

Highlights of the week



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Military “un-reformation” likely to get swift passage

The plan to let active military officers occupy key civilian positions in government may be a throwback to the decades of military domination of Indonesian politics, but it is looking like it would get swift passage given the limited opposition from the public and from the House of Representatives, which needs to give its approval. With the nation much too preoccupied with the general elections in April and since the plan has already been endorsed by President Joko “Jokowi” Widodo, the military is sure to make a comeback into the political arena, which can have severe repercussions for the nation’s democracy.



Increased DMO for coal may fuel support for Jokowi

The Energy and Mineral Resources Ministry announced earlier in February that the government is requiring that coal miners increase their allocation of coal for the domestic market to 128 million tons. The government’s decision surprised coal miners because, last year, they managed to supply far from the government’s target of 121 million tons. The decision may only seem logical when seen from the political perspective, as the incumbent President Joko “Jokowi” Widodo may be using the increased domestic market obligation (DMO) for coal in part to gain support ahead of the presidential election in April.



Issue update: The battle of steel continues

Local steel producers face simultaneous attacks from two fronts of cheap steel products, one from low-quality local steels produced by the growing presence of induction steel mills relocated from China and the other one from the dumping of imported steel from China. Local steel producers lose out as consumers do not really care about quality or environmental issue and chose cheaper products.

POLITICS

Agrarian reform: Perpetual stagnation?

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Takeaways:

- Agrarian reform in Indonesia cannot be separated from the issue of elitism. The prevalence of landholding elites and the yawning gap in land ownership has meant that land disputes are a recurrent problem in the country.
- Attempts at agrarian reform have been made since Sukarno was president. However, Suharto’s regime, an incompetent bureaucracy, rampant corruption, opposition from elites and legal squabbles have hindered effective agrarian reform.
- Under President Jokowi’s presidency, the fruition of agrarian reform has remained elusive. His One Map Policy and land redistribution and land certification programs have been criticized as problematic and ineffective. Furthermore, his sudden increased focus on agrarian reform may have been prompted by the upcoming election.

Background: While defending his contentious infrastructure projects, President Jokowi made a major claim that there had been no land disputes resulting from land acquisitions for his infrastructure projects in the past four years. In discussing agrarian reform, Jokowi cited his administration’s land policies of allocating 2.6 million hectares of land for indigenous people, farmers and fishermen as well as distributing 12 million land certificates to people across the country in the past two years.¹

Responding to Jokowi’s remarks, Prabowo said a large number of people still owned no land and promised that he would make the state the sole owner of land, citing Article 33 of the 1945 Constitution. To this, Jokowi hit back by alluding to Prabowo’s control of 220,000 ha of land in East Kalimantan and 120,000 ha in Aceh.²

Following the debate, Jokowi’s claims were examined. His first statement was proven wrong as non-governmental organizations (NGO) found dozens of land disputes occurring in the past four years. The Agrarian Reform Consortium (KPA), for instance, said that between 2014 and 2018, land disputes led to the deaths of 41 people, 546 were assaulted, 51 shot and at least 940 farmers and activists criminalized.³ KPA secretary-general Dewi Kartika said the disputed land covered 807,177 ha, with 591,640 ha encompassing palm oil plantations.⁴

¹ *Tempo.co*, “Beda Strategi Dua Calon Presiden” 18 February 2019 <https://tinyurl.com/y4mvrowl>

² *TheJakartaPost.com*, “Prabowo burned over land” 20 February 2019 <https://tinyurl.com/y4j3sycu>

³ *Cnnindonesia.com*, “Konflik Agraria di Era Jokowi: 41 Orang Tewas, 546 Dianiaya” 4 January 2019 <https://tinyurl.com/y37jauaz>

⁴ *Ibid.*

President Jokowi's flagship infrastructure projects are not as innocent as he claimed either. According to the KPA, throughout 2018, there were 16 land disputes linked to the President's infrastructure projects, including the construction of Kulonprogo International Airport in Yogyakarta and Teluk Sepang coal-fueled power plant (PLTU) in Bengkulu.⁵

Regarding Jokowi's second remark, Prabowo admitted that he was indeed in possession of land in Aceh and East Kalimantan, claiming that the land was under cultivation rights granted by the state.⁶ Justifying his land ownership, Prabowo said that it would be much better for the land to be owned by him, a "nationalist and patriotic" figure, rather than by foreign enterprises.⁷

Jokowi, however, is not completely guiltless. Some figures in Jokowi's camp possess sizable plots of land as well. For instance, the chairman of Jokowi's national campaign team, Erick Thohir, reportedly owns 482,171 ha of land alongside his brother Garibaldi Thohir.⁸

The revelation of Prabowo's and other politicians' as well as business people's extensive landholdings attests to the prevalent elitism in regard to land control in the country, which began to proliferate during the New Order. Under Soeharto's rule and predatory capitalist system, the elites around him, mostly comprising businesspeople, military generals and politicians, were granted massive landholdings in order to strengthen the cronyism upon which his empire was built. The demise of New Order two decades ago has barely changed the landscape.

Insight: In analyzing the recent increase in popularity of agrarian reform, one important question should be considered: Why is it so important?

Discussions on agrarian reform can hardly be separated from the issue of elitism. Although the precise size of land owned or controlled by the elite in Indonesia has never been publicly revealed, agrarian reform has suddenly filled the public discourse following the presidential debate, with civil society organizations, agencies and the media digging deeper into the elite's land possession. Media mogul Hary Tanoesoedibjo, for instance, reportedly owns more than 60,000 ha of land across the country.⁹ Meanwhile, Jokowi's minister Luhut Binsar Pandjaitan owns approximately 15,000 ha,¹⁰ while Hanura Party chairman Oesman Sapta Odang has more than 31,000 ha.¹¹

Looking at those figures, it is understandable that land ownership is often associated with inequality. In 2013, Statistics Indonesia (BPS) revealed that 1 percent of Indonesia's total population controlled as much as 68 percent of land in the country.¹² Meanwhile, in 2017, the KPA found 71 percent of land in Indonesia was under the control of forestry corporations, with 23 percent held by plantation companies and conglomerates. The remaining 6 percent, then, belongs to ordinary citizens.¹³

Considering the yawning gap in land ownership, land disputes have recurred frequently in Indonesia. Contrary to President Jokowi's claim, hundreds of land disputes occurred in the past

⁵ Kompas.com, "Konflik Agraria Era Pemerintahan Jokowi Ada 300 Kasus" 18 February 2019 <https://tinyurl.com/y47df5vm>

⁶ Kompas.com, "CEK FAKTA: Penjelasan Soal Lahan Prabowo yang Disinggung Jokowi Saat Debat" 19 February 2019 <https://tinyurl.com/yxbhmbzz>

⁷ Ibid.

⁸ Tempo.co, "Lahan di Sekitar Kontestan" 19 February 2019 <https://tinyurl.com/y6k85vgb>

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² Katadata.co.id, "Bagaimana Ketimpangan Kepemilikan Lahan di Indonesia?" 25 January 2018 <https://tinyurl.com/yx8t4nfz>

¹³ Tirto.id, "KPA: 71% Tanah di Indonesia Dikuasai Korporasi Kehutanan" 27 September 2017 <https://tinyurl.com/y5vdbegt>

four years, with the majority pitting corporations against citizens (244 cases), the state vs citizens (58 cases), citizens vs citizens (36 cases), state-owned enterprises (BUMN) vs citizens (31 cases) and law enforcers vs citizens (21 cases).¹⁴

Adding to the urgency of solving agrarian conflicts is the upward trend in land disputes in the past six years. KPA data show that in 2012, 2013, 2017 and 2018, the number of land disputes amounted to 198, 369, 659 and 410, respectively.¹⁵ The reasons behind the disputes varied. During the term of then president Susilo Bambang Yudhoyono (SBY), for instance, his Masterplan for Acceleration and Expansion of Indonesia's Economic Growth was claimed to be the main culprit behind land disputes as it allowed large investment in plantation and forestry sectors. An increase of Plantation Business Permit (HGU) issuance under SBY's administration also reportedly exacerbated land disputes.¹⁶ Meanwhile, during President Jokowi's tenure, his infrastructure projects have reportedly triggered many land disputes.¹⁷ Furthermore, his policy that permits the expansion of palm oil plantations has been accused of aggravating land disputes.¹⁸

Since independence, Indonesia has conducted several agrarian reforms. First president Sukarno attempted to ensure equal distribution of land through Agrarian Law No. 5/1960 (UUPA), which in principle stipulated that land in the country should benefit the people instead of the privileged few. The law, which replaced colonial agrarian law, regulates the limitation of individual land ownership as well as ensuring equal opportunities for people to acquire land. The revolutionary law, however, was ineffective because of poor bureaucracy, rampant corruption and fierce opposition from landlords. Furthermore, any concerted attempts to redistribute land were crushed during Soeharto's presidency.

Under Soeharto's iron-fist rule, Indonesia's natural resources, including land, were pillaged. It is reported that throughout his presidency, Soeharto distributed at least 61 million ha of land to his cronies and confidantes, cementing the landholding elites' power in the country.¹⁹ Consequently, during Soeharto's regime, Indonesia "lost" 41 million ha of land to numerous land conversions. The end of Soeharto's rule did not generate more equal land distribution either. Despite the democratic system, elitism has remained prevalent in the country. Presidents Habibie and Megawati, for instance, were too busy squabbling over the legal minutiae of agrarian reform, namely the relevance of the UUPA, to actually implement reform. Agrarian reform slightly improved under the SBY. Although the SBY administration failed to pass the draft government regulation on agrarian reform, he managed to legalize over 5 million plots of land and redistribute 736,604 plots of land.²⁰ Further attempts at agrarian reform, however, were thwarted by prevalent sectoral infighting.²¹ Law No. 41/2009, furthermore, was deemed detrimental to the objectives of agrarian reform as the law enabled large corporations to control land.²²

Now, under President Jokowi's presidency, the full fruition of agrarian reform remains elusive. Of all Jokowi's land policies, one of the most popular, and contentious, is probably his One Map Policy. The policy was introduced during SBY's presidency. Serving as the sole geospatial

¹⁴ See note 3

¹⁵ *Tempo.co*, "Pemerintah Utamakan Penyelesaian Konflik Lewat Negosiasi" 20 February 2019 <https://tinyurl.com/y6mef8u2>

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ *Tirto.id*, "Soeharto Dalang Segala Bencana dan Ketimpangan Sosial di Indonesia" 23 November 2018 <https://tinyurl.com/y4kj8zyr>

²⁰ *Kompas.com*, "Legalisasi Tanah Era Jokowi Lebih Banyak Ketimbang SBY" 4 August 2018 <https://tinyurl.com/y45b55gi>

²¹ *Neraca.co.id*, "Pasca Reformasi, Pelaksanaan Reforma Agraria Tak Ada Kemajuan" 5 May 2017 <https://tinyurl.com/yvdyrc9s7>

²² Ibid.

reference to be adopted at the national level, the policy is designed to help address the issue of overlapping land claims in Indonesia and to formulate better land utilization plans.²³

It does not mean, however, that Jokowi's One Map Policy is immune from criticism. The hegemonic nature of the One Map Policy makes the validity and legitimacy of the information presented by mapping especially important. However, concerns over different mapping methods employed by the government and the general public have been raised.²⁴

Other than the One Map Policy, Jokowi's land redistribution and land certification programs have gained prominence. Under the mechanism of land objects for agrarian reform (TORA), Jokowi aims to certify a total of 126 million plots of land in the country and to grant more than 9 million ha of land to citizens.²⁵ There has been public outcry, however, against Jokowi's priority of land certification over land redistribution. According to activists, contrary to popular belief, the land certification program does not constitute "real" agrarian reform as it focuses on assisting those who already own land, unlike land redistribution programs, which concentrate on those without land.²⁶

Despite TORA's lackluster success, Jokowi's administration also introduced another agrarian reform, a groundbreaking agrarian reform project called Social Forestry. Included in Jokowi's 2015-2019 National Middle-Term Development Plan, the Social Forestry Program aims to give people tenurial access to 12.7 million ha of land from forest areas. Having the objective of forging a partnership between the government and the people, Jokowi's administration is the first administration who provided a tenurial access to indigenous peoples and local communities. Not only to perverse sustainable forest management through people's participation, Social Forestry Program also aims to reduce land conflicts, particularly tenurial conflict, between the locals and companies or between the locals and the government.

To date, Jokowi has issued social forestry permits covering 2.6 million ha of land, and he reportedly aims to issue more permits for social forestry until it covers 4.3 million ha by October, 2019. Environment and Forestry Minister Siti Nurbaya Bakar also confirmed that compared to 2014 where the size of social forestry was merely 1.3 million ha, or 1.35 percent of total forest area in Indonesia, the size of social forestry has increased to 14 percent since Jokowi took office, 70 percent of which is allocated for people residing in or around social forestry.

Now that his presidency is nearing its end, Jokowi has reaffirmed his commitment to agrarian reform on numerous occasions, with his attack against Prabowo's possession of a massive amount of land being the most recent example. Following Jokowi's controversial remark, Prabowo expressed his willingness to return the land if asked. Furthermore, Prabowo's team also denounced a number of Jokowi's close allies, including Minister Luhut, who allegedly also controls thousands of hectares of land. In responding to this, Jokowi, in his speech on Feb. 24, said that he would wait for the holders of HGU to return the land they controlled to the state to be later distributed to ordinary citizens.²⁷ Jokowi did not identify the HGU holders, sparking speculation that he was taunting both the opposition and his allies. While it may indicate Jokowi's genuineness in championing agrarian reform, his indiscriminative statement may also be just another populist trick.

²³ *TheJakartaPost.com*, "Indonesia launches One Map Policy to resolve land conflicts" 11 December 2018 <https://tinyurl.com/y33rg4wc>

²⁴ *Mongabay.co.id*, "Masih Banyak Kendala Wujudkan Kebijakan Satu Peta" 7 March 2017 <https://tinyurl.com/yy2ghd97>

²⁵ *TheJakartaPost.com*, "Jokowi distributes 6,000 land certificates in Riau" 15 December 2018 <https://tinyurl.com/y6l62c3f>

²⁶ *Cnnindonesia.com*, "Aktivis kritik bagi-bagi sertifikat tanah ala Jokowi" <https://tinyurl.com/y4p9jpwf>

²⁷ *Detik.com*, "Jokowi Tunggu Koneksi Besar Balikin Tanah, Tantang Prabowo atau Luhut?" 25 February 2019 <https://tinyurl.com/y6mcscmr>

JOKO WIDODO
MA'RUF AMIN
SURYA PALOH

(Dewan Pembina TKN)

MEDIA GROUP

 PT Emas Mineral Murni
10 ribu Ha

 PT Bara Energi Lestari
PT Mifa Bercaudara
4.629 Ha

Tambang - Aceh

OESMAN SAPTA ODANG

(Dewan Pembina TKN)

OSO GROUP

 PT Karimun Granite
4.087 Ha
Tambang - Karimun (Riau)

 PT Mangan Kupang Industri
27.609 Ha
Tambang - Kayong Utara

HARY
TANOESEDIBJO

 (Dewan Penasihat TKN,
Ketua Umum Partai
Perindo)

PT MNC ENERGY

 PT Indonesia Batu
Prima Energy
15 ribu Ha

 PT Arthaco Inti Bara
Pratama
15 ribu Ha

 PT Energi Inti
Bara Pratama
13.630 Ha

 PT Bhumi Sriwijaya
Perdana Coal
6.866 Ha

 PT Primaraya Energy
4.424 Ha

 PT Titan Prawira Sriwijaya
6.015 Ha

 Tambang - Musi
Banyuasin

 PT Nuansaptia Coal
Investment
2.003 Ha
Tambang - Samarinda

ERICK THOHIR

(Ketua TKN)

Adik - Kakak

GARIBALDI THOHIR

(Presiden Direktur Adaro)

Saham 6,18%

PT Adaro Energy Tbk

482.171 Ha
Tambang -
Kalimantan Timur,
Kalimantan Tengah,
Sulawesi Selatan

Saham 8,76%
LUHUT BINSAR PANDJAITAN

(Inisiator tim Bravo-5)

PT TOBA SEJAHTERA

 PT Indomining
683 Ha
Tambang - Kutai
Kartanegara

 PT Perkebunan
Kantin Utama HGU
8.634,21 Ha

 Sawit - Kutai
Kartanegara

 PT Adimitra
Baratama Nusantara
2.990 Ha

 Tambang - Kutai
Kartanegara

 PT Trinesa Mineral
Utama
3.414 Ha

 Tambang - Kutai
Kartanegara

SAKTI WAHYU TRENGGONO

(Bendahara TKN)

PT Merdeka Cooper Gold Tbk

 PT Damai Suksesindo
IUP
6.558,48 Ha

 PT Bumi Suksesindo IUP
4.998 Ha

Tambang - Banyuwangi

SALEH HUSIN

 (Wakil Ketua Umum
Partai Hanura)

 Presiden Komisaris
PT Indah Kiat Pulp
& Paper Tbk
(Sinar Mas Group)

PT Pabrik Kertas Tjiwi Kimia

(Sinar Mas Group)

 PT Sumalindo
Hutani Jaya Unit II
70.300 Ha
Kehutanan -
Kalimantan Timur

 PT Sumalindo Hutani
Jaya Unit
10.976 Ha
Kehutanan - Kalimantan
Timur

PRABOWO SUBIANTO

 PT Tanjung Redeb
Hutani

187.920 Ha
Kehutanan -
Kalimantan Timur

 PT Nusantara Berau
Coal
2.000 Ha
Tambang - Berau

 PT Tusam Hutani
Lestari

97.300 Ha
Kehutanan - Aceh

 PT Kaltim Nusantara
Coal
14.950 Ha
Tambang - Kalimantan
Timur

 PT Erabara Persada
Nusantara

14.980 Ha
Tambang - Kutai
Timur

 PT Nusantara Santan
Coal

14.990 Ha
Tambang - Kutai
Timur

 PT Nusantara
Energy
4.793 Ha
Tambang - Kalimantan
Timur

 PT Nusantara Kaltim
Coal

11.040 Ha
Tambang - Kutai
Timur

 PT Belantara
Pusaka

14.010 Ha
Kehutanan -
Kalimantan Timur

FERRY MURSYIDAN BALDAN

Suami - Istri

HANIFAH HUSAIN

 PT Rantau
Panjang Utama
Bhakti

1.298 Ha
Tambang -
Berau

 PT Syahid
Indah
Utama

2.000 Ha
Tambang -
Berau

 PT Syahid
Berau
Bestari

2.070 Ha
Tambang -
Berau

 PT Saratoga
Investama
Sedaya Tbk

PRABOWO SUBIANTO
SANDIAGA UNO
Saham 22,62%

By distinguishing himself from elite landholders, even those who are part of his inner circle, Jokowi reasserts his image as a pro-people leader. Moreover, his recurrent comments about previous administrations' liability for wreaking agrarian havoc constantly remind the public that he is not completely responsible for today's prevalent land disputes.

It remains unclear whether Jokowi's current fervor for agrarian reform will continue after the 2019 presidential election. After all, similar occurrences also happened in 2014, when citizens asked Jokowi, who was then the governor of Jakarta, to solve land disputes in Kebumen, Central Java.²⁸ Jokowi then promised to solve the disputes if elected, but they remain unresolved until now.

Military “un-reformation” likely to get swift passage

The plan to let active military officers occupy key civilian positions in government may be a throwback to the decades of military domination of Indonesian politics, but it is looking like it would get swift passage given the limited opposition from the public and from the House of Representatives, which needs to give its approval. With the nation much too preoccupied with the general elections in April and since the plan has already been endorsed by President Joko “Jokowi” Widodo, the military is sure to make a comeback into the political arena, which can have severe repercussions for the nation's democracy.

Takeaways:

- Little public objection against the plan because of a lack of interest in politics combined with the high number of former military officers currently holding civilian posts would be the most likely reasons that would allow the plan to be swiftly implemented, with elections making the move to go “unnoticed”;
- Letting military officers fill civilian positions would trample on the reform agenda and on the results of 20 years of change since the fall of Soeharto;
- Whilst many in the government say the move would not tamper with democracy, experiences from neighboring countries, e.g. Thailand, indicates the contrary, as the military's involvement in civil service may lead to deeply entrenched power corruption that makes it hard to get them out afterwards.

Background: The plan has already been unveiled to the public: Military officers would be allowed to take up senior positions in government ministries and agencies without having to retire from active service as mandated by the current law. Some 60 new positions would be created in the Indonesian Military (TNI) by reorganizing its territorial structure. The mandatory retirement age for all officers would be raised to 58 years from 53. Currently only selected officers are allowed to serve until they are 58 years old.

The official reason given for the changes? The military is bloated by having more than 500 colonel-level officers and higher who hold no positions in the military organization. At the outset, there does not seem to be any cynical hidden political agenda behind the move, but there is no guarantee that the military would not misuse or abuse its powers given the chance. History is not on its side.

²⁸ *Kumparan.com*, “Menjual Janji Reforma Agraria” 7 January 2019 <https://tinyurl.com/y5wgp7dv>

This move is literally undoing all the reforms that have been carried out in the last 20 years to rebuild the TNI's image, which was tattered by its close association with the repressive regime of Soeharto from 1966 to 1998. A major feature of the military at the time was its *dwi-fungsi* (dual function) doctrine that allowed it to play an active role in politics. In those days, mid-ranking and top military officers were seconded to civilian positions in the national and local governments, essentially giving Soeharto a strong hand over the government and the entire nation.

Dwi-fungsi ended in 2004 when the military gave up its automatic entitlements to 20 percent of the seats in the House of Representatives. In 2002, a new law defined the TNI role as being solely for national defense, leaving national security entirely in the hands of the National Police. Any military officers who want to enter into politics or get jobs in government must first retire from service.

Insight: “Anyone object?” asked Coordinating Maritime Affairs Minister Luhut B. Panjaitan after he publicly defended the plan that would pave the way for the military returning to politics as “a good policy”. Himself a former Army general, Luhut said officers often bring value and skill to the jobs that civilians lack, including knowledge in particular subjects.

The response to Luhut's challenge is telling about how little the public cares. It is more evidence of the short memory most Indonesians have about the ugly politics of *dwi-fungsi*. A public petition through *change.org* launched on Feb. 15 to oppose the plan gathered only 12,000 signatures in the first 10 days, well short of the 15,000 target. The petition was initiated by 39 organizations and 39 individuals. It seemed as if outside these groups, most people did not care about the issue.

Defense Minister Ryamizard Ryacudu has dismissed the idea that the move would see the return of the *dwi-fungsi* of the TNI. If government ministries require their services, the TNI should provide them, he said.

The media in general, with the exception of the *Tempo* magazine and newspaper, are not giving much thought or coverage to the plan, let alone its possible implications for the political life and democracy of Indonesia that has flourished in the last 20 years in the post *dwi-fungsi* era.

A few people took up Luhut's challenge publicly, but given their low stature in Indonesian politics, Luhut could afford to dismiss their objections. One of them was Rachland Nashidik from the Democratic Party of former president Susilo Bambang Yudhoyono, one of the military officers who in the early 2000s helped conceptualize the military's exit from politics. If Democrats feel strongly about the military's plans, Yudhoyono himself should have spoken up. Or his son Agus Yudhoyono, who retired from the military as an Army mayor in 2016 to run in the election for governor of Jakarta. He lost his bid and cannot return to the military because of the restrictions. He too has kept silent.

Words of cautions came from former Army generals, but they did not reject the changes completely.

Kiki Syahnakrie, chairman of the Association of Retired Army Servicemen, said the problem of surplus officers could be addressed internally, without breaking the law that bans active officers from serving in civilian positions.

The TNI should review its recruitment policy, Kiki said in a conversation with Tenggara Strategics. Other solutions would only lead to new problems in the future, he said.

One solution, which he practiced when he was chief of the Udayana Military Command overseeing Bali and Nusatenggara in 1999 and 2000, was to recruit these mid-ranking officers as special staff. At the time, this concept helped prevent the swelling of personnel numbers in the military structure.

Agus Wijoyo, the chairman of the National Resilience Institute (Lemhanas), warned that allowing the TNI to move back into politics would undermine all attempts of the last 20 years to turn the TNI into a more professional force. Also a former general who worked with Yudhoyono in overseeing the military's exit from politics, Agus did not object to the move, but stressed that these should be temporary measures to deal with the surplus of officers.

The problem, historically, is that once the military is back in politics, it is going to be difficult to get it out. Thailand is a good example of where the military is now fully re-entrenched in politics, organizing elections this year for which the rules are designed to ensure them victory. Power is intoxicating. You can never get enough.

It is unclear how soon the plan would be put into practice since the proposed changes require amending Law No. 34/2004 on the TNI. The House of Representatives is in a long recess ahead of the national elections, but when members return to work, they are not likely to oppose a plan that has already been endorsed by President Jokowi, especially if, as is widely predicted, he wins the presidential race. At any rate, even if the House rejects the plan, the President can issue an executive order as he has done in the past to bypass the legislature.

In the unlikely event of Prabowo winning the election, as a former general himself he is not likely to block the plan. He has not spoken up on the issue, but it is easy to guess which way he would go.

BUSINESS & ECONOMIC POLICY

Increased DMO for coal may fuel support for Jokowi

The Energy and Mineral Resources Ministry announced earlier in February that the government is requiring that coal miners increase their allocation of coal for the domestic market to 128 million tons, an increase of 5.8 percent over last year's requirement of 121 million tons.

The government's decision surprised coal miners because, last year, they managed to supply only 115 million tons of coal to the domestic market, far from the government's target of 121 million tons. The decision may only seem logical when seen from the political perspective, as the incumbent President Joko "Jokowi" Widodo may be using the increased domestic market obligation (DMO) for coal in part to gain support ahead of the presidential election in April.

Takeaway:

- The decision to increase the DMO of coal is in line with the projected increase in domestic demand for coal, especially from state utility company PLN and from the manufacturing sector, which relies on coal to power its plants.
- The increased DMO will reduce Indonesia's export of coal into the international market and, therefore, should help reduce the decline in international coal prices.
- The DMO was increased to fuel Jokowi's popular policy of cutting electricity rates for middle and lower-income households.
- It remains to be seen whether the government would take action against non-compliant coal miners. Last year, it did nothing to them.

Background: The government argued that the increased DMO for coal was in line with the projected increase in domestic demand for coal, especially from state utility company PLN and from the manufacturing sector, which relies on coal to power their plants.

PLN will need more coal as more power plants will start operating this year. With the increased DMO, PLN would consume 95.7 million tons, or 75 percent of the DMO. Other industries that are projected to consume the coal include the cement industry with 16.2 million tons, brackets with 14.5 million tons, paper with 6.2 million tons, metallurgy with 5.4 million tons, textiles with 3 million tons and fertilizers with 1.5 million tons.

The 128-million-ton DMO target is equal to 26.12 percent of the total production target in this year's production plan of 490 million tons. However, historical data show that Indonesia's actual output is always higher than the miners' production plans approved by the government. Last year, for example, the production plans approved by the government outlined 485 million tons, but the actual output was 548 million tons. The government allows companies to produce 10 percent more than what is stated in their approved production plans.

A higher coal output relative to what is planned, coupled with a lower DMO realization, has resulted in Indonesia supplying more coal to the international market, which helped dampen international coal prices. In addition to the greater coal supply, the weakening coal prices in the international market are also a result of the policies of China and India to restrict coal imports late last year.

This falling coal price is another reason for the government to increase the DMO. By forcing local miners to supply coal to PLN and local industries, Indonesia would reduce its coal supply in the international market, which is therefore expected to help boost prices. Indonesia is the world's second-biggest coal exporter after Australia.

Citi Group analysts projected in November 2018 that coal prices might decline after it was estimated that there would be an oversupply of seaborne thermal coal for the next four years. The group forecasted the global seaborne supply to reach 947 million metric tons with demand at only 933 million metric tons by 2022. "We expect the global thermal coal market to gradually shift from a deficit to a surplus in the next five years, due primarily to declining imports into Europe, China and India, as well as rising exports out of Indonesia and Australia."²⁹

The projection was confirmed when, in January, India's coal demand dropped 11 percent year-on-year to 17.25 million tons,³⁰ resulting in the decline in Indonesia's coal price reference to US\$91.80 per ton in February 2019 from \$104.81 per ton in September 2018.³¹

Indonesian coal production, export and domestic market obligation (DMO)

(in million tons)	2011	2012	2013	2014	2015	2016	2017	2018
Production	353	384	474	458	461	456	461	548
Export	272	304	356	381	365	331	364	395
DMO	79	384	96	76	86	128	97	115

Source: Energy and Mineral Resources Ministry

Insight: The government has been flip-flopping on its coal policy, each time influenced by emerging short-term interests. When the country had a wide current account deficit, the government took up a twisted policy to boost coal exports. At another time, when it was dictated by rising domestic needs, the government forced miners to supply more coal to the domestic market through the DMO.

In July last year, for example, the government wanted to eliminate the price cap in the DMO coal to boost coal exports and boost foreign exchange reserves. The government said it would instead establish a new institution to collect coal export levies. But a few days later, the government announced it had scrapped the plan because of the policy's widespread implications for state-owned electricity firm PLN and the Indonesian people. (See **Tenggara Backgrounder, Aug. 3, 2018 edition**)

With its second opportunity in October, the government attempted to raise the quota for coal output by 100 million tons to boost coal exports and patch the widening current account deficit.³² But the decision was made untimely, when coal prices began to fall late last year following moves by India and China to curb coal imports.

Last year, Indonesia suffered a record trade deficit of US\$8.57 billion, resulting from an oil and gas deficit of \$12.4 billion and a non-oil trade surplus of a mere \$3.84 billion. Coal contributed significantly to Indonesia's exports last year, contributing \$18.9 billion as of November 2018, or

²⁹ S&P Global, "Citi analysts see oversupplied seaborne thermal coal market for next four years," Nov. 28, 2018. <https://tinyurl.com/y5a27a5q>

³⁰ *Bisnis.com*, "Ini penyebab meredupnya harga batubara global," Feb. 18, 2019. <https://tinyurl.com/yvyn8dlw>

³¹ Ibid

³² *Bisnis Indonesia*, "Simalakama ekspor batu bara," Feb. 19, 2019, P.1

12.6 percent of total exports.³³ Therefore, it was understandable that the government took several measures to boost coal exports when the current account deficit was at its peak. However, when policies were pursued in a rush and other parties were penalized, especially the Indonesian people at large, they would only backfire –like the policy pursued last July.

Now, the government is going yet another direction with its coal policy, namely directing more coal supplies into the domestic market by increasing the DMO. It seems that this policy contradicts with the government's own policy of increasing exports last year. To understand this policy change, we have to look at a government policy in the electricity sector, where the government decided to cut electricity rates for middle and lower-income families and keep rates unchanged for richer families.³⁴ The price cut came just two days after the DMO quota increase was announced. So, the policy to increase the DMO is more political than economic; it is to fuel the populist policy of President Joko Jokowi ahead of the presidential election in April.

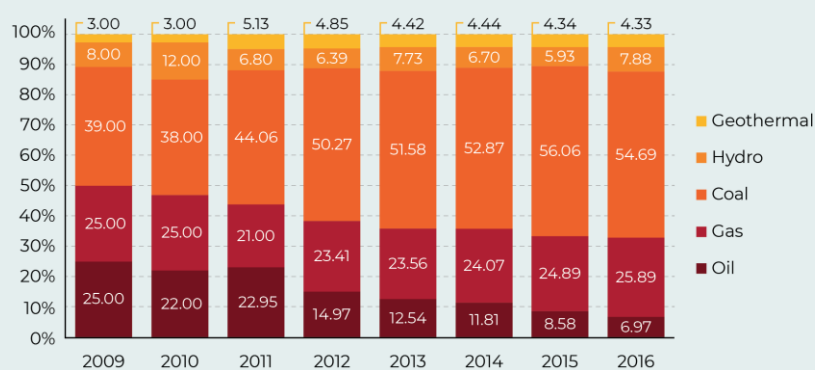
Electricity price for Q1 of 2019, according to govt decision in January:

1. Rp 997 per kilowatt hour (kWh) for industries requiring more than 30 mega volt ampere (mVA) of power → I-4 big industries
2. Rp 1,115 per kWh for customers requiring more than 200 kilo volt ampere (kVA) of power → B-3 big businesses and P-2 government offices
3. Rp 1,467 per kWh for customers requiring up to 1300 kVA, 2200 kVA, 3,500 – 5,5000 kVA and above 6,600 VA → R-1 small households, R-1 medium-sized households, R-1 large households, B-2 medium businesses, P-1 government offices
4. Rp 1,645 per kWh for customers requiring special services
5. Rp 1,352 per kWh for households requiring only 900 VA → R-1 small households

The government argued that the cut in electricity rates was due to declining oil prices. This is only partially true as diesel-powered plants contribute less than 20 percent of the nation's electricity output. So, the real savings for PLN comes from cheap coal coming from the DMO. Without the DMO increase, the electricity rate cut for middle and lower-income households would result in ballooning electricity subsidies. With the increased DMO, the cost is shifted to coal miners.

Under the DMO, the government set a price ceiling of \$70 per metric ton of coal sold to PLN. With the current coal price at slightly above \$90 per metric tons, the DMO will help PLN save trillions of rupiah this year as coal-powered plants remain the major source of electricity in Indonesia, contributing up to 55 percent of electricity output in 2017.³⁵

Development of fuel mix for power generation (in Percentage)



Source: PWC - Power in Indonesia : Investment and Taxation Guide 2017

³³ Statistics Indonesia, "Buletin statistik perdagangan luar negeri: ekspor," November 2018. <https://tinyurl.com/y4c96s42>

³⁴ *Tirto.id*, "Pemerintah putuskan tak naikan tarif listrik Januari – Maret 2019," Jan. 3, 2019. <https://tinyurl.com/y55q6csf>

³⁵ PWC, "Power in Indonesia: Investment and Taxation Guide", November 2017. <https://tinyurl.com/yxalqkos>

The DMO increase would also help PLN improve its finances. PLN has been suffering from burgeoning expenses because the government did not allow electricity rates to increase when coal prices surged in 2014 to 2017.

Some big coal producers, such as PT Adaro Energy and Indika Energy's subsidiary PT Kideco Jaya Agung, have expressed their commitment to complying with the increased DMO. However, smaller producers have objected to the new policy. The Indonesian Coal Mining Association (APBI) has come out to defend small and medium coal producers, saying that the new DMO target was too aggressive and unrealistic compared to last year's. They also argued that smaller miners faced difficulties fulfilling the different criteria of PLN's coal, and because of this, 34 producers could not meet their DMO targets last year.³⁶

Summary of PT PLN Financial Position (In Trillion Rupiah)

	2014	2015	2016	2017
Revenues	193.42	217.35	222.82	255.29
Operating Expenses	-247.81	-225.57	-254.45	-275.47
Operating Income Before Subsidies	-54.39	-8.23	-31.63	-20.2
Government Subsidy	99.3	56.55	58.04	45.74
Operating Income After Subsidies	44.92	48.32	26.42	25.56
Other Revenues - Other Expenses	-29.91	-64.24	-12.84	-17.02
Tax Benefit (Expenses)	-3.94	21.94	-5.43	-4.2
Income for the Year	11.07	6.03	8.15	4.43

Source: PT PLN Annual Report

The question is whether the government would take action against companies that miss their targets. Last year, the government did nothing to non-compliant companies. If the government does nothing to them this year, the DMO target would likely not be achieved. What we heard is that the central government had sent letters to heads of local governments in three coal producing provinces in Kalimantan, writing that the central government would limit coal output in those provinces this year because they had failed to meet the DMO target last year. Some local governments have already challenged the reduction as it would reduce their income. We would expect a tug-of-war between the central government and local administrations in Kalimantan over the matter. It remains to be seen whether the government will enforce the quota and take action against non-compliant companies.

What we've heard: A number of players in the coal industry have said the government's policy to raise the domestic market obligation (DMO) quota to 128 million tons is not an issue for big-scale miners such as Adaro Kaltim Prima Coal or Kideco, as these companies have secured working contracts with domestic buyers, making it easy for them to meet the DMO target.

³⁶ See note 1

An executive of a coal-producing company said these big companies had a common interest: to secure the renewal of their expiring mining permits, which would explain why they are not resisting the increased DMO. Protests or objections have come from small and medium coal enterprises that need to find new domestic buyers to meet the increased DMO target.

Although the new DMO target of 128 million tons might seem small, when compared to last year's total national output of 548 million tons, it is evident that not every local producer will meet the requirement. Many are concerned about finding buyers since, according to a source, the size of the domestic market is not big.

Protests came not only from miners but also local governments in coal-producing provinces such as Central Kalimantan, East Kalimantan and South Kalimantan. They protested in particular the decision of the Energy and Mineral Resources Ministry's Minerals and Coal Resources Directorate General to impose a production quota in the three provinces for not meeting the DMO target last year.

In a letter signed by minerals and coal resources director general Gatot Ariyono on Feb. 7, the ministry capped Central Kalimantan's production quota for 2019 at 5.5 million tons – far below last year's production realization at 11 million tons. The quota was set based on the province's DMO realization in 2018 of 637,768 tons.

A production quota reduction was also given to South Kalimantan. The government set the province's production quota at 32.1 million tons, despite booking 78 million tons last year, because of its low DMO realization at 8 million tons in 2018. Similarly, East Kalimantan's production quota was capped at 33.28 million tons – far below its production realization last year of 69.6 million tons.

The letter sparked an uproar because it is feared that regional administration incomes will drop. A source said these regional governments did not want a restriction on coal production. According to Law No. 4/2009, the central government could legally set a production quota for coal-producing regions.

An executive at the coal business association said the government, in making the DMO policy, did not consider the constraints faced by coal miners in general, such as complications in company logistics, vessel leasing, regional political constellation and coal quality that does not match the needs of domestic buyers.

Some business players said the government's decision for the quota to be implemented immediately would also disrupt companies' capital expenditure plans for heavy equipment and other infrastructure that may have been prepared in the initial business planning stage. They said the government should have given enough time – say, five years – for producers to adjust output. A grace period would allow coal-producing provinces to better plan their finances.

Issue update: The battle of steel continues

Summary: Local steel producers face simultaneous attacks from two fronts of cheap steel products, one from low-quality local steels produced by the growing presence of induction steel mills relocated from China and the other one from the dumping of imported steel from China. And local steel producers lose out as consumers do not really care about quality or environmental issue and chose cheaper products.

Last year, a group of local steel producers led by state-owned steel producer Krakatau Steel took a series of moves against the growing presence of induction furnace steel mills relocated from China, which itself bans steel production from induction furnace. These relocated steel mills have grown in in number and they sell their products much cheaper, endangering the existence of local producers which face difficulties in selling their products although they are claimed to be high quality and environmentally friendlier.

Newly-installed Krakatau Steel president director Silmy Karim lobbied state-owned construction companies to use steels his company produced. Silmy managed to get assurance from Waskita Karya, Adhi Karya and Wijaya Karya that they would use locally-produced steel for government infrastructure projects.

In November last year, Silmy and executives of several local steel producers wrote to the National Police chief, asking him to raid induction furnace mills that produce wire rod steel below the regulated specifications. But their calls turn into deaf ears.

Not only that, local mainstream steel producers tirelessly campaign against the influx of imported, cheap Chinese steels even after they have won their case in the Indonesian Anti-Dumping Committee (KADI) against their alleged dumping of Chinese steels.

Earlier last year, local producers led by Master Steel and Ispat Indo – later joined by Krakatau Steel and Gunung Garuda – brought the alleged steel dumping by China into KADI, which then launched its investigation into the allegation of steel dumping. After the investigation, KADI concluded that China had dumped its steel into Indonesia and recommended the government to impose countervailing duties.

The Ministry of Finance through Finance Minister Regulation No. 27/2018 dated March 2018 then imposed anti-dumping duties against Chinese steel, with some exceptions. What we heard is that Importers find loopholes in these exceptions and managed to import steels from China without being imposed the anti-dumping duties. Now, cheap steels from China continue to enter the Indonesian market and irks more players in the industry.

Silmy Karim brought this issue of steel dumping to Vice President Jusuf Kalla, Industry Minister Airlangga Hartarto and Trade Minister Enggartiasto Lukita and asked for stricter monitoring against the influx of cheap steel from China, but to no avail.

Earlier in February, Maritime Affairs Coordinating Minister Luhut Panjaitan said before Indonesian and Chinese business people that the problem of steel in Indonesia is caused by the fact that local producers could not meet with the growing demand of steel, as a result of massive infrastructure development in the past four years. To address the issue, Luhut said, he would ask steel producers located in Morowali industrial park in Central Sulawesi to supply steel into the local market. Most of the steels produced in Morowali

Even now with import restrictions still in place, imports already control about 55 to 60 percent of our annual steel consumption of around 12 million tons while our own steel industry operates only at 40 percent of its capacity

Hidayat argued that steel import restrictions are still necessary because the national steel industry — with a total capacity of about 13 million tons, compared to 1.1 billion tons in China — is still in the infancy stage of development. Moreover, steel is seen as the mother of most downstream manufacturing industries and is strategic to the economy

No wonder most countries in Asia — which have succeeded in developing competitive manufacturing sectors like Japan, South Korea, Taiwan and China — started with the building of competitive basic steel industries

Update: Imported Chinese steels reportedly remain cheaper than locally produced steels despite the imposition of anti-dumping duties. According to the finance minister regulation, 29 Chinese steel producers are subject to the anti-dumping duties. However, according to one industry player, the imposition of the anti-dumping duties has been ineffective in curbing imports of wire rod steel from China because the regulation itself is problematic.

The finance minister regulation contains too many exceptions, which make it difficult for customs officials to impose. Previously, local producers had suggested the government impose countervailing duties against all imported steels from China with exception of wire rod steel with diameters of 18 millimeters or more and carbon content above 0.72 percent. The regulations, however, came out differently, imposing countervailing duties to different tariff lines with too many exceptions.

The source said these exceptions actually came from the Industry Ministry — which was being exploited by some local importers and exporters from China. The Industry Ministry was sympathetic with the downstream industry which would have been affected most should the anti-dumping duties were implemented without exceptions. With recommendation from the Industry Ministry, the finance minister regulation put up these exceptions. And importers play around these exceptions to import steel from China without being subjected to countervailing duties. As a result, cheap imported Chinese steels still flood domestic market.

The source said Indonesia imported around 850,000 tons of steel last year, mostly wire rod steel from China, while domestic wire rod steel production reached 800,000 tons per year. Of the total imported steels, only around 200,000 tons are imported for use by the automotive industry and these steels could not yet be produced domestically. Meanwhile, the remaining 650,000 tons compete directly with locally-produced steel, and these imported steels are sold much cheaper despite the anti-dumping import duties, and this penalizes local producers harder.

Responding to continuous competition from imported cheap steels, a local steel producer wrote a letter regarding the situation to Finance Minister Sri Mulyani in September 2018. In the letter, the company complained about the ineffectiveness of the finance minister regulation in curbing the influx of cheap steel from China because of the exceptions recognized in the regulation.

Later in February 2019, some local steel producers affected by the cheap imported steels came to KADI once again. They brought up the same issue of the ineffectiveness of the finance minister regulation in stopping dumping of Chinese steels. They wanted KADI review the regulation, especially on the many exceptions, and come up with another suggestion to the finance minister.

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