



## ICAO AND THE WORLD BANK DEVELOPMENT FORUM

### *Maximizing Civil Aviation's Contribution to Global Development*

# Status of the Liberalization of Air Transport among the ASEAN Countries

Based on a Report authored jointly by Heinrich C. Bofinger and John M. King

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**Kuala Lumpur Convention Centre, Malaysia  
14 and 15 October 2008**



# Short Introduction

## ❖ Who are the ASEAN countries:

- Brunei Darussalam
- Cambodia
- Indonesia
- Laos
- Malaysia
- Myanmar
- Philippines
- Singapore
- Thailand
- Vietnam

ASEAN = The Association of Southeast Asian Nations  
ASEAN Secretariat is headquartered in Jakarta, Indonesia



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# Short Introduction



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# Traffic in ASEAN

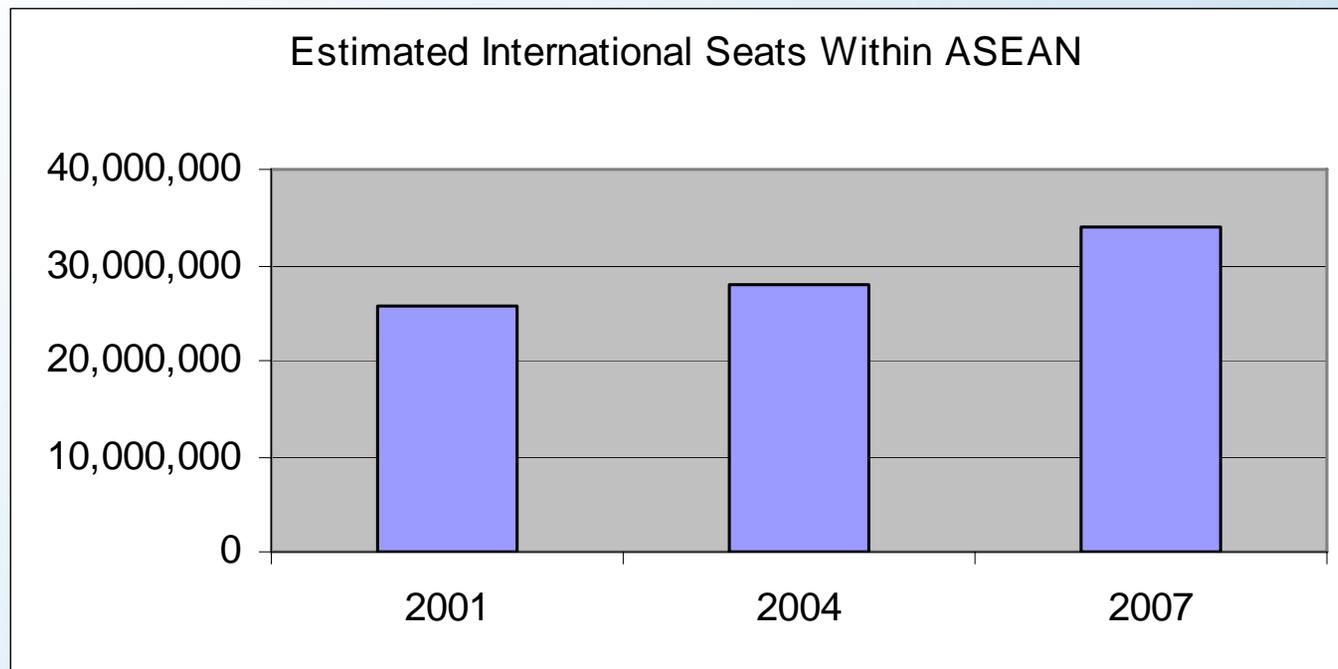
- ❖ General traffic observations...
  - Estimated number of seats for international travel within ASEAN about 34 million.
  - Annualized Growth between 2004 and 2007 nearly 7%.
  - Much also driven by intra-ASEAN tourism with ASEAN member nationals traveling.



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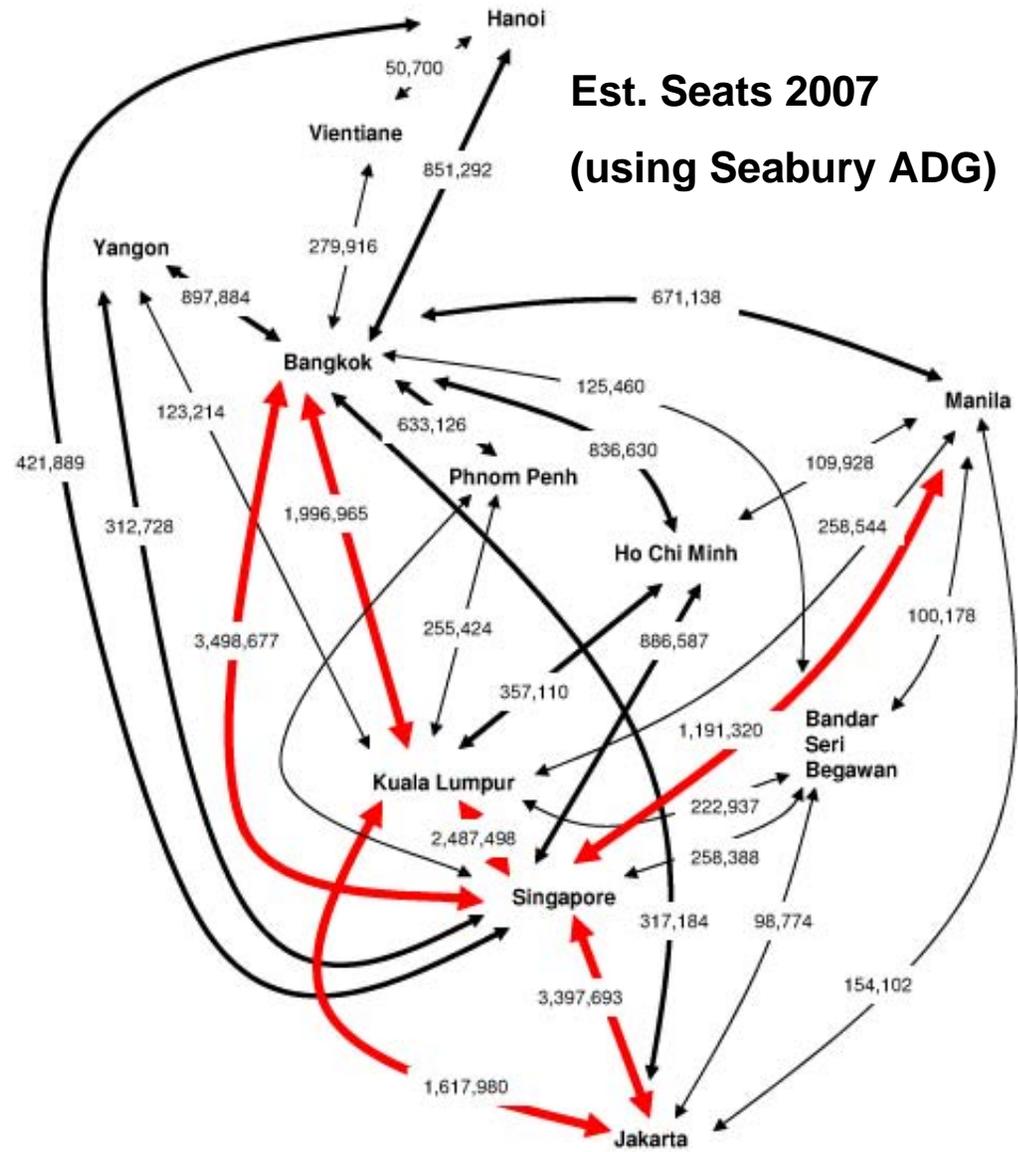
# Traffic In ASEAN



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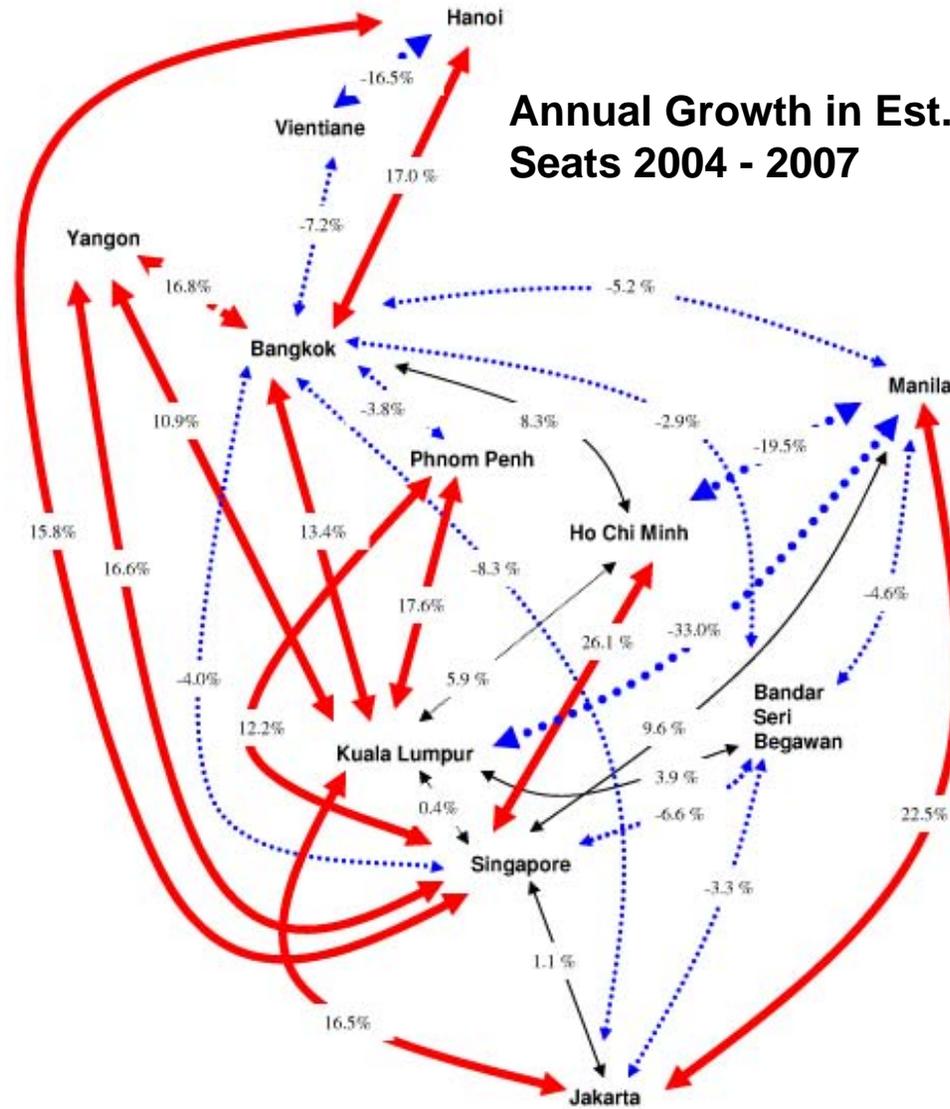


## Est. Seats 2007 (using Seabury ADG)





## Annual Growth in Est. Seats 2004 - 2007

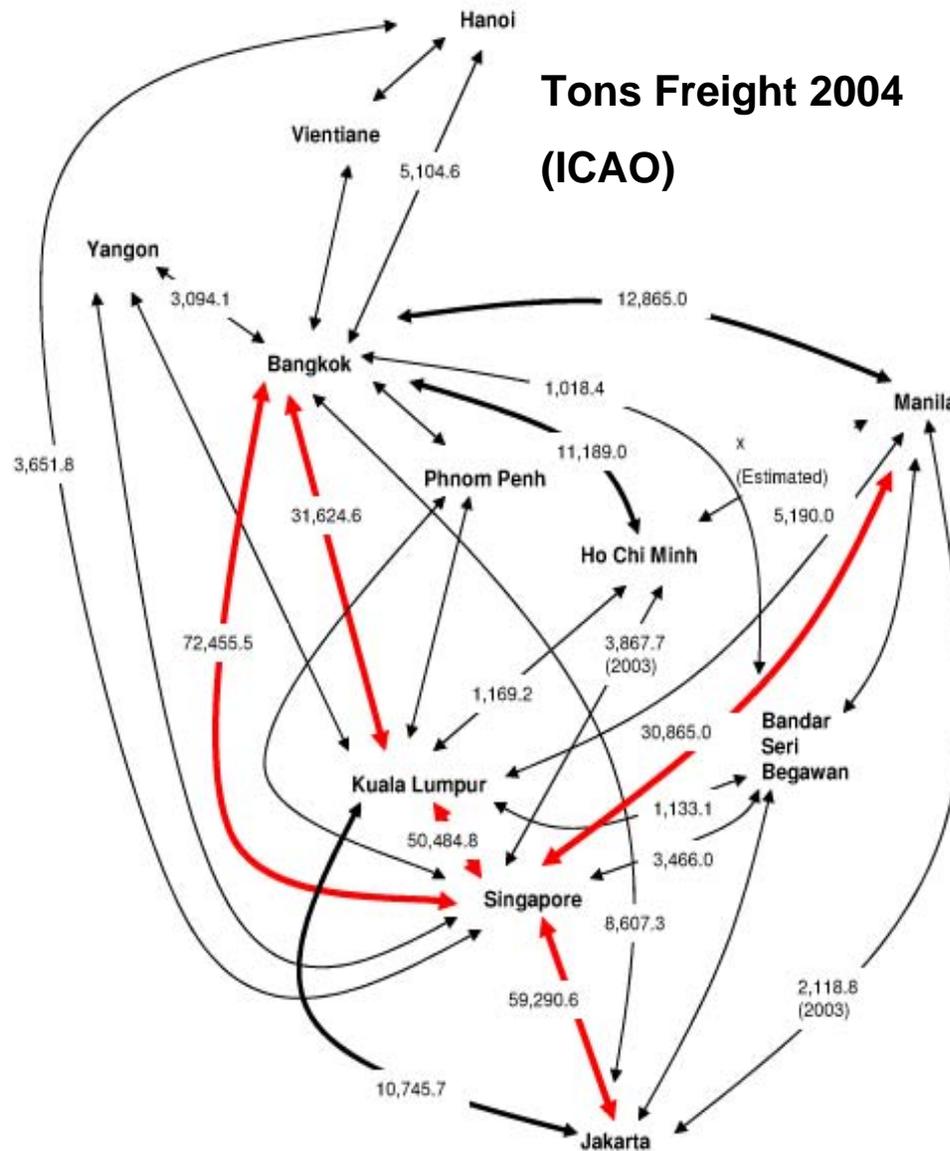


- High (Double Digit) Three Year Annual Growth Rate
- Positive Three Year Annual Growth Rate
- ⋯ Negative Three Year Annual Growth Rate
- - - High (Double Digit) Negative Three Year Annual Growth Rate





## Tons Freight 2004 (ICAO)



- less than 8,000 tonnes
- 8,000 - 29,999 tonnes
- 30,000 tonnes and over





# LCCs

- ❖ Low cost carriers have entered the market:
  - Air Asia (based in Malaysia)
  - JetStar (Singapore)
  - CityLink (LCC formed by Garuda in Indonesia)
  - Others...





# Market Challenges

- ❖ From the World Bank report:
  - ➔ “The whole of the air transport industry is affected by the continuing level of high fuel prices.”
    - ➔ Bofinger & King, **May 2006 !**



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# Market Challenges

## ❖ Legacy Carriers:

- ➔ Malaysia Airlines had to go through significant changes
- ➔ Garuda Indonesia needed recapitalizing
- ➔ Pressure from LCCs
- ➔ Uncoordinated granting of 5<sup>th</sup> freedom rights resulting in entry of carriers from outside the region (some price dumping has been accused of happening)



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# Arguments for Liberalization

- Reduction of ticket prices
  - Simple Explanation: Result of market forces
- Power of New Nodes
  - More subtle argument: 10% increase in connectivity est. to provide GDP growth of 3.9% in Europe, while a 10% gain in pax number alone is estimated to provide only a 1.6% boost in GDP.



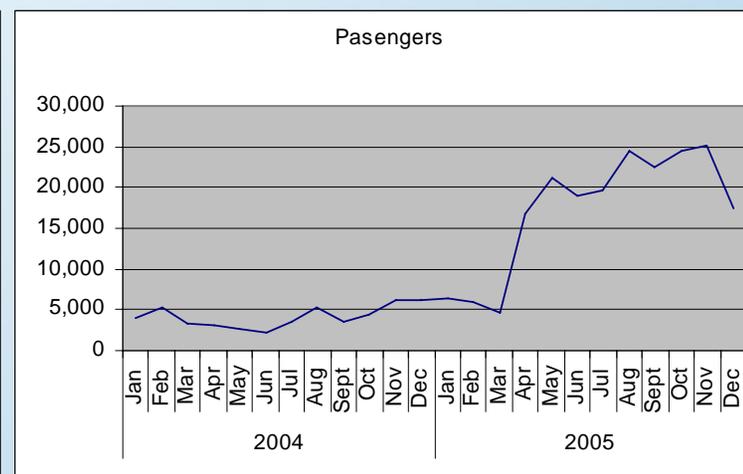
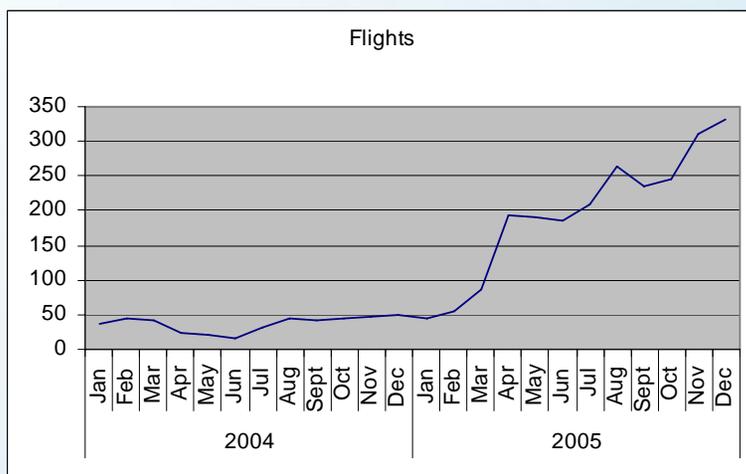
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# Arguments for Liberalization

## Example: LCCs in Clarke Intl. Airport

### Philippines



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# Starting the Process

- ❖ In 2004, the Regional Economic Support Facility of Australia prepared a study titled “Preparing ASEAN for Open Sky”
  - ➔ Developed overall framework



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# Starting the Process

- ✈ November 2003: ASEAN Countries adopted the Action Plan for the ASEAN Air Transport Integration and Liberalization
  - ✈ Included a Roadmap for integration in the Air Travel Sector



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# Drivers for Liberalization

- ❖ Two key events/decisions:
  - ➔ Bali Concord II of 2003
    - ➔ Establish an ASEAN economic community by 2020, fully integrated single market
  - ➔ 10<sup>th</sup> ASEAN Summit November 2004
    - ➔ Reaffirmed this objective, identified 11 sectors needing reform and liberalization by 2020
      - ➔ Air Transport was one of those sectors
      - ➔ Adopted the “Road Map” mentioned in the previous slide.



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# The Process

- ❖ Two Key Approaches:
  - ➔ Preparing ASEAN for Open Sky:
    - ➔ Three-phased approach
  - ➔ Roadmap
    - ➔ Timeline to meet specific issues, but not really in the same framework as the phased approach.
  - ➔ The two approaches are difficult to harmonize.



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# Milestones

- ❖ Preparing ASEAN for Open Sky :
  - ➔ Phase 1 by Dec 31, 2007:
    - ➔ Double Disapproval on Fares
    - ➔ Double Designation
    - ➔ Ownership to be substantial ASEAN (i.e. allow cross border ownership within ASEAN)
    - ➔ Unlimited 3<sup>rd</sup> and 4<sup>th</sup> capacity



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# Milestones

- ❖ Preparing ASEAN for Open Sky :
  - ➔ Phase 2 by Dec 31, 2010:
    - ➔ No Control on Fares
    - ➔ Multiple Designation
    - ➔ Ownership to be principle place of business
    - ➔ Capacity: restricted 5<sup>th</sup> beyond ASEAN (i.e. unrestricted within)



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# Milestones

- ❖ Preparing ASEAN for Open Sky :
  - ➔ Phase 3 by Dec 31, 2012:
    - ➔ Unrestricted 5<sup>th</sup> beyond ASEAN, i.e. all foreign to be allowed

Note: There are additional milestones in all three phases, e.g. “doing business”



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# Progress

- ❖ Difficulties in even just measuring progress:
  - ASEAN Secretariat does not have a repository of the Bilateral Air Service Agreements (BASAs)
    - Needs mandate and funding
  - No clear inventory, since even ICAOs database is not getting the necessary updates
  - MOUs, where the important details are, are confidential



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# Progress

- ❖ Difficulties in even just measuring progress:
  - No overall clear pattern!
  - 10 countries, 50 agreements PLUS
  - CLMV & a tri-lateral agreement (SIN – BRU – Thai) PLUS
  - Sub-regional agreements PLUS
  - Participation in MALIAT



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# Progress

- Some countries have a fairly liberal approach, others less so
- Some countries participate in multi-lateral OPEN SKIES,
  - eg., Malia: Singapore, Brunei
- Some countries participate in liberal bilateral arrangements
  - eg., Thailand and Malaysia
- Some countries have capacity restricted bi-laterals
- Some countries participate in a sub-regional agreement for primary gateways
  - eg., CLMV
- Some countries participate in a sub-regional agreement for secondary and tertiary gateways
  - eg., BIMP – EAGA
- There has been greater progress in air cargo liberalisation



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# Progress

## ❖ Phase I slow to be met:

- Found mostly double approval (Singapore was exception)
- Ownership: Found mostly 51% national required
- Found mostly limited 3<sup>rd</sup> and 4<sup>th</sup> capacity, many predetermined
- Vietnam, in an effort to increase tourism, has become a champion of the cause
- Brunei, because of it's size, has little to lose and champions the cause. (Cabotage!)



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# Obstacles

- ❖ Airlines, airlines, airlines:
  - Common problem was entrenched flag carrier, not necessarily healthy, wanting to preserve market share
  - Fear of LCCs
    - In some cases there was, in reality, a move AWAY from liberalization (e.g. banning of LCCs into Jakarta)
  - One firmly entrenched (and healthy) airline went as far as to say “we are the bad guys...”





# Obstacles

- ❖ One of the big elephants in the room:

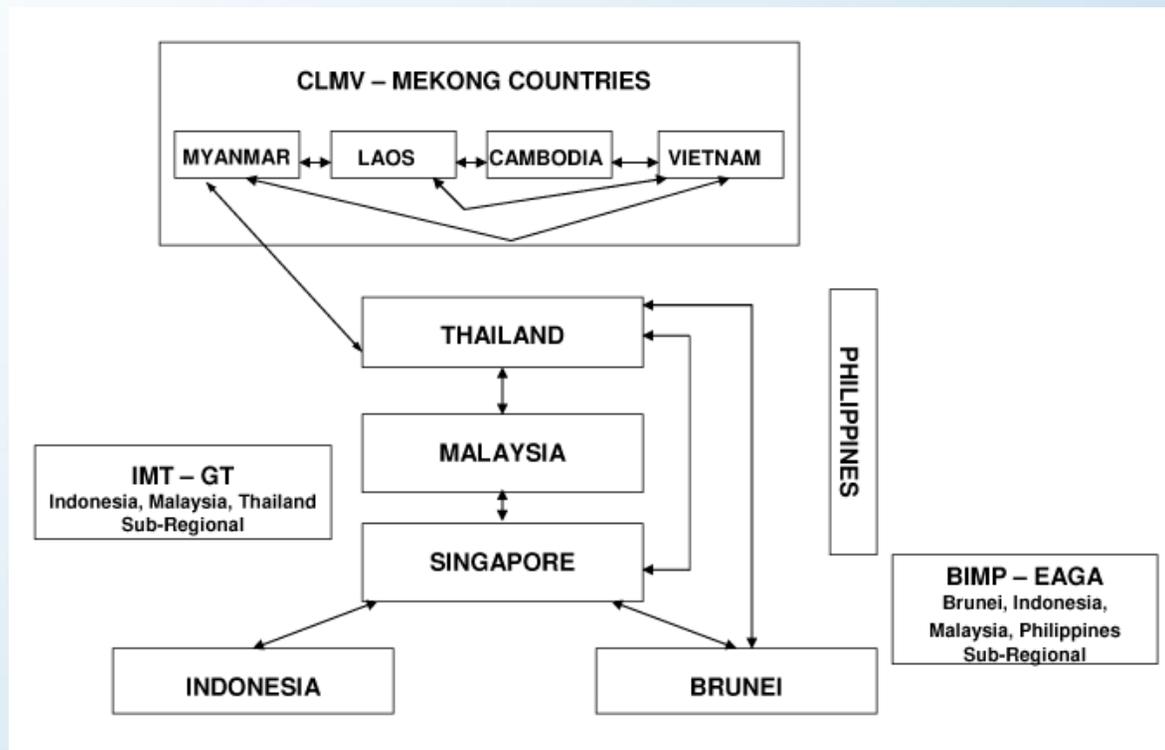


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# Other Observations

- ❖ Liberal Air Services Agreements now in place:



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# Recommendations

- Implement policies as suggested in the three phased approach
- ASEAN Secretariat should be allowed to house library of BASAs, and should be in the loop of any changes
- Road Map and Phased approach should be harmonized
- Standardize BASAs and multilateral agreements
- Examine the role of state carriers
- Integrate planning of both the tourism and air transport sector (both on country level and ASEAN regional level.)





# Final Notes

- The issues with regional liberalization are not unique to ASEAN
  - Liberalization process in Africa (Yamoussoukro)
- There are always champions of the new framework, and others who will do whatever they can to protect themselves.
- Often there is a disconnect between what has been decided to be good for the overall region, and what individual countries decide for themselves.
  - If the regional body has no form of enforcement mechanism (e.g. courts), implementing change becomes much more difficult.



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**Thank you!**

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