

Highlights of the week



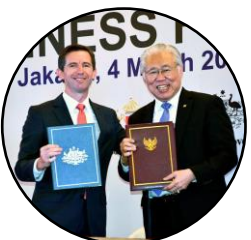
How Indonesia pulls off the largest one-day election

In 2014, Indonesia's general election was already billed as the largest one-day election in the world. This year, it will be even larger, and on top of setting another record, it will also be far more complex. This year, the presidential and legislative elections will be held on the same day, while five years ago, there was a four-month gap between the two. More than 192 million people have been registered to vote, and nearly 300,000 people are vying for more than 20,000 seats up for grabs, including the most coveted presidential job.



Andi Arief and Democrat's impunity

The public woke up to the surprised arrest of Democratic Party's outspoken deputy secretary-general Andi Arief at Menara Peninsula Hotel in West Jakarta, on March 3 for alleged drug abuse. But the police soon released Andi after he allegedly finalized the administrative process. The police also confirmed they would not investigate the case. They only required Andi to report to the National Narcotics Agency (BNN), which would organize his rehabilitation. The police's immediate discharge of Andi, despite the evidence of drug abuse, has left many wondering if the politician has acquired legal impunity. The police's inconsistent statements, furthermore, exacerbate the confusion over Andi's legal status.



Can IA-CEPA turn the tide for Indonesia?

IA-CEPA holds promise for closer bilateral engagement between Indonesia and Australia. Both governments are optimistic that (IA-CEPA) marks the beginning of a closer bilateral relationship. Australian Trade Minister Simon Birmingham even claimed that economic relations between the two countries would grow deeper, stronger and richer, while empowering people-to-people ties and understanding through the enhanced business cooperation and trade activity. However, there are still questions as to whether the trade deal will cure Indonesia's faltering export of manufactured goods to Australia.



Masela project hits another wall

The Masela Block in Maluku is one of few remaining hopes for Indonesia to rein in the declining trend of oil and gas output. However, the Masela Block has seen a series of unfortunate events under the administration of President Joko "Jokowi" Widodo that would likely further delay its timeline to production, initially slated to be in 2024 with offshore facilities, then 2027 with onshore facilities. But that has become more uncertain following the stark differences between the government, allegedly deputy minister Archandra Tahar and contractors, Inpex and Shell.

POLITICS

How Indonesia pulls off world's largest one-day election

In 2014, Indonesia's general election was already billed as the largest one-day election in the world. This year, it will be even larger, and on top of setting another record, it will also be far more complex. This year, the presidential and legislative elections will be held on the same day, while five years ago, there was a four-month gap between the two. This means that the majority of voters will have to cast five ballots on April 17. More than 192 million people have been registered to vote, and nearly 300,000 people are vying for more than 20,000 seats up for grabs, including the most coveted presidential job. The election authorities are going out of their way to ensure everyone who has the right to vote will be able to vote – and vote comfortably. Indonesia is about to pull off another political stunt that will be a testament to just how alive and kicking its democracy is. It is not for nothing that Indonesia is often referred to as the third-largest democracy in the world. India, the largest of them all, holds its general election over a period of one month, moving from one state to another, even as people cast electronic votes. The United States, the second-largest democracy, where both registration and voting are not compulsory, has a tendency to see low voter turnout.

Takeaways:

- To ensure the effectiveness of the upcoming general election, which will involve more than 192 million voters and five ballots per voter, Indonesia's main strategy is to set up hundreds of thousands of polling stations and recruit millions of volunteers to run the stations.
- The KPU's careful preparation for the general election, such as the registration process and the detailed arrangement of polling stations, is also expected to ensure that the voting process will go smoothly.
- Despite voting not being compulsory and the increased complexity of this year's elections, it is hoped that voter turnout will be as high as in the 2014 election (70 percent) or even higher. This may be difficult to achieve, as not only apathy has reportedly increased among the public, but there is also the appeal of leaving town to take advantage of the election day, which has been declared a national holiday.

Background: At first glance, holding elections on such a large scale, doing the voting and then counting the votes on the same day, looks like a logistic nightmare. Any breakdown could trigger protests and chaos, and possibly a political crisis. History has been kind to Indonesia. This will be its fourth democratic general election since the end of three decades of Soeharto's dictatorship in 1998. The elections in 1999, 2004, 2009 and 2014 were completed as scheduled to decide on the nation's president and vice president, and representatives at the various legislatures. These elections were not perfect, but there were no reports of violence to speak of. This year, the election will be bigger and more complex, the General Elections Commission (KPU) has a good and solid track record in holding massive elections.

The five ballots are for president/vice president as well as for representatives to the House of Representatives (DPR), the Regional Representatives Council (DPD), the Provincial Legislative Council (DPRD1) and the regency/city-level Regional Legislative Council (DPRD2).

Insight: How do you organize general elections involving more than 192 million voters, most of whom have to cast five ballots, and then count the votes before the day is over on April 17? The answer is by creating as many polling stations as possible, 809,000 nationwide to be precise, and by recruiting millions of volunteers to help run the polling stations.

First there is the registration, and the KPU is mandated to register every single citizen in the archipelago and those living overseas who meet the voting age of 17 years. The voter database has been revised four times in the last seven months and will be revised one last time before generating the final voter list. It would be as close to perfect as possible, especially now that every citizen has been assigned a single identity number following the introduction of the electronic ID-card. Unlike in the past, double voting or the presence of bogus voters on a massive scale is almost impossible, in spite of claims to the contrary by some politicians.

Then there is the preparation of setting up polling stations. Given the enormity of the job for each polling station – holding the vote and later counting the ballots of all five ballot boxes – the KPU has limited the number of voters per station to a maximum of 300. This means not only that most people will be voting at a polling station within walking distance from their home, but it also means that there will be no long lines of people waiting to vote. Voting will be from 7 a.m. until 1 p.m. To ensure maximum turnout, the government has declared April 17 a national holiday.

Each polling station will be run by seven people, two security guards and one election supervisor, bringing the total to more than 8 million volunteers the KPU needs to recruit. The 16 political parties (20 in Aceh including four local ones), and the candidates, including independents running for DPD seats, have a much harder time recruiting witnesses they want to assign to the polling stations.

While everyone who has the right to vote will have been registered, voting is not compulsory. The 2014 election saw a 70 percent turnout, still higher than the average of established democracies in the world. The KPU nevertheless has been campaigning hard to encourage people to go out and vote. Besides rising apathy among the voting public, there is also the appeal of leaving town to take advantage of the holiday and combine it with the Good Friday holiday and the weekend afterwards.

Voter turnout is considered one of the KPU's key performance indicators (KPIs), which companies and organizations use to assess the work of their employees. In all fairness, the real measure of KPU success is if the election goes ahead with as little disturbance as possible. The last phase of the election procedure on April 17 is counting the ballots at the polling stations, which will begin as soon as the booths close for voting. This will be conducted manually and openly, witnessed by members of the public, usually from the neighborhood. The chief of the polling station will have to show the ballots and point to where it is punched to indicate the choice of candidate or party. They will be tallied one at a time, and one ballot box at a time.

This is the best display of the spirit of democracy in Indonesia, and the reason why the general election is often described as a "fiesta of democracy". At many polling stations, the election is the one rare occasion when you meet your busy neighbor, and elections become neighborhood potluck parties. They will be cheering and booing as each vote is displayed, read out and jotted on a whiteboard. Most of the time, the cheering and booing is held in good neighborly spirit. Once all the votes are counted and the winners declared at the polling station, the neighbors accept the results and go home. At a few stations, there may be protests and demands for a recount.

Once the count is completed, the polling station will seal the ballot boxes and send them to the KPU branch at the district office. These will be subsequently forwarded to the regency/city offices, the provincial offices and finally the KPU national office for the nationwide tally of the votes. At each stage, the boxes will be opened and the ballots counted manually.

While the counting at the polling station must be completed on April 17, the recounting of the votes at the higher level KPU will take much more time and will be completed by May 22. This means it will be more than a month before the KPU announces the final results and declares the winners, including the president and vice president.

Thanks to the exit polls conducted by various organizations, the public will have the benefit of their predictions of the results on the evening of April 17. Some of the more established organizations have predicted the results quite accurately in the past, so that when the KPU announces the final official results, it is likely to just confirm most of these predictions.

Election update: Andi Arief and Democrat's impunity

Background: The public woke up to the surprised arrest of Democratic Party's outspoken deputy secretary-general Andi Arief at Menara Peninsula Hotel in West Jakarta, on March 3 for alleged drug abuse. Andi, who was found with an unnamed female friend in his hotel room, later tested positive for crystal methamphetamine.¹

But the police soon released Andi after he allegedly finalized the administrative process.² The police also confirmed they would not investigate the case.³ They only required Andi to report to the National Narcotics Agency (BNN), which would organize his rehabilitation.⁴ The police's immediate discharge of Andi, despite the evidence of drug abuse, has left many wondering if the politician has acquired legal impunity. The police's inconsistent statements, furthermore, exacerbate the confusion over Andi's legal status.⁵

Andi, who resigned from the Democratic Party following the incident, is known for his controversial remarks. Through his official Twitter account, in particular, he has often expressed controversial statements. Earlier in January, for instance, Andi triggered mayhem by tweeting an unverified news report about the finding of millions of cast ballots at Tanjung Priok Port in North Jakarta.⁶ Equally controversial was his tweet about "a cardboard general" in reference to presidential candidate Prabowo Subianto.⁷ His tweet was a response to Prabowo's preference of Sandiga Uno over Democratic Party candidate Agus Harimurti Yudhoyono as his running mate.

¹ IDNtimes.com, "Polisi: Hasil Tes Urine Andi Arief Positif Narkoba Jenis Sabu" 4 March 2019 <https://tinyurl.com/y4eer9lo>

² Merdeka.com, "Polisi Bebaskan Andi Arief, Besok Diserahkan ke BNN untuk Jalani Rehabilitasi" 5 March 2019 <https://tinyurl.com/y3gs5zay>

³ Detik.com, "Andi Arief: For All Terutama Cebong, Saya Tak Tersangka Hanya Terperiksa" 9 March 2019 <https://tinyurl.com/y44cfy58>

⁴ Ibid.

⁵ Suara.com, "Sempat Dibantah, Polisi Kini Akui Telah Bebaskan Andi Arief" 5 March <https://tinyurl.com/y3clbj69>

⁶ Tempo.co, "Soal Cuitan Surat Suara Tercoblos, Demokrat Bela Andi Arief" 3 January 2019 <https://tinyurl.com/y29wvxof>

⁷ Tempo.co, "Cuitan Andi Arief: Jenderal Kardus hingga Kontainer Surat Suara" 3 January 2019 <https://tinyurl.com/y5qc87ov>

Following his release, Andi uploaded a picture of his latest drug test, which showed to be negative. He also reaffirmed that he was not a suspect and, therefore, had not committed a crime.⁸ The abrupt nature of the whole incident, however, has led some to believe that the police merely swept the case under the carpet for political reasons.

What we've heard: According to an unnamed source, President Joko “Jokowi” Widodo and Democratic Party chairman Susilo Bambang Yudhoyono quietly struck a deal when the former visited SBY’s wife, Ani Yudhoyono, in Singapore, where Ani has been treated for blood cancer. During his visit, it was reported that SBY, on behalf of the Democratic Party, agreed not to “disturb” Jokowi’s reelection campaign and to focus on the legislative election even though the party is part of the coalition supporting Prabowo and Sandiaga. In exchange, Jokowi agreed not to disturb the Democratic Party as well.

That is why Andi’s arrest could put the Jokowi-SBY’s secret arrangement in jeopardy. Allegedly, National Police chief Gen. Tito Karnavian was unaware of the deal. It is reported that following the arrest, a high-ranking officer of the National Police, who had been informed about the Jokowi and SBY’s arrangement, contacted a number of key media figures to persuade them not to blow up the issue.

Meanwhile, a source affiliated with the Democratic Party said he was not aware of such deal between Jokowi and SBY. According to him, however, Jokowi had no interest in putting his predecessor or the Democratic Party in a difficult position as Jokowi believed that compared to other parties in the Prabowo-Sandiaga coalition, the Democratic Party was the least disruptive to Jokowi’s reelection bid.

SBY appears unfrontational toward Jokowi or the latter’s party chairman, former president Megawati Soekarnoputri, much to the President’s advantage.

Election update: Arresting activist, withholding free speech

Background: President Joko “Jokowi” Widodo’s recent decision to restructure the Indonesian military (TNI) has faced a barrage of criticism. The decision to raise the retirement age of military officers, collective promotion of officers and the creation of new jobs for them in the civil realm are feared to prompt the return of the infamous *dwi fungsi* (dual function) doctrine of the New Order, which justified the military’s grip on national politics.

While public outcry about the controversial plan continued, the police arrested university lecturer and prodemocracy activist Robertus Robet on March 8 for allegedly insulting the TNI. Robet, an outspoken government critic, was seen during a weekly Kamisan protest in front of the State Palace on Feb. 28 chanting an old song that was once used to criticize the military, then called the Indonesian Armed Forces (ABRI). The police have charged Robet with defamation and insult under Criminal Code (KUHP) Article 207 as well as with violating the 1946 law on criminal procedure and the 2016 Electronic Information and Transactions (ITE) Law.⁹

⁸ See note 3

⁹ Thejakartapost.com, “Police charge activist for criticizing military” 8 March 2019 <https://tinyurl.com/y5lfxhmy>

Robet's arrest has been met with opposition, particularly from academics and activists who argued that Robet was exercising his right to free speech.¹⁰ A coalition of civil society organizations called Advocacy Team of Freedom of Expression, for instance, said the arrest was a threat to civil liberties. A number of experts also deem the charges leveled on Robet as illegal. According to Trisakti University Abdul law expert Fickar Hadjar, the police could not charge Robet under Article 207 as nobody had filed a defamation report with the police beforehand.¹¹ As the police arrested Robet based on their own initiative, Abdul argued the arrest was illegitimate.¹²

Robet's arrest has evoked the people's memory of absolute military rule under Soeharto's dictatorship. It has also sparked concern about restriction of free speech, which is a setback for democracy.

What we've heard: It is reported that some of Robet's attorneys, who are democracy and human rights activists, have managed to lobby presidential candidate Prabowo Subianto following the arrest. Robet's attorney requested Prabowo, who was dismissed from the military for his role in the kidnapping of prodemocracy activists during the New Order era, not to consolidate military retirees' (Purnawirawan) support for President Jokowi's TNI restructuring plan.

It is reported that prior to Robet's attorneys' request, Prabowo had already decided not to partake in the current military quagmire for two reasons. First, Prabowo reportedly believes that the TNI restructuring plan is incompatible with Indonesia's democracy today. Second, although it is not explicitly stated, Prabowo allegedly prefers to see the current military controversy to take its course as the public outcry and criticism against President Jokowi will benefit Prabowo's own presidential campaign.

¹⁰ Tirto.id, "Penangkapan Robertus Robet: Penghinaan Terhadap Hukum & Demokrasi" 7 March 2019 <https://tinyurl.com/yve5zghx>

¹¹ Tempo.co, "Pengamat Sebut Penetapan Tersangka Robet Tidak Sah" 9 March 2019 <https://tinyurl.com/y4u2rwzw>

¹² Ibid.

BUSINESS & ECONOMIC POLICY

Can IA-CEPA turn the tide for Indonesia?

Indonesia and Australia finally signed the Comprehensive Economic Partnership Agreement (IA-CEPA) on March 4, 2019, almost a decade after the negotiations began.

Takeaways:

- IA-CEPA holds promise for closer bilateral engagement between Indonesia and Australia.
- However, there are still questions as to whether the trade deal will cure Indonesia's faltering export of manufactured goods to Australia.
- Because of the Dutch disease, Indonesia has been losing its edge in manufacturing to other Asian countries, like Thailand, Vietnam and China. Malaysia's manufacturing sector suffered the same fate as Indonesia's.

Background: Despite a lukewarm bilateral relationship and occasional diplomatic tensions, the important trade deal survived. Differing stances on capital punishment, Middle-East policy, alleged espionage and security scandals are sources of diplomatic tension between Indonesia and Australia. For instance, the Australian government's announcement to move the Australian embassy to Jerusalem was at odds with the diplomatic position of Indonesia, which gave its unwavering support for the establishment of a Palestinian state. In fact, the IA-CEPA negotiation stopped in 2011 because of surging tension and only resumed in 2016.

Both governments are optimistic that (IA-CEPA) marks the beginning of a closer bilateral relationship. Australian Trade Minister Simon Birmingham claimed that economic relations between the two countries would grow deeper, stronger and richer, while empowering people-to-people ties and understanding through the enhanced business cooperation and trade activity.

Figures from the Indonesian Trade Ministry show that the countries' bilateral trade was worth US\$8.6 billion in 2018. Indonesian Trade Minister Enggartiasto Lukita claimed that the deal would increase Indonesia's gross domestic product by 0.23 percentage points from the baseline scenario.¹³ He also said that the new deal would allow the two countries to combine their huge economic potential and form an "economic powerhouse".

Insight: The IA-CEPA opens the Australian market for Indonesian automotive products, specifically for electric and hybrid-power vehicles. The wider access is a boon for President Joko "Jokowi" Widodo's electric vehicle development plan, in which the President aims to develop electric vehicle battery plants in Morowali, Central Sulawesi, and Halmahera, North Maluku.

Besides creating market access for Indonesia's automotive industry, the IA-CEPA might boost Indonesia's steel export by eliminating import tariffs on hot and cold rolled steel coil.¹⁴ Since 2017, Indonesia has experienced a boom in stainless steel exports, driven by massive Chinese direct investment in Morowali. The question arises whether this deal will benefit local steelmakers that are facing fierce competition from Chinese steelmakers.

¹³ *Investor Daily*, "Perjanjian perdagangan bebas cenderung rugikan Indonesia," March 11, 2019.

¹⁴ Australian Department of Foreign Affairs and Trade, "IA-CEPA: Key outcomes for Australia," March 1, 2019.

The trade agreement also includes several comprehensive development packages in agriculture, such as the development of the Indonesian Food Innovation Center, to help Indonesia's food and beverage industry obtain research and development capability, as well as a joint investment commitment to boost the local red meat industry and cattle farming to achieve domestic self-sufficiency.¹⁵

Unlike other trade agreements, the IA-CEPA emphasizes a commitment to cooperation in human resource development.¹⁶ For example, Australia is committed to assisting Indonesia in developing its human resources by:¹⁷

- Increasing the annual quota for work and holiday visas for Indonesians to 5,000
- Boosting Australian investment in vocational training and higher education in Indonesia
- Providing annual internships at Australian companies for 200 Indonesians
- Providing exchange programs for skilled Indonesian workers to upgrade their specialties
- Developing a comprehensive certification system for engineers of the two countries.

Nonetheless, the cooperation on human development comes with a risk, such as the brain drain that could become a new source of tension between Indonesia and Australia.

For Australia, the IA-CEPA is a boon for its agricultural sector. The gradual elimination of 94 percent of tariffs, as well as giving preferential treatment to Australian agricultural products will boost Australian exports of sugar, beef and dairy products to Indonesia.¹⁸ It remains to be seen how Indonesia's beef and red meat producers will react to this deal. They are worried about the potential loss of business in local cattle farming and the red meat industry, but so far, they have not announced any counter plans.¹⁹

Sector	Benefit description
Work training	Up to 67 percent Australian ownership for supplying certain technical and vocational training
University education	Automatically locks in future liberalization for Australian universities setting up in Indonesia
Mining	Up to 67 percent Australian ownership of contracted mining services and mine site preparation services
Hospitals and in-hospital pathology, paramedic, specialist medical and dental clinics	Up to 67 percent of Australian ownership of large hospitals and, within large hospitals, up to 67 percent of pathology, paramedic and medical and dental specialist clinic services. No geographic limitations
Aged care services	Up to 67 percent Australian ownership
Telecommunications	Up to 67 percent Australian ownership
Tourism	100 percent Australian ownership for 3, 4 and 5 star hotels and resorts, no geographical limits; 67 percent Australian ownership of most other accommodation, restaurants, cafes and bars as well as tour operator services and tourism consultancy services; 51 percent of marinas.
Professional services	Australian ownership of up to 67 percent of architectural, urban planning and most engineering and surveying services
Construction services	Australians ownership of up to 67 percent of most construction-related work

¹⁵ Trade Ministry, "IA-CEPA Fact Sheet," August 2018.

¹⁶ *CNBC Indonesia*, "IA-CEPA diteken, produk RI bebas masuk Australia," March 4, 2019. <https://tinyurl.com/yxld5d8>

¹⁷ *The Jakarta Post*, "RI-Oz ties begin new chapter with CEPA," March 5, 2019

¹⁸ See note 5.

¹⁹ *Tirto.id*, "IA-CEPA bebaskan bea masuk sapi Australia, peternak local khawatir," March 9, 2019. <https://tinyurl.com/>

Energy	Indonesia allows Australian ownership of up to: - 95 percent of power plants (more than 10 megawatts) - 75 percent of oil and gas platform construction - 67 percent for electrical power construction, installation, operation and maintenance - 55 percent for electrical power construction - 51 percent of geothermal power plants (10 megawatts or less); geothermal surveying, drilling and operations; and offshore oil and gas drilling
Wastewater management	Australians ownership up to 67 percent of wastewater management
Transport	Australian ownership up to 67 percent for highways, bridges, tunnel concessions and parking services and 51 percent for operation of railways

Source: Australian Department of Foreign Affairs and Trade

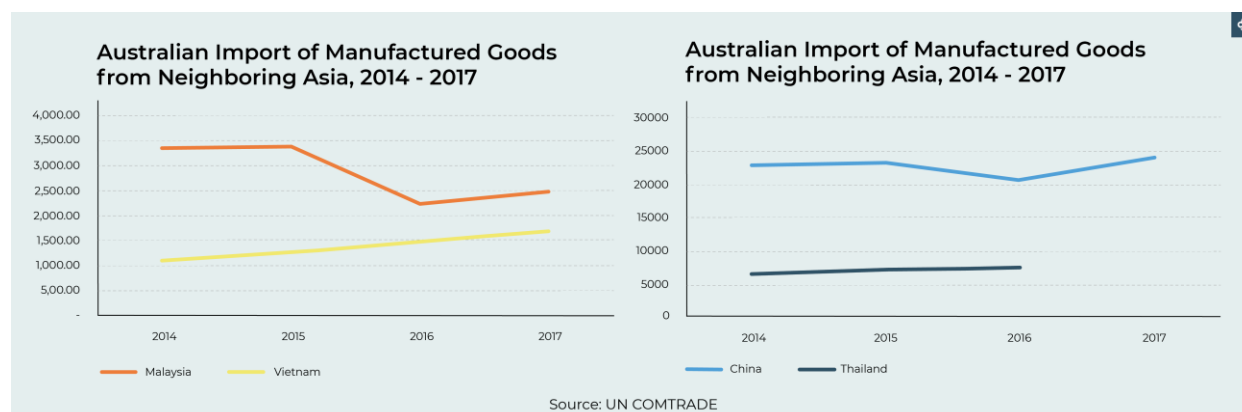
On the other hand, critics of the IA-CEPA are concerned about the promise that the trade deal would boost Indonesia's flagging export to Australia. Between 2013-2018, Indonesia export to Australia fell from US\$4.37 billion to \$2.8 billion. As a result, the bilateral trade deficit between Indonesia and Australia swelled to \$3 billion in 2018.

The sharp drop in Indonesian exports to Australia was caused by a sharp drop in oil and gas exports, including chemical products made from oil and gas. Between 2014-2018, Indonesian oil and gas exports to Australia fell from \$1.66 billion to \$914 million.

Indonesian exports of manufactured goods to Australia, including the export of machinery and transportation equipment, also fell in the aforementioned period, namely from \$2.44 billion to \$971 million.

Nevertheless, other Asian countries' manufactured goods export gained ground in 2014-2017. Vietnam, for instance, increased its manufactured goods exports to Australia by \$700 million to \$1.7 billion. Thailand upped its manufactured goods exports too, from \$6.7 billion to \$7.6 billion. Likewise, China increased its manufactured goods exports from \$23 billion to \$24 billion.

In contrast, Malaysia lost some of its share of the Australian market, as its manufactured goods exports fell from \$3.3 billion to \$2.5 billion. Based on this data, it could be said that Indonesia, like Malaysia, is on the losing side in the Asian trade battle. The main cause is likely the Dutch disease, in which the export boom in extractive products, such as coal and palm oil, predate exports of manufactured goods.



The way ahead for Indonesia is to ensure that the IA-CEPA is a part of Indonesia's structural transformation, with Indonesia becoming less reliant on the export of extractive products by modernizing its manufacturing industries.

Indonesia-Australia trade balance (US\$ billion)

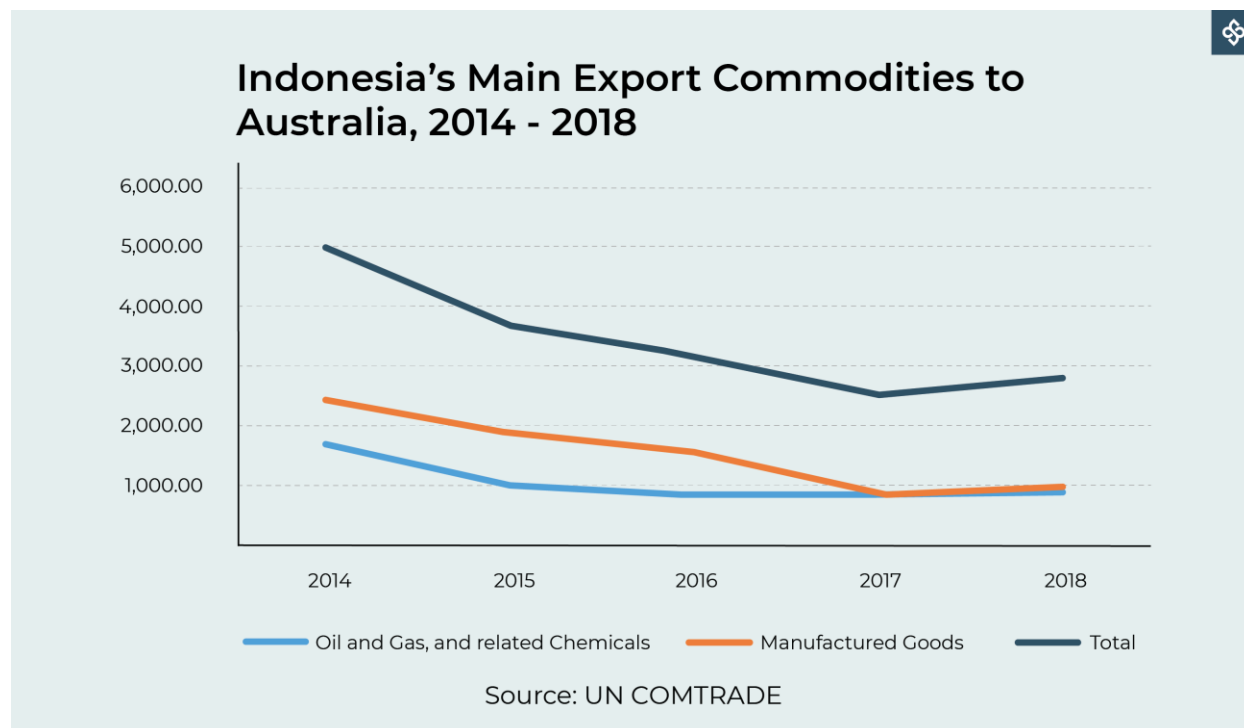
Year	Export	Import	Balance
2013	4.37	5.03	-0.67
2014	4.94	5.64	-0.69
2015	3.70	4.81	-1.11
2016	3.20	5.26	-2.05
2017	2.52	6.00	-3.48
2018	2.80	5.82	-3.02

Source: Indonesian Trade Ministry, Statistics Indonesia

Indonesia's trade balance with free-trade partners (billion US\$)

Country/Year	2014	2015	2016	2017	2018
ASEAN	n.a.	1.26	4.25	6.13	3.9
Australia	-1.79	-1.68	-1.86	-3.1	-3
Chile	-0.06	-0.03	0.06	0.04	0.04
India	8.66	8.94	7.09	10.16	8.76
Japan	-2.37	-0.14	0.28	-0.52	-1.63
South Korea	-2.04	-0.84	-0.64	-0.89	-0.21
Pakistan	1.89	1.82	1.86	2.16	1.74
New Zealand	-0.38	-0.23	-0.3	-0.34	-0.32
China	-14	-15	-15.57	-14.16	-20.85

Source: Statistics Indonesia



Issue update: Masela project hits another wall

Background: The Masela Block in Maluku is one of few remaining hopes for Indonesia to rein in the declining trend of oil and gas output. However, the Masela Block has seen a series of unfortunate events under the administration of President Joko “Jokowi” Widodo that would likely further delay its timeline to production, initially slated to be in 2024 with offshore facilities, then 2027 with onshore facilities. But that has become more uncertain.

With confirmed total recoverable gas reserves at 16.7 trillion cubic feet (tcf), the Masela Block, which contains the vast Abadi gas field, is one of Indonesia’s largest gas reserves. The block is projected to produce 9.5 million tons per annum (mmtpa) and 150 million standard cubic feet per day of natural gas once it comes on stream. Speeding up the progress of Masela Block is crucial for Indonesia as the country is projected to face a gas supply deficit starting in 2025, according to two of three projected scenarios under the government’s report on natural gas account.²⁰

Inpex and Royal Dutch Shell, which together hold controlling interests in Masela Block with 65 percent and 35 percent, respectively, first submitted their plan of development (POD) for offshore floating liquefied natural gas (FLNG) plant in 2010. The discovery of larger reserves led them to submit a revised POD two years later, tripling the capacity of the FLNG plant to 7.5 mmtpa. Later, the government gave the two contractors the greenlight to conduct a pre-front end engineering design (FEED) for a much greater capacity of 9.5 mmtpa. Under the offshore scheme, the POD estimated that the gas field could start production by 2024 and operation by 2026.

But things became muddy when the government decided in March 2016 to change the basis of the POD from offshore to onshore, arguing that onshore development would greater benefit the local people and their economy and bring more local content into the project. People behind the decision argued that the cost of onshore development should be lower than that of the offshore plan, which was US\$15 billion. But it later turned out that onshore POD resulted in higher costs by \$4 billion.

The complication did not stop there. When the government finally decided the location of the LNG plant in Maluku Tenggara Barat regency, powerful people in Jakarta had already controlled the land there. Amien Sunaryadi, then-chief of the Upstream Oil and Gas Regulatory Special Task Force (SKK Migas), complained that people in Jakarta created new difficulties in the Masela project by controlling the land.²¹ Our source identified the man behind this land complication as a former chairman of the Golkar Party.

Jokowi has actually included the Masela project in a list of 37 national strategic projects, as stipulated in Presidential Regulation No. 57/2017. Masela is one of four gas development plans included in the national strategic projects. The others include Jangkrik gas field in Muara Bakau Block in East Kalimantan, the Jambaran-Tiung Baru gas facility in Cepu Block in East Java and Tangguh Project Train 3 in West Papua.²²

²⁰ Ministry of Energy and Mineral Resources, “Neraca gas bumi Indonesia 2018-2027,” August 2018.

²¹ Okezone.com, “Dibangun di Maluku Tenggara Barat, Blok Masela terkendala ‘manisnya’ perkebunan gula,” Jan. 5, 2018. <https://tinyurl.com/y6f6ufbu>

²² The Jakarta Post, “Govt to approve Masela block plan,” Oct. 31, 2018

When Dwi Sutjipto assumed his position as the new chief of SKK Migas replacing Amien Sunaryadi last December, he promised to focus on picking up a number of natural gas projects to boost production, including speeding up the development of the Masela project. However, latest developments show that the promise was an empty one. The Masela project has hit another wall as the government could not accept the fact that the onshore POD resulted in higher costs.

What we've heard: A source from the oil and gas industry said the Masela project will likely be delayed again following the stark differences between the government and contractors, Inpex and Shell. The source said Energy and Mineral Resources Deputy Minister Archandra Tahar expressed his disagreement with the results of the latest pre-FEED, the basis for the POD of the Masela Block.

Inpex and Shell submitted the pre-FEED result to SKK Migas in October 2018 and the POD in December. The two contractors had expected the government to grant its approval as the process of conducting the pre-FEED and developing the POD had been under the supervision of SKK Migas, now under the Ministry of Energy and Mineral Resources. But they got a surprising response from the government, in this case Archandra Tahar, who considered the cost to develop the Masela project under the new onshore scenario of US\$19 billion as too high.

In the middle of technical discussions, Archandra – through SKK Migas Planning deputy head Jafee Suardin – demanded that Inpex and Shell invite experts from Houston, the United States, to review the pre-FEED proposal. This raised some questions as pre-FEED processes had always been under SKK Migas' supervision. Moreover, SKK Migas was the one appointing KBR, Technip and Synergi to conduct the pre-FEED via an open tender.

Jafee gave four names of experts that SKK Migas would bring in from Houston, where Archandra used to live before being appointed minister, then deputy minister. Shell and Inpex questioned the appointed experts' professional background as their names were not known among oil and gas players. They wanted to know their credibility because the company the experts work for had no relevant experience in complex offshore projects.

The four experts eventually attended four technical meetings in Jakarta (two in SKK Migas office and two in the ministry), with Archandra present at the third meeting. A source who attended the meeting said that these experts did not ask too many details about the pre-FEED processes and seemed unfamiliar with the technical details of deep-water gas extraction. The source said the experts' main concern was to reduce costs. Even if Inpex and Shell followed all their recommendations, that would only reduce costs by only \$30 million. Meanwhile, Archandra demanded that the cost be reduced by \$4 billion to below \$16 billion.

Another source said that Archandra's insistence to reduce the cost was related to his promise to Jokowi that onshore development for Masela would be cheaper than offshore. Before entering the Cabinet, Archandra was a freelance government consultant for the Masela Block's development.

Studies from Inpex, Shell and Poten & Partners have all suggested that onshore processing is more expensive than offshore. Poten & Partners is an independent consultant that helped SKK Migas three years ago and has prepared cost effectivity analyses for onshore and offshore scenarios. In a letter in February 2019, SKK Migas said that Masela Block's development cost must be kept under \$16 billion, which is still higher than Inpex's proposal three years ago at around \$15 billion under the offshore plan. This big differences between offshore and onshore costs would likely leave the project in limbo for sometimes.

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