



Ministry of Transport

An exclusive report to be distributed with *THE INDEPENDENT*

Transcription of the Interview with:

Dato' Sri Ong Tee Keat

Minister of Transport

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WORLD REPORT: Air transport is an important area for regional and international cooperation as it can contribute toward the reduction of trade transaction costs as well as enhanced competition that benefits consumers. The depth of liberalisation depends on each government. Please share your open skies policy with our readers.

Dato' Sri Ong Tee Keat: Malaysia encourages open skies policy with all countries although many countries are still reluctant to have open skies due to their economic and national interests. At present, Malaysia has open skies with 18 countries from the existing 86 bilateral air services agreements it has signed. Malaysia has open skies with Bahrain, Denmark, Ireland, Lebanon, Luxembourg, Macau, Maldives, New Zealand, Norway, Qatar, Sri Lanka, Sweden, UAE, Yemen, Oman, Zambia, USA and Chile (up to 6th Freedom). The open skies with these countries are limited to 5th Freedom Traffic Rights (except Chile) with unlimited frequency, capacity and aircraft type.

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Malaysia is also a signatory to the ASEAN Multilateral Agreement on Air Services in Manila. With this agreement, air transport for passengers within all ASEAN capital cities was liberalised for 3rd and 4th freedom traffic rights by 31st December 2008 and 5th freedom traffic rights within ASEAN capital cities by 31st December 2010. ASEAN member countries including Malaysia are also discussing the possibility of further liberalising the air services to include all destinations within the ASEAN countries.

As for liberalisation of airfreight services, the ASEAN Multilateral Agreement on the Full Liberalisation of Air Freight Services enables unrestricted 3rd, 4th, and 5th freedom traffic rights for freight services by 31 December 2008.

WORLD REPORT: The birth of Air Asia in 2001 was excellent news not only for Malaysia but also for the region, for tourists and for Malaysian consumers as it has increased competition even though some routes are still limited to Air Asia. The Ministry of Transport has been a strong supporter of this airline. Do you have further liberalisation plans?

Dato' Sri Ong Tee Keat: The Ministry of Transport has always been supportive of homegrown airlines. In fact, the Ministry approved 20 routes for AirAsia and 25 routes for AirAsia X between 2007 and 2009. This is to ensure the continuous success of our airlines despite the economic downturn.

AirAsia and AirAsia X are the fastest-growing low cost carriers in ASEAN and both have contributed significantly to the tourism industry and the economy of Malaysia. Although the ministry continuously encourages all airlines including AirAsia and AirAsia X to expand their routes, there are certain factors such as availability of traffic rights, load factor and impact on Malaysia Airlines (MAS) that would have a bearing on the opening of routes to other Malaysian carriers. However, we will continue to liberalise as and when it

permits.

WORLD REPORT: Please share with us your strategy for the development of the railway system in Malaysia.

Dato' Sri Ong Tee Keat: KTMB has formulated the 3 broad strategies for its railway business for the period of 2003 – 2017. These are as follows: the first stage is what we call the Consolidation Strategy and commenced from 2003-2007. The main objectives were to concentrate on safety, reliability and customer service management; and to focus on sustained rolling stock and continuous maintenance. During this period the primary focus was on the improvement on KTMB's operational safety while sustaining good services. KTMB tried to mitigate the operational limitations and constraints to profitability faced by the company as a result of limited train services due to the Rawang – Ipoh Electrified Double Track Project. Also high on the agenda in this first phase were heavy rolling stock maintenance and the upgrading of track infrastructure. Utilising budget under the 9th Malaysia Plan and KTMB's internal CAPEX, there was an overhaul of locomotives, Electrical Multiple Units (EMUs), coaches and wagons. Works on railway tracks, bridges and drainage will be intensified not only to ensure safety but also to extend the coverage of high-powered locomotives (GE and Dalian).

Stage II is called the Turnaround Period from 2008 – 2012. It shall be subsequent to the consolidation period with a primary focus on improving internal capabilities and enhancing human resource potential to achieve positive EBITDA. The Rawang – Ipoh Double Track Project was completed in December 2007. With the completion of this project, more freight trains will be operated, the Intercity revenue will be rejuvenated, and the commuter service will be extended and intensified with improved journey time. During the 9th Malaysia Plan, several projects will be or have already been completed; namely, the Training Centre at Batu Gajah (in 2008), the Central Workshop at Batu Gajah (in 2009)

and Sentul – Batu Caves Double Track Project (Mac 2010).

Moving on to Stage III, or the Growth Strategy (2013 – 2017), this will follow the Turnaround Strategy to reap the potential advantage of the modern railway infrastructure completed such as the Double Tracking from Gemas – Padang Besar. By that time the railway should be running very efficiently and cost effectively to bring in significant revenue and reasonable profit to the company.

Among new services to be introduced with the completion of the above projects are: commuter services from Port Klang to Batu Caves (currently Port Klang – Sentul) and Seremban to Tanjung Malim (currently Rawang – Seremban); the reintroduction of Intercity service from North to South (vice - versa); freight train services (limestone business) from Tapah to Penang Port; freight train service (steel business) from Prai to Westport; and the introduction of Rapid Train (Electric Train Set) services between major cities, i.e. Padang Besar – Butterworth, Butterworth – Ipoh, KL - Gemas dan Gemas – Johor Bahru apart from the existing Kuala Lumpur – Ipoh route (which is currently running using Intercity coaches pending completion of ETS delivery by April 2010).

WORLD REPORT: In 2006, MAS launched its Business Turnaround Plan with a series of cost and revenue actions to curtail further losses due to low yields, inefficient networks, and other factors such as poor pricing, rising cost structure, mismatched fleet and weak operational performance. Can you please update us on the current situation of the airline and the government's plans for its future?

Dato' Sri Ong Tee Keat: Malaysia Airlines successfully completed its turnaround in two years in 2007, a year ahead of its original schedule. It made a net profit of RM851 million for FY07 compared to RM1.3 billion losses in the first 9 months of 2005. The net profit

was the highest ever in its 60 year history, surpassing the FY04 record of RM461 million.

The achievement was recognised as the world's best airline turnaround story in 2007, with Malaysia Airlines being awarded the Phoenix award by Penton Media's Air Transport World, the leading monthly magazine covering the global airline industry.

Upon the completion of the turnaround, Malaysia Airlines launched its 5-year Business Transformation Plan (BTP2) in January 2008. Its aim is to be The World's Five Star Value Carrier, providing top quality products and services at affordable prices.

The underlying premise of the BTP2 is that the world would be a very tough place by 2012. In the worst-case scenario, margins would go down 5% year-on-year, and yield will drop 5% per year. The airline concluded in that world, it would in 2012, record the single largest loss in its corporate history as its current business model cannot withstand the turbulent world.

Now, what has happened since mid last year is that the worst-case scenario was proven right but the timeline has been advanced. The airline industry is currently facing the worst operating environment ever – unprecedented economic recession, overcapacity, volatile fuel prices and the H1N1 pandemic. The International Air Transport Association (IATA) announced that airlines lost more than US\$6 billion in 1H09. The future, according to IATA, "is likely to be volatile and weaker than normal recoveries."

Against this backdrop, the BTP2 plans are the right key business activities, and Malaysia Airlines are fast tracking them. It will accelerate its transformation process, which is anchored on four key business areas (KBA). The four KBAs are intensifying and speeding up the key BTP2 initiatives, continuous focus on improving products and services, addressing competitiveness and being more radical with cost reduction initiatives. Everything will be done without compromising safety and security.

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I am confident that Malaysia Airlines' strategy is spot on. The new world will belong to a new breed of airlines – those who can provide value yet operate at the lowest cost. Under the leadership of its new Managing Director/ Chief Executive Officer, Tengku Azmil Zahrudin, I am confident that the national carrier will become stronger and more resilient.

WORLD REPORT: What is your message to British investors regarding the opportunities Malaysia offers in these tough economic times?

Dato' Sri Ong Tee Keat: Being a former British colony, many British investors may be aware that Malaysia inherited a sound political system that has brought about political stability in the country. Unlike some other countries, we do not have upheavals and coups every now and then. This has allowed investors to go about doing their businesses in an atmosphere of relative peace and stability.

On top of that, Malaysia has a good infrastructure network. As Minister of Transport, I can vouch that our ports, airports and road infrastructure are among the best in this region, if not the world. Port Klang, Malaysia's largest port, is among the top 20 busiest ports in the world. Our KLIA has consistently won accolades from international organisations for being among the best in its category worldwide.

Thanks to the legacy of the British, English is also widely spoken in Malaysia. Malaysia also has a sound financial and banking system and we have been known to adopt an investor-friendly policy.

WORLD REPORT: Can you please explain to our readers the main points of MCA's political agenda?

Dato' Sri Ong Tee Keat: The Malaysian Chinese Association was set up in 1949 as a welfare organisation to look after the plight of Chinese migrant workers in the then Malaya. Later on, it evolved into a political party and is the main party that champions the rights of the Chinese community in the ruling coalition since independence. Whether on Chinese education, Chinese cultural activities or vernacular newspapers, MCA has always been at the forefront insofar as the community's interests are concerned.

Over the years, the MCA, while still Chinese-centric in nature, has also reached out to other ethnic groups. We have organised programmes and activities to cater to the public in general as we have the big picture in mind.

WORLD REPORT: What is your position regarding affirmative action in favour of ethnic Malays? Do you support affirmative action based on performance and intellectual capacity instead of on ethnic origin?

Dato' Sri Ong Tee Keat: The affirmative action programme was put in place after the bloody racial riots in 1969. It was drawn up to help bridge the socio-economic divide between the people of different races then. It was a noble policy aimed at preserving the country's socio-economic fabric and put a new nation on a sound footing during challenging times. Over the years, there have been harsh criticisms that the policy have been hijacked or did not achieve its objective.

I have always been in favour of performance-based policy. This is especially so in an increasingly globalised world where we need to pull up our socks to compete with many other emerging economies. I fervently believe that we should not be shackled by the quota-centric mentality.