

HIGHLIGHTS OF THE WEEK

POLITICS

Massive Java blackout turning into political fiasco

The massive blackout that paralyzed Jakarta and other cities and towns in the western half of Java on Sunday until Monday (August 5-6) is turning into more than just an economic fiasco. The failure of state-owned power company PLN in providing a satisfactory answer only fueled more speculation and it raised serious questions not only about energy security, but also about national security.

Questioning Koopssus' urgency

A counterterrorism elite force called the Special Operations Command (Koopssus) has been officially formed by President Joko "Jokowi" Widodo after he issued a Presidential Decree. The force, however, has been deemed problematic by many as it muddies the boundary between the military's jurisdiction and that of other law enforcement bodies that are specifically designed for preserving internal order.

Risma rumored to join Jakarta gubernatorial race

Although still two years away, the Jakarta gubernatorial election has triggered public discourse as to who will challenge the incumbent Jakarta Governor Anies Baswedan. Surabaya Mayor Tri "Risma" Rismaharini has been tipped as a real contender for Anies.

PSSI's search for new boss

On July 27, the Soccer Association of Indonesia (PSSI) completed one of its key agendas, which was to hold its much-anticipated extraordinary meeting after the revelation of the match-fixing scandal involving several of its executives. The congress resulted in the appointment of new members of its organizing and appeal committees as well as an amendment of the PSSI statute. The meeting also set the date of the next congress, in which the PSSI will elect its new chairman, for Nov. 2 instead of the initial schedule of January 2020.

BUSINESS AND ECONOMY

Blackout fiasco reveals PLN problems and lack of mitigation system

Electricity in Jakarta, Banten, West Java, and parts of Central Java went out last Sunday. State-electricity company PLN suffered a huge financial loss, and customers suffered even more. The blackout exposes many problems in PLN and our electricity system, which lacks a backup for the capital city.

Negotiation over IDD drags on, Chevron rumored to exit

Upstream Oil and Gas Regulatory Special Task Force (SKK Migas) chairman Dwi Soetjipto once said that he was optimistic that the Plan of Development (PoD) for the second phase of the Indonesia Deepwater Development (IDD) in Kutai basin in East Kalimantan, would be completed in the first half of 2019. However, entering the second half of 2019, SKK Migas and the contractors are still far apart in their positions. Lead contractor Chevron is even said to be considering pulling out from the project.

Conflict of interest lurks behind Krakatau Steel

State-owned steelmaker Krakatau Steel is once again in the spotlight after its independent commissioner Roy Edison Maningkas talked about his resignation with the media. Roy was resigning from his position because of a disagreement regarding the conduct of the operational assessment on Krakatau Steel's blast furnace facility.

Food price inflation under control amid harsh drought

Last month, Coordinating Economic Minister Darmin Nasution warned other ministries about the risk of rising food price inflation. In response to Darmin's statement, the Agriculture Ministry has continued its open market operation to stabilize food prices. The Agriculture Ministry's successes in managing food price fluctuations have decreased the risk of inflation exceeding the 4 percent ceiling.

POLITICS

Massive Java blackout turning into political fiasco

Overview

The massive blackout that paralyzed Jakarta and other cities and towns in the western half of Java on Sunday until Monday (August 5-6) is turning into more than just an economic fiasco. The failure of state-owned power company PLN in providing a satisfactory answer only fueled more speculation, not to mention conspiracy theories, about the real causes. These range from political infighting, spiritual intervention, to even possibly an act of sabotage. And it raised serious questions not only about energy security, but also about national security.

President Joko “Jokowi” Widodo, for one, was not impressed by the lengthy technical explanation given by the PLN board. He had gone to the PLN head office first thing Monday morning demanding a simple explanation about why a giant utility company that has a monopoly over the distribution of electricity in the country could not deal with the blackout more efficiently.

The western half of Java gets its electricity from the Java-Bali power grid that has a total capacity of 33,000 megawatts, well above the 25,000 MW maximum needed for the two islands. There was no reason to fear a power shortage, unlike other parts of the Indonesian archipelago, including Sumatra next door, which suffer from regular outages. PLN said the blackout was caused by some technical glitches, but this still did not explain why it took a full 10 hours for power to be restored, and even then only gradually, and many more hours before the supply became fully stable.

PLN already has a serious image problem. Its CEO Sofyan Bashir is under investigation by the Corruption Eradication Commission (KPK) and his place had been taken by at least two caretaker-CEOs. Flush with money as the chief recipient of massive funding for the construction of power plants under President Jokowi’s 35,000 megawatt program, PLN is considered among the most lucrative cashcow state-owned companies. Inevitably, the CEO job has always been fiercely contested among rival political cliques within Jokowi’s administration.

What's more

Was the blackout really caused by accident, as explained by PLN? Was it an act of sabotage as part of the ongoing political powerplay, as conspiracy theorists suggest? Or was it caused by some kind of spiritual intervention, as suggested by former PLN CEO Dahlan Iskan who wrote that PLN powerlines had violated a sacred tree in Semarang, Central Java?

Whatever the real cause of the blackout, Jakarta, the seat of the nation’s capital, looks vulnerable. Millions of people were left not only without power for hours, many were starting to run out of water, and lost all means of communication. Shoppers were unable to use their credit cards and a handful of minimarkets were reporting that their shelves were being emptied, suggesting the start of panic buying. Other markets lowered the shutters and closed for business.

Most people responded in a rational way. But a few more hours without power and there would have been chaos, possibly even looting as people were getting desperate. Police deployed officers to clear

congestion that was building up at busy intersections in Jakarta. There were no reports of any serious breakdown of law and order. But there could have been.

The worst may have been overcome, but in the absence of a credible explanation, there is a lingering feeling that it could happen again, especially if the claim of sabotage proved to be true.

The more immediate problem PLN needs to deal with is the question of compensation for the economic losses the blackout caused to its clients. By contract, the utility company is obliged to take off up to 35 percent from next month's electricity bill of all clients affected. Many think this is inadequate that the Legal Aid Foundation (YLHI) is gathering a petition to launch a class action. PLN's announcement that the compensation bill, estimated to reach almost Rp 1 trillion, would be borne by its employees – their salaries would be cut to pay for the compensation – came more as a public relations gimmick.

More important to the public is what Jokowi, who was visibly angry when he met with the PLN board, intends to do next. Another shake up of the PLN board? In the past, rivalry for the top PLN job pit Vice President Jusuf Kalla against State-Owned Enterprises Minister Rini Soemarno. Sofyan Basyir, for example, is considered Kalla's man.

There is clearly rivalry between Rini and Energy and Mineral Resources Minister Ignasius Jonan, who was seen publicly attacking the PLN board on Monday. The PLN board reports to both Rini, who oversees all state owned companies, and Jonan, who oversees state companies that deal with energy. Jokowi is currently preparing his new cabinet after winning reelection for a second term in office beginning in October. The blackout would surely affect his decision on whether to retain or drop Rini, or Jonan for that matter.

Questioning Koopssus' urgency

Overview

A counterterrorism elite force called the Special Operations Command (Koopssus) was officially formed days after President Joko "Jokowi" Widodo issued Presidential Decree No. 42/2019 authorizing the establishment of a special military unit deployed for "special operations" requiring "high speed and a high success rate" to rescue "national interests both inside and outside the country".¹

The propositions within the decree, regardless, are problematic. For one, the inclusion of internal affairs into the Koopssus' prerogative muddies the boundary between the military's jurisdiction and that of other law enforcement bodies that are specifically designed for preserving internal order, such as the National Police. Indeed, the law stipulates that internal order is primarily administered by the National Police, with the police's Densus 88 counterterrorism squad specifically assigned for domestic acts of terrorism.

The establishment of Koopssus to tackle terrorism has indeed ignited speculation over the real motives behind the military's move, especially since it is believed that there is no urgency to involve the military considering the existence of other counterterrorism groups. What exactly distinguishes the Koopssus from other groups remains unanswered.

In addressing concerns upon the overlapping roles of the Koopssus and Densus 88, TNI spokesman Maj. Gen. Sisriadi assured that the Koopssus would be deployed only under "special circumstances" that require a quick response with a high success rate.² Meanwhile,

TNI commander Air Chief Marshal Hadi Tjahjanto highlighted the special role of the Koopssus in surveillance and intelligence.³

The explanation, however, remains unclear. To begin with, Densus 88, in countering terrorism, is equipped with good intelligence, which has helped the squad arrest terror suspect and foil terror attacks. Furthermore, resting the Koopssus' role on surveillance and intelligence will create a further overlap between the new elite forces and the State Intelligence Agency (BIN).

Another issue is the claim of Koopssus' high success rate, which implies its superiority vis-à-vis other counterterrorism bodies. Densus 88, for instance, ended the run of terrorists such as Noordin M. Top and Dr Azhari who masterminded the 2002 Bali bombing. Meanwhile, the military itself is not short of 'superior forces' such as, to name a few, the Army's Special Forces Command (Kopassus), the Navy's Jalamangkara Detachment (Denjaka) and the Air Force's Special Forces (Paskhas).

As long as the Koopssus' functions and objectives remain vague, concerns and speculation over the new force will remain unabated. Considering the military's checkered past, no wonder people are looking at the ongoing development with apprehension.

What's more

Speculation about the military's ambition to expand its roles has been rife following a series of events, including President Jokowi's approval of civilian posts for active officers and the recent establishment of 31 military districts in Indonesia's eastern region.

The formation of the Koopssus must not be necessarily regarded as the military's attempt to emasculate the established boundary which limits its maneuvers within the country. Previously, news about the military's internal mismanagement, which reportedly resulted in hundreds of idle middle- and high-ranking military officers, were rife. The initiative to form Koopssus, which comprises elite forces from the army, the navy and the air force, thus might be intended to preempt an internal rivalry among military officers in securing jobs and strengthen the unity among the three military branches.

The establishment of the Koopssus still sparks concerns among the public, particularly the human rights activists and civil society groups, as it increases the prospect of the military entering nonmilitary affairs. Human rights watchdog Imparsial, for instance, fears the expansion of the military's roles will restore its privileges under the authoritarian New Order regime. Previously, President Jokowi's administration was linked with the New Order due to his military-friendly policies and the presence of several military figures in his administration. Now, the formation of Koopssus might be perceived as another concerted effort of the military to regain their influence over domestic affairs.

Risma rumored to join Jakarta gubernatorial race

Overview

Although still two years away, the Jakarta gubernatorial election has triggered public discourse as to who will challenge the incumbent Jakarta Governor Anies Baswedan. Surabaya Mayor Tri “Risma” Rismaharini has been tipped as a real contender for Anies.

Having led Surabaya for almost 10 years, Risma rises to political prominence not only because of her jovial personality, but also her aptitude. Her inexpensive but effective waste management policy, in particular, has recently increased her popularity. It cost Surabaya only Rp 30 billion as against Jakarta’s whopping budget of Rp 3.7 trillion Anies has proposed to tackle waste.

The contest, however, is larger in its scope than what people assume as it is reportedly related to the 2024 presidential election; for Anies, his reelection will provide him an ideal platform to run for the presidency. Securing a second term as Jakarta governor will grant him not only a large base of support, but also enough capital to campaign.

For Anies, thus, the stakes will be even higher as some have predicted that he would find great difficulties in securing a spot in the next presidential election if he fails to retain his current position. A defeat in the 2022 race will deprive Anies of the much needed public exposure and relevance to contest the 2024 presidential election.

What's more

In securing the Jakarta gubernatorial seat, support from political parties is as important as having a great personal track record. Anies’ victory in the 2017 Jakarta election, for instance, was to a certain degree due to his success in winning endorsement of the Islamist Prosperous Justice Party (PKS). The PKS’ support proved crucial as the gubernatorial election was heavily tinged with identity politics, with the racial and religious identity of the then-incumbent Basuki “Ahok” Tjahaja Purnama being attacked.

It would be difficult, however, for Anies to repeat his strategy in 2022. Not only are Risma’s religious credentials much stronger than Ahok’s, supporters of Anies might not be able to play the Islamic card now that the prominent cleric Ma’ruf Amin, who was influential in Anies’ victory in 2017, will be the country’s vice president.

Now, support is building within the ruling Indonesian Democratic Party of Struggle (PDI-P), of which Risma is a cadre, for her to join the 2022 Jakarta gubernatorial race. The complete support of the PDI-P for Risma, however, remains questionable following reports about Risma’s strained relationship with PDI-P chairwoman Megawati Soekarnoputri. The disaffection between Risma and Megawati was reportedly prompted by a quarrel between Risma and her deputy Whisnu Sakti Buana; Whisnu, who replaced Risma’s previous deputy Bambang Dwi Hartono, was reportedly appointed without Risma’s approval. The PDI-P, however, might make a strong move soon following a statement from the NasDem Party expressing its willingness to nominate Risma as a candidate in the 2022 Jakarta gubernatorial race. Given Risma’s considerable popularity and bright political prospects, the PDI-P might not want to lose one of its golden geese.

What We've heard

Risma's alleged candidacy for the 2022 Jakarta gubernatorial race has reportedly become a battlefield between the NasDem Party and the PDI-P where they are attempting to outmaneuver each other as both parties reportedly plan to "recruit" Risma. The PDI-P, furthermore, was allegedly aware that NasDem chairman Surya Paloh's meeting with Anies two weeks ago was not about the governor's reelection bid in the 2022 Jakarta gubernatorial election, but their meeting centered instead around the Jakarta deputy gubernatorial post that has been left vacant.

Introducing Risma to the public as a potential gubernatorial candidate, thus, is the PDI-P's response to the ongoing drama around the Jakarta gubernatorial election.

"Do they think we're stupid? We were informed by Anies and people close to Paloh [regarding the earlier meeting between Anies and Paloh]," said a PDI-P executive.

The PDI-P's maneuver has reportedly taken NasDem by surprise as it increased Risma's popularity with no difficulties. Such a maneuver has allegedly made the PDI-P more certain that it would not run out of potential cadres.

"They [NasDem Party] got surprised. We all know that it is impossible for Risma to be like the Emils," said the source. The Emils meant by the source are East Java Deputy Governor Emil Dardak, a former PDI-P cadre who switched his allegiance to the Democratic Party, and West Java Governor Ridwan "Emil" Kamil, who has been reportedly "wooed" by NasDem despite having won the last West Java gubernatorial election through the PDI-P's candidacy.

The PDI-P's next objective is to accommodate other parties' alleged desire to revise the Regional Elections (Pilkada) Law. The Pilkada Law stipulates that the next regional election after the 2020 election will be held in 2024. This will make governors whose term of office ends in 2022 and 2023 "unemployed" until the 2024 election. Anies, whose appointment will end in 2022, thus, will be among the "unemployed", losing the much-needed political exposure in two years until the 2024 election.

Revising the Pilkada Law, according to a Golkar senior politician, will benefit all parties, particularly the PDI-P and Gerindra Party. "They [the PDI-P and Gerindra] want to join hands, but they have yet to have an apt candidate to nominate for the 2024 election," added the source. Other governors whose term will also end in 2023, namely Ridwan Kamil and East Java Governor Khoffifah, would also not lose political exposure.

A ministerial post, on the other hand, has been reportedly prepared for Risma. "The ministerial post [for Risma] will have a considerable social effect," said another PDI-P executive.

The PDI-P's strategy is to ensure that its cadres, including Risma, will be benefitted regardless of what happens in the future. Regarding the plan to revise the Pilkada Law, however, the PDI-P is still tentative; it waits for other parties' move. "If it looks like the other parties want to revise the law, we will push Risma's candidacy. We've also prepared a deputy for her," said a source from the PDI-P.

PSSI's search for new boss

Overview

On July 27, the Soccer Association of Indonesia (PSSI) completed one of its key agendas, which was to hold its much-anticipated extraordinary meeting after the revelation of the match-fixing scandal involving several of its executives.

The congress resulted in the appointment of new members of its organizing and appeal committees as well as an amendment of the PSSI statute, which sets new criteria for the appointment of the next PSSI executive committee members and officials.

The meeting also set the date of the next congress, in which the PSSI will elect its new chairman, for Nov. 2 instead of the initial schedule of January 2020.

At least four people have declared an interest in the PSSI top job, namely former Jakarta Police chief Comr. Gen. Mochamad Iriawan, former manager of the now defunct Pelita Jaya soccer club Rahim Soekasah, Nine Sport Inc. chief executive officer Arif Putra Wicaksono and media tycoon and former chairman of Joko Widodo-Ma'ruf Amin campaign team Erick Thohir.

For the last three decades, succession in the PSSI has failed to bring positive impacts on the country's performance in soccer as expected. The world's soccer governing body FIFA ranked Indonesia a low 160 as of June this year from previously 159.¹

As Indonesia's governing body of soccer, the PSSI is, indeed, responsible for such regression. The PSSI leadership has failed to deal with mismanagement besetting the organization as evident in the entrenched match fixing practice. Its chairman Edy Rahmayadi opted to resign for failing to stop the practice. Interim chairman Joko Driyono, who replaced Edy, was later arrested for his alleged role in the latest match-fixing scandal to hit PSSI, but was recently convicted of destroying evidence only.

The question, therefore, lingers as to why the PSSI top position is highly contested if hopes for improvement in the country's soccer fade.

What's more

As the most popular sport in the country, soccer naturally attracts huge public attention and support. It is, therefore, unsurprising that soccer as well as its governing body PSSI, are seen as one of the most tantalizing political vehicles.

During the campaign period, most candidates for regional PSSI chapter heads expressed their eagerness to improve the local soccer team or at least pay a visit or greet the supporters of the region's soccer team to lure public support.

History shows the PSSI chairman position was contested by politicians, bureaucrats and Army generals as part of efforts to gain support at the grassroots. The race for PSSI chairman, for instance, featured familiar names such as Lt Gen. Edy Rahmayadi who, at that time was also in contention for North Sumatra governor post, former Indonesian Military chief Moeldoko and Brig. Gen. Bernhard Limbong.²

The discussion on the PSSI's management and leadership, thus, becomes more necessary considering the high amount of funding involved. In 2017, FIFA agreed to provide Rp 16.6 billion (US\$1.25 million) for PSSI annually for the next four years to support the development of soccer in Indonesia.³ Furthermore, in 2017, PSSI's annual financial statement showed that it posted Rp 3 billion in profit from the Rp 110 billion revenues received from the state budget, sponsors and broadcasting rights.⁴

The PSSI, however, has frequently complained about a budget crisis which resulted in its failure to hold a soccer league and lead Indonesia's soccer team to international achievements.⁵ The PSSI, as neither a governmental nor public institution, therefore, is not required to announce its annual budget.

To develop the quality and potential of the nation's soccer talents, PSSI must first improve its management and leadership which could start fresh from the appointment of its new chairman. The race, however, is not without flaws either.

What We've heard

The newly formed Anti-Soccer Mafia task force, which was set up by the National Police to eradicate corruption in the administration of Indonesian soccer, is reportedly part of the contestation of PSSI's chairmanship. One of the candidates for PSSI's new chairman, former Jakarta police chief Comr. Gen. Mochamad "Iwan Bule" Iriawan, is reportedly endorsed by National Intelligence Agency (BIN) chief Budi Gunawan and National Police chief Gen. Tito Karnavian. There are several scenarios prepared to smoothen Iwan's way to obtain the PSSI chairmanship, one of which is by establishing a team, which comprises a number of army generals and colonels and high-ranking police officers, specializing in ensuring Iwan's victory.

One of Iwan's contenders, businessman and former PSSI deputy chairman Nirwan Bakrie, who is known for his checkered past in soccer, has reportedly set up several PSSI leadership packages to secure some key positions in the PSSI. The prepared leadership packages ensure that even if Iwan gets the PSSI chairmanship, the deputy chairman and secretary-general post will still be under Nirwan's control.

Several candidates who are reportedly close to and endorsed by Nirwan for the top posts in the PSSI is current PSSI secretary-general Ratu Tisha Destria and two other unnamed individuals who are currently managing the PSSI's league management.

"The Anti-Soccer Mafia team has softened up its approach because there were some political aspects in their job," said a source who was involved in the investigation.

Currently, both Iwan and his fellow contender, Madura United Football Club president Achsanul Qosasi, are deemed unbeatable in Indonesia's soccer scene. Thus, their candidacy is fully supported by young officials within the PSSI. However, the influence of former PSSI leaders is what has made the performance of the PSSI deteriorate from time to time. "This time, Iwan could face some serious and strong contenders for the chairmanship given the hefty political aspects in the current PSSI chairman contest," said a source who was close to Nirwan.

Nirwan is still confident about his candidacy. Iwan's wish to meet Nirwan has yet to be granted.

BUSINESS & ECONOMIC POLICY

Blackout fiasco reveals PLN problems and lack of mitigation system

Overview

Electricity in Jakarta, Banten, West Java, and parts of Central Java went out last Sunday. State-electricity company PLN suffered a huge financial loss, and customers suffered even more. The blackout exposes many problems in PLN and our electricity system, which lacks a backup for the capital city (see **What's more**).

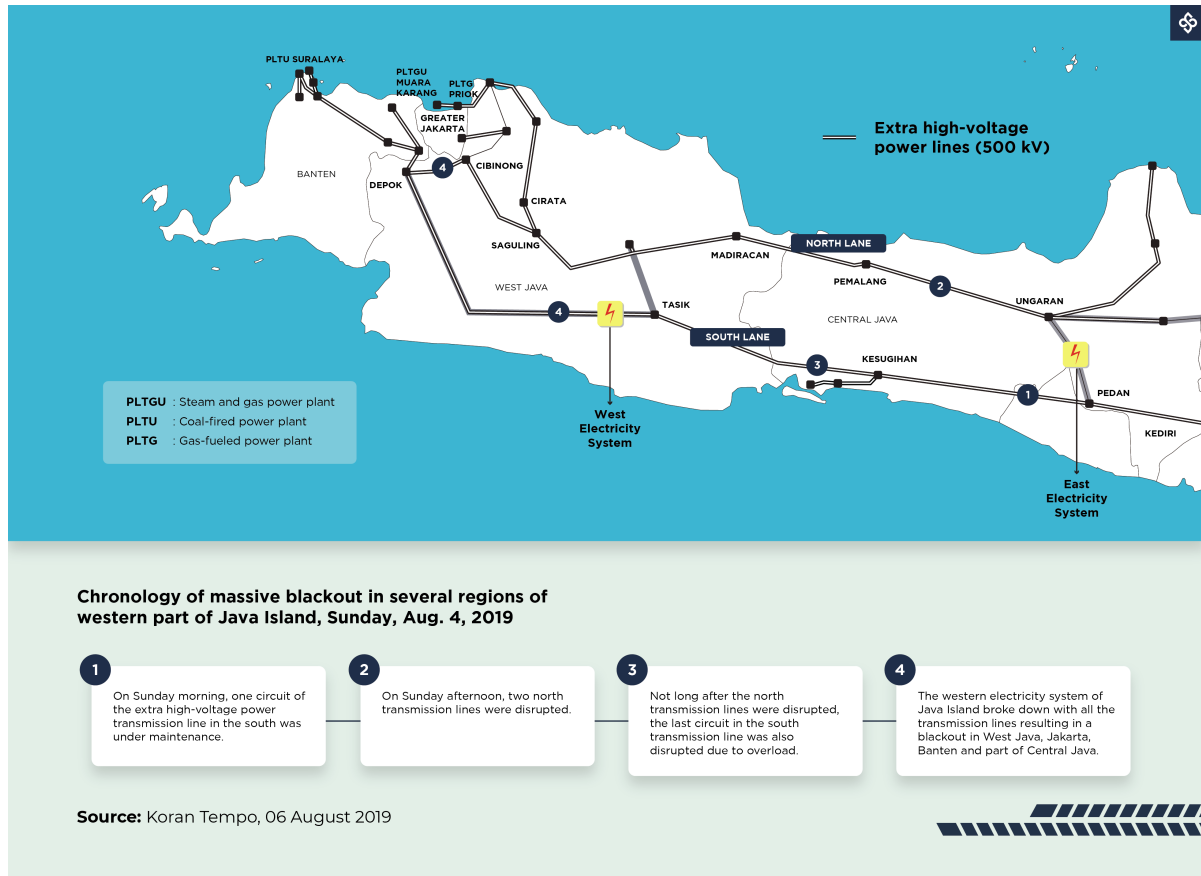
On paper, PLN should have enough electricity to power Java and Bali since PLN has an installed capacity of 34,550 megawatts (MW), about 28 percent more than what consumers need of 27,070 MW. The Java-Bali area is served using an interconnection system consisting of 250 power plants and substations, with over 5,000 kilometers of high-voltage transmission lines (Sutet) spread in the north and south of Java and even longer lines of medium and low voltage networks, and they are all interconnected.

The advantage of this system, according to electricity expert from Gadjah Mada University Tumiran, is that it guarantees a more efficient and reliable supply. For example, if one power plant is interrupted, other plants can still supply power.¹ But the question is why the blackout still happened for so long (about eight hours, and in some areas 12 hours and more) and covered so many areas – one third of Java island. Up until now, PLN still has no answer to the massive blackout. (See **What's more**).

One possible cause of the blackout is the disruptions in the high voltage transmission line, which transport electricity from the eastern part of Java to the western part of Java. However, this begets another question as there are big power plants in western part of Java, including coal-powered Suralaya, with a capacity of 3,400 MW. In addition, Jakarta has backup power plants from Muara Karang (1,600 MW) and Tanjung Priok (2,000 MW). Our source said that at the time of the blackout, Muara Karang and Tanjung Priok power plants were shut down because the two plants were used as peaking, meaning that it would only supply electricity to Jakarta during peak time in the evening, while the blackout happened during daytime. As a result, the outage lasted longer than it should have.

Legislator Bara Hasibuan from the House of Representatives energy commission suspected that the failure of at least two backup power plants to integrate into the system was due to efficiency efforts made by PLN. PLN acting president director Sripeni Inten Cahyani rejected this accusation and had said the two power plants were on when the blackout occurred but then they tripped and lost power.²

Sripeni said PLN was still investigating the cause of the blackout. She promised PLN would complete the investigation in the next three months. In addition to finding out the cause and chronology of the incident, this investigation should also suggest a detailed mitigation mechanism so that the blackout like last week would not recur.



What's more

People are still in the dark as to why the blackout covered so many areas and lasted more than eight hours. PLN officials initially gave different explanations, fueling only public confusion. Even President Joko “Jokowi” Widodo could not hide his disappointment with PLN during a visit to the company’s head office on Monday. “My question is, all of you ladies and gentlemen are smart, experienced people in electricity So why wasn’t it calculated that a problem could occur and not preempted?” said the president after hearing a long and winded explanation as to why the incident happened from Sripeni.³

Amid speculation as to the cause of the blackout, the police came out with an interesting explanation. National Police spokesman Brig. Gen. Dedi Prasetyo said that the blackout was likely caused by overgrown *segon* tree of over 8.5 meters located under the Sutet transmission line in Gunung Pati, Semarang, Central Java. According to the police, a *segon* tree caused disruptions in the north Sutet transmission line, while the south Sutet line was under maintenance.

Former PLN president director Dahlan Iskan used the police’s version to question why PLN was so reckless in its mitigation efforts. On his blog⁴, Dahlan explained that when he led PLN, the company had a special force called the Work on Voltage (PDKB), consisting of highly trained engineers who could maintain, fix and replace power isolators and other electrical components in the network without turning off the electricity, so consumers’ access to electricity remained uninterrupted. Also, these special forces often patrol along the Sutet line to monitor whether there are overgrown trees or any other objects that might interfere with Sutet. Where are the elite team now? If the team were still on duty, Sutet should not have been turned off when the maintenance process was carried out.

However, Sripeni could not confirm if the *sengon* tree was the culprit behind the blackout, saying that PLN was still investigating the real cause of the blackout.⁵

How much did the blackout cost?

The blackout had harmed the economy and lives of many people. The loss was estimated to be more than Rp 1 trillion (US\$70.4 million)⁶. The biggest loss was borne by PLN, which had to pay compensation to customers of Rp 865 billion. However, the compensation will not be in the form of money but a reduction of electricity bills based on the duration of the blackout and usage of power during the outage⁷.

Businesses were suffocating as well. Indonesian Retailers Association (Aprindo) chairman Roy Nicolas Mandey estimated Aprindo's members to lose more than Rp 200 billion due to the blackout. Communications and Information Minister Rudiantara had estimated mobile operators had lost up to Rp 100 billion as thousands of telecommunication towers stopped functioning when the electricity went out. PT MRT Jakarta also had to bear a loss of Rp 507 million due to the blackout, disappointing 52,898 passengers. Meanwhile, PT Kereta Commuter Indonesia (KCI) canceled 512 trains and 42,506 tickets as of Monday. KCI vice president Erni Sylviane said that she could not estimate the value of the loss in rupiah.

The digital economic sectors were also affected by the blackout since they depend on stable electricity and cell phone signals. Research by Tenggara Strategics and Center for Strategic and International Studies (CSIS) estimated that Grab's consumers in Jabodetabek would suffer a loss of about Rp 5 billion in the form of missing consumer surplus for every hour Grab's services were halted⁸. This includes services such as GrabBike and GrabCar. In addition to digital transportation services, digital financial services like LinkAja, Ovo, GoPay, and Dana also suffered since they lost a lot of transactions that should have been made if electricity services were in place. GoPay, for example, was estimated to lose up to Rp 59.5 billion when the electricity went out for 6 hours straight.⁹

Negotiation over IDD drags on, Chevron rumored to exit

Overview

Upstream Oil and Gas Regulatory Special Task Force (SKK Migas) chairman Dwi Soetjipto once said that he was optimistic that the Plan of Development (PoD) for a long-awaited mega gas project, the second phase of the Indonesia Deepwater Development (IDD) in Kutai basin in East Kalimantan, would be completed in the first half of 2019.

However, entering the second half of 2019, SKK Migas and the contractors are still far apart in their positions, and lead contractor Chevron is even said to be considering pulling out from the project for another bigger project in the United States (see **What we've heard**).

Negotiations between Chevron and the government on the appropriate economic value for the second phase of the IDD in Gehem-Gendalo field – which aims to produce 1.1 billion standard cubic feet per day (mmfcd) of gas and 47,000 barrels of condensate per day (bcpd) by 2023 – have been dragging for too long.

The first PoD proposed by Chevron in 2008 was worth US\$7 billion. However, due to the oil

price hike at the time, Chevron proposed a revised development plan with a higher investment value of \$12 billion in 2013. The proposal was then rejected by the government. In 2015, Chevron submitted a revised PoD with \$9 billion investment and more than 100 percent investment credit as an incentive. This proposal was also rejected by the government. At the time, the government wanted Chevron to revise down the value of investment to \$6 billion. Chevron complied and submitted a revised development plan for the third time last year worth \$6 billion. However, Chevron asked for 240 percent credit investment, which exceeded the government's 100 percent limit.¹

After a series of failures in negotiations, Chevron is even said to have handed over the IDD project to its partner ENI of Italy. Chevron, through PT Chevron Pacific Indonesia, controls the IDD project by 62 percent, while Eni has 20 percent and China's Sinopec takes the remaining 18 percent.

Dwi Soetjipto, however, said that Chevron is still with the IDD project, saying "the discussion about the PoD is still ongoing and Chevron is still the operator," on July 24².

What's more

The IDD project consists of two gas fields – from the original four fields. The first phase in the IDD project is the Bangka Field Development Project, a field much smaller in scale compared to that of the second stage. The Bangka Project has a design capacity of 110 million cubic feet (mmscf) of natural gas and 4,000 barrels of condensate per day.³

The government approved the final development investment decision for the Bangka Field in the first half of 2014. Chevron and its partners immediately began drilling two wells in the second half of the year. The project announced its first gas production on Aug. 31, 2016 with 64 mmscf gas production. As of 2018, the field produces 85 mmscf and 2,400 barrels of condensate.

The second stage of the project is the development of the Gendalo-Gehem fields, the prima donna of this IDD project. The project has a planned design capacity of 1.1 billion cubic feet of natural gas and 47,000 barrels of condensate per day⁴, more than 10 times of Bangka Field capacity in the first stage.

The IDD initially comprised four contract areas: Bangka, Gehem-Gendalo, Maha and Gandang. In June 2018, Chevron presented a revised plan of development to the government to extend the contracts of three blocks only. However, not long after that, Chevron decided not to extend the contract of another block as it considered the block uneconomical. So, the IDD now has only two blocks, Bangka and Gehem-Gendalo.⁵

What We've heard

A senior official at SKK Migas said Chevron was considering to pull out from the IDD project and focus more on its bigger project in the Permian Basin that stretches from West Texas to southeast of New Mexico in the United States. In Permian, Chevron controls 8,903 square kilometers of area.

The same source also said that Chevron's plan of leaving the IDD opened the opportunity for ENI, another contractor in the field, to take over as the lead operator. Another source said that Eni had long wanted to increase its investment and portfolios in Indonesia. That's why Eni — and Sinopec, yet another contractor — is still waiting for Chevron's decision.

However, a number of parties questioned ENI's capability to become the lead operator of the giant IDD project. They considered ENI not to have the necessary technology at the level of Chevron's to develop deep-water projects. The source sees Shell as a company whose technology is comparable with Chevron, which is currently together with Inpex developing the Masela Block in the Arafura Sea in Maluku.

Another SKK Migas official said that Chevron was apparently disappointed with the long and winding process in the negotiation for the IDD PoD. Chevron, which lost its lucrative Rokan Block in Riau to Pertamina, is said to have no strong reason to keep the IDD.

One point of contention is the incentive that Chevron has demanded. Chevron has asked for a 240 percent credit investment, which exceeds the government's 100 percent limit. It complicates SKK Migas' position in the negotiation. SKK Migas uses the incentive that the government has given to the Merakes Block which is close to the Makassar Strait as a reference. In the Merakes Block project, Eni and Sinopec are the contractors.

Conflict of interest lurks behind Krakatau Steel

Overview

State-owned steelmaker Krakatau Steel is once again in the spotlight after its independent commissioner Roy Edison Maningkas talked about his resignation with the media. In his stunning interview with CNBC Indonesia, Roy said that he was resigning from his position because of a disagreement regarding the conduct of the operational assessment on Krakatau Steel's blast furnace facility constructed by the Metallurgical Corporation of China's Capital Engineering and Research Incorporation Ltd. (MCC CERI) from China. Roy wants the assessment to be conducted by an independent consultant, not by Krakatau Steel.¹

In response to Roy's interview, Silmy insisted that the assessment process should continue to determine the next course of action.² The possible next course of action is to ask for a refund from the contractor MCC CERI over the blast furnace facility's failure to meet what was expected in the feasibility study (see **What We've Heard**). Supreme Audit Agency (BPK) member Achsanul Qosasi reiterated the agency's finding that this investment was a failed project that should be closed down.³

On the other hand, MCC CERI claims that this project, which was commenced in 2012, was a huge success conducted under the Belt and Road Initiative (BRI) that was launched in 2013.⁴ In fact, this project was initiated as a response to the previous president Susilo Bambang Yudhoyono's Master Plan for Acceleration and Expansion of Indonesian Economic Development (MP3EI).⁵ (see **What's More**)

What's more

As written in the MP3EI document, iron steel manufacturing is a strategic industry that serves as the main economic driver in Sumatra and Kalimantan economic corridor where most of Indonesia's iron ore deposits are located. Krakatau Steel's smelter facilities that are located in Cilegon, Banten will support the development of the iron steel industry in Sumatra, connected by the Sunda Strait bridge. On the other hand, the development of the iron steel industry in Kalimantan will be driven by private

investors with an estimated potential investment value of Rp 40 trillion (US\$2.8 billion).

Even though the current President Joko “Jokowi” Widodo administration has not adopted the MP3EI as its official development policy, the legacy of MP3EI still affects Indonesia’s economic affairs. One example is the Indonesia Morowali Industrial Park (IMIP), which was initiated under the MP3EI framework before transforming into China’s BRI project.

What We've heard

According to a high official from a state-owned enterprise, before Krakatau Steel’s independent commissioner Roy Edison Maningkas submitted his resignation letter, he brought five consultants from China to meet with president director Silmy Karim in his attempt to accelerate the operational readiness assessment process of the state-owned steelmaker’s blast furnace facility. Roy demanded the assessment should be conducted by an independent consultant from China over a six month trial period. Nevertheless, Silmy refused to meet Roy’s demand and insisted that Krakatau Steel should supervise the assessment directly in a two to three month trial period.

Silmy wanted Krakatau Steel to supervise the operation directly, because he suspected the investment, which was initiated by former president director Fazwar Bujang, was a mistake. “If he could prove his suspicion, Silmy could quickly submit a complaint to the Chinese contractor, Metallurgical Corporation of China’s Capital Engineering and Research Incorporation Ltd. (MCC CERI), and asked for a refund,” the source said.

Another source confirmed that Krakatau Steel’s blast furnace investment was a mistake, because the investment decision was made without a comprehensive feasibility study. Moreover, Krakatau Steel already had a blast furnace facility constructed under joint venture with South Korea’s Pohang Iron & Steel Company (POSCO). “The investment decision angered POSCO,” the source said.

The completion of Krakatau Steel’s blast furnace, initially expected to be complete in 2014, was delayed several times because of repeatedly changing technical specifications. Consequently, the investment cost swelled from Rp7 trillion to Rp10 trillion. Some Krakatau Steel employees doubt that the investment can reduce production costs by up to US\$58 per ton as initially expected.

Indonesia Macro Update: Food price inflation under control amid harsh drought

Overview

Last month, Coordinating Economic Minister Darmin Nasution warned other ministries about the risk of rising food price inflation. “If [food inflation] is left unmanaged, this year inflation could go above the 4 percent ceiling,” Darmin said.¹

In response to Darmin’s statement, the Agriculture Ministry has continued its open market operation to stabilize food prices. Because of this continued intervention, the government has achieved some successes. For instance, the price of garlic went down to Rp 34,600 per kg in the first week of August, from Rp 39,050 in the first week of July. Likewise, the broiler price has stabilized at around the level of Rp 33,000 in August, after rising to Rp 36,500 in mid-July. Consequently, monthly food price inflation in July decreased to 0.8 percent from 1.63 percent in the previous month.

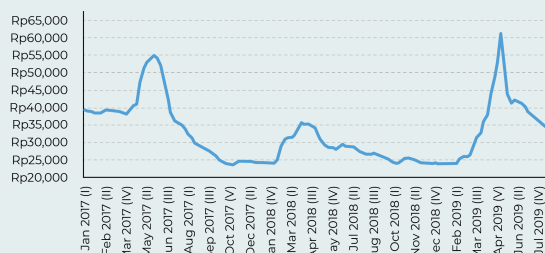
The Agriculture Ministry's successes in managing food price fluctuations have decreased the risk of inflation exceeding the 4 percent ceiling. Compared to accumulative inflation from January to July 2017 at 2.57 percent, this year's accumulative headline inflation in the same period was relatively moderate at 2.33 percent. Nevertheless, there is still work to be done to stabilize the prices of some strategic commodities, specifically chili and cayenne pepper (see **What's More**).

What's more

The Meteorology, Climatology and Geophysics Agency (BMKG) reported that Indonesia will have a harsher dry season in 2019 due to the El Nino phenomenon.² Compared to other years, particularly in 2015, 1987 and 1997, when the world suffered from the worst El Nino, the 2019 El Nino index (ENSO) is still relatively moderate.

Whatever the level is of this year's El Nino, its effect on the national economy has been severe. Because of the prolonged drought, the chili price increased to more than Rp 60,000 per kg in August, the highest in this past three years. The price of cayenne pepper has also risen rapidly, from Rp 40,000 in June to Rp 70,000 this month.

**National Garlic Price, Weekly,
Jan 2017 (I) - Aug 2019 (I)**



Source: Information Center for Strategic Food Prices (PIHPS)

**National Broiler Price, Weekly,
Jan 2017 (I) - Aug 2019 (I)**



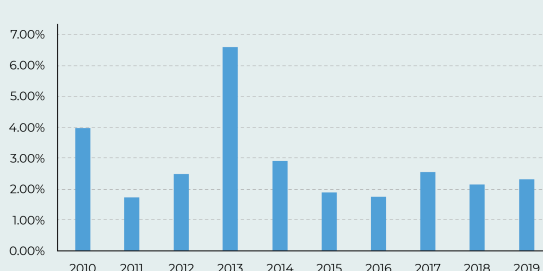
Source: Information Center for Strategic Food Prices (PIHPS)

**Monthly Food Price Inflation,
January - July 2019**



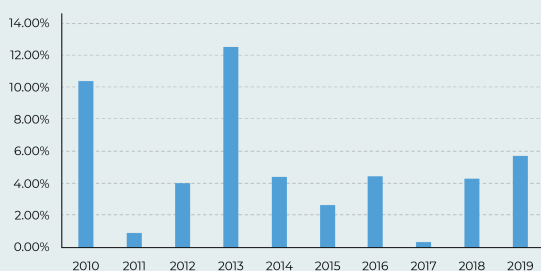
Source: Statistics Indonesia (BPS)

**Accumulative Headline Inflation,
Jan - Jul 2010 - 2019**



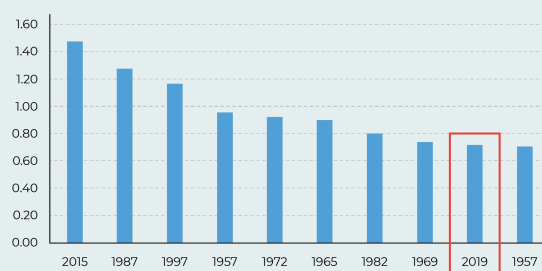
Source: Statistics Indonesia (BPS)

Accumulative Food Inflation, Jan - Jul 2010 - 2019



Source: Statistics Indonesia (BPS)

El-Nino/Southern Oscillation Index (ENSO), Selected Years



Source: The United States National Weather Service (US-NWS)

National Chili Price, Weekly, Jan 2017 (I) - Aug 2019 (I)



Source: Information Center for Strategic Food Prices (PIHPS)

National Cayenne Pepper Price, Weekly, Jan 2017 (I) - Aug 2019 (I)



Source: Information Center for Strategic Food Prices (PIHPS)

Questioning Koopssus' urgency

¹<https://tinyurl.com/y6gmsgyw>

²Koran.tempco.co, "Koopssus Dianggap Berpotensi Melanggar HAM" 02 August 2019
<https://tinyurl.com/y5fah5kh>

³Merdeka.com, "Beda Tugas Koopssus TNI dan Densus 88 Polri Saat Berantas Teroris" 30 July 2019
<https://tinyurl.com/y2x6pavf>

PSSI's search for new boss

¹Bola.com, "Ranking FIFA Terbary: Indonesia Dilewati Malaysia" June 14, 2019 <https://tinyurl.com/y4q9t6ye>

²Sports.detik.com, "Ini Profil 9 Calon Ketua Umum PSSI" November 9, 2016 <https://tinyurl.com/y3gj57ng>

³Bola.com, "FIFA Kucurkan Dana Rp 16,6 Miliar per Tahun untuk PSSI" February 19, 2017
<https://tinyurl.com/y2ytlxu6>

⁴Sepakbola.com, 'Laporan Keuangan 2017: PSSI Untung Rp 3 Miliar dan Targetkan Dapat Anggaran 'Super Wah' pada 2018" January 13, 2018 <https://tinyurl.com/yxjzzjuh>

⁵Sports.detik.com, "PSSI Tak Punya Uang: Betul-betul Bokek atau Sekedar Retorika?" April 5, 2019
<https://tinyurl.com/y3n6t62k>

Blackout fiasco reveals PLN problems and lack of mitigation system

¹Kompas, "Menjaga Nyala Listrik," 6 August 2019 p.1

²Koran Tempo, "PLTGU Penopang Listrik Jakarta Dicurigai Tak Bekerja Optimal," 7 August 2019

³The Jakarta Post, "Who's to blame for blackout fiasco?" 7 August 2019 p. 1

⁴Disway.id, "Sengon 1 Triliun," 7 August 2019 <https://tinyurl.com/y2bzeruj>

⁵Liputan6.com, "Dirut PLN: Biang Kerok Listrik Padam Bukan karena Pohon Sengon," 6 August 2019 <https://tinyurl.com/yyxke3sn>

⁶Koran Tempo, "Kerugian Akibat Listrik Padam Tembus Rp 1 Triliun," 7 August 2019 p.2

⁷Kontan, "Kerugian Bisa Tembus Rp 1 Triliun," 6 August 2019 p.1

⁸Tenggara.id, "Grab technology contributes Rp 46 trillion in consumer surplus," <https://tinyurl.com/y38ywt6>

⁹See note 6

Negotiation over IDD drags on, Chevron rumored to exit

¹Kontan.id, "Biaya proyek IDD Gendalo-Gehem dipangkas US\$ 6 miliar," 27 June 2018
<https://tinyurl.com/yyp5l6vw>

²Katadata.co.id, "SKK Migas Pastikan Diskusi Proyek IDD dengan Chevron Masih berjalan," 25 July 2019
<https://tinyurl.com/y2jm8jwj>

³Chevron.com, "Chevron announces first gas from the bangka project in east Kalimantan, Indonesia," <https://tinyurl.com/y5x82fwr>

⁴Chevron.com, "Indonesia deepwater development," <https://tinyurl.com/y3qrswcp>

⁵The Insider Stories, "Chevron Pacific Indonesia Backs Down from Makassar Strait Block," 11 July 2018
<https://tinyurl.com/y9wexsx8>

Conflict of interest lurks behind Krakatau Steel

¹CNBCIndonesia.com, "Komisaris KRAS buka suara soal proyek blast furnace." 24 July 2019
<https://tinyurl.com/y373p4fx>

²CNBCIndonesia.com, “Bos KRAS: Kalau proyek blast furnace mangkrak, lebih parah!” 24 July 2019
<https://tinyurl.com/y62l22ny>

³CNBCIndonesia.com, “BPK: Krakatau Steel harus hentikan proyek blast furnace!” 30 July 2019
<https://tinyurl.com/y2aqhy7q>

⁴MCC.com.cn, “The hot firing of 180 m2 sintering machine of PT Krakatau Steel blast furnace project undertaken by CERI succeeds.” 29 November 2018 <https://tinyurl.com/y5bmwzgh>

⁵Krakatausteel.com, “Peninjauan Presiden Republik Indonesia mengenai kesiapan PT Krakatau Steel (persero) Tbk dalam menunjang program MP3EI.” 29 February 2012 <https://tinyurl.com/y4yv54zq>

Food price inflation under control amid harsh drought

¹CNNIndonesia.com, “Menko Darmin peringatan inflasi bisa tembus 4 persen.” 1 July 2019
<https://tinyurl.com/y67zqh3c>

²Kompas.com, “BMKG: Musim kemarau tahun ini lebih lama, harap waspada kekeringan.” 7 August 2019
<https://tinyurl.com/yypwm9am>

Tenggara Strategics is a business and investment research and advisory institute established by the Centre for Strategic and International Studies (CSIS), The Jakarta Post and Prasetya Mulya University. Combining the capabilities of the three organizations, we aim to provide the business community with the most reliable and comprehensive business intelligence related to areas that will help business leaders make strategic decisions.



PT Trisaka Wahana Tenggara

The Jakarta Post Building
Jl. Palmerah Barat 142-143
Jakarta 10270

+62 21 5300476/8 ext. 2009
info@tenggara.id
www.tenggara.id

Board of Commissioners:

Jusuf Wanandi, Djisman S. Simandjuntak, Endy M. Bayuni

Board of Directors:

Riyadi Suparno, Phillips J. Vermonte, Deddi Tedjakumara

Guarantor: Riyadi Suparno

Researchers & Writers:

Astria Zahra Nabila, Adinova Fauri, Bayu T. Perkasa, Benni Yusriza, Camilia Adianti, Dwi Atmanta, Frans Surdiasis, Stella Kusumawardhani, Lionel Priyadi, Vincent Lingga, Yessy Rizky.

Disclaimer :

Tenggara Strategics always aims to use reliable sources in providing our best analysis to our clients, and is not responsible for any errors, inaccuracies and/or viewpoints in the original source material upon which we have based our analysis. The analysis contained in this document is intended exclusively for our clients who have subscribed to this service, and is not for public consumption or dissemination. Nothing contained herein shall to any extent substitute for the independent investigations and the sound technical and business judgment of the reader. In no event will Tenggara Strategics, including its employees, be liable for any decisions made or actions taken in reference to the information contained in these documents, or for any incidental, consequential, indirect, special or exemplary damages, including damages from loss of profits or opportunities, even if advised of the possibility of such damages.