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Clear take-off on Asean Open Skies

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THE Association of South-east Asian Nations (Asean) hopes to achieve a single aviation market for the region by 2015. This project is often referred to as Asean Open Skies.

The idea of open skies gets airlines, aircraft manufacturers and the media all excited as it connotes unlimited airline opportunities throughout the region. Yet, the reality is more complex. The term "open skies" is misleading because it implies that airlines can freely operate without restrictions. In fact, only international flights beginning and ending in the airline's home state are fully open and even then, only between countries agreeing to it.

In aviation jargon, there are so-called "freedoms" - rights to commercial flights that countries negotiate. For instance, Singapore carriers flying to Thailand utilise the "first freedom" to overfly Malaysian airspace and the "second freedom" to stop in Malaysia for fuel and supplies, if necessary.

The actual commercial opportunities are covered by the subsequent "freedoms".

That same Singapore carrier carries passengers for profit from Singapore to Bangkok ("third freedom") and back to Singapore ("fourth freedom").

In both directions, it may stop over in Kuala Lumpur to drop off some passengers and fill the vacated seats with new passengers picked up from there. This is the "fifth freedom" granted to Singapore by both Thailand and Malaysia. All these rights are granted by states to each other through bilateral negotiations, often with flight and capacity limits.

Asean, however, has adopted multilateral agreements that free up third, fourth and fifth freedom rights completely. To have full effect, they require all 10 countries' acceptance.

Indonesia stays out

THE challenge for "open skies" is that Indonesia, the region's largest economy, has not accepted the relevant agreements.

Hence, operations between Singapore and Indonesia remain governed bilaterally, with limits for both sides. For some years, Singapore carriers had reached their limits, and could not launch new flights into Indonesia. Recent negotiations have introduced additional capacity, largely because the Indonesian carriers have only now reached their limits and agreed to expansion.

Why does Indonesia prefer incremental adjustments to opening up completely?

The benefits for Indonesia are obvious - more choices and lower fares for travellers, increased business and tourist arrivals, and positive effects for foreign investment and airport and ancillary services. But aviation politics is such that national airlines lobby their governments aggressively to adopt protectionist measures.

For sure, Indonesia is not unique here. Carriers from China to Canada do the same to restrict their foreign rivals' opportunities. The concern relates mainly to the "sixth freedom" operations of formidable competitors like SIA, Korean Air and Emirates.

"Sixth freedom" involves carrying passengers from country A to the airline's home country before redistributing them to country B, C or D. The home country thus requires "fourth freedom" rights with country A, and "third freedom" rights with B, C and D.

"Sixth freedom" is critical for airline hubs like Singapore and enables its carriers to carry passengers from, say, Jakarta to Singapore and then everywhere else on onward connecting flights.

However, Indonesian carriers do not like losing passengers this way.

By avoiding the Asean agreements, Indonesia can limit the third and fourth freedom rights that form the backbone of other carriers' "sixth freedom" operations.

Seventh freedom and domestic flights

THE story does not end there. A true single aviation market such as that in Europe allows carriers to connect two international points outside their home country.

However, this is not permitted by the Asean agreements. As such, AirAsia cannot base a fleet in Changi to fly between Singapore and other countries as it will compete head-on with the Singapore carriers.

How does this explain AirAsia's hubs in Thailand, Indonesia and the Philippines? AirAsia incorporated subsidiaries in those countries that are technically local airlines. Each carries a separate airline code and is theoretically majority-owned and effectively controlled by local interests. This allows AirAsia to circumvent the "seventh freedom" prohibition and to effectively operate out of Bangkok, Jakarta and Manila under a common brand.

Furthermore, Asean's agreements do not free up domestic operations. These are reserved exclusively for local players. No foreign airline - not even from fellow Asean states - can perform domestic flights.

The China challenge

AS SUCH, Asean skies are only partially open. There is now a new agreement between the Asean states and China that provides unlimited third and fourth freedom opportunities for both sides. Thus, Asean airlines can now operate unlimited flights into China, except Hong Kong, Macau and Taiwan, points excluded by China.

At first glance, this seems lucrative for Asean airlines. They can now fly unlimited flights to any Chinese point, subject only to slot restrictions in congested airports such as Beijing. Over time, though, there will be strategic disadvantages. That is because Asean airlines can fly to China only from points in their own territory. Because the agreement only relaxes third and fourth freedom rights, a Singapore carrier can operate to China only from Singapore, and not from other Asean countries.

To fly from other Asean points would require the grant of seventh freedom access among Asean countries themselves. However, this is prevented by the individual states' protection for their own airlines. Meanwhile, China's airlines can effectively connect any point in their backyard with any point in Asean!

This will ultimately create a network imbalance that stems from the Asean countries' own reluctance to treat themselves as a true single market. This was exactly what the European airlines faced with the US in the 1990s. In that saga, the European Commission eventually prevailed in compelling the EU member states to establish a common market that rectified the imbalance.

In contrast, no body or process exists in Asean to compel member states to prioritise the regional interest. Hence, Asean airlines may become seriously disadvantaged against their competitors. In fact, Asean plans to adopt agreements with India, Japan and South Korea similar to that with China. Yet, without a unified market at home, Asean airlines risk being prejudiced in the future.

The prospect for truly "open skies" over Asean remains elusive. The dilemma is symptomatic of the broader trading dynamics between any group of smaller states and larger, unified markets. Smaller states will typically be disadvantaged in their relations with a bigger partner unless they forge a unified position to balance the other's heft.

Politically, this is challenging as it entails placing the long-term regional interest above individual interests. But in the face of bigger challenges from without, there is little other choice.

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Without a unified market at home, Asean airlines may be at a disadvantage when competing against those from bigger, united markets. -- ST FILE PHOTO