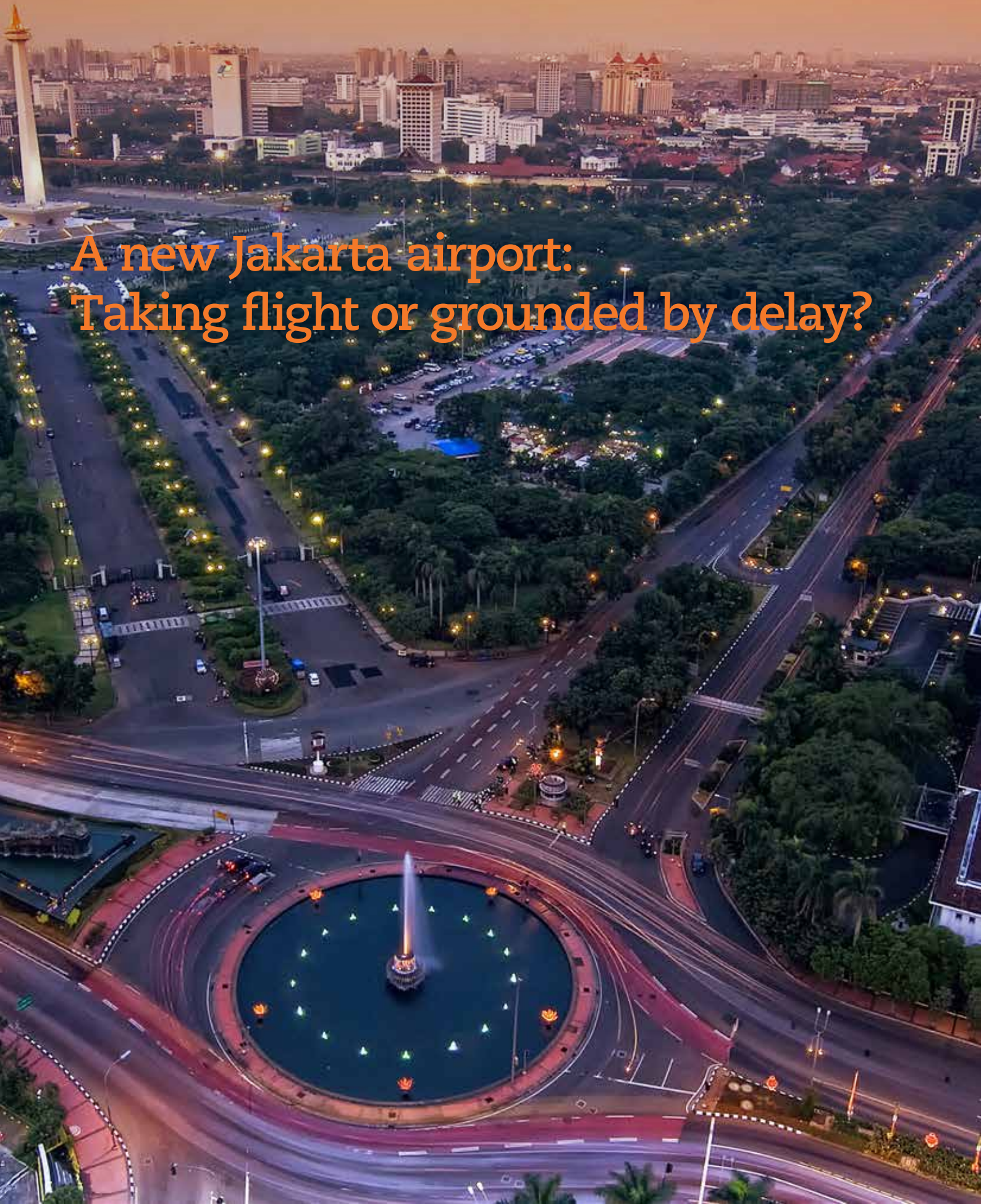


A new Jakarta airport:
Taking flight or grounded by delay?



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A new Jakarta airport: taking flight, or grounded by delay?

- Clyde & Co analyzes the prospects

When should a city burdened with a congested, undersized airport not welcome planned airport construction? Surprisingly, when there is too much of it.

If competing planners have their way, Jakarta, Indonesia, a megacity in dire need of additional airport capacity, may find itself with too much planned capacity. With two major, and competing, West Java airport projects under discussion, the planned expansion at Soekarno-Hatta International Airport (SHIA) and the Air Force's Halim Airport now open for domestic commercial flights, one might conclude that long-suffering Jakarta may one day be spoiled for choice.

Too much of a good thing

A classy problem indeed. Passengers used to enduring SHIA's overcrowded conditions may struggle to see this state of affairs as a problem at all. However, airport operators, PPP investors and airlines know that too much capacity from duplicative airports presents serious risk to their business models.

If too much is planned, demand will be diluted and nothing might get built. If too little is planned, Jakartans will be underserved. Planners will need a Goldilocks touch to assure investors can make money, financiers will lend it and airlines don't lose it.

Monopoly good, competition bad

Airports deliver essential public services that are monopolistic in nature. Undermine the natural monopoly at the planning stage with projects proposed for the same area, and the private sector will avoid the huge multi-decade risks that airports present.

The competing West Java projects give rise to the greatest concern. If dueling projects threaten to poach from the same catchment pool, neither might look commercially viable, and both might fail to take wing.

These airport projects, Karawang International Airport (KIA) and Kertajati Airport (also known as West Java International Airport, or Majalengka Airport) for several

years have been the subject of a behind-the-scenes collision between national and regional ambitions. Consistent with Indonesian cultural norms, the competition between them can be difficult to detect, but occasionally surfaces in contrasting public statements.

KIA – nationally favored, internationally supported

KIA is championed by the national government and Japan (through JICA). It is intended to serve Jakarta, and to a lesser extent the City of Bandung (pop. 2.4 mil), new satellite cities hoped to spring up near the site, and West Java generally (pop. 46 mil).

Although 70 km. east of Jakarta (twice the distance from SHIA to downtown Jakarta), Japan's impressive, ambitious Metropolitan Priority Area Plan (MPA) for Jakarta's infrastructure development includes a high speed rail connection to KIA. KIA would be well positioned to Cimalaya Port, for which the Japanese also have grand plans.

Some form of PPP structure is suggested in Japan's MPA plan, and makes good sense, but in the current political environment, government ownership and a state role in operations both seem very likely. Private sector participation in construction and perhaps in an O&M joint venture is possible.



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Kertajati – regionally favored by the host government

Kertajati Airport is strongly supported by the West Java Regional Government, with foreign interest from Korea. Kertajati Airport targets the Bandung/West Java catchment area.

Located much further east from Jakarta than KIA, common catchment passenger sharing between SHIA and Kertajati is projected in one study to be (and long remain) less than 2%.

This would mean Kertajati may do much to benefit West Java, as the regional government hopes, but little to improve Jakarta's air services.

However, while Kertajati may be too far from SHIA to impact it, the same is not true of its effect on KIA. Assuming a catchment area with a 50 km radius, Kertajati's catchment area overlaps with about a third of the area from which KIA will draw its potential customers.

Of course, KIA's catchment area also overlaps SHIA's area by about a third, and a study suggests passenger sharing as great as 40%. However, in the SHIA/KIA case, this overlap is the very point of building KIA. In the SHIA/KIA case, catchment overlap is good news, as KIA will relieve pressure on SHIA.

In the KIA/Kertajati case, however, this overlap raises the risk that neither airport achieves its passenger targets.

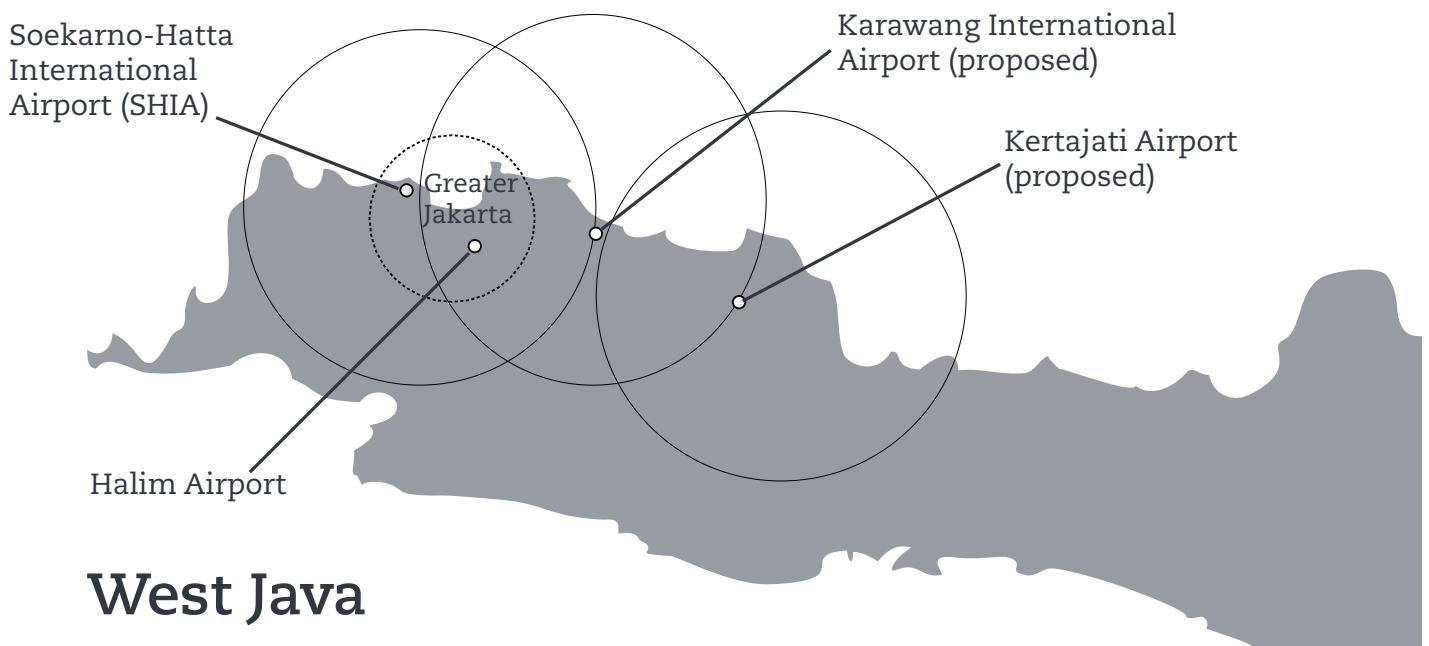
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The power of the permit

Kertajati's champion, the West Java government, controls a crucial permit that rival KIA needs to go ahead, and has explicitly linked grant of this permit to resolving the relative roles of KIA and Kertajati Airport.

Located in West Java's jurisdiction, KIA's fate appears tied to the West Java government's willingness to include KIA in its Regional Spatial Layout Plan (locally known as the RTRW). The West Java government has several times pointed out that KIA will be located in an area reserved for agricultural and manufacturing, and not zoned for airport use.

This is no mere technicality, as it provides Kertajati Airport's supporters with strong leverage. When discussing the RTRW permit issue, the Head of the West Java Regional Development Planning Authority is quoted as having asked "all parties to side with the consensus



that BIJB [Kertajati Airport] will take precedence; then Karawang [KIA] can be discussed.”

The West Java governor is reported to have said his government will not act on the proposed RTRW revision that KIA needs until KIA's issues are fully discussed with West Java. Comments from others suggest that the local planning authority feels excluded from the KIA planning process.

Bigger and faster to win the race?

West Java may intend to start the race while KIA is stuck at the starting line. While KIA supporters wait for the West Java government to include KIA in the RTRW spatial plan, in 2012 West Java announced that it will accelerate Kertajati's completion by two years to 2018, and increase the airport's size.

“If Kertajati enters operation later than 2020, then it will be outdone by Karawang. Don't be beaten by Karawang,” the Provincial Secretary is reported to have said during a 2012 focus group discussion. To add to planning difficulties, he suggested that Kertajati “should increase the [airport's] capacity for aircraft handling, passengers and cargo from the initial plan.”

One Kertajati supporter announced that Kertajati's annual passenger capacity would be doubled from 12 to 24 million while its main runway would be lengthened from 3,000 meters to 3,600 meters to accommodate larger airplanes. “Cargo handling capacity must also be increased from only 85,000 tons per year because Karawang will be handling 1.2 million tons,” said the spokesman for the Committee for Acceleration and Expansion of Economic Growth. The Provincial Secretary reportedly agreed with the recommendation to double passenger capacity and increase planned cargo handling capacity to 500,000 tons per year.

Siting concerns - not the first time, and not the last

The siting of capital intensive infrastructure projects that are natural monopolies is a perennial issue. Natural monopolies feature in infrastructure assets that provide a transportation function – airports, roads, rail and electricity transmission and distribution. Monopolies arise because it makes little sense to build multiple transportation projects if, by drinking from the same pool of customers, no project can be profitable.

Risk of anti-competitive harm caused by protected zones from which competitors are excluded should be held in check by regulation (particularly tariffs) and targeted returns for a regulated asset base. These measures are often controversial, as they are specifically intended to prevent a competitor from opening next door, while restraining the project owner from price gouging. From public statements made by many airlines around the world, it is clear that users do not always believe tariff regimes achieve an equitable outcome.

While regulators need to be mindful of the interests of users, planners cannot ignore that owners and operators of airports and other natural monopolies care deeply that their heavy capital investments can be recouped without risk that an after-arriving neighboring competitor will undermine demand. Ignore this concern, and investors will steer clear.


Japan has experienced three-cornered airport competition similar to that shaping up in Java. Kansai, Osaka (Itami) and Kobe Airports present a good example that too much densely sited airport capacity can be too much of a good thing.

Each airport serves the Osaka-Kyoto-Kobe catchment area and each is located very close to the other two. Kobe Airport is a mere 22 km from Kansai Airport. Itami is 43 km from Kansai, and Kobe is 26 km from Itami.

Plans to build Kobe Airport were long in the making, and the need for a third major airport in the region was briskly debated, with local government opting to build to assist recovery from the Great Hanshin Earthquake. Having passed through a multi-year initial ramp-up period, Kobe Airport has settled into operating well below capacity, but reportedly at levels sufficient to harm the other two airports because some traffic is drawn away.

Airlines too have been adversely affected, with Kobe's opening reportedly driving JAL and ANA to shift orders from efficient wide-bodies to serve Kansai to more mid-sized aircraft when Kobe split the passenger pool. Ironically, having adjusted jet orders to reflect smaller loads distributed across three airports, JAL has since discontinued all Kobe services, and ANA has cut back its services.



A nighttime photograph of a cityscape. In the foreground, a complex multi-level highway interchange is illuminated, with long-exposure light trails from cars creating streaks of white and red. The background shows a dense urban skyline with numerous skyscrapers and buildings, many of which are lit up, creating a vibrant city glow against the dark blue twilight sky. A black rectangular box with white text is overlaid on the left side of the image.

“Location alone suggests KIA is the better choice as Jakarta’s second airport, and its ability to receive funding support further suggests KIA will prevail.”

And the winner is?

KIA is conceptualized as a major international gateway airport that will handle 60 million passengers a year. Japan has helped develop plans for related facilities, including a high speed rail line, a freight rail line, a seaport, an industrial park and various related facilities. The Japanese plans even envision that national government offices may move from congested Jakarta to a new satellite town near KIA and that a Shinkansen train will bring passengers from Jakarta's Jalan Sudirman to KIA in 20 minutes.

It is a beguiling prospect, and worthy of serious consideration. The price tag is very, very high, but Japanese ODA would go a long way toward covering the cost. National government support is of course meaningful for success.

Kertajati is conceptualized as a much smaller airport of between 1/5 and 1/3 KIA's size. It would be the nucleus of a new town development as well. The West Java government's presentation on "Kerajati Aerocity" (available online) proposes to develop a 1800 hectare site, with 75% of it for non-aeronautical purposes, such as industrial, commercial, residential, recreational and cultural uses. These plans are perhaps more aspirational than the KIA plans, but not without merit. West Java's industry and population make it a heavyweight among Indonesian provinces, and it makes sense for it to think big.

However, without substantial national and international funding, there is a real prospect Kertajati Airport will become a spoiler, rather than a full rival to KIA. Kertajati's chances may increase as its cost decreases, and to do that Kertajati would need to recast itself as a smaller regional airport.

The consolation prize for West Java may not be unattractive. The Japanese high speed rail plan begins in phase 1 with a Shinkansen link from Jakarta to KIA, but in phase 2 that track will be extended to Bandung, West Java's largest city. If this happens, West Java will find much to welcome in the rival plan.

What's an investor to do?

No doubt with frustrating delays, and in a manner foreigners may not fully fathom, Indonesia will resolve these issues.

Location alone suggests KIA is the better choice as Jakarta's second airport, and its ability to receive funding support further suggests KIA will prevail.

Kertajati may well have a future as a regional airport, replacing Bandung's existing airport. If not, then mindful that West Java has already spent tens of millions of dollars buying the land for Kertajati Airport, a financial exit will be sought.

In the meantime, Japanese interests can be expected to continue to develop momentum on an impressive array of projects proposed for Jakarta, of which KIA is but one, and non-Japanese interests will weigh promoting alternatives or teaming up with Japanese partners on their projects.

After such a long drought in building projects on this scale, Indonesians should be pleased to see that the level of interest in new projects is high. The trick, as noted, is in the Goldilocks planning to provide a commercially attractive project that is just right for investors.



Michael S. Horn

Partner

Clyde & Co Clasis Singapore
12 Marina Boulevard #30-03
Marina Bay Financial Centre Tower 3
Singapore 018982

T: +65 6544 6553

E: michael.horn@clydeco.com

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