WORLDWIDE AIR TRANSPORT CONFERENCE: CHALLENGES AND OPPORTUNITIES OF LIBERALIZATION

Montreal, 24 to 29 March 2003

Agenda Item 1: Preview
1.1: Background to and experience of liberalization

THE DEVELOPMENT OF CHINA'S CIVIL AVIATION

(Presented by China)

INFORMATION PAPER

1. PRESENT STATUS OF DEVELOPMENT

1.1 Air Transport

1.1.1 In 2001, the total volume of air transport performed by the entire industry reached 14.1 billion ton/kilometers, 75.24 million passengers and 1.71 million tons of cargo and mail were transported, representing an increase of 10.3 %, 10.9% and 6.6% respectively over the previous year. The total number of air routes reached 1143, of which 1009 were domestic routes (including those of Hong Kong and Macao), linking 130 cities (excluding Hong Kong and Macao); 134 were international routes, connecting 62 cities in 33 countries. The fleet was composed of 566 aircraft, providing a total seating capacity up to 96,000 and a total payload of 11,800 tons. On the whole, with ever-increasing routes and transport capacities, the capabilities of air transport have been further enhanced, essentially meeting the demands of economic and social development in the country. Air transport is playing an increasingly important role in China's socio-economic development and modernization drive. In 2001, the industry performed 56,000 hours of general aviation operations, with a four-year accumulative total of 180,000 hours, thus basically meeting the needs of industrial and agricultural production, energy exploration and ecological protection.

1.2 Infrastructure construction

1.2.1 In recent years, 8 new airports have been built in Pudong, Shanghai; Changbei, Nanchang; Changle, Fuzhou; Xiaoshan, Hangzhou; Tongren, Guizhou; Bangbu, Anhui; Lincang, Yunan and Guangyuan, Sichuan. Another 7 airports currently under construction are New Baiyun Airport, Guangzhou; Jilin, Changchun; Xinyi, Liping; Libo, Guizhou; Jiuzhaigou, Sichuan and Wuqiao, Wanzhou. Expansion and renovation have been going on in 29 airports, including the Capital Airport in Beijing; Binhai Airport in Tianjin; Gongga in Lasa and Shuangliu in Chengdu. It has been a period of time in which airport construction has attained its very height. As of the end of 2001, there were 128 airports across the country used by civil aviation (excluding 17 airports used exclusively by China United Airlines). Of these, 24 were 4E airports, 35 4D, 48 4C and 21 3C. A number of bases for general aviation operations have been improved. Efforts to improve the air traffic control system have continued unabated, resulting in reduced separation minima under radar surveillance and control on routes between Beijing - Guangzhou, Beijing - Shanghai and Shanghai - Guangzhou, as well as in the terminal areas in Beijing, Shanghai, Guangzhou, Xi'an, Chengdu and Shengyang. Radar control has been implemented in succession in terminal area in Beijing, approach area in Zhuhai and area around Guangzhou. Twenty-eight routes are subject to air traffic management and trial flights along the routes, based on a new navigation system, have been successfully conducted for the first time in China. Construction work of 3 major air traffic control centers in Beijing, Shanghai and Guangzhou have started. Construction of 4 aircraft and engine maintenance bases in Beijing, Guangzhou, Shanghai and Chengdu continues to move forward. As maintenance capabilities and technologies improve, airlines are augmented in their maintenance arms. Fuel storage capacity has also increased, leading to higher fuel supply capabilities. New and expanded management information systems, accounting systems, reservation systems and major airport departure systems have become operational. The target of building a framework for the Global Distribution System (GDS) has been achieved. In the field of e-commerce, on-line reservation has become a reality and trial work in electronic ticketing has proven successful. Security and fire-fighting facilities have continued to be built. Overall, there has been enormous progress in the construction of civil aviation infrastructure and significant enhancement in the integrated back-up capabilities for air transport.

1.3 Revenue from air transport operations

1.3.1 In light of inadequacy of effective domestic demand and the impact of the Asian financial crisis on the growth of air transport and economic results, proactive measures have been taken aimed at promoting operational growth and achieving better economic results. Vigorous efforts have been made to open up markets and expand operations, regulate the pricing of domestic flights, strengthen regulation of the market, rectify a market of sales agency and put an end to dumping fare wars in order to increase and stabilize revenues. Measures have been taken to absorb the surplus fleet capacities, adjust routes and flights and improve operation and management in order to control growth in costs. Work has also been done to adjust the capital structure of enterprises and facilitate their reformation into share-holding companies, listing in the stock market and use of foreign investment in order to diversify their portfolio of investors and increase their capital inputs while reducing debts. In 2001, operating revenue generated by entire industry reached 112.8 billion yuan.

1.4 Reforms and opening up

1.4.1 There have been on-going efforts to reinforce the restructuring of an industry-wide management system so as to further improve the regulatory system of the civil aviation industry. The strategy of "colossal corporations and groupings" has been adopted in restructuring air transport enterprises. Impetus has also been given to reforms of airport management systems and enterprise reforms in a bid to establish a modern enterprise regime. New strides have been taken in the industry's opening up to the outside world in the form of continued progress in the use of foreign capital in affecting aircraft and equipment leasing transactions. International operations have continued to expand and international routes have continued to increase. At present, China has signed bilateral air transport agreements with 90 countries, entering into joint operations with foreign airlines in the form of code sharing and through other means.

2. PROSPECTS FOR FUTURE DEVELOPMENT

2.1 During the "tenth five-year plan", focus will be given to the building of air transport hubs. By restructuring the network of domestic routes, readjusting its structure and setup and implementing air transport hub projects, a new air transport master layout will be initially formed, which will organically integrate hubs, trunk routes and regional routes with each in its proper scale and proportion while combining a hub-spoke and city-to-city pair structure with each co-existing with and complementing the other. Due attention will be given to opening up new regional routes in the western part of the country and to east/west-bound routes. Serious efforts will be made to develop regional and cargo operations. It is projected that during the "tenth five-year plan" period, the total volume of air transport will grow at an average annual rate of 10%, cumulatively to reach 20.5 billion ton/kilometers by 2005; passenger traffic of 8%, reaching 100 million persons; and cargo/mail of 13%, reaching 2.8 million tons by the same year.

2.2 During the “tenth five-year plan”, emphasis will be given to enhancing the status of the Capital Airport in Beijing, Pudong Airport in Shanghai and New Baiyun Airport in Guangzhou as major national hubs, as well as the construction of their support facilities in order to facilitate domestic connections, increase international operation capabilities and form national distribution centers for passenger and cargo transport alike. Medium-sized regional passenger and cargo distribution centers will also be built and trunk-line airports will be further improved, with emphasis being given to the building of regional/tourists airports. It is anticipated that by 2005 the total number of airports used by civil aviation in the country will be close to 180.

2.3 Efforts will be made to further optimize the airspace environment, readjust the structure of controlled areas and routes, minimize control coordination and improve the efficiency of air traffic control. A longitudinal separation minimum of 20 kilometers based on standard radar control will be effected in the upper airspace east of the Beijing-Guangzhou route. A longitudinal separation minimum of 50 kilometers based on standard radar control will be implemented in areas east of the Harbin-Beijing-Xi’an-Chengdu-Kunming route and west of the Beijing-Guangzhou route. Areas west of the Harbin-Kunming route will still be subject to procedural control, focusing on the implementation and construction of ground-to-air communication and automatic dependent surveillance (ADS) on international routes.

2.4 To meet the needs of China’s growing civil aviation, it is imperative to concentrate on the training of specialized technicians, and managerial personnel in the field of piloting, maintenance, air traffic control, transport and cabin service. It is also necessary to actively yet steadily push for restructuring the system of civil aviation so as to separate government functions from enterprise operations. Efforts will be made to establish airport management systems that are tailored to diversified investor portfolios and motivate local governments and other stakeholders. Work will also be done to strengthen and improve enterprise management in order to enhance managerial skills and competitiveness. Access to foreign funds will be further expanded and preferential loans provided by foreign governments will be actively pursued. Foreign investment will be used mainly to build up infrastructure, upgrade technologies and regularize management practices. Exchanges and cooperation with air transport entities of other countries will be strengthened to introduce their advanced managerial expertise. International cooperation in the form of joint operation and code sharing will be vigorously pursued so as to keep pace with the growing trend of globalization and alliance forming in air transport.

2.5 In the 21st century, as China’s socialist market economy steadily comes of age and her modernization process picks up steam, China’s civil aviation industry will continue to develop in an expeditious and healthy manner. It is estimated that China’s air transport will continue to grow at an average annual rate of around 8% from 2006 to 2010, thus paving the way for the country’s shift from a major civil aviation player to a leading one alongside other most advanced countries in civil aviation in the world.

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