Recent Developments and Proposed Improvements in Chinese Civil Aviation

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Introduction

Aviation represents a quickly growing sector for China, and the government is heavily investing in infrastructure in order to facilitate the growth and improve the efficiency of the industry. Despite a worldwide decline in the aviation traffic, and airlines reporting billions in losses, the Civil Aviation Administration of China (CAAC) recently reported a 23% increase in domestic traffic and an industry profit in excess of US $1.4 billion. Fueling this growth were increased domestic demand and moderating fuel prices, but also new developments in civil aviation in China that reduced constraints on the industry.

Positive Developments

Modernization of Chinese Airspace

In October 2009 the CAAC published the China Civil Aviation Performance-Based Navigation Implementation Roadmap, in accordance with the International Civil Aviation Organization. These new regulations were heralded as increasing aviation safety, as well as simultaneously increasing airspace capacity. The CAAC has resolved to expedite the implementation of this important new system. Furthermore, CAAC has indicated interest in expanding cooperation with the FAA in the United States in order to further modernize their technologies, possibly through Automatic Dependent Surveillance-Broadcast and Ground-Based Augmentation Surveillance.

Environmental Improvements

The CAAC signed an Aviation Environmental Partnership agreement with the US Trade and Development Agency and the FAA in April 2009 in order to improve environmental issues connected with aviation. This cooperation will largely entail the sharing of environmental best practices, enabling the burgeoning Chinese aviation industry to learn from the more experienced American aviation industry.

Aviation Financing Changes
China adopted the Cape Town Treaty in 2009, creating an international standard for the registration of ownership, security interests, leases, and conditional sales contracts of aircraft. These changes are expected to decrease the financial burden on Chinese airlines when leasing aircraft, and will further diversify the channels through which the companies can finance aviation purchases. A decrease in the transaction costs of acquiring and paying for aircraft should improve the economic efficiency and profitability of Chinese airlines.

**Needed Improvements**

*Coordinate Airspace Systems*

In order to meet the demand that will be created by aviation growth within China, it is critical that China modernize its airspace system. This will make the system more efficient, as well as minimize the environmental impact of air travel. Regulators, governmental agencies, military authorities, airspace service providers, aircraft manufacturers, airlines, and airports must all join forces in order to achieve this goal.

The most glaring constraint on the current Chinese system is a lack of civil use airspace and a lack of flexibility in the system. Now, over 80 percent of airspace in China is controlled by the Chinese military; airspace must be opened up to other uses in order to increase the efficiency of the system. The current control mechanisms for aircraft have resulted in a rigid flight operation process that is not easily adaptable to requests for maneuvers outside the flight plan (e.g., because of adverse weather). This inflexibility can create delays, inefficiencies, and potentially unsafe situations. Lehman, Lee & Xu recommends a more generous allocation of airspace to civilian uses in order to increase overall airspace handling capacity; in conjunction with the modernization of surveillance equipment and navigation equipment, and the construction of digital communication networks, this will enable more efficient usage of Chinese airspace.

*Remove Constraints on Foreign Carriers*

Currently, foreign carriers flying to China are allowed to employ only local staff through the Foreign Aviation Service Corporation, which reports to the CAAC. Airlines are forbidden from hiring their own employees directly. Opening up the market for talent would allow airlines to hire the best employees and develop their own dedicated personnel in China.

Access to a more open market for fuel could also greatly aid airlines. Fuel represents the largest portion of an airline’s operating costs, and currently it is only available through the China National Aviation Fuel Group Corp. This monopoly creates higher prices for airlines and reduces efficiency.

Computer reservation systems also stand to be improved. Currently, Travelsky, a state-owned corporation, is the only provider of the Global Distribution Systems that book and sell tickets. More ticketing providers would increase consumer choice, and the competition among them would result in improved service for both passengers and airlines.

Takeoff and landing slots are also restricted by the government. Obviously these slots are limited by the physical restraints of airports. But as China spends heavily to improve its
infrastructure, it must open up some of the new spots to foreign carriers so they can better integrate China into their global networks.

**Allow Foreign Firms to Enter Market to Build Infrastructure**

China has plans to build 97 new commercial airports and renovate 144 more, requiring a US $20 billion investment. However, there are substantial barriers to entry into the construction market that may prevent the most efficient firms from bidding on a project. Currently, design companies can only bid on a project if they have experience in China – this effectively prohibits new competition from entering the market. Lehman, Lee & Xu recommends abolishing this requirement, so as to allow other foreign firms to submit bids. A wider variety of bids would ensure that new Chinese airports have the most modern, efficient, and environmentally-friendly designs.

**Develop Sustainable Biofuels for Aviation**

Because of the amount of energy required for a plane flight, biofuels are the only feasible replacement for fossil fuels for airplanes. Though most other forms of transportation can develop several alternative fuel sources (e.g., electric cars powered by batteries), aviation is limited in fuel choice, and the industry could be held hostage to rising oil prices. Furthermore, though aviation accounts for only two percent of man-made global carbon emissions, that figure is expected to rise by almost 50% over the next 20 years as the global demand for air travel increases. Therefore the development of biofuels is crucial – they can replace fossil fuels and lower carbon emissions. China is poised to be an early adopter of biofuel technology, allowing it to reap significant economic, social and environmental benefits.

**Coordinate the Growth in High-Speed Rail and Aviation**

In coming years China has plans to add over 16,000 km of high-speed rail, capable of traveling up to 350 km/hr. These routes will be focused mainly in the eastern and central regions, where the economy is more vibrant – these also happen to be airlines’ key markets. Though one may think that the planned growth of high-speed rail in China will compete with air traffic, it is possible to coordinate the growth so that high-speed rail and aviation complement each other. For instance, high-speed rail can feed passengers directly to airports for flights on longer routes. At Shanghai Hongqiao Airport, an integrated transportation hub brings together high-speed rail, local rail, and road transport, all converging at the airport. It is crucial to coordinate air and rail travel in the planning phase, not post hoc. This will enable the efficient development of both rail and aviation, helping to support China’s growth.
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