

CHINA CIVIL AVIATION REPORT

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民航报导

Volume 7, Issue 5
May 2005

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The Quieter Side of Beijing International Airport



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News Briefs

-Aviation headlines from across China

Pilot Situation Draws Attention from Government

Since April of 2004, about 60 veteran pilots from China's three largest state owned airlines have submitted their resignations in attempts to transfer to positions at private airlines. This potential upheaval of the aviation sector has recently drawn the attention of Chinese officials. Mr. Pan Qinglin, a Congressman of the National Committee of Chinese People's Political Consultative Conference

The problem of job-hopping amongst pilots in China has drawn the attention of the Government



(CPPCC) stated in a March meeting that the "job-hopping" of the government trained pilots to privately owned airlines threatens the industry's flight security and proposed to regulate job transfers by outlawing illegitimate resignations.

Currently the situation facing the state owned airlines is quickly deteriorating. Pilots trained by government funds are opting to resign their present positions to accept work at private airlines, which offer a substantial increase in compensation. Congressman Pan found in his research that there are many more pilots with the intention of switching employers; most are awaiting word regarding the severity of the upcoming regulations before submitting their resignations. If the ruling was in favor of the pilots, Pan says that it will cause a detrimental ripple effect that may lead to instability through out the sector.

Currently, figures show that Chinese civil aviation is in immediate need of an additional 2,000 pilots. With pilots in such

demand, newly established private airlines are luring experienced pilots away from state-owned airlines with lucrative wages. Currently, the commercial pilot training process takes about 8-10 years at a cost of RMB 6-8 million per pilot. And with the government funding nearly all pilots training tuition, each pilot lost to the private airlines equals an additional investment wasted.

In light of these figures, Congressman Pan Qinglin suggested regulations need to be imposed by the CAAC to control pilot transfers within the aviation sector. Conversely, Mr. Pan added that before the regulatory measures are established, the pilot transfer problem needs to be dealt with by the airline companies themselves; otherwise the airlines promoting pilot transfers are likely to continue their practice.

World Dignitaries Get Exclusive Jet Parking at Beijing International

By the end of 2006, dignitaries from around the world will be able to land their private jets at the newly built, state of the art, "Special Plane and Business Jet Area" at Capital International Airport in Beijing. Upon receiving approval from the National Development and Reform Committee, the construction of the new facility officially began at 10AM on April 12th.

The new Capital Airport Special Plane and Business Jet Building will consist of 758 thousand square meters and construction will be carried out in two phases. The initial phase of construction will focus mainly on the Special Plane and Business Jet Building

structure, estimated at 603 thousand square meters. The second phase of the project will be the entrance roads and surrounding structures. The new facility is set to commence by the end of 2006.

New Recruitment Methods Hope to Entice More Pilots

Although most aspects of China's aviation industry are currently progressing at unprecedented rates, the issue of a potential pilot shortage in the sector is still a very possible reality. Due to this, the Civil Aviation Flight University of China (CAFUC), the largest aviation training academy in China, has recently revised its recruitment policies to encourage increased enrollment of its student body. This year, the CAFUC will update its traditional eligibility policy of only recruiting first through third year college students to a new policy that includes graduates and post graduate students as well. Since the adoption of the new policy, over 3,000 applicants have already applied for aviation training. The

The Civil Aviation Flight University of China recently revised its enrollment policy to help meet escalating pilot demands in China



expected enrollment for 2005 is estimated at 1,200 student pilots, doubling the average under the old policy (600 per year).

Currently, the CAFUC trains about 90% of China's pilots and is the most technologically advanced training facility in the country. The Director of the Recruitment Department, Mr. Luo Yaguang, recently said that because of China's recent growth and knowledge regarding civil aviation, undergrads are more willing to consider a career in aviation.

The CAFUC has also reported that it has invested RMB 1 billion into increasing their original training fleet (107 training aircraft) by 55 new planes to satisfy the demands of the larger incoming class.

Certification Flight Successful for China's Little Hawk-500

The Little Hawk-500, the first business jet built in China to completely retain its intellectual property rights, has completed its test flight certifications and is one step closer to acquiring its airworthiness certificate. The Little Hawk-500 passed the 40 plus category flight examination process at Shaanxi Yanglin earlier last month.

Designed and produced under the collaboration of Shijiazhuang Aircraft Industry Company Ltd of China Aviation Industry Corporation II (AVIC II), FAI of AVIC I and the Civil Aviation Flight University of China, the 4-5 seat light multi-purpose aircraft has completed 339 take off and landings with a total flight time of 236 hours and 36 minutes.

To date, the Little Hawk-500

has passed the flight test portion of the airworthiness certification and is expected to complete the entire process sometime in May. The little Hawk-500 is designed with a single pilot system with dual controls and is the first business jet built in China focused on private ownership. The companies plan to produce 24 aircraft this year after completing the airworthiness certification process.

The Silk Road in the Sky

Through the course of history, few trade routes have played a more integral part in a continent's development than the Silk Road in Asia. Despite evolving transportation methods, the Silk Road is still prominently displaying its importance today. Gone are the carriages and long journeys; in their place, planes traverse the trade route effortlessly and often. As China updates its Summer-Autumn international flight schedule, flights over the Silk Road route have shown a dramatic increase (420 this year) over the previous year (350 last year). Flights originate from 26 different countries and have made the route above Xinjiang the most active air route connecting China to Europe, Asia, Africa and Oceania. Operators who frequent the Silk Road route include Lufthansa, Royal Dutch Airlines, Air France, Virgin Atlantic, Alitalia, Finnair and more. US giant FED EX is also a frequent flyer of the Xinjiang skies.

Currently there are 50-60 flights a day over the popular route and the statistics continue to increase steadily. Popular aircraft utilized on the route include B777, B747, Airbus 340, and MD11.



China Eastern made headlines by becoming the first airline to sign a purchase order with Airbus for the new A380

China's First A380 Orders

China Southern, China Eastern and Shenzhen Airlines recently placed a combined order of 30 new Airbus planes, including five A380s. This marks the first official Chinese A380 purchase agreement with the French aircraft manufacturer.

According to Airbus China, China Southern signed a purchase agreement for five A380s; China Eastern Airlines signed for five A319s, eleven A321s and four A320s; and Shenzhen Airlines co-signed with China Aviation Supplies Import and Export Group Corporation (CASGC) and Airbus for three A320s and two A319s. List price for the thirty plane deal is reported at USD 3 billion.

China Southern Airlines Company Ltd. Chairman, Mr. Liu Shaoyong, said about the deal, "We believe that the A380 will further build our image of reliability, punctuality and efficiency and increase our competitiveness in the global market." The A380 is the largest passenger aircraft in the world and seats 555 passengers.

HNA and Lianyungang Government Sign Cooperation Agreement

Hainan Airline Group and the Lianyungang Government (Lianyungang Civil Aviation Station) agreed to a Transportation Development Cooperation Agreement on April 8th. The agreement was signed at the Sanya Asia Pacific International Conference Center and officially institutes the joint-venture between HNA Group and Lianyungang

Civil Aviation Station. The HNA Group will now obtain stake in the Lianyungang Civil Aviation Station and help manage and operate the facility.

HNA is the fourth largest domestic aviation group in China and is well accomplished in the fields of air transport, hotel tourism, airport management and other aviation relation industries. The new partnership developed after ownership of Lianyungang Civil Aviation Station was transferred back to local authorities.

"Airports should team up with experienced operators to ensure success," said Lianyungang authorities. HNA will use their experience to increase flights in and out of Lianyungang as well as optimizing airport operations. Lianyungang Civil Aviation Station is looking forward to implementing the established practices, management operations, culture and capital of HNA to actively develop their airport.

Hainan Airlines will bring experience to their new joint venture with Lianyungang Civil Aviation Station



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CAAC Coverage

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- *China and India Sign Bilateral Aviation Transportation Agreement*
- *New Chinese-Canadian Bilateral Aviation Transportation Agreement*
- *Singapore Airlines First to Pass "Operations Certification"*
- *China Aviation Reform Leads to Competitive Operations*

Hong Kong and Macao Service Providers Granted Permit by CAAC

At the First Annual Summit on China Airports on April 5th, the Civil Aviation Administration of China (CAAC) announced that they have agreed to permit service providers from Hong Kong and Macao to manage operations in small to medium sized airports throughout China. The stipulations of the new agreement call for management services to operate in the forms of cooperation, joint venture or sole proprietorship, with a maximum contract period not exceeding 20 years. With the

Hong Kong and Macao based service providers can now operate in China's airports



new regulations, Hong Kong and Macao based service providers will now be able to provide China's airports with aviation transportation ground service, agent service, communications and departure control system service, ULD management service, baggage service, cargo and mail service, and more. The new regulation is aimed at promoting a stronger economic partnership between Mainland China and Hong Kong.

China and India Sign Bilateral Aviation Transportation Agreement

April 11th, 2005, witnessed the signing of the memorandum of understanding (MoU) by CAAC Director, Mr. Yang Yuanyuan, and Mr. Ajay Prasad, the Secretary of Indian Ministry of Civil Aviation, marking a big step in mutually opening air freight markets between the two countries. Under the new agreement, each country can fly to and from six new destinations via their own domestic

airports. Quantities of flights have also been increased to 14 per week and will continue to increase on an annual basis. In addition, both countries have agreed to begin code sharing cooperation, aircraft chartering and employ foreign crews.

China and India have enjoyed a rapidly developing economic and tourism relationship in recent years and the signing of the latest agreement hopes to cement the upward trend for the future. In 2004, bilateral trade volumes reached USD 13.6 billion, an 80% increase over the previous year.

New Chinese – Canadian Bilateral Aviation Transportation Agreement

Chinese and Canadian officials met in Beijing on April 19th to sign a new air transportation agreement which will help stimulate further development in passenger and freight volumes between the two nations. CAAC officials say that the new agreement is aimed at promoting bilateral trade and tourism relations between China and Canada.

The new transport agreement looks to increase trade and tourism between Canada and China



According to the new agreement, the number of flights between the two countries will ultimately increase threefold compared to the previous agreement. Also, the new regulations allow airlines to enjoy more flexibility in operations such as increased destinations and operating conditions. Canadian Transport Minister, Mr. Jean Lapierre said of the new agreement, "Given the rapid growth in air travel between Canada and China, this new agreement is very timely." A few specifics of the new agreement include:

- New Toronto-Beijing non-stop service to be increased to daily flights by 2006
- Daily Toronto-Shanghai non-stop service to begin summer 2006
- Daily Vancouver-Guangzhou non-stop service to begin summer 2007

The last air transportation agreement between Canada and China was established in 1973. Throughout the past three decades, negotiations to revise the agreement have failed on two different occasions, but recent surges in trade and tourism between the two countries ultimately led to the updated agreement. In 2004, 350 thousand Canadian tourists traveled to China, a 51% increase over the previous year. Conversely, Canada welcomed 180 thousand Chinese visitors last year.

Singapore Airlines First to Pass "Operations Certification"

Singapore Airlines became the first international airline operator to be successfully certified under



Singapore Airlines became the first airline operator to pass CCAR Part 129

the CAAC's new CCAR Part 129 "Operations Certification: Foreign Air Transportation Carriers" in Guangzhou on April 4th. The CCAR Part 129 "Operations Certification: Foreign Air Transportation Carriers" is the new regulation and certification process by which all international airline operators must complete in order to operate in China.

Singapore Airlines Limited and Singapore Airlines Cargo Pte Limited (SIA) became the first airline operator to successfully complete the new certification process, which included obtaining approval from the Foreign Airways Supervision Department of Guangzhou, as well as passing inspections by the Aviation Safety Operation Surveillance Office of Central & South Regional Administration of CAAC. The physical inspection by the Central & South Regional Administration of CAAC was held at Shanghai Pudong Airport, and included inspection of information systems, operation control, maintenance, passenger and cargo transportation, as well as their parking apron.

CCAR Part 129 is mandatory for all foreign airline operators and certification must be completed within the next two years to continue operating in China.

China Aviation Reforms Lead to Competitive Operations

As a result of China's recent aviation reform to encourage rapid development of its aviation sector, operators are beginning to feel the pressure created by the increasing number of competing firms. Profits are further strained due to increasing prices on fundamental commodities such as jet fuel, causing firms to carefully analyze operation models in order to effectively cut costs. Many of these firms converged upon Beijing on April 13th, for the 2005 China Civil Aviation Development Forum to learn as the International Air Transport Association (IATA) present lessons learned from the aviation booms of the US and Europe.

Over 180 participants came together to learn and discuss this year's forum topic "Air Transportation under a Competitive Market". IATA experts covered topics such as air route efficiency, cost control, effective market regulations, and optimizing operations. Minister of CAAC, Mr. Yang Yuanyuan, as well as Mr. Giovanni Bisgnani, Director General and CEO of IATA, were in attendance. In a speech, Minister Yang stated that the next 15 years will be China civil aviation's rapid development period and the "Eleventh Five Year Plan" will be dedicated to achieving this long term goal. But as CAAC continues to focus on market reform, Minister Yang said that thorough understanding of measures practiced by IATA can effectively help companies deal with increased competition as a result of new regulations.

New-Age Operators:

Chinese Airport Operators Forced to Think Outside the Box

Written By: George Chao

Since the initiation of China into the WTO in December of 2001, the difficult task of reforming a once exclusive market into a healthy state of free enterprise has maintained top priority for China's government. Although the road traversed has been filled with both triumphs and setbacks, each passing day brings priceless knowledge and experiences that are well worth the growing pains. As the most rapidly developing sector in China, aviation has witnessed non-stop regulation modifications and reforms; often leaving many firms and individuals scrambling to adapt in order to survive in the industry. A prime example of adverse effects due to rapid reform can be clearly witnessed by the ensuing results of the localization of China's airports that began in late 2003. On paper, the regulations seem to hand local governments a potential gold-mine, however, in actuality the consequential effects have left over 70 percent of the airports operating in the red.

Unseen Obstacles

For the most part, local governments that have recently been handed operational/management jurisdiction of their own airport have all received a collective wake-up call. The dreams of being handed a cash cow has quickly dissipated and replaced with the harsh realities of high landing fees, lack of airline operators willing to fly to and from an airport, and dwindling passenger volumes. Currently, over 55 airports in China are experiencing passenger volumes under 100,000 annually and are reporting significant profit losses.

Uniformed landing fees facing Chinese airports, regardless of its size or passenger volume, have neophyte airport operators trapped in a classic "chicken-and-egg" situation. The airport is not able to entice more passengers due to lack of flights, while conversely, airline



operators refuse to operate out of regional airports due to a lack of passengers. To reiterate the situation bluntly, unless you are Beijing Capital, Guangzhou, Shanghai Pudong, Shanghai Hongqiao, or Hong Kong International, good luck finding an airline that wants to operate through your facility. Recently, the CAAC has taken notice of this difficult situation and has been re-evaluating their uniformed landing fee policy. However, as airport operators wait on a ruling, profits continue to dip into negatives.

Operators Get a Lifeline

The main consolation for the airports is that the situation may not be as grim as it looks on paper. The advantage of a developing market is that eventually the sector will adapt to any hardships and rise above adversity to thrive once again; however, that may mean having to revise and update operational procedures. In June of 2004, the CAAC unveiled a revised foreign investment policy regarding airports, allowing foreign investment from international airport operators as well as partnerships. As it turns out, this

regulation may just be the critical first step to reviving the struggling regional airports.

The first airport to utilize the new foreign investment policy regarding airports implemented last year is Xiaoshan International Airport in Hangzhou, which recently signed a partnership with Airport Authority Hong Kong (AAHK) to utilize the widely successful operation management practices implemented at Hong Kong International Airport to help formulate a thriving operation model in hopes of turning a loss into profit. The new joint venture is not only important in the sense that it is the first international airport joint venture in China's history, but the new partnership may set the precedence for successful airport operation models in China completely.

The New Airport Age

If you have ever had the privilege of flying into or out of Hong Kong International Airport, then you've witnessed the true meaning of "non-aviation" revenue. The HKIA passenger terminals feel more like the famed Rodeo Drive than a resource of travel, and if

the HKIA decided to completely forego aviation as a source of income, it would probably continue to thrive as a shopping Mecca. The operational model utilized at HKIA is exactly what Hangzhou Xiaoshan International Airport needs to gain from the partnership. The ability to subsidize income from other avenues in order to lower airport fees, resulting in increased flights to the airport, is the only way to break the "chicken-and-egg" dilemma that is plaguing airports throughout China.

Non-Aviation Revenue

Non-aviation income is not a new idea to international airports. Proactive airports all around the world use income procured through alternative channels to provide lower operational costs to airlines, ensuring a vast number and variety of airlines operating within their facilities. Non-aviation revenue can take on seemingly unlimited forms, ranging from food carts, advertising, coffee

Continued on page 16....

Hong Kong International Airport exhibits the potential of non-aviation income. HKIA has been named "Airport of the Year" for 5 consecutive years by Skytrax



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AIRPORT

Airport Update

HK Lends a Helping Hand at Xianshan International Airport

Shareholders of Hangzhou Xiaoshan International Airport Company Limited (HXIA) and Airport Authority Hong Kong (AAHK) signed the "Agreement for Capital Increase Subscription of Hangzhou International Airport Co. Ltd" on April 15th. The agreement cements AAHK's 35% equity investment into the Hangzhou Xiaoshan International Airport, solidifying the airport joint venture.

According to the stipulated details of the agreement, Hangzhou Xiaoshan International Airport Co. Ltd will invest 65% of the equity, worth RMB 3.7 billion while the Airport Authority Hong Kong (AAHK) is to invest RMB 1.99 billion (HK 1.9 billion) into the joint venture. HXIA currently ranks 3rd among domestic airports in East China behind Shanghai Pudong and Hongqiao Airports and 9th overall in cargo/mail transport.

Mr. Chen Haimei, Chairman of HXIA said that it was through an extensive open-bid process that narrowed down the field of candidates, then AAHK's comparative advantage over the remaining contenders ultimately awarded them with the position. Mr. Chen also added that the cooperation and experience between the two organizations has the potential to elevate HXIA to one of the most advanced airports in China in terms of management, operation, service, safety, security, and retail.

Presently, Hong Kong International (HKIA) ranks fifth in the world in passenger volume, and first in freight statistics. Last year alone HKIA saw 237 thousand flights, 37.14 million passengers and 3.1 million tons of cargo. On top of the impressive figures, HKIA has also been awarded "World's Best Airport" for 5 successive years.



Xiaoshan International will try to utilize the experience brought by AAHK to improve operations

Chief Executive Officer of AAHK, Dr. David Pang, said the HXIA's geographical location makes it an outstanding "commanding point". Close to the Yangtze River, the surrounding area has blossomed into an important high-tech industry center in China. Dr. Pang emphasized the interest of increasing the distribution infrastructure in surrounding cities turning the area into a smooth logistic channel for international markets.

This strategic alliance seeks to further strengthen business cooperation between China and Hong Kong. In 2004, the Yangtze River Delta region contributed RMB 2.877 trillion to China's national GDP.

Shanghai Proves That Two is Better than One

Coming off stellar years for Shanghai's Hongqiao and Pudong Airports, the Shanghai Airport Group Company has recently announced their plans to expand both facilities. Layout planning and feasibility studies are already underway for Hongqiao Airport and officials report the project will be completed before the 2008 Olympic Games. Hongqiao Airport, the older of the two operations, is going to receive renovation to its terminal building, runway, as well as the surrounding support buildings. Plans for the Shanghai Pudong expansion, on the other hand, have already been completed and are in the approval process by the national government. The expansion details include a third runway (Pudong's second runway was completed earlier this year), and a second terminal building, allowing the airport to handle a passenger turnover of 60 million visitors and over 490 thousand landings and takeoffs annually.

Currently, Shanghai is the only city in China with two international airports, however,

Shanghai Hongqiao and Pudong are both awaiting renovation projects



when the proposed renovations are complete, both Hongqiao and Pudong will be assigned a more defined position. At the First Annual Summit on China Airports on April 5th, President of Shanghai Airports Group Company, Mr. Wu Nianzu, said that in the future, Hongqiao Airport will only oversee domestic point to point flight operations while Pudong will be utilized for mostly international and a few domestic routes. Mr. Wu also added that these two airports will be used to construct the Shanghai aviation hub.

In 2004, the two airports combined to handle 25.91 million passengers, an increase of over 45% over the previous year, and according to the new expansion plans, capacity at Pudong and Hongqiao will reach 80 million and 30 million passengers a year by the year 2020, respectively.

Primary Alternate Airport for Olympic Games Begins Expansion

The expansion of the 2008 Olympic Games' main alternate airport has officially begun. The construction project for the Hohhot Airport, located in the city of Hohhot in the Inner Autonomous Region of China, was started on April 12th and is set to complete in mid 2007. The Hohhot Airport will be the main contingency facility supporting Beijing Capital International Airport for the upcoming Olympic Games.

Hohhot Airport will be the primary alternate airport for the 2008 Olympic Games



At a cost of RMB 1 billion, the expansion project plans include a new 3,600 meter runway able to accommodate planes up to B747, an expanded parking apron, new 50 thousand square meter terminal and retrofitting the old runway into a new parallel taxiway. The new terminal building is expected to handle an annual passenger volume of over 3 million at a peak of 1,740 persons per hour by 2015.

The Hohhot Airport was announced as the main alternate airport to the 2008 Beijing Olympics because of its geographic and climate advantages. Situated at the intersection of three different international air routes, as well as being relatively close to Beijing Capital (444 kilometers), this gave Hohhot the advantage in terms of geographic conditions over other local airports. The second advantage enjoyed by Hohhot Airport is the fact that it lies in a continental temperate climate zone, meaning that most of the year the airport enjoys rain-free weather.

The expansion of Hohhot Airport is not only important in terms of the 2008 Olympic Games; it will also serve as a catalyst for improving Inner Mongolia's economic development. During China's "Ninth Five Year Plan", the autonomous region exhibited higher rates of growth than that of the national average in five successive years. Hohhot Airport underwent its most recent expansion in 2000; however, by 2004 the annual passenger volume had already increased to its original planned passenger volume for 2010. Recent trends have also increased Hohhot Airport's importance as a distribution center for China-Russia, China-Mongolia, and China-Europe based trade.

Sichuan Jiuhuang Airport: China's Diamond in the Rough



In the face of tough times and lost profits facing most of China's regional airports; one airport in particular is reporting unprecedented passenger volumes and the need for urgent expansion. The Sichuan Jiuhuang Airport in the Sichuan Province of China is currently facing staggering passenger volumes and looking for relief from a RMB 300 million expansion project.

Since opening in September, 2003, Jiuhuang Airport has already witnessed its passenger volume surpass that of the original projected volume for the year 2010 (800 thousand passengers). From its inception to October, 2004, Jiuhuang Airport has already observed over a million passengers and is regarded as holding the record for the highest first year passenger volume by a domestic civil aviation airport in China.

The astronomical statistics are due to the surrounding development of Sichuan Province's "Great Jiuzhai International Tourism Area", a nature preserve that includes some of the best natural attractions offered in China, including the Yellow River, Wolong Nature Preserve, Dagu Ice Mountain, and more. Prior to the introduction of Jiuhuang Airport, accessibility to these remote landmarks meant long and arduous car or carriage rides over unyielding terrain, however, the

new airport now offers travelers the ability to easily maneuver to and from the remote tourism hotspot.

The new expansion plans are currently in the final feasibility study phase and is expected to begin the approval process next month. The chief of Jiu Huang Airport elaborated that the expansion project will include extension of the runway, widening of the adjacent aprons, construction of an airport hotel, as well as incorporating instrument landing systems. Upon completion of the project, Jiu Huang Airport hopes to be able to accommodate an additional 1.3 tons to the takeoff weight to a B737-300s while improving operational safety. The planned apron expansion is expected to allow the airport to handle six B737s and four B757s simultaneously, a noticeable improvement over the current 5 aircraft limit.

The estimated RMB300 million for the project will likely be raised from applying for subsidies from the Civil Aviation Administration of China (CAAC) and the National Development and Reform Commission (NDRC). The remainder of the funds will be raised by the Sichuan Province.

Guangzhou New Baiyun Airport Gets Ready for Asia Games

Due to Guangzhou being awarded the host location of the 2010 Asia Games, New Baiyun Airport recently unveiled plans of its "Phase Two" construction project. The announcement was made on April 9th, at the "Asia Games – Guangzhou Urban Design Forum", and focused on the goal of increasing passenger volume for New Baiyun Airport to 50 million by 2010.



The projected three-stage "Phase Two" expansion is set to cost over RMB 7 billion

The "Phase Two" construction will be completed in several different stages. First, New Baiyun plans on increasing an additional 31 new gate terminals with a 95,000 square meter expansion of the east and west third terminals as well as their respective connecting corridors. The cost of the first step of "Phase Two" construction is estimated at RMB 1.55 billion and its completion date is set at the latter half of 2007.

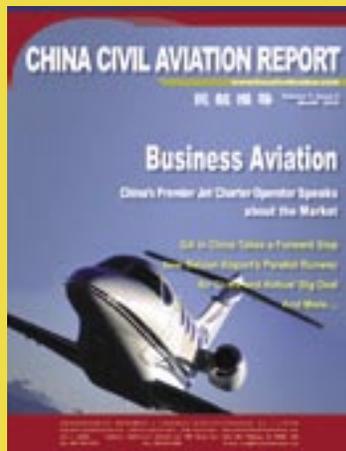
The second part of the "Phase Two" construction consists of a 40,000 square meter freight station, an 88,000 square meter air freighter apron and three new gate positions, reported at a cost of RMB 430 million. This part of the construction is planned for completion at the end of 2006.

The third and final expansion project of the "Phase Two" construction will be a new terminal building and three adjacent corridors. The estimated size of the new structures will be about 320 thousand square meters at a cost of RMB 5.43 billion. The terminal will include 35 new boarding gates as well as surround parking structures, roads and supplementary transportation systems. This final phase of the expansion is expected to be complete by 2010.

Currently, New Baiyun Airport serves 20 million passengers annually; however, with the

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culmination of the "Phase Two" expansion project, the airport expects to be able to handle 50 million passengers a year.

Feasibility Report Approved for Shuangliu Airport's New Freight Station

The feasibility report regarding Chengdu Shuangliu Airport's new RMB 200 million freight stations was recently approved by the Sichuan Provincial Development and Reform Commission. Construction of the new freight station is set to begin in June and is expected to improve the airport's cargo capacity to 360 thousand tons.

Included as part of the Aviation Logistics Center designed by Chengdu Municipal Government, the new freight station will be five times the size of the current Shuangliu Airport and Air China Southwest Branch's freight warehouse terminals. The complete logistics center will include a domestic freight station, international freight station, office building, carport, duty building and public facility building. During the construction of the new facilities,



Shuangliu Airport is one step closer to their new RMB 200 million freight station

a special highway will be utilized from the airport to Shuangliu County to avoid disturbing traffic in the area.

Baotou Airport Reconstruction Officially Underway

Due in part by increased traffic and bottle-necking of flights, the Inner Mongolia Baotou Airport has recently instituted its runway and adjacent apron expansion project. The project, which initiated on April 9th, consists of a 300 meter expansion of the airport runway as well as a 300 meter expansion to the parking apron, and a 27 centimeter increase to the thickness of the pavement. The project is not expected to negatively affect Baotou Airport's operation and completion is set for October

of this year. The new runway and apron will be able to accommodate aircraft up to Boeing 767s.

New RNP-RNAV Equipment Implemented at Lhasa Airport

Three Senior Vice Presidents of Boeing, alongside the Vice Minister of CAAC, Mr. Wang Changshung, were present at Lhasa Airport in Tibet to witness the successful integration of the new Required Navigation Performance for Area Navigation (RNP-RNAV) flight tracking system. The new RNP-RNAV system was completed on April 20th, 2005, through collaborative efforts between the CAAC and Boeing. Lhasa Airport has traditionally been plagued by harsh weather and topography, making multi directional take-offs impossible, resulting in hampered performance. The main advantage of the new RNP-RNAV equipment is the ability for Lhasa to safely exercise dual take off/landing positions as well as safe night flights.

Lhasa Airport in Tibet is one of the most remote airports in China. Located at an altitude of 3,563 meters, Lhasa Airport

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The unique topography surrounding Lhasa Airport makes it an ideal candidate to test the new RNP-RNAV flight tracking equipment.

is surrounded by treacherous mountain ranges and unyielding terrain. Under the previous radar system, Lhasa experienced a large percentage of departing flights (30% annually) having to return to the airport directly after takeoff due to poor weather and terrain conditions. As a result, large amounts of profits were lost by the airport annually (tens of millions of RMB per year). Airport officials are optimistic that the newly implemented RNP-RNAV equipment will eliminate these problems and bring Lhasa Airport increased revenues as well as safety.

The situation of unyielding terrain and poor radar coverage is not exclusive of Lhasa Airport. Many airports in Western China experience the same headaches of poor flight management, with only a few equipped with Instrument Landing Systems (ILS). At the same time, the difficulties of operating ILS equipment in airports with harsh surrounding terrain usually means high cost with below average performance. The RNP-RNAV on the other hand, is independent of ground facilities, so besides improving flight safety, it is also relatively inexpensive to install. For this reason, the CAAC

is looking towards Lhasa Airport as an operations model for other Western China airports.

To date, China is the first country in Asia using the RNP-RNAV equipment as well as implementing it at such a high elevation. Mr. Wang Changshun said the CAAC will establish RNP-RNAV flight procedures as soon as possible and look to implement the equipment in other airports as well.

Shanxi Yuncheng Sinopec Becomes Exclusive Supplier for Yuncheng Airport

It has been over four years since China joined the WTO, and it appears that some aspects of business in China are indeed changing. Recently, Yuncheng Airport signed an agreement with Shanxi Yuncheng Petroleum Company of China Petroleum & Chemical Corporation (Sinopec Corp.) to be the exclusive fuel supplier for Yuncheng Airport. Traditionally, all aviation fuel and aviation fuel related services were provided by the state-owned China Aviation Oil Holding Company (CAOHC). The new agreement between Shanxi

The recent agreement between Yuncheng Airport and Yuncheng Petroleum Company (Sinopec Corp) marks the first independent aviation fuel service contract in China.



Yuncheng Petroleum Company and Yuncheng Airport marks the first aviation fuel agreement that is independent of interaction from the CAOHC.

Yuncheng is the economic hub of the Shanxi and Henan Provinces and has witnessed rapid development in recent years. Construction for the Yuncheng Airport began in 2001; from that point, Yuncheng Petroleum Company has established itself as a significant fuel supply commanding point. According to Yuncheng Airport, YPC has excellent qualifications to become their exclusive fuel supplier. The partnership was finally made official through a bidding program in which Yuncheng Petroleum Company was confirmed the winner. Yuncheng Petroleum is the first non-state governed company to supply aviation fuel in China.

Construction Awaits 6 Airports in Xinjiang

Six of Xinjiang's regional airports are scheduled to undergo construction/renovation in 2005. According to the Xinjiang Airport Group, the focus for this year will be reconstruction and upgrades of Urumqi, Yining, Aletai Airports and the construction or relocation of Kuerle, Karamay and Nalati Airports. The total investments for these six projects are projected at RMB 340 million.

The Urumqi Airport will be receiving a new terminal building while the old structure gets retrofitted for use as the "express channel" for Xinjiang's regional airports. Expansion of the parking apron to include 20 new spaces is also on the agenda for Urumqi Airport.



International airports use non-aviation income sources to alleviate the financial dependence on airline fees. This allows the airport to entice a wide range of airline operators willing to operate within their facilities.

stands, gifts and magazine shops, perfume vendors, to the latest Gucci and Burberry fashions, and everything in between. International airport operators have long figured out that not only is non-aviation revenue a viable source of additional income, maximizing revenue sources can work in streamlining airport and airline efficiency, and in turn maximize an airport's potential. The ability for an airport to increase income sources as opposed to focusing mainly on airline landing and terminal rents allow the facility to sustain prosperity and depend less on passenger volume.

The Need for a New Model

Before the current transition

in airport ownership, the CAAC owned and operated all airport facilities in China, meaning that airport operations lacked the entrepreneurial spirit exhibited by international airport operators. As a result, most regional airports in China have yet to realize the opportunities afforded by non-aviation income. Most regional airports continue to rely on airline landing and terminal fees as the bulk of their revenues. This coupled with the "across the board" landing fees currently imposed by the CAAC, it puts regional airports at a major disadvantage, as evidenced by current statistics.

Historically, revenue was not the top priority for airports in China, but now, as the local governments are handed

absolute control of their own airport, many are left to learn first hand the importance of proper management. Alas, many airport operators are finding that a successful airport management model in China is just about impossible to come by. On paper, relinquishing control of regional airports to local government may have seemed like a step in the right direction, however, problems quickly arose when the new ownership found that they were ill-equipped to handle such a delicate responsibility.

In light of the economic trends of airports in China, it is obvious that it has become imperative to learn from the international airport operator. The entrepreneurial spirit and business sense developed through years of free trade must be introduced into China in order for the aviation reforms to take positive effect. It appears that Xiaoshan International Airport has taken the initiative in applying the international approach to airport management; and as long as others take notice and follow suit, there should be no reason for the current tumultuous situation to have any lingering effects. Maybe then each local government will indeed have their "gold-mine".

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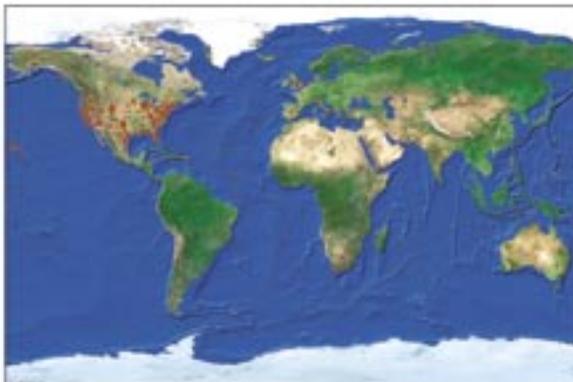
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