ASEAN Aviation Integration Platform (AAIP)
Policy Paper No. 2 / 2019

Reviewing Ownership and Control of the Indonesian Airlines

Ridha Aditya Nugraha

ASEAN ECONOMIC INTEGRATION FORUM

IKMAS

Universiti Kebangsaan Malaysia
The National University of Malaysia

ASEAN Aviation Integration Platform (AAIP)

Policy Paper No. 2 / 2019

Reviewing Ownership and Control of the Indonesian Airlines

Ridha Aditya Nugraha

Air Power Centre of Indonesia

Air and Space Law Studies, International Business Law Program
Universitas Prasetiya Mulya

Member of German Aviation Research Society

The views expressed are those of the author.

Contents

Reviewing Ownership and Control of the Indonesian Airlines

Ridha Aditya Nugraha

Air Power Centre of Indonesia

Air and Space Law Studies, International Business Law Program
Universitas Prasetiya Mulya

Member of German Aviation Research Society

Executive Summary

1. Aviation is vital for Indonesia. This sector has the ability and function to integrate the Indonesian archipelago with 267 million people and contributes to economic growth. Following the liberalization progress in Indonesia, the state of play shows the increasing contribution of private airlines in connecting the archipelago and with other jurisdictions.

2. Strict national ownership and control rules traditionally bind airlines due to its value as a strategic asset, mainly as many flag carriers are state-owned and used to solely serve the nation. The current Indonesian legal framework, which put a cap of a maximum 49 percent of foreign ownership, limits the access of the aviation sector to the much-needed capital by restricting the ownership and control of its national airlines, both the flag carrier and private. As one of the consequences, in this sense to seize promising opportunity from the market, airlines uses corporate exercises to overcome the ownership and control restrictions.

3. Tourism is one of the sectors which will get a positive impact from ownership and control relaxation. Foreseeing the benefit for the national economy, the Indonesian Government sets up a target of 20 million foreign tourists visit for 2019. The Ten New Bali Program has been launched to attract more foreign tourist coming to the archipelago. More direct international flight is needed for ensuring the success of such program.

4. There is an urgency to reconsider the ownership and control provision for increasing domestic and international connectivity. With access to capital, the Indonesian airlines could serve the archipelago better. Insolvency and the risk of being taken over by bigger airlines, which then lead to duopoly or monopoly as in the case of Garuda Indonesia Group and Lion Group will then lead to unintentional collusion and anti-competitive behaviour. The last two behaviours will not be beneficial to consumers as people will face higher fares and cause restrictions to travel.

5. Garuda Indonesia and Merpati Nusantara as the flag carriers could be excluded from the investment liberalization plan. At the best scenario, to be in-line with the ASEAN Framework Agreement on Services (AFAS), ASEAN nationals may invest a maximum of 70% within an Indonesian airline; leaving the remaining 30% at the nationals where the airline is registered - in this case at the Indonesian hand(s).

6. Free access to capital leads to the chance of more Indonesian airlines establishments, hence increasing competition and could lead to reduced fares. The AFAS scenario potentially increases the economic efficiency of the Indonesian airline industry by enabling more competitive airlines.

7. The AFAS scenario should be followed up with a trade-off. Two options granted to private airlines are, i.) to serve certain regional flights deemed as public service obligations; or, ii.) to set a base in one of the Ten New Bali destinations for boosting foreign tourist visits. The Indonesian Government could save and allocate their fund for other important sectors such as infrastructure rather than investing in aircraft through the flag carrier(s).

1. The Liberalization Progress in Indonesia

1.1 As an archipelagic state, the Indonesian Government is aware that air transportation plays a vital role in connecting the main and remote islands, and thus developing the economy with a multiplier effect for its 267 million people.

1.2 Today being the most well-known flag carrier, Garuda Indonesia flew for the first time in 1949 and officially became a state-owned company a year later. Since that time the airline has served both domestic and international routes. To ensure the remote islands and isolated regions are not left behind, the government established Merpati Nusantara in 1962. Unlike Garuda Indonesia which becomes the representative of Indonesia at the international stage, the latter is focused on linking remote regions and islands with the provincial capitals. Thus, since the beginning, both flag carriers were established with different objectives.

1.3 The Indonesian airline industry was tightly regulated until the government gradually liberalized this sector beginning in 1991, allowing new and private airlines to operate in both domestic and international routes.[1] Five years later, the Indonesian government even considered allowing more liberal policies to designate foreign carriers to serve the domestic market.[2] However, this initiative was never implemented. Still, in 1996, the government plan to privatize Garuda Indonesia also stalled.[3]

1.4 The Indonesian strong liberalization policy has encouraged the establishment of new airlines. The number of airline companies has increased from seven in 1999 to twenty-seven in 2004.[4] The private sector has proven quick in responding to these opportunities; thus, it was followed up by their real investment accepting the invitation. Supported also by the abundant international supply of leased aircraft, allowing the establishment of new airlines without any requirement to own aircraft.

---

1 Danang Parikesit, Fernando Marpaung, Sukandi Andi, *etal.*, "Developing a Policy Decision Tool for a Domestic Airline Company: A Case of Indonesia", *Journal of the Eastern Asia Society for Transportation Studies Vol. 5*, 2003.

2 Paul Hooper, "Liberalising Competition in Domestic Airline Markets in Asia - The Problematic Interface Between Domestic and International Regulatory Policies", *Transportation Research Part E-Logistic and Transportation Review Vol. 33(3)*, 1997.

3 *Ibid*.

4 Organization for Economic Co-operation and Development Report No. DAF/COMP/WD(2014)70 dated 28 May 2014 as presented at the 121st meeting of OCED Competition Committee on 19 June 2014.

1.5 The Indonesian Government listed Garuda Indonesia at the Indonesia Stock Exchange in January 2011. The airline's shares were officially sold to the public since then, opening doors to a new era whereas private investors could own the Indonesian flag carrier shares.

1.6 It was estimated that in 2017 fourteen airlines were flying 374 routes and from 128 airports within the domestic market;[5] which was dominated by low-fare airlines or low-cost carriers. A total of 19 airports were opened for international flights that year, serving connectivity to 59 cities through all the world.[6] This situation which had brought positive impact towards local economic development is deemed as a result of liberalization.

1.7 In January 2018, Indonesia AirAsia became the second airline listed at the Indonesian Stock Exchange. Unlike Garuda Indonesia who went through the initial public offering process, Indonesia AirAsia chose backdoor listing as its path.

2. The State of Play

2.1 In 2017, the Indonesian domestic market was dominated by low-fare airlines. Combination of Lion Air (34.2%), Citilink (12.62%), Wings Air (6.09%) and Indonesia AirAsia (1.12%) had transported 52.3 million passengers (54.03%) from 96.8 million passengers in total. Garuda Indonesia as the flag carrier only carried 19.6 million passengers (20.23%); or 31.8 million passengers (32.85%) with Citilink counted as Garuda Indonesia Group.

2.2 Lion Group - which consists of Lion Air, Batik Air and Wings Air - dominated the domestic market with a total of 49.1 million passengers (50.69%). While in the same year, Sriwijaya Group with Sriwijaya Air and NAM Air succeeded in securing a small pie (12.58%) within the domestic market share.

2.3 The situation mentioned in 2.1 and 2.2 revealed private airlines, either low-fare or full service, gave significant contribution by giving a hand to the Indonesian flag carrier in maintaining national integration.

No.	Airline	Number of Passengers	Market Share
1.	Lion Air (JT)	33,131,053	34.20%
2.	Garuda Indonesia (GA)	19,601,133	20.23%
3.	Citilink (QG)	12,229,188	12.62%
4.	Batik Air (ID)	10,079,902	10.40%
5.	Sriwijaya Air (SJ)	9,745,162	10.06%
6.	Wings Air (IW)	5,896,727	6.09%
7.	NAM Air (IN)	2,437,318	2.52%
8.	Indonesia AirAsia (QZ)	1,087,946	1.12%
9.	Indonesia AirAsia X (XT)	1,033,969	1.07%

[5] Indonesia National Air Carriers Association (INACA) Annual Report 2017.
[6] *Ibid.*

10.	Trigana Air (IL)	686,641	0.70%
11.	Xpress Air (XN)	461,499	0.48%
12.	Kalstar Aviation (KD)	455,942	0.47%
13.	TransNusa (8B)	25,126	0.02%
14.	Susi Air (SI)	19,058	0.02%
	Total	**96,890,664**	**100%**

Table 1: Domestic Flights Market Share of Indonesian Airlines, 2017

Source: Indonesia National Air Carriers Association (INACA) Annual Report 2017

2.4 For international flights in 2017, it was Garuda Indonesia leading the market (38.6%). However, combinations of Indonesia AirAsia (26.15%), Indonesia AirAsia X (10.03%) and Lion Air (17.85%) revealed 54.03% of international traffic was in the low-fare airline hands. Citilink - the Indonesian flag carrier's low-fare airline - had only started serving international flights in 2018.

2.5 The situation mentioned in 2.4 and Table 2 reveals private airlines, either low-fare or full service, gave significant contribution (61.4%) by giving a hand to the Indonesian flag carrier in maintaining international connectivity to the archipelago.

No.	Airline	Number of Passengers	Market Share
1.	Garuda Indonesia	4,833,194	38.60%
2.	Indonesia AirAsia	3,273,758	26.15%
3.	Lion Air	2,234,970	17.85%
4.	Indonesia AirAsia X	1,256,037	10.03%
5.	Batik Air	499,012	4.00%
6.	Sriwijaya Air	283,936	2.27%
7.	Susi Air	45,586	0.36%
8.	TransNusa	42,327	0.34%
9.	NAM Air	25,622	0.20%
10.	Xpress Air	25,622	0.20%
	Total	**12,520,064**	**100%**

Table 2: International Flights Market Share of Indonesian Airlines, 2017

Source: Indonesia National Air Carriers Association (INACA) Annual Report 2017

2.6 Still in the same year, international connectivity to and from Indonesia was still dominated by foreign carriers, both flag carrier and private airlines, whereas a total of 19 million passengers were transported by forty airlines. One-fourth of the low-fare airlines carried 7.19 million passengers or 37.7% of the total number.

No.	Airline	Number of Passengers	Market Share
1.	AirAsia (AK)	2,713,612	14.24%
2.	Singapore Airlines (SQ)	2,085,777	10.94%
3.	Jetstar (JQ)	1,399,421	7.34%
4.	China Airlines (CN)	1,007,253	5.28%
5.	Cathay Pacific (CX)	978,178	5.13%
6.	Qatar Airways (QR)	950,120	4.98%
7.	Batik Air Malaysia (OD) (formerly Malindo Air)	864,197	4.53%
8.	Jetstar Asia (3K)	852,132	4.47%
9.	Saudi Arabian Airlines (SV)	660,539	3.47%
10.	Tigerair (TR)	648,280	3.40%
11.	Malaysia Airlines (MH)	589,122	3.09%
12.	Emirates (EK)	577,675	3.03%
13.	SilkAir (MI)	516,633	2.71%
14.	KLM Royal Dutch Airlines (KL)	473,557	2.48%
15.	Korean Air (KE)	368,186	1.93%
16.	China Eastern Airlines (MU)	332,168	1.74%
17.	China Southern Airlines (CZ)	328,020	1.72%
18.	Etihad Airways (EY)	325,406	1.71%
19.	Thai Airways (TG)	317,917	1.67%
20.	All Nippon Airways (AN)	299,547	1.57%
21.	Hong Kong Airlines (HX)	283,511	1.49%
22.	Virgin Australia (VA)	267,343	1.40%
23.	Japan Airlines (JL)	228,568	1.20%
24.	Turkish Airlines (TK)	225,082	1.18%
25.	Qantas Airways (QF)	187,458	0.98%
26.	EVA Air (BR)	176,019	0.92%
27.	Asiana Airlines (OZ) (formerly Seoul Airlines)	175,808	0.92%
28.	Royal Brunei Airlines (RB)	160,509	0.84%
29.	XiamenAir (MF)	151,758	0.80%
30.	Cebu Pacific (SJ)	128,035	0.67%
31.	Thai Lion Air (SL)	123,056	0.65%

32.	SriLankan Airlines (UL)	116,185	0.61%
33.	Thai AirAsia (FD)	113,112	0.59%
34.	Vietnam Airlines (VN)	97,407	0.51%
35.	Oman Air (WY)	94,075	0.49%
36.	AirAsia X (D7)	83,503	0.44%
37.	Philippine Airlines (PR)	71,480	0.37%
38.	Cathay Dragon (KA) (formerly Dragonair)	42,772	0.22%
39.	Air China (CA)	42,650	0.22%
40.	Air Nugini (PX)	5,866	0.03%
Total		**19,061,937**	**100%**

Table 3: International Flights Market Share of Non-Indonesian Airlines, 2017

Source: Indonesia National Air Carriers Association (INACA) Annual Report 2017

2.7 In conclusion, the state of play shows the increasing contribution of private airlines in connecting the archipelago as well as with other jurisdictions.

3. The Current Legal Regime and Its Limits

3.1 Liberalization, privatization of national airlines, combined with foreign direct investment has opened a new chapter on how the aviation business operates today.

3.2 The Indonesian Aviation Law No. 1 of the Year 2009 requires any Indonesian scheduled commercial airline to own at least five aircraft and possess at least another five aircraft.[7] The fleet must be suitable for supporting the business according to the routes served. The current condition is tighter compared to the previous Indonesian Aviation Law No. 15 of the Year 1992 which required any Indonesian scheduled commercial airline only to possess at least two aircraft.

3.3 While for non-scheduled commercial and cargo, the condition is more relaxed whereas any Indonesian airline shall own at least one aircraft and possess at least two aircraft.[8] Similar to 3.2, the fleet must be suitable for supporting the business according to the routes served or operational areas.

3.4 Airlines are traditionally bound by strict national ownership and control rules considering any national airline(s) is deemed as a strategic asset.[9] As a consequence, in general, a state or regional jurisdiction shall issue operating license only for an airline which maintains the majority shares and control are kept by its national(s). Theoretically, when a foreign entity,

[7] The Indonesian Aviation Law of 2009, art. 118 (2a).
[8] The Indonesian Aviation Law of 2009, art. 118 (2b and 2c).
[9] Alan Khee-Jin Tan, "Ownership and Control of Airlines in Southeast Asia: Prospects for an ASEAN Community Carrier", *IDEAS Policy Brief No. 8*, December 2017.

which usually is also the minority shareholder, plays a vital role to determine the operation of the airline, this situation means the effective control clause is breached.

3.5 Currently, there is an absence on foreign shares ownership restriction at the ASEAN level. This situation leaves each member state free to determine their equilibrium, including for the airline industry. The Indonesian legal regime capped foreign ownership for a scheduled commercial airline at a maximum of 49% with the Indonesian national as a single majority.[10] Without a doubt, the aim is to maintain ownership and control of such airline remains at the Indonesian hand(s).This provision contains a non-discrimination principle by being applicable generally to all foreign investors without any nationality exception.

3.6 The strict ownership and control provision could hamper the economic development of a region. For example, when a country liberalizes its control and ownership clause, even to the maximum 100% ownership like in Myanmar, most likely the airline could only serve domestic routes. Bilateral air services agreement potentially becomes the barrier for serving international routes, including intra-ASEAN routes, considering it mentions “control and ownership” not “control or ownership”.

3.7 As one of the consequences, in this sense to seize promising opportunity from the domestic market, airlines try to outwit today’s ownership and control restrictions within numerous ASEAN countries. The phenomenon already happens in Indonesia and some member states such as Malaysia and Thailand with AirAsia Group (Malaysia) and Lion Group (Indonesia) business model. To do business in Indonesia, both need to own at least five aircraft and possess a minimum another five aircraft (see 3.2). Furthermore, the maximum foreign ownership clause must also be maintained (see 3.5).

3.8 In regards to AirAsia Group and Lion Group investment in Malaysia and Thailand, they need to comply with the respective national laws which requirements vary among others. This situation is costly and creates a barrier for new entrants.

3.9 The current situation has made Indonesian airlines, either flag carrier or privately-owned, not in an advantageous position to gain from ASEAN Open Skies or ASEAN Single Aviation Market and the so far liberalization progress.

4. Benefits from Relaxing Ownership and Control of the Indonesian Airlines

4.1 Tourism is one of the sectors which will get a positive impact from ownership and control relaxation. Foreseeing the benefit for the national economy, the Indonesian Government sets up a target of 20 million foreign tourists visit for 2019; aiming to receive IDR 280 trillion (around USD 20 million) from the tourism sector.[11] Such income is essential to safeguard the country's finances amid global economic uncertainty.

[10] The Indonesian Presidential Regulation No. 44 of the Year 2016 or also known as the Indonesian Negative Investment List, Sector J-Transportation.

[11] As of 2018 and 2017, the tourism sector contributed consecutively USD 17 million and 15 million in revenues. The 2018 amount is equivalent to CPO export revenues that year. See Bahana Sekuritas Beacon Morning Brief, 14 February 2019.

4.2 However, the 2019 foreign tourist visit target is overshadowed with three consecutive failure within the period 2016-2018 as seen in Table 4.

Year	Foreign Tourist Visit Target	Realization	Status
2018	17.0 million	15.806.191	failed
2017	15.0 million	14.039.799	failed
2016	12.0 million	11.519.275	failed
2015	10.0 million	10.230.775	accomplished
2014	9.3 million	9.435.411	accomplished
2013	8.7 million	8.802.129	accomplished
2012	8.0 million	8.044.462	accomplished
2011	7.5 million	7.649.731	accomplished
2010	7.0 million	7.002.944	accomplished
2009	6.5 million	6.323.720	failed
2008	7.0 million	6.234.497	failed

Table 4: Foreign Tourists Arrival, Target and Actual, 2008-2018

Source: Statistics Indonesia (Badan Pusat Statistik)

4.3 As a response to meet up the 20 million foreign tourists visit target, in parallel, more airports will equip low-fare airline terminals. The Indonesian Government has been aware of low-fare airlines role for transporting more foreign tourists coming to the archipelago, thus encouraging Angkasa Pura I and Angkasa Pura II as the Indonesian airport operators to revitalize its terminals starting 2018.[12]

4.4 Success in fulfilling 4.3 objectives could reduce low-fare airline ticket price for both international and domestic flights -as many of them operate not in low-fare terminals at the moment - which potentially increase foreign tourist visit to and within the archipelago.

4.5 Speaking of Visit Indonesia Program, the Indonesian Ministry of Tourism launched ten main destinations- also known as the "Ten New Bali" - in 2016. The new emerging destinations are Lake Toba, Tanjung Kelayang, Tanjung Lesung, Jakarta's Thousand Islands, Borobudur, Bromo Tengger Semeru, Mandalika, Labuan Bajo - Komodo Island, Wakatobi, and Morotai.[13] Four are being prioritized in February 2019, namely Lake Toba (North Sumatera), Borobudur (Central Java), Mandalika (West Nusa Tenggara), and Labuan Bajo - Komodo Island (East Nusa Tenggara).[14]

4.6 Today's Bali reputation as a world-class destination was a result of the World Bank Bali Tourism Project success story beginning in the 1970s. One of the priorities was to build an airport in Tuban, Denpasar - now Bali Ngurah Rai International Airport (DPS); ensuring the runway was suitable for jet aircraft in order welcoming foreign tourist. Ten years after

12 https://bisnis.tempo.co/read/1148136/pengembangan-terminal-lcc-bandara-soekarno-hatta-butuh-tiga-tahun/full&view=ok.

13 The Indonesian President Mandate as announced with the Republic of Indonesia Secretariat Cabinet Letter No. B 652/Seskab/Maritim/2015 dated 6 November 2015.

14 https://nasional.kompas.com/read/2019/02/13/20044841/pemerintah-prioritaskan-pembangunan-4-destinasi-wisata.

the project completion in 1982, the number of international tourist visit had increased from 150,673 to 735,777 (480%) in 1992.[15]

4.7 Lessons learned for the Ten New Bali program is the importance of reliable air transportation for boosting foreign tourist visit. The existence of an airport is not essential when no airline could fulfil the demand, in this sense, a direct international flight.

4.8 Silangit International Airport (DTB), also known as Sisingamangaraja XII International Airport, received its international status in October 2017. This measure is taken to support Lake Toba as one of the Ten New Bali. However, per-February 2019 only AirAsia (IATA Code: AK) serves the international scheduled Silangit - Kuala Lumpur flight. The other six Indonesian airlines, including the flag carrier, only serve domestic flights which dominate the schedule. Lake Toba, as well as the other nine emerging destinations, need more direct international flights to increase their popularity as well as foreign tourist visit.

4.9 Beyond the Ten New Bali, currently, there are also several regions rapidly developing their tourism sector aiming international tourists. Banyuwangi is one of them, which Banyuwangi International Airport (BWX) as of December 2018 served Kuala Lumpur as its first and sole international destination. A total of 100,000 Malaysian (foreign) tourist annual visits are targeted.[16] Again, similar to Silangit International Airport case as discussed in 4.8, only Citilink serves the international route with three flights weekly. There is firm ground for opening more direct international flights, not only from Malaysia, to increase Banyuwangi reputation as well as foreign tourists visit.

4.10 The situation mentioned above shows the essential role of air transportation for the Indonesian tourism sector growth. More aircraft flying to and between the archipelago is needed, but the barrier remains high. Considering the excessive investment requirements to own at least five aircraft and possess a minimum another five as a condition to establish an airline, it has a firm ground to postulate the urgency for ownership and control relaxation of the Indonesian airlines.

5. The Way Forward and Conclusions

5.1 The airline industry business model has been facing the change of trend in the last few years;[17] whereas the need for capital and cooperation have increased to adapt with the rising competition.[18] As an impact of the liberalization era, the original bases for the use of the ownership and control criterion are increasingly at odds with this changed global business environment in which the industry must operate.[19]

5.2 Learning from AirAsia Group and Lion Group business model whereas both try to win the (Indonesian) domestic market share and intra-ASEAN connectivity, it is clear that ownership and control criterion could be tactically outwitted with a high cost of

---

15 The World Bank Project Completion Report Indonesia: Bali Tourism Project, 1985.
16 https://travel.kompas.com/read/2018/12/25/100800427/jalan-panjang-banyuwangi-memiliki-bandara-internasional.
17 Michael Boyd, "A New Disruptive Economic Model in Emerging in the Airline Industry", The Forbes, 10 July 2017.
18 Ridha Aditya Nugraha, "Legal Issues Surrounding Airline Alliances and Code-Share Arrangements: Insights for the Indonesian and ASEAN Airline Industry", *Indonesia Law Review Vol. 8 No. 1*, 2018.
19 Sufian Jusoh, ASEAN Aviation Integration Platform (AAIP) Policy Paper No. 1/2018.

investment in the respective member states. The Australian Jetstar Group and the emerging Vietnamese VietJet Group play the same game in ASEAN; both also fly to Indonesia.[20] Such business plan has become favorable in the region.

5.3 In November 2018, Protocol 4 on the ASEAN Open Skies was just finished being made and now under ratification process.[21] This protocol, once ratified, will allow ASEAN-based airlines to carry out international traffic from their home base in an ASEAN member state (A) to more than one airport in another ASEAN member state (B1, B2) without the right to sell tickets or transport passengers solely from B1 to B2.From an economic perspective, no cabotage rights (the 8th Freedom of the Air) is granted towards any ASEAN-based airlines. However, it is from the aircraft physical presence flying B1 to B2. Indonesia designates five points to exercise the co-terminal rights, namely Jakarta, Denpasar, Makassar, Medan and Surabaya. The enactment of the protocol means potentially more foreign airlines are flying between Indonesian points.

5.4 In response to the recent developments, there is no reason to keep blind protectionism alive. The Indonesian Government could liberalize the ownership and control restrictions by allowing a higher percentage of equity ownership and foreign investors to manage and control private airline through national regulations. Garuda Indonesia and Merpati Nusantara as the flag carriers shall be excluded from the investment liberalization plan. Nationalism and national defense become the primary considerations.

5.5 The best scenario for relaxing ownership and control in Indonesian airlines refers to the existing legal framework at the ASEAN level. The ASEAN Framework Agreement on Services (AFAS) becomes the reference whereas ASEAN member states investor is allowed to hold up to 70% ownership of any ASEAN-based airline; leaving the remaining 30% at the nationals where the airline is registered - in this case at the Indonesian hand(s). Free access to capital leads to the chance of more Indonesian airline establishments; then resulted in more jobs opening. This scenario potentially increases the economic efficiency of the Indonesian airline industry by enabling more competitive airlines and providing more variation of services in both the domestic and international market that encourage consumer benefits.[22] Noticing non-ASEAN investors are coming through Jetstar Group, the AFAS scenario shall ensure the advantage remains at the ASEAN member states hands rather than any third party.

5.6 Relaxing ownership and control shall reduce the risks for insolvency as well as of being taken over by bigger airlines, which then lead to duopoly or monopoly. As in the case of Garuda Indonesia Group and Lion Group, the situation will then lead to unintentional collusion and anti-competitive behaviour. The last two behaviours will not be beneficial to consumers as people will face higher fares and cause restrictions to travel.

5.7 The liberalization of ownership and control must be followed with negotiations towards the relevant bilateral and multilateral agreement(s). Failure to do so potentially leads to the exclusion of any Indonesian airlines serving international routes. Broadening the

[20] VietJet Air plans to perform the Ho Chi Minh (SGN) - Denpasar Bali (DPS) scheduled flight starting May 2019. At the end of the year, the airline will expand its route to Jakarta.

[21] Protocol 4 on Co-Terminal Rights between Points within the Territory of Any Other ASEAN Member State, done in Bangkok, 9 November 2018. The protocol is the latest legal instrument pertaining to the ASEAN Multilateral Agreement on the Full Liberalisation of Passenger Air Services signed on 12 November 2010.

[22] Sufian Jusoh, ASEAN Aviation Integration Platform (AAIP) Policy Paper No. 1/2018.

criteria of “controlled airline” or “nationally-owned” could become a solution for not risking Indonesian airlines existing international routes.[23]

5.8 The AFAS scenario mentioned in 5.5 should be followed up with a trade-off. Two options granted to private airline are, i.) to serve certain regional flights deemed as public service obligations; or, ii.) to set a base in one of the Ten New Bali, with preference to the four priority foreign tourist destinations - namely Lake Toba (North Sumatera), Borobudur (Central Java), Mandalika (West Nusa Tenggara), and Labuan Bajo - Komodo Island (East Nusa Tenggara). At the same time, this scheme shall help to develop non-primary or secondary airports potential.

5.9 The AFAS scenario mentioned in 5.5 could become a solution for increasing Indonesian airline(s) capacity to bring more foreign tourists and fulfil the 2020 target despite three consecutive failure within the last three years (see Table 4).Numerous efforts through the opening of the direct international flights, such as Garuda Indonesia’s London-Bali route in January 2019; Citilink recent expansion to Malaysia since late 2018; and Sriwijaya Airlines expansion to China from 2017, have been done. However, the fact reveals that such efforts are not enough. There is an urgency for more flights to the Ten New Bali and also other tourist destinations in the archipelago. With the help of private airlines, the Indonesian Government could save and allocate their fund for other important sectors such as infrastructure rather than investing in aircraft through the flag carrier(s).

5.10 In the long run, there may be potential implications for airline competition. Strong parallel development of regulatory measures and legal enforcement against anti-competition actions such as price fixing should be addressed from the beginning.[24]

5.11 In conclusion, relaxation of ownership and control of the Indonesian airlines will lead to a higher level of country integration. The Indonesian tourism sector potentially becomes the one that gains the most benefit.

[23] NERA Economic Consulting, The Impact of International Air Transport Liberalisation on Employment, October 2008 (International Air Transport Association, 2008).

[24] Sufian Jusoh, ASEAN Aviation Integration Platform (AAIP) Policy Paper No. 1/2018.

ASEAN Aviation Integration Platform (AAIP)

AEIF ASEAN ECONOMIC INTEGRATION FORUM

IKMAS

UNIVERSITI KEBANGSAAN MALAYSIA
The National University of Malaysia

www.ukm.my/aaip