

Highlights of the week



Amien Rais and the future of PAN

Born out of the reform movement, the National Mandate Party (PAN) is facing an uncertain future due to a deepening schism within, as evident in the recent demand from several cofounders that Amien Rais, the party's patron, resign. With the legislative election approaching, can PAN withhold its internal discord, especially considering the increased parliamentary threshold and its relative low electability rate?



Krakatau tsunami kills people and livelihoods

Last month's unexpected tsunami, precipitated by the eruption of Mount Anak Krakatau in the Sunda Strait, has left a longer devastation in its trail beyond the 400 or so deaths and the tens of thousands of displaced people. As reconstruction begins, many question the business viability of tourist destinations such as beach resorts to lure tourists, both domestic and international.



Lippo's game of debt avoidance

Indonesian conglomerate Lippo Group is facing problem after problem. The termination of PT Internux's (Bolt!) 2.3 GHz frequency permit following fees and penalty payment default became the group's latest issue, not long after the Corruption Eradication Commission (KPK) exposed a corruption scandal in the Group's US\$21 billion Meikarta project. With billions of rupiah at stake, what is Lippo's next move?



PM 118/2018 benefits ride-hailing drivers the most

On Dec.18, Transportation Minister Budi Karya Sumadi signed Transportation Ministry Regulation (PM) No. 118/2018 on ride-hailing services to replace PM 108/2017, which was annulled by the Supreme Court in September last year. The new regulation is expected to change the nature of ride-hailing business as it places drivers in favorable spot than the ride-hailing companies.

POLITICS

Amien Rais and the future of PAN

Born out of the reform movement, the National Mandate Party (PAN) is facing an uncertain future due to a deepening schism within, as evident in the recent demand from several cofounders that Amien Rais, the party's patron, resign. With the legislative election approaching, can PAN withhold its internal discord, especially considering the increased parliamentary threshold and its relative low electability rate?

Takeaway:

- PAN's internal discord might be triggered by the party's pragmatic needs.
- At the larger scale, prolonged discord within PAN may affect Prabowo-Sandiaga's coalition and Muhammadiyah.
- PAN's discord may also entrap the party in a second-tier position in the long run by preventing regeneration in the party.

Background: The demand from PAN cofounders for fellow party forefather Amien Rais to resign came as a surprise. Amien, known as a staunch critic of President Joko "Jokowi" Widodo, has been urged to step down from the party's ranks and stop meddling with its affairs.¹ In an open letter, the cofounders, Abdillah Toha, Albert Hasibuan, Goenawan Mohamad, Toety Heraty and Zumrotin, cite several reasons behind their demand, including Amien's questionable endorsement for presidential candidate Prabowo Subianto and frequent use of sectarian as well as divisive rhetoric for political purposes.²

PAN's cofounders' considerations in demanding Amien Rais' resignation as stipulated in the open letter:¹

1. Amien turns increasingly exclusive, taking no part in fostering national unity and harmony as evident in his remarks and political conducts.
2. Amien, as a reformation figure who took part in toppling the New Order regime, has expressed his sympathy and support for politicians who aspire to revive the New Order.
3. Amien has employed religion as a political instrument in achieving his objectives and obtaining power.
4. Amien, as a political scientist, has failed to educate the public by taking part in spreading misinformation about the return of Indonesian Communist Party (PKI) in the country.
5. Amien, as a figure who is outside PAN's structure, appears to be reluctant to hand over PAN's leadership to the party's next generation by continuing his destructive political maneuvers in the party.

Indeed, Amien's support for Prabowo's candidacy has drawn criticism. Considering that he was one of the leading figures during the 1998 reform movement that dethroned then-president Soeharto and his New Order regime, Amien's support for Prabowo leads him and PAN into a

¹ Thejakartapost.com, "PAN founders tell Amien Rais to stop meddling with party" Dec. 27, 2018 <https://tinyurl.com/y79suf8w>

² Kompas.com, "PAN: Surat Terbuka untuk Amien Rais Ditulis oleh Mereka yang Sudah Lama Tak Aktif" Dec. 12, 2018 <https://tinyurl.com/y9tqgs5>

coalition that comprises Soeharto's children and the New Order's narrative. Furthermore, the cofounders also perceive Amien's political view as increasingly exclusive, particularly in regard to religion. His affiliation with hardline group the Islam Defenders Front (FPI), for instance, is deemed an apt illustration of Amien's discriminatory religious stance, which runs counter to PAN's foundation as an inclusive party.

The push for Amien's resignation further mirrors PAN's slow disintegration. Prior to the demand, speculation had been rife about PAN's disunity after a considerable number of PAN members opted to quit the party. Regardless, PAN may not be able to afford such a disunited front, considering that the 2019 legislative election is only four months away.

Insight: According to several surveys, PAN's electability rate has yet to surpass the established 4 percent parliamentary threshold.

PAN's failure to secure adequate support is an enigma, considering its success in securing 7.59 percent of the vote in the 2014 legislative election. Possible reasons behind PAN's plummeting electability have been heavily debated, with one plausible explanation being PAN's flip-flopping loyalty. In the 2014 presidential election, PAN supported Prabowo who then ran for president with Hatta Rajasa. In 2015, PAN shifted its loyalty to the government of newly elected President Jokowi and Vice President Jusuf Kalla. Rumor has it that PAN's change of heart emerged after news of Jokowi's plan to reshuffle his cabinet spread. Now, PAN's rekindled intimacy with Prabowo's camp has led many to question PAN's loyalty: is it genuine or purely pragmatic?

Not only in terms of supporting presidential candidates, PAN's inconsistency is also apparent in its ideology. PAN's initial commitment was to safeguard inclusivity in the country's political realm, as confirmed by PAN's cofounders in their demand for Amien's resignation. This was also supported by the party's deputy chairman, Viva Yoga Almadi, who denied Islamic parties' invitation for PAN to join their coalition in 2013, affirming that PAN was a nationalist rather than Islamic party.³ Nevertheless, in the past months, the party's gradual shift toward divisive religious narratives has been apparent, which according to PAN's cofounders might threaten national unity. One example is Amien's controversial remark that labelled PAN, the Gerindra Party and the Prosperous Justice Party (PKS), parties which support Prabowo's presidency, as "God's Party" and implicated the rest as "Satan's Party".⁴

On the other hand, PAN's rekindled intimacy with Prabowo's camp and its inconsistency in championing contradictory ideologies might be due to the party's purely pragmatic needs, namely surpassing the new parliamentary threshold. It is reported that PAN received Rp 500 billion from Prabowo's running mate Sandiaga Uno in exchange for its electoral nomination of the pair. Furthermore, besides financial support, PAN might also expect to enjoy a coattail effect from the pair, specifically from Sandiaga. PAN secretary-general Eddy Soeparno has claimed that PAN chairman Zulkifli Hasan's active participation in Sandiaga's campaign activities across Indonesia has expanded the party's voter base.⁵

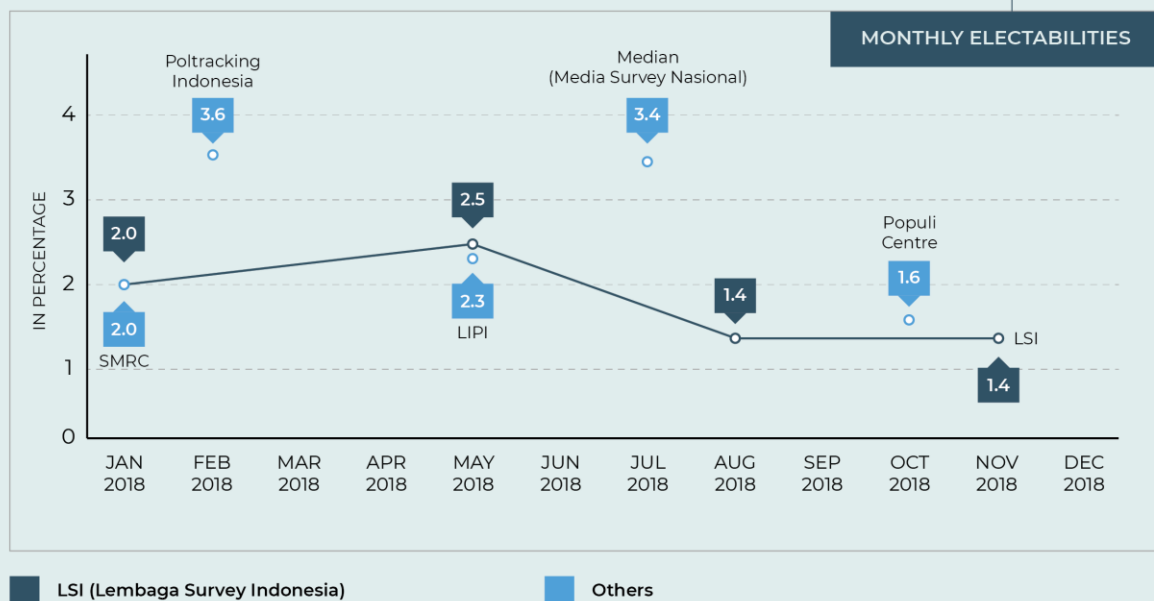
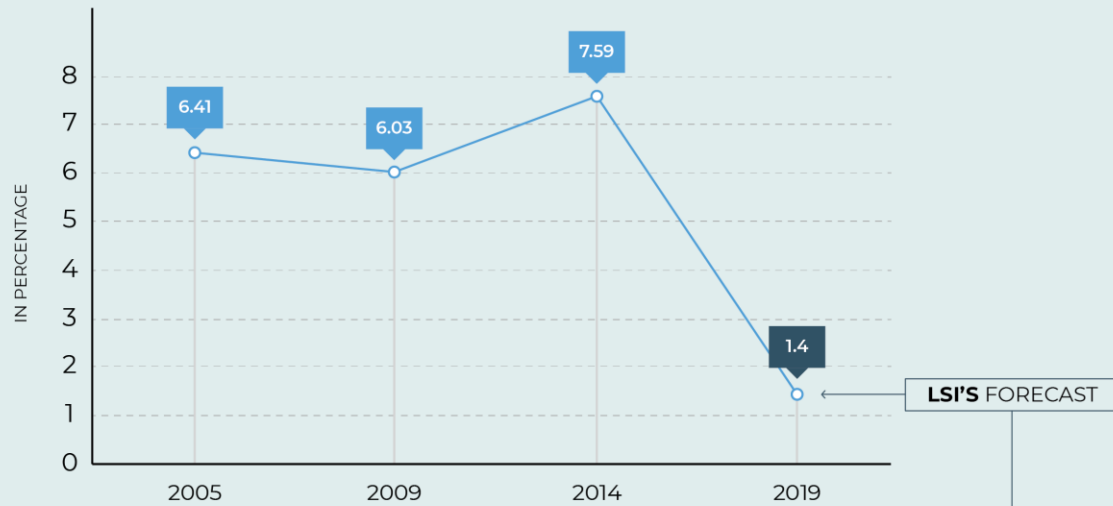
³ Liputan6.com, "Viva Yoga: PAN Nasionalis, Bukan Partai Islam" Nov. 12, 2013 <https://tinyurl.com/yb6rhx9r>

⁴ Liputan6.com, "Sebut Partai Setan, Amien Rais Dilaporkan Melakukan Ujaran Kebencian" Apr. 15, 2018 <https://tinyurl.com/y7v5dh6z>

⁵ Kompas.com, "Zulkifli Sering Keliling Bareng Sandiaga, PAN Merasa Diuntungkan" Nov. 15, 2018 <https://tinyurl.com/y8fgfqc5>



PAN'S ELECTABILITY RATES FROM TIME TO TIME



Regardless, internal discord remains in PAN, illustrated by several PAN members' resignations and/or defections to Jokowi and running mate Ma'ruf Amin's camp. PAN general treasurer Nasrullah's recent departure from the party, for instance, indicates that the conflict is not only rife among the party's rank and file but also its elite. Now, the demand for Amien's resignation and the party's members response toward the demand further demonstrate the party's disintegration.

The cracks might be the result of the absence of a significant political impact of PAN's support for Prabowo-Sandiaga, as demonstrated by its ailing electability rate. Amien's control of the party's narrative might also drive away some party members, especially those at the grassroots level. These grassroots actors might perceive PAN's endorsement for Prabowo-Sandiaga's candidacy as not worth the amount of logistical assistance that trickled down to their level. Consequently, some members of PAN, or even possibly other parties in the coalition, might be apathetic to Prabowo-Sandiaga's campaign, as illustrated by the absence of parties' financial contribution to the pair's electoral bid; reportedly, Sandiaga injected the largest contribution at Rp 39.6 billion (US\$2.73 million), accounting for 73 percent of the Rp 54 billion Prabowo and he have raised, while parties in the coalition other than Gerindra have yet to offer any donations.⁶

PAN's internal squabbling will not only affect the party itself but also Prabowo-Sandiaga's coalition. Indeed, PAN's presence in the coalition is relatively peripheral vis-à-vis Gerindra's and PKS'. However, PAN's discord and its penchant for political pragmatism may put the coalition in a bad light. After all, if a number of PAN members decide to defect from endorsing Prabowo-Sandiaga, what stops other members of parties in the coalition from following suit?

Likewise, the controversy surrounding PAN may also affect Muhammadiyah, the second largest Islamic organization in the country, due to the historic affiliation between the two. Initially established as a platform for Muhammadiyah members to express political aspirations, it remains unlikely for the two organizations to be completely exclusive of each other's influence. Due to the close ties between PAN and Muhammadiyah, the latter might be sullied as well by the former's controversy. Worsening the situation is Amien's recent flippant attitude toward Muhammadiyah; Amien once stated that he would flick Muhammadiyah chairman Haedar Nashir's ears if he granted Muhammadiyah members the freedom to support any presidential candidate.⁷ Amien's remark implies not only his prevalent influence over Muhammadiyah, but also his patronizing attitude toward the organization. This might lead Muhammadiyah to sever any association with Amien or even PAN altogether, indicated by Pemuda Muhammadiyah, Muhammadiyah's youth wing, chairman Sunanto who firmly reminded Amien that Muhammadiyah's political neutrality was the organization's collective decision.

Looking at the bigger picture, the possibility of PAN's infighting to affect other bodies, in this case Prabowo-Sandiaga's coalition and Muhammadiyah, at the larger scale illustrates how political pragmatism potentially hinders parties from securing seats. Indeed, political pragmatism ahead of elections is nothing new. Regardless, it appears that without tact, political pragmatism might not work, entrapping parties in second-tier positions instead of boosting their prominence. Furthermore, the case of Amien Rais illustrates as well how political pragmatism may hinder regeneration in parties as the practice of the former is often founded upon the popularity of party's patron.

⁶ Thejakartapost.com, "Sandiaga shoulders Prabowo's campaign" Jan. 3, 2019 <https://tinyurl.com/yd7c5nar>

⁷ Tempo.co, "Amien Rais Akan Jewer Haedar Jika Muhammadiyah Tak Bersikap" Nov. 20, 2018 <https://tinyurl.com/y7d9ecni>

Krakatau tsunami kills people and livelihoods

Last month's unexpected tsunami, precipitated by the eruption of Mount Anak Krakatau in the Sunda Strait, left behind a trail of destruction that stretches beyond the more than 400 deaths and tens of thousands of displaced people. The western coastline of Java most affected by the Dec. 22 tsunami, particularly the Tanjung Lesung Beach resort area, is one of 10 tourist destinations the government has been developing to bolster Indonesia's tourism profile abroad and cut its heavy reliance on Bali to bring in tourist dollars. Hotels not so affected by the tsunami in these areas received mass cancellations, mostly from people in Jakarta, ahead of the New Year festivities. That is just for starters. As reconstruction begins, many question the business viability of these beach resorts to lure tourists, both domestic and international. Tourism had been, and was going to be, one of the main sources of livelihood -- jobs and income -- for many people in Banten. It is already the second-largest economic sector in the province after agriculture.

Takeaway:

- Tourism in Banten province, which was affected the most by Krakatau tsunami, has taken an immediate beating following the disaster. It remains unclear how soon it can recover.
- Tourism Ministry is confident the area would be restored within three months. It would be difficult, however, to convince potential tourists to return to the affected areas.

Background: The three main beaches along the western coast of Java – Carita, Anyer and Tanjung Lesung – have been popular getaways for Jakartans. A two-to-three hour drive, it has panoramic views, including the dramatic sight of an active volcano, beaches, cool breezes and supporting amenities like hotels and restaurants.

A little to the north is Merak, a busy ferry port town that offers the shortest crossing to Sumatra. Also nearby is the industrial steel town Cilegon. An earlier plan to build a bridge linking Java and Sumatra, with Chinese money, was scrapped as soon as President Joko “Jokowi” Widodo came into office in 2014 because he deemed that the high cost meant it was not economically viable.

Developing tourism in the area seemed more viable and money had been pouring in.

Tanjung Lesung was designated as a special economic zone focusing on tourism. It is among the “10 New Balis” being developed with planned investment of Rp 92.4 trillion (US\$6.16 billion), including for the construction of a toll road from Serang (to be inaugurated in early 2019). New hotels are already opening as Indonesia hopes to welcome 20 million foreign visitors by 2020,



with some of them hopefully going to Tanjung Lesung. The 1,500-hectare economic zone will have 26 hotels by 2020, and up to 200,000 people will be directly and indirectly employed.

This grand plan has been disrupted by the devastating tsunami.

Insight: Mt. Anak Krakatau has been active for many years, but until last month it had not caused any harm. Rather, it became one of the area's tourist attractions because of the panoramic view it offered and its history.

The volcano has gradually risen from under the sea from the former Mount Krakatau, which erupted in 1883 (and hence its name, which means the Child of Krakatau). The eruption was so powerful that it left a massive death toll and destruction, with tsunamis covering the western coast of Java and reaching as far as Africa, and dust as far as Europe. Krakatau itself disappeared.

The volcano provided a dramatic view for tourists staying on the beaches on the western coast of Java, or for those making the two-hour ferry crossing between Java and Sumatra. Boat operators even offered rides to explore the mountain close up.

There had been some studies suggesting the potential of a tsunami from Mt. Anak Krakatau, but they were not taken seriously. Even when it erupted in December, and when initial reports from the area suggested an ensuing tsunami, the Meteorology, Climatology and Geophysics Agency (BMKG), which monitors volcanic eruptions, earthquakes and tsunamis, dismissed it as a tidal wave. A few hours later, when it learned of the extent of the damage, the agency acknowledged that it was a tsunami.

Not unexpectedly, there were no warnings of an imminent tsunami, and many revelers enjoying the long Christmas break on the beach were caught unprepared. That Saturday night, besides the eruption, a large part of the mountain's slope crumbled under pressure from within. The landslide sent huge waves to Java, Sumatra and a few nearby inhabited islets. Later aerial photographs suggested Anak Krakatau had lost two-third of its size.

The National Disaster Mitigation Agency (BNPB) said 437 people had died and more than 1,527 buildings were destroyed, including over 70 hotels and cottages, as well as 434 boats. More than 40,000 people lost their homes and are living in emergency shelters. Most of the deaths were in Java, but the tsunami also caused destruction in Lampung, the southernmost province of Sumatra.

Tourism in Banten province, which oversees the three beaches, took an immediate beating during the tsunami, and it is unclear how soon it can recover, even if it completes reconstruction. Already local government officials are suggesting that no buildings be constructed within 1 kilometer from the coastline. This would mean most of the popular hotels along the three beaches would not be allowed to be rebuilt, or will have to move farther inland.

Tourism Minister Arief Yahya is confident that physically, the area will be restored to its former state within three months, and the ministry will resume promoting the area to tourists at home and abroad. To make it more convincing, the ministry will hold meetings in one of the hotels in the area, and will encourage other government agencies to hold theirs there too.

While the reconstruction can be swift as the minister suggests, it will be harder to convince Jakartans, and foreign tourists, to return, not as long as Mt. Anak Krakatau remains active and menacing. But Bali recovered from the deadly terrorist attacks in 2002 and the Mt. Agung eruption in 2017. So, there may be hope after all.

BUSINESS & ECONOMIC POLICY

Lippo's game of debt avoidance

On Friday, Dec. 29, the Communications and Information Ministry terminated PT Internux's (Bolt!) 2.3 GHz frequency permit, after the company failed to pay Rp 463 billion in frequency fees and penalties for 2016-2018 usage.

Takeaway:

- Reckless operational and debt management are the main causes of Internux's downfall.
- Lippo's game of debt avoidance can be traced to the wake of Meikarta's corruption scandal, where billions of rupiah are potentially lost.
- Internux still need to pay the due fees to Information and Communication Ministry, regardless of operational shutdown and financial default, due to Information and Communication Ministry Minister Regulation No.9/2018 stipulating that full fee payment to the ministry from any defaulting company is required and must be prioritized.

Background: Indonesian conglomerate Lippo Group is facing problem after problem, with PT Internux defaulting on its 2.3 GHz frequency fees and penalty payment as the latest, not long after the Corruption Eradication Commission (KPK) exposed a corruption scandal that involves several of Lippo Group's high executives and officials from Bekasi regency surrounding the Group's US\$21 billion Meikarta project⁸.

The internet provider faces operational shutdown as the revocation of its frequency usage permit forces Internux to cease its main business activity. Internux reportedly owns up to Rp 4.7 trillion in debt from 276 local and foreign creditors, incurred since it was established in 2013.⁹

PT Internux's debts, in billion Rp, 2017

Amount of debt	Creditor
463	Information and Communication Ministry (Resources and Information Equipment Directorate General)
277	Huawei Tech Investment
69	PT Indosat
38	Mitratel
13	PT XL Axiata
10.2	PT Infrastruktur Bisnis Sejahtera
9.6	PT MAC Sarana Djaya
8.9	PT Inti Bangun Sejahtera
7.2	PT Centratama Menara Indonesia
3.7	PT Bali Towerindo Sejahtera
0.6	PT Gametraco Tunggal
0.5	PT HRC Prima Sejahtera

Sources: Majalah Tempo, First Media Financial Reports

⁸ Reuters.com, "Indonesia arrests nine in bribery probe linked to \$21 billion Lippo Group project." Oct. 16, 2018 <https://tinyurl.com/y8r8nbly>

⁹ Tempo Magazine, "Usaha hilang utang terbilang." Jan. 6, 2019

As a 4G LTE internet service provider, Internux had multiple agreements, which comprise strategic alliance agreement, network support and asset leasing agreements with its parent company, PT First Media, and leasing agreements with various towers and frequency network providers such as PT XL Axiata, PT Indosat, PT Inti Bangun Sejahtera and PT Dayamitra Telekomunikasi (Mitratel), a subsidiary of state-owned telecommunications company PT Telkom.¹⁰

In fact, some of the agreements above were initially made by First Media and transferred to Internux later so the newly established company could become one of Indonesia's leading internet providers. First Media even lent its Rp 400 billion base transceiver stations (BTS) in North Sumatra, Greater Jakarta and Banten as Internux's initial operating capital. Over time, Internux has acquired numerous debts to manage its operation, with the highest single debt amounting to Rp 277 billion.

Insight: Reckless operational and debt management are the main causes of Internux's financial problems. Founded in 2013, Internux won its frequency permit from a government tender in 2009. However, Internux could not operate the frequency immediately, because various government agencies were still using it, and it took another two years to sterilize the frequency. In 2012, Internux invested in imported 4G LTE technology. According to the government regulation at that time, Internux was required to establish a joint operation with local manufacturers to fulfill the 50 percent local content requirement to obtain an operational permit. The joint operation forced Internux to take out additional loans.¹¹

Internux's operational problem continued in 2014. Internux's 4G LTE technology could only be used by its customers in Jakarta, Bogor, Tangerang, Bekasi and Banten, because other internet service providers that won other frequency tenders in 2009 did not invest in the same technology. As a result, Bolt! Internet service could not be used outside the four designated areas, limiting Internux's area of operation and sales. Because of this problem, the government issued a 2.3 GHz frequency permit for Smartfren, Sinar Mas Group's cellular and internet service provider.¹² The government's decision put Internux at a disadvantage, because the company had already made an expensive pioneer investment in 4G LTE technology. Smartfren's very aggressive customer acquisition plan also made the situation more difficult for Internux.¹³



Internux's failure to compete with Smartfren also affected First Media's financial condition. According to the Communications and Information Ministry's Resources and Information Equipment Directorate General's (RIDG) 2018 Performance Report for Broadband Wireless Access Providers, Internux alongside First Media had yet to pay their frequency fees and penalties for 2016-2018 usage, which amount to:

- PT First Media: Rp 364 billion for operations in North Sumatra, Greater Jakarta and Banten
- PT Internux: Rp 464 billion for operations in Greater Jakarta and Banten.

¹⁰ First Media Financial Statement, 2013 <https://tinyurl.com/yacwof9r>

¹¹ Katadata.co.id, "Debt burden threatens Lippo Group's internet provider" Nov. 7, 2018 <https://tinyurl.com/y7tjkred>

¹² Detik.com, "Smartfren sudah boleh pindah frekuensi ke 2.3 GHz." Aug. 12, 2014 <https://tinyurl.com/y8v49m6h>

¹³ Mobileworldlive.com, "Smartfren CEO has big 4G ambitions for Indonesia's number 5 player." Dec. 7, 2015 <https://tinyurl.com/yanvaysq>

In total, both First Media and Internux need to pay Rp 728 billion of frequency fees and penalties.¹⁴

Rp 728 billion is a big sum of money, especially in the face of potential huge loss from the Meikarta corruption scandal. In response to this situation, Lippo Group tried to orchestrate a bankruptcy lawsuit to delay the payment of its obligation to the Communications and Information Ministry. In delaying such payment, both First Media and Internux ignored three permit revocation warning letters from the ministry, and responded to the fourth letter with a lawsuit, suing the ministry at the Jakarta Administrative Court on Nov. 2, 2018.¹⁵ The court partially accepted the request but ordered First Media to clarify its demand in a subsequent court session scheduled for Nov. 19, 2018.

On Nov. 14, however, First Media and Internux made a proposal to settle their delayed frequency usage payment. The proposal would allow Internux to suspend all payments of obligations – including the frequency usage fees and penalties to the government – for 10 years, and might be extended to 30 years.

Several creditors affiliated to Lippo Group (Rp billion, November 2018)

Name	Debt
PT Prima Wira Utama	1044
PT First Media	975
PT Link Net	379
PT Intiusaha Solusindo	0.9
PT Equasel Selaras	5.01

Soure: Majalah Tempo

The proposal was part of Lippo Group's elaborate efforts to delay the payment of its financial obligations. In August, for instance, two creditors: PT Equasel Selaras and PT Intiusaha Solusindo, who were declared by the court to be unaffiliated with Lippo Group, sued Internux by filing the debt postponement petition (PKPU).

Nevertheless, *Tempo* found that these companies were owned by people affiliated with Lippo Group. Pelita Harapan Foundation administration and legal director Laurensia Adi held 99.9 percent of Equasel shares. Similarly, 94.2 percent of Intiusaha stocks were held by Internux commissioner Mas Agoes Ismail Ning. Moreover, one of the Group's lawyers Dalimartha was a member of the board of directors for both Equasel and Intiusaha. These companies became major creditors after they purchased Internux's debts from PT Cursor Media, Bolt! advertiser and PT Nusapro Telemedia Persada, Bolt! maintenance contractor at Soekarno Hatta International Airport.

Internux eventually lost its frequency permit to Smartfren after the latter announced its plan to take over all Bolt! operations.¹⁶ Worse, Internux must prioritize its obligation and pay all the due fees to the Communications and Information Ministry after failing to pay its bill for two consecutive years.¹⁷

What we've head: According to one PT Internux employee, the Finance Ministry signaled that it would reject Lippo's proposal from the onset. That is why Internux stopped marketing Bolt internet services by pulling all of its marketing staff as of Nov. 21. The

¹⁴ Kominfo.go.id, "Siaran Pers No. 329/12/2018: Pengakhiran Penggunaan Pita Frekuensi Radio 2.3 GHz," Dec. 28, 2018 <https://tinyurl.com/ydeumgp9>

¹⁵ Kumparan.com, "Kronologi Masalah Utang Frekuensi yang Bikin Layanan Bolt Ditutup," Dec. 28, 2018 <https://tinyurl.com/y8ddce4y>

¹⁶ The Jakarta Post, "Smartfren takes over Bolt's 4G LTE internet service," Jan. 1, 2018 <https://tinyurl.com/yauv462e>

¹⁷ Information and Communication Minister Regulation No. 9/2018

instruction to stop sales came from senior Internux officials following a request by the Communications and Information Ministry.

On the same day, a PT First Media subsidiary stopped providing technicians on the field. Internux also ended its payment service cooperation with a number of banks as well as the Alfamart Group. As a consequence, customers could no longer pay Bolt internet bills via ATM and Alfamart. All payments and customer complaints, according to the Internux employee, were handled by Bolt Zones (designated Bolt customer service areas).

Internux stopped its internet service without prior notice in several areas. Customers who complained were advised to cancel their subscription. However, up until the last minute, PT Internux and PT First Media continued to hope that the government would not revoke their license for radio frequency 2.3 GHz.

According to a Communications and Information Ministry source, the ministry's officials were divided. On Nov. 19, or two days after the deadline, the legal department prepared a letter to revoke the radio frequency band license (IPFR) used by Bolt internet service. Nonetheless, following the instruction of senior officials at the ministry, they were asked to postpone delivering the letter, on the same day that First Media and Internux asked for a two-year debt deferment until 2020. The source claimed that the ministry was tempted by the proposal because it was better than the settlement ruled by the Central Jakarta Commercial Court hearing the debt postponement petition (PKPU) on Nov. 14. The court ruled that Internux could postpone the payment of all obligations to creditors – including the band frequency fee owed to the government – for 10 years, and could be extended to 30 years.

According to a former Lippo employee, the PKPU hearing at the Central Jakarta Commercial Court was just a Lippo strategy to buy time to avoid its debt obligation, as seen in the fact that two of the creditors that sued Lippo in August were affiliated with Lippo. Internux calculated that if all creditors filed petitions with the court, the company would gain the upper hand during a vote involving its creditors, since those with huge receivables – which were automatically entitled to a bigger say in the vote – were affiliated to Lippo. This was proven during a vote taken on Internux's deferment proposal. The ministry lost because those with higher receivables overwhelmingly accepted the deferment offer. The source also added that Lippo's effort to buy time was apparent when First Media sued the ministry's Post and Informatics Resources and Facilities Directorate General. The lawsuit was filed with the Jakarta State Administrative Court (PTUN) in early November. First Media withdrew the lawsuit after asking for the debt deferment until 2020.

Knowing that some creditors were affiliated with Lippo, one of the creditors, Raiffeisen Bank International, chose to disregard the PKPU and collect Internux's debt by liquidating its collateral. According to a source, with \$46.31 million in receivables, the Austrian Bank decided to liquidate the collateral in the form of several assets owned by Lippo in Tangerang, Bekasi and Bogor. The liquidated collateral for Internux debts were worth Rp 1.04 trillion.

A new development emerged in the midst of the asset collection, which started on Nov. 14. A source at Raiffeisen said that in mid-December, John Riady sent a request via email to meet Klaus Strobl, president director of Raiffeisen, in Vienna. John is the third generation of the Riady family, who now owns Lippo Group digital businesses, such as MatahariMall.com and OVO. Lippo once sued Strobl for defamation over its debt. Raiffeisen did not meet John's request.

PM 118/2018 benefits ride-hailing drivers the most

On Dec.18, Transportation Minister Budi Karya Sumadi signed Transportation Ministry Regulation (PM) No. 118/2018 on ride-hailing services to replace PM 108/2017, which was annulled by the Supreme Court in September last year.¹⁸

Takeaway:

- PM 118/2018 represents a compromise between the taxi industry and ride-hailing companies, as well as individual ride-hailing drivers.
- The new regulation benefits ride-hailing drivers the most and puts ride-hailing companies at a major disadvantage through the new fare rule and regulatory intervention in the companies' guidelines on driver deactivation policy.
- The new regulation favors ride-hailing drivers, because President Jokowi has political interests in attracting organized special interest groups in his reelection bid in 2019.

Background: PM 108/2017 was annulled by the Supreme Court on the basis that it contradicted Law No. 20/2008 on micro, small and medium enterprises.¹⁹ The Supreme Court also had a similar consideration when it annulled PM 26/2017, the predecessor of PM 108/2017, in August 2017.²⁰

The Transportation Ministry decided to make a new regulation that accommodated individual ride-hailing drivers' interest by eliminating the requirement that individual drivers needed to become members of either a corporation or a cooperative that owned at least five vehicles and parking and maintenance facilities to obtain an operational permit (articles 37, 38, 39 and 40 of PM 108/2017). Under Article 11, Paragraph (3) of PM 118/2018, individual ride-hailing drivers can obtain operational permits without fulfilling the aforementioned obligations.

Besides eliminating the business entity and minimum facility requirements, PM118/2018 also eliminates the vehicle roadworthiness (KIR) test requirement. The KIR test is controversial, because there is a strong perception among individual ride-hailing drivers that the test could decrease their cars' selling price in the secondhand market.²¹ In response, the Transportation Ministry changed the KIR test requirement with a manufacturer-specified service and maintenance requirement as described in the service book (Article 16 Paragraph (2) Point (i) of PM 118/2018).

Most importantly, the new regulation prohibits ride-hailing companies, specifically Go-Jek and Grab, to set fares and offer promotional fares below the regulated price floor (Article 27 of PM 118/2018). According to Transportation Minister Budi Karya Sumadi, this clause is necessary to avoid price wars that could inflict financial losses on individual ride-hailing drivers.²² The new fare rule will be fully implemented in June 2019.²³

¹⁸TheJakartaPost.com, "Government issues new ride-hailing app regulation." Dec. 28, 2018 <https://tinyurl.com/y7p5kxhn>

¹⁹ Detik.com, "MA kembalibuturantransportasi online!" Sept. 12, 2018 <https://tinyurl.com/ybjscn4w>

²⁰ Hukumonline.com, "Aturantaksi online dibatalkan MA, Kemenhubsiaptaatazashukum." Aug. 22, 2017

<https://tinyurl.com/ycovykw9>

²¹ Detik.com, "TolakUji KIR, sopitaksi online takuthargamobilnyaturun." Feb. 1, 2018 <https://tinyurl.com/yccm7byw>

²² Jawapos.com, "Operator dilarangberikan promo agar takterjadiperangharga." Dec. 28, 2018 <https://tinyurl.com/yctg6eyj>

²³ Sindonews.com, "Tariftaksi online ditentukanMenhubatauGubernurmulaJuni 2019." Dec. 26, 2018

<https://tinyurl.com/y9ttrb5j>

Insight: PM 118/2018 represents a compromise between the taxi industry and ride-hailing companies, as well as individual ride-hailing drivers. The removal of the business entity and minimum facilities requirements shows that the taxi industry is willing to compromise by dropping demands to regulate ride-hailing services like the taxi industry and to prohibit individual drivers from participating in the transportation business.²⁴ In return, the taxi industry and ride-hailing operators will compete under the same fare structure, which addresses the taxi industry's main complaint, dating back to 2015.²⁵

For individual ride-hailing drivers, the new regulation provides legal protection for their main source of income and livelihood. Also, they do not have to worry about horizontal conflict with taxi and other public transportation drivers as in the past.²⁶ Besides protecting individual ride-hailing drivers from horizontal conflict, PM 118/2018 also provides income and job security. The new fare rule will safeguard their income against any price war involving ride-hailing companies. Article 32, Paragraph (3) and (4) of PM 118/2018 gives due process protection from a company's driver deactivation policy. If the driver feels that his account suspension is unjustified, he can bring the problem to the regulator to check whether or not he or she was treated fairly.

Most importantly, PM 118/2018 protects individual ride-hailing drivers from cooperative partner rent-seeking practices and manipulative behavior. Our research into Uber in Jakarta and Surabaya in February 2018 found that the management of Uber's driver partners cooperative in Surabaya abused its authority in administering the mandated KIR test. The management charged a very high fee from driver partners, exploiting and manipulating driver partners' ignorance over the official KIR test fee and procedures.

KIR Test fee in Jakarta and Surabaya, February 2018

	Jakarta		Surabaya	
	Actual Fee	Charged by Cooperative	Actual Fee	Charged by Cooperative
KIR Test	Rp 87,000 testing fee for every 6 months	Rp 87,000 testing fee for every 6 months	Rp 65,000 testing fee for every 6 months	Rp 400,000 for first inspection
			Rp 15,000 KIR book fee for 1 year	Rp 160,000 for periodic inspection every 6 months

Although PM 118/2018 provides substantial benefits for individual ride-hailing drivers, it limits ride-hailing companies' authority in setting fares and making internal guidelines on driver deactivation policies. Previously, Go-Jek and Grab, as well as Uber before it exited the Southeast Asian market, opposed any regulatory limit in setting fares,²⁷ because such limitation could compromise their surge pricing system.²⁸ Unlike taxi firms, ride-hailing companies rely on minute-by-minute supply and demand fluctuation to determine fares.

²⁴ Tempo.co, "Persyaratantaksi online dankonvensionalakandisamakan." March 22, 2016 <https://tinyurl.com/y8vnknm2>

²⁵ Tempo.co, "Inialasantaksikonvensionaltolaktransportasi online." Dec. 19, 2015 <https://tinyurl.com/y7l4r4sa>

²⁶ Kumparan.com, "Rentetan gesekan sopir angkutan konvensional vs angkutan online." 10 March 2017 <https://tinyurl.com/y93427w8>

²⁷ Katadata.co.id, "Grab, Gojek, Uber kompak tolak batasan tarif taksi online." March 17, 2017 <https://tinyurl.com/yceser9p>

²⁸ BBC.com, "Surge pricing: how it works and how to avoid it." Jan. 15, 2018 <https://tinyurl.com/ya3kb53d>

Besides opposing the regulatory limitation on setting fares, Go-Jek²⁹ and Grab³⁰ also opposed any interference in their driver deactivation policy. Before the enactment of PM 118/2018, both companies had resisted the demand by driver partners to change the guidelines of their driver deactivation policy. In the current situation, however, Go-Jek's and Grab's resistance seems to be futile, because the Transportation Ministry appears to favor ride-hailing drivers' lobbying.³¹ The ministry's perceived favoritism toward ride-hailing drivers' lobbying is strongly related to the 2019 presidential election.³² After all, President Joko "Jokowi" Widodo needs to attract organized interest groups in his reelection bid. Consequently, Go-Jek and Grab do not have much choice, except to fine-tune their pricing systems and internal regulations to accommodate PM 118/2018.

²⁹ Tirto.id, "SaatGojektolaktuntutanmitramenghapus suspend &menaikkanarif." Nov. 24, 2018 <https://tinyurl.com/yb6o8n2n>

³⁰ CNNIndonesia.com, "Grab: Tidakmungkinbukaakunmitra yang sudahdiblokir." Oct. 29, 2018 <https://tinyurl.com/ycgv7qar>

³¹ Kompas.com, "Soal suspense mitraojekdantaksi online, inimasukanKemenhub." Oct. 31, 2018 <https://tinyurl.com/ybuxx65d>

³² Detik.com, "Di depansupirtaksi online, Menhubpaparkanproyek Jokowi." Dec. 4, 2018 <https://tinyurl.com/y82297u7>

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