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

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

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.

SOURCE: ASEAN Strategic Transport Plan 2011-2015, Master plan on ASEAN connectivity
APPRAOCH 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.

Signature products

Indonesia products

**Key products** covering all regions and transport modes

**Top GDP-contributing industries using maritime shipping**

**Broad industry categories using maritime shipping**

<table>
<thead>
<tr>
<th>GDP coverage</th>
<th>14%</th>
<th>31%</th>
<th>61%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Product selection and GDP categories</th>
<th>Fishery</th>
<th>CPO</th>
<th>Cars</th>
<th>Textile</th>
<th>TV</th>
<th>Paper</th>
<th>Cement(^1)</th>
<th>Food</th>
<th>Estate crops</th>
<th>Vehicles</th>
<th>Textiles and Apparel</th>
<th>Consumer electronics</th>
<th>Wood products</th>
<th>Construction material</th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Construction</th>
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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

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

Indonesia’s total logistic costs can come down from 25% of GDP to below 20%

<table>
<thead>
<tr>
<th>Category</th>
<th>Potential Reduction</th>
<th>Percent of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>-2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Maritime-related Land</td>
<td>-1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Water</td>
<td>-0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Admin</td>
<td>-0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Total impact on GDP</td>
<td>~5.0</td>
<td>~5.0</td>
</tr>
</tbody>
</table>

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.

**Country growth**
- Robust growth 2000 to 2010, but **slowing down** to 5% in 2014 due to lower demand in raw materials
- Growth centered in Java

**Consumers**
- Higher prices in remote regions – **a cup noodles are 2.3 times more expensive** in Papua than in Jakarta

**Manufacturers**
- Disruption of production due to supply chain
- High distribution costs

**To**
- Consistently **6-7% GDP growth**
- Top10 economy by 2030
- More **evenly distributed** benefits around the country

- **Cheaper prices** for daily necessities across regions
- **Reliable** availability everywhere

- **Stable and higher production**
- **Lower distribution costs** due to cheap sea shipping

**INDONESIA: THE OPPORTUNITY**
INDONESIA: THE OPPORTUNITY

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

Submit manifest to customs
- Delays in manifest submission may result in document disputes

Acquire permit from related agencies
- Challenge to receive approvals from all agencies on time to submit PIB

Submit import documents (PIB1)
- Delay submission of PIB to keep cargo at CY longer (cheaper than warehouse)

Review PIB and issue permit (SPPB2)
- Systematic downgrade of some raw material, even if the

Move cargo out of port
- Customers have 3 more days to move cargo after SPPB is issued

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
THE SOLUTION

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

- **Port industry**
  - World-class port operations
  - Reduction in dwelling time
  - Investments for dredging or construction of new sea ports
  - Acceleration of implementation of landlord & concession models

- **Shipping industry**
  - Improvement and coordination with ports
  - Investment strategy
  - Improvements in navigation, classification, security, and safety systems

- **Hinterland industries**
  - Hard land infrastructure and connectivity to port
  - Improvement and coordination of supporting industries

- **Cross cutting themes**
  - National regulatory reform
  - Supporting education system expansion

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

**“Capture quick wins”**

**“Make deep change happen”**

**“Prevail, become regional leader”**

**Lighthouse initiatives**: highly visible with low capex, easy implementation, and quick impact

**Execution of all “soft” reforms**

**Long-term reforms** including major infrastructure projects needed to support Indonesia’s maritime network

**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