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Master Plans to achieve policy goals
in the context of the new Port Law

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The New Port Law

- National Maritime Safety Agency
 - National Master Plan
 - Port Authorities
 - Develop Master Plan
 - Regulate port activity
 - Provide and maintain infrastructure
 - Protect the Environment
 - Pelindo and private operators
 - Develop and operate terminals, tugs etc...
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Key Regulatory Areas

- Port Authorities
- Master Plan
 - Prescriptive – where shall terminals be?
 - Zoning – what shall be allowed?
- The Facilitation of Investment
- Land
 - Protection, Release, Value
- The Situation and Strategy of Pelindo



Implementing Regulations

Key aspects of Law

- In some areas, Law already clear
 - Port Authority – planning
 - Harbour Master – safety and security
 - No monopoly, all operators equal
- In other areas very uncertain
 - How Port Authority set up, funded, staffed
 - Transition of Pelindo
 - Land ownership
 - Master Plans, national and port authority

Policy Objectives

- Facilitate economic development
 - Provide effective port facilities
 - Bulk handling facilities
 - Train pilots, provide tugs
 - New container terminals
 - Lower costs
- Encourage competition
- Create gateway ports
 - Focus cargo to achieve viable volumes

Private Port Investment

- Business profile
 - Heavy upfront investment
 - Limited alternate uses or exit strategies
 - Revenue risk over 20 to 30 years
 - Investment climate required
 - Clear
 - Specific methods of application and approval
 - Standard against applications to be judged
 - Consistent
 - Do not review frequently
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Competition?

- Competition
 - Lower handling charges
 - Competition reduces prices
 - Scarcity of provision raises prices
 - High prices leads to new entrants...
- BUT
 - Volume required to justify investment
 - Competition splits volume
 - First mover only mover?
 - Pelindo difficult to compete against

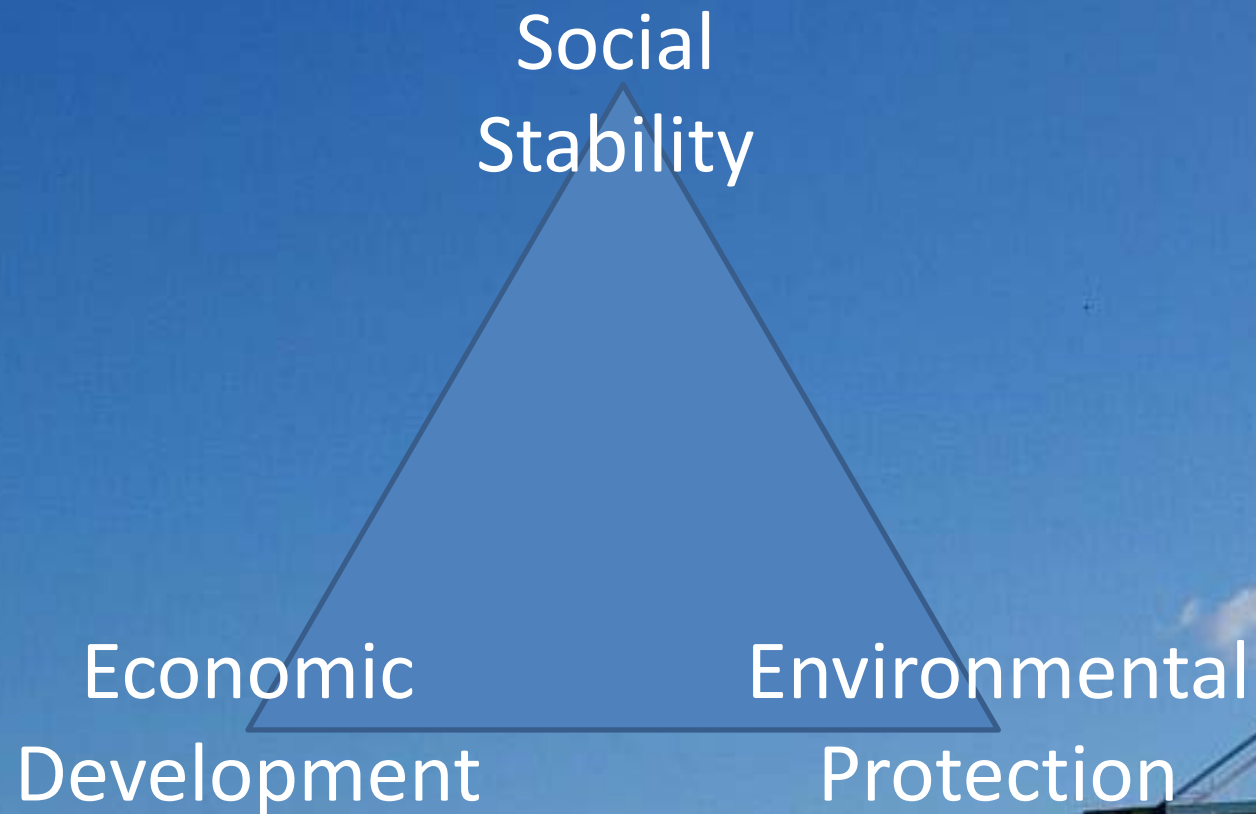


Master Plans

National Port Master Plan

- Output orientated
 - Support progress towards policy goals
 - Seek balance within “The Great Triangle”
 - Economic development
 - Sustainable environment
 - Social development
 - Control or facilitate investment
 - Investors cannot afford to waste cash
 - Opportunities outweigh available capital
 - Risk aversion
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“The Great Triangle”



Potential cost impacts

- Reducing Cocoa freight ex Sulawesi
 - Bag to Europe US\$ 165/t, Bulk US\$ 80/t
 - Reduction in port time from 6 to 2 days
 - Potential saving 50%+ of costs
- Reducing handling charges Sulawesi
 - Overall TEU transport cost
 - to HK US\$ 500 to 800
 - to Japan US\$ 1,000 to 1,500
 - to US West Coast US\$ 1,500 to 2,000
 - Makassar handling charge US\$ 65-90/TEU
 - “ROI” handling charge US\$ 30-40/TEU
 - Saving in the order of 4 to 6% of costs)

National Port Master Plan

- How can this facilitate policy goals?
 - Provide indication of Foci for volume
 - Support development of competition
 - Facilitate transition of Pelindo
 - Outline public investment priorities
- How could this damage policy goals?
 - Restrict development of competition
 - Constrain private sector creativity
 - Undue focus on container sector

Route Structures



Scope of the Port Master Plan

- Marine Access
 - Dredged approaches
 - Breakwaters and other protection
- Road and rail access
 - Incoming capacity
 - Congestion management
- Land allocation terminal developments
 - Economic and commercial value

Type of Master Plan

- Prescriptive
 - Competition is for concessions
 - Pelindo will retain major advantages
- Zoned
 - Limited competition
- Permissive
 - Creates opportunities

A Prescriptive Master Plan

- Says where development will take place
 - Reliant on inherently unreliable forecasts
 - Economics and trade flows
 - Technical and operational changes
 - New developments will have to be bid
 - Opportunity for corruption
 - Pelindo will always have advantage
 - Will necessitate more regulation
 - Land issues can be resolved in advance
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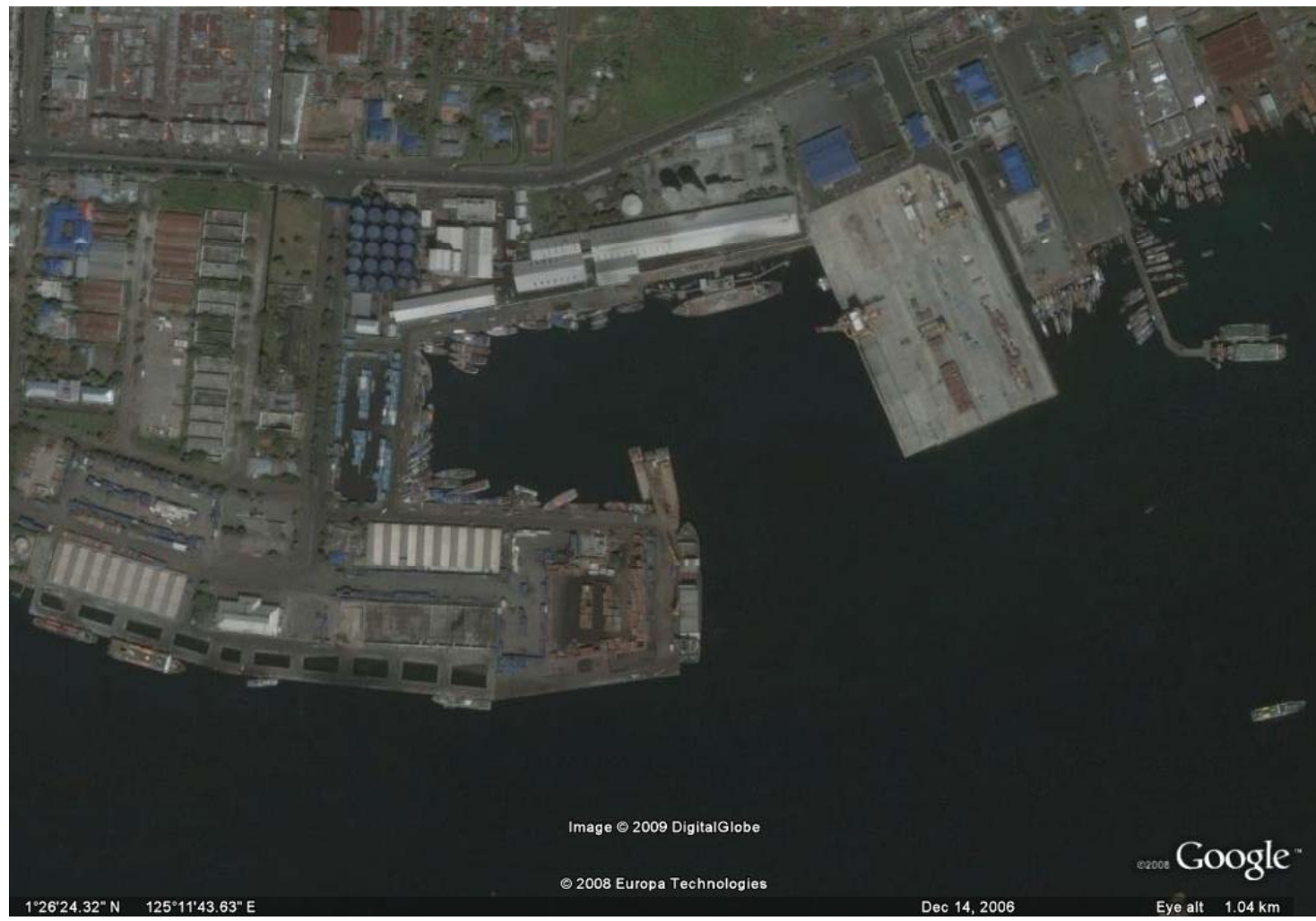
A Permissive Master Plan

- Says where development can't take place
 - Very flexible and requires infrequent revision
 - Provides opportunity for private sector
 - Conversion of existing private ports
 - Development of new facilities
 - Application procedures critical
 - Clarity
 - Consistency
 - Land issues may limit development
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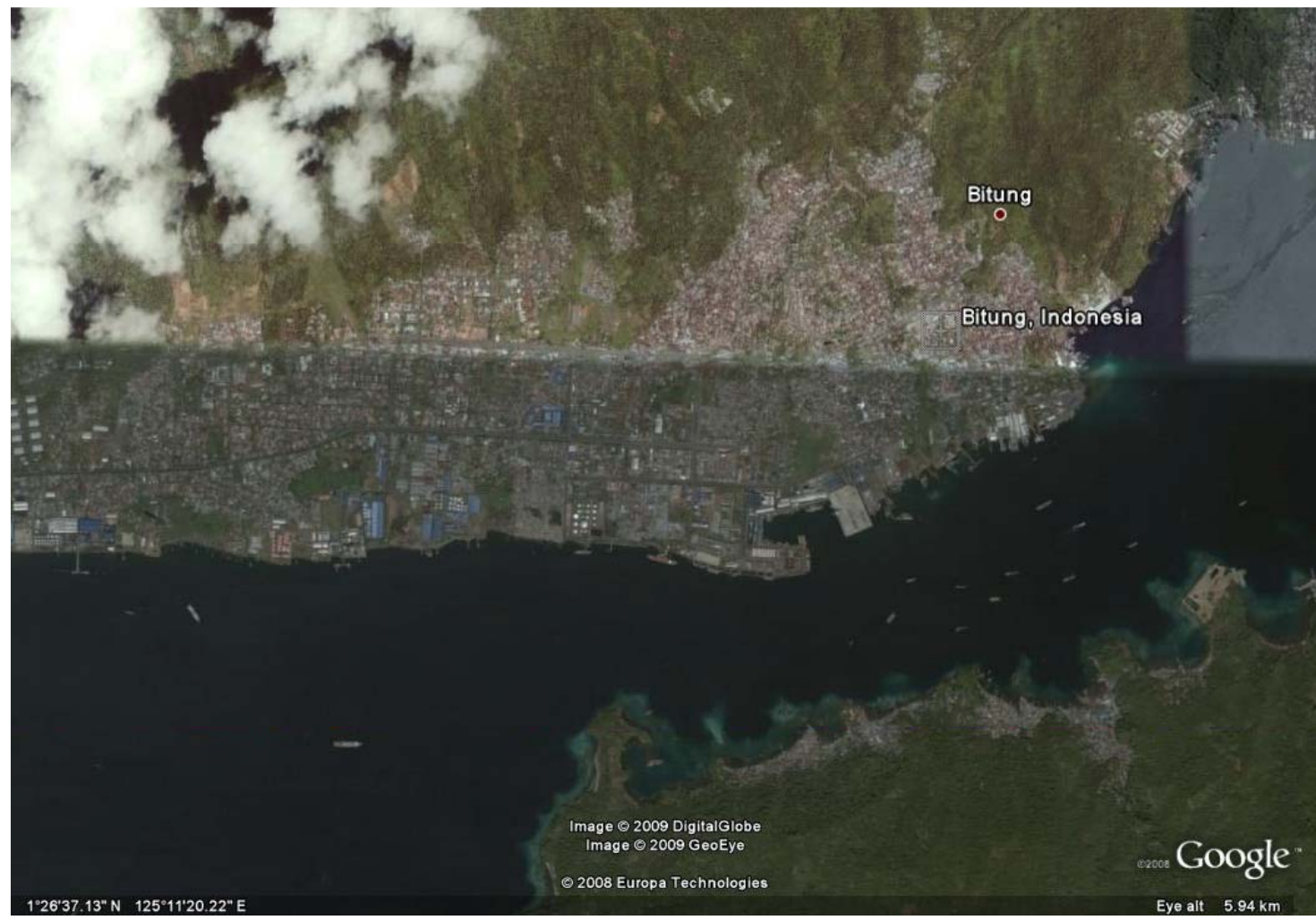
A Zonal Master Plan

- Half way house options...

Master Plan - Bitung



Master Plan - Bitung



Date (enter on Slide
Master)

Title (enter on Slide Master)

Practical Projects - Makassar

- Bulk terminal in Makassar
 - PT Eastern Flour Mills (Interflour)
- 3rd Party Tank Terminal
 - Shell
 - Pertamina
 - 3rd Party
- Warehousing in Makassar
 - Export consolidation near wharf
- 2nd Container Terminal
 - PT IKI

Makassar Port



Bulk Terminal in Makassar

- Commercial Logic
 - Existing wharf and storage
 - Limited additional investment
 - Experienced promoter and operator
 - Significant established cargo interest
 - Substantial benefit to cargo interest
 - Constraints/Objections
 - Wharf subject to concession with whom?
 - Does the promoter need permission?
 - How would promoter apply for permission?
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2nd Container Terminal

- Commercial Logic
 - High rates for container handling
 - High return could be achieved
 - Nodal location in Eastern Indonesia
 - Site ideal for terminal development
- Constraints/Objections
 - Is competition to be encouraged?
 - How would a concession be created?
 - Is this within the Master Plan?
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Which Master Plan

- Depends on state investment?
- Permissive
 - Little state investment
- Prescriptive
 - Extensive state investment
 - Concessions can finance investment
- And in between
 - Existing infrastructure has value
 - Additional investment may be required



Applying for Permission

Application Procedure

- What needs to be submitted?
 - What is to be built?
 - Marine General Arrangements
 - Navigation aids
 - Dredging
 - How is it to be Financed?
 - Outline of intent; too vague
 - Proof of closure; impractical
 - Earnest money or guarantee?
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Application Procedure

- Environmental study
 - Base line state of site and surroundings
 - Forecast of physical and ecological
 - 5 years
 - 25 years
 - Social study
 - Base line social review
 - Drivers of social change
 - With and without forecasts
 - 5 years
 - 25 years
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Reasons for Rejection

- Environment
 - Not in line with Master Plan
 - *Conflicts with environmental protection policy*
 - *International impacts*
 - Social
 - Not in line with Master Plan
 - *Conflicts with aims of social policy*
 - *Objections (NIMBY issues, Indian experience)*
 - Economic
 - No reason to reject
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Thank you for your patience
