

Promoting Efficient and Competitive Intra-ASEAN Shipping Services

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Authors:

PDP Australia Pty Ltd/Meyrick and Associates

EXECUTIVE SUMMARY

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Maritime transport is crucial to the economic growth and welfare of ASEAN member countries. Efficient and competitive intra-ASEAN shipping services will play an important role in helping to realise the commitment made by ASEAN leaders at the 2003 Bali summit to establishing an ASEAN economic community by 2020. This study is intended to contribute to this goal.

After describing the intra-ASEAN shipping system, its task, and the conditions under which it operates, the reports documents an assessment of the current performance of the system, drawing on some quantitative analysis as well as information and insights obtained during our extensive field work program.

An introductory chapter to the Report introduces the study, describing its background and purpose, and outlining the approach that we adopted in undertaking it. This is complemented by a list of persons consulted during the fieldwork phase of the study, which is presented in Appendix 1 of the report.

Chapter II of the Report addresses the features of intra-ASEAN maritime trade, discussing the economic profiles of member countries, their trade volume and distribution. This is followed by an analysis of intra-ASEAN trade in terms of trading linkages and trade composition. Further details of the growth and composition of the intra-ASEAN trade are presented in Appendixes 2 and 3 to the report. Chapter III outlines the eleven priority sectors and the subsequent maritime transport requirements.

Chapter IV provides an overview of shipping policies; general shipping policy: national flag administration; competition policy with respect to liner shipping; subsidies; grants and tax incentives; and cargo reservation policies: cabotage and crewing issues. The main conclusion of this review is that the policy environment in which intra-ASEAN shipping operates is relatively liberal. In general, ASEAN countries have moved successfully to open their economies, relax regulations, encourage private investment, expand public infrastructure and encourage trade. There are some limitations on the ability of ASEAN shipping companies to respond to market opportunities – for example in ship financing and management skills – and local shipping associations resent the intrusion of foreigners into their markets, but services do tend to emerge where there is a demand. The principal market distortion is cabotage: the reservation of domestic cargoes to national carriers.

Chapter V addresses the ASEAN shipping system. The ASEAN regional shipping fleets are defined, the features of the registered fleet and the owned fleet are reviewed. Intra-ASEAN shipping services are outlined in overview. This review notes that, although container shipping services now play the dominant role in the shipping of intra-ASEAN general cargoes, conventional breakbulk ships still play an important role, especially in the provision of services to remote regions. The advanced age and relatively small scale of the

fleets of some of the ASEAN member countries suggests difficulty in mobilising finance for shipping operations.

Chapter VI contains an assessment of the efficiency and competitiveness of intra-ASEAN shipping. An analysis of both the costs of individual ship operations and network structures suggests that intra-ASEAN shipping is reasonably efficient, and further evidence for this can be found in a comparison of intra-ASEAN freight rates with the rates for intra-European short sea services. Domestic freight rates, however, appear to be high, and a plausible case can be made for cabotage restrictions also, in some cases, adding to the cost of international shipping.

In addition to cabotage issues, the field work program identified a number of concerns that inhibit the ability of ASEAN shipping to serve as a catalyst and facilitator for ASEAN economic integration. These included:

- shortcomings in port infrastructure and equipment, particularly in the lesser ports serving ASEAN trades
- the tendency for break-bulk/general cargo traffic, still important in intra-ASEAN trades, to have been neglected by ports in the push for containerisation
- a growing shortage of skilled seafarers in several countries, raising the possibility of initiating an ASEAN-certified pool of seafarers
- lack of adequate data on cargo flows and the intra-ASEAN shipping system, especially smaller scale operations within ASEAN
- the need for improved access to ship finance
- concerns about trends in international shipping and ASEAN's feeling of powerlessness in strengthening its role when many shipping decisions are made by external shippers, customers and their logistics agents located outside the region
- related concerns about the domination of international liner services through regional hubs and the tendency for ASEAN shipping services to be pushed down the distribution chain
- trade imbalances and their impacts on vessel and equipment utilisation and import/export shipping rates
- the similarities between ASEAN countries' economies and the desirability of adopting measures to encourage diversification and strengthen complementarity
- ASEAN's slow pace (except in Singapore, Malaysia and Thailand) in developing cooperative logistics relationships between customers, transport service providers and governments
- the culture of informal charges and corrupt practices that continues to pervade port and terminal services
- the tendency for ASEAN governments to centralise planning and decision-making and to hesitate in granting business units greater autonomy in responding to users' needs under a consistent regulatory regime designed to promote open markets and transparent competition
- low levels of port productivity and a structure of port charges that often does not reflect costs.

Some of these concerns relate to the behaviour of international shipping markets or the economic structure of the ASEAN community: these matters are clearly beyond the control of ASEAN governments. However, others can be addressed by appropriate policies.

The final chapter of the report, Chapter VII, is concerned with developing a program for implementing such policies. It recommends an integrated approach that pursues five core themes. The Chapter proposes a draft Roadmap for integration of the ASEAN maritime sector. This Draft Road Map is modelled on the Road Maps already endorsed for accelerated liberalisation of the eleven priority sectors, and in particular on the Roadmap for Integration of the Air Travel Sector. The Draft Road Map is reproduced in full below.

Draft Road Map for Integration of ASEAN Maritime Transport Sector

Objective

The objective of this initiative is to advance full liberalisation of maritime transport services in ASEAN. The liberalisation of transport services is consistent with and supportive of the commitment of the ASEAN Leader's commitment, recorded in the Bali Concord of October 2003, to the development of ASEAN as a single market and production base. Specifically, it furthers the goal of the leaders to institute new mechanisms and measures to strengthen the implementation of its existing economic initiatives, including the 1995 ASEAN Framework Agreement on Services (AFAS), and supports the goals and strategies enunciated in the Transport Sectoral Action plan 2005-2010.

Measures

The Draft Roadmap provides a timebound action plan for concrete actions that ASEAN member countries shall pursue in order to achieve a more open, efficient and competitive ASEAN maritime transport system. In keeping with the Bali Concord, the Road Map includes both liberalization and cooperation measures. These measures are grouped around five key themes.

Developing a single ASEAN voice	Developing the capacity of ASEAN to express a single coherent policy position on maritime matters of common interest to ASEAN countries
Infrastructure	Ensuring that the transport infrastructure exists to support the effective and efficient operation on intra-ASEAN shipping services.
Integration	The development of a single integrated ASEAN shipping market in which all ASEAN operators can operate without restriction
Harmonisation	Ensuring that the single ASEAN shipping market is effective by ensuring that competition takes place on equitable terms and conditions
Human resources and capacity development	Developing and spreading throughout ASEAN the management capacity and technologies required to manage shipping and port operations safely, efficiently and in an environmentally acceptable manner.

In the implementation, two or more ASEAN Member Countries who are ready can negotiate, conclude and sign implementing agreements/arrangements in line with the ASEAN-X Formula, on a plurilateral, multilateral or sub-regional basis. The other Member Countries could join in the implementation when they are ready.

ASEAN Member Countries shall be provided flexibility with regard to the implementation of the proposed timeline for the specific measures.

Coverage

The measures will cover the movement/carriage of both passengers and cargo or freight by maritime transport, and the provisions of the port and related services necessary for the safe, efficient and reliable operation of maritime transport services.

Specific measures and timing

No	MEASURES	IMPLEMENTING BODY	TARGET DATE
I. Developing a single ASEAN voice			
1	Establish and agree general principles and framework for a common shipping policy	Senior Transport Officials Meeting (STOM) through the Maritime Transport Working Group (MTWG)	Dec 2006
2	Develop of fully articulated common shipping policy		Dec 2006
3	Establish structure for the coordination of ASEAN responses to emerging maritime policy issues and actions by non-member countries or organizations that are contrary to the interests of ASEAN		Dec 2007
II. Infrastructure			
4	Review list of ports in the ASEAN transport network to ensure that all ports of regional significance are included.	ASEAN Secretariat under the guidance of STOM through the MTWG	Dec 2005
5	Develop a comprehensive database of maritime trade to from and within ASEAN.		Dec 2007
6	Develop a forecasting process and produce forecasts of future maritime trade flows to from and within ASEAN		June 2008
7	Compile an full and comprehensive database on ASEAN network ports, including inventory of the facilities available, shipping services, port tariffs and key performance indicators		Dec 2007
8	Identify shortfalls in ASEAN network port performance and capacity		Dec 2008
9	Define agreed criteria and guidelines for assessing port development priorities, including the definition of acceptable performance criteria for ASEAN network ports.	Senior Transport Officials Meeting (STOM) through the Maritime Transport Working Group (MTWG)	Dec 2008
10	Develop project priorities for bridging performance and capacity gaps in ASEAN network ports		Dec 2010
11	Negotiate funding mechanisms to support the implementation of identified projects in the ports of less developed ASEAN nations	ASEAN Leaders	Dec 2012
12	Ensure that all ASEAN network ports meet defined minimum performance criteria.	Member countries	Dec 2015

No	MEASURES	IMPLEMENTING BODY	TARGET DATE
III. Integration			
13	Formally confirm the principal of open access to the international maritime trade of all ASEAN countries.	Senior Transport Officials Meeting (STOM) through the Maritime Transport Working Group (MTWG)	Dec 2005
14	Provision of the right to ASEAN shipowners or ship's agencies to establish a ship's agency in any member country, and of freedom to select the agent of choice		Dec 2006
15	Grant ships of all ASEAN countries national treatment with respect to the carriage of any cargoes that remain subject to reservations or national preference arrangements (for instance, cargoes carried on behalf of government agencies).		Dec 2006
16	Relax cabotage restrictions to allow ship of all ASEAN nations to carry international cargoes between the port or origin and a transshipment port where these two ports are in the same country.		Dec 2007
17	Allow ASEAN ships primarily engaged in international trade but making a number of port calls in another ASEAN country to carry domestic cargoes between those ports of call.		Dec 2008
18	Allow ships that are registered in ASEAN nations and crewed by ASEAN nationals, and are conducting services wholly within designated growth areas, to carry domestic cargoes of any participating nations between points within the growth area.		Dec 2007
19	Further relax cabotage operations by allowing all ASEAN-flagged ASEAN-crewed vessels to carry dry bulk and general cargo on coastwise ¹ operations on routes wholly within all ASEAN member countries.		Dec 2010
20	Liberalise coastwise movement in liquid bulk cargoes in the manner proposed in 19 above.		Dec 2011
21	Liberalise the carriage of domestic inter-island bulk trades in the way proposed in 19 above.		Dec 2013
22	Liberalise domestic inter-island general cargo trades in the way proposed in 19 above.		Dec 2014
23	Liberalise domestic passenger trades in the way proposed in 19 above.	Dec 2015	

¹ 'Coastwise operations' means shipping operations along a single contiguous coastline: that is, the provision of shipping services on routes where land transport could, at least in principle, provide an alternative to shipping services. These are distinguished from inter-island operations, where geography prohibits the use of land transport.

No	MEASURES	IMPLEMENTING BODY	TARGET DATE
IV. Harmonisation			
24	Develop and apply common rules on acceptable practices in the provision of fiscal support for shipping operations	Senior Transport Officials Meeting (STOM) through the Maritime Transport Working Group (MTWG)	Dec 2007
25	Harmonise ship registration practices		Dec 2009
26	Allow free movement of ASEAN vessels between the registries of ASEAN countries		Dec 2015
27	Develop and implement guidelines for structure of port tariffs to be applied in ASEAN transport network ports.		Dec 2008
28	Complete the harmonization of customs and quarantine procedures	ASEAN Directors General of Customs	Dec 2010
V. Human resources and capacity development			
29	Investigate skill enhancement requirements for ASEAN maritime operators and develop detailed training and development strategy	Senior Transport Officials Meeting (STOM) through the Maritime Transport Working Group (MTWG)	Dec 2006
30	Define training delivery mechanisms and implement training strategy		Dec 2008
31	Establish centres of logistics excellence at selected tertiary institutions within ASEAN.		Dec 2007
32	Develop strategy for enhanced shipboard placements including		Dec 2006
33	Establish regional centres of maritime excellence to provide advanced training in high technology aspects of maritime operations and specialized courses in areas such as port and shipboard security		Dec 2009
34	Implement single labour market for seafarers		Dec 2013