

## **Korea Says FAA to Downgrade Safety Rating**

By Park Sung-woo

SEOUL (Reuters) - The U.S. Federal Aviation Administration (FAA) will downgrade South Korea's safety rating, blocking its two carriers from expanding business in the United States, Seoul's Transportation Ministry said on Friday.

The decision touched off a flurry of high-level meetings among Korean officials looking to contain damage from a move seen hurting tourism as the country gears up to co-host next year's 2002 FIFA World Cup soccer finals with Japan.

The downgrade is estimated to cost the country's two top airlines \$180.5 million in annual losses.

Local media said U.S. Embassy charge d'affaires Evans Revere delivered the news to South Korean Transportation Minister Oh Jang-seop on Thursday. A ministry official confirmed the meeting took place though a U.S. Embassy spokesman declined to comment.

The downgrade, expected to be announced later in the day by the FAA, prompted an emergency meeting between Prime Minister Lee Han-dong and the foreign and transportation ministers, though results were not immediately available.

An industry source said it was not yet clear how tough the FAA would be, as a downgrade might leave it some room for leniency regarding some of the penalties usually applied in a downgrade to Category 2 from Category 1.

### **SAFETY CONCERNS**

The ministry said in statement it aimed to recover the higher rating as soon as possible.

But the industry source said with the FAA unhappy about eight areas of aviation safety, that could take time.

"It requires manpower, it requires money, it requires legislation... it requires many things," the industry source said. "They have a realization now of the seriousness of the problem and what needs to be done to fix it."

Korean transportation authorities said last month a regular FAA inspection in May found a lack of objectivity in South Korea's air crash investigations, unskilled technical staff as well as problems with flight operation rules and the screening of pilots.

The Korean Civil Aviation Bureau, which had been put on notice to make improvements quickly, last month ran newspaper ads seeking applicants with at

least 3,000 hours at the helm of a Boeing 747-400, Boeing 737 or Airbus A300-600.

"It was a bit late, but we did as much as we could," Deputy Prime Minister Jin Nyum told a radio talk show on Friday.

"There were eight areas where there were shortcomings and we satisfied requirements for six of them," Jin said. He declined to confirm the government had received official word of a downgrade.

The government has started training extra aviation safety staff and would propose revised aviation safety laws in coming months, Jin said.

Shares in Korean Air fell as much as seven percent on Friday as hopes Korea might avoid the downgrade were dashed by a slew of media reports hinting it was pending. Korean Air shares closed down 4.6 percent at 7,020 won, while rival Asiana Airlines fell 10 won to 2,010.

South Korea's largest airline has spent 200 billion won over the last several years to improve safety after a series of crashes tarnished its reputation.

"This is the government's fault but the victims are the airlines," an aviation analyst at a foreign brokerage in Seoul told Reuters.

He said the downgrade might hurt investor interest in the two carriers and cost them business by raising doubts about their safety.

The downgrade will prevent Korean Air and Asiana from adding extra flights to the United States, bidding for new U.S. routes and code-sharing with U.S. airlines.

It would not affect the 67 flights a week Korean Air operates on U.S. routes, including direct service to eight cities such as Los Angeles, New York and San Francisco. But it would block Korean Air from resuming passenger flights to U.S. South Pacific islands Guam and Saipan, suspended after a crash in Guam in 1997.

A Korean Air official said the company faced 150 billion won in annual losses from a downgrade, but remained hopeful that Delta Airlines would renew code-sharing with it.

The code-sharing was suspended since a cargo freighter crash in Shanghai in April 1999 after local authorities blocked Korean Air from new international routes for 18 months in the wake of three crashes between 1997 and 1999. Seoul lifted the ban in May.

A Korean Air Boeing 747 jumbo jet crash in Guam in 1997 that killed 228 passengers and crew was blamed on pilot error.

Korean Air had two mishaps that killed 13 people in 1999 -- an MD-11 cargo plane that crashed into houses in Shanghai and a 747-200 cargo plane that crashed near Britain's Stansted Airport.

#### ASIANA HURT

Asiana, Korea's second-largest carrier, expected the downgrade to cost it up to 80 billion won in annual losses stemming from damage to its image and bans on additional flights during peak seasons.

"It's unfair. We have not had any crashes," a ranking Asiana official told Reuters.

Asiana has a code-share agreement with Texas-based AMR Corp's American Airlines. The downgrade means the FAA would recommend that American Airlines terminate the agreement with Asiana, he said.

#### AIRCRAFT DELIVERIES UNAFFECTED

A Korean Air official said the downgrade would not affect scheduled deliveries of aircraft to the world's second largest cargo airline.

Korean Air has 19 aircraft due for delivery between now and the end of next year, including 14 from Boeing and five from Europe's Airbus

"We have not reviewed possible cancellations of deliveries," Korean Air spokesman William Han told Reuters.

The industry source said the challenge for Korean Air would be how to deploy the new aircraft, as it will be barred from using larger planes on any of its existing U.S. routes.

Korean Air said on Thursday it would shed 500 jobs or three percent of its workforce by the end of this year to help profitability. Its first-half net loss of 345.9 billion won was up almost 75 percent from the same period last year due to a weaker won, bad weather and a pilot strike in June.

Asiana was also battered by foreign exchange losses, posting a net loss of 156.3 billion won in the first half.