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Dominant Position in Domestic Flight Low Cost Carrier in Indonesia

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Abstract

Transportation is an important need for the community. In everyday life, people must be touch upon directly with transportation. Every day there are expenses needed for transportation. Therefore, the transportation is a promising business. Transportation needs are definitely increasing. This study specifically discusses about air transportation, namely domestic flights. The type of service in the flight consists of full services and low cost carriers. Specifically, this study discusses domestic flights with low cost carrier types. This type of flight has very high interest because the price tends to be cheap. The factor that causes low cost of the type of low cost carrier is the reduction in some of the facilities provided by the full service type. Some facilities are not provided such as food facilities, narrowed passenger seat size and relatively reduce baggage weight. The problem that arises is if domestic low cost carrier airlines have controlled only by two airlines. Based on data from the Ministry of Transportation in 2017, two low cost carrier airlines have a high percentage of the market, Lion Air (34.19%) and Citilink (12.62%). The mastery of the low cost carrier market by two airlines has an impact on competition. Research Methodology: Empirical legal studies who conducted to obtain primary data and using inductive thinking methods.

Research Findings:

The purpose of this study was to determine the influence of the dominant position owned by low cost carrier airlines on domestic flights. What are the effects, especially those that affect consumers. The method used is the juridical empirical approach method.

Keywords: *Dominant Position; Low Cost Carrier Aviation; Collusion (Cartels); Indonesian Competition Law*

Introduction

Transportation has become a major need for the community. In every activity carried out daily, adequate transportation is needed. The need for transportation is also seen based on the location. For example, transportation needs in the region and in urban areas. When compared with existing transportation in urban areas, transportation in rural areas has many differences. Transportation moves more slowly and requires a lot of time if you want to arrive at the destination. Rural transportation seems simpler compared to transportation in urban areas (Transportation Issues Daily : 2019). You will find it easier to see a pedicab in the countryside than a taxi. Or the surrounding community makes ojek as their livelihood when there is no public transportation.

Transportation needs for urban communities have their differences. Urban communities choose transportation which cuts time from the location of the house to the office. Land transportation such as trains (commuter line) has always been a favorite choice for urban communities (Liputan 6: 2019). Likewise, with other types of land transportation such as the MRT and the LRT is being promoted by the government. Mass transportation is a necessity for urban communities. In addition, if faced with congestion, the solution that arises is to make two-wheeled vehicles as an alternative transportation. Although with various pros and cons, online-based transportation immediately shot up among the people of the big city.

Transportation is also needed as a support for the economy of a country. The contribution of transportation infrastructure to increasing national economic growth (Parakesit: 2019). Looking at Indonesia's geography with its vast sea area, the need to build a large port can support increased exports. For example, the modernization of Teluk Lamong Port plus the new Makassar Port port. The idea of a sea highway is also an important infrastructure. The government's role in the consistency of transportation infrastructure provides market confidence. When market confidence has grown, investor confidence will emerge (investor confidence).

Air transportation is type of transportation that is people's choice. In 2018, BPS stated that the number of domestic destination air transport users in June 2018 rose by 8.5 million people or increased by 16.26% compared to the previous month (Antaranews: 2018). The increase in the number of domestic passengers occurred at Kualanamu Airport, Medan by 22.93%, Juanda Airport - Surabaya 19.16%, Sultan Airport (Antaranews: 2018). During January-June 2018 domestic passengers reached 45.9 million people, up 10.48% and international passengers reached 8.7 million or up 7.84% compared to the same period in 2017 (Antaranews: 2018).

The type of flight that is the choice of many people is economic class. When viewed from its history, since 2001 the emergence of airlines such as Lion Air, Batavia Air, Sriwijaya Air, Adam Air, Kartika Airline and others. The appearance of this airline was triggered by the tragedy of September 11, 2001. Many industrial commercial airlines in the USA went bankrupt and rented their aircraft to other countries. Cheap airplane rental prices are used by business people in Indonesia. The government at that time issued the Skep Director General of Directorate General of Civil Aviation SKEP / 35 / IV / 2003 concerning Lower Bounding Reference Rates (Atmadjati: 2019, p.9). This regulation supports the conditions of the commercial aviation business. While the level of economic class is explained in Regulation of Minister of Transportation No.185 Year 2015 concerning Passenger Service Standards for Economy Class Domestic Scheduled Commercial Air, it is explained that the economy class is divided into three levels, namely full services, medium services, and no -frill (low cost carriers) . Differences from each level related to facilities provided. For example, related to returning a ticket if there is a force majeure, at full-service level is subject to a 20% administrative fee deduction, at the medium level services a 15% administrative fee is deducted, at the no-frills level the administration costs are reduced by 10% (Regulation of Minister of Transportation 2015, art. 10)

Commercial airlines that are still registered in the Director General of Air Transportation include Garuda Indonesia, Air Asia, Lion Air, Wings Air, Swriwijaya Air, Kalstar, Expressair, Citilink, Transnusa, Batik Air, Nam Air, Susi Air, and Aviastar (Directorate General of Civil Aviation : 2019). From the airline, there are 2 major groups, namely the first Garuda Indonesia group, Citilink, Sriwijaya Air and Nam Air. Secondly, the Lion Air group, Batik Air and Wings Air. Both groups have a large market share. In the category of full services, it is occupied by Garuda Indonesia and Batik Air. For medium services, Sriwijaya Air, Xprress Air, Trigana Air, Nam Air and TransNusa. For the low cost carrier (LCC) level, it is occupied by Lion Air, Wings Air, Citilink, AirAsia, Susi Air, and AirAsia X (Tribunnews: 2019).

The condition of the aviation market with the presence of two large groups allegedly caused unfair competition. This case is still under investigation by the Business Competition Supervisory Commission (Komisi Pengawas Persaingan Usaha (KPPU)) and is awaiting the decision of the institution. KPPU suspects that cartel flight tickets and airline cargo. In addition, the KPPU also raised the status of research on alleged cross ownership of Garuda Indonesia and Sriwijaya as investigations. This was decided after the KPPU conducted a series of research activities by gathering comprehensive information and data from the relevant parties. KPPU has also decided that alleged luggage cartels between airlines are included in the research phase (KPPU: 2019).

Through this paper, we will discuss and analyze the dominant position in the domestic aviation market and how it impacts the Indonesian airline transportation market. The method used is juridical empirical approach to field research by looking at and observing what is happening in the field, applying these regulations in practice in society. The type of data used is secondary data through library research.

Analysis and Discussion

There are many other low-cost carriers in the region that have directly and indirectly contributed to the transformation of the aviation and tourism sectors in these ASEAN nations. Such as Lion Air (Indonesia), Nok Air (Thailand) and Cebu Pacific Air (the Philippines) are the change-makers in Southeast Asia while traditional carriers have also jumped on the low-cost airline bandwagon through their subsidiaries like Scoot (Singapore Airlines) and Jetstar

(Qantas) (Aseanpost: 2017). With the surge of low-cost carriers in Southeast Asia, expensive airfares and limited travel choices are a thing of the past. ASEAN’s low-cost carriers have been remodelling the region’s aviation landscape, transcending national boundaries and bringing affordable travel to the masses. The rise of low-cost carriers could drive growth in the travel market in any given region. Southeast Asia already has a high low-cost carrier penetration rate where its capacity share of the total seats is approximately 57 percent (Aseanpost: 2017).

Indonesia itself has the world’s fifth largest domestic market afterthe US, China, India and Japan (Centre for Aviation: 2018). Indonesia overtook Brazil in 2016 but India overtook.

Indonesia in 2015.The market improved in 2016 and 2017, from a demand perspective.

However, overcapacity has been a challenge, pressuring yields, profitability and load factors.The average domestic load factor in Indonesia in 2017 was only 78%, representing a 10 year low (Centre for Aviation: 2018).

Tabel 1

Airlines/ Year	**Seat Load Factor (%)**				
	2014	2015	2016	2017	2018
Garuda	76	78	74	73	74
Batik	85	70	71	73	75
Lion	88	81	82	80	81
Citilink	80	80	77	80	84
Air Asia	77	71	82	82	79
Sriwijaya Air	86	87	86	83	82
Wings Air	82	78	78	74	70
NamAir	86	84	84	80	79
Trigana Air	70	65	69	72	76
Air Asia X	-	79	81	76	55
Trans Nusa	76	71	78	72	83
Express Air	63	51	56	58	68

Source: Directorate General of Civil Aviation with processed

Seat load factor (SLF) is an airline industry metric that measures how much of an airline's passenger carrying capacity is used. From the table we can see that each year the passenger capacity is filled above 70%. By knowing the number of seats filled, it can be seen the profitability and potential income from various transportation routes. According to Sutan Banuara and John T.P, if the seat load factor has reached 80%, that is a signal for airlines to add more or more aircraft frequencies because the service level has declined because there are some passengers who were refused because the seats are fully loaded on many flights (Banuara: 2017).

Tabel 2

Airlines/ Year	Market Share Domestic Passenger (%)				
	2014	2015	2016	2017	2018
Garuda	23,9	26	22,3	20,2	18,8
Batik	2,4	5,9	8,3	7,7	11,5
Lion	40,6	34,5	34,6	34,1	32,7
Citilink	9,8	12,2	12,3	12,6	14,3
Air Asia	4,1	2,6	1,4	1,1	1,3
Sriwijaya Air	10,2	9,31	9,4	10	9,4
Wings Air	4,4	4,47	5,4	6	6,3
Trigana Air	0,8	0,6	0,5	0,7	0,6
Air Asia X	0	0,3	1,1	1,2	0,9
NamAir	0,4	1,58	2,7	2,5	3
Trans Nusa	0,2	0,2	0,07	0,02	0,3
Express Air	0,7	0,5	0,5	0,4	0,3

Source: Directorate General of Civil Aviation with processed

From table 2, we can know the highest market share in 2018 was achieved by Lion Air with 32.7% dominating the passenger market share. Next Garuda is 18.8%, followed by Citilink 14.3% and Batik Air as much as 11.5%. But in the same level the comparison is Lion Air with Citilink (LCC) and Garuda with Batik Air (full service). From the last 3 years, there has been a decrease in passenger market share for Garuda while there was an increase of around 4% for Batik Air in 2018. Likewise with Lion Air there was a decline in 2018 while there was an increase for Citilink. Competition between Indonesia's two main airline groups, Lion and Garuda, has intensified significantly in recent years, impacting load factors and profitability. Garuda has been competing more aggressively against Lion by rapidly expanding its LCC subsidiary Citilink while Lion began attacking the middle and high end of the market by pursuing rapid expansion at the full service subsidiary Batik Air (Banuara: 2017).

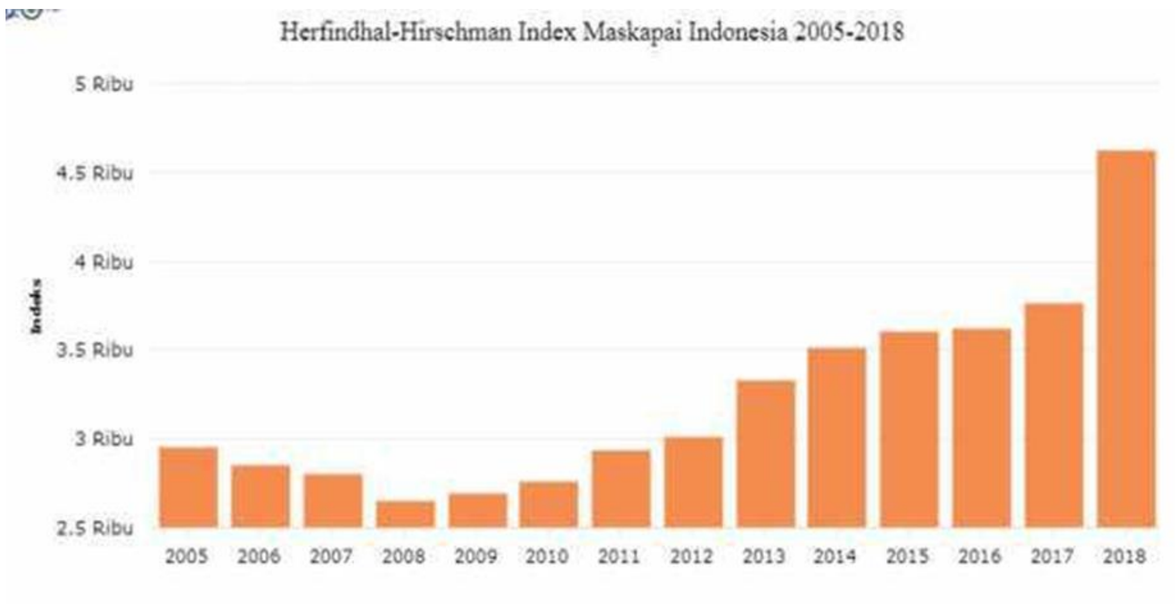
Tabel 3

Airlines/	Passenger Carried (passenger)				
Year	2014	2015	2016	2017	2018
Garuda	18.287.610	19.965.025	19.973.260	19.601.133	19.216.605
Batik	1.881.855	4.595.872	7.479.833	7.479.833	11.824.125
Lion Air	31.128.737	26.488.654	30.928.106	33.131.053	33.446.647
Citilink	7.549.502	9.376.397	11.052.518	12.229.188	14.658.960
Air Asia	3.160.509	2.064.859	1.327.913	1.087.946	1.357.853
Sriwijaya Air	7.838.123	7.139.801	8.430.053	9.745.162	9.602.113
Wings Air	3.424.721	3.432.413	4.903.728	5.896.727	6.450.579
NamAir	352.899	1.212.949	2.424.355	2.437.318	3.130.375
Trigana Air	683.487	504.961	499.282	686.641	679.174
Air Asia X	-	299.106	990.831	1.256.037	994.841
Trans Nusa	228.475	184565	67.664	25.126	331.781
Express Air	605.344	414.311	462.279	461.499	387.228

Source: Directorate General of Civil Aviation with processed

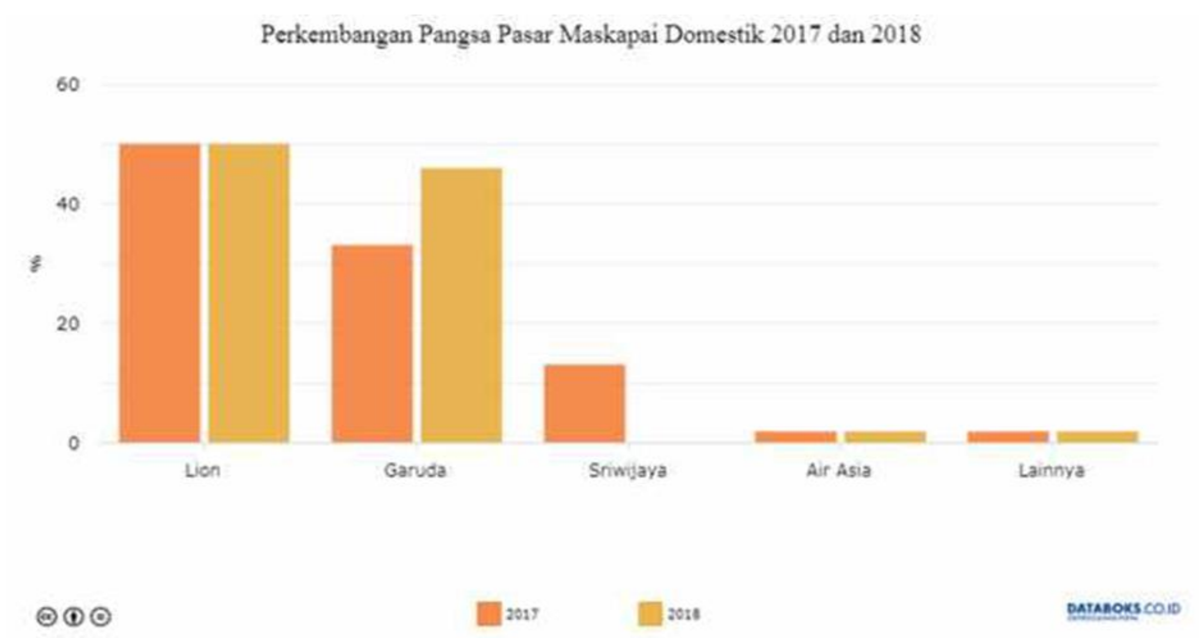
If in table 2 is explained in the form of a percentage, in table 3, it explains the large number of passengers carried by each airline in a given year. The increase of around 4% for Batik Air was 4,344,292 passengers in 2018. While the increase in passengers in 2018 for Citilink was 2,429,772 passengers. Even though Lion Air's passenger market share decreased, from the calculation of the number of passengers there was an increase of 315,594 passengers.

Tabel 4



Source: Databoks.co.id

In table 4, there is a sharp increase in 2018 in the amount of 858 points from the previous year. The addition of the HHI value was due to the takeover of the operations of the Sriwijaya Group airline by Garuda Indonesia Group (Databoks: 2019). This takeover is considered to have reduced the potential of other airlines to compete with two other major airlines, namely Garuda Indonesia and Lion Air Group. The higher HHI value shows that the Indonesian airline market is increasingly concentrated or in the oligopoly or duopoly market (Databoks: 2019).



Source: Databoks.co.id

When viewed from the last two years, Lion Air Group's market share is the largest, which is as much as 50%. Garuda Indonesia Group's market share increased from 33% to 46% after taking over the operational management of Sriwijaya Air and NAM Air. This increase in market share is due to Joint Operation (KSO) between Citilink Indonesia and Sriwijaya Air. Garuda is the airline with the second largest market share in Indonesia. Indonesia Air Asia only has a market share of 2%. According to Nailul Huda, Garuda's operational takeover of Sriwijaya Air eliminated competitors who could become the main competitors of Garuda and Lion Air. This corporate action also has the potential to increase collusion and coordination between the two groups of airlines (Databoks: 2019).

From the data available, we can see that there are 2 big players, the Garuda and Lion groups. Although the two groups each have different levels but remain integrated as a company. Regarding the dominant position, in Law No. 5/1999 concerning Prohibition of Monopolistic Practices and Unfair Business Competition (Law No.5 / 99) regulated in Article

25. In general, Law No.5 / 99 does not prohibit businesses from having a dominant position. . However, it is not permissible for the business actor to take unfair competition because of his dominant position. In article 25 letter b, it is said that business actors have a dominant position if the market share is 50% for one business actor while 75% for two or three business actors. an important criterion in determining the dominant position is the greater number of market shares among business actors and greater market share correlation with the remaining market share (Silalahi: 2007).

When seen by the passenger market share, Article 25 of Law No.5/99 is not applicable. But when viewed from the overall passenger percentage, at the LCC level, the percentage of Lion Air is in a dominant position because of the largest passenger market share. The impact that can occur is that Lion Air's behavior as a market leader tends to be followed by its market followers. In the case of paid baggage, not long after Lion Air announces that it will charge a baggage fee, Citilink will announce the same (Tempo: 2019). This means that Lion Air's position as a market leader and the competitive behavior it does, has an impact on his market followers.

The next impact is price fixing. KPPU acknowledges the duopoly practice in the Indonesian aviation industry which can regulate prices (Detik: 2019). Duopoly is based on existing business groups, namely Garuda Group and Lion Group. The duopoly condition is not prohibited but the indication of business violations arises after the price of airline tickets rises simultaneously since December 2018 (CNN Indonesia: 2019). KPPU is investigating whether the phenomenon occurs because of cooperation between companies.

The next impact of dominant position is interlocking positions. In its investigation, the KKPU has summoned the parties concerned. The KPPU summoned the President Director of PT Garuda Indonesia (Persero) Tbk, Ari Askhara, related to interlocking positions on Sriwijaya Air (CNN Indonesia: 2019). Aside from being the Managing Director of PT Garuda Indonesia (Persero) Tbk, Ari Askhara also serves as the chief commissioner of Sriwijaya Air. In addition, the KPPU will summon the Minister of State-Owned Enterprises (BUMN) Rini Soemarno as a witness (CNN Indonesia: 2019). The KPPU suspects that this interlocking positions incident has something to do with the assignment of the Ministry of BUMN. In the case still handled by KPPU, the status of the reported party to three parties, namely Ari, Garuda Indonesia Business Director Pikri Ilham Kurniansyah, and Citilink President Director Juliandra Nurtjahjo (CNN Indonesia: 2019). Interlocking position can affect competition in a number of ways. It regulated in article 26 Law No.5/99.

Conclusion

The position of the dominant position has a large influence on the business actor in Indonesian airline transporation market. In the case of LCC domestic flights, a high Seat Load Factor is related to the level of profit and potential income of the business actor. Next, the number of passengers in a given year shows the size of the market share of the passengers of the business actor. The number of passengers also refers to the company's profits and revenues.

The dominant position is not prohibited as long as the business actor maintain effective competition healthy. Unfortunately, the dominant position possessed by business actors would lead to often leads to anti-competitive behaviors. Regarding flight ticket cartel cases and multiple positions prove that the tendency of dominant positions owned by business actors leads to anti-competitive behavior. Although the case is still in the handling of the KPPU. The objective of Indonesian Competition Law Number 5/1999 should applied to safeguard the public interests and to increase the national economic efficiency as one of the efforts to increase the people welfare.

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