

CHINA CIVIL AVIATION REPORT

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Can regional aviation finally take off?

China in 'critical period' in its quest to be
the next superpower in air transport

Mainland China, Hong Kong ease air transport

China signs new air transport deals with Japan, Afghanistan and Uganda

Real-time weather information system developed

And More...

民航报导是经由民航总局、国家新闻署核准，以《中国民用航空》英文版方式向全世界民航机构、企业，个人介绍中国民航改革开放成果和现况的刊物，印刷和电子版本同步发行。免费订阅电子版，请浏览www.ChinaCivilAviation.com

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A world map in shades of blue and white serves as the background. The map shows major continents and oceans. In the upper right corner, there is a circular logo for the U.S. Trade and Development Agency, featuring a globe and the text "U.S. TRADE AND DEVELOPMENT AGENCY".

U.S. – China Aviation Summit

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SEPTEMBER 17-19, 2006

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From the Publisher's Desk

China is experiencing unprecedented growth in aviation this year. Industry regulator Civil Aviation Administration of China (CAAC) reports that passenger volume from January to June this year reached 73.99 million while cargo volume reached 1.56 million tons in the same period.

In this issue of the China Civil Aviation Report (CCAR), the Chinese government especially the CAAC is aggressively building aviation infrastructure to keep up with the growth. Airports are being built in far-flung areas to connect them to the rest of the world.

The CAAC is focusing on regional aviation development this year to balance growth and spur demand for air travel. The development of Inner Mongolia, for instance, is a welcome development. (Read more about this on page 8.)

The CCAR will continue to report on regional aviation development, which we consider as a backbone to China's aviation growth in the coming years.

中国今年正经历着前所未有的快速航空发展。产业的管理者-中国民航报告今年航空乘客总数到六月底为止达到了7,399万人次,而同时期航空货运亦达156万吨之多。

本期民航报导月刊介绍了中国民航积极构建航空基础设施建设来支撑持续的发展,边远地区的机场建设使中国与国际的航空连接更为广泛。今年中国民航更是大力加强支线航空的建设以平衡发展和刺激航空旅行的需求。譬如内蒙的支线航空发展是一个令人欢迎的趋势。

民航报导将持续追踪报导支线航空的发展,因为我们认为它将是中 国航空持续稳定增长的支柱。

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Aviation

Headlines

China, Japan agree to open more flights

Minister Yang Yuanyuan of the Civil Aviation Administration of China and Kazuo Kitagawa, Japan's minister of land, infrastructure and transport, signed an agreement on July 13 to open more flights between their countries.

They agreed to expand the air transport market access between the two Asian countries, adding two more locations for departures and arrivals to total 23 each.

The new deal allows a 20-percent increase in passenger flights and a doubling of cargo flight volume, or an equivalent of 92 B767-300 passenger flights and 76 B767F cargo flights every week.

China and Japan also agreed on code sharing and flexibility for enterprises to operate flights on aspects such as wet lease

aircraft operations and over-flying.

The two countries signed an agreement on civil aviation in 1974, under which nine Chinese and Japanese airlines now operate routine flights among 19 Chinese and 17 Japanese cities. Weekly flights now total 548.

In 2005, the China-Japan air transport market posted a passenger traffic volume of 6.91-million and cargo traffic volume of 300,000 tons.

China is Japan's second largest international market for air traffic, and Japan is China's largest international air traffic market.

The new deal is an important agreement reached between China and Japan after many rounds of negotiations



Ministers Yang Yuanyuan of China and Kazuo Kitagawa of Japan shake hands after signing the agreement to expand air services between their countries.

by China and Japan civil aviation authorities. It is a comprehensive review and update of the air traffic arrangements between the two countries over the past 30 years.

1.22-M passengers pass Tianjin Airport in H1

Tianjin Airport registered a total passenger volume of 1.22-million in the first half of the year, up by 26.3 percent on a year-to-year basis. Cargo and mail volume reached 43,400 tons, an increase of 24.7 percent compared to the same period last year. Aircraft landings and takeoffs, meanwhile, reached 26,400, up by 16.8 percent on a year-to-year basis.

The increases were attributed to the opening of more flights to and from Tianjin Airport. This year, the airport opened four additional air routes to Los Angeles, Urumqi, Guiyang and Yanji.

Okay Airlines introduced two Boeing

737-800 aircraft in March to fly from Tianjin to Changsha, Kunming, Chengdu, Zhangjiajie, Harbin, and Hangzhou. In June, Hainan Airlines added two Dornier 328 in Tianjin for its routes, including Tianjin-Taiyuan-Lanzhou and Tianjin-Wuhan-Guiyang.

In addition, flight densities at primary domestic air routes all increased. Flights on the Shanghai air route increased from the daily average of 6 to 7 flights to 9 to 12 flights; Guangzhou air route from 2 to 3 flights to 3 to 4 flights; Shenzhen air route from 2 flights to 3 to 4 flights; and Chengdu air route from 6 flights weekly last year to 17 flights.

Passenger volume on these routes increased by 181,400 on a year-to-year basis, or a 61.6 percent total increase in domestic flights in the first half of 2006.

Cargo flights at Tianjin Airport also increased to 669 flights per week in the first half of the year, up by 50.3 percent compared to the same period last year, as airlines increased their flight frequency to the airport.

Korean Air freighter flights doubled from one flight weekly last year to two flights weekly this year, and Martinair Far East Limited freighters registered 176 flights, an increase of 31.3 percent on a year-to-year basis.

China to increase range of radar control, reduce flight separation

Chinese aviation authorities have agreed to increase the range of radar control and reduce flight separation to keep up with the rapid development of China's air transport market.

The new policy was announced in the recent China Civil Aviation Radar Control Working Meeting.

Today, most of the areas using radar control in China implement a minimum of 20 km separation for air routes and a minimum of 10 km for terminal and approach.

With the increasing flight volumes in China, air routes and terminal areas now become crowded, especially in the East China area, where it is nearing saturation.

By the end of the year, Beijing and

Guangzhou approaches and the Zhuhai terminal control area will implement a radar control separation standard of a minimum of 6 km. Beijing and Guangzhou areas will also implement a radar control separation standard of a minimum of 10 kilometers.

For the 2008 Beijing Olympic Games, the Shanghai area and Beijing, Shanghai and Guangzhou air routes will have a radar control separation standard of a minimum of 10 km.

Director Su Langen of the Air Traffic Management Bureau of the Civil Aviation Administration of China (CAAC) said that, by the end of 2007, high altitude and approach areas in East China must implement radar control to ensure efficient flights during the Olympic Games.

Clearance base inaugurated at Beijing Airport

Beijing Capital International Airport inaugurated its air freight great Customs clearance base and bonded logistics center in Shunyi District, Beijing, on June 29.

The clearance base will provide all services, including Customs inspection, quarantine, foreign trade department, transport, storage, maritime, bank and insurance. Its goal is to establish a rapid and efficient coordinating mechanism for the "quick in and quick out" of airport cargo.

The base is projected to occupy 333 hectares of land to centralize the air freight terminal area, international express parcel supervision center, Customs supervision area

for import and export cargo, bonded logistics center (Type B) and supporting work facilities.

The initial plan, for the bonded logistics center to occupy 53,000 sq. m., has been approved by the General Administration of Customs of the China. It is also the first domestic national bonded logistics center established at the airport.

The clearance base will increase the cargo handling capability of Beijing Airport from the current 0.8-million tons to 5-million tons.



Senior officials from China Customs, Civil Aviation Administration of China and Beijing municipal government at the ceremony.

Nanjing Lukou Freight Center completed

Cargo volume is expected to increase with the completion of the Nanjing Lukou Airport Freight Center, one of the 10 key projects of Nanjin City, on June 30.



Civil aviation Vice Minister Li Jun gives a speech at the inauguration of the Nanjing Lukou Freight Center.

The construction of the freight center, costing RMB 183-million (USD \$23-million), started in December of 2004. It occupies 8 hectares and a total floor area of 34,168 sq. m., and has an annual designed freight handling capacity of 300,000 tons.

The freight center consists of domestic and international freight stations, a Customs-supervised warehouse, a special cargo warehouse and an integrated office building. The cargo handling area occupies 25,000 sq. m., while the special transport warehouse and fumigating room occupy 292 sq. m.

The freighter apron, occupying 70,000 sq. m., can accommodate four Boeing 747 freighters operating simultaneously. Daily peak cargo handling capacity can reach 1,000 tons.

The completion and operation of the freight center will improve Nanjing Airport's ground cargo handling and service capacity, especially for international cargo. The aim is to promote modern logistics development in Jiangsu Nanjing and nearby areas, as well as boost the economy of Jiangsu and Nanjing.

ICAO conducts security audit of China airports

China's three airports underwent aviation security audits conducted by the International Civil Aviation Organization (ICAO) from June 19 to July 1.

Personnel from ICAO headquarters in Quebec, Canada, and the Asia Pacific office arrived in Beijing to start inspecting the Civil Aviation Administration of China (CAAC), Beijing Capital International Airport, Xi'an Xianyang International Airport, and Kunming Wujiaaba International Airport. ICAO conducted the last security audit in 2004.

Real-time weather information system developed

Airlines and airports operating in Southwest China can now get timely and accurate weather information using a new weather radar information network developed by the Southwest China Air Traffic Management Bureau, under the Civil Aviation Administration of China and Chengdu University of Information Technology.

The project, called "Weather Radar Information Network of Some Airports in Southwest China Area," has been approved by aviation authorities.

It will be used in Southwest China's five airports: Chengdu, Kunming, Chongqing, Guiyang and Jiuzhaigou Huanglong.

The project will provide more timely and effective weather information for aviation weather service, especially during thunderstorm season in the Southwest China area. It will provide weather information at airports—and real-time weather information gathered by weather radar installed at airports—to pilots and air traffic controllers.

The Southwest China ATMB and Chengdu University started the project in December of 2004. A meeting was held by the Southwest China ATMB on June 13, and the project was approved after an on-site inspection.

China, Uganda reach bilateral air transport accord

China and Uganda signed a memorandum of understanding on July 4 for bilateral air transport agreement between the two countries.

The agreement was signed in Beijing by the International Cooperation Department of the Civil Aviation Administration of China (CAAC) and the Uganda Civil Aviation Authorities.

Currently, Uganda DAS Air Cargo operates two chartered cargo flights to Shanghai. In 2003, the cargo airline started its chartered flights to Shenzhen and Zhengzhou.

In the negotiation, China and Uganda civil aviation authorities wanted to open flights between the two countries as soon as possible. Plans include liberalizing air route schedule restriction, confirming transport capacity limit, adding the fifth traffic right, and code sharing.

In the first half of the year, China held bilateral civil aviation negotiations with Libya, Mauritius and Tanzania, and is planning to forge new bilateral air transport agreements with other African countries, such as Zambia, Algeria, Sudan, and Nigeria in the second half of the year.

Hong Kong Airport posts 3.6-M passengers in June

Hong Kong International Airport registered a passenger volume of 3.6-million in June, up by 10.3 percent compared to the same period last year. HKIA's aircraft movement reached 22,910 in June, an increase of 7.4 percent over last year.

Passenger traffic for the first quarter of fiscal year 2006/07 ending in June 2006 also registered a double-digit growth to 11-million, an increase of 10.5 percent on a year-to-year basis.



Hong Kong International Airport is experiencing a robust growth in passenger traffic as tourists flock to the region in time for summer.

Cargo volume in June reached 290,000 tons, up slightly by 3.6 percent compared to the same month last year.

"Visitor traffic is the major source to fuel the impressive passenger growth, in particular those from the Chinese Mainland and Southeast Asia. We are confident that the strong growth momentum will continue as passenger throughput is building up to the summer peak," said Howard Eng, airport management director of the Airport Authority Hong Kong.

From July 2005 to June 2006, passenger volume totaled 42.6-million, a year-to-year increase of 8.7 percent. Cargo volume grew by 8.2 percent to 3.5-million tons, and aircraft movements rose 11 percent to 275,500.

Shanghai Cargo gets operation clearance

Shanghai International Cargo Airlines has been awarded its air carrier operations certificate, after passing a three-month qualifications test by the Civil Aviation Administration of China.

Director Xia Xinghua of the CAAC East China Regional Administration awarded the certificate to Bian Zuhua, general manager of Shanghai Cargo, on June 27.

The certificate allows Shanghai Cargo to operate large transport aircraft. Shanghai Cargo is the fourth cargo airline with Shanghai as its hub. The other three are China Cargo Airlines, Yangtze River Express Airlines and Great Wall Cargo Airlines.

Shanghai Cargo, which has three freighters and an integrated cargo station, has hired more than 30 pilots to fly large aircraft for its international routes.

Starco gets FAA aircraft maintenance certificate

Shanghai Technologies Aerospace Company Limited (Starco) announced that it has acquired a maintenance certificate for the MD-11 and A300-600 aircraft from the United States Federal Aviation Administration (FAA).

The announcement was made by Li Yangmin, vice general manager of China Eastern Airlines Co. Ltd. (CEA), which co-owns Starco along with Singapore Technologies Aerospace

Co. Ltd. Starco's Vice chairman Zheng Guoqiang and General Manager Zhao Shanchu also attended the ceremony.

Li said that Starco provides maintenance service for over half of the CEA fleet. Other airlines also secure the services of Starco for aircraft maintenance. A third-party maintenance provider not only reduces costs but also lets airlines concentrate on core business and fleet development.



Vice General Li Yangmin (center) of China Eastern Airlines with Starco's Vice Chairman Zheng Guoqiang and General Manager Zhao Shanchu announcing Starco's approval by the US FAA.

Shandong Airlines leases 2 Boeing 737-800s

Shandong Airlines has signed a 10-year lease contract with Singapore Aircraft Leasing Enterprise (Sale) for two new Boeing 737-800 aircraft. The aircraft will be delivered to Shandong Airlines in 2007.

"The addition of these aircraft to our fleet will enable us to meet near-term capacity demands and will supplement our direct orders with Boeing. This is our first contract with Sale and we look forward to a long and productive collaboration between our two companies," said Sun Yu De, chairman of Shandong Airlines.

Robert Martin, managing director and chief executive officer of Sale, said that the new contract has strengthened the company's presence in the China market.

"Shandong Airlines is one of the fastest growing carriers in the Chinese market and we are therefore very pleased to be able to play a role in the airline's fleet development plan," said Martin.

Sale is a leading Asia-based aircraft leasing company, with a fleet of 81 modern aircraft flying with 33 airlines worldwide. The company has 30 737-800s on firm order for delivery between the end of 2006 and 2010.

Shandong Airlines operates a fleet of 33 aircraft.

Shenzhen Airlines leases 2 Airbus 320

Shenzhen Airlines and the International Lease Finance Corp. signed a lease agreement for two Airbus A320 aircraft on June 29. Under the contract signed by Li Kun, president and vice chairman of Shenzhen Airlines, and Chen Jie, senior vice president of ILFC, the aircraft will be delivered in 2007.

Shenzhen Airlines first signed a lease contract with ILFC for its first A320 in 2005. ILFC is a leading



Li Kun, president and vice chairman of Shenzhen Airlines, and Chen Jie, senior vice president of ILFC, sign the lease agreement.

aircraft lease company, possessing over 600 aircrafts.

The Hefei Airport in Anhui province passed the standards to become a Class 1 airport following its expansion and upgrading to accommodate foreign aircraft.

The airport was approved by the State Council for Chinese aircrafts to operate passenger and cargo transport business between Hefei and Hong Kong in 1990. Since then, temporary chartered flights have opened between Hefei and Thailand, Korea, Japan, Poland, and the United States.

From 1990 to 2005, Hefei Airport registered a passenger volume of more than 500,000 and a cargo volume of more than 300,000 tons.

The Anhui Bureau of Commerce said that, with the airport's new status, the province will have the chance to promote tourism and draw foreign investment.

CASC-Airbus training center gets accreditation

The North China Regional Administration, under the Civil Aviation Administration of China (CAAC), has accredited the China Aviation Supplies Import & Export Corporation-Airbus Customer Services Training and Support center to conduct flight training and operations.

The center becomes the first independent training unit to pass the qualifications for Regulations of Flight Training Center Certification.

The NCRA-CAAC examined the center's training management manual, core training courses, training outline and training textbooks.

It also inspected its training equipment and facilities, training management departments, personnel knowledge level, preservation of training records, and teaching implementation of instructors. The inspection group concluded that the center passed all the requirements under the guidelines.

The center is a joint venture between Airbus and China Aviation Supplies Import & Export Group Corporation, and is one of the three training centers of Airbus in the



Duan Shili (left), deputy general of the CAAC's North China Regional Administration, awards the flight training center certification to CASC/Airbus Customer Services Training and Support center.

world. It is engaged mainly in the transition and retraining of pilots for A320, A330 and A340 aircraft series, as well as the training of crew and stewards. Since opening in 1997, the center has provided training for over 11,000 domestic air transport personnel.

China Southern signs SkyTeam agreement

On June 28, China Southern Airlines, China's largest airline, signed the Global Airline Alliance Adherence Agreement (GAAAA), leading to its membership in the SkyTeam alliance, an association of 10 airlines.

Yang Ho Cho, SkyTeam representative and chairman and CEO of Korean Air, and Si Xian Min, president of China Southern Airlines, signed the agreement.

Witnessing the signing were Yang Yuan Yuan, minister of the Civil Aviation Administration of China (CAAC); Liu Shao Yong, president of China Southern Air Holding Company and chairman of China Southern Airlines; Tong Xing, vice governor

of the Guangdong Province; and Ma Guo An, deputy secretary-general of the State-owned Assets Supervision and Administration Commission of the State Council.

"Joining SkyTeam will expand our international route network and flight density, and will allow our airline to make full use of SkyTeam's extensive network to extend China Southern flights throughout the world," said Liu.

SkyTeam is composed of Aeroflot, Aeroméxico, Air France, Alitalia, Continental Airlines, Czech Airlines, Delta Air Lines, KLM Royal Dutch Airlines, Korean Air and Northwest Airlines.

China Southern flies to 80 cities around the world.

Beijing-Ho Chi Minh route opened

Air China started its non-stop direct flight from Beijing to Ho Chi Minh City in Vietnam on June 16.

Air China's Boeing 737-700 aircraft arrived at the Tan Son Nhat Airport in Ho Chi Minh carrying more than 100 passengers. A reception was attended by Gao Deke, consul general of China in Ho Chi Minh.

Wang Shixiang, vice general manager of Air China, said that direct flights between the two cities are scheduled every Monday, Wednesday, Thursday and Friday.

Air New Zealand starts selling tickets to Shanghai

Air New Zealand started selling tickets on June 19 for its non-stop flights from Auckland to Shanghai, commencing on November 6.

“Air New Zealand will be the only airline flying non-stop from Auckland to mainland China’s fastest growing and most affluent commercial hub,” said Ed Sims, the international airline group’s general manager.

Air New Zealand will fly to Shanghai three times a week using its new Boeing 777 aircraft.

“The new Shanghai service doesn’t just establish a highly-sought-after new destination on Air New Zealand’s network,” said Sims. “It also offers another routing alternative to China complementing our existing services via Hong Kong, Tokyo, Osaka and Singapore. Travel to eight European destinations will be possible, with more to be added in the future.”

Sim said that the inclusion of Shang Airlines and Air China as members of Star Alliance offers additional possibilities for interconnection.

Ameco’s overhaul business on the uptrend

Ameco Beijing announced that it would receive 30 RB211-535E4 engines this year under its overhaul business, up from 23 engines repaired last year.

Ameco began its overhaul repair business for RB211-535E4 engines in 1993. The engines are installed mostly in B757 aircrafts.

It further stated that 75 percent of engines received for repair come from domestic customers, while the other 25 percent come from international customers, including Nepal Royal Airlines, Cebu Pacific Airlines in the Philippines, US-Airway, and Ryan International Airlines.

China Eastern, RST ink accord on evacuation trainer

China Eastern Airlines (CEA) and Germany’s RST signed an agreement on July 18 for the A320 Cabin Emergency Evacuation Trainer (CEET).

In 1998, RST first became the training devices supplier for the cabin crew of China Eastern Airlines.

Attending the signing ceremony were Luo Chaogeng, general manager of China Eastern Airlines; Manfred Lehde, president of RST; and Fan Erning, general manager of China Eastern Airlines Import and Export Company.

China Eastern Airlines has about 200 aircrafts, mainly A340-600, A340-300, A330, A320 series and B767, B737 series.

Currently, CEA has only an A300 twin aisle dynamic CEET and several door trainers matching CEA aircraft types. However, it does not have any single-aisle aircraft CEET for training. The CEA has about 5,500 cabin crew and attendants.

News Briefs

June 19 - To actively promote sales of China-made MA60 aircrafts in African countries, China and Congo signed a memorandum of understanding on airworthiness management in Brazzaville, capital of the African country.

Under the agreement, the Congo Civil Aviation Authority gives the Civil Aviation Administration of China (CAAC) airworthiness authority. Yu Zhenfa, chief pilot of CAAC, and the director of the Congo Civil Aviation Authority, signed the MOU.

The signing signifies that Congo trusts and accepts the result and conclusion of China’s airworthiness examination.

June 21 - Aviation experts conducted security inspection on the A2C ultra-light water plane at the 605 Institute of the China Aviation Industry Corporation II.

The plane is a new water aircraft developed by the 605 Institute in the 9th Five-Year Plan. The aircraft acquired a type-designation ratification certificate and production license in 2003 and 2004.

June 30 - Aircraft Maintenance and Engineering Corporation (Ameco Beijing) signed a deal with Qantas Airways to paint on the airline’s four Boeing 767-300. The first aircraft was delivered to the hangar of Ameco Beijing at the end of July.

July 20 - Lockheed Martin announced that the Hong Kong Observatory has purchased a second WindTracer Doppler lidar system, which will be installed at the Hong Kong International Airport.

WindTracer provides air traffic control personnel with advanced warning of wind hazards—such as wind shear, microbursts, gust fronts, turbulence and crosswinds—which enables them to offer precise, timely direction to pilots during takeoff and landing, the company said.

**China plans to buy
100 aircraft every year
until 2010 to beef up its fleet**



Can China in

announced the granting of hefty tax incentives to airlines that establish bases in the Inner Mongolia area. Airlines that establish bases in Inner Mongolia will be exempted from paying housing property and tenure taxes for the first three years. Senior

By JONATHAN M. HICAP

Getting to remote Mohe—China’s northernmost county, located in Heilongjiang province—is a struggle. Upon your arrival at the provincial capital of Harbin, you have to endure a 13-hour train trip. Mohe is China’s coldest place, with freezing temperatures in the winter that can go down to 40 to 50 degrees Celsius below zero. Few tourists brave the treacherous travel just to see the aurora borealis phenomenon.

By 2008, Mohe’s travel industry will get an overdue shot in the arm with the opening of the Mohe airport, which is being built by the Chinese government at a cost of RMB 238-million (USD \$29.8-million). The airport will have an area of 1.59-million sq. m. and the terminal building a floor area of 1,200 sq. m.

The construction of the Mohe airport is part of developing China’s regional aviation infrastructure, which has not prospered in the last 10 years. China’s aviation authorities have finally realized that, in order to make China the world’s second-largest aviation market by 2020, the country should focus on making inroads to remote provinces and counties.

Under China’s 11th Five-Year Plan from 2006 to 2010, civil aviation authorities are set “to devote great effort to promoting coordinated development.” In February, the Civil Aviation Administration of China (CAAC) said that the years between now and 2010 “will be a critical period for China to build into a country with a powerful civil aviation industry.” Airlines have long evaded flying to regional areas because of a lack of passenger demand and steep landing fees charged by airports.

To entice airlines, the CAAC is dangling incentives to boost regional aviation. Recently, CAAC’s North China Regional Administration and the Inner Mongolia local government

management personnel and other professionals in aviation companies will also enjoy privileges on personal income taxes. Inner Mongolia is one of the experimental regions under the plan that will spur growth in regional aviation.

The NCRA will enlist the support of the CAAC and local governments in providing subsidies to unpopular air routes and granting reasonable import taxes for regional aircraft and parts. Regional airlines will be encouraged to implement low-cost operation for efficient management. State-owned and private airlines will be encouraged to enter the Inner Mongolia aviation market. One or two airlines will be introduced either to take a regional airport as a base of operation or to establish a branch. The goal is to increase air routes in Inner Mongolia from 48 in 2005 to 60 routes, and expand routes from 35 cities in 2005 to 40 to 45 cities.

The development of regional aviation will be addressed in the 11th Five-Year Plan. In a speech made in February, CAAC Vice Minister Gao Hongfeng said that the agency’s goal is to “speed up the development of civil aviation infrastructure in west, northeast, and central China, and open up more domestic and international air routes.”

But with the rising cost of jet fuel, airlines need more incentives to entice them to enter a complex market. Chinese airlines posted a loss of about RMB 2.5-billion (USD \$313.47-million) in the first half of 2006, according to state-owned Xinhua News. The huge loss is a result of the rising price of aviation fuel, which accounts for about a third of airlines’ operational costs. This, according to the CAAC, “will pose a severe challenge to the competitive power of China in civil aviation.”

In the last five years, the government has implemented structural reform. Airlines were merged and reorganized. The

regional aviation finally take off?

'critical period' in its quest to be the next superpower in air transport

CAAC even cut its regulatory structure from three levels to two. The aviation market has been liberalized by allowing private airlines—some of them, such as Okay, Chunqiu and Yinglian, now operating in China—to compete.

Despite the loss of airlines, China is also beefing up its aircraft fleet. Under the 11th Five-Year Plan, it will buy 100 aircraft every year for the next five years. By the end of 2005, China's aircraft fleet had totaled 863, an increase of 336 aircraft since 2000.

In his speech, Gao said that, while China has made tremendous strides in developing its aviation industry, it "will face a lot of contradictions and problems, which are manifested mainly in the fact that the personnel quality, infrastructure level and management level can not catch up with the rapid increase of air transport." CAAC sees several obstacles to its plans, underscoring the shortage of pilots and usable airspace as the "two big bottlenecks restricting the development of civil aviation in China."

The last five years have seen China experiencing high air traffic demand. In 2005, China's air transport industry carried 138-million passengers and 3.03-million tons of cargo, an increase of 105.3 percent and 89.2 percent, respectively, compared to figures in 2000.

In the first half of 2006, the industry posted a total passenger traffic volume of 73.99-million, an increase of 17.5 percent over the same period last year. Total cargo volume reached 1.56-million tons, up by 11.5 percent over last year. These increases coincided with China's pursuit of bilateral negotiations with other countries. According to the CAAC, China has signed agreements with 48 countries in the last five years and, by the end of 2005, had 98 bilateral air services agreements.

Gao predicts that by 2010, China's total passenger, cargo and mail traffic will double the 2005 figures, and general aviation will grow 10 percent per year.

Underdevelopment of China's aviation industry is characterized by its lack of airports. China is the third largest country in the world and the most populous, with 1.3-billion people. Yet certified civil airports numbered only 142 by the end of 2005. In the last five years, China has spent RMB 94.7-billion (USD \$11.8-billion) to build an aviation infrastructure that includes airports and air traffic control. China has built 21 airports and expanded existing ones. At this early point, China is on a spending spree to build more airports in anticipation of the 2008 Beijing Olympics. China's progress in aviation will be tested when

millions of spectators and athletes arrive for the Games.

The CAAC is leading the development of the aviation infrastructure by "upgrading the Eastern region, strengthening the Central region and densifying the Western region." It intends to build airports that are "rationally distributed, appropriate in scale." It will expand existing large airports, improve medium-size airports, and increase small airports.

As passenger and cargo traffic have increased, China's airports are reaping profits. For the first half of 2006, airports registered profits of RMB 1.5-billion (USD \$188.28-million). In its massive plan, China will spend more money to build new airports in the next five years. The CAAC will allot RMB 140-billion (USD \$17.57-billion) until 2010 to build about 48 airports and upgrade others.

Tibet, for instance, already has its third airport, built at a cost of RMB 700-million (USD \$87.5-million), ready for operation. China's state council and Central Military Commission have approved the construction of the Kangding airport in Sichuan province at a cost of RMB 950-million (USD \$119.24-million) and the Tengchong airport in Yunnan province, which will cost RMB 321-million (USD \$40.29-million). By 2010, says the CAAC, China will have 186 airports, up from the current 142.

Under CAAC's so-called "new generation of civil air transport," China's system and safety are the hallmarks. In the next five years, it plans to improve and develop airport facilities to meet international standards and enhance the airport security system.

In order to achieve China's goal of developing regional aviation, authorities need to make the necessary adjustments with an equitable distribution of airports and generous grants to airlines flying regional routes. Only then can it spur growth in regional aviation and stake its claim to becoming the world's second-leading aviation market in the next 15 years.



Beijing Airport acts on passenger complaints

Representatives of Beijing Capital International Airport met with representatives of Chinese airlines to discuss how to efficiently deal with passenger complaints arising from flights delayed due to bad weather.

Representatives from airlines operating at Beijing Airport—including Air China, China Southern Airlines, China Eastern Airlines and Hainan Airlines—agreed to coordinate with airport authorities.

Vice General Manager Huang Gang of Beijing Airport said that this summer, passenger volume would reach 31-million, an increase of 18 percent on a year-to-year basis. Information provided by China’s civil aviation weather departments indicate that more thunderstorms are expected this year. It

is predicted that thunderstorms in China this year will last longer than in previous years, and could have a severe effect on flights.

Statistics show that current passenger complaints due to delayed flights comprise 60 percent of total industry complaints.

In the meeting, it was agreed that airlines, airports and the police would establish a coordinated system.

Vice Party Secretary Li Xiaomei of Beijing Airport said that it is necessary to enhance mutual coordination among related sectors, including weather forecasting, and to provide guidelines to passenger travel during bad weather.

Huang said that the Beijing Airport will coordinate with airlines to provide service to passengers when flights are delayed.

Shangxi Group renamed West Airports Group

China’s State Administration for Industry and Commerce approved the renaming of the Shangxi Provincial Airports Group to West Airports Group.

West Airports Group operates in three provinces and has a stake in the Qinghai Provincial Civil Airports Corporation and Ningxia Airports Corporation. The new group will manage eight airports: Xi’an, Xining, Golmud, Yinchuan, Yulin, Yanan, Hanzhong and Ankang. Its capital is RMB 4-billion (USD \$501-million). It has a 90-percent share in northwest China air transport market.

Gameco completes retrofitting of Boeing jetliner

Gameco completed retrofitting a Boeing 737-300 passenger jetliner to a freighter in China, the first retrofit work held in the country.



Gameco officials celebrate China’s first B737-300 passenger to freighter conversion.

The freighter, completed in three months, was unveiled at a ceremony held at Gameco’s hangar on June 28. The aircraft, owned by GE Commercial Aviation Services, will be delivered to and used by China Post Airlines.

Gameco signed an agreement with Israel Aircraft Industries Ltd. (IAI) in September of 2005 for the retrofitting of B737-300/400 jetliners to freighters.

Lu Yongtong, general director of the Business Department of Gameco, said that the retrofit work by the company “explores

the company’s business, more importantly, improves the company’s whole technology level, and meanwhile establishes the base for future retrofit of large wide body jetliner to freighter by Gameco.”

China Post starts cargo flight to Shanghai

China Post Airlines opened cargo flights between Weifang and Shanghai on July 18. It is estimated that more than 15 tons of mail and cargo will arrive and depart daily from Weifang Airport, China Post’s base of operations.

The flight departs from Weifang carrying express airmail from 17 cities of Shangdong and Jiangsu’s Lianyungang.

The Weifang government and the post office expressed its support for the cargo flights. The Weifang Airmail Processing Center will be operational by October.



CAAC Corner

Mainland China, Hong Kong ease air transport

Mainland China and Hong Kong have agreed to open flights from 11 mainland cities in a new agreement to ease the air transport market.

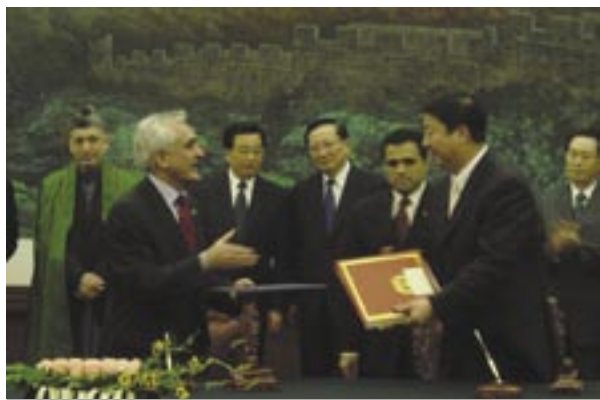
The Civil Aviation Administration of China and Hong Kong's Economic Development and Labor Bureau approved the addition of flights from 11 cities to Hong Kong. These are Hailaer, Yanji, Jiamusi, Qiqihar, Mudanjiang, Weihai, Xishuangbanna, Lhasa, Kashgar, Yinchuan and Yichang. There are now 56 mainland cities flying directly to Hong Kong.

The new arrangement also relaxes transport capacity restriction. For passenger flights, 35 air routes will be allowed to carry more passengers from the winter of 2006 to the summer of 2007, without limitation on flight quantity and aircraft type. Transport capacities of a few flight destinations with restriction are increased. For cargo flights, except for Beijing and Shanghai, other flights will have no restriction on transport capacity in the summer and autumn of 2007. The transport capacities of Beijing and Shanghai also will be increased. In addition, the new arrangement increases carrier quantity of each air route.

China, Afghanistan sign air transport accord

China and Afghanistan signed a new air transport agreement on June 19, creating opportunities for Chinese airlines to fly to Kabul.

Minister Yang Yuanyuan of the Civil Aviation Administration of China (CAAC) and Afghan Foreign Affairs Minister Rangin Dadfar Spanta signed



Minister Yang Yuanyuan (right) of the Civil Aviation Administration of China and Afghan Foreign Affairs Minister Rangin Dadfar Spanta shake hands after signing the new air transport agreement.

the agreement, which replaces the original 1972 deal. The new agreement will be the basis for future bilateral air transport deals between the two countries.

Currently, Ariana Afghan Airlines flies from Kabul to Urumqi once a week. No Chinese airline flies to Afghanistan.

China starts air traffic preparation for Beijing Olympic Games

To ensure that the flights of spectators and athletes coming to the 2008 Beijing Olympic Games are on time and free of hitches, the Civil Aviation Administration of China (CAAC) started its "maneuver activity" on July 1. It will last until September 30.

Yang Yuanyuan, minister of CAAC, required all related units to participate in the activity.

Millions of people are expected to witness the Games, so the Chinese government is ensuring that all flights going in and out of the country will be smooth.

The maneuver activity will include the Beijing Capital International Airport, all domestic airlines, Hong Kong, Macao, international flights operating at Capital Airport and charter flights.

The activity is being implemented while the Beijing Airport is in normal operation mode. The maneuver deals mainly with aviation security, passenger service and on-time flight performance work.

It includes air traffic, airport operation, safety and security, transport service, network information, English service level, emergency command, and publicity.

Every unit is expected to identify problems in its operation and control systems.

The Capital Airport activity is being supervised by the Olympic Games Work Coordination Group of the CAAC.

In a related development, China held the Airspace Requirement Forum in Anshan, Liaoning from June 12 to 13 to draw up plans for air traffic management for the Olympic Games.

The forum was attended by He Minghan, chief engineer of the Air Traffic Management Bureau of the Civil Aviation Administration of China (CAAC); Wang Wei, director of the Airspace Department; and leaders and experts from regional air traffic management departments, including the North China, East China, Central South, Northwest, Northeast and Xinjiang regions.

CAAC approves Shanghai Eastern Flight Training center

Shanghai Eastern Flight Training Co. Ltd. was awarded the flight training certificate by the Civil Aviation Administration of China (CAAC) on July 5, becoming the first company to establish a domestic flight training center in East China.

It took Shanghai Eastern one year to prepare and complete the requirements set under the CCAR Part 142 rule. In March of last year, the company established a group led by its general manager to prepare for the CCAR's qualification examination.

Last April, Shanghai Eastern submitted its application to the CAAC's East China Regional Administration.

Aviation authorities inspected the company's training management manual, flight training programs for every type of aircraft, courses and teaching content, teaching personnel and training facilities. They also inspected the company site and examined the flight training process for the Airbus A320 simulator.

Shanghai Eastern Flight Training Co. was established by the China Eastern Air Group and China Eastern Airlines Co. Ltd. to train civil aviation pilots.

Wu Chengchang, director of the CAAC's Transport Standard Department, awarded the flight training center certificate to Xu Changming, general manager of the training center.



Wu Chengchang (left), director of the CAAC's Transport Standard Department, awards the flight training center certificate to Xu Changming, general manager of Shanghai Eastern Flight Training Co. Ltd.

China Civil Aviation Maintenance Association to be established

China's Ministry of Civil Affairs has given its approval for the establishment of the China Civil Aviation Maintenance Association.

With the rapid development of China's civil aviation industry in the last 15 years, civil aviation maintenance has become a specialized industry.

Currently, there are more than 320 maintenance units in China, employing over 34,000 employees.

Meanwhile, the Civil Aviation Administration of China (CAAC) announced that starting July 21, it will be in charge of issuing controller licenses under the Management Regulations on Civil Aviation Air Traffic Controller License.

The Air Traffic Management Bureau of the CAAC will be in charge of management work for controller licenses.

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