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All Thai'd Up

AirAsia, Malaysia's pioneering low-cost carrier, has begun expanding its successful low-cost carrier model throughout the region despite encountering difficulties related to its cross-border ownership of its Thai-based subsidiary.

■ By Shane Batt | *Ascend* Contributor

AirAsia has a history of being an industry innovator. The airline pioneered the low-cost carrier model in Malaysia and, in the process, disproved much of the collective wisdom regarding the way that the aviation industry works in the region. For example, when Internet penetration in Malaysia was below 15 percent of the population, AirAsia insisted that passengers would buy their tickets over the Internet — and AirAsia has certainly been proven correct with more than 50 percent of its tickets booked and purchased through this channel.

When critics maintained that the Malaysian success of AirAsia could not be duplicated in the region, the carrier's chief executive officer, Tony Fernandez, showed that the model translated well; first with Thai AirAsia and now with Indonesia AirAsia. Furthermore, when critics said that the low-cost carrier model would not work in international markets, AirAsia proved them wrong by serving several international routes profitably and is even planning on expanding into China later this year.

With this successful history of innovation, it is somewhat surprising that AirAsia and its affiliate, Thai AirAsia, reached a regulatory roadblock earlier this year that threatened to result in Thai AirAsia losing its operating license. This roadblock was related to foreign ownership of airlines — maybe one of the hottest issues facing the industry today.

The ownership problems faced by Thai AirAsia involve all of the best themes of a thriller novel — international politics, media involvement, billionaire businessmen and claims of corruption. The problems began in late January when the family of Thailand Prime Minister Thaksin Shinawatra, a billionaire businessman, decided to sell its holdings in Shin Corp., a Thailand-based corporation, to Temasek Holdings, the investment arm of

the Singaporean government. Shin Corp. sold for an unprecedented US\$1.85 billion, which caused an outcry from opposition party politicians who claimed that Shinawatra's position as prime minister caused the transaction to proceed more smoothly than it otherwise would have occurred. Meanwhile, Shin Corp. owned 50 percent of Thai AirAsia with the remaining 49 percent owned by AirAsia in Malaysia. With the 96 percent sale of Shin Corp. to Temasek Holdings, Thai AirAsia effectively had a foreign ownership of 74 percent following the transaction.

Thai regulators moved quickly and threatened to revoke Thai AirAsia's air operators certificate because of the violation of the foreign ownership rule. The regulators cited

as the December 2004 tsunami or even military action), the national interests of Thailand might be superseded by the interests of the foreign owners.

- Foreign ownership would mean that profits are taken off-shore from Thailand — The media maintained that the loss of profits might somehow result in a worsening of the economy or foreign exchange rates as profits are repatriated to foreign businesses.
- Foreign ownership might result in a loss of tourism in Thailand — The media stoked fears that foreign owners of Thai AirAsia might somehow change the flight schedule to make Thailand less desirable as a tourist destination in favor of Malaysia and

HIGHLIGHT

“The ownership problems faced by Thai AirAsia involve all of the best themes of a thriller novel ...”

not only the regulations, but also dredged up fears about foreign ownership to justify their zeal in enforcing the ownership rule. The fears were separated into three categories that were pounced on by the media, which in turn directly impacted the stability of the government in Thailand:

- Foreign ownership would impact the national security of Thailand — The media maintained that a foreign owner of a Thailand-based airline might mean that during times of national emergency (such

Singapore, the governments of the effective owners of the airline.

While a media scrum proceeded to call for the removal and indictment of the Thai prime minister, AirAsia, the Malaysian-based parent of Thai AirAsia, noticed that its share price was impacted badly. The regulators gave Thai AirAsia just two weeks to resolve its ownership issues or its AOC would be revoked.

In February, the AirAsia companies had their second round of disputes with the Thailand regulators. To resolve the owner-



ship issue, Shin Corp. created what is widely believed to be a proxy-corporation in Thailand called Asia Aviation Company. According to the registration filed with the Commerce Ministry in Thailand, Asia Aviation Company is owned 51 percent by Sittichai Veerathumnoon and 49 percent by Shin Corp. Therefore, since Asia Aviation Company is a majority Thailand-owned

owned company because of the citizenship of the principal owner of record, Sittichai. The Department of Business Development, however, continues to press its investigation as to whether Sittichai's ownership is real or if it is just a front to allow Thai AirAsia to retain its majority Thai ownership. The media has effectively lost interest in the issues now that

to bar the question of foreign ownership from being voted on by the Senate during the 2007 judicial year that began Oct. 1.

In statements that match the fears fostered by the press earlier this year in Thailand, U.S. senators pointed out concerns about foreign ownership and national security, loss of profits, loss of jobs and similar concerns.



Photo by Simon Wilson/AirTeamimages.com

Thai AirAsia, the Thailand-based affiliate of Malaysia-based pioneering low-cost carrier AirAsia, was threatened with losing its operating certificate due to questions regarding foreign ownership. Thailand authorities eventually verified that local investors controlled more than 50 percent of the affiliate airline.

company, then the effective foreign ownership of Thai AirAsia is again below the 50 percent threshold allowed by the regulators.

The regulators initially doubted the veracity of the ownership by Sittichai, however, since he appeared to have very little experience with the airline or investment industries. In fact, although Sittichai had some experience in logistics with DHL, at the time of the formation of Asia Aviation Company, Sittichai was engaged in a human resources consultancy company. Furthermore, when consumer advocates attempted to contact the headquarters of Asia Aviation Company, they found that it was an empty office. Finally, it was determined that Sittichai was, in fact, a university friend of the CEO of Thai AirAsia — who holds the remaining 1 percent ownership of the airline. This prompted another Thai regulatory agency, the Department of Business Development, to call again for the revoking of Thai AirAsia's AOC.

The regulators stated that they would strenuously investigate the matter, but very little appeared to occur throughout the remainder of February and into the following months. This is when competitors of Thai AirAsia jumped into the fray claiming that authorities were dragging their feet due to concerns about a backlash from the prime minister's governing party.

The final chapter of this melodrama has yet to be written. The Thailand Aviation Department has stated that it is satisfied that Asia Aviation Company is a Thailand-

the supposed fears about foreign ownership have died down. So, at least for now, the issue of foreign ownership of Thai AirAsia appears to have generated more smoke than fire.

The solution to this Thailand ownership dilemma, however, has not addressed the fundamental problems facing segments of the industry starved for capital that can be effectively resolved by increased foreign ownership. While there is a glut of capital for investment in the airline industry in many venues, where "irrational exuberance" is governing investment in start-up carriers in countries throughout the Middle East, the Indian sub-continent, Southeast Asia and China, the North America aviation industry particularly is starving for capital. Glen Tilton, CEO of United Airlines, among many other industry executives has repeatedly asked for an easing in the foreign ownership rules that currently limit active foreign ownership of U.S.-based airlines to 25 percent.

The issue of foreign ownership is the largest obstacle in the negotiations between the United States and the European Union (see related article on page 6) on a new open-skies bilateral agreement that many carriers on both sides of the Atlantic claim are critical to their financial success. The Bush administration wants legislation passed that will increase foreign ownership from 25 percent to 49 percent, the percentage that is allowed under European Union regulations. On July 27, however, the Senate Appropriations Committee voted 19-6

These were the same concerns that ultimately scuttled the Dubai Ports purchase of P&O, operator of U.S.-based ports, in April. So, ultimately the issue of foreign ownership of Thai AirAsia has implications across the airline industry and not just Southeast Asia.

The good news throughout this strange mix of business and politics has been that AirAsia and its affiliate Thai AirAsia have not been adversely affected in a commercial sense. These carriers continue to grow and prosper despite the controversy regarding their ownership. At the Farnborough Airshow in July, AirAsia altered its recent order for 100 Airbus A320 aircraft. Before Farnborough, AirAsia's deal with Airbus was for 60 firm orders and 40 options for A320 aircraft. During Farnborough, however, the carrier upped its order to 100 firm orders plus an additional 30 options.

Clearly, Tony Fernandez intends the AirAsia group of companies to grow and prosper throughout the region. Despite the ownership controversy of the AirAsia group of companies, the AirAsia history of innovation and success continues to show positive results in Southeast Asia. ■

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