More than 2,000 years ago, the first portions of what has become known as China’s Great Wall were built. Constructed as a barrier to invaders, during the Ming Dynasty (1368–1644 AD), the structure was enlarged to extend 6,400km (4,000mi). Now, China’s door to the world is wide open to ‘invading’ tourists and business people. Many of these visitors arrive on China Southern Airlines, the country’s largest airline, based in the southern city of Guangzhou, formerly known as Canton. The airline also has a 60% interest in the airlines of the following regions: Xiamen, Shantou, Guangxi, Zhuhai, and Guizhou.
Trying to unravel the strands of Chinese commercial aviation history is not easy. Essentially, before 1987 there was one ‘commercial’ aviation entity in China, with the uninspiring name of CAAC (Civil Aviation Administration of China). In September 1984, the government announced a major restructuring of the industry, which resulted in CAAC being split into five regional airlines and an international division, all backed by the state. The three major airlines born out of that reorganization were: Air China, based in Beijing; China Eastern Airlines, headquartered in Shanghai (Airways, October 2000); and China Southern Airlines. Air China became the country’s international flag carrier, while China Eastern focused on eastern and northern China. China Southern, which officially came into being in February 1991, operated to destinations in the south and west.

Like all Chinese airlines, China Southern is majority-owned by the government, but nearly 30% is invested privately. The airline is listed on the New York Stock Exchange (NYSE) and Hong Kong’s Hang Seng. Although state-owned, all Chinese airlines are technically marketed independently. Nevertheless, decisions on aircraft acquisitions are generally made by CAAC, which today is the civil aviation regulatory body.

As in any country, the aviation industry in China is not static. A decade after reorganizing the airline industry, the government again introduced sweeping reforms. To compete with increased international competition, it was determined that less is more, so the government set about the onerous task of merging the ten airlines that were under the control of CAAC into three airline groups under Air China, China Eastern, and China Southern. Provincial carriers such as Hainan Airlines and Shanghai Airlines (Airways, December 2000), not under the direct control of CAAC, were not part of the restructuring plan.

The aim of this restructuring was to make the industry more profitable. As such, China Northern Airlines and China Xinjiang Airlines were merged into the China Southern Air Holding Co from January 2003 and the airlines integrated last November. This new ‘super’ airline with combined assets of $6.5 billion flies nearly 200 aircraft. Unlike airline mergers in other countries, this is a fairly benign and orderly one. All the aircraft have been repainted, and the process has been invisible from the passengers’ perspective. China Southern has always been China’s largest airline, but after the merger, the airline’s domestic market share rose to more than 30%, carrying more than 30 million passengers.

China Southern operates an assortment of aircraft, including the Boeing 777-200—used on long-haul routes to Los Angeles, Europe, and Australia—Boeing 737, 757, Airbus A319/320/321, and the McDonnell Douglas MD-80. Between June 2004 and February 2005, the airline took delivery of six ERJ 145 regional jets. These were assembled at Harbin, in northern China, by the Harbin Embraer Aircraft Industry Company, a

Mr Si Xian Min, formerly the head of China Northern Airlines. Appointed President of China Southern in October 2004.

China Southern headquarters.
Also helping the airline industry is the government’s commitment to relax travel restrictions for Chinese citizens. Seven years ago, leisure travel was forbidden; but on September 1, 2004, China’s National Tourism Administration added 26 European countries to the 26 mainly Asian nations that have been granted ‘Approved Destination Status’ by the central government. Travel to countries without Approved Destination Status—including the USA and the UK—is possible with special government permission. According to the World Tourism Organization, the number of tourist departures from China will expand by more than 120% on average each year—at triple the world rate—to 100 million in 2020. These numbers, along with China’s burgeoning economy, bode well for the nation’s airline industry. In the coming years, China will also be playing host to some high-profile events that will draw even more visitors, notably the 2008 Summer Olympic Games in Beijing, the 2010 World Expo (to be held in Shanghai), and the 2010 Asian Games, scheduled for Guangzhou.

China Southern’s international network is concentrated in East Asia. However, with the acquisition of the network of China Xinjiang Airlines, it now serves many destinations throughout Central Asia and Moscow [Moskva] from its Urumqi base in northwestern China. The airline’s long haul destinations include Amsterdam, Paris, Melbourne, Sydney, and Los Angeles, the latter being its sole North American destination. China Southern is also the only foreign airline to offer service to P’yongyang, North Korea. At present, the airline has no firm plans to introduce new routes, but would like to better manage its existing network. “In time, we would like to serve more destinations in the Middle East, North Africa [Cairo], and North

joint venture established between Embraer, Harbin Aviation Industry (Group) Co, and the Hafei Aviation Industry Co, companies controlled by China Aviation Industry Corporation II.

China Southern is the 15th announced customer for the Airbus A380-800, with five on order, and anticipates receiving its first Boeing 787 Dreamliners in 2008, in time for the Olympic Games to be held in Beijing.

The growth potential for the Chinese industry is huge. China’s per capita GDP (gross domestic product) is only $1,000, much lower than developed nations, but economic progress is being made, such that more and more people are able to fly. “Ten years ago it was mostly government officials who flew,” says Tang, “but with a population of 1.3 billion, the future looks bright.” China is the fastest growing air transport market in the world. It was expected that in 2004, close to 120 million passengers would travel by air in China. The government has also pledged to allow the introduction of private airlines—a first for China—as it begins to adopt a more liberal, market-friendly industry.
America,” says Wells Zheng, the airline’s deputy director. When pushed, Wells suggested the airline would also like to start service to Vancouver. This is an interesting choice, considering the high level of competition for market share between that Canadian city and China, with Air Canada, Cathay Pacific Airways, Air China, and China Eastern all offering flights.

An immediate priority for China Southern is to work on acquiring full membership in the SkyTeam alliance. The airline is the first in China to be accepted for future entry into one of the world’s major alliances. Considering China Southern’s long-time code-share agreement with Delta Air Lines, and its relationship with Air France and KLM, SkyTeam is a natural fit. “We have a lot of advantages,” says Tang. “We are China’s largest airline, and in terms of passengers carried, tenth largest in the world, and we can provide our partners with the most extensive flight network in China, with service to every province...we even fly to Lhasa, Tibet.” Tang also says that the airline’s base at Guangzhou provides an added advantage, because the city is a dynamic business center, and is at the heart of the China’s global manufacturing industry.

Guangzhou’s new Baiyun International Airport (IATA: CAN/ICAO: ZGGG—see page 30), which opened on August 5, 2004, helped gain SkyTeam’s interest. “SkyTeam would not have been interested in our airline if the old airport was still in use,” says Jeff Ruffolo, the airline’s international public relations advisor. “The old airport, located near the center of the city, was very constricted with only five airbridges (only three of which usually worked), now we can turn Guangzhou into a hub.”

While much of the airline’s operations have moved to the new airport, 30km (19mi) north of the city, training activities are still conducted in town. All of the airline’s pilots are Chinese nationals, and flight crew training is done at the China Southern West Australian Flying College, in Perth, Western Australia, in which China Southern has a 65% stake. In the Guangzhou training center, the airline’s 3,000 flight attendants practise on cabin training models for each aircraft type that China Southern operates. “Safety, security, and service are the foundation of our success,” says Zeng Genghua, head of the airline’s training center, as he shows Airways around the complex. During the visit, flight attendants were busy practising emergency procedures, and learning the fine details of passenger service.

China Southern provides some of the best service of all Chinese airlines. It offers three seating classes on long-haul flights: economy, premium economy, and business. The airline has recently refurbished the business class cabin of five of its Boeing 777s. Seating has been increased to 24 from 18, with a seat pitch of 70in (1.8m), and up to 60 degrees of recline. In-flight entertainment consists of 11 channels showing the latest Hollywood films, along with Asian and European feature movies. There are four television channels featuring BBC and Discovery. Premium economy has larger seats than those in economy class, and come with individual video monitors. China Southern is in an enviable position, because its base at Guangzhou is a business destination; so there is much more demand for premium service, especially from overseas.

Check-in for this editor’s flight from Los Angeles was at Delta Air Lines in Terminal 5. Business class passengers had access to Delta’s Crown Room. Flight attendants were friendly
and attentive, and on a number of occasions would turn on a passenger’s reading light without being prompted. The toilets were well maintained throughout the 15-hour flight to Guangzhou.

Surprising, though, was the lack of a meal in business class on a 75-minute domestic flight. Instead, passengers were offered cashews and a soft drink. After reaching Baiyun International on a domestic flight, baggage arrived at the carousel less than ten minutes after the aircraft parked at the gate. A source of some consternation, however, was the fact that check-in agents were unable to ticket passengers through to their final destinations, after connecting in Guangzhou. Another passenger, connecting to Los Angeles from Shanghai, expressed similar surprise. This meant that passengers were forced to pick up their luggage at domestic arrivals and walk a considerable distance to international check-in. Improvements in this regard will surely have to be made should China Southern become a full member of SkyTeam.

The airline’s business class lounge for international passengers was disappointing at best. Considering China Southern’s base is Guangzhou, the lounge is surprisingly small and cramped. In fact, several passengers had the same surprised look when they walked into the lounge. I felt sorry for the attendants, who looked apologetic as people walked in. There is no reason why the lounge should not be a showcase for the airline and the new airport. To be fair, the lounge for domestic passengers was much larger, but falls well short of the amenities offered by many airlines at other airports around the world.

China Southern is the dominant carrier at Guangzhou—and, until recently, the only airline to offer service from that city to the United States—but it is starting to see more competition. In November 2004, Northwest Airlines began service to Guangzhou, through its Tokyo-Narita hub, and United Airlines is considering service. Wells Zheng suggests that more promotion of both the airline and Guangzhou needs to happen. “Guangzhou is the not the first city of choice for US passengers visiting China,” he admits, “In fact, we are fourth, behind Beijing, Shanghai, and Hong Kong.”

While the airline is committed to strengthening its Guangzhou base, it has recently begun developing Beijing as a separate hub. This has been so successful that China Southern now occupies the old Terminal One at Beijing’s Capital Airport. Terminal One was first put into use on January 1, 1980, and was once the country’s largest and most modern terminal. It had been closed for the past five years, but after 14 months of renovations, the terminal now boasts two satellite islands, 13 boarding gates, and 50 check-in desks. The terminal is designed to handle nine million passengers annually. China Southern expects that traffic through the terminal will reach eight million by 2008. The airline operates 37 routes from the Chinese capital, including more than 1,100 domestic and 67 international flights each week. By 2005, the airline would like to increase its
domestic presence from Beijing to more than 1,500 weekly flights, and launch ten new domestic routes.

Although the government regulates domestic fares, in April 2004 the ‘Proposal on Price Reform for Domestic Operation of Civil Airlines’ was implemented. Through this initiative, the government moved away from direct pricing to something called ‘indirect supervision’, whereby the government would set basic prices and a floating range. Chinese airlines can, within the range stipulated by the government pricing authority, determine their own prices autonomously, according to market conditions.

In 2000, China Southern was the first airline in China to implement electronic tickets, which are currently available for about 60 domestic destinations. Passengers can also book some domestic tickets online, but the airline admits that the fundamentals of online payment in China are not as advanced as in other parts of the world, but China Southern is working to improve in this regard. Despite this, the airline recorded more than RMB2 billion ($242 million) in online sales through its Chinese website in 2004. There is a dedicated check-in for customers who book online, and the airline is currently working with Visa, so international passengers will be able to book tickets through the China Southern website. Self-serve kiosks are also being developed for use in Beijing.

Operating in the heart of China’s growing manufacturing industry, cargo is an important part of the airline’s overall business strategy. China Southern currently operates two Boeing 747 freighters, and offers cargo-only service to Chicago from Shenzen, via Shanghai, and from Shanghai to Liège (in Belgium), and Amsterdam. The opening of the new Guangzhou Airport has been important for the development of cargo business, and the airline expects to purchase new freighters, which will be based at Guangzhou. The new Baiyun Xinhua (Guangzhou) Air Cargo operation, 70%-owned by China Southern, is a 10ha (25ac) complex, designed to handle 800,000t (1.8 billion lb) of freight per year. This modern center has allowed China Southern to double its daily cargo capacity. Next to Hong Kong, it is China’s second largest cargo terminal, and can accommodate five 747 freighters at one time. A second phase is already being planned, which when completed will have room for up to 13 freighters, and will cover 25ha (62ac).

While most airlines suffered during the SARS outbreak,
(Airways, September 2003), few were affected more than China Southern. Eighty percent of the airline’s fleet was on the ground for 45 days, but the airline proudly reports that no one was laid off. Instead, staff was encouraged to take vacation, and administration employees were rotated to provide for an operation that ran at 20% of capacity. In April 2003, the airline’s operation between Guangzhou and Beijing was reduced to one flight a day, instead of the usual eight; five weekly service to Los Angeles were reduced to only one. On some flights, a handful of people were onboard, but no routes were suspended.

Once the airline received instruction from the World Health Organization (WHO), the airline was fanatical about cleanliness. A SARS taskforce was created to deal with the crisis, and could be mobilized within 48 hours should the insidious disease return. In May 2003, the WHO lifted the travel ban, and within four months capacity had returned to 50%. The domestic market returned immediately, but it took longer for international routes to return to normal. By the end of 2003, full capacity had been
China Southern Airlines

IATA: CZ  ICAO: CSN  IATA/ARC: 784  Radio: China Southern

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Website: www.cs-air.com/en

Founded: February 1991  Chairman: Liu Shao Yong
Start date: March 1995  President: Shi Xian Min
Employees: 34,000

Interests: Guangxi Airlines (60%), Guizhou Airlines (60%), Shantou Airlines (60%), Xiamen Airlines (60%), Zhuhai Airlines (60%), China Postal Airlines (49%), Sichuan Airlines (39%)

Traffic

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<th>RPK (millions)</th>
<th>Freight (000 tonnes)</th>
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<th>Passenger load factor</th>
<th>RFTK (millions)</th>
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<td>(China Southern only, 2004 - Nov)</td>
<td>34,364</td>
<td>497</td>
<td>4,280</td>
<td>69.7%</td>
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<td>62.9%</td>
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<td>Passengers (000)</td>
<td>26,126</td>
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Revenue.

Route network: 2,900 scheduled flights per week
Cities served: Domestic (* hub city): Aksu, Altay, Beihai, Beijing, Changchun, Changde, Changsha (CSX*), Changzhou, Chengdu, Chongqing, Dali City, Dalian, Dandong, Dayong, Diqing, Fuyang, Fuzhou, Ganzhou, Guangwuan, Guangzhou (CAN*), Guilin (KWL*), Guiyang (KWE*), Haikou (HAK*), Hangzhou, Harbin, Hefei, Hong Kong, Hotan, Jilin, Jinhong, Jining, Kashi, Korla, Kunming, Kunj, Lanzhou, Lhasa, Lianyungang, Lijiang City, Liuzhou, Luoyang, Meixian, Mudanjian, Nanchang, Nanjing, Nanning, Nantong, Nanyang, Ningbo, Qiemo, Qingdao, Qiqihar, Sanya, Shanghai, Shantou (SWA*), Shenyang, Shenzhen (SZX*), Tacheng, Taiyuan, Tianjin, Tunxi, Urumqi, Wenzhou, Wuhan (WUH*), Xi’an, Xiamen (XMN*), Xining, Xuzhou, Yancheng, Yangji, Yantai, Yichang, Yinchuan, Yining, Yiwu, Zhanjiang, Zhengzhou (CGO*), Zhoushan, Zhuhai (ZUH*)

International: Almaty, Amsterdam, Bangkok, Bishkek, Busan, Cheongju, Daegu, Dubai, Fukuoaka, Havana, Ho Chi Minh City, Islamabad, Jakarta, Khabarovski, Kuala Lumpur, Los Angeles, Manila, Melbourne, Moscow, Nago, Niigata, Novosibirsk, Osaka, Paris (CDG), Penang, Phnom Penh, P’yongyang, Saipan, Sapporo, Sendai, Seoul, Shanjia, Singapore, Sydney, Tokyo, Toyama

Fleet

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Fleet source: ATDB

Restored. Despite the SARS epidemic, the airline still posted a net profit in 2003 of RMB14.4 million ($1.7 million).

China Southern has lofty goals, as it sets its sight on being one of the top five airlines in Asia. “We know we have a lot of work to do,” says Tang, “Our service is good, but we can improve...there is a lot of opportunity.” Airline executives recently spent five months at Cathay Pacific in Hong Kong gaining management expertise and learning about service from one of the world’s top-rated airlines. Tang also notes that the airline will benefit from the SkyTeam alliance, because it will learn best practices from other airlines.

“Be not afraid of growing slowly, be afraid of only standing still,” says a Chinese proverb. Like the country itself, China Southern is surely not static. The airline represents the new Chinaæmodern, resourceful, and confident. China Southern is a good airline, with a bright future indeed. →