordinate the enrollment and licensing of Chinese airlines for the forecasts, which Naverus distributes several times daily--as frequently as every two hours--to dispatch departments at airlines worldwide.

"CAST and Naverus share a common interest in promoting new technologies that promote flight safety and operations efficiency," said Shi Dinghao, Director General of CAST. "China is moving ahead with RNP, and this service is important to all of our airlines as they begin to implement this technology."

"CAST's decision to move ahead with this service, early and on a national level, reflects the CAAC's commitment to implement RNP throughout China now," notes Dan Gerrity, Chief Executive Officer of Naverus.

"CAST understands the significance of RNP to the safety of Chinese aviation. We look forward to working together to accelerate this technology."

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Aviastar-SP finishes 5 cargo planes for China

Aircraft manufacturer Aviastar-SP of Russia announced on April 14th that the first five Tu-204-120CE planes ordered by China have been finished.



The Tu-204-120CE delivered by Aviastar SP

The planes were transported to the airport facilities for the certification testing program.

According to Aviastar-SP, the Tu-204-120CE is an updated cargo aircraft in export

“English” modification, equipped with an instrument display featuring a British measurement system.

This is the first Russian jet fitted with automated air-ground data link transmitting systems and engine-related information.

The working cargo hold capacity is increased up to 98% because of an additional cargo container in the tail section.

The delivery of the aircraft to the Chinese airlines is scheduled for September of 2006.

Falcon L15 aircraft debuts

The new advanced trainer aircraft Falcon L15, developed by the Jiangxi Hongdu Aviation Industry Company of AVIC II, made its first public appearance on April 3rd after making its maiden flight on March 13th.

Powered by two DV2F or AI-222K25F turbofan engines with afterburner, the Falcon L15 has a normal takeoff weight of 6,500 kg to a maximum of 9,500 kg. It has a combat radius range of over 550 km with a service ceiling of 16,000 m. Maximum climb rate is 150 meters per second.

A full-scale mock-up of the aircraft was first unveiled at the 2004 Zhuhai Airshow.

The Falcon L15 has advanced aerodynamic configuration, highly integrated avionics system, and the most advanced fly-by-wire flight control system in China. The aircraft can be used in fundamental training or can serve as a companion trainer in tactics training. The Hongdu Aviation Industry retains complete intellectual rights to the L15.

Student pilots using the Falcon L15 can now complete mission flight training and advanced combat training in addition to all basic jet flight training courses.

The development of the aircraft is seen as a big boost to China's national defense technology.

News Briefs

March 29th - Vice Minister Gao Hongfeng of the Civil Aviation Administration of China led a Chinese delegation to Ireland from March 29 to 31st to familiarize with the Irish government's policies on low-cost airlines and airport operations. Hongfeng met with Martin Cullen, Ireland's Minister for Transport. He also spoke with Assistant Secretary John Murphy, Chief Executive Eamonn Brennan of the Irish Aviation Authority, and Chief Executive Declan Collier of the Dublin Airport Authority regarding aviation developments in Ireland.

March 31st - Ameco Beijing signed a heavy-repair agreement with China Eastern Airlines Yunnan branch on March 31st for four sets of Boeing 737300 landing gear.

Ameco had earlier provided overhaul service for five sets of Boeing 737300 landing gears for the Yunnan branch.

April 3rd - Minister Yang Yuanyuan of the Civil Aviation Administration of China (CAAC) and Secretary Michael Chertoff of the United States Department of Homeland Security met on April 3rd to discuss bilateral issues on China-US security cooperation.

They agreed that the China and US civil aviation security departments would begin to develop cooperation by exchanging information on the topics of aviation police, air security inspection and personnel training.

April 7th - Harbin Aviation Industry Group Company Ltd. has signed an agreement to export Z9 helicopters to Laos. This is the first time that HAIG will be selling Z9 helicopters to the country. The two helicopters will be delivered early next year.

The Z9 helicopters passed tests in 1992, and gained approval in April of 2001 from the Civil Aviation Administration of China.

Z9 helicopters were used several times in China's South Pole and North Pole scientific investigations.



Commercial Aviation

News

China opens new air route

The Civil Aviation Administration of China (CAAC) opened a new air route on April 13, cutting flying times by half-an-hour between Europe and big cities such as Guangzhou, Shanghai and Hong Kong. The new route will save airlines millions of dollars in fuel bills.

The new air route is about 300 kilometers north of Chengdu in Sichuan Province. It passes Anemaqen Mountains, Tsaidam Basin, Altun Mountains, and Tarim Basin and extends to Kuche, Xinjiang.

In total, there are now three international air trunk routes that link Europe and Asia.

The air route uses new navigation technologies such as Area Navigation (RNAV), Automatic Dependent Surveillance (ADS) and Controller-Pilot Data Link Capability (CPDLC) to improve security of flight in high plateau areas, and to shorten the flight distance between main cities in Europe and Asia. This provides airlines the advantages of saving fuel and enhancing efficiency.

An estimated 110 flights per week could benefit from this new air route, and about USD 30-million could be saved per year in fuel costs. China

Eastern Airlines, Chinese Southern Airlines and European airlines such as Air France and KLM would be the first to benefit from the new route.

The International Air Transport Association, the umbrella organization of 265 airlines worldwide, stated that there is a need to open China's airspace because of the rapid growth of China's own carriers and the increase in the number of foreign airlines flying to the country.

The government's five-year economic plan urges Chinese airlines to purchase 650 jetliners by 2010.

"(The new route) will result in US \$30-million in savings on the airlines fuel bill. We appreciate the cooperation of the Chinese Government in making airspace more efficient at a time where the airline industry is bleeding red ink from the record high price of oil," said Giovanni Bisignani, IATA's Director General and CEO.

He said that the new route will have a significant impact on the environment. The more direct routing will eliminate 2,860 hours of flight time, 27,000 tons of fuel consumption, 84,800 tons of carbon dioxide

emission, and 340,000 kilograms of nitrogen oxides emission annually.

"Airlines take their commitment to the environment seriously. While supporting 8% of global economic activity, air transport is responsible for 3.5% of global greenhouse emissions. This is a good record, but we are determined to do more. Fuel efficiency, direct routings and new technology are all part of efforts that have realized a 70% reduction in aircraft emissions over the last 30 years. IATA-1 is a great example of how cooperation of industry and government is a winning solution for all," said Bisignani.

"The new routes further demonstrate the Chinese government's clear understanding of the benefits of a successful air transport sector. We have seen effective policy coordination in China – liberalization, consolidation of the carriers, and impressive infrastructure investment. And now China has demonstrated its commitment to improve efficiency and reduce costs. Minister Yang Yuan Yuan and his team must be complimented for these achievements. I urge all governments, airports and air navigation service providers to take similar steps," said Bisignani.

China aims to increase use of e-tickets

Civil aviation authorities are looking to increase the number of electronic tickets (etickets) sold in China.

They announced that a two-year trial test will start on June 1st for the use of uniform invoices for payment and reimbursement of etickets.

Etickets account for only 20 percent of all airline tickets sold in China because of the unavailability of invoices.

The International Air Transport Association (IATA), the umbrella organization of 265 airlines worldwide, has mandated all its members to use only etickets beginning in 2008. IATA said that the use of etickets costs only US \$1, as opposed to the current paper tickets, which cost US \$10 each. It further stated that all airlines can save about US \$3-billion a year by using etickets.

The Civil Aviation Administration of China has thrown its support to the eticket to cut costs and make it more convenient for passengers.

The CAAC and the State Administration of Taxation issued a notice to carry out the trial test.

The eticket invoices will be manufactured under the supervision of the State Administration of Taxation.

Passengers who purchase etickets can get their invoices at the airport or from the air ticket agency.

The CAAC expects the number of etickets sold to account for at least half of the total air tickets sold in 2007.

Airlines have been issuing customers payment vouchers that they made themselves as a substitute. The new invoice will now replace the substitute invoice.

Shanghai Pudong Airport flights increase

Shanghai Pudong Airport has increased its landing and takeoff capacity by initiating its dual runway operations on April 14th. According to the East China Air Traffic Management Bureau of CAAC, Pudong has successfully modified its "one departure, one arrival" operation to "dual departures," fully utilizing the capacity of the second runway. According to airport authorities,

the new operation procedure will effectively shorten takeoff intervals to 1 minute.

The second runway was successfully initiated on March 17, 2005. After a month, the two runways were used individually, one for landings and the other for takeoffs. As a result, Shanghai Pudong Airport's flights have increased from an average of 480 flights a day to 650 flights a day.

Guangzhou Baiyun Express Parcel Center opens

The Guangzhou Baiyun International Express Parcel Supervision Center is now operating at the New Baiyun International Airport Logistics Park.

Opened on April 3, the new parcel center neighbors the international cargo station, cargo agent service warehouse and bonded warehouse. It is also adjacent to the planned third runway of the Baiyun airport.

The parcel center, with a total area of 21,598 sq. m., can handle 66,000 tons of cargo.

The New Baiyun logistics park is one of the three biggest logistics parks supported by the Guangzhou City government.

To support the development of Baiyun Airport air transport logistics, Guangzhou Customs has committed to provide preferential policies including 24-hour Customs clearance service, air and multi-point Customs declaration, airport inspection, and "truck flights" fast channel service.

Well-known cargo companies now operate at the Baiyun airport,

including DHL, UPS, Federal Express and TNT, all of which have their own warehouses.

Ameco, Astraneus Airlines sign accord on engine repair

Ameco Beijing and United Kingdom-based Astraeus Airlines signed a third repair agreement on March 20th for the latter's RB211-535E4 engine.

Ameco is the main domestic supplier of the RB211535E4 engines. To date, Ameco has repaired 120 RB211535E4 engines for domestic and foreign customers.

Besides Astraeus, Ameco's international clients include US Airways, Cebu Pacific Airlines in the Philippines and Royal Nepal Airlines.



Can West

How tourism can

JONATHAN M. HICAP

to fill the regional routes hamper growth. Of China's total aircraft fleet, only 75 aircraft have a capacity of 70 seats or fewer.

Airlines refuse to use larger aircraft for regional routes, as this would prove costly because of low passenger demand and the high cost of oil and fuel. However, without support from the airlines, regional aviation will suffer from stagnant growth and development. But what should regional airports do to attract players to service their routes?

Diverse aviation development

Before China opened its doors to world economies in 1978, China's civil aviation was run, owned and used by the government. The market economy policy aimed at major economic reform, but aviation was given little attention. Aviation growth in China has divided it into two diverse regions. Eastern China has captured the large chunk of the market with major hub cities such as Beijing, Shanghai and Guangzhou.

Western China, on the other hand, remains poor and undeveloped, resulting in and from low passenger volume. Airlines are reluctant to open new routes to the West's rural areas because it would be costly when they could just concentrate on Eastern China, where the money and passengers are.

As a result, all airlines cram the three major hubs, all competing with one another and leaving the West out of the economic surge felt by Eastern China. Meanwhile, airports in the West are bleeding due to a lack of passengers. This disparity has prompted the CAAC to focus on regional aviation as a means to spur growth in the West and make the airports survive, if not directly compete, with their counterparts in the East.

Tracing China's aviation

Almost three decades ago, China had only one airline, Air China, which monopolized the market. In the 1970s, when China realized that interaction with the international market was needed to develop the economy, it adopted the "market system," but the aviation sector was left behind. The military retained complete supervision of China's airspace.

Things began to change after 1978, when the public was able to fly and the economy grew. In 1980, civil aviation became an enterprise, transitioning from the previous military-operated sector. From a national passenger volume of a mere 2.3-million in 1978, it grew 374 times to 8594-million in 2002. Cargo volume also jumped from 638,000 tons in 1978 to 2.02-million tons in 2002.

China developed its airports. In 1978, there were 78 airports, most of which were small. Since 1991, the government has invested 86.3-billion RMB to

All the world's eyes are now focused on China, touting it as the next big thing in tourism and aviation. In fact, China is projected to become the second largest aviation nation in the world by 2020. The actual numbers and projections are keeping everyone in an ecstatic mood.

In 2004, the International Air Transport Organization (IATA) predicted that China would be the fastest growing passenger market in the world from the period 2004 to 2008 with an average annual growth rate of 12.5 percent.

By the end of 2004, China's total passenger volume reached 121-million, a 100-percent increase from the 2002 total of 58.84-million, according to data from the Civil Aviation Administration of China (CAAC). Data from the World Tourism Organization showed that China earned US \$25.73-billion from tourism in 2004, increasing its market share in the Asia-Pacific region to 20.6 percent from 10.6 percent in 1995.

Indeed, China is experiencing a surge in aviation and tourism growth as never before. As the demand continues to explode, the pressure is on for China's aviation and tourism sectors to keep up. Development has been unprecedented, with many of China's regions stretching their resources to make the necessary adjustments but coming up short in attracting players.

Can China cope with this phenomenon and live up to the expectations of the world market?

Western China has a total population of more than 280-million, or about 23 percent of the total Chinese population. Its land area covers 54-million square meters, or 56 percent of the country's total land area. It is where onethird of China's provinces and autonomous regions are located. Yet, Western China's economy is lagging behind other parts of China. By the end of 2003, Western China's economic output was just 16.8 percent of the country's total output. On the contrary, Eastern China is brimming with economic boom.

In order to spur economic and social growth in Western China, the government in 1999 unveiled the Western China Development strategy, a massive plan that would focus on transportation, telecommunications, energy, urban infrastructure, forestry, mining, minerals, and agriculture. Part of this reform is the development of airports in Western China.

While Eastern China's aviation sector is flourishing, that of Western China faces many obstacles. The decentralization to local governments of regional airports as a result of the Civil Aviation System Reform Project proved to be a wakeup call. Whereas before these airports were managed by the central government, they now must learn how to make a profit and survive. High landing fees, air route fees and a shortage of low-cost airlines

meet East?

shore up aviation development in China

build more airports, the number of which grew to 148 by the end of 2003. With a surge in demand, the number of China's aircraft fleet increased, from 50 in 1978, to 664 by 2003.

Aviation reforms

In 2002, the government issued the Civil Aviation System Reform Project, which would implement airline reforms, airport management decentralization, air traffic control system, infrastructure programs, administration system and security.

In 2002, the nine airlines under the Civil Aviation Administration of China (CAAC) were consolidated to form the big three: Air China, China Eastern and China Southern. Six provincial airlines were also allowed to operate: Shanghai Airlines, Hainan Airlines, Sichuan Airlines, Shandong Airlines, Xiamen Airlines, and Shenzhen Airlines. These airlines were incorporated and allowed to become independent companies. Three companies were established independent of the CAAC to provide support to the aviation sector in China: China Aviation Supply Import/Export Company, China Aviation Oil Supply Company and China Aviation Information Company.

Changes began to form when the CAAC was allowed to manage the air routes of Beijing, Shanghai and Guangzhou. Nine major airlines were merged into three: Air China, China Eastern and China Southern, all of which control 80 percent of China's aviation market. The CAAC also underwent reform when the agency was directed to relinquish its operation and management control of airlines and airports owned by provincial governments. Its new role is to oversee civil aviation safety, market management, air traffic control and establishments of foreign bilateral ties.

In order to encourage domestic investment in civil aviation, the CAAC lifted restrictions on domestic investors and granted licenses to four new low-cost airlines along with six licenses for privately-owned general aviation companies. China saw that in order to develop its aviation industry, assistance of foreign companies was necessary. The CAAC Ministry of Foreign Trade and State Planning Committee issued a new regulation covering foreign investment in civil aviation. The new policy eased restrictions on the types of business, types of investment and percentages of shareholding by foreign entities.

This regulation meant new possibilities for Western China as it allows foreign investors to build airports, engage in aircraft maintenance and jet fuel supply with ownership of up to 49 percent. From 1980 to 2003, the CAAC attracted US \$30-billion in foreign investment in aviation.

This year, the CAAC issued the Par 135 regulation to allow general aviation passenger aircraft under 30 seats to operate for profit. The new policy can be seen as a new way for regional airports to attract flights. Currently, big airlines are not inclined to use their jumbo jets, such as 747s, to service regional airports just because of a lack of passengers.

Economics dictates that they need to fill up their seating capacity to more than half in order to recoup their cost per passenger. Small passenger aircraft can fill this void by taking on routes not served by other airlines. In order to protect small players from competitors, the CAAC announced a new policy to develop air routes. Under this policy, an airline that opens a new route has the exclusive right to operate the route for two years without any competition. This way, an investor is guaranteed to protect his investment during the exclusive period without fear of losing passengers to competitors.

Major airlines shy away from flying to small cities and remote areas because of the lack of demand. Many attempted to use their big jets to fly to regional routes, but they failed to draw enough passengers to fill the seats. According to aircraft manufacturer Embraer, the average cost of flying a 150-seat aircraft on a 1,000-km route in China is about RMB 57,000. On the other hand, using a 50-seat aircraft on the same route would only cost RMB 26,781.

The big players would have to cut ticket prices in order to use their 747s for regional routes, but maintenance costs would prevent them from making a profit. Instead of losing money to regional routes, they opt to concentrate on the profitable routes, such as Shanghai and Beijing, where they are guaranteed steady passenger demand.

Chicken-or-egg situation

The devolution of the operation and management of airports by the central government to local governments in 2003 was seen as a vehicle to autonomy. In theory, the plan seemed ideal: local governments could now earn revenue through airports. But a reality check showed that inadequate management capability and underdevelopment proved to be the key factors in the airports being in the red.

Airlines refuse to start flying to regional airports because of a lack of passengers. On the other hand, airports are unable to increase the number of passengers because of a lack of flights. About 55 airports in China are losing money because they only have an annual passenger volume of less than 100,000.

And since many rural airports rely solely on revenues from landing and terminal fees, development and growth are poised to come to a halt. However, there are bright prospects for Western China's aviation. For example, in 2004, total passenger volume from six provinces in southwest China—Sichuan, Yunnan, Guizhou, Guangxi, Xizang and Chongqing—increased by 349 percent. The six provinces had 32 airports by 2004, constituting 25 percent of China's total airports. Based on projections, the number of airports in these provinces will reach 48 by 2010 and 60 by 2020.

Regional aviation is facing hurdles because of several issues. Airlines will not invest in trying out new routes unless there is sufficient passenger demand. Airports, on the other hand, will not attract passengers because of a lack of available flights, which creates a cyclical problem with no viable solution.

This is compounded by uniformed landing and terminal fees imposed on all Chinese airports, which hinder regional airports in attracting airlines. For example, landing fees at a Category 3 airport averages RMB 3,052, while a Category 1 airport imposes only RMB 2,766. With all these variables in play, the complex characteristics of regional aviation and West China development now lie with the CAAC's ability to adapt and overcome the "chicken or egg" phenomenon.

Tourism potential

So how do you break this chicken-or-egg situation? How can airports attract passengers and how can airlines agree to fly to regional routes? With the plan of the government to ease restrictions on investment to develop airports, the question is how to build up passenger demand and sustain it.

The answer lies with aviation's partner: tourism.

FEATURE ARTICLE continued on page 11



CAAC Corner

CAAC issues new rule on foreign air transport

The Civil Aviation Administration of China (CAAC) has issued the new Management Measure for Approving Foreign Air Transport Enterprise Resident Representative Organization regulation, a new rule for approving the establishment of new foreign air transportation business in the country.

The measure will take effect starting on May 3rd, and will replace the existing rule that was issued in December of 1980.

The rule regulates the approval for any foreign air transport enterprise interested in setting up an office in China. Part of the rule examines the qualification of the foreign entity and its local representative.

In the process of approving the qualification, foreign companies are categorized into two categories: those whose countries have an existing air transport agreement with China and those who do not.

Foreign companies whose countries have no air agreements with China need approval from the CAAC if intending to set up a representative office in China.

Wide-scale aviation development to benefit East China

The East China Air Traffic Management Bureau of the Civil Aviation Administration of China will implement widescale development and expansion of airports and air routes to meet the expected growth in passenger traffic in the "Eleventh Five Year Plan."

By 2010, Shanghai Pudong Airport expects to complete the construction of four 4E-grade runways and Hongqiao Airport to have its second runway.



Passenger traffic will increase in East China's airports because of the development

Aviation officials also said that Ji'nan, Qingdao, Nanjing, Hefei, Nanchang, Hangzhou and Xiamen airports are poised to become important trunk route airports in China.

Passenger traffic and flights are expected to surge during the staging of the 2008 Beijing Olympic Games and the 2010 Shanghai World Expo.

It is estimated that, in 2010, combined takeoff and landing times of East China airports will exceed 1.57-million, including a total of 0.69-million for Shanghai's two airports.

Included in the major plans of the East China Air Traffic Management Bureau is the prospect that the Shanghai Regional Control Center will have full control and operation of East China's airspace. A Shanghai air hub will be constructed to optimize East China airspace in time for the Shanghai World Expo to ensure civil aviation flight security.

Construction of the Shanghai terminal control center will start in 2007, and the adjustment and arrangement of departure and arrivals at the Shanghai terminal control area should be finished by 2008.

It is envisioned that the East China air traffic control system will improve, including the automation level and radar distribution.

The network connection of the Shanghai Regional Control Center with the Beijing and Guangzhou Regional Control Centers should also be finished, thus fulfilling automatic transfer of control among the three.

Aviation officials gather to discuss state of international air transport

Key representatives from the aviation industry in China met in Beijing on March 23rd to discuss how to promote international air transport development.

The meeting was the biggest in China civil aviation history, drawing more than 100 delegates from the Civil Aviation Administration of China, including Vice Minister Yang Guoqing, CAAC regional administrations, air transport enterprises, airports, aviation service groups and institutes and universities.

They discussed how to carry out policies and measures of the "Some Opinions on Promoting China International Air Transport Development." They presented experiences and issues on international air transport development, with an emphasis on charting the map for China's future in international aviation.

Yang said that, based on the 10th Five Year Plan, China international air transport development has made significant

progress. However, data shows that passenger traffic, and cargo and mail volumes carried in China's international air routes, are far lower than in the domestic air routes. This discrepancy demonstrates that both domestic and international air transport in China are experiencing independent development, resulting in China's limitations in international air transport competition.

To remedy this, Yang emphasized that China's international air transport should be given a priority development position in the 11th Five Year Plan. Hub construction should be vigorously developed in China's international air transport operation.

Yang further said that the policy of "go outside and introduce inside" will be given equal attention. CAAC will revise the Regulation on Scheduled International Flights Management to instill order within China's international air transport market, establishing an air transport sector that will promote healthy development in the future.

CAAC Announces Visual Chart Project to Promote GA Development in Northeast China

The Northeast China branch of CAAC has announced that it will establish a new general aviation project, the Northeast China Area Visual Flight Chart Test Project.

The CAAC hopes to utilize this study for the development of domestic private low altitude flight, better known as general aviation.

The Chief of the Guangtong Mapping Department of Northeast China ATMB of CAAC said: "We are cooperating with the CAAC in developing the project. It will fill the domestic void of general aviation research."

The visual chart is expected to publish in late 2007, and will be an intricate tool for aircraft operations in low altitude.

The Chief also added that, currently, GA equipment in Northeastern China comprises approximately 30% of all GA equipment in China.

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Tourism may be the key to create demand and encourage small airlines to operate the regional routes. Consider this: the CAAC has said that China's airports handled 240-million passengers in 2004, up by 38.8 percent from 2003, and 5.5 million tons of cargo, or an increase of 22.3 percent. It estimates that by 2010, the annual passenger volume will hit 500-million, and that cargo handled will reach 10-million tons. And by 2020, passenger volume is estimated at 14-billion, and cargo at 30-million, tons. There are about 61 airports under the CAAC in Western China (Southwest, Northwest and Xinjiang).

With China's rich culture and history, developing tourist sites would not be a problem. In 2003, the first regional tourism investment plan for Western China was approved to develop and protect tourist sites. Included in the plan was the idea that tourism in the northwest region should be developed together with the Silk Road, great deserts and the Yellow River. But more than this, the aviation infrastructure must be built to service the tourists. Many remote areas in other countries have successfully attracted passengers by creating their own demand.

Major airlines in China don't want to fly to regional routes because of the passenger shortage. One solution may be for small airlines to forge a codesharing agreement with major airlines in order to facilitate travel for tourists. Under this agreement, a passenger may book a flight through a single ticket going from China's hub airport to the regional airport. This convenience will encourage passengers to book because they are assured of easy flight transfers.

Regional airports may also have to partner with foreign investors in joint ventures and partnerships to access new management skills and strategies to enhance their capability. In 2004, the CAAC allowed foreign investment from international airport operators and, in turn, Xiaoshan International Airport in Hangzhou signed an agreement with the Airport Authority Hong Kong to develop the former. Provinces which now operate their airports need to develop their own

infrastructure network and implement plans to attract airlines.

They need to provide perks to airlines, including route exclusivity and lower fees, to cushion flying costs, and ensure a steady airline operation at their airport. Provinces must also be able to entice stakeholders in the tourism industry, such as hotels, transportation and tourist sites in order to draw up a plan on how to build up passenger demand.

All sectors should be involved to help one another attract both passengers and airlines. Each sector plays an important role in attracting tourists, which is key to creating passenger demand that will entice airlines. As a widely used strategy, regional airlines can partner with hotels and other tourism-related businesses to create tour packages to provide passengers with hassle-free travel. The strategy is a win-win solution: Airlines are assured of passengers, while the hotels and tourist sites are assured of income. For example, a passenger planning to fly to Western China can purchase a tour package without having to look for a hotel when he or she arrives at the regional airport. With the high cost of travel nowadays, passengers are on the lookout for affordable travel.

Provincial governments must be able to encourage the private sector to invest in aviation-related businesses. Because aviation was supervised by the government from the start, the private sector shied away from pouring in its money. It was only in the last few years that the government has relaxed its policies on investment to make room for the private sector to come in.

As it is right now, airlines and passengers play a wait-and-see game, slowing down the growth of regional aviation. But provincial airports need to realize that more industries must get involved to break the impasse. Without each one cooperating to fulfill the broader goal of developing regional aviation to its maximum capacity, Western China's aviation sector could take longer to take off.

And unless they realize it soon, regional airports may one day wake up to find that it's already too late in the game to make their move.

Air traffic bureau holds meeting CAAC, Boeing hold flight path training

The Air Traffic Management Bureau of the Civil Aviation Administration of China (CAAC) held the utilization and training meeting in Beijing on March 27th to 30th for the two new systems developed for aviation—the Airspace Management Tool and Flight Program Design and Examine System.

Yang Honghai, Vice Director of the Airspace Management of ATMB-CAAC, presided over the meeting, which was attended by 28 representatives from each of the regional air traffic management departments in charge of airspace planning and flight program design.

Airspace management has become a challenge in China as civil aviation



Regional air traffic management representatives learn about the two new aviation systems

traffic continues to increase.

To keep up with the growing demand, the Airspace Department of ATMB of the CAAC has developed two new software programs that can be used in the management of air routes as well as aircraft approach and takeoff.

The Airspace Management Tool will provide a unified system for all regional Air Traffic Management Bureaus. The new software can be utilized to coordinate air traffic management stations, air routes and sectors, aircraft approach, and departure and landing procedures.

The Flight Program Design and Examine System will replace the complicated manual calculation and design process to improve work efficiency and quality. The system has distinctive features such as user-friendly interface, convenient operation, and a multifunction and geographical information system (GIS). It is also the first software of its kind developed by Chinese engineers that possesses its own intellectual property.

CAAC, Boeing hold flight path training



Andrew Madar of Boeing teaching flight path training to the delegates

The Air Transport Management Bureau of the Civil Aviation Administration of China and Boeing held training on flight path performance for airspace management personnel in Beijing on April 6th and 7th.

The training was conducted to improve airspace distribution, and flight path and air route usage efficiency.

Andrew Madar, Boeing's airplane performance specialist, trained the 23 delegates, who came from regional Air Transport Management Bureaus, Civil Aviation University of China, Civil Aviation Flight University of China (CAFUC), College of Civil Aviation of Nanjing University of Aeronautics and Astronautics (NUAA), and units of ATMB of CAAC, including Operation Center, Technology Center, Flight Calibration Center and Data Company.

Among the topics addressed as part of the training were aerodynamics, aircraft cruise speed and altitude, mountain area operations, J325 air route operation and the Chengdu-Lhasa parallel flight path distribution.

China, US sign anti-terrorism pact

On April 18th, representatives from China and the United States signed a memorandum of understanding in the deployment of aviation police on native flights in and out of each other's frontier.

The agreement is a product of cooperation between the two countries under the medium- and long-term anti-terrorism efforts to enhance security of commercial jetliners flying between China and the US.



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