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3.69-Million Passengers Recorded During "Golden Week"

New FedEx Asia-Pacific Hub Under Construction

United Airlines Certified for Foreign Pilot Training

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Contents

Aviation Headline 2

Beijing FBO Update 5

Civil Aviation News 6

Feature Article: 9

Chinese New Year and Spring Transport:
A time for celebration, family and road rage

CAAC Corner 12

China Civil Aviation Report (CCAR)

is published monthly by Uniworld LLC in conjunction with China Civil Aviation, a magazine published by the Civil Aviation Administration of China (CAAC).

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US\$95/Year (USA)
US\$120/Year (International)

POSTMASTER: please send address changes and Corrections to:
CCAR, c/o Uniworld LLC
690 Garcia Ave Ste. A/B, Pittsburg, CA 94565, USA

(Applicable to US residents only.)



Aviation

Headline

3.69-Million Passengers Recorded During “Golden Week”

On February 6th, the CAAC released preliminary air travel statistics for the Chinese New Year “Golden Week” (January 29th to February 4th). During the “Golden Week”, the 52 “main” Chinese cities saw a total of 22,073 flights serving 3.69-million passengers, an increase of 13% and 15% over 2005 statistics.

During the Chinese New Year “Golden Week”, civil aviation units prepared by reinforcing



organizational procedures, security management, and operational procedures. Every year, the “Golden Week” brings about increased passenger volume, as most of China scrambles to return home for the Chinese New Year festivities. Other characteristics of “Golden Week” travel include increased flight quantity and the operation of flights between China’s mainland and Taiwan. During this year’s traveling period, 72 non-stop round-trip charter flights were in operation between the six main Taiwan airlines and the six mainland airlines. 27,000 passengers were transported between Taiwan and mainland China, compared with 10,000 in 48 round trips last year.

New FedEx Asia-Pacific Hub Under Construction

International shipping giant

FedEx officially began construction of its new Asia-Pacific transport hub on January 16th in Guangzhou’s New Baiyun International Airport.



In recent years, southeast China has become one of the fastest developing regional airfreight markets in the world. With continued economic development, the Pearl River Delta is set to become one of the busiest production centers in the world, occupying 30-40% of China’s entire foreign trade volume.

The new FedEx hub is located

at the east end of the east runway at New Baiyun Airport. The facility occupies 2,451mu (1.6-million square meters) at an investment of approximately RMB 1.83-billion. The facility is designed to handle the daily throughput of 179,000 and sorting of 125,000 pieces of parcel. Sorting capacity at peak hour operation is reported at 27,000 pieces.

Tang Bingquan, Vice Governor of the Guangdong Province, remarked that the construction and development of FedEx's Asia-Pacific transport center would further improve Guangdong's investment dynamic, promote regional economic development, increase foreign trade development and provide greater social benefits.

United Airlines Certified for Foreign Pilot Training

In light of the high rates of pilots needed in the next six to seven years in Chinese aviation, airlines are now beginning to utilize foreign-trained pilots. This new recruiting practice opens avenues for foreign airlines and training organizations which think highly of the Chinese civil aviation market.

On January 20th, the Flight Training Department of United Services of United Airlines became certified by the CAAC to provide training services outside of China. Besides becoming certified to provide international pilot training in China, United Airlines is also

wrapping up a second agreement to provide B757 and A320 pilot training to Chinese airlines at its flight training center in Denver, Colorado. Once approved, UA plans to apply for training certification for other aircraft models.



Patrick Heck, General Manager of the Flight Training Department of United Services of United Airlines, said in a recent announcement that China would become one of the biggest contract training markets in the world, and the recent approval gives UA an all-important first step into the market.

Gao Hongfeng, Vice Minister of CAAC, estimated that by 2010, China's total civil aviation fleet would reach approximately 1,250 at about 2,943-million flight hours. At this rate, China will need to train 6,500 new pilots within the next 6-7 years in order to keep up with the sector development.

However, the Flight Standard Department of the CAAC issued a statement that, due to the cultural and aviation background differences of foreign trained pilots, foreign training will contribute to only a small percentage of China's pilot force, and is thus not the ultimate solution.

Air China to Offer Airborne Internet Access on Long-Range Flights

Air China, the leading international air carrier in the People's Republic of China (PRC), and Connexion by Boeing, a business unit of The Boeing Company, announced on February 7th that they have reached a preliminary agreement to provide real-time, high-speed connectivity to air travelers traveling to and from China. The announcement today in Beijing includes as many as 15 firm and optional retrofit installations on Air China's Boeing 747-400 aircraft, and other long-haul aircraft models to be determined at a later date. Financial terms were not disclosed.

Aircraft installations are expected to begin in October of 2006 and, once completed, the Connexion by Boeing service will provide Air China passengers with in-flight access to the Internet; real-time e-mail; instant messaging (IM); corporate intranet access, including virtual private network capability; and the ability to stay in touch with friends, family and colleagues while en route to their destination. Additionally, the initial aircraft installations will be completed in time for passengers to use the service in advance of the 2008 Olympics in Beijing. Service availability is expected on key routes between China and North America, Europe, the Middle East and throughout the Asia Pacific region.

"This is a tremendous way for Connexion by Boeing to begin the new year and we are proud to have Air China become our launch



customer in mainland China and to be a part of the airline's vision for in-cabin service excellence," said Vice President of Commercial Airline Business Lianne Stein. "In addition to showcasing how Air China aircraft are equipped with the latest in communication technology, our agreement also will help to ensure that visitors to the 2008 Olympics have the ability to truly share their personal travel experience while en route to and from the region."

In recent months, China has demonstrated significant momentum in its aviation market

as airlines in the China market continue to update their fleet of aircraft to support travel on key international routes. Strong growth in the commercial airline sector is anticipated over the next several decades with new airliners needed to meet the anticipated boom in air travel.

"Air China is pleased to work with Connexion by Boeing to bring this leading service to its passengers," said Air China Vice President Ma Kui-liang. "China will be prominently featured on the stage to the world during the upcoming 2008 Olympic Games, and this technology will help to enhance Air China's service quality and make the wonders of our country accessible to the world through the provision of airborne Internet service. In addition, Air China will be able to use the bandwidth capabilities to enhance communication between its flight crews and its service

and maintenance organizations beginning in the very near future."

Xi'an Aero-Engine Group Tops in Foreign Subcontracts

A CAAC report issued on February 7th shows that the Xi'an Aero-Engine Group was China's largest aviation foreign trade subcontractor in 2005, with sales in excess of USD 80-million.

In recent years, Xi'an Aero-Engine Group has rapidly expanded the foreign trade aspect of its operation, establishing business relationships with the likes of GE (US), Pratt & Whitney (US and Canada), SNECMA (France), Honeywell (US), and MTU (Germany). The Xi'an Aero-Engine Group produces about 1,000 different aircraft-related products for more than 20 foreign aircraft models. Looking for continued growth, the group is looking to fulfill its goal of USD 100-million in foreign trade subcontracts in 2006.

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Arriving in Style:

Beijing Capital Airport's New FBO Update

As the international community anxiously awaits the passing of the Olympic torch through China's capital, Beijing organizers have begun embarking on the final leg of the intensive citywide upgrades in preparation for the games. The central government has issued a regulation that all construction for the 2008 Olympic Games must be complete by 2007. As a result, many key projects around the city have kicked into overdrive in anticipation of the deadline. One of the cornerstone projects for the Olympic Games was established as the Beijing Capital International Airport upgrade; and while the second runway and terminal expansion have either been successfully completed or are near completion, there is a very impressive stand-alone structure on the other side of the runway apron that has failed to garner much attention. Lost amidst headlines of major renovation projects, Beijing Capital International Airport is quietly constructing the largest FBO in the world. Just how large is the facility? The blueprints show the new FBO structure will be able to accommodate four 747s and 15 corporate jets, just enough to cater to the numerous dignitaries and heads of state who will no doubt pay Beijing a visit in the Summer of 2008.



Established by the Capital Jet Company, construction for Beijing's first-class FBO began on April 12th, 2005, and is scheduled for completion in July, 2006. At approximately RMB 500-million, the construction has been delegated into several phases, the first being a 904 mu (60.26 hectares) development area, including a 6,350-square-meter main FBO structure with a 160,000 square-meter parking apron. Upon completion, the Beijing facility will encompass 1137 mu (75.8 hectares) and will be located on the east runway at Beijing Capital International Airport.

After landing, VIP passengers will step into the world-class lounge facility featuring a full flight preparation room, ICQ Department, VIP lounge, service room, guest rooms, restaurant, gym, beauty salon, and high-end entertainment facilities.

In addition to the scheduled construction, the Capital Jet Company has also reserved adjacent land for future hangar development--which will surely establish the new FBO at Beijing Capital as a landmark of the airport for years to come.





News

Civil Aviation News

Civil Aviation NEWS

China Eastern Orders 5 ERJ-145 Regional Jets

The Brazilian jet manufacturer Empresa Brasileira de Aeronautica SA, or Embraer, announced the sale of five 50-seat ERJ 145 jets to China Eastern Airlines on January 19, 2006. The delivery date for the jets has been announced as between November, 2006 and June, 2007. Embraer stated that the contract was initiated by its Chinese counterpart, Harbin Embraer Aircraft Industry Co. Ltd.



Embraer Harbin, maker of the ERJ-145, is a joint venture between Embraer and two units of the China Aviation Industry Corporation II

(AVIC II), and currently employs 188 workers.

In the fourth quarter of 2005, Embraer delivered 40 aircraft to customers, resulting in a tally of 141 jets delivered last year. The firm expects to deliver approximately 145 aircraft in 2006 and 150 in 2007.

Liaoning Airport Looking for Investors

The Liaoning Province Airport Management Group Company (LPAMGC), which operates four airports, including Shenyang Taoxian International Airport, announced on January 27th that it is looking for a joint-venture project with a foreign or domestic investment group.

LPAMGC has a registered capital of RMB 374.79-million and holds 16 subsidiary companies and four airports. Company officials

hopes that the move will stimulate the enterprise and increase its market share. LPAMGC is one of the 20 state-owned companies recommended by the Liaoning Province to proceed with the stock holdings reform.

According to the Liaoning Province, all investors that invest in Liaoning LPAMGC, whether domestic or international, will receive privileges such as tax benefits and enterprise debt. However, due to the company's large sum of investments (RMB 4.1-billion), LPAMGC is interested in investors with adequate capital and management experience.

The Liaoning Taoxian International Airport is a subsidiary of Liaoning Province Airport Management Group Co. and a national trunk airport. It is also a transport hub in Northeast China, utilized by the 24-million people distributed in central Liaoning.

Shenzhen Airlines Signs Lease for Five New Aircraft

Shenzhen Airlines held a signing ceremony for the lease of three Airbus A320s and two Boeing 737-800s on February 7th, at the Shenzhen Airlines Hotel.



The lease on the new Airbus A320s was initiated with the assistance of RBS Aviation Capital of the Royal Bank of Scotland Group (RBS), and is scheduled to be integrated into the Shenzhen Airlines fleet in 2007 and 2008. RBS Aviation Capital is the fourth-largest aircraft leasing company in the world and currently works with Air China and China Southern. RBS expressed confidence in Shenzhen

Airlines' future development as well as the recent cooperative efforts.

Shenzhen Airlines also celebrated the signing of a letter of intent with the leasing firm CIT Leasing Corporation (United States), the third-largest aviation leasing company in the world. Shenzhen Airlines will introduce the two B737-800s by way of an operating lease, and expects delivery of the two aircraft in October and November of this year.

In 2005, Shenzhen Airlines carried a total of 5.73-million passengers, transported 83,000 tons of mail/cargo and realized RMB 100-million.

Currently, Shenzhen Airlines operates 33 Boeing and Airbus aircraft, with two more expected on Feb. 17th. The five new lease jetliners are part of Shenzhen Airlines' "Three Six Nine" development strategy of providing more transport capability by opening domestic and foreign air routes and establishing Shenzhen

Airlines-operated aviation bases.

Kunming Airport Increases Additional 15 Aircraft Positions

After five months of extensive construction, the new apron at Kunming Airport was officially put into operation on January 22nd. The new apron houses 15 parking positions, occupies 120,000 square meters, and is expected to ease flight delays by relieving aircraft parking congestion.

In recent years, Kunming International Airport has witnessed annual increases in flight and passenger traffic, straining the original 34 aircraft positions available at the airport. The lack of apron space was magnified last November, as Kunming Airport surpassed the 10-million-passenger mark for the year. The first test of Kunming's new capability will come during the Spring Festival transport week later this year.

News Briefs

January 9th – CAAC Minister Yang Yuanyuan and CAAC Vice Minister Yang Guoqing met with the U.S. Transport Secretary, Norman Y. Mineta, in Beijing regarding further development of the China-US civil aviation relationship.

January 10th – Vice Minister of the CAAC, Yang Guoqing, held a meeting with the Transport and Regional Services Minister of Australia, Warren Truss, regarding cooperation between China and Australia on air transport, aviation security and air safety.

January 13th – Vice Minister Yang Guoqing met with Lufthansa Chairman and CEO Wolfgang Mayrhuber to discuss further promotion of the China-Germany aviation transport relationship.

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Feature Article

Chinese New Year and Spring Transport:

A time for celebration, family and road-rage

Written by: George Chao

You may have noticed that this issue of the CCAR is, well,...a bit light on the news. You're absolutely correct. About this time every year, a phenomenon sweeps through China that causes everyone in China to, well, stop what they are doing and go home. The Chinese call this season "Chunjie," or Spring Festival. The Spring Festival and subsequent "Spring Transport" is deeply rooted in China's history; but then again, so is the resulting annual transportation overload of an entire country.

Chunjie is best described as a forty-day period coinciding with the Chinese Lunar New Year, in which students, working professionals, and the floating population of China (200-million in 2003) return home to celebrate the New Year with friends and family. The Spring Transport season typically begins two weeks before the actual New Year celebrations and lasts a few weeks after the Lunar New Year. During this time, the majority of the population in China depends on trains, planes and automobiles to escort them to their point of celebration. Just how many people are on the move during Spring Transport? The Ministry of Transport estimates that the 2006 Chunjie will witness over two-billion passengers utilizing China's rail, air, water and roadway systems.

The tradition of Spring Transport can be traced back to the beginning of the current People's Republic of China era. The installation of the new



philosophy and government meant drastic changes for the citizens of China. The traditional ideology of working to provide for family and loved ones took a back seat to realizing state prosperity, which at the time meant jobs, and the resulting job locations were determined by the government. In light of the new regulations, families were forced to split up,

and were individually relocated to different parts of China to work. The government dissolved the traditional family dynamic in order to achieve what they felt was more important, a strong communist state.

As family members continued to work in distant cities far from their loved ones, Chinese New Year became the only opportunity for families to reunite and spend a few weeks at home, together. Each year, the government would implement measures to ensure that everyone in China would be able to return to their origins and celebrate with family, and thus Spring Transport was born. The current state of mass travel in China is not fueled out of the same conditions; however, just as their parents and grandparents did, the current generation continues to hold the Spring Transport and New Year period in the highest regard.

From humbler beginnings over 25 years ago, the Spring Transport season has snowballed into a full-fledged transportation nightmare for China. This year, more than 700,000 additional busses, 300 trains and 800 additional flights

have been added to try to alleviate the situation, but it still only seems like a drop in the bucket. Reports from the beginning of this year's Chunjie reveal eight-to-ten-hour waits in below-freezing temperatures amidst crowds of 100,000+ at rail stations across the country. This year, civil aviation flights during the transport season are estimated at 10- to 15-million passengers, yet this still represents less than 10 percent of the entire traveling population. According to the National Development and Reform Commission (NDRC), ninety percent of

travelers still choose to travel either by bus or rail, leaving China's roadways and railways stretched far beyond their means.

The effects of mass commuting reaches further than mere traffic jams and long lines at the rail stations; supplementary resources, such as phone lines and ticketing offices, are also subjected to intense pressure. In the Guangzhou region, the volume of phone calls in the booking season peaked at 19.91-million per hour, while the Guangzhou Railway Group had to keep up with demand by installing over 6,000 ticketing offices for the holiday rush.

With each passing Spring Transport, the Chinese government is faced with the dilemma of how to organize the simultaneous transportation of a few billion individuals, hardly a task for the faint of heart. But as the Chinese economy continues its trend of yearly expansion, there will be a need for the implementation of more extensive measures to keep the entire country operating smoothly.



So, as I sit here in front of my computer in San Francisco, preparing to book my Southwest Airlines flight for a weekend excursion in Los Angeles while calculating how I can expedite my check-in and security process, I think I can safely put it into perspective that perhaps some things are better experienced through writing than first-hand: in my professional opinion, Spring Transport just about takes the cake.

Oh, yeah, did I forget to mention that there is an Autumn Transport as well?

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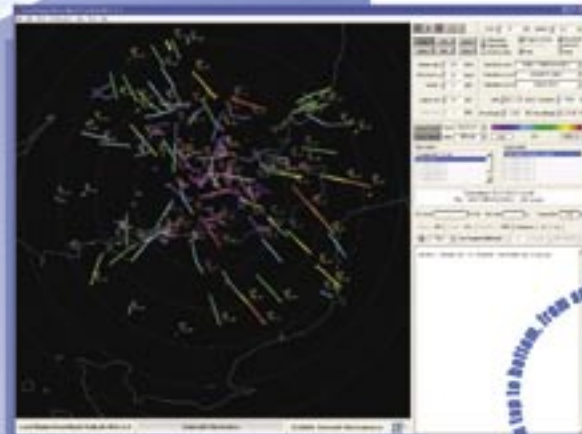
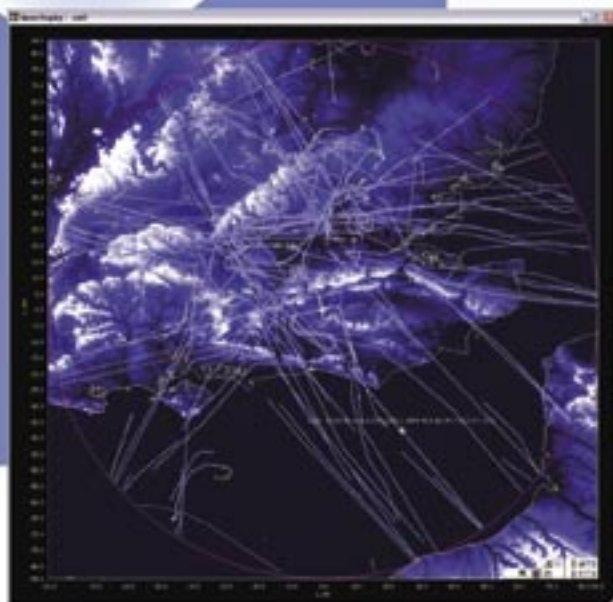
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CAAC Corner

Minister Yang Travels to Tokyo, Talks of Increasing Coordination

CAAC Minister Yang Yuanyuan arrived in Tokyo on January 11th to attend the Ministerial Conference on International Transport Security sponsored by the Ministry of Land, Infrastructure and Transport of Japan. The meeting included 220 attendees from countries and organizations around the world, including Australia, Canada, France, Germany, the United States, the European Commission (EC), the International Civil Aviation Organization (ICAO), the World Customs Organization (WCO), and many others. The objective of the conference was the exchange of information and viewpoints in order to enhance aviation safety internationally, develop successful transport services, and promote international cooperation among the attendees.

During the event, Minister Yang presented a speech on aviation security in China, introducing China's experiences in establishing proper security and putting forth suggestions on how to strengthen existing conditions.

While in Japan, Minister Yang also met with Kazuo Kitagawa, Minister of Land, Infrastructure and Transport of Japan, to exchange opinions regarding further developing China-Japan civil aviation relations. The two Ministers exited the meeting vowing to strengthen aviation cooperation and expand air transport between the two countries.

China and EU Launch Joint Aviation Safety Management Course

The Civil Aviation University of China (CAUC) launched its third installment of the "Aviation Safety Management (ASM)" Masters Program on January 18th. The class is a joint program among CAUC, the National Civil Aviation University of France (ENAC), and the Aviation Polytechnical University of France (ENSICA). Approximately sixty students from various aviation enterprises and institutions will take part in this course.

Preparation and implementation of the ASM Masters Program began in 1996 with the goal of creating an integrated force of senior talents for China's civil aviation sector by utilizing international cooperation in order to introduce advanced international aviation safety knowledge and practices. Members of the CAAC hope that the ASM Masters Program will allow China to quickly bridge the gap between their industry and the international safety standard.

The ASM Masters Program fell into place after the Memorandum of Understanding between the People's Republic of China and the European Union on the Industrial Cooperation in the Fields of Aviation and Communication was established in Beijing on October 29, 1998. The program demonstrates the CAAC's intention to support the Agreement of Professional Master of Aviation Safety Management (ASM), signed among CAUC, ENAC and ENSICA.

The new course will adopt the teaching methods of ENAC and ENSICA, with a curriculum to be taught by both French and Chinese instructors, using universal international aviation language. ENAC and ENSICA will award the ASM Masters Degree jointly.

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