# High shipping costs in Indonesia

## – *Is it getting better?*

Presentation

Roland Berger
Strategy Consultants

Jakarta, June 2015

# Agenda today

- Introducing our ports practice
- Indonesia's shipping challenges
- Developments in the port sector
- Developments in the domestic shipping sector
- How to reduce shipping costs
- What can private investors do

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# Roland Berger is a leading global strategy firm with successful operations in all major international markets

## Our global presence

50 offices in 36 countries, with approx. 2,400 employees

Over 220 partners with specific expertise organized in 14 competence centers

Serving over 1,000 international clients

## Clients

75% repeat clients

30% of top 1,000 global companies

40% of Europe's leading companies


1) By revenues in the strategy consulting market, based on internal and available public reports

Source: Roland Berger Strategy Consultants

# Roland Berger was a first-mover into Asia and has been active in the region for over 25 years

## Roland Berger's presence in Asia Pacific


■ Office ● Project Office

### Roland Berger Position

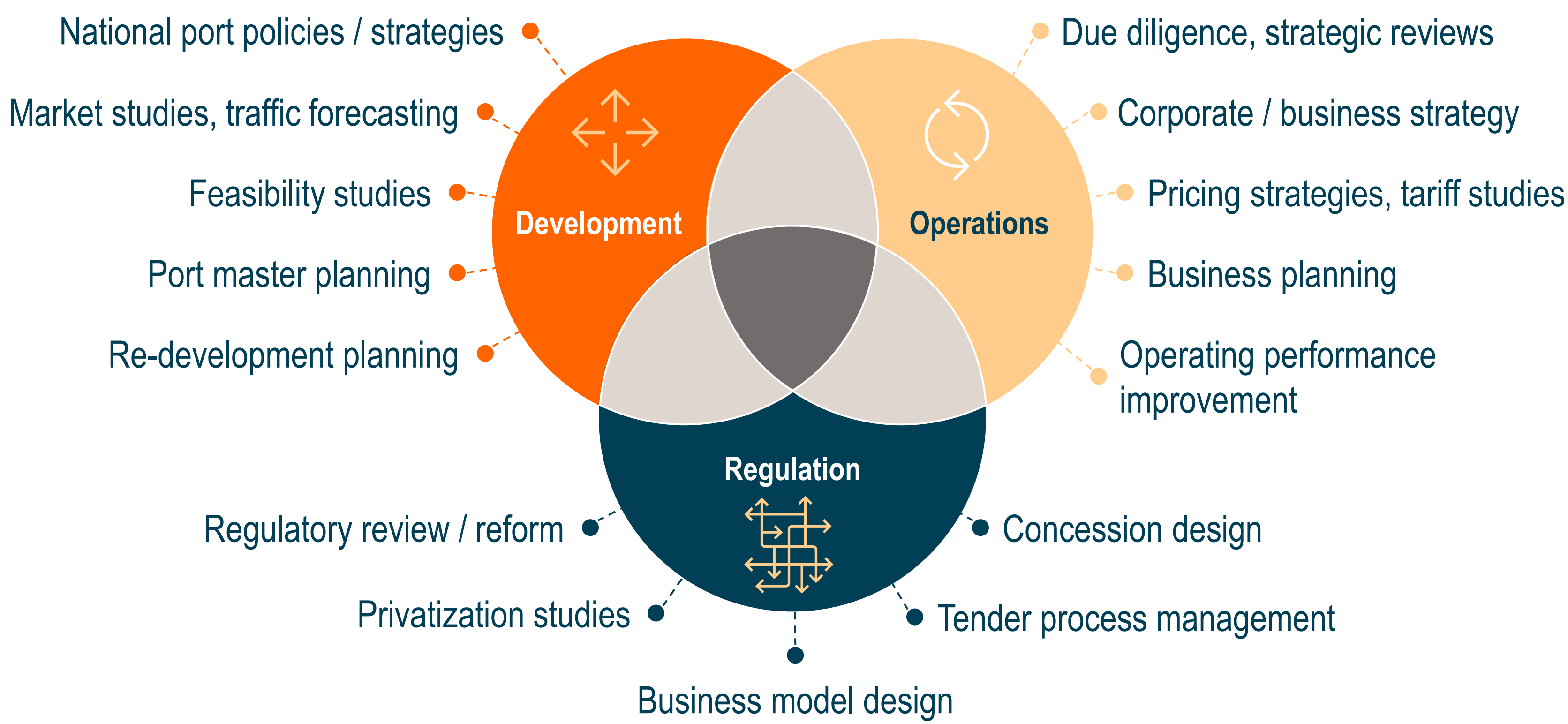
> **Asia-Pacific** regional presence spans over 25 years: Today we have a team of over **600 consultants** in Greater China, India, Japan, Korea and Southeast Asia

> **Southeast Asia** managed as an integrated region by a team of 10 partners/principals and 70 consulting staff spanning 6 locations (Singapore, Kuala Lumpur, Jakarta, Nay Pyi Taw, Yangon and Bangkok)

Source: Roland Berger Strategy Consultants

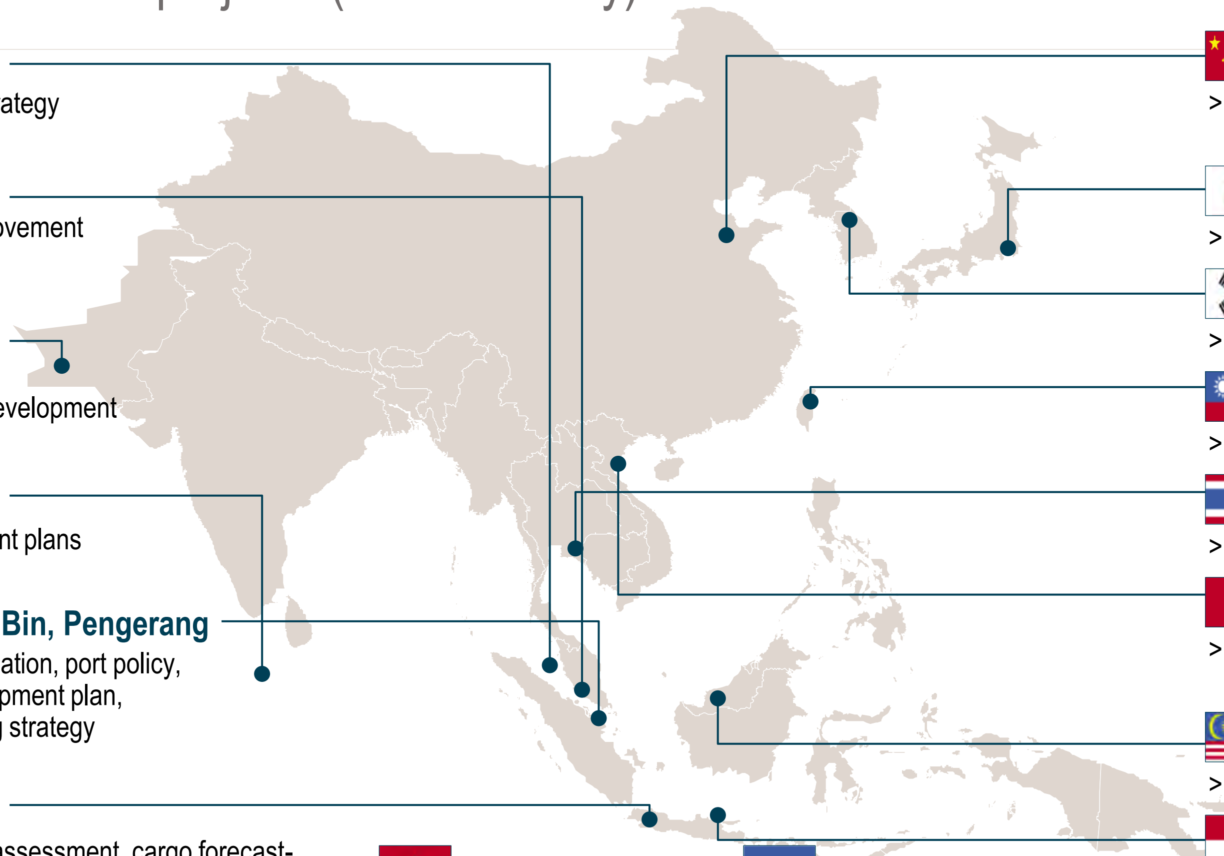
# Our global ports practice covers the various key aspects of port development

## Focus areas of ports practice



# Our team has successfully completed a large number of port projects in Asia… and beyond

## Credentials – Port projects (selection only)



**Penang**
> Port turnaround strategy

**Klang**
> Performance improvement strategies

**Gwadar**
> Master plan and development strategy

**Maldives**
> Port re-development plans

**Johor, Tg. Bin, Pengerang**
> Business rationalization, port policy, strategic re-development plan, cargo warehousing strategy

**Tg. Priok**
> Container market assessment, cargo forecasting feasibility studies, operations improvement
> Container forecast breakdown by commodity and by region

**Weifang**
> Market study,, technical review and master planning

**Tokyo**
> Container port market study

**Busan**
> Financing strategy

**Kaoshiung**
> Port development plan

**Laem Chabang**
> Commercial due diligence

**Haiphong**
> Port and marine services market assessment

**Tg. Manis, Samalaju**
> Port development master plans

**Tg. Perak**
> Container market study

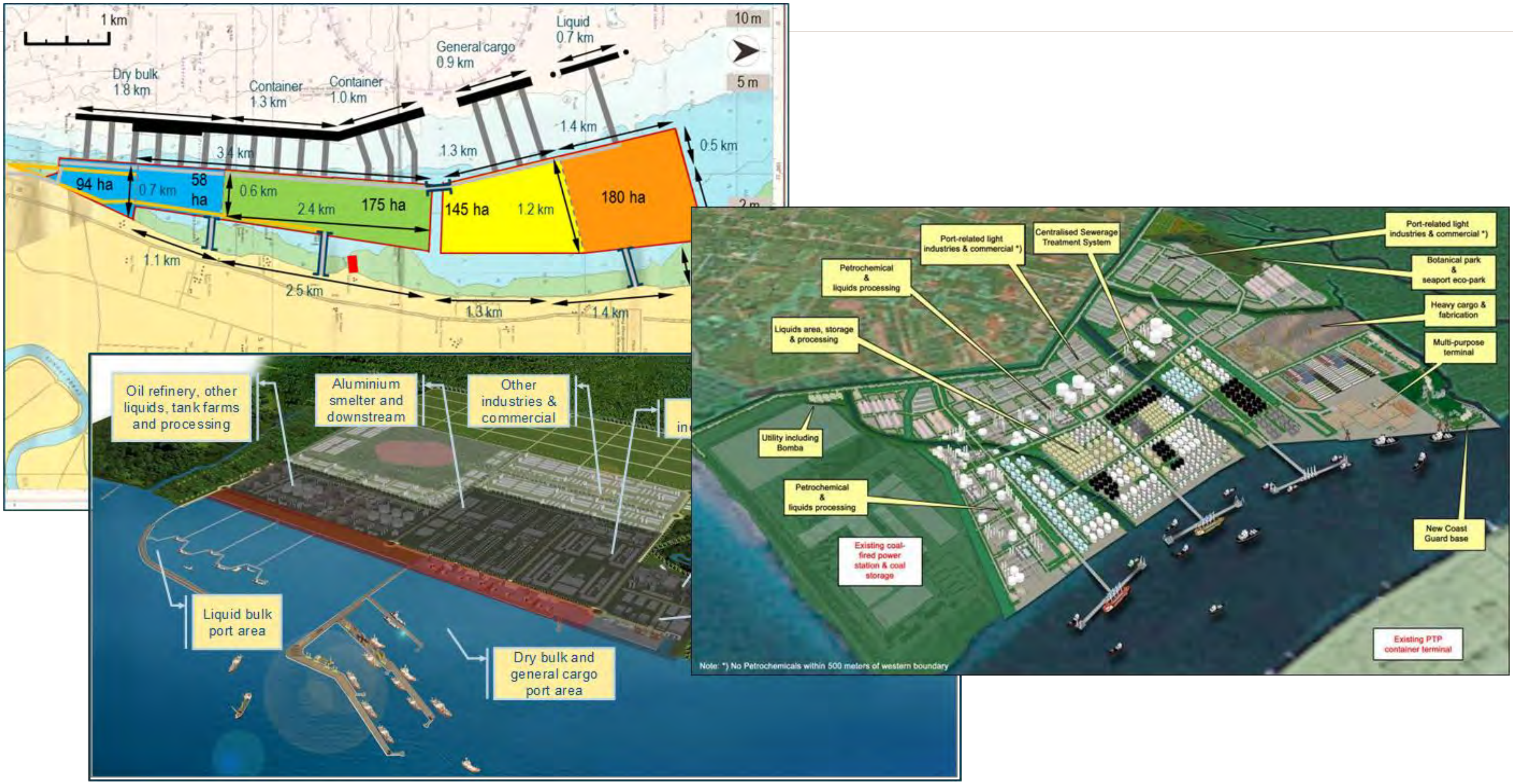
Outside Asia

**Casablanca**
> Business plan review

**Estonia**
> Market assessment study

Source: Roland Berger

# We have supported numerous ports in defining their master plans – Samples



# Indonesia's shipping challenges

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# Domestic shipping costs are very high, especially in the Eastern part of the country

## Route-to-market challenges


> Shipping a container from Shanghai is cheaper than shipping one from Jakarta to Banjar Masin … not to mention Jayapura

**Root causes:**

- **small volumes**
- **no/small return cargos**
- **shipping network eco-system**
- **high port charges**
- **red tape**
- **port infra limitations**
- **road connections**
- **road design**

Source: World Bank, Roland Berger

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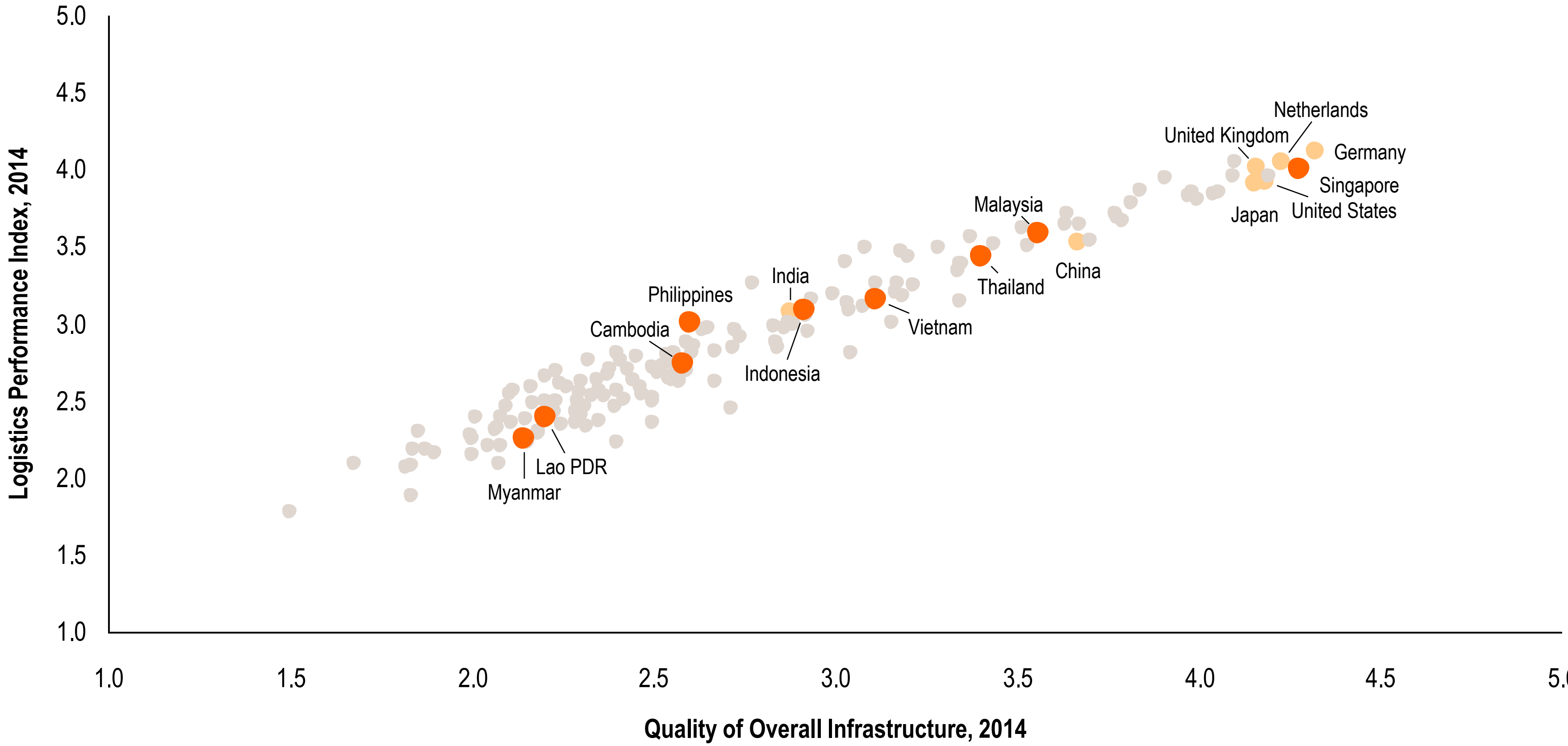
# Logistics performance in ASEAN trails behind more developed economies as it correlates to the poor quality of overall infrastructure

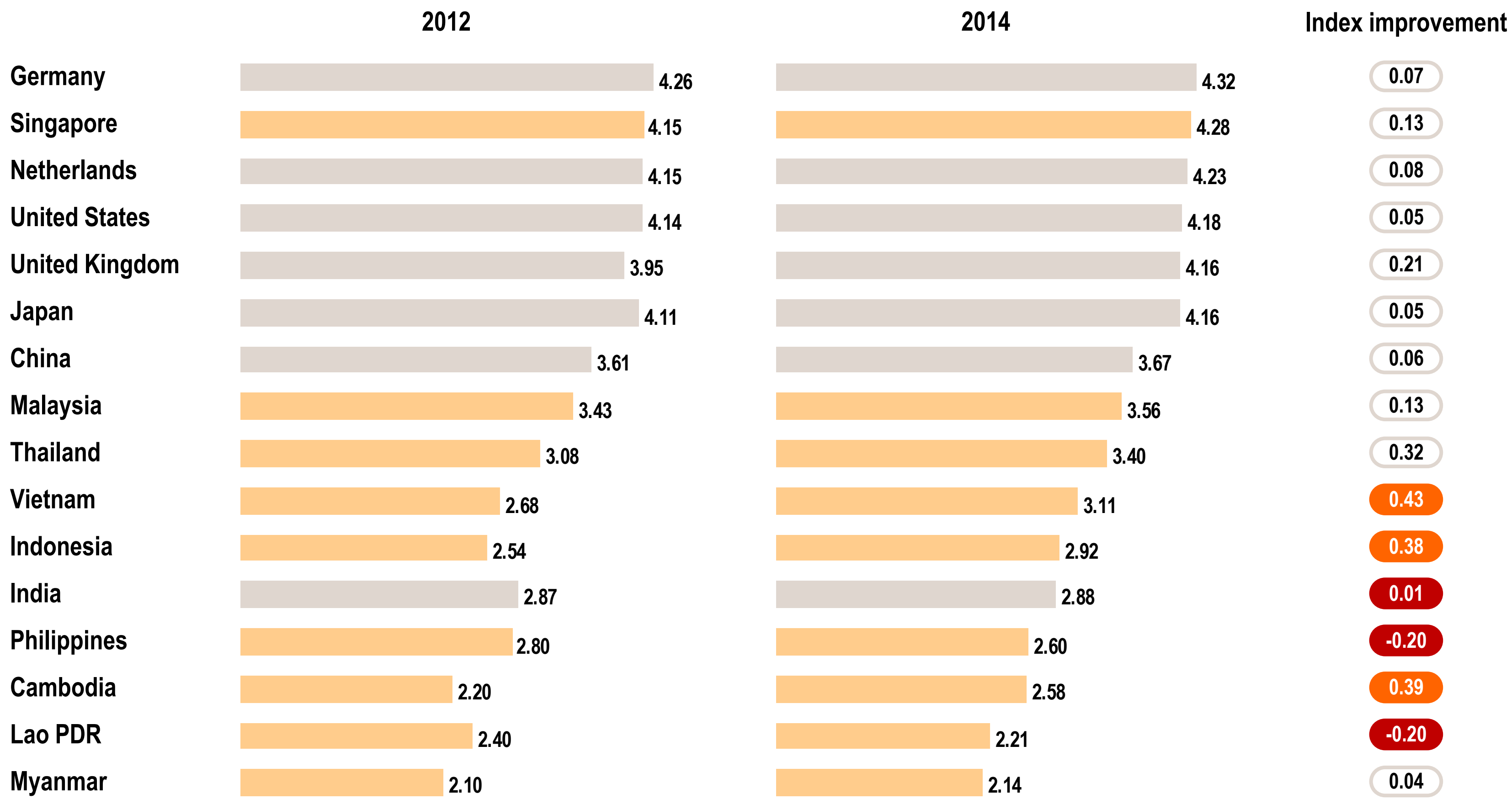
## Logistics performance and infrastructure assessment




Source: World Bank

# Infrastructure remains a major hurdle for SEA despite efforts at both the national and regional level to improve quality and connectivity

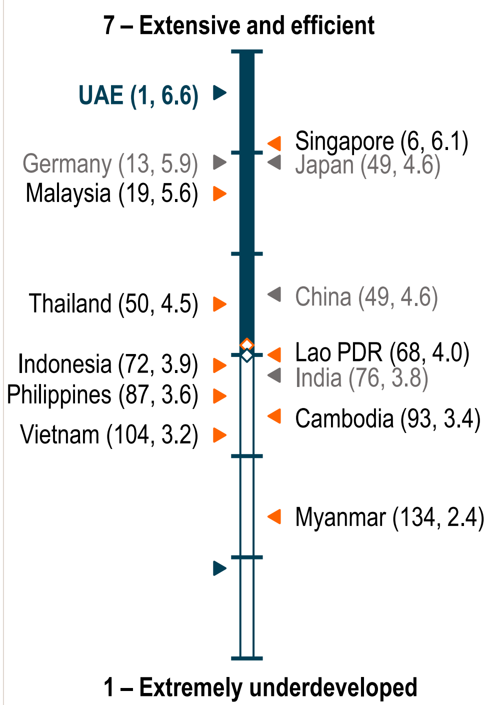
## Overall infrastructure assessment index, [ 5 = High, 1 = Low ]



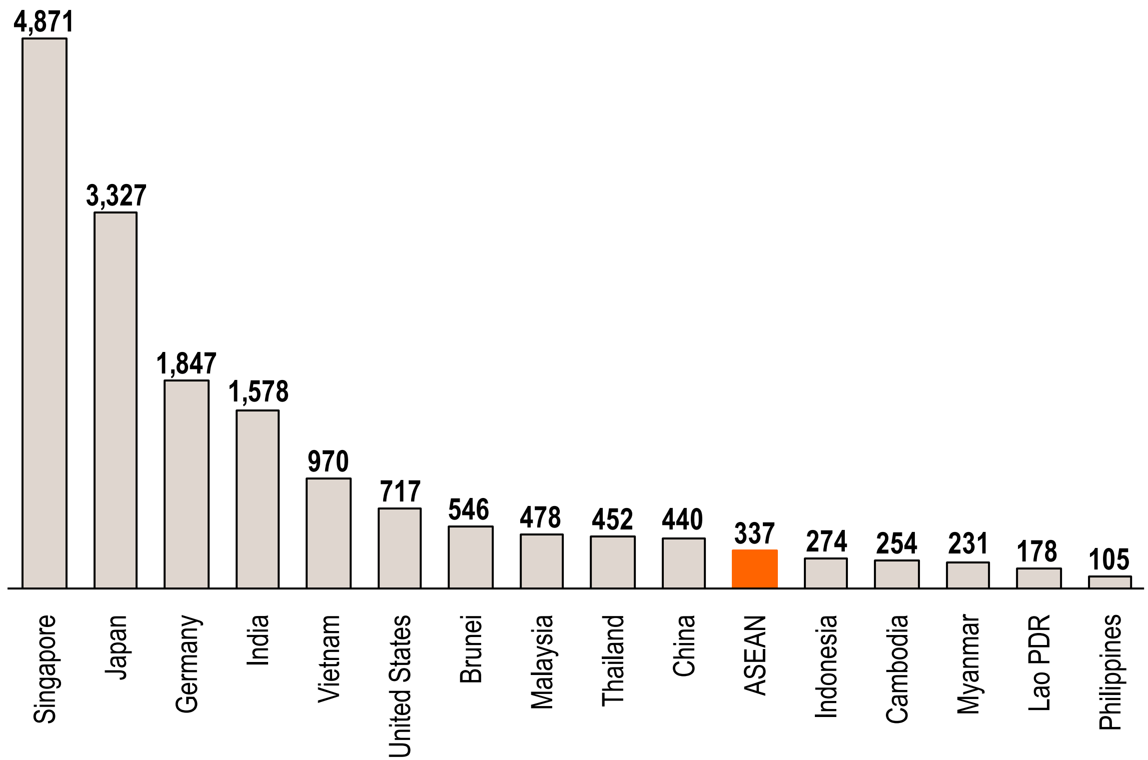

Source: World Bank

# Road networks form the backbone of development. Indonesia (like most of ASEAN) has a long way to go to catch up

**Quality of roads (rank, value)**




**Road network density, 2011 (km/ 1,000 sq. km)**




Best and worst countries | non-SEA countries | SEA countries | World[1] average | SEA average

1) Information was collected from 144 countries worldwide.

Source: World Economic Forum, World Bank, ASEAN Secretariat

# Also, apart from a massive road capacity shortages, many areas have in-adequate drainage and flood control infrastructure

## Selected issues

**Automotive**

> "Jan 2014 Astra 2W sales decreased by 10.72% YoY mainly caused by **logistic issues in distributing units to flood areas** in Java as well as **infrastructure problems in delivering units to Kalimantan and Sulawesi**." *Sales Division Head of Astra*

**Consumer goods**

> "Food producers have decided on raising F&B prices up to 5% due to **infrastructure problems, which caused higher distribution cost**." *The chairman of Indonesian Employers' Association*

> Charoen Pokphand aims "to **broaden its distribution network across the country and to tap regions outside of Java** where there is an increasing demand for poultry" *Charoen Pokphand BOD 2012 report*

**Retail**

> "Goods delivery to Carrefour outlets in Java is **hampered by flooding** surrounding access to Pantura. The most affected is the distribution from suppliers to outlets in Semarang, Surabaya and Jember." *Head of External Communication Carrefour Indonesia*

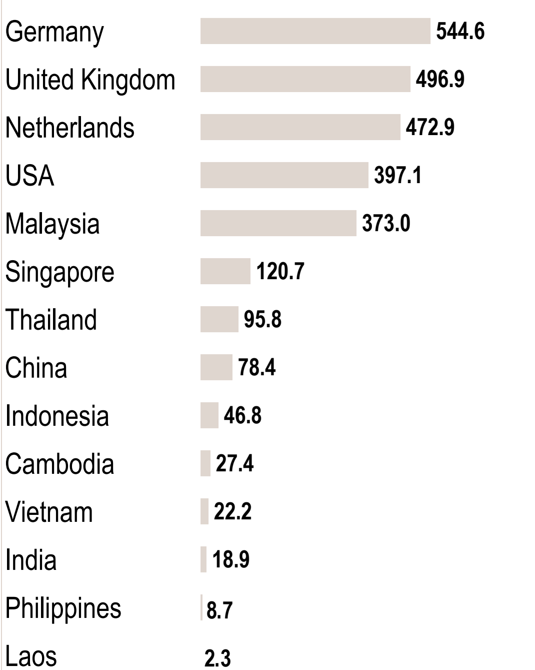
> Alfamart faces "a **long lead time for delivery of goods** due to non stream-lined processes" *Case study by UMM Institutional Repository*

Source: Press search, Charoen Pokphand Indonesia annual report

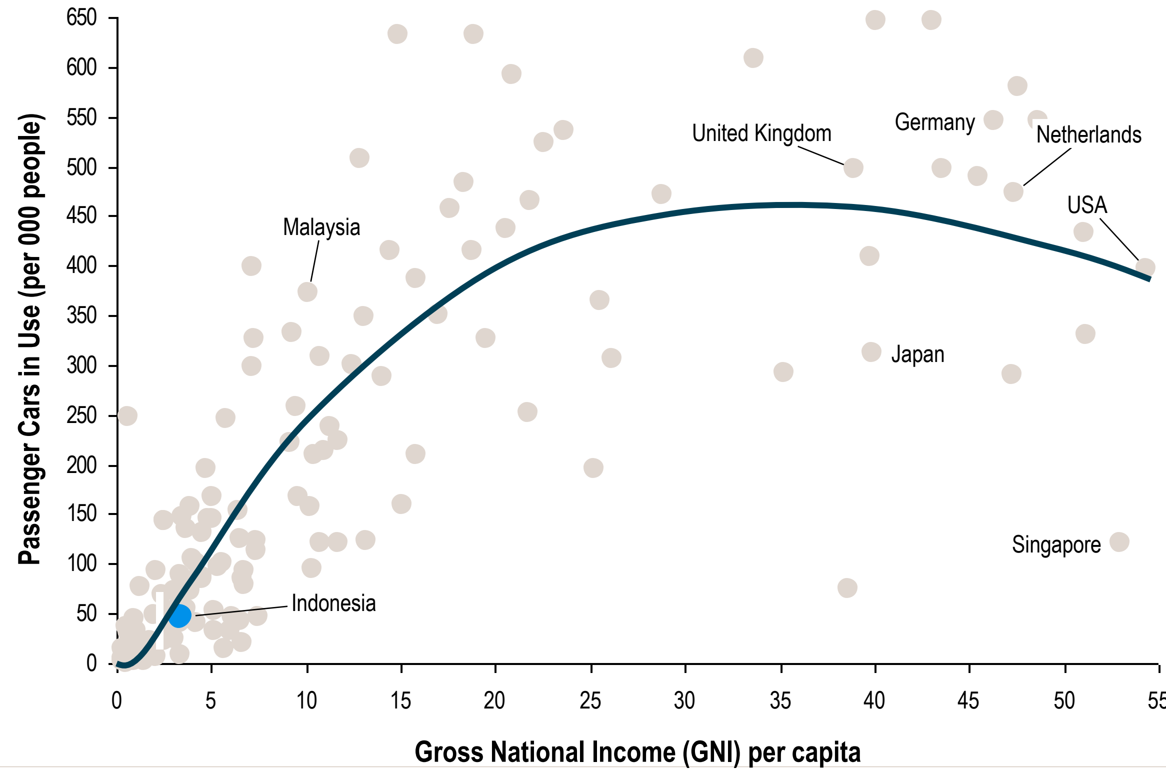
# The immanent boom in car market expansion requires a massive expansion of the road network around the country

## Indonesia – car boom is coming

**Passenger car penetration rate, 2013 [units / 1000 people]**



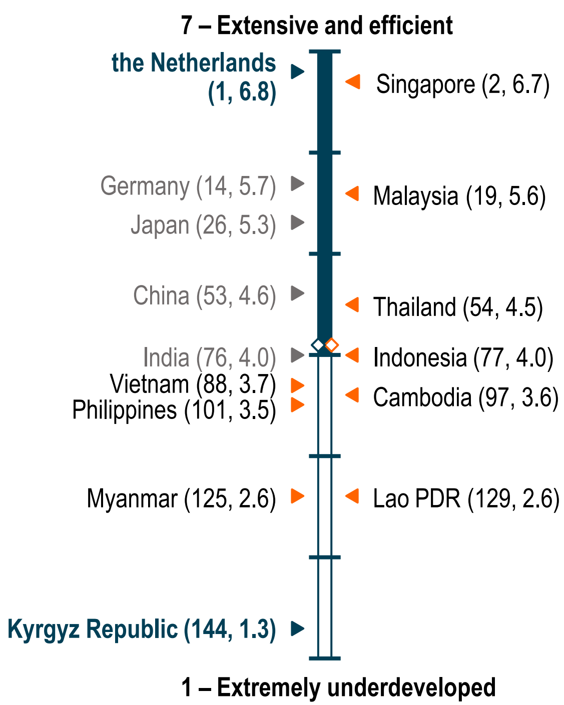

**Car penetration growth correlation**



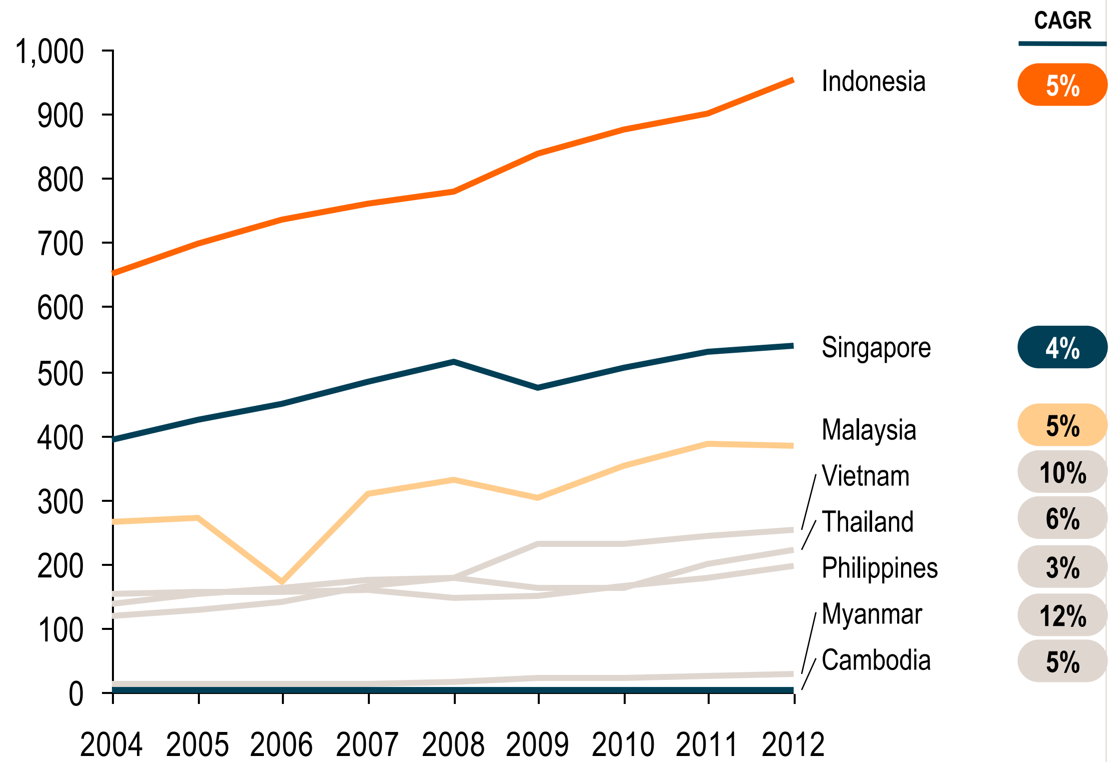

Source: World Bank, ASEAN Secretariat, Euromonitor

# ASEAN's background as a trade-focused region is reflected in growth of port throughput though quality of port infra remains a concern

**Quality of ports[1] (rank, value)**




**Port throughput, 2004 – 2012 (m tons)**



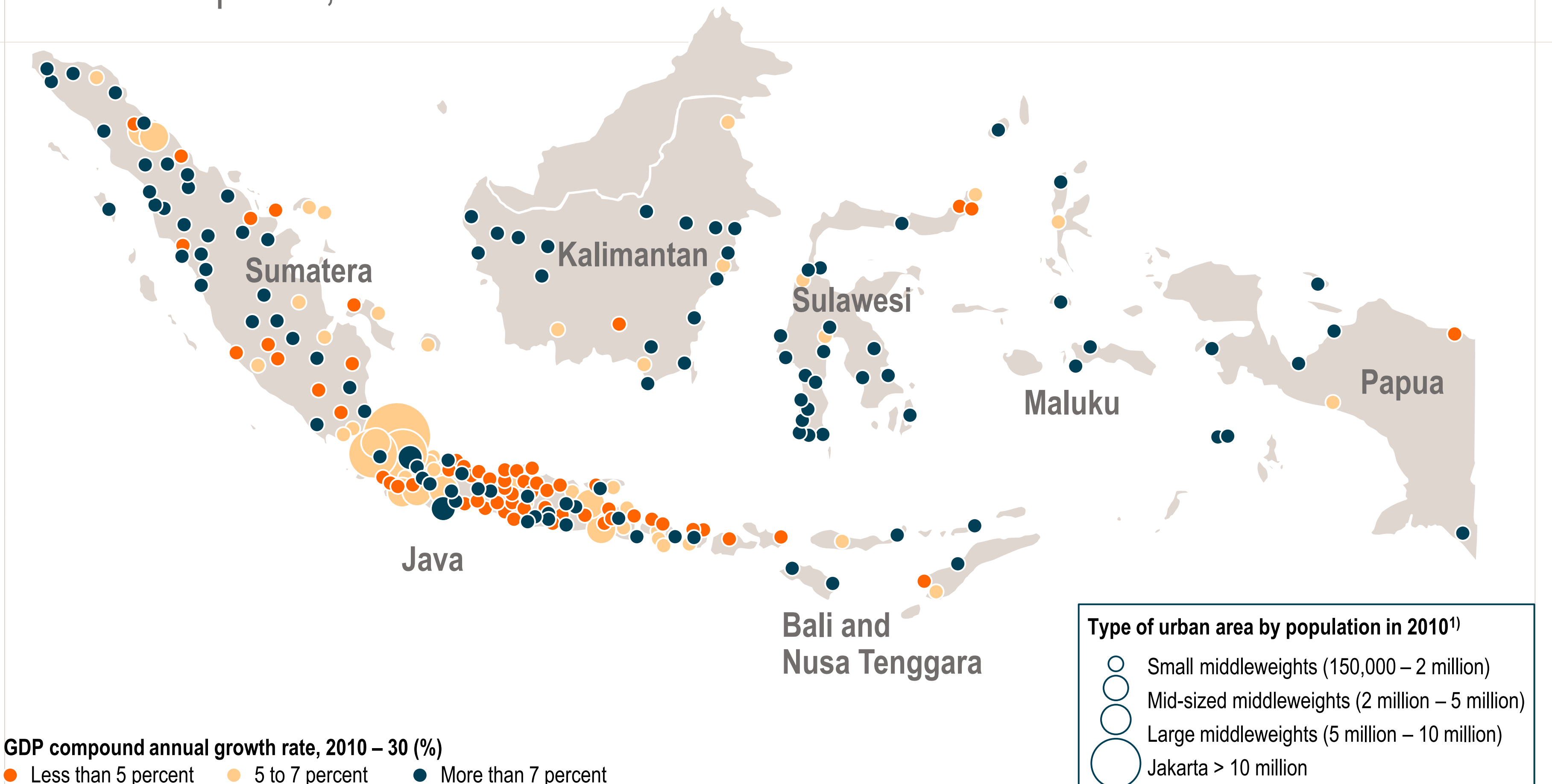

Best and worst countries | non-SEA countries | SEA countries | World[1] average | SEA average

1) Information was collected from 144 countries worldwide. Data for Brunei was unavailable 2) Data for 2012 is unavailable

Source: World Economic Forum, ASEAN Stats Database

# The majority of Indonesia's fastest growing cities is located OUTSIDE Java - Improving distribution and shipping is imperative

## GDP development, 2010 - 2013



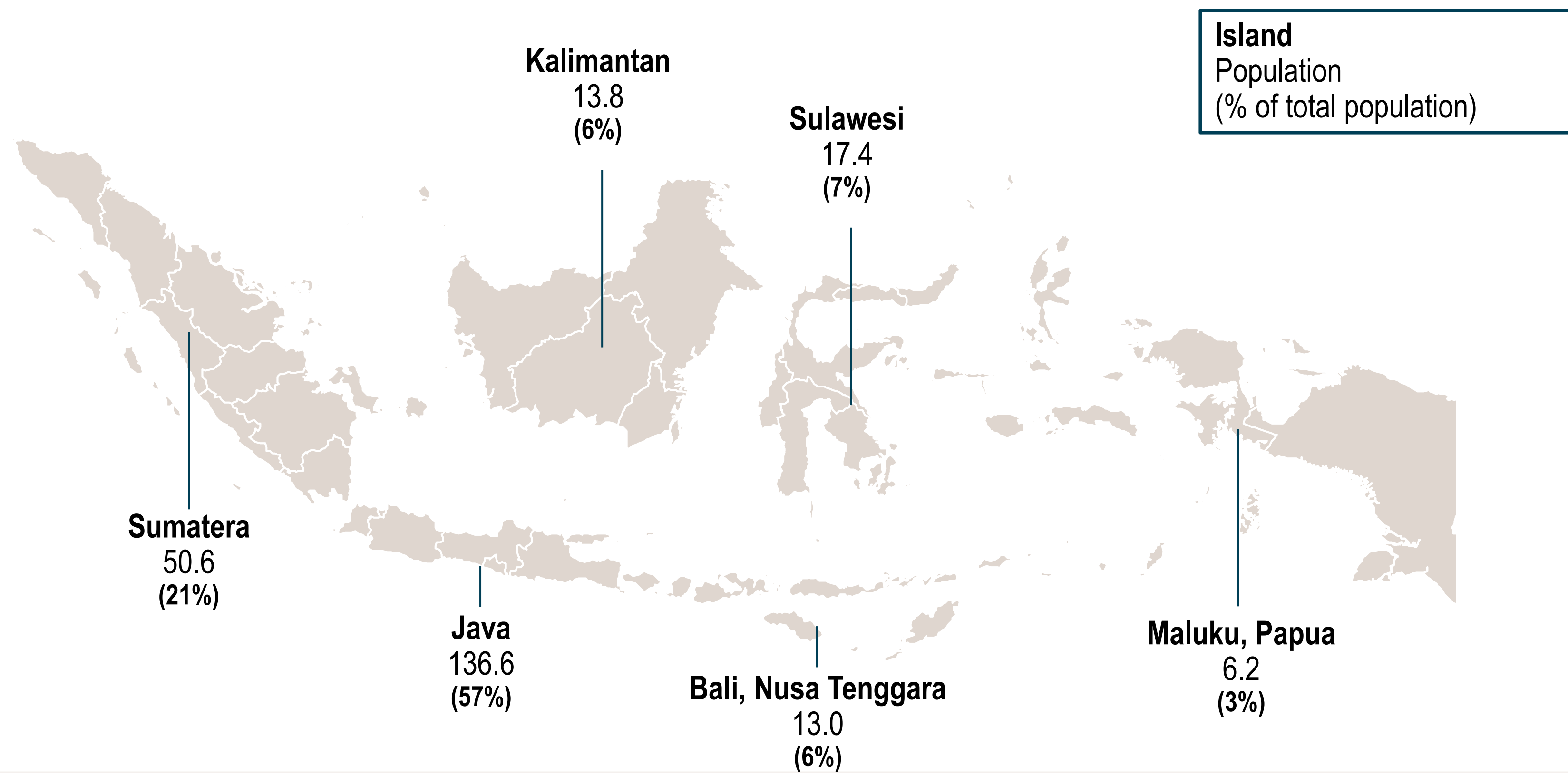

1) Urban areas are aggregated areas consisting of cities (kota) and districts (kapupaten) rather than specific city jurisdictions

Source: 2010 Population Census, Indonesia's Central Bureau of Statistics; Samudera; Roland Berger

# Though growth rates are now generally higher, markets in the "outer" regions are relatively small compared to Java …

## Route-to-market challenges (1/2)

**Population spread in Indonesia** [m people]

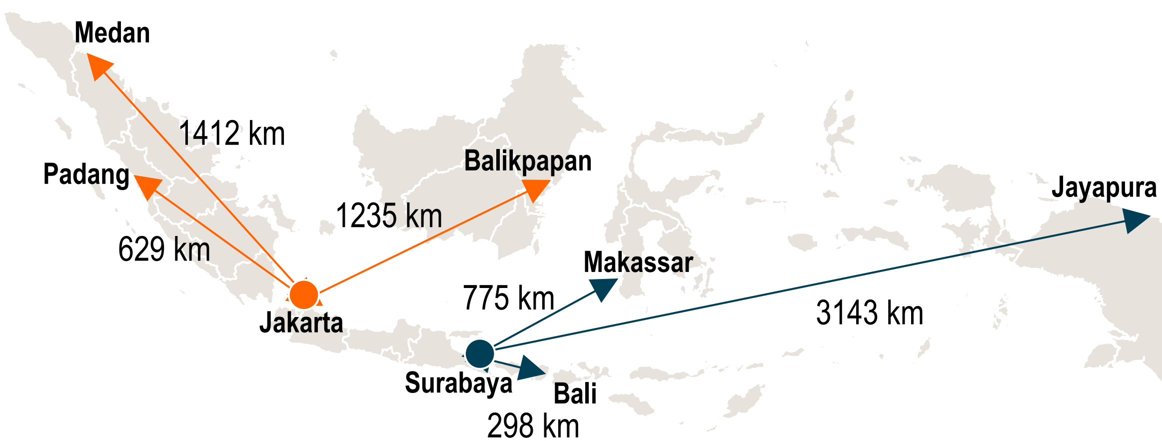



Source: BPS, Roland Berger

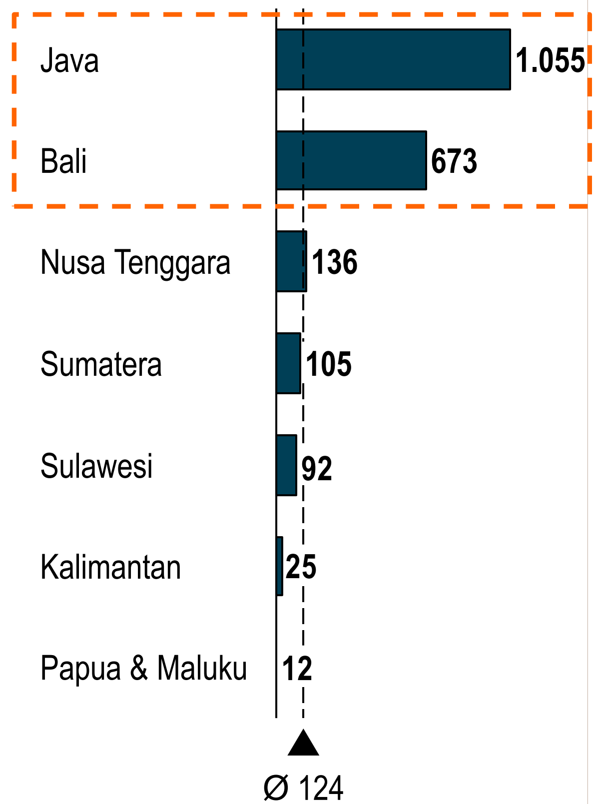
# … while population densities are mostly low and shipping distances are mostly long…

## Route-to-market challenges (2/2)

### Geographical distance per major cities (km)




### Population density (per km²)




Source: BPS

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# In-efficiencies in Indonesia's maritime industry also contribute to high inter-island logistics costs

| | |
|---|---|
| **Port infrastructure & equipment** | > Lack of proper port equipment and facilities, resulting in long ship turn-around times<br>– Long waiting times for ships prior to berthing<br>– Congestion, overload of port facilities in some cases<br>– Under-utilization in others<br>> Many ports have design constraints:<br>– Insufficient draft along berths<br>– In-efficient of in-adequate handling equipment |
| **Customs & regulation** | > Port rates are generally very high<br>> Illegal fees/rates are common and often high<br>> Stevedoring rates are generally very high as well |
| **Vessels** | > Many vessels are too small to be economical<br>> Large part of domestic fleet is still outdated |
| **Shipbuilding** | > Domestic shipbuilding companies often lack capability to develop modern vessels<br>> Lack of financial support for shipbuilding industry? |
| **Human Resources** | > Domestic shipping companies face shortage of qualified mariners<br>– Sharp growth of domestic fleet, causing shortages<br>– Salaries offered by foreign shipping companies are much higher |

Source: Press Search

# Developments in the port sector

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# The Government has taken steps to improve port infrastructure via new port & shipping laws that has sparked private sector investment

## Evolution of port sector regulations

**1960**
Eight National Port Companies (NPC) for port management and administration

**1964**
Port Authorities to handle operational matters and NPCs to handle commercial

**1969**
Government Regulation No. 1: Port Management Boards (PMB) to manage public ports

**1983**
PMBs were restructured into
> Public Port Corporations (PELINDO) I–IV for commercial ports
> Directorate General of Sea Transportation for non-commercial ports

**1992**
Categorisation of general and special ports:
> PELINDO - ~70 commercial ports
> UPTs/ Regional Administrations – small ports
> Owners – special ports

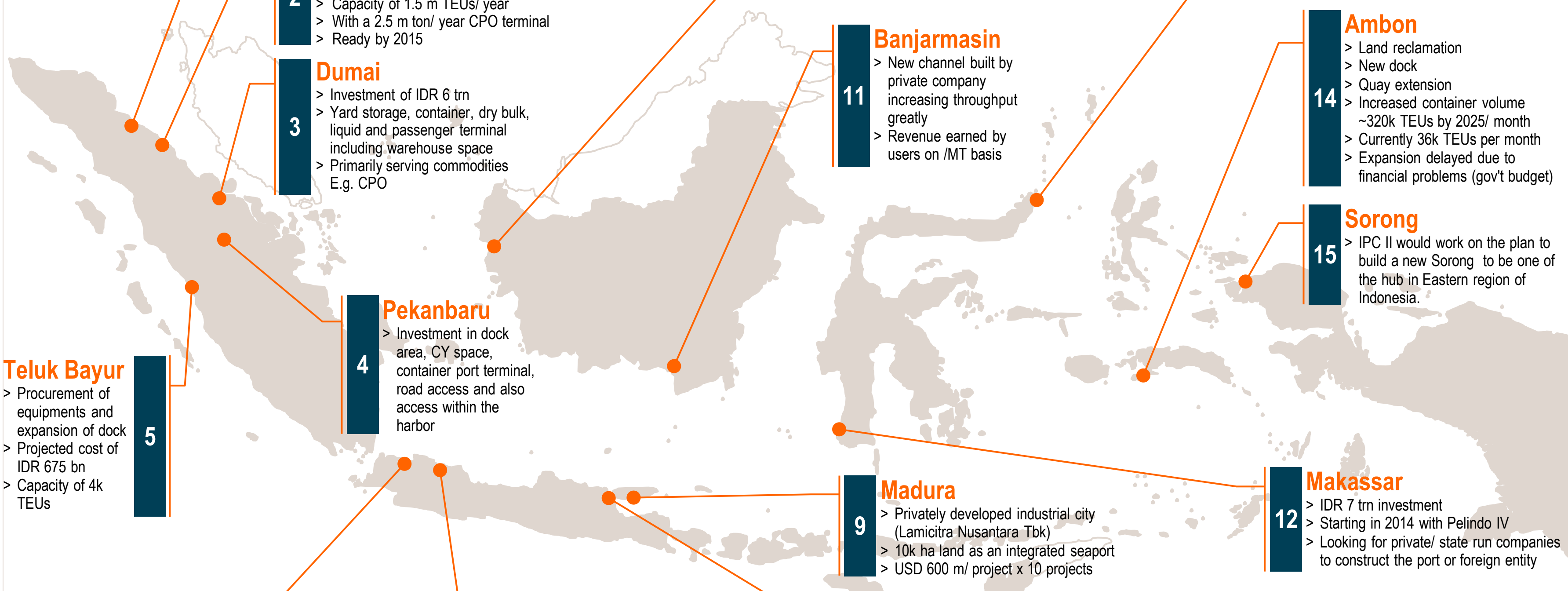
**2008**
Shipping and Port Act No. 17: PELINDO removed as regulator only to act as operator setting tariffs freely, subject to local port authorities' approval

**2009**
> National and Local Port Master Plans,
> Port/ terminal development & operational approvals
> Permits and tariffs
> Foreign-trading ports promotion
> Port information systems

Port sector "privatization"

Source: Roland Berger

# On the bright side, following new regulations, capital investment to further develop and expand the port industry has rapidly increased



**1 Belawan**
> IDR 3 trn investment
> Dock and equipment addition being done urgently
> Additional CY space, to be fully ready by 2015

**2 Kuala Tanjung**
> IDR 6.5 trn investment
> Capacity of 1.5 m TEUs/ year
> With a 2.5 m ton/ year CPO terminal
> Ready by 2015

**3 Dumai**
> Investment of IDR 6 trn
> Yard storage, container, dry bulk, liquid and passenger terminal including warehouse space
> Primarily serving commodities E.g. CPO

**4 Pekanbaru**
> Investment in dock area, CY space, container port terminal, road access and also access within the harbor

**5 Teluk Bayur**
> Procurement of equipments and expansion of dock
> Projected cost of IDR 675 bn
> Capacity of 4k TEUs

**6 Tanjung priok**
> Development of new Priok Port in North Kalibaru adding an additional capacity of 9 m TEUs by 2023

**7 Cilamaya**
> Proposed investment of USD 1.03 bn
> Capacity of 10 m TEUs
> Operators still to be chosen
> Scheduled completion in 2019

**8 Gresik**
> Increase the general cargo, liquid bulk, channel and basin over two stages
> Scheduled final completion is 2014
> IPC III to jointly build an industrial estate and deep water port with AKR of Gresik

**9 Madura**
> Privately developed industrial city (Lamicitra Nusantara Tbk)
> 10k ha land as an integrated seaport
> USD 600 m/ project x 10 projects

**10 Pontianak**
> The proposed port would be able to process up to 3 million TEU pa as well as 15 million tonnes of bulk cargo and over 20 million tonnes of liquids

**11 Banjarmasin**
> New channel built by private company increasing throughput greatly
> Revenue earned by users on /MT basis

**12 Makassar**
> IDR 7 trn investment
> Starting in 2014 with Pelindo IV
> Looking for private/ state run companies to construct the port or foreign entity

**13 Bitung**
> National strategic port under country Masterplan (MP3EI)
> Incl. 500 ha industrial zone
> Road works to port is IDR 2 trn
> Would increase regions GDP to IDR 50 trn by 2025

**14 Ambon**
> Land reclamation
> New dock
> Quay extension
> Increased container volume ~320k TEUs by 2025/ month
> Currently 36k TEUs per month
> Expansion delayed due to financial problems (gov't budget)

**15 Sorong**
> IPC II would work on the plan to build a new Sorong to be one of the hub in Eastern region of Indonesia.

Source: Roland Berger, July 2014

# The new legislation is expected to have a positive impact on the maritime sector – though new concerns have emerged

## Impacts of changes in legislation

Widespread expansion of development across the archipelago through:

- > **Competition** in the development and operation of ports thus breaking state monopoly
- > Improvement in inter-island transport **connectivity**
- > Some **reduction** in transport costs

### Concerns

**Lack of coordination** between different agencies within the port sector

**Slow yielding projects** – Port projects take significant amount of investment and long time to realize returns

New Port Authorities staff have **poor expertise in port sectors.**

The **overlap and ambiguity** over the role of new Port Authorities versus Operators (especially the Pelindos)

**Multiple modes of implementation of the law**

**Lack of clear master plan** for the country's port sector

Source: Roland Berger

# The new government has last year announced a major new capex program for 24 priority ports, to be spent within the next 5 years

## 24 priority ports, including 2 new / additional gateways


Source: SEAISI; Indonesian Statistics Body; Roland Berger analysis

# Planned investments in the 24 strategic ports are part of a bigger short term investment program for the maritime sector

## Maritime sector program of new government

| Programs | Value (trillion rupiah) | Notes |
|---|---|---|
| **24 Strategic ports** | 243.7 | Including dredging, container terminal development, etc |
| **Short sea shipping** | 7.5 | Pelabuhan Sumur, Bojonegoro, Kenal, Pacitan, Cirebon |
| **General cargo and bulk facilities** | 40.6 | National ports |
| **Non-commercial port development** | 198.1 | 1,481 ports |
| **Other commercial port development** | 41.5 | 83 ports |
| **Multimodal connectivity of ports** | 50 | Access roads, port railways, coastal railways, etc |
| **Shipyard industry revitalization** | 10.8 | 12 shipyards |
| **Ships for the next five years** | 101.7 | Container vessels, bulk carriers, tugs & barges, tankers, people's ships |
| **Patrol boats** | 6.048 | Patrol boats from class IA to V |
| **Total** | **700,000** 1) | |

1) Financing can come from private sector and state-owned enterprises

# Domestic shipping sector

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# In addition, the government has announced a number of other financial incentives for the shipping sector

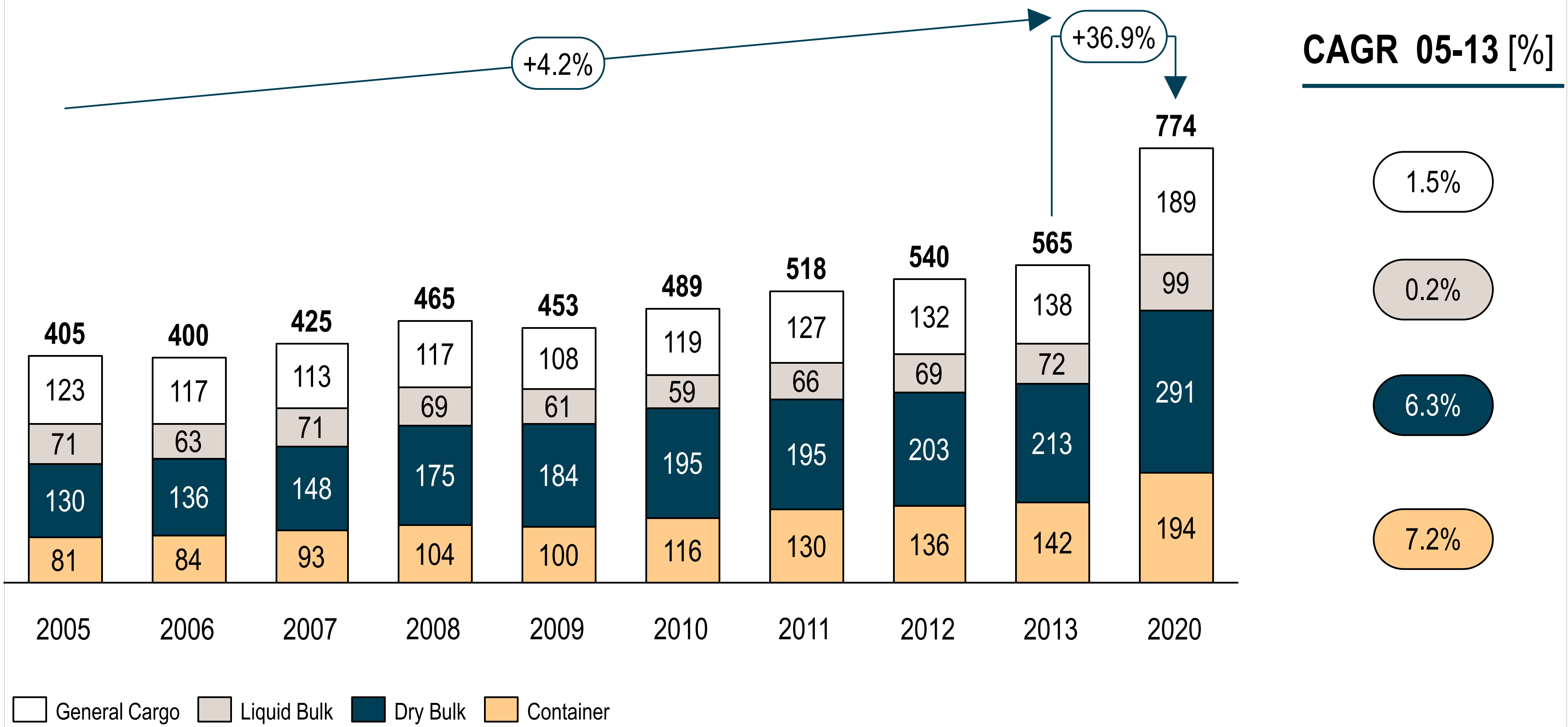
## Shipping sector incentives

1. Soft loan facility for national procurement financing through special allocation fund for the procurement of vessels
2. Reviewing the regulations for free import duties, value added tax, income tax for shipyard industries and other supporting industries
3. More flexible rulings on bank guarantees in shipping
4. Reduce shipbuilding costs by reviewing Ministerial Decree No. 7/ 2013 on the classification of Indonesian-flagged vessels
5. Up to 40% increase local content provisions in shipping industry for new vessels

**Final objective: Reduce national logistics costs from 23.5 % of GDP to 19.2 % of GDP**

# The total tonnage handled by ports has experienced annual growth of 4.2% to reach 565 m MT in 2013 (IPC's only)

## Port throughput evolution in Indonesia [m MT]

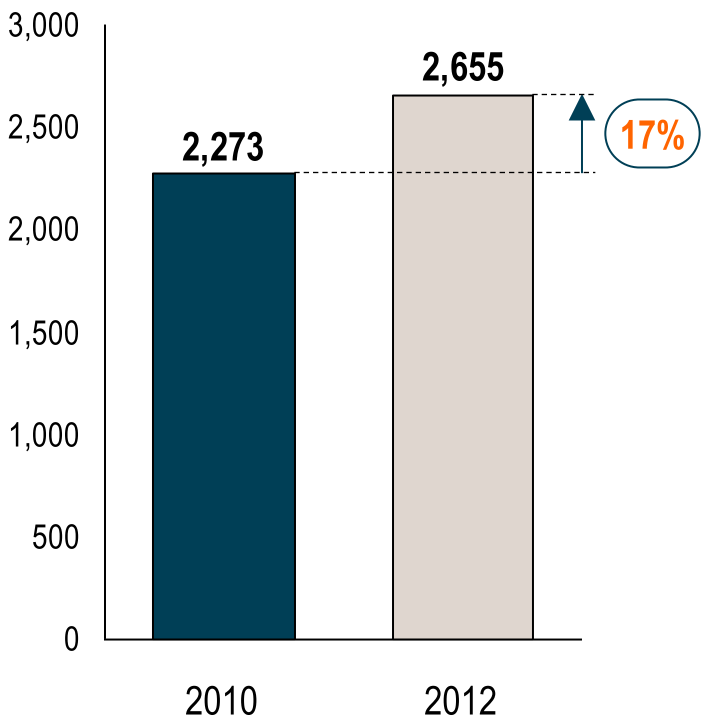



Source: IPC I, II, III, IV

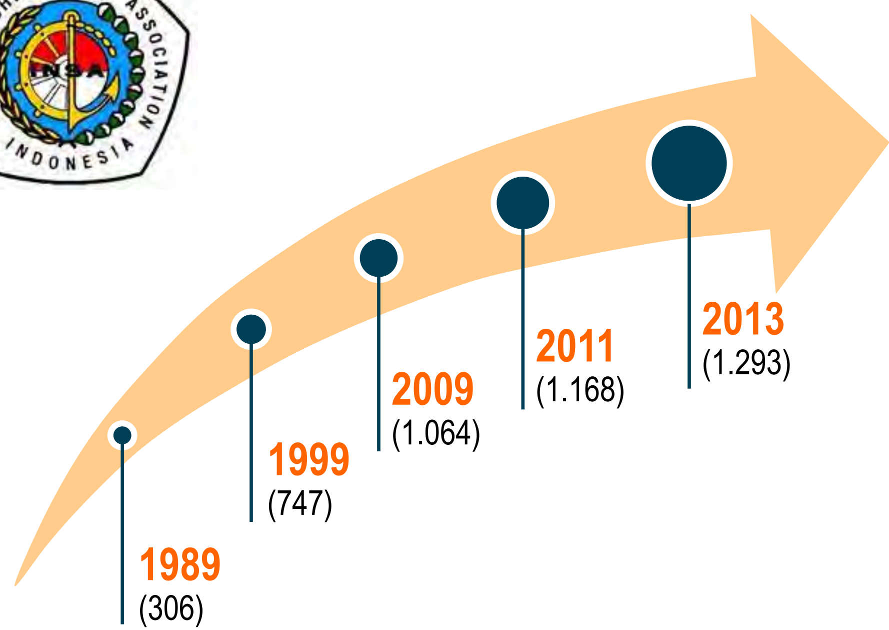
# The number of registered shipping companies in Indonesia has also increased strongly especially in the recent years

## Indonesia's shipping line sector

### Growth of shipping companies [#]



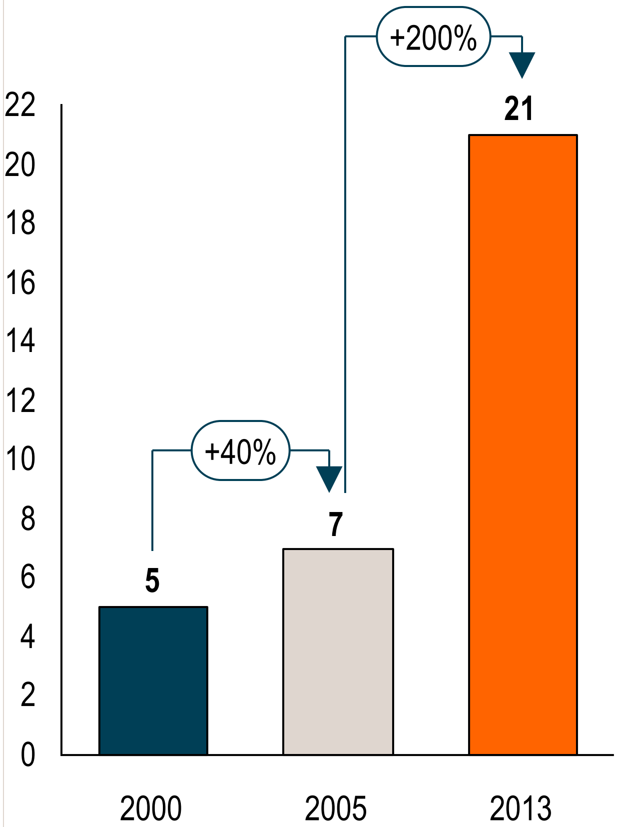

### Growth in no. of ship-owners registered in Indonesia's National Ship-owners' Association




Source: Samudara Indonesia, Roland Berger

# The number of shipping companies listed in the IDX stock exchange has risen strongly – Mainly linked to growth in the off-shore industry

## No. of Shipping companies listed on IDX stock exchange [#]




## Shipping companies listed on the IDX stock exchange, 2013

| No. | Company name | Activity | Year of registration |
|---|---|---|---|
| 1 | **Berlian Laju Tanker** | Transport - Marine | 1990 |
| 2 | **Rig Tenders Indonesia** | Transport - Marine | 1990 |
| 3 | **AKR Corporindo** | Distribution/Wholesale | 1994 |
| 4 | **Mitra Internasional Resources** | Transport - Marine | 1997 |
| 5 | **Samudera Indonesia** | Transport - Marine | 1999 |
| 6 | **Tanah Laut** | Infrastructure, Utilities, and Transport | 2001 |
| 7 | **Arpeni Pratama Ocean Line** | Transport - Marine | 2005 |
| 8 | **Ancora Indonesia Resources** | Petrochemicals | 2006 |
| 9 | **Radiant Utama Interinsco** | Oil Comp- Explor & Production | 2006 |
| 10 | **Humpuss Intermoda Trans** | Transport - Marine | 2007 |
| 11 | **Elnusa** | Oil-field services | 2008 |
| 12 | **Trada Maritime** | Transport - Marine | 2008 |
| 13 | **Pelayaran Tempuran Emas** | Transport - Marine | 2009 |
| 14 | **Wintarmar offshore Marine** | Transport - Marine | 2010 |
| 15 | **Mitrabahtera Segara Sejati** | Transport - Marine | 2011 |
| 16 | **Buana Listya Tama** | Transport - Marine | 2011 |
| 17 | **Indo Straits** | Transport - Marine | 2011 |
| 18 | **ABM Investama** | Diversified Operations | 2011 |
| 19 | **Pelayaran Nelly Dwi Putri** | Transport - Marine | 2012 |
| 20 | **Pelayaran Nasional Bina Guna Raya** | Transport - Marine | 2013 |
| 21 | **Trans Power Marine** | Transport - Marine | 2013 |

Source: Roland Berger

# Main players in domestic container shipping are emerging, eg. Tanto Intim (45 container vessels), Meratus Line (56), Samudera (32)

## Key players

### Tanto Intim

- Est. in 1971
- Over 45 container vessels
- Revenue: Rp. 555.0 billion (2011)

### Temas Line

- Est. in 1987
- 22 vessels
- Revenue: Rp. 846.6 billion (2011)

### Meratus Line

- Est. 1957
- Operates 27 container liner services
- Over 56 container vessels
- Revenue: Rp.  495.0 billion (2011)

### Djakarta Lyod

- Est. in 1950
- 14 vessels
- Revenue: Rp. 585.0 billion (2011)

### Samudera Indonesia

- Est. in 1950s
- 32 container vessels
- Revenue: Rp. 4,621.0 billion (2011)

### Salam Pacific Indonesia Lines

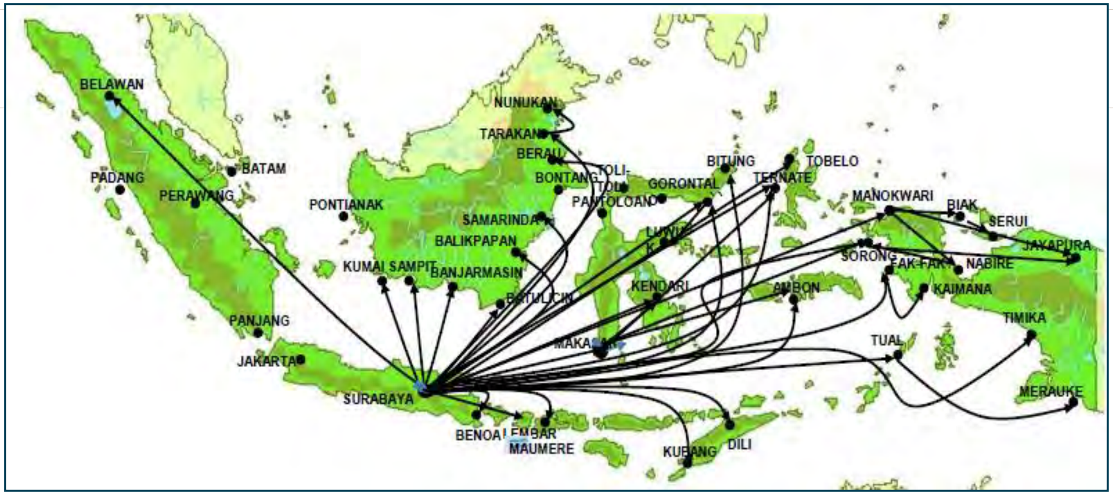
- Est. in 1970
- 24 vessels
- Revenue: Rp. 255.0 billion (2011)

Source: Company websites; Roland Berger

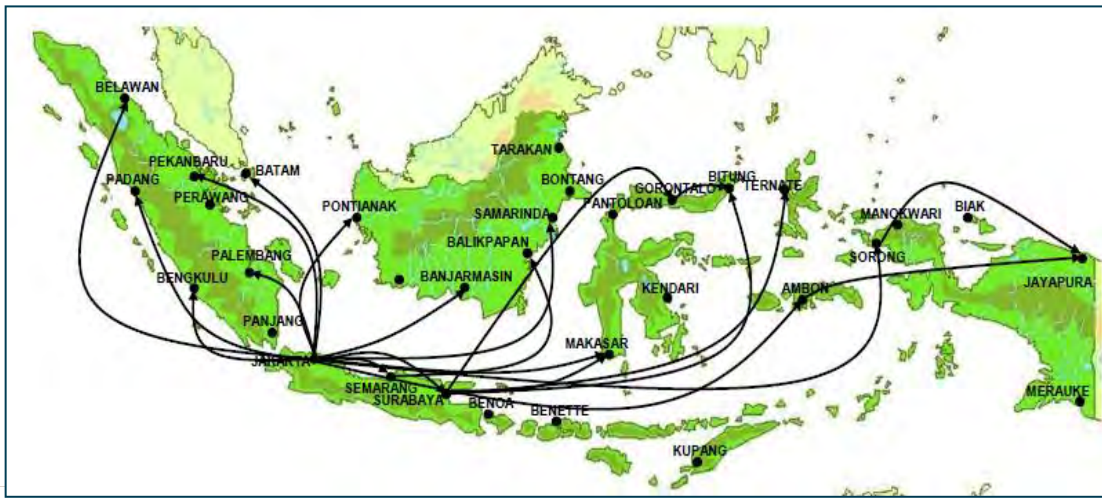
Roland Berger Strategy Consultants

# Historically, Surabaya is the main distribution hub for Eastern Indonesia – a blessing as well as a "curse"

Surabaya -based routes




Jakarta-based routes




## Comments

> Surabaya has more domestic shipping connections than Jakarta

> Further, Indonesia's major shipping lines: Tanto Intim, Meratus and Salam Pacific Indonesia – are home-based in Surabaya

> Connections are mainly direct. Ships are small and mostly slow, resulting in high costs per product unit. Many return empty

> This "system" has its roots in colonial days. It is critical that this be changed if shipping costs are to be reduced

Source: Samudera; Roland Berger

# How to reduce shipping costs

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Strategy Consultants

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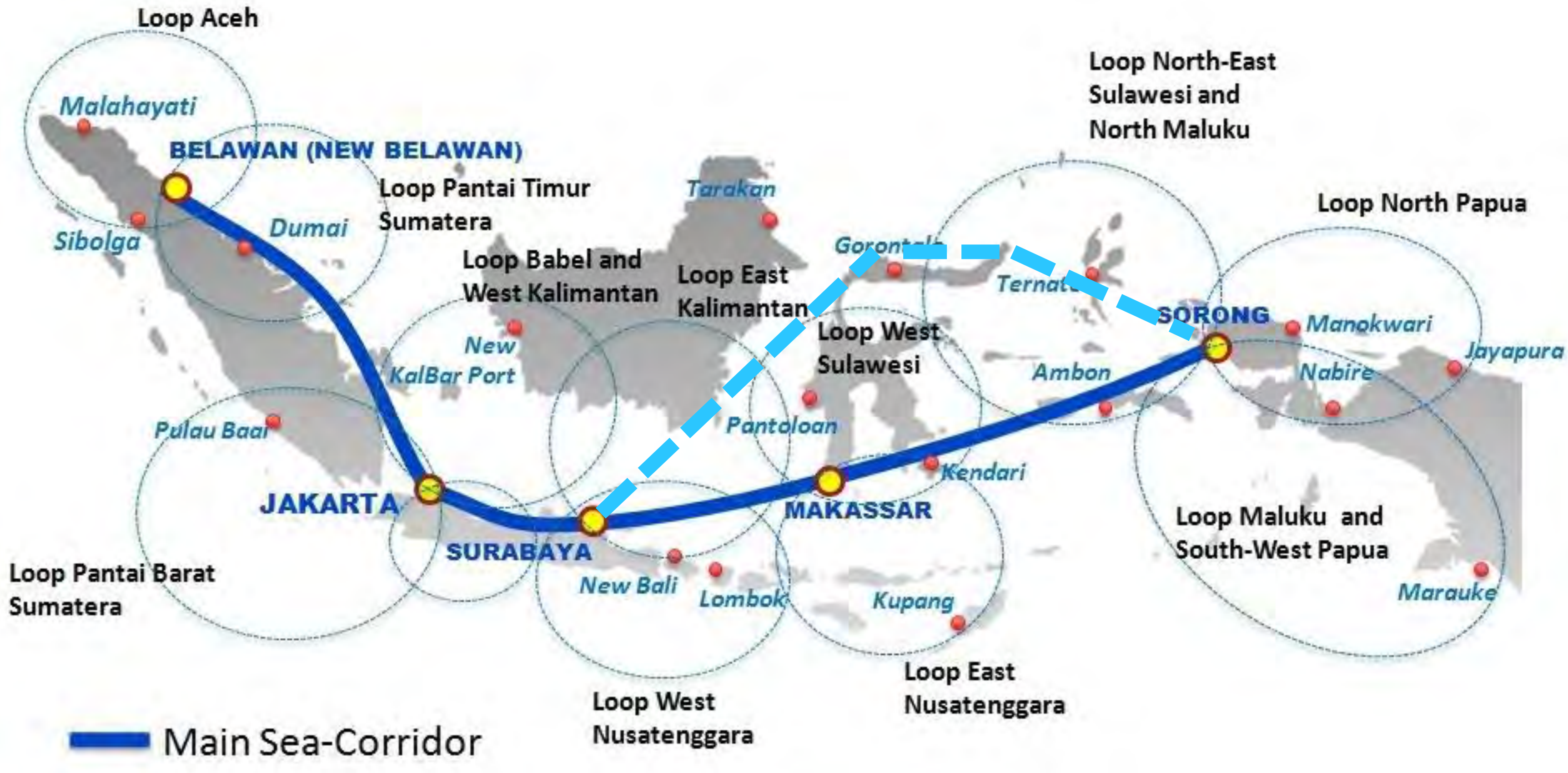
Strategy Consultants

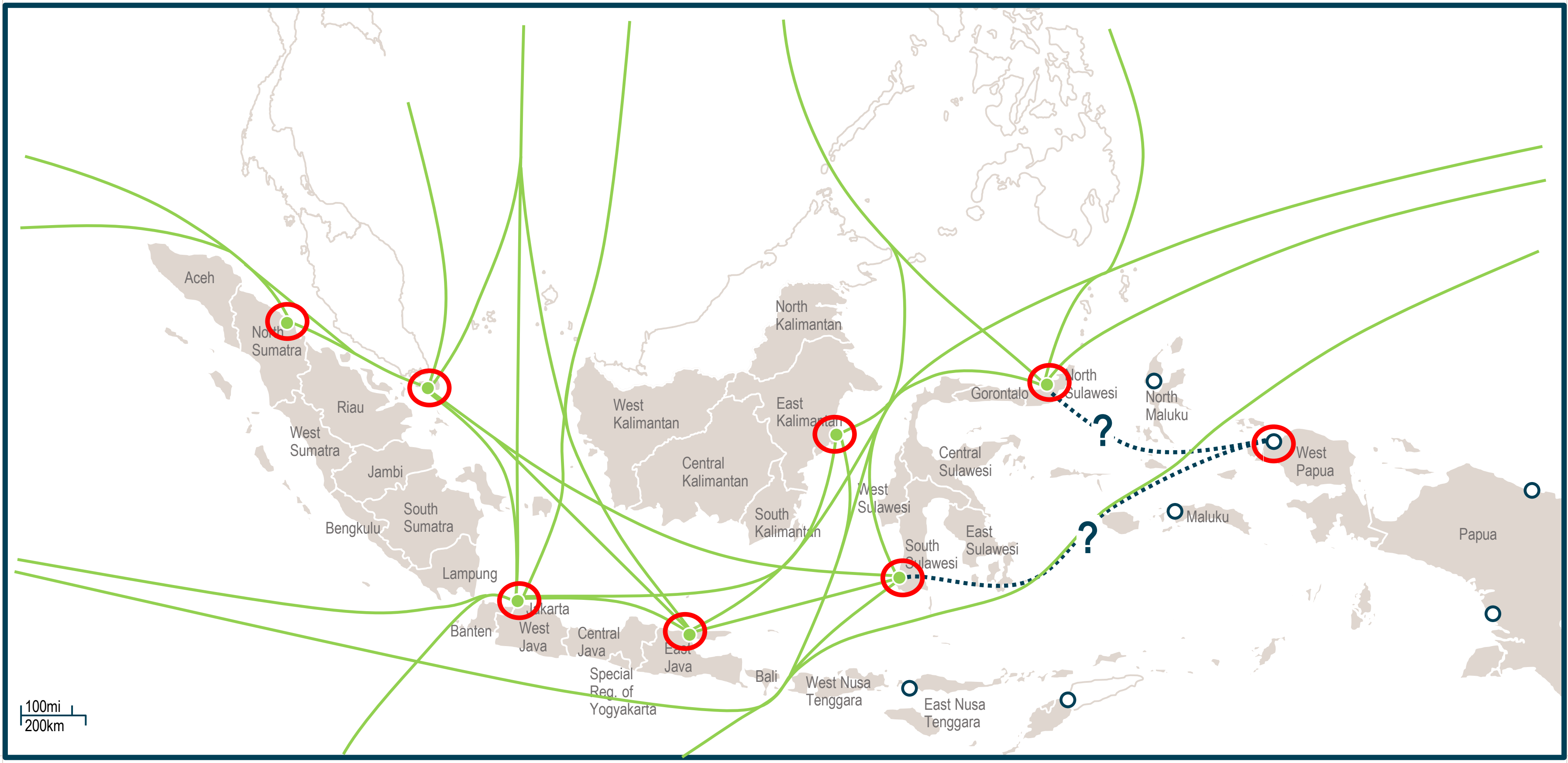
# A re-thinking of the shipping system – now being studied – might provide part of the solution for the East

## Pendulum Nusantara concept



# Picking hub locations should be done with an eye on the long term development potential of international shipping across the country

## Drawing international shipping lanes into territorial waters




Source: Roland Berger

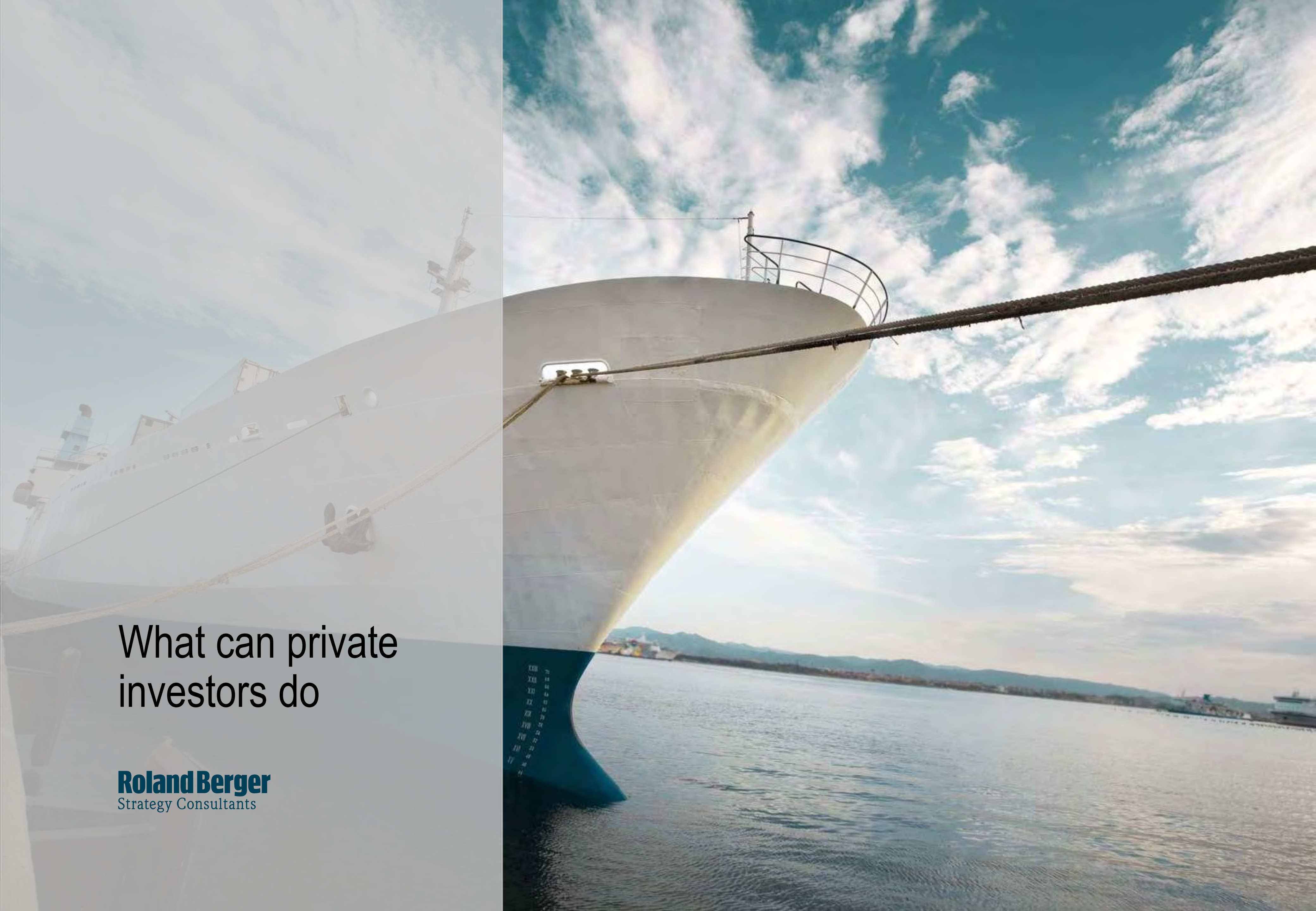
# We believe that more can be achieved faster if a more comprehensive and more integrated ports-shipping strategy is adopted

## Reducing maritime shipping costs – What more the Government can do

1. Bring **maritime safety** levels in territorial waters to levels acceptable to international liners, then ..
2. Facilitate emergence of **international shipping lanes inside** territorial waters
3. Designate **more international port hubs** – in addition to the current "de facto 4-5" (Kuala Tanjung, Jakarta, Surabaya, Makassar, Bitung) at the natural hub locations along these lanes – Total of 8!
4. Set and enforce specific and higher (world-class) **performance standards** for the hub ports
5. Create warehousing and **distribution-center hubs** in these hub-ports – both custom-made and for general usage
6. Re-think **cabotage regulations** with a view towards "creation" of international shipping lanes and driving down short-loop distribution and feeder shipping costs
7. Engage intensively with the main existing domestic (container) shipping lines – to push them towards a more efficient hub/spoke/loops approach to domestic shipping and feedering

**Complication: How to ensure that cost-effective loops will indeed emerge in "remote" areas?**

Source: Roland Berger



# What can private investors do

Roland Berger
Strategy Consultants

# More aggressive, more direct involvement of shippers in the logistics chain will uncover various cost savings opportunities

## Direct involvement in logistics chain management – Suggestions for discussion

> **Sourcing** – Buy "local" … as close to end-user as possible and sensible

> **Forwarding** – Stop outsourcing, do it in-house (or buy forwarders), which would provide far more control and insights in the logistics chain and more leverage over transport providers and shipping lines

> **Forwarding** – If not in-house, work towards full visibility of your logistics flows by adopting modern SCM information systems so as to have better visibility on improvement opportunities

> **Forwarding** – Traditionally local/regional businesses. Facilitate creation of national-level forwarders

> **Engage directly with shipping lines** relevant to your logistics flow - in view of your own (future) logistics needs, of up-coming changes in shipping patterns etc

> **Lobby with Government** – Get organized, lobby to focus on all elements of the shipping value chain

> **Invest or co-invest** in larger and modern **distribution center** facilities in relevant hub ports

> **Continuously analyze** in-depth your own distribution flow path / system / methods in view of up-coming changes in shipping patterns

> (Work with ports to reduce administrative bottlenecks and streamlining of information flows)

Source: Roland Berger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Let's think: act!

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