

Highlights of the week



Jokowi winning the campaign to woo Muslim voters

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Golkar: Teetering on the verge yet again

The Golkar Party is under fire after its chairman Airlangga Hartanto become a target of public scrutiny lately. After two of its politicians were named suspects in the bribery case related to the coal-fired power plant (PLTU) project in Riau, the corruption saga plaguing the Golkar Party will likely to continue.



Resource nationalism triumphant in Freeport deal

Indonesia has officially legalized its ownership over 51 percent stakes in PT Freeport Indonesia after the state mining holding company, Inalum, signed a US\$ 3.85 billion sales and purchase agreement (SPA) with Freeport McMoran and Rio Tinto on Thursday. Finding the significant investment in underground mining exploration will be the next challenge for Indonesia’s triumph.



Govt uses moratorium to fight excess supply

Although the Presidential Instruction No. 8/2018 on oil palm plantations expansion prohibition received a laudable response from environmental groups, there are actually a lot of homework for the government to start addressing the underlying problems in the palm oil sector.

POLITICS

Jokowi winning the campaign to woo Muslim voters

The 2019 presidential race has just gotten that much harder for challenger Prabowo Subianto after an important faction in Nahdlatul Ulama, representing the family of the late former president Abdurrahman Wahid, threw its support behind the incumbent President Joko “Jokowi” Widodo. Although Prabowo relies on the support of two Islamist parties in his presidential bid, they will be scrambling for votes of supporters of Muhammadiyah, the smaller of Indonesia’s two largest and most influential Islamic organizations, that has professed neutrality in this election.

Background: Muslims make up 88 percent of the Indonesian population, but political parties campaigning on Islamist platforms — for an Islamic state and for sharia — traditionally have not done well. The key to the hearts and minds of Muslim voters remain in winning over the support of followers of Nahdlatul Ulama (NU) and Muhammadiyah, two Islamic organizations with a large grassroots support-base that have kept Indonesian Muslims moderate.

Insight: Yenny Wahid, the daughter of former president Abdurrahman Wahid, had first denied that she had joined the Prabowo campaign, although her name was listed as a member of the campaign team submitted to the General Elections Commission on Friday. Then on Wednesday, Prabowo was dealt the final blow: Yenny announced that she is supporting Jokowi, and with this, virtually the entire family of the former president and his diehard supporters.

Although Yenny holds no position in Nahdlatul Ulama (NU) or the Nation Awakening Party (PKB), which her father founded in 1999, she remains influential within the movement and there had been indications that she would join the Prabowo camp, therefore splitting the NU vote.

With her announcement, virtually all the main factions and key figures in the NU are behind Jokowi. His running mate, Ma’ruf Amin, is a senior cleric with the NU. Two of the nine political parties in the coalition supporting Jokowi’s candidacy — the PKB and the United Development Party (PPP) — count largely on the NU for their votes.

This also virtually precludes the use of Islam in the 2019 presidential race. In 2014, the Prabowo camp used Islam as a weapon, through hate speech and fake news campaigns, casting doubt about Jokowi’s Islamic credentials. He has remained vulnerable to such campaigns waged by conservative Muslims throughout his presidency. With Ma’ruf, Yenny and the entire NU now rallying behind him, no one would dare question his Islamic credentials.

With the NU literally in his pocket, Jokowi has secured support in East Java and Central Java, two NU and PKB strongholds, and he may even clinch West Java, a province that went with Prabowo in 2014 but where NU also has many followers. Ma’ruf, who hails from Banten province, will certainly bring some votes Jokowi’s way.

With NU’s votes going to Jokowi, this leaves Prabowo and his Islamist parties scrambling for votes from Muhammadiyah followers. Traditionally, Muhammadiyah has remained neutral in elections, leaving their followers to decide for themselves, rather than giving directions on which way to vote.

The 2019 race is no exception. Ma'ruf was the first to learn this when he approached Muhammadiyah leaders at the start of the campaign period and was pointedly told that, unlike the NU, Muhammadiyah does not engage in politics.

This does not stop individual Muhammadiyah figures from taking part in politics, and their votes are split between the two camps.

Prabowo's hopes to win the votes of Muhammadiyah supporters lies with the National Mandate Party (PAN), which was formed in 1999 by former Muhammadiyah chairman Amien Rais. Amien remains influential in the party and has joined the Prabowo campaign team. For good measure, Prabowo named Dahnil Anzar Simanjuntak, chair of Muhammadiyah Youth, as chief spokesman of his campaign team.

But many other key Muhammadiyah figures, including former chairman Syafiie Maarif, have sided with Jokowi. Raja Juli Antoni, a prominent young Muhammadiyah thinker, is secretary-general of the Indonesian Solidarity Party (PSI), which is supporting Jokowi. Muhadjir Effendi, the current minister of education and culture, hails from Muhammadiyah and has shown no indication of resigning from his post. A small blow to Jokowi came when Din Syamsuddin, also a former Muhammadiyah chairman, quit his position as the presidential chief advisor for interfaith affairs last week, citing his desire to remain neutral.

While Islam as an issue may have been removed from the presidential campaign, this is not necessarily so in the legislative campaign to win seats in the national and local legislatures.

Five political parties will be fighting it out among themselves for Muslim votes: Besides the PKB, PPP and PAN, there is the Prosperous Justice Party (PKS) and the Crescent Star Party (PBB). PKB has solid support from NU followers and does not campaign for an Islamic state or sharia, but the other four have openly campaigned for more conservative values to win votes.

Traditionally, the majority of voters, including most Muslims, voted for nationalist-secular parties like the PDI-P, Golkar Party, Gerindra Party and Democratic Party. The "Muslim constituents", those who feel obliged to vote for an Islamist party, represent a small segment of voters, but large enough to give Islamist parties seats in the legislatures.

In 2014, the combined votes of the five major Islamist parties amounted to 31 percent, up from 25.94 percent in 2009, and 35.12 percent in 2004. One needs to discount the PKB's votes, however, to measure the real size of support for Islamist causes as the PKB may be conservative but it has never campaigned for an Islamic state or sharia.

These Islamist parties may not lead but they can still influence policy making decisions by joining the coalition government and flex their tiny muscles whenever they can, including in the House of Representatives. The laws on national education and pornography are among products that reflect their strength and influence. Some regencies and mayoralities have also "gone sharia" because of the influence of these Islamist parties.

Rise and fall of Islamist parties: Total Votes in 1999-2014 Elections (%)

Party Name/Year	2014	2009	2004	1999
PKB	9.04	4.94	10.57	12.61
PAN	7.59	6.01	6.44	7.12
PKS	6.79	7.88	7.34	1.36
PPP	6.53	5.32	8.15	10.71
PBB	1.46	1.79	2.62	1.94
TOTAL	31.41	25.94	35.12	33.74

Golkar: Teetering on the verge yet again

The corruption saga plaguing the Golkar Party looks as if it knows no end. After two of its politicians were named suspects in the bribery case related to the coal-fired power plant (PLTU) project in Riau, now the party's chairman, Airlangga Hartarto, has become the latest target of public scrutiny. Will Golkar survive yet more turbulence that forced its past chairmen to fall from grace?

Takeaway: The future of Golkar will most likely lie on the party's ability to support Jokowi. On its own, Golkar's prominence in the upcoming legislative election will potentially decline.

Background: The arrest of Golkar lawmaker Eni Maulani Saragih by the Corruption Eradication Commission (KPK) appears to have triggered a domino effect. First, it was former Golkar secretary-general and Social Affairs Minister Idrus Marham who was named the second suspect, and now the commission is reportedly sniffing at the party's boss, Airlangga Hartarto. Airlangga, who is also the Industry Minister, was allegedly aware of the act of bribery involving Eni and businessman Johannes Budisutrisno Kotjo while the former was overseeing the Riau PLTU project.

Initially, Golkar was implicated in the case when it was suspected that the hush money accepted by Eni from Johannes was used to fund Golkar's extraordinary national congress last December, which elected Airlangga as chairman. However, Eni, who has agreed to become a justice collaborator, claims that Airlangga's role in the scandal was much more significant.

According to Eni, the complicity of Golkar elites began when then-party chairman Setya Novanto assigned Eni to "smoothen out" business operations in a number of power plant projects, including Riau PLTU. Following Setya's detainment for his involvement in the e-ID graft case, Eni's business dealings with Johannes were halted, yet resumed after Eni convinced the businessman that the new chairman, Airlangga, would support their operations.

Indeed, Eni admitted that Airlangga had requested her to continue "safeguarding" the PLTU Riau project. Despite Airlangga's vehement denial of the allegations, it remains likely that the KPK will expand the scope of its investigation into the PLTU Riau graft case and include Airlangga on the list of possible suspects. If it does happen, how will Golkar withstand another corruption scandal? Considering that the 2019 legislative election is getting closer, will the graft-ridden party be able to preserve its political standing in the country?

Insight: Two scenarios may unravel in Golkar's future; either Airlangga will be salvaged, and thus the future of Golkar will also temporarily be ensured, or the chairman will be sacked and leave the party destitute. Either way, both scenarios will affect the course of the upcoming 2019 general elections.

Contrary to popular beliefs, the first scenario may be realized not because of the party's aptitude and perseverance, but rather the intervention of President Joko "Jokowi" Widodo. Jokowi is in dire need of independence from the Indonesian Democratic Party of Struggle (PDI-P), which, like in 2014, is backing his presidential bid. The strong presence of former president Megawati Soekarnoputri in the party is reportedly the main reason behind Jokowi's search for independence from it. Golkar, despite its diminishing political standing, provides an answer to Jokowi's quest.

Previously supporting Jokowi's archrival Prabowo Subianto in the 2014 presidential election, Golkar switched sides to Jokowi's camp and joined the President's coalition. Indeed, Golkar's presence in Jokowi's administration is strong. In Jokowi's Cabinet, for instance, latecomer Golkar occupies two ministerial posts. Furthermore, Airlangga's close ties with Jokowi are also well-known, illustrated by speculation of Airlangga becoming Jokowi's running mate in the 2019 presidential election prior to the announcement of Ma'ruf Amin's candidacy.

The symbiotic relationship between President Jokowi and Golkar may prevent the party from succumbing to disgrace; Jokowi cannot afford losing one of his strongest allies months before the presidential election.

Nevertheless, news about Golkar's internal chasm has been widely reported recently. A number of Golkar politicians, though little known, have decided to abandon their party's pledge for Jokowi and chosen to support Prabowo and his running mate Sandiaga Uno instead. If Golkar cannot maintain its image of unity in supporting Jokowi, the President may cut the party loose, resulting in the second scenario for Golkar's future.

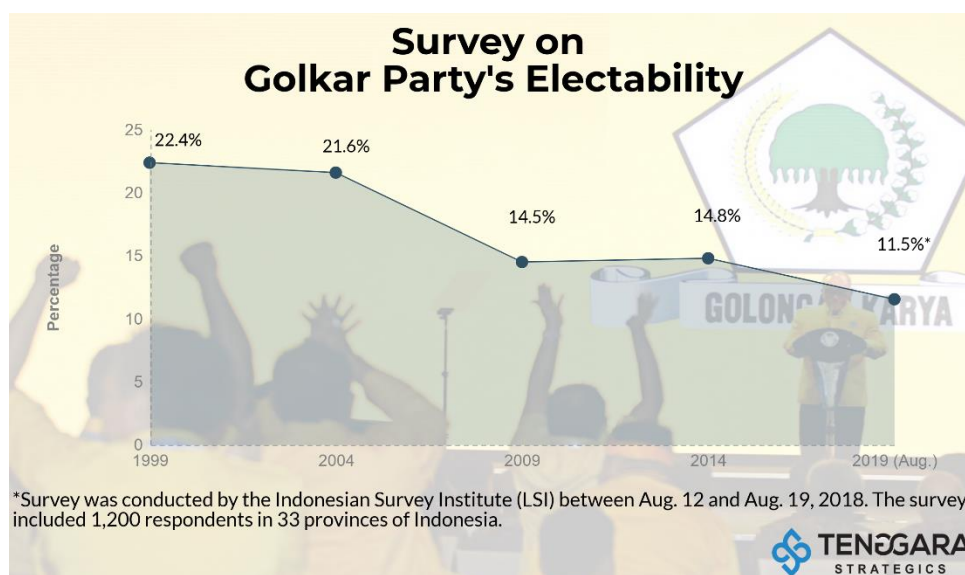
Without Jokowi, there will be no guarantee for the future of Golkar, particularly Airlangga. Meanwhile, it is reported that Golkar needs all the support it can get, considering that it is deteriorating rapidly in the political realm. A number of surveys have forecasted that for the first time in history, Golkar will be relegated from the top two places in the 2019 legislative election.

Now, Golkar is trapped in another political impasse. Maintaining Airlangga as its chairman may indicate the party's leniency toward corruption, yet losing its chairman not a year before he was appointed will surely defame the party even more.

Since it was first established in 1964, Golkar has had 12 chairmen. The past three chairmen, however, served no more than two years. The rapid regeneration of leadership, coupled with the party's propensity for corruption, may be one of the many culprits behind mounting instability inside the party. If in the future Airlangga has no other choice but to resign, Golkar will need a new leader who is capable of restoring the party's reputation so as to at least maintain its performance in the 2014 legislative election next year.

Looking at past changes of the guard, there is a distinct lack of transparency in the party's leadership structure and regeneration. Strange decisions within Golkar first emerged when the party was split by leadership dualism.

Following an internal rift, a group of party members led by former coordinating people's welfare minister Agung Laksono ran into opposition by party members loyal to incumbent party chairman Aburizal Bakrie. The rival camps' decision to hold separate congresses, then, was the first harbinger of the party's political atrophy.



Golkar has never fully recovered since. With the intervention of Vice President Jusuf Kalla, the party was able to reconcile, appointing Setya Novanto, then the party's lawmaker, as its new chairman. Nevertheless, Setya's election itself was also an enigma. Facing his main rival, then-House speaker Ade Komarudin, Setya secured more votes than Ade in the first round of their battle for the chief position. However, before the second round started, Ade decided to step down and support Setya instead, saying that his decision was based on his discussion with Aburizal who had previously supported Ade.

Throughout Setya's polemical leadership, Golkar's internal mechanism once again indicated a major failure. When Setya was embroiled in a major corruption case surrounding the government's e-ID project, the party's response was relatively sluggish, or even anticlimactic.

Taking the reins, Airlangga was less controversial than Setya. Airlangga was deemed apt to replace his predecessor because of three considerations, namely his track record, experience of assisting the Jokowi administration and Golkar members' acceptance of Airlangga. Assuming the position, Airlangga was entrusted with restoring the party's image by restructuring its leadership. However, if Eni's claims ring true, it appears that Airlangga has done exactly the opposite. Now the ball is in Golkar's court. Will it be able to convince the President that it can maintain its unity and mobilize unflagging support for his reelection bid? If it fails to do so, who will replace Airlangga and save the party from complete annihilation?

What We've heard: It seems it is only a matter of time before the KPK eventually nail Airlangga, as a source familiar with the matter says Airlangga was named in the dossier of Johannes Kotjo, who will soon stand trial. Airlangga has publicly admitted to receiving the businessman at his home sometime last January, but denied any talks about the power plant project. The right time for the KPK to launch an investigation into Airlangga will most likely come after the presidential election in April 2019. In anticipation of Airlangga's fall from grace, House Speaker Bambang Soesatyo has been building his image for the much-anticipated race by, among other efforts, promoting anticorruption in the legislative body and showing Jokowi his mastery in influencing the polarized House and passing government-sponsored draft laws. Being a political animal, Bambang, however, is joining forces with the camp under ailing Ade Komaruddin to accelerate the fall of Airlangga by providing tip-offs to KPK investigators.

BUSINESS & ECONOMIC POLICY

Resource nationalism triumphant in Freeport deal

Indonesia's state mining holding company, Inalum, signed a US\$3.85 billion sales and purchase agreement (SPA) with Freeport McMoRan and Rio Tinto on Thursday to acquire 51 percent stakes in PT Freeport Indonesia (PTFI). This historic signing was witnessed by Finance Minister Sri Mulyani Indrawati, State-owned Enterprises Minister Rini Soemarno and Energy and Mineral Resources Minister Ignatius Jonan.

Takeaway: The signing of the sales and purchase agreement of PTFI on Thursday (September 27) is a historic achievement for Indonesia and a triumph for resource nationalism. Nevertheless, the financial soundness of this achievement is questionable, because Freeport's underground mines in Grasberg have a life span of 17 to 22 years. Therefore, the government and Inalum need to make a significant investment in mining exploration to find other potential mineral reserves in the years ahead.

Background: The signing of the sales and purchase of the SPA is a culmination of President Joko "Jokowi" Widodo's efforts, who had initiated the takeover at the beginning of his administration. The Freeport issue was hotly debated during the presidential elections in 2014. Freeport is a symbol of foreign control of Indonesia's economic resources. Both camps in 2014 promised to take over the giant mining company.

Despite the positive atmosphere among Indonesians, for foreign observers this signing marks the triumph of resource nationalism.¹ The Freeport deal follows the government's decision to award the Mahakam oil and gas block in East Kalimantan and the Rokan Block in Riau to Pertamina. Such a decision stokes fear among foreign investors regarding the security of their investment in Indonesia.

Nevertheless, there is an indication that Indonesia's resource nationalism is limited to the mining sector. A study by Eve Warburton found that the pressure for nationalist policy interventions failed in agribusiness sector such as palm oil plantation where domestic and foreign ownerships are strongly integrated.²

Insight: President Jokowi's effort to take back Freeport has been impressive. With this deal, the Indonesian government will have control over 25.1 billion pounds of proven and probable copper reserves and 23.2 million ounces of proven and probable gold reserves. Most of these reserves is located in the Deep Mill Level Zone (DMLZ) and Grasberg Block Cave underground mines

The DMLZ has 437 million metric tons of copper and gold reserves, while the Grasberg Block Cave has 963 million metric tons. Besides acquiring DMLZ and Grasberg Block Cave, the government will also have ownership over the undeveloped Kucing Liar underground mine with 360 million metric tons of copper and gold reserves.

¹ LowyInstitute.org, "Resource nationalism in post-boom Indonesia: the new normal?" 27 April 2017 <https://tinyurl.com/ybg6su6sk>

² Warburton, Eve. 2017. Resource Nationalism in Indonesia: Ownership Structures and Sectoral Variation in Mining and Palm Oil. *Journal of East Asian Studies*, 17 (3), pp. 285-312. <https://doi.org/10.1017/jea.2017.13>

Region	Freeport McMoRan's Recoverable Proven and Probable Reserves - 2017	
	Copper (billions of recoverable pounds)	Gold (millions of recoverable ounces)
North America	33.5	0.3
South America	28.1	-
Indonesia	25.1	23.2
Total	86.7	23.5

Source: Freeport McMoRan Form 10-K

Nevertheless, these underground mines have a limited and short life span. According to Freeport McMoRan's estimate, these mines will expire in 2041, or 22 years from now. The still undeveloped Kucing Liar mine has a shorter life span, 17 years starting from commencement in 2024.

This fact raises a question over the soundness of the government takeover of PTFI stakes. To make up for this shortcoming, the government would need to make a significant investment in mining exploration in the years ahead, such as the pending exploration in Wabu, Dabera and Soba Blocks, which will cost \$7 billion in investment.³ A failure to do so would only result in a financial and investment tragedy for Inalum, which according to Rini, has borrowed \$5.2 billion from 11 foreign banks to finance the 51 percent acquisition of PTFI stakes.⁴

Looking at the reserves, the long-term prospects of Freeport is not so beneficial for investment. Nevertheless, the decision to take over Freeport is not an investment or economic consideration, but rather a political consideration. The the successful takeover of Freeport is seen as a proud achievement for President Jokowi and politically advantageous for his reelection bid next year.

	Freeport McMoRan's Recoverable Proven and Probable Reserves - 2017 (million metric tons)	
	Proven Reserves	Probable Reserves
North America	6,694	1,271
South America	1,237	2,734
Indonesia	602	1,329
Total	8,533	5,334
Total Proven and Probable	13,867	

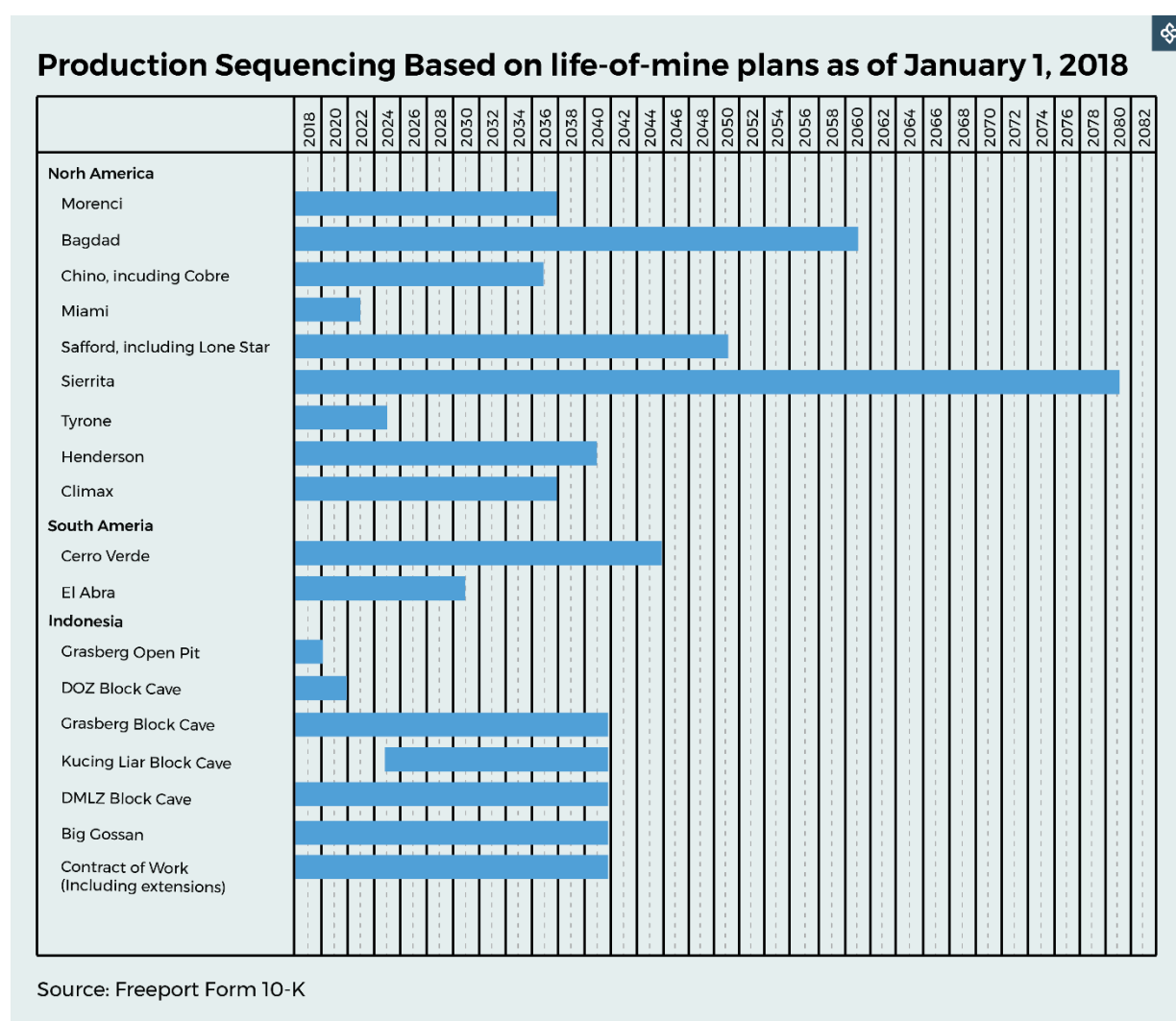
Source: Freeport McMoRan Form 10-K

³ Okezone.com, "Tunggu divestasi selesai, Freeport tahan investasi tambang bawah tanah." 18 September 2018 <https://tinyurl.com/y8h8e95e>

⁴ Kumparan.com, "Inalum utang dari 11 bank untuk mencaplok 51 persen saham Freeport." 12 July 2018 <https://tinyurl.com/y865rxja>

Freeport Indonesia's Recoverable Proven and Probable Reserves – 2017 (million metric tons)	
Developed and Producing	
Deep Mill Level Zone	437
Deep Ore Zone	79
Big Gossan	58
Grasberg Open Pit	34
Under Development	
Grasberg Block Cave	963
Undeveloped	
Kucing Liar	360
Total	1,931

Source: Freeport McMoRan Form 10-K



What we've heard: Some sources at the State-Owned Enterprises Ministry said the signing of the sales-purchase agreement (SPA) between PT Asahan Aluminum (Inalum) and Freeport McMoran-Rio Tinto was initially scheduled for Wednesday (September 26) afternoon but was postponed to the following day at the last minute.

The cancellation came even despite Freeport McMoran CEO Richard Adkerson's presence in the Energy and Mineral Resources Ministry's building. It was also reported that Finance

Minister Sri Mulyani had been about to leave her office to go to the Energy and Mineral Resources Ministry.

The postponement was first suggested by Rio Tinto, which had demanded that some revisions be made in the SPA document. The Indonesian side was reportedly even more disorganized in its preparation, so the postponement was inevitable.

From the Indonesian side, Inalum wanted the Development Finance Comptroller (BPKP) and the Attorney General's Office (AGO) to issue a legal opinion on the deal. Inalum wanted more legal support to prevent any exploitation of the special mining permit and environmental issues against the sales-purchase agreement in the future.

The demand from Inalum follows the arrest of former Pertamina president director Karen Agustiawan by the AGO over Pertamina's acquisition of a foreign oil and gas block.

Some pending issues

After the signing of the SPA, some pending issues remain. First, Freeport's temporary mining permit will end this month. Therefore, the Energy and Mineral Resources Ministry has been accelerating the renewal of Freeport's temporary mining permit.

The second issue is the disposal of Freeport's tailing, which has caused environmental problems. This issue of tailing disposals had been settled during a meeting between relevant parties, including the Energy and Mineral Resources Ministry's coal and mineral director general Bambang Gatot, Freeport Indonesia president director Tony Wenas, Inalum strategic services director Ogi Prastomiyono and representatives from the Environment and Forestry Ministry. It was decided that the Environment and Forestry Ministry will issue a new ministerial decree to regulate waste disposals.

The third issue is the future of Freeport operations as current reserves would only last for the next 17 to 22 years.

After the Contract of Work (CoW) turned into the Special Mining Permit, Freeport is obliged to reduce its area of concession. One that will be returned to the Indonesian government is Wabu Block, which is said to have 4.3 million tons of gold ore reserves. Freeport agreed to the request to ensure their contract would be valid until 2041.

Inalum then wants to take over the Wabu Block. Inalum president director Budi Gunadi Sadikin has met with Papua Governor Lukas Enembe on the development of Wabu Block. The fourth issue is regarding the involvement of local governments in the divestment. A government source said a number of businessmen have sent business proposals to Enembe, in which they agree to provide capital to settle the cost of 10 percent shares (obtained from the divestment agreement), if the local government cannot provide the funds.

To prevent a debacle similar to the divestment of Newmont and Kaltim Prima Coal, Inalum has agreed to provide Papuan Regionally Owned Enterprises loans to cover the 10 percent participation shares, which is entitled to the local government. Inalum offers a similar scheme for participation shares in the Grasberg underground mine, in which the Papuan government could use its dividend as installments. In return, Inalum wants to control the Wabu Block.

Govt uses moratorium to fight excess palm oil supply

President Joko “Jokowi” Widodo last week (Sept. 20) put the brakes on the palm oil sector by introducing Presidential Instruction No. 8/2018 that prohibits the expansion of oil palm plantations in the next three years and mandates a review on existing permits and concessions, as well as halting ongoing concession permit assessments.

Takeaway: From an environmental point of view, President’s Jokowi moratorium is laudable. Nevertheless, this policy masks the real problem in Indonesia’s palm oil sector, namely the lack of responsiveness and adaptability to fluctuations in global demand for palm oil.

Background: The moratorium was initiated in 2016,⁵ and its introduction was delayed for two years to hear the input of various stakeholders.

Palm oil businesses viewed that the moratorium was the result of lobbying from environmentalists and developed countries, especially the European Union, which plans to phase out palm oil-based biofuels by 2030.

The regulation, however, received support from environmentalists, though with some disdain. The Indonesian Forum for the Environment (Walhi) supports the moratorium, but still voiced its contempt over the two year delay, saying “it should have been sooner”.⁶

The World Wide Fund for Nature viewed the moratorium positively. Nonetheless, CEO Rizal Malik explained to us in an interview that the moratorium should have gone further than just intensification. In his opinion, the government ought to provide capital support, such as finance and high quality seeds for smallholders to avoid encroachment such as what occurred in Tesso Nilo National Park.⁷

In contrast to other environmentalist groups, Greenpeace Indonesia’s forest campaign team leader Arie Rompas voiced his pessimism, saying that the moratorium would not carry any weight.⁸

Insight: As major palm oil producing countries, Indonesia and Malaysia rely on land expansion to increase production. Although the total land area used for palm oil production in Malaysia had expanded from 4.5 million hectares in 2013 to 5.2 million ha in 2017, output has stagnated at 17.5 to 20 million tons. Contrastingly, Indonesia’s palm oil production has grown from 31.2 million tons to 39.7 million tons over the same period.

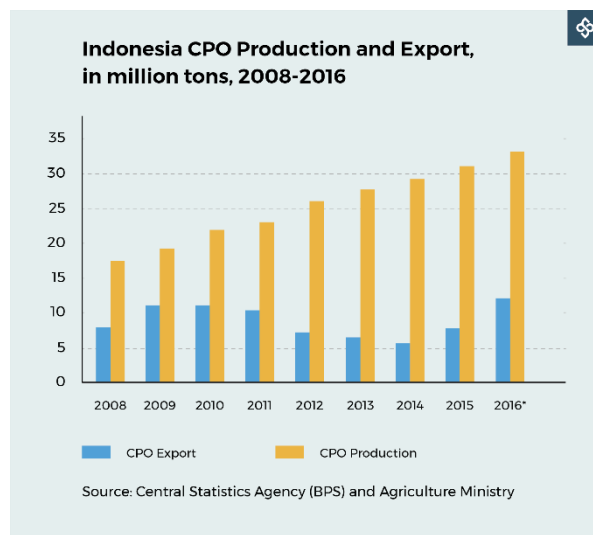
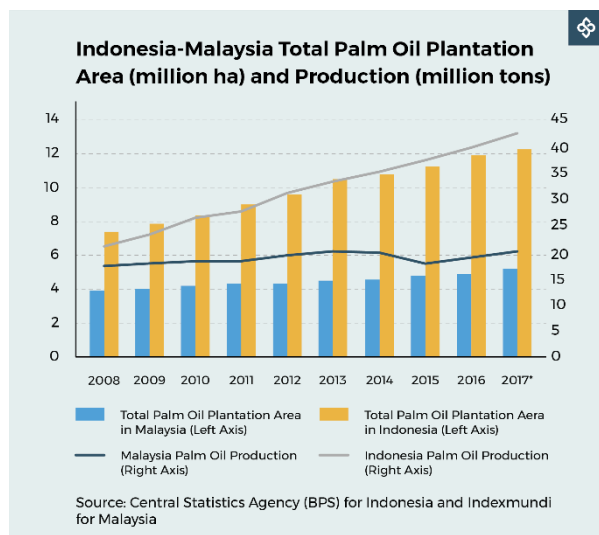
Malaysia’s stagnating palm oil production in 2013 to 2017, however, does not mean it is less efficient than Indonesia. Rather, it reflects responsiveness and good adaptability to demand fluctuations in the global market.

⁵ Mongabay.co.id, “Soal moratorium sawit, begini perkembangannya...” 17 October 2016
<https://tinyurl.com/y8ocjavy>

⁶ DW.com, “Walhi ingatkan pemerintah agar awasi moratorium sawit.” 20 September 2018
<https://tinyurl.com/ydb8tqkw>

⁷ WWF.or.id, “Addressing the encroachment problem in Tesso Nilo National Park.” 26 June 2013
<https://tinyurl.com/ycu7x36h>

⁸ TheJakartaPost.com, “Govt hits brake on palm oil expansion.” 21 September 2018
<https://tinyurl.com/y8uck9ws>



Moreover, Indonesian palm oil producers are less responsive. Despite signs of a glut in global demand for crude palm oil and palm kernel oil since the end of the 2000s, Indonesian palm oil producers have continued to increase production at a recordbreaking pace. No wonder, Indonesia has excess supplies of palm oil today.

President Jokowi responded to the excess supply problem by establishing the Indonesian Oil Palm Estate Fund (BPD-PKS) in 2015 through the enactment of Government Regulation No. 24/2015 and Presidential Regulation No. 61/2015, and introducing the B20 policy in 2018.

The BPD-PKS' main task is to distribute biodiesel subsidies to biofuel producers, using funds collected from palm oil exports. Out of the total levies collected from palm oil exports – which in 2017 reached over US\$1 billion, more than 90 percent is allocated to subsidize biodiesel fuel. This subsidy has prompted the United States to impose countervailing duties for biofuel imports from Indonesia, beginning earlier this year. As Indonesia's biodiesel production capacity is way above its utilization – less than 50 percent - the government imposed the B20 policy beginning in September to absorb excess palm oil output, as well as to reduce the current account deficit that suffers from large fuel imports. President Jokowi's decision to impose the moratorium on palm oil expansion could be seen as an effort to reduce supplies of palm oil or at least reduce the growth of palm oil output. Although this policy works as a band aid solution, it does not address the fundamental problem of Indonesia's palm oil sector: a lack of responsiveness and adaptability to fluctuations in global demand for palm oil.



Organization's perspective: Greenpeace Indonesia and WWF Indonesia

Following the issuance of Presidential Instruction No. 8/2018 on moratoriums on the expansion of oil palm plantations, **Tenggara Backgrounder** spoke separately to **Greenpeace Indonesia country director Leonard Simanjuntak** and **World Wide Fund for Nature (WWF) Indonesia CEO Rizal Malik** to hear their thoughts on palm oil-related issues.

Greenpeace Indonesia

Question: *How does Greenpeace Indonesia see the palm oil industry in Indonesia?*

Answer: We are not against the palm oil industry. Greenpeace is fully aware that the palm oil sector is one of the most prominent sectors in the national economy. What we object is the massive deforestation caused by the industry. We should accept the fact that the palm oil industry's land expansion is a major contributor to deforestation and peatland destruction. Indonesia already owns more than enough oil palm plantations, which currently account for 15 million hectares of land. These plantations, however, are unproductive compared to those in Malaysia. The Indonesian palm oil industry's average productivity is at 4 to 5 million tons per ha, while Malaysia's [palm oil industry] can produce 8 to 10 tons per ha. The government's job is to improve the industry's productivity. This can be done through an eco-friendlier method of intensification rather than land expansion via land encroachment and deforestation. Our tropical rainforests reflect our future. If we cannot manage the deforestation rate, Indonesia may become one of the world's biggest carbon emitters, a title we unfortunately achieved in 2015 because of the great forest fires [in Sumatra and Kalimantan].

The Paris Agreement asks all signatory members to prevent global temperatures from increasing by more 2 degree Celsius and keep the current warming at 1.5 degree Celsius. As a signatory, Indonesia is responsible for fulfilling the target. Carbon emission from the forestry sector should be reduced to 17 percent from the national carbon emission target of 29 percent. With the help of the international community, we could even exceed this target. However, the target will not be achieved if we continue to tolerate deforestation or forest encroachment. Greenpeace supports smallholders plantations having bigger roles and portions in the national palm oil industry. We are also pushing for sustainable management by smallholders. Greenpeace is teaming up with the Palm Oil Farmers Union (SPKS) to empower smallholder farmers with sustainable farming knowledge.

How does Greenpeace Indonesia view Presidential Instruction No. 8/2018?

We openly welcome the decree since [I believe] it's comprehensive enough to stop the expansion of oil palm plantations on paper. I hope the implementation will be enforced since a presidential decree/instruction is not equipped with a sanctioning mechanism and solely relies on existing regulations.

I think the loophole lies in the second dictum, article two of the regulation, which may allow companies to exploit the set moratorium exceptions to escape the instruction.

What do you think about the B20 energy policy?

As I may have implied before, massive use of biofuel such as B20 is not the final solution. Biofuel still has the potential to produce carbon emissions. We should not replicate Brazil's terrible experience where fossil fuels is used for the expansion of oil palm plantations and palm oil is used to produce biofuel, which will also emit carbon.

Biofuels is also a barrier to the complete transformation to electric energy. It is time for us to accelerate our industrialization toward electric car production. We are far behind China, India and Japan. The B20 scenario could jeopardize our modernization further.

The current account deficit should have not be solved by a shortcut policy such as the B20 blended biodiesel. We must find a more comprehensive and long-term national industry development plan.

How does Greenpeace see the Indonesia Sustainable Palm Oil (ISPO) and Roundtable Sustainable Palm Oil (RSPO) certifications?

We appreciate the effort of the RSPO to regulate the palm oil industry. However, there are still too many violations taking place. Deforestation, workers exploitation, conflict with local communities are among the problems we found being conducted by RSPO's members. With such a weak implementation and enforcement of regulations, we believe that the RSPO is not yet fully committed to zero deforestation.

ISPO certification is even lower in operational standards than the RSPO. We think that the ISPO needs to be improved, at least to become the same level as the RSPO. Certification is not enough, particularly because there is no firm enforcement commitment such as in the current RSPO. To achieve that, we believe market pressure is needed to stop deforestation and to convince the government to fully support a zero-deforestation movement.

WWF Indonesia

Question: *How does WWF Indonesia view the palm oil industry in Indonesia?*

Answer: The palm oil industry is a controversial issue. It provides high economic value, as some claim that it absorbs millions of workers in the production chain. Reports also suggest that the industry is a major contributor to state revenues. As a conservation institution, however, we see the industry as the main driver of deforestation of tropical forests. Thus, we believe that the industry is unsustainable.

Why? Because it does great environmental damage. We can even discuss the fact that it widens economic disparities. Who actually benefits from palm oil exports? Smallholder farmers may likely benefit the least, since they face entities like giant corporations and wealthy landowners that have more power. Who actually controls the production chain?

What we object to is how the palm oil industry is managed in Indonesia. The current practices of the palm oil industry are not sustainable at all.

What does the WWF do to advocate improvement in palm oil management?

We are part of the Roundtable on Sustainable Palm Oil (RSPO) Working Groups that aim to set sustainable standards in the palm oil industry's practices so it can provide economic and social benefits without sacrificing the environment. We also realize that this does not involve just the environment. The RSPO includes major social aspects that cover a wide array of local community rights, the ILO's employment standards, etc., to ensure that nobody is mistreated under the palm oil industry's broad land management system.

The RSPO is an international standard to meet consumer demand for sustainable products. Even though the RSPO is adjusted or tuned specifically to a country's characteristics, the Indonesian Sustainable Palm Oil (ISPO) standard is much lower than the RSPO. This is why the ISPO is not recognized internationally and has a higher acceptance [level] at home.

The RSPO is a voluntary certification while the ISPO is mandatory, whereby the government has obliged all operating palm oil companies to fulfill the ISPO standards by 2020.

Unfortunately, [ISPO] compliance remains very low after about a decade of implementation. Only 30 percent of the industry has fully complied with the standards.

There are a couple of reasons why the ISPO is not recognized internationally. First, the ISPO's environmental standards and criteria are far lower than the RSPO, despite its high land certification standards. There are conflicting environment and forestry regulations that make it very difficult to alter the ISPO. The second reason is that the ISPO does not have accreditation or an independent monitoring mechanism.

RSPO certification is issued by internationally accredited institutions that require independent monitoring and a five-year review for renewal. Meanwhile, ISPO certification is issued by a joint ISPO committee. And this mechanism is deemed [unfeasible] internationally. We have been advocating improving the ISPO's quality to meet the international criteria for social and environmental standards. The ISPO has been reviewed several times in the last few years that indicate positive development towards attaining the RSPO standard or even higher. We are also promoting certification for our farmers so they can export their goods to Europe and North America, which have meticulous sustainable product requirements.

Certification is a way for the industry to begin thinking about sustainability.

What are the challenges of making the Indonesian palm oil industry more sustainable?

The problem with Indonesia's palm oil industry is that it is far more complex than other countries. Indonesia has low productivity. Against our sole competitor, Malaysia, our smallholder farmers are left behind in terms of productivity. Malaysia produces 6 to 6.5 tons per hectare while our farmers produce only around 4 tons per hectare.

Another problem is that bigger companies own bigger shares in the industry in terms of land, distribution and production chains. Our smallholders do not have their own mills, as these require large capital. To solve this problem, we need to change the industry's structure. With the current available land, we do not need further expansion. We could replicate the crude oil system, in which controlling prices can be done through managing supply. Advanced downstream industrialization is the way [to proceed]. We must ensure that our palm oil industry has more added-value products and distance us from pure market prices.

How does the WWF perceive Presidential Instruction No. 8/2018?

The moratorium is correct. But I think we must aim at the underlying cause that hinders intensification and encourages land expansion. The government should incentivize smallholder farmers with capital and infrastructure support in the form of high-quality seeds, fertilizer, marketing and access to funds or loans. The opportunity for land expansion must be taken away from smallholder farmers by first teaching them about sustainable farming and land management, for example, rotation of land uses.

How do you view the European Union's policy on Indonesian palm oil products?

There is no prohibition on Indonesian palm oil products from entering the European Union (EU). It is the media that has put too much of a spin on the policy change. The truth is that the EU is reducing their subsidies for biodiesels based on Indonesian palm oil to meet their consumers' growing demand for sustainable products and to comply with their new Renewable Energy Directive (RED). WWF sees the EU's RED as a good implementation of commitment to sustainability.

The RED is an attempt to gradually reduce greenhouse gas emissions in the territories of the European Union. The directive reduces subsidies for palm oil biofuels by 2021 and other types of vegetable oil-based biofuels by 2030, which consequently reduces the high profit margin for Indonesian palm oil producers. Hence, it is misleading to say that our palm oil is being banned from the EU.

Despite its discriminative nature, the regulation has emerged naturally. What country does not protect its agricultural products? Everyone protects their agricultural products, including Indonesia. The challenge now is for Indonesia to meet the demand for higher quality as well as market diversification, rather than campaigning for a tit-for-tat retaliation. We still have bigger export destinations such as China and India, which contribute around 30 percent of our total exports. The question is how to channel our palm oil to other available markets.

What do you think about the 20 percent biodiesel mix (B20) policy?

The B20 is a short-term solution. The current account deficit and palm oil surplus make it looks neat and nice. However, it is not sustainable in the long term. Our energy policy and mindset should shift further. Considering our location along the equator, preparations for solar energy, electric cars and supporting infrastructure, like charging stations, should have been considered in the last ten years. We are always left behind because we start thinking [after the fact]. For example, people only begin to realize the importance of solar energy in Nusa Tenggara when the oil price peaks, not when it is low. This is the very mindset that our policymakers must change.

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For inquiries :
research@tenggara.id
 Yesaya +62 812 8987 6365 (WA Only)
 Nabila +62 822 6193 2575 (WA Only)

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PT Trisaka Wahana Tenggara

The Jakarta Post Building
Jl. Palmerah Barat 142-143
Jakarta 10270

+62 21 5300476/8 ext. 2009

info@tenggara.id

www.tenggara.id

Board of Commissioners:

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Researchers & Writers:

Astria Zahra Nabila, Adinova Fauri, Benni Yusriza, Dwi Atmanta, Frans Surdiasis, Hendarsyah Tarmizi, Lionel Priyadi, Vincent Lingga, Yesaya Christianto