

A LIBERALIZED GLOBAL AVIATION MARKET: AN AIRLINE PERSPECTIVE

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SALUTATIONS

Premier Campbell,
Premier Stelmach,
Distinguished Ministers,
Ladies and gentlemen,

WELCOME AND INTRODUCTION

1. Many thanks for your warm welcome. It is indeed an honor to have this opportunity to speak with you today.
- 1.1 I would like to begin my remarks by reiterating that Singapore Airlines is a vocal proponent of a liberalized global aviation market. Many of you will no doubt be familiar with our long-standing -- and often well-publicized -- position for greater liberalization of air travel.

This has been a global effort on our part. We have pursued this mission in London for greater rights to North America. In Australia, where we have been seeking access across the Pacific. In the Middle East, the Philippines, and our own home region of Southeast Asia, we are pleased

to highlight that bilaterals have been recently expanded¹ in each of these markets. And, of course, right here in Canada, we have been seeking more traffic rights for many years.

- 1.2 Often, this mission is met with success. In other cases, more patience and perseverance is required. But, we remain confident in the soundness of our argument: That the benefits liberalization brings to our industry, to our customers, and to the tourism businesses it supports, are worth the effort.

THESIS

2. As the title of my address suggests, I would like to give you an airline perspective on a liberalized global aviation market.
 - 2.1 I will highlight several examples of how airlines view the stages of liberalization, from the most restrictive government policies all the way through to open skies agreements, on both a regional and global level.

PHILOSOPHY

3. First, let me begin by expressing our key philosophy, and the principles that guide our decision-making process in the development of our network.
 - 3.1 We believe that free market forces – driven by the consumer – the same forces that shape nearly every other major industry, should ultimately govern aviation. Not the overly restrictive protections driven by governments and institutions.

¹ Singapore Ministry of Tourism news releases, 22 August, 2008 (Saudi Arabia) and 8 May, 2009 (Philippines)

- 3.2 We believe that the era of over-regulation, in its capacity to stifle the consumer benefits of innovation, competition and greater choice, has run its course and should come to an end.
- 3.3 We believe it is the will of the marketplace, and its response to the products we offer, that must ultimately measure our success or failure as an airline business.
- 3.4 And finally, we believe that it is only by the removal of artificial protections, such as frequency and capacity limitations, to name just two examples, that aviation can realize its considerable potential. Potential for sustained profitability, for stronger profit margins, and for the production of jobs.
- 3.5 I am addressing you today to deliver a singular message: Singapore Airlines endorses and supports the need for a more level global playing field. And for an operating environment that rewards innovation and the creation of value: value for consumers and for shareholders alike.
- 3.6. Based on the many examples we'll discuss today, we believe this is the way forward in creating a more profitable and healthy airline industry.

BILATERAL OPEN SKIES

- 4. I'll begin by sharing with you some recent examples of liberalization within our home market that I think best illustrates what creates real benefits for aviation.
- 4.1 Singapore has, so far, negotiated Air Services Agreements with more than 90 countries around the world. Of these, Singapore has Open Skies Agreements with close to 40 individual countries.

- 4.2 In addition, Singapore is a founding member of the world's first multilateral Open Skies Agreement, which was concluded in 2001. This is a landmark accord, as it represents the first agreement among countries from different geographical regions. Its provisions remove barriers to air traffic movements between Singapore and seven countries, including Chile, New Zealand, and the United States. But it's also remarkable that it is done with different markets at the same time, instead of negotiating agreements one economy, at a time.²

The agreement is critical in unlocking the great economic potential of enhanced trade and tourism between Singapore and this diverse range of countries.

REMOVAL OF COUNTRY-TO-COUNTRY RESTRICTIONS

5. Let's examine the impact of removing country-to-country restrictions. In the 1920's, U.S. President Calvin Coolidge was famously quoted as saying, "The business of America is business." Decades later, his *laissez-faire* market philosophy is reflected in the distinctly pro-business slant of America's aviation policy with Singapore.

I would like to share with you two examples of how relaxing government regulations, between two countries, can create a key benefit for corporate travelers.

- 5.1. Singapore and the U.S. established a bilateral open skies agreement in April of 1997, allowing any number of operations between any points in

² Singapore Ministry of Transport, Speech by Mr. Yeo Cheow Tong, Minister of Transport, 2 May 2001

the two countries. Currently, Singapore Airlines is utilizing the terms of this agreement to operate 42x weekly services between the USA and Singapore. Ten of these are non-stop, all business class flights between Los Angeles and Singapore, and between Newark and Singapore.

The other 32x weekly services are operated under air service agreements that include stops at mid-point cities in Asia and Europe, enroute to Singapore. These services are defined by bilaterals established by the intermediate points.

- 5.2. If Open Skies agreements were in place with each of these mid-point countries, we would be in the position to quickly respond to corporate and leisure travel demand for greater frequency, whenever it arises, without the costly, time-consuming effort of negotiations. The marketplace, not governments, would dictate demand, as it should be.
- 5.3 Our non-stop operations between the USA and Singapore, on the other hand, are not restricted by any air service agreement. Instead, they are left to the dynamics of market demand. The services are popular among time-sensitive business travelers, who value the opportunity to save up to four hours of total travel time that these “world’s longest-distance flights” offer. For these customers, time truly is money.
- 5.4. These flights are also appropriate for their respective marketplaces. Los Angeles, New York and Singapore are each their region’s dominant business centers, and can thereby support this specialized, nonstop service with a steady flow of high-yielding corporate travelers.
- 5.5 In short, the flights represent an innovation that would be impossible without a far-reaching, inclusive, business-friendly philosophy within the governments of both Singapore and the U.S.

They are a key example of how the expansion of rights has created a real benefit for consumers, in this case, by helping business travelers do business.

COUNTRY-TO-COUNTRY LIBERALIZATION: ASIA

6. Let's review a case study from Asia.

The routes between our home base of Singapore and Malaysia are among the most frequently traveled by business and leisure customers in all of Southeast Asia, serving 1.3 million passengers each year. Traditional bilateral agreements in the past allowed for both Singapore Airlines and Malaysia Airlines, as home market carriers, to enjoy almost exclusive rights between the two destinations.

6.1. But, 2008 saw the high point of the low cost carrier phenomenon in Southeast Asia, and consumers were eager to take advantage of the expanded travel opportunities that these new, budget airlines provided.

6.2 Singapore and Malaysia responded by forging an agreement allowing Low Cost Carriers to first serve the popular Singapore/Kuala Lumpur route, and later to gain access on routes to East Malaysia previously served only by Singapore Airlines, SilkAir, which is our regional subsidiary, and Malaysia Airlines.

6.3 More recently, Singapore and Malaysia further expanded the agreement to allow operations between Singapore and six new Malaysian destinations – and all of these had previously been served almost exclusively by Singapore Airlines and Malaysia Airlines.

6.4 Here's the key message I would like to share with you: Some might describe this action as encroachment on our turf. Singapore Airlines saw it in a different light. We did not take steps to try to prevent this dramatic liberalization within our home base, on some of our most frequently traveled routes. We did not lobby our government to protect our interests at the expense of greater choices for consumers. Doing so would run counter to our philosophy.

Instead, we decided to do what many consumers tell us we do best: We renewed our efforts to be a forerunner in inflight and product innovations so as to compete competitively.

6.5 Overall, from a relatively limited number of services operated primarily by two national carriers, the market has now become more robust, giving customers the choice of many more frequencies between Singapore and Kuala Lumpur alone, operated by full service and Low Cost carriers, at a range of prices to suit each customer, and with a wide spectrum of inflight product options.

GOVERNMENT INTERVENTION THAT CREATES COMPETITION

7. But there is more to the story. The Singapore Government has gone a few steps further, and works to actively *attract* competition to our home market. As one example, Singapore has exchanged 7th freedom passenger and cargo rights with a number of countries, which allows foreign airlines to actually establish a base or hub in Singapore, outside their own home bases.

7.1 And, despite a commonly held view that Low Cost Carriers in Southeast Asia may be a threat on routes where Singapore Airlines has traditionally held dominant share, the Singapore Government did not prevent foreign

airlines from setting up a low-cost associate carrier in Singapore, which competes directly on routes plied by Singapore Airlines and SilkAir.

- 7.2 The view of the Singapore government is that to build an extensive network of air links with key countries and cities in the world, there is a need for the support and the services of not just the national carrier but also other foreign carriers, even if they would compete directly against the national airline. Singapore Airlines must operate competitively, and compete head-on with foreign carriers.

The Singapore Government's ultimate priority is therefore to safeguard Singapore's position as a global, international air transport hub.

- 7.3 Today, due to its liberal policies, more than 80 airlines have substantial operations in Singapore, including many of the world's most respected – and competitive airline brands – in a country roughly the size of greater Vancouver. And instead of shielding ourselves from competition, we at Singapore Airlines welcome their presence.

They spur us to continually improve our product and services to delight and exceed the expectations of our customers. They contribute to Singapore's hub and economic strength, which in turn benefits Singapore Airlines. In addition to the clear benefit of feeding our flights with transfer traffic, their presence attracts new caterers, ground handlers, maintenance companies and so on – who in turn provide a large pool of expertise and enough competition to help keep our own costs in check.

- 7.4 So, as you can see, our commitment to liberalization and competition goes far beyond talk. It is an integral component of our operating philosophy and practice. And it has served our customers, our destinations, our partners – and ourselves – well over the years.

- 7.5 We believe that liberalization creates competition. Competition spurs innovation – just look at the race over the past decade to provide flat beds on the North Atlantic, a move that has raised the standard of inflight product industry-wide. Innovation attracts customers and earns their loyalty, repeat business – and, at least in a more robust economy, the ability to charge a premium for superior products, and that improves yield. We believe these are the appropriate foundations for a healthy industry.

And we are not afraid of competition.

U.K. OPEN SKIES EXAMPLE

8. The case for liberalization has also been successfully made in the United Kingdom. In 2007, in a move that was important in both its scope and boldness, The UK government agreed to a groundbreaking, full open skies accord with Singapore that removed all restrictions on air services between and beyond the two countries.

What is even more noteworthy is that under the agreement, Singapore Airlines services are even permitted between domestic UK airports.

- 8.1 This remarkable agreement shows how the UK government is taking specific steps to ensure the growth of air hubs that support the broader economy, not working solely in the interest of individual organizations.

SIA'S YVR SERVICE SUSPENSION: SETTING THE RECORD STRAIGHT

9. Which brings us back to Canada, and our recently suspended service to this market.

Singapore Airlines launched a limited schedule of 3 weekly services to Vancouver, via Seoul, more than 20 years ago. We directly employed more than 30 staff in offices located in Toronto and Montreal in addition to a regional office in downtown Vancouver, and at the airport.

From 1992, our business was conducted under a Temporary Operating Permit, which had to be renewed annually. Prior to the current recession, these flights were among the strongest performers in our regional network, with consistently high passenger load factors. This clear indication of unmet consumer demand was one of many factors that encouraged us to press the case for permission to expand our operations.

- 9.1 The potential benefits were many. First, consumers would enjoy more choices, which is always the healthiest foundation for business growth.
- 9.2 The benefits for the Canadian business community included expansion of a direct link to the commercial opportunities of the ASEAN market. This is a region of 560 million consumers and a combined gross domestic product of almost \$1.1 trillion and total trade of about \$1.4 trillion each year.
- 9.3 Keep in mind that no Canadian airline serves any destination in the ASEAN region.³ But, an expanded schedule by Singapore Airlines would, offer the clear benefit of substantial feed from ASEAN countries to Canada.
- 9.4 The operational benefit for Singapore Airlines would be to spread our fixed costs more efficiently over at least seven weekly flights instead of three.
- 9.5 With the recent establishment of a new ASA, we were encouraged by the possibility that – after 20 years of investment in the Vancouver market --

³ Air Canada website

less restrictive rules governing the frequency of our operations would be implemented.

- 9.6 The new ASA did allow us to operate on an unlimited, nonstop basis between SIN and Vancouver. However, the present economic and demographic reality of the Vancouver market consistently shows that at least a daily, 5th freedom operation, tied to a viable, intermediate North Asian point offers the only realistic opportunity for an economically feasible and sustainable business.
- 9.7 Unfortunately, the terms of the new ASA did not allow us this opportunity.
- 9.8 We are aware of some discussions suggesting our service suspension is solely the result of the current recession. But that is only a part of the equation. We've been through recessions, economic downturns and currency crises before, all while maintaining our service to Vancouver.
- 9.9 But a business operating within an environment where its growth is artificially constrained cannot be sustained. As global economic conditions worsened, it compounded the difficulty for Singapore Airlines to operate within the confines of a limited schedule. Facing limited options, we made a difficult choice.
- 9.10 Despite our service suspension, Singapore Airlines' long-term interest in the Canadian market is ongoing. We were here for 20 years because we felt Canada offered great potential. We still believe in that potential.

And if the operating environment were to change, we believe that this potential could be realized to create substantial benefits for consumers, for the many branches of the travel, aviation and related businesses represented in this room, and for the Canadian economy as a whole.

9.11 As I mentioned earlier, our decision to suspend operations to Canada was a difficult one. We know that the decision impacts consumers, who have lost a choice that has become an industry favorite.

It impacts our industry partners, such as caterers, hotels and handling agents, who have lost a key customer.

Perhaps most painfully for us, it impacts long-serving employees, who have shown loyalty, dedication and provided the service for which our brand has become famous.

9.12 And unfortunately, once such a weighty decision is made, it takes considerable time and resources for it to be reversed.

9.13 I would like to express, however, that our door is not closed. It is now a widely accepted fact that this most crippling of recessions – the most severe in several generations – may be losing its grip. Cargo and passenger loads are beginning to pick up.

I suggest to you that now is the time to lay the right groundwork so that international carriers like Singapore Airlines have the option of providing service, choice and downline economic benefits to Canada when the time is right.

HOW THE DECISIONS ARE MADE: WHAT ARE AIRLINES LOOKING FOR?

10. Allow me to transition and discuss with you how our route decisions are made, and what we are looking for when evaluating markets for new services.

10.1 By now, we are all familiar with the downsides of over-regulation. Some countries still feel the need to limit the level of choice offered to their own people and businesses. I'm sure everyone in this room would welcome the extinction of this mentality. The current economic downturn notwithstanding, we must bear in mind that overregulation inhibits our growth, your growth, the growth of related businesses, the growth of tourism and the growth of consumer choice.

10.2 What makes a market unattractive to an airline? There are several factors:

First, uncertainty of service. Having invested in a route, can we be sure that we'll continue to be welcome?

10.3. Second, lack of flexibility to consider additional frequency to meet market demand, to provide a credible service for the consumer, or to adequately spread fixed costs across an appropriate schedule, is another obstacle.

10.4 When a destination does not allow appropriate expansion, does one accept the status quo forever, or review the options? If non-stop flights remain unviable, and an attractive alternative gateway is available, wouldn't it be wise to explore those opportunities? And, once change is effected, would it make more or less sense to continue to grow within a supportive environment as opposed to one which is constrained?

10.5 Some of you may wonder if codesharing might provide the alternative to the Airline directly operating in the market. In the long run, Singapore Airlines believes in organic growth through direct operations and providing our customers with our unique innovative product and inflight service that even other airlines talk about. In good prevailing market conditions, the

churn effect will provide for more unfettered growth for the Airline and the industry, and more choices for our customers.

CONCLUSION

11. To close, allow me to leave you with some thoughts to consider.

11.1 If we are truly interested in ensuring our companies are able to grow...

If, instead of fearing competition, we welcome it for its ability to spur innovation and efficiency...

If we are truly acting in the best interests of our stakeholders...

11.2 Then I submit to you that the choice for aviation is obvious. To evolve, our industry must embrace greater liberalism.

11.3 Without it, aviation will remain a business of stifled profit margins. The growth options for airline-related businesses and the broader economies they support will continue to be finite. And we will continue to be defined as an industry offering limited options to an increasingly frustrated traveling public that yearns for innovation and value.

The choices, we believe, are clear.

Thank you for your kind attention.

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