

Confusion over European hushkit ruling

Rumours have begun about the contents of a rule proposed by the European Commission to introduce a non-addition clause for hushkitted aircraft. Some sources have even gone so far as to incorrectly state that hushkitted aircraft will be banned after 2002.



In March 1998 the European Commission (EC) put forward a proposal to introduce a rule that would effectively cap the number of aircraft modified to meet Chapter 3 noise rules operating in Europe (equivalent to the US Stage 3). This rule is now in the process of being finalised and has caused concern in the past few weeks.

While the rule will affect hushkitted, re-engined and modified aircraft, those which originally met Chapter 2 noise compliance and have engines with a bypass ratio of greater than 3:1 are exempt.

The regulation states that the number of hushkitted aircraft on the register of countries in the European Union (EU) cannot be increased. This rule applies from the first of April 1999. That is, any operators wishing to increase their hushkitted fleets by importing aircraft from outside the EU have to do so in the next six months. The rule will still allow hushkitted aircraft to be transferred from one EU state register to another.

Considering that there are a large number of countries where Chapter 2 hushkitted aircraft are operated, the EC has widened the rule. Hushkitted aircraft

Finnair is one European airline that has hushkitted several Stage 2 aircraft with a view to keeping them for several years.

registered in countries outside the EU can only continue to operate into EU airspace after the first of April 2002 if the aircraft has a previous record of operating into the EU between 1995 and 1999. The rule also states that hushkitted aircraft flying into the EU must be on the same national register as they will have been in 1999. This part of the rule is therefore effectively a non-operation rule.

The second half of this rule prevents the number of hushkitted aircraft flying into EU airspace from increasing. There are a number of east European and north African airlines which operate Chapter 2 aircraft into the EU. While the rule does not prevent any of these carriers increasing their fleets of Chapter 2 aircraft, it prevents them being imported into these countries with the purpose of flying into the EU.

Although the non-addition rule only applies to the 15 member EC states, the additional 22 member states of ECAC have basically said that they should also

take action against hushkitted aircraft. There is therefore a high chance that these 22 countries will also introduce a non-addition rule. The 22 countries are Switzerland, Norway, Iceland and others in eastern and central Europe.

The EC has clearly stated that the reasoning behind the non-addition and non-operation rules is to cap the number of hushkitted aircraft flying in EU airspace from April 1999. The EC is trying to exclude from the EU aircraft which only just meet Chapter 3 noise compliance regulations and have a high level of gaseous emissions.

The exemption of aircraft with engines which have a bypass ratio higher than 3:1 means that types such as the DC-8-70 and 747-100 are in the clear.

The implications of the EC ruling are serious for several operators. It has created a great deal of anger since the amendment was made so recently. The deadline for Chapter 3 compliance was set in the early 1990s: hushkitting and other modification methods were deemed acceptable at the time.

Operators are frustrated by their inability to import low capital cost aircraft, and are instead forced to acquire expensive new aircraft. The airlines most severely affected will be the freight operators which have 727s, 707s and DC-8s in their fleets. Although they can continue to operate their existing aircraft with modifications, fleet expansions can only be made after April 1999 by purchasing new expensive aircraft. The economics of these operators is based on low capital cost equipment and so the ruling will prevent fleet expansion and damage the viability of operations.

One area of air transport that will be hit particularly hard is the overnight small package business which uses hushkitted 727s. The prevention of expanding 727 fleets in this fast growing area could be damaging.

The EC ruling will certainly limit the market for used Chapter 2 aircraft. While the FAA has not followed with a similar non-addition ruling, Chapter 2 aircraft are expected to generally leave the North American market rather than be hushkitted.

The EC ruling totally closes off EU countries as a market for Chapter 2 aircraft. It also means that the eastern European and north African markets are limited to acquiring Chapter 2 aircraft for operations outside the EU. If the other 22 ECAC states introduce a non-addition rule then the market for Chapter 2 aircraft will become even more limited.

EU operators are also concerned about the negative effect the ruling will have on the market values of their current fleets. Operators fear it would have a negative impact on their credit ratings and make financing of future acquisitions

less tenable. The closing off of the market around Europe will also create a downward force on Chapter 2 aircraft values worldwide.

The non-addition rule for Chapter 3 modified aircraft is a further complication of the non-addition rule relating to Chapter 2 aircraft that are older than 25 years. This rule, made in the early 1990s, says Chapter 2 aircraft may not be allowed to continue operating in the EU after reaching an age of 25 years. Not only will Chapter 2 aircraft be prevented from entering the EU market, but they will also be forced out to other parts of the world. This will then force all operators of low cost aircraft to acquire younger fleets at higher capital cost. Exemptions of three years on the 25 year rule can be given to airlines on the basis of economic hardship.

For the Chapter 3 modification non-addition rule to become law the proposal has to go before the European Council and Parliament. The European Parliament made some amendments to the first rule in its first reading in September 1998. The amendments put forward by the parliament were considered by the commission, which has the right to reject or accept them. The parliament made six amendments. One was accepted, three partially accepted and two were rejected. One amendment rejected was the proposed banning of night operations of hushkitted aircraft. Had this been accepted then all freight operations would have experienced severe economic damage.

It is now unlikely the rule will experience any further major changes and should soon reach a position where it will become law.

Aeroflot is the one Russian airline to make a quick recover after the Russian financial crisis.



Russian happenings

Russian airlines have suffered following the economic crisis in August but the majors have survived.

Aeroflot suffers

Aeroflot Russian International Airlines carried 2.679 million passengers in the period from 1 January to 10 August 1998, just before the rouble's collapse. This compares with a 1997 total of 3.904 million. The weeks following the financial crisis saw traffic on all Russian airlines fall by over 30% but Aeroflot traffic at least had shown some recovery by the end of September.

Aeroflot's second 777-200 was delivered to Moscow on 5 October and entered service on the Moscow-Beijing route two days later. It is leased from ILFC.

Aeroflot and GECAS have reached agreement for the lease of four new 767-300ERs which will enter service in 1999. They will replace two 767s which have been in service since 1994 and two A310s.

Transaero survives

Russia's leading independent airline has seen a heavy fall in traffic in the first six months of 1998. With 1997 passenger numbers of 1.551 million, the first half of 1998 resulted in 669,000 boardings, while scheduled numbers grew by some 10%, non-scheduled traffic showed a considerable fall.

Transaero agreed with its lessors to return two DC-10-30s and two 757-200s in September, and to concentrate for the

present on smaller aircraft types, mainly the 737-200.

Transaero's president, Alexander Pleshakov, has (for the moment at least) regained control of the company when a Moscow court decided that an attempt to replace the board had not achieved the required margin of support. The attempt was a result of the board's announcement of losses totalling \$70 million which was not accepted by shareholders. Transaero had earlier reported an operating profit for 1997 but overall results were not revealed. However, unpublished Federal Aviation Service papers indicate that the airline is looking at an overall loss of \$18 million for 1997 and total losses are in the \$70 million region.

Baikal Avia sinks

A court in Irkutsk has declared the city's airline, Baikal Avia, bankrupt and ordered it to suspend services at the petition of a foreign shareholder. The airline has seen a 26% drop in traffic from 1996 to 1997 and was regarded by the Federal Aviation Service as financially unstable.

A new company, SIANI, is being formed by a number of Siberian airlines and regional governments, including the government of the Irkutsk region. SIANI will initially operate a single A310-300 subleased from Sakha Avia, to link several Siberian cities with Moscow.

Sirocco delivers

The first two Sirocco Tupolev Tu 204-120s, one passenger and one cargo, will be delivered to Cairo in the first week of November. They are destined for service with a new Egyptian carrier Air Cairo. The delivery was delayed from mid October at the request of the Russian government who asked for an official seeing-off ceremony.

Sirocco has faced some unexpected hurdles in its programme combining 'the best of the east with the best of the west'. One of these was taxes which would have added almost \$10 million to the cost of any aircraft sold or leased in Russia, a second was combining Russian industry techniques with those understood and accepted by western industry and authorities. Working with Tupolev and Aviastar, most of the problems have now been resolved.