

# Chapter 2

## Maritime Highway Implementation

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## Chapter 2

# Maritime Highway Implementation

### 2.1 Maritime Highway Concept

The Maritime Highway provides effective connectivity over sea waters by facilitating vessels to routinely ship with regular schedules from western Indonesia to eastern Indonesia. The program should operate the vessels consistent with needs to achieve the Maritime Highway's purpose. To that end, the Ministry of Transportation is committed to providing 100 ships throughout Indonesia, consisting of 60 pioneer vessels, 15 container ships (with 100 20-foot equivalent units [TEUs]), 20 *Rede*<sup>3</sup> vessels, and five livestock vessels, including passenger ships. The government hopes to increase inter-island connectivity throughout Indonesia by developing vessels to support the Maritime Highway in this manner.

### 2.2 Regulation Aspects

#### Legal Basis and Regulations

In operating Maritime Highway vessels, there are several regulatory references; the major ones are:

1. Republic of Indonesia Presidential Regulation No. 70/2017 on Performing Public Obligations for Shipping, amending Presidential Regulation No. 106/2015 on Performing Public Obligations for Shipping
2. Presidential Regulation No. 71/2015 on the Definition and Storage of Staples and Necessary Goods
3. Transport Ministerial Regulation No. PM. 4/2016 on the Amendment to Transport Ministerial Regulation No. PM 161/2015 on Performing Public Obligations for Shipping
4. Transport Ministerial Regulation No. 17/2017 on Shipping Tariffs in Performing Public Service Obligations

According to Presidential Regulation No. 106/2015, to ensure the availability of goods and reduce price disparities for the public as well as the continuity of transporting goods to disadvantaged, remote, outermost, and border areas in supporting the Maritime Highway, the government has assigned state-owned enterprise PT Pelayaran Nasional Indonesia (PT Pelni) to perform public service obligations (PSO). PT Pelni is tasked with transporting goods to disadvantaged, remote, outermost, and border areas in accordance with the designated lanes that have been established, while considering and maintaining shipping safety and security. The disparities that occur in cargo flows

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<sup>3</sup> A *Rede* ship is a ship that transfers loads between large vessels and the pier. It is used when vessels cannot dock at the pier.

require the support of subsidies as a form of the government's responsibility for conditions in the country, which consists of isolated islands, and the government's desire for the sea to be a means of connecting instead of being a barrier. The presence of the government in isolated regions is also crucial in terms of national defence, specifically economic security as the front line for a robust unitary state of the Republic of Indonesia.

According to Article 1 of Presidential Regulation No. 106/2015 on Performing Public Service Obligations for Shipping Goods, the government will finance this assignment to perform public service obligations for shipping goods to the amount of the difference between production costs and the tariffs established by the central government and/or local governments as public service obligations. For this reason, in a meeting of the government and the budget agency of the People's Representative Council of the Republic of Indonesia discussing central government spending in the 2017 draft state budget, the government proposed giving subsidies to PT PelnI amounting to Rp2.1 trillion under the PSO scheme. The financial support for the PSO indicates the government's seriousness in ensuring the availability of goods and reducing price disparities for the public and the continuity of services transporting goods to disadvantaged, remote, outermost, and border areas.

In 2017, the government amended Presidential Regulation No. 106/2015 to Presidential Regulation No. 70/2017 on Performing Public Service Obligations to Transport Goods from and to Disadvantaged, Remote, Outermost, and Border Areas. One of the changes made in the regulation was increasing the types of goods covered by the Maritime Highway programme, given the needs of the islands in eastern Indonesia. This revision is based on input from relevant ministries and regional heads about necessary goods. Additional goods covered by the Maritime Highway programme shall be detailed further in a Trade Ministerial Regulation.

## **2.3 Technical Aspects**

### **Competent Institutions**

The Maritime Highway programme is implemented based on Presidential Regulation No. 106/2015 on Performing Public Service Obligations for Sea Freight Transport, which refers to three government agencies tasked with implementing the Maritime Highway programme:

1. Ministry of Transportation

The Ministry of Transportation functions as the assignor in accordance with Presidential Regulation No. 106/2015 through Transport Ministerial Regulation PM 4/2016 and Transport Ministerial Regulation No. 161/2015 as well as port infrastructure and loading equipment providers.

2. Ministry of Trade

In the Maritime Highway programme, the Ministry of Trade functions as the executor of marketing and cargo verification. The Ministry of Trade is tasked with determining the types of cargo facilitated by the Maritime Highway, which includes staples and necessary goods. The Ministry of Trade also provides shipping instructions and controls market prices at the destination.

### 3. PT Pelayaran Nasional Indonesia (PT Pelni)

PT Pelni has the role of operator and is responsible for container yard to container yard (CY to CY) transportation.

These three parties are jointly responsible for:

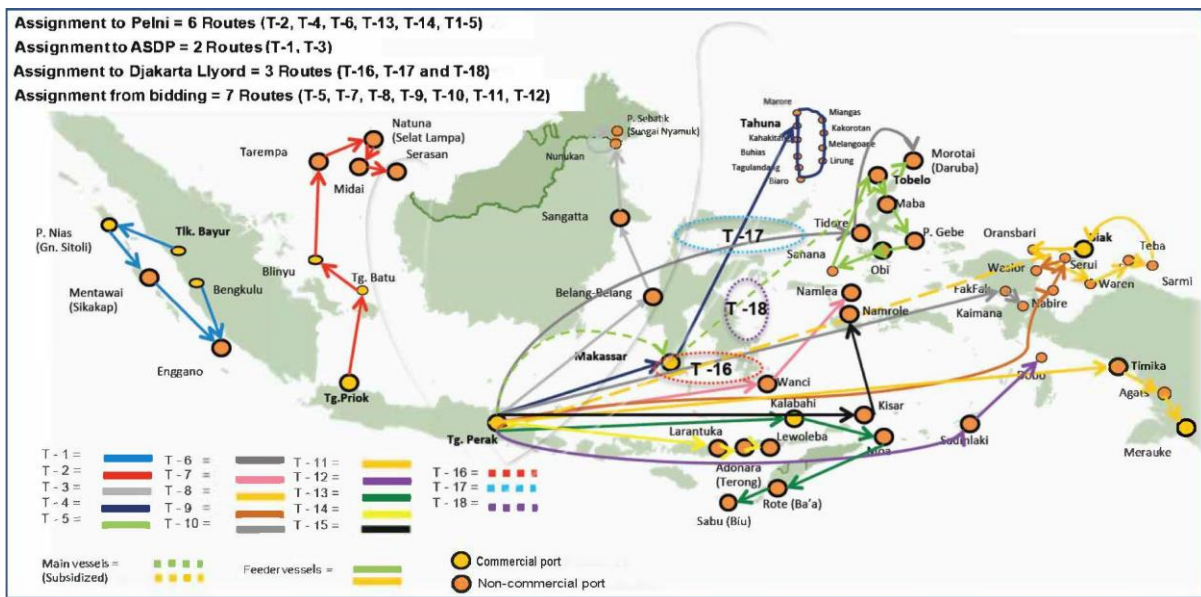
- a) Providing transportation for disadvantaged, remote, outermost, and border areas in accordance with the designated lanes that have been established, while considering and maintaining shipping safety and security.
- b) Ensuring the availability of goods and reducing price disparities for staples and necessary goods between Java and outside Java.
- c) Organising scheduled, permanent, and regular shipping (liners).

#### **Lanes and Operating Period**

The shipping route is the direction or distance that must be covered by water transportation from one port to another by considering the navigational aspects of the port, shipping, and security aspects (Hakim, 2016). The determination of these shipping routes is related to one of the current government's main programmes, namely the development of the Maritime Highway in supporting national connectivity and logistics systems. To implement the concept of Maritime Highway optimally, the determination of the best shipping routes from one port to another is crucial for improving shipping safety and effectiveness.

In 2018, the Ministry of Transportation established 18 designated lanes in the Maritime Highway (Figure 2.1). (Appendix 1 provides further details of the lane). Most are feeder routes as a solution to reduce disparities for more uniform prices of goods. These were incorporated in the Director General of Sea Transportation Decision No UM 002/109/2/DJPL-18 dated 14 December 2018. According to this Letter of Decision, there are 7 direct call and 11 feeder routes. The ship operators on 18 Maritime Highway designated lines are determined through the mechanism of assigning them to shipping state-owned enterprises and holding public bids for private shipping companies.

**Figure 2.1. Maritime Highway Designated Lines Serving the Eastern Indonesia Region**



Source: Ministry of Transportation, 2019: <http://hubla.dephub.go.id/berita/Pages/KEMENHUB-RESMI-TETAPAN-15-TRAYEK-TOL-LAUT-UNTUK-TAHUN-2018.aspx>. Accessed 5 June 2019

Of the 18 maritime highway lanes, there are three private companies appointed by the government as operators through a bidding mechanism. The three private companies that won the operator bid for seven maritime highway designated lanes as established on 25 March 2019 are PT Mentari Sejati Perkasa (Mentari Lines), PT Pelayaran Tempuran Emas Tbk. (Temas Line), and PT Pelangi Tunggal Ika. The rules regarding subsidies provided by the government to state-owned operators differ from those for private operators. If the service uses state-built vessels, the subsidy is given in the form of operational subsidies for ships. Conversely, if an operator-owned vessel is used, the subsidy provided is in the form of a container rental subsidy.

### Businesses and Types of Ship Operated

Since 2015, the government has undertaken an effort to implement this programme. About 100 ships will replace old ships that have been operated by PT Pelni, Djakarta Lloyd, and several other shipping companies. PT Daya Radar Utama is a manufacturer of eight units of 2000 gross tonnage (GT) pioneer vessels and five units of 100 TEU container vessels.

The size of a ship must be adjusted to the level of connectivity on the Maritime Highway, according to the Director of Sea Traffic. With consideration to the development of the size of the fleet of ships used in international trade lanes, it is necessary to prepare ports and channels to support ships capable of serving larger loads. There are four route segment levels served by different sizes and types of vessel. For level 1, the main vessels have the capacity of 100 TEUs or 200 GT. For level 2, there are feeder ships carrying advanced containers from destination ports to feeder ports. This is to be continued (if necessary) to level 3, where the role of pioneer vessels and non-commercial operated by the government ships bring mini containers to local ports. The last is level 4, in which the operation of

Landing Craft Tank (LCT) ships<sup>4</sup> with a weight of 50 GT and community shipping with a weight of 35 GT continue the transportation using smaller vessels to the surrounding small islands.

### **Load Handling Procedures**

Technically, the procedure for handling maritime highway loads comprises several steps:

1. The shipper fills out shipping instructions in accordance with the format provided by the Ministry of Trade.
2. The shipping instructions from the Ministry of Trade are provided to the public through designated handling agencies.
3. The shipper receives a delivery order (D/O) to retrieve empty containers from the depot
4. The shipper retrieves the empty containers by bringing the D/O that has been obtained to the depot
5. The shipper stuffs goods into containers outside the container yard (CY) area (outside stuffing). The maximum weight that has been set for each container is 15 tonnes. The expedition and warehouse costs of the shipper to the CY are the responsibility of the shipper. The deadline for the CY receiving containers that have been filled is no later than 2 days prior to the vessel's departure (estimated time of departure).

## **2.4 Financial Aspects**

### **Subsidised Cost Components**

The main objective of the Maritime Highway is to reduce the price disparities between eastern and western Indonesia by subsidising shipping costs for full container loads (FCL) and general cargo to certain ports with predetermined schedules and routes. With the Maritime Highway programme, the cost of shipping FCL cargo for eastern Indonesia is expected to be cheaper, ultimately reducing the selling price of goods in destination areas. The Maritime Highway programme has a list of transportable goods or commodities specified in Presidential Regulation No. 106/2015 on Performing Public Obligations for Shipping, which was then revised by Presidential Regulation No. 70/2017 on Performing Public Service Obligations to Transport Goods from and to Disadvantaged, Remote, Outermost, and Border Areas (3TP). Under Presidential Regulation No. 70/2017, the goods transported under the Maritime Highway programme include staples and necessary goods, in accordance with laws and regulations, along with other types of goods in accordance with public needs in 3TP areas. These include livestock and fish as well as returning containers originating from stopovers by sea, land, and air transport.

Goods that are subsidised for shipping are regulated by Presidential Regulation No. 71/2015 on the Determination and Storage of Staples and Necessary Goods and Indonesian Trade Ministerial Regulation No. 57/M-DAG/PER/8/2012:

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<sup>4</sup> LCT is a ship to transfer heavy materials such as machinery, coal, and other bulk things. It is suitable for small ports because it can approach to the platform and jetty.

Staples consist of:

- 1) Agricultural products (rice, soy, chillies, shallots)
- 2) Industrial products (sugar, cooking oil, wheat flour)
- 3) Animal products (pedigree chicken eggs, pure-bred chicken, beef)
- 4) Fresh fish (milkfish, mackerel, tuna/tuna/skipjack)

Necessary goods consist of:

- 1) Seeds (rice, corn, soy beans)
- 2) Non-subsidised fertiliser
- 3) 3kg LPG canisters
- 4) Plywood
- 5) Cement
- 6) Construction steel
- 7) Light steel

In the implementation of the Maritime Highway, there are cost components paid by the government in its operation. These cost components are incorporated under the Transportation Ministerial Regulation No. PM 85/2016 on the Cost Component of Compensation Paid by the Government in Operating Shipping. In this ministerial regulation, it is stated that the cost component of compensation paid by the government in the operation of shipping goods includes direct and indirect operational costs. Direct operational costs include fixed costs such as the depreciation cost of vessels, marine communication systems, vessel charters, and compensation costs paid by the government; indirect operational costs include salaries for non-crew members, general office costs, corporate taxes, as well as licensing and certification.

### **Maritime Highway Load Tariffs and Business Processes**

The Maritime Highway programme has several tariffs, namely FCL dry container, reefer container, and general cargo loads that are calculated per tonne or per cubic metre. The determination of tariff calculations for general cargo based on weight or size is made by calculations that are more advantageous for the company. Table 2.1 shows examples of the costs charged by both private companies and subsidised maritime highway programme.

**Table 2.1. Private versus Maritime Highway Tariffs (in Rupiah/TEU), Selected Lines**

No.	Designated Line	Private	Maritime Highway
1	Surabaya–Merauke	10–11 million	5.9 million
2	Surabaya–Manokwari	11–13 million	5.3 million
3	Surabaya–Kaimana	11–12 million	5.2 million
4	Surabaya–Timika	10–11 million	5.7 million
5	Surabaya–Fakfak	10–11 million	5.9 million

Source: Directorate General for Sea Transportation, July 2017.