

## SECTION 1: INTRODUCTION

If Malaysian civil aviation had an official date of birth, it would probably be 1 May 1947, when then-Malayan Airlines Limited flew its first flight out of Kuala Lumpur Airport in Sungai Besi. However, despite its vintage and a history encompassing major developments such as privatization and liberalization, no comprehensive long-term policies or plans have been formally developed specifically for the sector.

Recognizing this lacuna, on 26 March 2016, the Board of Commissioners of MAVCOM, decided that the Commission, as the economic regulator for the Malaysian aviation services industry, would propose a Master Plan to the MOT.

This is in line with section 17 of Act 771, which states that one of the functions of the Executive Chairman of the Commission (and by extension, the Commission) is to “advise the Minister (of Transport) on policies and plans on all matters relating to civil aviation and to develop strategies in line with such policies and plans”.

The Master Plan therefore constitutes a proposal from the Commission to the MOT.

### Sectoral Coverage of the Master Plan

As an economic master plan, this proposal covers economic matters related to the sector but does not directly address technical, safety, and environmental issues. However, it highlights the interlinkages between these areas and the Master Plan’s recommendations, if any.

The Master Plan will cover the following sub-sectors, which are aligned with the areas of responsibility for MAVCOM defined in Act 771:

- Passenger and cargo air transport, both scheduled or unscheduled (charter)
- Aerodrome (airport) operations
- Ground-handling services<sup>3</sup>, including:
  - Passenger handling
  - Refuelling
  - Catering
  - Line maintenance, comprising:
    - Routine services performed before flights
    - Non-routine services requested by airport users
    - Provision and administration of spare parts

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<sup>3</sup> As per Schedule 2 of Act 771.

As such, the Master Plan does not encompass sub-sectors considered ‘upstream’ such as aircraft designs, engineering and manufacturing, leasing, and maintenance, repair and overhaul (MRO) services. This is illustrated in Figure 1.

**Figure 1: Value Chain of the Aviation Industry and Coverage of the Master Plan**



Source: MAVCOM

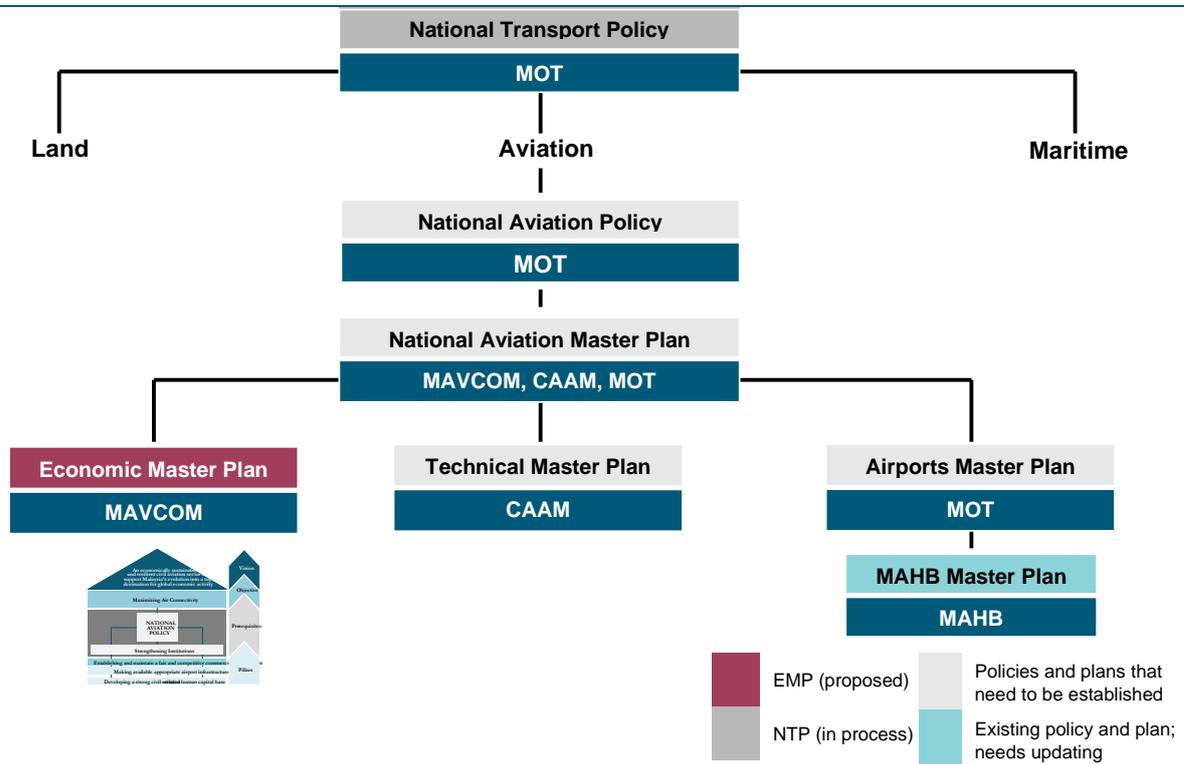
## Linkages to National-level Policies and Plans

The Master Plan needs to be aligned with existing policies, plans, and international commitments related to the economic development of the Malaysian civil aviation sector. These include, but are not limited to, the following:

- The NTP
- The 11MP
- ASAs and other international commitments

The Master Plan should be part of a set of policies and plans to guide the development of the Malaysian civil aviation sector, as illustrated in Figure 2.

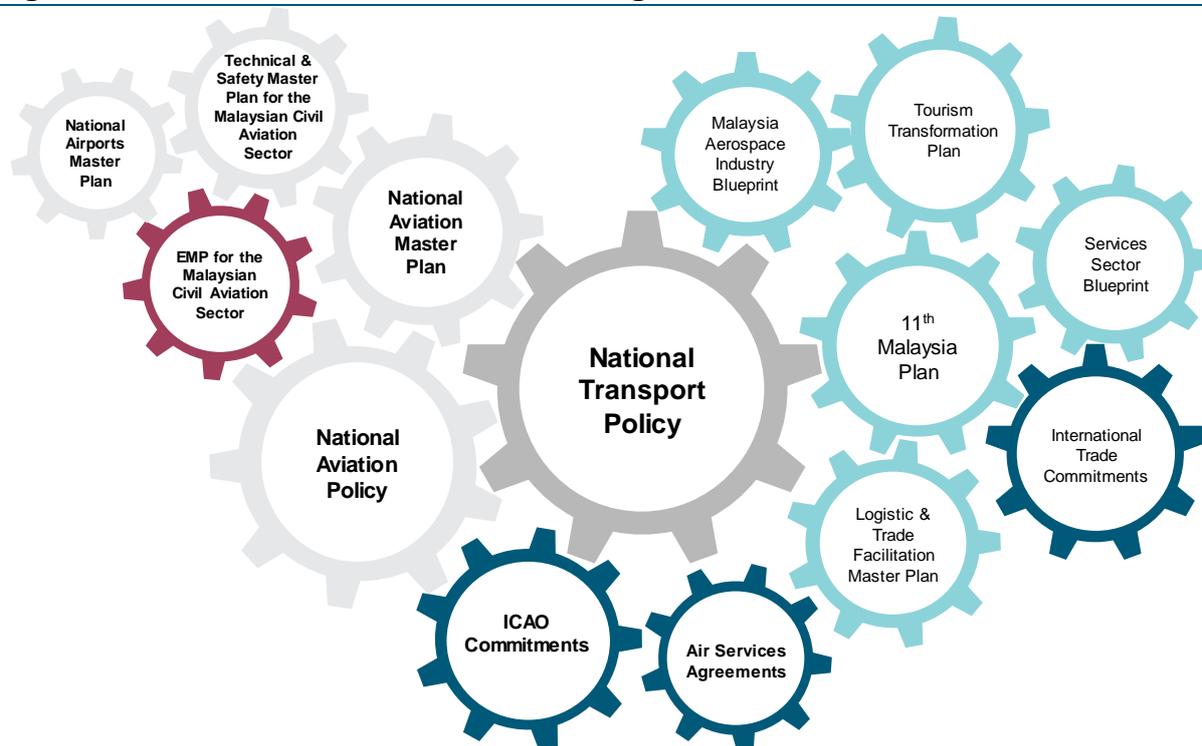
**Figure 2: Policies and Plans That Should Guide the Development of the Malaysian Civil Aviation Sector**



Source: MAVCOM

Figure 3 illustrates the existing policies, plans, and international obligations that are relevant to the Master Plan (this list is not exhaustive). It also illustrates the policies and plans that need to be developed, both as a prerequisite for the implementation of the Master Plan, and in tandem with the Master Plan itself.

**Figure 3: Policies, Plans, and International Obligations That Are Relevant to the Master Plan**



Source: MAVCOM

### National Transport Policy

Given the absence of an NAP, the Master Plan will need to be guided by the NTP, which is currently being developed by the MOT, for policy guidance<sup>4</sup>. As at time of writing, the Final Report for the NTP is due to be tabled to the Cabinet for approval. The vision for the NTP, scheduled for implementation from 2019 until 2030, consists of five Policy Thrusts, which are anchored on the principles of sustainable development, covering the following areas:

- Economic competitiveness
  - Seamless connectivity and movement through innovations and technologies, as enabler for competitive economic growth in manufacturing, services, agriculture, tourism, and trading activities
  - Delivering reliable, efficient, affordable, and high-quality services
  - Skilled human capital
  - Leaving an imprint at the global level

<sup>4</sup> As at 15 January 2020, the NTP had been tabled to the Cabinet and subsequently published.

- Social aspects
  - Inclusivity and accessibility of transport services
  - Safety and security of transport services
  - Public participation/stakeholders' engagement in the planning/development of transport initiatives
- Environment
  - Fuel consumption and emission/pollution control
  - Environmental protection and conservation
  - Sustainable consumption and production

The framework and objectives of the Master Plan are aligned with four out of five of the Strategic Thrusts outlined in the NTP. These are:

- **Policy Thrust 1:**  
Strengthen governance to create a conducive environment for the transport sector
- **Policy Thrust 2:**  
Optimise, build and maintain the use of transport infrastructure, services and networks to maximise efficiency
- **Policy Thrust 3:**  
Enhance safety, integration, connectivity and accessibility for seamless journey
- **Policy Thrust 5:**  
Create global footprint and promote internationalisation of transport services

Parts of Policy Thrust 3 relating to safety and security, and Policy Thrust 4 (“Advance towards green transport ecosystem”), are not covered within this Master Plan.

### Proposal for a National Aviation Policy

Notwithstanding the existence of the NTP, the implementation of the strategies outlined in the Master Plan requires policies specifically tailored towards the civil aviation sector. Moreover, while this Master Plan only covers economic issues related to the sector, an overarching NAP would need to encompass all areas of the sector—economic, technical, safety, security, and environmental.

Indeed, the latest draft of the NTP includes a recommendation for the development of an NAP. The NAP should be aligned with the NTP at the more macro level and articulate the GoM's policy positions on the following, among others:

- Identification of clear objectives and priorities for the Malaysian civil aviation sector, particularly in balancing economic, technical, safety, security, and environmental priorities
- Liberalization of the sector, whether in terms of ownership or other forms of increasing foreign and/or private sector participation<sup>5</sup>
- Direction of funding for aviation-related infrastructure, and therefore ownership and management of aviation-related assets in the future<sup>6</sup>

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<sup>5</sup> Refer to MAVCOM Position Paper on Sequencing Liberalization for the Aviation Services Sector (July 2019).

<sup>6</sup> Refer to MAVCOM Position Paper on Malaysia's Airports Industry Structure (December 2019).

Although some of these issues will be covered in the NTP, there is a need to articulate policy positions for the civil aviation sector in more detail than is covered by the NTP, which is meant to consolidate the policies for the various transport modes with the emphasis being on multi-modal connectivity.

Hence, the Master Plan includes a recommendation for the development of an NAP, with a proposal for terms of reference for such a policy, as articulated in Section 4 of this document.

### 11th Malaysia Plan

Recognizing the importance of the aviation sector to the economy, the 11MP outlined several aviation-related initiatives for the five years leading up to 2020. These include:

- The establishment of MAVCOM and the corporatization of the Department of Civil Aviation (DCA) into CAAM
- Strengthening rural air services (RAS)
- Upgrading airports and air navigation infrastructure
- Expanding capacity for air freight

Aviation-related initiatives are embedded in the Fifth Economic Thrust of the 11MP, i.e. “strengthening infrastructure to support economic expansion”, which also includes initiatives related to other transportation modes (road, rail, and sea), as well as, overall logistics. Detailed background for these initiatives can be found in other policy documents, such as:

- The Services Sector Blueprint, 2015 – 2020, developed by the Economic Planning Unit (EPU)<sup>7</sup>
- The Logistics and Trade Facilitation Master Plan (LTFMP) 2015 – 2020, developed by the EPU and administered by the Logistics and Trade Facilitation Task Force, under the MOT
- The National Tourism Transformation Programme 2.0, currently being developed by MOTAC

Table 1 highlights the progress of the aviation-related initiatives in the 11MP, as highlighted in the Mid-Term Review of the 11MP released in October 2018.

**Table 1: Progress Update of Aviation-Related Initiatives in the 11MP**

Section	Details
Performance of Focus Areas: Building an Integrated Need-Based Transport System	<ul style="list-style-type: none"> <li>• MAVCOM, established in 2016, regulates the national civil aviation sector, improves capacity of operators, and manages competition through issuance of licences and allocation of routes</li> <li>• MAVCOM introduced the new Passenger Service Charge (PSC) regulation with effect from 1 January 2017, to ensure the pricing of PSC accounts for passenger needs and airport operators’ costs to reduce the financial burden of the GoM</li> <li>• The efficiency and effectiveness of the sector has improved further through the upgrading of airport infrastructure and improvement of the system</li> </ul>

<sup>7</sup> The EPU is currently under the newly-formed Ministry of Economic Affairs.

Section	Details
Performance of Focus Areas: Building an Integrated Need-Based Transport System (cont.)	<ul style="list-style-type: none"> <li>• The upgrading of Langkawi International Airport (LGK) is expected to enhance airport services capacity and aircraft movements once completed</li> </ul>
Pillar 3: Pursuing Balanced Regional Development— Strategy A4: Enhancing Association of Southeast Asian Nations (ASEAN) Sub-regional Cooperation	<ul style="list-style-type: none"> <li>• Enhancing connectivity in the Indonesia-Malaysia-Thailand Growth Triangle and Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) sub-regions: <ul style="list-style-type: none"> <li>○ Malaysia will focus on seven BIMP-EAGA Priority Infrastructure Projects to increase trade and connectivity with Member States. Among others, Kota Kinabalu, Sabah has been identified as the sub-regional aviation hub to cater for the increase in passengers and freight services, while the construction of Mukah Airport (MKM) in Sarawak is in progress for seamless air connectivity</li> </ul> </li> </ul>
Pillar 6: Strengthening Economic Growth—Strategy C1: Providing Quality Infrastructure	<ul style="list-style-type: none"> <li>• Upgrading airport system and infrastructure: <ul style="list-style-type: none"> <li>○ Expansion of terminals, extension of runways, and enhancement of airport facilities will be undertaken in selected airports such as the Sultan Ismail Petra Airport, Kota Bharu (KBR), and Penang International Airport (PEN) to increase capacity and efficiency</li> <li>○ The completion of upgrading works at the LGK is expected to reduce congestion and improve comfort for passengers</li> </ul> </li> <li>• Aviation safety will be further strengthened through the upgrading of the air traffic management system which consists of communication, navigation, and surveillance systems to improve efficiency of the air navigation services</li> <li>• The Kuala Lumpur Air Traffic Control Centre once completed by 2020 will increase runway capacity from 68 aircraft movements per hour to 108 to strengthen KUL as the main gateway</li> </ul>

Source: MEA

## Regional and International Commitments

The Master Plan must also consider global and regional institutional developments, including Malaysia's aviation sector commitments related to ASAs and the ASEAN Single Aviation Market (ASAM).

### *C. Air services agreements*

To date, Malaysia has entered into 106 bilateral ASAs.<sup>8</sup> Initially, Malaysia had entered into ASAs with countries in Europe and Asia. This was followed by ASAs with countries in the African and South American regions, consistent with Malaysia's involvement in the Non-Aligned Movement and the South-South Cooperation network. More recently, Malaysia had entered into ASAs with Bahamas (2016), Belize (2017), Guyana (2016), Jamaica (2016), Serbia (2015), Seychelles (2015), and Uzbekistan (2015). In addition, Malaysia had also recently reviewed or amended its existing ASAs including those with Morocco (2015), Nepal (2015), and Turkey (2017).

All ASAs entered into by Malaysia provide for the third and fourth Freedoms of the Air.<sup>9</sup> In addition, a majority of Malaysia's ASAs also contain the fifth freedom right—although, the number of ASAs with limited fifth freedom rights are approximately triple the ASAs with unlimited fifth freedom rights.<sup>10</sup>

### *D. ASEAN Single Aviation Market*

The main driver of the civil aviation liberalization in ASEAN is the establishment of ASAM, which is an initiative to support the ASEAN Economic Community (AEC). Established in 2015, the AEC was a major milestone in the regional economic integration agenda in ASEAN. Under the AEC Blueprint 2025, ASEAN is envisioned to cooperate in the transport sectors towards greater connectivity, efficiency, integration, safety, and sustainability to strengthen ASEAN's competitiveness and foster regional inclusive growth and development. The AEC Blueprint 2025 also identified the target to strengthen ASAM for a more competitive and resilient ASEAN through:

- Advancing safer and more secure skies in the ASEAN
- Enhancing air traffic management efficiency and capacity through a seamless ASEAN sky
- Fostering greater connectivity, including the conclusion of aviation agreements with Dialogues Partners

Also relevant is the Kuala Lumpur Transport Strategic Plan for 2016 – 2025, which details the specific goals and actions for the aviation sector for the said period.

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<sup>8</sup> Malaysia had negotiated for ASAs with Turkmenistan, Macedonia, and Paraguay, respectively, but no agreement was concluded.

<sup>9</sup> See Appendix 3 for definitions and illustrations of Freedoms of the Air.

<sup>10</sup> Refer to MAVCOM Technical Paper on Air Service Agreements (November 2018).

ASAM covers both economic and technical elements. Figure 4 provides details on the subject matters falling within the scope of ASAM.

**Figure 4: ASEAN Economic Community and the Single Aviation Market Framework**



Source: MAVCOM

## Master Plan Methodology

The development of the Master Plan was primarily based on internal research and analyses related to the economic development of the Malaysian civil aviation sector. The areas researched included:

- Analysis of Malaysia's air connectivity, for passenger and cargo
- Review of Malaysia's airports industry structure
- Assessment of ownership issues relating to Malaysia's civil aviation sector
- Malaysia's ASAs

Details of the methodology and key findings of the above are included in background papers, some of which have been published by MAVCOM. These papers are:

- **Technical Paper: Aviation Sector Multiplier (August 2017)**  
MAVCOM's estimate of the economic contribution and output multiplier for the Malaysian aviation sector and issues surrounding the use of multiplier estimations
- **Technical Paper: Defining and Measuring Air Connectivity (May 2018)**  
MAVCOM's calculations of the ACI and the Hub Connectivity Index, as well as, factors influencing air connectivity
- **Technical Paper: Airfares for Domestic Flights During Peak Seasons (August 2018)**  
Price multipliers for airfares due to peak seasons and the effects of price regulation and deregulation
- **Technical Paper: Air Service Agreements – Air Traffic Rights and Airline Nationality Requirement (November 2018)**  
The different approaches adopted in ASAs and the need for Malaysia to ensure policies are up to date with domestic economic objectives and international and regional developments
- **Position Paper: Sequencing Liberalisation for the Malaysian Aviation Services Sector (July 2019)**  
Malaysia's historical experience of liberalisation experienced by the aviation sector and recommendations to secure its benefits, including by promoting good governance
- **Position Paper: Malaysia's Airports Industry Structure (December 2019)**  
The industry structure of Malaysia's airports industry, issues and challenges arising from this structure and recommendations to improve the industry's competitiveness

The baseline findings and recommendations were then presented and discussed for consultation in four workshops with external stakeholders:

- Introductory Workshop : 28 November 2017
- Inception Workshop : 15 March 2018
- Interim Workshop : 28 June 2018
- Final Workshop : 12 – 13 November 2018

Participants in these Workshops included representatives from the MOT, CAAM, the MOF, MOTAC, airlines, airports, and ground-handling companies. Please refer to Appendix 1 and Appendix 2 for the list of participants and meeting notes for the workshops, respectively.

Feedback from the Workshops, as well as, meetings with selected stakeholders were then compiled and considered as input into the measures recommended in the Master Plan.

It should be noted that given its long implementation period, the Master Plan should be treated as a “living document”, with recommendations reviewed at regular intervals, in order to allow for course-corrections should baselines and assumptions change in the future.

Dr Harry Bush, board member for NATS Holdings Ltd. and former Group Director for Economic Regulation at the United Kingdom Civil Aviation Authority, and Dr Volodymyr Bilotkach, Associate Professor at the Singapore Institute of Technology, were engaged by the Commission as external peer reviewers for the Master Plan. The Commission gratefully acknowledges their contributions.

## Implementation Timeline of the Master Plan

It is envisaged that the Master Plan will be implemented in two phases:

- **Phase 1 (2019 – 2020): Foundation-setting**

The implementation of the Master Plan will require several enabling measures to be undertaken. These include:

- The establishment of required policies as well as attendant guidance documents. These include:
  - National Aviation Policy
  - National Airports Strategic Plan
- Approval and disbursement of funding

- **Phase 2 (2021 – 2030): Implementation**

To coincide with the implementation period of the NTP, and the 12<sup>th</sup> and 13<sup>th</sup> Malaysia Plans, the implementation of the Master Plan will be completed over three periods:

- Short : completed by 2022
- Medium : completed by 2025
- Long : completed by 2030