



**VICE MINISTER OF TRANSPORTATION
THE REPUBLIC OF INDONESIA**

Keynote Address

***37TH ANNUAL GENERAL MEETING
FEDERATION OF ASEAN SHIPOWNERS ASSOCIATION (FASA)***

JAKARTA, 09 DECEMBER 2011

- ***His Excellency Ambassador of Republic of Indonesia to ASEAN;***
- ***Director General of Sea Transportation;***
- ***Chairperson of Federation of ASEAN Shipowners' Association (FASA);***
- ***Executive Director of ERIA;***
- ***Distinguished Delegates and Participants;***

Ladies and Gentlemen,

Good morning,

- It is a great honor for me to be a part of the 37th Annual General Meeting of Federation of ASEAN Shipowners' Association (FASA), which represents the key players of sea

transport in South East Asia, representing 10 member countries of ASEAN.

- This meeting is an important momentum for Indonesia who is promoting investment opportunities in various sectors, including in sea transportation, following the launch of Master Plan of ASEAN Connectivity as well national initiatives through the Master Plan of Acceleration and Expansion of Indonesia Economic Development (MP3EI).
- I would like to thank Indonesia Shipowners' Association (INSA) as the organizer of this meeting who also chairs FASA for the period of 2010 and 2011. Through this meeting, executives from shipping companies in ASEAN representing more than 10,000 shipping companies will be able to meet and discuss business opportunities in logistics improvement through investment in maritime industry and development of ports and container terminals.

Ladies and Gentlemen,

- The constellation of the world's economy is changing. With large emerging economies such as the BRICs being the main growth and trade expansion, the relative weight of advanced economies such as the European Union and the United States

appears to be diminishing. The downturn has reinforced a shift of the economic influence from the North and the West to the South and the East. As the shift of economic power from West to East continues, Asia-Pacific will remain the most attractive economic region for the next 20 years.

- This trend alter the shipping industry's operating context and can be expected to evolve further as cargoes, markets, and trade patterns also change in response to the shift of global economic powers. It is also expected to cause a shift in global trade away from advanced economies toward emerging developing countries. Further, these developments are likely to affect market segments differently and results in shifts in international transport patterns. This opens up opportunities for new markets.
- In early 2011, there were 103,392 seagoing commercial ships in service, with a combined tonnage of 1,396 million DWT. Most of this ships operate in the developing countries, including ASEAN. Among the developing countries, Asia has by far the largest share, with 23% of the world fleet. Developed countries' fleets have their highest shares among container ships (at 24%), while developing countries provide their flag to general cargo vessels (35% of the world fleet).

- Forty years ago, the maritime industry as a whole was mostly located in developed countries, whereas today, developing countries have gained large market shares in many maritime businesses. The developing countries have recently been demonstrating their potential to become major market players. They are expanding their participation in a range of different maritime business.
- One example of this trend is shipbuilding, which used to be dominated by members of the Organization for Economic Cooperation and Development (OECD). Today the world's largest shipbuilding countries are in China and South Korea. The total value of vessels exported from developing countries now exceed that from developed countries, USD 91 billion and USD 53 billion respectively in 2009.

Ladies and Gentlemen,

- ASEAN countries have placed the region among the new economic power in the world. The commitment to implement the ASEAN Economic Community by 2015 will transform ASEAN into a single market and production base with highly competitive economic region and fully integrated into the

global economy. This will also turn ASEAN into a region of a more equitable economic development.

- As a key step towards realising the ASEAN Economic Community that possesses continued economic growth, reduced development gap and improved connectivity among Member States and between Member States and the rest of the world, ASEAN has developed the Master Plan on ASEAN Connectivity that will connect the region through enhanced regional and national physical, institutional and people-to-people linkages.
- Under the Master Plan, ASEAN has reviewed the achievements made and the challenges encountered or that are impeding each of these linkages. Key strategies and essential actions have been adopted with clear targets and timelines to address these challenges to further enhance ASEAN Connectivity in realising the ASEAN Community by 2015 and beyond. Through an enhanced ASEAN Connectivity, the production and distribution networks in the ASEAN region will be deepened, widened, and become more entrenched in the East Asia and global economy.
- In line with the Master Plan on ASEAN Connectivity, ASEAN has determined priorities that will cover cooperation in maritime connectivity and development of ports facilities in

ASEAN member states, including RoRo network and short sea shipping and port electronic data interchange. This is a strategic decision as two of the largest member countries of ASEAN (Indonesia and Philippines) rely heavily on maritime transport.

- Furthermore, ASEAN also acknowledges the importance of promoting and harmonizing cooperation in maritime environment protection including illegal activities in marine environment such as piracy, armed robbery, illegal logging, drug trafficking, smuggling of illegal immigrants and other illegal goods.

Ladies and Gentlemen,

- The commitment of ASEAN member countries through AEC and MPAC for sure will bring opportunities to be explored by ASEAN shipowners. This commitment can be proliferated considering the recent global economic downturn in some main parts of the world including Europe and USA.
- However, it is not easy to explore these opportunities. At least there are four challenges that we have to face.
- Challenge #1: Shipping industry, which handles over 80% of the volume of world trade, is heavily reliant on oil and is not

yet in a position to adopt alternative energy sources. This fact poses a significant challenge as the world's fossil fuel is depleting. Fluctuating oil prices do impact on shipping and trade. As fuel costs can account for as much as 60% of a ship's operating costs, a rise in oil prices will increase the transport cost and therefore potentially affects trade. A recent study by UNCTAD has shown that a 10% hike in oil prices would raise the cost of container shipping by around 1.9% to 3.6%. The incurred costs pass-through of increased freight rates into product prices also varied across different products and different markets, indicating how volatile this industry could be when faced with fluctuating oil prices.

- Challenge #2: The shipping industry is facing a challenge in relation to climate change. It relies heavily on oil and generates at least 3% of global carbon emissions and these emissions are projected by the International Maritime Organization (IMO) to peak by 2050. Mitigation action in international shipping is crucial to curb carbon emissions. However, it must be coupled with building the resilience of the maritime transport systems and strengthening their ability to cope with climatic factors. Adaptation in transport involves enhancing the resilience of infrastructure and operations through several measures, including changes in operations,

management practices, and design specifications and standards. It may involve integrating climate change considerations into investment and planning decisions.

- Challenge #3: Maritime piracy has always been an issue despite international efforts to address the problem. IMO notes that there were 489 actual or attempted acts of piracy and armed robbery against ships in 2010. This is an increase of 20.4% over the previous year. In fact, the number of reported incidents have increased steadily in the last 4 years. Piracy raise insurance fees and ship operating costs, as well as generate additional costs when the ships need to be rerouted. A recent study estimates maritime piracy causes a loss of between USD 7 billion to USD 12 billion per year. These significant costs pose a burden to the shipping industry and will ultimately be borne by global trade.
- Challenge #4: In conjunction with ASEAN connectivity, the shipping industry will require harmonization of technical standards among ASEAN countries, especially for ships carrying energy commodities. Currently, there is still difficulty for a ship under specific ASEAN country's flag to enter specific ports within ASEAN region.

***Ladies and Gentlemen, let me now address few points to my fellow
INSA***

- Indonesia as the largest archipelago in the world has huge potentials in its sea transport. Following the successful implementation of cabotage principle, Indonesia shipowners need to move beyond the cabotage and should see the challenges as opportunities, rather than risks. In the near future, I would like to see the Indonesia flag carriers could transform themselves into world class carriers.
- Indonesia shipowners need to work together with other sectors to contribute more in national and regional economic growth. In this case, the national shipowners need to actively participate in the provision of national carrier flags for offshore activities such as drilling vessels required for a vast amount of oil and gas exploration in the country. Currently, only 10% of offshore vessels type C are operated under Indonesia flag, while the remaining 90% are still operated by foreign flag carriers.
- The concern over the maritime safety is also the key for transformation. Some of the major accidents in the maritime sector mostly contributed by human error. Therefore, special efforts are needed to increase capacity and improve skill of our seamen.

- The limited dockyards capacity in the country has become one of major obstacle for Indonesian carriers to expand their operation. With only 600,000 GT capacity per year, the existing facilities could not absorb the demand for building new vessels that already reaches 2 million GT per year. Moreover, the existing dock space at this moment can only fulfill 83% of the demand for ship maintenance and overhaul.
- To overcome this, major investment will be required for the capacity expansion as well as increasing the quantity of dock facilities. The participation from private sector with strong support from relevant stakeholders including financial institutions will absolutely be required.

Ladies and Gentlemen,

- In closing, the joint effort of all related stakeholders within shipping and maritime industry, including governments, private sector, regional institutions, multilateral organizations, civil society – will effectively contribute to the establishment of ASEAN Connectivity through connecting the mainland with the archipelagic states. By focusing on the connectedness between the dispersed and isolated parts of the region to the centers of economic activities, the region will have a lot of

opportunities for ASEAN shipowners. This empowerment of maritime connectivity will in turn be the new framework for the new role of ASEAN in the world economy.

- I hope all of us will keep the spirit and enthusiasm to work hard in improving our maritime transport, that will contribute to the success of ASEAN Connectivity. I wish you all have a pleasant stay in Jakarta. Thank you and have a good day.

VICE MINISTER OF TRANSPORTATION

BAMBANG SUSANTONO