

ASEAN Single Aviation Market Agreement

CAREC Aviation Workshop, Singapore
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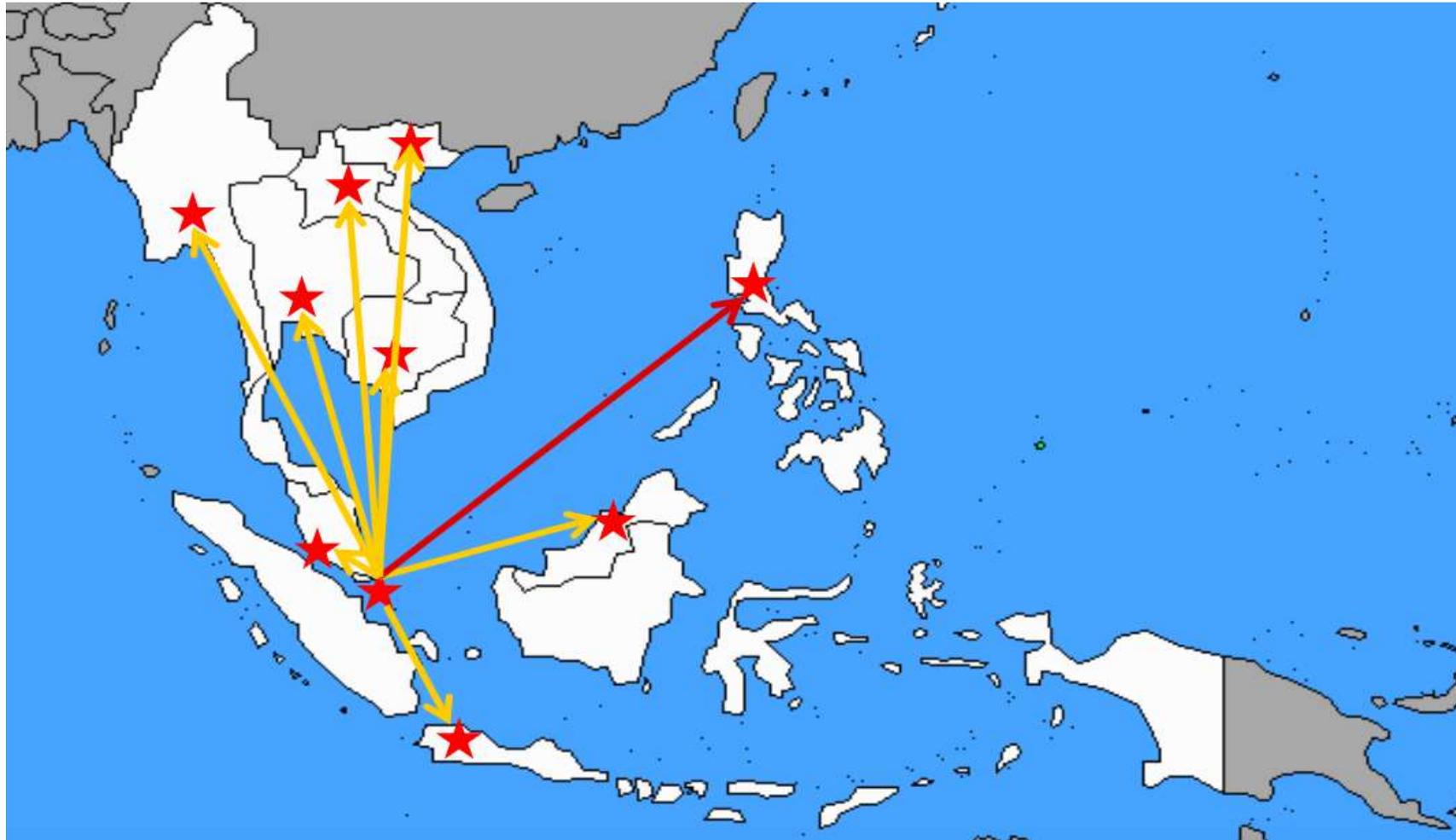
Brendan Sobie

Chief Analyst and Southeast Asia Chief Representative
CAPA – Centre for Aviation

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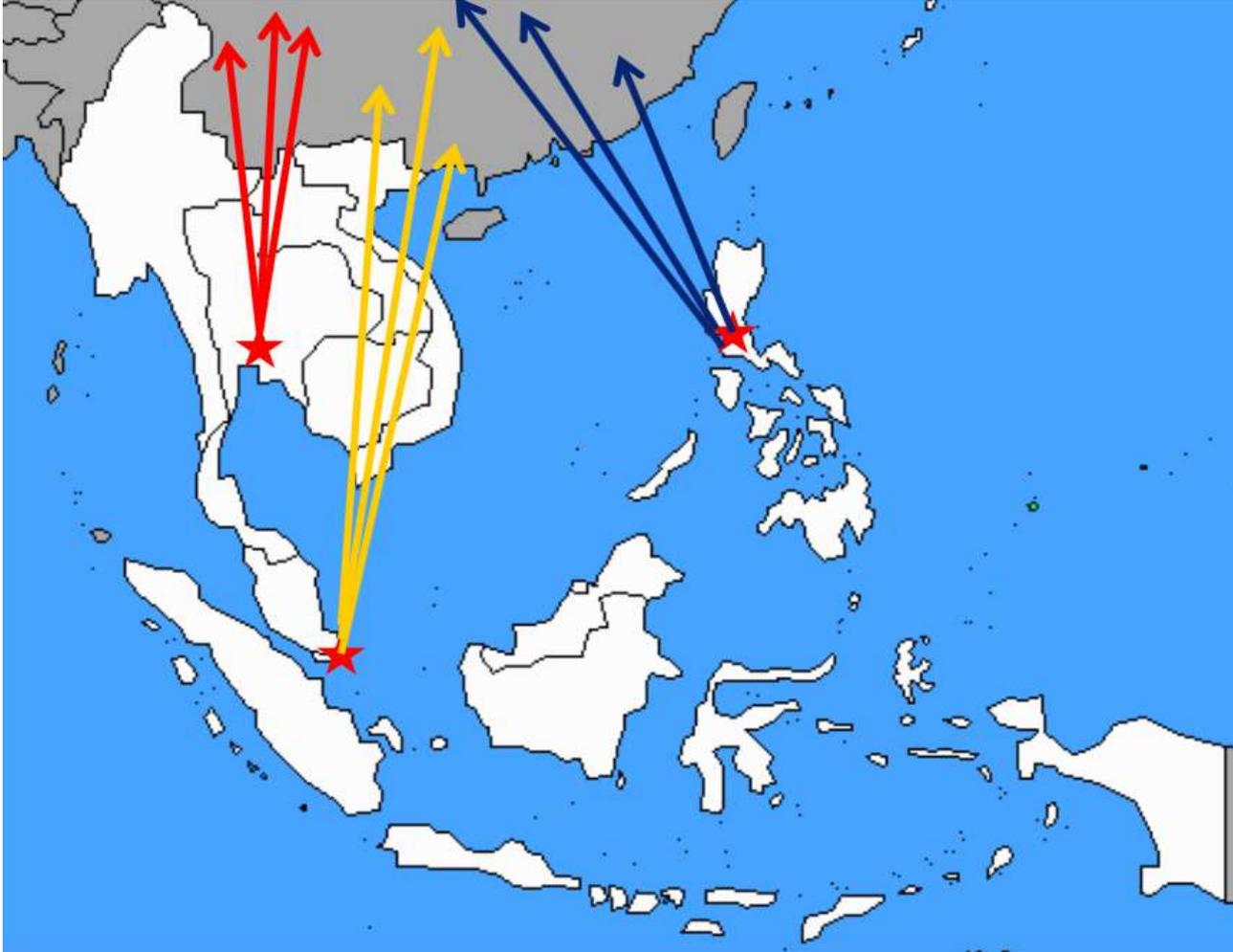
ASEAN-SAM: initial phase



Third and Fourth freedoms: capital to capital only

Philippines and, for the first few years, Indonesia were excluded

ASEAN-SAM: initial phase

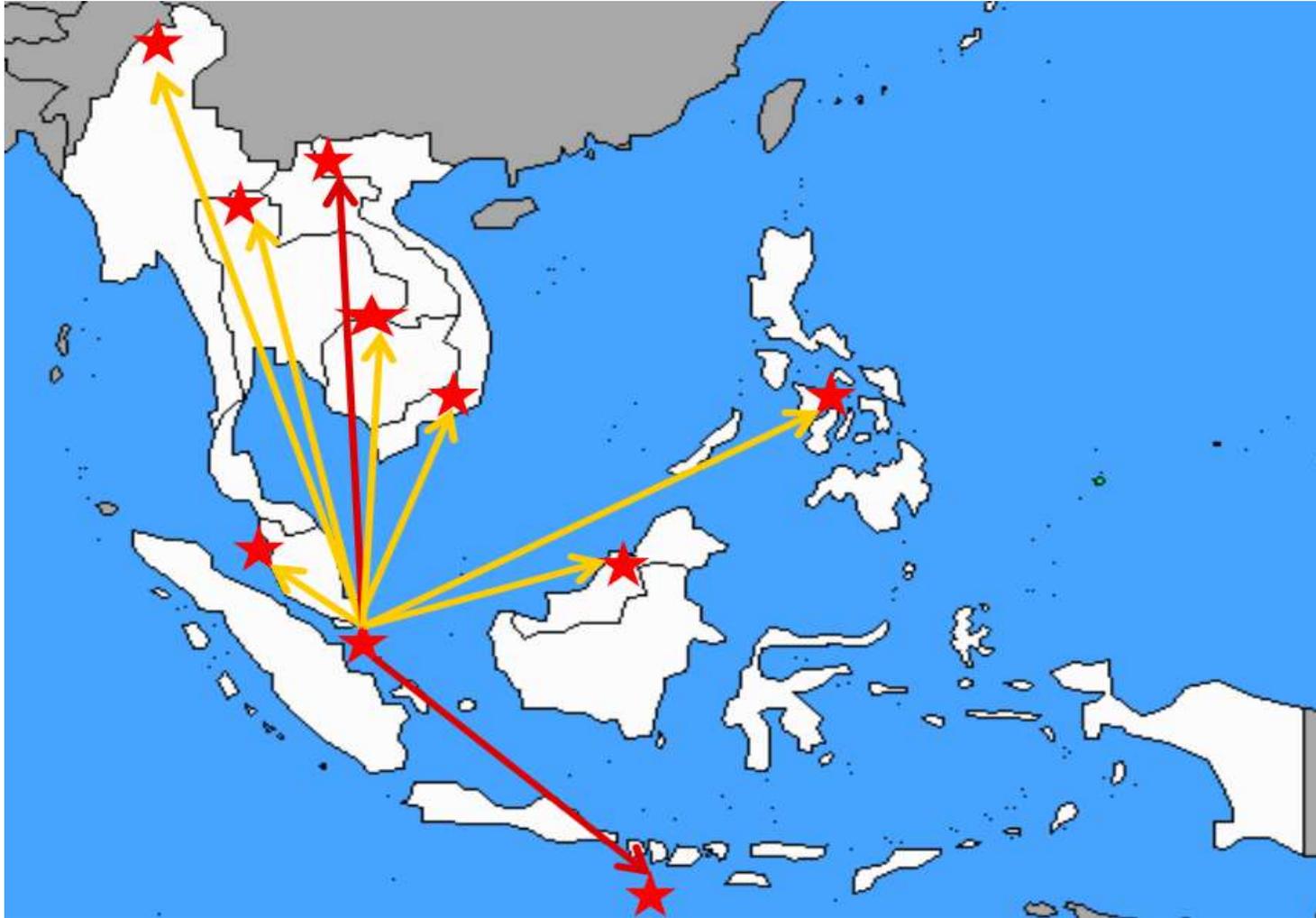


ASEAN-China:

Unlimited third/fourth freedoms for Chinese carriers to ASEAN and for ASEAN carriers from their home country to China. From 2010

Fifth freedoms implemented in 2013 but limited to 28 secondary Chinese cities for internal within ASEAN. For external/beyond ASEAN limited to 10 secondary Chinese cities (including Urumqi) for ASEAN carriers and 10 Southeast Asian cities (mainly secondary) for Chinese carriers

ASEAN-SAM: current phase

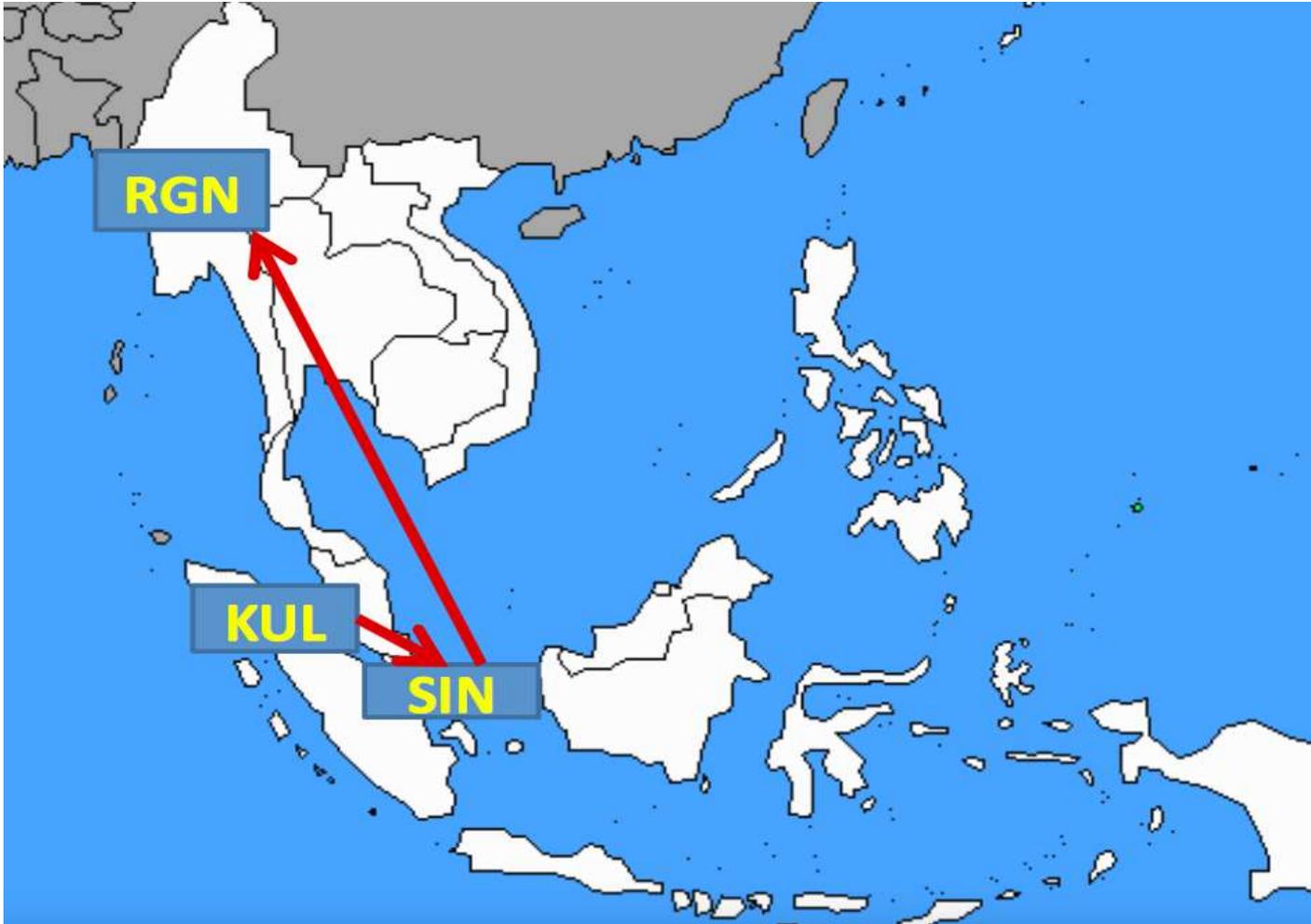


Third and Fourth freedoms:
capitals and secondary cities

Indonesia, Philippines and
Laos finally ratified a year ago

But Indonesia only agreed to a
carve out with Jakarta and four
other cities (Bali, Makassar,
Medan and Surabaya)

ASEAN-SAM: current phase



Fifth freedoms are permitted within ASEAN (all cities) but for now routes involving backtracking are not permitted

For example: Kuala Lumpur-Singapore-Yangon by a Malaysian carrier

THIS LIMITS VALUE

ASEAN-SAM: what it doesn't do

- Fifth freedom routes that are not straight lines (subject to further interpretation)
- Seventh freedom routes (a Singaporean carrier can operate Jakarta-Manila but not as a standalone route and can't base an aircraft at Jakarta)
- Eighth or ninth freedom routes/cabotage (unlike in the EU, none of the domestic markets are open to carriers based in other ASEAN countries)
- It is therefore not exactly 'open skies'
- No country outside ASEAN other than China has so far forged an agreement with the ASEAN bloc

ASEAN-SAM: impact

- So far there have been no fifth freedom routes launched within ASEAN by any ASEAN carrier
- LCCs had already worked around the system by establishing cross-border JVs and account for most capacity within ASEAN
- Slot restrictions at major airports have become the impediment to growth rather than lack of open skies
- There was already overcapacity in most of ASEAN's regional international market but the new third/fourth freedoms have opened up opportunities in some underserved markets such as Luang Prabang
- Lack of seventh and eighth freedoms limit the the potential impact
- The biggest benefit so far has come from the ASEAN-China agreement

ASEAN: de facto liberalization



Malaysia AirAsia, Indonesia AirAsia, Thai AirAsia, Malaysia AirAsia X, Philippines AirAsia, Thai AirAsia X, Indonesia AirAsia X, (AirAsia India), (AirAsia Japan)



Lion Air, Wings Air, Malindo Air, Batik Air, Thai Lion Air



Jetstar Asia, Jetstar Pacific, (Jetstar Japan)



VietJet Air, Thai VietJet



Scoot, NokScoot

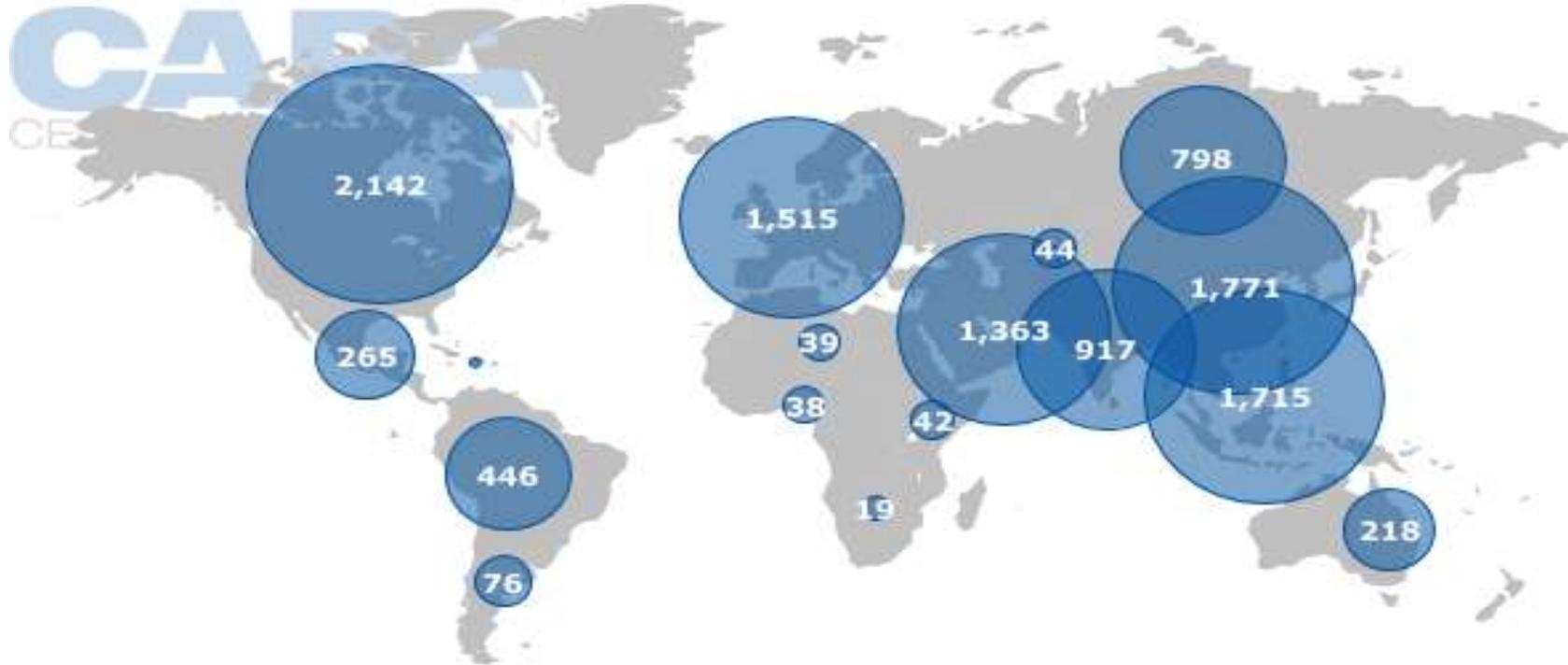
ASEAN-SAM: potential

- Allowing fifth freedom routes that are not in straight lines could open up some opportunities
- Talks are ongoing with the EU, Korea and Japan. Fifth freedoms beyond these countries is unlikely but deals similar to China would be beneficial
- A potential future phase could lead to the adoption of a common regulator which would have more positive impact than more traffic rights
- Seventh and eighth freedoms are very unlikely at this point but would be economically beneficial
- ASEAN-SAM is still a significant and important milestone, leading to an enhanced spirit of cooperation between the 10 countries. It is part of a wider framework with positive long term ramifications

ASEAN-SAM: lesson learned

- Opt out and carve out clauses significantly weaken the agreement
- Be careful and clear in adopting language (lack of clarity on fifth freedom routes that involve backtracking)
- Avoid simply copying other open skies agreements as each region is unique with its own needs and vision
- Include as many types of freedoms in order to reap full economic benefit. National insecurities over fifths remain an impediment to meaningful liberalization
- Hold discussions with key countries outside the bloc and try to forge deals with as many as possible to maximize the benefit
- Be quick with progressing and implementing
- Bigger potential impact can be achieved in a market without slot restrictions and lower LCC penetration rate

Aircraft orders by region



SE Asia: accounts for nearly 20% of global orders despite accounting for 6% of the current fleet. Includes over 1,200 LCC orders, accounting for 30% of the global total

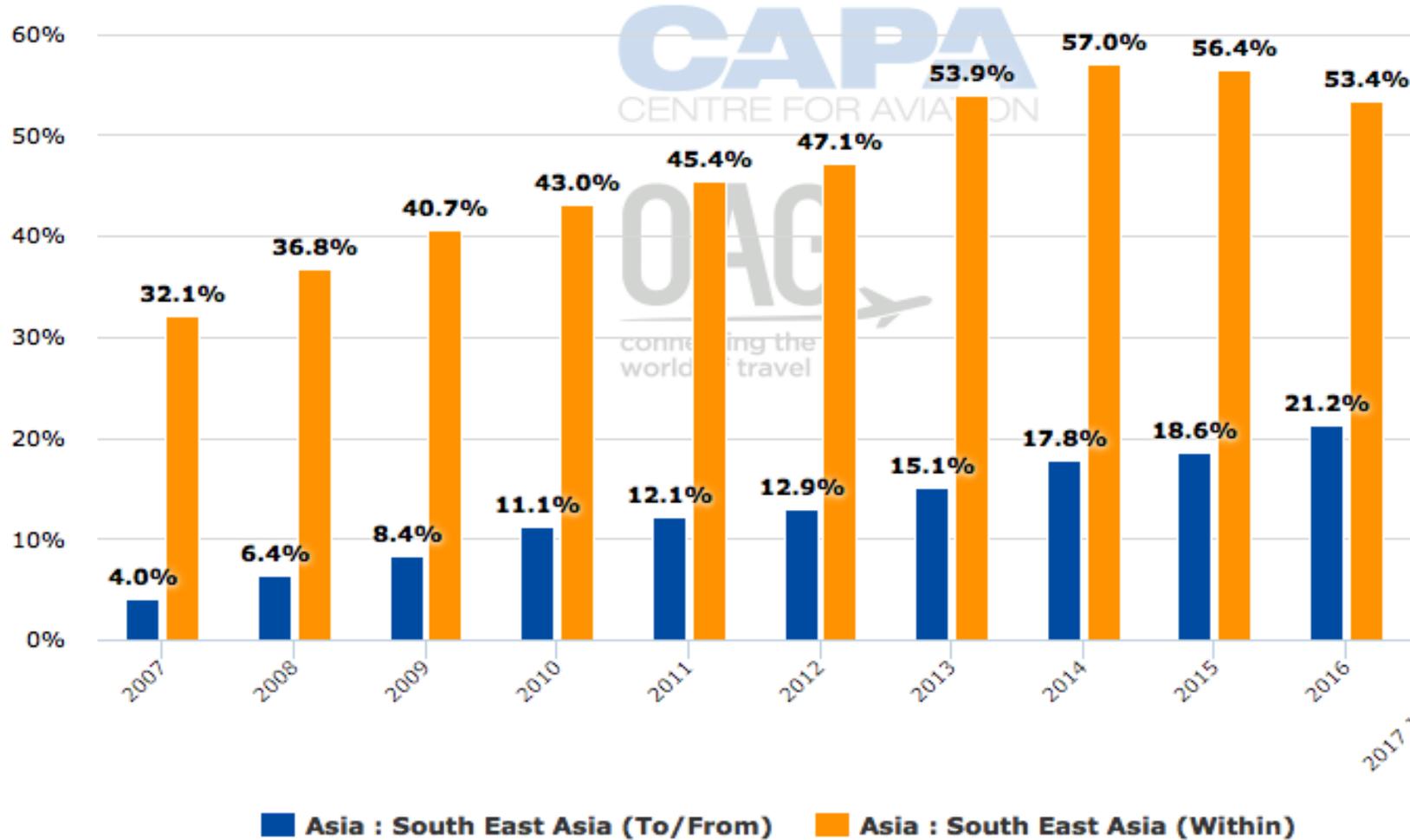
Central Asia: only 44 orders (0.3% of global total) and no LCC orders. Active fleet is 213 aircraft (0.7% of global total)

Source: CAPA Fleet Database

SE Asia: 22 LCCs, 55% of short haul market

Thailand	Indonesia	Singapore	Philippines	Vietnam	Malaysia
Nok	Citilink	Jetstar Asia	Cebu Pacific	Jetstar Pacific	AirAsia
NokScoot	Indo AirAsia	Scoot	Cebgo	VietJet	AirAsia X
Thai AirAsia	Indo AirAsia X	Tigerair	Philippines AirAsia		
Thai AirAsia X	Lion Air				
Thai Lion Air	Wings Air				
Thai VietJet Air					

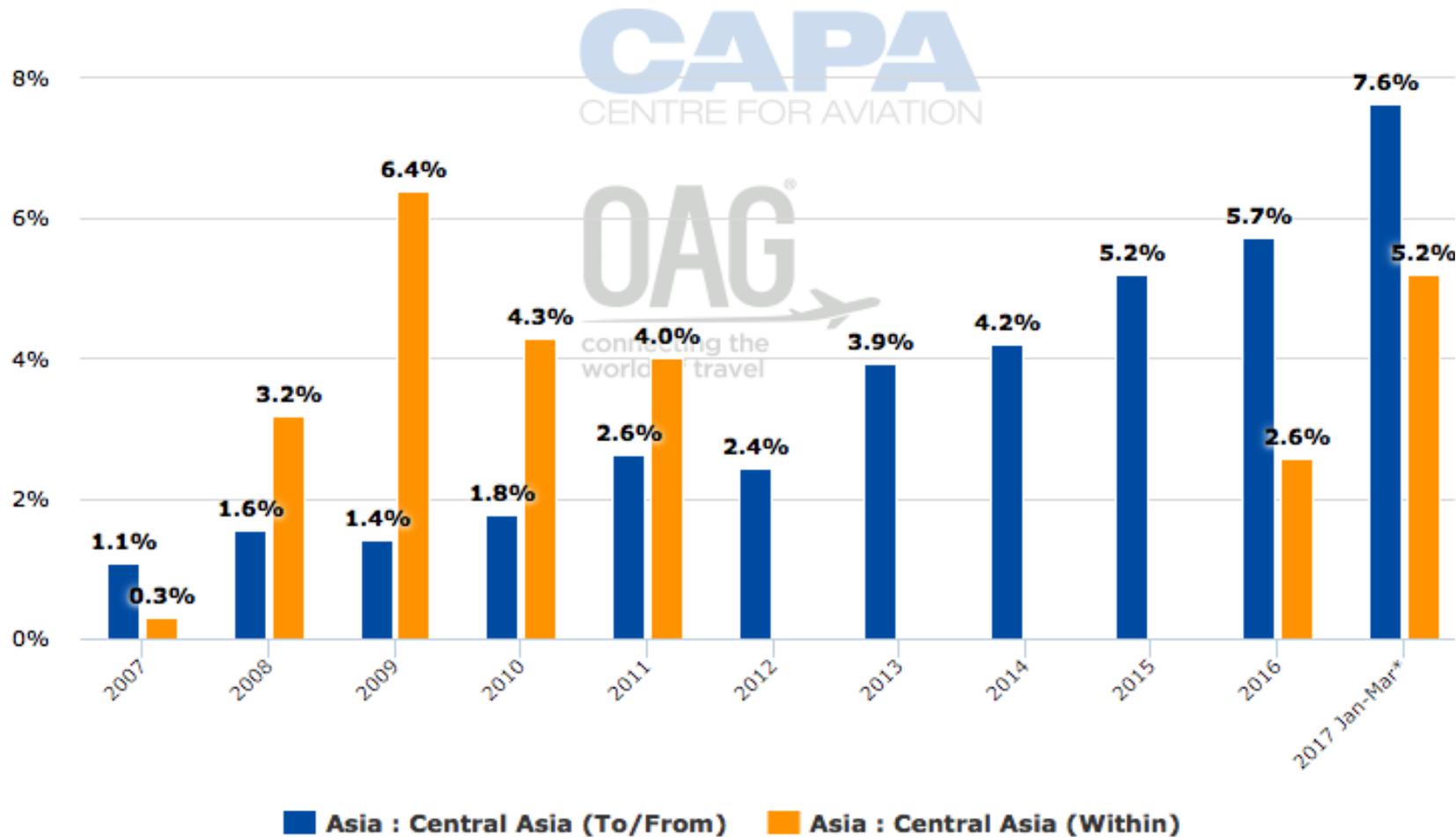
SE Asia: LCC penetration rate



LCC penetration rate (% of seats flown by LCCs) for Southeast Asia

Southeast Asian LCC sector has expanded from a base of virtually zero 15 years ago. Liberal policies enabled LCCs to proliferate, with several cross-border JVs, to the point they accounted for 55% of the regional market by the time ASEAN-SAM was implemented

Central Asia: 1 LCC, 5% of short-haul market



LCC penetration rate (% of seats flown by LCCs) for Central Asia

Air Manas, a Kyrgyz based JV with Turkey's Pegasus is the only Central Asian local LCC

Central Asia is also only served by four foreign LCCs (Air Arabia, flydubai, Pegasus and Pobeda)

Conclusions

- Central Asia's aviation market is in a different phase of development and therefore can potentially benefit more from a single market than ASEAN
- ASEAN already had de facto liberalization (allowing cross-border JVs and generally liberal policies of member states in the interest of stimulating tourism and trade)
- Central Asia's regional international market is generally underserved, with limited LCC penetration while SE Asia's market is oversupplied
- Open skies and liberalization of air rights generally is economically beneficial, leading to traffic growth, enhanced trade and more tourism
- ASEAN-SAM provides a relevant example and lessons on what to include and exclude in a single aviation market agreement
- The process of agreeing and implementing a single aviation market is not easy, as proven by ASEAN, but the significance and potential benefits are worth the effort



THANK YOU!

Brendan Sobie, Chief Analyst

Email: bsobie@centreforaviation.com