An On-going Process:
Overview of the ASEAN Open Sky Agreement

ERIA Internship
(Economic Research Institute for ASEAN and East Asia)

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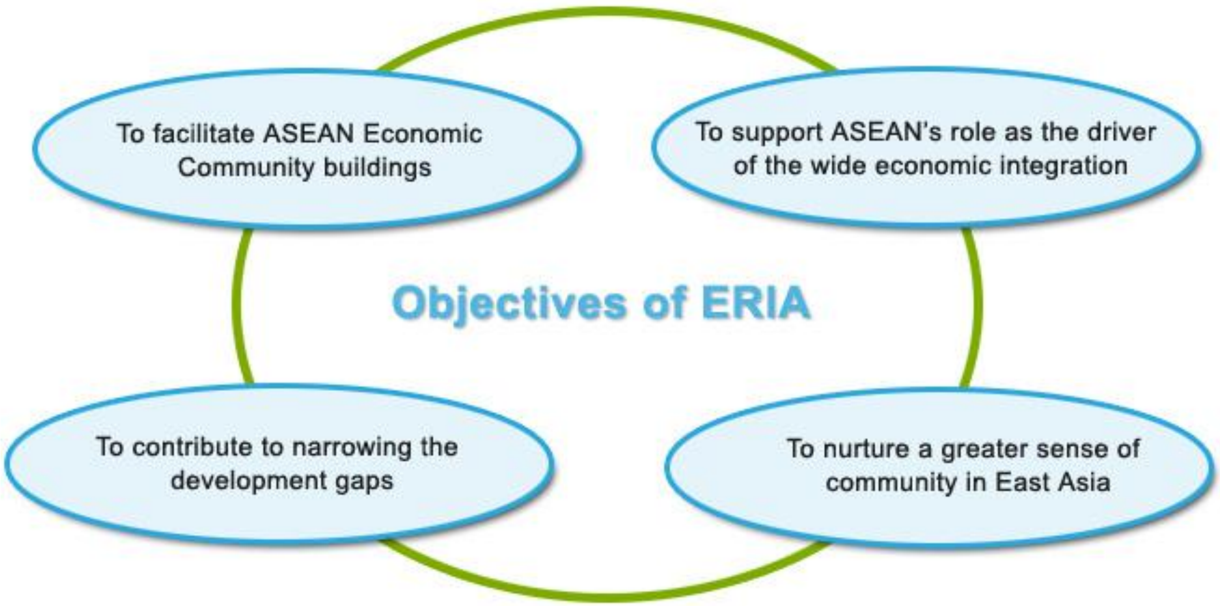
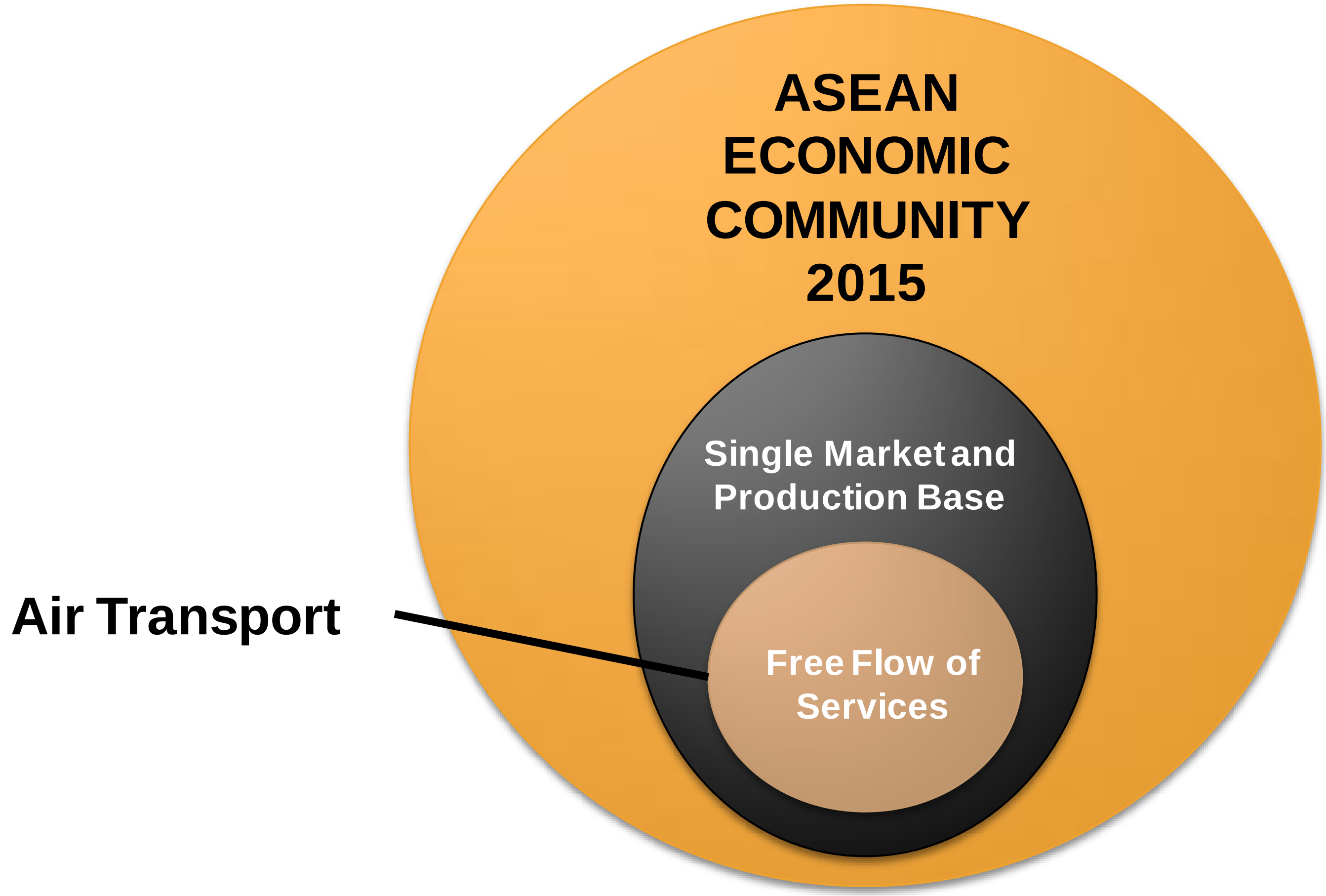
Background

- **ERIA** (Economic Research Institute for ASEAN and East Asia)
- Located in Jakarta, ASEAN Secretariat



- **Internship duration**: 3 June-28 July, 4 August-14 September 2011, Research Department

Background



- ASEAN Single Aviation Market / ASEAN Open Skies
    - Relaxation of government control on air transport

Internship Objectives

- Moving toward ASEAN Open Skies
  - **How far have we gone?**
  - **What are the next challenges?**

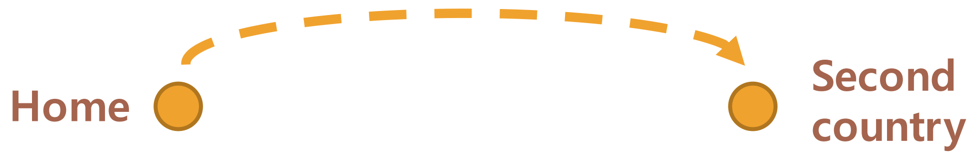
- Review of ASEAN's aviation regulations and reforms
- Analysis of current liberalization state
- Review of other open skies initiatives

- ASEAN Open Skies
  - December 1995 Fifth Summit of ASEAN leaders
  - ASEAN Community Strategic Approach
    - Roadmaps for Integration of Air Travel Sector

ASEAN Multilateral Agreement on Air Passenger Service (MAFLPAS)

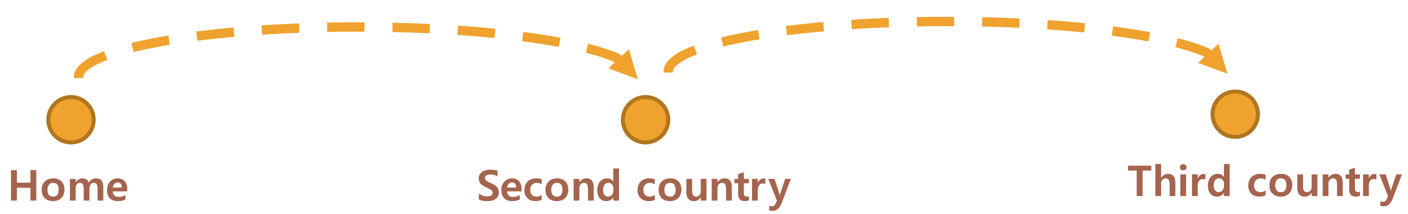
- Unlimited **third** and **fourth** freedom between any points within ASEAN by June **2010**
- Unlimited **fifth** freedom between any points within ASEAN by **2015**
- No restrictions on pricing, frequency and type of airlines
- Relaxation on airlines’ ownership and control

- Third freedom traffic right
  - Allows an airline to carry traffic from home country to second country



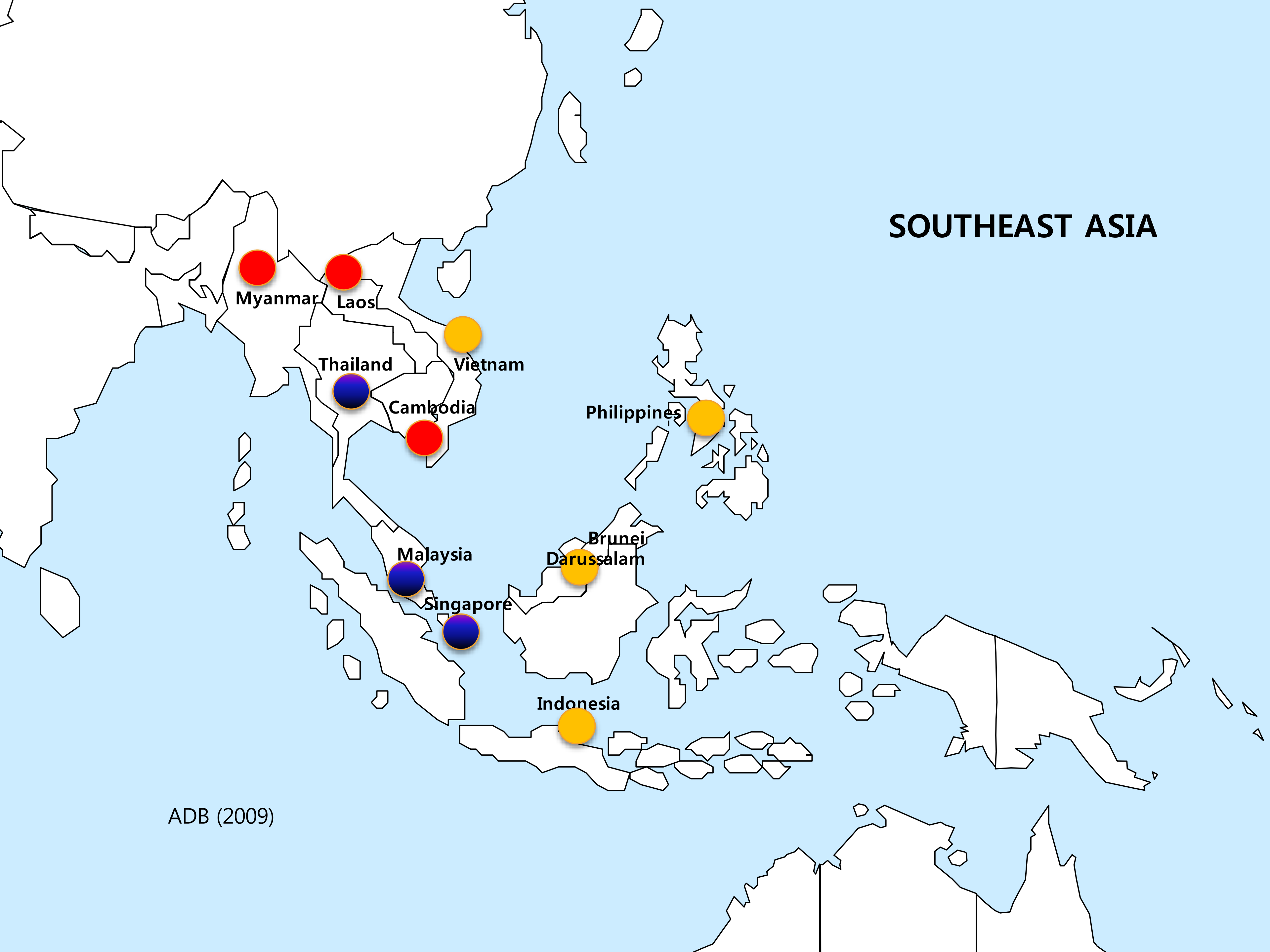
- Fourth freedom
  - Allows an airline to carry traffic back from second country to its home country

- Fifth freedom
  - Allows an airline to carry traffic between second and third country; it originates or ends in home country



Past : Restricted under bilateral agreements → **Future : Open skies under multilateral agreements**

- One of the main challenges
  - **Heterogeneity** across member states (Li, 1998; Bowen, 2000; Hooper, 2005)
    - Number of population
    - Geographic condition
    - Economic growth
    - Managerial and technical skills availability


SOUTHEAST ASIA
Myanmar
Laos
Vietnam
Thailand
Cambodia
Philippines
Brunei
Darussalam
Malaysia
Singapore
Indonesia
ADB (2009)

- **Singapore, Malaysia, Thailand**
  - Capital cities act as aviation hub
  - ASEAN's best performance airports
  - Strong national airlines

- **Indonesia, Philippines, Brunei, Vietnam**
  - Indonesia & Philippines
    - Archipelagic, dispersed area
    - More investments for airport infrastructure (CAPA, 2011)
    - Less competitive national airlines
  - Brunei & Vietnam
    - Domestic travels rely on land transport
    - National airlines 100% owned by government

- **Cambodia, Lao PDR, Myanmar**
  - Air travel accommodate less than 2.5% of inbound outbound traffic
  - Developmental stage from planned to market-based system (ADB, 2009)

*The scale of aviation sector among member states varies based on their ability to **generate**, **attract** and **support** air traffic movement.*

Country	Total air traffic/population[a] (2009)	Tourist Arrival[b] (thousand)		
		Intra-ASEAN (2009)	Extra-ASEAN (2009)	Total (2009)
Singapore	3.69	3,650.92	6,030.34	9,681.26
Malaysia	0.84	18,386.36	5,259.83	23,646.19
Thailand	0.29	4,007.58	10,083.42	14,091.00
Brunei Darussalam	2.46	77.72	79.75	157.46
Indonesia	0.12	1,582.38	4,869.62	6,452.00
Viet Nam	0.13	318.92	3,453.34	3,772.26
The Philippines	0.11	274.10	2,430.87	2,704.97
Lao PDR	0.05	1,611.01	397.35	2,008.36
Myanmar	0.03	524.00	238.54	762.55
Cambodia	0.01	692.82	1,468.76	2,161.58

Source: ASEAN, World Bank

Scheduled Operators	**FY 2008 (Million USD)**		**FY 2009**		**FY 2010**	
	Revenue	Net Income	Revenue	Net Income	Revenue	Net Income
Singapore Airlines	12,985.77	1,666.18	13,005.12	863.01	10,331.14	175.45
Thai Airways	6,670.60	-712.65[a]	5,386.76	244.79	6,019.62	511.66
Malaysia airlines	5,028.53	81.71	3,792.95	173.93	4,341.29	78.42
Garuda Indonesia	2,263.91	114.08	2,089.67	119.18	2,285.52	60.32
Philippine Airlines	1,504.13	30.60	1,793.12	-291.91	n/a	n/a

Source: CEIC

Intra-region Traffic Growth

Intra-ASEAN international weekly scheduled flight frequencies 2003

Origin	Vietnam	Thailand	Laos	Cambodia	Myanmar	Malaysia	Singapore	Brunei	Philippines	Indonesia
Vietnam		75	8	62	0	18	30	0	3	0
Thailand	69		32	125	31	66	177	5	36	14
Laos	13	27		11	0	0	0	0	0	0
Cambodia	57	130	11		0	10	15	0	0	0
Myanmar	0	34	0	0		4	12	0	0	0
Malaysia	20	78	0	14	4		236	21	22	144
Singapore	31	185	0	15	12	243		18	19	260
Brunei	0	6	0	0	0	20	22		5	14
Philippines	3	41	0	0	0	24	43	0		5
Indonesia	0	14	0	0	0	150	262	10	0	

Source: Leindbach (2004)

Intra-region Traffic Growth

Intra-ASEAN international weekly scheduled flight frequencies (2003) and 2011

Origin	Vietnam	Thailand	Laos	Cambodia	Myanmar	Malaysia	Singapore	Brunei	Philippines	Indonesia
Vietnam		(75) 70	(8) 52	(62) 182	(0) 8	18 (76)	(30) 102	(0) 3	(3) 14	(0) 11
Thailand	(69) 84		(32) 51	(125) 91	(31) 49	(66) 183	(177) 226	(5) 7	(36) 42	**(14) 336**
Laos	(13) 39	(27) 51		(11) 22	(0) 0	(0) 3	(0) 0	(0) 0	(0) 0	(0) 0
Cambodia	(57) 103	(130) 91	(11) 30		(0) 1	(10) 33	(15) 37	(0) 0	(0) 0	(0) 1
Myanmar	(0) 3	(34) 49	(0) 0	(0) 1		(4) 19	(12) 37	(0) 0	(0) 0	(0) 0
Malaysia	(20) 76	(78) 163	(0) 3	(14) 33	(4) 19		**(236) 396**	(21) 37	(22) 27	**(144) 519**
Singapore	(31) 102	(185) 166	(0) 0	(15) 37	(12) 35	**(243) 418**		(18) 14	**(19) 151**	(260) 174
Brunei	(0) 3	(6) 7	(0) 0	(0) 0	(0) 0	(20) 39	(22) 14		(5) 10	(14) 9
Philippines	(3) 14	(41) 42	(0) 0	(0) 0	(0) 0	(24) 27	(43) 151	(0) 10		(5) 16
Indonesia	(0) 11	(14) 59	(0) 0	(0) 0	(0) 0	**(150) 410**	**(262) 590**	(10) 10	(0) 16	

- Low-cost airlines have been given rights to operate most of the routes
  - LCA hold 22.3% share of passenger traffic at Changi (CAPA, 2010)
- Some are in world's 50 busiest routes list , based on seats (CAPA, 2011)
  - SIN – CGK, SIN – KUL, SIN – BKK

Source: Leindbach (2004), OAG

Analysis on Current Liberalization State

Key elements on current state

Where are we now?

	Traditional bilateral approach	ASEAN Open Skies/Multilateral agreement (MAFLPAS)	Current liberalization stage
Market access	Limited third, fourth and fifth freedoms	Unlimited third, fourth (2010) and unlimited fifth freedoms (2015)	Third and fourth freedom with specific access point, few fifth freedom routes
Designation	Single or double or multiple (pre-determined)	Multiple designations	Multiple designations with restriction*
Ownership and effective control	Substantial ownership and control in the contracting party designating the airline	Substantial ownership and control in the party designating the airline by one or more member states[b]	Substantial ownership and control in the contracting party designating the airline
Capacity	Determined frequency and aircraft type (quota)	Unrestricted, subject to approval	Increases, subject to approval
Fares	Both government approval (double approval)	Tariffs charged need not be filed or approved by either contracting party	Single disapproval in general principle

Source: ASEAN, author's data

*Flight slot limitation for foreign airlines (MacDonald, 2010)

Current Liberalization State

- **Agreements : signed but not fully ratified!**

- **Mixed regulatory reactions**
  - **Indonesia**
    - Open 5 from 26 international airports (Jakarta, Medan, Bali, Surabaya, Makassar)

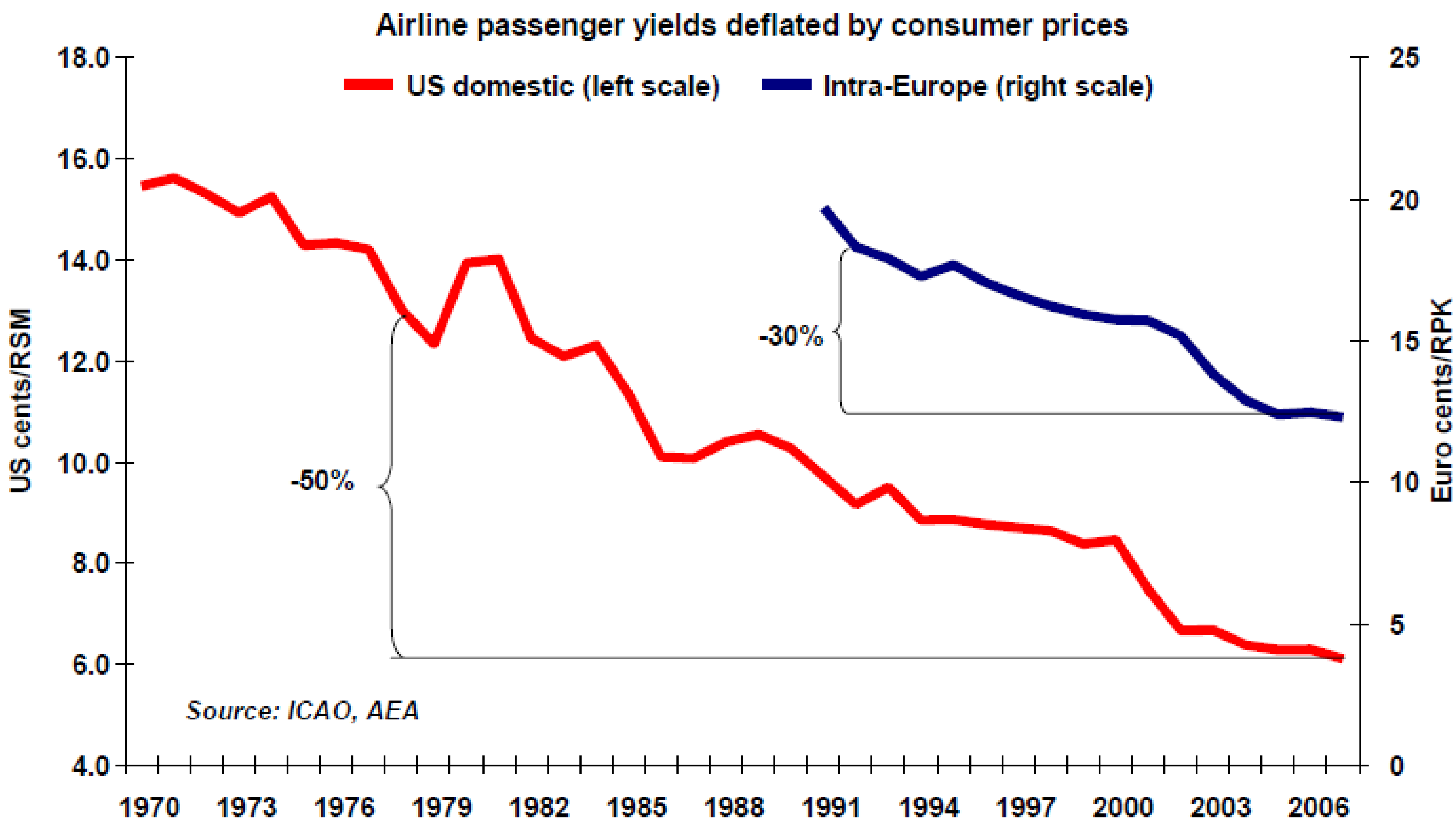
    - Further implementation subjects to government deals

    - Indonesia National Air Carrier Association (INACA), *"If foreign airlines get special advantages in Indonesia, Indonesian airlines should get the same things abroad."* (Ministry of Transport website, DGCA News)

  - **Philippines**
    - EO 29 March 2011 : third, fourth, fifth freedom traffic right to the airports other than Ninoy Aquino (CAPA, 2011)

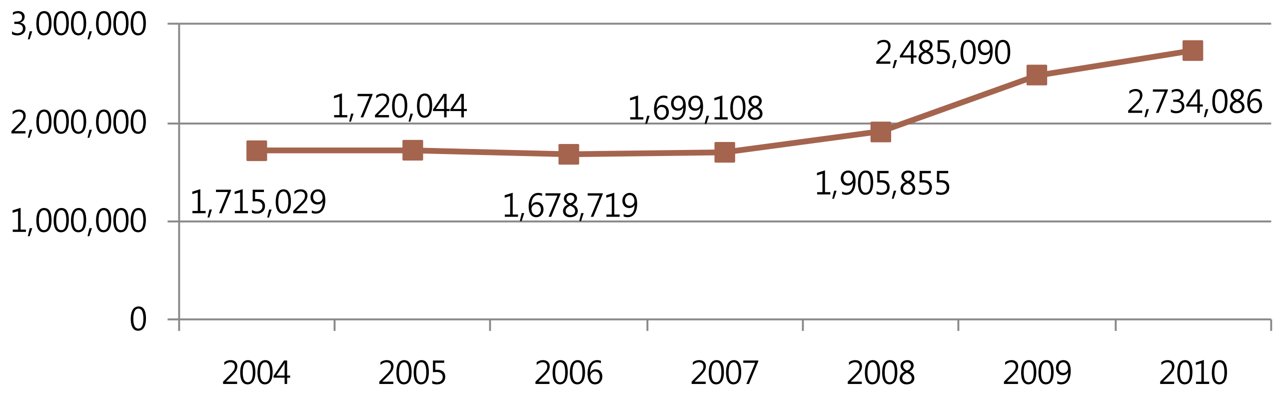
Member States	Tariff Regulation (Domestic)	Tariff Regulation (International)	7th Freedom Passenger Rights	National Clauses	Equity Participation	Competition Regulatory
Brunei	n/a	No	Allows 7th freedom passenger right (MALIAT)	Allows "principal place of business" (MALIAT)	Put limitations on equity participation, but no numerical limited is stated	No competition regulatory
Cambodia	Yes	Yes	Does not allow	Allows only "substantial ownership"	Put limitations on equity participation, but no numerical limited is stated	No competition regulatory
Singapore	n/a	No	Allows 7th freedom passenger right (several bilateral ASAs, MALIAT)	Allows "principal place of business" (MALIAT)	No limitations on equity participation	Has competition regulatory
Indonesia	Yes	No	Does not allow	Allows only "substantial ownership"	Maximum permitted foreign equity is 49%	Has competition regulatory
Malaysia	No	No	Does not allow	Allows only "substantial ownership"	Maximum permitted foreign equity is 49%	Has competition regulatory (2012)
Myanmar	No	No	Does not allow	Allows only "substantial ownership"	Put limitations on equity participation, but no numerical limited is stated	No competition regulatory
Vietnam	Yes	No	Does not allow	Allows only "substantial ownership"	Maximum permitted is 30% (single foreign investor) and 49% (total foreign equity)	Has competition regulatory
Philippines	Yes	Yes	Does not allow	Allows only "substantial ownership"	Maximum permitted foreign equity is 40%	No competition regulatory (enforced by respective sector regulators)
Lao PDR	Yes	No	Does not allow	Allows only "substantial ownership"	Put limitations on equity participation, but no numerical limited is stated	Has competition regulatory (has not been implemented)
Thailand	Yes	Yes	Does not allow	Allows only "substantial ownership"	Maximum permitted foreign equity is 49%	Has competition regulatory

Liberalisation has brought large benefits to **air travel consumers**



www.iata.org/economics

- Liberalization of Singapore – Kuala Lumpur route
  - Duopoly Malaysia Airlines & Singapore Airlines until February 2008



Feb 2008: 2 flights daily; Sept 2008: 6 flights daily
From around $180 on average, went down into $30 in 3Q08 (Zhang et al., 2009)

Country of origin	Carriers	Frequency/week	Type of aircraft	Available seat km/week
Malaysia	AirAsia	70	A320	3,666,600
	Malaysia Airlines	49	B737-400	2,033,799
	FireFly	49	ATR 72	1,157,184
Singapore	Silk Air	42	A319/A320	1,685,763
	Tiger Airways	35	A320	1,833,300
	Singapore Airlines	17	A330-300	1,409,895
	Jetstar Asia	10	A 320	912,160

Source: Centre of Asia Pacific Aviation

Conclusion:
Key Points of Current Liberalization State

- Government are in the **midway** between on the one side encouraging airline and tourism growth, on the other retaining national principles
  - Broader assessment : impacts on tourism and overall economy
- **Progressive liberalization**
  - Less developed countries could grow in a reasonable time frame
  - Periodic assessment

ASEAN Open Skies : Higher commercial risks are balanced by potentially high rewards

- Carefully assess the policy dilemma
- Address the identified critical issues