



# Shipping without inefficiencies

The recent publication of the new shipping law, Law No 21/2008, has raised, albeit not before time, the profile of this vital element of Indonesian infrastructure and should create investor interest in the sector.

**W**ITH A LAND MASS MADE UP OF SOME 17,000 islands, the country could not function without its sea links. For too many years there has been a disturbing lack of investment in this sector,

whether

for port development or in shipping, although shipping is very competitive and the sector has been responsive to demand following deregulation in the late 1980s.

The problem for shipping is the unseemly time spent queuing outside or berthed at congested ports.

The new law opens up the possibility of interesting the private sector in various avenues of investment without taking on board the unnecessary existing inefficiencies that have plagued the current arrangements under the four state-owned port operators, Pelindo I-IV.

In addition, there is recognition that the function of regulation must be separated from that of operation, as in other areas of

infrastructure. Evaluation of port functions shows that there is still considerable room for improvement in existing operations without expanding capacity, but to achieve this requires an acceptance that current practices have to change and of the need for long-neglected - capacity-building measures.

Steps to increase port capacity must also be put in hand while, for example, Bojonegara and the ports of Krakatau and Ciwindan to the west are going to become even more important to the commercial functioning of the western half of the industrial heartland of Java.

Initial construction started on Bojonegara in 2003, but the focus became unclear when work began on the Jakarta New Port in 2004 under the aegis of the Jakarta administration and Pelindo II, despite the congested hinterland approaches.

This lack of coherent policies and coordination among government agencies has added to the private sector's reluctance to take up port development projects.



## Infrastructure needs

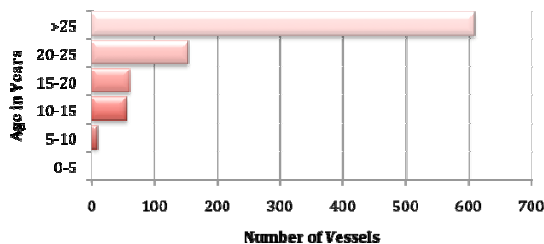
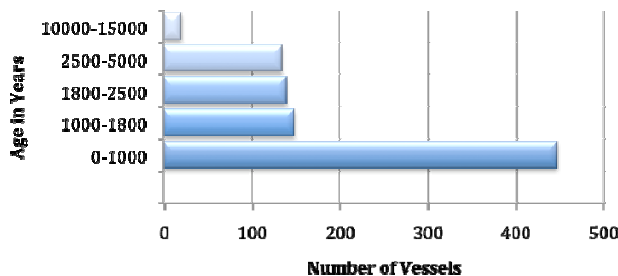
EQUALLY IMPORTANT IN ORDER TO MAXIMIZE THE OUTPUT OF Indonesia's ports will be the question of addressing the vast investment and amount of work needed in the supporting land-based infrastructure - efficient road and rail connections, water supply and power, not to mention the role of telecommunications.

The shipping function truly calls for immediate action to all aspects of the infrastructure equation. Strangely, there are no functioning rail links to Indonesia's main ports. Operations at Jakarta's Tanjung Priok port are restricted by appallingly poor road access.

Even accepting that the relatively low draught in Tanjung Priok will always inhibit its ability to handle a full range of shipping traffic, and although container vessels of up to 50,000-60,000 dwt will be able to be handled by August, Jakarta must do better.

Many of Indonesia's islands depend on Tanjung Priok transshipment, and their people ultimately suffer from its inefficiencies.

Figure 1 shows the size and age distribution of the general cargo vessels that serve the country's islands. Two things are very marked: most of these vessels are small and the vast majority is more than 25 years old. The same pattern applies to all other categories of vessel - bulk carriers, tankers, container ships.



Two innovations that have changed the face of the shipping business worldwide are container ships and roll-on/roll-off (roro) ferries. These technologies are relatively in their infancy in Indonesia, and our lack of preparation to handle these ships leaves Indonesian ports woefully unprepared to compete for international business raises the cost of logistics and distribution to unacceptable levels.

The accident record of Indonesia's ships is poor, and this is particularly evident in the annual passenger ferry disasters, again caused by the age of the ferries and long-term inefficiencies in their operations and maintenance. There is an urgent need for new ferries and operators and this provides an opportunity for the private sector.

The exercise of the cabotage principle represents a longer-term opportunity for local shipyards, national carriers and new players. According to the Ministry of Transportation, Indonesian vessels last year carried 65% of total cargo.

The expected increase in sea-borne trading activities will further increase the requirement for additional ships and shipping capacity. It is estimated that Indonesia will need 654 additional vessels in service to maximize the objectives of the new law, which will involve an investment approaching \$15 billion.

## Challenge for bureaucracy

THE GOVERNMENT'S OBJECTIVE IS THAT ALL MAIN DOMESTIC cargo - and 13 important items are listed - will be carried by national carriers by 2010. This will require a significant change to current inter-island arrangements and will depend on how quickly the appropriate implementing regulations are put in place.

The 2010 target is very optimistic - dates beyond 2011 are now being quoted - and serious problems remain in banking, tax and legal issues, where there will have to be some fundamental adjustments. Banks, for instance, will have to compete in lending and financing to Indonesian shipowners at global competitive rates.

The cabotage part of the law will only work when these issues have been addressed and can compare with ASEAN and global markets.

Can the bureaucracy rise to the challenge considering how long it has taken to put the law in place?

The passage of the law is at least a signal, although only that, that the preparation and approval of the necessary implementing regulations may begin.

Experience has shown that this is not a fast process, possibly two to three years for the main body of implementing regulations and very likely longer for some.

Hence, the changes to the shipping business heralded by the new law will inevitably be gradual, although the 'do nothing' case would certainly not be acceptable. Perhaps the intervening period will afford some time to get on quickly with the long-delayed land-based supporting infrastructure, starting with improvements to the access to Tanjung Priok?. GA

Scott Younger is the president commissioner of Glendale Partners and Nusantara Infrastructure