

THE WALL STREET JOURNAL.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<http://www.wsj.com/articles/indonesia-reverses-on-price-rules-for-airasia-lion-air-1441293671>

BUSINESS

Indonesia Reverses on Price Rules for Airlines

Rollback allows low-cost carriers to sell tickets 30% below full-service carriers' maximum



AirAsia Group Chief Executive Tony Fernandes in March. PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES

By ANITA RACHMAN And BEN OTTO

Sept. 3, 2015 11:21 a.m. ET

JAKARTA, Indonesia—Indonesia on Thursday abandoned a policy of forcing low-cost carriers to charge higher prices, reversing a move that drew criticism from some airlines when it was enacted following the deadly crash of an AirAsia jet late last year.

The rollback, which will allow Indonesia's fast-growing low-cost carriers like Lion Air and AirAsia to sell tickets for as low as 30% of maximum fares of full-service carriers rather than 40%, represents a nod to business concerns as a weak currency and slowing economy are cutting into airline profits.

"It's a move in the right direction," said Gerry Soejatman, a Jakarta-based aviation analyst. "The government as a whole has said, 'Look we need to support business in these difficult times.'...We have to have people traveling and how are you going to do that? By lowering the price."

Indonesia ordered minimum ticket prices offered by low-cost carriers to be raised on Dec. 30, arguing that more expensive fares would help airlines spend more on safety measures. The move came two days after 162 people were killed when an AirAsia jet crashed in bad weather into waters off Borneo island. Officials said the rule had been planned previously as they sought to ensure that price competition wouldn't erode safety standards. Air crash investigators haven't yet publicly stated what caused the crash.

The higher prices hit carriers including Lion Air, Indonesia AirAsia and Citilink Indonesia, the budget airline of flag carrier Garuda Indonesia, at a time when a weakening rupiah was already adding to operational costs. AirAsia Chief Executive Tony Fernandes said he told Indonesian President Joko Widodo that the regulation was counterproductive and urged him to scrap it. The rule led AirAsia to double prices on some routes in Indonesia, he said.

AirAsia and Lion Air declined to comment about the change. Citilink CEO Albert Burhan said the lower price limits would mostly benefit lesser-quality airlines and those that "like [to play] price wars."

The sprawling Southeast Asian nation has been trying to rein in a sometimes chaotic airline industry, recently threatening suspension of more than 10 airlines whose loans are greater than the value of their assets.

Regulators in Jakarta oversee a teeming aviation market with domestic airlines operating nearly 400 jets—carrying more than 50 million passengers annually—but its system still ranks among the worst in national audits by the International Civil Aviation Organization, an arm of the United Nations.

Since 2007, the U.S. has effectively barred Indonesian carriers from increasing flights to American destinations. The European Union currently has Indonesia on a "blacklist" that includes more than 15 other states with substandard safety records, and certain Indonesian carriers are barred from flying into Europe.

On Thursday, the Transportation Ministry also threatened to suspend eight airlines, including an affiliate of AirAsia X, the airline's long-haul flier, for not meeting a requirement to own at least five aircraft. The ministry said flight permits for the airlines would be suspended for the month of October if they aren't in compliance by that time. If the month passes without a solution, the permits will be revoked.

Suprasetyo, the Transportation Ministry's director general of aviation, said that the lower price level, effective Sept. 26, was intended to bolster consumer purchasing power. Consumption, long the main driver of the near trillion-dollar economy, has fallen in recent quarters, pulling economic growth to a six-year low.

The lower ratio would still ensure safety, given that the ministry is planning to also increase price ceilings, or maximum allowable ticket prices, to reflect higher operational costs due to a weakening rupiah, Mr. Suprasetyo said. The rupiah is at a 17-year low against the U.S. dollar. Musdalifa Muslimin, deputy of aviation at the ministry, said the increase in a price ceiling would be about 10%.

The Indonesia affiliate of Malaysia-based AirAsia posted a 16% decline in its revenue and an 18% drop in passengers in the second quarter this year. AirAsia has said the affiliate would reduce its fleet by four Airbus Group SE A320 jets to reduce costs and optimize aircraft utilization.

—*Sara Schonhardt contributed to this article.*

Write to Ben Otto at ben.otto@wsj.com

Copyright 2014 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.