

Maritime Indonesia-Seeking Competitive Advantage in a Global Shipping Market

Opening & Welcome Address

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Distinguished Participants,
Distinguished Guests,
Ladies and Gentlemen,

First of all, on behalf of PT Arpeni Pratama Ocean Line Tbk, I would like to welcome and thank you for participating in the Forum Maritime Indonesia 2008-Seeking Competitive Advantages in a Global Shipping Market – Exploring Maritime Business in Indonesia.

On this occasion, I wish to thank Mare Forum for giving me the opportunity to give an opening address, to convene and also chair some sessions of the Conference. It's my complimentary to Mare Forum that, in the very short preparation, you have been able to invite prominent speakers, panelists and participants as well to participate in the 2008 Forum.

We are grateful that, under your support, we could organize this conference amidst the challenging times due to the current global shipping turmoil.

However, we hope that in the 2008 Mare Forum, we'll have fruitful discussions as to how to sharpen our individual competitive edge in maritime transport. I am assured that having such a competitive edge, our individual maritime industry has its resilience in the face of global turmoil.

To begin with, I would like to give an overview on Indonesian maritime transport. Today, the picture of global shipping industry is much different from that last year. We may recall that, on our 2007 Forum, shipping was decent in term of high international

freight and charter rates and high price of vessels as well. The growth of world maritime trade had attracted the expansion of the world fleet capacity.

We are now concerned with the drop of global shipping industry due to the decline of shipping demand in Asia and the world as a whole. We may argue that it has been badly affected by global financial distress. To our dismay, they may bring about uncertainty on global shipping industry.

That is why, as Indonesian shipowners, we have been questioned on the prospect of Indonesian shipping business. Amidst the global shipping turmoil, we are at the stage of empowerment as cabotage is under implementation.

As part of legal reforms on shipping, the cabotage provides the Indonesian shipowners a great opportunity to have a fair share in cargo transportation. New domestic investment on shipping has been on the rise in Indonesia.

The release of Presidential Instruction No 5/2005 was followed-up by some relevant regulations and ministerial decrees, such as Minister of Transportation Decree No 71/2005, Government Regulation No 44/2005 on maritime liens and mortgages 1993, and Minister of Transportation and Minister of Trade Joint Decree 2006, indicating the Government's political will to empower the Indonesian shipping industry. On May 7, 2008 the Government issued the new shipping law No 17, affirming the implementation of cabotage.

Consequently, Indonesian shipping has eventually been growing as marked by the increasing number of Indonesian [flagged] vessels and cargoes carried by Indonesian vessels. The number of Indonesian vessels has increased from about 6,000 thousand units in 2005 to more than 7,800 units in 2008 due to the deflagging of vessels to Indonesian flagged vessels and the addition of newly built and second hand vessels.

Then the portion of domestic maritime trade carried by Indonesian vessels had increased from 55% in 2005 to 65% in 2007. The increase of international freight rates and price of commodities, such as coal and oil, had driven an increase in local shipping investment.

The multiple effect of shipping growth to related industries has shown, among others, the improving performance of Indonesian shipyards/dockyards. To illustrate, the export of ships had jumped by six times just within two years, from US\$47.4 million in 2004 to USD 294.1 million in 2006. I am confident that banks or financiers will support the investment of Indonesian [flagged] vessels after the Government ratified maritime liens and mortgages 1993.

Today's drop of global shipping markets could even bring about greater uncertainty on the prospect of Indonesian shipping, unless the cabotage was consistently and seriously applied. The loosening of cabotage would hinder the empowerment of Indonesian shipping. One may argue that it is time for the Indonesian shipowners to invest on vessels with low price. But, the global financial distress may restrict credit liquidity for capital investment, including the purchase of vessels which are capital intensive and slow-yielding in nature.

As an Indonesian shipowner, I'm still confident that Indonesia is on the right track in its efforts to effect legal reforms in shipping. The new shipping law can mitigate against any shipping turbulence, as it constitutes a strong legal foundation for the empowerment of Indonesian shipping industry.

Let me address a bit on the new Indonesian shipping law. Affirming the cabotage application, it is aimed, among others, at facilitating the movement of passengers and/or cargoes by maritime transportation, developing maritime spirit, having high respect on national sovereignty, and enhancing shipping competitiveness. It covers activities of maritime transport, seaports, maritime safety and security and maritime environment protection.

The Indonesian shipowners do welcome the introduction of the new law, as it is assuring development of maritime transportation and seaport. On maritime transportation services, it emphasizes, among others, on

1. The affirmation of cabotage application, in which foreign vessels are not allowed to carry passengers and/or cargoes inter islands or ports within the Indonesian water territory.

2. Foreign shipping companies have to appoint national companies to be their general agents in Indonesia;
3. Shipping being part of multimodal transportation carried out by multimodal business enterprises providing door-to-door services.
4. Empowerment of national shipping under the responsibility of the government in providing financial and tax facilities, facilitating long-term contracts between cargo shippers and shipowners, assuring the availability of marine fuels;
5. Shipping mortgages in which Indonesian vessels can be used as collateral, so that Indonesian shipping companies can easily obtain financial support for their business development.

Then, on port management, the law has given emphasis on

1. The abolishment of monopoly in port management, sharpening competition and increasing efficiency in seaports;
2. The delegation of authority to local government under regional autonomy;
3. Private investment in port development; and
4. Separation of function between regulator and operator in port management.

Thus in the face against global shipping turbulence, our mitigating factors are the cabotage application on shipping and the development of infrastructures, particularly seaports. Efficiency on shipping and port management should also be taken into account, to ensure our cost competitiveness. Therefore, actions such as the elimination of terminal handling charges at ports and other unforeseen charges may hinder competitiveness at Indonesian ports.

Finally, I wish you could take optimal use of this Mare Forum and to encourage our individual governments, that have so far undermined the importance of maritime industry, to take serious consideration the need of our individual maritime transportation industry. We also need to promote the development of our maritime cluster at individual economies.

By doing so, our Forum is the best venue for sharing of information and networking to benefit our individual economies. I do believe that the strengthening of our individual maritime economy will contribute to the strengthening of our regional and worldwide maritime transportation industry.

Thank you very much.