

Highlights of the week



Post survey, how far can candidates go?

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Jokowi's foreign policy strong, but voters don't care

The fourth round of the presidential debate on March 30 will hear the two contenders explain their foreign policy intentions. Incumbent President Joko "Jokowi" Widodo looks unbeatable in this area having built a strong and impressive track record in the last five years. Challenger Prabowo Subianto is not expected to offer any major departure from the current administration's policy. When it comes to strategic national interests, candidates are not likely to diverge much from current policy, particularly because both are nationalist in ideology, one more so than the other. But Indonesia is now a democracy and candidates will still use foreign policy as far as possible to enhance their nationalist credentials during the election campaign.



EU-Indonesia palm oil spat over deforestation

The trade battle between Indonesia and the European Union over palm oil is set to intensify following the European Commission's recent submission of a delegated act titled Renewable Energy Directive II (RED II) to the European Parliament. Once approved, the document will place a more restrictive cap on palm oil-based biodiesel usage in the EU this year, which will lead to the complete phasing out of palm oil-based biodiesel in 2030.



Indonesia's first BRI project proposal worth billions

Indonesia has proposed 28 projects worth US\$91.1 billion to Chinese investors as part of its participation in China's Belt and Road Initiative (BRI). Coordinating Maritime Affairs Minister Luhut Pandjaitan presented the projects, which include seaports and industrial estates, power plants, smelters and tourism estates, during the first meeting of the Indonesia-China BRI steering committee in Bali last week.

POLITICS

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Takeaways:

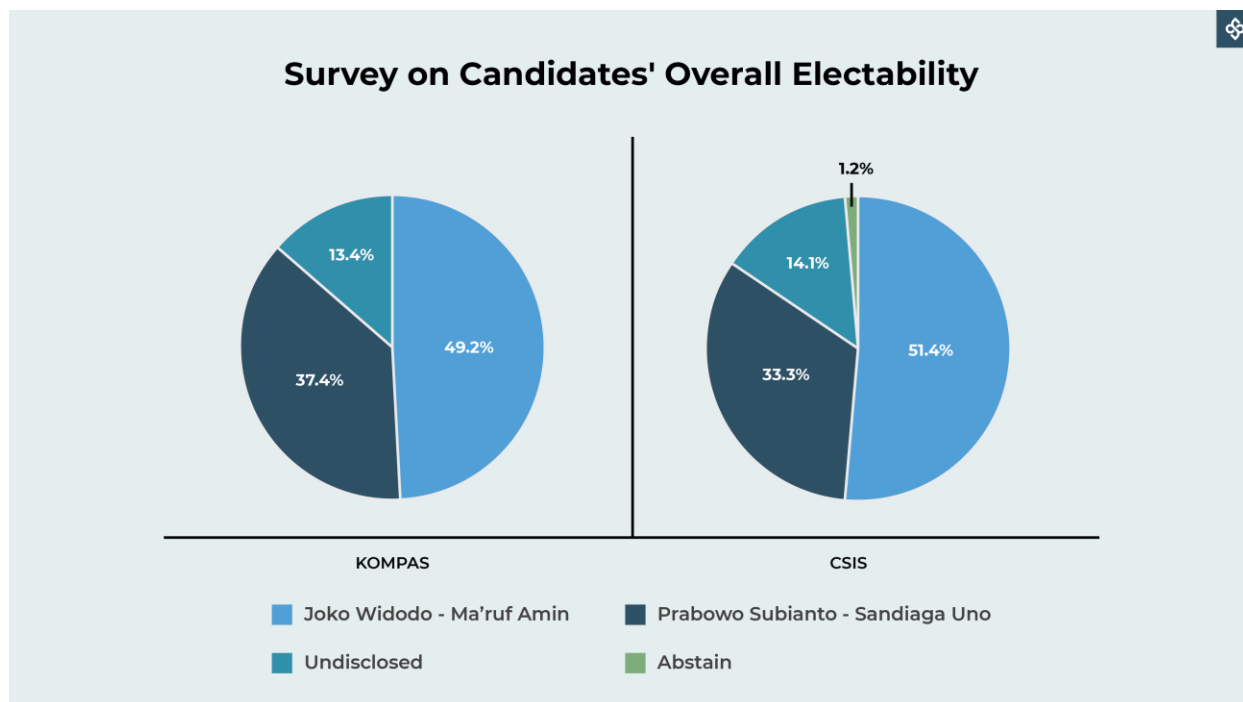
- The surveys by *Kompas* and the CSIS indicate that presidential candidates still have to employ both offensive and defensive measures in the remaining two weeks of campaigning.
- Based on the surveys, regions where such measures might be effectively enforced are Jakarta, West Java, Banten and Sulawesi, which are regions free from any candidate's predominance.
- In securing and preserving votes, candidates should also consolidate the support of their respective coalition parties. As a considerable number of party cadres work at the grassroots level, they play a major role in increasing the dedication of supporters and thus improving candidates' efforts to preserve votes.
- Consolidating support of coalition parties, however, might be difficult for presidential candidates as parties gradually become more politically flexible. As parties prioritize the legislative election over the presidential election, party cadres could "betray" their parties if they believe that could help them secure legislative seats.

Background: Released on March 20, less than one month before the voting day of April 17, *Kompas*' survey provides the latest comprehensive prediction of the results of the elections. One of the key findings of the surveys is that, while front-runners Joko "Jokowi" Widodo and Ma'ruf Amin's electability rate remains above that of their challengers, Prabowo Subianto and Sandiaga Uno, the gap between them has narrowed considerably.

On March 28, CSIS announced its own survey on electability and voter mobilization. With only eight days separating them, the *Kompas* and CSIS surveys show marked differences in some respects.

While the finding on presidential candidates' electability is undoubtedly insightful, survey results on other specific issues surrounding candidates, voters and parties may explain the declining gap between the candidates' electability. These specific questions survey region-based voter preferences, the level of voters' support, party cadres' preference and parties' loyalty to presidential candidates.

Insight: With a wealth of information provided by *Kompas*' and CSIS' surveys, what are concrete actions that candidates may take in the remaining weeks of campaigning? Based on the surveys, two factors should be taken into account by candidates in devising their next maneuvers: voters and coalition parties.



Regarding voters, candidates' focus should be on undecided and swing voters, while preserving their current support bases. For this purpose, candidates should expand their campaign activities into the opponent's stronghold, particularly in areas where the number of undecided or swing voters is high, and intensify their door-to-door campaign activities at the grassroots level. Based on *Kompas*' and CSIS' surveys on voter preferences by region, the fierce battlegrounds where the two presidential tickets will take defensive or offensive measures include Jakarta, West Java, Banten and Sulawesi. Other provinces, such as East Java, Central Java and Sumatra, may be too risky to encroach on, as they are overwhelmingly dominated by one particular candidate.

West Java and Banten, for instance, have been key battlegrounds since the 2014 presidential election, where candidates fought tooth and nail. In 2014, Prabowo won in West Java by a margin of almost 20 percent.¹ Prior to the release of the latest surveys, both camps had conducted campaign activities in West Java and Banten. This year, though, with Ma'ruf as his running mate, one recurring theme of Jokowi and Ma'ruf's campaign in Banten is their heavy reliance on Muslim voters. Members of the Jokowi-Ma'ruf national campaign team themselves expect Ma'ruf's Islamic stature to help the pair secure more votes, especially since West Java and Banten are known for their strong Islamic influence.²

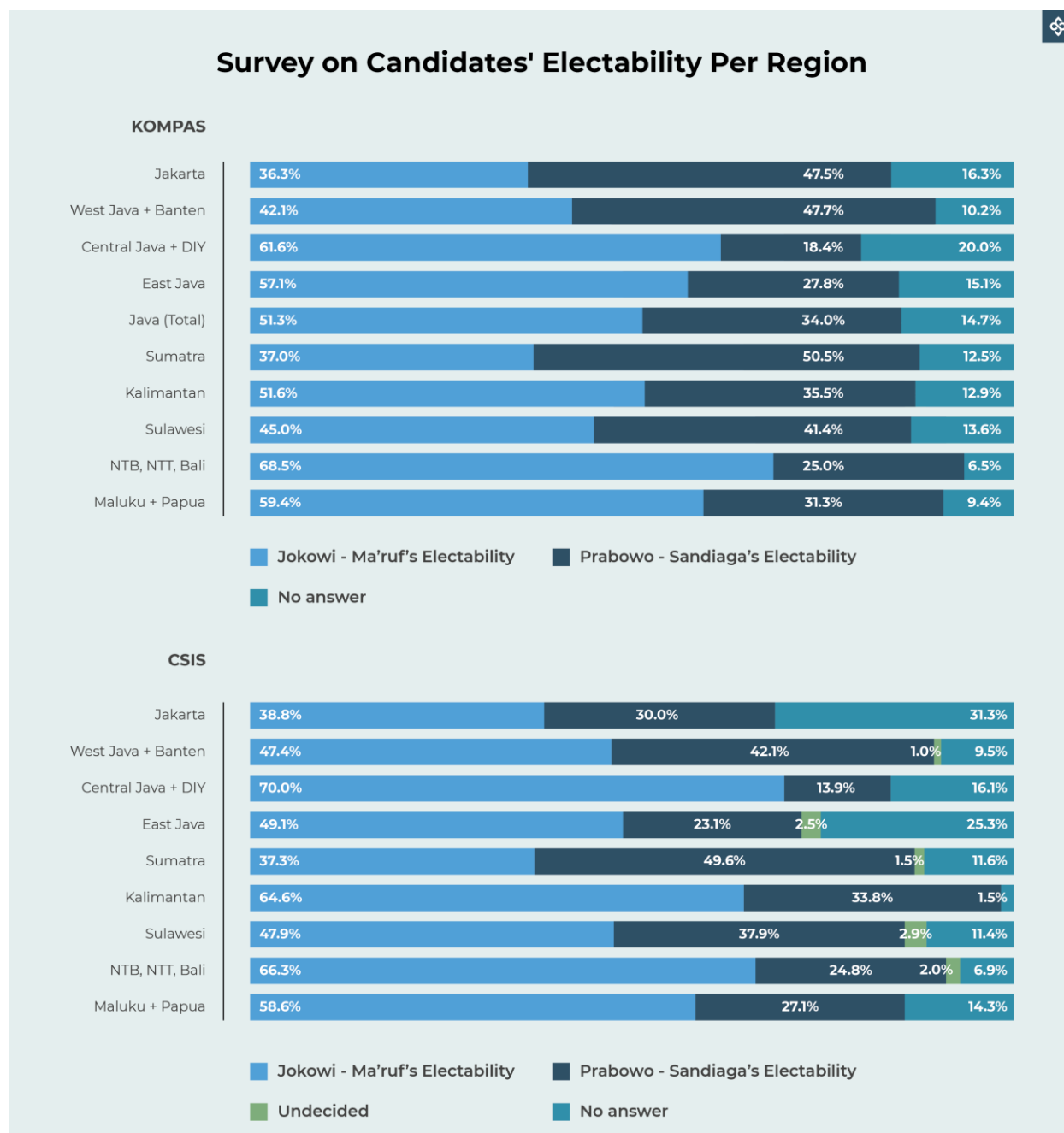
Following the release of *Kompas*' survey, Jokowi and Ma'ruf visited Serang, Banten, in the open campaign period. However, unlike Ma'ruf's religiously tinged campaigns in the region, Jokowi brought up more popular issues like employment, affordable food and free university education in his latest visit to the region.³

¹ Kompas.com, "Ini Hasil Rekapitulasi Suara Pilpres 2014" 22 July 2014 <https://tinyurl.com/y2a78fhm>

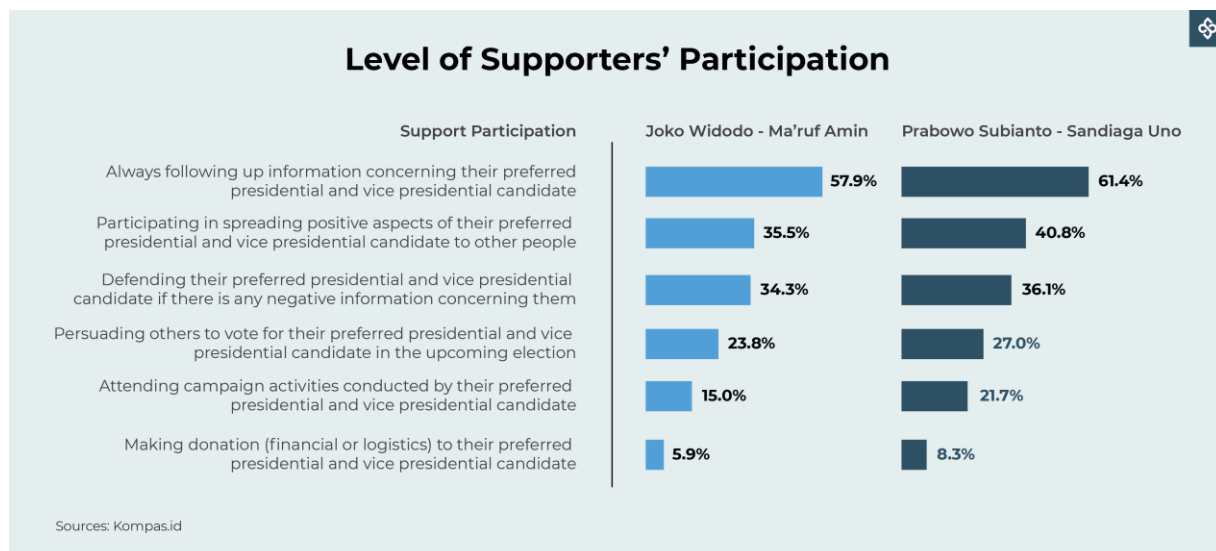
² CNNIndonesia.com, "Ma'ruf Amin Diklaim Akan Rebut Suara di Provinsi Basis Muslim" 4 September 2018 <https://tinyurl.com/y4ym4hu3> also Detik.com, "TKN Jokowi Beberkan Strategi Rebut Jawa Barat" 15 February 2019 <https://tinyurl.com/yy96h8jl>

³ Thejakartapost.com, "Candidates go to rivals' strongholds" 25 March 2019 <https://tinyurl.com/y28lnkbs>

Mixing a religious campaign theme with a more practical one might be another strategy of the incumbent to preserve support, especially among the lower middle class, which contribute the most to Jokowi-Ma'ruf's votes.



An interesting aspect is Prabowo's decision to start the open campaign period in Indonesia's eastern region. Prabowo marked the start of his open campaign with a rally in Manado, Sulawesi, followed by Papua. Based on the surveys by *Kompas* and CSIS, Sulawesi is indeed a compelling region for Prabowo-Sandiaga, but Papua might be an electoral "lost cause" for the pair, as it is dominated by Jokowi's influence.



Nevertheless, one recurring theme of Prabowo's campaign in Sulawesi and Papua as well as the demographic composition of the regions may explain the reason behind the candidate's decision. During his campaign in Manado, Prabowo not only highlighted his Minahasan background, but also his commitment to safeguard Pancasila as the state's ideology and the unity of the country.⁴ Meanwhile in Papua, he emphasized the importance of tolerance and brotherhood amid social diversity.⁵

The messages of tolerance and national unity might have been chosen by Prabowo because of the considerable number of minority groups both in Manado and Papua. Those issues may bring Prabowo closer to minority voters, especially since Prabowo-Sandiaga's supporters have often been perceived as intolerant.⁶ Thus, his campaign in the eastern regions might not intend to acquire new votes or preserve votes, but rather to dismiss the prevalent image of his being intolerant. Albeit indirectly, such a maneuver might help Prabowo-Sandiaga win votes, especially from the undecided voters who have been worried by the presence of intolerant groups among Prabowo-Sandiaga's allies.

In securing and preserving votes, candidates should also consider an internal aspect, which is consolidating and strengthening the support of their respective coalitions. This, however, might be challenging for reasons such as conflicting electoral priorities of candidates' and parties' as well as parties' inadequate loyalty to candidates.

Regarding conflicting electoral priorities, the simultaneity of presidential and legislative elections has reportedly diverted parties' efforts from supporting presidential candidates to meeting the parliamentary threshold of 4 percent of the vote in order to remain in the House of Representatives. As a consequence, presidential candidates may not receive full support from their coalition parties, especially those which do not get much of a coattail effect from their championed presidential candidate. Such parties have exercised flexibility, including allowing its cadres to support a presidential candidate the party does not support.

⁴ Tempo.co, "Kampanye di Manado, Prabowo: Ada Darah Minahasa Dalam Diri Saya" 24 March 2019 <https://tinyurl.com/y4h7dfj6>

⁵ Republika.co.id, "Prabowo Subianto Kirim Pesan Damai Dari Papua" 26 March 2019 <https://tinyurl.com/y62aavf7>

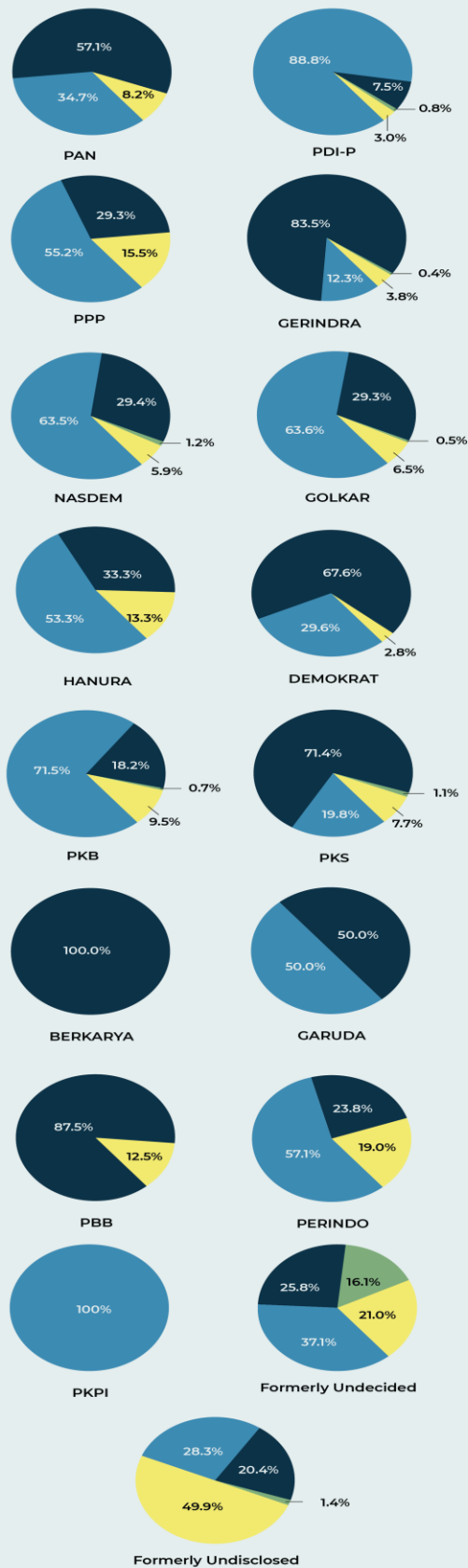
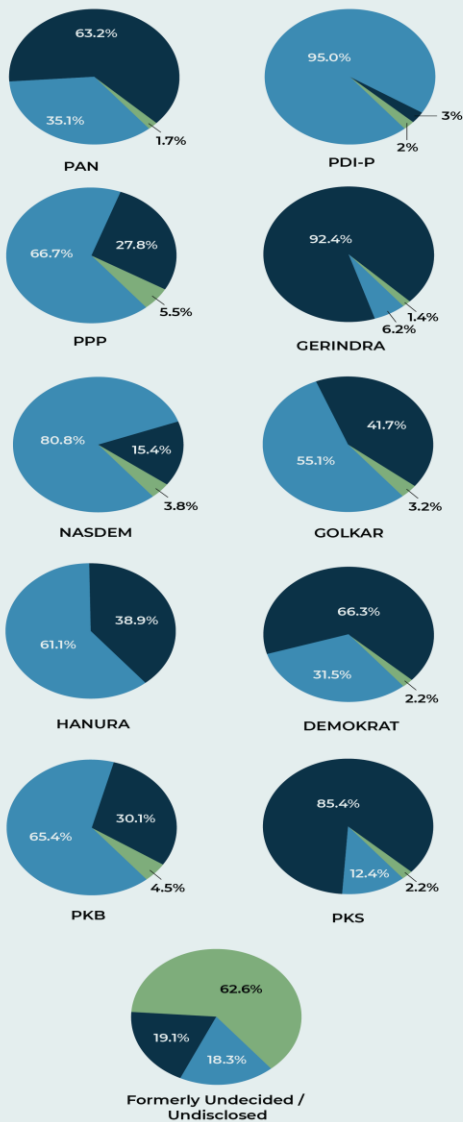
⁶ Tempo.co, "Kubu Prabowo Tepis Stigma Didukung Kelompok Intoleran" 27 March 2019 <https://tinyurl.com/y28at62o>

Survey on Party Cadres' Preference

● Joko Widodo-Ma'ruf Amin ● Prabowo Subianto-Sandiaga Uno ● Undecided ● No Answer

Kompas

CSIS



Particularly for Jokowi-Ma'ruf, political flexibility among cadres may do them more harm than good. That phenomenon is stronger in their coalition than in the coalition backing the Prabowo-Sandiaga ticket. The flexibility, furthermore, may render campaigns at the grassroots level ineffective and reduce dedication among supporters. Supporters' inadequate dedication is believed to have a real impact on electability. *Kompas'* researcher Bambang Setiawan said Jokowi-Ma'ruf's supporters' feeble dedication suggested why the pair's electability declined while Prabowo-Sandiaga's is on the rise.

Following the surveys, candidates have three weeks of open campaigning to increase their electability before balloting on April 17. The mixed results of the surveys indicate that anything remains possible and all candidates still have the opportunity to win, especially considering the number of the undecided and swing voters and the significant electoral clout they carry. It is certain, however, that candidates will face a see-saw competition in the remaining two weeks.

Jokowi hard to beat on foreign policy, but voters don't care

The fourth round of the presidential debate on March 30 will hear the two contenders explain their foreign policy intentions. Incumbent President Joko "Jokowi" Widodo looks unbeatable in this area having built a strong and impressive track record in the last five years. Challenger Prabowo Subianto is not expected to offer any major departure from the current administration's policy. When it comes to strategic national interests, candidates are not likely to diverge much from current policy, particularly because both are nationalist in ideology, one more so than the other. But Indonesia is now a democracy and candidates will still use foreign policy as far as possible to enhance their nationalist credentials during the election campaign.

Takeaways:

- The fourth round of the presidential debate is unlikely to offer new concepts or topics of debate on foreign policy issues given the candidates similar nationalist ideology.
- Prabowo is not expected to offer any major departure from current national policy, and will likely emphasize strategic national interests.
- Foreign policy is not a major concern for voters. Both candidates will exploit domestic support for Palestine to build on their Islamic credentials.

Background: Traditionally, foreign policy is never a winning issue in national election campaigns, but it will still be interesting to hear where the winner of the April 17 presidential race will take Indonesia in the coming years as the country enjoys a higher and higher international profile. Most presidents in the past would leave foreign policy to the experts, appointing a career diplomat as foreign minister. All presidents in post-Soeharto Indonesia has done so, with the exception of Abdurrahman Wahid in 1999-2001 who picked a Muslim scholar. With Indonesia becoming a full-fledged democracy, the elected president would rather focus his or her attention on dealing with more popular domestic issues, and use foreign policy to support their domestic standing when convenient. They rely almost entirely on the advice of their foreign minister or foreign policy advisors to guide them through the complexity of international affairs. The choice of foreign minister then becomes more important than the foreign policy intention of the candidate.

Insight: Question: What issue is President Jokowi's topmost foreign policy priority?

Answer: The creation of an independent Palestine state. Not ASEAN, not bilateral relations with Indonesia's major trading and strategic partners like China, the United States or Japan, and not any other major conflict closer to Indonesia. The protection of Indonesian citizens comes second.

This much is apparent in the last five years of Jokowi's government. Palestine was the issue that he picked during the 2014 election campaign, and this was the cause that he had asked Foreign Minister Retno Marsudi to pick after he took office. This position was reiterated as Indonesia assumed a nonpermanent seat at the United Nations Security Council in January. Retno announced several priority issues Indonesia would fight for at the council for the next two years and Palestine topped the list. Since Indonesia, the country with the world's largest Muslim population, has no diplomatic relations with Israel, it has little leverage and little say in the efforts to create a two-state solution between Israel and Palestine.

Indonesia only has a moral voice. But that is good enough as far as President Jokowi is concerned. Just as every American president has supported Israel because of the powerful Jewish lobby at home, Jokowi is winning widespread support at home for making Palestine his number one foreign policy issue. The president has struggled to build his Islamic credentials amid persistent fake news campaigns about his piety and attacks by his detractors casting doubts on whether he is a real Muslim. Although Palestine is more about its people gaining independence, in Indonesia the issue is couched in terms of a religious conflict between Muslims and Jews. While no one doubts the president's compassion for the Palestinian people, he has picked a foreign policy issue that also serves to support his own political standing. That's democracy.

President Jokowi upset the foreign and security policy establishment when he came to office in 2014 by campaigning to turn Indonesia into a global maritime fulcrum, essentially placing the world's largest archipelagic nation as a maritime power that not only protects better its vast territorial waters but also increasingly playing bigger role in maritime diplomacy, given its strategic location as one of the only two countries straddling the Indian and Pacific oceans.

It took the Jokowi administration two years before it came out with a white paper spelling out what a "global maritime fulcrum" means and it will be many more years before all the ideas in the white paper can be implemented, if at all. There will be opposition to its implementation by those who stand to lose from the changes. The army, for example, is not likely to easily concede its right to the lion's share of the military budget to the navy, even though becoming a maritime nation means Indonesia needs more warships and patrol boats and naval bases than tanks and armored cars.

The Foreign Ministry is playing along with the idea even as it continues to place ASEAN as the cornerstone of Indonesia's foreign policy. In spite of the president's somewhat indifference toward the 10-member association (he'd rather send the vice president to ASEAN summits and retreats), Indonesian diplomats still place ASEAN as the platform for Indonesia to make its voice heard in international forums.

Indonesia today is enjoying a much higher international profile, as the 16th largest economy in the world (7th by purchasing power parity), a member of the elite Group of 20 wealthiest nations, chaired the Indian Ocean Rim Association (IORA) in 2017 and chaired the Mexico Indonesia Korea Turkey Australia (MIKTA) forum in 2018. Also in 2018, Indonesia hosted the Asian Games, the World Bank/International Monetary Fund annual conference and the Oceans Summit.

Indonesia last year launched its own concept for a new Indo-Pacific regional architecture, rivalling proposals already on the table from the United States, Japan, Australia and India. Indonesia is again working through ASEAN to gather support that would guarantee ASEAN's centrality in any forum emerging from these proposals. The concept tallies with Jokowi's global maritime fulcrum.

The task of the Foreign Ministry in the last five years has been to accommodate President Jokowi's vision of Indonesia's place in the world. His vision of Indonesia being a maritime power required a big paradigm shift by all government agencies, not just the Foreign Ministry. But the fact that Indonesia has enjoyed a higher international profile while pursuing this new vision is credit to the Foreign Ministry. If Jokowi is reelected, he will likely retain Retno Marsudi as foreign minister. While short in policy initiatives, she has delivered as far as she could in fulfilling Jokowi's vision.

There is not much that one can read into Prabowo's foreign policy vision, not at least in terms of policy details. His campaign team says Prabowo will be favorable to both China and the United States and that if elected president he would put national interests ahead of pursuing international relations. Among the likely candidates for foreign minister if elected is Dino Pati Djalal, another senior career diplomat who served as Indonesia's ambassador to the United States and briefly as deputy foreign minister under then-president Susilo Bambang Yudhoyono.

China could have been a contentious issue in the foreign policy debate, and Jokowi's seven meetings with Chinese President Xi Jinping makes him vulnerable to accusations about Jakarta coddling with Beijing. But Prabowo's appearance at the reception of China's national day in Jakarta, toasting with the Chinese ambassador, indicates he would not use the China card against his opponent. Just to be on the safe side, Jokowi postponed a trip to Beijing in November until after the election.

All of this may be irrelevant in the end because voters are not going to be swayed much by foreign policy issues. But it is still interesting to follow the debate and hear the candidates' take, and their understanding and comprehension of foreign policy and how this relates to their domestic policies.

What we've heard: The fourth presidential debate on March 30 has been eagerly awaited by both the Joko "Jokowi" Widodo-Ma'ruf Amin and Prabowo Subianto-Sandiaga Uno camps. It will take place during the open campaign period.

A source from Jokowi's camp, who is affiliated to the party and tasked with preparing debate materials, said the incumbent preferred efforts to prevent his supporters from switching sides over focusing on the debate. The debate itself will only serve to woo swing voters and strengthen the confidence of hard-line supporters. "If we can lure the undecided voters, it would be a bonus," said the source.

According to several political consultants, who conducted surveys, only 15 to 17 percent of voters actually watched the first three presidential debates. Furthermore, 90 to 93 percent of those who followed the debates were strong voters. Thus, the debates are unlikely to woo a significant number of new supporters. "We have studied [strategies to woo new supporters]. The most effective ones are [campaigns on] social media and door-to-door campaigns," added the source.

Unlike the Jokowi camp, Prabowo's camp still hopes to win the hearts and minds of swing voters in the upcoming debate. These types of voters usually make a decision based on appearance rather than substance. Hence, as advised by an economist, Prabowo focused more on his gesture and politeness. "The main point is to act like a Javanese," said the economist. The advice makes sense as 60 percent of Indonesian voters are Javanese. Hence, their characteristics are used as a parameter to secure votes.

Such advice reportedly almost always works. A source from Central Java, who is closely associated with Jokowi, said his camp was surprised by Prabowo's sudden change in mannerisms. "[Prabowo's new mannerisms] really won the hearts of the Central Javanese. We are kind of surprised," said the source. However, the same source added that Jokowi was lucky that Prabowo's inner circle did not display the same Javanese gestures and mannerisms. The source admitted as well that Jokowi no longer acted in a humble and gentle manner like a true Javanese. Jokowi's changed mannerisms, however, is deemed necessary to face opponents such as Prabowo and his inner circle.

A source from Prabowo's camp, who is responsible for preparing debate materials, said the presidential candidate had yet to actually prepare himself for the upcoming debate, particularly on security issues and foreign policy.

"But he understands the issues well. With regards to the Indonesian Military (TNI), he knows what to say, especially concerning the controversy over a plan to appoint active military officers in civilian posts."

According to the source, Prabowo had yet to take an official stance on the proposal. "It is clear, however, that he deemed it unwise to look back at something we do not want to repeat." Currently, according to the source, Prabowo only needed to fulfill his promises on resolving economic and social problems.

"Meanwhile, matters related to foreign policy will be conducted in accordance to our current interests and agendas," said a source who is helping Prabowo prepare for the upcoming debate.

BUSINESS & ECONOMIC POLICY

EU-Indonesia palm oil spat over deforestation

The trade battle between Indonesia and the European Union over palm oil is set to intensify following the European Commission's recent submission of a delegated act titled **Renewable Energy Directive II (RED II)** to the European Parliament. Once approved, the document will place a more restrictive cap on palm oil-based biodiesel usage in the EU this year, which will lead to the complete phasing out of palm oil-based biodiesel in 2030.

Takeaways:

- Negotiations would likely halt on the Indonesia-European Union Comprehensive Economic Partnership Agreement following a rise in tension between the EU and Indonesia over palm oil.
- The EU-Indonesia palm oil spat is unlikely to end soon, as each party has a different view on palm oil: the EU views it as a cause of deforestation, while Indonesia sees it as an economic driver.
- It will be difficult for Indonesia to resolve permit mismanagement and data disorganization as regards palm oil, given that these matters have been long neglected and produced various issues, resulting in a complicated mix of negative and positive impacts that requires an alternative problem-solving approach than the one the EU is suggesting.
- Despite the potential trade spat with the EU, Indonesia is likely to keep fighting for its primary export commodity due to the economic value of the palm oil industry.

Background: The Foreign Ministry, Office of the Coordinating Economic Minister and Office of the Coordinating Maritime Affairs Minister held a joint press briefing on March 20 condemning the EU, particularly the European Commission, which submitted the RED II draft for a formal hearing and discussion at the European Parliament just a few days after Indonesian and EU delegations met to talk about the Indonesia-EU Comprehensive Economic Partnership Agreement (Indonesia-EU CEPA). Tensions have risen since then.

At the press conference, which was also attended by the EU Ambassador to Indonesia Vincent Guérind, Coordinating Economic Minister Darmin Nasution said RED II was a discriminatory measure taken against palm oil and the government was preparing a lawsuit that would be filed with the World Trade Organization (WTO). The government also threatened to boycott EU exports such as planes and their components. Imports to Indonesia are expected to reach US\$40 billion or equal to more than 250 million people being employed in the next 20 years.⁷

The delegated act that will prohibit the use of palm oil-based biofuel by 2030 -- which started with an immediate restrictive cap against palm oil-based biofuel this year -- is known also as the "palm ban". It deems palm oil to be a harmful to the environment and this has led to its exclusion from the EU's list of alternative sustainable fuels because it allegedly leads to massive deforestation.

RED II also wants sustainability for forestry feedstocks as well as greenhouse gas criteria for solid and gaseous biomass fuels. The second amendment also stipulates more specified rules,

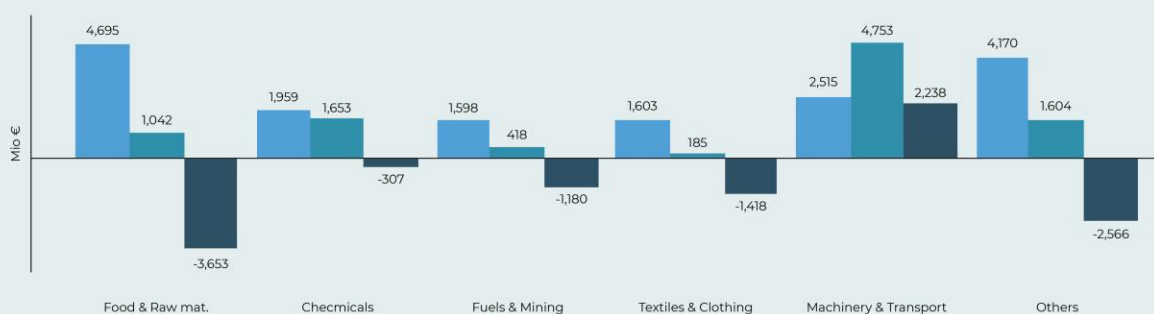
⁷Tempo.co, "Sawit terjejit, Luhutancambalik industri pesawat Eropa," Mar. 21, 2019. <http://tinyurl.com/y5mya5hl>

stating that biomass must not be produced from raw materials originating from several areas, namely:⁸

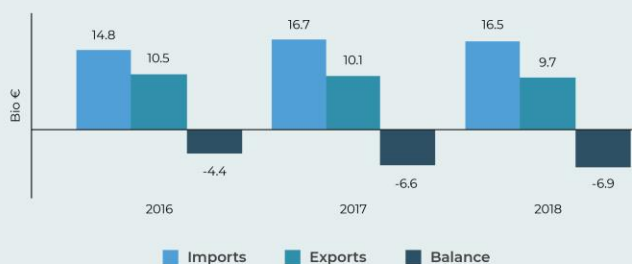
- High biodiversity land (as of January 2008), including primary forests, protected nature preservations and forests as well as highly biodiverse grasslands.
- High carbon stock land that changed use after 2008 from wetlands, continuously forested land or other forested areas with trees higher than 5 meters and canopy cover of between 10 and 30 percent.
- Land that was peatland in January 2008.



EU Merchandise trade with Indonesia by product in 2018 (SITC)



EU Trade in Goods with Indonesia



⁸ EU Science Hub, "Renewable Energy – Recast to 2030 (RED II)," Jan. 4, 2019. <http://tinyurl.com/y59tww8u>

Insight: Indonesia and the European Union have different standpoints with regard to palm oil. For the EU, oil palm plantations are the main culprit behind deforestation, while Indonesia sees the sector as the biggest contributor to exports providing livelihoods for almost 20 million people and thus a reduction in poverty in rural areas.

The EU is the third-biggest importer of Indonesian palm oil, after India and China. Indonesia supplies 80 percent of EU palm oil imports worth US\$7 billion a year. The problem is that half of the EU's imported palm oil is used for biofuels, which – beginning this year – will be subject to caps and phased out completely by 2030.

Therefore, it is understandable that Indonesia responded frantically to the EU's latest move against palm oil through the Renewable Energy Directive (RED) II. Indonesia said the RED II neglected various of Indonesia's efforts to improve the sustainability of the palm oil industry.

The RED II bill was tabled based on deforestation data from 2008 to 2015, which showed that palm oil was associated with the highest level of deforestation, with 45 percent of the expansion of oil palm plantations taking place in high carbon stock areas. The EU explained that the reference period started in 2008 because that year was the cut-off date contained in the EU sustainability criteria for biofuels, while the 2015 figures are the latest consistent data available.⁹

The Indonesian government, however, argued that the government had taken a number of measures since 2015 to reduce the impacts of deforestation from palm oil by, for example, requiring all plantations to get Indonesian Sustainable Palm Oil (ISPO) certification and by imposing a moratorium on new oil palm plantations in September 2018.¹⁰ Furthermore, the country saw a decline in deforestation in 2017 with a loss of 480,000 hectares of forest — relatively little compared to previous years. This decrease is believed to have resulted in a reduction of Indonesia's carbon emissions by 4.8 million tons.¹¹

The EU-Indonesian stalemate over palm oil has effectively killed negotiations on the EU-Indonesia Comprehensive Economic Partnership Agreement (CEPA), as Indonesia insists palm oil must be included in the CEPA. So far, the EU and Indonesia have found no middle ground. Vincent Guérénd, head of the Delegation of the EU to Indonesia and Brunei Darussalam, only promised that, if Indonesia proved that its management of palm oil had indeed become sustainable could the EU review the rules in 2021. By then, it could be too late, as Indonesia has promised to retaliate against any discriminatory measures against palm oil.

The government needs to reassess its plan to take retaliatory action, as Indonesia still enjoys a big trade surplus with the EU. According to EU data, bilateral trade in goods between the EU and Indonesia totaled 26.8 billion euros in 2017, with EU exports worth 10 billion euros and EU imports worth 16.7 billion euros. The EU is Indonesia's fourth-biggest trade partner. Bilateral trade in services totalled 6 billion euros in 2016, with exports of 4 billion euros. It remains to be seen whether trade restrictions on palm oil would reverse the trade balance. Despite the trade spat with the EU over palm oil, Indonesia should continue to improve the management of its palm oil industry, which has been marred by recent reports about corruption in the distribution of plantation concessions in many areas of the country. **(see box story on corruption cases in palm oil)**

⁹ The Jakarta Post, "EU bases planned palm oil restriction on 2015 data," March 22, 2019. <http://tinyurl.com/y5xhph2f>

¹⁰ The Jakarta Post, "Jokowi imposes moratorium on palm oil plantation," Sept. 20, 2018. <https://tinyurl.com/y5bylkym>

¹¹ The Jakarta Post, "RI slams EU for dismissing environmental efforts," Mar. 21, 2019. P.1

Corruption in issuance of palm oil concessions

The Corruption Eradication Commission (KPK) has revealed corruption in a number of cases involving the extension of plantation permits by heads of local governments.

1. Buol, Central Sulawesi

Amran Abdulah Batalipu, regent of Buol from 2007 to 2012, was sentenced to 7.5 years in prison and fined Rp 300 million in 2013 after he was proven guilty of accepting a bribe of Rp 3 billion in exchange for palm oil plantation permits for PT Hardaya Inti Plantations and PT Cipta Cakra Murdaya. Siti Hartati Murdaya, the owner of the two companies, was sentenced to 5 years in prison and fined Rp 200 million.

2. Kutai Kartanegara, East Kalimantan

Former Kutai Kartanegara regent Rita Widyasari was found guilty of accepting a bribe of Rp 6 billion in exchange for a palm oil plantation permit for PT Sawit Golden Prima (PT SGP) during her first term of office from 2010-2015. PT SGP president director Hery Susantu “Abun” Gun was sentenced to 3.5 years in prison.

3. Seruyan Regency, Central Kalimantan

Three executives of PT Binasawit Abadi Pratama (BAP), part of the Sinar Mas Group, were suspected of bribing four high-ranking officials and members of Central Kalimantan Council (DPRD) Commission B concerning pollution in Sembuluh Lake in 2018. The DPRD members were also allegedly requested to hide the fact that BAP had no plantation permit even though the company had operated in the region since 2008. The trial of the case is ongoing in Jakarta.

Source: *Koran Tempo*

The corrupt distribution of concessions for palm oil has resulted in many plantations being granted on peatland and non-forest areas with forest cover, which resulted in deforestations under the EU definition. However, the current government cannot simply revoke those licenses as, according to Coordinating Maritime Affairs Minister Luhut Panjaitan, “that would violate business regulations and cause unemployment.”¹²

The rapid expansion of oil palm plantations in Indonesia has not only caused problems with deforestation but also oversupply in the market, resulting in more than 5 million tons of palm oil in stocks as of last year. The oversupply, combined with the more restrictive trade regime in the EU, has dampened palm oil prices in the international market from \$950 per metric ton in 2014 to an average of only \$504 in 2018 and below \$500 now.

To tackle the problems of oversupply and lower exports to the EU, the Indonesian government has tried to boost demand for palm oil in the domestic market by introducing B20 biodiesel, with a 20 percent palm oil share. The government aims to introduce B30 by next year. Increasing domestic demand, however, will eventually hit a limit. An expansion of exports must still be pursued, including to less restrictive markets with big demand, such as China, India, Pakistan and Turkey.

What we’ve heard: A source said the government had a chance to negotiate with the EU about the indirect land use change (ILUC) under RED II. The offer came from the EU following the visit of Coordinating Maritime Affairs Minister Luhut Pandjaitan to the Vatican to campaign against RED II. However, Darmin did not take up the offer to negotiate and decided instead to take the issue directly to the WTO.

¹² *Investor Daily*, “Indonesia may quit climate change conference,” Mar. 28, 2019. P.7

The source said Luhut actually hoped that a delegation from the Office of the Coordinating Economic Minister would join talks on the ILUC, and therefore, it would give the Indonesian government a chance to directly voice its disagreement over the ILUC in the forum before taking the issue to the WTO. This source added that the government should have recruited professionals who understood the ILUC to present the Indonesian argument because ILUC discussions could get theoretical and orthodox.

Indonesia's involvement in the ILUC talks does not necessarily give it stronger bargaining power, but it would at least give the government a chance to directly engage in the discussion as well as lobbying before the European Commission submitted RED II to the parliament. Due to ILUC's theoretical nature, the source said, RED II could become a strong basis to dictate oil palm certification in the future.

Darmin will depart for Brussels on April 7 to attend a joint commission meeting. However, the government's initial calculation predicted that the meeting would not be substantial enough to change the legislation process in the European Parliament.

A source at the Trade Ministry said because the government would likely retaliate when the EU finally imposed restrictions on palm oil, the ministry was currently listing potential products to be boycotted, especially those that could sway EU constituents if Indonesia decided to impose a non-tariff barrier. One of them is dairy products, in addition to aircraft, which have a much bigger dollar value.

Indonesia makes first significant BRI project proposal worth \$91 billion

Indonesia has proposed 28 projects worth US\$91.1 billion to Chinese investors as part of its participation in China's Belt and Road Initiative (BRI). Coordinating Maritime Affairs Minister Luhut Pandjaitan presented the projects, which include seaports and industrial estates, power plants, smelters and tourism estates, during the first meeting of the Indonesia-China BRI steering committee in Bali last week.

Takeaways:

- Indonesia has proposed 28 projects worth US\$91.1 billion to Chinese investors in Indonesia's first significant proposal for the BRI
- The projects are located in four economic corridors for the BRI: North Sumatra, North Kalimantan, North Sulawesi and Bali
- The Indonesian government does not want to take loans to finance BRI projects but B2B cooperation to execute the projects
- Indonesia has also set out four conditions for investment in BRI projects: the use environment-friendly technology, the employment of local workers, training of local workers and the creation of added value for the economy
- Many of the BRI projects on offer are linked to SOEs

Background: Luhut revealed that projects offered for the BRI include the development of Kuala Tanjung Port, Sei Mangkei Industrial Zone, the second development phase of Kualanamu International Airport, clean energy projects in Sungai Kayan in North Kalimantan, the

development of exclusive economic areas in Bitung, North Sulawesi, and Kura-Kura Island in Bali.

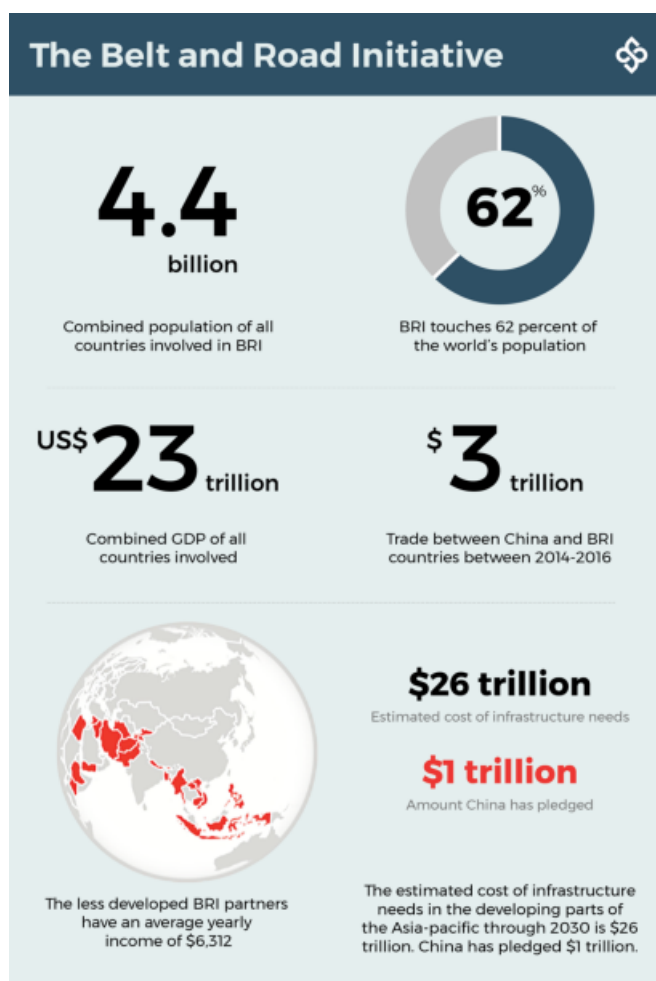
The projects are mostly located in four provinces designated as the Regional Comprehensive Economic Corridors for BRI projects: North Sumatra, North Kalimantan, North Sulawesi and Bali. Indonesia Investment Coordinating Board (BKPM) chairman Thomas “Tom” Lembong said the four locations were chosen since they all sat on the periphery of the archipelago and coincided with President Joko “Jokowi” Widodo’s ambition to develop the country from the outer areas; with each owning different and unique advantages that could attract Chinese investors.

North Sumatra, for example was deemed a strategic location due to its proximity to the strait of Malacca and as the hub of Indonesia’s palm oil industry. North Kalimantan had proven to present huge potential for hydropower generation from its rivers, which would be perfect for aluminum smelters. And North Sulawesi had recently attracted Chinese tourists due to its unique culture and its location within a short-haul direct flight from China.¹³

The Belt and Road Initiative was unveiled in September 2013 by Chinese President Xi Jinping, who had a grand vision to reawaken and extend the old Silk Road in the name of enhanced international trade, development and cooperation. The initiative involves infrastructure development and investment in at least 152 countries, including Indonesia.

Insight: Minister Luhut’s announcement is Indonesia’s first significant projects proposal for the BRI. Indonesia has supported the BRI from the beginning. Chinese President Xi Jinping even announced the Maritime Silk Road, the maritime part of the BRI linking China to the Middle East and Europe through the South China Sea, the Malacca Straits, the Indian Ocean and the Red Sea, in the Indonesian House of Representatives in 2013. And yet, no significant progress has been made in terms of projects as Indonesia has taken an overly cautious approach in its participation in the BRI.

There is good reason for this, besides the fact that Indonesia is not located along the main Silk Road Economic Belt, where China is concentrating most of its energy. Aware that some countries are experiencing problems with their BRI projects, such as spiraling debt, loss of sovereignty and the growing presence of Chinese workers, Indonesia has taken a cautious approach to ensure that the BRI brings real benefits to



¹³ Tenggara Strategics, “Belt and Road Initiative: What’s in it for Indonesia?” Aug. 28, 2018.

<https://tinyurl.com/ybhjxfk9>

the national economy while minimizing any negative effects. In an effort to minimize the risks, the Indonesian government, for example, has requested that all BRI projects in Indonesia be conducted through business-to-business (B2B) cooperation rather than government-to-government (G2G) loans.

Furthermore, Indonesia has set out four conditions for investment in BRI projects: They must use environmentally-friendly technology, employ local workers with Chinese workers allowed only in the initial stage of development, include training programs for local workers and create added value for Indonesia's upstream and downstream industries.¹⁴

As a result, no real projects have been taken up as BRI projects in the past five years. A number of big Chinese investment projects in Indonesia were later billed as BRI projects, although initially they were not. These include the Jakarta-Bandung high-speed railway project and the huge Morowali industrial project in Central Sulawesi.

Because there has been no clear definition of BRI projects, some people even linked a number of Chinese-funded investments in Indonesia to the BRI, although they may not be related to the BRI, such as the controversial Batang Toru hydropower plant in North Sumatra, which has been billed a BRI project by several international media outlets.

Now, with the announcement of multibillion BRI projects, the government seems confident about the Chinese initiative. Indonesia will bring the projects to the second BRI summit in Beijing in April. The government expects that they would get deals with investors on two or three projects during the summit.

Another issue with BRI projects that need to be highlighted is that many of them are actually linked to state-owned companies. Looking at the experience of the past four years, this government has the tendency to take an easier route in its infrastructure development by assigning SOEs to take the projects. This process has been effectively crowding out private investors. Therefore, it remains to be seen whether the government will involve many private domestic companies in the proposed projects.

¹⁴ *The Jakarta Post*, "Billions on offer for Belt and Road," March 20, 2019. P.1

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