

A BUSINESS STRATEGY FOR THE NEW KUALA LUMPUR INTERNATIONAL AIRPORT

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by

A dissertation submitted in partial fulfilment of the requirements for the award of the degree of Master of Science in Airport Planning and Management of the Loughborough University of Technology

15 th September 1994

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1.0 INTRODUCTION

1.1 Background

The Subang-Kuala lumpur International Airport at Subang, located 25km from the Malaysian capital city of Kuala Lumpur, is presently the main gateway into Malaysia. The airport was opened for operations in 1965, in effect shifting all the commercial air transport operations from the old airport at Sungai Besi to the new airport. The old airport at Sungai Besi (which incidently was also known as Sempang Airport) was relegated to handling VIP flights, flying club (The Royal Selangor Flying Club) and military aircraft movements.

Subang-Kuala Lumpur International Airport (SKLIA) currently has a 12,400 feet runway with a matching parallel taxiway, three terminal buildings and handles approximately 12 million passengers per annum in 1992. The runway length available will enable the airport to handle all aircraft types including a Boeing 747-400 operating non-stop from Kuala Lumpur to Los Angeles, with a technical stop at Honolulu. The three terminal buildings handles the separate passenger traffic as such:

- Terminal 1: International Traffic
- Terminal 2: ASEAN (or Association of South East Asian Nations) Traffic
- Terminal 3: Domestic Traffic

The forecasts indicate that growth of passenger traffic will considerably exceed that which is generally anticipated to occur worldwide. For the past five years, growth in total passenger traffic at SKLIA has averaged approximately 16% per annum. Such growth rates imply that the passenger traffic will increase from the present 12 million to exceed 30 million by the year 2005.

There are five main factors which support the continued high rate of traffic growth as forecasted:

1. The existing bouyant economy of Malaysia which is expected to continue at its present rate of growth of 8% for some time to come. This is aided by continued foreign investment in manufacturing facilities there which in 1991 exceeded US\$6 billion.

- 2. There is the growing attraction of Malaysia as a tourist destination, especially with the emergence of eco-tourism. The number of tourists have increased from 3 million in 1985 to 7.6 million in 1990. It is expected to increase to 20 million by the year 2000.
- 3. The Malaysian Government's economic policy which is aimed at fast economic growth through export-oriented industries, based on a series of 5-year plans, aimed at achieving set socio-economic targets, and its prudent management. This is aided by the rich resources historically available in the country, including natural gas and oil, and the good working ethics of the population.
- 4. The Malaysian Government's commitment and effort towards achieving a developed nation status by the year 2020, which is locally known as Vision 2020.
- 5. The anticipated growth in world scheduled passenger traffic as predicted by both IATA and ICAO, and the emergence of the new economies of Vietnam, Laos and Cambodia which will increase intra-South East Asian travel..

Against this scenario, the existing facilities at SKLIA was scrutinised in the mid 1991. The results reveal that the existing airport has limitations in a few major areas such as:

- Lack of terminal space to provide a satisfactory level of service for passengers. Terminal 1 was initially designed to handle 1500 passengers per peak hour but it is found currently to handle 2500 passengers at a great loss to passenger comfort.
- Lack of airside space for aircraft parking and hangarage. Malaysia Airlines (MAS) which is based at the airport has had to park their aircraft overnight in other airports such as Penang International Airport, Langkawi International Airport and a domestic airport at Ipoh.
- Congestion on the airside service roads resulting in longer aircraft turn-around times, longer passenger transfer times and unacceptable delays.
- Lack of land available for additional runways. The existing single runway is currently being utilised at a rate of 37 movements per hour which is still below its ultimate capacity. However should traffic build up further there is no possibility of building another runway due to contraints in land availability.

The Malaysian Government decided to alleviate at least three of the four shortcomings at SKLIA, as an interim measure, before a decision is made on the next step of action.

A RM171 million (approximately £40 million) programme called the Subang-Kuala Lumpur International Airport Interim Development Project was embarked on in August 1992. When fully commissioned in August 1994 the terminal capacity will be increased by the addition of a new terminal called Terminal 3 to handle domestic traffic (completed in October 1993) and the extension and renovation of the existing Terminal 2 (formerly handling domestic passengers) to handle ASEAN traffic. Terminal 2's extension and complete reconfiguration will be completed in July 1994. The number of parking bays shall also be increased from the present 24 to 40. A new airside road shall also be constructed together with an upgrading of the existing airport accesss road and baggage handling system. This in effect will reduce the present turn-around time of 90 minutes to 60 minutes. In an attempt to reduce the number of Ground Services Equipment (GSE) on the apron and at the same time improve safety and efficiency several fixed ground facilities are provided such as hydrants for the fuelling system and fixed ground power units (GPU) for the electrical supply.

The Government eventually decided to build a new airport on a "green field" site at Sepang located 50 km to the south of Kuala Lumpur. This new airport shall be called Kuala Lumpur International Airport (KLIA). Site clearing and earthworks have already started in late 1993 and Phase 1 of the project shall be completed in 1997. Phase 1 includes two parallel runways and its associated parallel taxiways, one main terminal building, one and a half satellite building, roads and a dedicated rail link. The airport shall be completed in time for the Commonwealth Games to be held in Kuala Lumpur (after beating her main contender, Adelaide) in 1998. Phase 1 is expected to cost RM10.5 billion (approximately £2.5 billion). At the completion of Phase 1 the airport will be able to handle 25 million passengers per annum (mppa) and it has the potential to be expanded further to cater for up to 45mppa by the 21st century. On the opening date all international and domestic scheduled services are expected to be operated from KLIA leaving the role of SKLIA unspecified.

The Department of Civil Aviation (DCA) who was previously the owner and operator of airports in Malaysia was privatised in November 1992 with all its equity held by the Government (i.e. Ministry of Finance Incorporated). The shares shall however be eventually sold on the open share market, after a three year period of profitability, with the Government retaining 60% of the equity due to its contribution in terms of assets. The privatised entity is known as Malaysia Airports Berhad and it is given the task of operating the 20 major airports in Malaysia. The remaining STOL airports and rural airstrips shall

however still be operated by the DCA and maintained by the Public Works Department (PWD).

The rationale for the privatisation is as such:

- To shift the economic activity from the public to the private sector.
- To reduce the Government's share of the capital investment required for airport maintenance and expansion.
- To reduce the number of people employed in the public sector.
- To establish an organisation which is capable of administering and implementing a national airport system plan with particular emphasis to increasing revenue so as to become self financing.

Due to the privatisation of the DCA and the enormomity of the new airport project on a "green field" site, a special team was set up to coordinate the implementation of the new airport project. This team consisted of officials from the various Government Departments such as the Public Works Department, the Department of Civil Aviation, the Treasury, the Department of Environment, and the Ministry of Transport and also those from the private sector such as Malaysia Airports Berhad and Malaysia Airlines. The team is known as Kuala Lumpur International Airport Berhad or in short KLIA Berhad ("Berhad" is equivalent to plc in the UK) and is headed by a Chief Executive Officer who is a civil engineer on loan from the Public Works Department.

1.2 Objective of the Study

The objective of the study is to answer these questions:

- What to do with the existing airport at Subang once the new Kuala Lumpur International Airport is operational.
- 2. What business strategy shall be adopted for the new Kuala Lumpur International Airport.

The methodology to be used shall be as follows:

- Review the recent forecasts carried out and this shall be used as the basis for the formulation of the strategy.
- Identify an airport strategy to determine the roles of the old airport at Subang and the new Kuala Lumpur International Airport.
- Assess the strengths, weaknesses, opportunities and threats facing the new Kuala Lumpur International Airport especially from the major competitors in the region, namely Singapore's Changi Airport and Thailand's Don Muang Airport.
- Formulate a business strategy to be adopted by the new Kuala Lumpur International Airport.

The findings of the study shall be used as a basis to enable the Government of Malaysia to arrive at a solution in deciding KLIA and SKLIA's roles in the future and to adopt a business strategy to ensure the success of the new Kuala Lumpur International Airport as a gateway to the Asia-Pacific region and a major hub in South East Asia, and at the same time be self-financing.