

## Infrastructure

by Scott Younger



# Port development: Progress in Complexity?



**L**AW 17/2008 ON SHIPPING HAS NOW BEEN WITH US FOR A year and hence it is a good time to see what progress has been made in this vital area of infrastructure, the lifeblood of Indonesia's archipelago-based trade economy.

I had the good fortune to meet a fellow civil engineer, David Wignall, earlier this year. He has been steeped in shipping and port industry issues for the past 30 years, with a particular focus on this region, and the following is based on discussions with him.

One very clear message is that attending to the development needs of this infrastructure sector must be right at the forefront of our next government's agenda. Further, if the private sector is to play a major part in this development, and success is contingent on this factor, then suitable and clear implementing regulations must be available as soon as possible.

The slow pace of infrastructure development in the past five years, if continued, will increasingly hinder the economic growth of the country.

### Worldwide investment

WITH REGARD TO PORTS, WORLDWIDE THERE HAS BEEN MASSIVE investment in the sector, the largest ever experienced. Indonesia 'slept' through this period, while the rest of the world saw a rapid process of moving ports from public to private ownership, with investment to match.

Because Indonesia continued as before, with all its traditional in-built inefficiencies, investors went elsewhere. No plan, no planning, no investment and no competition have been the cornerstones of

port policy and operations.

Does this mean that the opportunities of the boom have been lost, or will the new Shipping Law provide a late entry, which will permit them to be the focus of a worldwide industry desperate for somewhere to work as the rest of the world suffers the hangover of excess from the past few years? At least the Shipping Law has highlighted all the faults and inadequacies of Indonesian ports.

Even with enlightened implementation there will be no overnight transformation. In the best case, it will take many years for the under-investment and lack of direction in the industry to be corrected. What the Law does is set a clear policy through which the government intends this to happen.

The policy focus is on delivering more (and the right) ports to address future needs, and to achieve this by mobilizing private finance to provide a significant amount of the required new investment, and through encouraging competition in a sector previously reserved for public sector operation and ownership.

### Features of the new Law

THERE ARE THREE MAIN FEATURES OF THE LAW. IN THE FIRST PLACE, the government is to prepare and see implemented a National Master Plan for the pPorts of Indonesia, although it is not yet clear how this is to be done. However, hopefully the resulting strategic planning will clearly identify the number and general location of main coal terminals, oil and gas berths, container terminals, grain silos and other general and passenger terminals that are needed to properly service the needs of Indonesia for the next 30 years.

Without serious analysis, it is clear that the country needs to treble its port capacity by 2040, which will mean not only expanding existing ports, where this still remains possible, but supplementing them with a substantial number of new ones. This should all be clearly set out in the National Plan, with locations to serve key areas, but which do not prejudice valuable environmental features.

The importance of defining correct locations cannot be underestimated. The proposed location of Bojonegara, first considered as a relief to the congestion at Tanjung Priok, now nearing full capacity, and thereafter a key destination for West Javanese trade in its own right, has received stop-go attention for some 20 years. It is an obvious choice for early promotion.

What about the many others that are required? Presumably,



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they will be identified in the second mandatory planning tool – Port Master Plans - which will be a fundamental part of the new planning and regulatory process.

The new Port Master Plans will or should be developed through the third feature of the Law – Port Authorities, charged with regulating ports, traffic and related matters. The responsibilities of these bodies are going to be considerable, not least because they must manage the transition of the State-Owned Port Operating Companies (Pelindo) into commercial terminal operators. While the intent of their future is clear, the journey ahead is not!

### Capacity building

WHILE THE PLANNING PROCESS IS WELCOME, IT IS ESSENTIAL THAT the National Plan and Master Plans are not limited to the physical needs of the country. As pertinent also to all infrastructure sectors, the human resources needed to support this level of development are large and cannot be underestimated.

While it will be necessary to bring in overseas expertise to assist in the study and design of the new ports, over the longer term the pilots, port managers, harbor masters and a wide range of other national port professionals need to be trained and gain experience here in Indonesia.

There is also an urgent need for exposure to and to bring in and adapt some current international 'best practice'. For the future, it is vital that these softer aspects of port growth and planning are not neglected. The Law is clear that they should not be.

### Implementing regulations

DRAFTS OF THE HIGHEST LEVEL OF THE REQUIRED LEVEL of implementing regulations have been circulating round the Directorate General of Sea Transport and the Ministry of Transportation for some time, although they should have been published and in force within one year of gazetting of Law 17.

There is even a question as to how close to completion they are, and the content of drafts seems to be light on several important issues – what form of public private partnerships will be allowed, the governance structure of the proposed port authorities, and how finance will be raised for basic infrastructure investments.

Further, among a number of other omissions, the most crucial is how the potential clash of roles and responsibilities between the harbor master and port authority will be resolved.

The common international approach is to place the harbor master within the port authority, but there is the possibility of finding a local solution, which fudges the responsibility issue and avoids cutting across vested interests. Why cannot well-trying and successful models of the port authorities in Europe or UK, or having a strong National Maritime Safety Agency, as in Japan or the USA, be adopted?

### Pelindo and local government

THE FUTURE STRATEGY FOR AND REGULATION OF PELINDO IS crucial for future Indonesian ports. It is important that there is a fair playing field to attract new investors, and delivery of essential port services is maintained where there is little potential for return on investment.

Observing the current operations of Pelindo companies, it can

be seen that substantial cross-subsidies are required from a small number of profitable ports and terminals to the larger number of smaller, unprofitable ports.

The new Law requires Pelindo companies to be treated like any other port business, but their structure currently bears no comparison. Any serious manager being installed as president director of one of the Pelindo companies would first look at the accounts, check with the new Law, and decide to hand over the unprofitable ports to the relevant local government as port operating units. Going round the provinces, it is clear that local governments do want their own ports. It is a governor's or a regent's pet project to stimulate local economic growth, even above the development of the hinterland to support the port. This is completely understandable in a nation of 6,000 inhabited islands.

However, it is also very clear that local governments do not understand the complex nature of port activities and the extensive investment needed to build up all the required facilities, as well as ensuring the availability of trained staff to manage them properly and efficiently.

Further, they do not comprehend all the reasons for the cross-subsidies currently provided in the Pelindo operations. Only the larger local governments have sufficient funds to carry the losses for a good number of years of a new venture, until operational build up and efficiency can achieve a position of profitable self-sustainability.

Great care is needed to ensure any such change in jurisdiction does not go badly wrong, such that the impact would be felt by those least able to recover from the ensuing mess.

While each of the propositions coming forward from local government is clearly of local importance, this does not make every one key to the nation as a whole. It is important that national government keeps control of the National Port Plan, and ensure that it does not become an agglomeration of the desires of local government to see a new port in their area. This would truly pervert the intent of the new Law and set port development back in Indonesia another decade, with significant negative consequences to economic growth.

### Good intentions

SO FAR SO GOOD WITH THE NEW LAW, BUT WE HAVE NOT MOVED far from intentions, with many pitfalls to be avoided. Then there is the question of shipping, not covered in this overview.

This provides a big catch. – cabotage, the restriction of domestic trade to local owners. This is not going to help anyone but local ship owners and seems to run contrary to the government's policy to reduce sea freight costs across the archipelago.

In a time when low-cost ships are laid up across the world, this seems a peculiar time to choose to legislate against anyone wishing to explore domestic sea traffic in Indonesia, putting available tonnage on routes, and seeking to compete in moving freight around Indonesia more cheaply than anyone else. It's an opportunity that the country should not miss. **GA**

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