

START-UP AIRLINE GUIDE FOR BEGINNERS



What will be your airline?

Produced by



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INTRODUCTION

This guide has been made for those who are thinking about starting an airline. Especially for those with no or limited knowledge of aviation. I have seen many airline start-up projects come and go. Most of them did not take off and ended up as paper airlines.

This guide provides vital information for the readers to avoid mistakes and plan properly. Perceptions, misunderstandings, the usual mistakes made by previous start-up cases are also explained for better understanding.

This is a rough guide to the main issues covered therefore please do not consider it as a complete guide. Certain issues require in-depth knowledge and experience to understand and they are available from aviation experts in each sector. Proper consultation and/or search of information shall be required to know more about a particular issue in details.

Starting an airline is one step but to make it successful is another. Plans and reality often do not match therefore be careful, the market study should be taken into consideration.

Financing is also a major hurdle and it is often the sole reason why many start-up airline projects ended up as 'paper airlines' only. The amount of funding needed for an airline varies depending on country and regulations. Understanding of regulatory issues is an important factor as financial fitness is a major issue in USA, EU, etc. This is for the protection of the travelling public however often the cost of meeting schemes to protect the travelling public forces start-up airlines to have far more than originally estimated cost value. Contacting local civil aviation authorities or relevant bodies shall help you to find such information, therefore, it should not be missed at the planning stage.

You may contact the author if you need any information or clarification. Limited free consultations shall be provided.

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BRANDING – NAME SELECTION

Selecting the name to remember and impress

Selecting the name for a start-up airline should be done carefully. If you intend to establish a low-cost airline (LCC) with a plan for franchising or establishing subsidiaries elsewhere then selecting the name is far more important than other cases.

Unless your intended airline is a country specific base and an airport or airports in that country shall be hubs, you should not choose country specific name. If your intended airline is something like a national carrier as there is no national carrier than a country name based airline name shall be much more appropriate.

The trend of low-cost airline names is much more fun based or easy to remember word basis. EasyJet, Wizz Air are such case. Some cases are geographic name basis. AirAsia's main base is Kuala Lumpur, Malaysia but it does not include any country specific word in it. It has joint venture carriers around Asia, therefore, AirAsia name itself covers the wide geographic area. Cebu Pacific in the Philippines has the city name of Cebu but Pacific makes it wider coverage. Ryanair is based on the founder's surname. FlyDubai is a LCC, however, it carries its base name, however, it has more like the branding of Dubai itself to promote Dubai.

Air Arabia has subsidiaries in Egypt, Morocco, however, there are Arabic-speaking countries, therefore, it may be considered appropriate and focused on Arabian hospitality.

JetStar does not give any hint on its nationality and it has joint venture entities around Asia along with its parent entity in Australia. Tiger Airways also does not give any hit on its nationality. Lion Air of Indonesia has a joint venture entity in Thailand called 'Thai Lion Air' but the name of Lion Air itself does not give the origin of country.

There is a country specific LCC which is VietJet. It has a joint venture entity in Thailand called 'Thai VietJet'. Word of 'Viet' makes it clear that VietJet is a Vietnamese carrier. Branding is very important so it is recommended to select the name right for your intended airline's plan. Think about the name what people can remember easily and recognise easily for the success of your intended airline business.

Your task starts from branding.

WHAT TYPE OF AIRLINE?

A Low-Cost Carrier (LCC) or A Full-Service Carrier?

Obviously, this is a hot topic for anyone who is thinking about setting up an airline but there has been a major miss perception – LCC will be better for any case. This is not true. The success of LCC operation is based on volume therefore often a lot more money is required than a full-service carrier.

The success of LCC model is based on a large number of routes and flights. Otherwise, profitability is very difficult to achieve or low return on investment even if it does not lose money. You will find that almost every successful LCC had or have very large capital backing from investors or financial institutions to help them increase the number of aircraft in their fleet and expand. There have been many LCC model adopted carriers which have gone out of the market and the main cause was not having sufficient funding to grow and compete in the competitive market environment.

Looking at all major LCC operators. The number of aircraft in their fleet is large and most of them have subsidiaries, joint venture affiliates, franchisees to cover large network. LCC's fares are generally low (if advanced purchases are made) compared to full-service carriers however profit per passenger is low without counting auxiliary revenues. The only way to boost their revenue and profit is having large networks and frequencies to carry more passengers.

Full-service carrier model would work if your capital is limited without having near future investors or backing from financial institutions. It is all depends on the routes you are going to operate. The Proper market study is necessary to decide. You don't need to aim to be a LCC if routes you are going to operate is a near monopolised route or mainly business traffic based or competition limited niche routes. The Proper market study shall reveal chances of success. It is advised to avoid consideration of LCC if you are going to operate turboprops or small jet aircraft.

Here is a chart that may help you to decide your model of an airline if you are going to operate turboprop or small jet aircraft. The model of an airline should be decided based on the market study, potentials and the logic of the travelling public not just following a trend or 'LCC' may give better reception by the

travelling public. Please keep in mind LCC model does not always work in all circumstances of operations.

MARKET CONDITION	TYPE RECOMMENDED	REMARKS
There is no other operator operating the route(s) you are planning to operate.	FULL SERVICE	You will be the sole operator without any competitor on the routes, therefore, you don't need to bleed yourself by offering LCC type fares
There is a competitor but it operates once a day or a few flights per week with a large jet aircraft.	FULL SERVICE	If a competitor is operating a large jet with once a day frequency, twice a day (morning and evening) would be able to attract passengers.
Over 50% of traffic is business travel basis paid by employers and there is no competitor or a limited number of a competitor.	FULL SERVICE	Business passengers' fares are usually paid by their employers and a good timetable would attract passengers so no necessity for cut-throat fare offerings.

Full-service carrier model shall be suitable if your planned routes are business traveller demand based or you have products which are better than competitors. This guide is aimed for worldwide readers, therefore, it covers all the possible scenarios.

Cultural Considerations?

Most people think LCC model we know of would work everywhere. Selling low fares and generate auxiliary revenues for profits. But it is not true. Think about JetStar Japan and AirAsia Japan. Despite their great success elsewhere they couldn't be successful in Japan. There are many reasons including Tokyo Narita airport's night flight curfew which affected LCC model's advantage of early morning and late night flights (JetStar Japan case) and cultural, the business

system (Japan's travel industry is still heavily relied upon ticketing through travel agents).

Look at the LCC's of South Korea. Although they promote themselves as LCC's they are more like the hybrid concept. Under 1-hour flying time based domestic flights are offered with free water, coffee, soft drinks. Snacks, meals are offered on international flights. Often their fares are lower than Korean Air and Asiana Airlines but higher or similar to foreign full-service carriers serving South Korea. It can be seen that Korean passengers using those Korean LCC's are paying for 'Korean language service' premium. Paying for food, drinks is not acceptable for Korean passengers travelling by air so implementing European & American LCC model is difficult and would not work well. That is the reason why they provide in-flight services without charging for them. This makes Korean LCC model 'Low Fares Carrier model compare to legacy full carrier model' but more like the full-service model with lower fares.

Let's look at other parts of the world. There are not many people with credit and debit cards in South East Asia or the Indian sub-continent countries. Particularly credit and debit cards for international use are limited in certain countries with foreign currency control but with high passenger demands. FlyDubai has established service centres (mostly run by local travel agents) for payments in local currency where local people can visit to make bookings and payments. In Thailand, Malaysia and other parts of South East Asia, LCC's teamed up with local banks, convenient stores, travel agents, etc to provide payment services. Some carriers offer website bookings with payment through local channels.

European, American LCC models which we are familiar with are mostly internet based bookings and payments by credit and debit cards. Booking through call centres makes it more expensive by charging service fees. Different parts of the world have necessities for unusual elements of service to grab passengers. India, Pakistan, Bangladesh, etc are large markets for Middle Eastern based LCC's such as FlyDubai, Air Arabia. To tap those markets with limited availability of credit and debit cards among populations and foreign currency control, the only logical solution was doing business with local travel agents.

It is important to remember that standard LCC model does not work everywhere. Cultural considerations, local business practices, regulations should be counted toward to business model of your airline otherwise achieving success would be very difficult.

You should choose the right model for the right market segment. You should not try to make your planned carrier 'a LCC' unless you have sufficient financial capability to expand. The success of LCC model is simply 'VOLUME'. If you can't generate volume, you can't be successful with LCC model or you will end up with a very small profit which may be considered as a bad investment in terms of return on investment principal.

HUB and SPOKE system?

At the beginning of LCC era, LCC's said 'the Hub and Spoke' system of legacy carriers are not the right model and point to point is the key for success for LCC model. Now it has turned out to be 'the Hub and Spoke' system is important for LCC's as well.

LCC's established subsidiaries, foreign bases, joint-venture affiliates or franchisees to expand the market. Often creating multiple numbers of Hubs and feeding to each other within their networks. The Hub and Spoke system became an important element for even LCC's. It provides connecting passengers each other within their own networks and now the even interline system is born within LCC industry.

The Hub and Spoke system is an important element for successful LCC's and full-service carriers. This shows certain elements of airline business applies to both LCC and full-service carrier models.

Another type of airline business models

There are other types of airline business models. Non-scheduled carrier (charter airline), cargo carrier, ACMI carrier, feeder service (franchise) carrier and so on.

ACMI (Aircraft, Crew, Maintenance, Insurance) carrier usually provide its aircraft with the crew (mainly cockpit crew), maintenance, insurance (aircraft insurance, not passenger & cargo insurance) elements to other airlines who need extra capacities. Well known feeder service carriers in the USA are Republic Airways Holdings and Mesa Airlines. They provide feeder services to mainline carriers such as American, Delta, United Airlines. Through Airline Service Contract, they provide feeder services from secondary airports to hubs of their contracted mainline carriers. Mainline carriers pay them based on per flight, therefore, they do not risk losses based on the outcome of the business. There are also a number

of feeder (franchise) carriers providing similar services to mainline carriers in Europe too. Feeder service carrier model would be a stable business model if you can get enough contracts for the service.

There is another type of airline called 'Virtual Airline'. This is usually operated by another carrier such as ACMI operator or charter airlines on behalf of a virtual airline. The virtual airline itself does not have its own AOC (Air Operator's Certificate) but using aircraft, AOC and other services provided by an AOC holder. EasyJet's initial operation was a virtual airline form until it received its own AOC.

It is recommended to check with your local civil aviation authority for detailed AOC application process and related regulations as each country has its own regulations governing airline licensing.

SELECTING THE RIGHT AIRCRAFT

Selecting the right aircraft is a very important factor for successful airline operations. There are some aircraft models with different engines installed. It is important to consider the following two main factors.

1. Operational requirement based consideration – expected number of passenger based selection is important. Not too big, not too small, just the right size. Weather conditions of routes should be considered for engines and select engines right for weather conditions of the routes planned. There are some aircraft and engines weak on hot weather conditions, therefore, careful consideration should be made before selecting the right aircraft model and engine model. Runway length and other operational conditions of airports involved in the routes should also be considered to avoid any difficulty or payload restrictions.
2. The cost of operation – some engines are expensive to maintain. For wide body aircraft, Rolls Royce Trent engines are expensive to maintain because you should join Rolls-Royce Total Care. Total Care is expensive if aircraft utilisation is not high. Among old aircraft, there are some engines more expensive to maintain or overhaul than other engine models.

Buy or Lease?

This is often the main topic. Purchase or lease – it can be a very difficult choice but in general, it is recommended to lease the aircraft when you start an airline. Buying it can be a heavy capital investment for a start-up airline and often chew up capital intended for operations. Unless you have a large sum of money enough to purchase and support operation, it is recommended to lease the aircraft before buying any. There are reasons listed below.

1. Lease allows you to change type of aircraft if aircraft is found to be not suitable for your operation.
2. Many airlines lease aircraft then decide to buy. The main reason is to learn about the aircraft and suitability for their operations. It is a way to ensure the aircraft they are going to buy is suitable, profitable under their circumstances. Consider it as a trial before purchase.

3. Except for lease rental deposit, lease payments, and maintenance reserves, the rest of the fund can be dedicated for operation giving more time for a start-up airline to sustain.

There was a UK based airline which had gone bankrupt soon after it started its services. It bought two B767-200's powered by PW JT9D engines. B767-200 with PW JT9D engines on are well known for the high cost of maintenance and overhaul. It bought them 'as is where is' basis and engine maintenance cost seem to have not been considered when it made its decision on buying 2 B767-200 powered by PW JT9D engines. Due to the cost of engine maintenance, only 1 aircraft entered service while the other didn't enter the service. Purchasing aircraft sucked up most of its start-up capital which forced it to cease its operation just over 2 months after it started operation.

If you have sufficient capital to purchase the aircraft and operate then it is recommended not to purchase the aircraft in the name of the airline. It is recommended to establish a special purpose vehicle to purchase the aircraft and give it to the airline in the form of a lease. This is a kind of protective measure. The aircraft as an asset remain with the special purpose vehicle you established to buy the aircraft even if the airline has gone under. The use of special purpose vehicles is a common practice in the aviation industry and it will help founders to salvage some of their investments.

It is recommended to take proper pre-purchase process such as inspections on the airframe, engines (including borescope inspection) and valuation from a reputable firm specialised in aircraft valuation. In addition to this, it is recommended to calculate the cost of repair if it is a second-hand aircraft. You have to know what will be the final cost of your aircraft to be ready to fly. There have been many who bought aircraft without considering the true cost of acquisition to be fit and in a ready condition.

Purchasing the aircraft based on 'as is where is' comes with the risks. You have to conduct proper inspections even if it will cost you money but avoiding it may incur higher costs if you find more things to repair or replace after purchasing it. You will not be able to make any claims after you have purchased it as a certificate of technical acceptance is a part of the purchase process and issuing such certificate means you accept the conditions of the aircraft.

Professional help should be sought unless you have an in-house team of technical experts who can inspect and advise you to enable you to make the right choice.

SALES & MARKETING

Nowadays all the airlines regardless of LCC or full-service carrier heavily rely on online sales and marketing. But this is not all. As mentioned earlier, countries with a limited circulation of credit, debit cards and/or foreign currency control still need the services of travel agents or alternative channels.

Traditionally the airline industry relied on travel agents, interline & SPA (special prorated agreement) for their sales and marketing. Although the power of travel agents is dramatically reduced due to online booking systems of airlines and online travel agents, their influence in certain markets is still high.

You would need cost-effective online booking systems for your start-up airline but often it is costly to set up. It may be wise to use third party online booking and payment systems. There are firms who provide this service and some of them also provide links with GDS (global distribution system). If your airline is the small or medium size and not a LCC then use of their service would be a good choice as travel agents around the world can find your flights and book them. They process payments and send net payment value to airlines periodically, therefore, solving issues related to online merchant facility for start-up airlines.

LCC's considered interline arrangements are not necessary as the main business of LCC's is a point to point service but now many LCC's have their off-springs outside their original countries and collaboration with other LCC's is growing.

Singapore's Tiger Air has interline agreements with Cebu Pacific Airlines and Cebgo of the Philippines as well as Scoot, a low-cost arm of Singapore Airlines. This helps its sales and marketing activities. AirAsia has joint venture entities in many countries and each entity has its own airline code but all sell their seats through AirAsia websites and connect destinations too therefore it is also a kind of interline arrangement. EasyJet in the UK entered code share agreement with Transaero Airlines of Russia. Recently there is a report that Ryanair of Ireland is considering interline deals with long-haul carriers.

Have you ever thought why two or three airlines involved connecting flights are cheaper than direct flights?

Non-direct flights via hubs of airlines are cheaper than direct flights. But why often 2, 3 airlines combined routings with one or more stops are cheaper than others? This is a benefit of SPA (Special Prorate Agreement) based fares for passengers and it also helps airlines.

Point A to B by X Air	Point B to C by Y Air	Total Net Fare
US\$400	US\$300	US\$700

Direct flight fare averages US\$1,200

Based on the above assumption, how SPA fares work is explained.

SPA fares are considered as an 'off-line' sales and marketing tool. X Air serves destination B while it doesn't serve destination C. Y Air serves destination B but it doesn't serve destination A. By entering SPA, X Air, and Y Air can benefit each other. Each airline offer net fares on their sectors and each airline create their own through fares to be offered. Each airline usually offers net fares based on operating cost plus some profit on top. Its purpose is to create additional passengers from places they do not serve directly. As small profit is added on top of operating cost, fares are competitive. The above chart shows total net fare becomes US\$700 while direct flight average fare is US\$1,200. X Air sells above route at US\$950 in the market while Y Air sells above route at US\$1,000 in the market. They are still cheaper than direct flights. Each SPA party sets its own market fares for SPA based deals. You may find same routings offered by two different airlines are different – one is cheaper than the other but flights involved are same flights of 2 airlines. Sometimes multiple airline involved SPA fares are being offered in the market.

From an airline point of view, supposedly empty seats based on their average load factor can be filled up by passengers from off-line destinations contributing to operating cost and revenue. Except airlines participating in SPA, the general public is not aware of the real cost per sector so there is no concern of complaints. For full-service carriers, SPA is a vital tool. At the beginning, start-up carriers shall not be able to enter into bilateral interline and SPA agreements but most likely it shall be on a unilateral basis. Long established, financially strong airlines are usually concerned about the financial capability of start-up airlines, therefore, they can issue start-up airlines' sectors on their tickets but not vice versa. However, it can be changed to bilateral arrangements when start-up carriers' financial capability and credibility are acknowledged by interline and SPA partner carriers.

If your airline becomes a member carrier of IATA then wider doors shall be opened. IATA's MITA (Multilateral Interline Traffic Agreement) shall provide a great opportunity to sell more tickets and generate revenues from tickets combined with other airlines. Good use of traditional airline sales & marketing tools should not be discounted but ensure good use of it is implemented.

FINANCING AND PLANNING

Like other businesses, money is the key for start-up airline projects. The best, most realistic way is finding individuals and companies who want to invest in the business rather than looking for financing. Unless you are one of well-recognised industry figures, trying to raise funds will be like knocking the doors like cold call salesmen.

There are some investment bankers looking for aviation projects but they are few and the success rate is low as their capabilities are limited in terms of funds available. This does not mean there is any chance. You will never know the outcome so give it a try but you should be well prepared to impress them, well enough to make them ask you for further discussions.

It is necessary to prepare a good business plan and financial forecasts for the next 3 to 5 years at least but the plan must be realistic. Do not make numbers too high. It is realistic to start with a load factor of 30% level at the start of operation then gradually increase it to 50%, 60% and so on. It will be difficult to achieve over 50% load factor from the beginning unless you spend a huge sum for pre-launch advertising, marketing activities. Your business plan should be realistic and achievable. Those people in the finance sector are professionals and they can see through your plan if it is too optimistic, impossible to achieve.

Documents, numbers are what they look at. You may have to have some seed fund for it. It is better to ask livery designers to create logos, liveries, and images for your business plan to present your project attractive in a visual format. You may have to subscribe to certain professional software programmes if you wish to create necessary components for your business plan unless you are going to hire professionals to create it with the proper information.

A financial forecast is an important part of the whole process. A qualified account with airline/aviation experience, knowledge is needed to get financial forecast reliable. ACCA or CIMA qualified accountants are preferred as these qualifications are internationally recognised. If you are trying to raise fund domestically within your country, a locally accepted qualification based accountant shall be acceptable but you should hire an accountant with an internationally recognised qualification. To create a business plan, financial forecast shall cost tens of thousands dollars or more depending on the size of your planned routes, fleet, and other factors.

There are numerous specialised aviation consulting firms around the world and some are owned by airlines themselves. You should shop around to find a suitable service providers for the required documents unless you and your partners are capable of doing such works with relevant qualifications.

Well, from the start you will need fund to create the proper documents needed.

Please contact the author if you have a good idea for a start-up airline project with reasonable seed fund available for advice.

It is sad to see new airlines start and go. Especially those who were listed in the stock market and gone within a year or two. Founders got rich by cashing in while the general public who bought shares in good faith that they will continue to operate as an ongoing concern. It is sad to see some people using the airline business as a tool for getting rich quick with a stock market listing.

There are many airlines listed in the stock markets in their home countries and outside their home countries. Going for IPO (Initial Public Offering) is a good way to raise funds to boost airline business but it should not be a way for founders to get rich by selling their shares after a successful IPO. Airline business should be started by people who are keen on keeping the business as an ongoing concern for years to come. It is recommended to stay away from airline ventures if your sole aim is to get rich quick through stock market listings.

Then what is minimum capital needed?

This is one of the hardest questions to answer. It varies depends on country however minimum capital is considered an amount sufficient enough to operate for 3 months without revenue basis. If you can operate for 3 months as per projected routes, frequencies without having any revenue then your project may have a chance to be an ongoing concern.

SHAREHOLDING STRUCTURE AND NATIONALITY RULES

Since the first draft of this guide has been available the author has received many e-mails from people from all around the world asking for advice. Merely less than 10% of e mails received was genuine project cases. Many people had no idea about nationality issues of airline and shareholding requirements so it is going to be addressed here.

Most of the countries have regulations requiring majority shareholding in an airline to be held by nationals of the country where the airline is going to be licensed. 50% + 1 share or 51% of shareholding should belong to nationals of that country while limiting foreign ownership not to be the majority.

US regulations limit foreign shareholding in any US registered airline not to exceed 25%. People with knowledge of industry news should remember this was an obstacle when Virgin America was initially formed. Australia has two rules – one for domestic airlines which allow foreign majority shareholding and the other is for Australian international airlines which foreign ownership is limited to 49% only. The reason is that Australian international airlines' international traffic rights are based on bilateral air service agreements signed between the Australian government and foreign governments, therefore, nationality rules apply to them.

Globally 49% is the threshold for foreign ownership in airlines. You won't be able to operate international routes if your airline's foreign ownership is the majority. There were many scandals before including take-over of Malev Hungarian Airlines by Russians by using a company incorporated in Hungary. Please note that proxy's shareholding also counted toward nationality rules.

There are some ways to recognise and give the additional value of shares to the founder(s) but this does not mean the founder(s) do not need any capital. The founder(s) of the airline should have sufficient capital to match with the foreign investment if the founder(s) is seeking for foreign investment to raise the capital required for the airline.

Unlike opening shops or general trading business, nationality rules are strictly applied to the airline business. I have received many inquiries asking for the possibility of establishing airlines with foreign investment without its own capital at all so I believe this chapter would give clear information on nationality rules.

INT'L TRAFFIC RIGHTS AND AIR SERVICE AGREEMENT

This is another chapter I have found important after receiving many inquiries from people who has little or no knowledge in the airline business. You have an airline and aircraft does not mean you can operate any route you want, via any routes you want.

For international routes traffic rights are subject to bilateral air service agreement (hereinafter called ASA) signed between countries.

Please see following 'Freedom of Air' chart (please also visit Wikipedia site https://en.wikipedia.org/wiki/Freedoms_of_the_air) for more information and find out rules applied.

This would help to understand types of international traffic rights are in place. Commonly up to 5th freedom are in place practically however beyond 5th freedom are almost non-existence.

6th freedom is almost kind of theory as it can be achieved easily with connecting flights in one carrier's home base. It can be achieved with 'hub and spoke system' of a carrier so this is theory based freedom.

Freedom	Description	Example
1st	the right to fly over a foreign country without landing ^[4]	New Delhi – Shanghai by an Indian company, overflying Nepal
2nd	the right to refuel or carry out maintenance in a foreign country without embarking or disembarking passengers or cargo ^[4]	Mumbai – New York by an Indian company, stopping for fuel in Dubai
3rd	the right to fly from one's own country to another ^[4]	Toronto – New Delhi by a Canadian company
4th	the right to fly from another country to one's own ^[4]	Mumbai – Chicago by a US company

5th	the right to fly between two foreign countries on a flight originating or ending in one's own country ^[4]	Bangalore – London – New York by an Indian company
6th	the right to fly from a foreign country to another while stopping in one's own country for non-technical reasons ^[4]	Singapore – New Delhi – Paris by an Indian company
7th	the right to fly between two foreign countries while not offering flights to one's own country ^[4]	Tokyo – Hyderabad by a Chinese company
8th	the right to fly inside a foreign country, continuing to one's own country ^[4]	Bangalore – New Delhi – Toronto by a Canadian company
9th	the right to fly inside a foreign country without continuing to one's own country ^[4]	Las Vegas – New York, by a French company

Traffic rights include frequency, the size of aircraft and other conditions, therefore, no carrier can operate flights outside of agreed traffic rights agreed in ASA.

You may find your own country does not have ASA signed with a country you wish to operate. Then you have to lobby your own government to request counter-part country's government to initiate ASA negotiation. It may take months or years depends on priorities of both countries.

You should check with your own government that what routes are available for you to operate and request your government to initiate ASA negotiations if countries you wish to operate do not enter into ASA with your government. You must also check that any specific airline has been nominated to the routes you wish to operate already as single designation or they are open to multiple designations

Following is sample contents of ASA signed between the government of the United Kingdom and the government of the People's Republic of China. It will help to understand how ASA is structured.

SUMMARY OF RIGHTS - UK/CHINA

1. DESIGNATION - Multiple for all routes. Unlimited number of designations

	AIRLINE	DATE
UK	British Airways	5/9/80
	Virgin	2/2/99
PRC	Air China	-
	Air China Cargo	07/4/06
	China Eastern Airlines	13/6/03
	China International Cargo Aviation Co.Ltd	26/04/06

2. ROUTES

UK Airline Route

Passenger: Six points in UK - intermediate points - Six points in China - points beyond.

(Note: All points to be at discretion of UK).

On passenger services airlines designated by the UK may co-terminalise any two points in China, except for any co-terminalisation between two of Beijing, Shanghai and Guangzhou.

All-Cargo: Points in UK - intermediate points - points in China - points beyond.

PRC Airline Routes

Passenger: Six points in China - intermediate points - six points in UK - points beyond.

(Note: All points to be at discretion of PRC. All airlines designated by PRC have rights to operate air services to LHR).

On passenger services airlines designated by the PRC may co-terminalise any two points in the UK.

All-Cargo: Points in China - intermediate points - points in UK - points beyond.

(Note: All airlines designated by PRC have rights to operate air services to LHR).

3. PERMITTED FREQUENCIES

from Summer 2004 : 20 spw

- of which 15 shall be passenger services and 5 shall be all-cargo

from Summer 2005 : 31 spw
of which 25 shall be passenger services and 6 shall be all-cargo services.

From Summer 2006: 38 spw
of which 31 shall be passenger services and 7 shall be all-cargo services.

In addition the airlines designated by PRC may serve the Beijing - Hong Kong - London vv. route all up to 4 spw, with full traffic rights and stopover rights.

4. TRAFFIC RIGHTS

UK - 5th freedom rights at all points.

Designated airlines may serve with full traffic rights any 3 intermediate or beyond points on all-cargo services (Cologne, Frankfurt and Delhi selected 09/06/06).

PRC - Designated airlines may exercise 5th's on the London-Beijing vv and Beijing-Hong Kong-London vv routes on 10spw, passenger and all-cargo services, with full traffic rights and stopover rights, and also full beyond traffic rights and stopover rights between London and any other two points in Europe, either as intermediate or beyond points (Copenhagen selected as intermediate point 07/04/06).

In addition designated airlines operating on the London-Beijing route may operate on 10spw, passenger and all cargo services to any points beyond London on those frequencies, other than Washington, Boston or Hong Kong, with full traffic rights between London and those points.

In addition designated airlines may serve, with full traffic rights and stopover rights, any 3 additional intermediate or beyond points in Europe on all routes, for passenger and all-cargo services, these points being at the discretion of PRC.

Designated airlines may serve with full traffic rights any 3 intermediate or beyond points on all-cargo services.

5. DATE AND LOCATION OF LAST GOVERNMENT TALKS

11-13 February 2004 (Shanghai)

This guide shall be updated from time to time till complete guide is made. Please check regularly on www.avconworldwide.aero to get latest version.

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