

4-30-2022

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Recommended Citation

Wirsamulia, Feri (2022) "The Legal Problem of Aircraft Mortgage in Indonesia," *Indonesia Law Review*: Vol. 12: No. 1, Article 2.

DOI: 10.15742/ilrev.v12n1.2

Available at: <https://scholarhub.ui.ac.id/ilrev/vol12/iss1/2>

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THE LEGAL PROBLEM OF AIRCRAFT MORTGAGE IN INDONESIA

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Article Info

Received : 26 December 2021 | Received in revised form : 3 February 2022 | Accepted : 1 April 2022

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Abstract

This article aims to analyze the urgency of aircraft mortgage regulation to provide an alternative solution for airlines that requires a loan to maintain their cash flow sufficiently by placing their aircraft as debt collateral. Since the issuance of Law Number 1 of 2009 on Aviation, the provisions regarding aircraft mortgage as debt collateral was removed from the previous Aviation Law Number 15 of 1992. Article 12 Paragraph (1) of Law Number 15 of 1992, governed that aircraft could be subject to mortgages, however, this provision was abolished by the new Aviation Law Number 1 of 2009. Article 465 of the new Aviation Law explicitly states that all provisions in Law Number 15 of 1992 are no longer valid, meanwhile, Law Number 1 of 2009 on Aviation, in no way regulates aircraft mortgages. In practice, this legal vacuum has become a problem for airline companies to place their registered aircraft as collateral in form of a mortgage. Particularly in the Covid 19 pandemic, which until the end of 2021 has not ended yet, it has caused severe damages to the financial balances of many airlines due to the absence of passengers and restrictions to fly by the Government. The aircraft can be used as collateral or security interest for, for example, a working capital loan. This research is a normative study that will discuss and analyze the types of collateral over aircraft that are most likely to be carried out by airlines in Indonesia amid the unavailability of aircraft mortgage regulation. This article also attempts to find possibilities that may be engaged to solve the problem.

Keywords: aircraft, aviation, mortgage

Abstrak

Tujuan dari artikel ini adalah untuk menganalisa pentingnya peraturan mengenai hak tanggungan terhadap pesawat udara untuk memberikan alternatif jalan keluar bagi maskapai penerbangan yang membutuhkan pinjaman dalam rangka memelihara kecukupan arus kasnya, dengan menempatkan pesawat mereka sebagai jaminan. Sejak diterbitkannya Undang-Undang Nomor 1 Tahun 2009 Tentang Penerbangan, ketentuan mengenai hak tanggungan atas pesawat udara sebagai jaminan utang telah dihapus dari undang-undang sebelumnya yaitu Undang-Undang Nomor 15 Tahun 1992. Pasal 12 ayat (1) Undang-Undang Nomor 15 Tahun 1992, mengatur bahwa pesawat udara dapat dijadikan obyek hak tanggungan, namun ketentuan ini dihapus oleh undang-undang penerbangan yang baru yaitu Undang-Undang Nomor 1 Tahun 2009. Pada pasal 465 Undang-Undang Penerbangan yang baru ini secara tegas menyatakan bahwa seluruh ketentuan yang termuat di dalam Undang-Undang Nomor 15 Tahun 1992 tidak berlaku lagi, sementara itu Undang-Undang Penerbangan yang baru tidak mengatur tentang hak tanggungan atas pesawat udara. Dalam praktik, kekosongan hukum ini telah menimbulkan kesulitan terhadap maskapai-maskapai penerbangan untuk menempatkan pesawat udara mereka sebagai jaminan utang dalam bentuk hak tanggungan. Khususnya pada masa pandemik Covid 19 ini yang sampai akhir 2021 masih belum juga berakhir, telah menyebabkan kerusakan pada neraca keuangan pada banyak maskapai penerbangan yang disebabkan karena ketiadaan penumpang dan larangan terbang dari Pemerintah. Pada hakekatnya, pesawat udara dapat digunakan sebagai jaminan untuk, misalnya, pinjaman modal kerja. Penulisan ini adalah studi normatif yang akan mendiskusikan dan menganalisa bentuk-bentuk jaminan apa saja yang biasa dilakukan oleh maskapai-maskapai penerbangan di Indonesia di tengah ketidak-tersediaan ketentuan hukum yang mengatur penempatan pesawat udara sebagai jaminan utang. Tulisan ini juga mencoba untuk menemukan kemungkinan yang dapat ditempuh sebagai solusi terhadap persoalan tersebut.

Kata Kunci: pesawat udara, penerbangan, hak tanggungan

I. INTRODUCTION

Nowadays, Indonesia has no regulation regarding mortgages over an aircraft. The Indonesia Law Number 1 of 2009 on Aviation, which has been in effect since January 2009, does not contain provisions regarding debt collateral over aircraft as a mortgage. The provision which states that an aircraft can be burdened with mortgage previously was contained in Article 12 Paragraph (1) of Law Number 15 of 1992 on Aviation. Article 12 of Law Number 15 of 1992 states that the aircraft which already registered may be mortgaged and the implementation of the aircraft mortgage will be regulated by the Government Regulation. Unfortunately, until the issuance of the new Indonesian Aviation Law in 2009, the Government Regulation mandated by Law Number 15 of 1992 had not been granted, meanwhile, Law Number 1 of 2009 has no provision governing aircraft mortgages. In addition, Article 465 of Law Number 1 of 2009 states explicitly that the entire provisions of the Aviation Law Number 15 of 1992 are revoked and declared no longer valid. This has resulted in uncertainty and a legal vacuum on aircraft mortgages as debt collateral.

An aircraft is a tangible object that has a specific function and high selling value, therefore it could be used as collateral for the fulfillment of a debt repayment obligation. Law Number 15 of 1992 used the term '*hipotek*' for aircraft mortgage. It means that an aircraft is categorized as a fixed object (immovable object) such as a ship weighing 20 metric tons and above.¹ Article 1162 of the Indonesian Civil Code defines a mortgage as "a material right over immovable objects to take compensation from it for the settlement of a debt agreement." Thus, based on the norm contained in Article 12 of Law Number 15 of 1992, it can be interpreted that an aircraft is categorized as a fixed object or immovable object. However, with the revocation of Law Number 15 of 1992 and it declared no longer valid since the existence of Law Number 1 of 2009 on Aviation, there is no single legal provision that can be used as a basis for categorizing an aircraft as an immovable object.

The absence of legal norms to regulate aircraft as collateral for security interest is a stark contrast to the Indonesia commercial air transport industry which has been developing very rapidly in the last decade.² Financing arrangement on purchasing an aircraft is commonly a part of the sale and purchase transaction over an aircraft among international and domestic airlines.³ For international transactions, there are two fundamental prototypes for aircraft financing, those are Lease Financing and Mortgage Financing.⁴ This financing arrangement is quite necessary considering that the price of aircraft mostly is very expensive.⁵

Moreover, the new Indonesian aviation law regime demands bank guarantees to

¹ Felix Oentoeng Subagio, Tuty Gondhokoesomo, *Pasal 314 KUHD Dan Pelaksanaannya Dalam Praktik*, (Jurnal Hukum & Pembangunan, Vol 8 No. 6, 1978)

² Based on the Indonesia Air Transport Statistic Report 2018, issued by The Indonesia Statistic official website with the data sources from PT Angkasa Pura I & II, the departure flight from 2014 to 2018 rose annually. In 2014 there were 71.625.696 passengers, in 2015 72.563.813, in 2017 90.744.365, and in 2018 94.896.041 passengers. This data can be seen at <https://www.bps.go.id/publication/2019/11/27/2ee66ee6da342041f1901fb0/statistik-transportasi-udara-2018.html>,

³ Walter W.Eyer, *The Sale, Leasing And Financing Of Aircraft*, (Journal of Air Law & Commerce, Vol.45, Issue 1, Article 10, 1979), 219

⁴ Ronald Scheinberg, *Deal Types, Structures And Enhancement* (The Commercial Aircraft Finance Handbook Routledge, 2017) Accessed on 3 December 2021, <https://www.routledgehandbooks.com/doi/10.4324/9780203713303-3>

⁵ For example, the price of the Boeing 777, which is a popular aircraft for commercial transport, is more than USD 410 million. It can be seen at <https://www.boeing.com/commercial/777x/>

obtain commercial air transport business licenses, hence the business relationship between airlines and banks should be very close.⁶ Financial institutions or banks as a source of financing urgently need a legal instrument to protect their interests in channeling loans and receiving collateral. The principle of prudence in running a business in the financial sector is a non-negotiable imperative. Therefore, the legal instrument regulating safeguards for guarantee rights holders is very crucial for the financial industry. Several parties have taken several ways to charge aircraft as collateral for debt in practice in Indonesia, despite in international business practices there are 3 (three) types of security in aircraft, those are Pledge, Hipoteca, and Chattel Mortgage.⁷ However, the application will depend on the legal system in each country and the fact that all the advantages and disadvantages are considered. This practice reflects that the air transport industry requires international and domestic financial sources to meet working capital needs. This research will explain and discuss the problem of Indonesian airlines in obtaining loans from the financial industry by placing their aircraft as debt collateral, amid a legal vacuum regarding aircraft mortgage in Indonesia.

II. GUARANTEE AGREEMENT UNDER THE INDONESIAN LAW

Commonly, the ownership of an aircraft is under the name of a business entity such corporation instead of the name of the owner in person. Besides, it can be run as a business to generate income, it also may separate the risk that may arise coverage liabilities over the damage resulting from the operation of the aircraft.⁸ The aircraft, which is an asset of a corporation, have a commercial value and suppose may be placed as collateral for the debt settlement.

The definition of “guarantee” or “security interest” that is given by some experts in Indonesia generally has the same meaning even though it is a different word. Mariam Darus Badruzaman defines a guarantee as a liability provided by a debtor to a creditor to guarantee his obligations in an agreement. Hartono Hadisoeparto stated that a guarantee is something that is given to a creditor to create confidence in the creditor that the debtor will fulfill his obligations.⁹ Under these definitions, it is clear that the creditor has a right over the collateral object, which is referred to as Material Rights. According to L.J van Apeldoorn, material rights are property rights that provide direct power over an object.¹⁰ Thus it can be concluded that the Guarantee Agreement for a debt is a material right given by the debtor to the creditor to take the repayment from the sale of the collateral object for the debtor’s debt payment. From this understanding, it can be seen that the provision of guarantees arises from a debt agreement and aims to secure the repayment of the debt.

As security for repayment of a debt, the guarantee agreement does not stand alone. It follows the main agreement, which is Loan Agreement or Lending-Borrowing Agreement. From the Loan Agreement or Credit Agreement, a guarantee agreement

⁶ Martono & Amad Sudiro, *Aviation Laws And Regulations Applicable In Indonesia*, (Rajawali Press 2017), 82

⁷ Bayitch, S.A. “*Aircraft Mortgage: A Study in Comparative Aviation Law of The Western Hemisphere.*” (University of Miami Law Review, Vol.13 No. 2, 1958), 152

⁸ Michael W.Pearson and Daniel S. Riley, *Fondation Of Aviation Law*, (Ashgate Publishing Limited, 2015), 276

⁹ Zaeni Asyhadie and Rahma Kusumawati, *Hukum Jaminan Di Indonesia Kajian Berdasarkan Hukum Nasional Dan Prinsip Ekonomi Syariah*, (Rajawali Press, 2018), 2.

¹⁰ Asyhadie and Kusumawati, *Hukum Jaminan*, 92

is then charged as an additional agreement.¹¹ Therefore, the guarantee agreement in legal theory is also known as an accessory agreement or additional agreement. As consequence, this accessory agreement depends on the main agreement. When the main agreement ends, the accessory agreement will automatically end. Regarding this accessory agreement, Professor A. S. Hartkamp uses the term 'assistance agreement' or 'additional agreement' instead of 'accessory agreement' which main nature is to have dependence over the main agreement with the intention of preparing, affirming, strengthening, regulating, stipulating, changing or settling a legal relationship that underlies it.¹²

Before 1996, Indonesian law used the term mortgage (*"hipotek"*) to refer to a Collateral Agreement for an immovable object which pledged as collateral for a debt. The term *'hipotek'* follows the Dutch legal term adopted by Indonesian Civil Law. The definition of *'hipotek'* is given in Article 1162 of the Indonesian Civil Code as *"the material right over the immovable object to take compensation from them for settlement of an agreement."* It means, the mortgage right is an additional agreement following its main agreement. In other words, the mortgage agreement is categorized as an accessory agreement.¹³ Since the enactment of Law Number 4 of 1996 on Mortgage Law of Land and Property Rights (*"Mortgage Law"*), the term *'hipotek'* has been replaced by 'Mortgage Rights'. In substance, the definition of a mortgage is the same as *hipotek*. In principle, the terms *'hipotek'* and 'mortgage' have the same meaning. However, Professor Remy Syahdeni considered that the Mortgage Right in Indonesia provides a better definition than the definition of *hipotek* provided by Article 1162 of the Indonesian Civil Code.¹⁴ As for the description of the Mortgage itself, Article 10 Paragraph (1) of the Mortgage Law explains that *"Granting of Mortgage Rights is preceded by a promise to provide Mortgage Rights as a guarantee for repayment of certain debts, which are contained in and are an integral part of the debt agreement concerned or other agreements that give rise to the debt."* This article is quite appropriate to explain that the position of a mortgage right is an additional agreement that follows the main agreement. The creditors who hold the Mortgage Right will have the privilege to be prioritized to receive repayment of its debt compared to the concurrent creditors in the event of the debtor is defaulted. In other words, the mortgage right will be activated only in the event that the debtor breached and failed to fulfill its repayment obligation pursuant to the provision in the Loan Agreement.

The legal principle of the Guarantee Agreement is that creditor may not ask for a clause that entitles the creditor to own the collateral object.¹⁵ In the event that this kind of provision is contained in the agreement, then the agreement is null and void by law. This principle is strictly regulated in several provisions regarding Guarantee Agreements for both movable and immovable objects. In immovable objects, it can be seen in Article 12 of the Mortgage Law which states that *"The promise that gives*

¹¹ J.Andi Hartanto, *The Legal Development Of Guarantee In Indonesia*, (Journal Of Law, Policy And Globalization, Vol.36, 2015), 57

¹² Hartkamp, A.S, M.R.C.Asser's, *Penuntun Dalam Mempelajari Hukum Perdata Belanda Hukum Perikatan Ajaran Umum Perjanjian*, Trans Rachmad Setiawan, (Yrama Widya, Bandung, 2020), 84

¹³ Annisa Y, Zaidan, Apriandi, Febrian & Hidayatullah, *Aircraft Mortgage In Indonesia: Alternative Object of Material Guarantee As A Debt Settlement*, (International Journal Of Technology And Engineering, Vol.8, Issue 2, 9 September 2019), 603

¹⁴ Sutan Remy Sjahdeni, *Hak Tanggungan Azas Azas, Ketentuan-Ketentuan Pokok Dan Masalah Yang Dihadapi Oleh Perbankan* (Alumni Bandung, 1999), 14.

¹⁵ Suharnoko, *Hukum Perjanjian Teori Dan Analisa Kasus*, (Prenada Media, 2004), 28

authority to the holder of the Mortgage to own the object of the Mortgage when the default of the debtor, is null and void.” Against movable objects, Article 33 of Law Number 42 of 1999 on Fiduciary also affirms that *“Any promise that authorizes the Fiduciary Recipient to own the fiduciary object when the debtor default, is null and void.”* Likewise to Article 1178 of the Indonesian Civil Code, which states that *“All promises by which the debtor is authorized to have the objects given in the Mortgage, are null and void.”* This provision is intended to protect debtors. This is due to the bargaining position of the debtor that is generally weaker than the creditor. The imbalance between the debtor and creditor may cause the creditor to take inappropriate advantage of the debtor by taking the collateral object into his property. It can happen when the value of the collateral is higher than the debt. In practice, collateral over a property, some parties are often made in other forms such as sale and purchase agreement with buy-back option based on articles 1519 to 1532 of the Indonesian Civil Code. This method is legal smuggling of a guarantee agreement. In the court, a sale and purchase agreement with the option to repurchase as a guarantee of debt surely will be canceled or declared null and void by law.¹⁶

Under the Indonesian Civil Law, goods or assets are objects of debt collateral may be categorized as movable or immovable objects. The Indonesian law provides different treatments for movable and immovable objects as collateral. For movable collateral objects such as cars, equipment, machinery, and others, there are two types of guarantee institutions that may be enforced, those are Fiduciary (*fidusia*) and Pawn (*gadai*). The Fiduciary Guarantee is regulated by Law Number 42 of 1999. Under a fiduciary guarantee, the object the collateral remains in the hands of and may be utilized by the debtor. The debtor does not lose the benefits of the movable object which is placed as collateral. Another collateral institution for movable objects is Pawn, in which the control of goods subject to collateral is handed over to the creditor as the holder of the pawn rights.

Under fiduciary, despite the collateral object categorized as movable object and the object is not in the hands of the creditor, it must be registered in the Fiduciary Registration Office. This is to comply with the principle of transparency and publicity which aims to bind third parties.¹⁷ This provision is the same treatment with immovable objects. Mortgage Rights over land and building shall be registered at the local Land Registration Office. The form of Guarantee Agreement that has to be registered must be in a notarial deed.

Providing guarantees to creditors through the mortgage, fiduciary, or pawn as discussed above, gives a more privileged position to obtain payment in advance of his debt compared to other creditors. It is common when one debtor has several creditors, or he owes to several parties. Thus, one collateral object can be mortgaged several times as long as its commercial value is still sufficient to cover all of the debt. The first mortgage holder certainly takes privilege over the second holder, and so on. For mortgage holders, this right is a privilege for them not to be treated the same as other common creditors. This privilege avoids the provisions contained in Article 1132 of the Indonesian Civil Code which regulates the equal position among creditors and determines a proportionate share of the proceeds from the sale of debtor's assets. Therefore, holders of fiduciary, pawn, and mortgage have been prioritized for settlement among other creditors.

¹⁶ Suharnoko, *Hukum Perjanjian*, 29

¹⁷ J.I. Kosasih, A.A. Istri Agung & A.A. Sagung Laksmi Dewi, *Parate Eksekusi Fidusia Polemik Kepastian Hukum Dan Bisnis*, (Mandar Maju, 2021), 75

From the description regarding the privileges of creditor position as the holder of pawn, fiduciary, or mortgage as abovementioned, it is clear that those guarantee agreements provide privileges for the holder to recover their bad debt. Particularly in the banking sector and other financing institutions, a privileged position in taking repayment of collateral objects is essential, and it provides legal certainty in the event that a debtor neglects his obligations. Moreover, those guarantee institutions provide a simple procedure to execute a collateral object. Execution of collateral objects that are charged with mortgage or fiduciary rights is relatively easier. If the debtor breaks his promise or defaults, Article 20 of the Mortgage Acts regulates that the collateral right holder may sell the collateral object at a public auction in ways that have been determined by law. This execution can still take place despite any objections from the debtor with the conditions that the debtor's default is proven. The sales of the collateral will be done by public auction and the buyer will be determined through the highest bid. Sales may also be made without going through a public auction but through an agreement between the creditor and the debtor.

III. PROBLEMS ON PLACING AIRCRAFT AS A COLLATERAL

Article 1 of Aviation Law Number 1 of 2009 defines Aircraft as, *"Any machine or device that able to fly in the atmosphere due to the lift force from the reaction of the air, but not due to the reaction of the air to the surface of the earth be used for flight."* Under this definition, aircraft have various types such as airplanes (fixed-wing), helicopters (rotor), or motorized air balloons. However, the discussion of this research is limited only to aircraft or airplanes.

Before the enactment of Aviation Law Number 1 of 2009, Law Number 15 of 1992 on Aviation governed that airplanes were categorized as immovable objects. This could be concluded from the provisions of Article 12 Paragraph (1) which states that *"Indonesian aircraft which already have a registration certificate could be mortgaged."* Due to the term, a 'mortgage' is actually for collateral over immovable objects, it can be said that airplanes shall be categorized as immovable objects. Under this article, there was only registered aircraft in the Indonesia Aviation Authority (Directorate General Civil Aviation) could be charged with a mortgage. As known, every aircraft which operates and has Indonesian nationality must obtain the registration certificate issued by the Directorate of Airworthiness and Aircraft Operations which is under the Directorate General of Civil Aviation, Ministry of Transportation of the Republic of Indonesia. This registration is mandatory under the international aviation law to mark an aircraft with their nationality identification.

After the enactment of Law Number 1 of 2009 on Aviation, the *first* problem is, no legal basis can be used to classify aircraft as immovable objects, and subsequently, a mortgage could not be applied over aircraft as debt collateral. In practice, this legal vacuum raises several problems. There are no provisions to define various types of aircraft as movable or immovable objects. Categorizing aircraft to be movable or immovable objects subsequently will have a different law implementation.

Some legal practitioners assume that all aircraft are categorized as immovable objects by analogizing it to the same obligation between ship and aircraft such as the obligation to register in order to have a nationality mark.¹⁸ The Indonesian

¹⁸ Buana P.Wulansari, *Hipotik*, Hukum Bisnis Indonesia, <https://hukumbisnisindonesia.wordpress.com/2017/12/14/hipotik/#more-215> accessed on July 16, 2020

flag serves as the national identity for registered Indonesian ships. Whereas on an aircraft, registration provides a national identity as an Indonesian national aircraft. Understandably, the mandatory registration of these two types of transportation is intended to provide national identity for aircraft and ships. This is due to both types of transportation ability to cross the international territory and enter other countries. However, the nature of the registration of the two is different. Registration on ships is regulated through Minister of Transportation Regulation Number 13 of 2012, where the registration includes Ship Ownership, Mortgage Charges, and registration for other material rights on the ships. Registration letters on ships also serve as evidence of the ownership of the ships. The registrar's office will also record the transfer of ownership of the ship and record the new owner. Meanwhile, registration on an aircraft does not reflect or relate to the ownership of the aircraft. The obligation to register an aircraft is stipulated by the Convention On International Civil Aviation signed in Chicago on December 7, 1944, or commonly known as the Chicago Convention 1944.¹⁹ Registration of aircraft must be carried out by the airline in the country where the airline operates, whether the aircraft that owned or leased. Accordingly, the registration on an aircraft does not relate to the ownership of the aircraft.

The *second* problem is, with the need to place an aircraft as collateral for debt, different interpretations and opinions have emerged regarding which regulation may be implemented for debt collateral over aircraft. This situation created uncertainty over the Indonesian aviation industry to place its aircraft as collateral of debt settlement. One of the opinions stated that aircraft could be a subject to guarantee rights with fiduciary based on Law Number 42 of 1999 on Fiduciary, however, it is limited only to engines, frames, turbines, propellers, and other parts, not to the complete aircraft.²⁰ There is no doubt that this practice arose with the background that legal practitioners are usually thought to find a way out to meet the business need amid a legal vacuum. Moreover, the practice of mortgaging only for the aircraft engines for debt collateral is also common in some countries.²¹ However, this practice occurred due to the need of creditors to hold collateral to ensure repayment of the debt. The most important thing in holding a collateral object for debt settlement is the privilege position over other creditors and the sufficient value of the collateral object. An example of this case is the bankruptcy of Batavia Air in 2013. Batavia Air was one of the Indonesia airlines. The curator in charge of liquidating Batavia Air's assets sold auctions for aircraft engines that were charged with a fiduciary guarantee to be paid to the creditors. The sales were for the engines only, and do not include the airframe.

In essence, when a fiduciary is placed on an aircraft, it is not easy to execute the aircraft by the fiduciary guarantee. The creditor who has a fiduciary guarantee does not have the power to deregister the aircraft or alter the name of the ownership, therefore it is difficult to auction or sell the aircraft without a de-registration mark of the aircraft. That is why a fiduciary on aircraft is generally carried out only for the aircraft's engine. The aircraft engine is allowed to be removed from the airframe and sold separately.

The *third* problem is that the Banks, as loan providers, will refuse to finance

¹⁹ Article 17 Chicago Convention 1944

²⁰ Irma Devita, *Pemberian Jaminan Atas Pesawat Terbang dan Helikopter*, accessed from <https://irmadevita.com/2011/pemberian-jaminan-atas-pesawat-terbang-dan-helikopter/> on July 24, 2019

²¹ S.A. Bayitch, *Aircraft Mortgage In Western Hemisphere: Recent Development*, (Lawyers Of The Americas, Vol.2 No.2, 1970), 138.

airline companies despite those airlines having valuable aircraft to be placed as debt collateral. Due to the policy of prudent principle that applies to the financial industry, collateral over aircraft is a difficult implementation.²² Domestic banks have a great potential capability to channel loans for the national airlines in Indonesia. However, the financial industry needs legal tools and certainty to ensure the settlement of the loan by taking repayment from the collateral auction. If there is no legal instrument that can guarantee debt repayment, the banking community surely will avoid providing loans.

IV. MODELS ON AIRCRAFT MORTGAGE IN SEVERAL COUNTRIES

Earlier Treaty which regulates the international security interest over an aircraft was The Convention on the International Recognition of Rights in Aircraft done at Geneva on 19th June 1948 (Geneva Convention 1948). This treaty is a result of a consensus among manufacturers and airlines that a large sum of money would be borrowed to develop the aviation industry, meanwhile, the financial industry appeared reluctant to invest due to no assurance to secure their security interest in aircraft especially when the aircraft was in the territory of other country jurisdiction.²³ The State who ratify this Treaty shall recognize that mortgage, hypothec, and other similar rights in aircraft which are contractually created as security for payment of indebtedness.²⁴ In order to provide aircraft mortgage, there are two popular legal jurisdictions to apply the Aircraft Mortgage Agreement between the debtor and creditor, those are the mortgage laws that apply in the United Kingdom, and the mortgage laws that applied in the state of New York or known as New York Law. The New York Law also adds several provisions required by the US Federal Law for aircraft mortgages to take effect.

A. United Kingdom (English Law)

One of the countries that have arranged aircraft as collateral for debt for a long time is Great Britain or the United Kingdom (UK). Mortgages on aircraft in the UK are regulated through Statutory Instrument Number 1268 of 1972 on Mortgaging of Aircraft Order 1972. Adding that to the Civil Aviation Act 1968 and the Mortgaging of Aircraft Order 1972, the United Kingdom has a groundwork to ratify the Geneva Convention 1948.²⁵ According to these regulations, a guarantee is called a Mortgage, and the mortgage must be registered to the Civil Aviation Authority (CAA) which is known as the Aircraft Mortgage Register.²⁶ CAA is the body authorized to regulate civil aviation in the UK. Mortgage registration in CAA is an implementation of the openness principle or publication of such a mortgage. Everyone is considered already known when a mortgage on an aircraft has been registered to the CAA.²⁷ The creditor who held the guarantee in the form of a mortgage on the registered aircraft

²² Article 9 paragraph (2) of Law Number 10 of 1998 on the Indonesia Banking Law

²³ Thomas Conlon, *The Aircraft Mortgages Convention: The United Kingdom Moves Towards Ratification*, (Journal of Law and Commerce, Vol.43, Issue 4, Article 5, 1977), 731-732

²⁴ Article 1 Paragraph 1 of The Geneva Convention 1948

²⁵ Thomas Conlon: *The Aircraft Mortgages*, 731

²⁶ Article 4 *The Mortgaging of the Aircraft Order 1972*, retrieved from <http://www.legislation.gov.uk/uksi/1972/1268/made> on July 31, 2019

²⁷ Owen Constine and Tanya Dolan, *Aviation Finance in the UK (England & Wales): Overview*, retrieved from <https://uk.practicallaw.thomsonreuters.com/2-630-6036?transitionType=Default&contextData=%28sc.Default%29> on July 31, 2019

has a privileged position compared to other creditors. The provisions regarding this matter are contained in Article 14 of The Mortgaging of the Aircraft Order 1972. This provision is similar to the *hipotek* or fiduciary in the guarantee law in Indonesia. The guarantee law in Indonesia also requires registration for both immovable and movable collateral objects particularly in fiduciary, in order to comply with the transparency and publicity and to ensure the privileged position for the registered creditor over the other creditors.

In the implementation of its law, the United Kingdom requires that the aircraft which is going to charge a mortgage physically shall be in British's airspace or the territory of other countries meeting the requirements. This means that English law may be applied in those countries. In 2015, the UK also has ratified the provision of the Convention On International Interest In Mobile Equipment signed at Cape Town on November 16, 2001, known as the Cape Town Convention 2001. Cape Town Convention 2001 is a convention that provides universal rules for countries in the world regarding international guarantees for aircraft financing. Therefore at present time, the UK also applies the provisions as stipulated in the Cape Town Convention 2001 regarding the de-registration of an aircraft (Irrevocable Deregistration and Export Request Authorization or IDERA) which registered to the CAA in order to protect the security interests of foreign creditors. The privilege of a creditor who held registered aircraft mortgage to the CAA, if there any conflict between a mortgage holder and the IDERA holder, the mortgage holder will be defeated unless the registration is carried out before 2015. This provision is a consequence of the superiority of international rules over domestic rules.

Mortgage under English law also protects creditors from the bankruptcy of the debtor. In other words, the mortgage is not affected by the debtor's bankruptcy. A mortgage that has been registered with the CAA, the aircraft will be under the control of the creditor in the event of bankruptcy to the debtor. With control over the aircraft, the creditor may execute the aircraft to remedy its damage. In conclusion, the interest of creditors on their receivables is protected from the liquidation process carried out by the liquidator (curator).

B. United States (New York Law)

The difference in the implementation of aircraft mortgages between the laws of England and the United States is, Guarantee Agreement under American Law must be in writing, whereas in England the Guarantee Agreement may be valid despite being made verbally. This provision is similar to Indonesian Law regarding the validity of a contract under Article 1320 of the Indonesian Civil Code. This article does not mention that a contract must be in writing. However, per the need for evidence, almost all agreements are currently made in writing. In America, however, a written agreement is one of the requirements for validity of a Guarantee Agreement.²⁸

Aircraft mortgages in America must be registered on the Federal Aviation Authority (FAA) as the body authorized to regulate the United State civil aviation. Such registration is required in the Title 14 Code Federal Regulation Part 49.²⁹ Aircraft

²⁸ Thomas A.Zimmer And Dominic Pearson, *Aircraft Mortgages: English Law Or New York Law?*, Pillsbury Winthrop Shaw Pittman LLP, retrieved from <https://gettingthedealthrough.com/area/66/article/28860/aviation-finance-leasing-aircraft-mortgages-english-law-new-york-law> on July 31, 2019

²⁹ ICLG.Com, *USA Aviation Law 2019*, retrieved <https://iclg.com/practice-areas/aviation-laws-and-regulations/usa> on July 31, 2019

mortgage registration also has a forceful effect on third parties or other creditors. This registration also serves as the fulfillment of the principle of transparency to aircraft that are placed as debt collateral. In the event that any foreign interest in providing mortgage on an aircraft, the mortgage may also be registered at The International Registry (IR) which will grant the status as “foreign interest”.³⁰

C. Australia

Slightly different from the implementation in the United States and England, registration of Aircraft Mortgage in Australia is not done at the Australia Civil Aircraft Register. Under the Personal Property Security Act 2009, aircraft mortgage registration must be done on the Personal Property Securities Register (PPSR). From this registration placement, it appears that Australia treats the implementation of aircraft mortgage not in the scope of aviation law, but in the scope of guarantee law (securities).

Australia PPSR was established in 2012 to receive registration for the interests of security rights not only for aircraft but also for other types of property. Prior to the existence of provisions of PPSR, registration of aircraft mortgages was carried out on the Register of Company Charges at the Australian Securities and Investment Commission under the Corporation Act 2001.³¹ Registration on this PPSR is also an implementation of the principle of transparency which grants privilege compared to other creditors. Particularly in aircraft mortgage, PPSR is implemented by dividing the aircraft into Aircraft Engine, Airframe, Helicopter, and Small Aircraft. This means that for the aircraft mortgage in Australia, the mortgage may be on the engine only. From the three models of aircraft mortgage mentioned above, there are similarities regarding the importance of aircraft mortgage registration.

V. ALTERNATIVE APPROACH TO IMPOSE THE AIRCRAFT MORTGAGE LAW

There is no doubt that the substance of the aircraft mortgage shall be governed by the law like the other mortgage such as a mortgage over land or vessel. Moreover, a mortgage over aircraft used to be governed by the Aviation Law Number 15 of 1992. Article 12 Paragraph (1) of Law Number 15 of 1992 stated that the aircraft and helicopter which have been registered on Indonesia nationality may be mortgaged. In order to provide legal certainty on debt collateral over aircraft, there are two alternative approaches may be applied to reinforce the provisions regarding the law of mortgage over an aircraft, as below:

A. Judicial Review

Essentially, the legal vacuum of the aircraft mortgage law is due to the norm in Article 465 of the new Aviation Law Number 1 of 2009. This article states that since the enactment of Aviation Law Number 1 of 2009, Law Number 15 of 1992 was

³⁰ Amanda Applegate, *The International Registry: Understanding Its Process and Protection*, BusinessAir.com <http://www.businessair.com> retrieved on July 31, 2019

³¹ Ben Martin and Laura Evans, *Aviation Finance In Australia: Overview*, Thomson Reuters Practical Law, retrieved from [https://uk.practicallaw.thomsonreuters.com/4-628-0592?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&bhcp=1](https://uk.practicallaw.thomsonreuters.com/4-628-0592?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1) on July 31, 2019

revoked and declared no longer valid. The norm in this article implicates that since 2009 Indonesia has had no regulation to be a legal basis to mortgage an aircraft. In this circumstance, some people may be affected negatively due to the norm contained in article 465. Therefore, airlines or any Indonesian citizen who owned an aircraft or helicopter and have proof of ownership that Law Number 1 of 2009, particularly on Article 465, had created inflictions of damages to them, may submit a Judicial Review to the Constitutional Court of the Republic of Indonesia. Judicial review is an examination process of legal norms in the legislation that has been in effect by the judiciary institution. The concept of Judicial Review in the Indonesian legal system is to examine whether the norm contained in the legislation has been in accordance or contrary to the norm contained in the Indonesian Constitution of 1945.³²

The party who may apply to the Constitutional Court for Judicial Review is the party who has a legal standing to do it. The Constitutional Court itself, through its verdict Number 006/PUU-III/2005, 006/PUU-V/2007, and 011/PUU-V/2007 described that the applicants who have legal standing to apply are the parties who consider that their constitutional right has been breached by the legislation.³³ Article 51 of Law Number 23 of 2004 on The Constitutional Supreme Court states that any Indonesian Citizens, Cultural Community, Companies, and State Institutions may act as the applicant for a Judicial Review.

The Judicial Review which may be submitted is to review Article 465 of Law Number 1 of 2009 and to reinforce Article 12 of Law Number 15 of 1992. The deletion of Article 12 of Law Number 15 of 1992 which governed the mortgage over aircraft, obviously has been created legal uncertainty regarding aircraft mortgage and it impacts the Indonesian airlines negatively. Meanwhile, Article 28D Paragraph (1) of the Indonesia Constitution 1945 states that every citizen has a right to have recognition, assurance, protection, and fair legal certainty and shall be treated as equal before the law. It can be argued that Article 465 of Law Number 1 of 2009 on Aviation, which declared that all provisions contained in Law Number 15 of 1992 on Aviation were no longer valid, is contrary to the norm on Article 28D of the Indonesia Constitution. The change to the new Aviation Law should be meant that any provision in the previous law which is not governed in the new law shall remain valid and binding. In other words, the provision of aircraft mortgage contained in Article 12 of Law Number 15 of 1992 shall be declared remain valid and binding. The verdict of the Constitutional Court is final and binding.

B. Amendment

Another approach to impose aircraft mortgage law is to amend Law Number 1 of 2009 on Aviation by inserting the new provision governing the mortgage over aircraft. The process to amend the law is more complicated than Judicial review. In the beginning, the Transportation Minister shall prepare the draft of an amendment to be submitted to the National Legislation Program. However, previously the Transportation Minister shall co-ordinate with the Ministry of National Planning Development, Ministry of State Secretariat, Ministry of Finance, and the Ministry of Internal Affairs to have feedback and synchronization with the other institutions. On submission to the National Legislation Program, the draft shall be attached with

³² Mardian Wibowo, *AAPUU Asas-Asas Pengujian Undang-Undang*, (Rajawali Press 2020), 63

³³ Ahmad F.Sumadi, Acmad E.Subiyanto and Anna Triningsih, *Hukum Acara Mahkamah Konstitusi Perkembangan Dalam Praktik*, (Rajawali Press, 2019), 79

the Academic Manuscript and several documents as evidence that the draft has been observed, standardized, and synchronized in terms of technical preparation.³⁴ All of these preparation stages are under the authority of the President. Article 5 paragraph (1) of the Indonesia Constitution 1945 governs that the President has authority to construct the law with approval from the Parliament. Therefore, the draft of the amendment of Aviation Law Number 1 of 2009 shall be submitted, discussed, and approved by the Parliament.

Following the reinforcement of the aircraft mortgage provision in Law Number 1 of 2009 on Aviation, subsequently, the Government directly shall issue a Government Regulation to regulate the implementation of aircraft mortgage. Government Regulation is the regulation that contained provisions to govern the implementation of the Law.³⁵ Hierarchically, the Government Regulation is lower than the Law.³⁶ Through this regulation, the Government has to straighten up the standard operating procedure of aircraft mortgage, mortgage registration, and publicity in order to comply with the transparency principles.

Likewise the model of the New York Law on aircraft mortgage, to register a mortgage, the agreement shall be in written and it shall be done at the Directorate of Airworthiness and Aircraft Operation as the registrar office. The idea that the Directorate of Airworthiness and Aircraft Operation shall be authorized as the registrar's office for aircraft mortgage is not too profuse. Similar to land mortgage registration which is done by Land Registration Office, the aircraft registration and aircraft mortgage registration also shall be done at the same office. This surely will make it comfortable for the public to retrieve comprehensive information regarding the registered aircraft.

All these efforts are intended to facilitate for national airlines to place their fleets as collateral and access financial sources. On the other hand, it is also to provide legal protection for creditors. For the industry itself, this is for the sake of legal certainty which will create a positive impact on the Indonesian air transport industry.

VI. CONCLUSION

It is quite unfortunate that the provisions regarding aircraft mortgage contained in Article 12 Paragraph (1) of Indonesian Aviation Law Number 15 of 1992 were declared invalid by Law Number 1 of 2009 on Aviation. In fact, all implementing regulations under Law Number 15 of 1992 were declared to remain valid as long no any contrary with the provision of the new Aviation law. Unfortunately, the Government Regulation for implementation of aircraft mortgages has not been issued heretofore. This condition created uncertainty in the aircraft mortgage in Indonesia. Some people believe that it is urgent to maintain aircraft mortgages since this guarantee institution plays a very active role and supports credit services disbursed by banks.³⁷ So, it deserves to be maintained in the Indonesia Guarantee Law.

Compared to the laws of other countries which regulate and implement aircraft

³⁴ Eka Sihombing & Ali Marwan, *Ilmu Perundang-undangan*, (Setara Press, 2021), 131

³⁵ Maria Farida Indrati, *Ilmu Perundang-undangan 1 Jenis, Fungsi dan Materi Muatan*, (revised edition, PT.Kanisius, 2020), 77

³⁶ Article 7 Paragraph (1) the Law Number 12 of 2011 on Establishment of Legislation and its Amendment in the Law Number 15 of 2019

³⁷ Annisa Y, Murzal, Mada Apriandi & Febrian, *Urgency Of Regulation: Aircraft As Object Of Credit Guarantee*, (Diponegoro Law Review, Vol.05, No.01, April 2020), 19-33

as debt collateral, Indonesia is quite far behind. The establishment of this regulation should be immediately completed in order to encourage the growth of the Indonesian commercial air transport industry. The existence of laws and regulations governing aircraft as debt collateral is believed will create opportunities for airlines to access financial sources in order to manage their working capital. Another benefit that airlines may have from bank financing is for maintaining their cash flow sufficiently. The lack of cash flow or higher cash flow volatility may cause a lower capital expenditure and other crucial expenses which will deteriorate company performance.³⁸ Cash flow in the air transport industry is very crucial due to their obligation to make payments to other parties related to the airline's operation. The use of airports, ground handling services, fuel, and aircraft maintenance which must be carried out periodically are expenses that cost a lot. If the payments are delayed or postponed, it will affect the flight operations. Moreover, if aircraft maintenance is being delayed due to lack of funds, consequently the aircraft would not be allowed to fly and surely will not generate revenue.

For the financial industry, the existence of regulation regarding the implementation of aircraft mortgages is an opportunity to widen its markets in the commercial air transport industry. The growth of flight passengers every year is a very promising business opportunity not only for airlines but also for the financial industry. The financial stability of airlines will also have a positive impact on the competition among airlines, subsequently, it also will be a benefit for the public in using air transport services. The improvement of the aviation industry surely will make a significant contribution to other industries such as tourism and small or medium enterprises in Indonesia. It will also create new economic centers in isolated areas due to the ease of flow of goods.

The commercial air transport industry faces very strict flight rules for the sake of aviation safety itself. Operationally, the rules that must be obeyed and implemented do not only come from the rules made by the Government, but also from international rules made by international bodies. Moreover, most countries in the world consider that aviation law is a matter of International law.³⁹ Compliance with these rules is imperative that cannot be postponed or neglected because it involves the safety of human life. In order to comply with all these rules in the operation of air transport services, an airline requires a lot of funds. Therefore, the air transportation business needs easy access to low-cost financial sources to carry out all its business activities. This financial support is useful to optimize its fleets and to take all necessary actions to maintain the airworthiness of each aircraft it owns. One of the possible legal instruments to create access to financial resources is a regulation regarding the implementation of aircraft mortgages as collateral for a debt. This regulation is currently unavailable in the midst of the growing commercial air transport industry in Indonesia.

³⁸ Minton, B.A. & Scrand, C.M., *The Impact Of Cash Flow Volatility on Discretionary Investment and the Costs of Debt and Equity Financing*, (Journal Of Financial Economics, 54, (3), 1999, 423-460

³⁹ Brian F Havel, *The Principles and Practices Of International Aviation Law*, (Cambridge University Press, 2014), 102

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