Indonesia Ports as the Engine of Growth in the Region

**PELINDO I Port Development Strategy To Support Maritime Highway**

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Indonesian Economic Updates on Ports, Shipbuilding and Shipping Lines
Hamburg, September 5, 2016
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1. Introduction
2. Maritime Highway Concept and Ports Related
3. Snapshot of Strategic Port Development in Pelindo 1 Related to Maritime Highway
4. Some Keys Issue and Challenges
5. Concluding Remark
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**Five pillars of the Maritime Axis doctrine**

- Rebuild Indonesia’s maritime culture. As a country that is made up of 17,000 islands, the nation must realize that its future is largely determined by how it manages the oceans.
- Indonesia will maintain and manage sea resources with a focus on establishing sovereignty over sea-based food products.
- The country will prioritize infrastructure and maritime connectivity development by building sea tolls and deep sea ports while also improving the shipping industry, logistics and maritime tourism.
- Through maritime diplomacy, Indonesia must end the sources of conflict at sea, such as fish thefts, violation of sovereignty, territorial disputes, piracy and pollution.
- As a country that is the bridge between two oceans, Indonesia is obligated to build its maritime defense power.

**Jokowi Touts Maritime Axis in Inauguration Address**

*By Jakarta Globe on 11:37 am Oct 20, 2014*

*Category: Featured, News, Politics*

*Tags: jokowi inauguration*

Jakarta, President Joko Widodo used his inaugural address on Monday to reiterate his central program of turning Indonesia into a global maritime axis.

“‘The seas, the oceans and the bays are our future, and we have neglected our seas, oceans and bays,’” he told legislators and visiting world leaders at the People’s Consultative Assembly (MPR) building in Jakarta.

“This is the time to return to Jalesveva Jayamah,” he added, citing the motto of Indonesian Navy, which is the Sanskrit for “In the sea we will triumph.”

Joko, speaking after taking the oath of office as Indonesia’s seventh president, said it was important for Indonesia, once a collection of disparate kingdoms renowned for their maritime prowess, to build on its immense wealth of maritime resources.

“To build Indonesia into a great, prosperous and peaceful country we must possess the soul of Calonwati Samudra,” he said, again turning to Sanskrit to refer to a maritime nation with a strong merchant navy.

“As the captain of the ship, I invite all Indonesians on board to move toward a prosperous nation,” he added. “To all fishermen, laborers, farmers, meatball sellers, drivers, all the professionals — I call on you to work hand in hand because this is the historical moment for us to work, work and work.”

As part of his focus on maritime issues, Joko is expected to announce a new cabinet post of coordinating minister for maritime, natural resources and environmental affairs when he reveals his cabinet lineup tomorrow.
FORMER AND CURRENT CONDITION OF SHIPPINGLANE IN INDONESIA

Srivijaya Empire
Around X to XI century

Majapahit Empire
Nusantara Archipelago in XIV century
INDONESIA: ARCHIPELAGIC COUNTRY

- Length of Coastline: 81,000 km
- Number of Islands: 17,508
- Ocean Area: 5.8 million sqm
- Land Area: 1.9 million sqm
Indonesia lies in the heart of future world's global trade
>70% of world sea container flows are Asia-related

Global container flows by main trades, 2015 (M TEUs)

- Transpacific East bound (CAGR=2.2%)
- North America (CAGR=2.5%)
- Transatlantic (CAGR=1.5%)
- Intra-Europe (CAGR=1.2%)
- Far East – Middle East (CAGR=5.8%)
- Transpacific West bound (CAGR=5.2%)

1. Includes NE, SE, and S. Asia
2. Includes domestic
Note: Container flows based on forecasts excluding empties and transshipment but including domestic for intra-regional trade; some trades excluded for display purposes; CAGR based on 2007-2015
Source: BCG analysis, Singapore case study
INDONESIA PORT STRUCTURES

- **Commercial Ports**: 111 Ports
- **Non Commercial Ports**: 1481 Ports
- **Terminals/dedicated private ports for industries**: 800 Terminals

Total: 2392 Ports

Source: RENSTRA PERHUBUNGAN 2015-2019
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The current domestic shipping network consists of numerous direct services mainly from Java from the rest of Indonesia. Vessel sizes are generally small.

Key domestic sailing routes in Indonesia

Source: Drewry
LOGISTIC COST

- UNEQUAL CARGO DISTRIBUTION
- UNEQUAL ECONOMIC GROWTH DISTRIBUTION

INDONESIA LOGISTIC COST
24 % GDP

Source: Drewry
Domestic shipping costs – compared to international shipping - are generally high … and very high

Route-to-market challenges

High domestic shipping cost

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

Why? SEVERAL reasons:

- small volumes
- often no / small return cargos
- legacy shipping network eco-system
- high port and port-related charges
- "illegal" port charges, "red tape"
- port infrastructure limitations
- road & rail connection limitations
- road design flaws
- poor domestic shipping integration

Source: Drewry
## Development Indonesia Logistic Performance Index (LPI)

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Source: Logistic Performance Index (LPI) World Bank

## Indonesia Global Competitiveness Index

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<th>Year</th>
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<td>2012-2013</td>
<td>50</td>
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<tr>
<td>2013-2014</td>
<td>38</td>
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<tr>
<td>2014-2015</td>
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Source: World Economic Forum
APPROACH TO REDUCE LOGISTIC COSTS

Reduction of logistics costs

Port productivity
Berth window
Network restructuring

Terminal capacity, infrastructure and equipment

Source: Drewry
MARITIME HIGHWAY

Source: Drewry
PORTS RELATED TO MARITIME HIGHWAY PROGRAMME
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Indonesia has four state owned companies managing port and terminal services. Separated by location of working area.
Currently, Pelindo I operates 24 ports and 5 subsidiary company, it has a strong footprint in Aceh, North Sumatra, Riau and Riau islands.
ACEH PROVINCE

Aceh contributes to a small amount of Sumatra's GDP but its oil & gas exports have created significant tax revenue in the past. The economy is dominated by production of palm oil in the south, as well as production of chemicals and extraction of minerals in the north. Palm oil is mainly located on the western coast till the southern part of the province in Singkil.

Source: Pelindo I strategic plan by Roland Berger
NORTH SUMATERA PROVINCE

North Sumatera is an important part of Sumatra as it shares a large portion (22%) GDP and serves as a gateway into northern Sumatra.

North Sumatera is dominated by agricultural production in the form of rubber, foodstuffs, and palm oil on its western side. North Sumatera is also supported by development of industrial parks mainly concentrated in Medan.

Source: Pelindo I strategic plan by Roland Berger
RIAU PROVINCE

Riau is a key contributor to the economic activity in Sumatra and covers a large portion of land utilized for agriculture.

Riau economic activity is mainly driven by production of palm oil, wood products, and rubber throughout the province of Riau.

Source: Pelindo I strategic plan by Roland Berger
RIAU ISLANDS PROVINCE
Riau Islands contributes a small amount (6%) to the GDP of Sumatra but is located strategically near Singapore and forms a gateway into Asia.
Production is mainly highlighted by manufacturing of mechanical & electrical products in Batam as well as mining of bauxite in Bintan.

Source: Pelindo I strategic plan by Roland Berger
### 3 Main strategic objectives for port development and related business

<table>
<thead>
<tr>
<th>Strategic objectives</th>
<th>Strategic initiatives</th>
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</table>
| **A** Retain and increase market share | A1 Redevelop ports within current area  
A2 Acquire/ build ports within current area  
A3 Develop new ports within Sumatera  
A4 Develop new ports beyond Sumatera  
A5 Improve marine services market share |
| **B** Improve overall business processes | B1 Improve operational efficiency and productivity  
B2 Implement new technology  
B3 Develop effective pricing strategy  
B4 Realign business portfolio |
| **C** Extend value chain into complementary businesses | C1 Expand existing value chain  
C2 Create new value chain |

Source: Pelindo I strategic plan by Roland Berger
BELAWAN PORT DEVELOPMENT PROGRAMME

BELAWAN CONTAINER TERMINAL EXPANSION PROJECT

UPGRADING ACCESS CHANNEL, DEEPENING PORT BASIN AND STABILIZATION OF WHARF PLANNING

ON GOING PROJECT


4. Development of integrated urban area (2021-2023)

"Integrated-Modern Industrial Gateway Port"
As the gateway to Sumatra, Kuala Tanjung will boost the region's economic hotspots by lowering logistics costs and improving efficiency.

1. Medan Metropolitan Area and KIM
   - North Sumatra Gateway urban core and light manufacturing centre
   - Urban population generates trade

2. Belawan Port
   - Specialized port serving niche segments best suited for its urban proximity and water depth (need to define)

3. Kuala Namu Airport
   - Makes gateway accessible to (potential) investors

4. Sei Mangkei Special Economic Zone
   - World-class palm oil cluster
As a major integrated port-industrial complex Kuala Tanjung will enable value-added production and generate thousands of jobs.

Fully integrated port and industrial facilities:

- Ports need industry and industry needs ports to become very competitive.

- Tight integration and cluster formation maximises efficiency and economic impact.

- To enable value-added production and generate thousands of jobs, a new approach to port management is needed.
CONSTRUCTION PROGRESS OF MULTIPURPOSE TERMINAL KUALA TANJUNG
PORT AND TERMINAL OPERATIONAL IMPROVEMENT

Operational improvement in Malahayati Port by supporting with handling equipment for container

Operational improvement and reconfiguration of terminals operation in Belawan Port

Operational improvement in Perawang Terminal by supporting with handling equipment for container

Operational improvement in Kijang Terminal by supporting with handling equipment for container
PORT AND TERMINAL OPERATIONAL IMPROVEMENT

Operational improvement in Sibolga Port by supporting with handling equipment for container

Operational improvement and reconfiguration of terminals operation in Dumai Port

Partnership and Cooperation between business unit and private or government in port and terminal services

Operational improvement in marine services, Tanjung Balai Karimun Port, Tanjung Pinang Port, Sei Pakning
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Key Issues And Challenges

• Low productivity
• Efficiency of ports
• Logistic costs
• Slow yielding project
• Poor connectivity to hinterland
• Regulation and Permit in Port Development
• Lack of coordination between different institution within the port sector
• Lack of integrated development planning within sector
• Port as engine of the economy development
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CONCLUDING REMARK

• Maritime highway and development of eastern area of Indonesia are important to reduce logistic cost
• Government Political Will and involvement of Maritime Logistic Stakeholders is Key Success Factor to implement maritime highway as backbone of Maritime Logistic
• Role of port is economic engine, not only as logistic and transportation infrastructure
• Connectivity and sinergetic between institution within port sector are key element to optimize capacity of port services in supporting economy of region
• Infrastructure transportation connectivity within hinterland are important to boost economic of region
• Improving ports and logistics involves multi stake holders
THANK YOU
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