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'Revenue pool' needs scrutiny

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NATIONAL carriers Malaysia Airlines (MAS) and Singapore Airlines (SIA) dominate the KL-Singapore market with an 85 per cent share. Low-cost carriers AirAsia and Tiger Air are keen to enter.

Due to government regulations, low-cost carriers cannot compete on this route now. To serve the market, they would need air-traffic rights under the Singapore-Malaysia Air Services Agreement (ASA) signed in 1980. But all rights under the agreement have been used, with MAS and SIA operating 182 of the 213 flights each week.

On the KL-SIN route, MAS and SIA engage in a 'revenue pool'. Under this arrangement, they have agreed to share revenues while each carrier bears its own costs. As a result, neither has an incentive to cut fares to attract business from the other.

Worse, because the carriers share revenues but not costs, each carrier may actually prefer the other to carry more passengers. This means it can share the revenues but not the costs. One result of the lack of competition is high fares. Not surprisingly, it is cheaper to fly to Bangkok than to Kuala Lumpur.

How can this revenue pool persist? Should it not be subject to competition laws? Section 34 of the Competition Act - which came into force on Jan 1 - prohibits 'agreements between undertakings ...or concerted practices which have as their object or effect the prevention, restriction or distortion of competition within Singapore'.

Among other practices, it prohibits directly or indirectly fixing purchase or selling prices or any other trading conditions; limiting or controlling production, markets, technical development or investment; and sharing markets or sources of supply. The Act provides an exemption for compliance with international agreements.

But, according to the Ministry of Transport, the arrangement between MAS and SIA is not an international agreement. Rather, 'the revenue pool is a commercial arrangement between SIA and MAS, which allows both airlines to operate more flights between Singapore and KL than otherwise allowed for under the current ASA'.

If it is a 'commercial arrangement', should it not be subject

to Section 34 of the Competition Act? Now seems to be an appropriate time for the Competition Commission of Singapore to clarify whether the revenue pool is a violation of the Act, and, if so, what should be done about it.

The writers are National University of Singapore professors. The opinions expressed here are personal.
