

Wednesday December 28, 2005

## Open KL-Singapore air route

THE Government began a new chapter in the liberalisation of its domestic passenger air travel market when it allowed the budget airline AirAsia to operate in 2002.

Today, AirAsia's share in the domestic market is estimated to be around 25%. While some of AirAsia's market share may have come at the expense of the national carrier's (MAS), most of AirAsia's market share is likely to come from the creation of "new demand" in response to the low fares offered, that is consumers who would otherwise have not travelled by air.

To the Government's credit, both airlines have been allowed to compete. However, this relatively laissez faire approach does not mean that there is no room for further Government intervention that can generate further social and economic gains in this area.

One issue debated in the Singapore Parliament, which then prompted a heated discussion in Malaysia is the call to further liberalise the KL-Singapore shuttle route.

Several interesting facts have emerged from this debate. First, the airfare for this route is relatively high – around RM713 for a round-trip between Kuala Lumpur and Singapore.

Secondly, MAS and SIA have revenue pool agreement that allows both airlines to operate more flights under the 1980 Air Services Agreement (ASA) signed by Malaysia and Singapore.

Furthermore, under this agreement, all net revenues of these two airlines are shared 50:50 with each airline bearing its own operating costs.

Thirdly, both airlines have a dominant position in the KL-Singapore shuttle route. The combined market share of both airlines in this sector is estimated to be around 85%.

Singapore's Transport Ministry has stated that it was in favour of opening up the KL-Singapore route to more competition.

It has also stated this is only possible if Malaysia agrees to liberalise the ASA. In a recent Malaysian media report, a Transport Ministry official is quoted to be not in favour of changing the present arrangements under the ASA.

We do not know whether this is an official view of the ministry.

The main issue that prevents the adoption of an open skies policy for the KL-Singapore route appears to be the perception that the gains from liberalising this sector will be asymmetric.

In other words, Singapore will gain more than Malaysia if such a policy is adopted. One argument along this line is that Singaporean airlines (SIA and SilkAir) will benefit more than MAS.

This is based on the premise that MAS has only one destination (that is, Singapore) whereas SIA/SilkAir has many destinations (all major cities in Malaysia). This type of reasoning is too narrow.

The Government should seriously consider liberalising the KL-Singapore shuttle route by adopting an open skies policy for this sector.

Holding back competition will only forestall the development of Malaysia's airline industry, and indeed, over the long term, help rather than weaken regional competitors.

There will be adjustment costs in the short run but these should not prevent Malaysia from adopting policies that will make its economy more competitive in the long run.

**CASSEY LEE,**

**Associate Professor,**

**University of Malaya, and IVAN PNG,**

**Professor,**

**National University**

**of Singapore**

**and Nominated MP.**

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