

THE INDONESIAN INTERISLAND SHIPPING INDUSTRY

AN ANALYSIS OF COMPETITION AND REGULATION

H. W. DICK



ASEAN ECONOMIC RESEARCH UNIT
INSTITUTE OF SOUTHEAST ASIAN STUDIES

THE

INDONESIAN

INTERISLAND

SHIPPING INDUSTRY

AN ANALYSIS OF COMPETITION AND REGULATION

H. W. DICK



ASEAN ECONOMIC RESEARCH UNIT
INSTITUTE OF SOUTHEAST ASIAN STUDIES

Cover photo:

Ogan (2196 grt/built 1948). One of a class of nine cargo/passenger ships built for the KPM for the copra trade from Eastern Indonesia. Sold in 1960 to Singapore owners, in 1962 she was bought back by P.T. Sriwijaya Raya Lines and for many years maintained a regular fortnightly service between Jakarta, Belawan, and Singapore. In January 1984 she was laid up to be scrapped.

Published by
Institute of Southeast Asian Studies
Heng Mui Keng Terrace
Pasir Panjang
Singapore 0511

All rights reserved.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the Institute of Southeast Asian Studies.

© 1987 Institute of Southeast Asian Studies

Cataloguing in Publication Data

Dick, Howard

The Indonesian interisland shipping industry: an analysis of competition and regulation.

Based on his Ph.D. thesis, Australian National University, 1977.

1. Shipping — Indonesia.

I. Title.

HE887 D54 1986

ISBN 9971-988-29-1 (soft cover)

ISBN 9971-988-30-5 (hard cover)

The responsibility for facts and opinions expressed in this publication rests exclusively with the author and his interpretations do not necessarily reflect the views or the policy of the Institute or its supporters.

Typeset by Integrated Graphics Pte. Ltd., Singapore.

Printed in Singapore by Kim Hup Lee Printing Co Pte Ltd.





THE

INDONESIAN

INTERISLAND

SHIPPING INDUSTRY

AN ANALYSIS OF COMPETITION AND REGULATION

The **Institute of Southeast Asian Studies** was established as an autonomous organization in May 1968. It is a regional research centre for scholars and other specialists concerned with modern Southeast Asia, particularly the multi-faceted problems of stability and security, economic development, and political and social change.

The Institute is governed by a twenty-two-member Board of Trustees comprising nominees from the Singapore Government, the National University of Singapore, the various Chambers of Commerce, and professional and civic organizations. A ten-man Executive Committee oversees day-to-day operations; it is chaired by the Director, the Institute's chief academic and administrative officer.

The **ASEAN Economic Research Unit** is an integral part of the Institute, coming under the overall supervision of the Director who is also the Chairman of its Management Committee. The Unit was formed in 1979 in response to the need to deepen understanding of economic change and political developments in ASEAN. The day-to-day operations of the Unit are the responsibility of the Co-ordinator. A Regional Advisory Committee, consisting of a senior economist from each of the ASEAN countries, guides the work of the Unit.

Research on shipping is one of the concerns of the ASEAN Economic Research Unit and several studies are usually under way in any one year. It is the Unit's intention to strengthen such work in the years ahead, both on its own and in collaboration with other organizations with similar interests.

To H. W. Arndt



Silumba (1650 dwt/built 1978)

One of 10 'Si' class general purpose cargo ships built in Norway under Norwegian aid and allocated via P.T. PANN to PELNI. On this voyage the deck, designed to carry containers, is being used for passengers.

Preface

The aim of this book is to provide an economic analysis of the performance of and policy towards the vital interisland shipping industry since Indonesia's Independence. It represents the fruits of research which began in 1973 when I became a Ph.D. student at the Australian National University with the opportunity to carry out fieldwork in Indonesia, Singapore and the Netherlands. After the thesis had been submitted I obtained a somewhat different perspective as a consultant to the World Bank. Since then I have tried to keep in touch with recent developments on periodic visits to Indonesia. The advantage of this long gestation period is that my original approach and hypotheses have had to stand the test of time. I believe that analysis of the often conflicting forces of competition and regulation still provides rich insight into the industry's continuing poor performance. While circumstances have certainly changed over the past decade, in many respects it is the case that *plus ça change plus c'est la même chose*. Consultants' reports are typically ephemeral because they ignore the continuity arising from this historical dimension.

We all have our tools of trade and mine are unashamedly those of the economist. To self-styled "practical men", economic analysis often seems "too theoretical" and the deregulatory policy implications "too impractical" or "politically unacceptable". As has been said of History, however, so also of Economics: we ignore it at our peril. As the interisland shipping industry shows all too clearly, economic forces have an annoying tendency of asserting themselves one way or another and thwarting even the best-intentioned of regulations. By the time this happens, however, foreign advisers or bureaucrats have often moved on to greener pastures. For want of analysing the causes of the failure of past policies, their successors then often proceed to make very similar mistakes. Nevertheless, it is essential not to be too pure an economist. Through regulation and personal connections, "political" forces must also be taken into account. The whole point of analysing competition and regulation is that the performance of the industry can best be understood as the outcome of their interaction.

The book does not aim to set forth a programme for policy reform. Over the past fifteen years or so the Indonesian Government has not lacked advice on what to do about the interisland shipping industry. Most of it has been taken with a grain of salt, which is probably about the right amount of seasoning. For better or for worse the Indonesian Government has shown itself well able to decide upon its own policies. My analysis of the impact of those policies suggests that the performance of the industry would be improved by a good

deal of deregulation. With the package of reforms that have followed upon Presidential Instruction (Inpres) No. 4/1985 of April 1985, the government has now implemented a major shift of policy in this direction. My main concern is not so much to argue the case for deregulation, however, as to suggest that the formulation and implementation of industry policy would benefit from some more careful economic analysis within government, as also from more consultation with the industry itself. Economic policy under the New Order has been very enlightened at the macroeconomic level, but the technocratic approach has yet to penetrate very far at the industry level. This reflects in part a desperate shortage of well-trained applied microeconomists.

* * *

Knowledge and ideas do not emerge from thin air, and I most gratefully acknowledge the assistance which I have received over the years from so many people. My greatest debt is to my teacher and supervisor, Emeritus Professor H. W. Arndt, founder of the Indonesia Project at the Australian National University. It was he who first suggested that I study the interisland shipping industry for my Ph.D. thesis and gently guided me towards its successful completion. From him I learned much, not just about Economics but also about the beauty of good English, and to him this book is most affectionately dedicated.

My original fieldwork was undertaken with the kind patronage of Professor Dr Emil Salim, then Minister for Communications, and under the sponsorship of the Lembaga Ilmu Pengetahuan Indonesia (LIPI). The collection of data would have been impossible without the assistance of officials of the Directorate-General of Sea Communications, both in Jakarta and in ports around the country. The Secretariat of the Indonesian National Shipowners' Association (INSA) also helped with data and kindly provided a letter of introduction to its members. Over the years I have been able to speak with the owners and/or managers of virtually all the interisland shipping firms, some no longer in business. I have also had invaluable discussions with members of the various foreign advisory teams which have served in Indonesia over the years. In the course of the research I have not only learned a great deal from all these people but also formed friendships. I regret that it would not be appropriate to thank people by name, though I would like particularly to acknowledge the assistance of the late Captain Harun Rasidi, formerly President-Director of PELNI and the late Mr J. C. Pattinasaranij of P. T. Eja. No doubt I have not listened carefully enough and too often been led astray by my preconceptions as an economist — this is a reflection upon no one but myself.

The long historical chapter draws heavily on material collected on two visits to the Netherlands. From September to November 1974 I was fortunate to be a

visitor to the Stichting Instituut voor Verkeers- en Vervoerseconomie (SIVVEA) in Amsterdam and would particularly thank Professor K. Vonk and Drs C. Smits for this opportunity. During that time the KPM records were unfortunately inaccessible owing to the Nedlloyd Group's moving to Rijswijk. In 1982 I was able to return to the Netherlands and work on that very rich material, now deposited in the Alg. Rijksarchief in The Hague. I am grateful to the Nedlloyd Group for permission to consult the material and to Mr E. Ooyevàar of the Tweede Afdeling for helping me to find my way through the archive.

Captain Peter Foxley, of Airfoto, Malacca has kindly allowed publication of a number of his excellent photographs.

Last but not least, I would like to thank the typists in the Department of Economics at Newcastle University, Joan Allridge, Maxine Zerafa and Elizabeth Williams for their patience and care in typing the manuscript.

November 1985

H. W. DICK
Newcastle, NSW
Australia

Contents

List of Tables

ix

List of Illustrations

xi

Preface

xiii

I

INTRODUCTION

1

II

EVOLUTION OF THE MODERN INTERISLAND SHIPPING INDUSTRY

4

III

MARKET STRUCTURE AND COMPETITION

41

IV

THE IMPACT OF COMPETITION

58

V

THE FIRM

68

VI

PELNI

83

VII

INFRASTRUCTURE

96

VIII
LICENSING AND CONTROLS
118

IX
INVESTMENT POLICY
140

X
FREIGHT RATE REGULATION
158

XI
CONCLUSION
181

<i>Appendices</i>
193

<i>Abbreviations and Glossary</i>
203

<i>Bibliography</i>
206

<i>Index</i>
210

Tables

	Page
2.1 Shares of KPM and PELNI in Interisland and Shortsea Cargo, 1956 and 1957	19
2.2 Shares of KPM and Indonesian Firms in Main Government-Controlled Interisland Cargoes, 1956	22
2.3 Shares of Main Firms in Singapore Cargoes, 1953-56	23
2.4 Interisland Fleet, Cargo and Productivity, 1957-64	28
3.1 Interisland Cargo by Shipping Sector, 1981	42
3.2 Size Distribution of Firms by Fleet Capacity, December 1982	51
3.3 Size Distribution of Firms by Tonnage of Cargo, 1982	51
4.1 Distribution of Firms by Productivity of Fleet, 1982 and 1978	59
4.2 Range of Observed Crew Sizes by Ship Size, 1973/74	61
4.3 Turnover and Staffing of the Medan/Belawan Branches of Eja and Srilines, 1973	61
4.4 Comparison of Overall Staffing, Eja and Srilines, 1973	62
4.5 Turnover of Nusantara Firms (Dec. 1966 to Dec. 1982)	63
4.6 Capacity Shares of Growing and Declining Firms (Dec. 1970 to Dec. 1982)	64
5.1 Interisland Firms and Number of Ships, December 1982	72
6.1 Financial Results of P.T. PELNI, 1982-85	86
7.1 Output of the Domestic Shipbuilding Industry, 1979-83	111
8.1 Licence Categories and their Minimum Requirements	119
8.2 RLS System, December 1983	127
9.1 Distribution of Approved World Bank Rehabilitation Loans, July 1974	148
10.1 Commodity Differentiation of the Official Tariff	165
10.2 Commodity Group Classification in Force from November 1969 to February 1979 — Selected Items	166
10.3 Transport Cost Profile for Shipment of Sugar (300 tons) from East Java Mill to Samarinda (November 1973)	170
10.4 Changes in Commodity Coefficients (1 March 1979)	171
10.5 Official and Actual Freight Rates for Private Firm, Surabaya/Samarinda Service	175

Illustrations

	Page
<i>Silumba</i>	Frontispiece
<i>King Dragon</i>	20
<i>Tampomas</i>	20
<i>Karangraya</i>	21
<i>Bidara</i>	21
<i>Soemantri Brodjonegoro</i>	44
<i>Babaduri</i>	45
<i>Kota Silat XI</i>	46
<i>Bintang Mas</i>	47
<i>Prabu Pinisi</i>	48
<i>Prabu Layar Motor</i>	49
<i>Lawandra</i>	88
<i>Bengawan</i>	89
<i>Ujung Pandang</i>	106
<i>Surabaya</i>	107
<i>Ujung Pandang</i>	107
<i>Sandangan</i>	112
<i>Tapian Nauli</i>	113
<i>Barau</i>	132
<i>Pelita</i>	133
<i>Pisang</i>	142
<i>Iweri</i>	143

Acknowledgements

Photographs on the following pages were reproduced by courtesy of Airfoto, P.O. Box 159, Malacca: cover, frontispiece, 20, 44, 45, 46, 47, 112, 113, 142.

The photograph on page 21 was reproduced with the kind permission of W.A. Schell.

All other photographs were taken by the author.