

CONNECTIVITY, PORT, AND LOGISTIC SERVICES

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This policy brief is the result of an activity entitled “Economic Policymaking in Indonesia” which is jointly conducted by Centre for Strategic and International Studies (CSIS) and Economic Research Institute for ASEAN and East Asia (ERIA). This activity is a contribution from research community that is expected to assist the government in formulating more effective economic policies in the future. In this activity, CSIS and ERIA invited 16 economists with specific fields of expertise from some leading research institutions to conduct in-depth discussions on seven strategic issues facing Indonesian economy (infrastructure development, competitiveness, investment climate, food policy, services sector policy, fiscal policy, and social protection policy), which is then summarized into policy briefs covering each of the topics.

Dissemination of the findings and recommendations produced by this activity is conducted through several channels. First, this activity has made efforts to engage the relevant government officials through some Focus Group Discussions (FGD), the publication of High Level Policy Notes, and hearings with some strategic policymakers with regard to each of the strategic issues mentioned above. Secondly, this activity also conducts widespread public disseminations through Public Seminars on each of the strategic issues, along with publications of the Policy Briefs and supporting multimedia that can be accessed online through www.paradigmaekonomi.org.

BACKGROUND

As an archipelago, national connectivity is an important aspect in reducing price disparities and economic inequality between various regions within Indonesia. National connectivity indicates the extent of the relationship between the various regions within Indonesia, both across-islands or the island itself (domestic), as well as between regions of Indonesia with other countries (international).

The challenges that still exist for national connectivity includes the high cost of logistics, and the amount of time required to perform activities in the field of logistics. A study by the Bandung Institute of Technology (2013) concluded that average total logistics costs reached 26% of Indonesia's GDP, a higher percentage of that of Malaysia, Thailand, and Vietnam, which amounted to 13%, 20%, and 25% respectively. The findings of a World Bank study (2014) also stated that the average cost of logistics in Indonesia is 18% of total sales, more than that of Thailand and Malaysia, at 15% and 13% respectively. Meanwhile, in terms of time, the density factor in road and infrastructure conditions is results in the longer travel time for a truck to travel from the port to the warehouse location, as were the cases in Jakarta, Makassar, Manado and Surabaya. Dwelling time at the ports is now a major concern of the government, as it has reached an average of 6.5 days in 2013 in the port of Tanjung Priok, higher than the dwelling time of Thailand and Malaysia, at 5 and 4 days respectively.

Indonesia's logistics performance, shown by the Logistics Performance Index (LPI), released by the World Bank in 2014, showed improvement in their scores and ranking. Regardless, Indonesia remains to have a lower score and ranking than Malaysia, Thailand and Vietnam in 2014. Indonesia's ranking in terms of infrastructure, border agencies, as well as logistics competence has increased. However, Indonesia's indicators of international shipments, timeliness, tracking and surveillance experienced a substantial decline. This shows that there still remains factors that needs to be improved when it comes to logistics services in Indonesia. Meanwhile, logistic service is believed to be very important as it is part of the supply chain that could facilitate the various stages of the process of transport and trae facilitation at the border to ensure the timely delivery of goods from the producer to the consumer.

In light of the aforementioned issues, the government needs to take measures in order to improve Indonesia's connectivity and logistics performance, whether related to hard infrastructure or soft infrastructure, associated with the policy and productivity of a wide range of logistics services in Indonesia.

IMPROVEMENT OF PORT FACILITIES AND PRODUCTIVITY AT THE PORT

In order to facilitate shipping both between islands and internationally, ports should be well prepared for container ships and cargo ships. Some ports, specifically the major ports, have to improve on increasing the number of equipment in the forms of adding cranes, repair shipping lanes, increasing the depth of the pool, as well as the addition of piers. Nevertheless, there are still quite a lot of ports in Indonesia that contains facilities and equipment of limited quality, especially the ports in eastern Indonesia. This policy bried will list a few problems that still exist today, namely:

a. The management of terminal operators and a temporary warehouse (yard) by many different entities in the port of Tanjung Priok.

The negative impact of this many entities is potential additional expenses that arise when the container has to be moved from one terminal to another TPS so as to reduce the density or when stripping LCL containers.

Recommendation: *The government needs to reform the management of the business in the ports by combining (merging) yards there.*

b. The limited quantity and quality of piers and cranes, as well as increasing the depth of the pond, shipping lanes, and the detention of waves.

Lack of investments in the field of ports are what hinders modernisation and increases port productivity. This is the case for most ports in Western and Eastern Indonesia. For example, the port of Sorong, Jayapura, and Kupang only have three piers, where the user merges with a passenger ship; Not all cranes function properly, including some terminal operators in the port of Tanjung Priok, due to old age.

Recommendation: *The government needs to encourage funding from the private sector by forming a government and private sector cooperation scheme for port development.*

IMPROVING ACCESS TO GROUND TRANSPORTATION AND PEDESTRIAN CROSSINGS, INCLUDING FROM THE PORT TO THE HINTERLAND.

It is undeniable that the using trucks to transport goods in Indonesia plays an important role, whether for short distances or long distances. Door-to-door services are the strength of the truck conveyors, in addition to the lack of reliance on sea transportation for increased speed and timeliness of the delivery of goods. For example, a truck used to transport oranges and vegetables uses the routes of Berastagi, North Sumatra – Kramat Jati market, Jakarta, as well as the inter-cities route between Java and Bali. Trucks from Sumatra will also use the port facilities when crossing into the Java region using the roll-on-roll-off transportation mode. In addition, the truck is also part of a multi-modal transportation system that transports goods from/to the cargo ship to/from the warehouse in various regions in Indonesia.

Interestingly enough, although the port-warehouse routes are short distances, they generally have backhaul problems (empty payload). This problem is generally rare in the long-distance truck routes (e.g. North Sumatra – Jakarta – Sumatra). In order to meet the load, the truck can transit to a few places with the consequences of taking a longer time to return to their original locations.

Problems associated with land transportation and crossings include:

a. Poor conditions road infrastructure, overcrowding, and insufficient road width.

Based on the study by the Ministry of Trade (2013), truck costs are relatively more expensive in Jakarta, Surabaya, and Medan due to the density factor of their roads. Meanwhile, routes in South Sulawesi area, such as Sidrap, Maros etc headed for the port has insufficient road width; and the Sorong region issues regulations that limit the weight of cargo and container trucks who uses the access roads.

Recommendation: *The government should encourage the development of land transportation such as roads or railways, specifically those linking the port with industrial centers, or resource-producing regions.*

b. The density of ferry ports due to the limited number of piers

For dense routes, such as Merak-Bakauheni, trucks that travel between islands generally have to undergo a long traffic jam while waiting at the port, especially during holidays such as Hari Raya (Nurridzki et al, forthcoming). Limitations of the pier is one of the causes of this density, as well as the conditions of existing piers that are located close to each other. This condition is worsened by the old and poorly maintained ships, which would slow down the movement of ships lined up behind them. Another problem is the less than optimal pier arrangements, both scheduled and unscheduled.

Recommendation: *The government needs to increase efforts that encourages investment in the infrastructure of port crossings, particularly in the development of the pier; as well as to reform the management of ports with better corporate governance, especially in regulating the use of the pier.*

MINIMIZING IMPORT DWELL TIME IN PORTS

Dwell time has become a major concern to Jokowi's government, with the inclusion of a target to reduce Dwell Time gradually in the National Medium Term Development Plan (RPJMN) 2015-2020 from 5 to 6 days in 2015 to between 2 to 4 days by 2019.¹ In addition to that, President Jokowi has already assigned the Coordinating Ministry of Maritime Affairs to coordinate some ministries and agencies to create measures to reduce Dwell Time.

One of the factors that has been identified as contributing to the length of Dwell Time is that there are many requirements that extend both the duration and uncertainty of completing import documents (Nurridzki, 2013). Various ministries and agencies have already responded to this matter by calling for the simplification of import and export documents inside of the Indonesian National Trade Repository (INSW), as well as implementing an electronic system, as announced through the Deregulation Policy Package that Jokowi's government issued starting in September 2015.

The Ministry of Transportation took part in this initiative by issuing the Regulation of the Ministry of Transportation (Permenhub) No. PM 117/2015 regarding the relocation of goods that exceed Long Stay deadlines at Port Tanjung Priok, where the time limit of the accumulation of goods in the yard is 3 days after the goods are first stacked in the yard at the port. After three days, the container shall be transferred to a yard outside of the port. This matter is different from previous rules, such as No PM 807/2014, in which containers could be relocated if the yard occupancy ratio (YOR) reached 65% or if it passed 7 days.

Some of the problems that might still emerge related to the Dwell Time issue are as follow

a. Lack of coordination between government agencies in exports-imports policy formation

While each government agency has already begun to make licensing simplifications in the field of exports-imports, there still are not integrated efforts to conduct a policy review in the field of exports and imports. This leads to a long, unclear settlement process in licensing documents

¹ Dwelling time is the time taken for the good to exit the port area from the moment it is unloaded from the ship.

and recommendations, as well as creating a potential overlap between licensing objectives themselves.

Recommendation: *The government must strengthen coordination between the government agencies in helping and evaluating import-export policy, as well as make efforts to harmonize the licensing process, including harmonizing the Standard Operational Procedures (SOP) and Service Level Arrangement (SLA) between government agencies and the publisher of permit documents and recommendations.*

b. There is still a lack of use of an online system in the process of publishing permits and the utilization of the INSW Portal to facilitate publishing export-import supporting documents, including publishing delivery orders (DO) by shipping companies.

Currently, there are still many processes for issuing permits and recommendations that are conducted manually using different SLAs (Service Level Agreements). Uncertainty will reduce reliability and potentially induce additional costs. One of the successful reforms carried out by BPOM was fully adopting an e-payment system to issue permits electronically through e-BPOM. The permits that have been issued by BPOM are also automatically sent to the INSW Portal to be used later in the process of customs clearance.

Recommendation: *The government should increase the use of online systems to achieve efficiency in issuing permits and documents, without reducing the control function of the permit.*

c. The policy of relocating containers outside of the harbor to achieve the target of Dwell Time reduction has the potential of increasing costs

The regulations that require the relocation of containers to yards outside of the port after 3 days (Permenhub No 117/2015) has the potential to increase costs considering that port services do not yet operate on a 24/7 basis. Around 40% of containers that are imported arrive at Port Tanjung Priok on Saturday or Sunday (State Logistics Yearbook 2013). However, most departments of the government agencies that deal with the clearance process are not open on Saturdays and Sundays, including banks, shipping companies, and freight forwarders, who are only open for half-days on Saturdays. As a result, it is probable that the process of import clearance would take over 3 days. The container transfer process would then require costs to be borne by the owner of the goods, as stipulated in Permenhub. This matter has the potential to cause increased costs due to the policy of relocating containers after 3 days.

In addition to that, there is currently discourse to increase the costs of fines build-up after 1 day. This matter also has the potential to impact the rules that currently apply.

Recommendation: *The government needs to evaluate implementing the Decree from the Ministry of Transportation (Permenhub) No. PM 117/2015 to see the potential for increased costs in reaching the Dwell Time Target of 3-4 days through relocating containers to yards outside of the port. Permenhub has the potential to be implemented well, running full services 24/7, both from the sides of the government, the businessmen, as well as the logistics service providers.*

d. Dwell Time pricing policies throughout all ports in Indonesia are not necessarily effective in lowering logistics costs.

Although Dwell Time can be an indicator of high costs for logistics, as well as awareness in the harbor, the application of the Dwell Time target is not entirely necessary to decrease costs, especially in ports that are not congested. Ports generally apply policies that differ from each other regarding the cost build-up of containers, especially with regards to the establishment the tariff: if it will be free from charge, a progressive tariff, or a flat rate. For example, if today, Port Tanjung Priok waived fees for the first three days and then implemented a progressive tariff rate, and Makassar Port might be applying a fee throughout the first 7 days, it is unlike the case of Sorong, which does not apply any fares build-up or progressive rates for containers.

Recommendation: *Dwell Time pricing policies must be adjusted to the situation and condition, especially for ports outside of Port Tanjung Priok.*

THE EFFORT TO STRENGTHEN THE MARITIME ECONOMY THROUGH EXPANDED USE OF MARITIME TRANSPORTATION

One strategy for achieving national connectivity is through marine highway development that supports the maritime based economy. The challenge is encouraging consumers to move away from using land transportation in favour of sea transportation. One reason consumers often chose land transportation, particularly by truck, as opposed to sea transportation is due to the accuracy and speed of distribution, in addition to the cost. Therefore, sea transportation must be able to provide benefits that are greater than land transportation.

In the implementation of the Sea Toll, the government provides subsidies for the National Shipping Company of Indonesia (Pelni), who undertake the provisional services in accordance with the route set by the government. However, on the other hand, these subsidies have the potential to weaken the private shipping industry that provides services along the same routes. The center of this issue is the backhaul on sea transport. This subsidy can increase the gap between the costs of sea transport services that are provided by private parties as opposed to Pelni.

Recommendation: The government should re-evaluate the subsidy policy by considering expanding the subsidy program to provide companies that are providing these services. The Sea Toll policy should be able to strengthen the national private shipping industry through cooperation between several shipping companies as well as Pelni (the National Shipping Company of Indonesia) in providing services for set routes.

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