



## INDONESIA: QUICK WINS TO IMPROVE LOGISTICS



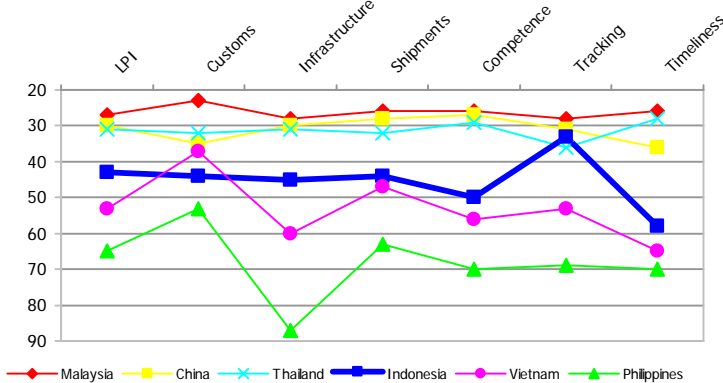
### WORKSHOP RECOMMENDATIONS FOR THE SHORT TERM AND PLANNING FOR THE LONG TERM

Jakarta, June 19, 2008

Objective	Short-Term Measures	Responsible Stakeholder
Reduce congestion in the Jakarta port	<ol style="list-style-type: none"> <li>1. Align working hours across port stakeholders (open 24/7)</li> <li>2. Allow movement of containers within the port to be determined by terminal operators and not Customs, once container is cleared</li> <li>3. Allow terminal operators to charge steep penalty fees (in a revenue neutral way) to discourage importers from overusing the terminal storage once container is cleared</li> <li>4. Move empty container depots from the port to a place closer to the industrial area</li> <li>5. Issue clear regulations to implement the shipping law</li> <li>6. Plan for the “jump” to build a new port in a greenfield</li> </ol>	<ol style="list-style-type: none"> <li>1. Customs, banks, terminal operators, etc.</li> <li>2. Customs</li> <li>3. Port Authority, M.of Transport</li> <li>4. Container depot owners (shipping lines)</li> <li>5. M. of Transport</li> <li>6. M. of Transport, Trade &amp; Industry</li> </ol>
Improve hinterland connections	<ol style="list-style-type: none"> <li>1. Finish JORR, but encourage truck movement during night time</li> <li>2. Finish the construction of the last kilometer of railway from Bandung inland container depot to the port terminal</li> <li>3. Create a railway subsidiary of Persero for freight services</li> <li>4. Construct a road link from the railway to the industrial area</li> </ol>	<ol style="list-style-type: none"> <li>1. M. of Public Works</li> <li>2. M. of Transport</li> <li>3. Persero</li> <li>4. M. of Transport</li> </ol>
Improve efficiency and quality of trucking services and freight forwarding, especially to cater to medium size exporters	<ol style="list-style-type: none"> <li>1. Create an escrow account to facilitate loans to trucking industry so they can expand in size and do long-term contracting</li> <li>2. Provide certification for improved service, possibly with FIATA</li> </ol>	<ol style="list-style-type: none"> <li>1. Trucking association and banks</li> <li>2. Association of freight forwarders</li> </ol>
Set up an efficient Logistics Team	<ol style="list-style-type: none"> <li>1. Issue a ministerial decree and top – level backing</li> <li>2. Create a core dedicated team and provide budget</li> <li>3. Coordinate with other logistics-related Team (e.g., NSW)</li> </ol>	<ol style="list-style-type: none"> <li>1. P/VP or Ministers of Ekuin/Trade</li> <li>2. Ekuin / Trade, PEPI</li> <li>3. Ekuin-Customs</li> </ol>

Indonesia’s logistics performance is average compared to other countries in the region, but it ranks low on **competence** of the local logistics industry (both private and public logistics service providers such as road transport operators and customs brokers) and **timeliness** of shipments in reaching destination. A three-pronged approach to reduce these bottlenecks in the short term include: (i) reducing port congestion; (ii) improving hinterland connections; and (iii) improving the efficiency of trucking and freight forwarding services. A National Logistics Team would need to be set up to develop an action plan.

Ranking of Logistics Performance Index (LPI) out of 150 countries



### Reducing congestion at the Port of Tanjung Priok

**Customs should better coordinate with and not interfere in the operations of container operators once the containers are cleared.** Customs do not inform operators of the time containers are cleared, thus extending their stay in the terminal before they are collected by the consignee or moved by the terminal operator to off-dock container depots. Customs also regulates the level of container storage occupancy that must be reached (85%) before a container can be moved to another bonded area, and even to which bonded area they can be moved. The acceptable yard occupancy rate is an operational matter that should be the sole responsibility of the container terminal operator.

**Restructure penalty measures for container storage.** The scale of charges for container storage is determined by regulation. The current scale is not high enough to persuade enough owners to remove their containers as soon as they are cleared. The storage tariff should be restructured to increase penalty on long stay containers, while being revenue neutral for the terminal operator.

**Align operational hours of principal stakeholders in the port terminal.** The typical peak flows across the container terminal (daily and weekly) are partly due to the opening hours of facilitators—in particular Customs and banks—which close in the evenings and weekends, while port operations are open 24/7. As is practiced in most ports around the world, all stakeholders at the port (including Customs and banks) should open 24/7.

**Clarify the real implications of the new 2008 Shipping Law.** There is ambiguity with respect to various key issues:

- Will the Law introduce the globally preferred Landlord Port Management model (whereby the public sector is responsible for infrastructure and the private sector is responsible for superstructure, stevedoring, and other port services)
- The ‘Port Authority’ mentioned in the Law appears to be the **nautil** authority in the port executed by Pelindo (IPC). Which entity will then execute the other overall management functions such as port planning, provision of operational infrastructure (e.g., quay wall and facilities), environmental management, and marketing?
- Will the IPCs remain the principal container terminal operators in the ‘Gateway ports’?
- Will a private operator, in case of a joint venture concession with an IPC, remain limited to maximum 49% of the shares?
- Will a private operator be allowed to (co-)invest in new port infrastructure (such as BOTs)?
- Will domestic shipping continue to be executed exclusively by Indonesian vessels?

Such uncertainties would need to be removed quickly to improve the image and reputation of the Indonesian Port and Maritime Transport Sector, and to increase the possibility of increased private participation.

## Improving hinterland connections

**Finish JORR but restrict truck movement to night time.** Road access to the container terminal will be improved when the Outer Ring Road (JORR) is completed. However, access from the JORR and its extension to the new toll road close to the Cikarang industrial area in eastern Jakarta will still be difficult given the growth in truck traffic. Moreover, the containers entering and leaving the port are not equally spread through the days of the week—there are currently peaks on Fridays and Mondays. If this peaking continues, truck movements could reach 4 million/year with about 15,000 trucks/day using the access road into the industrial area. This would be an unbearable addition to the other traffic using the access road. One partial solution would be to encourage trucks to move at night time. To ease transit at night the road would need to be clear of obstructions such as parked vehicles. A parking restriction would be needed perhaps from 1900hrs. Security along the road might also need to be enhanced.

**Extend the rail tracks into the port terminal.** The tracks of a rail service for containers from an inland container depot at Bandung to the port through the Cikarang industrial area—which account for 55% of container traffic into the port—end 1 km before reaching the port container terminals. Containers have to be unloaded into trucks for that part of their journey, making rail freight ineffective and underused. Extending the tracks into the container terminal would make rail transport more competitive and reduce road congestion.

**Create a subsidiary of PT Kerata Api for freight.** The railway operating company (PT Kerata Api) is focused on passenger rather than on freight services. For the container train service to operate successfully it should be operated by a separate company. If this is not possible in the near future, creation of a wholly owned subsidiary would be an acceptable compromise. The subsidiary would be financially independent and have its own locomotives, wagons and staff, but use PT Kerata Api's tracks under a contract arrangement.

**Create depots for empty containers near the industrial area and away from the port area.** Most empty containers (owned by shipping lines) are stored close to the port terminals. Companies that need a container have to contract a truck to go to the port to collect one. The heavy road congestion often results in the container arriving at the factory too late for it to be loaded the same day. So the truck leaves and returns when the container is stuffed (which could take up to 2 days). This leads to unnecessary truck movements. Locating depots for empty containers closer to the industrial areas would reduce truck movement and free up space near the port terminal that could be used for more essential purposes, such as the storage of loaded containers awaiting collection after clearance by Customs.

## Improving efficiency of trucking and freight forwarding

The trucking industry is characterized by a few companies with several hundred trucks and many companies with very few trucks. There are very few medium-size companies that have fleet sizes compatible with the needs of medium-size manufacturing companies. The small companies tend to operate small two-axle trucks that are the most easily overloaded and least efficient to operate. They also engage mainly in last-minute, short-term contracts which is inefficient and not widely practiced in other countries.

**Special schemes could be put in place to increase access to and lower risk/cost of loans to small truck companies.** Instead of relying purely on the credit risk of the individual company, innovative, non-market distorting schemes could rely on the contribution by the borrowers to an escrow account to which the lending bank has automatic access should there be a default in loan payments. When the loan is paid off the escrow funds are returned to the borrower. The commercial banks providing the loans often contract with the trucking association to manage the short listing of borrowers and for the collection of loan amortization payments. This scheme can also

be used to bring about a restructuring of the trucking industry—through mergers—if the borrower must meet conditions of minimum financial asset, managerial competence, maintenance facilities and driver training. A trucking industry with more medium-size companies would better address the needs of manufacturing/exporting industries.

**Introduce a voluntary certification scheme for freight forwarders.** The structure of the freight forwarding industry is similar to that of the trucking industry—a very small number of large companies (many with minority foreign shareholding) and a very large number of small companies that lack management skills and financial resources. Medium and small size trading companies that cannot afford the reliable services of the few large companies have difficulty in selecting a reliable and competent small company. A voluntary certification scheme would allow freight forwarding companies that satisfy minimum standards, including having staff who have passed the examinations of the International Association of Freight Forwarders (FIATA) to obtain certification for higher standards, and small trading companies to have more confidence in their choice of freight forwarder. Forwarders who are found by Customs to repeatedly submit incomplete and fraudulent documentation would lose their certification. Such a scheme is currently being implemented in countries of the East African Economic Community.

## Planning ahead

**Plan for a new port now.** Tanjung Priok and other existing ports in Indonesia can improve their efficiency further within their present locations with reforms of processes and relatively minor investments. This would allow the ports to cover their capacity needs only for the next 5-10 years. Indonesia would soon need to decide to make a jump to building a new port (it typically takes 10 years to build a new port). The port should be a deep sea port to reduce the (feeder) dependence on Singapore and Malaysia, and thus reduce time and transport costs.

Investigations to develop a new, state-of-the-art port would need to start now. The new port should be developed in a greenfield location, in concert with the requirements of a modern port complex in terms of water depth, space, hinterland connections and other facilities. Such a port complex may be combined with industrial and value-added facilities.

Bojonegara (which has been earmarked already) is a possible location for the northern coast line of Java. Its disadvantage is the longer distance to the industrial centre of Java, South East of Jakarta. Other potential locations might be in the vicinity of Cirebon and even further East. An offshore port island connected to the shore by a bridge or causeway could be constructed to satisfy the requirement of having a deep water (20-meter) port.

**Design and implement a national logistics strategy.** The objectives of the logistics strategy should include: (i) ensuring capacity and quality of services; (ii) promotion of domestic freight transport; (iii) facilitation of bi-national and regional transport; (iv) support to SMEs and logistics operators; and (v) streamlining foreign trade documentation and inspection processes.

The following actions could be taken to strengthen the National Logistics Team: (i) obtain ministerial or vice-presidential backing for the Team; (ii) create and fund a core dedicated team; (iii) extend the National Logistics Team's membership to the private sector, especially end users; (iv) coordinate with other logistics-related teams (e.g., NSW); (v) conduct a formal audit of the current state of the logistics sector; (vi) express a vision in terms of the service standards that the Strategy is aimed to achieve; (vi) provide an action plan including quick wins with immediate impact; (vii) set a monitoring system with benchmarks and indicators.

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