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**MULTIMODAL TRANSPORT DEVELOPMENT IN
INDONESIA ***

by

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MULTIMODAL TRANSPORT DEVELOPMENT IN INDONESIA

Current Situation

By Djoko Sasono, PhD.*

INTRODUCTION

As archipelago with thousands of islands, Indonesia undoubtedly depends on the existence of transportation for facilitating interaction of activities in all aspects throughout the country and international needs. Transport plays a vital role as the engine of growth, trade, development, as well as reduction of disparity among islands.

Vast sea-lane and air space, and various natural resources available nationwide open enormous opportunities for multimodal transport operation (MTO), particularly for inter-island connections. Yet Indonesia still has limitations in providing sufficient needs of infrastructures and facilities for MTO development. Besides, human resource, financial support, legal base, and institution also become a big issue in developing MTO in this country.

This paper will describe briefly a current situation in development of MTO in Indonesia, particularly the obstacles that should be responded.

FREIGHT TRANSPORT: Common Practice

Cargo transport in Indonesia has been liberalized to meet market mechanism for a long time. Since then there is no significant changes in regulation. However, this liberalization tended premature because the system itself has not yet been properly defined such as service network, service quality, important nodes, direction of development, and competition. Hence cargo transport system develops traditionally indicated by small scale of business, unclear operation, simple management, as well as no system information. Therefore its operation has low performances in terms of service quality, efficiency, and fleet utilization. In addition, unfair competition, and

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uncontrolled over-loaded practices become common features due to disability of operator in minimizing joint cost that is surely imposed in cargo transport operation.

Traditional operation (featured by individual and small scale of business, operating small number of fleet, and poor service network and even nil) and poor supervision from government are the main weakness in freight transport development. Thus cargo transport industry in Indonesia embarks relatively stagnant. This situation brings consequences that Indonesian freight transport operators are unable to compete in the international market. So Indonesian operators often become carriers only and due to low service quality, transport low value cargos.

Traditional operation also slows the development. Pricing system applied tends to be based on the limited capacity available and related short-run costs called short run marginal cost pricing. In this case, the fare could be cheap however the service quality offered also poor with sacrificing the main objective of delivery such as time (delay) and security assurance (minimal). The delivery tends to wait until the capacity of vehicle full or if the volume of goods is small, the delivery is often redirected to another operator. The delivery tends to be over-loaded. Although the fare tends to be cheap however it imposes high social cost.

The services mostly are based on unimodal system and unintegrated to other modes. This of course limits the services offered. The delivery tends to point-to-point hence loading-unloading activities minimal and is undertaken manually. Due to unintegrated to other modes, intermodal transfer activities tend to be the critically weakest point that imposes additional cost and in turn results higher transport cost.

Insurance for claims is regulated under the law, however in practices, it is very limited applied. Mostly guarantees for on-time delivery or damages during delivery are not yet facilitated via insurance and generally undertaken in simple way by the operator. The users mostly are unhappy to this situation because the claim is mostly valued small. The operator is generally not serious because of poor understanding on the knowledge of insurance and claims.

MULTIMODAL TRANSPORT OPERATION (MTO): Current Status

1. Some Issues

Since new innovations and inventions in technology and modern management, especially the application of containerization system in cargo transport, widely shape transportation performance in bettering service quality and improving competition, the operation of unimodal transport no longer exists and changes into multimodal system that is more efficient and effective, safe, flexible, environmentally friendly, and meets the needs of modern society. However, this condition has not yet been reflected on the operation of multimodal transport in Indonesia. Some problems faced by MTO in Indonesia nowadays in facilitating goods movements particularly for the needs of international trade can be identified as follows:

- a. **Traders' Domination.** Traders strongly affect the trade pattern in Indonesia. They hold a power in goods movements for both export and import purposes as well as domestic trade. Hence the efforts for changing the system from conventionally and traditionally unimodal transport into multimodal transport are difficult because of the strong domination of traders.
- b. **Poor MTO Socialization.** MTO is something relatively new for Indonesia's trading society. Socialization of MTO with its benefits to traders generally speaking is poor. This circumstance drives doubt and reluctance from traders to use this new system.
- c. **Conflict among MT operators.** A conflict or bias between vessel-operating operators (trucking operators and liners) and non-vessel-operating operators (port operators, warehouse operators, and freight forwarders). Each of them claims the most competent operator over others in MTO.
- d. **Foreign Buyers' Domination over Indonesian Traders.** Foreign buyers preferably use FOB system in doing business with Indonesian traders. This means that the use of foreign freight forwarding companies to handle the goods movements in trading activities is also dominant.

- e. **Lack of Information between Foreign and Indonesian Traders.** This situation significantly affects the reluctance of foreign traders/buyers to use Indonesian partners in trading activities. One of the causes identified is due to minimal implementation electronic data interchange (EDI) in many Indonesian ports. Besides, poor business network from Indonesian side to international MT operators also contributes in difficult development of MTO in Indonesia.
- f. **Reluctance of Mother Vessels to Anchor at Main Indonesian Ports.** This situation arises driven by some negative images that Indonesia is unsafe, long waiting time, inadequate handling facilities, and insufficient regular volume of payload. Hence for the purpose of international trade, containers from Indonesia have to be shipped first to transshipment point in Singapore. Of course this applies some consequences particularly in increasing the chain of handling and uncertainty in time of delivery to the final destinations of which in turn additional cost of transport is unavoidable. Due to this circumstance of transshipment activities, based on the observation, at least there would be an increase in transport cost about US\$285 per TEU. This means an enormous loss of income for Indonesia if nearly two million TEUs of containers go to Singapore per year. Additionally, Indonesia would be as the feeder or spoke to Singapore.
- g. **Unreadiness of Indonesian Infrastructures.** Some main ports in Indonesia have not yet been prepared for facilitating Vessels Generation III or even IV. Besides, land transport infrastructures (rail and road) as well as its transport means have not yet maximally been developed to suit the needs of intensively and extensively container transport purposes.

2. Actors in MTO

By definition, in Indonesia, there are two main groups of actors involved in MTO, that is, main and supporting institutions. The former directly deals with transportation activities of goods, while the latter deals with clearance of goods.

a. Main institution

There are three subgroups as actors in MTO that is vehicle owner as carrier, infrastructure and facility operator called non-carrier, and freight forwarder as cargo transport architect.

- 1) Vehicle owner or carrier comprises:
 - a) Ship owners;
 - b) Road transport operators (trucking operators);
 - c) Rail transport operator;
 - d) Air transport operators;
 - e) Inland water transport operators.
- 2) Infrastructure and facility operator called non-carrier contains:
 - a) Port operators, airport operators, and ferry port operators;
 - b) Warehouse operators;
 - c) Terminal container operators;
 - d) Container Freight station (CFS) or cargo consolidation depot operators or dry port operators;
 - e) Packaging companies and documenting agencies such as export and import documents.
- 3) Freight forwarder plays as the architect of cargo transport and can act on behalf shippers, consignees or even itself. Freight forwarder contributes in all stages of transportation process from planning, action, up to controlling and monitoring the delivery using all means of transport.

b. Supporting Institution

Supporting institution consists of following actors dealing with:

- 1) Custom, Insurance, Quarantine;
- 2) Banking System;
- 3) IT System

3. Readiness of Main MT Operators

In the context of international trading activities, sea transport plays the biggest role compared to other modes, because the biggest portion of total volume of cargos is transferred using ships. Hence in the next description, to make clearer understanding in the matter of Indonesian context of MTO, this paper focuses on the discussion on the role of sea transport operators dealing with shipping, infrastructure, and freight forwarding as well as human resource.

a. Shipping Liners

In 2003 it is predicted about 500 million tons of cargos to be transported within Indonesia either for national or international trading purposes. However, as records, the role of national shipping companies shows a decline trend. The share for both national and international transport of Indonesian cargos drops significantly. It is reported that in 1998 national fleets only carried less than 47% of total cargos for domestic transport. While in the same time, national flags only catered about 1% of total cargos for international transport. The detailed figures of this situation can be seen on Table 1.

Table 1

Shares of Indonesian Flags in Sea Transport, 1990-1998

| Year | Domestic Cargos | | | International Cargos | | |
|------|-----------------|-----------|---------|----------------------|-----------|---------|
| | Volume (Ton) | Share (%) | | Volume (Ton) | Share (%) | |
| | | Nat'l | Foreign | | Nat'l | Foreign |
| 1990 | 94,885,523 | 66.5 | 33.5 | 138,209,984 | 4.0 | 96.0 |
| 1991 | 119,532,314 | 57.5 | 42.5 | 166,317,334 | 3.6 | 96.4 |
| 1992 | 132,671,279 | 55.0 | 45.0 | 180,813,244 | 3.4 | 96.6 |
| 1993 | 129,538,573 | 58.9 | 41.1 | 216,697,547 | 3.2 | 96.8 |
| 1994 | 147,079,817 | 50.5 | 49.5 | 238,763,209 | 3.4 | 96.6 |
| 1995 | 146,698,671 | 51.5 | 48.5 | 278,220,045 | 2.2 | 97.8 |
| 1996 | 170,133,447 | 53.3 | 46.7 | 337,062,830 | 6.6 | 93.4 |
| 1997 | 133,608,719 | 46.4 | 53.6 | 267,078,672 | 3.9 | 96.1 |
| 1998 | 125,173,793 | 46.9 | 53.1 | 260,115,896 | 1.0 | 99.0 |

Source: Directorate General of Sea Communication, 1999

Table 1 tells that Indonesian liners lose their grip of power in their own country. They are now facing uncertain future and have to short out this bad faith. It is also recorded that under this situation, in 1997, Indonesia already faced deficit of US\$11 billion of which US\$4.8 billion was from shipping. This figure is estimated higher in the following years.

In addition, most of fleets operated are old vessels with small capacity where the number does not change to increase. During 1995-1998, there was no order of new container vessels of 2,500 TEU type and over from Indonesian shipping companies. These figures complete the disability of Indonesian liners to compete for domestic transport and even for international transport of Indonesian cargos.

Various efforts have been undertaken to strengthen Indonesian liners, particularly via some initial policies. However very small evidence shows that those attempts prove a success in increasing shares. It is identified some serious issues behind this bad story, that is:

- 1) **Poor alliance and cooperation between shippers and ship-owners.** Between shippers and ship-owners, each often wants to have a bigger position over the other. This situation causes an endless conflict between them and tends to lessen the power of each for bargaining position and even destroys them eventually. Improving alliance and cooperation between them is a good point in creating a positive synergy and could eliminate the negative effects of current situation in order to gain benefits. As an example, shippers could enable to provide sufficient volume, continuity, and effective origins and destinations. While ship-owners could guarantee capacity availability, scheduled services, and competitive fare compared to foreign vessels (cheaper but with the same quality of services). They could also together become an ally in planning and determining for changing the pattern of shipping from FOB to CIF for export and from CIF to FOB for import.
- 2) **Poor support in financing for new investment.** As mentioned in the previous description, most of vessels owned by Indonesian companies are old. Only about 10% of total national fleet is less

than 5 years old. One of the causes of slow replacements for old vessels is due to poor support in financing for new investment. Maintenance and operating cost of old vessels absorbs the biggest portion of the revenue hence there is not enough spare of money for new investment. Meanwhile fiscal policy does not stand on their side such as the application on value-added tax about 5.8% for domestic purposes and about 10% for international purposes. These realities drive the process of extinct of Indonesian liners faster. Further, this situation is exacerbated by poor attention given in allocating money of banking sector to shipping purposes, besides high discount rate, high requirements, short payback periods, and also no sufficient mortgage backup. This situation is different to some countries like Singapore, Germany, Japan, US, Belgium, Denmark, France, UK, Italy, the Nederland, Taiwan, Croasia, and others. In these countries, various types of facilities for financing their shipping liners are prioritized such as subsidy of operation, financial support for new investment, reduction in insurance and depreciation as well as fiscal/taxation, and so on.

- 3) **Poor support and attention from government.** As described in 2) above, it is obvious that Government of Indonesia applies inconsistent policies in shipping industry. Government seems not to have a serious political will in strengthening Indonesian liners. Coordination and synchronization of governmental institutions dealing with shipping industry are likely very poor and unserious.

b. Infrastructure Operators

In 2001, there are 25 ports throughout Indonesia under state owned port enterprises that can handle containers. 9 ports are equipped with full container facilities, 4 ports are categorized as semi container ports while the rest (12 ports) are categorized as conventional ports (see Table 2).

During 2001, all these ports provided through-put over 4.7 million TEUs of which Tanjung Priok Port (Jakarta) and Tanjung Perak Port

(Surabaya) placed the first (2.1 million TEUs) and the second (1.2 million TEUs) respectively.

Table 2
Indonesian Container Handling Ports, 2001

(in Thousand TEUs)

| No. | Port | Classification | Through-put |
|--------------|--|----------------|--------------|
| 1 | Tanjung Priok (Jakarta) | Full Container | 2.100 |
| 2 | Tanjung Perak (Surabaya) | Full Container | 1.200 |
| 3 | Belawan (Medan) | Full Container | 290 |
| 4 | Tanjung Emas (Semarang) | Full Container | 260 |
| 5 | Makasar (Makasar) | Full Container | 177 |
| 6 | Pontianak | Full Container | 93 |
| 7 | Panjang | Full Container | 76 |
| 8 | Palembang | Full Container | 50 |
| 9 | Ciwandan | Full Container | 5 |
| 10 | Bitung, Samarinda, Teluk Bayur, Balikpapan | Semi Container | 284 |
| 11 | Other 12 ports | Convensional | 172 |
| TOTAL | | | 4.707 |

Source: Directorate General of Sea Communication, 2002

In the operation, ports have two missions, that is, public service mission and commercial mission. The former functions at providing services to public in the forms of smoothness and accessibility of facilitating the movements of people and goods while the latter applies management and development of port for commercial purposes in order to enable to contribute national income maximally. These two missions often conflict and collide to each other and bring a controversy among the actors involved, that is, users, operators/providers, and regulator (government) in defining the missions where each of them interprets based on its own side. Conflicts of interests then are inevitable.

Further, under current laws, especially Laws No. 22 Year 2001 regarding Local Autonomy and No. 25 Year 2001 regarding Balance of Budgeting System between Central and Local Governments, there is also another controversy that is different perception among central

and local governments, general and special port operator. Each of them has different interest in delivering authority and responsibility.

The third controversy relates to the maximization of asset among regulators (central and local governments: Ministry of Communications), share holders (State Ministry of State Owned Enterprises), operators of general and special ports, and Ministry of Trade and Industry as the users.

Besides above issues, for MTO application and implementation in order to link sea transport services, land transportation has not yet performed a good quality of services. Road transport is still covered by some problems such as unpredictable travel time due to incomplete network, traffic jams and congestions particularly in urban areas, high risk of delivery, insecure, and strong environment issues. While rail transport also has limitations such as network available only in Java and partly Sumatra and mostly single track, priority of services is still for passengers, inflexible time table, limited number of cars carried for each train, and unsafe track.

c. Freight Forwarder

For the purpose of internal Indonesia, legal base for freight forwarding activities is still controversy. Existing regulations place freight forwarding activities in a narrow definition and tend to give them limited space to move as well as contradiction in some aspects (Government Regulation No. 82 Year 1992 regarding Water Transport and Minister of Communications Decree No. 10 Year 1988 regarding Transportation Services). Under these regulations, the existence of freight forwarders conflicted to liners. Ship-owners place freight forwarders as minority in MTO because freight forwarders are non-vessels operating MTO operators, unlikely ship-owners (vessel-operating MTO operators). Another issue deals with licensing for operation of freight forwarding activities. For transportation services only, the permit or license are issued by Directorate General of Sea Communication on behalf the Ministry of Communications. While for courier services or logistic services are issued by the

Ministry of Trade and Industry because these activities are not regulated under those two regulations, even though both activities have similarity. All of these tend to marginalize freight forwarding activities, especially in the era liberalization of services.

Under the

For international services, freight forwarding activities follow the rules applied by International Chamber of Commerce, FIATA, IATA, and UNCTAD.

d. Human Resource

Human resource development is the main problem for many MTO operators, especially freight forwarders dealing with international services. Human resources employed generally have poor skill even for basic knowledge of MTO such as in the areas of traffic knowledge, legal issues, basic contractual relations, importance of INCO terms, carriers' liability, local transport providers, financial issues, marketing, relationship and partnership with transport users, and security regulations and measures. Hence many freight forwarders maintain their business at local/domestic level and provide simple services that are only a small part of MTO activities.

CONCLUDING REMARKS

Transportation, particularly multimodal transportation plays a vital role for Indonesia.

Freight transport that is the heavy activity of MTO is mostly undertaken in a traditional and conventional way of which integration of various modes is limited due to mostly based on unimodal operation.

In the current MTO, some issues such as traders' domination, poor MTO socialization, conflict among MT operators, foreign buyers' domination over Indonesian traders, lack of information between foreign and Indonesian traders, reluctance of mother vessels to anchor at main Indonesian ports, and unreadiness of Indonesian infrastructures still become handicaps for MTO development to make multimodal system that is more efficient and effective,

safe, flexible, environmentally friendly, and meets the needs of modern society.

There are two main groups of actors involved in MTO, that is, main and supporting institutions. The former directly deals with transportation activities of goods covering vehicle owner as carrier, infrastructure and facility operator called non-carrier, and freight forwarder as cargo transport architect, while the latter deals with clearance of goods consisting of custom, insurance, quarantine; banking system; and IT system.

In terms of the readiness of main MT operators, **liners** are far from sufficient to be main actor in MTO because some problems such as facing uncertain future caused by limited effort to increase capacity and to renew fleet due to poor alliance and cooperation between shippers and ship-owners, poor support in financing for new investment, poor support and attention from government.

Infrastructure also shows unready. There are some controversies in applying the missions of ports that bring a conflict among the actors involved due to different interests; different perception among central and local governments, general and special port operator in delivering authority and responsibility; the maximization of asset among regulators (central and local governments: Ministry of Communications), share holders (State Ministry of State Owned Enterprises), operators of general and special ports, and Ministry of Trade and Industry as the users. While land transportation (road transport and rail transport) cannot provide sufficient support due to some limitations.

Freight Forwarders also remain in controversy and contradiction in some aspects based on the legal base. In some cases, the existence of freight forwarders conflict to liners in terms of dominating role as MT operators (non-vessels operating MT operators *versus* vessel-operating MT operators). There is also an issue dealing with licensing for operation of freight forwarding activities, one is issued by Directorate General of Sea Communication on behalf the Ministry of Communications for transportation services, and the other is issued by the Ministry of Trade and Industry for courier services or logistic services.

In term of human resource development, MT operators face shortage skilled staff especially for international services. Human resources employed generally are equipped with poor skill of basic knowledge for MTO.

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