

## Highlights of the week

### Religion removed as fear factor in 2019 race

With Ma'ruf Amin chosen as Joko Widodo's running mate, religion issue should not become a campaign problem for the incumbent. Instead, the promotion of *ekonomi umat* (people-based economic system) would lead incumbent into a head-to-head battle with the rival, whose signature program also revolves around the economy.

### Vice-presidential candidates, how do they contribute?

Vice-presidential candidacy announcements came as surprise, instigating speculations over the real reasons behind their appointment. How could these 'unexpected' vice-presidential candidate contribute?

### Grab, Go-Jek bow to pressures from unionized 'ojek' drivers

Stealthy development of ride-hailing ojek unionization may potentially shift the tariff war and government's perception towards motorcycle as public transportation method. With the assistance of labor activist these unions may become an 'unexpected' powerful lobby.

### Biodiesel policy might be based on faulty assumption

The hasty B20 regulation implementation trial on Sept. 1 may face rough path ahead as several business groups considered the policy based on a faulty assumption. The B20 will oblige all diesel-based vehicles to use blended biodiesel with 20 percent palm oil to 80 percent diesel oil ratio.



## POLITICS

### Religion removed as fear factor in 2019 race

After his candidacy registration on Aug. 10, President Joko “Jokowi” Widodo’s running mate Ma’ruf Amin disclosed his primary objective of establishing a *ekonomi umat* (people-based economic system). Similarly, opposition pair Prabowo Subianto-Sandiaga Uno unveiled their policy of pushing for economic independence. The focus on the economy by Jokowi-Ma’ruf and Prabowo-Sandiaga may indicate the key battleground of the presidential campaign, a shift from the focus on religion in the 2014 election.

**Background:** Indonesia has been fertile ground for identity politics in recent years, reaching its pinnacle during the prosecution of former Jakarta governor Basuki “Ahok” Tjahaja Purnama for blasphemy. Indeed, issues surrounding tribal affiliations, religion, race and societal groups have been frequently politicized as a shortcut to secure votes. Thus, it was widely speculated that the 2019 presidential election would have been imbued by such issues.

Following candidacy announcements on Aug. 9, however, both Jokowi-Ma’ruf and Prabowo Subianto-Sandiaga Uno have indicated their intent of focusing on the economy during the presidential campaign. The opposition is very likely to say Indonesia has economically underperformed the Jokowi administration, as evident in the rupiah’s depreciation and mounting foreign debt as a result of the government’s massive infrastructure projects. After the rumors of the opposition’s strategy circulated, Ma’ruf announced his objective of establishing a people’s economy, which prioritizes the ordinary citizens’ welfare instead of the elites’.

The candidates’ sudden fervor on the economy raises questions about the nature of politics: Has the previous trend of manipulating identity politics been completely replaced by economic issues? Or is it merely a cheap populist tactic employed by candidates to win votes?

**Insight:** Earlier fears that the 2019 presidential election would see religion used as a decisive topic, with all its consequences including the possibility of massive outbreaks of violence, have gone now that the nation has learned about the running-mate choice of incumbent President Joko “Jokowi” Widodo. The use of identity politics had been gaining momentum, which could have led to even greater polarization along religious lines in the world’s most populous Muslim country.

Ma’ruf Amin, who chairs the Indonesian Ulema Council, will shield Jokowi from Muslim conservatives, who in the last two years were attacking the President. The 212 Movement, founded in 2016 to successfully campaign against the reelection of then-Jakarta governor Basuki Tjahaja Purnama had since turned its sights on Jokowi. Their next crusade was expected to attempt to deny Jokowi a second term. If the divisive politics deployed by

Muslim conservatives in the 2017 Jakarta election was anything to go by, the 2019 race had promised to be uglier on much a larger scale.

The movement was named after the date, December 2, 2016 that saw a massive demonstration at the National Monument opposite the Presidential Palace and the governor's office, which denounced the then-Jakarta governor, known as Jokowi's ally. Ma'ruf, notorious for his fatwas promoting intolerance, endorsed the 212 Movement and played a big role in ousting Ahok, a Christian of Chinese descent.

Jokowi may have been widely criticized for picking Ma'ruf and may even have lost votes among his traditional supporters, but one thing we can be sure about is that he has effectively defanged the 212 Movement. Prior to last week's announcement, the movement had been growing in strength.

Another indication that religion will not play a big factor in the race is the choice of running mate of the challenger, Prabowo Subianto. The former general had resisted pressures from the 212 Movement to pick a top ulema. Instead, he chose Sandiaga Uno, a businessman who was also the deputy governor of Jakarta. The 212 Movement saw their demand as a political payment after they helped Anies Baswedan, running with Sandiaga, beat Ahok in the 2017 Jakarta election, using religion very effectively to woo voters away from the popular incumbent. Anies ran on a ticket backed by Prabowo's Gerindra Party. Prabowo's choice of 49-year-old Sandiaga to run with him in 2019 appears to target millennials and the business community.

With few options left at his disposal, Prabowo will likely turn to the economy in his attempt to unseat Jokowi, who denied him the presidency in 2014 by a 7 percent margin. It is a tall order since Jokowi's economic performance has not been as bad as Prabowo would like to portray, but not as great as the incumbent touted.

Jokowinomics has had its successes and shortcomings. His successes include:

- Economic growth averaging above 5 percent a year, at a time of a global economic slowdown
- A falling poverty rate
- Low inflation
- The inauguration of vital infrastructure projects
- Universal health care
- Free schooling for 6 - 18 years old
- Cash subsidies for the poor

His perceived failures include:

- Growth falling short of the 7 percent he promised in the 2014 election campaign
- Falling rupiah exchange rate
- Balance of payments deficit

- Rising government debt
- Rising government budget deficits
- Wide gap (though not widening) between rich and poor
- Poor performance of state companies, leading to the sale of their assets

With candidates now focusing on the economy, the 2019 presidential race may be determined by external factors as the domestic economy is tied to the ups and downs of the global economy. Both camps are now watching Turkey closely for the possibility of any contagion effects as its currency slides.

## **Vice-presidential candidates, how do they contribute?**

**President Joko “Jokowi” Widodo’s decision to pick Indonesian Ulema Council (MUI) chairman Ma’ruf Amin as his vice-presidential candidate has resulted in varied responses.** The decision came as a surprise as President Jokowi was expected to pick technocrat Mahfud MD instead. Similarly, presidential candidate Prabowo Subianto’s decision to pick Jakarta deputy governor Sandiaga Uno as his running mate shocked the public and ally the Democratic Party. Hours before the announcement, Democratic Party executive Agus Harimurti Yudhoyono was rumored as Prabowo’s prospective running mate.

Those sudden changes of heart poses one major question: how do these vice-presidential candidates benefit the presidential candidates? What makes them so special that they were picked at the last minute?

**Background:** Ma’ruf Amin and Sandiaga Uno were not among the favorites for vice-presidential candidates. Despite their lack of popularity, upon further examination, Ma’ruf and Sandiaga do have the desired characteristics of vice president that would enhance the presidential candidates’ electability. Ma’ruf’s strong religious standing, for instance, enables the cleric to ensconce Jokowi’s Islamic credentials. In the opposite camp, Sandiaga’s perceived outgoing and fresh disposition may help Prabowo in securing votes from the youth.

Regardless, Ma’ruf and Sandiaga do not have adequate political prowess to help Jokowi and Prabowo score an easy win in the 2019 presidential election. Compared to other politicians previously rumored as potential vice-presidential candidates, Ma’ruf’s and Sandiaga’s aptitude appears almost mediocre. What are the coalitions’ overriding considerations, thus, in choosing Ma’ruf and Sandiaga as vice-presidential candidate?

**Insight:** Days after the candidacy announcements, public scrutiny over the vice-presidential candidates Ma’ruf Amin and Sandiaga Uno has been getting more intense. The primary question is on how they can contribute to the presidential candidate.

## Sandiaga Uno's Contribution

Sandiaga Uno reportedly provides two political and economic benefits to Prabowo's candidacy. First, he will allegedly assist Prabowo in embracing the younger generation because of his relatively young age. Indeed, it is reported that 40 percent of voters will be millennials. Yet there is no guarantee that Sandiaga will secure the millennial votes because of the absence of a concrete benchmark in measuring the millennials' unpredictable behavior. Second, the alleged political dowry of Rp 500 billion given by Sandiaga to each of Prabowo's coalition parties, the Prosperous Justice Party (PKS) and National Mandate Party (PAN), signifies his commitment to helping the Prabowo campaign's logistical needs and funding the coalition's parties in securing at least 4 percent of legislative seats. Such commitment is exceptionally important in the current political climate, which is much more pragmatic than idealistic in nature.

# Cheat Sheet

## Vice Presidential Candidates

| <h3 style="margin: 0;">Ma'ruf Amin</h3> <p style="margin: 0;">Chairman of Indonesian Ulema Council (MUI)</p>                                                                                                                                                                                                                                                                                                                                                                                                 | <h3 style="margin: 0;">Sandiaga Uno</h3> <p style="margin: 0;">Jakarta Deputy Governor</p>                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>He issued 36 fatwas while posted as the head of MUI Edict Commission, increasing the percentage of fatwa issuance by approximately 27.5 percent.</p> <p>He is one of the founding fathers of the National Awakening Party (PKB).</p> <p>He was a key expert witness in former Jakarta Governor Basuki "Ahok" Tjahaja Purnama's blasphemy trial.</p> <p>He is a board member of the Sharia Cooperative 212, which runs several convenience stores that are expected to create a strong Muslim economy.</p> | <p>He entered Indonesia's politics in mid-2015 and joined Gerindra Party as the vice chairman of the board of supervisors.</p> <p>His OK OCE program has reportedly accumulated more than 48,000 members from all across the country.</p> <p>His financial worth has increased by approximately Rp 1.2 trillion since he was first appointed as Jakarta Deputy Governor</p> <p>Sandiaga was among many politicians mentioned in the infamous "Paradise Papers", a leaked confidential document related to offshore investments.</p> |



**TENGGARA**  
STRATEGICS

Following his candidacy announcement, Sandiaga has expressed his zeal in the economic realm as well, disclosing that Prabowo's and his objective is to accelerate economic equality, particularly promoting economic independence, price stability and job creation. In order to do so, Prabowo and Sandiaga will reportedly implement Sandiaga's One District One Center of Entrepreneurship (OK OCE) program at the national level. The program, which aims at

creating 200,000 enterprises in five years, facilitates small and medium enterprises (SME) in conducting business and emphasizes the importance of forging entrepreneurial skills as the foundation of economic independence.

Sandiaga's OK OCE program emphasizes developing entrepreneurial skills. This may seem attractive to particular groups, particularly SME owners who have been rapidly increasing in number in recent years. Together with Prabowo-Sandiaga's focus on economic independence, the OK OCE appears particularly attractive to voters by bolstering the idea of self-determination in the midst of harsh criticism toward Jokowi's heavy dependence on imports.

### Ma'ruf Amin's Contribution

Ma'ruf can provide both political and economic leverage to Jokowi. In terms of politics, Ma'ruf is a figure who is able to transform Islamic customs into public ethics, as illustrated by his dominant position as the head of MUI's Edict Commission. His presence in the country's religious sphere is undeniable, illustrated by his involvement in many Islamic organizations. Appointed as chairman of the MUI and NU, two of the most prominent Islamic organizations in the country, and his involvement in the Islam-based PKB means Ma'ruf's intellectual activism enables him to bridge differing Islamic organizations. This not only allows Ma'ruf to neutralize potential public outcry from both moderate and conservative Muslims against Jokowi's alleged lack of Islamic credential, but also embeds his political influence in many organizations.

In term of the economy, shortly after he was announced as Jokowi's running mate, Ma'ruf revealed his aspiration of fostering *ekonomi umat* (people's economy), a concept which revolves around the idea of economic empowerment at the grassroots. Such a conception is based on Ma'ruf's belief that trickle-down economics has failed to flourish. Hence, Ma'ruf proposes that the country's economic system must be restructured to adopt a bottom-up approach by establishing business partnerships between small-scale, medium-sized and large-scale enterprises alongside the government. These partnerships aim at linking *santri* (Islamic boarding school students), businesspeople and the government through a network, establishing a tripartite partnership.

Further observations of Ma'ruf's people's economy illustrates how his ambition may contribute toward Jokowi's political campaign. Not only is it aligned with Jokowi's ultimate objective, namely addressing inequality, poverty and unemployment by continuing his development program Nawa Cita, Ma'ruf's extensive network of *santri* is expected to bring votes to Jokowi's camp.

### Controversies

Contributions aside, a number of controversies surrounding Ma'ruf and Sandiaga may harm Jokowi's and Prabowo's popularity. Fresh allegations concerning Sandiaga's bribery of Prabowo's coalition partners, for instance, may tarnish the Prabowo-Sandiaga ticket. As

stated by Democratic Party politician Andi Arief, Sandiaga reportedly paid the PKS and PAN Rp 500 billion each in exchange for their support for his vice-presidential candidacy. His OK OCE program is questionable as it is perceived as complete hogwash. A number of entrepreneurs claimed that the promised entrepreneurial training was not implemented.

Similarly, contentious fatwas issued by Ma'ruf may lead to Jokowi losing progressive voters. Discussions regarding Ma'ruf's role in former Jakarta governor Basuki "Ahok" Tjahaja Purnama's prosecution emerged on social media as public concern for possible divisive policies in the future increases. Additionally, as his economic and political expertise is often questioned, Ma'ruf needs to step up his game in promoting his people's economy program. Previous occasions have demonstrated Ma'ruf's unpreparedness in enforcing policy. His fatwa condemning bank interest, for instance, led to an economic mishap in the form of a bank run as a massive number of Muslims transferred their money from conventional banks to Islamic ones. Ma'ruf's people's economy thus requires better preparation. His objective of building a large network between *santri* and large enterprises must adopt concrete and well-researched procedures. Failure to do so may indicate that the people's economy is merely a populist approach to win votes.

A checkered past and questionable aptitude constitute the vice-presidential candidates' major impediments in proving their worth. Rather than assisting the presidential candidates in securing votes, wrong moves taken by the vice-presidential candidates may encourage the public to embrace absenteeism instead. Ma'ruf and Sandiaga now have to stop merely relying on targeting particular group – Muslim conservatives for Ma'ruf and the younger generation for Sandiaga – and improve their proposed economic program. A deeper look at Ma'ruf's and Sandiaga's proposed economic policy shows that both policies bear a marked resemblance, focusing on a bottom-up approach. Regardless, both policies also remain ambiguous in implementation.

## BUSINESS & ECONOMIC POLICY

### Grab, Go-Jek bow to pressures from unionized 'ojek' drivers

Go-Jek public policy and government relations chief Shinto Nugroho announced on Aug. 13 a fare hike from Rp 1,600 per kilometer to Rp 2,200 to Rp 3,300 per km for short trips, following an earlier announcement from Grab on Aug. 7 regarding an increase in the minimum fare from Rp 5,000 to Rp 7,000 and in fare increments from Rp 1,600 per km to Rp 2,300 per km.

**Background:** The fare hike is a result of the collective negotiations the Ministry of Transportation mediated in response to a threat from ride-hailing *ojek* (motorcycle taxi) drivers to protest in the streets during the upcoming 2018 Asian Games. Negotiations had begun in March, following a large street protest of *ojek* drivers at the Presidential Palace. In addition to demanding higher fares to improve their welfare, the protesters demanded legal recognition of *ojek* as public transportation and a change in their employment status from "driver partner" to employee.<sup>1</sup>

The transport ministry refused their demand for legal recognition, citing safety concerns. The Constitutional Court agreed with the ministry's stance and rejected the drivers' petition in July.<sup>2</sup>

To avoid further protests from *ojek* drivers over the issue, the transport ministry decided to delegate the task of regulating ride-hailing *ojek* to regional governments. This decision, however, has created a set of new problems at the local level. On the one hand, the regional governments lack enforcement to regulate *ojek* drivers;<sup>3</sup> on the other, *ojek* drivers are desperate for legal recognition. In Medan, for example, local *ojek* drivers held a protest on Aug. 15, pressuring the North Sumatra administration to legalize *ojek* through local regulations.<sup>4</sup>

**Insight:** The unionization of *ojek* drivers was unprecedented. When the ride-hailing business started gaining popularity in 2015, everyone regarded ride-hailing *ojek* services as an innovative solution to the poor public transportation in Indonesia's major cities,<sup>5</sup> as well as a new source of employment for the less skilled.<sup>6</sup> Meanwhile, any expressions of dissent from drivers toward company policies, such as the early price war between Go-jek and

<sup>1</sup> Bisnis.com, "Demo Go-jek Grab: ini 3 tuntutan pengemudi ojek online" 27 March 2018  
<https://tinyurl.com/y9b65bp8>

<sup>2</sup> TheJakartaPost.com, "Ride-hailing 'ojek' stuck in legal limbo after court ruling" 2 July 2018  
<https://tinyurl.com/ycg9dxvq>

<sup>3</sup> CNNIndonesia.com, "Terkendala regulasi, dishub tak bisa bina ojek online" 14 August 2018  
<https://tinyurl.com/y7geobzh>

<sup>4</sup> Detik.com, "Demo kantor Gubernur Sumut, massa tuntutan perda ojek online" 15 August 2018  
<https://tinyurl.com/yce3ggqa>

<sup>5</sup> Republika.co.id, "Go-Jek solusi alternative atasi kemacetan Jakarta" 21 January 2015  
<https://tinyurl.com/y7p7u3v4>

<sup>6</sup> Okezone.com, "Go-Jek Cs dianggap solusi pengangguran dan kemiskinan" 19 December 2015  
<https://tinyurl.com/ybxprxcx>

GrabBike in 2015 that hurt *ojek* drivers' welfare,<sup>7</sup> met with the driver's account being suspended.<sup>8</sup>

In 2016, ride-hailing *ojek* services grew in popularity, and Go-Jek even became the country's first unicorn.<sup>9</sup> Nevertheless, the development did not result in growing satisfaction among *ojek* drivers. On Oct. 3, 2016, hundreds of Go-Jek driver partners held the first major demonstration in Jakarta over the new performance system, which they claimed had adversely affected their incomes.<sup>10</sup> The protest was likely inspired by the earlier demonstration in August held by ride-hailing driver partners in response to growing pressure from conventional taxi companies.<sup>11</sup>

These demonstrations gained the attention of labor activists. On May 15, 2017, activists from the Indonesian Metal Workers Federation (FSPMI) organized the first joint demonstration to involve a traditional labor union and *ojek* drivers, demanding legal recognition for *ojek* as public transportation through a revision to Law No. 22/2009 on traffic and land transportation.<sup>12</sup> Besides setting a national agenda, the FSPMI organized local demonstrations in Batam on June 1<sup>13</sup> and West Java on Oct. 17<sup>14</sup>, campaigning against the local governments' decision to stop the operation of ride-hailing *ojek* services.

Attracted to the FSPMI's success, the Confederation of Indonesian Labor Unions (KSPI) and Go-Jek, Grab and Uber drivers joined their ranks, paving the way to a bigger demonstration,<sup>15</sup> which was held in March at the Presidential Palace. It attracted the attention of not only President Joko "Jokowi" Widodo, but also of the opposition leader, Prabowo Subianto.<sup>16</sup>

**The takeaway:** The unionization of ride-hailing *ojek* drivers has developed organically and under the radar. With the assistance of labor activists, they have turned into a major lobby that can pressure ride-hailing companies, the government and perhaps even their nemesis, conventional transportation associations, to bow to their demands and interests.

<sup>7</sup> CNNIndonesia.com, "Gojek dan GrabBike akhiri perang tariff?" 13 August 2015 <https://tinyurl.com/y7pad6yd>

<sup>8</sup> Techinasia.com, "Pelamparan obeng, mogok kerja, hingga penipuan. Ada apa dengan GO-JEK?" 3 November 2015 <https://tinyurl.com/yd8rank6>

<sup>9</sup> Theconversation.com, "The limits of Silicon Valley: how Indonesia's Go-Jek is beating Uber" 24 November 2016 <https://tinyurl.com/ybj6qlh7>

<sup>10</sup> Techinasia.com, "Pengemudi GO-JEK kembali luncurkan demo terkait sistem performa, ada apa?" <https://tinyurl.com/hs5jsec>

<sup>11</sup> Kompas.com, "Sopir taksi 'online' sepakat bentuk paguyuban besar" 22 August 2016 <https://tinyurl.com/yb9n9nez>

<sup>12</sup> Koranperdjoeangan.com, "FSPMI dan pengemudi ojek online minta UU 22/2009 direvisi" 15 May 2017 <https://tinyurl.com/ya74jgqp>

<sup>13</sup> Koranperdjoeangan.com, "SPDT FSPMI tanggap penghentian operasional driver ojek online di Batam" 1 June 2017 <https://tinyurl.com/y8prdt7u>

<sup>14</sup> Koranperdjoeangan.com, "Terkait larangan transportasi online, FSPMI: pemerintah jangan semena-mena" 17 October 2017 <https://tinyurl.com/y8vabfgg>

<sup>15</sup> Koranperdjoeangan.com, "Setelah Gojek, Grab, dan Uber bergabung dengan FSPMI" 19 June 2017 <https://tinyurl.com/y76ran2w>

<sup>16</sup> Koranperdjoeangan.com, "Ini isi kontrak politik antara Prabowo dengan buruh KSPI" 2 May 2018 <https://tinyurl.com/ycyxbyjv>

## Biodiesel policy might be based on faulty assumption

The government will implement on Sept. 1 the B20 regulation, which obliges all diesel-based vehicles to use blended biodiesel that comprises 20 percent palm oil and 80 percent diesel oil.

**Background:** The biodiesel regulation has been in place for certain sectors since 2013. Initially, the mix was B10, with 10 percent biodiesel. The government increased the use of biodiesel with B15 in April 2015 and decided to use B20 in 2019 and B30 in 2020. However, with the current-account deficit widening, the government decided earlier this month to move its B20 plan forward to Sept. 1 and B30 to next year.

Initially, it only targeted subsidized Public Service Obligation (PSO) transportation services, such as railway services. After Sept. 1, however, the regulation will include non-PSO vehicles, including non-commercial passenger vehicles.

The government claims that this policy may reduce Indonesia's oil and gas deficit by US\$3.4 billion in 2018, which in turn will improve the country's current-account deficit, which is expected to reach \$8 billion by the third quarter of 2018.

Next, the implementation of B20 is necessary for several reasons. First, it is needed to help Indonesia's flagging palm oil sector that has suffered from tariff and non-tariff barriers imposed by a number of main export destinations, such as India, the European Union and the United States. As a result, palm oil prices in the global market have been declining to below \$600 per metric ton from its heyday of more than \$1,000.

Third, this policy could revamp Indonesia's biodiesel industry, which has been suffering from chronic excess capacity since 2015 (see the Figure below).

### Indonesian Biodiesel Capacity

| Year                                     | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------------------------------|------|------|------|------|------|------|------|------|
| Number of Refineries                     | 22   | 22   | 26   | 26   | 26   | 27   | 28   | 29   |
| Nameplate Capacity (thousand Kiloliters) | 3936 | 4281 | 4881 | 5670 | 5670 | 6570 | 7286 | 7628 |
| Capacity Used (%)                        | 19   | 42   | 45   | 49   | 53   | 17   | 34   | 34   |

Source: Indonesian Palm Oil Producers Association (GAPKI)

**Insight:** The B20 regulation is controversial. Despite the claim that this policy will improve the Indonesian economy as a whole, there is suspicion among some stakeholders, particularly the automotive sector and land transportation services providers as represented by the Indonesian Truck Operators Association (Aprindo), that this policy would only benefit the palm oil sector and biodiesel manufacturers.

The B20 policy to cover non-PSO vehicles may result in shifting the cost of

**Shifting the cost to consumers:** The Association of Indonesian Automotive Manufacturers (GAIKINDO) is not united in supporting the B20 policy. Some executives have expressed their reservations, questioning the quality of B20 fuel and the readiness of businesses as well as consumers who have older-generation diesel-fueled vehicles. They suspect that Euro-2 diesel mixed with lower-grade palm oil would produce low-quality B20, and consequently, it would increase maintenance costs.

the policy to the private sector, especially transport businesses, businesses using heavy equipment, as well as consumers in general. (see: **Shifting the cost to consumers**)

Also, let's take the impact of the B20 regulation on CO<sub>2</sub> emission as an example. According to the Environment and Forestry Ministry, B20 biodiesel is preferable over conventional diesel oil (B0) because of its lower greenhouse gas (GHG) emissions. But many stakeholders are skeptical of this claim, arguing that it was based on testing the B20 biodiesel on Euro-2 machines but not on Euro-4 machines.

Reports from the Agency for the Assessment of and Application of Technology (BPPT) suggested that their skepticism was right. As shown by the table below, B20 biodiesel does not produce less GHG than B0. Rather, the government may need to implement a B50 biodiesel regulation to achieve its goal of lower GHG emissions.

Automotive industry players have also warned that the implementation of B20 could reduce the performance of their vehicles if the government still used Euro-2 diesel fuel as a mix for the B20 biodiesel. Therefore, they urged the government to upgrade its diesel fuel to Euro-4. Indonesia is one of three remaining countries in ASEAN that still uses Euro-2, along with Cambodia and Laos.

Nonetheless, several automobile producers, such as Japanese bus, diesel and trucks manufacturer Hino Motors Manufacturing Indonesia, have adjusted their products to adapt to B20. Hino has equipped its common rail system with three diesel fuel filters from previously only two, and prepared a special fuel tank coating for diesel vehicles. Toyota, Mitsubishi and Chevrolet have conducted several tests on B20 biodiesel use. A Toyota executive claimed the company has successfully tested B20 on its vehicles in a 100,000-kilometer road test in Japan.

As concerns of the government's readiness to implement the B20 policy linger, a number of industry players are reportedly actively lobby the government to cancel the accelerated implementation of B30, and wait until the B20 policy works effectively. The government bowed down and called off its plan to implement the B30 policy next year.

### The effect of Blending Biodiesel on Emission and Fuel Consumption

|                                             | B0    | B10    | B20   | B30   | B50   |
|---------------------------------------------|-------|--------|-------|-------|-------|
| Fuel Consumption (L/10 km)                  | 0.65  | 0.97   | 0.94  | 0.86  | 0.8   |
| Carbon Monoxide (CO) (g/km)                 | 0.754 | 0.83   | 0.79  | 0.71  | 0.66  |
| Hydrocarbon (HC) (g/km)                     | 0.045 | 0.106  | 0.063 | 0.051 | 0.031 |
| Nitrogen Oxide (NOx) (g/km)                 | 1.062 | 1.107  | 1.138 | 1.079 | 1.031 |
| Source: Wirawan et al. (2008) <sup>17</sup> |       |        |       |       |       |
| Brake Power (kW)                            | 4.06  | 3.87   | 3.70  | -     | -     |
| Brake-specific Fuel Consumption (g/kWh)     | 273.5 | 278.46 | 281.9 | -     | -     |
| Source: Mofijur et al (2013) <sup>18</sup>  |       |        |       |       |       |

<sup>17</sup>S.S Wirawan, A.H. Tambunan, M. Djamin, and H Nabetani. "The Effect of Palm Biodiesel Fuel on the Performance and Emission of the Automotive Diesel Engine". Agricultural Engineering International: the CIGR Ejournal. Manuscript EE 07 005. Vol. X. April, 2008

<sup>18</sup>S.S Wirawan, A.H. Tambunan, M. Djamin, and H Nabetani. "The Effect of Palm Biodiesel Fuel on the Performance and Emission of the Automotive Diesel Engine". Agricultural Engineering International: the CIGR Ejournal. Manuscript EE 07 005. Vol. X. April, 2008

**The takeaway:** The B20 biodiesel policy might be based on faulty assumptions brought on by intensive lobbying pressure from the palm oil and biodiesel manufacturing industry, rather than on sound economic and environmental estimates.

## B20: COMPLIMENTARY INFORMATION

Biodiesel demand and supply in Indonesia (In thousand Kiloliters)

| Year                        | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|
| <b>Production</b>           | 1,800 | 2,200 | 2,800 | 3,000 | 1,180 | 2,450 | 2,600 |
| <b>Domestic Consumption</b> | 358   | 570   | 1,048 | 1,600 | 860   | 2,250 | 2,400 |
| <b>Export</b>               | 740   | 1,800 | 1,800 | 1,350 | 343   | 200   | 100   |
| <b>Import</b>               | 0     | 0     | 0     | 0     | 0     | 0     | 0     |
| <b>Implemented Policies</b> | B7.5  | B7.6  | B10   | B10   | B15   | B20   | B20   |

Source: Indonesian Palm Oil Producers Association (GAPKI)

Biodiesel Regulation Target Sectors

| Sector                                                | 2008  | 2009  | 2010  | 2013  | 2014 | 2015 | 2016 | 2020 | 2025 |
|-------------------------------------------------------|-------|-------|-------|-------|------|------|------|------|------|
| <b>Public Service Obligation (PSO) Transportation</b> | 1%    | 1%    | 2.50% | 10%   | 10%  | 15%  | 20%  | 30%  | 30%  |
| <b>Non-PSO Transportation</b>                         | -     | 1%    | 3%    | 3%    | 10%  | 15%  | 20%  | 30%  | 30%  |
| <b>Industry</b>                                       | 2.50% | 2.50% | 5%    | 5%    | 10%  | 15%  | 20%  | 30%  | 30%  |
| <b>Electricity</b>                                    | 0.10% | 0.25% | 1%    | 7.50% | 20%  | 25%  | 30%  | 30%  | 30%  |

Source: Energy and Mineral Resources Minister Regulation No 32/2008, 25/2013, and 12/2015

Indonesian Diesel Import (In Kiloliters)

| Year                     | 2011       | 2012       | 2013       | 2014       | 2015      | 2016        | 2017        |
|--------------------------|------------|------------|------------|------------|-----------|-------------|-------------|
| <b>High Speed Diesel</b> | 13,572,500 | 12,455,009 | 11,946,708 | 11,474,700 | 7,318,129 | Unavailable | Unavailable |

Source: Energy and Mineral Resources Ministry

Diesel and Biodiesel Demand Projection (in million Kiloliters)

| Year                       | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  | 2025  |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Total Diesel Demand</b> | 39.66 | 42.83 | 46.26 | 49.96 | 53.95 | 58.27 | 62.93 | 67.97 | 73.4  | 79.28 |
| <b>PSO</b>                 | 19.83 | 21.42 | 23.13 | 24.98 | 26.98 | 29.14 | 31.47 | 33.99 | 36.7  | 39.64 |
| <b>Non-PSO</b>             | 19.83 | 21.42 | 23.13 | 24.98 | 26.98 | 29.14 | 31.47 | 33.99 | 36.7  | 39.64 |
| <b>Active Policy</b>       | B20   | B20   | B20   | B20   | B30   | B30   | B30   | B30   | B30   | B30   |
| <b>Biodiesel Demand</b>    | 7.93  | 8.57  | 9.25  | 9.99  | 16.19 | 17.48 | 18.88 | 20.39 | 22.02 | 23.78 |

Source: Palm Oil Agribusiness Strategic Policy Institute (PASPI)

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