

MH17 crash provokes fresh crisis for Malaysian government

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Less than five months after the unsolved disappearance of Malaysian Airlines MH370, the Malaysian government has again been thrown into turmoil by last week's crash of MH17 in eastern Ukraine. It is desperately seeking to absolve the government-owned national airline, which is in serious financial difficulties, of any blame, while trying to deflect mounting public concern, distrust and anger.

Even before the MH370 disaster, the airline was in financial straits, having posted substantial losses for the past three years. Last year, the national carrier reported a loss of 1.17 billion ringgit (\$US369 million), almost three times higher than its loss in 2012. After the disappearance of MH370, passenger numbers slumped by 60 percent and only recovered somewhat after ticket prices were slashed. The airline's load factor—the percentage of seats filled—was 76.8 in June, up from 68.9 in May, but down from 84.3 last year.

Speaking last weekend, Transport Minister Liow Tiong Lai was at pains to stress that Malaysian Airlines took no undue risk in flying over Ukraine, even though MH17 was crossing a known war zone. "We've flown this route for many years, it's safe and that's the reason why we are taking this route," he declared. He said the route had been approved by the International Civil Aviation Organisation, and European and Ukrainian air traffic controllers, and was flown by other airlines.

However, all of this testifies to the cutthroat competition in the international airline industry, in which cost-cutting has been relentless. The Ukraine route was one of the shortest between northern Europe and Asia, and therefore cut flying time and operating costs. According to one former flight planner cited in the *Australian*, to bypass Ukraine would have added up to 45 minutes in flying time and \$14,500 to \$18,750 to

the cost of the flight.

Already battered financially by the loss of MH370, Malaysian Airlines could ill afford to sustain the extra expenses, even though the shooting down of a Ukrainian military transport the previous week highlighted the dangers of flying over the war zone. Malaysian Airlines was not alone—other carriers, including Lufthansa, Thai Airways, Qatar Airways, Emirates and Etihad, continued to use the route, even though others rerouted their aircraft.

The route was also kept open for financial reasons. The cash-strapped Ukrainian regime in Kiev was desperate for the millions of dollars in overflight fees charged to airlines. It responded to the loss of the military transport, not by closing the route, but by lifting the minimum altitude from 26,000 to 32,000 feet. The Ukrainian transport was downed at an altitude of 21,000 feet.

Malaysian Airlines' future is now in doubt. Financial commentators are speculating as to whether the government will completely privatise it or resume full control with a further injection of cash to keep it solvent. The government's state investment fund, Khazanah Nasional Bhd, holds a 69 percent stake and has already provided more than \$1.6 billion to the airline over the past decade. On news of the MH17 crash, shares plunged by 18 percent and are down 35 percent so far this year, raising questions about the viability of privatisation.

Mohshin Aziz from Malaysian broker Maybank told the Australian Broadcasting Corporation after the crash that the airline could not survive without drastic restructuring. In a note to investors earlier in the month, he concluded that the airline's financials were very weak. "With a cash burn of \$1.6 million a day, MAS [Malaysia Airlines] could exhaust its entire free cash

resources ... by the end of 2015.”

On news of the crash, the Malaysian government immediately went into damage control. Prime Minister Najib Razak declared that if the plane had been shot down, it was an “inhumane, uncivilised, violent and irresponsible act.” But he refused to join in the propaganda barrage from the US and its allies, led by Australia, blaming pro-Russian separatists in eastern Ukraine for downing the plane and vilifying Russian President Vladimir Putin.

Defence Minister Hishammuddin Hussein, who was in charge of handling the MH370 disaster, was asked last weekend whether he agreed with US President Obama’s blaming of Russia. He responded cautiously, declaring: “We do not have a position, until all the facts have been verified, whether the plane was really brought down, how it was brought down, who brought it down.”

During the crisis over the disappearance of MH370, Hussein was caught out more than once making assertions that turned out to be wrong. An unnamed Malaysian official told the *New York Times*: “We’ve been punished cruelly in front of the entire world for saying things one day that then turned out to be untrue, and we had to retract it the next. So Malaysia’s going to be very, very cautious about saying anything that we haven’t had independently verified and corroborated.” The remarks also underscore that fact that the US propaganda is not based on any corroborated evidence.

The Malaysian government is under immense pressure from victims’ families, the airline’s workers and the broader public for the prompt repatriation of the bodies for burial. By refusing to side with Washington, Malaysia was able to broker a deal with Ukrainian separatist leaders to turn over the corpses and MH17’s flight recorders, or black boxes, to Dutch authorities.

The government, however, continues to face criticism for failing to do enough. In a bid to let off steam, several hundred members of the ruling Barisan National’s youth movement held rallies outside the Ukrainian and Russian embassies in Kuala Lumpur on Sunday, as well as at UN offices. The “protest,” which obviously was officially sanctioned, simply appealed to all parties to bring those responsible to justice.

While the government is deliberately keeping a low profile, the crisis over the MH17 crash is far from over.



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