

Capturing Indonesia's Maritime Logistics Opportunity

Indonesia's Maritime Logistics Panel Discussion
10 December 2015



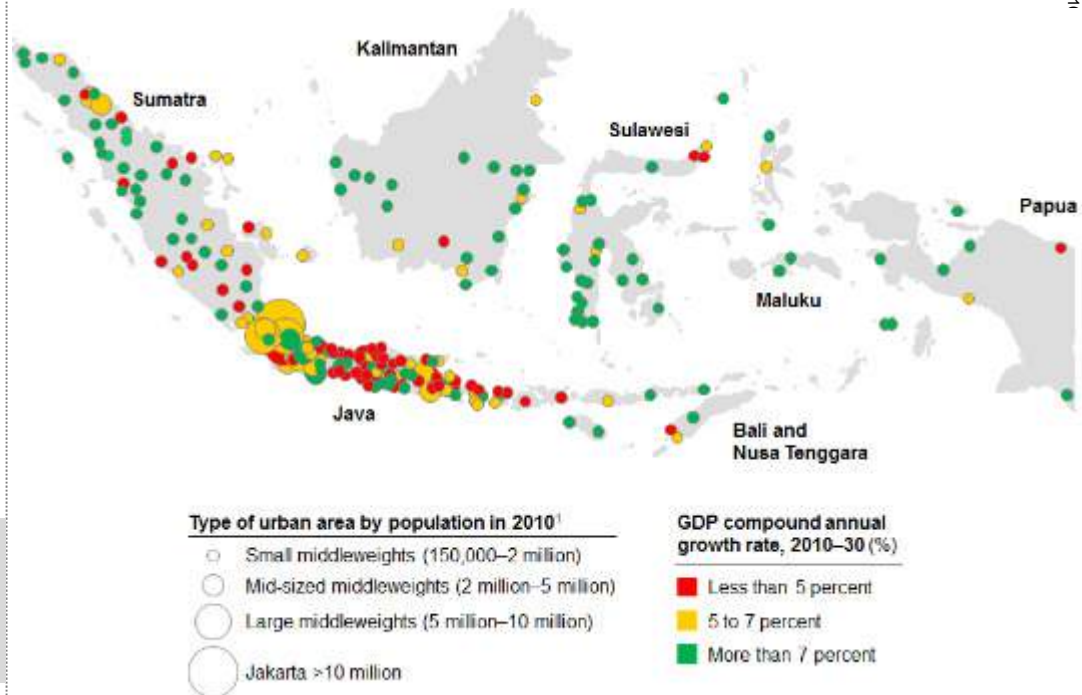
THE CHALLENGE TODAY

Maritime logistics is a key priority for Indonesia to resolve its unique internal challenges and meet its growth aspirations

Indonesia's key challenge stems from its unique archipelagic nature

- More than **13,000** islands and **21,500 km** of inland waterways
- Productivity growth must **exceed by 60%** rate achieved from 2000 to 2010 – logistics costs, at 24.6% GDP, must decrease significantly
- The majority of Indonesia's fastest growing cities are **outside of Java** and are not well-connected

GDP development, 2010–30, is projected to be larger outside Java



Last Modified 12/11

Time

Development of **domestic maritime system** is a key priority to meet the country's growth objectives

THE CHALLENGE TODAY

At the same time Indonesia is facing a clear external call to action, as the ASEAN vision could shift the role of domestic shipping and manufacturing

ASEAN Maritime Transport vision targets 47 ports to improve performance and capacity



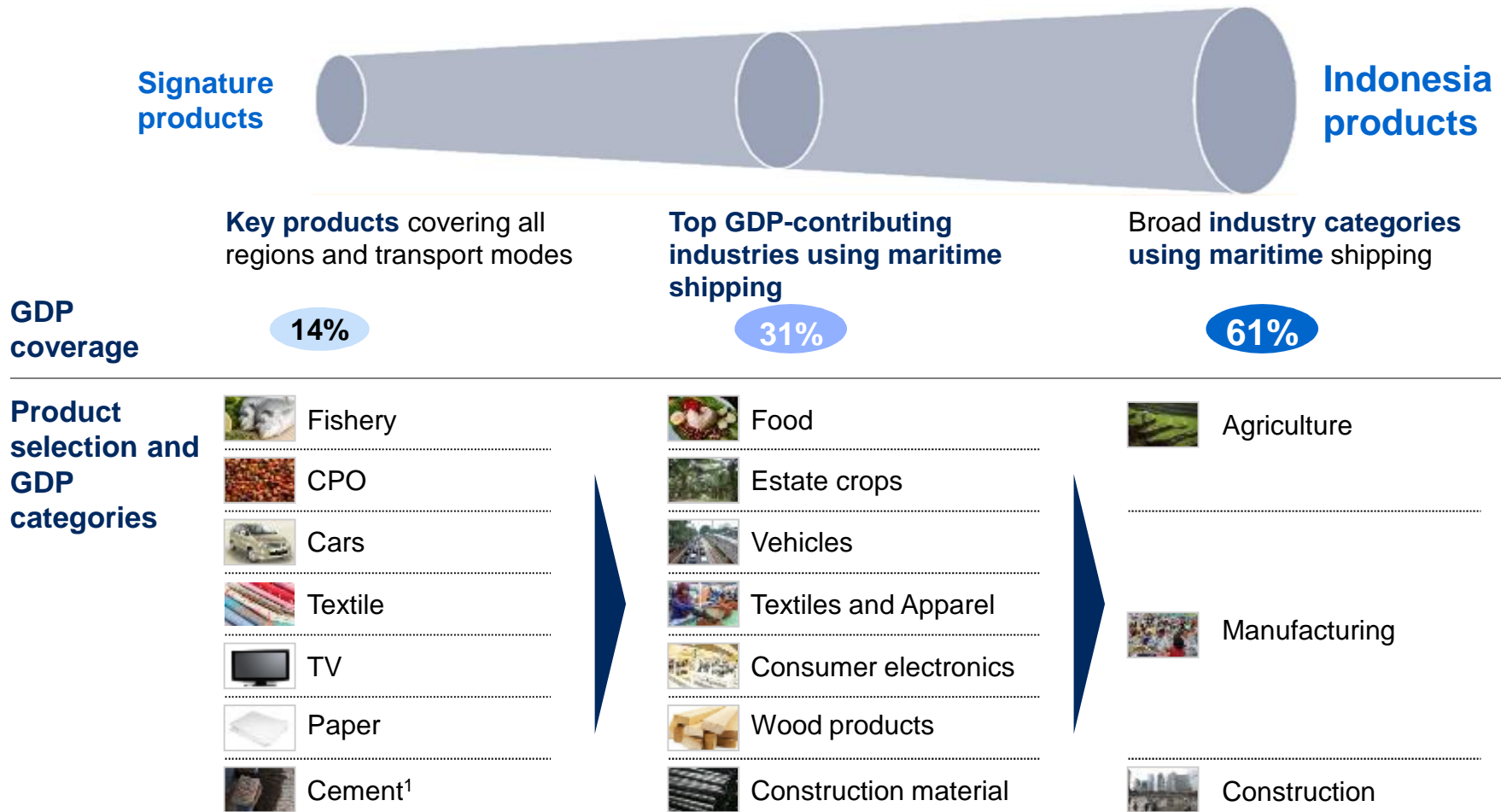
ASEAN single market 2015 set three main objectives to establish efficient and reliable routes in the region

- **Connect mainland and archipelagic Southeast Asia** with efficient and reliable shipping routes
- **Strengthen linkages** with global and regional truck routes and domestic shipping routes
- **No change to cabotage policy**

Designated ports will **further improve international operations**, widening gap with domestic operations and creating potential to impact domestic shipping and manufacturing

APPROACH TO IDENTIFYING THE SPECIFIC CHALLENGES

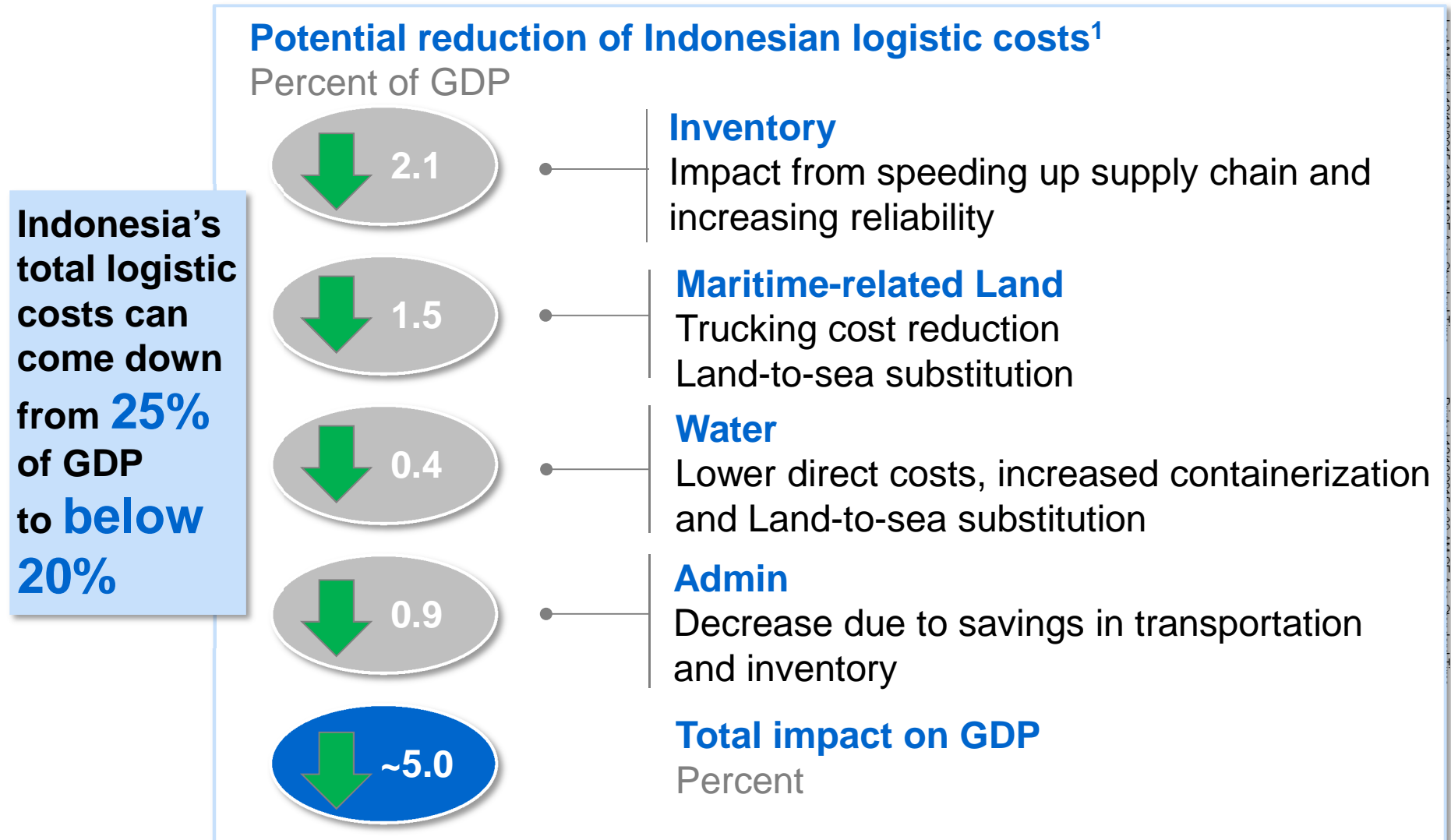
Methodology looked at supply chains flows of key signature products, across regions and modes, to understand challenges at a granular level



1 Scale up to sub-industries based on GDP categories

2 Allocation to manufacturing category of textile, consumer electronics, and wood products based on the weighted average of their GDP contribution

Transforming the Maritime network has the potential to decrease total cost of logistics by ~5% of GDP



¹ Savings assigned to each category based on weighted average of savings contribution to GDP of signature products on an overall GDP impact of 2.26%; Note that Warehousing and administration savings partly allocated to Land and water proportionally; ² Air, Rail, and Services;

This would enable the country to become a Top 10 economy by 2030 and with the population and industries seeing tangible benefits

	From	To
Country growth 	<ul style="list-style-type: none"> Robust growth 2000 to 2010, but slowing down to 5% in 2014 due to lower demand in raw materials Growth centered in Java 	<ul style="list-style-type: none"> Consistently 6-7% GDP growth Top10 economy by 2030 More evenly distributed benefits around the country
Consumers 	<ul style="list-style-type: none"> Higher prices in remote regions – a cup noodles are 2.3 times more expensive in Papua than in Jakarta 	<ul style="list-style-type: none"> Cheaper prices for daily necessities across regions Reliable availability everywhere 
Manufacturers 	<ul style="list-style-type: none"> Disruption of production due to supply chain High distribution costs 	<ul style="list-style-type: none"> Stable and higher production Lower distribution costs due to cheap sea shipping 

Resolving 5 key – mostly soft – issues would enable Indonesia to realize most of the savings in a short time frame

Common symptoms contribute to savings potential across products

- 1 Long **time spent by vessels at ports**, driven by low port productivity
- 2 **High dwelling time**
- 3 High **direct cost of sea transportation** –
- 4 High **direct cost of land transportation** as % of GDP
- 5 Suboptimal **choice of logistics route**

Potential reduction in cost/teu across Indonesia:

48%

However, root causes differ by product – many solutions lie at a granular level across multiple participants

Key steps and observations during import process



1 Pemberitahuan Impor Barang (Import declaration); 2 Surat Persetujuan Pengeluaran Barang (Letter of approval for cargo release) 3 Range between lowest and highest average performance at main, Asean 2015 and secondary ports

Indonesia can transform itself into a leading maritime nation by tackling challenges across four dimensions



THE SOLUTION

Reforms could be enacted in 3 large waves, ensuring continuous momentum and achievement of our collective vision for Indonesia



What Indonesia could look like...

- Dwelling time starts to decrease thanks to full online import process
- Step improvement in port operations thanks to berth window
- Trucking regulation harmonized in pilot areas, reducing transport time
- Major part of savings in logistics costs are captured, yet with reasonable Capex
- Efficient ports are now ready for capacity expansion
- Regulatory environment allows for proper investment
- Expansion of ports goes hand-in-hand with logistics centers to spur 7% GDP growth p.a.
- Very large vessels used where needed to support massive inter-island trade
- Education system provides required talent pool

Priorities to breakthrough delivery going forward

- Define a national goal and cascade national goals **into key reform-specific initiatives**
- **Initiative-level** monitoring, intervention and **de-bottlenecking at more granular level of delivery**
- **Public and private** sector partnership for delivering change
- **Close dialog with end-users** to assess efficiency of reform initiatives
- Collaborative, **cross-agency** planning, intense problem-solving and implementation in **Mini-Labs**



The Possibility...

Indonesia achieves **7% annual GDP growth** on the back of logistical improvements

Indonesia **leads Southeast Asian nations in reducing logistics costs** which were cut significantly - **Maritime logistics reform paved the way** for the overall sector reform, and resulted in significant productivity increase

Local manufacturers see a **“renaissance” of growth** based on the ability to move goods more effectively throughout Indonesia and ASEAN on the back of maritime reform

All areas of **private and public sector work together** to achieve logistical infrastructure transformation

