

CHINA CIVIL AVIATION REPORT

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CASGC and Airbus Sign Agreement for Largest-Ever Chinese Order

Airbus to Extend Industrial Cooperation with China

DHL-Sinotrans to Establish Guangzhou Gateway

China and UK Inaugurate Daily Service



Minister Yang Outlines 2006 Aviation Goals

New Regional Aviation Policy Opens the Doors for Development

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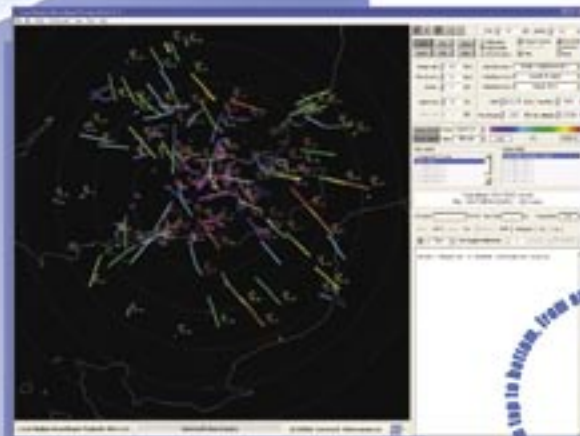
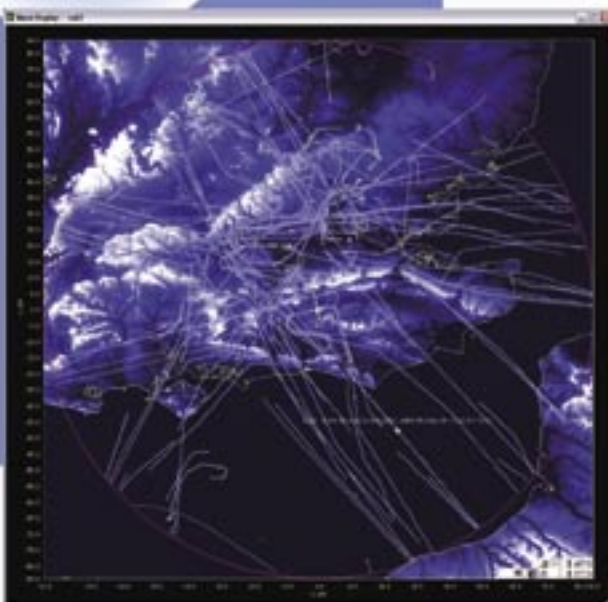
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Publisher
Francis Chao

Productions Director/Writer
George Chao

Chief China Correspondent
Lili Wang

China Staff Writer
Jing Fang

Layout and Graphics Design
Zhang Lin
Emeng Hu

Editor
Bill Wine

To contact CCAR or Subscribe, please contact: Info@ChinaCivilAviation.com or visit: www.ChinaCivilAviation.com

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Aviation Headlines

January 2006



CASGC and Airbus Sign Agreement for Largest-Ever Chinese Order

Airbus is setting a new and significant record in its 20 years of close cooperation with the Chinese civil aviation industry by signing a General Terms Agreement (GTA) for the purchase of 150 A320 family aircraft with China Aviation Supplies Import and Export Group (CASGC) during the visit of Chinese Premier Wen Jiabao to France.

CASGC President Li Hai and Airbus President and CEO Gustav Humbert signed the GTA in Paris on December 5th, in the presence of Chinese Premier Wen Jiabao and French Prime Minister Dominique de Villepin. With a total value of close to US\$ 10-billion, the order for 150 A320 family aircraft comprises A319s, A320s and A321s, marking the largest single order that Airbus has ever received since it entered the Chinese market two decades ago. The 150

aircraft will be delivered to six Chinese airlines--Air China, China Eastern Airlines, China Southern Airlines, Sichuan Airlines, Shenzhen Airlines, and Hainan Airlines.

"Since it was first introduced into the Chinese market in 1995, the A320 family aircraft has been put in-service by 10 Chinese operators with a total of 216 aircraft, accounting for 2/3 of all in-service Airbus aircraft, or nearly 1/4 of the total aircraft in operation in China. The demand for this modern and cost-saving aircraft family from Chinese airlines has been rapidly increasing in recent years," said CASGC President Li Hai. "We are very pleased to sign the record-breaking GTA with Airbus today and to be a part of this historic order for China. We look forward to an even closer relationship with Airbus and further improving our service to Airbus' Chinese customers and operators."

"We are delighted and proud to see such great business success in

China, which not only indicates the strong demand and the rapid growth of this dynamic market, but also shows a new and significant vote of confidence in our best-selling aircraft family from our Chinese customers," said Airbus President and CEO Gustav Humbert. "Today's GTA is no doubt the best way to celebrate our 20-year-long close cooperation with China. We will continue to provide the Chinese customers and airlines with the best family of aircraft and full technical support to ensure smooth and profitable operation of all Airbus fleets in China, while also studying ways to continue upgrading the cooperation



between the Chinese aviation industry and Airbus to new levels.”

Airbus to Extend Industrial Cooperation with China

The National Development & Reform Commission of China (NDRC) and Airbus signed a Memorandum of Understanding (MOU) on December 4th regarding cooperation between the Chinese civil aviation industry and the European manufacturer. The MOU sets the frame for a further upgrade of the cooperation between both parties. It also describes the process to evaluate the fields of enhanced cooperation, including the possibility of establishing a Final Assembly Line for single-aisle aircraft in China.

Airbus' industrial cooperation with China dates back to 1985, when it signed a first agreement with Xi'an Aircraft Company to produce and assemble access doors for Airbus A300/A310 wide-body aircraft in China. Today, five Chinese companies from AVIC I and AVIC II are involved in producing parts for Airbus aircraft: Chengdu Aircraft Corporation, Shenyang Aircraft Corporation, Xi'an Aircraft Company, Hong Yuan Aviation Forging & Casting, and HAFEI Aviation Industry Co. Ltd.

In its industrial cooperation with China, Airbus is committed to further increase procurement volumes to reach US\$ 60-million per annum by 2007, and US\$ 120-million by 2010.

With regard to research and development, Airbus formally inaugurated the Airbus (Beijing) Engineering Centre in July of this year and has so far recruited 54 Chinese

engineers, a number that will grow to 200 engineers by 2008.

Airbus has also offered the Chinese aviation industry a part in the A350 program of up to five percent of the airframe. This participation will include both design and manufacturing. The design will be performed by the Airbus Engineering Centre in China, and the manufacturing of the corresponding parts and components will be the responsibility of the Chinese aviation industry, mainly AVIC I and AVIC II.

“We are very pleased to enter into discussions about possible next steps of cooperation with our Chinese industrial partners who over the years have developed excellent industrial competencies on which we can now draw,” said Gustav Humbert, Airbus President and CEO on the occasion of the MOU signature.

DHL-Sinotrans to Establish Guangzhou Gateway

DHL-Sinotrans, a DHL joint venture and one of the four largest express air companies in China, announced on December 1st that it had recently reached an agreement with Guangzhou New Baiyun Airport to establish a new Guangzhou Gateway. The agreement makes DHL-Sinotrans the first international express carrier stationed at the New Baiyun Airport.

According to the agreement, the new gateway will be put into operation in March 2006, and will occupy nearly 3,500 square meters while handling 2,500 parcels and up to 3,000 documents an hour. Wu Dongming, the Managing Director of DHL-Sinotrans, said the Pearl River Delta was an important location for express

cargo operations. The new gateway will operate a state-of-the-art control center and be in charge of the entire South China region, improving DHL-Sinotrans' operating capability and standard in the market.

DHL-Sinotrans has also announced recently that it will upgrade its current Shanghai Pudong and Shenzhen Gateways, as well as introduce direct flight gateways in Hangzhou, Chengdu and Qingdao. The Beijing Capital Gateway is also set for an upgrade in 2007 in anticipation of the operations spike that will result from the 2008 Olympic Games.

Capital Airport Group Lends Management Expertise

On the afternoon of December 19th in Inner Mongolia's Xincheng Hotel, the Capital Airport Group Corporation and the Inner Mongolia Autonomous Region signed the Trusteeship Agreement for Inner Mongolia Airport Group. The trusteeship agreement grants the Capital Airport Group power to assist the Inner Mongolia Airport Group to strengthen its overall direction and development.

Yang Jing, the Chairman of Inner Mongolia Autonomous Region, was present at the meeting and presented a speech. Others present at the event were Zhao Shuanglian, Vice Chairman of Inner Mongolia Autonomous Region, and Li Peiying, General Manager of the Capital Airport Group Corporation, representing the entrusting party.

The agreement specifies management goals, including rights and responsibilities, as well as organization and personnel

management. It also transfers the security operation responsibilities of seven of Inner Mongolia's airports, including Hohhot, Baotou, and Hailaer, to the Capital Airport Group.

The Inner Mongolia Airport Group was founded on December 19th, 2003. In the last two years, annual passenger traffic of Inner Mongolia's Airports has increased from 0.846-million persons to 1.5-million persons, annually. During this time, aviation income at Hohhot Airport has increased from RMB 28.8-million in 2003 to RMB 42.75-million last year. Construction of the new Hohhot Airport began in 2005 and is expected to finish in 2007. Once completed, the facility will be able to accommodate A380 aircraft.

Harbin Aviation and Bell Kick off Joint Venture

Bell Helicopter Textron Canada Ltd and Harbin Aviation Industry (Group) Corporation held a riveting ceremony for its first joint-venture helicopter, the M430, on December 14th. The ceremony was to celebrate the initiation of the international cooperation project and subcontract work between Bell and Harbin Aviation Industries for the M430.

The subcontracting elements of the M430 production include the helicopter body and five main sections, consisting of the vertical stabilizer, horizontal stabilizer, horizontal stabilizer endplate, short wing and apparatus panel. The initial contract was agreed upon in September 2003, and designated Harbin Aviation Industry (Group) Corporation as the sole supplier of the M430 helicopter body for Bell

(Canada). Since the initiation of the project in August of 2004, the two sides have been focusing on the communications and logistics of the manufacturing project.

In June of 2005, Harbin Aviation Industry (Group) Corp. officially became Bell's manufacture at the 2005 Beijing Aviation Expo, and, in December, the group passed Bell's special technology and processes examination. Harbin Aviation Industry (Group) Corp. expects to deliver the first M430 body to Bell in February of 2006.

Customer Center to Support First Home-Built Jet

A December 27th report confirmed that the first customer support center for China's first domestically-designed commercial jet, the ARJ21, will be completed in June of 2007 and will become operational in 2008.

The AVICI Commercial Aircraft Co Ltd, maker of the 70- to 90-seat regional jet, started construction of the 18,000-square-meter support center yesterday at Shanghai Zizhu Science Park in southwestern Minhang District.



The center, which is expected to cost 310-million yuan (US\$ 38.8-million), comprises facilities for the training of pilots, cabin crew and engineers. An aircraft component center will also be set in the center,

AVICI officials said. The ARJ21 is expected to undergo its first trial flight in 2008, and deliveries of the first aircraft will start in 2009.

So far, AVICI has received 41 orders for the ARJ21 from domestic airlines, including 10 from Shandong Airlines, five from Shanghai Airlines and six from Xiamen Airlines. The Shenzhen Financial Leasing Co has ordered 20.

"At present, the aircraft is in the process of design optimization," says Lu Yingzhuo, a company official.

China started the ARJ21 project in September of 2003 with the aim of designing and building an advanced regional jet domestically.

The project is expected to cost 5-billion yuan, according to AVICI estimation.

Beijing PanAm International Aviation Academy Certified Under CCAR141

The Beijing PanAm International Aviation Academy was awarded the "Certificate of Approval for Civil Aircraft Pilot School" on December 30th by the North China Regional Administration of CAAC, making the academy the first facility in China to receive the distinction. The flight academy also became the first training center certified under the recently installed CCAR141 regulation.

The CCAR Part 141 was passed on December 16th, 2004, and put into effect on January 15th, 2005. The new regulation called for domestic and foreign schools (mainly US and Australian schools) which enrolled Chinese students to be certified under CCAR141.

The PanAm International Aviation Academy operates its main base at the Shijiazhuang Zhengding Airport, operates 31 advanced DA40/42 serial trainers, and has nearly 50 qualified foreign instructors from 15 countries.



To date, PanAM Aviation has flight-training agreements with 10 domestic Chinese airlines, including China Eastern, Hainan, Sichuan, Shenzhen, Air China Cargo, and Xiamen. There are currently 210 students enrolled at the school.

The Great Wall Gets 21st Century Guardian

On December 2nd, the Beijing Capital General Aviation Co. Ltd officially dubbed its brand new BELL206-L4 helicopter the "Great Wall," and designated it for patrol and specific imaging of the world-renowned landmark for the China Great Wall Association.

Beijing Capital General Aviation Co. is currently operating on North China's power grid, and its pilots fly over the Great Wall daily. Tan YouXing, the General Manager of BCGA, said that when his pilots saw the poor conditions of sections of their beloved landmark, they felt both the need and obligation to help preserve the Great Wall. As a result, BCGA contacted the China Great Wall Association and offered its services, leading to the collaborative preservation effort.

Mil-Com CAUC Aviation Training Center Established

On December 1st, as part of the "Tianjin-Singapore Week 2005," Tianjin government officials announced the establishment of the new Mil-Com CAUC Aviation Training Center. As the first civil aviation science and technology industrial base in China, the Mil-Com CAUC facility will focus on training efficient low-level management and aviation professionals.

Present at the announcement were Huang Xingguo, Executive Vice-Mayor, Tianjin Municipal Government; Yang Guoqing, Vice-Minister of CAAC; and Yeo Cheow Tong, the Minister of Transport for Singapore, as well as representatives from domestic and international airlines, aircraft maintenance companies, and related organizations. During the announcement ceremony, Huang Xinguo thanked the CAAC for its support in establishing the Mil-Com CAUC facility, as well as the investors, CAUC and Singapore's Mil-Com Aerospace Pte Ltd.

Poorly trained low-level management and aviation professionals have



proven to be a bottleneck in China's civil aviation development, says Yang Guoqing. Mr. Yang also points out

that the joint venture would actively contribute to promoting civil aviation management training at international standards, as well as increase the output of capable professionals entering the sector.

"In the past three years, with active leadership and strong support from Minister Yang, China and Singapore have worked closely to deepen and broaden the many areas of aviation cooperation, at both bilateral and multilateral levels," said Yeo Cheow Tong, the Minister of Transport for Singapore. The new Mil-Com CAUC Aviation Training Center will be the first facility in China to provide comprehensive courses for aviation personnel.

The cooperation agreement for the facility was signed on October 16th by the CAAC and Tianjin Municipal Government. The Mil-Com CAUC base will be supported by surrounding aviation resources, such as the Airport Logistics Manufacture District, Tianjin Binhai District, and the Civil Aviation University of China. Core operations include civil aviation equipment manufacturing, science and technology research and development, aircraft maintenance, personnel training and other tech-related services.

Alteon Sets Up Shop for Maintenance Training in Tianjin

Alteon Training, a wholly-owned subsidiary of The Boeing Company, inaugurated its latest maintenance training center in Tianjin, China, on December 1, 2005. Located on the campus of the Civil Aviation University

of China (CAUC), this newest training center in the Alteon global network will deliver maintenance training for university students as well as airline and MRO employees. Mil-Com Aerospace Pte, Ltd., Alteon's Singapore-based industry partner, will manage the training center, offering not only Alteon courses, as well as its own technical courses as well as Jeppesen Flight Operations Management programs to support China's growing aviation training requirements.

This Tianjin Training Center marks the second Alteon location in China. The Alteon Kunming Training Center offers flight training for 737 models, as well as 747-200, 757-200, 767-300, and MD82 and MD90 aircraft. A third China location is planned to support 787 training. Its specific location will be announced next year.

Chinese-Made Aircraft Fly in Africa

The Modem Ark 60 (MA60), a short-to-medium-range civil aircraft, was handed over to Air Zimbabwe at a ceremony held in China's central city of Xi'an on Friday, December 22nd. It will be the third Chinese-made aircraft with its own independent intellectual property rights delivered to the African country.

The MA60 is the first Chinese-made civil aircraft to enter the international market. The 60-seat, turboprop-powered airliner is made by China's Xi'an Aircraft Industrial Corporation under the China Aviation Industry Corporation (or AVIC I). In 2004, AVIC I signed a contract with Air Zimbabwe to sell three MA60s, two of which were delivered to the African country in April.

Sources from Air Zimbabwe indicate that, up until now, the two aircraft have flown a total of 1,829 flight hours, with an overall reliability of 98 percent. The MA60's performance is comparable to the Boeing 767-200ER and 737-200. With the advantage of low fuel consumption, comfortable interior design and first-rate system maintenance, it has established an excellent reputation among its customers.

According to China National Aero-Technology Import & Export Corporation (CATIC), responsible for the aircraft's marketing, the MA60 has so far seen good market prospects. This year, the company has signed purchase contracts for 14 aircraft with Fiji, Nepal, Zambia, and others.

Wu Shengyue, vice president of CATIC, revealed that the company



is ambitious about the export of the MA60, and its target is to sell 100 MA60s abroad before 2008.

Wu says that the development of the civil aircraft industry will benefit many related industries, and that the growth of its exports will further stimulate China's economy.

China's aviation industry leaders have dreamed of exporting for years, but have encountered many technical barriers placed in their way by American and European competitors..

The Chinese government has been strongly supportive of the manufacture and export of the MA60, aiming to help the country's aviation industry tackle the international market.

China Hosts Airworthiness Course for Developing Countries

Approved and directed by the Ministry of Commerce, AVIC 1, Aero-Technology Import Export Corporation (CATIC) and AVIC 1 subsidiary Xi'an Aircraft Company co-sponsored the first-ever Study Course for Civil Aviation Administration Airworthiness Officials of Developing Countries from November 1st to the 11th in Beijing and Xi'an. Taking part in the course were 27 airworthiness officials and senior managers from airlines representing 15 countries, including Angola, Eritrea and Ethiopia.

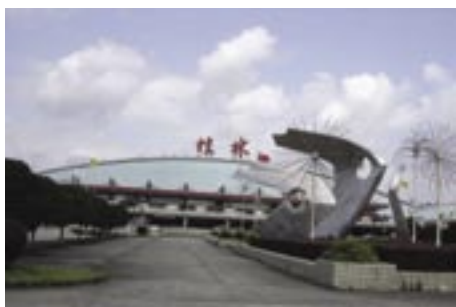
The goal of the course was to introduce Chinese civil aviation airworthiness operations and standards to developing countries and assist them in increasing their own policies. The two-way communications generated by the course will increase national ties, which China hopes will then help aviation exports to those countries.

The course is the first nationally funded airworthiness course in China, and was highly touted by attendees.

Forty Airports Join to Form Air Emergency Aid Net Covering China

It was reported on December 7th that the Civil Aviation Transport Airport Emergency Aid Collaborative

Net was formally inaugurated. The net includes 40 trunk airports and tourism city airports such as Beijing Capital Airport, Shanghai Hongqiao Airport, Guangzhou Baiyun Airport, and Wuhan Tianhe Airport. The 40 airports participating comprised the first group of operation. The inauguration and signature ceremony of the collaborative net was held recently at Guilin Liangjiang Airport.



Along with the development of civil aviation transport, the need for aero-medicine emergency and passenger medical transfer is continuously increasing. To fully utilize an airport's advantage in emergency aid and integrate a domestic airport's medical ability, Medical Air Aid Special Group of Airport Management Commission of China Civil Aviation Association initiated and established the Civil Aviation Transport Airport Emergency Aid Collaborative Net, the operation of which covers 23 domestic provinces and 40 cities and regions. The establishment of the collaborative net formed a first aid air service net covering China. It provides a cooperation platform for every airport to improve emergency aid and transfer capability, and also provides faster and more convenient service for traveling patients. It is a successful exploration into actively developing the airport emergency

aid market. The patient taking a plane can communicate with the local airport's first aid department. With the collaborative net, the patient can also receive such services as boarding, arrival, and even whole-journey medical service. For a patient who needs to leave the country, the net can help contact the special-passage authorities who handle checking procedures, including security check, customs, frontier inspection, and health and quarantine.

As one of the first groups of operation units, Wuhan Tianhe Airport makes the most significant progress in medical air emergency treatment and transfer in five years. Since 2001, airport emergency aid station has provided nearly 500 person-times of short-range city transfer, and 50 more person-times of area-crossing transfer. Successful transfers have included patients with various fractures, congenital heart disease, a tumor of aorta dissection, cerebral hemorrhage and cerebral thrombosis. The emergency aid station still cooperates with Beijing International (SOS) Clinic and Chinaid Relieving & Medicare Co Ltd of Shenzhen Airport to transfer foreign passengers. Last year, a two-month-old baby with a complicated congenital heart disease accompanying the center's doctor was safely transferred by plane to Shanghai to receive heart surgery.

Xiamen Airlines' Order Puts Boeing in Record Books

The record-breaking Boeing 737 airplane just set a new milestone likely to remain in the books for a long while. With an order for 10

737-800s from Xiamen Airlines-- reported on December 22nd--total orders for the all-time, best-selling 737 surpassed the 6,000 mark. "This is an amazing milestone that reflects how much our customers appreciate the 737's technology, efficiency, safety and profit-making capability," said Alan Mulally, Boeing Commercial Airplanes president and chief executive officer. "We are especially pleased to have Xiamen as the customer for this historic order, which also is a testament to our approach to designing and building the airplanes airlines want and that will deliver value to them for many, many years."

Xiamen Airlines will take delivery of its 737-800s beginning in mid-2006. The airplanes will be equipped with performance-boosting Blended Winglets.

Established 21 years ago, Xiamen Airlines is the first local airline company in the People's Republic of China. Its two shareholders are China



Southern Airlines Company Limited and Xiamen C & D Corporation Limited with 60 percent and 40 percent shares respectively. The airline currently operates an all-Boeing fleet of 25 737s and nine 757-200s on more than 100 domestic and international routes, with Xiamen, Jinjiang, Wuyishan, Hangzhou and Nanchang as its main hubs.

Civil Aviation News



China and UK Inaugurate Daily Service

The first direct daily round-trip flight from the UK to China's mainland was initiated on December 5th from Shanghai. Offered by the progressive low-cost airline, Virgin Atlantic Airways, the Shanghai-London direct route will operate daily and offer passengers a long-awaited direct-flight option.

Sir Richard Branson, Chairman of Virgin Atlantic Airways, who was in Shanghai to announce the new route, expressed confidence regarding the success of the new Shanghai-London route. Sir Branson added that the passengers currently flying from Shanghai to London are mainly businessmen. However, as the Chinese economy continues to grow, there will be an increase in English passengers looking to fly to Shanghai.

In light of the 2008 Olympics and the 2010 Shanghai World Expo, Virgin Atlantic Airways is paying extra close attention to China. Sir Branson added that his airline would launch a

London-Beijing route if he receives all of his new jetliners in time.

New Baiyun Airport Opens Dual Runway Operation

Both runways of the Guangzhou New Baiyun Airport began takeoff and landing operations on December 22nd to increase the volume of flights from and to the hub.

New Baiyun Airport is the first domestic airport to simultaneously build double runways and put them into operation. And it owns the first domestic double-runways independent operation program, which represents an increase in China's flight program design work. During inauguration of the new airport, and in light of operation experience, the CAAC approved the "One runway takeoff, one runway landing" mode.

After it was launched on August 5, 2004, the airport designated the west runway for takeoff only, and the east runway for landing only.

Under the old pattern, every flight had to wait an average of 15 minutes before takeoff, which undercut the flight on-time performance as well as operation cost reduction. The new system is expected to improve the situation and to boost the airport's capacity.

The airport's turnover has risen 15 percent since it began operation. By 2006, the airport's handling capacity is expected to climb to 240,000 flights a year, and the peak will reach 60 flights an hour.

The new operation will also help airlines cut costs. Aircraft can save taxiing time by about six minutes on each flight. Taxiing consumes more



fuel than flying, so a Boeing 777 could save several tons of jet fuel.

Boeing Delivers First 747-400F to Air China Cargo

The Boeing Company delivered Air China Cargo's first Boeing 747-400 Freighter on December 16th, the first of two new 747-400Fs for the Beijing-based carrier.

The new airplane will be used on Air China Cargo's routes between China and North America and Europe. Air China Cargo's new Boeing 747-400 Freighter is powered by Pratt & Whitney 4056 engines.

"The Boeing 747-400 Freighter is a key to Air China Cargo meeting the needs of China's rapidly growing economy and booming air cargo market," said Kong Dong, chairman of Air China Cargo. "We anticipate the 747-400 Freighter will allow us to provide superior cargo service to our customers, while reducing our operating costs and increasing efficiency and profitability."

Domestic air cargo in China is expected to grow 10.6 percent annually over the next 20 years, the highest rate in the world.

"The delivery of the new Boeing 747-400 Freighter is a new facet in our long, mutually beneficial relationship with the Air China family," said Larry Dickenson, vice president-Sales, Boeing Commercial Airplanes. "Air China Cargo recognizes, as does the world, the reliability, efficiency and value of the 747-400 Freighter in today's cargo market. This investment will make a valuable contribution to the success and future growth of Air China Cargo."



The global air cargo industry is one of the fastest-growing segments of the aviation market. The Boeing World Air Cargo Forecast 2004/2005 projects that the air cargo industry will grow at an average annual rate of 6.2 percent, significantly higher than projected passenger traffic rates. Cargo traffic growth rates in excess of seven percent are projected for Asian routes -- the largest increases in the world over the next 20 years.

Air China Cargo Co., one of the largest cargo airlines in the People's Republic of China, was formed in late 2003 with Air China, CITIC Pacific Ltd. and China Capital Airport Holding Co. as its shareholders. Air China owns 51 percent, CITIC Pacific 25 percent and China Capital Airport Holding Co. 24 percent. The airline, running domestic and international freighter business, flies routes to the USA and Europe.

Air China Cargo Co. currently operates one Boeing 747-400 Freighter, four Boeing 747-200 Freighters, and eight Boeing 747-400 Combi airplanes, providing cargo services to 35 cities in 24 countries and regions around the world. In addition, Air China Cargo also markets the lower-hold capacity of the Air China 767, 777 and 747-400 fleet as part of its operation.

Qingdao Builds as Shipping Giants Look to Expand

As a measure to support the surge of international cargo carrier expansion in Qingdao, the Qingdao Airport announced on December 20th that it plans to construct a new 8,000-square-meter cargo area to ensure smooth development. After the expansion, the total cargo area will reach 20,000 square meters, and storage volume will reach an estimated 109,000 tons.

The new expansion plan comes after international shipping giants such as UPS and DHL have expressed interest to extending operations to Qingdao. US shipping juggernaut UPS has already opened a new freighter flight to Qingdao as DHL's Asia and Pacific Area Chief has said that they will open freighter flights linking Qingdao-Hangzhou-Hong Kong. If the new cargo freighter flights do well, both companies expect to increase frequency in the future.

Qingdao Airport reports that the new expanded cargo area will be finished in 2010, and that current expansion efforts are geared to attract international logistics companies to establish Qingdao flights.



BCIA Re-Routes Regional Jets

As a result of increasing air traffic at Beijing Capital International Airport, the CAAC issued a new operational policy on December 1st, re-routing

aircrafts with fewer than 100 seats to Tianjin Binhai International Airport. The new regulation on regional jet operation is the CAAC's first step towards integrating the Beijing and Tianjin facilities. Talks are also in the works to deflect some of Beijing Capital's cargo flights to Tianjin Binhai.

A spokesman for Tianjin Airport said that the current expansion construction at Binhai would be completed in 2007, and that operational capacity will be increased to six-million annual passengers with 250,000 tons in cargo/mail traffic. The two facilities have begun construction of supplementary support structures, such as subways, expressways, Beijing-Tianjin urban railways, and others, which will add to the operational compatibility of the two airports. Additional integration measures have also been implemented, including customs clearance for both facilities, which can now be handled in either facility, creating a sound foundation for air integration of the two cities.

Dali Airport Announces New Expansion Plans

Yunnan Province's Dali Airport held a ceremony for its new expansion project and 10th anniversary on December 17th.

In order to keep up with the growing air travel demand in the region, the Yunnan Airport Group implemented an expansion and retrofit program for Dali Airport. The reported total cost of the project is approximately RMB 140-million. According to construction plans, Dali Airport's total area will be

increased 1014.89mu (about 67.66 hectares) from the original facility and a new 10,000-square-meter, two-story passenger terminal will be constructed. Upon completion, the



airport should meet the 2015 target-year goal of 1.1-million passengers annually, with peak-hour operations at approximately 864 persons per hour, eight landings and takeoffs per hour, and a cargo/mail volume of 2,828 tons per year.

China Southern Focus on Shenzhen Development

The Shenzhen Municipal Government and China Southern Airlines Group signed a cooperation framework agreement on December 20th. The cooperative effort will focus on building Shenzhen into a regional air hub and freight gateway airport in South China as soon as possible.

Shenzhen's rapidly developing economic landscape desperately needs a more effective air transport infrastructure. Currently, a million tons of international cargo originates from the Shenzhen area annually. China Southern Airlines' plan is to introduce large cargo carriers in the Shenzhen market to help alleviate the high demand for cargo operation development. In addition, CSA has announced that it would add international passenger and cargo flights from Shenzhen to Europe,

the United States, Australia, and several Southeast Asian countries. The Shenzhen Municipal Government has announced its full support of CSA's Shenzhen Air Cargo Terminal and increasing international flights.

Currently, CSA operates over 600 flights worldwide, with approximately 70 flights operating to and from Shenzhen, comprising 30% of total flights in the Shenzhen market. CSA also pioneered the first three international freighter flights from Shenzhen to Chicago, Los Angeles, and Belgium.

On December 21st, the Dalian General Aviation Company Ltd. became the first operator in China to receive its Operations Certificate and Operations Regulation under the new CCAR Part 91 general aviation regulation. The certification makes Dalian General Aviation Company the first certified general aviation operator in North China. Du Donghai, Chairman of Dalian General Aviation, said that they aim to become the leader of general aviation in China.

General aviation has been received with growing interest and anticipation in recent years, with helicopters and airships attracting more attention. Chinese officials expect low-altitude airspace (below 3,000 meters) to open by 2010, followed by rapid development of the general aviation sector.

Currently, Dalian General Aviation Company is operating the CA-80 helium airship, the fastest and largest airship in China.

Datong Airport Open for Business

The Shanxi Datong Airport officially opened for operation on December 25th, 2005. Datong is the largest city and the export capital in the interjunction area between Shanxi, Hebei, and Inner Mongolia Autonomous Region. It is also one of the 24 Historic Cultural Cities as awarded by the State Council. Known for its domestic coal and power production, the prospect of aviation development in Datong has been met with great anticipation.

Since 2001, Datong City has focused on the development of Datong Airport as the centerpiece to its industrial development and city growth.

The Datong Airport now completes

Shanxi's air transport network. The Datong government is optimistic that the new facility will highlight the city's geographic advantage as well as stimulate local economic growth.

Taiyuan Wusu Airport Prepares for RMB 1.5-Bil Expansion

According to details of the "Eleventh Five-Year Plan," the CAAC and the Shanxi Province will team up to raise RMB 1.5-billion to expand and retrofit the Taiyuan Wusu Airport facility. Reports from the Shanxi Province on December 5th shows that preparation work has already begun, and that the province has already confirmed a capital of RMB 300-million.

The goal of the expansion project is to turn Taiyuan Wusu Airport into a 4E international facility. Planned upgrades include runway expansion (expanding from 3,200 meters to 3,600 meters), the construction of a second runway, enhanced regional traffic facilities, improved international passenger and cargo flow, and enlargement of the service radius.

The details of the arrangement between the CAAC and Shanxi Provincial Government state that the total investment of the Taiyuan Wusu Airport expansion project is expected to be RMB 1.5-billion, with 50% of the capital to be confirmed. Of the RMB 750-million to be confirmed, the CAAC will invest RMB 400-million, while Shanxi Province is responsible for the remaining RMB 350.

News Briefs

December 6th – The CAAC ATMB (Air Traffic Management Bureau) held the Weather Forecast and Service Technology Symposium. About 50 weather engineers attended the symposium and discussed operation procedures for aircraft in hazardous weather.

December 8th – Taikoo (Shandong) Aircraft Engineering Company (STAECO) of Shandong Aviation Group and All Nippon Airways Co. Ltd (ANA) signed a long-term cooperation agreement. STAECO will handle all aircraft maintenance operations for ANA.

December 14th – The Development Center Office of the Beijing Airport Logistics Base announced that, in 2005, it has paid a total of RMB 621-million in taxes and is expected to reach RMB 630-million, exceeding the RMB-500-million goal for the year. The current logistics base houses 132 enterprises, including TNT Group, Nippon Yusen, Sumitomo Corp, among others. The logistics base will begin a second phase of construction in March of 2006, to include companies such as FedEx, UPS and DHL.

December 15th - Changan Airlines, a subsidiary of Hainan Airlines Group, officially initiated four A319 aircraft into its operating fleet at Xi'an Xianyang International Airport. The airline received the new aircraft in late September, and has since been developing airworthiness preparation tasks, including flight security and cabin service, as well as new operating networks.

December 16th – China Eastern Airlines and Pratt & Whitney, a United Technologies Corp. company (NYSE: UTX), signed a Memorandum of Understanding to create a major aircraft-overhaul joint venture in Shanghai. The new overhaul shop will service the CFM56 engine, which powers both the Boeing 737 and Airbus 320 aircraft. The new overhaul station is scheduled to open in 2007.

December 21st – The National Leading Group Office on Handling Hijacking Incidents held the "2005 National Anti-Hijacking Special Drill" at Chongqing Jiangbei Airport.

December 22nd – Haikou Air Traffic Control Center of CAAC officially implemented radar control on aircrafts within the Haikou-controlled area.

Exclusive Interview:

Martin Lin – American Chamber of Commerce

Interview conducted by: George Chao



In the Chinese aviation arena, few individuals are more respected in their opinions regarding the industry than Mr. Martin Lin. Not only has Mr. Lin been Rockwell Collins' Chief China Representative for over a decade, he is also the American Chamber of Commerce Aerospace Forum Chair in China. Having witnessed China's aviation revolution in its entirety firsthand, Mr. Lin this month offers the CCAR his insights into China's current aviation situation, as well as the China-US aviation cooperation program—the AmCham Wright Brothers Aviation Cooperation Program.

What exactly is the ACP program and how has it progressed since its initiation in late 2004?

The AmCham (American Chamber of Commerce) Aviation Cooperation Program, otherwise known as the Wright Brothers ACP Program, was established in November of 2004 for the purpose of promoting greater interaction between the US and Chinese aviation authorities. In the past 12 months, the Wright Brothers ACP Program has made great strides in not only reinforcing relationships between the countries, but also in creating new partnerships and dialogs for future development.

What makes the Wright Brothers ACP Program unique is that it is a collaborative effort between both the government and private sectors to strengthen aviation relationships and ties in China. Simply by looking at the current FAA cooperative efforts with China, we see the great strides made in the last few years. Not too long ago, the FAA and CAAC were content with just keeping a watchful eye on each other; however, within the last few years, the FAA view on operating in China has shifted to full cooperation with the CAAC and they are, in fact, planning to establish a second FAA center in Shanghai in the near future.

What are some current factors that need to be addressed in order to ensure coordinated development between the US and China?

In the past and even today, communication between the two sides remains an issue at large. The goal of the ACP program is to increase dialog and relationships on both sides in order to efficiently develop both aviation sectors. Since the inception of the ACP program, we have helped bring together many high-level government officials, as well as delegations, to further open channels of communication and establish ever-increasing relationships with not only the CAAC, but the central government as well. For example, Thelma J. Askey, the US Trade Development Agency Director, and CAAC Minister Yang Yuanyuan met on Capitol Hill in mid-October to establish a new technical assistance agreement between China and the US. In the near future, the US Secretary of Transport, Norman Y. Mineta, is planning to visit with his Chinese counterparts to discuss further development strategies between the US and China. This proactive approach to increasing dialog and relationships between the two nations is not only crucial for development, but a cornerstone of the ACP program.

A second factor that needs to be addressed is the US political and commercial/trade policies. At times, the US policies towards trade and cooperation are not well coordinated with its Chinese counterparts. As a result,

Aerospace Forum Chair

aviation firms (such as Boeing and Lockheed Martin) are sometimes subjected to playing the role of the hostage, used by one government against another for political leverage. The ACP is making suggestions to Washington to re-examine their policies and revise them to be more coordinated and business-friendly.

Is it safe to say that the main goal of the ACP is to increase exposure for the US aviation sector and its businesses?

Yes, increasing visibility is an important priority. However, the ACP is also very concerned with putting our money into aspects of the Chinese aviation industry that desperately need it, such as training; maintenance; improving operational efficiency; and increasing fuel efficiency. Previously, individual firms offered their own training packages and options for Chinese counterparts using their products, and while these goodwill gestures were surely appreciated by individual operations (e.g., airlines, airports, CAAC, etc), they were seldom recognized by the Chinese government at the higher levels, such as the Ministry of Commerce and the National Commission of Reforms and Development. The new direction which the ACP is helping facilitate is senior-level government-to-government dialog, supported by cooperative firm operations.

What are some of your most memorable ACP accomplishments in the last year?

In 2005, the ACP member companies had the opportunity to provide training for senior-level Chinese airline executives on the topics of Maintenance and Flight Operations. In both instances, Chinese delegations were hosted and trained at various facilities in the US, getting a feel for operations abroad. The airline executives then returned to China to give recommendations to the CAAC, resulting in the creation of new policies to their operational models to improve maintenance practices and flight operation efficiency.

Another notable event in 2005 involved the certification process of the Chinese-built ARJ21 regional aircraft. The ARJ21 has over 40% of its components produced by US companies, and, as a result, many US firms have a strong interest in the project. Therefore, in order to assist the certification of the ARJ 21 in accordance with the FAA Part 25, the ACP hired a group of retired FAA experts to help assess the situation of CAAC's airworthiness certification process, and advise on aspects such as standards, knowledge, depth and personnel. The delegation of experts spent three weeks in Beijing and Shanghai interviewing various CAAC departments, airlines and ARJ 21 designers to try to understand the current status of CAAC's airworthiness standard, and its comparison to the FAA. The delegation then finalized and presented its findings to the CAAC, along with its recommendation for the proper next step.

What does the future hold for the Wright Brothers ACP program?

In 2006, the Wright Brothers ACP partnership will continue to build on recent accomplishments and expand the scope of cooperation programs into other aspects of aviation in China. In the immediate future, the ACP will focus on phase two of the ARJ 21 program, which calls for engaging contractors based on the recommendations made by the consultant delegation to implement training to strengthen China's airworthiness standards. The project will be funded by the ACP, with funding allocated from the US Trade Development Agency, as well as goodwill-in-kind contributions by US companies with interests in the ARJ project.

Another project that is already underway is the fuel efficiency seminar in Beijing in February of 2006. The ACP has engaged the FAA, IATA and other aviation industries to conduct a two-day fuel efficiency seminar for airline operators and the CAAC. During the seminar, the FAA and IATA will present cutting-edge ideas and technologies to help airlines maximize fuel efficiency. The goal of the seminar is to establish a forum for idea exchange between China and the United States.

CAAC Corner



Minister Yang Outlines 2006 Aviation Goals

At the National Civil Aviation Work Meeting in Beijing on December 26th, CAAC Minister Yang Yuanyuan announced the CAAC's 2006 China civil aviation sector goals. During the next twelve months, the industry transport turnover volume target has been set at 29.5-billion ton-kilometers, passenger traffic volume at 150-million persons, cargo/mail traffic volume at 3.36-million tons, an increase of 13%, 15% and 10% over 2005 target figures. Minister Yang also estimated the total fixed assets of the sector at RMB 26-billion by year's end.

In addition to announcing the target goals for the New Year, Minister Yang also revealed that China's civil aviation sector plans to add 142 aircraft and establish or maintain 25 key civil aviation projects, including the completion of Tibet Nyingchi Airport and the preparation of Kunming New Airport's construction. Other notable projects scheduled for the upcoming year include Shanghai Pudong Airport's expansion and the Olympic preparation of Beijing

Capital International, Qinhuangdao Shanhaiguan, and Qindao Liuting Airports.

In 2006, the CAAC will adopt new policies to expedite the development of air transport, freight, regional and general aviation in western and northeastern China, and continue its open market policy. According to the new Regulation on Domestic Investment in Civil Aviation, the CAAC will continue to support investors wishing to invest in Chinese civil aviation, as well as new airlines wishing to establish feeder flights, freight carriers and general aviation. Airlines will be encouraged to establish operational bases in airports in Central, West, and Northeast parts of China, and the CAAC has vowed to create new complementary partnerships for new airlines with established trunk airlines in order to increase regional flight coverage and flight frequency.

Minister Yang also emphasized that civil aviation would continue its price reform program, further adjusting air route and flight management policies to increase coverage areas.

On foreign policy, the CAAC has

stated that it would continue actively developing bilateral and regional cooperation. Minister Yang concluded by saying that one of the focal points of the upcoming year will be participating in international activities and increase international cooperation and exchange.

New Regional Aviation Policy Opens the Doors for Development

On January 4th, the CAAC announced that it has issued new policies promoting the development of regional air transport, including new regulations that allow airlines to operate independent feeder flights.

Details of the new regional aviation policies include implementing catalogue direction for regional air transport development; easing regulations for entry into the regional air transport sector; increasing regional air transport capability; enhancing regional airport construction; and adopting a subsidy policy for certain regional air routes and airports.

Regional aviation is a critical

component of China's future economic growth. Because of the country's size and population, future development and rural growth will depend on the CAAC successfully establishing regional aviation in China. Pilot shortages, lack of regional airport facilities, congested airspace and insufficient regional aircraft are all issues which the CAAC has to overcome in order to properly initiate its regional aviation program.

According to the new policies, airlines can now decide to open flights and routes according to market conditions upon filing plans to the proper Regional Administration of CAAC. For operation in congested airports such as Beijing Capital, Shanghai, Guangzhou, and Shenzhen, supplementary regional airports have been deemed preferential. The CAAC has also issued a "protection period" for airlines opening new feeder flights, affording time for proper development of new routes. Also, general aviation airlines will now be able to upgrade into public air transport enterprises operating regional air routes.

The CAAC has also announced that it would further simplify the approval process for purchasing and leasing imported aircraft to be used in regional aviation operation, and decrease the import tax applied to aircraft and parts.

Finally, for special air routes with high public benefits but low returns, the CAAC will encourage local government to provide operation subsidies, while the central government provides corresponding support in necessary subsidies to government-designated air routes.

CAAC and Xinjiang Focus on Future Aviation Development

At an afternoon meeting on December 7th in Urumqi, the CAAC and the Xinjiang Uygur Autonomous Region Government signed a Summary of Conversation on Expediting the Development of Xinjiang Civil Aviation. The Summary of Conversation cements CAAC's support for Xinjiang's civil aviation-driven economic construction plans.

According to the Summary of Conversation, the CAAC will approve further investments to enhance Xinjiang's airport development and continued expansion of its civil aviation sector. The measures of the agreement outline an assistance program for the service facilities of Urumqi International Airport, including an 80,000-square-meter expansion of the terminal; construction of a second runway; and initiation of a development plan to transition the airport into a West China hub during the "Eleventh Five-Year Plan" and culminating during the "Twelfth Five-Year Plan." Other details of the agreement include plans for Kanas Airport to continue construction efforts; Kuche, Shihezi, and Turpan Airports to be relocated and constructed; Hami Airport to be retrofitted and re-opened; and Kashgar, Yining, Aksu, Altay and Korla Airports retrofitted and expanded to accommodate aircraft such as the 737. During the "Eleventh Five-Year Plan," capital for the construction of Xinjiang airports will be prorated by the Xinjiang Autonomous Region and the CAAC. The CAAC will also undertake 70% of the construction costs of Urumqi International Airport and 40% of

regional airport construction in the region. The CAAC will also subsidize RMB 200-million for a civil aviation fund in 2006 for security measures to improve the security support capabilities of Xinjiang's regional airports. In addition, the CAAC has vowed to support every airline to open flights through Urumqi to Central Asia, West Asia, and Europe.

CAAC Issues Funding to Reinforce Airport's Winter Operations

Faced with China's harsh winter conditions and its potential consequences on aviation operation, the CAAC announced on December 16th that it will reinforce funding for airport anti-icing and de-icing programs as well as winter flight security. The CAAC used recent findings on civil aviation airport operations to conclude that all airports affected by snow and ice conditions with an annual passenger volume of 500,000 persons per year should be equipped with de-icing equipment and policies.

The CAAC has also added that it will grant capital subsidies of up to 50% for airport de-icing and anti-icing expenditures. To date, 20 airports, including Beijing Capital, Harbin, and Changchun, have successfully acquired 54 snow blowers and 39 aircraft de-icers; with the CAAC subsidizing RMB 54.57-million of the approximate RMB 100-million worth of equipment. The new equipment will be delivered by the end of 2005 and be put into operation immediately.

To further strengthen winter security, the CAAC has adopted several

measures and regulations, including enhanced training for, and supervision of, de-icing and anti-icing; establishing symposiums and training courses on ice prevention and de-icing, and initiating investigations into airport operations.

In November, each CAAC regional administration initiated inspections of their respective governed airport facilities' and airlines' de-icing and anti-icing procedures. Those with existing safety concerns were specified a given time frame to rectify the situation.

CAAC Offers Support to Sichuan Aviation Development

The Sichuan Government and CAAC held talks to expedite civil aviation development in the region on December 19th and signed a Summary of Talks at the conclusion of the meeting.



The two parties agreed on establishing Shuangliu Airport as the cornerstone of Sichuan economic development, and the CAAC offered support in construction and development of Shuangliu Airport on the industry level to encourage increased domestic and international airlines to operate out of Chengdu.

The meeting also established the importance of a second runway and terminal building for Shuangliu

Airport. The CAAC fully supports the establishment of the facilities, and has vowed to work closely with the Sichuan Provincial Government to conduct the necessary surveys and handle all necessary issues associated with the expansion project.

During the "Eleventh Five-Year Plan," both parties will continue to focus on the development of regional aviation, including the development of regional airports to encourage airlines to utilize feeder flights.

China and Russia Re-Initiate Bilateral Talks

A Russian delegation led by the Vice-Director of Civil Aviation and Mapping Department of the Russian Transport Ministry met with a Chinese delegation led by Wu Zhouhong, the Vice-Director of the International Cooperation Development of the CAAC, in Beijing on December 21st and 22nd to discuss a revised bilateral aviation agreement between the two countries.

The previous bilateral agreement between China and the former USSR was established in 1991. After the breakup of the USSR, Russia inherited the agreement. At the moment, there are three Chinese carriers, including Air China, China Eastern and China Southern, operating China-Russia routes for a total of 23 flights per week. Conversely, there are thirteen Russian air carriers operating 110 China flights per week.

Talks of an updated aviation bilateral agreement was initiated in 1998, but factors needing further negotiations stalled the establishment of a revised agreement. At the recent meeting, both parties stated that preparation

of the new bilateral agreement will be established during the 2006 "Russia Year" activities.

China and Peru Update Bilateral Air Transport Agreement

On December 12th, Wang Ronghua, Director of the International Cooperation Department of CAAC, and Luis Chang Reyes, the Peruvian Ambassador to China, respectively representing both countries, met in Beijing to sign a Memorandum of Understanding (MOU) on Revising Bilateral Air Transport Agreement and Expanding Both Countries' Air Transport Arrangement.

The new MOU increases transport capacity limits and structures a new code-sharing agreement between the two countries. Also, the MOU outlines the possible creation of new air transport enterprises for each country.

The previous bilateral air transport agreement between China and Peru was signed in 2000 and initiated a bilateral relationship between the countries. The new MOU builds upon the existing foundation and now includes bilateral aviation arrangements to facilitate both countries' air transport enterprises in operations and development with regard to trade, culture, and science and technology.



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