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WORLD MARITIME UNIVERSITY

Malmö, Sweden

INTERISLAND TRANSPORTATION BY SEA IN INDONESIA

By

ERWIN PANGARIBUAN

INDONESIA

A technical paper submitted to the World Maritime
University in partial fulfilment of the requirements for
the award of

POSTGRADUATE DIPLOMA

in

SHIPPING MANAGEMENT

1999

DECLARATION

I certify that all material in this paper that is not my own work has been identified, and that no material is included for which a degree has previously been conferred on me.

The contents of this paper reflect my own personal views, and are not necessary endorsed by the university.

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ABSTRACT

Title : Interisland Transportation by Sea in Indonesia

Degree : MSc

This paper explained and identify the interisland transportation by sea in Indonesia is very important. Being an archipelagic state, the role of sea transportation in Indonesia is very important in supporting its economic growth, and is a back-bone for national development.

As service industry, interisland transportation by sea must be able to offer the good service. In doing so interisland transportation by sea have to integrate all elements together to produce service needed by customers.

Providing better service is necessary for the customers because the main contribution to the interisland shipping companies is from a service. By doing so, it is expected that interisland shipping companies can meet the need of customers and become competitive.

This paper discuss the problems caused for interisland shipping companies such as: lack of skills, lack of capital, lack of requirements and ages of vessels. Also, it tries to make proposals and recommendations, in order to support interisland shipping companies in the future will be better and improve the operation.

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LIST OF ABBREVIATIONS

DGSC	: Directorate General of Sea Communications
DWT	: Dead Weight Ton
GDP	: Gross Domestic Product
INL	: Indonesia National Line
INSA	: Indonesia Shipowners Association
ITF	: International Transport Workers' Federation
KPI	: Kesatuan Pelaut Indonesia/Indonesia Seafarers Union
KP	: Keputusan Presiden/President Decree
PEPELRA	: Persatuan Pelayaran Rakyat/Sailing Boat Owners Association
PP	: Peraturan Pemerintah/Government Regulation

Chapter one

A. Introduction

Being an archipelagic state, Indonesia has more than 13.600 islands spread all over the Indonesia waters, lying between Asia and Australian continent and also in the Pacific Ocean.

With this geographical position and Indonesia being a big maritime and archipelagic country the sea transport has been a vital element of communication in Indonesia.

Because of these conditions and vast coast line, the role of sea transportation in Indonesia is very important in supporting its economic growth, and is a back-bone for national development.

Based on the Government regulation No. 17/1988 dated November 21, 1988, shipping services in Indonesia is divided into 2 (two) main sectors, as follow :

- Domestic shipping services, including sailing craft service and pioneer service;
- Ocean-going shipping service.

Domestic shipping service, is a service among Indonesian ports in regular and on liner shipping system as well as tramping system, using various types of vessels. Each element of domestic shipping must be accomplished in an integrated operation system, so that the interisland service can be developed and in turn exchange of local products of many islands can be done smoothly.

A good intergrated operation system of domestic shipping is also capeble of reducing seaborne costs, which has a favourable effect on market prices, consumption, production, etc

The government regulations require that domestic shipping service is entirely carried out by national flag carriers.

The ocean-going shipping service, is a service to and from abroad in liner or tramp terms, using all types of vessels.

The Indonesian ocean-going shipping services carry import and export cargoes on fair-share basis with foreign shipping companies. For international shipping, the government policy is to encourage a fair-share of participation for national fleet.

Permits are granted by the government to foreign flag carriers on specific conditions to operate for domestic trade and on Indonesia agents, who submits the traffic, manifest and conference membership to the Ministry of Communications for approval for foreign trade.

There are 3 (three) states owned companies :

- One domestic company : PT. PELNI
- Two ocean-going companies : PT. DJAKARTA LLOYD and PT. BAHTERA ADHIGUNA.

Beside those mentioned above, there are also a number of private companies in Indonesia (in 1996 there were about 1.100 shipping companies)

B. Organisational Control

Law enforcement organisation in reference to the shipping is based on the Presidential decree No. 44 and 45-1974 which authorises the Ministry Communications (Ministry being the basic organization).

The main task of the Ministry of Communications it to take care of the general task of control and development in the communication matters.

The Ministry of Communications is divided into 3 (three) Directorates General. One of them, is the Directorate General of Sea Communications.

The main responsibility of the Directorate General of Sea Communications is to administer of the basic tasks on behalf of the Ministry of Communication related to the sea communication based on the Ministry policy.

The Directorate General of Sea Communication has 6 (six) Directorates, as follows:

1. Directorate Sea and Traffic;
2. Directorate Marine Safety;
3. Directorate Ports and Dredging;
4. Directorate Navigation;
5. Directorate Maritime Services;
6. Directorate Coast Guard.

The main functions of the Directorate Sea and Traffic can be shown under a total of 6 (six) Sub Directorates :

1. Sub Directorate Local;
2. Sub Directorate International;
3. Sub Directorate Special;
4. Sub Directorate Traffic;
5. Sub Directorate Data;
6. Sub Directorate Liner Promotion.

The task of the liner promotion sub sector is done by the Sub Directorate Liner promotion under the Directorate Sea and traffic. Its main functions are relating to development of the companies which are active in the sea transportation, shipping companies for domestic as well as ocean-going services , to issue certificate/licences and permits for their activities in order to avoid unfair (unhealthy) competition.

Chapter Two

Factors Affecting shipping services

A. Port facilities

In Indonesia there are 4 (four) gate-way ports supported by a number of collectorports. The investments for these ports are related to the scale of their activities, for instance : the total number of ships' call per year, loading and unloading rate and types of commodities to be handled. The investments are such as : purchase gantry crane, forklift, development of warehousing etc.

In order to make Indonesian export commodities more competitive in the international market, it is necessary to decrease its sea freights by reducing the round voyage time of every vessels and adequately support the international services by domestic shipping.

For this purpose, the Government of Indonesia has modernized four gate- way ports, namely Port of Belawan at Medan, Port of Tanjung Priok at Jakarta, Port of Tanjung Perak at Surabaya and Port of Makassar at Ujung Pandang.

They were equipped with shore gentry cranes to accelerate loading and unloading containers to/from the ship and also container terminal.

Each of these four gate-way ports serve their own regions. They were sustained by their own collector and trunk ports, as shown follow :

Table 1. The gateway Ports

GATEWAY PORTS	BELAWAN	TG. PRIOK	TG. PERAK	MAKASSAR
Colector Ports	Lhokseumawe Dumai Batam Tg. Pinang	Palembang Panjang Padang Pontianak	Semarang Lembar Kupang Balikpapan	Bitung Kendari Ambon Sorong
Trunk Ports	Kuala Langsa Kreung Raya Sibolga Pekanbaru Bagan Siapi-api	Bengkulu Cirebon Jambi Sintete	Banjarmasin Cilacap Meneng Tarakan Samarinda Kalianget Sampit Benoa	Gorontalo Pantoloan Ternate Jayapura Pare-Pare Toli-Toli Biak Merauke

Source : Ministry of Communication (1996)

B. Cargo movement

The government of Indonesia has formulated some regulations concerning simplification of licencing procedure and bureaucratic matters, in order to promote the Indonesia export drive of non oil and gas commodities.

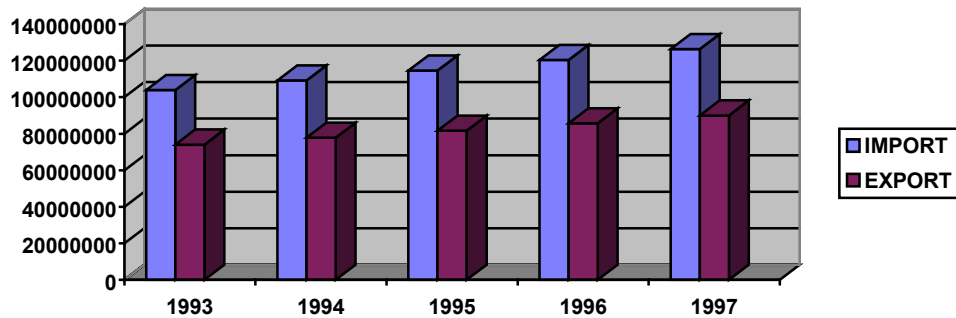
The annual totals of import and export by years, are as shown below:

Table 2. Total Import and Export

Year	IMPORT	EXPORT	TOTAL
1993	103.982.921	74.026.426	178.009.347
1994	109.182.039	77.727.746	186.909.785
1995	114.641.142	81.614.151	196.255.293
1996	120.373.200	85.694.857	206.068.057
1997	126.391.859	89.979.599	216.371.458

Source : Ministry of Trade (1997)

Graph cargo movement in 1993 - 1997, there are (tonnes):



C. Fleet

In general, the national vessels which are engaged in operations for domestic liner service are old ships.

Under this condition, it is reasonably expected that the running and operational cost will be very high, especially the maintenance and repairing cost component. It may take portion compare to other side commission will be reduce, that means the productivity is lower.

The existing tonnage position of domestic and ocean-going fleet since 1994 until the end of 1996, is here under :

Table 3. Tonnage of Domestic and Ocean Going Vessel

SHIPPING SERVICE	UNIT	TONNAGE
A. DOMESTIC SERVICE :		
1. Interisland	314	576.103 DWT
2. Local	871	163.643 DWT
3. Sailing Craft	4.301	271.956 GRT
4. Pioneer	30	14.600 DWT
5. Industrial Carriers	242	2.506.350 DWT
B OCEAN-GOING SERVICE :		
1. Liner	41	512.350 DWT
2. Special Carrier	75	469.989 DWT

Source : Directorate General of Sea Communication (1996)

D. Shipping Companies

Referring to the new Government regulation No. 20/1996 about seaborne transportation arrangement and undertaking, shipping companies consists of 2 (two) main categories as follows :

- Domestic shipping companies, and
- Ocean-going companies

The position of the existing shipping companies by the end of 1996, is here below :

Table 5. Number of The Shipping Company

COMPANY SERVICES	STATE OWN	PRIVATE OWN	TOTAL
A. DOMESTIC			
1. Interisland	7	53	60
2. Local	-	212	212
3. Sailing Craft	-	428	428
4. Offshore	6	23	29
5. Industrial carries	14	179	193
6. Tanker	4	33	37
7. Pioneer	State Project		
B. OCEAN-GOING			
1. Liner	7	11	18
2. Special	8	26	34

Source: Directorate General of Sea Communication (1996)

E. Shipping development Plan

As stated above the most of the ships engaged in liner domestic service operation are old. That is why there must be some replacement on the liner domestic vessels.

The purpose of fleet development policies, is to support a long term national economic growth.

The Directorate General of Sea Communication in this case has laid down very important policies concerning to the national building industries programme.

In principle, it is required that new tonnage must be built by domestic ship building industries, however replacement tonnage will be allowed by purchase of second hand ships, with maximum age of 8 years for ships which are built in Asian countries and of 10 years for ships which are built in European countries.

F. Seafarers matter

Problems of Indonesian seafarers are due to the restricted existing jobs. Their deficiency in spoken English has effect on their employment, especially on the foreign vessels. This is noticed from the monitoring done by foreign shipowners employer association.

According to the Indonesian Seafarer Book published by the Head Office of Directorate General of Sea Communications, the position of Indonesia seafarers by the end of 1994 amounted to 39.000 persons for both foreign and domestic shipping services.

Besides these two problems mentioned above, the unemployment of seafarers in Indonesia was also caused by the Government regulation of 1994 concerning the ship scrapping policy, where in some total of 183 vessels have been scrapped with total tonnage of 219.855 DWT.

G. Association of Ships Owners

All ship's owners are integrated in association under the name of Indonesia Ships owners Association (INSA). The role of INSA is to serve as a communication tool between the government and the shipowner's. INSA has following functions :

- to arrange the routes before it is discussed with government;
- to give recommendations for starting new shipping company;
- to collect operational data for each element of domestic shipping companies.

INSA has several joint operation board groups, these are :

- joint operation of Indonesia National Lines (INL), the members of these group are ocean-going shipping companies;
- joint operation of Nusantara Shipping Line;
- joint operation of special shipping Line.

Especially in these groups the shipowners and sailing boats owners separates than these under INSA, these are integrated under PEPELRA (Persatuan Pelayaran Rakyat/Sailing Boats owners Association).

Chapter Three

THE GOVERNMENT POLICIES

A. The Government Long Term Policy on National Sea Transportation

Based on the national economical and political aspects the long term policy on sea transportation is directed in such way so as to ensure that the fleet is:

1. Constructed and maintained by Indonesian shipyard;
2. Owned by Indonesia;
3. Operation by and under Indonesia flag;
4. Developed by national capital in sufficient proportion;
5. Named by Indonesia, (it mean all the vessels should use Indonesian names);
6. Able to serve the domestic sea transportation demand and part of international trade.

B. Indonesia's Sea Transportation System

By taking many aspects in to consideration (operational coverage, comodities to be carried, by type of vessels and the economy development, etc).

The national system of sea transportation consists of sub-systems as follows :

1. Domestic sea transportation :
 - a. Interisland shipping is a sub-system which is serving the domestic transportation regularly by using the vessels of at least 500 ton DWT and the function is to support the ocean going activities.
 - b. Local shipping is a sub-system which is serving a certain area by using the vessel below 500 ton DWT and the function is to support the interisland shipping.
 - c. Sailing vessels is a sub system which is using sails and wind power below 100 ton DWT and is aimed at supporting the local shipping.

- d. Domestic special shipping is a sub system which is carrying the special cargoes (generated from industry, forestry and fishery) by the special vessel regardless the route they sail in domestic area.
 - e. Pioneer shipping is a sub system which is held by the government for serving and connecting the remote areas in Indonesia.
2. Ocean-going
- a. Liner ocean-going is also a sub-system which is connecting Indonesia and other countries by the vessels under Indonesian flag on liner basis
 - b. Special ocean-going is a sub-system which is carrying the special cargoes (from industry, forestry and agricultural) from Indonesia to foreign countries by the vessel under Indonesia flag.

C. The role of interisland shipping

The sub system of interisland shipping has the next important role after Domestic Special Shipping, both seen from the fleet potential and cargo carried. However, seen from operations aspect the interisland is relatively more important than the Domestic Special Shipping because the interisland shipping is connecting the whole country regularly and also carrying passenger beside cargo.

Moreover, due to the existing four gate-way system, introduced by the government recently, has made the role of interisland shipping more important.

The four gate-way port system is meant to be such that the ocean-going vessels (liner) carry out their loading and discharging activities in these four ports only, while the interisland shipping acts as the partner for distributing and collecting to and from the remaining ports in accordance with routes and locations.

Chapter Four

THE IMPORTANCE OF PROBLEMS

A. Impact on National Economy

The development of foreign trade, which is done by sea transport, has an impact on the economic growth for many developing countries. Sea transportation has helped the developing countries to increase their gross domestic product. However, the high cost of sea transportation can affect the international trade and it can decline foreign exchange earning of the country.

The various costs which are imposed on shipowners, shippers and receivers indicate the significance of sea transportation costs. An effective and efficient port can reduce the sea transport cost. This can be achieved by providing good services. Reducing transport costs can make export and import product more competitive. As regards the exports and imports, the table below shows the development of exports and imports of Indonesia.

Table 5. Export and Import of Indonesia (US\$ Millions)

Items/Year	1993	1994	1995	1996	1997
Export	33967	36823	40054	45417	47271
Import	27280	28328	31850	40918	43869

Source : World of Information (1997)

The volume and value of exports and imports can affect the GDP. A high growth rate can escalate the demand of import and export products. In order to maintain or increase the revenue of the shipping company in line with the growth of economy, service has to be improved.

B. Ages of Vessels

“Indonesian shipping is very bad” said the Indonesian National Shipowners’ Association (INSA). In general, the vessels in operation for the interisland shipping companies have age of 15 years or more on an average.

By the very nature of old vessels, it is reasonably expected that the running and operational cost involved will be very high, especially in terms of repair and maintenance, bunker expenses, insurance, etc.

Moreover, the productivity of such old vessels is very low and the subsequent delays that are encountered in their ports of call only adds further to expenses incurred due to higher port charges.

Therefore when one considers the very high expenses related to the operation of such vessels, it is often very difficult to assume any earning through the freight incomes.

Moreoften than not, the profit margin for the interisland shipping companies will be very minimal as a result of the very high expenses incurred in the operation of such old vessels.

C Lack of Capital

In recent years, the situation has been such that there are approximately 40 % of the interisland shipping companies which suffered losses, another 30 % caned only reach break even point and the remaining 30 % were able to realize profit.

Moreover, this situation can also be found in the element of the special shipping lines especially on the special liquid cargo shipping lines.

These circumstances, of course reflect on some difficulties the shipping companies have in running their replacement and expansion program.

Such situation, as it continues over the years bear a significant impact on the financial status of the shipping companies.

Therefore, there arises the need for some measures to help these shipping companies in the financial difficulties such as to give credit through the banks at relatively low interest rate; to have a grace period of 1 to 5 years for investment credit; to have a much longer time to pay back the borrowings, namely for working capital 1 to 5 years and for investment capital 5 to 10 years; to have the lightness to pay the tax for a certain years for instance 1 to 3 years.

D. Lack of Skills

Another factor which poses difficulties for the shipping companies (interisland shipping, local shipping, sailing vessel) is the lack of knowledge and skills possessed by the top managers and staff, like the lack of the knowledge about management, financing, marketing and technical operations.

Besides the above factors, there is also lack of adequate knowledge on how the different modes of transportation influence each other, which can later on be influential to the shipping activities.

There is also some difficulty at present in assessing to a greater detail as to how economic development influences shipping activities.

Because the selection and handling of personnel for a ship is a special skill, the handling of human relations is no easy matter. That's why there is need to send personnel managers on special courses or seminars to learn the trick of the trade. The more complex a ship becomes, the more more essential it is that we are able to put together and maintain a good crew. Unfortunately personnel matters are often something which someone is given to handle because there is no other job for him, but the maritime personnel function is not something that anyone can handle efficiently.

The other problem is due to lack of skills in the financial aspects. Successful ship management depends on many factors, but an important one is adequate financial control to ensure the optimum use of shipping company's resources. To achieve this there must be disciplined budgetary control embracing the revenue and expenditure budget on a service, ship, profit centre, divisional or other convenient basis. The budget must be reviewed continuously to reflect variations in expenditure and revenue.

This can be done at 3 monthly intervals with the actual result against the budgets being monitored monthly. A similar budget should be produced for capital investment programme and cash revenue.

More recently Masters have been encouraged to become involved in budgetary control. It takes the form of the Master and his Chief Officers being responsible for an expenditure and revenue budget. Because the object of budgetary control is to ensure maximal profitability of service or ship as it forms a very important part of ship management today.

Being aware of the problems which have been mentioned above, the step deemed to be taken to overcome them are following: to give general training (management, finance, marketing, etc) to help top managers; to give training to the staff relating to their jobs. The government should also give them advice periodically.

In this way, it is to be hoped that shipping companies can overcome the said problem step by step and later on be made to operate more efficiently and economically.

D. Lack of Maintenance and Repairs

The other problems of shipping companies in Indonesia are maintenance and repairs. The shipowners are not seriously taking the situation. Very few shipping companies have some kind of maintenance and repair planning. This situation brings the vessel is not good condition, that's why many vessels has not a good condition.

In develop countries, the shipowner have a take care on maintenance and repair. No shipowners can afford to have his ships lying idle for any length of time because of machinery or other equipment breaking down. Nor can shipowners accept that maintenance expenses run so high that potential profit is absorbed by the cost of repairs or maintenance work. The combined effect of loss of production and excessive repair expenses may in fact put him out of business.

As we know, repairs are the consequence of imperfect components and construction or maybe of an imbalance in the system to which the components belong. There could be many reasons such as: poor construction, faulty assembly on board, mishandling or operational errors. Unfortunately the technique used in the condition control of components and system on board ships are generally inadequate.

Proper preventive maintenance is not merely a question of finding out what to do and when to do it. It is also a question of planning the rational employment of available manpower resources and procurement of spares.

A preventive maintenance system must, of course, incorporate various kinds of planned activities, such as specifically designed service routines, methods of checking the condition of each component, renewal and replacement parts and so on. The requirement for this of planning is sometimes opposed by engineer and deck officers, who maintain that it is impossible to plan in advance when to maintain and the extent of the repairs that are going to be needed.

E. Ship Operations

As I mentioned before, the crews and staff of shipping companies are lacking knowledge. This situation bring impact to the performance of the ship.

Because the operating function on the other hand is concerned with the revenue its purpose is to maximise the economic employment of the ship.

As part of this end it has a function of co-ordination, not only amongst the other departments of the company but also within the ship and with the agents who will have to attend to the various problems that arise at the ship's port of call.

Where to bunker and the amount to take is one of its continuing problems as the varying price of bunkers in different ports of the world means that careful planning can make substantial savings in this direction.

Also the major area of concern for the operations is finding cargoes for the ships and it is here that the major difference in types of operations becomes apparent. For the liner operator, this becomes a large labour intensive function involving advertising and organising the thousands of items that make up a general cargo.

In ship operation, marketing and technical department become vital. Because marketing in shipping, as in other business, involves such function as traffic and market development, promotions and product development. Others directly involved with ship's operation are persons such as: forwarding agents, ship's agent and brokers.

Technical department is responsible for the maintenance and efficient functioning of the ships as carrying vehicles as well as for the safety of the ship cargoes, and crews. This requires not only a comprehensive technical knowledge but also an awareness of the precise details regarding national and international regulations concerning pollution, port health, safety etc.

If the shipping company's crews and staff on ashore both have good knowledge, the shipping company will get profit and can be competitive to the foreign company who operates in Indonesia.

F. Lack of Recruitment

In general, the policy of manpower recruitment and placement in Indonesia is based on the 1945 constitution, updated in 1969, which provides that “every citizen shall have the right to work and to an income”. The same government regulation stipulates protection on “safety, health, ethics, moral of work and treatment of the population”.

An owner/ship manager wishing to employ Indonesian seafarers is required to register with a local manning agent and a formalised agreement must then be executed through the Indonesian Embassy on an annual basis. Local agents then undertake all the necessary requirement and administration of seafarers under instruction from the owner/manager.

A standard requisition form is completed by the local agent indicating category required, job discription, number to be engaged and full details regarding the employing company, local representative in Indonesia and country of employment.

According to Government regulation No. 20/1996, Indonesian seafarers are required to have the following documents :

- Seaman’s Certificate/seaman’s Qualification Certificate
- Seamen’s Book
- Seamen’s Passport
- Good conduct Certificate from the police
- Working Contract

The main union is Kesatuan Pelaut Indonesia (KPI), which is an affiliate of the International Transport Workers’ Federation (ITF). But this union doesn’t have a tool to control and pressurise the shipping company who employ Indonesian seafarers. Many of Indonesian people work on board both on domestic and foreign vessel but they don’t have a good skill and knowledge. This situation brings impact to the performance.

Chapter Five

CONCLUSION AND RECOMMENDATIONS

A. Conclusion

1. The role of interisland sea transportation is vital for economic growth in the country and the Indonesia's national development programme.
2. As an archipelago country, the government of Indonesia have placed a high priority on the development of sea transport.
3. Interisland shipping is the back-bone and the best system of interisland transportation in Indonesia.
4. The growth of interisland shipping companies is not well because it has lack of capital and skills (management, marketing, finance, etc), lack of adequate port facilities.
5. Ship's productivity are low because :
 - Most of the vessels are in old age;
 - Trade pattern is not stable yet;
 - Ports and terminals lack service, facilities and etc;
 - Ship's operational structure between each element is still less integrated in one system.

A. Recommendations

1. In order to accelerate fleet replacement programme in interisland shipping in Indonesia, the subsidy finance scheme introduced by the government for vessels replacement should be expanded and loans repayment made softer.
2. To ensure efficient operation of sea transport in Indonesia, person of the various national shipping operators must be trained in the technical operations of vessels and managerial skills.
3. The government of Indonesia must give the lightness of credit to the domestic shipping elements, such as the low interest rate and the flexibility of longer pay back periods for his credit.
4. Each domestic shipping element must increases and exptend knowledge of employees dealing with shipping activities.
5. Total port in one route must be limited and the procedure in the port must be simple.
6. The government must give them advice and control the companies and help to solve their problem.

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Organisation Chart of Directorate General of Sea Communications

