

Highlights of the week



Uighurs: Questioning Chinese factors in Indonesia

News about the alleged oppression of the Uighurs in Xinjiang, China, has sparked outrage among Indonesians. Difference responses from the government and the public, however, might indicate the current political landscape in Indonesia.



Issue update: Electability gap, shrinking or not?

The Indonesian Survey Institute's (LSI) latest survey reveals that the electability rate of presidential candidate Prabowo Subianto and running mate Sandiaga Uno remains stagnant compared to incumbent President Joko "Jokowi" Widodo and vice-presidential candidate Ma'ruf Amin. Yet, other surveys indicate that this is not the case.



New Permenaker revolutionary, yet controversial

On Nov. 23, Manpower Minister Hanif Dhakiri enacted Manpower Minister Regulation (Permenaker) No. 15/2018 on minimum wage that includes a new regulation regarding sectoral minimum wage (UMS) negotiations. The regulation, however, drew strong opposition from various labor unions as several points may lead to contentious interpretations.



Issue update: Indonesia now controls Freeport

The Indonesian government, through PT Indonesia Asahan Aluminium (Inalum), has finally taken over PT Freeport Indonesia (PTFI) -- a subsidiary of American gold and copper miner Freeport McMoran (FCX) -- and now controls one of the world's biggest gold and copper mines in Grasberg, Papua, after closing a US\$3.85 billion deal last Friday, increasing the government's share in PTFI to 51.23 percent from only 9.36 percent.



Issue update: The apprehension of local steel players

The entry of new steel producing technology -- oxygen blown converter-based (OBC) -- from China brought some fresh air to the declining local steel industry. Nonetheless, the growing number of OBC steel producers and its controversial environmental consequences has irked local players whose electronic furnace-based technology was said to be more expensive and uncompetitive.

POLITICS

Uighurs: Questioning Chinese factors in Indonesia

Allegations of human rights violations against the Uighurs have recently emerged, increasing the world's scrutiny over China's conducts toward the minority Muslim community. In Indonesia, the alleged abuses have also sparked outrage among Muslims, as happened in a rally outside the Chinese Embassy in Jakarta on Dec. 21. What can we conclude from Indonesia's response toward the alleged oppression?

Takeaway:

- Political considerations, namely the issue of separatism and Indonesia's close economic ties with China, might be the reasons behind Indonesian government's lukewarm response toward allegations of oppression in Xinjiang.
- Intense discussion about the alleged oppression in public discourse, however, indicates how the issue has the ability to mobilize the public. This may lead certain groups to continue circulating the Uighur controversy among the public despite the government's response.

Background: In August, a United Nations human rights committee claimed to have obtained evidence of human rights violations in Xinjiang, which now allegedly resembles “a massive internment camp”. Some human rights groups claim that under the pretext of a “reeducation program”, China's authorities have detained many Uighur Muslims and forced them to renounce their faith in an attempt of nation-building and homogenizing the population. Likewise, some argue that the Uighurs in Xinjiang have been under oppressive, Orwellian surveillance, where facial recognition cameras and biometric tests are rampant.¹

China has denied all allegations, stating that the Uighurs were merely embarking on “vocational education” that was specifically designed to counter religious extremism in Xinjiang.² China's authorities explained that some Xinjiang residents were susceptible to extremism as they struggled to find jobs due to their poor command of the national language and lack of skills. Vocational education is thus expected to improve their competitiveness and eventually their resistance toward extremism. Despite China's response, however, international criticism remains. The United States Congress, for instance, urged President Donald Trump to enforce tough measures, including sanctions, against China's alleged repression of Uighurs and other Muslims in China.³

Nevertheless, in the case of Indonesia, despite public protest against China's alleged oppression of the Uighurs, the government's response has been relatively diplomatic. This is unsurprising considering Indonesia's pledge to refrain from intervening in China's domestic politics, albeit Indonesia's assumption of the United Nations Security Council as a non-permanent member may allow it to urge China to improve its transparency in managing Xinjiang.

The difference between the Indonesian government's and the public's responses against China's act against the Uighurs might be caused by the current political environment here.

¹ BBC.com, “China Uighurs: All you need to know on Muslim ‘crackdown’”, 8 November 2018
<https://tinyurl.com/ya7endx8>

² Thejakartapost.com, “China responds to question on alleged abuse in Xinjiang”, 21 December 2018
<https://tinyurl.com/y7w2e9s5>

³ Nytimes.com, “Lawmakers Push Trump to Act Against China on Uighur Detention” 14 November 2018
<https://tinyurl.com/ydel3a3r>

Insight: Alleged oppression of Uighur Muslims can be examined from the human rights and political perspectives. In terms of human rights, various nongovernmental organizations in Indonesia have expressed apprehension. Indonesia's largest Islamic organization Nahdlatul Ulama (NU), for instance, stated that if circumstances in Xinjiang was indeed related to separatism, no one should interfere. Regardless, if it is proven pertaining to discrimination against Islam and Uighur Muslims, NU believes that the solving the issue should become the responsibility of all Muslims in all over the world, including NU itself.⁴ Similarly, Indonesia's second largest Islamic organization Muhammadiyah stated that if China's authority had indeed violated the Uighurs' human rights, the United Nations and the Organization of Islamic Cooperation must take appropriate action in accordance with established international norms.⁵ Muhammadiyah chairman Haedar Nashir feared that the absence of necessary action might instead sever bilateral relations between Indonesia and China.

Similarly, former Constitutional Court chief justice Mahfud MD urged the Indonesian government to take tough measures as in the case of the Rohingya crisis in Myanmar, where hundreds of thousands of minority Rohingya Muslims were reportedly persecuted. According to Mahfud, the Indonesian government's expression of concern is inadequate; In addressing the Uighur case, the government should initiate diplomatic action in accordance with the 1945 Constitution's preamble, which stipulates the importance of human rights and denounces subjection.⁶

Indeed, the Indonesian government's response to the alleged human rights violations against the Uighurs is deemed inadequate. To date, the government has made two official remarks concerning alleged oppression in Xinjiang. First, Vice President Jusuf Kalla stated that Indonesia had yet to offer a strong response due to the sensitive nature of the Uighur case, which is the suspicion of the Uighurs' involvement in radicalism and terrorism.⁷ Kalla explained that since there were several Uighurs who assisted the infamous Santoso, leader of the East Indonesia Mujahidin terrorist group, in Poso, Central Sulawesi, Indonesia would proceed with caution in addressing the Uighur issue while waiting for an official report from the Indonesian ambassador to China. Meanwhile, Foreign Ministry officials have convened a meeting with Chinese Ambassador Xiao Qian, during which they voiced the public's concern over alleged human rights violations in Xinjiang and requested China's authorities to provide information about the Uighurs' condition despite its being China's domestic issue. Following the meeting, it is reported that the Chinese envoy reaffirmed China's commitment to human rights.⁸

Looking from the political perspective, several reasons may explain the Indonesian government's lukewarm response. For one, China's authorities have explained how radicalism and extremism involving the Uighurs in Xinjiang might escalate into separatism. Fears of a separatist movement in Xinjiang have loomed since the fall of the Soviet Union, which led to the independence of Muslim majority states in Central Asia. Separatism, particularly in Papua, is an issue that has become a thorn in Indonesia's side for years as well. If, then, detained Uighurs are indeed involved in the separatist cause, intervening may possibly lead to foreign intervention in Indonesia's measures in resolving secessionist activities in Papua.

⁴ Nu.or.id, "Pembicaraan PBNU-Dubes China soal Muslim Uighur" 24 December 2018 <https://tinyurl.com/y8grfkei>

⁵ Kumparan.com, "7 Sikap PP Muhammadiyah Terkait Penindasan Muslim Uighur di China" 20 December 2018 <https://tinyurl.com/y6wh4rxb>

⁶ Tribunnews.com, "Terkait Muslim Uighur, Mahfud MD Minta Pemerintah Tak Hanya Prihatin" 21 December 2018 <https://tinyurl.com/yac3zk8q>

⁷ BBC.com, "Muslim Uighur di Xinjiang: Indonesia harus desak Cina agar buka akses informasi" 21 December 2018 <https://tinyurl.com/y7rf4br6>

⁸ Thejakartapost.com, "China responds to question on alleged abuse in Xinjiang" 21 December 2018 <https://tinyurl.com/y7w2e9s5>

Another possible political consideration is Indonesia's close economic ties with China. Being one of China's numerous partners in its Belt and Road Initiative, Indonesia has received considerable investment from China in recent years. It is reported that Chinese investment in Indonesia reached US\$3.36 billion, making it the third-largest foreign investor in the country.⁹ Moreover, it is reported as well that Indonesia and China have been communicating about potential infrastructure projects worth approximately US\$50 billion to \$60 billion, as confirmed by the Office of the Coordinating Maritime Affairs Minister undersecretary for infrastructure Ridwan Djamiluddin.¹⁰

It remains unlikely, therefore, that Indonesia will take draconian action against China in the upcoming months due to political considerations. This does not mean, however, that public outrage can be stifled, particularly considering the prevalent anti-China sentiment in Indonesia, often employed for political pragmatism.

The history of China and Indonesia is indeed a complicated one. Anti-China sentiment first reached its peak under then-president Soeharto's rule, during which Indonesians of Chinese descent endured forced assimilation and discrimination. Mass riots targeting Chinese-Indonesians preceded the fall of Soeharto in May 1998. The trial and imprisonment of then-Jakarta governor of Chinese descent Basuki "Ahok" Tjahaja Purnama in 2017 for blaspheming against Islam marked another peak of anti-Chinese sentiment in Indonesia. Ever since, anti-China sentiment has been mounting. Issues of China's large investment in Indonesia and an alleged influx of Chinese workers in Indonesia, for instance, have intensified after Ahok's imprisonment.

Now, the Uighur controversy may potentially exacerbate the anti-China gusto in the country. Discourse on social media platforms indicate that this is the case. On Twitter, for instance, per Dec. 22, discussions on the Uighur controversy among Indonesian Twitter users was heavily tinged with hostility against China as summarized in several hashtags such as *#KamiPeduliMuslimUighur* (WeCareAboutUighurMuslims), *#KhilafahSaveUighur*, *#PRCisTerrorist* and *#StandWithMuslimUighur*.

One interesting aspect of public discussion on China's alleged oppression of the Uighurs is how it is predominated by figures from the opposition's camp. We sampled 400 posts on Twitter that used Uighur-related hashtags and received the most public engagement. Based on our analysis on posts containing Uighur-related hashtags, one hashtag, namely *#SaveUighur*, was particularly dominated by figures from the opposition, namely Regional Representatives Council member Fahira Idris and the Prosperous Justice Party (PKS) senior politician Hidayat Nur Wahid. Both figures, in their Twitter posts, denounced the government's lackluster response and demanded more assertive action. Meanwhile, other hashtags such as the ones mentioned above have been heavily used as well in Twitter posts. Although it is likely that the users who use these hashtags are mostly Twitter bots, real users are still exposed to these hashtags and their anti-China messages, as the bots ensure their continuous existence on Twitter.

The Uighur-related hashtags and heated public discussions on Twitter illustrate the popularity of the Uighur narrative among the public. This indicates how despite the government's response, the Uighur controversy might prevail among the public in the future due to political pragmatism; it is likely that certain groups, particularly the opposition, will continue using the narrative to achieve their short-term political objectives ahead of the 2019 presidential election.

⁹ Thejakartapost.com, "Chinese investments trending in Indonesia" 2 May 2018 <https://tinyurl.com/ybx9vz3p>

¹⁰ Straitstimes.com, "Indonesia woos China investors with BRI projects" 6 December 2018 <https://tinyurl.com/ycxzm88t>

Issue Update: Electability gap, shrinking or not?

The latest survey by the Indonesian Survey Institute (LSI) reveals that the electability rate of presidential candidate Prabowo Subianto and running mate Sandiaga Uno remains stagnant compared to that of incumbent President Joko “Jokowi” Widodo and vice-presidential candidate Ma’ruf Amin. Other surveys, however, may indicate that this is not the case.

Summary: On Dec. 19, the Indonesian Survey Circle (LSI) released the results of its survey on presidential candidates’ electability rates following the Dec. 2 reunion rally of the symbolic 212 antigovernment movement. According to the survey, the rally did not change candidates’ electability rates significantly as President Jokowi and Ma’ruf still lead their contenders by 20 percent. Conducted between Dec. 5 and 12, the survey involved 1,200 respondents and employed a multistage random sampling method. With a margin of error of 2.8 percent, the survey found that Prabowo-Sandiaga’s electability rate stood at 30.6 percent after the antigovernment rally, while President Jokowi-Ma’ruf Amin scored 54.2 percent.

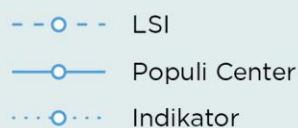
Looking at the numbers, it appears that Prabowo-Sandiaga’s electability rate has actually decreased as the LSI recorded their electability rate at 31.2 percent prior to the rally. This is surprising considering that the rally championed antigovernment narratives that targeted President Jokowi. Do the survey results truly forecast the upcoming 2019 presidential election?

What we’ve heard: An independent source with vast knowledge of survey production and close acquaintance with surveyors from Jokowi-Ma’ruf’s and Prabowo-Sandiaga’s teams suggested that the margin between Jokowi-Ma’ruf’s and Prabowo-Sandiaga’s electability rates is actually smaller than often portrayed.

The source puts a great trust in *Kompas*’ survey, including the latest one which revealed that Jokowi-Ma’ruf’s electability rate stood at 52 percent while Prabowo-Sandiaga’s reached 32 percent. Regardless, according to the source’s calculation, the margin between Jokowi-Ma’ruf’s and Prabowo-Sandiaga’s electability rates is approximately between 17 and 20 percent.

This is different with the calculations of Jokowi-Ma’ruf’s and Prabowo-Sandiaga’s calculations. According to Prabowo-Sandiaga’s camp’s internal survey, the margin between Jokowi-Ma’ruf’s and Prabowo-Sandiaga’s electability is approximately 12-15 percent, as confirmed by Sandiaga himself in *Tempo* Magazine 24-30 December 2018 edition. The calculation has reportedly boosted Prabowo-Sandiaga’s camp’s confidence, with some believe that the shrinking gap between the two camps’ electability is beyond their expectation.

Meanwhile, according to Jokowi-Ma’ruf’s camp’s internal survey, Jokowi-Ma’ruf’s electability is still 15 to 18 percent higher than Prabowo-Sandiaga’s. The figure reportedly has sparked anxiety in Jokowi-Ma’ruf’s camp. However, the incumbent President’s camp thinks that the shrinking gap is still manageable. The camp is reportedly planning to introduce and implement new plans in the next four months, with each month having its own dramatic effect on Jokowi-Ma’ruf’s electability. According to some sources, Jokowi has yet to exert a significant effect on his electability these days. The success story about his efforts on taking over Freeport allegedly has not had any significant political impact among the voters.



	Aug 2018		Sep 2018		Oct 2018		Nov 2018		Dec 2018	
	JOKOWI MA'RUF	PRABOWO SANDI	JOKOWI MA'RUF	PRABOWO SANDI	JOKOWI MA'RUF	PRABOWO SANDI	JOKOWI MA'RUF	PRABOWO SANDI	JOKOWI MA'RUF	PRABOWO SANDI
LSI	52.2%	29.5%	53.2%	29.2%	57.7%	28.6%	53.2%	31.2%	54.2%	30.6%
Populi Center	55.1%	30.3%	55.6%	30.9%	56.3%	30.9%				
Indikator	57.7%	32.3%	57.7%	32.3%						
Saiful Mujani Research and Consulting (SMRC)	60.2%	28.7%								

Your Letters: EU First Counsellor on Indonesian palm oil ban

We have read with interest your story about the [environment](#) on Dec. 21 and we would like to draw your attention to one factual mistake in your story (see underlined part of the text below).

Strong resistance on palm oil development comes from abroad. Europe in particular, with boycotts and planned outright bans because of palm oil's impact on forests. The pressures, however, are also stemmed by business competition from other vegetable oils, including rapeseed and soybean oils.

First and most importantly, there is no European Union ban on palm oil and no plan to introduce one. There are no trade barriers or discriminatory legislation toward palm oil.

Second, the EU's import duty for Indonesian palm oil is also low (0 to 10.9 percent) in comparison to other export markets such as India.

In relation to the recent debate on the European Parliament proposal to ban palm oil, please note that the final text of the renewable energy directive foresees a phasing out of ALL high-risk crop-based biofuels by 2030 based on the indirect land use change.

All this information can be found in the link below:

<https://eeas.europa.eu/delegations/indonesia/53721>

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→ Readers are welcomed to send letters to the editors at info@tenggara.id

BUSINESS & ECONOMIC POLICY

Permenaker No. 15/2018 revolutionary, yet controversial

On Nov. 23, Manpower Minister Hanif Dhakiri enacted Manpower Minister Regulation (Permenaker) No. 15/2018 on minimum wage that includes a new regulation regarding sectoral minimum wage (UMS) negotiations.¹¹

Takeaway:

- Permenaker No. 15/2018 divides the UMS negotiation process into two: Initial negotiations on the list of local main sectors and the actual UMS negotiation.
- The new UMS regulation also gives considerable advantages to business associations in UMS negotiations; one in determining the list of local main sectors, another in forcing a stalemate during the actual UMS negotiation to get an acceptable compromise from the opposing party.
- Permenaker No. 15/2018 also has a clause to “reset” the minimum wage through KHL negotiations every five years, but it is a nuclear option that would result in a backlash.

Background: Like Government Regulation No. 78/2015, Permenaker No. 15/2018 drew strong opposition from various labor unions. In North Sumatra, for instance, the North Sumatra Workers Alliance (APBD-SU) staged a protest on Dec. 10, after the North Sumatra administration said it wanted to decrease the number of local main sectors (*Sektor Unggulan*) eligible for UMS negotiation in compliance with Permenaker No. 15/2018.¹²

On Wednesday, the Federation of Metal, Electronic and Machine Workers Union (FSP LEM SPSI) also staged a protest in Bogor, West Java, demanding that Bogor Regent Nurhayanti should raise the 2019 Bogor Regency Sectoral Minimum Wage (UMSK) without changing the list of local main sectors as demanded by the new UMS regulation.¹³ Besides Bogor, labor unions in West Java also staged protests in Subang¹⁴, Cirebon¹⁵, and Karawang¹⁶ with the same demand.

Although staging a protest is effective in pressuring local government officials to meet labor unions’ demand, relying too much on it might result in strong opposition from business associations as in the case in Batam, Riau Islands. Despite protest held by the Batam Workers Alliance,¹⁷ the local chapter of the Indonesian Employers Association (APINDO) refuses to attend any UMSK negotiations without renegotiating the list of local main sectors in adherence to Permenaker No. 15/2018¹⁸.

¹¹ Batampos.co.id, “Ada aturan baru dalam Permenaker 15/2018, tentang UMS.” Nov. 28, 2018

<https://tinyurl.com/yagcneqz>

¹² Medanbisnisdaily.com, “10 Desember buruh Sumut demo tolak Permenaker transupah minimum.” Dec. 3, 2018

<https://tinyurl.com/y7dqtne>

¹³ Radarbogor.id, “Kepung gedung DPRD Kabupaten Bogor, buruh menuntut pemberlakuan UMSK 2019.” Dec. 27, 2018

<https://tinyurl.com/ya8pata5>

¹⁴ Koranperdjoeangan.com, “Gerimis tak surutkan buruh Subang gelar aksi.” Dec. 27, 2018

<https://tinyurl.com/y9vn368h>

¹⁵ Koranperdjoeangan.com, “FSPMI Cirebon akan kepung Disnakertrans Kab. Cirebon, jika UMSK Cirebon 2019 hilang lagi.” Dec. 27, 2018 <https://tinyurl.com/ybqufwvg>

¹⁶ Koranperdjoeangan.com, “20 ribu buruh Karawang bergerak desak UMSK 2019 segera ditetapkan.” Dec. 13, 2018

<https://tinyurl.com/ya2ke5we>

¹⁷ Koranperdjoeangan.com, “Ribuan buruh Batam geruduk kantor Disnaker desak UMSK 2019 segera diputuskan.” Dec. 27, 2018 <https://tinyurl.com/ybcrsppy>

¹⁸ Koranperdjoeangan.com, “Jelang akhir tahun, UMSK Batam belum juga diputuskan, ada apa?” Dec. 27, 2018

<https://tinyurl.com/ychu9vr3>

In a few cases like South Tangerang¹⁹ and Serang²⁰ in Banten, local labor unions were willing to compromise with local business association's demand -- accepting a lower pay rise without changing the number of local main sectors -- to secure an agreement for 2019 UMSK.

Insight: Permenaker No. 15/2018 is controversial, because it completely changes the UMS negotiation process. Under the previous regulation, Permenakertrans No. 7/2013, labor unions could negotiate with business associations to determine the UMS without negotiating the list of local main sectors first. Under Permenaker No. 15/2018, however, UMS negotiations cannot be started without initial negotiations on the list of local main sectors.

The new UMS regulation also simplifies the criteria to determine the list of local main sectors, from six down to four (see the table below). There are two important criteria that affect negotiation to determine local main sectors. First is the number of large companies in the aforementioned sectors. Because of these criteria, UMS negotiations can only be conducted with large companies that satisfy the definition of Law No. 20/2008 on micro, small and medium enterprises (net assets above Rp 10 billion or annual sales above Rp 50 billion).

Another is a requirement that the chosen local main sectors can be rigorously defined to the five-digit industrial classification code (5 digit KBLI). According to our source, this requirement sparked a debate among labor unions in industries with extensive supply chain systems, such as the automotive industry. The debate centers on the issue of representation, whether UMS negotiations conducted by a labor union from principal auto companies represent the aspirations of labor unions.

After both parties agree on the list of local main sectors, they can continue with UMS negotiations. In case of a stalemate, Permenaker No. 15/2018 stipulates that the local governments can either use:

1. The current provincial (UMP) or regency/city (UMK) minimum wage.
2. The previous provincial (UMSP) or regency/city (UMSK) sectoral minimum wage.

This clause gives a considerable advantage to business associations in UMS negotiations. If they are not satisfied with the UMS proposal, which is generally higher than the UMP and UMK, they can force a stalemate, so the opposing party would have to offer an acceptable compromise (lower UMSP or UMSK rise).

Besides regulating UMS negotiations, Permenaker No. 15/2018 also has a clause to "reset" the minimum wage every five years through a negotiation on the Decent Living Needs (KHL) formula. When KHL negotiations are conducted, the annual minimum wage formula, whereby the minimum wage will increase at the rate of inflation plus real national economic growth, will not be applied. Technically, KHL negotiations offer an opportunity to set a lower minimum wage after the fifth year. Nonetheless, it is still unclear whether such an option will be taken by the Manpower Ministry and business associations, because taking it would result in a backlash not only from labor unions, but also from society. We will find the answer in 2020.

¹⁹ Koranperdjoeangan.com, "Inilah hasil rapat Pleno UMSK Kota Tangerang Selatan untuk kenaikan UMSK tahun 2019." Dec. 7, 2018 <https://tinyurl.com/\ya3ze7ve>

²⁰ Koranperdjoeangan.com, "Pengusaha dan pekerja di Kabupaten Serang sepakati nilai UMSK tahun 2019." Dec. 7, 2018 <https://tinyurl.com/y76y4sqp>

Change in Sectoral Minimum Wage Negotiation Process

	Permenakertrans No. 7/2013	Permenaker No. 15/2018
Negotiations to Determine the List of Local Main Sectors	Advised, but not mandatory	Mandatory
Criteria to Determine Local Main Sectors	Number of Companies	Number of Large Companies
	Number of Workers	
	Degree of Homogeneity among Companies	Can be categorized under Five-digit Industrial Classification (KBLI)
	Amount of Foreign Exchanges Generated	
	Amount of Value Added Generated	Value Added Growth
	Companies' Ability to Pay Minimum Wage	Workers Productivity
In Case of A Stalemate	Unspecified	Use Current UMP or UMK, or Previous UMSP or UMSK
KHL Negotiation	Annually	Every Five Years

Issue Update: Indonesia now controls Freeport

Indonesian government, through PT Indonesia Asahan Aluminium (Inalum), has finally taken over PT Freeport Indonesia (PTFI) – a subsidiary of American gold and copper miner Freeport McMoran (FCX) – and now controls one of the world’s biggest gold and copper mines in Grasberg, Papua, after closing a US\$3.85 billion deal last Friday, which increased the government’s share in PTFI to 51.23 percent from only 9.36 percent.

Summary: The deal ended the government’s years of struggle to regain Grasberg after FCX through PTFI took over the mine when former president Soeharto signed the second series of Contract of Work (CoW) in 1991, granting FCX 30 years of operating rights. The CoW drew harsh criticism from the public after Soeharto stepped down in 1998 due to a point that requires the government to renew the CoW for another 20 years when it ends in 2021.

The 51.23 percent government stake in PTFI will be represented by Inalum and PT Indonesia Papua Metal & Mineral (IPMM), a joint venture by Inalum and the Papua administration through a region-owned enterprise (BUMD). After the divestment deal, the final structure of PTFI’s share will comprise Inalum, IPMM and FCX with ownership of 26.23, 25 and 48.76 percent, respectively. Inalum owns 60 percent of IPMM’s shares, and the remaining 40 percent – which is equal to 10 percent of shares at PTFI – go to Papua’s BUMD.

The agreement also marks a crucial change in the operational framework of PTFI after the government issued a definitive special mining permit (IUPK) to replace the CoW until 2031, which could be extended to 2041. The new framework gives the government more authority than ever before and at the same time provides FCX and PTFI legal and business certainty to continue their operations until 2041. FCX CEO Richard Adkerson said the company had made a commitment to invest up to US\$20 billion in PTFI until 2041.

“We now have a partner in Inalum that is going to be of great benefit to mining operations, because now it’s going to really be a joint undertaking by the government and Freeport,” Adkerson said in Jakarta after the signing as quoted by *The Jakarta Post*.²¹

While FCX remains the operator of PTFI, the change of operational framework and ownership has transformed PTFI’s leadership by involving more Indonesians. Inalum president director Budi Gunadi Sadikin said Indonesia would play a bigger role in the company’s decision-making process. At the same time, it needs time to learn from PTFI’s mining operations, particularly complex underground mining, before operating the company.

Following the agreement, the Finance Ministry also announced it would align PTFI’s tax and royalty schemes to the prevailing rates to ensure a higher state income²². According to Finance Minister Sri Mulyani Indrawati, Freeport would pay a fixed amount of taxes, which includes 25 percent income tax, 10 percent value-added tax, 4 percent royalties for copper and 3.75 percent royalties for gold; while local retribution and local taxes would be governed by another regulation to be issued separately.

Despite the government’s euphoria, the deal has been met with criticism from some quarters. University of Indonesia economist Faisal Basri criticized the deal and deemed it “unnecessary”.²³ Faisal said it was illogical to purchase something the state already owned such as the land where the Grasberg mine is located. He said the government’s control over Freeport could be pursued via regulations, such as those on taxes and royalties, and not necessarily by acquiring a majority ownership of Freeport.

A group of mining experts – including Marwan Batubara of Indonesian Resources Studies and natural resources law expert at Tarumanagara University Ahmad Redi – jointly signed an open letter in opposition to the divestment scheme, claiming the \$3.85 billion deal was far too expensive and that the government had thought little of the environmental impact. The group argued that PTFI’s reserves in the Papua mines were short and that the contract of work was set to expire in 2021. They also criticized the decision by the Supreme Audit Agency to allow PTFI to pay Rp 460 billion in non-tax revenue for the company’s misuse of 4,535.93 hectares of protected forest areas to dispose of its mining tailing.²⁴ The group also called on the House of Representatives and the Corruption Eradication Commission to oversee the deal. Ahmad said the group planned to sue the government over its decision to issue the definitive IUPK to PTFI.

New Board of Directors	
Position	Name
President Director	Tony Wenas
Vice President Director	Orias Petrus Moedak
Director	Jenpino Ngabdi
Director	Achmad Ardianto
Director	Robert Charles Schroeder
Director	Mark Jerome Johnson

New Board of Commissioners	
Position	Name
President Commissioner	Richard Carl Adkerson
Vice President Commissioner	Amin Sunaryadi
Commissioner	Budi Gunadi Sadikin
Commissioner	Hinsa Siburian
Commissioner	Kathleen Lynne Quirck
Commissioner	Adrianto Machribie

²¹ The Jakarta Post, “It’s official: Inalum in control of Freeport,” Dec. 22, 2018.

²² Kontan, “Pascadiakuisisi, skemaperpajakan royalty Freeport berubah,” Dec. 26, 2018

²³ Tirto.id, “Kritik ekonom soal cara pemerintah kuasai saham mayoritas Freeport,” 21 December 2018 <https://tinyurl.com/ybwa7p93>

²⁴ The Jakarta Post, “It’s official: Inalum in control of Freeport,” 22 December 2018.

What we've heard: According to some sources, Tony Wenas' appointment as PT Freeport Indonesia (PTFI) president director was the result of a compromise between the government and Freeport McMoran (FCX). Freeport has been wanting to maintain control over Grasberg mining operations since the beginning of negotiations over Freeport's divestment of shares.

A government source said State-Owned Enterprises (SOEs) Minister Rini Soemarno and Energy and Mineral Resources Minister Ignasius Jonan were comfortable with Tony Wenas as PTFI president director. Other than knowing Tony from his previous post as president director of Riau Andalan Pulp and Paper, Rini and Jonan acknowledge his managerial expertise and lobbying skills.

Another source said Inalum would keep Tony as PTFI president director maximum until 2022, to facilitate the construction of underground mines before Grasberg's open pit mining finishes. After that, Inalum wants the president director's post to be filled with someone who can better represent its interest. This explains why Inalum named Orias Petrus Moedak PTFI vice president director to help Tony. Orias, currently the finance director of Inalum, is being groomed to become PTFI's next leader.

According to some sources, Inalum initially wanted Silmy Karim – the current president director of Krakatau Steel – to fill the position as PTFI vice-president director. Silmy, who has a strong network in the local intelligence community and considered strong in negotiation, could stand strong against FCX and American interests. Rini had approved the nomination of Silmy, who is also the former president director of state-owned weapon manufacturer PT Pindad and an analyst at the State Intelligence Agency (BIN). However, Silmy reportedly declined the offer and chose to stay as Krakatau Steel president director.

Another source at the SOEs Ministry said that President Joko "Jokowi" Widodo exclusively asked Rini and Jonan to appoint former Oil and Upstream Gas Regulatory Special Taskforce (SKKMigas) head Amien Sunaryadi as PTFI vice president commissioner. The President hoped that Amien could monitor Freeport's procurements, which had benefited politicians and elite businessmen in Jakarta. As former Corruption Eradication Commission (KPK) chief, Amien is expected to police procurement management and alleged corruption practices in Freeport.

Meanwhile, the appointment of former Army deputy chief of staff Hinsu Siburian as PTFI commissioner was to follow Inalum's suggestion: Placing someone who knows Papua's security situation. Prior to his position as Army deputy chief of staff, Hinsu was commander of the Cendrawasih Regional Military Command in Papua. Hinsu was chosen by the government after his name stood out against other three military candidates.

Freeport Indonesia's long road to divestment

11 Jan.
2017

PP 1/2017 was issued to revise the amount of PTFI's obligatory divestment to 51 percent from 30 percent



Divestment negotiation began with talks of divestment cost, smelter establishment and investment stability

Apr.
2017

29 Aug.
2017

PTFI agreed to divest 51 percent of its shares to RI



Negotiation was postponed for another 3 months after Adkerson declined the government's proposal in August. The option to buy Rio Tinto's participation right (PR) first emerged

10 Oct.
2017

Jan.
2018

- Govt issued temporary IUPK for PTFI that expires in July
- Inalum, Papua Local Government and Mimika Regency Administration signed a cooperation contract on PTFI's 51 percent shares purchase and management

- Due diligence period
- Negotiation between FCX, Inalum and Rio Tinto about PR's price began

Jan. - Apr.
2018

RioTinto

26 Jun.
2018

Jonan met Adkerson in a closed meeting in Washington D.C.



FCX, Rio Tinto and Inalum signed Head of Agreement

12 Jul.
2018

27 Sep.
2018

Inalum, FCX and Rio Tinto signed sales and purchase agreement, Inalum officially obtained 51.23 percent of PTFI's shares

Inalum issued US\$4 billion global bond to fund the divestment

8 Nov.
2018



On December 21, FCX and Inalum closed the deal. RI officially controls the majority shares of PTFI and its operation in Papua



Issue Update: Local players' apprehension from contentious reinvigoration of steel industry

The State-Owned Enterprises Ministry appointed Silmy Karim on Sept. 6 as the new President Director of PT Krakatau Steel, which has recorded financial losses for six years straight.

Summary: The new President Director did not like to waste his time. On Nov. 23, he signed an agreement to supply 1 million tons of steel to construction sector SOEs like Waskita Karya, Adhi Karya, Wijaya Karya, Hutama Karya, Nindya Karya and PT Pembangunan Perumahan (PP) for various infrastructure projects.²⁵ Besides signing a lucrative business agreement, Silmy also went on the offensive against steel imports from China. He has repeatedly been warning the Trade Ministry that Chinese steel importers have been manipulating Trade Ministry Regulation No. 22/2018 on iron and steel imports. Using a legal loophole in the regulation, Chinese importers declare alloy steel to be carbon steel to make their goods eligible for import duty exemption.²⁶

Silmy's campaign against Chinese steel is also aimed at Chinese foreign direct investment (FDI) in Indonesia. He warns the government and local consumers that enterprises receiving Chinese FDI use induction furnace technology to produce cheap low-quality steel, selling them as construction materials for residential and infrastructure projects. This product is unsafe and suspected as the cause of various building collapses in Padang during the 2017 West Sumatra earthquake.²⁷ While admonishing his competitors, Silmy promotes the quality and reliability of Krakatau Steel with its electric furnace arc technology.²⁸

What we've heard: Angered by the growing presence of induction furnace steel mills, Krakatau Steel president director Silmy Karim wrote a letter to National Police chief Tito Karnavian on Nov. 21, asking him to raid the induction furnace mills.

In the letter, Silmy said that induction furnace mills were environmentally harmful. He wrote that the technology used is backward, with no ladle furnaces and continuous casting machines.

He also said that induction furnace mills have poor quality control. He said, for instance, that chemical composition tests and steel cleanliness checks are ignored. Hence, the products would not meet the national standard requirements (SNI).

The letter also mentioned that induction furnace mills have become the suppliers for various high-profile infrastructure projects. Without satisfying the SNI, this steel could endanger the security and safety of government construction projects.

Another source said that the usage of induction furnace steel could cause serious damage to building structures during earthquakes.

Some players in the steel industry said that induction furnace steel has been used in the Jakarta-Cikampek elevated toll road projects, which were partially managed by state-owned constructor PT

²⁵ Tempo.co, "Krakatau Steel pasok baja ke BUMN Karya untuk infrastruktur." 23 November 2018 <https://tinyurl.com/ybpy7uad>

²⁶ Kontan.co.id, "Krakatau Steel (KRAS) minta revisi aturan Permendag 22.2018." 21 October 2018 <https://tinyurl.com/yb6gtqal>

²⁷ Harianhaluan.com, "Kasus besi non-SNI mulai disidang." 22 May 2018 <https://tinyurl.com/y8axpbrg>

²⁸ Tempo.co, "Dalam cengkaman baja induksi." 15 December 2018. <https://tinyurl.com/y95u6zys>

Waskita Karya. Three thousand tons of steel rods with 10 to 13-millimeter diameters were supplied by induction furnace steel manufacturer Lautan Steel at the Balaraja Industrial Complex, Tangerang.

Waskita Karya also stated that the company has used induction furnace steel from Citra Baru Steel. The transaction was recorded in a 2017 financial report, which said that Waskita incurred a Rp 36.8 billion debt in 2016 through a transaction with Citra Baru Steel. The debt tripled to Rp 119.8 billion in 2017. A privately-owned steel manufacturer said that the emergence of induction furnace steel factories has put companies with blast furnace and electric arc furnace technologies in a disadvantage by gradually gaining control of 75.3 percent of the national steel market. According to the source, some of these electric arc furnace and blast furnace-based factories were forced out of business.

Some of the industry players added that Silmy, who is also Indonesian Steel and Iron Industry Association chairman, did not only mean to pass the industry's concerns to Tito through his letter. According to a member of the association, induction furnace steel factory has disrupted and halted the production of Krakatau Wajatanama, a subsidiary of Krakatau Steel.

Besides the growing use of induction furnace steel, the domestic steel industry is also being suppressed by the influx of steel imported from China. Based on the association's findings, some importers have even deliberately registered their carbon steel for the mixed steel tariff by adding several chemical components to the customs registration, in order to obtain the 9 percent to 13 percent tax cut and free entry levy. Thus, according to the association, it was not surprising to find the price of Chinese steel lower than Indonesian-made steel.

Silmy had also met Vice President Jusuf Kalla to discuss the influx of cheap steel from China. He reported this issue to Industry Minister Airlangga Hartarto and Trade Minister Enggartiasto Lukita, demanding stricter monitoring and enforcement of Chinese steel. In a meeting with President Joko "Jokowi" Widodo at Bogor Palace on Nov. 31, Silmy discussed with him the problem faced by the upstream steel industry.

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.



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