Raytheon wraps up Chrysler deal

RAYTHEON HAS CLOSED its $475 million deal to buy Chrysler's defence and aerospace business, which will be merged with Raytheon's E-Systems subsidiary acquired for $2.3 billion in 1995.

The acquisition was finalised a day after the group settled Federal Trade Commission concerns about the transaction. Raytheon agreed to erect an "information firewall" between itself and Chrysler Technologies Airborne Systems over a US Navy contract on which they are competing.

The Texas-based business modifies military, commercial and VIP aircraft, employs nearly 3,000 people and has annual sales close to $500 million. ❑

NEWS IN BRIEF

■ CATHAY REDUCTION

China National Aviation (CNAC) has cut its stake in Cathay Pacific Airways in an effort to raise funding for its HK$1.97 billion ($254 million) purchase of a 36% controlling interest in Dragonair. CNAC has sold 90 million shares for around HK$1.26 billion, reducing its Cathay holding from 4.1% to 1.5%. The move is seen as increasing the prospect for direct competition between Cathay and its former sister carrier, Dragonair.

■ STORK EYES FOKKER

Dutch industrial group Stork says that, by mid-July, it could have completed a take-over of Fokker Aviation, the continuing aircraft-services and components-manufacturing operation of the bankrupt aircraft-manufacturer. Stork is carrying out due diligence on the aviation company, and says that it is not expecting any surprises. Fokker Aviation includes the maintenance, product-support and components-manufacturing operations, which were not included in the bankruptcy.

Lawsuits and grounded aircraft — East West's experience is characteristic of a fading Indian private sector

India's private malaise

MODILUFT'S DISPUTE with Lufthansa over lease payments has made headlines, but it also highlights a deeper malaise afflicting India's fledgling private-airline operators.

Of the five major private carriers established in India since liberalisation began some three years ago, only Jet Airways and the cargo carriers appear to have managed to steer clear of the courts.

Among the first to run into difficulties was Skyline NEPC, formerly Damania Airways. Early in 1995, US lessor PLM took action against the airline, claiming that it had defaulted on lease payments for two Boeing 737-200s.

The long-running court battle has yet to be resolved, although the Delhi High Court has directed the airline to submit a statement by 10 July on how it can pay the default, running to around $1.75 million. If PLM succeeds in reclaiming the aeroplane, Skyline would be left with only a single aircraft.

East West Airlines was involved in a similar dispute with PLM over lease payments on three 737-200s, totalling $3.3 million. These aircraft have been grounded, leaving East West with a fleet of three. The country's Directorate of General Civil Aviation has also asked the airline not to fly on main trunk routes, the first time that such action has been taken against a private carrier.

ModiLuft, which had grown strongly in alliance with Lufthansa, is now facing demands for the return of three 737-200s. Reports suggest at least one aircraft has already been sold to a Canadian leasing company. ModiLuft has disputed alleged breach of contract over non-payment of the leases, and says that it is looking for a new partner and the lease of three replacement 737-300s. The airline still has a fleet of three 737-400s on lease from Air UK, but these have been sold to the UK airline's Dutch partner, KLM, and are due to be returned over the next year.

Skyline, East West and ModiLuft have also defaulted on the 15% inland air-travel tax (IATT), supposed to be paid to the Indian Government within 30 days. Private airlines complain that they have suffered from the country's inconsistent aviation policy, compounded by the change in Government.

Another complaint is that India's aviation administration has forced airlines to fly unprofitable routes, covering politically sensitive areas such as the north-east of India.

While its new private rivals have begun to flounder, Indian Airlines is sprucing up its performance. It is budgeting for an improved $55 million operating profit and reduced $15.6 million net loss for the latest financial year, to March 1997.

Behind the optimism are signs of improving fares, a better US dollar-exchange rate and the start-up of Airline Allied Services, a new subsidiary which will take on four 737s.

Indian Airlines also plans a 6% increase in capacity over 1996/7. The lack of cockpit crew was blamed for the 1995 drop in capacity, which cost the airline an estimated 250,000 passengers.

There remains some scepticism over whether the airline will achieve these budget forecasts. Analysts point out that the 1995/6 budget had been to hold net losses to $20 million net loss, but that the deficit actually reached $38 million.

There are still some signs of life within the private-sector. Latest indications from the aviation ministry are that the country's new Government is in favour of approval for the long-awaited Tata-Singapore Airlines (SIA) venture. Sources suggest, however, that the venture will have to show that it will not harm Indian Airlines. A fleet of 16 150-seat airliners had originally been envisaged, although SIA indicates that this might be scaled back.

To date, the most successful sector of India's private-aviation industry has been in cargo. Sahara Airlines, operating as part of Lufthansa Cargo's growing world network, is considering expanding beyond domestic Indian services to new destinations in South-East Asia.

Elbee Airlines is also planning a $57 million fleet renewal, bringing in three Boeing 727 and three McDonnell Douglas DC-10 freighters to add to its three Fokker F27s. The cash for the expansion could come from a strategic partner, with US services group CS Aviation understood to have offered to take a 46% stake. ❑