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**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
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**AIRLINE COMPETITION**

-- Note by Indonesia --

**18-19 June 2014**

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[www.oecd.org/daf/competition/airlinecompetition.htm](http://www.oecd.org/daf/competition/airlinecompetition.htm)*

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## 1. Introduction

1. Indonesian airline industry was tightly regulated. According to Parikesit, Marpaung, Andi, & Wibowo (2003), government has gradually liberalized the industry since 1991. The changing of business environment and liberalization has increased the number of airline companies from 7 in 1999 to 27 in 2004 (Parikesit et al., 2003; Saraswati & Hanaoka, 2013). Until 1997 government remained as the tariff controller. The aim of government controlling the tariff is to prevent “price wars” (Hooper, 1997, p.201). Then, government decided to bestow Indonesia Air Carriers Association (INACA) the authority to fix the tariff.

2. Ticket pricing remain as the biggest problem for Indonesian airline industry. Following the government decision to let business association regulated the tariff, Commission for the Supervision of Business Competition Republic of Indonesia (KPPU) saw this as the violation of article 5 Law No. 5 year 1999 (Law No.5/1999) about price fixing. KPPU & LPEM<sup>1</sup> (2012) found that the conduct harmful for consumers because ticket prices increased up to 500% during the collusion. Regarding KPPU’s suggestion to Ministry of Transportation in 2001, government then withdrew INACA’s privilege to fix tariff. Fluctuation of fuel price for aircraft also influences the ticket pricing. In 2009 KPPU sentenced 9<sup>2</sup> airlines companies for violating article 5 Law No.5/1999, the companies were alleged to impose common fuel surcharge. And recently Ministry of Transportation set the surcharge<sup>3</sup> for each domestic route. The consequence of this regulation is every airline company serving in the same route will impose common surcharge for their passengers. This regulation could endorse collusive behavior among airline companies. Collusion apparently becomes the common solution for ticket pricing problem.

3. Promoting fair competition in Indonesian airline industry is a challenge. Collusion issue to fix ticket price is one problem. Airport capacity and slot management are other issues to be addressed. Airport capacity is a significant aspect that influences competition (Borenstein, 1992; U.S. General Accounting Office, 1991b as cited in Beneish & Moore, 1994; Ros, 2010). Saraswati & Hanaoka (2013) found that approximately 61.5 % largest airport<sup>4</sup> in Indonesia are over capacity. Brueckner & Spiller (1994) states that the type of airport influences airfare. The author also found that slot-controlled airports have higher cost. Since 2011 Indonesia has Slot Coordinator (IDSC), the single slot controller was established to make effective slot management by making neutral and transparent slot arrangement, and reducing cost.

4. The growing Indonesian domestic airline industry brings both challenges and opportunities. Increasing demand and more pro-competition policy, invite more competitors to join the industry. However, government needs to reduce entry barrier caused by airport capacity shortages. Ticket prices are subject to government regulation. Government sets floor price and ceiling price, both to protect consumer from price war and excessive price. Nevertheless, price fixing in domestic airline industry is the common violation of Law 5/1999 concerning Prohibition of Monopolistic Practices and Unfair Business Competition.

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<sup>1</sup> Institution for Economic and Community Research, Faculty of Economics University of Indonesia.

<sup>2</sup> PT Garuda Indonesia , PT Sriwijaya Air, PT Merpati Nusantara Airlines, PT Mandala Airlines, PT Travel Express Aviation Service, PT Lion Mentari Airlines, PT Wings Abadi Airlines, PT Metro Batavia, and PT Kartika Airlines.

<sup>3</sup> Minister of Transportation Decree No. 2 Year 2014 concerning surcharge for economy tickets in domestic market.

<sup>4</sup> According to Ministry of Transportation (2014) there are 297 airports in Indonesia. 16 from 26 largest airports are running more than their capacity (Saraswati & Hanaoka, 2013).

5. In order to present review about Indonesian domestic airline industry, this paper will describe some aspect of the industry i.e. structure and conduct. The industry's structure part will describe airline companies' progress, airport capacity, and regulations related to this industry. Three selected cases about pricing fixing in Indonesian domestic airline industry, will be presented to review about the firms conduct. This paper only gives highlight about industry's performance.

## 2. Overview

6. Indonesia has a prospective domestic airline industry (Hooper, 1997; Saraswati & Hanaoka, 2013). As an archipelagic country consist of 17.508 islands with total population more than 237 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 (KPPU & LPEM, 2012).

7. Domestic airline industry is growing towards the increasing demand. The industry starts with one state owned airline company Garuda Indonesia. Now it has around 17 private companies, connecting 454 routes and 297 airports within country. Figure 1. Shows domestic routes served by Garuda Indonesia these days. Market force also contributes to change the nature of industry from tightly regulated to "moderately liberalized" nowadays (Saraswati & Hanaoka, 2013, p. 2).

**Figure 1. Garuda Indonesia Domestic Routes**



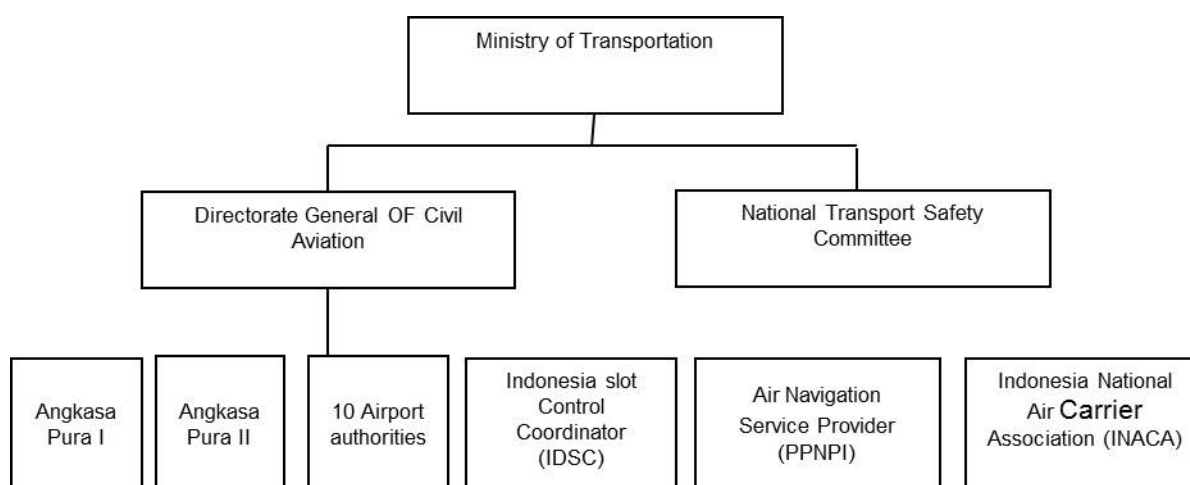
Note. Garuda Indonesia (2014)

8. Ticket prices are critical issue for domestic flights. In 2001 KPPU made suggestion for government to withdraw the privilege of INACA to fix tariff, thus companies can set their own price. Reasonable ticket price is maintained by government by making regulations concerning economy ticket's price levels. Airline companies are not allowed to set price under the ceiling price under Minister of Transportation Decree No. 26/2010. Fuel price fluctuation brings the fuel surcharge issue in 2009. Airline companies were alleged for collusion by making common fuel surcharge. Therefore, KPPU sentenced 9 airline companies due to the violation of Law No. 5/1999 article 5 about price fixing. Regarding the fluctuation of fuel price, government making new regulation related surcharge under Minister of Transportation Decree No.2/2014.

9. The growing Indonesian domestic airline industry brings both challenges and opportunities. Competition degree within the industry is changing overtime. Increasing demand and more pro-competition policy, invite more competitors to join the industry. Competitive industry has to be maintained by stakeholders to provide equal chance for incumbents and potentials airline companies, thus the airline industry will grow healthier and larger. More airlines to choose and the multiplier effect of air transportation are expected to improve consumer welfare.

10. Government plays an important role in air transportation. Government agencies or state-owned companies undertake most of the job (Saraswati & Hanaoka, 2013). Figure 2 shows the hierarchy of Air Transport Bodies In Indonesia. Ministry of Transportation, Directirate General of Civil Aviation, and National Transport Safety are government bodies. Angkasa Pura I, Angkasa Pura II, and PPNI are state owned companies. There are only 2 independent bodies i.e. IDSC and INACA.

**Figure 2. Air Transport Bodies in Indonesia**



Note: Based on Saraswati &Hanaoka (2013)

### 3. Market Structure

#### 3.1 Number and Size of Airline Companies

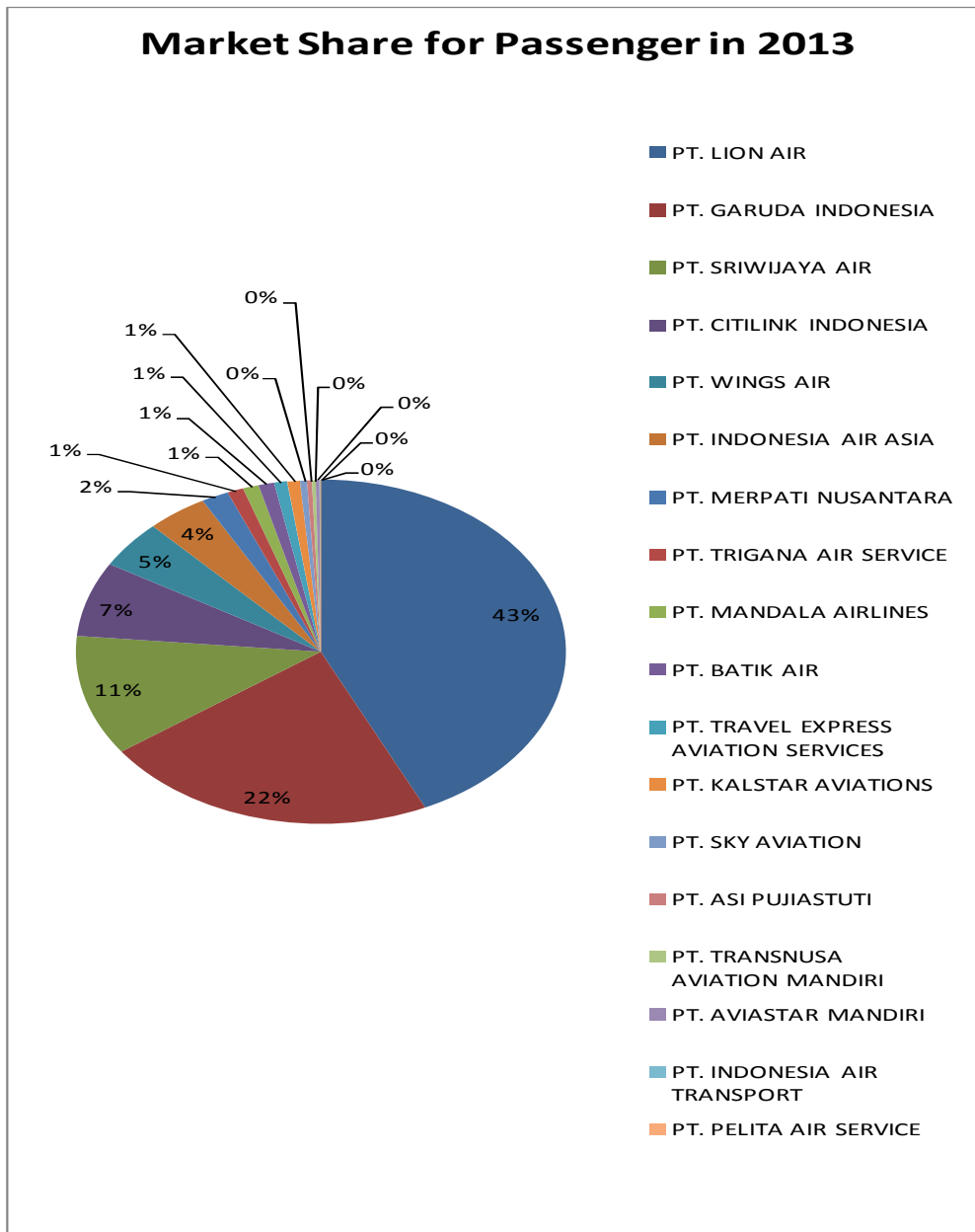
Deregulation invites more competitors to the industry. Number of airline companies increased from 7 in 1999 to 27 in 2004 (Parikesit et al., 2003; Saraswati & Hanaoka, 2013). According to Ministry of Transportation, there are 17 private scheduled airlines serving domestic routes. Domestic routes are dominated by Low Cost Carrier (LCC)

**Table 1. Scheduled Airlines 2014**

No	Airline	Status
1	Asi Pudjiastuti	Private, Low Cost Carrier
2	Aviastar Mandiri	Private, Low Cost Carrier
3	Batik Indonesia Air	Private, full service
4	Citilink Indonesia	Private, Low Cost Carrier
5	Garuda Indonesia	State owned company, Full service/flag carrier
6	Indonesia Airasia	Private, Low Cost Carrier
7	Kalstar Aviation	Private, Low Cost Carrier
8	Lion Mentari Airlines	Private, Low Cost Carrier, top 40 world's biggest airlines 2012
9	Mandala Airlines	Private, Low Cost Carrier
10	Nam Air	Private, Low Cost Carrier
11	Pelita Air Service	Private, Low Cost Carrier
12	Sky Aviation	Private, Low Cost Carrier
13	Sriwijaya Air	Private, Full service
14	Transnusa Aviation Mandiri	Private, Low Cost Carrier
15	Travel Express Aviation Service	Private, Low Cost Carrier
16	Trigana Air Service	Private, Low Cost Carrier
17	Wings Abadi	Private, Low Cost Carrier

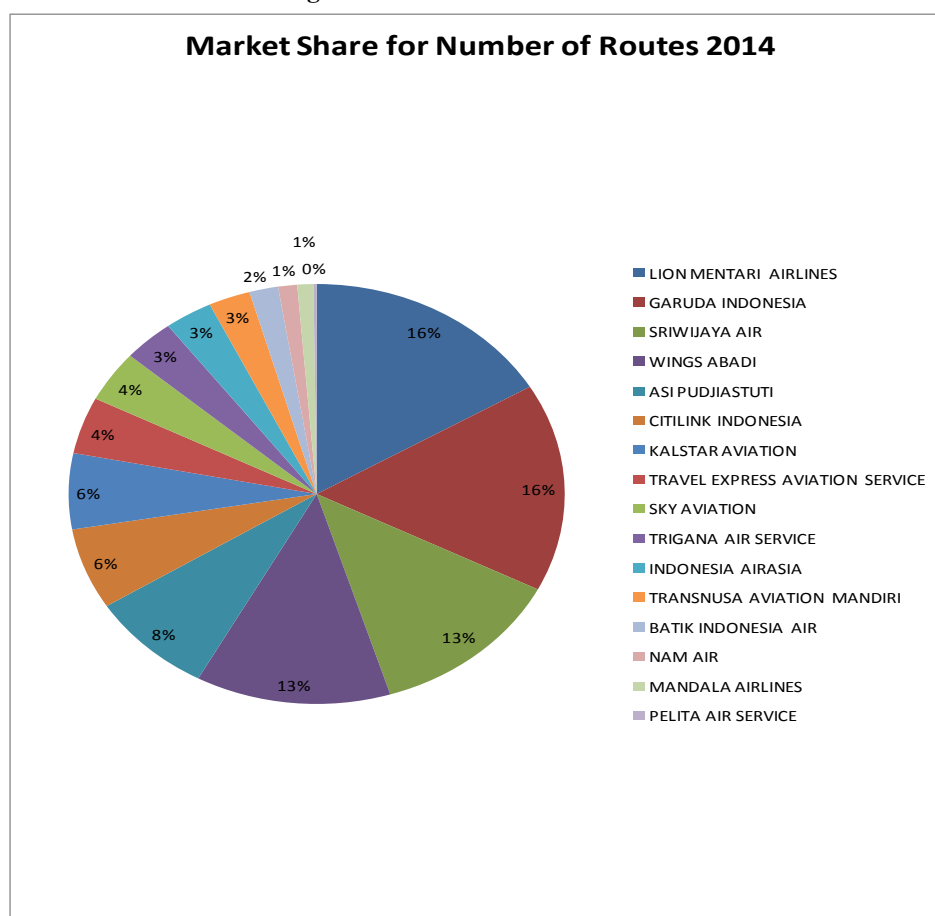
11. Market share for passengers from these airline are described in Figure 3. The data include market share of Merpati Airline in 2013, this airline has filed for bankruptcy in early 2014. Lion Air had 43 percent market share in 2013, followed by Garuda Indonesia 22 percent and Sriwijaya Air 11 percent. Lion air is the biggest airline in Indonesia, dominating major domestic routes. This airline was included as World's Top 40 airlines by capacity in 2012 (Innovata as cited in Centre for Asia Pacific Aviation [CAPA], 2012). Lion air and Garuda Indonesia also dominates the domestic routes with coverage around 16 percent. Figure 4 shows the share for domestic routes among the airline company.

Figure 3. Market Share for Passenger in 2013



Note. Ministry of Transportation

Figure 4. Market share for Routes



Note. Ministry of Transportation, 2014

### 3.2 Domestic Routes and Passengers

12. Government divides domestic routes into 3 categories. This is due to the stipulation of ceiling price and pioneer routes price. The routes' categories i.e.:

**Table 1. Routes Category**

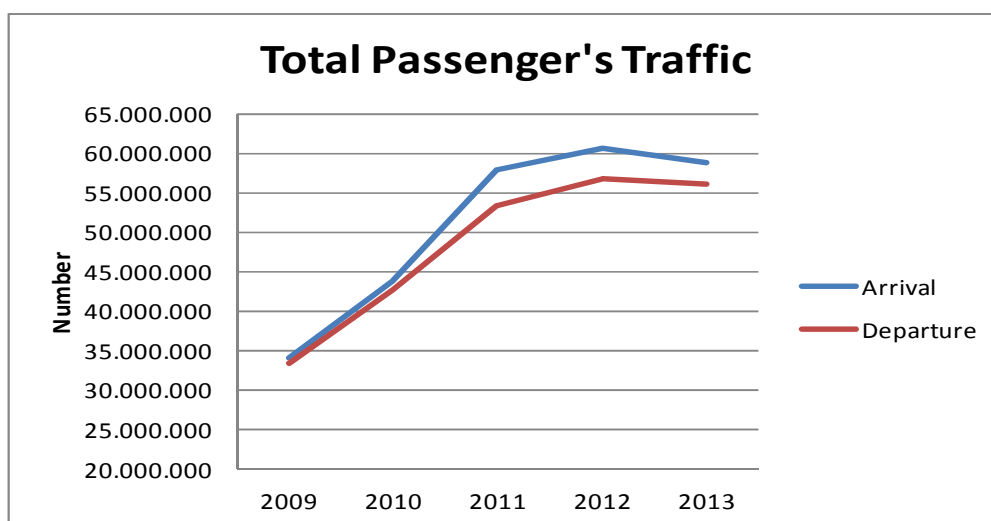
No	Categories	Number of Routes
1	Routes for jet-engine aircraft	319
2	Routes for propeller-engine aircraft	367
3	Pioneer routes.	132

13. In order to provide proper air transportation for people in remote area, government opened pioneer routes. The typical of pioneer roots i.e., located in isolated and underdeveloped area, and unprofitable. Air fares for passenger and freight in these routes are determined by government under the Minister of Transportation Decree No.44/2012 about tariffs for pioneer routes. According to Law 1/2009 about aviation, government offers 3 incentives to invite airline companies to serve pioneer routes i.e.:

- To give other commercial routes to support airlines' business;
- Operating cost subsidy;
- Fuel subsidy.

14. The total number of domestic passenger increase significantly overtime. The total number of domestic passengers almost doubled from 33,356,493 (departure in 2009) to 56,019,788 (departure in 2012), even though the number slightly declined in 2013.

Figure 5. Total Passenger's Traffic



Note. Ministry of Transportation, 2014

### 3.3 Airports

15. Airport's capacity is very important issue for domestic airline industry. Shortage capacity will influence both competition degree and industry's efficiency (Borenstein, 1992). Ros (2010) found that airport congestion is a competition barrier in Mexico City. Indonesia also experienced airports problem. There are 297 airports spread across Indonesia, unfortunately around 61.5 percent from 26 biggest airports in Indonesia are running more than their standard capacity (Saraswati & Hanaoka, 2013). Table 3 is the description of airport capacity in several airports in indonesia.

Table 2. Airports' capacity, traffic and expansion plan

(in million passengers)	Jakarta	Surabaya	Denpasar	Makassar	Medan	Balikpapan	Yogyakarta
Traffic in 2012	52.5	13.8	12.8	7.5	7.2	5.6	4.3
Capacity	22	7.4	9.4	7.3	1	1.4	1
Planned expansion	62	12	25	-	9	11	-

Note. Saraswati and Hanaoka (2013)



### 3.4 Regulation

#### 3.4.1 Deregulation process

16. Indonesian airline industry was tightly regulated. Saraswati & Hanaoka (2013) found that government imposed the first aviation law in 1958. Further, the authors also describe that the most recent regulation (Law No. 1/2009 on Aviation), regulates wider issue i.e. airports, airlines, also regulation on scheduled and non-scheduled air passenger service. Government or Minister Decrees are also formulated to back up particular issues such as maintenance and tariff. Table 4 shows the change in aviation policy since 1990.

**Table 4. The Change Aviation Policies**

Year	Policies
1990	Charter airlines are allowed to import jet-engine aircraft and compete in domestic market
1991	International flights are opened for private airlines
1997	Government delegates its authority to regulate tariff to INACA
1999	Government decree no. 44/1999 encourage the establishment of more than 20 private airline
2002	Ministry of Transportation withdraw the privilege of INACA to fix tariff based on KPPU suggestion
2009	New Aviation Law No. 1/2009 covers wider issue i.e. airports, airlines, also regulation on scheduled and non-scheduled air passenger service
2010	Minister decree No. 26/2010 about ceiling price for economy tickets in domestic routes
2014	Minister decree No. 2/2014 about surcharge

Note. Based on Parikesit et al. (2003) added with recent data

17. The industry has been gradually liberalized since 1991 (Parikesit et al., 2003). The changing of business environment and liberalization has increased the number of airline companies from 7 in 1999 to 27 in 2004 (Parikesit et al., 2003; Saraswati & Hanaoka, 2013).

#### 3.4.2 Tariff Regulations

18. Until 1997 government remained as the tariff controller. The aim of government controlling the tariff is to prevent “price wars” (Hooper, 1997, p.201). Based on KPPU & LPEM (2012) analysis here is the description of tariff regulations since 1997:

1. Government issues Minister of Transportation Decree No. 25/1997 about the privilege of INACA to fix the standard of basic fare. Thus, the association determines standard tariff.
2. KPPU consider this delegation as violation of Law No.5/1999 article 5 about price fixing. Based on KPPU’s suggestion in 2001, Ministry of Transportation withdrew the privilege of INACA to fix tariff.

3. Based on KPPU suggestion, government imposed Decree No. 9/2002 concerning ceiling price for economy ticket price. Therefore, INACA no longer have privilege to fix tariff.
4. Low tariff often related to safety issue and bankruptcy in airline industry. Therefore to prevent “Price war” among competitor, government issues Decree No. 36/2005 about price floor for domestic economy ticket prices. Thus airlines are not allowed to set basic fare under specified tariff. This decree amended by Decree No. 11/2006.
5. Due to the fluctuation of fuel price, airlines decided to put fuel surcharge as part of the ticket price. KPPU verdict No. 25/KPPU-I/2009 argues that 9 airlines violating Law No. 5/1999 article 5 about price fixing. These airlines are allegedly imposing common fuel surcharge. Considering KPPU’s verdict, government amended Decree No. 9/2002 and issued Decree No. 26/2010. The new regulation covers fuel surcharge as part of ticket price. The new decree also determines the component of cost for airlines, i.e.:

*Direct operating cost*

- a. Fixed cost:
  - i. Depreciation cost/ leasing cost;
  - ii. Insurance cost;
  - iii. Salary for crew;
  - iv. Salary for technical personnel.
- b. Variable cost:
  - i. Lubrication cost;
  - ii. Fuel cost;
  - iii. Crew allowances;
  - iv. Maintenance cost;
  - v. Airport cost;
  - vi. Navigation service;
  - vii. Ground handling cost;
  - viii. Catering cost.

*Indirect operating cost*

- a. Organization cost;
- b. Marketing cost.

6. Based on Aviation Law 1/2009, fuel surcharge is determined by government. Due to fuel price fluctuation and increasing Dollar exchange rate, government issues Decree No. 2/2014 about surcharge. Because of this regulation, airlines serving in the same route will impose common surcharge for their passengers.

19. Based on the regulations about tariff, airline companies are restricted to some boundaries when setting their own tariff. Basic fare for each route and other ticket price components are subject to regulation. The sum of each component will reflect the ticket price level. According to Law No. 1/2009 about Aviation, passenger's ticket price is split into 2 categories, i.e. economy and non-economy. The economy ticket consists of: Basic fare, Value Added Tax (VAT), Insurance, and Surcharges.

#### **4. Competition Issue in the Airline Sector**

##### **4.1 Price fixing**

20. Price fixing is considered very harmful for consumer by competition authority. Therefore one of antitrust law function is to guarantee that markets provide enough competitors in order to protect consumer from price fixing collusion or other unfair business competition (Nyman, 1994). In Indonesia, Law No. 5/1999 concerning Prohibition of Monopolistic Practices and Unfair Business Competition classify price fixing is a form of prohibited agreement. Article 5 of Law No. 5/1999 stating that:

1. Business actor shall be prohibited from entering into agreement with their business competitors to fix the price of certain goods and or services payable by consumers or customers on the same relevant market;
2. The provisions intended in paragraph (1) shall not be applicable to the following:
  - An agreement entered into the context of joint venture; or
  - An agreement entered into based on the prevailing laws.

21. There are 2 selected cases in airline industry discussed in this paper. First, the privilege of Indonesia National Air Carrier Association (INACA) to fix tariff in 1997 – 2002. Second, verdict of commission No: 25/KPPU-I/2009 about Fuel surcharge in Indonesian Domestic airline industry.

##### **4.1.1 Privilege of INACA to fix tariff**

22. One of KPPU duties is stated in Article 35e of Law No. 5/1999

23. The duties of the commission shall include the following:

- provide advice and opinion concerning Government policies related to monopolistic practices and or unfair business competition

24. Therefore, when there is any government policy that has potency to violate Law No. 5/1999 commission will make analysis and send suggestion to government.

25. In 1997, government issued Minister of Transportation Decree No. 25/1997 about the privilege of INACA to fix the standard of basic fare. Thus, the association has the authority to determine standard tariff in domestic routes for economy class. Regarding to this issue KPPU's send suggestions letter to Minister of Transportation, the suggestions are:

1. amend Decree No. 25/1997 and withdraw the privilege of INACA to fix tariff;
2. to revoke price agreement by INACA;
3. to consider public and airline companies interests when determining the structure of tariff.

26. Regarding KPPU's suggestion Ministry of Transportation enact Decree No. 9/2002 concerning ceiling price for economy ticket price. Therefore, INACA no longer have privilege to fix tariff. These decree is then amended several time, the latest Decree about ticket price is Decree No. 26 /2010.

27. KPPU'S suggestion is meant to increase consumer welfare and to promote more pro-competition regulation in Indonesia. KPPU & LPEM (2012) analysis on the impact of KPPU's suggestion related to Decree No. 25/1997 shows that there is additional welfare received by consumer. Estimation on panel data and compensating variation (CV) in 6 biggest routes from 1999 to 2003 shows that consumer received additional welfare due to deregulation in domestic air transport tariff. Table 5. shows the amount of additional welfare received by consumer.

**Table 3. Additional Consumer Welfare**

No	Route	Additional consumer welfare
1	Jakarta – Surabaya	7.2 trillion Rupiah (around USD 650 million)
2	Jakarta – Medan	5.9 trillion Rupiah (around USD 530 million)
3	Jakarta – Bali	4.5 trillion Rupiah (around USD 400 million)
4	Jakarta – Semarang	1.7 trillion Rupiah (around USD 150 million)
5	Jakarta – Makassar	1.6 trillion Rupiah (around USD 140 million)
6	Jakarta – Banjarmasin	1.2 trillion Rupiah (around USD 100 million)
Total		22 trillion Rupiah (around USD 1.9 billion)

#### 4.1.2 Fuel Surcharge

##### 4.1.2.1 Fuel Surcharge Collusion Allegation

28. In order to fulfill its duty as mentioned in article 35d of Law No.5/1999:

- undertake action in accordance with the authority of the Commission as set forth in Article 36.

29. Article 36 of Law No.5/1999 stating that Commission authorities are:

- The Commission's authority shall include the following:
  - a. receive reports from the public and or business actors regarding allegations of the existence of monopolistic practices and or unfair business competition;
  - b. conduct research concerning the possibility of the existence of business activities and or actions of business actors which may result in monopolistic practices and or unfair business competition;

- c. conduct investigations and or hearings on allegations of cases of monopolistic practices and or unfair business competition reported by the public or by business actors or discovered by the Commission as a result of its research;
- d. make conclusions regarding the results of its investigations and or hearings as to whether or not there are any monopolistic practices and or unfair business competition;
- e. summon business actors suspected of having violated the provisions of this law;
- f. summon and invite witnesses, expert witnesses and any person deemed to have knowledge of violations of the provisions of this law;
- g. seek the assistance of investigators to invite business actors, witnesses, expert witnesses, or any persons as intended in sub-articles e and f, who are not prepared to appear upon the Commission's invitation;
- h. request the statements of Government institutions related to the investigations and or hearings about business actors who violate the provisions of this Law;
- i. obtain, examine and or evaluate letters, documents or other instruments of evidence for investigations and or hearings;
- j. determine and stipulate the existence or non-existence of losses on the parts of business actors or society;
- k. announce the Commission's decisions to business actors suspected of having engaged in monopoly practices and or unfair business competition;
- l. impose administrative sanctions on business actors violating the provisions of this Law.

30. In 2010 Commission announce KPPU decision No: 25/KPPU-I/2009 about Fuel surcharge in Indonesian Domestic airline industry. The case is based on commission initiative after making monitoring. 9 airlines companies are allegedly violating article 5 Law No.5/1999 about price fixing. The summary of the verdict is as follow:

1. Business actors and competitors in this case are:
  - PT Garuda Indonesia
  - PT Sriwijaya Air;
  - PT Merpati Nusantara Airlines
  - PT Mandala Airlines
  - PT Riau Airlines
  - PT Travel Express
  - PT Lion Mentari Airlines
  - PT Wings Abadi Airlines

- PT Metro Batavia
  - PT Kartika Airlines
  - PT Trigana Air Service
  - PT Indonesia AirAsia
2. Relevant market in the case determined as scheduled passenger service flight from one departure point to arrival point in every airport catchment area
3. Agreement defined as unwritten agreement to fix fuel surcharge by 9 airlines companies i.e.:
- PT Garuda Indonesia ;
  - PT Sriwijaya Air;
  - PT Merpati Nusantara Airlines ;
  - PT Mandala Airlines ;
  - PT Travel Express ;
  - PT Lion Mentari Airlines ;
  - PT Wings Abadi Airlines ;
  - PT Metro Batavia ;
  - PT Kartika Airlines.

In period May 2006 - March 2008, for travel time 0 – 1 hour, 1 - 2 hours, and 2 - 3 hours.

4. Commission using correlation and homogeneity variance test to analyze the fluctuation of fuel surcharge. The results show positive correlation and homogenous variance. Based on the results, Commission concludes that there is violation of article 5 of Law No.5/1999 about price fixing.
5. Consumer loss is defined as excessive fuel surcharge imposed by 9 airlines companies in 2006 - 2009. The amount of consumer loss due to this violation is ranged from 5,081,739,669,158 - 13,843,165,835,099 Rupiah.
6. Commission decision is to put administrative sanction for 9 airlines companies due to their concerted action. The fines are measured based on the amount of excessive fuel surcharge. The amount of Garuda Indonesia's fine is 25,000,000,000 Rupiah (maximum fine), while other airline company fines are proportional based on their excessive fuel surcharge (at least 1,000,000,000 Rupiah).
31. Collusion by imposing common surcharge is unlawful, but companies must find a solution for financial difficulties due to increasing operating cost (LeClair, 2012). The author found that common surcharge is a form of innovative cartel in air freight industry. The aim of this conduct is not intended to

gain higher profit in long run, but to survive from declining industry's profitability caused by increasing fuel prices.

#### 4.1.2.2 Regulated Surcharges Rate

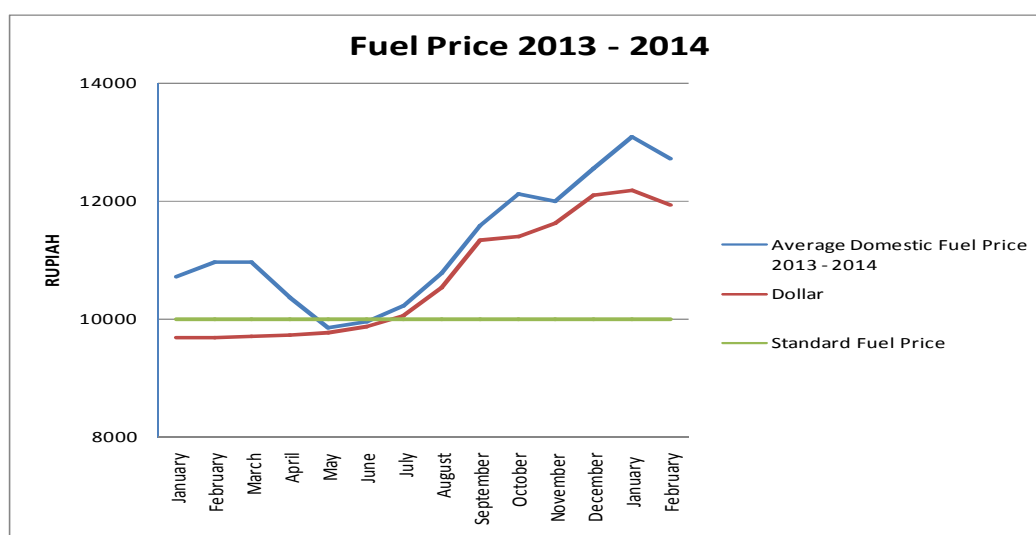
32. Fuel surcharges determination is prone to collusion in Indonesian domestic airlines industry. Since 2006, fuel surcharge becomes subject to collusion among airline companies. Surcharge legally becomes part of airline economy tariff since 2009. Article 126 Law No. 1/2009 about Aviation stating that surcharges is part of economy tariff component and surcharge rate will be set by Minister of Transportation based on Decree No.26/2010. Thus, any airline company or association cannot impose their own surcharges rate.

33. Fluctuation of fuel price and USD to IDR exchange rate is the main reason for imposing surcharges. The mechanism to impose surcharge is regulated in Decree No.26/2010 about ceiling price for domestic scheduled passenger flight economy class service. The measure to impose surcharge has to meet these conditions, i.e.:

- Significant change in avtur price, if the price reaches more than IDR 10,000 per liter 3 months in a row or;
- Increasing USD to IDR exchange rate increases operating cost at least 10 percent 3 months in a row.

34. Increasing avtur price and USD to IDR exchange rate in 2013 – 2014 raise airlines operating cost especially for fuel cost and other cost paid with USD e.g. aircraft leasing, pilot salary. Figure 6 shows the fluctuation avtur price and USD to IDR exchange rate. Government reaction about this situation is by enacting Minister of Transportation Decree No. 2/2014 about surcharge for domestic scheduled passenger flight economy class service on January 2014.

**Figure 6. Fluctuations of Fuel Price and Dollar rate**



Note. Ministry of Transportation, 2014

35. Decree No. 2/2014 regulates several issues related to surcharges implementation and calculation i.e.:
- Surcharge is defined as operating cost excluded from the calculation of basic fare, which charges to passengers;
  - The calculation of surcharges depends on aircraft's type and distance rate. The formulas are described in Table 6;

**Table 6. Surcharge Rate Calculation**

Aircraft Type	Distance	Surcharges
	Up to 664 Km	$\frac{\text{Distance}}{664 \text{ Km}} \times \text{Rp. } 60,000$
Jet	665 – 1,328 Km	$\frac{\text{Distance}}{664 \text{ Km}} \times \text{Rp. } 60,000 \times 0.95$
	More than 1,328	$\frac{\text{Distance}}{664 \text{ Km}} \times \text{Rp. } 60,000 \times 0.90$
	Up to 348	$\frac{\text{Distance}}{348 \text{ Km}} \times \text{Rp. } 50,000$
Propeller	349 – 696 Km	$\frac{\text{Distance}}{348 \text{ Km}} \times \text{Rp. } 50,000 \times 0.90$
	More than 696 Km	$\frac{\text{Distance}}{348 \text{ Km}} \times \text{Rp. } 50,000 \times 0.85$

Note. Minister of Transportation Decree No.2/2014

- Government imposes the same surcharges rate for all airline companies. Table 7 is example for surcharge in domestic routes;



**Table 7. Surcharge Rate**

Jet				
No	Routes	Distance	Ceiling Price (IDR)	Surcharges
1	JAKARTA - JAMBI	667	1,194,000	57,000
2	JAKARTA - JAYAPURA	4,414	5,253,000	359,000
3	JAKARTA - KENDARI	1,750	2,083,000	142,000
4	JAKARTA - KETAPANG	622	1,133,000	56,000
5	JAKARTA - KUPANG	2,205	2,624,000	179,000
Propeller				
No	Routes	Distance	Ceiling Price (IDR)	Surcharges
1	JAKARTA - PALEMBANG	504	1,230,000	65,000
2	JAKARTA - PANGKAL PINANG	504	1,230,000	65,000
3	JAKARTA - SEMARANG	469	1,180,000	61,000
4	JAKARTA - SOLO	544	1,327,000	70,000
5	JAKARTA - TANJUNG PANDAN	451	1,179,000	58,000

Note. Minister of Transportation Decree No.2/2014

- Decree No. 2/2014 is temporary regulation. Ministry evaluates this decree every 3 months, to measure if there is significant change to operating cost. Government revokes Decree No. 2/2014 if USD to IDR exchange rate is declining.

36. The increasing operating cost in Indonesian domestic airline industry during 2013 -2014 made a number of airlines to close some of their unprofitable routes. Table 8 shows the closed routes mostly by small airlines due to their low occupancy level.

**Table 8. Closed Routes in early 2014**

No	Airlines	Routes
1	Tigerair Mandala	a. Jakarta - Pekanbaru b. Jakarta - Yogyakarta c. Jakarta - Surabaya
2	Air asia	Jakarta - Makasar
3	Sriwijaya	All routes from Pekanbaru
4	Sky Aviation	All routes from Batam
5	Xpress air	All routes from Batam

37. LeClair (2012) found that common surcharge arrangement in air freight industry from 1997 to 2005 in USA and Europe was easily detected by consumers and regulator. Back in 2010 when KPPU fined 9 airline companies due to violation of article 5 of Law 5/1999 about price fixing, fuel surcharge collusion also very visible to competition authority in Indonesia. Setting common surcharge obviously violate competition law, however government intervention by enacting Minister of Transportation Decree No.2/2014 could be airline companies' cause of action to avoid complaints by competition authority.

## **5. Conclusion**

38. Indonesia has a prospective domestic airline industry. The industry is growing towards the increasing demand. The growing Indonesian domestic airline industry brings both challenges and opportunities. Increasing demand and more pro-competition policy, invite more competitors to join the industry. However, government needs to reduce entry barrier caused by airport capacity shortages.

39. Ticket pricing remain as the biggest problem for Indonesian airline industry. Ticket prices are subject to government regulation. Government sets floor price and ceiling price, both to protect consumer from price war and excessive price. Nevertheless, price fixing in domestic airline industry is the common violation of Law 5/1999 concerning Prohibition of Monopolistic Practices and Unfair Business Competition.

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