



**The advantage of moderating a conference is getting a good handle on the pulse of the proceedings and enjoying in-depth discussions. Some of the better side discussions included Hutch Ports, ICTSI, Surabaya Port, Maersk, APL and many others. The conference itself, though billed as the 7<sup>th</sup> ASEAN Ports and Shipping Conference was more about global issues than Indonesian or even SE Asian. But because of the audience, I also found myself learning as much as I could about Indonesia. The last time I was involved was when I helped CSFB bankers with the privatization of Pelindo during the Asia Crisis. (At the time analysts could roll up their sleeves next to investment bankers, but no longer...) Below are some initial observations.**

From speaking to various executives, one could see two levels of frustration below the surface. First is fear or disgust at the level of container shipping rates and complete distrust that the current rebound of the last 1-2 months is anything more permanent than a little rush to get a few goods back on shelves. And yet there has been some small rejoicing in rolled cargo on Asia to med trades which is allowing rates there in recent weeks to recover. But others point to rates in Asia-Europe still heavily challenged and falling again...

### **Global Takeways from Conference:**

- **Strong doubts than any of our/industry forecasts make sense.** One executive thought global container growth of -2% to -4% for global containers in 2009 was far too optimistic, even as I tried to explain that not all trades are -20%, as the Asia outbound trades have tended to be in 1H09 to date. In any case I tend to agree it is the -20%, potentially moderating to -12% or -13% for all 2009 that is the rate driver.
- **The Drewry presentation** was helpful but did not answer any of my questions better than I answered the other executive and his doubts. There was talk of SE Asia doing better, and yet the forecast in following pages talked of global TEU closer to -5% and SE Asia closer to -6%. And then there was an extended discussion on trans-shipment contribution to global TEU moves. If global growth averaged 10.5% for 2000-08, then trans-shipment was 12.0%. But this 1.5 ppts variance is a decline on previous decades. No surprises.
- **From port, equipment suppliers and IT providers** (terminal productivity enhancers), we heard of delayed orders, operating cost cuts, and IT contracts focused on maintenance rather than new product roll outs. The first line of defense at smarter operating terminals has been to reduce utilization of fuel intensive equipment as well as older equipment in favor of newer and more efficient equipment.

- **From container lines, that the level of pain is greater than 2001** and that excess capacity tied with the fact that most 2009 and 2010 ships are delivering, guarantee further pain despite some current hope for a rebound. We found a few container liner executives more negative than us. ... We are all on same page...But that is not necessarily a sign it is time to take the opposite view ... at least not at moment from a med-term perspective (ie, trading at times can be fine, but med-term issue is far from resolved).

## Indonesia and SE Asia Discussions and Issues:

- **Before 2008, imports and exports of containerized cargo were well balanced.** Indonesia's exports rely significantly on bulk exports. The status quo ante had been a nice +30% container run rate that had blossomed since 2004, following a period of flat growth. But with Indonesia foreign reserves dwindling, the view was that the government has taken measures to add to lower consumer demand for imports by also adding as few measures of its own, just to help the deceleration along. As a result imports are running at -30% declines even as exports hold up quite decently at -10%. The export – import ratio seems to stand around 65 – 35 at moment. Auto parts volumes are running about -40%, which compares to the -50% levels we've been seeing for the US rail...
- **The big complaint heard from several executives** is that the Indonesian government is losing business left and right as a result of failed, misguided ... policies. The usual gripes at bribes ("tipping") exist of course. But deeper concerns continue to center on the government's own inability to support growth strategies further (separately, one local complained about the stalled plans for a subway, which they thought barely got off the ground before it went into a tailspin). One complaint was a lack of desire to channel any significant inter-island and trans-shipment business through Tanjung Priok, which handles about 60% of Indonesia volumes. As a result, feeder services pour out from all over Indonesia, with Malaysia and others the major beneficiaries. Most of the major lines, including APL and even Samudera can barely benefit because most of the ships slipping out are around 500 TEU. APL for instance feeders its boxes out during the week on approx 1500TEU ships, which shift to 2000TEU ship types on the weekends.
- **Domestic trade though volatile picked up in May.** Domestic shipping volumes in Surabaya were up 40pct, though domestic trade only makes up about 20% of total volumes (compared to almost nothing at Tanjung Priok). But int'l volumes were still down, so combined May was down about 8% yoy .But this was against about a -20% run rate in previous months.

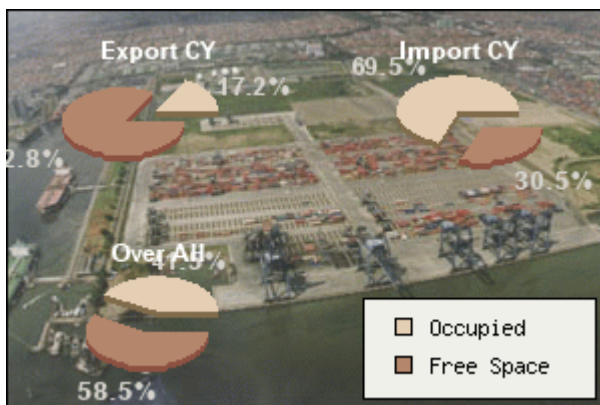
### An interesting side story

We could not find any recent internet/story updates, but one senior shipping executive mentioned a late90s 2000TEU type ship had recently been grounded with cargo stranded aboard (at least briefly). The point was in reference to cargo risk, with the executive mentioning that coffee traders were scrambling to move their coffee exports onto other ships as a result mid-week last week, and some lines benefitting more than others.

A related discussion, not regarding this particular ship, is that cargo owners need to select their carriers wisely. Not only is this a concern in the best of times, but during periods where some carriers face heightened credit concerns, the risk is when a carrier faces imminent bankruptcy and ship arrests begin to figure among concerns, cargo owners, forwarders and customers in general, need to act proactively and be ready to shift cargo to other carriers. Getting cargo held up when a ship is arrested can be a major headache.

### Current Snapshot Koja Occupancy (Export Container Yard 17% utilized...)

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Source: Koja terminal