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**English only**

# PRIVATIZATION AND RE-NATIONALIZATION OF MALAYSIA AIRLINES

(Submitted by the ICAO Secretariat)

## 1. BACKGROUND

1.1. Malaysia Airlines (MAS) was incorporated as Malaysia's flag carrier in 1971 following the breakdown of Malaysia-Singapore Airlines partnership. Since then, MAS has continued to expand its network and fleet. By mid-1980s, MAS had a total of about 60 domestic and international destinations in its network and a fleet of over 35 aircraft. However, MAS's balance sheet suffered especially from the loss-making domestic services where the Government rarely allowed increases in fares because of a policy of promoting trade and tourism in rural East Malaysia.

## 2. LIBERALIZATION OF REGULATORY FRAMEWORK

2.1. Under the Government's privatisation plan, MAS became the first governmental agency to go partly private in 1985. The Government sold 40 per cent to the public, including Brunei Investment Agency, while keeping total 60 per cent in the hands of Malaysian Central Bank Negala and local Governments. The privatization raised additional funds for MAS's capital expenditure on aircraft fleet expansion. The Government had also considered the idea of separating the airline's domestic and international operations into two divisions to improve the profitability of the international airline, but the plan was subsequently abandoned. In 1994, as one of the attempts to reverse the weak financial position vulnerable to rising labour costs, higher interest rates and reluctant lenders, the Central Bank sold its 32 per cent controlling stake to Malaysia Helicopter Services (changed name to Naluri in 1998) led by Tajudin Ramli[1]. The move eliminated the Government as the largest shareholder, although the Government continued to hold a "golden share" giving it a veto on board decisions, and State-owned entities acquired a minority stake in the airline.

## 3. EFFECTS AND DEVELOPMENTS

3.1. For consecutive three years after privatization in 1994, MAS posted profits. Tajudin Ramli's new commercially-oriented management forged a 7 per cent reduction of expenses in 1995 by targeting fleet utilization, fuel usage and employee composition. The domestic first class fares were increased to compensate for cumulative loses. Some transpacific flights were replaced by codesharing operations, which increased MAS's market coverage.

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[1] In 1996, Naluri's stake was diluted to 29.09 per cent. In 1994, Naluri also acquired controlling stakes in Air Maldives and Royal Air Cambodge, but both airlines ceased operations in 2000 and 2001, respectively.

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3.2. In the fiscal year ended March 1998, however, MAS lost $70 million and reported more loss in the next fiscal year due to the Asian economic crisis. MAS has layed off staff, cut its fleet and arranged $100 million credit with Saudi bank for aircraft sale and lease-back. It sold major aircraft and delayed aircraft deliveries up to three years. Many unprofitable international routes were suspended or their frequencies reduced with the closure of several online stations. Nevertheless, MAS has built up a debt to the tune of M$9 billion ($2.4 billion), 30 per cent of which was attributed to the depreciation of Malaysian currency at the height of the Asian economic crisis.

3.3. In the early 2000, financially-troubled Naluri expressed its intention to sell its 29.09 per cent stake. To enable greater foreign investment, the Government increased the allowable foreign ownership ceiling from 30 to 45 per cent. It was reported that Qantas, Swissair Group and KLM were prospective buyers, but they all pulled out. In December 2000, Government Pension Fund acquired 9.1% stake from Brunei Investment Agency, and the Ministry of Finance Inc. bought back 29.09 per cent from Naluri. As a result, the total Government shareholding (including local Governments and State-owned agencies) increased to approximately 80 per cent of MAS. During 2002, the corporate structure of MAS has been restructured by removing aircraft assets and related liabilities from MAS's balance sheet through the transfer of economic risks and rewards of such assets and liabilities to Penerbangan Malaysia Berhad (PMB), a vehicle set up by the Ministry of Finance Inc. The costs and revenues of domestic services were also transferred to PMB. In January 2003, PMB took over the Government's shareholding (69.37 per cent) in MAS.

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