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DOES COMPETITION KILL OR CREATE JOBS?

Contribution from Indonesia

-- Session I --

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Ms. Ania Thiemann, Global Relations Manager, OECD Competition Division
Tel: +33 1 45 24 98 87, Email: ania.thiemann@oecd.org

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DOES COMPETITION KILL OR CREATE JOBS? ACTUAL CASE FROM INDONESIAN AIRLINE INDUSTRY

-- Indonesia --

1. The question of whether competition creates jobs (or not) is quite contradictory. Contradictory because there are two sides with different views. Experts often argue that competition can open up new opportunities or new markets, so as to foster new jobs. On the other hand, there is the view that the competition can expel businesses from the market, which can increase market concentration and unemployment. Both opinions may be true, but the reality in Indonesia, there is still a view to strengthen the contribution of competition for the improvement of employment and amount of labor in the country.

1. Employment in Indonesia

2. Before we go any further on this debate, it would be helped if we understand how employment in Indonesia. Currently, employment in Indonesia is regulated by Law No. 13/2003 on Manpower. Article 1, paragraph 2 states that labor is any person who is able to work in order to produce goods and / or services, both for subsistence and for the community. The age limit applicable employment in Indonesia is 15 years-64 years old. With a total population of about 250 million people, Indonesia is the fourth most populous country in the world (after China, India and the United States). Furthermore, the country also has great number of young population because about half of Indonesian is under the age of 30 years. It makes Indonesia as a country with a large labor force, which will evolve into a greater future.

Table 1: Labour force in Indonesia

	2011	2012	2013	2014
Labour force	119,399,375	120,320,000	120,170,000	121,870,000
Employed	111,281,744	113,010,000	112,760,000	114,630,000
Unemployed	8,117,631	7,310,000	7,410,000	7,240,000

Source : Statistic Indonesia, 2015

3. Towards the implementation of the ASEAN Economic Community in 2016, there are still major issues in Indonesia's employment, namely poor quality of the workforce, unproportional number of labour force to employment, uneven labor distribution, and unemployment. One promising sector that absorbs labor is the transportation sector. This sector is capital-intensive, technology-intensive and labor-intensive. Specific skills should be developed to work in this sector. Table below shows that the transport sector peaked at six (6) large as the sector that absorbs most employment in the year 2011 and thereafter.

Table 2. Workforce in large sectors in Indonesia (in million)

	2011	2012	2013	2014
Agriculture	39,1	39,6	39,2	39
Trade, restaurant, & accomodation	22,3	23,5	24,1	24,8
Social and indivisual services	16	17,3	18,5	18,4
Industry	14,5	15,6	15	15,3
Construction	6,2	6,9	6,3	7,3
Transportation, warehouse, and communication	5	5	5,1	5,1

Source: Statistic Indonesia, 2015

4. Transportation sector is an important sector in the economy of a country. An efficient transport system will reduce costs, improve competitiveness of industry, as well as supporting the development of infrastructure for an increased economic activity (investment, consumption, production, etc.). One of the growing transportation sector in terms of competition in the last decade is the aviation industry. In this paper, we will show you how is the increased competition can improve number of workers in the industry.

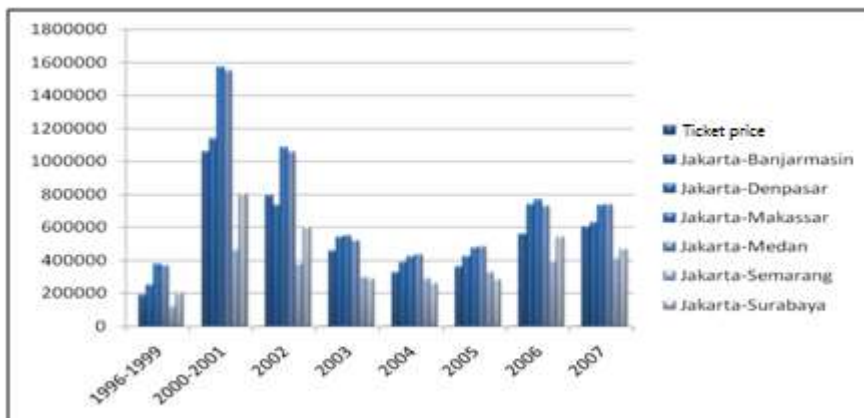
2. Increased competition in domestic airline industry

5. Indonesia has a prospective domestic airline industry. As an archipelagic country consist of 17.508 islands with total population more than 250 million, air transportation plays a big role in connecting people and economy. Develop air transportation will promote economic efficiency by reducing cost and increasing multiplier effect for other economic sectors. Based on a research by KPPU, until 1990, the investment policies in air transportation are closed and provided limited opportunities for entrepreneurs. At that time there were only 6 (six) airlines that has a chance to operate, where their operation, routes and capacity are rigid. Gradatory government deregulation on this sector until in 2001 was able to increase number of companies for scheduled commercial flights to 19 (nineteen) company. Further, the Government through the Minister of Communications No. 25/1997 authorizes the Indonesian Air Carriers Association (INACA) to set air freight rate (previous tariff determination is made by the Government). It gives an opportunity for INACA to set a very high rate and constant which favorable to the airliners.

6. Commission saw the policy as highly detrimental to customers and eliminates competition between airlines, and thus on 30 July 2001, the KPPU issued an advice to ask the Minister of Transportation to revoke this regulation. Responding to the letter of advice from the KPPU, the Ministry of Transportation issued regulation No. 9/2002 regarding the determination of freight rates for scheduled commercial domestic economy class flights. Tariff set by the Government as an upper limit, while the lower limit of the price submitted to the respective airlines. This is an opportunity for competition among airlines in serving domestic routes and pushed the airfares down. The tariff was reduced gradually and continued until 2004. This trigger tariff war among airlines, and eventually force some airlines to stop their operations, such as Indonesian Airlines (2003), Bouraq Indonesia (2004), Jatayu (2008), Adam Air (2008), Batavia Air (2013), Mandala Airlines (2014), Merpati Air (2014). It showed that, competition did force enterprises to achieve their efficiency and must exit the market when they failed to perform it.

7. The existence of the policy advice by the Commission increased competition in the airline industry. The following table shows the price fluctuations that occur when the Government was set tariff on air transport (1996-1999), the price increased during price fixing by INACA (2000-2001), as well as a significant reduction after the decreased tariff after the KPPU's recommendations (2002-2007).

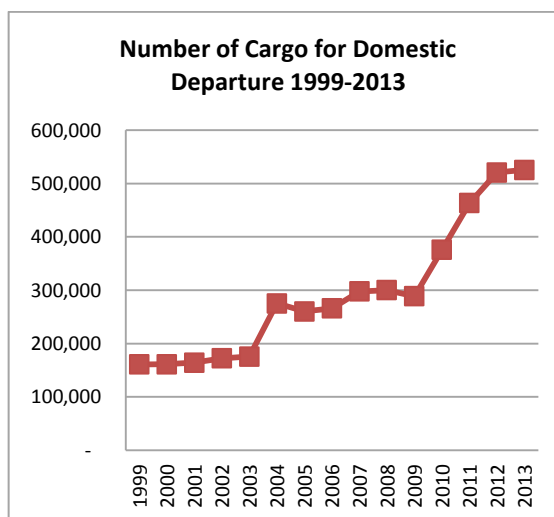
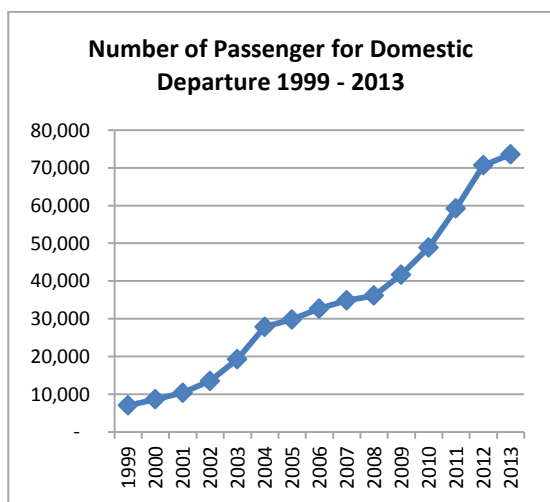
Chart 1: Tariff development for each route in 1996-2007 (Rupiah)



Source: Ministry of Transportation, 2008

8. The tariff decrease due to competition among airline resulted to the increased consumer demand for airline services. This creates chain reaction which supports the development of the industry from year ahead. As a service industry, passengers trust and confidence will determine the success of airline industry and closely related to improvement of quality of service through the improved quality of human resources. Positive development was seen from the increasing number of passengers and flow of goods (Table 4), as well as an increase in number of routes and number of connected cities (Table 5). Number of airline companies was decreased (Table 6) considering few airlines that lose money and stop their operations.

Chart 2 : Number of Passenger and Cargo Departing from Indonesian 1999 – 2013



Source: Statistic Indonesia, 2014

Source: Statistic Indonesia, 2014

Table 3 : Number of routes and number of connected cities 2010-2014

No.	Description	2010	2011	2012	2013	2014
1.	Flight Route	118	130	130	138	164
2.	Connected City	117	123	119	142	167

Source : Transportation Statistic Report of Indonesia, 2014

Table 4 : Number of Operational Airlines

No.	Description	2010	2011	2012	2013	2014
1.	Scheduled Commerce Flight	16	17	19	19	16
2.	Unscheduled Commerce Flight	39	41	42	44	49
	TOTAL	61	59	66	63	65

Source : Transportation Statistic Report of Indonesia, 2014

9. The increased competition in the airline industry is also confirmed by the results of Competition Perception Index (CPI) on the industry conducted by the KPPU since 2008. The CPI captures the perceptions of consumers and businesses, through a survey conducted in certain sectors. Generally, CPI in airline sector showed an increase value, which means that competition between businesses in the said sector is likely to increase. Increased competition will improve the quality of products offered, lower profit margins, eventually improving consumer welfare. CPI in airline industry from 2008-2013 respectively are: 4.64; 5.23; 5.37; 5.41; 5.34; 5.36; and 5.49. The scale used was 1-6, the higher the CPI, the better the competition in airline industry.

Table 5 : Competition Index

No.	Variable	Index						
		2008	2009	2010	2011	2012	2013	2014
1.	Price (main component)	4.83	5.23	5.62	5.50	5.37	5.93	5.80
	• The offered price	3.75	4.62	4.33	4.64	4.69	3.44	4.72
	• The current tariff compared to last year	3.22	4.24	3.71	3.86	3.90	3.33	3.84
	• Tariff options	5.08	5.51	5.88	6.00	5.58	5.81	6.08
	• The difference on flight tariff	4.75	5.52	5.92	6.11	5.51	6.00	5.92
	• The difference on class flight tariff	5.11	5.55	5.47	5.67	5.51	6.00	5.92
2.	Quality (main component)	5.88	6.24	6.22	6.43	6.21	6.52	5.44
	• Quality of service	4.41	4.82	4.83	4.43	5.41	5.07	5.20
	• The difference on current and previous quality service	4.41	4.78	4.92	5.01	5.23	4.85	5.44
	• The difference of quality service among airlines	4.59	5.47	5.86	6.11	5.32	6.22	5.20
3.	The development quantity of airlines company	5.03	5.62	5.90	5.65	5.83	6.19	6.24
	• Service options	4.71	5.12	5.67	5.60	5.60	5.07	5.80
	TOTAL	4.64	5.23	5.37	5.41	5.34	5.36	5.49

10. On average, the main price component that falls below the total index is price. It can be said that the airline industry seems not competing on price, but rather the quality and quantity of existing companies in the industry. The index for quality in 2014 decreased compared to 2013, but for other major components was increased. It means that, the airline industry is less competitive in quality this year, but more competitive in price. The picture above also indicated that the upward trend of competition in the airline industry is likely to increase.

3. Increased Employment in Airline Industry

11. Theoretically, the existence of competition in an industry will benefit consumers and develop a better business climate for businesses. For consumers, they will gain their benefit through cheaper prices and increasing number of alternative for goods or services. This alternative provides opportunity for consumers to choose goods or services with best quality at a relatively cheaper price compared to other similar goods or services. As for businesses, competition will open up opportunities for the emergence of new businesses, encouraging efficiency and foster innovation. Entrepreneurs who are not able to run its business efficiently, or are not able to create innovations or breakthrough will fail to face competition and easily crushed by competitors. Enterprises are required to improve their efficiency by reducing the cost of production or distribution, but without reducing the quality of the goods or services it offers.

12. A large number of populations, as well as conducive business climate in Indonesia are attractions for entrepreneurs to go into airline services. With the increasing number of players in this industry, the level of competition between airlines is increasingly high. This forced the airline to improve their efficiency and innovation to provide highest possible selling price tickets are competing for the consumer, without the losses of the company. It is not easy in practice. Many businesses are falling because unable to face the competition. Some airlines have to close due to bankruptcy and their losses. This will certainly impact on the company's termination on their employees. Employees will lose their jobs and steady income. At this point we see that competition can be one of the triggers of unemployment.

13. In contrary, the businesses that survive in this industry continue to develop creativity and innovation to get consumers. Low tariffs will trigger an increase in number of consumers, which supports the company to expand their businesses, such as the addition of routes, fleets, branch offices, and many more. The positive developments in the airline industry create direct impact on the level of employment in the sector. Along with the increasing number of passengers, routes and aircrafts, number of workers who work in the sector also increased. At this point we see that competition can also contribute to the creation of employment opportunities, as shown in the following table:

Table 6: Number of Pilot, Flight Operation Officer, Flight Attendant and Aircraft Maintenance Engineer Licenses (2010-2014)

No.	Description	2010	2011	2012	2013	2014
1.	Pilot	6874	7428	7948	8608	9341
2.	Flight Operation Officer (FOO)	3097	3404	3679	3909	4093
3.	Flight Attendant (FA)	8139	9150	10359	12190	14032
4.	Aircraft Maintenance Engineer License (AMEL)	5963	6279	6827	7199	7535

Source : Transportation Statistic Report of Indonesia, 2014

Table 7 : Number of Licenses provided to Aviation Security and Aviation Safety Personnel

No.	Description	2010	2011	2012	2013	2014
1.	Aviation Security Personnel	3028	2613	3861	3235	4135
2.	Handling of Dangerous Goods Transport Personnel	1448	1282	1817	1853	1414
3.	Airport Rescue and Firefighting Services	1363	1614	1840	2250	2477
4.	Salvage Team	90	95	109	164	277
5.	Technician for Airport Rescue and Firefighting Facilities	0	0	0	37	56
6.	Technician for Aviation Security Facilities:					
	- Skilled Labor	47	47	62	67	57
	- Experts	80	77	91	105	93
	TOTAL	6,056	5,728	7,780	7,711	8,509

Source : Transportation Statistic Report of Indonesia, 2014

Table 8: Number of Licenses to Personnel at the Airport

No.	Description	2010	2011	2012	2013	2014
1.	Marshaller	1899	2204	2424	3188	2186
2.	Aviobridge Operator	583	639	710	837	655
3.	Ground Support Equipment Operator	4431	5105	5704	7506	6489
4.	Helicopter Landing Officer	1610	1927	2527	3032	1949
5.	Airport Personnel Technique	568	657	701	926	594
6.	Airport Electricity Personnel	860	1010	1274	1462	956
7.	Apron Movement Control Personnel	-	-	107	419	607
8.	Airport Mechanic Personnel	-	3	66	209	283
9.	Airport Electronic Personnel	-	-	20	54	70
	TOTAL	9,951	11,545	13,533	17,633	13,789

Source : Transportation Statistic Report of Indonesia, 2014

14. Many parties considered that Indonesia's airline industry at this time is competitive. Many operators claim to not be afraid in facing expansion by other airlines. Meanwhile, Indonesia's economic growth also contributed to the growth of airline business. Ministry of Transportation reported that there are still 420 untouch routes in Indonesia. From 670 available routes, only 250 of them are flown. This suggests, Indonesian airline industry is still very promising, which would be coupled with the increasing number of workers that can be absorbed by this industry.

4. What can be concluded from these facts?

15. The application of competition law and policy in a market will support the creation of a conducive business climate for competition, which enables businesses to easily enter or exit the market. In fact, competition is not the only determinant factor in job creation. The level of employment in a country will be affected by various factors in addition to the competition, such as the economic situation, fiscal and monetary.

16. Reflecting on the case studies in Indonesian airline industry, though it is not being statistically proved, but it appears that, the opening of a market and the entry of competition will bring positive impacts to the development of an industry and lead to increased availability of jobs in the said industry. But it may be underlined that the increase in employment is not solely created from the establishment of new companies (or players) in the market, but also by the increased economic of scale that enable them to create new market opportunities, and contribute to an increase on their market share. The fall of certain companies during the process toward maximum efficiency in the industry are common and temporary.