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ASEAN Open Skies and its implications on airport development strategy in Malaysia

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Malaysia

Outline

- Introduction
- Open Skies in ASEAN
- Positioning Malaysia as a regional hub:
  - ➢ Infrastructure development;
  - ➢ Airlines development;
  - ➢ Specific policies
- Preparing for ASEAN Open Sky: Key Issues
- Policy implications
- Conclusion

Introduction

- Increasing importance of trade transaction costs due to:
  - Declining importance of tariffs;
  - Changes in the international economy.

- Why is trade transaction costs so important for ASEAN?
  - To compete with China and India;
    - FDI and MNCs;
    - ASEAN as an export platform for electronics goods;
    - Importance of air transport for these goods;
    - Variations in the quality and capacity of air cargo services;
    - Increasing demand for air travel

Introduction: Continued

- Air services and airport development are contingent on government policies in each country;

- ASEAN member countries do not have the same aviation policy and in general rely on bilateral ASAs for market access;

- Governments play an important role in the development of airports and the pace of liberalization
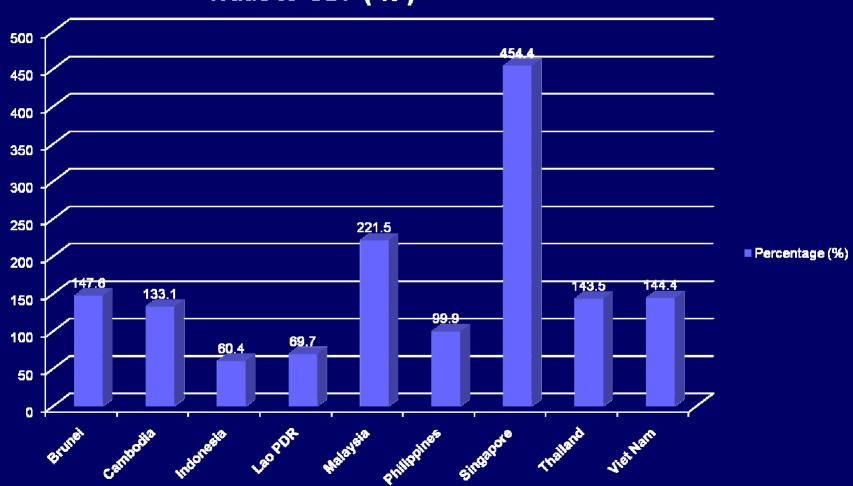
Introduction: Continued

- Objective of study:
  - To examine the implications of open skies in ASEAN on airport development strategy in Malaysia;
  - Government's role in positioning Kuala Lumpur International Airport (KLIA) as a regional hub for air cargo and passenger services

Open Skies in ASEAN

- Brief background of ASEAN
- Importance of international trade in ASEAN
- Open skies in ASEAN:
  - ASEAN-wide initiatives;
  - Sub-regional initiatives within ASEAN;
  - Unilateral initiatives

International trade in ASEAN

Trade to GDP (%)

Chart showing Trade to GDP percentages by country:
- Brunei: 147.8
- Cambodia: 133.1
- Indonesia: 60.4
- Lao PDR: 69.7
- Malaysia: 221.5
- Phillippines: 99.9
- Singapore: 454.4
- Thailand: 143.5
- Viet Nam: 144.4

Legend: Percentage (%)

ASEAN-wide Initiatives

- Integrated Implementation Program for the ASEAN Plan of Action in Transport & Communications, 1997;

- The ASEAN Memorandum Understanding on Air Freight Services 2002;

- Roadmap for the Integration of Air Travel (RIATs), 2004:
  - Full liberalization of air freight services by Dec. 2008;
  - ASEAN-wide liberalization of scheduled passenger services with no limitation on fifth freedom rights to capital cities of member countries by 2020;
  - ASEAN Open Sky by 2015.

Sub-regional Initiatives

- Limited open skies agreement within a small sub-set of ASEAN member countries:
  - CLMV regional air services agreements;
  - IMT-GT;
  - BIMP-EAGA agreements;
  - Agreement between Singapore, Brunei, Cambodia for unlimited air cargo services;
  - Agreement between Singapore, Brunei, and Thailand for passenger services
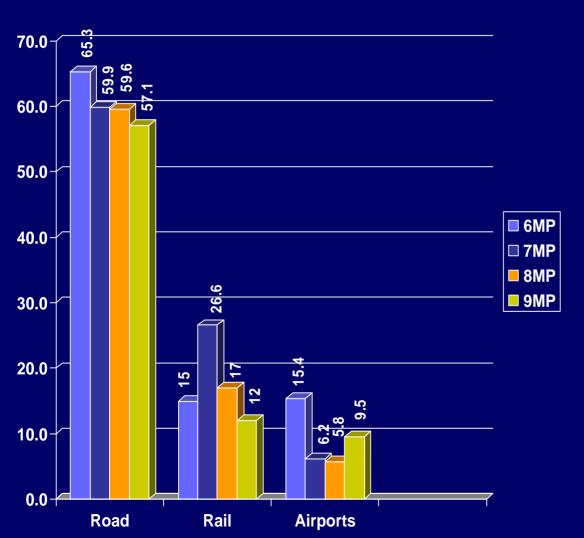
Unilateral Initiatives

- Open skies agreement between individual member countries with non-ASEAN countries:
  - Singapore leads the way;
  - Thailand, the Philippines and Indonesia have limited or partial open skies;
  - Malaysia has open skies agreements with:
    - The USA, Taiwan, NZ, Austria, UAE, Yemen, and the Scandinavian countries;

Positioning Malaysia as a Regional Hub

- What is the role of the government?
  - Size and quality of airport infrastructure development;
  - Airline competition policy, including privatization and deregulation on domestic air routes.
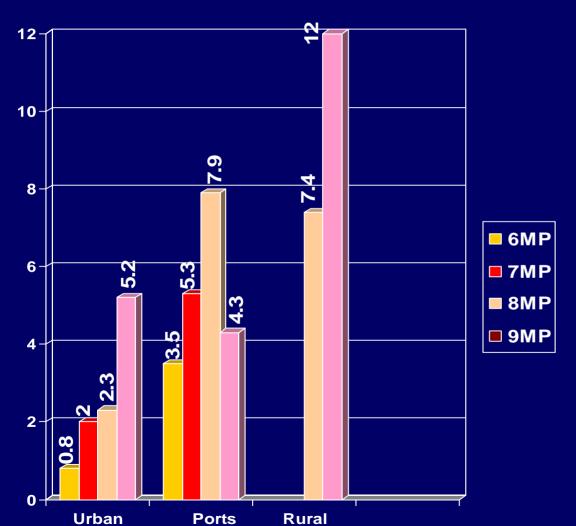
Investing in Infrastructure Development

CHART 1a. Shares of Different Types of Transport Infrastructure in Total Expenditure

- 1991-2005, govt. spent a total RM63 billion for the development of transport infrastructure;

- Road development has taken the largest share in all the 4 Malaysia plans shown;

- Second largest is for rail development;

- Airport development is the third largest share in the 7MP, 8MP and 9MP

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Infrastructure development: Continued

CHART 1b. Share of Different Types of Transports Infrastructure in Total Expenditure

- Port development has the second smallest share during 6MP and 7MP;
- Increasing emphasis on rural roads from the 8MP onwards.
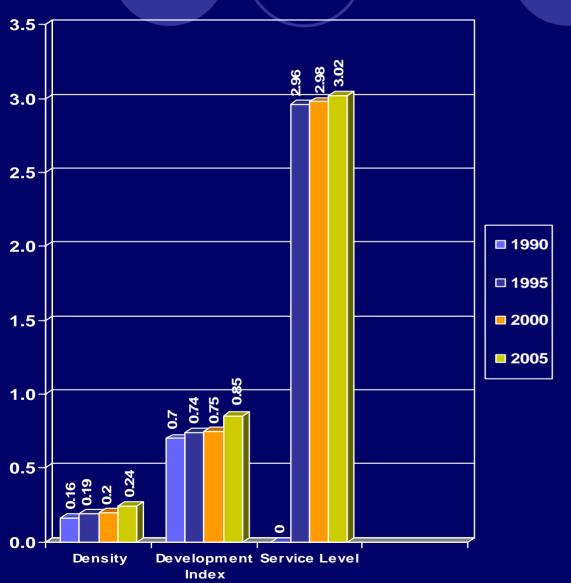
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Airport development

- 45 airports, six international ones;
- Expansion of airport capacity in Penang International Airport and the old Subang International Airport;
- New airport, the KLIA was completed in 1998;
- Malaysia Airports Holdings Berhad (MAHB) manages and operates most of the airports;
- Around 2004, designated Senai Airport in the south to be a regional cargo hub to stop leakages through Singapore
- LCCT completed in 2006, near KLIA;

Airport development: Continued

Phase	Year	Description
1	1993-98*	• Initial capacity of 25 million passengers per annum (ppa); 1.2 million tones cargo; one main terminal, one satellite building
2	1998-2015	• Addition of LCT, adding 10 million ppa by 2012; • Includes the expansion of current LCCT up to 15 million ppa by 2015. Total capacity of main terminal and upgraded LCCT will be 40 million ppa.
3	2010-2015 (forthcoming under the Tenth Malaysia Plan)	• New LCCT (permanent) will be constructed to accommodate 25 million ppa, capacity of main terminal and new LCCT will be 50 million ppa; • Construction of second satellite terminal and increase in passenger capacity to possibly 75 million ppa.
4	Dates not known	• Construction of second terminal and increase in capacity to 100 million ppa.

Road Development

CHART 2. Road Development Indicators, 1990-2005

- Progressive improvement in road density;
- Road development index increased from 0.7 in 1990 to 0.85 in 2005;
- Road service level also improved from 2.9 km per 1,000 population to 3.03 per 1,000 population

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Road development

- Major development –construction of highways & expressways;
- Privatization of major road networks;
- Construction of the North-South Expressway;
- Broadening the Penang Bridge;
- Malaysia-Singapore Second Crossing in 1997

LEGEND

EXISTING ROAD NETWORK

Airlines Development

- National carrier, MAS started off as a company incorporated under the Companies Act 1971;
  - ➤ Off-budget company owned by the government but not managed by the government.
- First government agency privatized in 1985; government retained 70% share;
- Sold 32 % of government shares to single individual in 1994, government share fell to 10%;
- Renationalized in 2000.

Airlines Development

- Losses continued in 2002-2004 due in part to controlled domestic fares;
- New Chief Operating Officer appointed in 2005; launched Business Turnaround Plan;
- New initiatives include route rationalization, rescheduling flight timing, diversifying its revenues, & changing its mode of operations from point-to-point services to hub and spoke services;
- Not part of any global alliance; uses instead code share agreements to form global network;
- Registered a profit in 2007.

Airlines Development: Emergence of LCCs

- In 2001, government approved the establishment of the first LCC, Air Asia;
- Initially established as a domestic carrier - taking over 96 of the non-trunk routes of MAS;
- First ventured into international routes in 2003; later to Australia, China and Vietnam;
- Firefly, a wholly-owned subsidiary of MAS established in 2007 as a budget airline to compliment MAS by flying to destinations that are not financially viable for MAS.

Specific Policies

- KLIA Hubbing Committee set up to oversee the development of KLIA as a regional hub;
- KLIA hubbing unit set up in the Ministry of Transport to liaise between Committee and MAHB; also to oversee the utilization of the Trust Fund set up to attract airlines to the KLIA;
- Setting up of a Free Commercial Zone at KLIA;
- G-to-G promotion, joint promotional activities with MAHB; tariff rates not revised since 1969.

Preparing for ASEAN Open Skies: Key Issues

- Promoting KLIA:

 ➢ Airline Incentive Program;

 ➢ Marketing through attending aviation-related forums; eg KLIA will be hosting 14th World Route Development Forum in October 2008;

 ➢ Diversifying KLIA's revenues to non-aeronautical revenues.

Key Issues: Continued

- Performance of KLIA:

  ➢ 50 foreign airlines and 3 full freighters operating at KLIA;

  ➢ Passenger and cargo traffic has grown 4-fold since 1998

  ➢ Won the Airport Service Quality Award for the World's Best Airport for the 15-25 million passengers category for three consecutive years from 2005-2007;

  ➢ In 2007, voted Best Airport Worldwide and in the Asia-Pacific region;

  ➢ The Low Cost Carrier Terminal (LCCT-KLIA) named as the Low Cost Airport of the year in 2006.
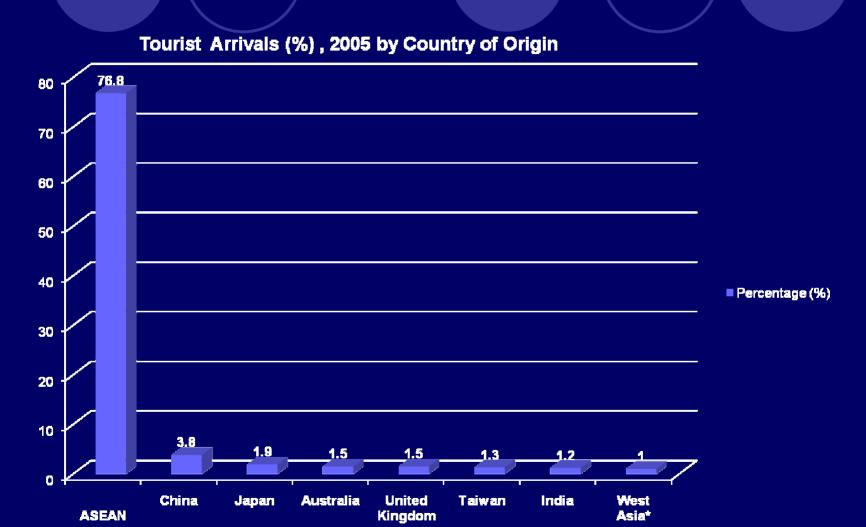
Key Issues: Increasing Domestic Competition

- Monopoly of the lucrative KL-Singapore by MAS and SIA ended in February 2008; route is now served by MAS and three LCCs –Air Asia from Malaysia, Tiger Airways and Jetstar Asia from Singapore.

- In May 2008, MAS became the first full services carrier to utilize a budget carrier's - zero fare strategy, for some domestic and ASEAN routes.

Key Issues: Promoting Tourism

- Various incentives provided for promotion;
- Development of various tourist products such as eco-tourism, agro-tourism, cultural and heritage tourism, etc;
- Visit Malaysia Year campaigns;
- Long-term strategies include revival of long-haul markets, focus on fast-growing markets and niche products and special events.

Performance of tourism

Tourist Arrivals (%), 2005 by Country of Origin

Key Issues: Competing within ASEAN

- Within ASEAN, Singapore and Thailand are also investing heavily in airports;
- Changi upgraded Terminal 2, opened Terminal 3, increasing capacity to 64 million;
- Reported to be planning Terminal 4 as part of its strategy to use capacity expansion as a purposeful investment signaling strategy to capture demand and to increase its market share in SEA;
- Thailand opened Suvarnabhumi airport in 2006;
- Changi, Suvarnabhumi and KLIA diversifying airport revenues to non-aeronautical businesses

Key Issues: Competing within ASEAN

- Changi acknowledged as one of the best airports in the world in both surveys by international aviation organizations and academic studies;
- But KLIA is catching up;
- In 2007, KLIA is best airport in 15-25 mppa, Changi is second best in 2-40 mppa;
- Best overall airport is Incheon, HK Chek Lap Kok, KLIA, Changi;
- Smart Travel Asia – HK, Singapore, KLIA, Survarnabhumi;
- Airlines – SIA (no. 3), Thai Airways (18), MAS (48).

Policy Implications

- Review policy to set up a regional cargo hub at Senai;
  - ➢ Is it the distance from KLIA that is causing the leakage?
  - ➢ Where are the electronics hub in Malaysia?
  - ➢ Unutilized capacity in KLIA;
  - ➢ Airlines generally carry passengers and cargo; air freighters are also using KLIA

Policy Implications

- Strategy for MAS: joining a global alliance;
  - ➤ What is the global trend?
  - ➤ What is the impact of joining global alliances?
    - ▪ Productivity;
    - ▪ Traffic feed
- Developing a distinctive product appeal for tourism:
  - ➤ Most of tourists are from ASEAN, mainly Singapore;
  - ➤ Share similar tourism features as Thailand and more natural advantages than Singapore;
  - ➤ Problem: image and no distinctive product appeal

Policy Implications

- Realizing ASEAN Community;
  - What is the problem in SEA?
    - No large hinterland and insular;
    - Governments investing heavily in three airports within a short distance of one another – will there be excess capacity?
- To increase demand: Urgent need to realize the ASEAN community :
  - Tariffs have lowered under AFTA;
  - Services liberalization still slow;
  - Need greater political will for service liberalization

Conclusion

- ASEAN has adopted a policy of moving toward open sky;
- Liberalization staged over time and 2015 is the deadline;
- Is Malaysia poised to gain from open skies in ASEAN?
  - ➢Government has invested heavily in infrastructure; the same in Singapore and Thailand;
  - ➢Moving toward a multi-hub system in SEA

Conclusion

- Privatization of MAS has not yielded improvements in efficiency and productivity;
- Government has renationalized airline and opened domestic routes to LCCs;
- Promotion of KLIA as the regional hub:
  - Review policy to develop a regional cargo hub in the south;
  - MAS – to join a global airlines alliance;
  - Promotion of tourism with a distinctive product appeal to non-ASEAN countries - distinguish Malaysia from its regional competitors;
  - Need to work toward the realization of an ASEAN community.