



19th June 2012

Dr. Lim Hong Hin

Deputy Secretary-General for ASEAN Economic Community,
ASEAN Secretariat
70A Jl. Sisingamangaraja
Jakarta 12110, Indonesia.

Dear Sir,

It was a great pleasure to meet you and your esteemed colleagues on the 8th of May at the ASEAN Secretariat. We from AirAsia asean found the discussions that ensued to be most productive in aligning our efforts towards helping promote the goal of an integrated ASEAN community. We would like to express our support for the implementation of the ASEAN Connectivity Masterplan initiatives, which include the Aviation Single Market (ASAM) initiative. Our commitment to the ASAM initiative is underscored by AirAsia's extensive route network, which is based on the initiative of regional connectivity.

By way of background, AirAsia Asean serves as a representative office for AirAsia in our efforts to broaden our branding as a "Truly ASEAN" airline and extend our outreach to various groups in the region in regards to aviation and tourism policies within ASEAN. As AirAsia grows and expands within the region, and in keeping with our own philosophy of the ASEAN region as our base, we have found that it is imperative we engage with all parties interested in aviation and tourism throughout the region. Hence, AirAsia Asean's mandate is to engage closely with the governments, civil societies and the media in ASEAN to promote ideas regarding the growth of the tourism industry and boosting tourism revenues and a re-evaluation of aviation policies in this region we all call home.

We at AirAsia asean welcome the invitation by the ASEAN Secretariat for the private sector to provide its views on the aviation industry at the upcoming AEC forum in September. We regret to inform you that our GCEO Tan Sri Tony Fernandes is unable to attend. However, on Tan Sri's behalf, we would like to submit our views on the liberalization of the aviation sector to be presented at the forum.

Introduction

The aviation industry in ASEAN remains heavily regulated despite the changes in the industry environment over the last three decades.

Despite the incremental change, the aviation regulatory framework is still largely based on national interests, rather than the region as a whole. This continues to be so despite the commitment of the ASEAN Member States to build a more prosperous and fully integrated ASEAN community. Many of the current policies also take little cognizance of the massive changes in the aviation industry and the unprecedented growth that ensued in air travel with the advent of low cost airlines.

The numbers tell it all. According to HSBC Global Research, Asia-Pacific is one of the fastest-growing air travel markets in the world. In 2010, air travel in the region grew 12.9%, almost double the 6.2% and 6.7% growth recorded in North America and Europe, respectively.¹ Asia-Pacific already accounts for 34% of passenger traffic worldwide, ahead of both Europe and North America (27% each), led by dynamic growth in the major emerging economies.²

Carriers based in the Asia Pacific are the biggest buyers of planes over the 20 year period to 2030, as they are expected to acquire close to 22,000 aircraft valued at ~US\$3trillion, based on orders from

¹ HSBC Global Research, Asian Low Cost Carriers – Identifying Winners and Losers (October 2011) , p16.

² Air Transport Action Group, "Aviation: benefits beyond borders" as cited in "Sustainable growth of Asia-Pacific economies through air travel" (21 March 2012).

two major suppliers, Boeing and Airbus -- more than a third of global demand.³ Lion recently firmed up an order for 230 Boeing 737s worth \$22.4 billion, eclipsing the record for the world's biggest commercial aircraft deal set by AirAsia when it signed up to buy 200 Airbus A320neo jets for \$18 billion. This may not be enough. According to Con Korfiatis, vice president of Garuda Indonesia's budget carrier Citilink, only 300 single-aisle jets serve the country's population of 230 million, compared with 3,000 in the United States, which has 310 million people.

Growth in the aviation industry within ASEAN has been propelled by a strong upward trend in tourist arrivals to ASEAN, with China, India, and Australia reporting a 5 year growth average of ~14% from 2006-2010.⁴ ASEAN's largest member state, Indonesia, intends to double tourist arrivals from China by 2014 as bilateral relations have developed rapidly in recent years.⁵

Looking ahead, the Oxford Economics forecasts that aviation can provide an additional 1.4 million jobs across the region by 2030 – and if increased tourism is included, up to 4.6 million jobs.⁶

The progressive liberalisation of air services has supported the spectacular growth of ASEAN aviation, as Member States continue to work towards expanding bilateral relations amongst one another to implement the ASEAN Connectivity Masterplan. However, there continues to be concern on how timely these policies under the Masterplan can be implemented throughout the region.

Set out below are our views we'd like to propose for discussion at the upcoming AEC forum:

1) Have one single aviation regulatory authority to oversee all aviation policy in the region and be provided powers of enforcement for:

- i. traffic rights, similar to the Single European Sky model
- ii. open skies
- iii. the harmonization of aviation standards, e.g. in
 - **Safety:** similar to the European Aviation Safety Agency, this single aviation regulatory authority can develop, promote, implement and monitor the highest common standards of safety and environmental protection in civil aviation at the ASEAN level to keep air transport safe and sustainable. The monitoring of the implementation of standards can be done through inspections in the Member States, and provide the necessary technical expertise, training and research. This single aviation regulatory authority should work hand in hand with national authorities who can continue to carry out many operational tasks, such as certification of individual aircraft or licensing of pilots.
 - **Security** has always been a matter of concern in the field of aviation. However, this concern has always been addressed on a national and intergovernmental basis rather than as a regional bloc. Existing security standards have been enacted by the International Civil Aviation Organisation (ICAO) prior to 11 September 2001. However, they did not appear to be adequately applied since there is no binding mechanism to guarantee their proper application. The attacks on 11 September showed that there is an unprecedented dimension to the terrorist threat which justifies the need for coherence in all cooperation efforts and effective action. An ASEAN security policy through a single aviation regulatory

³ CNBC, "Analysis: Clogged, creaking airports hamper SE Asia carriers", <http://www.cnbc.com/id/46847719> (25 March 2012); Airbus, "Global Market Forecast 2011-2030: Delivering the Future – Pocket Guide" accessed at <http://www.airbus.com/company/market/forecast/passenger-aircraft-market-forecast/>, p 30 on 18 June 2012; Boeing, "Current Market Outlook 2011-2030", accessed at http://www.boeing.com/commercial/cmo/images/cmo_overview_chart3_lrg.gif on 18 June 2012.

⁴ Asean Secretariat, "Tourist arrivals in ASEAN, by selected partner country/region" www.aseansec.org/stat/Table29.pdf (15 February 2012).

⁵ Xinhua, "Indonesia tries to double tourist arrivals from China" http://www.asean-china-center.org/english/2012-04/25/c_131550690.htm (25 April 2012).

⁶ Air Transport Action Group, "Aviation: benefits beyond borders" as cited in "Sustainable growth of Asia-Pacific economies through air travel" (21 March 2012).

authority will ensure harmonised standards are applied and monitored throughout the region.

2) Harmonization of standards for free movement of human capital for the aviation industry by:

- i. Identifying a list of flying schools / academies which can provide ASEAN-wide accreditation for pilots, flight crew, engineers etc. This will enable graduates from any of these schools in ASEAN to work anywhere in ASEAN.
 - An action plan such as that of the ASEAN Competency Standards for Tourism Professionals needs to be implemented for professions in the aviation industry, identified by the Member States as a priority integration sector in the ASEAN Framework Agreement on Services (1995) and the ASEAN Concord II (2003), of which we fully support.
 - Harmonization will help address pilot shortage issues in the aviation industry (International Civil Aviation Organization forecasts Asia will need 229,676 pilots over the next two decades. Asia will be short about 9,000 pilots a year because it will need about 14,000 but have capacity to train only about 5,000⁷).

3) Economics:

- i. Renewed focus on massive investment in airport infrastructure is required to cope with increasing passenger growth. CNBC recently highlighted the overcapacity of ASEAN airports due to burgeoning passenger growth:⁸
 - Singapore's Changi Airport plans to build a fourth terminal that will boost total capacity to 82 million passengers a year from the current 73 million.⁹ The Center for Asia Pacific Aviation (CAPA) said the fourth terminal might not be enough to meet the expected surge in air travel, adding that a fifth terminal would be needed by the end of this decade.¹⁰
 - At Jakarta's Soekarno-Hatta, a major overhaul is in the works. It introduced a third terminal last year as it looks to boost capacity to 62 million passengers per year by 2014, a substantial jump from the 51 million the clogged airport now handles.¹¹ Jakarta's Soekarno-Hatta International Airport now serves more than 51 million passengers a year, more than twice its design capacity when it was built in the mid-1980s.¹²
 - Bangkok's primary airport, Suvarnabhumi is now undergoing the second phase of development works, slated for completion in 2016, and is expected to raise passenger capacity from 45 million¹³ to 65 million per year.¹⁴ To reduce the growing passenger congestion in Suvarnabhumi, the Thai government is paving the way for the relocation of LCCs to Don Mueang International Airport.¹⁵
- ii. Need focused investment in aviation technology, e.g. modernization of air traffic systems infrastructure required to meet the surge in traffic growth
- iii. Increase network capability and human capital training

4) Border issues: a single ASEAN visa is currently in talks. However, this issue needs to be balanced against security threats such as terrorism and human trafficking.

⁷ Business Insider, "The Asian Pilot Shortage is Intensifying as Airlines Order Hundreds of New Planes", http://articles.businessinsider.com/2011-12-01/lifestyle/30462004_1_pilot-shortage-training-center-air-travel#ixzz1w7jhg92v (1 Dec 2011).

⁸ CNBC, "Analysis: Clogged, creaking airports hamper SE Asia carriers", <http://www.cnbc.com/id/46847719> (25 March 2012).

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

¹³ <http://www.bangkokairportonline.com/node/15>, accessed 29 May 2012

¹⁴ Oxford Business Group, "Economic Update: Thailand: Congestion Prompts Airport U-Turn"

http://www.oxfordbusinessgroup.com/economic_updates/thailand-congestion-prompts-airport-u-turn (22 May 2012).

¹⁵ Ibid.

- 5) **Have ASEAN registered airlines:** all Member State carriers to be treated as domestic carriers in every ASEAN country.
- i. Foreign ownership of airlines to be treated as a domestic investment to ease ownership restrictions for Member State companies
 - ii. Single hub designation to be open everywhere (following EU regulations for a single air transport market -- European carriers practically have unlimited freedom to choose their routes, capacity, schedules and fares)

The ASEAN Masterplan for Connectivity correctly identifies the key challenge in liberalising air travel: the timely implementation of open skies and other relevant policies by the ASEAN Member States. As members of the private sector who are the forefront of the aviation industry, it is in our common interest to convince our governments of the urgency of swift action to further liberalize air travel for the benefit of our industry. Many similar initiatives have been listed in the ASEAN Connectivity Masterplan, but as always, most of these issues concern implementation rather than the vision.

It is crucial to ensure changes are made to accommodate the challenges ahead, and this can only be started with public-private dialogues with key players in the industry. We at AirAsia asean understand that the private sector has to play a more active role to greatly enhance regional connectivity in ASEAN and we stand ready to offer any help needed or requested in implementation of the Masterplan. We look forward to working with the officials of the ASEAN Secretariat, in helping to continue the dialogue on the liberalization of the aviation industry.

Thank you.

Yours Sincerely,

A handwritten signature in black ink, appearing to be "V Raman Narayanan".

V Raman Narayanan
Regional Head, ASEAN Affairs

cc : - H.E. Dr. Surin Pitsuwan, ASEAN Secretary-General, ASEAN Secretariat
- Mr. Somsak Pipoppinyo, Director for Finance, Industry and Infrastructure, AEC Department of the ASEAN Secretariat