



**Malaysian
Aviation Commission**
Suruhanjaya Penerbangan Malaysia

Passenger Service Charges at Airports in Malaysia – Consultation Paper

24 August 2017



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1.0 INTRODUCTION

The Malaysian Aviation Commission is responsible for the setting of airport aeronautical charges¹. The Malaysian Aviation Commission (hereafter “**MAVCOM**” or “**Commission**”) was established in March 2016 as an independent economic regulator to the civil aviation industry in Malaysia with a focus on driving the growth of the sector while simultaneously championing the rights of consumers within the industry. As per section 46 of the Malaysian Aviation Commission Act 2015 [Act 771] (“**Act**”), this role includes the setting of Passenger Service Charges (“**PSC**”).

The Commission plans to fully equalise PSC with effect from 1 January 2018. In October 2016, the Commission announced a revised set of PSC², to be effective from 1 January 2017. The revised rates are as outlined in Table 1 (page 5).

The only differentiated PSC remaining is the long-haul PSC of RM50 at klia2, which is currently planned to be equalised with those at KLIA and other airports in Malaysia with effect from 1 January 2018. These revisions were premised on various rationale including:

- (i) preventing passengers at other airports in Malaysia from subsidising the operations of klia2;
- (ii) reducing subsidies payable by the Government of Malaysia (“**GoM**”);
- (iii) moving towards a more internationally accepted airport charges setting methodology; and
- (iv) klia2 is more comparable to KLIA than the Low-Cost Carrier Terminal (“**LCCT**”) as an airport facility, and is superior to other secondary airports in Malaysia.

Subject to this consultation process, the Commission intends to fully equalise all PSC tiers in Malaysia, by increasing the long-haul PSC at klia2 from the current RM50 per departing passenger to RM73 per departing passenger, as first announced in October 2016. The full equalisation, once formally announced, is currently planned to take effect from 1 January 2018.

MAVCOM seeks feedback on the planned full equalisation of PSC in Malaysia, in particular on the planned increase in the long-haul PSC at klia2 from the current RM50 per departing passenger to RM73 per departing passenger.

¹ Airport aeronautical charges refers to the charges prescribed in the Malaysian Aviation Commission (Aviation Services Charges) Regulations 2016.

² For avoidance of doubt, PSC is inclusive of the Passenger Security Service Charge, a charge for the provision of security services at airports.

2.0 BACKGROUND TO 2016 REVISION

MAVCOM is responsible for the setting of airport aeronautical charges. Section 46 of the Act states that the Commission, whose objective includes to facilitate the continued economic development of Malaysia's aviation industry – for airlines, airports and ground handling services - shall have the power to do the following:

- (i) set charges, including maximum charges, or establishing the method for determination of such charges for aviation services;
- (ii) carry out reviews of PSC, landing fees and parking fees, third party ground handling charges and other aviation charges at such intervals as the Commission thinks fit; and
- (iii) following such reviews, revise any charges set or method established as the Commission thinks fit.

Prior to the establishment of MAVCOM, the setting of the PSC and other selected aeronautical charges were under the purview of the Ministry of Transport, Malaysia ("**MoT**").

PSC is levied on departing passengers to partially cover operating and capital expenditures of airports. The PSC is levied on departing passengers at airports around the world. It is one of the sources of aeronautical income for airport operators, and is used to cover for operating and capital expenditures. The PSC is likewise paid by passengers at airports in Malaysia, and accrues to airport operators such as Malaysia Airports Holdings Berhad ("**MAHB**") and Senai Airport Terminal Services Sdn Bhd ("**Senai Airport**"). The PSC is collected by the airlines from the passenger upon purchase of tickets and is paid to the airport operator following completion of the flight. MAHB derives legal rights to accrue income via the PSC, amongst others, via a 25-year Operating Agreement ("**OA**") signed with the GoM in 2009³, while Senai Airport similarly has a 50-year Concession Agreement signed with the GoM in 2003. The PSC was previously last raised in November 2011.

PSC revision necessary to facilitate air traveller welfare. Over the last few years, the operating and capital expenditure of airport operators, namely MAHB and Senai Airport, have increased. In view of this and in line with International Civil Aviation Organisation ("**ICAO**") principles, the Commission was cognisant that airport operators need to earn sufficient income that will serve towards the operation, maintenance and development of the nation's airports, ultimately for the benefit of air traveller welfare.

Actual PSC could differ from the Benchmark PSC per the OA. The actual PSC set by the Commission, or previously by the MoT, could be different from the Benchmark PSC Rate ("**BPR**") as stated in the OA, where the latter is a notional BPR increased across five-year cycles at the rate of inflation. The GoM previously and now the Commission retains the right to set the actual PSC levied on departing passengers based on any methodology as it deems appropriate. Should the actual PSC be lower than the BPR, GoM will need to

³ MAHB obtained an approval-in-principle from GoM to extend the OA for an additional 35 years on top of the current 25 year concession period in December 2016.

compensate MAHB via the Marginal Cost Support (“**MARCS**”) provided MAHB meets productivity and service level targets as formulated in the OA.

PSC revision scheduled in 2014 per the OA was deferred. As per the OA, a PSC review is to be conducted every five (5) years from 2009. The last PSC revision as per the OA was due to have been reviewed in 2014 but was deferred. The GoM had in turn requested the Commission to conduct a price review upon the Act coming into force in March 2016.

MAVCOM was requested by GoM to perform the PSC review, and announced new PSC rates in October 2016. With the establishment of MAVCOM on 1 March 2016, the GoM had requested the Commission to perform a review of the PSC. This was carried out in 2016, including face-to-face engagement sessions with stakeholders - namely the airlines, airport operators, trade associations and the GoM - which led to a PSC revision announcement in October 2016.

RM	Previous PSC			Revised PSC		
	Domestic	ASEAN	Long haul	Domestic	ASEAN	Long haul
KLIA	9	65	65	11	35	73
klia2	6	32	32	11	35	50
Other Airports	9	65 / 26 ⁴	65	11	35	73

Table 1 – Revised PSC as announced in October 2016

Source: MAVCOM

Key features of the revised PSC announced in October 2016, as laid out in Table 1 above, are as follows:

- (i) the introduction of a new and lower PSC tier of RM35 for travels to ASEAN countries from airports in Malaysia;
- (ii) gradual equalisation of PSC at klia2 with KLIA and other airports in Malaysia to be introduced in stages with:
 - a) an immediate equalisation of PSC for domestic and ASEAN flights;
 - b) a reduction in difference in the international (beyond ASEAN) PSC at klia2 with and KLIA and other airports in Malaysia;
- (iii) revised domestic and international rates for all airports; and
- (iv) PSC in Malaysia remained amongst the lowest regionally and globally.

⁴ Applicable for other airports in Malaysia except Langkawi, Penang, Kota Kinabalu, Kuching and Johor Bahru to ASEAN destinations and points in the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) and Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT).

3.0 RATIONALE FOR 2016 PSC REVISION

klia2 is being subsidised by passengers at other airports. Prior to the revision announced in October 2016, the domestic and international PSCs charged at klia2 were lower than those for KLIA and other airports in Malaysia such as Kuching, Melaka, Ipoh and Alor Setar, with the exception of ASEAN destinations from selected smaller airports. This resulted in the PSC paid by passengers at other airports in Malaysia being utilised to bear for the costs of running and maintaining klia2's facilities. This consequently means that passengers at other airports in Malaysia were subsidising passengers flying from klia2.

GoM has been subsidising PSC payment via MARCS. In accordance with the OA between the GoM and MAHB, the GoM compensates MAHB via the MARCS PSC scheme, which is a GoM restitution to MAHB for any difference between the actual PSC and the Benchmark PSC. The setting of PSC rates that are closer to the Benchmark PSC will reduce MARCS PSC payments and is also more in line with the GoM's intention of moving towards a user-pay mechanism. With the revised PSC scheme planned by MAVCOM, MARCS PSC is expected to decrease and expenditures to run airports would be borne more by users of airports rather than the general taxpayer. In addition, subsidies paid under the MARCS PSC can be redeployed by the GoM towards other national needs.

Move towards a cost-based PSC mechanism in line with international best practices. The Commission had decided to move towards a cost-based mechanism for setting of airport aeronautical charges, consistent with principles outlined by ICAO⁵ and international best practices used for airports and other concession-based businesses such as the power industry. Therefore, the Commission's PSC review of 2016 was conducted to bring Malaysia closer towards international best practices whilst concurrently ensuring Malaysia's rates remain at an affordable level.

The PSC revision announced in October 2016 and the full equalisation planned to take effect from January 2018 are thus interim measures - the Commission allows the airport operator partial incremental cost recovery where the change in PSC was calculated to cover a portion of the increase in total operating costs resulting from klia2. This will enable the airport operators to partially recover the increase in costs and provide some relief in the form of higher charges whilst the longer-term aeronautical charges mechanism is being developed by the Commission.

PSC at klia2 had not increased despite higher operating expenditures required to maintain the facility. Since its commencement of operations in May 2014, klia2's international PSC of RM32 was 51 per cent lower than all other airports in Malaysia as it adopted the PSC rates of KLIA's LCCT, which has since then ceased operations as a passenger airport terminal due to insufficient capacity. The previous PSC charge structure at KLIA was based on a differential between the two terminals which originated when AirAsia Berhad ("**AirAsia**") began its domestic operations from LCCT in 2006.

⁵ Document 9082: ICAO's Policies on Charges for Airports and Air Navigation Service.

Historically, the PSC rate had not changed when MAHB moved the main airport from Subang to KLIA in 1998 – the domestic and international PSC at the time were RM5 and RM40 respectively. In mid-2002, AirAsia also moved its operations from Subang Airport to KLIA. As AirAsia achieved significant growth rates, a dedicated and separate facility purpose-built for a Low-Cost Carrier business model was developed featuring no aerobridges, no bussing facilities, dedicated check-in counters and dedicated baggage system. As a reflection of the lesser facilities at the LCCT, the international PSC at the LCCT was set at a lower rate than those at KLIA and other airports in Malaysia - at RM35 in 2006 and further lowered to RM25 in 2007 – see Figure 1 below.

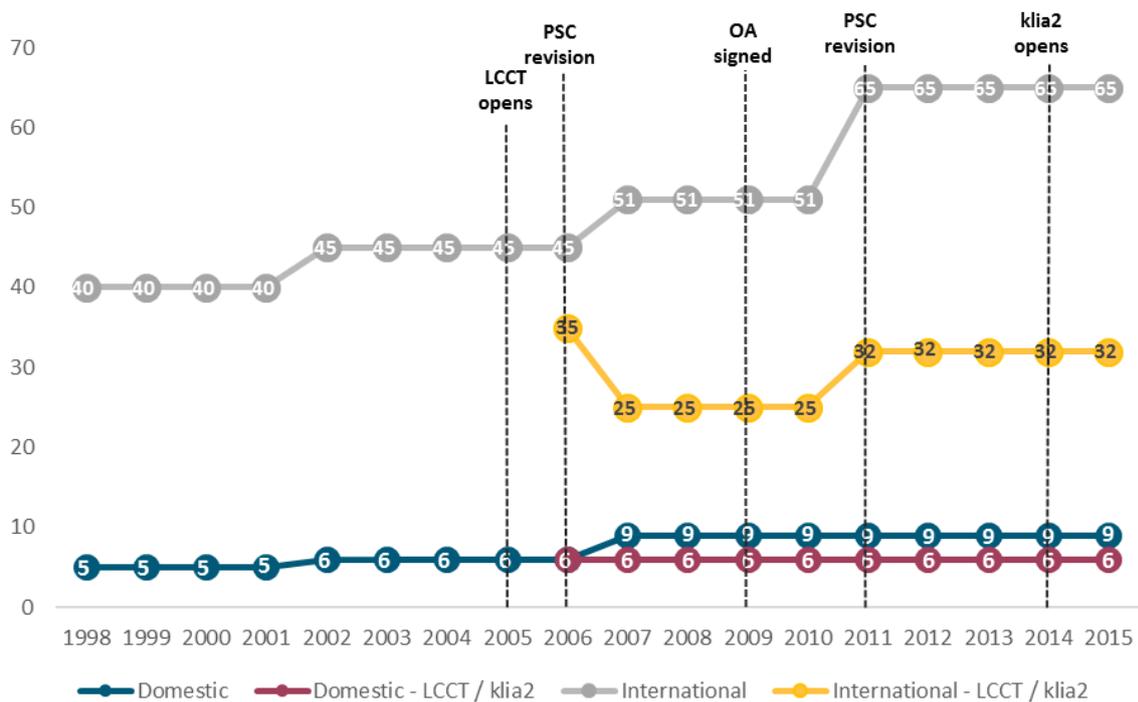


Figure 1 – Historical PSC in Malaysia
Source: MAHB

With the increase in the number of passengers at LCCT, the LCCT became inadequate both for the scale of traffic and the service level experienced by travellers, and thus the decision was made in 2009 to construct klia2 as per the National Airport Masterplan. In 2013, the final full year of the LCCT’s operations, the LCCT handled a passenger traffic volume of 21.8 million, 45 per cent above its design capacity of 15 million passengers per annum.

klia2 was developed, being a larger terminal with a passenger handling capacity of 45 million passengers per annum, and possessing features and amenities more superior to the LCCT and closer to the standard of KLIA, such as:

- a modern automatic baggage handling system with improved baggage handling statistics;
- a higher Design Peak Hour Passenger capacity of 11,371 passengers per hour in comparison to 8,909 passenger per hour at KLIA;

- immigration facilities such that immigration queueing times is shorter than that at KLIA, as on average, 61 per cent of arriving passengers at klia2 queued for less than 10 minutes compared to 52 per cent in KLIA;
- aerobridges which airlines may choose to use or otherwise;
- effectively its own dedicated runway; and
- approximately 55,000 sqm of commercial space, in comparison to approximately 47,000 sqm at KLIA, and possessing a wide variety of shopping as well as food and beverage options.

Given the scale and sophistication of klia2, the expenditures required to develop and maintain the facilities are far greater than those required at the now closed LCCT. In fact, the single largest increase in cost in Malaysia's airport system in recent years is attributable to the commencement of operations of klia2 in 2014.

As an illustration, depreciation and amortisation costs for MAHB's Malaysian operations increased by 80.9 per cent to RM502.8 million in 2015 from RM277.9 million in 2013⁶. Apart from that, the interest costs for the Malaysian operations also grew significantly from RM151.3 million to RM268.3 million (+77.0 per cent increase). Senai Airport has also seen higher operational and capital costs due to the expansion of its terminal facilities to cater for growth.

However, the PSC at klia2 was not correspondingly raised in 2014 to a level necessary to cover the cost of operating the airport.

PSC rates in Malaysia remain amongst the lowest in the world – In formulating the PSC rates for airports in Malaysia, the Commission was cognisant for the cost of air travel in Malaysia to remain relatively affordable. After the revised PSC structure announced in October 2016, MAVCOM takes note that passenger airport charges in Malaysia for both domestic and international destinations remain amongst the lowest regionally and globally. The PSC was last raised in November 2011.

For instance, in comparison with other airports in ASEAN, the Malaysian domestic PSC of RM11 remains amongst the lowest compared to other ASEAN airports such as Jakarta, Bali, Bangkok, Manila, Phnom Penh and Yangon, with the only airport with lower domestic PSC being Vientiane. Yogyakarta is the only ASEAN airport whose international PSC is below Malaysia's ASEAN PSC of RM35.

⁶ The Commission has compared the full-year depreciation costs for Malaysian operations in 2015 to 2013 instead of 2014. This is as klia2 only commenced operations in May 2014, and 2014 therefore does not give an apple-to-apple comparison as it only includes 8-months of the annual klia2 depreciation costs

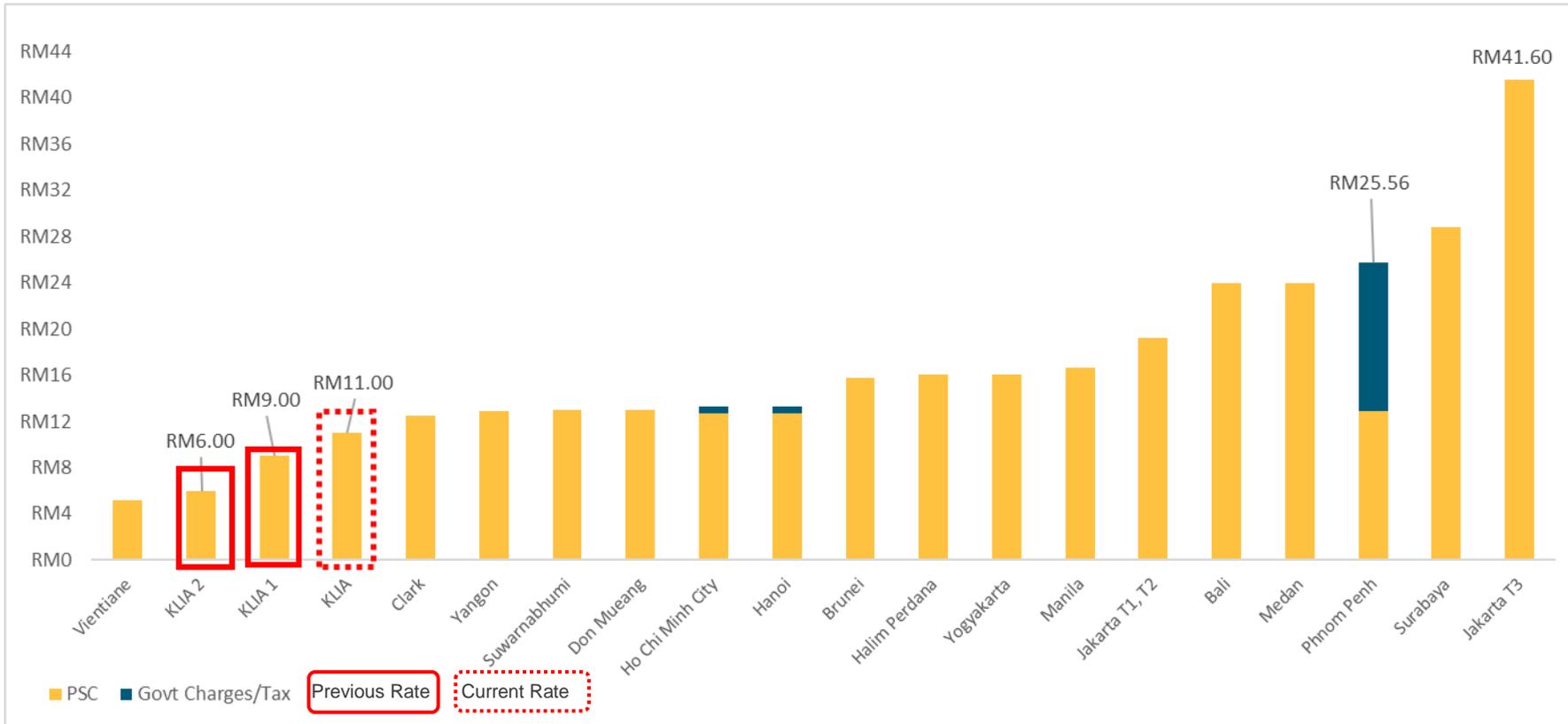


Figure 2 - Domestic PSC benchmarking - ASEAN as of 18 August 2017

Source: MAVCOM, airport websites

(Note: Malaysian PSC excludes GST)

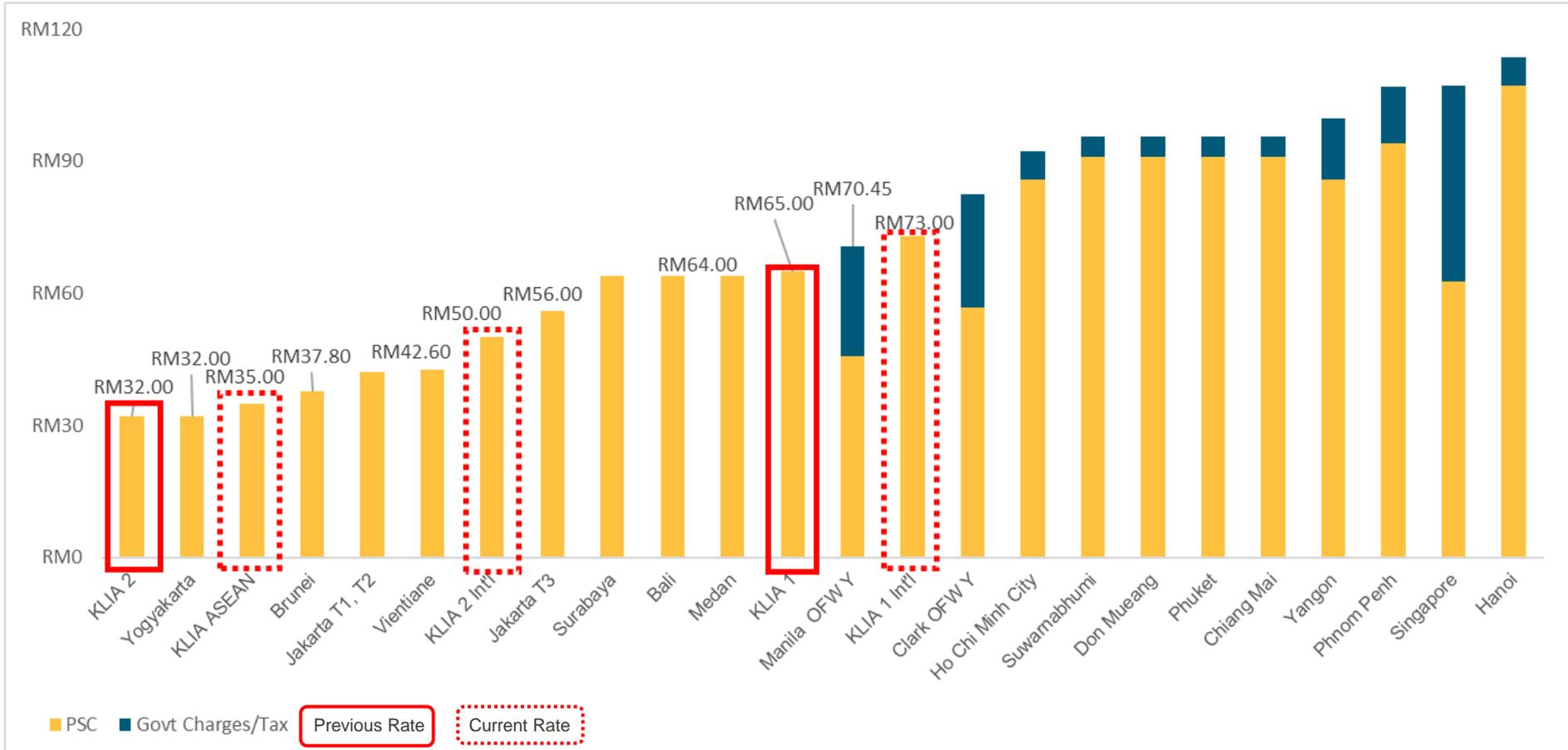


Figure 3 - International PSC benchmarking - ASEAN as of 18 August 2017

Source: MAVCOM, airport websites
(Note: Malaysian PSC excludes GST)

Malaysia's international PSC of RM73 is also lower compared to Singapore and most major airports outside of ASEAN such as London, Dubai, Paris and Seoul.

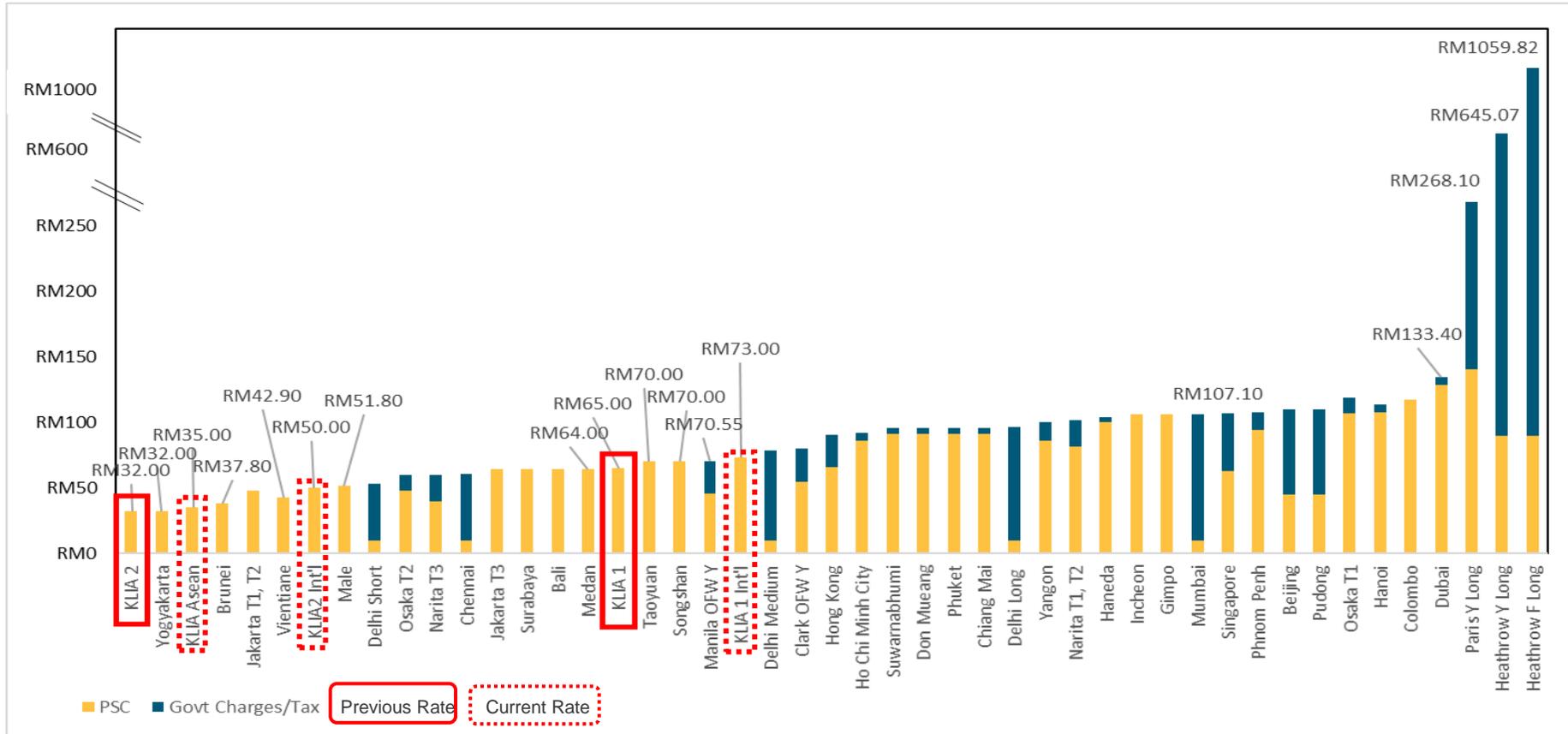


Figure 4 - International PSC benchmarking – Global as of 18 August 2017

Source: MAVCOM, airport websites

(Note: Malaysian PSC excludes GST)

Healthy growth in passenger traffic for the first seven months of 2017 (7M2017) indicates PSC increases did not affect air travel growth. The Commission noted that the total passenger traffic in Malaysia has grown by 10.4 per cent Year-on-Year (“YoY”) for the 7-month period up to 31 July 2017, which is higher than the growth of 3.4 per cent in the same period in 2016 (refer to Table 2). In addition, both international and domestic passenger traffic reported higher growth rates of 14.0 per cent and 7.2 per cent respectively, in comparison to 6.0 per cent and 1.1 per cent in the same period in 2016. Traffic to ASEAN destinations grew by 10.5 per cent while non-ASEAN destinations grew by 17.5 per cent despite higher PSC. The Commission noted that despite klia2 reporting slower total traffic growth of 8.5 per cent compared with KLIA’s total traffic growth of 18.9 per cent YoY, this was mainly attributed to Malindo Air’s move from klia2 to KLIA beginning from 15 March 2016. Excluding Malindo Air’s traffic from klia2 in 2016, the passenger traffic growth rate in klia2 stood at 12.9 per cent YoY.

Passenger Traffic (in mil)	Year-on-Year 7M17 vs 7M16			Year-on-Year 7M16 vs 7M15		
	7M17	7M16	Chg	7M16	7M15	Chg
KLIA	16.27	13.69	18.9%	13.69	13.67	0.1%
International	12.41	10.27	20.9%	10.27	10.66	-3.7%
- ASEAN	4.76	3.79	25.8%	3.79	n.a	n.a
- Non-ASEAN	7.65	6.48	18.0%	6.48	n.a	n.a
Domestic	3.86	3.42	13.0%	3.42	3.01	13.6%
klia2	17.15	15.81	8.5%	15.81	14.57	8.5%
International	11.60	10.65	8.9%	10.65	9.45	12.7%
- ASEAN	6.53	6.09	7.2%	6.09	n.a	n.a
- Non-ASEAN	5.07	4.56	11.3%	4.56	n.a	n.a
Domestic	5.55	5.16	7.5%	5.16	5.13	0.6%
Other Airports	23.56	22.11	6.6%	22.11	21.66	2.1%
International	4.11	3.75	9.4%	3.75	3.16	19.0%
- ASEAN	2.37	2.49	-4.9%	2.49	n.a	n.a
- Non-ASEAN	1.74	1.27	37.4%	1.27	n.a	n.a
Domestic	19.46	18.35	6.0%	18.35	18.51	-0.8%
Total	56.98	51.60	10.4%	51.60	49.91	3.4%
International	28.12	24.67	14.0%	24.67	23.26	6.0%
- ASEAN	13.65	12.36	10.5%	12.36	n.a	n.a
- Non-ASEAN	14.46	12.31	17.5%	12.31	n.a	n.a
Domestic	28.87	26.93	7.2%	26.93	26.64	1.1%

*MAHB and Senai Airports had provided breakdown of International passengers (ASEAN, Non-ASEAN) from January 2017 onwards with comparison figures

Table 2 – Malaysia’s passenger traffic numbers
Source: MAVCOM analysis, MAHB & Senai Airport

Commencement of the development of long-term airport aeronautical charges methodology. As noted above and in line with the announcement during the PSC review of 31 October 2016, the Commission is currently developing a cost-based airport aeronautical charges setting framework which shall serve as the long term methodology for setting airport charges for all commercial airports in Malaysia. In tandem with the development of this framework, the Commission has also developed a scheme to incentivise quality in airport service levels – subject to MAVCOM’s consultation paper entitled Quality of Service at Airports in Malaysia released on 14 July 2017.

The cost-based charges framework and quality of service scheme – which are intended to result in more robust airport remuneration, capital expenditure planning, capital expenditure discipline and service levels amongst others - shall thus function as the two principal levers by which MAVCOM regulates the airport sector in Malaysia.

The cost-based charges framework is presently being developed by MAVCOM. Development of such frameworks are typically a multiple year effort based on experiences of other jurisdictions, and the Commission expects to provide an update on the framework for Malaysia in 2018, with a tentative target date for implementation in 2019. The quality of service mechanism is also currently being developed, with the pilot scheme targeted to be implemented in 2018.

4.0 FULL EQUALISATION OF 2017 PSC

Equalisation at KUL. Subject to this written consultation process, the Commission shall complete the equalisation of PSC at KLIA and klia2 by revising the long-haul PSC from RM50 to RM73, in line with the rest of the country's commercial airports, to be effective from next year. This follows the announcement of PSC revision on 31 October 2016 where the Commission had communicated its commitment to a gradual equalisation of PSC at KLIA and klia2 with a view for complete equalisation in 2018.

Revised rates to come into effect on 1 January 2018 - The revised long-haul PSC at klia2 shall come into effect on 1 January 2018 and will be applicable to tickets issued from that date onwards. Tickets issued prior to 1 January 2018 will not be subjected to the new rates even if the date of travel takes place on or after 1 January 2018.

RM	Current PSC (effective since 1 Jan 2017)			Proposed revised PSC (to be effective 1 Jan 2018)		
	Domestic	ASEAN	Long haul	Domestic	ASEAN	Long haul
KLIA	11	35	73	11	35	73
klia2	11	35	50	11	35	73
Other Airports	11	35	73	11	35	73

Table 3 – Proposed revised PSC
Source: MAVCOM

5.0 FEEDBACK

The Commission welcomes any feedback on its intention to fully equalise the PSC in Malaysia as elaborated in this Consultation Paper, in particular on the planned increase of the long-haul PSC at klia2 from the current RM50 per departing passenger to RM73 per departing passenger.

Responses are to be received before 5.00 p.m. on by Friday, 15 September 2017. MAVCOM reserves the right not to consider responses received after the stipulated time and date.

All comments on the consultation paper must be in writing and are to be delivered via email to airport.charges@mavcom.my or by post to the following address:

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Level 19, Menara 1 Sentrum
201, Jalan Tun Sambanthan
50470 Kuala Lumpur, Malaysia.
Attn: Ms. Yusniza Wan Yahya