

# LATITUDE



The In-Flight Magazine of SimAirlines.net

July 2007



## The Race for China

ALSO INSIDE:  
Hong Kong's Aviation Future  
Unusual Routes  
Freedoms of the Air

## 8 COVER STORY

Everyone seems to be interested in China these days, especially foreign airlines.

**Cover Photo: He Junxian**

A China Southern 737-300 on approach to Guangzhou's old Baiyun Airport.



## 5 EVOLVING GATEWAY

Given the incredible growth in mainland China, what does the future hold for commercial aviation in Hong Kong?



## 10 THEY FLY THERE?

A look at some routes our virtual airlines fly that you may not be aware of, and why they exist.



## 12 FREEDOM TO FLY

Understanding the "freedoms of the air" and the role of politics in airlines' operations.



- 3 Viewpoint
- 4 News Briefs
- 7 VA Spotlight
- 11 Hub Focus
- 14 The Tail Section



# VIEWPOINT

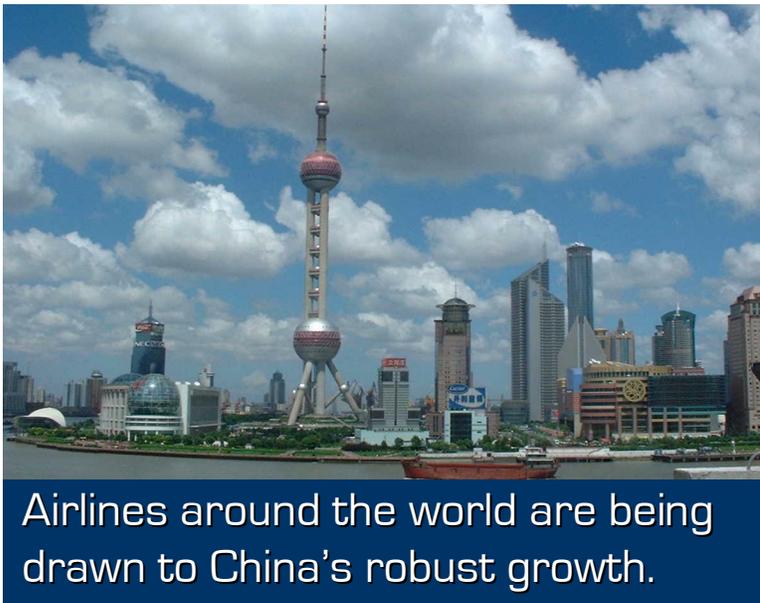
---

After a little over a month of operations, I'm pleased to report that Hong Kong Virtual has been a resounding success, with the fifth most PIREPs of any virtual airline in the organization last month. This month's issue of *Latitude* focuses heavily on China, the hottest growth market in the world, and the topic on more than just a few minds over the past few years.

Our cover story looks at foreign airlines' plans to expand their operations to China, as well as how Hong Kong is being affected by the stellar growth of the mainland. In addition to our Cathay Pacific and Dragonair operations at Hong Kong Virtual, China Southern Airlines, the largest airline in China, will be included in SimAirline.net's operations once all our vacant Virtual Airline Manager positions are filled.

I've received a few requests for additional articles about liberalization, so one of this month's articles focuses on the freedoms of the air as observed by nations in creating air service agreements. The final article points out some unusual routes operated by our virtual airlines that don't really fit with the rest of their network.

Finally, *Latitude* is not meant to be just for pilots to read, but also to discuss and learn from. To that end, the Message Boards have a new section devoted to discussion of *Latitude* articles. I hope you take the time to visit it and share your thoughts and opinions there.



Whether your next flight for SimAirline.net is to Hong Kong, any of our twenty-eight (and expanding) destinations in mainland China, or somewhere else on the globe entirely, I hope it's a pleasant flight.

Happy Flying!

Aaron Robinson

[aaron.robinson@simairline.net](mailto:aaron.robinson@simairline.net)

AOL Instant Messenger: SimAirlineNet

*Latitude* welcomes the opinions of its readers to issues raised in the magazine. Letters should be directed to [latitude@simairline.net](mailto:latitude@simairline.net). SimAirline.net will not print anonymous letters, but names will be withheld upon request. *Latitude* reserves the right to edit letters as it sees fit and does not guarantee publication.

# NEWS BRIEFS

---

## **Rome Invites Third Bidder for Alitalia, Aeroflot Drops Out**

Concerned that Aeroflot and Air One were unable to successfully bid for Alitalia, the Italian government invited U.S. equity firm MarlinPatterson Global Advisors back into the bidding process. Aeroflot withdrew from the bidding process the following week, stating that it did not have access to sufficient information about Alitalia's finances and operations. Binding bids are due on 12 July.

## **Major Paris Orders Boost Airbus**

Airbus received a total of 425 orders and 303 commitments from nineteen customers at the Paris Air Show, revitalizing the manufacturer's order book and lifting spirits at the troubled company. The orders included an impressive 141 for the A350. Thirteen orders for the A380 from existing customers were also placed. Earlier in the month, Airbus President and CEO Louis Gallois released a "new, simplified, and streamlined" organizational structure for the future that tries to minimize national rivalries. "I don't want to see flags....We have to create an Airbus spirit overcoming a national spirit," said Gallois.

## **Korean Air to Launch LCC**

Korean Air will begin flying its own low-cost carrier within three years in response to foreign LCCs penetrating the Korean market and the opening of high-speed railway service in South Korea. The new airline will fly domestically and internationally using 737s.

## **Swissair Executives Acquitted**

The former management of Swissair, including the final CEOs Mario Corti and Philippe Bruggisser, were acquitted of all charges in the mismanagement and fraud case following the airline's collapse. A panel of judges found that the nineteen executives made decisions that were reasonable at the time and did not intend to harm the airline's creditors.

## **Canadair Introduces "Next Generation" CRJ**

Canadair unveiled an improved version of the CRJ-700/900/1000 that features an all-new cabin that uses more composite materials, reducing fuel consumption up to 4%. Cabin windows and onboard storage area are nearly a quarter larger. Mesaba Airlines began operating the first last month under the Northwest AirlinK banner.

## **SAS to Sell Air Greenland, BMI, Spanair Stakes**

The SAS Group announced that it would be selling its stake in Air Greenland, BMI, and Spanair as part of its long-term strategy, raising additional questions about BMI's future as an independent operator. BMI has been linked with numerous potential suitors, including British Airways, Lufthansa, and Virgin Atlantic.

## **Ryanair Takeover of Aer Lingus Overruled**

In an unprecedented decision, the European Commission said it would not approve Ryanair's proposal to buy Aer Lingus, citing monopoly concerns in the Irish market and that most airlines would be unwilling to compete against the combined airline. The ruling is the first time that the EC, which favors airline mergers, has vetoed a merger outright; previous mergers required certain conditions be met to ensure entry by competitors.

## **AirTran Places Three on Midwest Board**

In its quest to merge with Midwest Airlines, AirTran Airways' three candidates were elected to Midwest's nine-member board of directors. Due to the change in the board's composition, Midwest CEO Timothy Hoeksma agreed to allow AirTran to permit its takeover plan to the remainder of the board.

## **Virgin Blue to Add Eighteen Domestic Destinations**

With the introduction of the Embraer 170 and 190 to its fleet in October, Virgin Blue announced that it will add an additional eighteen destinations to its domestic network—eight in Queensland and the Northern Territory, seven in New South Wales, Victoria, and Tasmania, and three in Western Australia.

## **Aeroflot Announces 787 Order**

Adding to its existing order for 22 A350s, Aeroflot Russian Airlines ordered 22 787-8s, with the first delivery in 2014.

# Will Hong Kong be Obsolete?

*Hong Kong has historically been the premier gateway from the west to China, but the city's status as the go-between—"Where East Meets West" according to Hong Kong Virtual's slogan—is being threatened as mainland China continues to open itself up. The following is edited and excerpted from Aaron Robinson's essay "The Future of Hong Kong as a Global Aviation Hub," the full text of which is available [here](#).*

In addition to being one of the world's leading financial centers, Hong Kong serves as a major gateway to both China and Asia and plays an important role as a transit center between China and Taiwan. Hong Kong is the leading international air hub in Asia, both in terms of passengers and cargo.

In 2005 Hong Kong's Chek Lap Kok Airport served 40.3 million passengers (16th in the world) and processed 3.4 million metric tonnes of cargo (2nd in the world). Hong Kong narrowly fell short of passing Memphis last year and claiming the title of the world's leading air cargo center. Much like Hong Kong's history, today's achievements had humble beginnings.

Hong Kong's original airport, Kai Tak, opened in 1925 and was named after its previous landowners, Ho Kai and Au Tak. The airport became famous for its thrilling and dangerous approach. Aircraft would descend over Hong Kong Harbor (today the world's leading seaport) and the crowded apartments of Kowloon before turning 47 degrees at an altitude of less than 700 ft. in order to land.

The first commercial air service to the city was in 1931 by China National Airways Corporation (CNAC), a U.S.-owned company that was later bought by Pan American Airways. The CNAC purchase was part of Pan American's plan to develop an airline network on both sides of the Pacific, eventually connecting Hong Kong with San Francisco.

Following the end of World War II, aviation developed rapidly in Hong Kong. Cathay Pacific Airways was founded in 1946 by Roy Farrell and Sydney de Kantzow in 1946, an American and an Australian who had flown together for CNAC during the war. The airline expanded from its single DC-3, "Betty," to a fleet of 100 aircraft serving five continents today.

Hong Kong's belief in the virtues of the free market made Cathay Pacific's ascent difficult in an era of state-owned flag carriers, but its labor cost advantage, strong balance sheet, and outstanding service produced one of the most respected airlines in the world.

Hong Kong's unique political status created an interesting issue for Cathay Pacific. Hong Kong's bilateral agreements always used the criteria that an airline be incorporated in and have their principal place of business in Hong Kong. Despite Hong Kong's status as the most open economy in the world, it has always maintained strong protection of its own airlines, a legacy of its British heritage.

Cathay Pacific's growth was aided by the unwillingness of China and the Soviet Union to allow foreign airlines to fly over their territory. As a result, flights between Europe and the Far East originally had to fly via the Middle East. With the advent of longer-range aircraft, airlines could fly via Alaska, but it was not until the 1990s that the direct route over Siberia and Eastern China could be exploited.

In addition, Hong Kong developed into an important gateway between Taiwan and China. Because direct flights between Taiwan and the mainland were not allowed, Hong Kong served as the primary interchange between the two countries, a market that Cathay Pacific took full advantage of.

Hong Kong's second largest airline, Dragonair, was founded in 1985 and soon received exclusive rights on the Hong Kong side to fly to China, routes that Cathay Pacific was forced to cede until 2004, preventing the airline from tapping in to the growing Chinese market. Here again is another instance of Hong Kong's violation of its free market mantra: the territory established a de facto "one route, one airline" policy in 1986. Today Dragonair operates flights to twenty-four Chinese cities from Hong Kong. By comparison, Cathay Pacific serves just three.

Hong Kong's long-term status as the primary center of trade to/from China spilled over into the air cargo arena as well. The primary factor in Hong Kong's favor was not its location, but rather its willingness to be far more open to foreign competition than other potential Chinese gateways.

The plan to construct Hong Kong's new airport, Chek Lap Kok, was announced by Governor David Wilson in 1989 as a much-needed replacement for Kai Tak. Kai Tak was both the busiest single-runway airport in the world (despite being open to commercial traffic only) and the most dangerous. Kai Tak's design capacity was 24 million passengers per year; it handled 29.5

-continued on page 6-

million in 1996.

Furthermore, a new airport was viewed by the British as critical to ensuring Hong Kong's future competitiveness with other aviation hubs in the region. However, Chinese officials viewed the project as a final way to exploit Hong Kong prior to reversion by awarding contracts to American and British companies and raiding the treasury.

A 1991 agreement between Beijing and London resulted in partial control by the Chinese over the project: some voice in contract awards, veto control over construction bonds, and a guarantee that at least \$25 billion HK would be in the treasury upon reversion. Because of the limited land available in Hong Kong proper and the mountainous terrain of the New Territories, the new airport would have to be constructed through a land reclamation project.

Constructing airports from the sea was a growing trend in Asia, with similar projects in Kitakyushu, Kobe, Nagoya, Osaka, and Seoul. A site off the north shore of Lantau Island was selected, which merged the islands of Chek Lap Kok and Lam Chau, the name of the former being retained.

The new airport opened on 6 July 1998 after an overnight relocation from Kai Tak. Chek Lap Kok's passenger capacity today is 45 million passengers, expandable to 87 million in the future, and routinely competes with Singapore's Changi Airport for the title of the best airport in the world.

Until recently, Hong Kong has been able to preserve its status as the leading gateway to China due to both the uncompetitiveness of Chinese airlines and Beijing's aversion to expose its national airlines to foreign competition; because air service agreements were traditionally on a *quid pro quo* basis, Chinese airports were largely closed to foreign carriers.

As part of China's restructuring of its public sector enterprises, the majority of the nation's airlines underwent government-forced mergers in 2002 into the "big three": Air China, China Eastern, and China Southern, based in Beijing, Shanghai, and Guangzhou, respectively.

The intent of this rationalization was to create economies of scale, improve industry profitability, decrease irrational capacity and competition, and improve the competitive position of Chinese airlines on the international stage. Following these mergers, China began renegotiating its bilateral agreements to allow additional flights, but insisting that all new services be phased in over a period of several years.

To ensure its future growth, Cathay Pacific announced a complicated ownership restructuring on 8 June 2006 with Air China and Dragonair, under which it would wholly acquire Dragonair. As part of the reorganization, Air China and Cathay Pacific began codesharing on all flights between Hong Kong and China, a joint venture profit-sharing scheme on several such routes, establishing a joint venture cargo hub in Shanghai, and aligning their routes and schedules.

While the primary objective of the partial merger was to increase Cathay Pacific's access to China by acquiring

Dragonair, it also sought to increase the competitiveness of Air China, Cathay Pacific, and their respective hubs of Beijing and Hong Kong (unstated but implied was the need to compete against a growing Shanghai), and to increase profits through revenue and cost synergies.

Because the Chinese government has allowed increased rights to foreign airlines, Hong Kong has begun to slip as the primary transportation gateway to China in recent years, especially with the opening of new airports in Guangzhou and Shanghai, and the construction of a new airport for Beijing (designed by the same architect as Chek Lap Kok) in time for the 2008 Summer Olympics.

Beijing recently passed Hong Kong as the busiest passenger airport in China, and Shanghai is projected to take the cargo lead in the next decade. Even across the Taiwan Strait, Beijing and Taipei began to undermine Hong Kong's traditional monopoly in 2005 by allowing direct flights between the two countries, but only around Chinese New Year.

Taiwan had previously not allowed such flights, ostensibly for security reasons. If the program is broadened as expected, Hong Kong would lose a considerable source of traffic, much of it to Xiamen, the ideally located city for cross-strait travel and trade.

One serious concern in Hong Kong at the time that turned out to be a mere hiccup was the SARS outbreak of 2003. While passenger traffic fell by 20% that year, cargo throughput was unaffected. Passenger and cargo traffic recovered strongly in 2004, increasing by 8.2% and 24.6%, respectively, above their 2002 levels.

The Cathay Pacific-Dragonair merger was predicted several times since Cathay Pacific acquired its initial stake in 1990 and only now has been finally consummated. This merger will give Hong Kong the ability to reach its full potential as a transit link between China and Taiwan, making it a more efficient hub for travel and trade across the strait.

The inability of Cathay Pacific and Dragonair to effectively cooperate in the past has contributed to the decline of Hong Kong as the dominant transportation gateway to China, with other cities in the region such as Seoul becoming increasingly popular transit points.

Hong Kong's future as the leading aviation hub of the region is also tenuous due to increasing competition from Beijing, Guangzhou, and Shanghai, all of which have superior connections for cargo transport. The current merger can help to slow these trends, but likely not prevent them.

Although Hong Kong has had a successful past and faces a prosperous present, it faces intense competition to maintain its present position as the foremost aviation hub of the region. Whether or not Hong Kong can overcome these obstacles and continue as the region's leader will depend on its ability to adapt to its ever-changing relationship with China and the outside world.

# VA SPOTLIGHT



All Nippon Airways (ANA) is the world's nineteenth largest airline in terms of revenue passenger miles, but the leading domestic airline in Japan. In terms of passenger numbers alone, ANA is the eighth largest airline in the world.

In addition to ANA itself, several smaller carriers make up the ANA Group, including Air Central, Air Japan, Air Next, Air Nippon, Air Nippon Network, and Fair.

With most of its fleet devoted to domestic operations (over 90% of its passengers are flying domestically), ANA maintains a limited international network, with just a handful of destinations outside of Asia. Despite gloom and doom predictions following Japan Airlines' (JAL) purchase of domestic competitor Japan Air System,

ANA has prospered since then, content to let arch rival JAL maintain market share at the expense of profits. After seeing ANA's success as a longtime member of Star Alliance, JAL finally gave in and joined oneworld earlier this year.

Among ANA's recent service innovations is the Skip system, allowing domestic passengers to check in for their flight on their cell phone—not by dialing a number, but instead by receiving a call confirming their ticket.

ANA is also launching special business class-only

flights to Guangzhou and Mumbai, launching the 737-700ER, which it labels the "ANA Business Jet."

ANA's biggest headline grabber in recent years was its order for 50 787s with 50 options, the first customer to order the type. ANA will begin the first 787 service next May. As part of its fleet renewal, ANA is retiring its 747s in favor of smaller aircraft and higher frequencies—a rarity in Japan—thanks to increased runway capacity at the country's busy domestic airports.

The capacity constraints at domestic hubs like Osaka Itami and Tokyo Haneda and competition from the Shinkansen rail line have pushed ANA to make most of its route network point-to-point.

## Interesting Facts:

- The combined fleet of the ANA Group is nearly two-thirds widebodies.
- ANA's 59 767s make it the third largest operator of the aircraft type.
- The airline also operates 40 777s, good for seventh in the world.
- ANA's 50 787s will make it the largest 787 operator in the world.
- Best known among its special liveries are the three "Pokémon" jets—two 747-400Ds and a 767-300. An additional special livery features Woody Woodpecker, part of ANA's sponsorship of Universal Studios Japan.





Eric P. Lee

APRONT

# DECADE OF THE DRAGON

China's fast growing economy has been exciting for airlines around the world as they seek to tap into the fastest growing and potentially largest market in the world. For decades, foreign access to China was highly restricted, with most passengers transiting through Hong Kong (see *Will Hong Kong be Obsolete?* p. 5).

With Beijing unwilling to substantially increase foreign airline rights to China, service rights to China have become the hottest topic for the U.S. major airlines: for the first time, all six (plus Hawaiian) are applying for rights to serve China in 2008. Next year will be an especially lucrative time to enter or the market or expand operations due to the Summer Olympics in Beijing.

The Chinese government has attempted to slow increased access to its cities by foreign carriers due to the poor financial situations of the three primary state-owned carriers, Air China, China Eastern Airlines, and China Southern Airlines.

Last year, Air China posted a CNY 3.19 billion (\$417 million U.S.) profit compared to the rest of the Chinese airline industry's CNY 810 million loss, China Southern eked out a token profit (CNY 188 million) for the first time in four years, and China Eastern spilled red ink (CNY 2.78 billion).

The "big three" of China, while possessing strong domestic networks, fare poorly abroad: all three are losing money on routes to the U.S. due to poor service compared to their American counterparts, which are preparing to increase service even further.

Airlines in the region have been able to benefit the most from China's growth: as part of its recent expansion, Korean Air has called China its "second home market." Thanks to an open skies agreement

between China and South Korea and its close proximity to Korean Air's Seoul Incheon hub, the airline offers flights to an impressive nineteen destinations in the country.

"The Chinese market will serve as the central axis of our global operations to maintain our post as the world's No. 1 air cargo carrier and to become one of the global top 10 passenger carriers by 2010," said then-CEO Lee Jong-hee in 2005.

With the airline industry at home in recovery mode, China is allowing more U.S. airliners into the country only because it has tied its aviation policy to other larger and more pressing trade issues.

In the most coveted route awards since new frequencies to Japan became available in 1990, the U.S. Department of Transportation (DOT) will soon award rights for:

- a daily service by a new entrant to any of the Zone 1 cities (Beijing, Guangzhou, Shanghai) or to a city in Zone 2 (seven different municipalities and provinces) in 2007

- a daily service to Guangzhou and to Zone 2 in 2008
- four daily flights to Zones 1 or 2, a daily flight to Zone 2, and the right to designate a new entrant in 2009

The DOT has stated that additional proceedings for seven daily flights between 2009 and 2012 will take place at a later date. Delta Air Lines and United Airlines recently petitioned the DOT to consider each year's awards in individual proceedings rather than collectively, supposedly to prevent delays in the process (Delta) or to allow applications based on market conditions at the

-continued on page 9-

time (both Delta and United).

In reality, their arguments are likely for other reasons: splitting the process increases their chances of receiving multiple awards and also allows additional time to prepare their own applications—a two-week extension at the minimum.

Throughout the process, the DOT is seeking to make its decision based on “which applicants will be most likely to offer and maintain the best service for the traveling and/or shipping public,” keeping in mind the need for additional capacity, service to additional cities in China, new gateways in the U.S., competition between U.S. airlines to China, and competition between U.S. and Chinese airlines.

While cargo airlines are also eligible to apply for the awards listed earlier, the DOT is unlikely to award such rights since passenger service is in high demand, while cargo carriers are not utilizing all the available frequencies. The DOT has also made clear that it will award seven weekly frequencies to carriers at once rather than splitting new rights.

With Delta widely expected to win the award in 2007 with its Atlanta-Shanghai proposed service and United in 2008 with an (unannounced but expected) San Francisco-Guangzhou application, the main question at this point is who will win additional awards, and what they will be.

American Airlines, which lost its Dallas/Ft. Worth-Beijing bid after modifying it to include a westbound

stopover at Chicago O’Hare to comply with its labor contract, is now proposing Chicago-Beijing service to complement its existing Chicago-Shanghai route.

Continental Airlines is requesting Newark-Shanghai authority, which it narrowly lost in the most recent proceedings to United’s Washington Dulles-Beijing proposal. Northwest Airlines could use the power of its hub at Tokyo Narita to serve Tianjin or another city in Zone 2, which most airlines would prefer to avoid.

US Airways, the only major without service to Asia, has proposed a Philadelphia-Shanghai route, but does not currently have an aircraft capable of such a route. Finally, Hawaiian Airlines has not yet announced its proposed route.

Cargo carriers in the mix include ABX Air, Cargo360, Evergreen International Airlines, FedEx Express, Gemini Air Cargo, Kalitta Air, TradeWinds Airlines, UPS Airlines, and World Airways.

Like U.S. airlines, few European carriers are flying to cities other than Beijing, Guangzhou, Shanghai. One notable exception though is KLM’s thrice-weekly service between Amsterdam and Chengdu. For the time being, the limitations of existing air service agreements are forcing longhaul airlines to focus on the major cities and leave the rest of the country to their Chinese partners.

Just as it was in past centuries, China remains the table that everyone wants a seat at, a table that still isn’t big enough for everyone to join the game.

Airline	Proposed Route	Current Route(s)	Last Application	Outlook
<u>American</u>	Chicago-Beijing	Chicago-Shanghai	Dallas/Ft. Worth-(Chicago eastbound)-Beijing, denied	needs to recover from union debacle last time, try to prove that Asia network isn't declining
<u>Continental</u>	Newark-Shanghai	Newark-Beijing	Newark-Shanghai, denied	narrowly lost to United, just needs to present the same case
<u>Delta</u>	Atlanta-Shanghai	none	Atlanta-Beijing, denied	the frontrunner for the next award will likely win it
<u>Hawaiian</u>	unannounced	none	Honolulu-Shanghai, denied	least likely to be selected
<u>Northwest</u>	Detroit-Shanghai	Tokyo-Beijing, Tokyo-Guangzhou, Tokyo-Shanghai	Detroit-Shanghai, denied	offers the most capacity (747-400), but needs to make a case for the route
<u>United</u>	unannounced	Chicago-Beijing, Chicago-Shanghai, San Francisco-Beijing, San Francisco-Shanghai, Washington-Beijing	Washington-Beijing, approved	the dominant player, will likely apply for San Francisco-Guangzhou
<u>US Airways</u>	Philadelphia-Shanghai	none	none	lack of current aircraft for the route hurts its chances

# Oddball Flights

*Every airline has some strange route that just doesn't seem to fit with the rest of the network. Here's a look at a few such routes from around SimAirline.net, and our best explanation as to why they do exist.*

Timo Soyke

## **Alaska: Los Angeles-Washington Reagan**

Currently the only Alaska transcontinental flight from the West Coast not from Seattle/Tacoma, the route began in 2004 after Alaska received a special exemption to operate the only flight on this route (flights to/from Washington Reagan are limited to within 1250 miles, but Congress has authorized the DOT to award exemptions in recent years). Under the original award, the route was flown by TWA.

## **Continental: New York LaGuardia-Aruba**

Continental typically sticks to its strengths, and one of them, its Newark hub, is less than twenty miles from LaGuardia. This route has been operated on Saturdays since December 2005. While it likely has some government and/or tour operator support, it's also a good use of idle weekend capacity.

## **Emirates: Hamburg-New York Kennedy**

Emirates' third daily flight to New York Kennedy was announced as a stopover via Hamburg, with local traffic rights across the Atlantic. The reasons for the route are unclear, but could include 1) limited competition between New York and Germany's second largest city, with only Continental flying Newark-Hamburg and 2) cargo contracts on either end, since both cities are major port.

## **KLM: Amsterdam-Sapporo Chitose-Nagoya**

Nagoya is Japan's third largest gateway, while Sapporo receives no European flights today. Under the Japan-Netherlands bilateral, KLM could only serve Nagoya if it were via a stopover in Sapporo; the route was cut several years ago.

## **Midway: Atlanta-Columbia**

Operated by regional partner Corporate Airlines, the full routing of this flight was Raleigh/Durham-Columbia-Atlanta-Nashville-St. Louis. Why? Corporate (now

RegionsAir) also partnered with St. Louis-based TWA and had its maintenance base in Smyrna, TN, just outside of Nashville. The Columbia stopover was due to range issues with the Jetstream 32.

## **Northwest: Los Angeles-Las Vegas**

In the late 1990s, Northwest flew Tokyo Narita-Las Vegas twice a week, a leisure-oriented route. More valuable opportunities with limited Narita slots prompted Northwest to codeshare on America West Las Vegas-Los Angeles/San Francisco flights. After the codeshare agreement ended, Northwest chose to offer Las Vegas-Asia service through its own Los Angeles-Tokyo Narita flight.

## **Pan American: New York Kennedy-Nassau-Rock Sound**

The first half of this route is not unusual, but the second half certainly is, considering the airport that was once served by 707s now receives Piper Navajos. The reason? Pan American Chairman and President Juan Trippe had a weekend home on the island.

## **Sabena: Brussels-Chennai**

Sabena once served the more important Mumbai, but changed its Indian gateway to Chennai because of its partnership with Swissair. Swissair already served Mumbai but was unable to serve Chennai, so placed Sabena on the route.

## **Swissair: Basel-Newark**

Swissair flew a single flight from Crossair's hub from 1998 to 2000, but dropped the route after low yields. However, there may have been more afoot than just supporting its subsidiary's regional hub: startup Swiss World Airways was seeking to fly the same route, but could not after Swissair started flying due to the Switzerland-U.S. bilateral. Swiss World failed not long thereafter.

# HUB FOCUS

## Orlando International Airport (MCO/KMCO)

Orlando International Airport is the twenty-third busiest airport in the world, handling 34.8 million passengers in 2006, and is the third largest airport by area in the U.S.

In addition to serving as a smaller hub for Delta, the airport also has major operations by AirTran, JetBlue, and Southwest. MCO's long runways (two are 12,000 ft.) and close proximity to the Kennedy Space Center made it an easy choice as an emergency landing site for the Space Shuttle.

MCO has a central terminal for check-in and baggage claim, which is then connected to four airside with a tram system. The design was based on a similar system in use at nearby Tampa International Airport. Trams take 68 seconds to transfer passengers between the landside terminal and each airside.

Delta Air Lines and its Connection partners comprise the majority of SimAirline.net's presence at MCO. Together, they fly to 77 destinations including flights overseas to Freeport, Mexico City, Nassau, and San Juan.

Domestic service is also available on Alaska, Continental, Frontier, Midway, and Northwest to sixteen cities domestically. Internationally, Air Canada, British Airways, Copa, Varig, Virgin Atlantic offer flights to

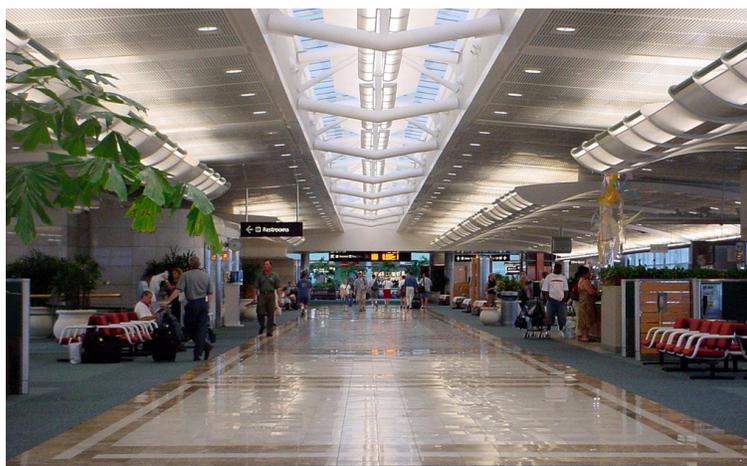


MCO has four "airsides," which are connected to the main terminal via trams.

ten cities in Brazil, Canada, Panama, and the U.K.

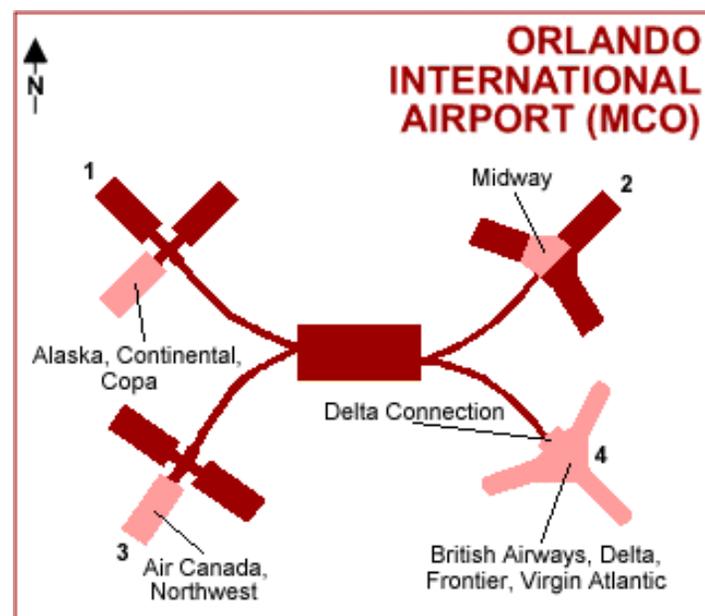
### Interesting Facts:

- The airport's code, MCO, is jokingly referred to as from Disney—"Mickey's Corporate Office"—but in fact comes from the airport's original name, McCoy Air Force Base.
- Orlando is also served by the smaller Orlando Sanford International Airport, which is used mainly by charters from the U.K., Allegiant Air, and Icelandair.



Ryan J. Pearl

Passenger-friendly terminals have drawn MCO praise as the best airport in the U.S.



# International Relations



Tzwei Pang

*The airline industry is one of the most unusual in the world in that its international freedom to do business is restricted by air service agreements between nations. To understand the basic framework of the system, it's necessary to understand the "freedoms"—or better, restrictions—of the air. The following is edited and excerpted from Aaron Robinson's essay "The Policies and Problems of Transatlantic Aviation Relations," the full text of which is available [here](#).*

Despite the highly international nature of air transport, the airline industry remains one of the most insulated from competition outside of a country's borders. Because airlines developed as instruments of a country's foreign policy, bilateral networks of treaties developed formed after end of World War II.

The Convention on International Civil Aviation of 1944, more commonly known as the Chicago Convention, was held at the invitation of the Roosevelt Administration in the hope of fostering an "open skies" civil aviation system. Of course, the U.S. would be the greatest beneficiary, as its airlines (like most industries) were in excellent shape compared to those in Europe, and American manufacturers supplied the vast majority of the world's civilian aircraft at the time.

The Soviet Union was resistant to internationalization though, insisting on insulating themselves from the West and offering only a limited number of connecting gateways. The European powers, fearing American domination of the skies, were unwilling to accede to the American position, and insisted on the bilateral regime that has existed since.

The Chicago Convention established the International Civil Aviation Organization (ICAO), a regulatory body under the United Nations, and formalized the five "freedoms" of the air (listed to the right).

Government-supported airlines were considered critical to serve national defense, support routes that would not otherwise be served, connect a colonial power with its overseas dominions, develop overseas trade, and promote development in other industries. National defense requires a substantial amount of logistical support, and with the advent

## The Freedoms of the Air

- First Freedom: the right to fly over a country without stopping
- Second Freedom: the right to land in another country to refuel or in case of emergency
- Third Freedom: the right to carry traffic from the home country to another country
- Fourth Freedom: the right to carry traffic from another country to the home country
- Fifth Freedom: the right to carry traffic between two foreign countries as an extension of a flight from the home country
- Sixth Freedom: the right to carry traffic between two foreign countries via one's own country
- Seventh Freedom: the right to carry traffic between two foreign countries without originating in the home country
- Eighth Freedom: the right to carry traffic within another country as an extension of a flight from the home country [consecutive cabotage]
- Ninth Freedom: the right to carry traffic within another country without originating in the home country [stand alone cabotage]

of air transport, the speed of the airplane relative to land or sea has made airlines increasingly valuable for airlift duties in times of emergency or war.

In peacetime, airlines are also needed to serve remote domestic routes unattractive to their private counterparts. Airlines are also an important part of ensuring the development of related national industries, especially in the powerplant and airframe industries.

For instance, British Airways buys mostly Rolls-Royce engines, KLM has flown Fokker aircraft since the 1920s, and Airbus' traditional best customers are Air France and Lufthansa. "Flying the flag" by serving foreign countries, friendly or foe, was also considered an important objective of flag carriers. Because of the enormous technical and financial

-continued on page 13-

burden of operating an airline and the need to prevent “wasteful duplication of resources,” European nations tended to have a single airline (wholly owned by the government) to serve its international routes.

Bilateral negotiations also tended to be combined with other trade issues such as tariffs or quotas. Finally, one often overlooked benefit of airlines has been their ability to assist

## Important Freedom Background

-Only the first two freedoms were agreed upon at Chicago—the remainder had to be negotiated in bilateral agreements.

-Typically the first four freedoms are generally accepted, and the sixth freedom is a combination of the third and fourth.

-Fifth freedoms were once highly coveted to support longhaul flights requiring stopovers, but are becoming granted more often and exercised less.

-Fifth freedom rights are more valuable the smaller the home territory—Singapore Airlines is one of the largest users of fifth freedom rights in the world.

-The eighth and ninth freedoms (cabotage) are the most controversial, and granted in exceptional circumstances.

Receiving cabotage rights within the U.S. has been a European goal for decades, and is the main issue left to resolve in transatlantic open skies.

## Notable Freedom Examples

-Prior to World War II, the first freedom did not exist; nations had full sovereignty over the air above their lands. Overflights were not allowed by the Soviet Union or China until recent years. Most Asia-Europe flights flew via Alaska or the Middle East.

-During apartheid, numerous African states refused to allow South African Airways over their skies to/from Europe, forcing South African to construct an airport in Cape Verde for its use.

-During the Cold War, Air France, British Airways (BEA prior), and Pan American had exclusive rights to fly from West Germany to West Berlin until German reunification.

-Following World War II, Japan granted fifth freedom rights by treaty to Northwest Airlines and Pan American (rights since sold to United Airlines) to transport Japan-originating passengers onward to other Asian countries as extensions of flights from the U.S., and vice versa, rights Japan still grumbles about.

-Round-the-world flights, such as those flown by Pan American would never have been operated were it not for their local traffic rights.

-Air India, Pakistan International Airlines, and soon Jet Airways have fifth freedom rights between certain European countries and North America, and use these cities as transfer hubs.

the foreign exchange market in equalizing trade flows.

After the Chicago Convention, rights between the two primary aviation players, the U.S. and the U.K., were still not finalized, and so a meeting in Bermuda in February 1946 led to a compromise between “the Americans who wanted everything to be free and the British who wanted it controlled,” wrote Sir William Hildred, one of the negotiators on the British side.

Fifth freedom rights were exchanged between the two countries because aircraft range limitations required numerous stopovers to reach distant destinations, but such rights were difficult to obtain and are rarely granted today. Without fifth freedom rights, many politically important routes would have been economically unsustainable.

What is now known as the Bermuda I Agreement had two important consequences: first, it laid down the prototype for the majority of bilateral agreements to follow, and second, it established a means to fix fares across borders. Traditional bilateral treaties modeled after Bermuda I restrict the airlines that can fly between two countries, the cities and routes that can be served, the fares charged, and the frequency and capacity offered.

The purpose of these restrictions was to prevent dominance by one nation’s airline over another, but had the additional effect of restraining competition and adversely affecting service levels.

The most contentious issue at Bermuda was over setting fares. The U.S., in accordance with antitrust law, was not willing to abide by any price fixing. However, the Europeans had recently met in Havana and had agreed to resurrect IATA (now called the International Air Transport Association), which would perform a role similar to its prewar duties: regulating fares (through government negotiation) and performing as the clearinghouse for airline revenue.

While tacitly encouraging cartels under an umbrella of promoting “safe, regular, and economical air transport for the benefit of the peoples of the world,” European governments approved it as an add-on to the Chicago regime. At Bermuda, the U.S. reluctantly agreed to allow IATA’s fare structure, but continued to criticize it as a restraint of competitive markets.

IATA also performed the difficult role of coordination: a passenger could fly to a distant destination using multiple airlines, and yet he would need only a single ticket, find that his bags had been transferred automatically, and experience a coordinated schedule and consistent service standards, with each airline receiving payment in its own currency.

Today alliances and codeshare partnerships offer a means around the limitations of the bilateral system and serve as a transitory mechanism to create closer links and higher revenues while still maintaining the ownership independence that national governments require. Airlines are hopeful that someday the bilateral system can be put to rest and that airlines can be normalized—allowed to offer services to customers without the limitations of nationality and under the rules that govern normal trade. But who said the airline industry ever could be normal?

# THE TAIL SECTION

On a recent Thai Airways International flight from Dubai to Chennai, a passenger removed his clothes and began dancing nude on board. The man was soon overpowered and forced to sit quietly—with clothes on. The man was arrested for public nuisance upon arrival, and could not remember the events on board.



Kevin Scott

**OBITUARY:** Former Alaska Airlines Chairman, CEO, and President Bruce R. Kennedy was killed on 28 June in a private plane crash in northern Washington. Kennedy was a company director since 1972, and from 1978 to 1991 oversaw Alaska's expansion following deregulation to becoming a major player on the West Coast, including the purchases of Horizon Air and Jet America. At the time of his death, Kennedy was chairman of Quest Aircraft. He was previously chairman of Mission Aviation Fellowship, which flies light aircraft for humanitarian efforts.



Emirates

As part of its new service to Venice, Emirates is offering a water limousine transfer service from the airport, offering First and Business class passengers exclusive service from the airport to the city's archipelago.