THE FUTURE OF PORT OF KUALA TANJUNG

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EVOLUTION OF KUALA TANJUNG PORT

Originally built to serve PT Inalum in 1981

Kuala Tanjung port is planned to be hinterland port to support Sei Mengkei as SEZ in 2012 and to solve the congestion in port of Belawan

The construction of new multipurposes Kuala Tanjung Port began in 2015

By the end of 2018 Kuala Tanjung has 600,000 TEUs capacity of container port and the first shipment was conducted in November 2018 with volume 205 TEUs
PORT UTILIZATION

UTILIZATION CHALLENGES...

Utilization level of Kuala Tanjung Port is very low due to the very limited number of manufacturing industries which currently operates in Sei Mangkei SEZ

Logistic cost increased since there is no facility to store empty container in Kuala Tanjung, hence empty container should be transported from Belawan to Sei Mangkei

STUDIES TO ADDRESSED THE ISSUE...

The Study on The Development of Kuala Tanjung as International Hub Port (2014)

The study on Port Development Alternative Strategy (August 2018)
# 4 Scenarios on the Development of Kuala Tanjung Port

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Scenario 1 (Existing Hub)</th>
<th>Scenario 2 (Existing Hub + Dedicated Berth)</th>
<th>Scenario 3 Extended Version of Scenario 2</th>
<th>Scenario 4 Market Based Hub plus Dedicated Berth</th>
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<td>Generated demand</td>
<td>Generated demand from Aceh and North Sumatra</td>
<td>Generated demand from Aceh to Jambi</td>
<td>Generated demand from Aceh to Jambi + South Sumatra and Lampung</td>
<td>Generated demand from Aceh to Jambi</td>
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<td>Sei Mangkei start</td>
<td>Sei Mangkei start operation as planned</td>
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Source: The Study on The Development of Kuala Tanjung as International Hub Port (2014).

This study proposed Scenario 2 as the best scenario with the following consideration:

- Dedicating a berth to major shipping line will have significant impact in ensuring the ports demand.
- Export-Import restriction policy as proposed in Scenario 4 is a challenging and problematic issue to be implemented;
- High uncertainty in land transport system in the island of Sumatra is a major barriers to generate demand from the entire island of Sumatra. 
SWOT ANALYSIS

**S-O Strategy:**
Optimize the strategic position of Kuala Tanjung to reap seaborne trade and to develop international shipment hub.

**W-O Strategy:**
Ask the government to provide supporting infrastructures for Kuala Tanjung and to reduce logistics cost.

**S-T Strategy:**
Strengthen the position of Port of Kuala Tanjung and prevent the development of new international shipping lines outside Kuala Tanjung.

**W-T Strategy:**
Cultivate the trans shipment market in Malacca Strait through providing better port services.

Source: The study on Port Development Alternative Strategy (2018)
HOW DO WE FORSEE THE FUTURE OF KUALA TANJUNG PORT

Thinking Framework

**FACT**: 1) Equipped with container and liquid bulk cargo system and facilities, 2) Domestic cargo from Sei Mangkei to Belawan has shifted to Kuala Tanjung, 3) Exports from Belawan has been realized with average of 200 TEUs bi-monthly, 4) the first export have been done via direct call intra-Asia service which improve the effectiveness of logistic cost and delivery time, 5) With direct call, the transit cost can be reduced up to 200-300 USD/Container.

**PERCEPTION**: Able to compete with Singapore? Not yet, but able to reduce logistic cost from Belawan to Singapore 200-300 USD/Container

**NORMATIVE SCENARIO**: 1) Port of Kuala Tanjung will be functioning as export hub from Aceh to Jambi province, 2) It will also have trans shipment market share 12% by 2040 (corresponding to Sei Mengkei SEZ), 3) 65% of demand domestic container will be shifted from Belawan to Kuala Tanjung, 4) Export from Belawan will be shifted to Kuala Tanjung, and 5) Import from critical trade routes will also be shifted to Kuala Tanjung.
EXPLORATIVE SCENARIOS

Thinking Framework

- **SCENARIO A**
  - Sei Mangkei SEZ developed as planned.
  - Transshipment market share developed as planned.

- **SCENARIO B**
  - Sei Mangkei SEZ developed as planned.
  - Transshipment market share did not develop as planned.

- **SCENARIO C**
  - Sei Mangkei SEZ do not developed as planned.
  - Transshipment market share developed as planned.

- **SCENARIO D**
  - Sei Mangkei SEZ do not developed as planned.
  - Transshipment market share did not develop as planned.

Description

- **A**
  - A Vibrant Hinterland Port and Dynamic Transshipment Hub.

- **B**
  - A Vibrant Hinterland Port.

- **C**
  - A Dynamics Transshipment Hub.

- **D**
  - A Dormant Port.
Scenario A: A Vibrant Hinterland Port and Dynamic Transshipment Hub.

This scenario arises from the successful development of Sei Mangkei SEZ as planned combined with the successful development of transshipment market in Kuala Tanjung. Sei Mangkei SEZ develop rapidly not only from palm oil and rubber based manufacturing sector but also a wide range of export oriented manufacturing industry. The ever increasing export oriented manufacturing products in Sei Mangkei increase the frequency and the volumes of direct call to Kuala Tanjung significantly. These successful development are supported by appropriate infrastructures and high quality logistics services in the region. PT. Pelindo I will act as port landlord that provide basic infrastructures (energy mainly electricity and gas, road, water, storage, port facility, berth, and land, etc) for its tenants. In this position PT. Pelindo I will invite the best shipping, logistics company, and world class container terminal operator to use its berth and establish their hub to support the development of new international transshipment in Kuala Tanjung. To attract new tenants, PT. Pelindo I need to focus on quality of services and cost competitiveness at all sector of services primarily the cost of port visits.

Scenario B: A Vibrant Hinterland Port

This scenario emerges from successful development of Sei Mangkei SEZ but failed to reap the transshipment market in the region. Sei Mangkei SEZ develop rapidly not only from palm oil and rubber based manufacturing sector but also a wide range of export oriented manufacturing industry. Due to ever increasing export oriented manufacturing products in Sei Mangkei SEZ, the frequency and the volumes of direct call to Kuala Tanjung increase significantly. The program to generate demand from Aceh to Jambi, to gradually shift up to 65% demand domestic container from Belawan, and to shift export from Belawan and imports from critical trade routes run smoothly as planned.

Scenario C: A Dynamics Transshipment Hub.

This scenario develops from successful transshipment market development in Kuala Tanjung but the development of Sei Mangkei SEZ is not realized as planned. PT. Pelindo I will act as port landlord that provide for its tenant the basic infrastructures (energy mainly electricity and gas, road, water, storage, port facility, berth, and land, etc) and port services. Most of port activities concentrated on transshipment businesses supported by world class shipping and logistics company and container terminal operator as well. To attract its tenants, PT. Pelindo I need to seriously focus on cost competitiveness at all sector of services primarily the cost of port visits. The program to generate demand from Aceh to Jambi, to gradually shift up to 65% demand domestic container from Belawan, to shift export from Belawan and imports from critical trade routes, and the development of transshipment market shifted from 4 competitors ports is also run smoothly as planned.

Scenario D: A Dormant Port.

This scenario arises due to the stagnation of development of Sei Mangkei SEZ and unsuccessful transshipment market development in Kuala Tanjung. Port of Kuala Tanjung strive to maintain its facilities and services.
THE WAY FORWARD (SCENARIO A)

What We Need to Focus On...

- Bunker service support (fuel price)
- Cost of ports visits
- Application of advanced logistics technology

What Our Competitor has...

- Located at the bottleneck of Malaca strait
- Logistic technological advancement
- The largest refueling center with oil refinery capacities: 1.5 million bbl/day
- The largest trans shipment hub in the world

“Ships follow the trade and port grows after the ships.”
Based on the explorative scenarios, particularly Scenario A: A Vibrant Hinterlands Port and Dynamic Transshipment Hub, we need to develop the strategy for Sei Mangkei SEZ development and strategy for development of transshipment services in Port of Kuala Tanjung. This analysis will focus only to the strategy of transshipment market development in Kuala Tanjung.

According to the shipping alliance data, operational cost in shipping account for over 67% of the total cost of running a shipping line operation. 46% relate to bunker cost and 21% relate to port charges. Therefore, the competitiveness of the transshipment port obtained by the competitive bunker services particularly competitive marine fuel price and by competitive cost of port visits.

To realize this services, Kuala Tanjung need support from a large and sophisticated world class oil refinery supported by the latest refining technology. The oil refinery should be built adjacent to the port to reduce fuel transportation cost from refinery to the port, and hence to provide marine fuel with competitive price in the region. This oil refinery could also be integrated with biofuels refinery, so it could produce different combination of petrofuels and biofuels simultaneously. If necessary, the government could provide various fiscal incentives to attract investment on this oil refinery.

Regardless the development of transshipment activities in Kuala Tanjung, Indonesia fiercely need new large oil refinery due to its long-standing imported fuels dependency to Singapore. From this standpoint, we need new oil refinery with the processing capacity of at least 600 thousands barrel crude oil per day and 200 thousands of crude palm oil per day. This will be the largest integrated and sophisticated oil refinery in Indonesia.

So far, the last oil refinery in Indonesia was built in 1994. A lot of oil refinery investment proposals has been proposed but none of them has been realized. Indonesia could revisit and reconsider those investment proposals with main objective to get a very competitive fuel price and to get rid of imported fuel from Singapore.

According to the Chairman of Shipping Association of Malaysia, cost wisely Singapore’s port location at the bottleneck of Malacca Strait make relatively cheaper for shipping and logistics company to operate from and around the region. Therefore, it would make more sense for shipping companies to call at Singapore since smaller feeder ships from ports around the region can travel roughly 600 km less to load or unload goods from larger ships parked in Singapore.

While Port of Kuala Tanjung in the Malacca Strait geographically is not as strategic as Singapore. From the feeder perspective, ships have to travel a little bit more distance even the port visit cost in Singapore more than in Kuala Tanjung.
From logistics technological advancement perspective, Port of Singapore is one of the most advanced in the world. According to the World Bank the next generation port 2030 plan will enable its port to process 65 million TEUs to make it the largest integrated facility in the world.

According to China Morning Post Hongkong port ceded much of its business to the increasingly automated mainland Chinese ports. Therefore, automation is crucial for Kuala Tanjung to save money and time and to have a competitive cost of port visits.

The corporate dynamics of shipping lines could also be an impediment to the development of transshipment market in Kuala Tanjung. The exodus of CMA and CGM from Port of Klang was triggered by the acquisition of Singapore’s main shipping line APL the seventh biggest shipping company in the world. Based on the acquisition agreement, there was a condition to maintain the APL volumes in Singapore in order to assume berth agreement with Port of Singapore.

With regard to direct call, the improvement of small domestic port facilities like Port of Dumai, Batam, Tanjung Api-Api and Panjang, will open up the opportunity for those ports to also have direct call and hence reduce the direct call opportunity for Kuala Tanjung.

The logistics cost is also determined by the balance between loaded and empty containers. As opposed to loaded container, empty container movements do not generate revenues. This is a big challenge for Kuala Tanjung. Therefore, it is very important to ensure that the program of shifted imports from critical trade routes can be realized as planned.

To sum up, the development of transshipment market in Kuala Tanjung will be determined by many factors such as: (1) bunker services support; (2) cost of port visits; (3) application of advanced logistics technology; (4) the plan of development of other domestics ports; (5) the configuration of shipping alliance (opportunity or threat?); (6) the balance between loaded and empty containers. Finally, please remember the old saying: Ships follow the trade and port grows after the ships.
RECOMMENDATION

Master plan of Kuala Tanjung Port need to be revisited and updated through in depth analysis of seaborne trade market structure in and around Malacca Strait:

- Investment of a modern oil refinery in Kuala Tanjung to support bunker services
- Cost competitiveness analysis of port visits
- Plan of development of other domestic ports particularly in and around Sumatra
- Development of logistics system with leading edge technology
- Analysis of potential shipping company or shipping alliances that would like to move to and use Kuala Tanjung as its international hub
- Analysis of empty and loaded container balance from critical trade routes