

SPEECH BY: DATO' SERI DR. MAHATHIR BIN MOHAMAD
(PRIME MINISTER)

EVENT: THE OPENING OF AIR FREIGHT ASIA 2000 CONFERENCE

VENUE: THE PALACE OF THE GOLDEN HORSES

DATE: 17 FEB 2000

TIME:

First of all, I wish to extend a warm welcome and "Selamat Datang" to Kuala Lumpur to all of you gathered here today at the Air Freight Asia 2000 Conference. I am pleased and honoured to be here for such an auspicious occasion and in the company of distinguished guests and delegates. I hope each and everyone of you here will not only benefit from this conference, which is being held in Kuala Lumpur for the first time, but also enjoy your stay in this multiracial, multicultural country, Malaysia. I am sure you will find Malaysians of whatever origins hospitable.

2. Let me take this opportunity to congratulate the organisers of the Air Freight Asia 2000 conference for its initiative, which is timely considering the economic recovery in Asia, and in Malaysia, in particular. The pace of the recovery is expected to accelerate further as the world economy expands with stronger demand from the industrialised as well as the developing countries. In line with this economic expansion, the aviation industry, which had reported lower growth following the economic recession in the past two years, is I believed, poised to resume their upward growth. This is evident from the latest statistics of the Association of Asia Pacific Airlines, which reported a nine per cent increase in passenger and cargo for the first half of 1999. With the higher economic and travel growth forecast for this region this year and the years to come, Asia Pacific airlines are expected to improve very significantly their performance.

3. The growth and development of the aviation industry is critical to global trade. With globalisation, world markets are becoming more interdependent and competitive. Increasingly, companies are outsourcing their needs to achieve the lowest cost and highest quality to remain viable. This has led to a surge in demand for air freight and the growth of global logistic business. In anticipation of the huge demand for air freight and logistics business, the

Government of Malaysia initiated the upgrading and expansion of the air transport infrastructure.

4. Our single biggest infrastructure investment was the building of the Kuala Lumpur International Airport (KLIA) in Sepang. Operational since June 1998, the RM10 billion state-of-the-art KLIA is the first step towards realising our goal of making Malaysia an important hub for the region. The private sector had also contributed towards making KLIA a state-of-the-art airport by investing billions of ringgit in their facilities. Malaysia Airlines, for example, invested RM640 million for its cargo operations, which included the Advanced Cargo Centre to support the expansion in the nation's trade and cargo business.

5. These facilities alone will not be sufficient for Malaysia to take advantage of the tremendous growth expected of the cargo industry in the 21st century. This is why the Government reviews its policies on a regular basis to ensure all the key elements, which are required to provide the right business environment for the transfer of goods in and out of the country, are put in place. As far as air freight is concerned, Malaysia practises a liberal aviation policy and is prepared to enter into "Open Sky" arrangements with any country which will encourage and facilitate airlines, forwarders, importers and exporters to use KLIA as the leading cargo hub for the region. For this reason, the Government has always ensured that tariffs at KLIA are among the lowest in the region thanks to the low cost of living and low inflation in the country. The Ministry of Transport as the lead agency responsible for the overall development of the transport infrastructure is also sensitive to feedbacks from members of the airlines, freight community and other users. These feedbacks are necessary to ensure that the freight and the logistics industry progress smoothly in line with the country's continued advance as a major trading nation.

6. The air freight industry is expected to undergo tremendous changes as the pace of globalisation and liberalisation accelerates in the next few years. Businesses that anticipate and adapt to these changes are expected to do well in the new environment. In order to do business and to prosper in the 21st century, freight forwarders and airlines will have to radically change the way they conduct their businesses. Gone are the days when freight forwarders and airlines merely move cargo from point A to B; instead, a comprehensive service package involving the warehousing and inventory management of goods and door-to-door delivery may be the norm rather than the exception.

7. I am told that as businesses grow, the ability of airlines or freight forwarders to offer such services

may be limited. The alternative is for airlines and freight forwarders to seek strategic partners in the transport and logistic chains. This will pave the way for mergers in the air freight industry which may include non-traditional players. Given such a situation, it is timely and relevant for the Malaysian freight community to work together to consolidate their resources and operations.

8. The Government believes that there are no losers in such a consolidation exercise. Those who dare to merge their businesses will only stand to profit from their foresight while their customers will enjoy better rates and services. The Government believes that such mergers will boost our competitive edge in new markets in the Asia Pacific and beyond. Currently, the shipping and road haulage companies are consolidating their resources and operations with the full support of the Government. The local freight forwarders should not only follow suit but also consider partnering with them to become multi-modal companies or total logistics providers linking surface, sea and air freight business.

9. Another significant development that may impact the industry is the mergers of cargo divisions of airlines. Although this is a relatively new development involving a very limited number of airlines, the benefits of such tie-ups would eventually encourage other airlines to enter into similar arrangements.

10. In the near future, I would not be surprised to see existing airline partners of the two leading global alliances pooling their resources to compete more effectively with companies like Federal Express, DHL and United Parcel Service, which grew from courier companies to become pioneers of integrated air freight services. The air freight industry is likely to witness even greater competition between the traditional airlines and the integrators as they transform into total logistics service providers.

11. I am pleased to note that our national carrier, Malaysia Airlines, has embarked on an expansion programme that will enable its cargo subsidiary MASkargo to transform into a total logistics service provider. This programme includes identification of cargo hubs in major markets and to link them with KLIA to form a new logistic network as well as forging strategic partnerships with airlines, logistics service providers and trucking companies. The formation of hubs and the strategic partnerships would allow MASkargo to achieve "the critical mass" needed to transform itself into a total logistics service provider.

12. In addition, MASkargo has more than doubled its freighter capacity by increasing its fleet from two to five B747 freighters last November and has projected its fleet size to triple to fourteen B747s by 2003/04 which will provide the much needed cargo capacity and frequency at KLIA.

13. I am sure that your participation at this biennial conference will enable you to assess first hand the excellent facilities and services at KLIA. I understand that as part of the programme you will be offered a tour of the cargo facilities. Some of you, I am told, had only heard of KLIA, but have yet to visit our state-of-the-art airport. I sincerely hope that you will be impressed with what you will see and take this opportunity to become partners in the future growth of KLIA as a major cargo hub.

14. I would like once again to thank all of you for your attendance and participation at the Air Freight Asia 200