



Case Study

on Commercialization, Privatization and Economic Oversight of Airports and Air Navigation Services Providers

Malaysia

Background

There are 58 airports in Malaysia and among them, 37 handle scheduled passenger services. 36 airports are located on East Malaysia (island of Borneo), and 22 on Peninsular Malaysia (Malay Peninsula). Malaysia has 8 international airports: Malacca International Airport, Penang International Airport, Langkawi International Airport, Senai International Airport, and Kuala Lumpur International Airport on Peninsular Malaysia; and Kota Kinabalu International Airport, Kuching International Airport, and Tawau International Airport in East Malaysia. Kuala Lumpur International Airport has been Malaysia's main airport and has served as premier hub for Malaysia Airlines, AirAsia, AirAsia X and jet operations of Firefly.

Prior to 1992, Malaysian airports were directly administrated by the Directorate of Civil Aviation (DCA). Air navigation services are also provided by the DCA through its Air Traffic Management Sector and its other branches.

Commercialization/privatization: Airports

The Government of Malaysia enacted an Airport and Aviation Service (Operating Company) Act in 1991, also known as Act 467, which separated the Department of Civil Aviation in two entities. While the DCA has remained the regulatory department in charge of airports, a new entity was incorporated to take over the operation, management and maintenance of Malaysian airports. Malaysia Airports Berhad was thus incorporated in 1991, and was licensed in November 1992 to carry out its function as airport operator. Malaysia Airports Berhad received a concession to manage and operate 33 airports with scheduled traffic for a 30-year period.

Five other airports were subsequently transferred to Malaysia Airports Berhad, while it was also licensed to manage and operate the new Kuala Lumpur International Airport at Sepang, via its fully-owned subsidiary MA Sepang, in May 1998. The license is valid for a 50-year period. The Government of Malaysia can terminate the concession agreement by giving a three-month notice, on the condition that this would respond to Malaysia's national interest or would be required for security or policy reasons.

Malaysia Airports Berhad was given the exclusive right to operate and manage Malaysia's commercial airports under the condition to continue providing airport services to rural and remote communities. The company has kept responsibility for about 20 loss-making airports throughout the country, thus cross-subsidizing Malaysia airport network.

In November 1999, Malaysia Airports Berhad was incorporated as a public limited company under the name of Malaysia Airports Holdings Berhad (MAHB), and was subsequently publicly listed on the Kuala Lumpur Stock Exchange (thus becoming the first airport operating company to be publicly listed in Asia). The Government of Malaysia sold 48% of the shares in MAHB to institutional investors and the public in 2000, while retaining a "Special Share" in both MAHB and MA Sepang that gives it the right of decisive vote and requires the Government to approve extraordinary transactions or significant changes in the operation of the two companies. In 2004, the Government of Malaysia transferred its shares in MAHB to Khazanah, a government-owned public limited company which is the investment holding arm of the

Government of Malaysia, entrusted to hold and manage the commercial assets of the Government and to undertake strategic investments. In November 2012, Khazanah reduced its stake to 41 per cent in MAHB.

Finally, two Malaysian airports are not operated by MAHB. First, Senai International Airport is managed by Senai Airport Terminal Services Sdn Bhd (SATS), which took over the operation of the airport from MAHB in 2003. SATS is a subsidiary of MMC Corporation Berhad, a private utilities and infrastructure group with interests in transport, utilities and engineering. Second, Kerteh Airport in Terengganu is owned and operated by Petronas, a wholly government-owned oil and gas company, and was built to serve the purpose of airlifting oil and gas companies employees to their various oil platforms located in the South China Sea. The airport also receives domestic scheduled traffic.

Commercialization/privatization: ANSP

The provision of air navigation services was neither corporatized, privatized, nor commercialized. The Air Traffic Management sector at the Directorate of Civil Aviation continues to hold under its responsibility the control functions on security, air navigation services, aeronautical regulation and services of communications, meteorology, search and rescue and, in general, the technical aspects of air navigation services. At the airport level, airport operators employ and supervise airport personnel and subcontractors, but they are not responsible for the maintenance and operation of air traffic operations, which are handled by the DCA.

Economic oversight: Airports

Both aeronautical and non-aeronautical charges are regulated by the Government of Malaysia. MAHB must obtain the approval of the DCA before changing the level of its charges. A proposal must be submitted to the DCA, which is required to respond to such requests within a period of six months. There is no policy that establishes the bases for DCA's decision-making process. Finally, MAHB has to comply with other aspects of Malaysian law, including the Environmental Quality (Amendment) Act of 1996.

Economic oversight: ANSP

The Directorate of Civil Aviation continues to regulate and set air navigation services charges.

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