

THE EMPOWERMENT OF THE NATIONAL SHIPPING INDUSTRY

(Presidential Instruction No. 5/2005 dated March 28,2005)

THE PRESIDENT OF THE REPLUBLIC OF INDONESIA,

In the framework of optimizing the implementation of policies on the empowerment of the national shipping industry, it is herewith instructed to:

1. The Coordinating Minister for Economy;
2. The State Minister for Development Planning/Head of the National Development Planning Board;
3. The Minister of Transportation;
4. The Minister of Finance;
5. The Minister of Home Affairs;
6. The Minister of Industry
7. The Minster of Trade;
8. The Minister of Forestry;
9. The Minister of National Education;
10. The Minister of Energy and Mineral Resources;
11. The Minister of Marine and Fishery;
12. The State Minister for State-owned Enterprises;
13. The State Minister for Cooperative and Small and Medium scale Businesses;
14. Governors/Regents/Mayors throughout Indonesia

To observe the following provisions:

FIRST:

To apply the principle of cabotage consequently and formulate policies as well as take necessary measures in accordance with the respective tasks, functions and scopes of authority to empower the national shipping industry as follows:

1. Trade

- a. The domestic inter-port shipping freights shortly after the enforcement of this presidential instruction must be carried by Indonesian-flag ships and operated by national shipping companies.
- b. The import of freights whose procurement and/or transport costs are borne by the State Budget of Revenue and Expenditure (APBN)/Regional Budget of Revenue and Expenditure (APBD) must use ships operated by national shipping companies, by observing continuously the provisions of the law on the procurement of government goods/services;
- c. To encourage partnership by long term transport contracts between owners of goods and national sea-transport service providers.

2. Finance

a. Taxation

- 1) To re-arrange technical procedures for the existing policies to provide taxation facilities for the national shipping industry and ship-building industry in accordance with the taxation general provisions in force;
- 2) To improve taxation policies so as to better support the growth and development of the national shipping and ship-building industries, including the provision of incentives for owners of export freights carried by Indonesian-flag ships and ships operated by national shipping companies;
- 3) To apply firmly penal provision to national shipping companies and ship-building companies already securing incentives but later investing outside their business sector.

b. Financial Institution

- 1) To encourage the national banking industry to participate actively in the funding to develop the national shipping industry;
- 2) To develop non-bank financial institutions specially operating in the financing of the national shipping-industry development;
- 3) To develop funding schemes better encouraging the national fleet development.

c. Insurance

- 1) Every ship owned and/or operated by national shipping company and/or used ship/new ship to be purchased or built in the country or abroad with certain kind, size and limit of age must be insured, minimally "Hull & Machineries";
- 2) Freights/goods and passengers served by national shipping companies operating in the country and abroad must be insured;
- 3) To stipulate policies encouraging national insurance firms operating in the shipping insurance sector to adjust to the standards of international shipping-insurance retention capability.

3. Transportation

a. Sea Transport

- 1) To arrange the operational national sea transport shortly after the enforcement of this and regular routes through, among others, the provision of berthing priority, relief of seaport service tariff and bunker;
- 2) To re-arrange the replacement of ship flag from foreign flag to the Indonesian flag;
- 3) To speed the ratification of the international convention on Maritime Liens and Mortgages

- 1993 and complete the preparation of bill on maritime liens and mortgages;
- 4) To accelerate the ratification of the international convention on the arrest of ship and complete the preparation of a bill on the arrest of ship, adjusted to the national condition;
 - 5) To provide supports for the development of smallholder shipping, among others, funding facilities, enhancement of the quality of ships, human resources, business management as well as the development of seaport facilities and infrastructures for smallholder shipping;
 - 6) To speed up the establishment of a Ship Freight and Space Information Forum (IMRK) so that the freight and space capacity of the existing ships can be ascertained transparently.

b. Seaport

- 1) To re-arrange the operation of seaports in the framework of providing effective and efficient service;
- 2) To re-arrange seaports opened for foreign trade and seaports functioning for cross-border;
- 3) To develop seaport facilities and infrastructures for achieving the optimal service level;
- 4) To develop seaport management so as to separate the functions of regulator and operator gradually and selectively and enable competition of service between terminals in a seaport and between seaports;
- 5) To abolish the imposition of cost of seaport service on activities not having service;
- 6) To re-arrange the system and administrative procedures for serving ships, goods and passengers in the framework of enhancing service at seaports.

4.

- a. as well as cooperative by means of among others:
- 1) developing ship-industry design, research and development centers;
 - 2) developing the standardization and components of ships;
 - 3) development ship raw-material and component industry;
 - 4) providing incentives for national shipping companies building and/or repairing ships in the country and/or procuring ships from other countries by applying a counter-production scheme;

- b. The ships procured by APBN/APBD must be built in the national ship-building industry by observing continuously the provisions of the law on the procurement of government goods/services;
- c. In the case of the funding of the ships as meant in letter a coming from other countries, the building of the ships should use local content maximally and be followed by the transfer of technology;
- d. The maintenance of reparation of the ships financed by APBN/APBD must be done in the national ship-building industry by observing continuously the provisions of the law on the procurement of government goods/services.

5. Energy and Mineral Resource

To provide a guarantee for supplying fuel oil in accordance with the routes and number of sailing days for national shipping companies operating Indonesian-flag ships and undertaking domestic sea transport.

6. Education and Training

- a. To encourage regional governments and the private sector to develop internationally standard maritime-educational and training centers (International Maritime Organization/IMO);
- b. To promote cooperation between educational institutions and users of seaman services in the framework of resulting internationally standard seamen (International Maritime Organization/IMO).

SECOND:

The Coordinating Minister for Economy coordinates the implementation of this presidential instruction and reports periodically to the president.

THIRD:

To implement the presidential instruction in a full sense of responsibility and report the results of the implementation to the President periodically.

The presidential instruction comes into force as from the date of the issuance.

Issued in Jakarta

On March 28, 2005

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

Sgd

Dr. H.SUSILO BAMBANG YUDHOYONO