

## INDONESIAN PORT GOVERNANCE

Sunaryo<sup>1, a</sup>, A. D. Rachmawati<sup>2, b</sup>

<sup>1</sup>Naval Architecture Study Program Universitas Indonesia,  
Depok, Indonesia

<sup>2</sup>Naval Architecture Study Program Universitas Indonesia,  
Depok, Indonesia

<sup>a</sup>naryo@eng.ui.ac.id, <sup>b</sup>rachmawati.andra@gmail.com

\*Corresponding author :  
naryo@eng.ui.ac.id

### Abstract

One of Indonesian government policies in developing its economy is through empowering the logistics system known as Sea Highway or Short Sea Shipping, which demands the involvement of shipping fleet and ports management. The vision for ports development is to be efficient, competitive, and responsive in supporting domestic and international trade. To realise this vision port governance plays very significant role. The study is aimed to analyse the present port policies and based on the findings a more relevant approach to the government's port vision will be proposed, where equilibrium between public and private sectors is included. Benchmark to ports in United Kingdom and ports of Singapore were conducted to learn different kinds of approaches are implemented in port governance, with the considerations that these ports have some functional similarities with future Indonesia's maritime logistic planning. The study indicates that the new Indonesian Shipping law has not accomplished its best performance, and therefore port authority and port operator strict to their own individual roles. Therefore port infrastructure and port management should be strengthened.

**Keywords:** Logistics system; Policy; Port governance; Port management system; Sea highway;

### 1.0 INTRODUCTION

Indonesia is currently developing its national maritime logistic system known as "Sea Highway" or (Indonesia Short Sea Shipping) to strengthen its economy through reducing the logistic costs between its national regions [1], through creating balance of trade between west part and east part of the country.

The plan for this programme is part of the Indonesia's Mid Term National Development Planning (2014 – 2019) published by the Agency for the National Development Planning (BAPPENAS), which consists of the construction and development of 7 strategic hub ports, and 24 feeder ports, as shown in

figure 1. In order to win the global competition, the programme requires first rate infrastructure and the appropriate management system.

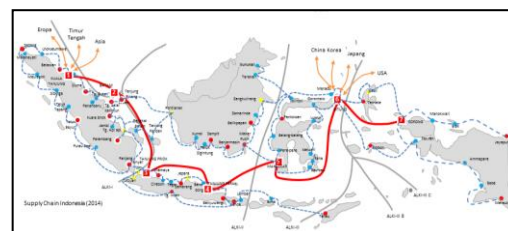


Fig. 1 Indonesia Short Sea Shipping Plan

This study is mainly aimed to analyse the existing government policy in dealing with the national shipping fleet and the management of port activities, and to ascertain the appropriate management system that will accommodate the geographical position of Indonesia, its economic development, and its related regulations, by comparing with that undertaken in the United Kingdom and Singapore.

Governance as defined by Yap [2] is the process of decision-making and the process by which decisions are implemented (or not implemented). Governance can be used in several contexts such as corporate governance, international governance, national governance and local governance.

Alderton [3] stated that in developing a port system, several factors need to be considered, such as market demand and competition; direction and pattern of world trade system; inland transportation infrastructure; port water depth; port navigation access; environmental and safety issues; cargo handling facilities; and port management, which are very much influenced by port ownership, available human resources, and administration and management system.

Based on the World Bank's research, the port administration system could be divided into four models: Service Port Model; Tool Port Model; Landlord Port Model; and Private Port Model [4]. These classifications were undertaken based on the diverse port management systems that is used across the world. Differences occur due to the diverse nature of the social economic system, the background of the port and the types of cargo that come to and out from the particular port.

Port's detail functions are explained by Baltazar and Brooks [5] in a more flexible classification, as: governance; regulator function; and port function, by assuming that port management system around the world are diverse one to another. Each of the classifications is explained as follows: Governance; would include: public, mixed public and private, and private. Regulator function would include: licensing and permitting, vessel traffic safety, customs and immigration, port monitoring, emergency services, environmental protection. Port function that consisted of: landlord, and port operator; landlord would include: port basin maintenance, development strategy, port access, port security, and land acquisition; while port operator include: cargo and passenger handling, pilotage and towage, line handling, facilities maintenance, operation marketing, waste disposal, and land side and berth investment.

## 2.0 METHODOLOGY

For the ease of the study, container through put is taken as the main indicator for calculating the productivity and efficiency of a particular port. To determine the governance system of ports in Indonesia, Singapore, and United Kingdom, data regarding the policy, container throughput, and port blue print in relation to port development, in Indonesia interview with government authority, and site visit to PELINDO II, Port of Tanjung Priok were conducted, and literature reviews were carried out to retrieve data and information of port governance in Singapore and the United Kingdom. The collected data were compared to highlight the quality of ports in Singapore and the United Kingdom, and the results were analysed using comparative analysis.

## 3.0 RESULTS AND DISCUSSION

Following are the results of data collected and analysed.

### Data collected from Indonesian ports

- Policy

Before 2008 the port system that was used in Indonesia was the Service Port Model, whereas the government was the sole owner and manager of the ports, private parties were not able to join and participate in the ownership, management, and operation of the ports, and even there were not clear separation of roles between port authority and port operator.

After the establishment of new shipping law in 2008 [6] great changes occurred in port management system, port management in Indonesia was under the control of Indonesian Port Corporations known as PELINDO and has the status as State owned Enterprise. PELINDO divides its port management system into four regional of coverage: PELINDO I, PELINDO II, PELINDO III, and PELINDO IV [7] as shown in table 1.

Table 1. PELINDO Regional Divisions

PORT REGION	COVERAGE
PELINDO I	Aceh, North Sumatra, Riau
PELINDO II	West Sumatra, Jambi, South Sumatra, Bengkulu, Lampung, Jakarta
PELINDO III	Central Java, East Java, Central Kalimantan, South Kalimantan, West Nusa Tenggara, East Nusa Tenggara, Bali
PELINDO IV	North Sulawesi, South East Sulawesi, Central Sulawesi, South Sulawesi, Maluku, Papua

As the world's largest archipelago Indonesia roughly has around 2400 ports spread out from west to east of its more than 17,000 islands, 111 of them are commercial ports managed by the local and central governments [8]. 31 of those 111 ports are identified as strategic ports that have significant roles the logistics scheme which will be developed by the government as part of the "Sea Highway" programme. Seven out of the 31 strategic ports are prepared to be hub ports, whilst the other 24 will become feeder ports [9]. Those seven hub ports are [10]: Belawan/Kuala Tanjung port in North Sumatra, Batam Port in Riau Islands, Tanjung Priok port in Jakarta, Tanjung Perak port in Surabaya East Java, Bitung port in North Sulawesi, Sorong Port in West Papua, and Makassar port in South Sulawesi.

- **Port model**

Based on ports hierarchy, the types of ports in Indonesia are classified into [11]: Main ports, Collector Ports and Feeder Ports. The Main ports consist of international hub ports and international port, which act as the gate for international fleet to call and loading and unloading of their cargo, as part of the Cabotage principle stated in the 2008 Shipping law, whereas the Collector and Feeder ports consist of regional and local ports, which collect and distribute the cargo from and to their surrounding islands, and ship and receive cargo both domestic as well as international from and to the main ports. The roles of each port classification can be explained as follows: International Hub Port: Serving Transshipment containers, both national and international with the standard of the world's marine Transportation services, The main ports that serve containers transportation both national and international up to 2,500,000 TEUs/year, with the minimum depth of -12 m; International Port: As a container distribution centre national and international container transportation services, As a place for transferring passengers and international containers transshipment, with the minimum depth of -9 m ; National port: As a national container feeder transport, as a place for transferring passengers and goods nationwide, with the minimum depth of -7 m; Regional port: As a feeder for international hub ports, international ports, and national ports, as a place for transferring passengers and goods from/ to main ports and feeder ports, with the minimum depth of -4 m; Local port: As a feeder for international hub ports, international ports, and regional ports, serving passengers in remote, isolated, with the minimum depth of 1.5 m. Border regions that can only be served by marine transportation.

The vast majority of Indonesian ports handle containers. PELINDO 2 has contributed the largest container throughput for five years consecutively from 6,582,910 TEUS to 10,790,450 TEUS per year [12].

Port of Tanjung Priok in particular is now developing its new port adjacent to the existing one called "New Tanjung Priok Port with the capacity of 7,000,000 TEUS annually. The container throughput in each of PELINDO region from 2007 to 2011 is presented in table 2.

Table 2. PELINDO Container Throughput

PELINDO					
Year	I	II	III	IV	TOTAL
2007	319,202	4,116,045	1,691,783	571,261	6,698,291
2008	900,623	4,527,650	1,798,785	1,031,450	8,258,508
2009	1,340,337	4,754,031	1,878,799	1,185,024	9,158,191
2010	1,474,371	5,229,434	2,715,141	1,303,526	10,722,472
2011	1,621,808	5,752,377	2,986,655	1,433,879	11,794,719
Total	5,656,341	24,379,537	11,071,163	5,525,140	46,632,181

Increasing market demand in this era of globalization, and the implementation of Cabotage principle since 2005 causes an impact on the growing volume of ships that operate in the country currently.

**Data collected from Singapore ports**

- **Port model**

Before 1997, ports in Singapore were owned, controlled, and managed by the Ministry of Transport. The port regulatory system and cargo operations were placed under the supervision of three government agencies, namely: National Maritime Board, Marine Department and the Port of Singapore Authority.

The National Maritime Board dealt with matters concerning the training of employees, whereas the Marine Department took care of ship registration and the PSA, managed matters concerning cargo operations and port regulations. In 1997 PSA was transformed into a privately listed company. Then in December 2003, PSA was restructured and became part of PSA International as an independent commercial organisation with a business orientation [13].

- **Free Trade Zone Act**

The shipping industry found Singapore more attractive than any other free trade zone in the region as it attracts customers with appealing tax incentives. They do not impose tax to income that was not received in Singapore; capital gains tax is inapplicable, while the corporate tax rate applied is 17%. The country signed Double taxation agreements (DTAs) with at least 80 countries. Furthermore, Singapore also provides income tax exemption for qualifying companies. The requirement for ship registration in Singapore port is easier than other ports. The country allows all nationalities to register their vessel and recognises foreign certificates of

competency. They also offer a discounted registration fee to ship owners who transfer their fleet to Singapore. These facilities encourage many companies to register their ships in Singapore, made it a place with one of the largest registries [14].

Singapore has also introduced further incentives for eligible companies based on the authority assessment. The first incentives applied under the Free Trade Zones Act which, qualified companies are allowed to store their goods in five free trade zones that facilitate the handling of transshipment cargo free of charge, companies in the category of Approved International Shipping (AIS) enterprise may acquire tax exemptions for at least ten years, companies under the Approved Shipping Logistics (ASL) scheme can claim 10% tax rate concession from freight and logistics service income, and many other incentives. These incentives have encouraged many shipping and logistics agencies to base their services in Singapore. Moreover, under the Maritime Finance Incentive (MFI) scheme, ship and container leasing companies may receive up to five years tax concessions on certain income, as well as ship brokers and companies engaged in forward freight agreement trading

- **Port facilities**

Singapore integrates its port facilities which consisted of 61 berths and eight terminals that operate continuously. Those terminals are Tanjung Pagar, Keppel, Brani and Pasir Panjang.

#### **Data collected from UK ports**

The UK economy is the fourth largest in the world and its ports play a vital role in handling over 95% of UK import and export tonnage. Ports also have a significant role in supporting employment in their hinterlands and in their local and regional economies. Moreover, the governance position on ports will have a significant impact on the country's economic outlook. Port governance in the UK has changed much and entered a phase of change and governance deliberately in early 2000.

In 1991, under the governance of the conservative party, ports were administered and owned by autonomous statutory authorities in UK. At that point, these ports totalled 111 and were given the title of trust ports. These publicly owned ports hold two functions: To provide cargo and passenger handling facilities at designated port areas in the UK, and to act as maritime regulatory bodies for a vast area within and around the port. They act as navigation authority and are responsible for estuarial safety, pilotage, conservancy and are in overall control of defined areas of jurisdiction. The concept of a trust port will continue to be the main governance

structure of ports in the UK. There are some which still exist today although much of the structure has changed.

In early 2000 under the Labour Party, ports in UK have experienced a phase of change in their governance, the era of privatization and modern port governance. The government does not run the ports industry and does not decide the port industry's commercial strategy or direct or fund its investment any more, as it used to be since 1991 when the Conservative Party was in power. At that time ports were administered and owned by autonomous statutory authorities in UK. The ports were called trust ports, and played the following functions: To provide cargo and passenger handling facilities at designated port areas in the UK, and to act as maritime regulatory bodies within and around the ports [15].

The concept of a trust port as the main governing system changed under the more liberal labour Party, a safer working environment and at the same time makes best use of existing infrastructure. This was the beginning of the age of modern ports, where privatisation was preferred compared to trust port's style of governance, which depended heavily on decisions made by the government and not by the market. In that year, it was noted that 70% of the UK's port capacity was privately owned compared to just 7 trust ports being privatised from 1992-1997

UK government implemented differentiation strategy instead of cost leader strategy; the approach caters for port operations and elicits the best from ports to serve the hinterland which extends from the port. It considered hinterland connections to other transport modes (air and land) were as vital as the development of the port itself. The government also introduced stricter regulations for trust ports to be more business oriented, such as organization structure evaluation, make report on the achievement of key performance indicators, and identify the values have been created.

Nine years after the development of modern ports, the government released new regulations and guidelines with greater emphasis on commercial accountability. This also created stricter regulations for trust ports to make them more business-like, with such regulations as: Review of corporate structure, and report to the government and produce key performance index, which was in addition to trust ports having to identify the value created, as a result of their trust port status a sort of 'stakeholder benefit'.

In 2011 government established Marine Management Organisation (MMO) which aimed to have efficient ports, that is led by the industry and the market.

Although, governments elsewhere adopt a public and private approach with regulatory control always left in the public sector, the UK has currently privatised port functions completely, in addition to selling off utility functions and port land. Therefore, the fundamental aspects which are utility, regulatory and land ownership are transferred to the private sector showing the pure private nature of the UK's port model.

The majority of British ports fall into either of these categories of governance: private ownership, municipal control or trust port. Trust ports are not funded by the government but act as a public funded government, whose main shareholders were mentioned in an earlier paragraph. Most of the largest ownership of the ports is that of private ownership.

- **Port model**

The UK has the largest port industry in Europe in terms of tonnage handled. UK has a total of 560 million tonnes of cargo being handled per year, and 80% of them are carried out in private owned ports. It is worth noting that most of UK's focus is on container and ro-ro traffic. The ports play important role as hub for transport system and economic activity of the country.

- **Analysis**

The existing Indonesian shipping laws are changing the port model from Public Port into the Tool Port model. All the strategic ports are owned by state owned enterprise called PELINDO. There are four regional divisions of PELINDO; PELINDO I, PELINDO II, PELINDO III, and PELINDO IV, whereas PELINDO II is the most developed one, because one of its ports is located in Jakarta, the capital of Indonesia, and works as transshipment port.

Because Indonesia is an archipelagic country, therefore its main ports serve a wide range of market both national and international in the form of container cargo. Due to this condition Effectiveness – oriented configuration strategy is adopted by the ports, and huge investments are allocated for port facilities.

To support that main port, feeder ports are established for distribution of logistics from the main ports.

The approach is in conjunction with the new government's logistic policy known as "Sea Highway" programme.

Compared to ports in Singapore and the UK in order to increase their competitiveness Indonesia ports need to consider the followings:

Supporting infrastructure both inside the port as well as outside the ports.

Privatization of some strategic port should be considered for increasing port efficiency and reducing bureaucracy.

Integration of ports' certain facilities.

Provision of incentives to attract customers to call at the ports.

## 4.0 CONCLUSION

Significant changes in port governance have occurred since the implementation of new shipping law in Indonesia, and the new government is put more attention in developing its maritime sectors, which include shipping and port management systems for reducing the costs of logistics, which is known as "Sea Highway".

31 ports are appointed as strategic ports for supporting the "Sea Highway" programme, which 24 are categorized as feeder ports and 7 to be main or international hub-ports.

Analysis based on the comparison with the ports in Singapore and the UK, in order to increase their competitiveness Indonesian ports need to strengthen their supporting infrastructure, reduce government interventions in port governance, integrating port facilities, and provide more incentives to attract customers.

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