

## 4 Indonesian Inter-island Shipping

### 4.1 *Status Quo of Inter-island Shipping in Indonesia*

Indonesia is one of the largest archipelago nations, comprising 18,000 islands and islets and bordered by Singapore and Malaysia to the north, Papua New Guinea to the east and the Indian Ocean to the west and south. It has 27 provinces, 310 municipalities and 63,000 villages in scattered islands including Sumatra, Java, Bali, Kalimantan, Sulawesi and Timor.

Because of the geographic features of the Indonesian archipelago covering a large area of 3,000 miles from east to west, shipping plays a crucial role in providing international and domestic links.

Regular and frequent international shipping services are available at major Indonesian ports. Tanjung Priok near Jakarta in western Java is the largest port in Indonesia and ranked 24<sup>th</sup> on world container port league with the container throughput of 1.5 million TEU in 1997. Other principal ports are Tanjung Perak near Surabaya in eastern Java, Belawan port near Medan in northern Sumatra and Ujung Pandang in Sulawesi.

Inter-island shipping is the prevailing means for distributing goods through more than 300 ports in Indonesia. The cargo volume carried within Indonesia by inter-island shipping services reaches over 300 million tons, far exceeding international trade volume. Thus, inter-island shipping accounts for 60% of total seaborne cargo movement in Indonesia. Especially, for remote islands like Sulawesi and others, the percentages of cargoes carried by inter-island shipping are even higher.

**Table 7: International and Inter-island Seaborne Cargo Volumes by Island (1996, in thousand ton)**

Islands	Inter-island	(% of Total)	International	Total
Sumatra Islands	134,996	63.3%	78,387	213,383
Java & Bali	71,258	52.6%	64,125	135,383
Kalimantan Islands	78,921	56.0%	62,075	140,996
Sulawesi Islands	14,569	75.2%	4,804	19,374
Other Islands	12,975	88.4%	1,694	14,669
Total	312,719	59.7%	211,086	523,805

For passenger shipping, around 14 million passengers a year are travelling by inter-island shipping services. The remote islands again show higher percentages in the number of passengers travelling by inter-island shipping compared to their proportion of total population.

**Table 7: Number of Passengers of Inter-island Shipping  
(1995, in thousand passengers)**

Islands	Passengers	(%)	Population	(%)
Sumatra Islands	3,023	21.6%	40,830	21.0%
Java & Bali	3,170	22.7%	117,630	60.4%
Kalimantan Islands	2,634	18.8%	10,470	5.4%
Sulawesi Islands	2,303	16.5%	13,732	7.1%
Other Islands	2,844	20.4%	12,093	6.2%
Total	13,974	100.0%	194,755	100.0%

## 4.2 Promotion of Inter-island Shipping

### 4.2.1 Deregulation

Until relatively recently, shipping in Indonesia was highly regulated, with an extensive route licensing system that defined a variety of different vessel classes. The course of deregulation, however, which commenced in 1985 (under Inpres 4/1985) and was effectively completed in 1988 (by the Paknov/88 reforms and their supporting regulations), has left Indonesia with an inter-island shipping system that is very largely deregulated.

In the following sections we will focus on maritime cargo services. However, the preceding discussion will have made it clear that inter-island passenger services are also a vital part of the development infrastructure for Indonesia's remote island communities<sup>34</sup>.

The majority of domestic maritime freight tasks are distributed between two forms of shipping:

- Ferries; and
- Inter-island shipping services.

Although the responsibility for both sectors lies within the Ministry of Communications, each is administered by a different Directorate: ferries are the responsibility of the Director General Land Transport, while inter-island shipping services are administered by the Director General Sea Transport. The rationale for this division of responsibility is not entirely clear, but it appears to be that ferries are regarded as extensions of the highway system rather than shipping services.

Despite this division of administrative responsibility, there seem to be several key dimensions to the distinction between the two types of service:

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<sup>34</sup> Although the MPPM model suite has previously been applied solely to freight transport, it is worth recalling that many of the techniques employed and the mathematical algorithms on which the models are based have their origins in an urban transport planning setting. There are no technical reasons why the MPPM suite could not be used to analyse and refine the inter-island passenger shipping system.

- Nature of route: ferry services are generally point to point services, whereas shipping services are offered on more complex routes;
- Length of route: ferry services are generally offered over a relatively short distance, typically between adjacent islands;
- Nature of craft: ferry services typically use ro-ro vessels, while shipping services commonly use lift-on lift-off vessels; and
- Nature of cargo: ferry services typically carry a mix of passengers, cars and trucks, while shipping services are usually dedicated cargo services.

Inter-island shipping services are subject to minimal regulation, in that service providers are required:

- to file every three months a *Rencana Pola Trayek*, defining the deployment of each vessel over the next three month period;
- to provide at least one month's notice of any change to this plan

However, as there are 1,156 registered shipping companies and approximately 10,000 vessels, the task of monitoring, analysing and compiling the information contained in the *Rencana Pola Trayek* is beyond the resources of the Ministry of Communications. The majority of inter-island services are therefore undertaken by commercial operators in an environment in which they are to all intents and purposes free to pursue their commercial interests without regulatory intervention.

As one component of the battery of measures designed to foster regional development, the Ministry of Communications is responsible for the support of 'pioneer' services designed to ensure regular transport services to remote communities. These include:

- Pioneer land transport (bus) services;
- Pioneer ferry services;
- Pioneer shipping services;
- Pioneer air services.

There are also programs in place supporting the construction of small ships capable of serving remote communities, and for port development at remote locations. (There are now approximately 110 ports operated as multi-user ports by the government, as well as several hundred single user ports operated by private or government enterprises to service individual trades).

#### 4.2.2 Pioneer Shipping Services (Pelayaran Perintis)

Pioneer Shipping Services are established under Presidential Decree No 16 (1994).

The initiative for the establishment of a Pelayaran Perintis service usually comes from a regional governor, who will propose the establishment of a pioneer route. The proposal will be evaluated by the Ministry of Communications, which will take into account other alternatives available for serving the traffic and the size of the communities involved in making its recommendations.

Once it has been decided that a Pelayaran Perintis service should be established, tenders are called from service providers willing to operate the route.

All shipping companies are free to tender for the service. There is no limit on the number of services that can be provided by an individual operator, and in practice, four or five companies tend to win most of the contracts.

Contracts are let annually (called in February but let in April), but subsidy payments are made on the completion of each round trip. The tender documents will specify:

- The route to be served;
- The frequency of service;
- The size of vessel to be used;
- The level of charges that will be permitted.

Tenderers are asked to bid on the level of subsidy that would be required. Performance is monitored by a Bagian Proyek (project officer) located in each home port from which pioneer services are operated. Calls at individual ports on the route are certified by local port officials. Lateness is subject to a financial penalty under the terms of the contract.

### **4.3 Possible Direction for Policy Improvement**

#### 4.3.1 Policy Successes

The Indonesian inter-island shipping system has come a long way from the tightly regulated, bureaucratically dominated regime that prevailed until the mid 1980's. Regulation is now very light-handed, and a diverse and flourishing domestic shipping sector is now evident.

However, while Indonesia relies in the main on market forces to shape domestic maritime cargo transport, the administrative system continues to acknowledge that providing acceptable levels of service will not always be commercially viable, particular in the case of services to more distant and less

populous islands. The system of 'Pioneer' services provides a mechanism for the introduction of both ferry

and inter-island shipping services that would not be sustainable without Government support.

Moreover, the manner in which support is provided to inter-island cargo shipping services has many attractive features:

- Services are provided by private sector operators, rather than by a Government department or agency;
- The allocation of a subsidised route to operators is done via a competitive tendering process;
- The period for which a subsidy is allocated is short (one year), allowing the competitiveness of an incumbent operator to be frequently verified;
- Performance expectations, at least with respect to frequency of service and adherence to schedule, are clearly specified and sanctions are imposed in the event of unsatisfactory performance;
- The receipt of a subsidy does not bring with it an exclusive right to operate a route. Other shipping lines can at any time establish a service, which competes in whole or in part with the subsidised operation.

The basic direction of policy with regard to inter-island cargo shipping in Indonesia is one that is likely to contribute to poverty alleviation through improving accessibility without imposing an excessive burden on public finances.

#### 4.3.2 Integration

At the present time, inter-island passenger operations, inter-island cargo shipping operations and ferry services are subject to different administrative arrangements. The discussion of the previous sections makes it clear that all three of these components have a role to play in improving the accessibility of the remote island communities of Indonesia. The overall effectiveness of the contribution of maritime transport to poverty alleviation could be enhanced by an improved understanding of the interaction between these three elements, and tighter integration of their administration.

#### 4.3.3 Service Assessment

The introduction of the new services through the *Pelarayan Perintis* program is initiated at the local level. The recommendation for a new service is then scrutinised by central Government officials and a judgement made on whether the new service is justified.

The empowerment of local communities that is implicit in this approach is in keeping both with the general thrust of poverty alleviation initiatives under *Repelita VI* and most contemporary thinking on poverty alleviation.

However, Lawas<sup>35</sup> has identified the need to reconcile decentralised decision-making with a coherent, integrated planning regime as one of the key challenges of the devolution initiatives that are embraced by *Repelita VI*. Failure to address this challenge adequately will lead to a poor alignment of individual projects with national priorities and an inequitable distribution of poverty alleviation effort.

Amongst the principal strategies for achieving this reconciliation are the establishment and promulgation of clear guidelines for service definition and an appropriate, consistent and coherent analytical approach.

This is made particularly difficult in the case of inter-island shipping because the nature of shipping networks make it impossible to consider a single service in isolation. *Pelarayan Perintis* services interact both with other *Pelarayan Perintis* services and with unsubsidised commercial services. Although the Research and Development Agency does attempt to assess the extent to which existing shipping services meet the demands of the communities to whom it is proposed to service, no formal tools are at present available for assessing the impact of a new service on existing pioneer services, or on commercial operations which partially overlap the route. Consequently, the assessment must rely very largely on subjective judgements about what can be rather intricate interactions within a complex system.

It is in this area that adaptations of the MPPM models may be of use, and this issue is the subject of the next section.

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<sup>35</sup> Lawas, 1996.