

Highlights of the week



Questions linger on the 212 movement's power

Following the 212 Movement reunion on Dec. 2, it appears that the movement has lost its relevance considerably in the political realm, unlike its predecessor which successfully toppled down former Jakarta Governor Basuki “Ahok” Tjahaja Purnama last year. Although previously the movement had been regarded as one of the most serious threats against President Joko “Jokowi” Widodo’s reelection bid, this year’s reunion rally’s depleted popularity indicates that its effects will be little to none on the upcoming 2019 general elections.



May Army's dual function return?

The President’s plan to appoint the armed forces to oversee foreign workers in Indonesia has sparked speculations on the military’s expanding role in noncombat operations. It is feared, however, that adding its role outside the realm of defense might potentially bring the military closer to domestic politics, echoing former President Soeharto’s Dual Function doctrine.



Merpati's long road to fly again

On Nov. 14, a judicial panel of Surabaya Commercial Court in East Java approved a plan to revitalize PT Merpati Nusantara Airlines, saving the state-owned enterprise from liquidation and paving the way for private investor to take over Merpati. Concerns remain, however, as Merpati privatization plan needs the approval of Finance Minister despite the support from the SOEs Ministry and other creditors.



Issue update: Nationalization of Freeport

Freeport McMoran (FCX) – as the parent company of PT Freeport Indonesia – and Inalum signed in September a sales and purchase agreement (SPA) for the divestment of Freeport’s 51 percent shares for US\$4.2 billion. The payment was to be completed in mid-December. Despite the signing, some pending issues remain. The back-to-back meetings between FCX CEO and a number of Indonesian ministers this week unveiled some of the lingering problems.

POLITICS

After the big bash, questions linger on the 212 movement's power

Organizers of the 212 movement's reunion may be thumping their chests for pulling off yet another massive rally in Jakarta on Dec. 2, but it remains unclear how much influence the Islamist movement really has on the nation's political life or the outcome of the April general elections. The movement was launched as a massive political rally on Dec. 2, 2016 (hence the name 212), to oppose the reelection of then-incumbent Jakarta governor Basuki "Ahok" Tjahaja Purnama. While it succeeded in beating the Chinese-Christian governor by aggressively telling Jakartans not to vote for a non-Muslim candidate, the movement is unlikely to be an effective force in next year's presidential race for the simple fact that both candidates and their running mates are Muslim.

Takeaway:

- The 212 movement's decreasing relevance might be due to the exile of one of the movement's prominent figures, Front for Islamic Defenders (FPI) founding leader Rizieq Shihab
- The opposition's preference for social and economic issues over religion might be another reason behind the movement's depleting popularity
- The 212 movement no longer poses a major threat against President Jokowi's Islamic credentials and political credibility after the President picked Ma'ruf Amin, chairman of the Indonesian Ulema Council (MUI), as his vice-presidential candidate

Background: Before the presidential election campaign started in September, the 212 movement had been regarded as the single biggest force that could foil President Joko "Jokowi" Widodo's reelection bid. It had been growing in size since its success in influencing the outcome of the 2017 Jakarta gubernatorial election. It had even started to build its own chain of 212 Mart convenient stores.

The 212 movement was rapidly turning into a growing political movement with some financial clout and a clear agenda. Jokowi's close association with Ahok (who was his deputy when he was Jakarta governor before becoming president in 2014) makes him vulnerable. For 212, this was too good to pass. It has been attacking the president by questioning his Islamic credentials.

The 212 movement lost much of its influence, however, when Jokowi picked Ma'ruf Amin, chairman of the Indonesian Ulema Council (MUI), as running mate for the 2019 race. Ma'ruf was one of the 212 movement's founding leaders and he took many of his colleagues in the movement with him when he moved to the Jokowi camp. Meanwhile, the challenger, former general Prabowo Subianto, has shown little interest in embracing the 212 movement, whose real long-term agenda is the use of the sharia and turning Indonesia into an Islamic state. Prabowo, a staunch nationalist, made a brief appearance at Sunday's rally and gave his political speech, but he and running mate Sandiaga Uno have opted to campaign more on social and economic issues.

With religion taken out of the equation in the presidential race, the 212 movement has been deflated and even lost much of its relevance, at least in next year's national political agenda.

Insight: The 212 Movement was the brain child of Rizieq Shihab, a firebrand Muslim preacher and founding leader of the Front for Islamic Defenders (FPI), a self-appointed Islamist vigilante group. Rizieq relies on his religious sermons, much of it filled with hate, to raise public anger against particular individuals, groups or institutions. The target of his thugs includes progressive Muslims, non-Muslim leaders like Ahok, minority Islamic sects like the Ahmadiyah and the Shiite, the leftist movement and the lesbian, gay, bisexual and transgender (LGBT) community.

Rizieq took the FPI and himself to the height of their popularity (or notoriety) when he led two political rallies in late 2016 to campaign against Ahok, claiming that the governor had insulted Islam. He not only succeeded, his campaign also sent Ahok to jail for blasphemy.

It soon became clear that Ahok had only been an intermediate target and that 53-year-old Rizieq had other much bigger ambitions. The big rallies in 2016 gave him ideas about his next moves.

There were suggestions that the FPI should turn into a political party to contest the 2019 elections and field Rizieq as its presidential candidate. The plan never had any chance of materializing. Police in early 2017 found evidence of a possible sexual scandal involving Rizieq and a woman who had helped him raise money for the two rallies. Whatsapp screenshots of their supposed salacious conversations and photos of the woman in compromising positions had been going viral on social media, prompting the police to summon Rizieq for questioning for breaking articles on immoral conduct under the cyberlaw. Rizieq claimed those screenshots were fabricated but he fled to Saudi Arabia, nevertheless. He has remained there as a fugitive since.

The beneficiary of Rizieq's campaign, Islamic scholar Anies Baswedan, learned the lessons early the cost of coddling too closely with Rizieq. As soon as he was inaugurated as Jakarta governor, the long list of payback demands from the 212 leaders began. He has since struggled to maintain a safe distance from Rizieq. Not surprisingly, not once did he ask the government to drop the charges against Rizieq and allow the firebrand preacher to return to Indonesia.

The 212 movement and the FPI carried on in Rizieq's absence and take orders from him in Mecca. Before Sunday's rally, he gave a specific order not to invite Jokowi. The instruction said political parties who had supported Ahok's election bid would not be welcome either. In the December 2016 rally, Jokowi crashed the party, ignoring his own security minders and took part in prayers with the anti-Ahok protesters. There was no such opportunity this time around, although Jokowi had canceled his attendance at the G20 summit in Buenos Aires at the last minute. It was clear there is no love lost between Jokowi and Rizieq.

Discussions in the aftermath of the second anniversary of the 212 movement rarely touch on the political issues or what role it and Rizieq would play in the coming elections. In the end, it was just a massive rally, and a peaceful one. It will be remembered more for a debate on the size of the crowd; most media outlets put it at a few hundred thousand up to half a million. The organizers claimed 8 million. Prabowo even said 11 million. But then, does size really matter?

Army's increasing jurisdiction: Return of dual function?

In his recent speech, Coordinating Maritime Affairs Minister Luhut Pandjaitan said President Joko “Jokowi” Widodo had ordered the Indonesian Military (TNI), particularly the Army, to take part in monitoring the flow of foreign workers in Indonesia, a job outside the force’s portfolio. The President’s instruction is reminiscent of the New Order’s policy that allowed the military to play an extensive role in social and political affairs other than defense. Will Jokowi’s plan trigger a domino effect and restore the Army’s ample jurisdiction?

Takeaway:

- President Jokowi’s alleged plan to appoint the military to oversee foreign workers in Indonesia is to respond the opposition’s attempt to politicize the issue of foreign workers
- It remains unlikely that the President’s plan will become the new version of dual function in the long run as it appears that Jokowi’s plan is purely based on his short-term political objective, namely securing votes

Background: As the 2019 general election is approaching, nationalist sentiment and narratives have been increasingly employed by presidential candidates in securing votes. In regard to the opposition, candidate Prabowo Subianto and running mate Sandiaga Uno’s camp has claimed to have evidence of an influx of foreign workers, particularly in Morowali Industrial Park, Central Sulawesi. They criticized the Jokowi administration for leniency toward foreign workers. In his latest attempt to address the allegation, President Jokowi, as reported by Minister Luhut, is planning to deploy the military to oversee the presence of foreign workers in the country.

At the surface level, President Jokowi’s initiative may not appear momentous. After all, it might be argued that the assignment is purely based on security considerations, namely maintaining stability in areas affected by the arrival of foreign workers. Nevertheless, the new duty for the military will potentially remove the barrier between the armed forces and civic activities, which was established after the New Order fell in 1998. Under the *Dwi Fungsi* (Dual Function) doctrine, the New Order regime under President Soeharto granted the Indonesian Military, then called the ABRI, special powers not only in the realm of defense, but also political, social, economic and religious fields.

Although deployment of troops for noncombat operations might be justified by security considerations, namely appeasing public uproar over the allegations, the plan might backfire and result in the military penetrating the public realm and regaining the extra powers it enjoyed during the New Order.

Insight: The Indonesian Military has a checkered past. Under Soeharto in particular, the Dual Function doctrine authorized military officers to not only encompass the areas of defense and security, but also enter the political, social, business and bureaucratic landscape. As the guardian and enforcer of the state’s ideology Pancasila, the military was almost omnipotent.

With the fall of the New Order, the military gradually lost its considerable powers. The sweeping reform in 1998 ushered the military back to the barracks and obliged it to deal with defense matters only. Now Jokowi needs the help of the military to stave off reports of an alleged influx of foreign workers, which his contender Prabowo will capitalize on to beat him

in the 2019 election. Reports of the influx of Chinese migrant workers into Indonesia, particularly Morowali, have been circulated to build a narrative of Jokowi's favoritism toward China over job creation for the Indonesian workforce.

The opposition camp continuously attacks Jokowi's alleged lenience toward foreign workers. For instance, politician Sigit Sosiantomo from the Prosperous Justice Party (PKS), one of the parties supporting Prabowo's presidential bid, lamented Jokowi's Presidential Decree No. 20/2018, which was designed to simplify the procedure of issuing permits to foreign workers. Gerindra Party politician Fadli Zon lambasted the decree further, claiming that the government had failed to protect local workers.

The government says, however, the arrival of foreign workers in Indonesia is not as catastrophic as widely portrayed. According to Manpower Minister Hanif Dhakiri, compared to the number of Indonesian workers abroad, the number of foreign workers in Indonesia is relatively proportional; by the end of 2017, there were 85,947 foreign workers in Indonesia, as against approximately 9 million Indonesian workers hired abroad.¹ In response to rising nationalist sentiment against Chinese workers, Hanif said 150,000, 20,000 and 200,000 Indonesian workers were employed in Hong Kong, Macau and Taiwan respectively, compared to 24,800 Chinese workers in Indonesia.

Nevertheless, as the issue has been politicized, providing an explanation based on existing data may not satisfy the public, especially as the opposition mainly resorts to emotional appeal. Meanwhile, as the presidential election is approaching, Jokowi needs to act fast in order to preserve his electability rate. This might be the reason why he opted for a rather draconian measure. After all, what promises control more than military power?

Based on existing law and decrees, foreign workers are mainly regulated by the Manpower and Transmigration Ministry. According to Ministerial Decree No. PER.02/MEN/III/2008 on foreign workers, the ministry's authorization needs to be obtained first by foreign workers prior to entering the country. Afterward, to extend their work permits, foreign workers must acquire the authorization of the local governor or mayor where they work.²

Considering the above, appointing the military to oversee foreign workers raises many eyebrows. Furthermore, it is feared that the policy may herd the military back into the civil bureaucracy and eventually the socio-political realm. In response to the opposition's attempt to politicize the issue of foreign workers, the President brings the military closer to politics.

Indeed, the military's growing civilian role in domestic affairs has been illustrated by a number of occurrences. Military deployment to guard public infrastructure such as railway networks, for instance, is perceived as an expansion of the military's role in public life. Similarly, its agreements with the National Population and Family Planning Board and a considerable number of universities in conducting family planning and educational programs demonstrate the military's prevalence in noncombat spheres. The military, furthermore, has carried out several initiatives to win the hearts and minds of the public as well. Its role in distributing relief for natural disaster victims throughout the year, for instance, has been publicized. Military officers' engagements with several popular movements, such as that of former TNI commander Gen. Gatot Nurmantyo and the 212 movement, have also bridged the military with civilians.

¹ Kompas.com, "Ini Data TKA di Indonesia dan Perbandingan dengan TKI di Luar Negeri," 23 April 2018 <https://tinyurl.com/y8kojdq4>

² Kementerian Hukum dan HAM, "Tenaga Kerja Asing di Indonesia," cited on 27 November 2018 <https://tinyurl.com/y6wb8rjk>

Prior to deploying troops, several considerations should be taken. First, will it jeopardize the military's neutrality? Generally, the military should preserve its apolitical nature as it is responsible for assuring the state's practice of democracy, namely ensuring a smooth transfer of power. Second, how will military officers be held responsible if they abuse their power while conducting their civil operations? The rule clearly stipulates that military officers suspected of committing abuse of power will face a military tribunal, although the offense is classified as an ordinary crime.

Looking at the current situation, however, it appears that the military will not be thoroughly politicized as it was during Soeharto's New Order. For one, unlike Jokowi's, Soeharto's political objective in politicizing the military was long-term. Under his dictatorship, Soeharto ruled for more than 30 years. As an Army general, it is understandable, thus, that Soeharto preferred to strengthen his established power further among the armed forces. Meanwhile, President Jokowi's political aim is limited, namely winning reelection. Completely politicizing the military to acquire such short-term objectives may, thus, become a hassle.

In the case of appointing the military to oversee foreign workers, President Jokowi stated that newly appointed Army chief of staff Gen. Andika Perkasa, one of Jokowi's confidantes, would supervise monitoring and report directly to the President. This indicates how Jokowi carefully authorizes civilian tasks to selected military officers only, a lesson which was learned the hard way by Gatot who was dismissed as TNI commander by the President after he played too close to domestic politics.

BUSINESS & ECONOMIC POLICY

Merpati's long road to fly again

On Nov. 14, a judicial panel of Surabaya Commercial Court in East Java approved a plan revitalize PT Merpati Nusantara Airlines, saving the state-owned enterprise from liquidation and paving the way for Kim Johannes Mulia to take over Merpati.³

Takeaway:

- Despite support from the SOEs Ministry and other creditors, the Merpati privatization plan needs to be approved by the Finance Ministry and the Office of the Economic Coordinating Minister.
- Sri Mulyani's public statement that questions the credibility of Intra Asia Corpora owner Kim Johannes Mulia should be taken more seriously.

Background: Known as an "air bridge" that linked the remote areas of eastern Indonesia, Merpati's business operation has been suspended since February 2014. At that time, Merpati was unable to generate enough cash flow to finance its daily operation and service its Rp 6.7 trillion (US\$462.3 million) debt.⁴ The suspension had put the life of many Merpati employees in limbo. Their salary had not been paid for months. Even senior Merpati employees could not reimburse their pensions, because the company had stopped paying employees' pension contributions since 2009.⁵

Merpati's Income (Rp billion)

Year	Income (loss)
2010	(103.3)
2011	(833.7)
2012	(1,500)
2013	(658.6)

Source: Tirto, PPA, Supreme Audit Agency

Under this condition, Merpati pilots and staff decided to end their employment and move to other airlines. Nevertheless, their decision to find new jobs did not make the government's effort to restructure Merpati easier. Instead, it become more complicated. A group of Merpati employees asked the government to pay a Rp 1.5 trillion severance package to all employees.⁶

The government did not give in to their request, but came up with a new severance package program, the P5 program. Under the P5 program, the total amount of severance payment was reduced to Rp 350 billion. Many Merpati employees showed their opposition to the P5 program. Eventually, most of the employees accepted the government's offer, which in turn changed their status into concurrent creditors until they received all payments under the P5 Program.⁷

Insight: The plan to privatize Merpati was formulated by the State-owned Enterprises (SOEs) Ministry in late 2015. The SOEs Ministry want to revitalize Merpati without burdening the state budget.⁸

³ Tirto.id, "Putusan PKPU izinkan Merpati terbang lagi." 14 November 2018 <https://tinyurl.com/ya36qv3c>

⁴ Beritasatu.com, "Merpati konsolidasi operasional tutup sementara." 4 February 2014 <https://tinyurl.com/ybn4ojuc>

⁵ Detik.com, "Masuk bulan ke-4, Merpati belum bayar gaji karyawan." 10 April 2014 <https://tinyurl.com/yc3hujmk>

⁶ Bisnis.com, "Dianggap tak transparan, pegawai Merpati tolak kompensasi PHK." 3 March 2016 <https://tinyurl.com/yc3hujmk>

⁷ Tirto.id, "Nasib tragis maskapai perintis." 16 March 2016 <https://tinyurl.com/ybui38kw>

⁸ Tempo.co, "Kementrian BUMN ajukan persetujuan privatisasi Merpati." 1 March 2018 <https://tinyurl.com/y9alm3ec>

The chance to revitalize Merpati came on Aug. 29 this year after Merpati and Intra Asia Corpora signed a conditional capital participation agreement, worth Rp 6.4 trillion. The funds will be paid over the course of two years.

However, the SOEs Ministry and the Finance Ministry, one of Merpati's major creditors, are divided over the soundness of this plan.

Merpati's financial condition (Rp trillion)	2018
Total debt	10.72
Total assets	1.2
Total equity	(9.52)
Merpati's major debt	
Finance Ministry	2.11
Pertamina	1.38
State-owned Asset Management Company (PPA)	0.965
Bank Mandiri	0.245

Source: PPA, KompasTV, MetroTV

Finance Minister Sri Mulyani Indrawati is wary of the track record of Intra Asia Corpora owner Kim Johannes Mulia and insists that the government should continue looking for more credible investors.⁹

However, Sri Mulyani's warning fell on deaf ears. The SOEs Ministry, along with Bank Mandiri and PT Perusahaan Pengelola Aset (PPA), proceeded with the deal. The group of Merpati ex-employees also support the deal with their status as concurrent creditors.¹⁰

Despite their insistence, the Merpati privatization plan needs approval from Sri Mulyani and Coordinating Economic Minister Darmin Nasution.¹¹ Without their approval, the plan would unlikely be approved by the House of Representatives.

Kim Johannes Mulia's Track Record

Year	Company name	Case
1994	Detta Marina Textile	Kim was accused of being involved in an export scam in obtaining subsidized export credit worth Rp 32 billion from Bapindo through Detta Marina Textile.
1997	Bank Artha Prima	Kim was suspected to be involved in a Rp 1 trillion loan fraud with Bank Artha Prima owner Made Oka Agung when he pledged to bail the company out of bankruptcy.
1999	Bank Bali	Kim was suspected to be involved in a Rp 5 trillion loan fraud in Bank Bali during the 1998 economic crisis.
2010	Kartika Airlines	Kim announced the purchase of 30 units Sukhoi Superjet 100 for US\$900 million to save the company from bankruptcy. However, the deal was cancelled after the ill-fated test flight crashed on Mt. Salak. Kartika Airlines stopped all operations by the end of the year.

Source: KompasTV, Kumparan, Tirto

Another question arises regarding the capability of Intra Asia Corpora to rebuild Merpati's fleet. The company plans to use 10 MC-21 airplanes produced by Russian manufacturer Irkut Corporation, the producer of fighter aircraft Sukhoi Su-30. However, the suitability of this plane for Merpati's operations is still questionable. Ratna Ayu Wandhini from PT Regio Aviassi

⁹ Kumparan.com, "Sri Mulyani ingatkan lagi soal kredibilitas investor baru Merpati." 18 November 2018
<https://tinyurl.com/y9ajw6hu>

¹⁰ CNNIndonesia.com, "Air mata eks karyawan sambut putusan Merpati terbang lagi." 14 November 2018
<https://tinyurl.com/ydz2e2km>

¹¹ Kumparan.com, "Privatisasi Merpati harus tunggu persetujuan Darmin dan Sri Mulyani." 14 November 2018
<https://tinyurl.com/ybnkekq9>

Industri explains that the MC-21, with the capacity of more than 130 passengers, is too big for airports in remote areas, which generally has less than 1,500 meters of runway.¹²

On the contrary, aviation expert Alvin Lee agreed with the feasibility of operating MC-21 in remote areas. Nonetheless, he doubts that MC-21 can be operated in Indonesia next year. According to his interview with MetroTV, MC-21 is currently in development stage, in which the Russian regulator is still testing its airworthiness. After receiving airworthiness certification from Russian regulator, the plane still needs to undergo airworthiness tests in Europe, then in Indonesia before Merpati can operate it. Alvin also highlights the need to train pilots before the plane can be operated commercially.¹³

What we've heard: Since the beginning of negotiations, the Finance Ministry has opposed Kim Johannes Mulia's Merpati privatization proposal. According to a top Finance Ministry official, the Finance Ministry's position is at odds with the other creditors', who favor Kim Johannes' proposal during voting. The Finance Ministry's status as the biggest creditor meant nothing during the vote because of a one-institution-one-vote rule. Nonetheless, the Finance Ministry will be the first to receive a debt payment once Merpati's assets are liquidated.

The Finance Ministry's opposes Kim due to his business track record. For example, Kim was reportedly involved in the Bank Bali and PT Bank Artha Prima scandals. He was also declared a suspect by the Attorney General's Office (AGO) during the investigation of Bapindo lending scandal to PT Delta Marina, a textile company. Although the Finance Ministry's concern over Kim's track record is understandable, it cannot be used as an argument to reject Kim during negotiations. Kim's ability to deflect all of those allegations in court also complicated the Finance Ministry's opposition.

State-Owned Enterprises (SOE) Minister Rini Soemarno also feels reluctant to proceed with Merpati privatization plan after hearing about Kim's track record. Nevertheless, the process could not be reversed because Kim had already signed a conditional capital participation agreement with Merpati on Aug. 29, which was also attended by PPA and the SOE Ministry.

Besides its reluctance over Kim's track record, the Finance Ministry also opposed Kim's request to write off Merpati's debt payment of 15 MA-60 airplanes produced by the Xian Aircraft Industry. As a guarantor of the MA-60 airplanes, the Finance Ministry is responsible for paying Merpati's debt to Xian – about \$ 11.2 million for each plane.

The Finance Ministry also disagrees with Kim's debt payment schedule. According to a top Finance Ministry's official, payments made in the first two to three years were too small. Kim's promise to pay more money after the third year is also a source of worry. In short, the overall payment scheme has the potential to create trouble in the future. Initially, Kim's Intra Asia offered to switch Merpati's debt with Intra Asia bonds. The Finance Ministry and PPA refused Kim's offer, because they worried that Kim may have difficulties paying off the bonds in the future. This proposal was eventually dropped from the table.

During the due diligence stage, Kim admitted that the Rp 6.4 trillion investment offered was not his. Rather, it will be funded by an undisclosed group of investors. The due diligence was conducted by a team of 30 AGO officials as well as PT Angkasa Pura. It lasted more than four hours.

¹² Tirto.id, "Merpati bisa terbang tinggi dengan pesawat Irkut MC-21 Russia?" 16 November 2018 <https://tinyurl.com/yakebo93>

¹³ MetroTVNews, "Merpati Airlines Terbang Lagi?" 15 November 2018, YouTube Video <https://tinyurl.com/ybg7dewu>

ISSUE UPDATE

Nationalization of Freeport

American mining giant Freeport McMoran (FCX) CEO Richard Adkerson had back-to-back meetings with a number of Indonesian ministers this week in order to reach a final deal with the government before the deadline of Dec. 15.

Adkerson met with Energy and Mineral Resources (ESDM) Minister Ignasius Jonan and state-owned mining holding company PT Indonesia Asahan Aluminium (Inalum) president director Budi Gunadi Sadikin at Jonan's office on Tuesday.

They discussed some pending issues, especially those related to the conversion of PT Freeport Indonesia's contract of work (COW) into a special mining permit (IUPK) so it can comply with the 2009 mining law. Freeport is reluctant to let go of its COW, because under IUPK, the government would have the upper hand over Freeport, and therefore, which means it would have no legal certainty over its own investment.

According to our sources, Adkerson demanded during the meeting that certain elements of investment and operational certainty be added to the IUPK. Considering time constraints, it was said that Jonan was likely to accommodate Adkerson's demands. The four points that have been negotiated are Freeport's operation extension to 2041, smelter development, divestment of Freeport's 51 percent share and increased government revenue. However, the agreed terms regarding these points have yet to be announced.

Some pending issues

Freeport McMoran (FCX) – as the parent company of PT Freeport Indonesia – and Inalum signed in September a sales and purchase agreement (SPA) for the divestment of Freeport's 51 percent shares for US\$4,2 billion. The payment was to be completed in mid-December.

Despite the signing of the SPA, some pending issues remain. First, there are still some sticking points around the conversion of Freeport's COW into an IUPK. Because of this, the government has to issue a temporary IUPK to allow the company to export its mining concentrates. Since early last year, the government has renewed Freeport's temporary IUPK seven times. The government has said it would issue a definitive IUPK for Freeport only after the divestment process is completed.

The second issue is the disposal of Freeport's tailing, which has caused environmental problems. The Supreme Audit Agency (BPK) was the first to reveal the issue, saying that the disposal of Freeport's tailing in forest areas has caused changes in the ecosystem and could translate into a potential loss of Rp 185 trillion (US\$13 billion). The BPK especially questioned Freeport's disposal of mining tailing without having the necessary license to use the protected forest as a disposal site.

The third issue is connected to the involvement of local governments in the divestment. The government and Inalum has agreed to allocate 10 percent of Freeport's shares to local governments of Timika regency and Papua. Inalum proposed that PT Indocopper Investama, as a joint venture, hold the local governments' 10 percent shares and promised to find loans to finance the purchase. But the Papua provincial administration rejected Inalum proposal of using Indocopper and insisted that it would hold the stakes in a new regionally owned company (BUMD).

What we've heard: Several sources said that not long after Papua Governor Lukas Enembe rejected the proposal tabled by Inalum on Nov. 23, a provincial councillor came to Inalum and claimed that he had the power of attorney from the Papua energy and mineral resources agency to find a private investor to partner with the Papua provincial government.

Rumor has it that a Jakarta-based businessman is ready to fund the Papua government's takeover of 10 percent of Freeport shares. This businessman is reportedly ready to provide Rp10 trillion in fresh fund – out of Rp13 trillion required to purchase the 10 percent shares. The presence of a local businessman in the divestment of Freeport shares complicates the plan. This could be the reason why Lukas rejected Inalum's proposal of using Indocopper Investama.

Sources mentioned that Inalum lobbied high-level officials close to President Joko "Jokowi" Widodo, including State Secretary Pratikno and the coordinator of presidential special staffers, Teten Masduki. As a result, President Jokowi convened a special Cabinet meeting on Freeport, attended also by the Papua governor and his deputy governor.

In the meeting, State-Owned Enterprises Minister Rini Soemarno highlighted several points that had been agreed upon as well as a number of pending issues that must be addressed in Freeport divestment process.

President Jokowi then asked governor Lukas Enembe to partner with Inalum and not seek funding from private investors. The president said he did not want to see a repeat of the divestment of Kaltim Prima Coal and Newmont shares that eventually fell into the hands of private investors, while local governments failed to get the maximum benefit from the divestments.

After the meeting, Jokowi invited Lukas for a private lunch. During the lunch, Lukas explained the reasons behind the Papua administration's rejection of Indocopper Investama. All this time, the Papua administration did not get any benefits from Indocopper. The president listened to Lukas' concerns, then asked Indocopper to change its name before becoming the special purpose vehicle for the divestment of 10 Freeport shares for local governments.

But the Papua administration's problem regarding the divestment plan goes deeper. It also opposed the government's planned distribution of the 10 percent shares, i.e. 70 percent for Mimika regency and 30 percent for the provincial government. The Papua provincial government wants to become the majority shareholder in the new entity that would hold 10 percent of Freeport shares.

These issues complicate the divestment process, which has to be completed by Dec. 15. Inalum, the one tasked to complete the transaction, is racing against time, while at the same time some pending issues remain unaddressed, including those in the environmental issues.

According to a source at the State-Owned Enterprises Ministry, the BPK needs a stage in this issue and keeps making statements about its finding. Meanwhile, the House of Representatives (DPR) is also bringing up the results of a BPK audit and asked the Environment and Forestry Ministry to address the issue.

The Environment and Forestry Ministry did not want to lose face and easily let go of Freeport's environmental wrongdoings. The ministry took the middle ground by charging Freeport an environmental fine of Rp 480 billion. Freeport said it would comply as long as it gets a forest-use permit for tailing disposal. However, things become muddier as the

Environment and Forestry Ministry said it would only release the permit after it gets a recommendation from the Papua governor.

Negotiation on the environmental issue happened only one day before the special Cabinet meeting in the Palace. In the meeting, the government asked Lukas to release the recommendation letter for a forest use permit. It was said the Papua governor had not released the permit because he was disappointed by a recent Supreme Court verdict that sided with Freeport over a water tax case against local governments.

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