Title	Malaysia-Singapore Open Skies Ready To Takeoff
Source	http://www.mier.org.my/mierscan/archives/pdf/chaynee28_5_2007.pdf
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Publication/Conference	MIERScan, 28 May 2007
Edition	NA
Document Type	Article
CPI Primary Subject	Economics
CPI Secondary Subject	Transport & Utilities; ; ;
Geographic Terms	Malaysia; ASEAN

Abstract

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Malaysia-Singapore open skies ready for takeoff

When talks emerged last year about expanding the air services agreement (ASA) between Malaysia and Singapore, industry observers took this as a sign that the Kuala Lumpur-Singapore route will be finally made available to other airlines, putting an end to the long-held stranglehold by 'duopoly', Malaysian Airlines System (MAS), which owns Malaysia Airlines and Singapore Airlines (SIA). Aviation analysts say that it is about time that Malaysia and Singapore open up the much-guarded route. The existing ASA was last reviewed nearly 30 years ago. Since then, all air traffic rights for the Kuala Lumpur-Singapore sector has been fully used up. As a result, new carriers were unable to service this route.

Budget airlines have been lobbying for the decades-old agreement to be dismantled, arguing that low-cost carriers (LCCs) will promote healthy competition, maximise efficiency, and ultimately, passing on gains to travellers through lower airfares. For travellers, this is indeed terrific news. Especially when they have to fork out over RM800 for a round-trip ticket, inclusive of fees and taxes, just for a mere 40minute ride.

Many would agree that freeing up the Kuala Lumpur-Singapore route would be good for the country. Given that the Malaysian tourism sector is the second largest foreign exchange earner, garnering some RM36.3 billion in receipts last year, there is much for the industry to gain should the two governments reach an agreement to open the route to budget airlines. Singapore is an important market for Malaysia. Tourists from Singapore currently account for the largest portion, about 55 per cent (or RM19.9 billion in tourist receipts), of the total inbound travellers to Malaysia. But growth has been stagnant of late. Annual figures from Tourism Malaysia showed a mere 0.2 per cent growth in total arrivals from Singapore in 2006 from the previous year.

This means that fewer Singaporeans are opting for a holiday in Malaysia. One key reason could be due to the far cheaper airfare offered by LCCs, to neighbouring countries, like Thailand and Indonesia, and thus, Singaporean holidaymakers are giving Malaysia a miss. This is indeed worrying as Singapore is an important market for Malaysia, especially since authorities estimate that tourists from Singapore will account for a half of the targeted 20.1 million tourist arrivals for the Visit Malaysia Year. That being the case, allowing budget carriers to join in the Kuala Lumpur-Singapore action is certainly a step in the right direction to bring Singaporean holidaymakers back to our shores.

Malaysia's pioneer budget carrier, AirAsia, has from the start, made no secret of its desire for a slice of this lucrative pie. Since its launch in December 2001, AirAsia have been lobbying for rights to fly into the Lion City but to no avail. Since then, the budget carrier announced that it was no longer interested in this short-haul route. But in an apparent change of heart, the airline's CEO, Datuk Tony Fernandes, once again made an aggressive push for the government to free up the Kuala Lumpur-Singapore air route. This came soon after the industry underwent a major overhaul last year. Across the border, Tiger Airways (a budget carrier co-owned by SIA) has already made known its desire to be part of the Kuala Lumpur-Singapore action.

Media reports suggest that both governments are working to liberalise the air route between Kuala Lumpur and Singapore ahead of the deadline set by ASEAN. While no-frills airlines applaud this move, the reaction from Malaysia's national carrier suggests otherwise. One can understand why MAS is reluctant to let go of the Kuala Lumpur-Singapore route. The route is said to be one of Asia's busiest route and is believed to be one of the national carrier's most profitable routes. And MAS, unfortunately, does not have many moneymaking ventures. The airline introduced its business turnaround plan in February last year in order to trim cost and enhance revenue. Therefore, it is unsurprising that MAS is against freeing up this route before 2008. An early liberalisation, the airline argued, will only jeopardize plans to turn its operations around. But with ASEAN capitals moving towards open skies by end 2008, the clock is ticking. It is only a matter of time before the Kuala Lumpur-Singapore route will be thrown open and ready or not, MAS will have to compete as an equal player.

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