



## Indonesia's airline sector prepared to soar in 2012



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INDONESIA's airline sector got off to a rough start earlier this year as higher fuel prices reduced profitability, but the sector is prepared to soar in 2012 as new operators and strong economic growth boost traffic.

In February, jet fuel climbed to \$118.05 per barrel, its most expensive since September 2008. The higher cost weighed down airlines' profitability and led them to apply fuel surcharges.

However, fuel prices started to stabilize nearing the end of the year. As Indonesia's economy continues to expand at 6.5 percent as of the third quarter, the airline sector expects clear skies in the second half.

"2012 is still going to be a good year for the industry. Despite the lingering crisis in Europe, domestic and regional demand for air travel will remain high," said Emirsyah Satar, chairman of the Indonesia Air Carriers Association (Inaca) and president director of national flag carrier Garuda Indonesia.

Total airline traffic is expected to increase 18 percent this year, from 53 million passengers in 2010, and should rise 18 percent in 2012, he said. In the January-October period, Indonesian airlines flew 55.98 million passengers.

Indonesia's traffic growth projection is higher than the average for global airlines. The International Air Transport Association had forecast passenger demand this year to rise 5.9 percent to 2.833 billion passengers, and increasing 4.6 percent in 2012 as the euro zone crisis continues to weigh down the industry.

"The airline sector in Indonesia is expected to grow at a rate two times the economic growth, but strong consumer purchasing power, higher demand for airline travel and the recent investment grade [decision] will boost the industry's

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growth by 18 percent next year. The investment grade rating will make it easier for airlines to source cheap financing for their expansion," Emirsyah said.

Garuda, which reported that its 11-month profit had more than doubled, is expanding its fleet to 105 aircraft in 2012 from 88 airplanes now. It is also targeting increased domestic routes and international destinations.

In the January-November period, Garuda carried 15.45 million passengers, which was up 36 percent from a year earlier.

The industry reached a high point in November, when Lion Mentari Airlines made international headlines with the announcement of the purchase of 230 Boeing 737 aircraft valued at \$21.7 billion.

The record deal will boost its fleet to more than 400 airplanes by 2017.

Lion Air president director Rusdi Kirana said last month that the purchase was meant to anticipate airline growth in the Asia-Pacific region during the next five to 10 years. The company expects to fly 27 million passengers this year, up from 20.5 million passengers last year, he said.

"With the start of the Asean 'open-sky' policy in 2015, I think Lion has the capacity to at least control 30 percent of the market in the Asean region," Rusdi said.

Next year, Pacific Royale Airways Indonesia and Lion Air's Space Jet will start operations and become full-service airlines, which means providing seats from economy to first class.

Sriwijaya Air will upgrade its aircraft to accommodate business-class seats.

Mandala Air, which stopped flying in January because of its mounting debt, is ready to take to the skies again after Saratoga Capital and Singapore's Tiger Airways took control of the company in September.

Indonesia AirAsia is set to launch its \$200 million initial public offering some time next year, after its counterpart in Thailand holds its IPO.

Still, insufficient air traffic management and infrastructure could potentially hinder the industry's growth.

Soekarno-Hatta International Airport has exceeded its capacity in the last five years. When it started operating in 1985, it was designed to accommodate 22 million passengers annually. Last year it served 44 million passengers, and it is expected to accommodate 54 million by 2015 and 66 million by 2020.

"We are aware of the problem and we are expanding, but we're still looking for the financing," said Tri Sunoko, president director of state-owned airport operator Angkasa Pura II.

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It plans to revamp and expand the airport as soon as next year with investment of about Rp 11.7 trillion (\$1.3 billion). Its capacity should rise to 62 million by 2014.

Tony Tyler, president director of IATA, said during his visit to Indonesia in September that the country could be the sixth-fastest growing market for international passengers.

In 2014, Indonesia will rank as the ninth-largest domestic market and among the top 10 for international freight, he said.

Safety remains a major issue for Indonesia. Merpati Airlines suffered a fatal crash in West Papua in May that left 25 people died.

According to the IATA's safety audit, Garuda is the only Indonesian carrier on its list of 372 international airlines.