

Regulatory Innovation in the Asia-Pacific Region

**Expanding horizons:
innovation in the air
transport industry in times of
recession**

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Geographic Context

- ASEAN: Singapore, Malaysia, Thailand, Laos, Myanmar, Vietnam, Philippines, Brunei, Indonesia, Cambodia
- AUSTRALASIA: Australia, New Zealand
- PACIFIC: French Territories, Fiji, Tonga & other
- SOUTH ASIA: India, Pakistan, Sri Lanka, Bangladesh
- NORTH EAST ASIA: Japan, China & Korea

ASEAN

- What is ASEAN?
 - Association of South East Asian Nations
- What it does?
 - Not an EU
 - Co-operative, regional group for economic and social development
- Progresses regional economic and political regulatory reform and innovation
 - An “Open Sky” for aviation

Progress in Search for ASEAN Open Sky

- Transport Ministers
- By 2010 – unlimited 5^{ths} between capitals for ASEAN airlines
- By 2015 – single aviation market
- Further regulatory reform in air freight
 - Unlimited 3^{rds} and 4^{ths} now
 - Unlimited 5^{ths} by 2010
- BUT, in need of ratification and many hesitant among bigger countries, especially Indonesia and Philippines

Inhibitory Factors in the Search for an Open Sky by Regulatory Reform

- Political imbalance
- Economic imbalance
- Aviation imbalance
- Desire not to have change imposed
- Internal structure of ASEAN

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Inhibiting Factors – Economic

- Economic Social Indicators in ASEAN

	Singapore	Lao PDR	Philippines
Urban Population, %	100	21	63
GNI per capita US\$	27,600	400	1,300
Gross Savings (% of GNI)	40	2	28
Sanitation access (% pop)	100	30	72
Education Spend (% GNI)	2.7	1.4	2.8

Source: World Bank Green Data Book, 2007

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Inhibiting Factors – Aviation

Principal Carrier	Singapore	Laos	Philippines
Wide Body Aircraft	111 (+/-)	0	17
Narrow Body	Nil	0	22
Turbo prop	Nil	5	8
Points on network	0 Domestic 67 International	8 Domestic 9 International	23 Domestic 26 International
Passengers uplifted, Jan 09	1,446,000	?	650,000 approx
Cargo tonnes uplifted	83.4 mkg	?	10 mkg

Source: Carriers

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Inhibiting Factors – Resistance to Externally Imposed Change

- Change at own pace

- NOT Pace of:
 - Consultants
 - Foreign Countries
 - NGOs
 - WORLD BANK / ADB

Inhibiting Factors – Internal Structure

- Tourism and aviation in separate streams
- Little cohesion and communication
 - Particularly at industry level

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Recent Reform & Innovation in ASEAN

- Singapore / Kuala Lumpur open capacity
- Growth of Low Cost Carriers (LCCs)
 - Air Asia
 - Air Asia X (LON Operations)
 - Tiger
 - Qantas & related airlines: Jetstar / Jetstar Asia / Jetstar Pacific
 - Thai LCCs: Nok Air, Orient Thai but Bangkok Airways is a hybrid

The Future for Reform & Innovation

- Sub-Regional Groups Expansion
- Linkage of Sub-Regional Groups
 - E.g. CLMV, BIMP-EAGA
- End Result - ASEAN Wide Agreement

Policy Innovations in Australasia

- Domestic:
 - Liberal, fully deregulated, including “investment cabotage”
 - 100% foreign ownership of domestic carrier allowed
- International
 - Green paper / white paper
 - Soft liberalism
 - Level of foreign ownership of Australian carriers
- International Air Service Commission (IASC)
 - A transparent system for capacities / route awards

Some Recent Australian Bi-Laterals

- The US Agreement:
 - Not open skies
 - But open capacity
 - Not principal place of business but ownership and control

- The Singapore Agreement:
 - Open capacity
 - Australia has 5th beyond
 - But Singapore has NO Trans-Pac rights – WHY?
 - Protection of an Australian start-up carrier

Impact on Trans-Pacific Market Reform

- Prior to regulatory reform
 - two carriers – QF and UA
 - high fares, double rate of kangaroo route per km
- Outcome of open capacity with US: increased competition
 - Four carriers – QF, UA, DL and Virgin* (by July 2009)
 - Fares have already fallen to 50% of previous levels in economy and business

* called V Australia

Reform of Tariffs in Australia

- Complete Tariff Deregulation
 - Neither domestic nor international tariff are filed, even on initial license applications
- BUT
 - Some Air Services Agreements (ASAs) (e.g. Japan) have tariff clauses which indicate filings required
- Domestic Results
 - Airfares are half in real terms of 1990s levels (source BTRE)
- International Results
 - Variable with differing levels of competition

Reform of Bi-lateral Negotiation Strategies

- A New Hub System – The Gulf States (the new Europe Market Carriers)

	ASA Capacity	Operated Capacity in Flights	No of Points in Europe by HUB carrier
Dubai	84	63	22
Abu Dhabi	28	21	8
Doha	14	14 (2009)	16
Kuwait	2	Nil	5
Bahrain	7	Nil	8
Total			25

Australia/ New Zealand: an early regulatory reform

- SAM – Single Aviation Market
 - Australian carriers can operate in New Zealand – QF and Virgin Blue do, and shortly QF's LCC-Jetstar
 - NZ carriers can operate in Australia, but do not
- BUT
 - Australian AOC holders REX, Tiger and Skywest cannot – Singapore owned and controlled
- Bi-lateral
 - Governs open capacity regime and 5th's beyond (QF to US, Virgin Blue, some Pacific Operations)

Pacific Ocean Regulatory Reform

- An ineffective multi-lateral
 - Pacific Islands Air Services Agreement (PIASA)
- Allows 5^{ths} within Pacific and to/from South Pacific Border States
- BUT two problems:
- French Pacific Territories – New Caledonia and Tahiti are non-participants
- A country with geographic centrality & high airline capacity does not participate – Fiji

Commentary on Regional Multilateral Reform

- Where a country with power (geographic, economic and/or aviation strength) chooses not to participate in a multi-lateral, the benefits will not be realized
 - PIASA - ASEAN - MALIAT
- The weak are always threatened by the strong

BUT

- The strong seldom wish to dilute their strength by concessions to the weak

South Asia: Only India

- Policy agenda is struggling to keep up with pace of change in sector
- Over expansion by private sector Indian carriers
- Failure to achieve effective integration of (state owned) Indian Airlines and Air India
- Under-equipping of state owned carriers
- Foreign carrier withdrawals – VS and AY ex BOM

North East Asia: Japan & China Only

- Japan
 - Conservative society
 - Slow to change
 - Consumed by economic and political woes
 - Relative strength of yen
 - Inbound and outbound tourism falling
 - Little or no policy innovation
 - One bright spot – redevelopment of Haneda Airport, may convert some train travellers back to domestic carriers

North East Asia, continued

- China
 - Has had some regulatory reform & is seeking more
 - Slowing of growth rate of Chinese economy
 - Over expansion of Chinese domestic carriers
 - Taiwan straits direct route – POLITICAL!
 - Beijing has regulatory reform policy of consolidation
 - China Eastern to absorb Shanghai
 - Many provincial governments owned/controlled airlines are unprofitable and subject to merger interest with Beijing seeking mergers
- BUT China is complex
 - Outcome is uncertain - merger maybe?
 - Maybe one of majors (EA, China Airlines, China Southern, China Eastern) will disappear

Policy Problems External to Aviation

- Generic competition regulators:
 - Inhibit mergers
 - May restrict code-shares, joint operations and other devices perceived to inhibit competition
- IATA seeks changes to allow mergers
- Is aviation a special case?
- Can it be exempted from generic competition law
 - Should it be?
 - Can it make a sufficient case?
- The cargo affairs have hurt the industry image

Conclusion

- Looked at:
 - ASEAN and Australasia in some detail
 - SAW, policy liberalisation giving rise to new service (LCCs) but little in way of significant multi-lateral agreements
 - Combined imbalance of political, economic and aviation strength and innate conservatism, inhibits regional multi-lateralism
 - Finally, briefly considered the external regulator – generic competition policy & its role in inhibiting airline driven activity

Some Personal Observations

- Australia will adhere to bi-lateralism
- Seek to maintain economic benefits of carrier's basing in Australia, not just hubbing
- ASEAN will liberalise slowly, through a mixture of bi-laterals and sub-regional agreements
- Competition policy will not exempt aviation
- Airlines will develop defacto mergers through code-shares, JSAs and task sharing when dejuris ones not possible