

Highlights of the week



Attack in Papua, Jokowi's miscalculated program

The recent massacre of civilian workers in Nduga Regency, Papua, reminds the public about the long-protracted issue in Papua. Despite vigorous developmental efforts in the region, local conflicts still mar Papua's security and stability. What possibly went wrong?



Pancasila education reminisces New Order's

President Joko "Jokowi" Widodo's plan to revive Pancasila education into the national school curriculum echoes former President Soeharto's Pancasila indoctrination program. This time, Jokowi may employ the same strategy to counter the rise of Islamism.



News SKKMigas chief faces daunting tasks

Dwi Soetjipto, sacked from his position as CEO of state oil and gas giant Pertamina almost two years ago, was appointed last week as the head of the Upstream Oil and Gas Regulatory Special Task Force (SKKMigas). His tasks would include, but not limited to, two daunting tasks: speeding up the progress of Masela block in Maluku and the Indonesia Deepwater Development (IDD) in Kalimantan. How the man behind Semen Indonesia establishment should maneuver this time?



Indonesia's worrying plastic consumption

The discovery of a dead sperm whale with nearly 6 kilograms of plastic waste in its stomach at the Wakatobi National Park in Southeast Sulawesi urged the government to prepare stronger waste control and management regulations. Regardless of government attempt to levy environmental tax, there are underlying issues that have to be pushed to industry players before implementing such levy.

POLITICS

Attack in Papua and Jokowi's miscalculated program

The slaughter of dozens of civilians in Nduga, Papua, by an armed group has led many to question about what possibly triggered the killings, particularly as the circumstances surrounding the murder remain unclear. Indeed, Papua is rife with conflict, yet the recent attack is deemed too abrupt and the number of civilian casualties is unprecedented. Considering that Papua is one of the President Joko "Jokowi" Widodo administration's central focuses, such an onslaught should have been avoided. What, then, possibly went wrong?

Takeaway:

- Inadequate development and security aspects in Papua exacerbate each other, creating vicious circle which perpetuates local conflicts in the region
- President Jokowi's developmental efforts are to a large degree based upon generic economic considerations, which may be incompatible with the locals' needs.
- The absence of clear separation of duties between the military and the police in Papua makes the region's security and stability shaky.

Background: On Dec. 1, armed people affiliated with the Free Papua Movement (OPM) separatist group kidnapped and murdered dozens of workers of state-owned construction company PT Istaka Karya. The workers were assigned to build a 275-kilometer road as part of President Jokowi's flagship trans-Papua project.

Following the massacre, two questions have arisen. First, why does Papua remain swarmed with armed conflict? Given the President's considerable efforts to bring welfare to Papua, the root cause of the conflict should be first addressed before his plans can commence.

Second, since the massacre occurred, the government's capability to protect its people has come under scrutiny. For some, the Nduga massacre exposes yet again the frail security arrangement in restive areas like Papua, which stems from the separation of the National Police from the Indonesian Military (TNI) about 20 years ago. Following the division, the military's primary responsibility is to counter threats against the country's sovereignty, including separatist movements. Meanwhile, the police are responsible for internal security and order.

Addressing the two abovementioned issues is a must to acquire a better perspective of Papua and its security problem, from which the prescription on how to prevent conflict and create lasting peace in the region can be established.

Insight: In the wake of uncertainty, security threats are no longer interpreted in a conventional sense. The term non-traditional security emerged as people realized that their security was more often jeopardized by non-military threats on a daily basis, such as financial instability, food insecurity and environmental degradation. The survival and well-being of *individuals*, rather than the *state*, thus takes center stage.

One approach often employed to address non-traditional security threats is the security-development nexus, a notion which argues that development and security can both enforce and diminish one another; countries' failure to promote developmental efforts often prompts

security issues, while developing people's prosperity and standards of living will grant the public "freedom from fear" and "freedom from want". These freedoms, according to the notion's advocates, increase people's status quo and thus provides the best incentive for the public's participation in safeguarding existing stability and security.

Papua, nonetheless, lacks both development and security aspects. In terms of development, undoubtedly Papua is one of Jokowi's priorities. Under the Jokowi administration, in 2016 alone, Papua and West Papua received a whopping Rp 85.7 trillion in development funds, with trans-Papua being one of the signature projects. President Jokowi stated the 4,330 km road project, which is expected to improve connectivity, would grant Papuans an improved access to basic services and commodities. Furthermore, Jokowi insisted that better connectivity would augment job opportunities and enhance human development in the region.¹ Despite all of this, however, criticisms over Jokowi's lack of localized approach remain.

The most prominent challenge surrounding development projects in Papua is the government's failure to perceive the region as it actually is. In reality, policymakers in Jakarta often look at Papua from their Jakarta lens. The administration's economic considerations, namely mobilizing the public and enhancing their economic activities, is not supplemented with local circumstances. In the case of Papua, the representation of Papua as an isolated region that is in dire need of road connectivity justifies Jokowi's zeal over infrastructure projects, including the trans-Papua project, without considering whether Papuans need such projects at the present time.

In reality, however, Papuans' feeling of isolation is not only caused by inadequate road connectivity, but also by the government's detached response toward their political and social struggle and local needs. The history of Papuans' campaign for self-determination is long and arduous, imbued with numerous alleged human rights violations. The recent arrest of hundreds of Papuans following rallies on Dec. 1 commemorating the birth of the West Papua nation in 1961, for instance, illustrates the prevalent oppression of Papuans' political rights.² Furthermore, some argue that economic opportunities generated by road construction in Papua is often more available to new skilled merchants, who are mostly migrants, rather than local Papuans.³ On the contrary, instead of benefitting the locals, construction programs often threaten the locals' source of income and places to live. Increased construction programs, for instance, often result in an equally increased demand for materials, specifically wood, leading people to cut down trees and sell the wood to traders. Consequently, not only does this enhances Papuans' financial dependence on government-funded projects, it also jeopardizes Papua's environment; The urgency of this matter is illustrated by the arrival of 20 representatives of Papuans to Jakarta last November, where they urged the government to safeguard Papua's customary forests.⁴

In addressing the government's narrow perspective of development, it should be noted that building roads and infrastructure only concerns the external factor of developing Papua. What really matters is developing Papuans' human capital, which includes not only their economic prosperity but also their political rights. The current imbalance between an economic and localized approached in conducting development projects, as a result, prompts local Papuans to perceive the projects not as the government's conscious efforts to improve their welfare, but

¹ Thejakartapost.com, "Papua, West Papua need better connectivity: Jokowi" 20 July 2017 <https://tinyurl.com/y97z4a65>

² Thejakartapost.com, "Papuan students removed from Surabaya after rally" 4 December 2018 <https://tinyurl.com/y7d8xwr4>

³ Thejakartapost.com, "Roads for communities, not commodities for Papua" 23 October 2018 <https://tinyurl.com/ya5pqd57>

⁴ Mongabay.co.id, "Datang ke Jakarta, Orang Papua Protes Hutan Adat Terancam Sawit" 14 November 2018 <https://tinyurl.com/y7d6wbd9>

rather as an imperialistic attempt to remake their very existence. As stated by the OPM spokesperson Sebby Sambom, “We do not need development, but rather an opportunity to determine our fates by ourselves through referendum.”⁵

Existing developmental efforts which largely leave Papuans’ political and social struggles unaddressed trigger local conflict, where armed groups demand their rights through violent measures. To make matter worse, the incomprehensive development programs in Papua are exacerbated by ambiguous security measures in the region. Following the massacre of civilian workers, it remains unclear whether Nduga’s security is managed by the TNI or the police. Disputes between the TNI and the Police over whether the massacre in Nduga should be categorized as a separatist or criminal act are still ongoing, illustrated by the ongoing narrative warfare between the two institutions. For instance, Defense Minister Ryamizard Ryacudu firmly denounced the massacre as part of a separatist movement; Ryamizard said that OPM’s political objective, coupled with its military capabilities, canceled out the Police’s preferred term for the massacre, namely criminal act.

Following the massacre, President Jokowi ordered both the military and police to secure the affected region in Papua and hunt down the responsible armed group. However, it is feared that the mandate will result in an overlap between the TNI and police. The two institutions have established a joint rescue team, yet, as stated by Army Lt. Gen. (ret) Bambang Darmono, such concerted effort is not in line with the established military doctrine.⁶ This potentially causes confusion among the military and police officers due to unclear chains of command, diminishing the efficiency of the rescue operation.

As long as law enforcement protocols in Papua remain ambiguous, the province’s security and stability will remain shaky as well. The absence of security and stability will in turn hinder the government’s development projects. The trans-Papua project has been put on hold following the manslaughter. Like a vicious circle, then, the lack of comprehensive developmental and security efforts will harm each other, leading Papua into a never-ending chaos. To avoid future catastrophe, thus, the government must not only improve its development projects’ quality by including the locals and their interests, but also increase their security efforts by providing a clear cut protocol among the TNI and the police officers. As stated by Kofi Annan, “*there will be no development without security, and no security without development*”.

⁵ Jawapos.com, “Jubir OPM Blak-Blakan pada Jawa Pos, Ini Isi Dialog Lengkapnya” 6 December 2018
<https://tinyurl.com/ya4alhdg>

⁶ Thejakartapost.com, “Massacre in Nduga: Who should protect the nation?” 14 December 2018
<https://tinyurl.com/ycwrzgb7>

Pancasila education reminisces Soeharto style indoctrination

The government is bringing back Pancasila Moral Education to the national school curriculum as a mandatory class for everyone from first grade until they graduate high school, under the guise of countering the rise of radicalism from an early age. As no one has openly objected to the plan, the class on the national ideology will likely be introduced in the next school year beginning in July.

Those who grew up from the 1970s to the 1990s will remember how the Pancasila class, known by its Indonesian acronym PMP, became more like indoctrination by the state. Year in, year out, they had to learn by rote memory Pancasila and its interpretations by the state. It was the one subject no one could afford to fail, or they would have to repeat the year all over again. If the Soeharto regime collapsed in 1998 because of massive unchecked corruption, this says a lot about the effectiveness of the Pancasila morality class. Why, then, is President Joko “Jokowi” Widodo ordering its resumption? The short answer is, if Soeharto had used Pancasila as a weapon to counter communism and Islamism, Jokowi is now using it to counter the rise of Islamism.

Takeaway:

- State ideology Pancasila provides the best strategy for President Jokowi to counter the rise of Islamism in the country.
- A strong counterstrategy, that is Pancasila, is deemed necessary as Islamist grassroots movement continues to lurk.

Background: Pancasila is the national ideology that most analysts argue has kept Indonesia a truly pluralist nation. The Sanskrit word means Five Principles, which stands for Belief in One God, National Unity, Humanitarianism, Democracy through Deliberations and Consensus, and Social Justice. While Islam is the faith of (statistically) 88 percent of the population, adherents of other religions have been able to flourish and participate in state affairs under Pancasila. Indonesia is not a secular nation as the state does cater to the particular needs of the six recognized religions: Islam, Protestantism, Catholicism, Hinduism, Buddhism and Confucianism.

Calls for the resumption of the Pancasila class in schools were prompted by rising concerns about the perceived rise of Islamic radicalism. There have been massive rallies organized by firebrand Islamic preachers, indicating their growing popularity. The last one, on Dec. 2 in Jakarta, carried multiple agenda that include demands for installing sharia, and the establishment of an Islamic state, besides rallying support for Jokowi’s challenger in the April election.

Jokowi found the perfect weapon to counter religious radicalism: Pancasila. Publicly opposing the state ideology, under any pretext, could amount to treason.

Soeharto went even further to turn the PMP into complete indoctrination to ensure loyalty to the state. The Pancasila class expanded and then extended to university students. Later, civil servants, professionals and everyone in leadership positions in the public and private sector were required to take the “Upgrading Course on the Directives for the Realization and Implementation of Pancasila”, known by its Indonesian acronym P4, which was run by the military.

Soeharto also mandated all organizations, including political and mass organizations, to stipulate Pancasila as their sole guiding principle. This effectively prevented groups, including political parties, from campaigning for an Islamic state or sharia.

The PMP class in school was scrapped after Soeharto's downfall in 1998, as was the P4 indoctrination program. Political reforms have also meant parties and groups could now openly campaign for sharia and an Islamic state. It remains to be seen whether Jokowi will follow Soeharto's steps and push Pancasila back to the center of the political stage.

Insight: Jokowi has been struggling to contain the rise of Islamism, which has been pushing further the agenda of sharia and an Islamic state, now lead by a grassroots movement mobilized by firebrand preachers associated with the Islam Defenders Front (FPI). On Dec. 2, 2016, FPI mobilized up to 1 million people to rally at Monas Square in Jakarta, the largest ever seen in Indonesia since the people's power movement that toppled Soeharto in 1998.

The rally was organized to oppose the reelection of the then-governor Basuki "Ahok" Tjahaja Purnama, a Christian of Chinese descent, but once this mission was accomplished, the organizers continued to build up the network and raised money by opening convenience stores called "212 Mart". The number, denoting Dec. 2, became the name of its movement. Early this month, it held another rally at Monas, to mark its second anniversary, attended by about 500,000 people.

The 212 Movement has remained active and looks like it will gain support. No one appears to be able, or willing to stop it. Anyone who tries would be accused of being anti-Islam.

Jokowi took a page from Soeharto's rule book and used Pancasila as a weapon, not so much to fight Islamism, but more to defend the unity of the nation. Jokowi had earlier been helped by Nahdlatul Ulama, the country's largest Islamic mass organization, which had been campaigning for Nusantara (archipelago) Islam, as the brand of Islam appropriate for Indonesia that promotes tolerance and moderation. To further brandish his Islamic credentials, he picked Ma'ruf Amin, the chair of the Indonesian Ulema Council, hailing from Nahdlatul Ulama, as his running mate for the April presidential race.

And Jokowi also got help from the Indonesian Military and National Police, who pledged to do whatever it takes to secure national unity, particularly against threats of radicalism. The police have since named FPI chair Rizieq Shihab as suspect in a sex scandal. Rizieq fled to Saudi Arabia from where he continues to lead his movement.

Although the 212 movement has been neutralized for now, it has not stopped Jokowi from going ahead in bringing Pancasila back to the center of the political stage. He ran into trouble in July when Yudi Latif, the most respected Pancasila scholar today, quit his position as head of the Pancasila Education Body, which Jokowi had created a year earlier. Yudi never disclosed his reason for quitting but close friends said he had opposed Jokowi's request to resume the Pancasila indoctrination program. Six months after his resignation, the government announced the resumption of the Pancasila class in schools.

BUSINESS & ECONOMIC POLICY

News SKKMigas chief faces daunting task of increasing oil, gas lifting

Dwi Soetjipto, sacked from his position as CEO of state oil and gas giant Pertamina almost two years ago, was appointed last week as the head of the Upstream Oil and Gas Regulatory Special Task Force (SKKMigas), replacing Amien Sunaryadi, who retired this year.⁷ His tasks are similar to his predecessors: boosting oil and gas output, which has been on a consistent decline.

Takeaway:

- Dwi will focus on picking up a number of natural gas projects to boost production, including speeding up the construction of facilities in the Masela block in Maluku and the Indonesia Deepwater Development (IDD) in East Kalimantan.
- The IDD project faces setback after Chevron decided to withdraw from the Makassar Strait, leaving the IDD with only two blocks, Ganal and Rapak in East Kalimantan.
- The problem with Masela block is not any easier. After the government's decision to change the design of the project from offshore to onshore, the block's development has to restart from the beginning, and the gas from Masela will not come on stream until 2027.
- Dwi also promised to attract investment in the oil sector by looking into the gross-split scheme and making it more attractive to investors. It remains to be seen how Dwi will navigate his way through the various interest groups in the government.

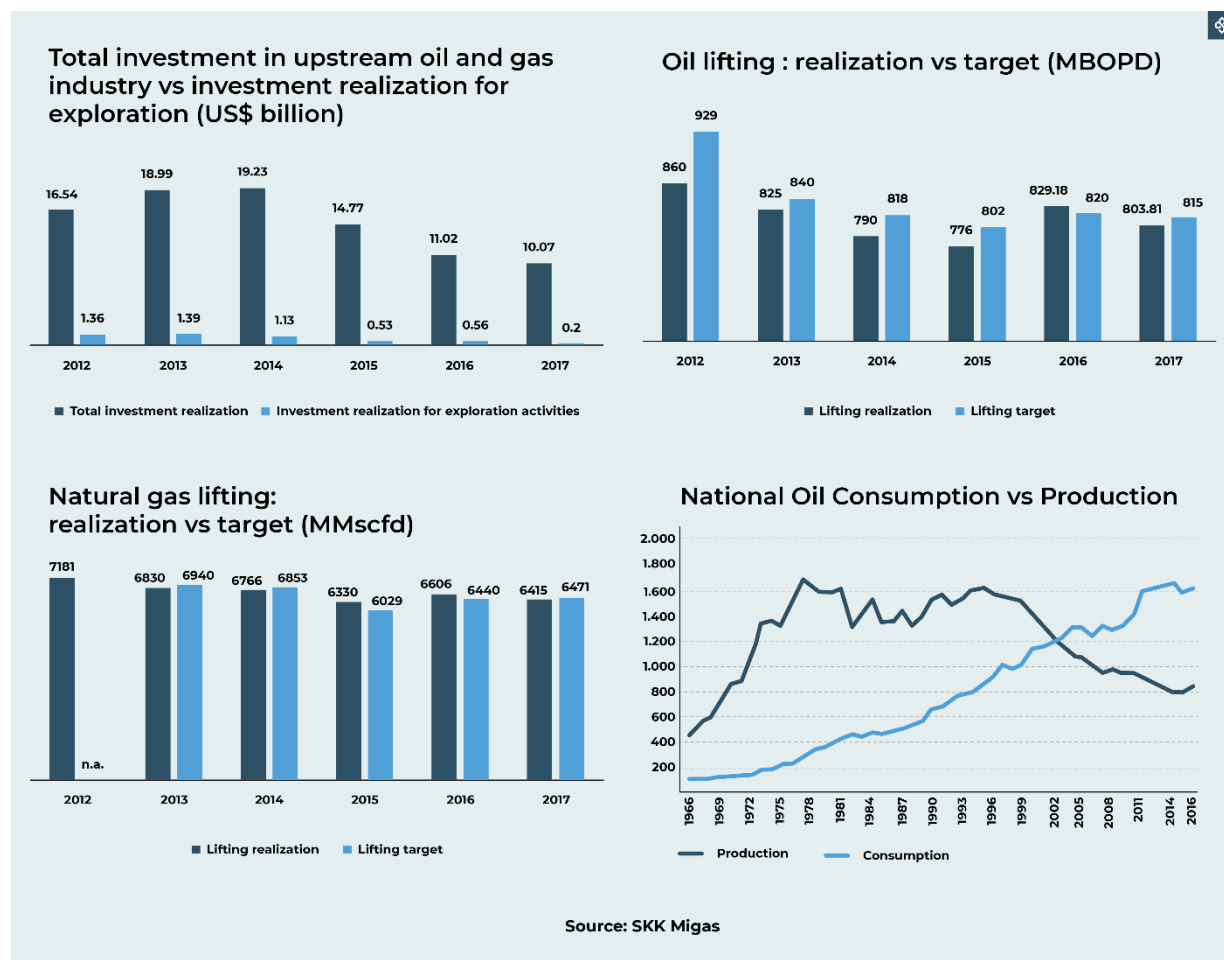
Background: The inauguration of Dwi Soetjipto as SKK Migas chief comes at a time when the country is facing a widening current account deficit, due largely to the swelling import of crude oil and fuels. Indonesia's oil and gas output has been on a consistent decline, while fuel consumption continues to rise. Boosting oil production is an uphill battle when there is a lack of investment and new exploration.

Once a member of the Organization of Petroleum Exporting Countries (OPEC), Indonesia has been a net oil importer since 2004. The country's aging oil production facilities are having a hard time keeping up with the perpetually growing consumption of fossil fuels amid a surging middle-class population and automobile users. By 2002, national oil consumption surpassed production at around 1.2 million barrels of oil per day (BPOPD).

Since then, oil production continued to decline to as low as 800,000 BPOPD in 2016, while consumption reached 1.6 million BPOPD. Although the government's annual lifting targets have been generally met, the output is far from sufficient to meet domestic consumption. Dwi said he would focus on picking up a number of natural gas projects to boost production, including speeding up the construction of facilities in the Masela block in Maluku and the Indonesia Deepwater Development (IDD) in East Kalimantan.

⁷ Koran Tempo, "Pemerintah sudah lama siapkan Dwi Soetjipto," 4 December 2018. Printed edition

In the oil sector, Dwi ensured that upstream investment this year would start to yield in 2019 by tackling all existing obstacles, including improving the attractiveness of the gross-split scheme, which has largely turned off foreign investors.



Insight: Dwi inherits decades-old problems in the oil and gas industry, i.e. dwindling production and a lack of investment needed for exploration activities. Exploration is badly needed to find new oil and gas reserves, with the last being the discovery of gas reserves in the Masela Block in 2000.

Apparently, President Joko “Jokowi” Widodo has high hopes for Dwi, whom according to our sources is the choice of the President himself. Since he was fired from Pertamina by the state-owned enterprises minister in early 2017, Jokowi has prepared Dwi to lead SKKMigas. No one in the industry has been successful in turning around this sector since the country became a net oil importer in 2004. Therefore, if Dwi can reverse the trend of falling oil and gas lifting, it would be a big achievement for him and the country. However, the challenges before Dwi are huge.

His promise to accelerate the development of IDD and Masela projects will not be easy. Although the two gas projects have been classified as national strategic projects, they have historically been laden with problems.

The IDD, operated by American oil giant Chevron, was an ambitious project to ameliorate Indonesia's gas lifting and was expected to produce 1.23 million standard cubic feet (mmfcd) per day of gas and 50,750 barrels condensate per day (bcpd) by 2023.⁸

The IDD initially comprised four contract areas: Ganal, Rapak, Makassar Strait and Muara Bakau, and five fields: Bangka, Gehem, Gendalo, Maha and Gandang. In June, Chevron presented a revised plan of development to the government to extend the contracts of three blocks only, i.e. the Makassar Strait, Ganal and Rapak. However, not long after that, Chevron decided not to extend the contract of the Makassar Strait, as it considered the block uneconomical. So, the IDD now has only two blocks, Ganal and Rapak in East Kalimantan.⁹

The problem with Masela block is not any easier. Initially designed by Japanese oil company Inpex and approved by the previous administration to be an offshore project, Masela was suddenly redesigned to be an onshore project following a series of internal debates inside the government in 2016. Consequently, the block's development has to restart from the beginning, and the gas from Masela will not come on stream until 2027. Masela is estimated to be able to produce 1,200 mmscf of gas and 24,000 barrels of condensate per day for 24 years.

The problem is that Inpex and Royal Dutch Shell, which currently hold respective stakes of 65 and 35 percent in Masela, will see their contract at the block expire in 2028. Although the government has promised to give them a 20-year extension, both Inpex and Shell see no certainty for their planned investment. Inpex was initially required to submit its plan of development for Masela earlier this year, but up until now, it has not yet submitted the plan. It fears another decision flip-flop and undecided location for the onshore gas liquefaction plants.¹⁰

The situation in the oil sector is worse. Despite various efforts to boost production, oil output has been decreasing, instead of increasing. Lack of investment and exploration is the most cited reason for the declining oil output. Investment in the upstream industry is badly needed for two reasons. First, many of Indonesia's producing oil fields are mature and require more investment to prolong their life. According to SKKMigas records, 77 percent of the total 89 onstream blocks have entered the phase of declining production. Second, Indonesia has not found any new oil reserves, while the existing reserves have been depleting, requiring big investment to initiate exploration to find new oil reserves.

Indonesia is still considered to have exploration potential, but without ample investment, the potential remains untapped. When we talked to industry players, they said they had no good incentives to take big risks in exploration. The new gross-split scheme is meant to reduce cost on the government side, but it scares away investors.

According to Pinsent Masons and Wood Mackenzie, the gross-split scheme would result in a higher take for the government, but a drop in both the net present value (NPV) and the internal rate of return (IRR) for the contractors. With fewer contractors or no private contractors willing to invest under the gross-split scheme, the government's overall share in production may actually decrease. In the end, output will continue to fall and the country would continue to suffer from more crude oil and fuel imports.

⁸ SKKMigas annual report 2017

⁹The Insider Stories, "Chevron Pacific Indonesia Backs Down from Makassar Strait Block," 11 July 2018 <https://tinyurl.com/y9wexsx8>

¹⁰ Detik.com, "Luhut: INPEX tak ada lagi masalah di Blok Masela," 23 May 2017 <https://tinyurl.com/y9teefuc>

Dwi has promised to look into the gross-split scheme and make it more attractive to investors. It remains to be seen how Dwi will navigate his way through the various interest groups in the government.

PSC Contractor NPV10 comparison: Gross split PSC vs. Cost recovery PSC, for exploration prospects

PSC Contractor NPV10 (US\$ millions)						
PSC type and cost reduction (if any)	20 mmbbl onshore oil	100 bcf onshore gas	20 mmbbl shelf oil	200 bcf shelf gas	400 mmbbl deepwater oil	2 tcf deepwater gas
Cost recovery PSC	188.9	79.5	128.9	14.8	1,346.3	259.6
Gross split PSC	142.5	30.9	101.6	-26.2	1,049.5	-10.9
Gross split PSC, 10% cost reduction	154.2	42.0	122.5	-6.3	1,410.2	176.9
Gross split PSC, 20% cost reduction	165.9	53.1	142.9	13.2	1,766.4	363.3

Source: Pinsent Masons and Wood Mackenzie

PSC Contractor IRR comparison: Gross split PSC vs. Cost recovery PSC, for exploration prospects

PSC Contractor IRR, %						
PSC type and cost reduction (if any)	20 mmbbl onshore oil	100 bcf onshore gas	20 mmbbl shelf oil	200 bcf shelf gas	400 mmbbl deepwater oil	2 tcf deepwater gas
Cost recovery PSC	60.2%	31.9%	27.8%	11.7%	17.9%	11.4%
Gross split PSC	47.2%	19.7%	24.0%	5.5%	16.5%	9.9%
Gross split PSC, 10% cost reduction	53.8%	24.2%	28.3%	8.8%	19.4%	11.5%
Gross split PSC, 20% cost reduction	61.8%	29.5%	33.3%	12.7%	22.8%	13.3%

Source: Pinsent Masons and Wood Mackenzie

Dwi Soetjipto: From Cement to Oil

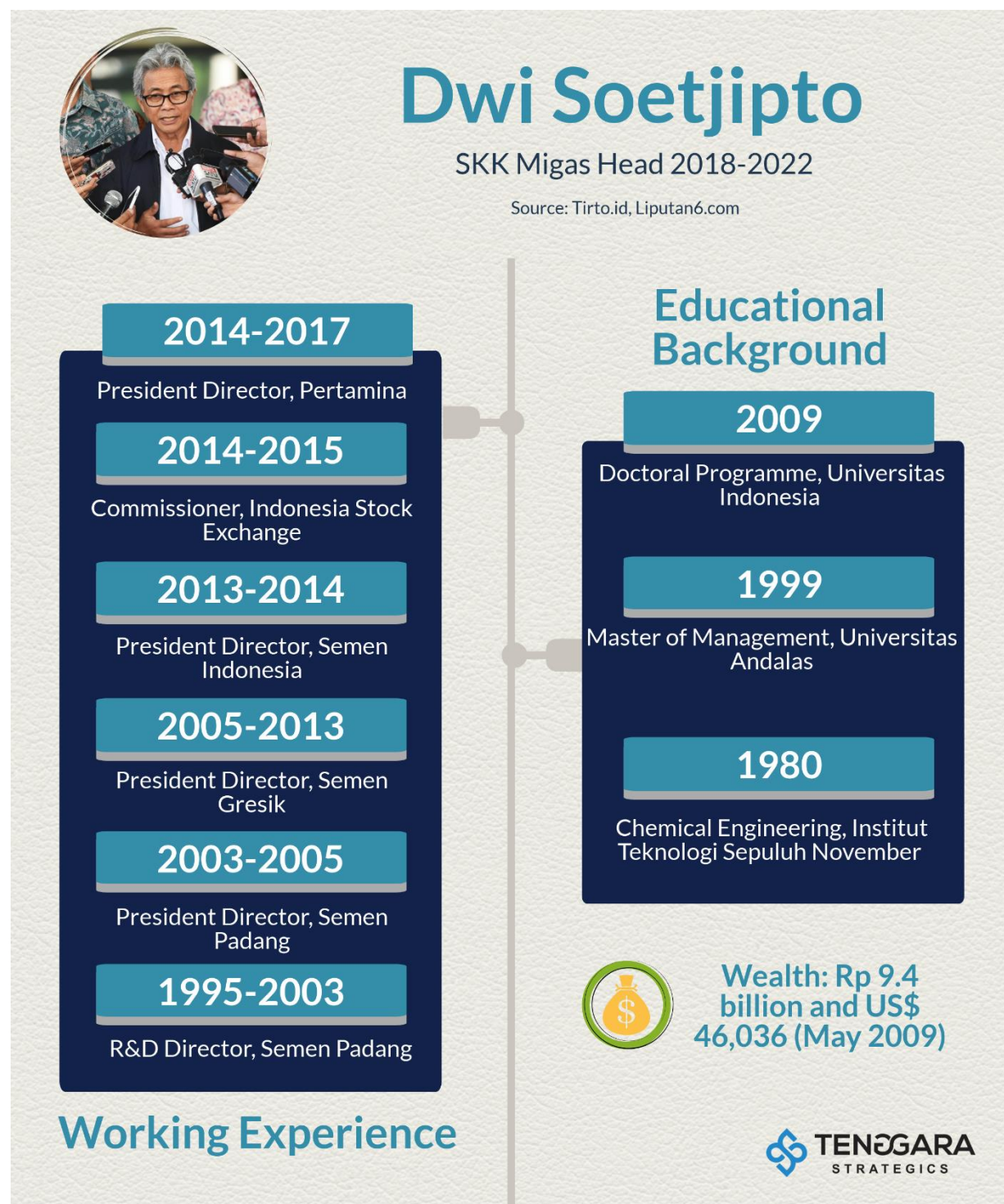
Dwi Soetjipto was flying high following the establishment of cement holding company PT Semen Indonesia in 2012. He made his name known when he led Semen Padang out of bankruptcy. When he was assigned to Semen Padang in 2003, he was met with opposition from labor unions and for a few months he set up his office in a hotel in Padang, West Sumatra, as he was blocked from entering the company's premises. With his intense lobbying, he finally won the support of workers and turned Semen Padang into a profitable company.¹¹

From there, he was promoted to head parent company PT Semen Gresik in 2005. Dwi was tasked with consolidating Semen Tonasa and Semen Padang into Semen Gresik to establish a national cement holding firm. After four years, the consolidation bore fruit, with Semen Gresik's income increasing to Rp 14.34 trillion in 2009 from Rp 7.53 trillion in 2005, while net

¹¹ Liputan6.com, "Sepak Terjang Dwi Soetjipto Bekas Bos Pertamina yang jadi kepala SKK Migas," 3 December 2018 <https://tinyurl.com/yaemyg9j>

profit tripled to Rp 3.33 trillion from Rp 1 trillion. After the consolidation, Semen Gresik was renamed PT Semen Indonesia in 2012.

Dwi then brought Semen Indonesia onto the international arena by acquiring Thang Long Joint Stock Company in Vietnam. Under Dwi's leadership, Semen Indonesia became the largest cement company in Southeast Asia.¹²



¹² Tirto.id, "Dwi Soetjipto, Jago lobi yang Tenggelam di Pertamina," 3 February 2017 <https://tinyurl.com/ybj9hcmv>

Dwi's success spree did not end here. In 2014, he was named Pertamina president director to replace Karen Agustiawan. Regardless of his minimal experience in leading an oil and gas company, Dwi gained the personal favor of President Joko "Jokowi" Widodo because of his previous achievements in consolidating a cement business.

Jokowi also supported Dwi when the latter proposed to disband Pertamina's oil trading subsidiary, the infamous PT Pertamina Energy Trading Limited (Petal). During his tenure at Pertamina, Dwi was also able to raise Rp 210 trillion to renew several fuel refinery plants in Cilacap, Balongan, Dumai, Balikpapan and Plaju, which were expected to increase production by 150 percent.¹³

In October 2016, State-Owned Enterprises Minister Rini Soewandi assigned Ahmad Bambang as Pertamina deputy CEO and gave him authority similar to that of the CEO amid speculation of a rift between Rini and Dwi. It was said that Dwi and Ahmad Bambang were not on good terms. Five months later, in February 2017, Rini sacked both Dwi and Ahmad Bambang. Rini then appointed Bambang as her deputy for construction and transportation (KSSP) before being returned to Pertamina.¹⁴

What we've heard: According to a state-owned enterprise CEO, President Jokowi has been preparing Dwi to head SKKMigas since his dismissal from Pertamina in February 2017.

An official in the oil and gas industry said Dwi had good relations with Jokowi and received his attention. Jokowi was said to favor Dwi's habit for impromptu visits to a number of Islamic boarding schools in East Java. Dwi's closeness with several Muslim clerics in East Java is an added value for Jokowi's reelection bid.

Dwi is also known to be close with Energy and Mineral Resources Minister Ignasius Jonan. Dwi had joined the minister's foreign trips several times before his appointment as head of SKKMigas. Moreover, Jonan was said to have vouched for Dwi to become PT Freeport Indonesia's president director.

Despite Dwi's potential, however, Jonan realized that PP No. 9/2009 on upstream oil and gas industry could prevent Dwi's appointment. The regulation set the retirement age of the SKKMigas head at 60 years old. Dwi is 63 years old.

To solve this, Jonan suggested that Jokowi revise the regulation, which the President did. The President issued PP No. 36/2018 to replace the PP No. 9/2009 and abolished the retirement age limit for an SKKMigas head.

Besides Dwi, Jonan also proposed incumbent Amien Sunaryadi as another candidate. According to one source, Jonan needed Amien's connection to the Corruption Eradication Commission (KPK).

Jonan was said to have also included SKKMigas deputy chief Sukandar as another candidate. Before assigning Sukandar to SKKMigas, Jonan proposed him to Jokowi to head Pertamina. But Jokowi turned him down. Jonan and Sukandar are old friends. They both worked at Citibank Indonesia in the 1990s. When Jonan was the president director of PT Bahana

¹³ Liputan6.com, "Lengser dari dirut Pertamina, ini prestasi Dwi Soetjipto," 3 February 2017 <https://tinyurl.com/yb5o47hn>

¹⁴ Kumparan.com, "Mantan Wadirut Ahmad Bambang Balik ke Pertamina," 31 May 2018 <https://tinyurl.com/y9q2u6vi>

Pembinaan Usaha Indonesia in 2001 to 2006, Sukandar was the operational director of the company.

In addition to the three candidates from Jonan, Jokowi also received other names. They included Darmawan Prasodjo, a deputy to the presidential chief of staff. He was proposed by Energy and Mineral Resources Deputy Minister Archandra Tahar. Darmawan and Archandra are old friends as they both went to Texas A&M University.

Another source said Coordinating Maritime Affairs Minister Luhut Pandjaitan had also tried his luck by proposing his undersecretary for infrastructure, Ridwan Djamaludin, as another candidate. In a number of WhatsApp groups, several of Ridwan's colleagues had even congratulated him for the appointment.

Food and beverage manufacturing, not retail, behind Indonesia's growing plastic consumption

Following the discovery of a dead sperm whale with nearly 6 kilograms of plastic waste in its stomach at the Wakatobi National Park in Southeast Sulawesi,¹⁵ Coordinating Maritime Affairs Minister Luhut Pandjaitan said the government was preparing a regulation to levy environmental (waste management) tax US\$10 from foreign tourists and \$1 from domestic tourists.¹⁶

Takeaway:

- Growing demand for packaging materials in food and beverage manufacturing is the major source of Indonesia plastic waste problem.
- To solve this problem, the central government needs to empower local governments by improving their capabilities in waste management.
- Local governments' investment in plastic waste treatment facilities is critical, but the central government has no clear plan to encourage such investment.

Background: The discovery of a dead sperm whale found with plastic waste in its stomach has sparked an outcry among environmental groups. For instance, WWF¹⁷ and Walhi¹⁸ renewed their lobbying effort, pushing businesses to take responsibility for Indonesia's plastic waste problem. Fearing that a renewed environmental lobbying might speed up the implementation of the Finance Ministry's plastic bag excise proposal, the Indonesian Plastic and Olefin Industries Association (Inaplas) together with the Industry Ministry has lobbied the Finance Ministry to pursue alternative policies such as tax incentives for the plastic recycling industry.¹⁹

Meanwhile, Maritime Affairs and Fisheries Minister Susi Pudjiastuti has used this opportunity to advance her pro-environmental maritime policy by reiterating the fact that Indonesia is the second-largest contributor of plastic waste to oceans.²⁰ In fact, eliminating plastic waste in Indonesian oceans has been Susi's major fisheries policy since 2015, under the banner of "Blue and Healthy Ocean".²¹

Insight: Plastic waste in oceans or plastic marine debris is a major problem. According to an estimate published in *Science*, the world produced 4.78-12.72 million metric ton (MMT) of plastic marine debris in 2010. In value, this waste damages the world's marine ecosystem by up to US\$13 billion annually.²² Around 64 percent of total plastic marine debris was found in

¹⁵ BBC.com, "Dead sperm whale found in Indonesia had ingested '6kg of plastic'." 20 November 2018 <https://tinyurl.com/ycpgb6ab>

¹⁶ Tempo.co, "Luhut Pandjaitan: Turis asing akan kena pungutan sampah USD 10." 30 November 2018 <https://tinyurl.com/ycgjdgg>

¹⁷ WWF.sg, "Why was there a stranded sperm whale in Wakatobi, Indonesia?" 22 November 2018 <https://tinyurl.com/y7ugv4w3>

¹⁸ Republika.co.id, "Sampah plastik, Walhi minta produsen bertanggung jawab." 26 November 2018 <https://tinyurl.com/ycjsaxh5>

¹⁹ Republika.co.id, "Kemenperin tetap tolak tegas cukai plastik." 12 December 2018 <https://tinyurl.com/ycm65mss>

²⁰ Kompas.com, "Susi: Indonesia penyumbang sampah di laut terbanyak kedua di dunia." 25 November 2018 <https://tinyurl.com/y7p3u2l3>

²¹ KKP.go.id, "Menteri Susi: Buang sampah di laut, termasuk illegal activity." 28 November 2015 <https://tinyurl.com/yb3l9mpw>

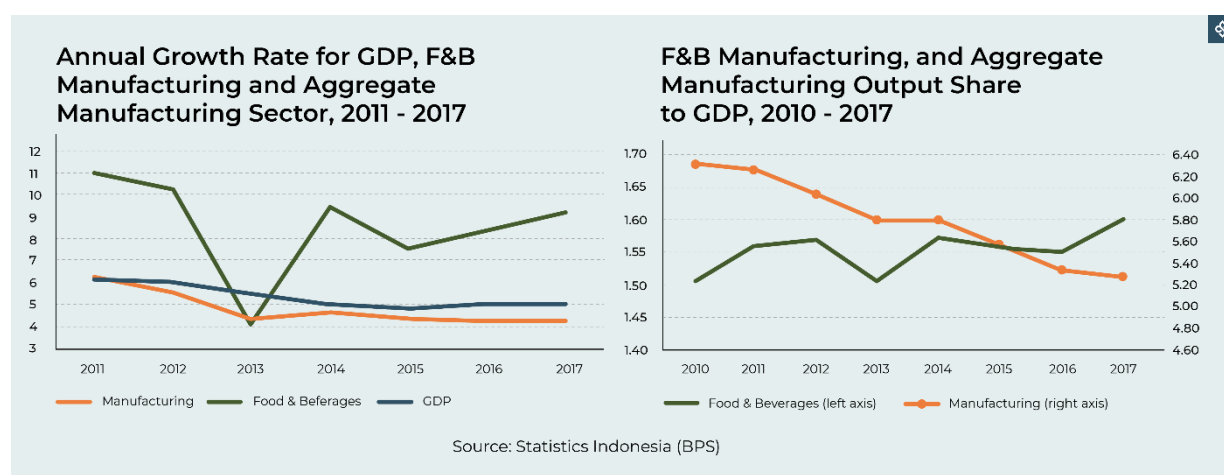
²² UNEP. 2018. Single-use Plastics: A Roadmap for Sustainability. <https://tinyurl.com/y8sclz6u>

Asia, with Indonesia as the second-biggest plastic polluter contributing 0.48-1.29 MMT per year.

This problem occurs mainly in Asia, because Asia's strong economic performance has stimulated plastic consumption. Unfortunately, booming plastic consumption has outpaced local governments' capacity to manage plastic waste.²³

In Indonesia, growing plastic waste is strongly associated with plastic use in the retail sector.²⁴ Nevertheless, the data shows otherwise. Seventy percent of Indonesia's plastic production is used as packaging materials in food and beverage manufacturing.²⁵

Food and beverage manufacturing is one of the fastest growing industries, driven by domestic consumption growth. In 2011-2017, for example, food and beverage manufacturing has grown by an average of 8.56 percent annually, higher than the average output growth of the aggregate manufacturing sector at 4.82 percent per annum. Because of its high growth rate, the share of food and beverage manufacturing output to total output has increased from 1.5 percent in 2010 to 1.6 percent in 2017; the total opposite to the falling output share of the aggregate manufacturing sector from 6.31 to 5.27 percent.



Based on this fact, Indonesia's plastic consumption is more likely to grow even higher in the future, driven by increasing demand for packaging materials in food and beverage manufacturing. In the face of the inevitable, the question arises whether the current administration will respond with a policy to empower local governments' capacity to manage plastic waste.

Current waste management policy focuses on three initiatives: (a) obligating manufacturers and businesses to adopt waste packaging recycling and recovery responsibilities, (b) strengthening local governments' authority to levy a plastic bag excise or tax to change consumers' behavior in using plastic bags, and (c) promoting community-based waste banks.

²³ Nikkei.com, "Asian plastic is choking the world's oceans." 1 August 2018 <https://tinyurl.com/y8sclz6u>

²⁴ CNNIndonesia.com, "Penggunaan kantong plastik industri ritel akan diatur." 30 July 2018 <https://tinyurl.com/yb46s4cq>

²⁵ EU-Indonesia Business Network. 2016. Chemical Industry. EIBN Sector Reports <https://tinyurl.com/y7csqelf>

Even though these initiatives are highly welcomed, the central government's policy initiatives do not mention any plans to encourage local governments' investment in new plastic waste treatment facilities. Without such plan, plastic waste will remain a problem.

Estimated Plastic Marine Debris, 2010

No.	Country	Mismanaged Plastic Waste [MMT/Year]	Plastic Marine Debris [MMT/Year]			
			Estimated Minimum	Share	Estimated Maximum	Share
1	China	8.82	1.32	27.60%	3.53	27.75%
2	Indonesia	3.22	0.48	10.04%	1.29	10.14%
3	Philippines	1.88	0.28	5.85%	0.75	5.89%
4	Vietnam	1.83	0.28	5.85%	0.73	5.74%
5	Sri Lanka	1.59	0.24	5.02%	0.64	5.03%
6	Thailand	1.03	0.15	3.14%	0.41	3.22%
7	Egypt	0.97	0.15	3.14%	0.39	3.07%
8	Malaysia	0.94	0.14	2.93%	0.37	2.91%
9	Nigeria	0.85	0.13	2.72%	0.34	2.67%
10	Bangladesh	0.79	0.12	2.51%	0.31	2.44%
11	South Africa	0.63	0.09	1.88%	0.25	1.96%
12	India	0.60	0.09	1.88%	0.24	1.89%
13	Algeria	0.52	0.08	1.67%	0.21	1.65%
14	Turkey	0.49	0.07	1.46%	0.19	1.49%
15	Pakistan	0.48	0.07	1.46%	0.19	1.49%
16	Brazil	0.47	0.07	1.46%	0.19	1.49%
17	Myanmar	0.46	0.07	1.46%	0.18	1.41%
18	Morocco	0.31	0.05	1.05%	0.12	0.94%
19	North Korea	0.32	0.05	1.05%	0.12	0.94%
20	United States	0.28	0.04	0.84%	0.11	0.86%
Total		31.90	4.78		12.72	

Source: Jambeck, Jenna R., Roland Geyer, Chris Wilcox, Theodore R. Siegler, Miriam Perryman, Anthony Andrady, Ramani Narayan, and Kara Lavender Law. 2015. Plastic Waste Inputs from Land into the Ocean. *Science*, 347 (6223), pp. 768-771.

<https://tinyurl.com/y8g7ry7p>

Issue Update: Ship-sinking controversy rises again

The long-standing dispute over the policy to sink foreign-flagged vessels used for illegal fishing has flared up again after Coordinating Maritime Affairs Minister Luhut Pandjaitan urged Maritime Affairs and Fisheries Minister Susi Pudjiastuti on Dec. 3 to stop her policy. Rather, the ships seized by Susi's ministry should be given or auctioned off to local fishermen.²⁶

Summary: Susi's policy of sinking foreign ships arrested for illegal fishing activity is controversial. Many people hail her policy as heroic and patriotic, but some disagree, regarding it as unnecessary. A Japanese illustrator was inspired by her controversial policy to create a manga character based on her popular image.²⁷

The Indonesian Chamber of Commerce and Industry (Kadin), for instance, is among those who disagree with her. Kadin maritime affairs and fisheries deputy head Yugi Prayanto said the ship-sinking policy should not become a permanent solution and emphasized the benefits of giving or auctioning off the seized vessels to local fishermen.²⁸

Despite the criticism, Susi is standing firmly by her position and challenges anyone who strongly opposes the policy to talk directly with President Joko "Jokowi" Widodo.

What we've heard: According to a source from the Maritime Affairs and Fisheries Ministry, Susi had received an invitation on Nov. 30 to a meeting at the Office of the Coordinating Maritime Affairs Minister to persuade her to abandon the ship-sinking policy.

Susi decided not to attend the meeting. Instead, she left for Monaco to attend the International Coral Reef Initiative on Dec. 2, one day before the meeting.

According to an official source, Luhut dropped his main agenda from the meeting. Instead, he brought up the issue in a press conference after the meeting, similar to what happened last year in front of the Office of the Coordinating Maritime Affairs Minister, when Luhut publicly pushed Susi to stop her ship-sinking policy.

Two days after the meeting with Luhut, the Maritime Affairs and Fisheries Ministry held an internal meeting to discuss Luhut's statement. Officials from the ministry said they were concerned about the possibility that the seized vessels would be bought back by their previous owners through auction, which was the main reason for Susi's defiance to any call to stop her ship-sinking policy.

The majority of the seized vessels were owned by Chinese nationals cooperating with local businessmen. According to a Maritime Affairs and Fisheries Ministry official, many of the local partners are members of political parties. One of them is affiliated with the NasDem party, which might explain why Attorney General Agung Muhammad Prasetyo, an appointee of NasDem, supports Luhut in his effort to stop Susi's ship sinking policy.

²⁶ Tempo.co, "Luhut sebut kapal sitaan bisa diserahkan ke nelayan." 7 December 2018
<https://tinyurl.com/yazjxhz9>

²⁷ IDNtimes.com, "Semakin seru, Menteri Susi Pudjiastuti jadi tokoh dalam manga Jepang populer!" 14 April 2017 <https://tinyurl.com/yak8xcub>

²⁸ Kompas.com, "Pro kontra penenggelaman kapal, ini komentar Kadin." 10 January 2018
<https://tinyurl.com/ycyw6a3r>

Besides partnering with Indonesian politicians, some Chinese shipowners also cooperate with the Djajanti Group.

In Ambon, most of the seized Thai-flagged vessels belong to Jusuf Manggabarani, the former National Police's deputy chief. In East Nusa Tenggara, the seized vessels are rumored to be the property of Viktor Laikodat, a NasDem politician who currently serves as the Governor of East Nusa Tenggara.

In another case, some seized vessels are rumored to be owned by Gories Mere, head of the National Narcotics Agency (BNN) from 2009 to 2012 and one of the co-founders of the Indonesian National Police's counter-terrorism squad Densus 88.

It has been reported that Susi and Luhut have a tense relationship. According to an official who wants to remain anonymous, Susi rarely attends meetings at the Office of the Coordinating Maritime Affairs Minister, even when she is in Jakarta. Because of her frequent absence, Luhut on some occasions decided to meet Susi at her office.

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