

### 6.1.2.3 Cost Sharing System with Beneficiary

#### (1) Necessity of Enrichment of National Financial Sources for Port Development

##### 1) Present Situation of National Revenue from Tariff

The following Table 6.1.2.7 shows the total amount of tariff revenues in the last three years coming from the operation of "non-commercial" ports. Although revenue has increased, it still falls short of covering the expenditures for port development. In FY 1996-97, only 5% of the expenditures are covered by the revenue, and only 17% of them for development of non-commercial ports are covered by the revenue.

This can't be helped because these are non-profitable and non-commercial ports that the government directly manages and operates. However, it is necessary for the government to consider how to enrich the national budget for the port development.

Table 6.1.2.7 Tariff Revenues of the Government (Non-Commercial Ports)

(Unit: million Rp.)

Description	FY 1994-95	1995-96	1996-97
1. Port dues	3,731	3,329	4,386
2. Berthing dues	2,408	3,122	3,536
3. Wharfage	1,755	2,144	2,548
4. Storage fees	161	230	101
5. Others	650	966	926
(a) Total Tariff Revenue	8,705	9,791 (12% up)	11,497 (17% up)
(b) Expenditure for port development	332,000	257,485	226,816
(a)/(b) (%)	2.6%	3.8%	5.0%
(c) Expenditure for port development of non-commercial port	NA	96,590	67,457
(a)/(c) (%)	NA	10.1%	17%

Source : DGSC

##### 2) Necessity of Effective Use of National Budget

The government must make more effective use of the limited national budget for port development. That is to say, the government should obtain the maximum result with the minimum investment. Therefore, the government always should pay careful attention to the

priority of the port development projects.

### 3) Enrichment of National Financial Sources for Port Development

Taking account of the importance of the sea transportation mode in Indonesia, the government should pump more funds into the port development. Furthermore, in some cases, it is irrational for the government to use only tax and tariff revenues for the development of the ports.

For example, the following concrete measures shall be considered ;

- ① To collect port charges without fail
- ② To set tariff in accordance with construction costs
- ③ To increase tariff rate as necessary (e.g. inflation)
- ④ To establish "cost sharing system"

For example ;

- (a) Sharing cost by the source
- (b) Obligation of beneficiary (willingness-to-pay)
- (c) Sharing cost for port environment improvement work
- (d) Charges for proprietary or mining sand and earth

The establishment of cost sharing system shall be explained in the following section.

#### (2) General Explanation of "Cost Sharing System" in Japan

Generally speaking, the port management body (usually, public sector) should use "general tax" and "port tariff" revenues as funds for port development. While tax is imposed on "general beneficiary" like residents, port tariff is laid on "natural beneficiary" like port users.

However, in specific cases, it is very unfair and irrational to use only "tax" or "tariff" revenues for the port development works. In such specific cases, the port management body should raise the costs of port work sharing from "special beneficiary" (cost sharing system).

For example, in Japanese "Port and Harbor Law" and other related laws, some cost sharing systems are introduced. Similar stipulations are often seen in other foreign laws and regulations.

For reference, the following Table 6.1.2.8 shows the outline and basic concept of the cost-sharing system for port development in Japan .

Table 6.1.2.8 Outline & Basic Concept of Cost Sharing Systems in Japan

Name of system	Legal base	Cost sharing party	Actual situation
① General tax	National and local tax law	General beneficiary : "Residents" must pay the tax.	In principle, general tax is used for infrastructure development.
② Port tariff	Port & harbor Law Article 44	Natural beneficiary : "Users" must pay port tariff.	In principle, port tariff is determined based on "Cost Accounting"
③ Sharing cost by the source	ditto Article 43-3	Special beneficiary : The party who caused the port work must share the cost.	It is determined on case-by-case basis
④ Obligation of beneficiary	ditto Article 43-4	Special beneficiary : The party who receives the most benefit from port work must share the cost.	It is determined on case-by-case basis.
⑤ Sharing cost for port environment improvement work	ditto Article 44-2	Special beneficiary : "Factories" or businesses located in port area must share the cost.	Only six major Japanese ports including Tokyo & Osaka collect this charge.
⑥ Charges for proprietary or mining sand and earth	ditto Article 37⑦	Special beneficiary : The person who obtained authorization for the proprietary use must pay the charge.	The charges are determined based on local law.

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The details of the following cost sharing system are referred to in the following section.

- 1) Sharing cost by the source
- 2) Obligation of beneficiary (willingness-to-pay)
- 3) Sharing cost for port environmental improvement work

### (3) Details of Cost Sharing System with Beneficiary in Japan

#### 1) Sharing Cost by the Source

##### ① Basic idea

The article 43-3 of “Japanese Port & Harbor Law” stipulates as follows ;

- (a) When a port and harbor work is necessitated as a result of a construction work or an act of person or persons other than the port management body, the latter may demand the former to bear all or part of the cost to the extent the said port and harbor work is necessitated.
- (b) The extent of responsibility to bear the cost and the method of payment of the cost under the preceding paragraph shall be stipulated by the ordinance of the local public entity acting as port management body.

##### ② Example of the system

###### (a) “Port and Harbor Law”

As an example of this law, when the port management body implements “sludge-dredging works”, the body can require the party who caused the sludge to bear some portion of the cost. This system is applied when the relationship between the cause and result is very clear.

###### (b) “Anti-pollution Cost Sharing Law”

There is another special law (“Anti-pollution Cost Sharing Law”) which stipulates how to share costs between the public and private sector for “anti-pollution public works” with the private sector who may possibly cause pollution.

This law put stress on necessity of prevention of pollution activities by requiring cost sharing between the public and private.

## 2) Obligation of Beneficiary (Willingness-to-pay)

### ① General

This system is codified in the Japanese Port and Harbor Law. The article 43-4 of the Law states as follows ;

#### Paragraph 1 :

In the event a person or persons gain substantial benefits from the port and harbor work, the port management body may demand the beneficiary to bear part of the cost to the extent the benefits are gained.

### ② Example of the System

When a port management body constructs an embankment at the request of a company, it sometimes requires the company to share a part of the construction cost. However, this system is only rarely applied.

### ③ Example of Port of 'Kashima' in Japan

#### (a) General

Kashima area is located around 80 km east of Tokyo, in Ibaraki prefecture. In 1963, this area was designated as one of "Special Industrial Development Areas" on the basis of the "Law for Promotion of Special Regional Industrial Development" enacted in 1964. The designation of these areas was implemented for the purpose of regional industrial development in the period of Japan's rapid economic growth, based on the government strong initiative. The details of the project are seen in "Chapter 3.2.5".

Port of Kashima was developed and opened in 1969 as a core infrastructure in the "Kashima Special Industrial Development Area"

In the development project of petroleum & steel facilities, the costs for development of "breakwater", "channel dredging" and others were shared among the central government, port management body and beneficiary (special ports). The sharing cost schemes between public & private sector are summarized in the following Table 6.1.2.9.

#### (b) Particularities of Cost Sharing System

- a) The cost sharing schemes are usually determined on a "case by case" basis.
- b) "Public sector" bears all costs for the development of basic port facilities.

c) However, in terms of the development of facilities for particular industries, the “burden of the beneficiary (private sector)” increases in accordance with the depth of channel dredging (degree of the benefits are gained).

Table 6.1.2.9 Cost-sharing on Port Development between Public and Private Sector (FY 1963-1973)

Classification	Port facilities	Cost-sharing ratio (%)			Private sector (Beneficiary)
		Central government	Local government	Total	
Development of basic port facilities	Breakwaters, Quay walls, Dredging (-10m)	50	50	100	0
Development of port facilities for particular industries (*1)	South Breakwater	25	25	50	50
	Dredging (-12m)	25	25	50	50
	„ (-14m)	20	20	40	60
	„ (-16m)	15	15	30	70
	„ (-19m)	12.5	12.5	25	75
	„ (-21m)	10	10	20	80
	„ (-23m)	10	10	20	80
„ (-24m)	5	5	10	90	

Note : (\*1) Extension of South Breakwater, widening and deepening of navigation channels caused by the enlargement of ship-size for particular industries

### 3) Sharing Cost for Port Environment Improvement Work

#### ① Basic Law

The system is based upon article 43-5 of the Japanese Port and Harbor Law which stipulates the following ;

- (a) When the port and harbor work which is undertaken by the Port Management Body and aimed at the improvement or preservation of the environment of the port contributes to the improvement and preservation of the environment of factories or business establishment within the "port area" or the "waterfront area", or to the preservation or mitigation of environmental pollution in the area around the said factories or business establishments which might otherwise be expected as a result of their location or operation,
- (b) the port management body may force the operators of these factories or business establishments to bear part of the cost of the said port and harbor work in accordance with the standards specified by Government Ordinance by legislating an ordinance for the purpose.

#### ② Basic Idea

In Japanese ports, as the scope of port works for the improvement or preservation of the environment increased, the port management bodies (mainly local government) had to bear more and more costs. Therefore, the following basic idea emerged ;

- (a) The factories or businesses located near the port area "profit" from these port works.
- (b) It is thought unreasonable to pay these costs only from general financial sources such as tax or port tariff. In short, the system is based on the idea of "equality and fairness" in terms of sharing costs.

#### ③ Details of the System

The port management body established local laws to institutionalize the system. Today, only 6 major Japanese ports such as Tokyo and Osaka establish the system and collect the charge from the beneficiaries.

In FY 1994, 165 factories and companies shared the costs, collectively shouldering about 9 % (¥137million) of the total environmental improvement works. It is now thought to be a

very important financial source. The details of the system are indicated in the next Table 6.1.2.10 ; The location of “port area” & “waterfront area” of Osaka Port and “port environmental improvement works” for sharing cost are shown in Figure 6.1.2.2~6.1.2.4.

Table 6.1.2.10 Details of Sharing Cost for Port Environment Improvement Work

Scope of Works	Factories or Business required to Share Costs	Calculation & result of Sharing Costs
(a) Construction of port pollution control facilities (b) Construction & maintenance of environmental protection facilities (e.g. green zone) (c) Elimination works of pollutants (e.g. pollutants dredging) (d) Sea cleaning works (e) Others	Factories or business having site area of more than 10,000 m <sup>2</sup> within “port area” or “waterfront area”.  * For example in Port of Osaka in FY 1994 165 factories and companies shared the costs	Costs for civil works × 1/2 × site area of factories ÷ area of the jurisdiction  * For example in Port of Osaka in FY 1994 Total cost ¥1,567 million Sharing cost ¥137 million (about 8.7%)

Note : US\$1 = ¥116.35 on October 15, 1998

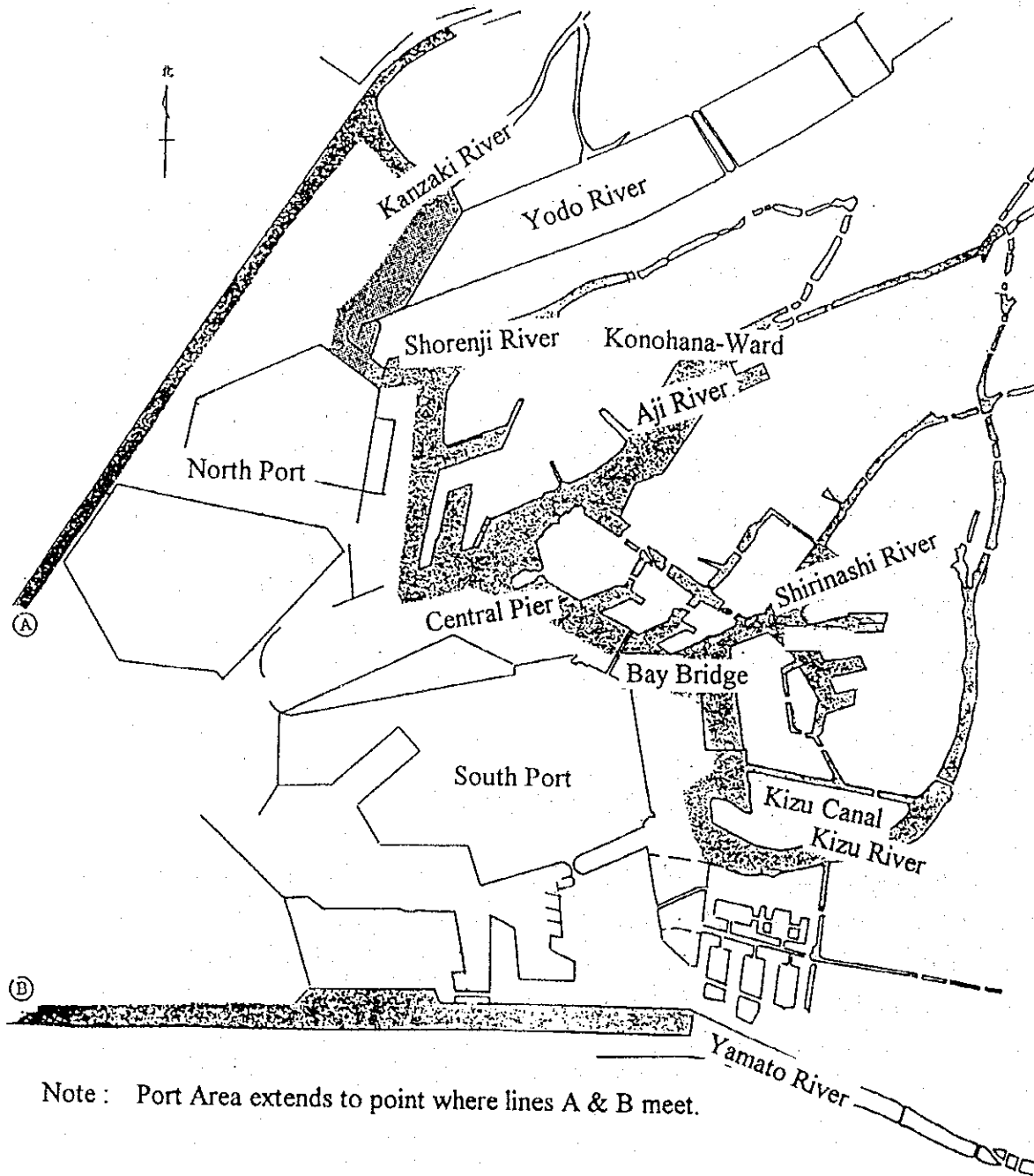
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#### ④ Peculiarities of the System (Procedure for the Charge)

Before the port management body determines scope of civil works whose costs can be shared by the private sector, the body must consult with and accept the recommendation from the “Local Port and Harbor Council” whose members are composed of academic persons, persons in port-related business and others. The recommendation from the “third-neutral Council” can justify the charges for the private sector.

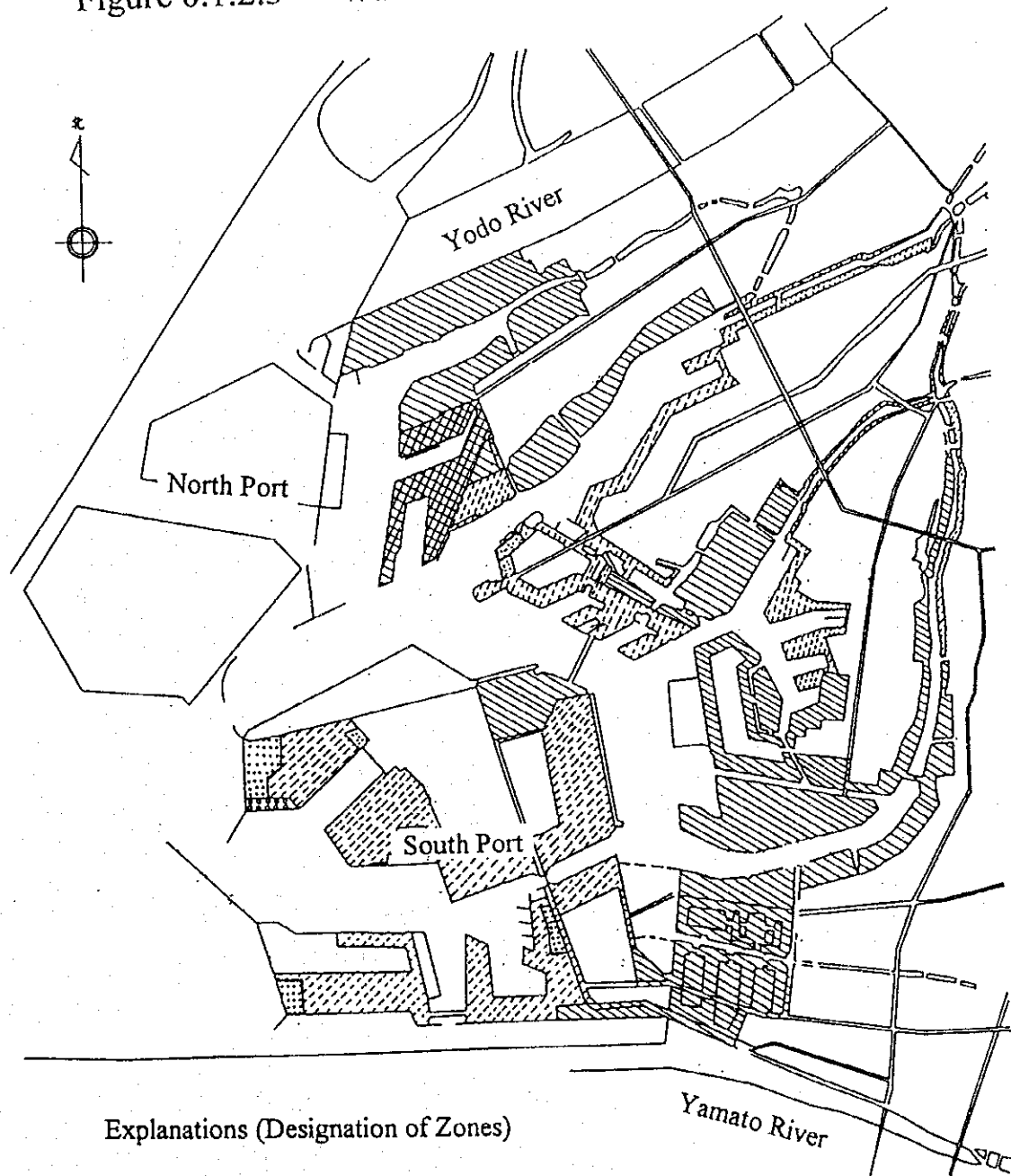


Figure 6.1.2.2 "Port Area" of Osaka Port



Note : Port Area extends to point where lines A & B meet.

Figure 6.1.2.3 "Waterfront Area" of Osaka Port



Explanations (Designation of Zones)






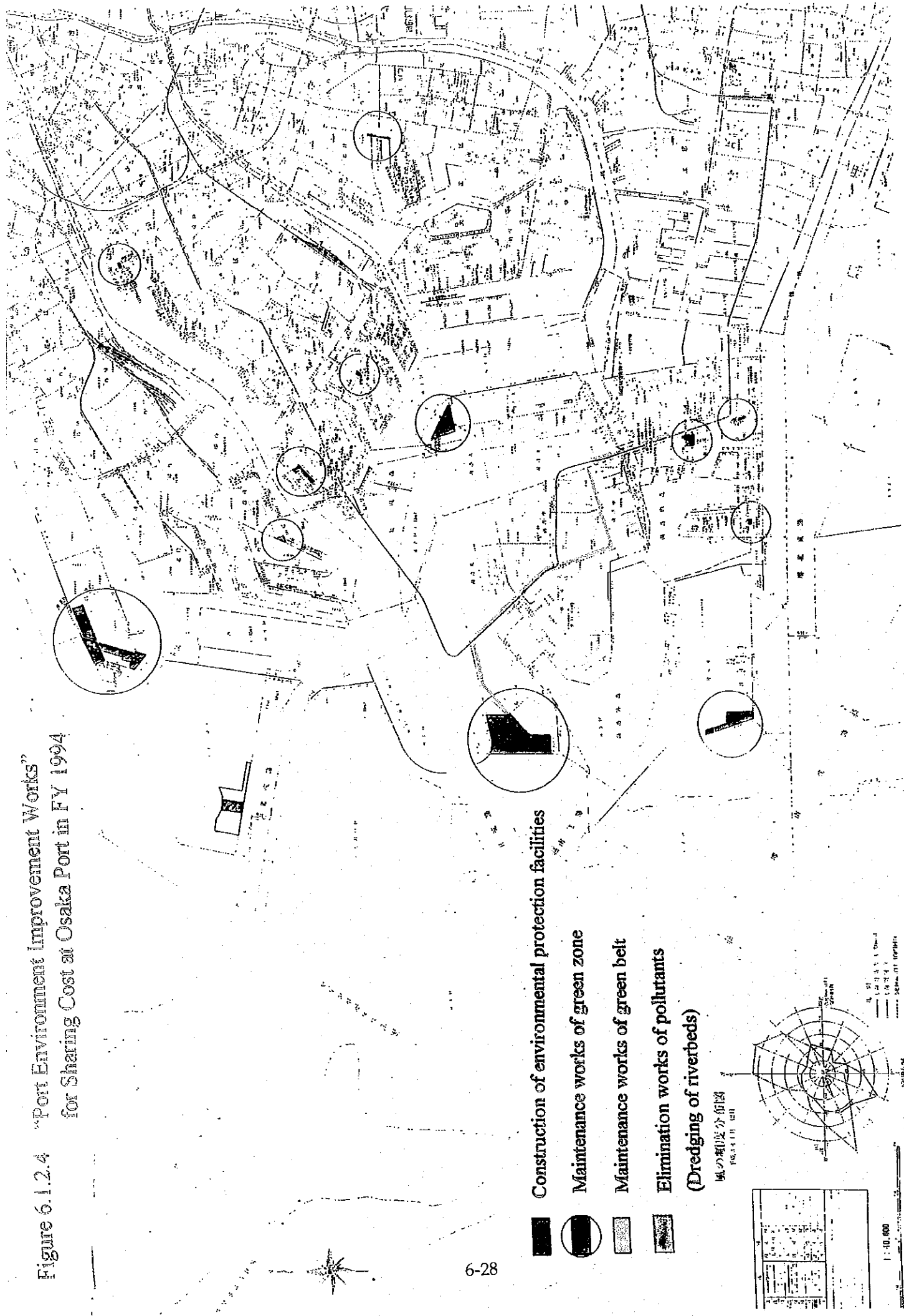
- |   |                    |   |                          |
|---|--------------------|---|--------------------------|
|  | Commercial Zone    |  | Hazardous Material Zone  |
|  | Special Cargo Zone |  | Scenic & Recreation Zone |
|  | Industrial Zone    |   |                          |

Figure 6.1.2.4 "Port Environment Improvement Works" for Sharing Cost at Osaka Port in FY 1994



- Construction of environmental protection facilities
- Maintenance works of green zone
- Maintenance works of green belt
- Elimination works of pollutants
- Dredging of riverbeds

風の相度分布図  
FIG. 4.1.11 (2)

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#### (4) Cost Sharing System in Indonesia (Tariff Levy System in Special Port & Wharf)

##### 1) General

In Indonesia, cost sharing system with special beneficiary does not yet exist. Instead, the government and IPC collects tariff (anchorage, berth dues & wharfage) from special port & wharf according to the following Table 6.1.2.11.

The reasons are summarized as follows ;

- ① The government and IPC are burdened with management and maintenance costs such as “security”, “supervision”, “channel maintenance” and so on.
- ② Thus, the users of special port & wharf should share the costs through port tariffs.

Table 6.1.2.11 Tariff Revenue in Special Port & Wharf

Description		Special wharf		③ Special port
		① IPC	② Government / non commercial port	
Whose revenue. ?		IPC	IPC	Government
① Anchorage	Own purpose *	100%	100%	100%
	General purpose	100%	100%	100%
② Berth Dues	Own purpose	Negotiation	-	-
	General purpose	Negotiation	50%	50%
③ Wharfage	Own purpose	Negotiation	-	-
	General purpose	Negotiation	50%	50%

\* Note : own purpose : material, production & equipment

##### 2) Evaluation of the Tariff System

With the exception of “anchorage”, it seems to difficult to justify collecting port tariffs from users for the following reasons.

- ① In Japan, users of special port don't need to pay those port tariffs to the central or local governments because special ports are constructed at their own costs.
- ② In principle, “no service” means “no charges”.
- ③ The relationship between the tariff revenue and expenditures related to special port & wharf is not clear.
- ④ The tax levy system seems to lack rational reasons, transparent procedure and check system from certain public organizations. For example, in Japan, in case of “sharing cost

for port environment improvement work”, local governments are required to consult with and hear the opinions from the “Local Port and Harbor Council”.

- ⑤ There is a danger that the tariff levy and excessive intervention of IPCs would discourage private sector participation within IPC’s jurisdiction (see Chapter 7.1.3. (4) ).

#### (5) Recommendation

- 1) The government should make every effort to justify collecting port charges from users of special port & wharf for general purpose.
- 2) Even if the tax levy can be justified, in principle, the government and IPCs shall not collect port charges from users because “no service” usually means “no charges”.
- 3) From the long term perspective, it is desirable for Indonesian government to establish more transparent and clear standards of cost sharing system based on firm legal framework.
- 4) It is one idea to legitimate “cost-sharing with beneficiary” in place of tariff levy system in specific general port laws such as “Shipping Law No.21 of 1992” or “Government Regulation No.70 of 1996”.

### 6.1.3 Establishment of General Policy for IPC's Financial Sources

#### 6.1.3.1 Present Situation of IPC Financing

##### (1) General

IPC are nothing but limited-liability and profit-making companies that may keep retained earnings for port investment. As explained before, IPC must be responsible for development of their own ports. At present, IPC uses its "own budget", "national budget" and "foreign loan" (e.g. OECF & ADB loan) as their funds although the proportions of each differ. Hereafter, in principle, IPC should use its own operating revenues for their own port development. IPC should bear the full cost of their liabilities including debt service.

However, there are gaps in financial ability among each IPC. Therefore, competitive corporations like IPC II should not depend upon the national subsidies in order to exert its enterprising spirits. On the other hand, other corporations should enhance their financial competence by degrees according to their ability.

##### (2) Present Financial Status of IPCs

The following Table 6.1.3.1 shows the present IPC's financial status. Based on understanding of the current situation, the status in the future should be envisioned. In this case, the starting time of following matters should be considered. Financial situations of each port in IPC I ~ IV are referred to in Appendix for Chapter 6.1.3.

###### 1) Privatization

Profitable IPC II and III are interested in privatization in FY 1998. The government also intends for has idea that other IPCs to follow suit in the future.

###### 2) Issue of Bond

Issuing bonds is as an effective way to collect funds for port development on its own judgment. IPC II already started to issue bonds from 1994. Other IPCs are considering the issue of bonds for project funding.

The details will be explained in the following section.

###### 3) CT Terminal Operation by the Private Sector

"Lease of container terminals" commonly seen in Japanese and major Asian ports. In the future, the leasing should also be taken into consideration as an effective way of

management and operation.

In Indonesia, CT terminals are not yet leased or contracted out. However, at CT III in Port of Tg. Priok, "joint operation" between IPC II and the private sector has already started. Furthermore, another "joint operation" between IPC III and a private partner will start in 1998 at CT III in Tg. Perak.

The details of terminal operation by the private sector are referred to in Chapter 6.3.3.

Table 6.1.3.1 Present IPC's Financial Status

Description		IPC I	IPC II	IPC III	IPC IV
Establishment Year		1992	1992	1992	1992
Personnel Number (officers) in 1996		1,571	5,086	3,444	1,428
Net fixed Assets in 1996 (billion Rp.)		1,119	3,316	1,333	498
In 1996 (billion Rp.)	① Revenue	117	519	245	67
	② Cost	71	308	145	51
	③ Profit before tax	46	211	100	16
	③ / ①	39%	41%	41%	31%
Working ratio (%)	In 1994	54%	48%	47%	68%
	In 1995	52%	48%	41%	62%
	In 1996	51%	53%	44%	56%
Operating ratio (%)	In 1994	73%	59%	66%	83%
	In 1995	69%	57%	55%	74%
	In 1996	68%	63%	58%	71%
Return on F/A (%)	In 1994	2%	5%	5%	2%
	In 1995	3%	7%	9%	4%
	In 1996	3%	6%	9%	4%
Starting year of issuing bond		-	1994	-	-
Starting year of "joint operation" Or "lease" at container terminals		-	1997 (Tg. Priok)	1998 (planned) (Tg. Perak)	-

Note : (1) Working ratio = "working expenses" divided by "operating revenues"  
 Operating ratio = "operating expenses" divided by "operating revenues"  
 Return on F/A = "operating income" to "net fixed assets"

(2) The standards of the World Bank are as follows ;

- ① Working Ratio  $\leq$  50~60%
- ② Operating Ratio  $\leq$  70~75%
- ③ Return on Fixed Assets  $\geq$  7%

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### 6.1.3.2 Necessity of Diversification of IPC Funds for Port Development

#### (1) Situation of Financial Sources during REPELITA VI

At present, IPC has three financial sources for port development, namely, "own budget", "national budget" and "foreign loan". As explained in the Progress Report, we can summarize the financial sources in REPELITA VI as follows ;

- ① While IPC II doesn't depend on national fund at all, other IPCs fully depend upon it.
- ② In particular, IPC IV's own budget is very small, as 97 percent of its budget comes from national budget and foreign loan.

#### (2) Basic Concept of IPC Funds

The basic concept of IPC's funds sources can be summarized as follows ;

- 1) Financially sound IPC II shouldn't depend upon national subsidy and should strengthen its own fund-raising ability.
- 2) Taking into consideration the present situations of other IPCs, each IPC must gradually enhance its financial abilities by using national subsidy, low-interest foreign loan and own budgets for the time being.
- 3) However, as mentioned before, IPCs shouldn't depend upon only national subsidy for a long period of time. In the long term perspective, IPC should seek its own financial sources which must be stable and continuous for port development.
- 4) Therefore, IPC shall gradually make every effort not only to increase the ratio of their own budget by increasing their reserves but also to secure more stable generation of funds.

#### (3) Present Situation of Financial Sources

The present situation of "long-term notes payable" for port development project can be summarized as follows (see Appendix for 6.1.3 for details) ;

- ① "Foreign loan from foreign public sector"  
(OECD, Export Import Bank of Japan, ADB & so on)
- ② "Borrowing from commercial banks"
- ③ "Bonds-issuing"  
(Medium Term Note, Only IPC II has just started to issue bonds since 1995)



#### (4) Fund Sources for Port Development

Hereafter, the following financial sources can be envisioned as follows. Due to the risk of foreign exchange, ③ and ④ must be avoided for the time being.

- ① Loan from foreign public sector (OECF loan, development bank loan)
- ② Domestic Rupia-based loan
- ③ Domestic Foreign currency-based loan
- ④ Off-shore loan
- ⑤ Issue of bond (domestic or foreign market)
- ⑥ Sales of stock (domestic or foreign market)

The following Table 6.1.3.2 shows the comparison of “foreign loan”, “issue of bond” and “sales of stock”. It is important for IPCs to understand the merits and demerits of them and carefully consider how to utilize them.

For reference, in the next section, “issue of bond” and “sales of stock” in other countries will be introduced.

Table 6.1.3.2 Comparison of Foreign Loans, Issue of Bond & Sales of Stock

Item	Foreign Loan	Issue of Bond	Sales of Stock
1. Creditor	International Financial Organization	Public / Investors	Public / Investors
2. Average Interest Rate (per year)	* 1 ADB 10.50% OECF 2.7%	* 2 MTN 8.06%	-
3. Merits	① Stable ② Gather a large amount of money from reliable funds	① Stable and safe for investors ② In principle, Lower interest rate ③ Gather a lot of money from the public on its own judgment	① Gather a lot of money from the public on its own risk.
4. Demerits	① Bureaucratic and time-consuming procedures are required ② Determination depends upon other organizations	① Depends upon the financial performance and market conditions ② Foreign currency based-loan brings a risk of foreign exchange.	① Risky, unstable for investors ② Depends upon the market situation and financial conditions.

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\* Note 1) Long-term notes of IPC III (ADB688 & ADB 797), & IPC IV (ADB 797 & ADB951)

2) “MTN” issued by IPC II

### 6.1.3.3 Issue of Bond

#### (1) General

For Japanese, American & other port management bodies, issue of public bond is the most popular and effective way to collect the vast amounts needed for port development. In Japan, port management bodies (local government) usually issue bonds in the market in order to gather funds for large-scale projects because it can be repaid over a long term period by future generation which will actually gain benefit.

The most effective points of this system are to obtain "a large amount of money" with "lower interest rate" from the public & investors and to repay by installments "over a long period of time".

As the Asian market including Indonesia becomes mature, issuing bonds will be a more effective mechanism to gather a lot of money for port development. Owing to risks of foreign exchange, it will be important for the government to foster "bond market" based on "domestic currency".

#### (2) Present Situation

Only IPC II has already started to issue obligation from 1994 as shown in the following Table 6.1.3.3. Since the term of repayment is only 5 years, as soon as IPC issues a bond it must begin repayment. This is because the market situation for bonds or obligations in Indonesia is not so mature compared with those in developed countries. Therefore, it may be difficult to issue bonds with long-term repayment for the time being.

Table 6.1.3.3 Issue of Obligation by IPC II

Item	Obligation	Medium-Term Note (MTN)
1. Creditors	Public / Investors	Investor
2. Type of loan	Development project for CT III of Tg.Priok	Development project for Bojonegara
3. Commitment	Rp.100 billion (Domestic Rupia-based loan)	US\$200 million (Domestic US \$-based loan)
4. Term	5 years 1995-1999	5 years 1997-2002
5. Interest rate	Floating rate	8.06%

Source : IPC II

### (3) Merits & Demerits of Issue of Bond

#### 1) Merits of Bond System

The merits of the bond system can be summarized as follows ;

- ① Generally speaking, the bonds issued by a state-owned company (IPC) are thought to be reliable, stable and safe for investors. Therefore, it will be easy for IPCs to obtain a large amount of money from the public at a lower interest rate.
- ② Different from a foreign loan, IPCs can issue bond on their own judgment as a form of self-funding with the permission of MOC and MOF.
- ③ A large amount of money can be raised from the public and investors which doesn't need to be repaid in the short term.
- ④ Compared with most foreign loans, interest rate is usually lower.

#### 2) Demerits of Bond System

On the other hand, the demerits of the system can be summarized as follows ;

- ① Whether bonds sell well or not depends upon the financial performance of IPC and market conditions. If those conditions are bad, the government or IPCs will often find it difficult to gather money for only one project.
- ② The immature bond market in Indonesia means that IPCs may not be able to take advantage of the merits of the system.
- ③ High dependence on bonds can lead to high financial burden for IPC.
- ④ Foreign-currency based loan can be risky due to changes in foreign exchange rates.

### (4) Bond System in Other Countries

#### 1) Japan

Port management bodies usually obtain funds for port development and land reclamation through bond-issuing. Bonds are usually issued with terms of more than 10 years and repaid using tax from future generations. Table 6.1.3.4 shows financial sources in 8 Major Japanese Ports from 1989 to 1994. Approximately 18~24% of total revenues came from bond-issuing.

Table 6.1.3.4 Financial Sources in 8 Major Japanese Ports

(Unit : ¥ million)

FY	Port Tariffs	Cost Sharing		Own funds	Bond-issuing	Others	Total
		National Subsidy	Cost Sharing with Beneficiary				
1989	84,477 (28.5%)	15,022 (5.1%)	5,723 (1.9%)	70,127 (23.6%)	53,119 (17.9%)	68,248 (23.0%)	296,716 (100%)
1990	88,032 (22.9%)	16,530 (4.3%)	10,486 (2.7%)	87,779 (22.9%)	77,388 (20.2%)	103,429 (27.0%)	383,644 (100%)
1991	131,251 (34.1%)	15,278 (4.0%)	11,384 (2.9%)	43,909 (11.4%)	73,872 (19.2%)	109,139 (28.4%)	384,833 (100%)
1992	104,904 (27.7%)	28,440 (7.5%)	7,497 (2.0%)	61,719 (16.3%)	87,485 (23.1%)	88,479 (23.4%)	378,524 (100%)
1993	106,769 (24.9%)	36,536 (8.5%)	7,377 (1.7%)	100,467 (23.4%)	97,196 (22.7%)	80,601 (18.8%)	428,946 (100%)
1994	106,752 (25.0%)	36,770 (8.6%)	10,106 (2.4%)	99,505 (23.3%)	104,627 (24.4%)	69,961 (16.3%)	427,721 (100%)

Note 1) 8 major ports refer to Tokyo, Kawasaki, Yokohama, Nagoya, Osaka, Kobe, Shimonoseki & Kitakyusyu.

2) ( ): ratio in total revenue

3) Cost sharing with beneficiary : mainly local governments (city, town & village)

## 2) The U.S

### ① General

In the U.S., the port management body (local government or port authority) fund port development projects through the huge domestic bond market. The market is highly regulated and controlled by the U.S. financial authorities.

The bonds are also evaluated by the market. For example, in 1996, the bond issued by the Port of Los Angeles was evaluated as "AA" (S & P), i.e., highly trusted. The evaluation depends upon financial performance, and a low evaluation, namely "high interest rate" makes it difficult for them to gather funds from the public due to the high interest rate. Therefore, the port management bodies in the U.S. always make efforts to enhance their financial ability.

The financial sources for port development in U.S. major ports can be summarized in the following Table 6.1.3.5. In 1994, about 25% of the total funds came from bond-issuing (general obligation bond & revenue bond), and the ratio of bond revenues is expected to increase from 1995 to 1999 (54%)

Table 6.1.3.5 Funding for Port Development in U.S. Major Ports

(Unit : US\$1,000)

Funds	1994		Prediction (1995-99)	
	US\$	%	US\$	%
Port Tariffs	309,703	35.3%	1,010,045	21.5%
General Obligation Bond	90,059	10.3%	336,176	7.2%
Revenue Bond	130,860	14.9%	2,202,313	46.9%
Borrowings	140,496	16.0%	100,693	2.1%
Subsidy	24,142	2.8%	225,101	4.8%
Others	181,175	20.7%	816,929	17.4%
Total	876,435	100.0%	4,691,257	100.0%

Source : AAPA (America Association of Ports Authorities)

## ② Port of Los Angeles

Though operation of the Port of LA is governed by the Port Department of the city, it is very independent of the city administration. Therefore, the port never uses tax revenue of the city, and usually issues bonds for funding port development.

For example, in 1995, the Harbor Department issued the "revenue bond" of the amount of \$200 million whose principle & interests will be repaid by the operating revenue. The purposes are as follows ;

- (a) To finance construction and improvements of facilities owned by the port
- (b) To redeem at maturity certain short-term revenue certificates previously issued by the port
- (c) To purchase a reserve policy and to pay certain costs of issuance in connection with the 1995 bonds

## 6.1.3.4 Sales of Stock (Privatization)

### (1) General

"Port privatization" throughout the world doesn't have a long history. There are only a few examples in the "United Kingdom", "New Zealand" and "Malaysia". Today, corporatized PSA in Singapore also plans to be privatized in a few years.

Nevertheless, in Indonesia, the profitable IPCs (IPC II and III) are interested in privatization ("Initial Public Offering" = IPO), which means the sale of shares on the stock exchange.

Sales of stock is an attractive way to gather funds from the public. In this way, IPCs

could obtain sufficient funds for the port development. It is also possible to give benefits to the Indonesian people through the increase of its value.

However, public offering may bring some difficulties issues at the same time. For example, as a lot of general investors get involved, it may get more and more difficult for the government to control overall administration of the corporation. The government must approach privatization carefully considering some important factors such as issues deriving from it, the market situation in Indonesia and financial abilities of IPC.

## (2) Issues derived from Privatization

There are some issues to be considered as follows. It is necessary for the government to consider carefully how to deal with those issues.

- ① General investors who are interested in only profit may participate in decision-making process of IPCs through transfer of the stocks. The participation of general investors will make it difficult for the government to control administration of IPCs such as port development plan and utilization of related lands & water area.
- ② As a result, there is a danger that this will lead to inconsistent port development policy and port master plan.
- ③ Privatization may drive IPCs to seek only profits. They may tend to ignore the public interests and other unprofitable matters including environmental consideration and navigation safety.
- ④ Users can't gain the benefit from privatization without healthy "competition", which often causes insufficient operation and high cost of service.
- ⑤ IPCs will face severe evaluation from the market. The decrease of stock prices often bring about the difficulties of funds-raising for IPCs. Finally, there is even a danger that IPCs will go bankrupt.

For reference, the examples of privatization in "New Zealand" and "Malaysia" shall be introduced in the Appendix for Chapter 6.1.3.

#### 6.1.3.5 Recommendation

Taking the above-mentioned matters into consideration, the following recommendations are made.

##### (1) Financial Policy of IPCs

- 1) From the long term perspective, each IPC shouldn't depend upon the national subsidy, and IPCs are strongly required to strengthen their self-funding ability.
- 2) Financially sound company like IPC II and III should try to further enhance its financial position and self-funding ability. In this case, they should carefully consider diversification of their financial sources (loan from commercial banks, issue of bonds & sales of stocks).
- 3) From the practical viewpoint, the government should maintain the financial support to IPC I and IV for the time being. Therefore, IPC I and IV should postpone drastic privatization for the time being. However, IPC I and IV also should make efforts to enhance their financial abilities. In this case, it is one idea to reduce the number of deficit-stricken ports and revert those ports to the government.
- 4) IPCs shall consider the change of port operation system from "operating port type" to "tool port type" or "land port type" system in order to secure more efficient and effective port system. It is desirable that "tool port" or "land port" system is introduced in major Indonesian ports by 2018.

##### (2) Issue of Bonds

###### 1) General

- ① It is very important for the government to foster the "bond market" in Indonesia, which can generate the funds required for the development of infrastructure facilities.
- ② As the bond market in Indonesia becomes mature, the maturity of bonds issued should become longer and longer. Thus the government eventually will be able to take advantage of the merits of the bond system.
- ③ Financially sound IPCs should promote the bond system as the most effective way to raise funds from the public in a short period.

###### 2) Setting Limit for Total Debt Service

- ① The government and IPC should always pay careful attention to the total amount of

bonds they issued, because issue of bonds means debt service of principal and interest. A clear cut standard or limit for the total debt service in one fiscal year should be set up.

② For example, the City of Los Angeles in the U.S. has two limits for the total debt service as follows ;

(a) The City Charter limits “general obligation indebtedness” to 3.75 % of assessed valuation. The result of FY 1995 was as follows ;

Table 6.1.3.6 Percentage of General Obligation Indebtedness  
in total Los Angeles City assessed Valuation

FY	General Obligation	Assessed Valuation	Percentage
1995	about \$ 665 million	about \$ 191,675 million	0.34 %

(b) The City also sets the limit that its debt service costs paid by “General Fund Revenue” remain below 10 % of total “General Fund Revenue”. Results in the last three years are as follows ;

Table 6.1.3.7 Debt Services as a Percentage of General Fund Revenue

FY	Debt Service Payment	* General Fund Revenue	Percentage
1994-95	\$ 145,856,000	\$ 2,491,872,000	5.85 %
1995-96	\$ 183,731,000	\$ 2,462,454,000	7.46 %
1996-97	\$ 207,846,870	\$ 2,543,922,860	8.17 %

\* General Fund Revenue :

the revenue whose purposes of use are not restricted and which is comprised mainly of tax & fees.

### 3) Incentive for Bond-Issuing

There are two incentive measures (“Government-guaranteed bonds” & “Bonds with Tax Credit”) to stimulate purchase of bond-buyers. In Indonesia, the government should carefully consider introducing those incentive measures. The conditions of those bonds shall be discussed among the relevant government agencies.

#### ① Government-guaranteed bonds

In Japan, bonds issued by 41 government corporations (e.g. Japanese Road Corporation, Kansai International Airport Company) are now guaranteed by the



government. The objectives of the bonds are to increase social capital (roads, railways, houses, etc.), support the public development and strengthen the basis of the industries & people's life.

② Bonds with tax credit

In the U.S., the "Tax Credit System" offered by the government is often employed by public organizations. For example, the exemption or reduction from tax on the "interest income" may be a good policy. The system enables IPCs to raise a lot of funds more easily, because the investors don't need to pay the tax and therefore IPC's bonds are more attractive for investors. The example of issue of bonds with tax credit is referred to in Figure 6.1.3.1. This system will possibly encourage the private sector to participate in the development of infrastructure including port development.

(3) Sales of Stock

- 1) The government must carefully approach privatization considering important factors such as issues deriving from it, the market situation in Indonesia and financial abilities of IPCs.
- 2) The government should carefully consider how to harmonize both requirements from the market (maximization of profits) and public (establishment of port master plan, management of related land & water areas).
- 3) Even if some IPCs are privatized, the government should retain more than 50 % of stocks for the time being in order to secure stable control over the administration.
- 4) It is one idea for IPCs to adopt "Employee Stock Option System", which encourages employees to raise the financial performance, and it also increases their loyalty to IPCs. For example, in "Auckland Port Company" in New Zealand, 87 % of employees own the company's stocks. In "KCT (Kelang Container Terminal Bhd)" in Malaysia, 5 % of the total stocks were owned by KCT employees.

Figure 6.1.3.1 Example of Issue of Bonds with "Tax Credit"

**① Non-Tax Credit System**

Principle : US\$10,000, Interest : 5% / annually on principle



Interest revenue for buyer : \$500 / annually



Tax on interest : 20% on interest revenue (\$500)

In brief, a buyer must pay tax (\$100).



Therefore, pure revenue of the buyer is only \$400 (\$500 - \$100).



**② Tax Credit System**

Principle : US\$10,000, Interest : 5% / annually on principle



Interest revenue for buyer : \$500 / annually



Tax on interest : 0% on interest revenue

In brief, a buyer doesn't need to pay tax.



The buyer has full revenue (\$500).



Therefore, the developer (e.g. IPC or the partner) can set a lower interest rate (e.g. "4.5%").



**③ Result (In case of interest rate of 4.5%)**

- Buyer is happy because the pure revenue increases (from \$400 to \$450).
- Developer (e.g. IPC or the partner) is also happy because his burden decreases from 5% to 4.5%.
- Government is happy because it can promote the realization of the necessary infrastructure development by offering the tax incentive.

## 6.2 Strategy for Port Tariff System

The strategy for port tariff system is presented in Figure 6.2.1.1. Details will be explained item by item.

### 6.2.1 Establishment of "Flexible" Tariff System

#### 6.2.1.1 General Concept

##### (1) Situation of Tariff System in Indonesia

The situation of port tariff system in IPC ports can be summarized as follows ;

- 1) A few years ago, the port tariffs were exclusively determined by the government.
- 2) Today, on tariffs for port services, IPCs are given the opportunity to suggest to the government the tariff levels for specific activities. It is quite a positive step for flexible tariff determination.
- 3) But, finally, the port tariffs in IPC ports are exclusively determined and approved for change by the government regulations.
- 4) As a result, the same tariff rates are applied to all ports of the same class (main ports and other ports) except for the pilotage.
- 5) Moreover, the government regulations regarding the tariff are applied to all ports including container terminals operated or which will be operated jointly between IPC and private sector.
- 6) IPCs are not able to set tariffs at economic levels nor increase them in line with inflation.

##### (2) "Communication Minister Decree No.28" of 1997

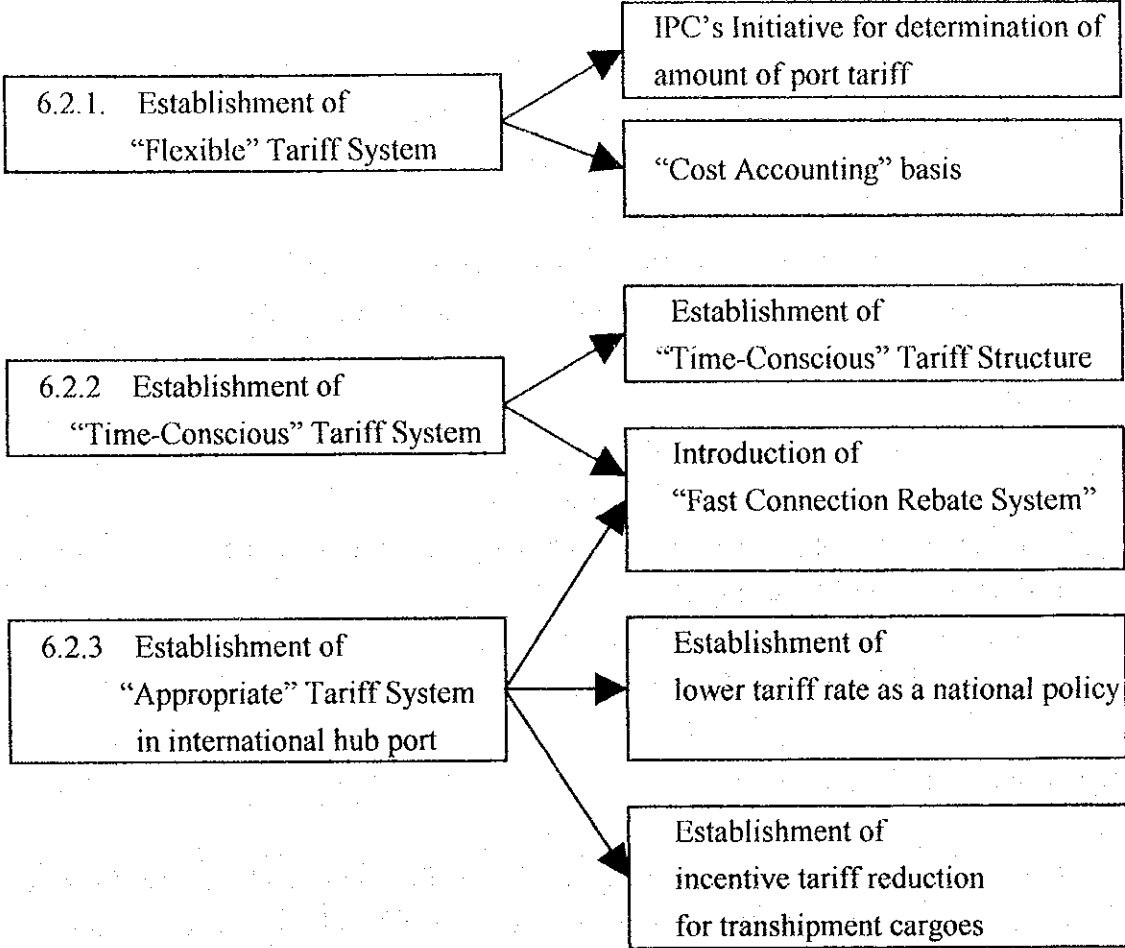
(Kind, structure & class of port service rate for sea port)

###### 1) Contents of the Decree

However, DGSC has been making effort to take those matter into consideration by some way or other. As a result, DGSC has formulated new "MOC Decree", which stipulates kind, structure, class and decision of port tariff rate. The Decree will be effective soon.

The Decree mentions that the structure of the tariffs will still be set by the government (MOC & MOF) and the rate of port tariff will be determined by IPC.

Figure 6.2.1.1 Strategy for Port Tariff System



The matrix of article No.9 & 10 of the Decree (determination of the port tariff rate) can be summarized as follows ;

#### Article 9

- ① Minister of MOC decides the port tariff rate of “non-commercial government ports” after obtaining approval from Minister of MOF.
- ② IPCs can decide the “port tariff rate” (ship & goods tariff rate) of “IPC ports” after “consultation” with Minister of MOC.
- ③ After the decision, IPCs must report the port tariff rate to MOC minister.
- ④ The port tariff rate is determined for the minimum period of 12 months.
- ⑤ IPCs must report change of the port tariff rate at least 2 months before being valid.

#### Article 10

Port tariff rate must be determined with paying attention to the following matters ;

- ① Increasing of service quality and smoothness  
This matters can be in the form of implementing of “different rate”, progressive rate, and rate of reward & penalty.
- ② Returning of cost and development of business  
This matters can be based on “cost recovery” and others.

## 2) Evaluation of the Decree

The Decree tries to mention how to determine the tariff rates in detail. Besides, the Decree suggests the possibility of applying different rates among each port in connection with increasing of service quality & fluency. It articulates the port rate should be calculated based on “cost accounting”. In this respect, the Decree shall be highly evaluated.

Nevertheless, there are still some issues remaining.

- ① The responsibility of the determination between the government and IPC is still not so clear.
- ② The requirement of consultation with the government means that the government will still control the tariff rate.
- ③ It is still not clear whether IPC can change the tariff rate between each other (e.g. Tg. Priok in IPC II & Tg. Perak in IPC III) or between individual ports within the same IPC (e.g. Tg. Priok & Bojonegara in IPC II) or not.

### (3) Issues to be considered

The following issues should be also taken into consideration on this matter.

- 1) In principle, it is desirable that the tariff rates of IPC ports should be established by themselves.
- 2) This concept is consistent with the primary objectives of IPC, which are to provide financial accountability and operational autonomy for efficient and effective management and operation. Particularly, if some IPCs are privatized in the near future, the necessity will be higher and higher.
- 3) Especially, today, the private sector is becoming increasingly involved in the development and operation of the terminals. In this case, tariff rates (especially, stevedoring charges for containers) are very important to the private sector.
- 4) Furthermore, in the future, the "competition" as a result of increase of the private sector participation in port activities (e.g. pilot, tug, stevedoring and other services) requires a more flexible port tariff system. In this case, the determination of tariff rates should be left not to "government regulation" but "market theory".
- 5) Too much interference in private affairs by the government often hinders free competition and distorts the market theory. For example, excessive government intervention and controls in the tariffs leads to "poor cost recovery" and "distorted investment determinations".
- 6) Furthermore, the present system makes it difficult for IPC to raise or reduce tariff rate flexibly in accordance with changes in circumstances. As a result, IPC finds it difficult to provide good services with moderate prices to users.
- 7) Moreover, at present, the differences of investment and operational costs among IPCs are not taken into consideration. For example, the total costs for the development of a wharf at Tg.Priok must be very different from those of the other ports.

### 6.2.1.2 Recommendation

Based on the above reasons, the following basic idea for the port tariff system in Indonesia should be considered.

#### (1) Flexible Tariff Determination

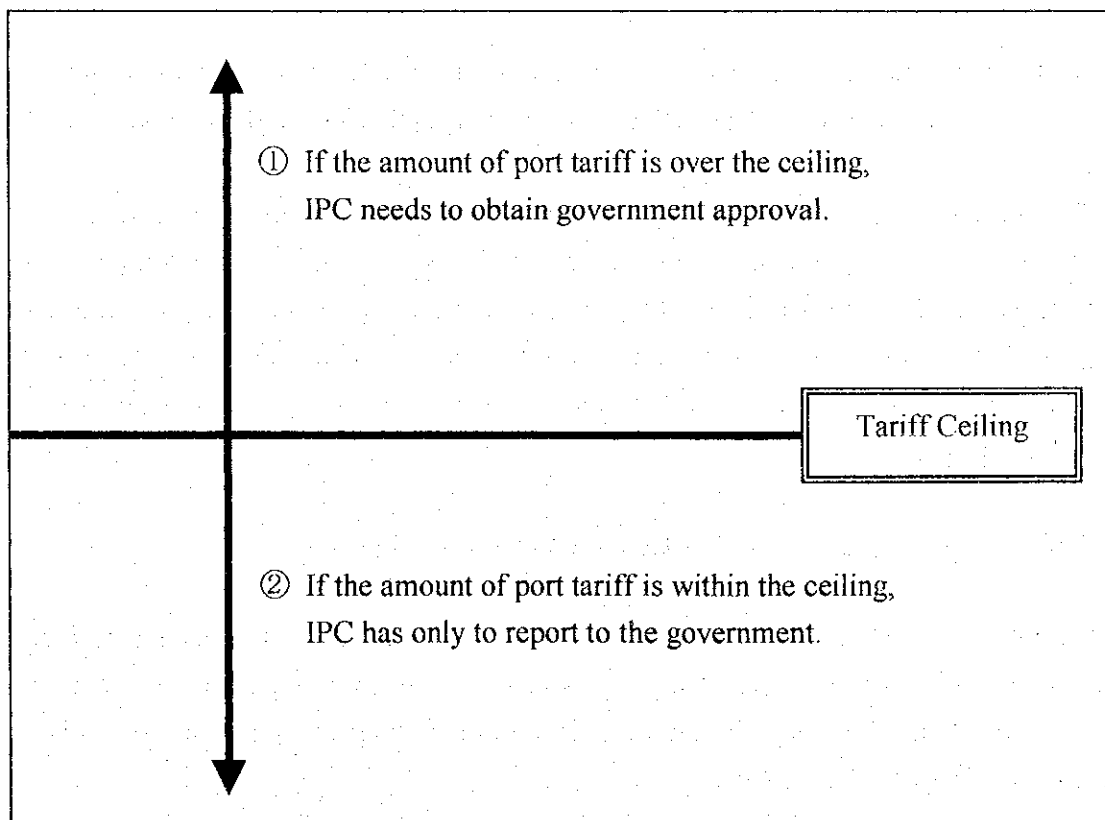
- 1) Port tariff levels in “non-commercial ports” should be determined by the government.
- 2) In principle, the amount of “anchorage” should be established by the government from the national point of view considering the necessity of applying uniform rates to some extent.
- 3) The amount of the “other port tariffs” in “commercial ports” should be determined by each IPC. Before the determination or review, IPC should consult with the cooperative investors (e.g. private sectors).
- 4) It is advisable for IPC to consult with and hear opinions from “port users”(ex. users associations).
- 5) Thus, the tariff rates among ports can be different from each other taking the investment costs into account. This also enables IPC to raise or reduce the tariff rates more flexibly in accordance with the economic situation.
- 6) In case of rise of tariff, IPC must clarify the reasons (e.g. inflation) and strive to improve quality of the port services for users at the same time.
- 7) However, under the current monopolistic situation of IPC, government involvement should be required to some extent from the national point of view (e.g. to protect the livelihoods of the people or to prevent unreasonable rise of tariffs).
- 8) For example, it is one choice for the government to set a “tariff ceiling” (an upper limit) as follows to prevent unreasonable rise of tariffs (See Figure 6.2.1.2).
  - ① If the amount of port tariffs is within the ceiling, IPC has only to report to the government
  - ② If the amount of port tariffs is more than the ceiling, IPC must obtain approval.
- 9) However, the government should respect the initiative of IPC as much as possible. Therefore, this approval should not be exclusive.
- 10) The government shall not regulate the fields in which the “competitive theory” works out well. Today, private sector participation is gradually increasing in port services (e.g. terminal operation at conventional terminal, joint operation at container terminal of Tg.Priok ).
- 11) In the future, the “competition” brought by the increase of private sector participation in port services will require the government to further deregulate the tariff

determination. In this case, IPCs and other private sector would only have to report to the government.

(2) "Cost Accounting" Basis in Major Ports

- 1) Under the present system in which the port tariff is regulated by the government laws, IPC finds it difficult to change the rates flexibly according to the economic situation. As a result, IPC may not be able to recover all costs that they invested. Besides, the tariff regulated "uniformly" by the government is greatly discourages the private sector from participating in major port projects.
- 2) In principle, the port tariffs should be determined so that moderate income, the depreciation cost, and management & operational costs etc. can be recovered from operation revenues for a certain period. At the same time, the tariff rates should be established taking into account the "increase of inflation rates".
- 3) Therefore, the government and IPC should make every effort to establish tariff rates based upon "Cost Accounting", especially in major ports.

Figure 6.2.1.2 Example of "Tariff Ceiling"





## 6.2.2 Establishment of “Time-Conscious” Tariff System

### 6.2.2.1 Importance of Establishment of “Time-Conscious” Port

It is very important for the government to establish a “time-conscious port system” in order to become a “user-oriented” port. This means that time is very important for cargo owners and shipping companies and, therefore ports in Indonesia always must be conscious of time to encourage efficient and effective use of port facilities.

This system enables a port management body to reduce the berthing time of ships and promotes quick turn-round of the cargoes for users. This will be useful not only for international hub ports but also major ports in Indonesia. The following two strategies shall be considered.

- 1) Establishment of time-conscious tariff structure
- 2) Introduction of “Fast Connection Rebate System” (FCR system)

### 6.2.2.2 Establishment of “Time-Conscious” Tariff Structure

#### (1) Review of the Present Tariff Structure

The tariff structure in Indonesia should be established based on “time consciousness”. That is, the tariff structure should be set up to encourage efficient and effective use of port facilities.

This port structure will encourage shipping companies to leave the port as early as possible and cargo owners to receive the cargoes as soon as possible. This system also enables the port management body to reduce the berthing time of ships and promote quick turn-round of the cargoes. Finally, this leads to the reduction of management and operational costs for shipping companies and cargo owners, and therefore services with more reasonable prices can be provided for the people.

#### (2) Differences of Tariff Structure between Indonesia and Singapore

The following Table 6.2.2.1 shows major differences in the tariff structures of Indonesia and Singapore. It can be seen that Singapore’s puts much more emphasis on time. For example, the “anchorage due” in Indonesia is uniform as long as the staying period is within 10days (KM28 of 1997 : per call).

Furthermore, in case of “berth dues”, while the structure of Singapore is based on “per length of a ship and hour”, that of Indonesia is based on “per GRT and 24hours”. The same

thing can be said about stevedoring charges for “un-containerised” and “OH FCL” & “OH transshipment” container cargo. The tariff structure of Indonesia doesn’t have an effective mechanism to promote quick berthing & unberthing and quick turnaround of cargoes.

Table 6.2.2.1 Major Differences of Tariff Structure between Indonesia and Singapore

Description	* Indonesia	Singapore
① Port dues (Anchorage)	Per GRT/10days	Per 100GRT/24hours
② Pilotage fees	Per Ship/GRT/movement	Per GRT/every 1st hour or every 1/2 hour
③ Berth dues	Per GRT/etmal (24hours)	Per hour for the first 150m
④ Stevedoring charges for un-containerised cargo	Per box/load	Per box/load/hour
⑤ Stevedoring charges for an OH FCL or OH transshipment container	Per box/load	Per box/lord/hour

\* Note : old tariff structure based on “KM 65 of 1994” & “KM 67 of 1994”

Prepared by OCDI

(3) “Communication Minister Decree No.28 (1997)”

The new Decree deals with a variety of topics regarding port tariff. The matrix of the Decree regarding the tariff structure in commercial ports is shown in the following Table 6.2.2.2. The situation has improved regarding anchorage. However, the government should establish “time-conscious” tariff structure in the future.

Table 6.2.2.2 Matrix of “Minister Decree No.28” Regarding the Tariff Structure

Description	Existing regulation	Minister Decree No.28
Anchorage	Per GRT/10days	Per GT/ship call
Pilot fees	Per Ship/GRT/movement	Per Ship/GT/motion /distance
Berth dues	Per GRT/etmal (24hours)	* Per GT/etmal (24hours)
Towage	Per vessel size/GRT/hour	Per vessel size/GT/hour

Prepared by OCDI

\* Note

This is an amendment regarding “unit (etmal)”.

ex. Using mooring until 6 hours is calculated 1/4 “etmal”.

### 6.2.2.3 Introduction of “Fast Connection Rebate System” (FCR system)

#### (1) General Outline

Furthermore, Singapore has “Fast Connection Rebate System” to the transshipment cargoes. This system uses cost incentive to promote quick turnaround of transshipment containers, thereby freeing container yard space. This system is very effective not only for enhancing efficient operation of cargo handling but also for giving discount-incentive to transshipment cargoes.

This system is not a formal one, therefore, the amount of incentive is not given in the tariff. However, it forms a part of the terminal service agreement (TSA) which each carrier has with PSA.

#### (2) Contents of the System

FCR is granted when transshipment containers fulfill the following conditions (Table 6.2.2.3). At present, the rebate percentage is now common in all TSA.

Making reference of “FCR system” in Singapore, it is desirable for the related agencies in Indonesia to discuss how to secure efficient operation of cargo handling in order to realize “time-conscious” ports.

Table 6.2.2.3 Contents of FCR System

No	Condition	Rebate
①	When tranship containers connect to 2nd carrier within 24hours of completion of discharge from 1st carrier	A rebate of 35% from tariff rates (stevedoring charge)
②	When tranship containers connect to 2nd carrier within 48hours of completion of discharge from 1st carrier	A rebate of 25% from tariff rates (stevedoring charge)
③	When tranship containers connect to 2nd carrier within 72hours of completion of discharge from 1st carrier	A rebate of 15% from tariff rates (stevedoring charge)

Prepared by OCDI

#### 6.2.2.4 Recommendation

##### (1) Establishment of Time Conscious Tariff Structure

Making reference to the examples of port structure, DGSC should amend the port structure of Indonesia to promote quick berthing & unberthing and swift turnaround of cargoes. Therefore, the tariff structure in Indonesia should be changed as in the following Table.

Description	Old tariff structure	New tariff structure
① Anchorage	Per GRT/10days	Per 100GRT/24hours
② Pilot fees	Per Ship/GRT/movement	Per GRT & every 1st hour or half an hour
③ Bert dues	Per GRT/etmal (24hours)	Per length of vessels/hour
④ Stevedoring charges for un-containerised cargo	Per box/load	Per box/load/hour
⑤ Stevedoring charges for an OH FCL or OH transshipment container	Per box/load	Per box/load/hour

It should be noted the above concept is compatible with the port tariff structure of the "ESCAP" (Economic and Social Commission for Asia and the Pacific) model.

##### (2) Introduction of FCR System

The tariff structure should be established to encourage effective and efficient operation of the facilities. Therefore, the port administrator is required to prevent overstaying of ships and cargoes and promote turn-around of berths and yards for users. In this sense, it is desirable for Indonesia to introduce a system such as the "Fast Connection Rebate System" in Singapore.

## 6.2.3 Establishment of "Appropriate" Tariff System in International Hub Port

### 6.2.3.1 Conditions to become an International Hub Port

It is important for the government to compete with neighboring competitive ports such as Singapore and to resume calls of direct shipping line vessels in international competitive hub ports.

In order to do this, the following conditions must be met.

- ① To establish "time-conscious" tariff system
- ② To establish lower tariff rate as a national policy
- ③ To give proper incentive tariff reduction for transship cargoes
- ④ To establish feeder network service to regional ports
- ⑤ To improve cargo handling productivity
- ⑥ To establish just on-time service system for users
- ⑦ To give strong supporting services including supplies and repair to users

The condition ① is already mentioned in Chapter 6.2.2. The conditions ② and ③, which have much to do with the port tariff, shall be mentioned in the following 6.2.3.2 & 6.2.3.3.

### 6.2.3.2 Establishment of Lower Tariff Rate as a National Policy

#### (1) Comparison of Tariff Rates between Indonesia and Singapore

Port tariff against a container ship between main ports in Indonesia and ports in Singapore

is compared based on the following conditions.

The basis of estimation is shown in the Appendix for Chapter 6.2.3.

Conditions :

①	Vessel size	Vessel with 45,000GRT ( $\approx$ 3,000TEU)
②	Vessel length	200m
③	Berthing time	10hours
④	Cargo volumes loaded & unloaded	Total 1,000TEU (load 500TEU & unload 500TEU)
⑤	All cargoes	20' FCL container

Note : The data of tariff rate is at July, 1998.

## (2) Result of the Comparison

The following Table 6.2.3.1 shows that the tariff level Tg.Priok port is about 24% lower than that of Singapore under the same conditions. In the normal condition, the differences shall be taken as rational.

In spite of its lower tariff, it is very difficult for Indonesia to compete with competitive Singapore, which has already built up firm and stable networks in the world. The government agencies should discuss carefully how to break up the network system. The establishment of "a drastically lower" tariff rate in "potential" international hub port as "a prioritized national policy" is one idea.

Table 6.2.3.1 Comparison of Tariff Levels of Indonesia and Singapore

Description	Indonesia (Tg.Priok)	Singapore
① Port dues	US \$1,980	US \$2,142
② Pilot fees	US \$268	US \$347
③ Towage	US \$715	US \$940
④ Berth dues	US \$2,610	US \$1,960
⑤ Container handling fees at container terminal	US \$62,000	US \$84,000
Total	US \$67,573 (cheaper by 24.4 %)	US \$89,389

Prepared by OCDI

### 6.2.3.3 Establishment of Incentive Tariff Reduction for Transshipment Cargoes

#### (1) General Outline

Singapore offers many incentives through tariff-reduction to transshipment cargoes as shown in the following Tables. Careful attention should be paid to various kinds of incentive tariff reduction systems for transshipment cargoes. This is because transshipment cargoes don't physically give terminal operators a lot of trouble compared with import and export cargoes.

#### (2) Container Handling Fees by Using Gantry Crane at Container Terminal

Indonesian ports already have the same incentive system for transshipment cargoes as shown in the following Table 6.2.3.2. Besides, the discount rate in Indonesia (35%) is higher than that in Singapore (18~24%).

Table 6.2.3.2 Comparison of Container Handling Fees  
between Indonesian Ports and Singaporean Ports

Description		FCL container	Transshipment	Discount rate
Main ports in Indonesia	20'	US \$62	US \$40	35%
	40'	US \$93	US \$60	35%
	Exceed 40'	-	-	-
Singapore	20'	US \$ 84	US \$64.4	23%
	40'	US \$120	US \$98	18%
	Exceed 40'	US \$140	US \$106.4	24%

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### (3) Storage Charges for Containers

Although Indonesian ports have no incentive system for transshipment cargoes, Singapore has very detailed incentive system as shown in the following table 6.2.3.3 & 6.2.3.4. Singapore has two discount systems for transshipment containers as follows ;

- 1) Longer free storage for transshipment containers
- 2) Discounted storage charges for transshipment containers

Table 6.2.3.3 Free Storage for Containers in Singapore

Description	Type	Free storage period
FCL import & export Containers	FCL empty	48hours
	FCL loaded	72hours
Transshipment containers	Empty & loaded	168hours

Table 6.2.3.4 Storage Charges for Containers in Singapore

(Unit : per day / per box)

	Empty	Loaded	Transshipment	Discount rate
20'	US\$3.36	-	US\$2.52	25%
	-	US\$6.72	US\$3.36	50%
40'	US\$6.72	-	US\$5.04	25%
	-	US \$13.44	US\$6.72	50%

### 6.2.3.3 Recommendation

#### (1) Establishment of Lower Tariff System

In spite of its lower tariff, it will be difficult for the Indonesian government to compete with competitive countries like Singapore, which have already built up firm and stable port networks in the world. Therefore, in order to break up parts of the network system and resume calls of direct shipping line vessels, the establishment of a drastically lower tariff rate in potential international hub port as “a prioritized national policy” may be necessary.

#### (2) Establishment of Incentive Tariff Reduction for Transshipment Cargoes

- 1) Taking account of the above-mentioned systems in Singapore, it is desirable for Indonesia to establish more a lenient and more elaborate system for transshipment cargoes in its potential international hub ports.
- 2) For example, it is one good idea to establish “longer free storage” for transshipment containers and “discounted storage charges” for transshipment containers.



### 6.3 Strategy for Private Sector Participation

The strategy for private sector participation is presented in the following Figure 6.3.1.1. Details will be explained item by item.

#### 6.3.1 General Philosophy for Promoting Private Sector Participation

##### 6.3.1.1 Purposes for PSP

###### (1) General Explanation

As explained in the Progress Report, there are some purposes for promotion of PSP. It is very important for the government to clarify the purposes in order to promote private sector involvement not only in port services but also in port development. Those purposes are summarized as follows ;

- 1) To relieve government from high investment burden
- 2) To increase capacity of port facilities
- 3) To introduce higher standards of efficiency through fair competition
- 4) To provide high quality of service with cheaper price to users
- 5) To transfer technology and know-how
- 6) To facilitate fast-track implementation

###### 1) To relieve government from high investment burden

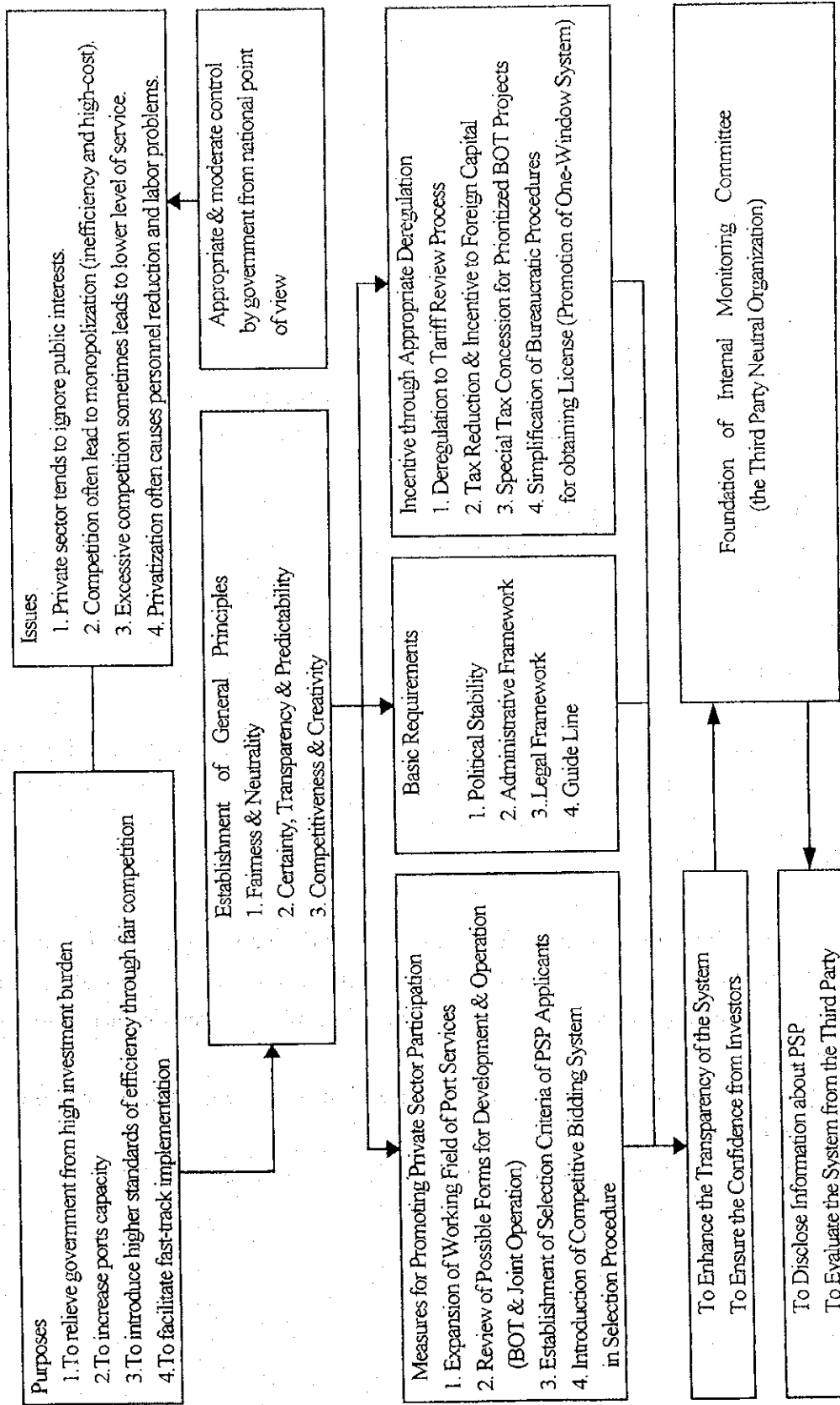
Generally speaking, the operation done by the government causes a lot of burden for the government or IPC. Furthermore, a lot of funds are required for investment. However, the introduction of private sector makes it possible to relieve or alleviate government or IPC from high investment burden.

For example, originally, the government or IPC must be responsible for construction of facilities such as wharf and container yard. However, if the government or IPC uses private sector to construct a large scale facility on BOT style, they need not expend limited funds. Moreover, the government can obtain tax revenue and IPC collect royalty and concession fees which otherwise wouldn't be possible.

###### 2) To increase port capacity

The government can promote infrastructure development and realize national economy plan through private sector participation.

Figure 6.3.1.1 Strategy for Private Sector Participation



- 3) To introduce higher standards of efficiency through fair competition
- 4) To provide high quality of service with cheaper price to users

Those purposes should be more emphasized. Generally speaking, the management and operation directly done by the government tend to be ineffective, inefficient and costly. The introduction of healthy competition and market theory enables the government to ensure more efficient and effective operation. At the same time, it is very useful not only to increase the quality of the service but also to decrease the service charges or fees for users so as to enhance international trade and economic activities.

- 5) To transfer technology and know-how

PSP makes it possible for the government or IPC to get the technology and know-how through the transfer from private sector. This is an important benefit. However, too much emphasis on this benefit often results in the obstruction of private sector participation.

- 6) To facilitate fast-track implementation

In general, construction works or port services done by the government tend to be slow and wasteful due to its bureaucratic nature. Thus, the introduction of private sector in port activities is very useful to facilitate quick implementation. This may be due to the un-bureaucratic and competitive nature of the private sector.

In Indonesia, purposes 1) and 2) tend to be emphasized owing to the lack of government fund. However, the priority should be given to more positive purposes, especially 3) and 4).

## (2) Optimization of PSP

The market in Indonesia must be in a state of sound competition in order to optimize these merits brought by PSP. Without a mature market and enough demand for working fields, it will be difficult to succeed in PSP. Therefore, the government needs to consider the following ;

- 1) To create a competitive environment in which the private sector will be able to compete with each other
- 2) To distinguish between working fields suitable and unsuitable for PSP.

### 6.3.1.2 Issues of PSP

On the other hand, some potential problems can be pointed out as follows ;

- 1) Unlimited PSP tends to ignore the public interests including environmental consideration and living conditions of the people.
- 2) Competition sometimes result in monopolization by strong private sector, which leads to inefficient operation and high-costs of service.
- 3) As a result, there is always a danger that some private companies go bankrupt.
- 4) Excessive competition often leads to lower service level and discriminatory treatment .
- 5) PSP often forces the government and IPC to streamline and restructure their organizations with reduction of a large number of employees. This sometimes leads to labor issues.

### 6.3.1.3 Necessity of Moderate and Appropriate Control by Government

With respect to PSP, we tend to put emphasis only on the merits. But at the same time, more careful attention should be paid to the negative aspects. In this sense, moderate and appropriate control through “Port Master Plan” and laws & regulations by the government in private sector is strongly required.

On the other hand, when “competitive theory” works well, too much involvement by the government often discourages the private sector from participating in projects. Therefore, it is necessary for the government to balance both requirements.

However, the most important point is to realize infrastructure development and to make operations more effective and efficient through healthy competition and the technology and know-how of the private sector.

#### 6.3.1.4 Establishment of General Principles for PSP

It is indispensable for the government to establish a general principle, which applies to all procedures of PSP, in order to invite more private sector participation in projects. In particular, the following three concepts should be stressed.

- (1) "Fairness" and "Neutrality"
- (2) "Certainty", "Transparency" and "Predictability"
- (3) "Competitiveness" and "Creativity"

##### (1) "Fairness" and "Neutrality"

From the long term perspective, a fair and neutral public sector will eventually earn the confidence of the private sector and promote PSP in infrastructure development in Indonesia. Therefore, all participants must be treated fairly by executing agencies like government and IPC.

##### (2) "Transparency", "Certainty" and "Predictability"

Transparency, especially in the selection process is essential to obtain the confidence from the investors and to make the private sector participate in the projects. The government also must provide a desirable environment where private sector can freely enter the infrastructure projects with legal certainty and predictability that their rights will be protected.

That is, from long term perspective, the participation of more and more private sectors makes it possible not only to reduce the burden of the government but also to implement earlier infrastructure development.

##### (3) "Competitiveness" and "Creativity"

On the other hand, it is very important for the government to promote healthy competition in the private sector and to make the private sector exert its creativity. Healthy competition in the private sector enables the total project costs to be reduced and as a result in better services at lower prices to users.

The government should take gradual steps to improve the quality of PSP system through realizing those general principles when the staff plans, implements and monitors the PSP projects.

### 6.3.1.5 Basic Requirements for Promoting Private Sector Participation

Generally speaking, whether or not private sector will invest or not will hinge upon the attitude of the government to PSP. In the case of foreign investors, this trend is more predominant. Initially, it is important to establish the most basic requirements for PSP.

In general, the following four basic requirements are necessary ;

- (1) Political Stability
- (2) Administrative Framework
- (3) Legal Framework
- (4) Guide Line for PSP

Once the above requirements are met, it will be possible for the government to attract greater private sector participation in port development and operation.

#### (1) Political Stability

This is thought to be the most fundamental requirement. Without political stability, it will be difficult for the government to attract the private sector.

#### (2) Administrative Framework

The government is required to establish the administrative framework to be responsible for PSP projects. In port development, DGSC and IPCs are regarded as the “Executing Agencies” to directly promote, implement and supervise PSP projects. It is requested that the government should establish a firm and stable administrative framework.

Therefore, DGSC should establish a section or team in charge of PSP in DGSC. Furthermore, it is necessary for DGSC and IPCs to communicate and coordinate closely together as the executing agencies. The details of roles of public sector and private sector are mentioned in the section 6.3.1.6.

#### (3) Legal Framework

Adequate and clear legal framework enables the government to give confidence to the private sector and as a result, to attract more investors. In this way, the establishment of a clear and unified legal framework should be required. The details of legal framework are explained in the section 6.3.2.

#### (4) Guideline for PSP

The government must formulate more detailed and clear "Guideline for PSP" based on the legal frameworks. The detailed guideline will give clear and concrete guidance to IPCs and investors. At the same time, the government should flexibly improve and upgrade the guideline as necessary in order to catch up with change in circumstances.

#### 6.3.1.6 Roles of Public and Private Sectors regarding PSP

##### (1) Roles of Government

###### 1) General Roles

As mentioned before, the government must play a most important role as a "policy maker", "regulator" and "promoter" for PSP. The roles of the government regarding PSP are summarized as follows ;

- ① To make policy and to establish the general rules for PSP
- ② To establish clear "Guideline for PSP"
- ③ To identify and select proper PSP projects
- ④ To classify those PSP projects by type (e.g. lease, BOT, etc.)
- ⑤ To undertake "pre-feasibility studies" on PSP projects including technical study, economic & financial analysis
- ⑥ To prepare and upgrade the "PSP Project Lists"
- ⑦ To establish selection criteria and selection procedure
- ⑧ To provide financial and other necessary support such as land acquisition and assurances against unreasonable competition
- ⑨ To facilitate the whole process and to arrange the process with related organizations
- ⑩ To monitor, assess and review the whole process
- ⑪ Other related activities

###### 2) Necessity of Positive Promotion for PSP

It is important for the government to promote PSP projects for investors. In August 1994, DGSC issued and distributed a promotion booklet titled "INVESTMENT OPPORTUNITIES IN INDONESIAN PUBLIC PORTS" in both Indonesian and English versions. This was a positive step, however, DGSC hasn't upgraded or improved the promotion booklet since then. DGSC should actively conduct port promotion in cooperation with MOC, BAPPENAS, IPCs and related organizations.

### 3) Appropriate and Moderate Involvement by Government from National Point of View

On the other hand, it is very important for the government to protect public interests from the national point of view. In this case, the government should retain final authority to control IPC and the private sector. However, such control should be exercised in a moderate and appropriate manner. The following measures are considered.

- ① Supervise through relevant laws and regulations
- ② Supervise through "Port Master Plan"
- ③ Supervise through approval of MOU and contract between IPC and private sector

At the same time, excessive and unnecessary intervention by the government does more harm than good for PSP projects. Therefore, the government always must balance the requirements between public and private interest.

#### (2) Roles of IPC

The roles of IPC are summarized as follows ;

- 1) To implement and execute policies and principles of the government as "an executing body"
- 2) To coordinate and arrange all relevant procedures between public sector and private sector
- 3) To promote PSP in cooperation with DGSC and related organizations.
- 4) To make effective efforts to seek investors, especially strategic investors
- 5) To conduct the selection procedure based on selection criteria established by public sector
- 6) To select the most responsive private sector
- 7) To make draft and sign MOU with private sector, evaluate F/S & project proposal offered by private sector, and make joint proposal with private sector.
- 8) To make draft contract and contract with private sector based on the approval of public sector
- 9) To implement projects with private sector
- 10) Other related activities

#### (3) Roles of Private Sector

On the other hand, the roles of private sector are summarized as follows ;

- 1) To undertake project management and finance



- 2) To undertake the “feasibility study” for projects
- 3) To undertake all activities necessary to manage a project from invitation to pre-qualify through bidding, contract, construction and commissioning to the end of the operating period
- 4) Other related activities

#### 6.3.1.7 Relationship among Government, IPC and Private Sector

##### (1) Relationship between the Government and IPC

- 1) As mentioned before, the main role of the government is to establish the general rules and principles with respect to PSP through laws and government regulations. Furthermore, the government arranges the whole process with related agencies such as IPC. In this case, the government functions as a “regulator” and “policy-maker”.
- 2) On the other hand, the government is also a “major shareholder” of IPCs. In this case, the government has final power to approve MOU and draft contract between IPC and investor.

##### (2) Relationship between the Government and Private Sector

Generally, the government has no direct relationship with the private sector. But, besides the above-mentioned final power, the government has authority to issue concession, license and permit to private sector.

##### (3) Relationship between IPC and Private Sector

- 1) Article 26.2 of Shipping Law No.21 of 1992 allows the private sector to cooperate with IPC for the business with exception of port basin and property of land and waters. In this case, the cooperation agreement with IPC must be compulsory at present.
- 2) Usually, PSP proposals are first received by IPC and sent to DGSC. Sometimes, the proposals are directly received by DGSC and referred to IPC.
- 3) Private sector must implement and execute the agreed project in cooperation with IPC.

## 6.3.2 Review and Reevaluation of the Present Legal Framework

### 6.3.2.1 Importance of Establishment of Legal Framework

Needless to say, the interested investors on port activities must comply with PSP related laws and foreign investment laws. In Indonesia, although there are some PSP laws and regulations, PSP is not treated in detail. In addition, the law structure regarding foreign investment is a little complicated and unclear. Inadequate legal framework often causes delay of the projects, legal troubles between public sector and private sector and finally distrust towards the whole system.

However, "Presidential Decree No.7" enacted in January, 1998 is very useful for the government to enhance the transparency of PSP projects as it regulates the whole selection procedure.

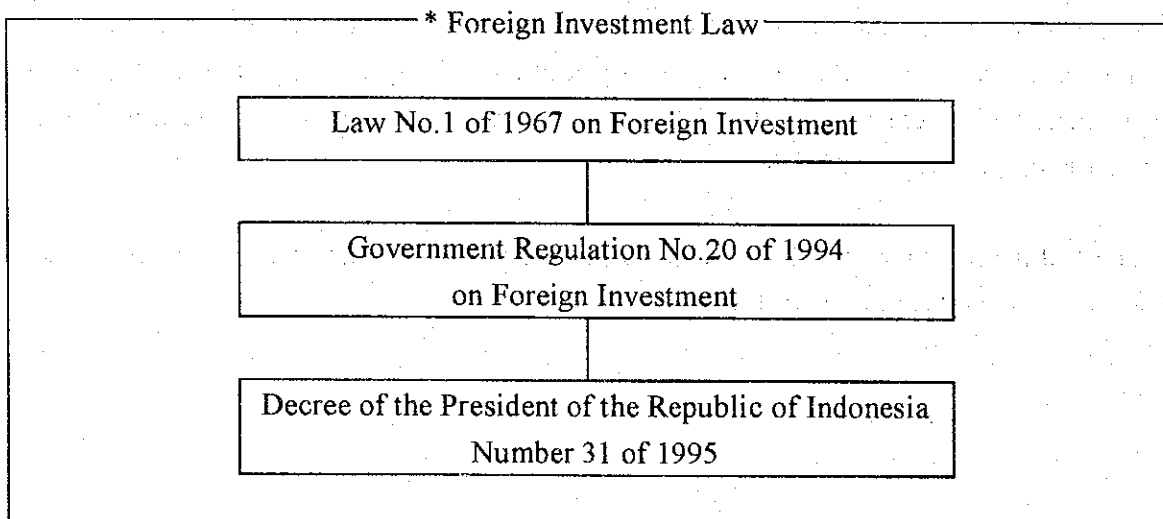
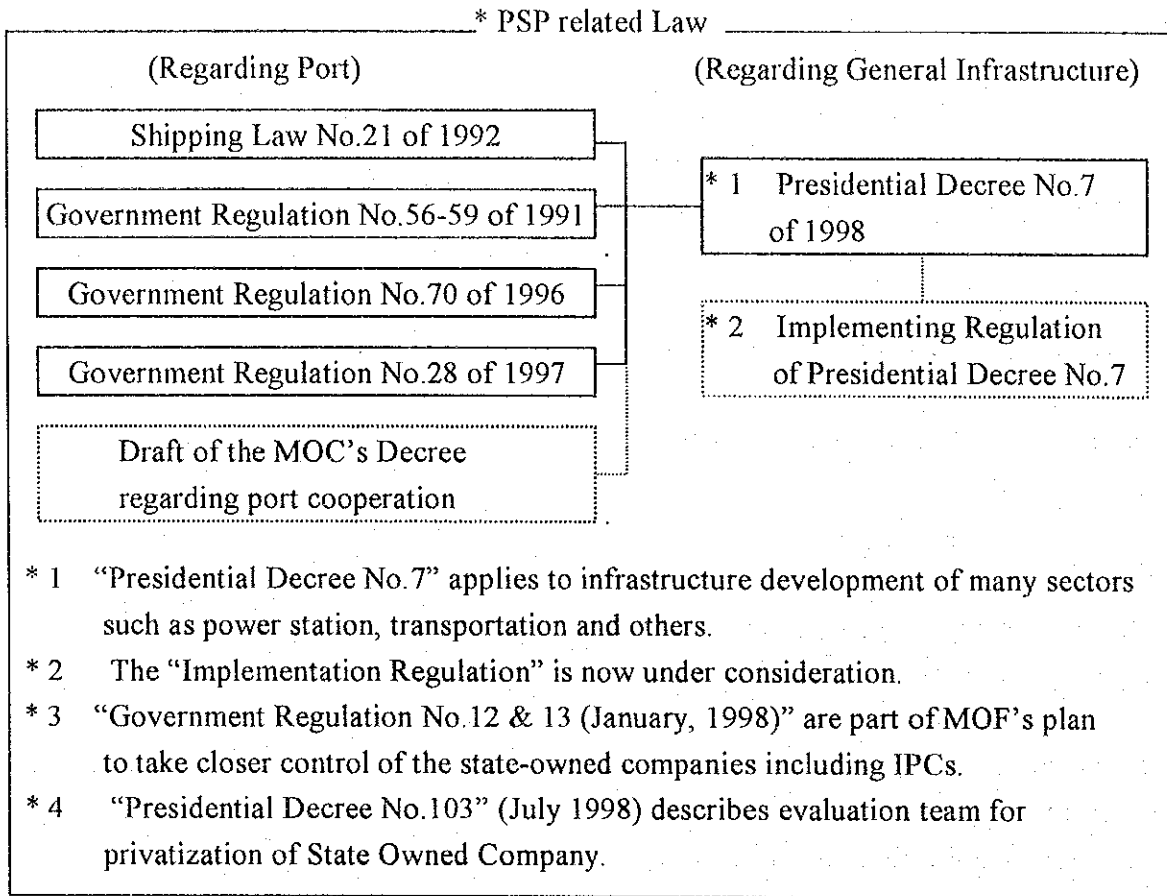
Nevertheless, there are some issues which remain to be solved. For example, although there are many BOT projects in Indonesia, even a definition of BOT doesn't exist legally. If some type of troubles related to BOT contract between public sector and private sector were to occur, there are no appropriate ways to settle the legal disputes or contractual troubles.

Furthermore, investors must be prepared for laws and regulations that are ambiguous and subject to conflicting interpretations by different government agencies and officials. "Unwritten" requirement also may need to be identified and followed before projects can go ahead safely.

Especially, today, the government is more and more required to invite directly or indirectly investors in PSP projects. It is imperative for the government to establish a clear legal framework to ensure confidence from the public for the promotion of various kinds of infrastructure development of the country.

The following Figure 6.3.2.1 represents the current legal framework in Indonesia with respect to PSP and foreign investment.

Figure 6.3.2.1 Current Legal Framework Regarding PSP and Foreign Investment



### 6.3.2.2 Recommendation for Existing Legal Framework Regarding PSP

Based on the evaluation of the present situation in Indonesia, the following recommendation can be made.

#### (1) Presidential Decree No.7

- 1) "Presidential Decree No.7" is very effective to promote PSP and gain the confidence of investors, however, the most important point is how to endorse the ideals of the Decree.
- 2) The government should establish more detailed "implementing regulations" to execute the articles of the Decree as soon as possible so as not to confuse or misdirect IPCs and the private sector.
- 3) The roles of BAPPENAS as a coordinator and evaluator should be further clarified.
- 4) The monitoring from inside of the government is not sufficient.
- 5) The details of "Evaluation Team" should be further mentioned.

#### (2) Total Legal Framework

- 1) Furthermore, the enforcement of "Draft of the MOC's Decree" will be useful to enhance the transparency for port PSP projects although there are some areas to be improved. However, the actual application will be more crucial.
- 2) In this sense, the related agencies should enrich their experience through the actual application. It is more important for the government to improve the whole system through the actual application and experiences.
- 3) In addition, the existing laws and regulations in Indonesia don't mention PSP matters in detail. Inadequate legal framework can't provide clear-cut guidance to government, IPC, private sector and foreign investors. Based on "Presidential Decree No.7", the government should make efforts to arrange the whole legal system and maintain consistency of the whole legal framework.
- 4) Some subordinate regulations supplement and implement articles of existing laws and regulations. However, the "implementing regulations" on Shipping Law in 1992 or PSP matters also don't exist. The absence of implementing regulations is enough to discourage potential private sector and foreign investors.

### (3) Compulsory Requirement of Cooperation with IPC

- 1) As mentioned in Progress Report II, this compulsory requirement (Shipping Law No.21 & Government Regulation No.70) is one of the main reasons to preventing the private sector from taking part in the port development and operation. From the long term perspective, the government should consider reevaluating the articles.
- 2) This necessity is more stronger for the new port or new terminal projects because it is necessary for the government to create more conducive atmosphere so as to attract the private sector, especially for the project with "marginal financial feasibility".
- 3) In this case, the private sector has only to pay some concession to the government directly the same with the "mining sector".
- 4) The government should strive to create an environment in which the private sector can participate in the port services as freely as possible and compete with each other in order to provide more efficient services with lower prices.
- 5) IPC must regard the private sector not as a "mere tenant" but as an "equal business partner".

#### 6.3.2.3 Recommendation for Existing Legal Framework Regarding Foreign Investment

Based on the evaluation of the present situation in Indonesia, the following recommendation can be made.

##### (1) Relationship between "Law No.1" (1967) and "Government Regulation NO.20" (1994)

The relationship between both regulations is ambiguous. For example, while the former prohibits foreign investors from taking part in various infrastructure developments including harbor projects (Article 4), the latter allows them (Article 5). It is strange that a mere regulation is superior to law. The government shall make efforts to solve the discrepancy.

##### (2) National Company Requirement

Some economists believe that national company requirement is an unnecessary restriction. This kind of constraint may discourage participation of private parties. Taking account of the importance of foreign investment and deregulation-oriented trend in the world, "A Straight Investment Company" for port activities should be considered.

### (3) Joint Venture Requirement

As mentioned before, it is irrational that foreign investors are always required to participate in joint ventures with Indonesian parties. There is a danger that the existing requirement makes Indonesian parties mere "rent chasers". As a result, it will lead to an increased cost of the services for the people in Indonesia.

### (4) Minimum Requirement of Local Investor

Compared with the regulations in other Asian countries, minimum requirement of local investor in Indonesia is very lenient according to the following Table 6.3.2.1. It is desirable for the government to maintain this level. This is because domestic companies can get not only profits from the operation but also know-how and technology through the joint venture operation. However, taking into consideration the importance of foreign investors, participation of "100 % foreign-owned company" for "prioritized" port development projects also should be carefully considered (see Chapter 6.3.6).

Table 6.3.2.1 Minimum Requirement of Local Investor in Private Joint Venture Company in Other Asian Countries

Country	Minimum requirement of local investors
Indonesia	Minimum ratio of local investor (s) must be more than 5 %.
Thailand	Private operation company is the joint company which consists of main foreign shipping company and local companies of Thailand Ratio of investment from local companies must be over 51 %.
Malaysia	Minimum ratio of local investor (s) must be more than 75 %.
Philippines	Minimum ratio of local share-holding in concession company must be more than 60 % in infrastructure PSP projects.
Vietnam	Law on Foreign Investment allows 100 % foreign capital enterprises in the form of limited liability companies. However, it may be difficult to obtain approval for the enterprise from the relevant government agency. About 90 % of all officially recognized foreign investment have taken the form of "Joint Venture" with state owned companies.
China	Foreigners may not be permitted to operate infrastructure projects which closely affect the daily lives of the people. For example, foreign investment in electric power stations is limited in key electricity projects where 50 % of the investment must come from a Chinese national.

Prepared by OCDI

Note : Figures are as of December 1997.

### 6.3.3 Expansion of Working Field of Port Services

#### 6.3.3.1 General Explanation

##### (1) General

Based upon the evaluation of the merits and issues of PSP, the strategy for PSP in port services should be elaborated. Generally speaking, it is very important for government or IPC to gradually expand working fields by private sector in order to promote more efficient operation and provide higher quality of service with cheaper prices to users. In order to do so, the government shall gradually dismantle “monopolistic structure” and introduce “competitive theory” in the port operation by inducing participation of the private sector. In this case, a comparison with major ports in the world (especially major Asian ports) may be useful.

On the other hand, “globalization of economy” is another important issue. The injection of foreign capital in maritime industries will force Indonesian industries to become more competitive. The government should be careful to strengthen small-capital maritime related companies including shipping, stevedoring and warehouse companies.

##### (2) Key Elements for Securing Efficient and Competitive Port

The following important elements for securing an efficient and competitive port shall be taken into consideration.

- 1) Clear separation between “regulator”(government) and “operator”(IPC & private sector)
- 2) Enhancement of “certainty” for participation of the private sector in port businesses
- 3) Introduction of “professionalism” provided by private sector participation
- 4) Creation of “competitive mechanism” through PSP and competition among “plural” terminal operators
- 5) Increase of “productivity” by participation of shipping company in port businesses
- 6) Establishment of high production system, which guarantees the smooth distribution of goods, ships, documentation & other port activities.

### 6.3.3.2 Port Operation Type

#### (1) Comparison of Operating port, Tool port & Land-Lord Port Type

Generally speaking, port operation type is classified into three types (“operating port”, “tool port” & “land-lord” port type). The three types are compared in “Figure 6.3.3.1~6.3.3.3” and “Table 6.3.3.1”. In container terminal operation in Indonesia, “operating port type” has been employed so far. However, operating port type has the following issues ;

- 1) Operating port type originally has monopolistic structure, and thus users have no choice.
- 2) Direct management & operation by port management body tends to result in inefficient operation & bad productivity.
- 3) Tool port and land-lord port type, which induces the shipping companies into the terminal development and operation will be useful to revive the direct calls and increase the ship calls to Indonesian ports.
- 4) As the Table shows, major ports in the world already adopt “tool port” or “land-lord port” type.

In Indonesia, it is desirable to shift the port system gradually from “operating port type” to “tool port type” or “land-lord type”.

#### (2) Roles of Central Government, Port Management Body and Private Sector in Terminal Development & Operation

It is important for DGSC to know what kinds of roles each sector in major ports in the world is playing in terminal development & operation. Examples of other countries are summarized in the following “Table 6.3.3.2”.

Especially, examples of major ports on the European mainland (Hamburg, Rotterdam & Antwerp) may be instructive for Indonesia. In those “competitive” ports, the roles of each sector are quite clear (Land-lord port type). The “public sector” (central government) is responsible for unprofitable basic facilities (channel, breakwater & related roads), “port management body” (local government) is responsible for development of infrastructure facilities (wharf & yard) while the “private sector” provides superstructure and operation.



### (3) Utilization of Terminals by Shipping Companies

There are three types of terminal utilization (public use, prioritized use & exclusive use). Generally, each type has some merits and demerits, but "exclusive use" is popular among countries at "Trans-Pacific Lines" (Japanese and U.S. major ports). In Japanese major ports, "public use" is used in "public terminals" and "exclusive use" is employed in "semi-public terminals". It is advisable for Indonesian government to use "public use" together with "prioritized use" or "exclusive use". For reference, types of container terminal utilization are seen in the following "Table 6.3.3.3".

Figure 6.3.3.1 Model of "Operating Port Type"

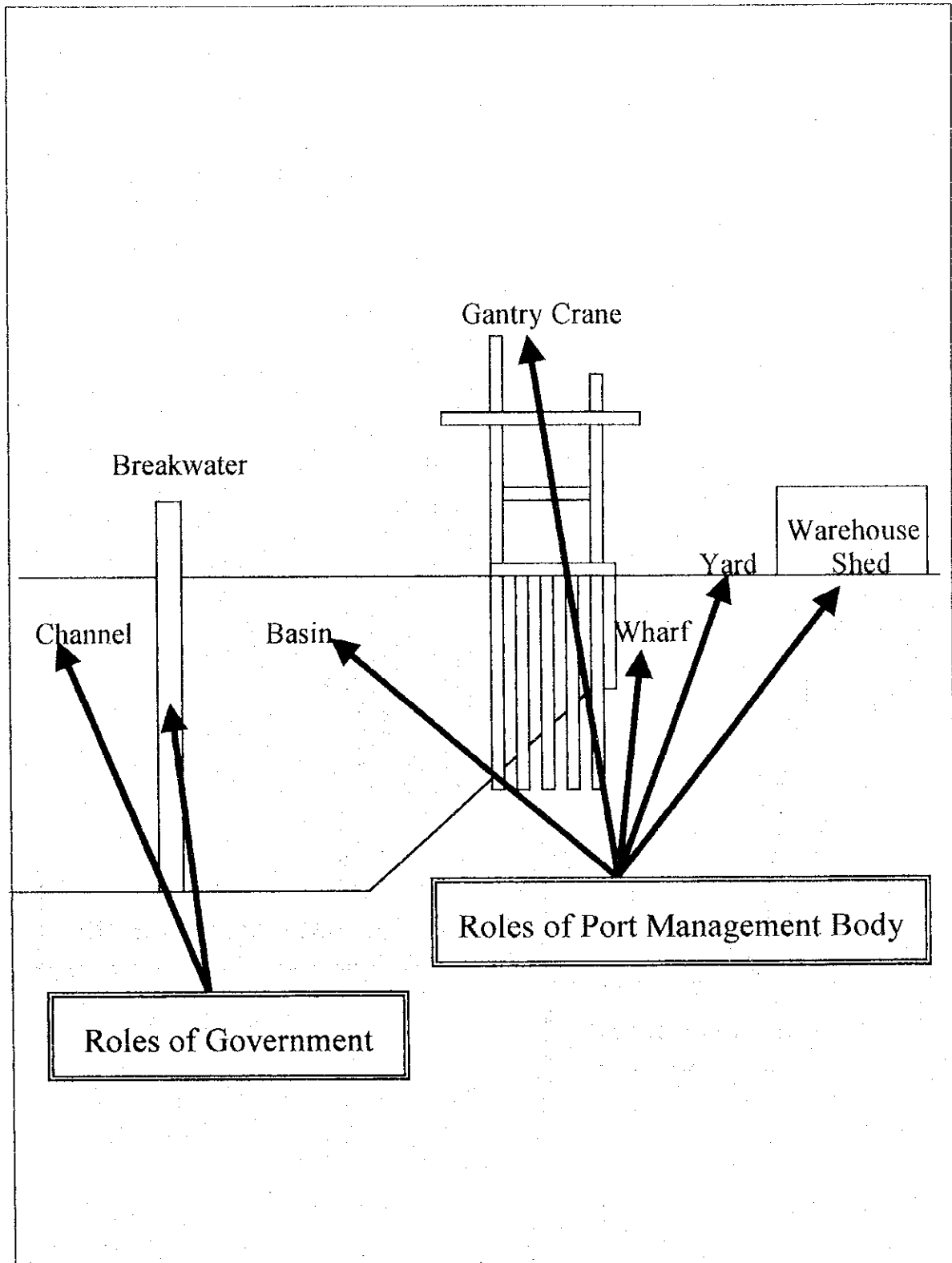


Figure 6.3.3.2 Model of "Tool Port Type"

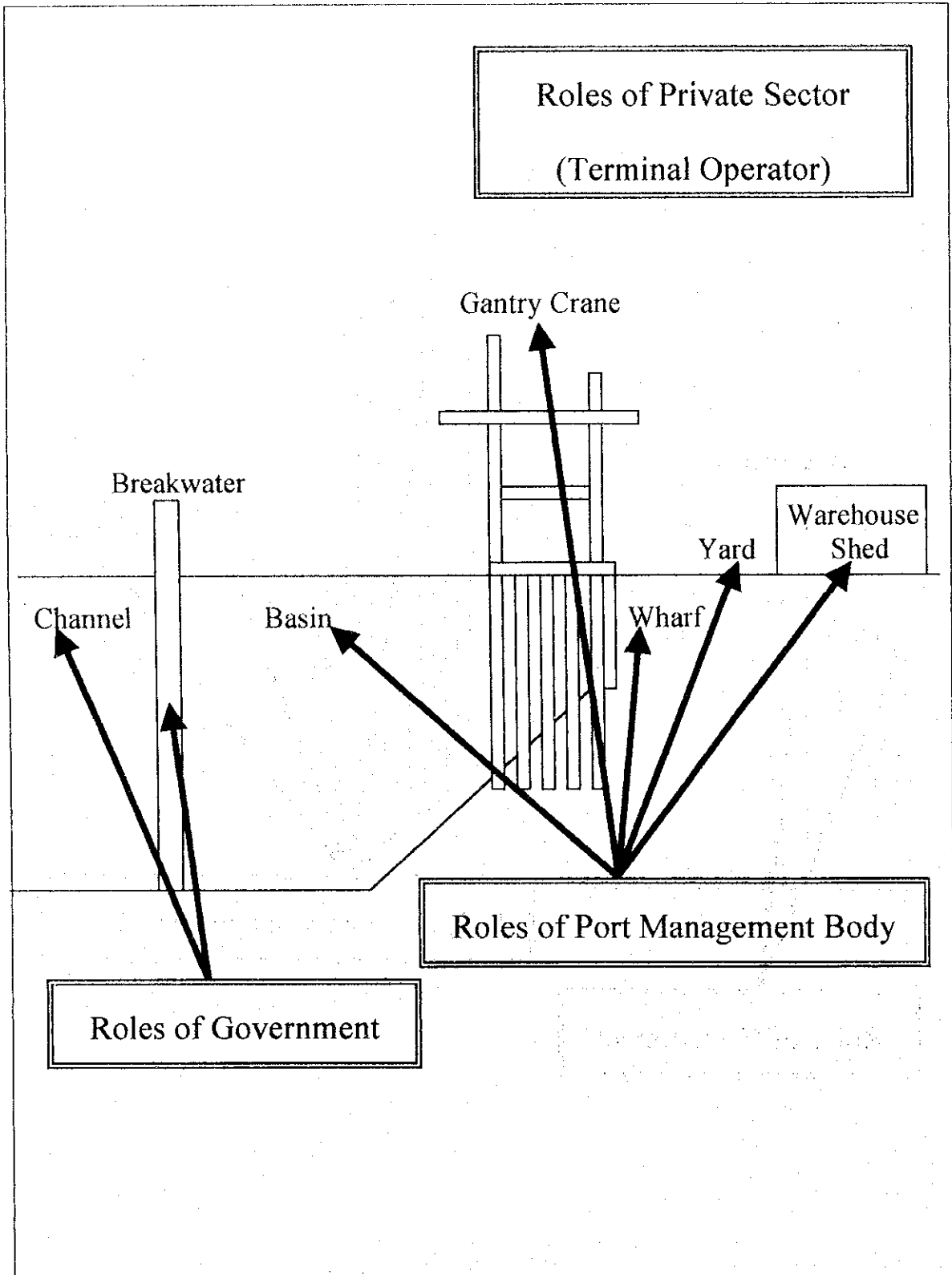


Figure 6.3.3.3 Model of "Land-lord Port Type"

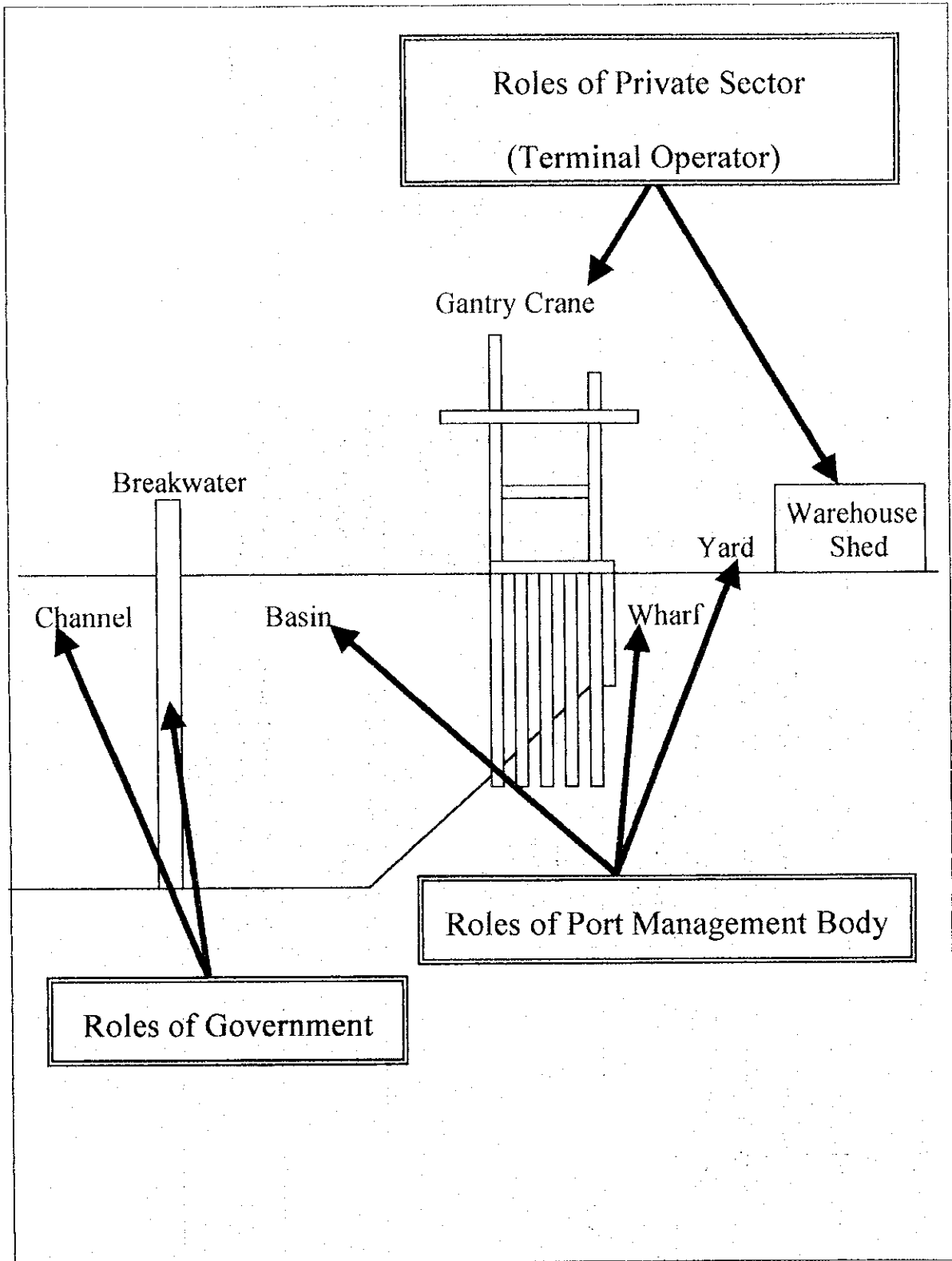


Table 6.3.3.1 Comparison of "Operating Port", "Tool Port" & "Land-lord Port" Type

Type of Administration	Operating Port Type	Tool Port Type (Land-lord with equipment)	Land-lord Type (Land-lord without equipment)
1. Developer & Operator	Port Management Body	Port Management Body	Port Management Body
	Port Management Body	Port Management Body	Private Sector
	Port Management Body	Private Sector	Private Sector
2. Features of Type	Direct Management & Operation by Port management body	Only operation is open to private	"Lease Type" & "Exclusive Use"
3. Examples of Types	<ul style="list-style-type: none"> <li>• Indonesia /IPC (Container Terminal)</li> <li>• Singapore (PSA)</li> <li>• Bangkok Port in Thailand (PTA)</li> </ul>	<ul style="list-style-type: none"> <li>• Japanese Public Ports (Kobe &amp; Yokohama) &amp; Port Terminal Development Corporation</li> <li>• Gaoxiong (Chinese Taipei)</li> <li>• Pusan (South Korea)</li> <li>• U.S. Ports (Seattle)</li> </ul>	<ul style="list-style-type: none"> <li>• European Major Ports (Rotterdam, Hamburg)</li> <li>• U.S. Major Ports (Los Angeles, Long Beach, New York/New Jersey)</li> <li>• Kelang Port in Malaysia</li> <li>• Laem Chabang in Thailand</li> </ul>
	4. Merits	<ul style="list-style-type: none"> <li>① Direct management &amp; operation</li> </ul>	<ul style="list-style-type: none"> <li>① Efficient &amp; effective Operation by using technology of private sector</li> </ul>
5. Demerits	<ul style="list-style-type: none"> <li>① Monopoly &amp; no competition</li> <li>② No other choice for users</li> <li>③ Inefficient operation &amp; bad productivity</li> </ul>	<ul style="list-style-type: none"> <li>① Difficult control of Productivity</li> </ul>	<ul style="list-style-type: none"> <li>① Exclusive use &amp; discriminatory treatment</li> </ul>

Table 6.3.3.2 Roles of "Central Government", "Port Management Body" & "Private Sector" in Terminal Operation

Port (Country)	Type	Port Management Body	Who develops		Terminal Operator	Responsibility of Public Sector
			Infrastructure	Superstructure		
① Singapore	Operating port	PSA	PSA	PSA	PSA	Only road development
② Hong Kong	Land-lord port & Concession	Central Government Agency (Port Planning & concession)	Terminal Operator	Terminal Operator	Terminal Operator	Channel, breakwater & road
③ Gaixiong (Chinese Taipei)	Tool port	Port Authority	Port Authority	Port Authority	Terminal Operator	Only road development
④ Pusan (South Korea)	Tool port	Korea Container Development Corporation	Korea Container Development Corporation	Korea Container Development Corporation	Terminal Operator	<ul style="list-style-type: none"> <li>• Central government</li> <li>→ Channel</li> <li>• Breakwater</li> <li>• City</li> <li>→ Road</li> </ul>

Port (Country)	Type	Port Management Body	Who develops		Terminal Operator	Responsibility of Public Sector
			Infrastructure	Superstructure		
⑤ Hamburg (Germany)	Land-lord port	Hamburg City	Hamburg City	Terminal operator * 1 (HHLA)	Terminal operator * 1 (HHLA)	Channel, breakwater, road (100%)
⑥ Rotterdam (Holland)	Land-lord port	Rotterdam City	Rotterdam City	Terminal Operator	Terminal Operator	Channel, breakwater, road (100%)
⑦ Antwerp (Belgium)	Land-lord port	Antwerp City	Antwerp City (Planning, development)	Terminal Operator	Terminal Operator	• Central government (100%) → Channel Breakwater • local government → Road
⑧ Felixstowe (U.K.)	Privatized (Operating port)	* 2 FDRC (private company)	FDRC	FDRC	FDRC	"No subsidy" Only navigation safety

Note \* 1 HHLA : Hamburger Hafen-und Lagerhaus-Aktiengesellschaft

\* 2 FDRC : The Felixstowe Dock & Railway Company ( 100% subsidiary company of "Hutchinson Ports UK Ltd.")

Port (Country)	Type	Port Management Body	Who develops		Terminal Operator	Responsibility of Public Sector
			Infrastructure	Superstructure		
⑨ Southampton (U.K.)	Privatized (Land-lord port)	* 3 ABP (private company)	ABP	* 4 SCT (Terminal operator)	SCT (Terminal operator)	"No subsidy" Only navigation safety
⑩ New York / New Jersey (U.S.)	Land-lord port	NY/NJ Port Authority	NY/NJ Port Authority	Terminal Operator	Terminal Operator	* 5 Channel, breakwater,
⑪ Los Angeles Long Beach (U.S.)	Land-lord port	Los Angeles City (Long Beach City)	Los Angeles City (Long Beach City)	Terminal Operator	Terminal Operator	* 5 Channel, breakwater,
⑫ Seattle Tacoma (U.S.)	Tool port	Port District	Port District	Port District	Terminal Operator	* 5 Channel, breakwater,

Note \* 3 ABP : "Associated British Ports, PLC" which manages 22 ports in U.K.

\* 4 SCT : Southampton Container Terminal Ltd. (49% subsidiary company of ABP)

\* 5 Scope of work of channel dredging in the U.S.

From the open sea to the port

① Maintenance dredging → by the Federal Government (U.S. Army Corps of Engineers)

② Development of approach channel → "Cost sharing" by the Federal Government & port management body



Table 6.3.3.3 Types of Container Terminal Utilization by Shipping Companies

Types	"Public" Use	"Prioritized" Use	"Exclusive" Use
1. Definition	<p>"First come, first served" base (Grant the use of the facilities as appropriate)</p> <ul style="list-style-type: none"> <li>• Japanese public terminals</li> <li>• Pusan (South Korea)</li> <li>• Hong Kong</li> <li>• Major European Ports (Hamburg, Antwerp, Felixstowe)</li> <li>• NY/NJ (U.S.)</li> </ul>	<p>"Specific shipping companies" are given priorities over tariff &amp; available time on certain conditions such as cargo volumes.</p> <ul style="list-style-type: none"> <li>• Some terminals at Gaoxiong (Chinese Taipei)</li> <li>• Some U.S. Ports (Miami, Evergrace &amp; others)</li> <li>• ECT (Dedicated Terminal) at Rotterdam Port</li> </ul>	<p>Specific shipping company exclusively leases a terminal only for its own fleets &amp; alliance.</p>
2. Examples		<p>* Many examples at "Trans-Pacific lines"</p> <ul style="list-style-type: none"> <li>• Japanese semi-public terminal (Tokyo, Kobe, Yokohama)</li> <li>• Gaoxiong (Chinese Taipei)</li> <li>• Major U.S. ports (LA, Long Beach, Seattle)</li> </ul>	
3. Particularities	<ul style="list-style-type: none"> <li>① Improvement of productivity through competition of "plural" terminal operators can be expected.</li> <li>② Increase of "utilization rate" can be also expected.</li> </ul>	<ul style="list-style-type: none"> <li>① This type is very flexible for users.</li> <li>② Compared with "exclusive use", increase of utilization rate can be expected.</li> </ul>	<ul style="list-style-type: none"> <li>① A shipping company can exclusively use without interference of other lines.</li> <li>② This type is the best for a port which has "certain cargo volumes" and can be leased with appropriate prices.</li> <li>③ This type gives easiness to port management body.</li> </ul>