

BI REPO RATE

Room for easing policy ending given slower inflation, Fed factors

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THE JAKARTA POST/JAKARTA

Room for easing monetary policy in Indonesia is closing as external risks pose uncertainties to global and domestic economies while the inflation rate in the country is slowing, economists have estimated.

Bank Indonesia (BI) decided on Thursday to hold its policy rate — the BI seven-day reverse repurchase (repo) rate — unchanged at 4.25 percent after holding a two-day Board of Governors meeting since Wednesday.

It also kept the deposit facility rate at 3.5 percent and the lending facility rate at 5 percent.

The central bank cut its policy rate by 50 basis points (bps) in total in August and September after keeping it unchanged for nine months in a row. It has slashed 200 bps of its benchmark rate since January last year.

“We see in our assessment that both current and future inflationary pressures are relatively controlled. [The possibility that] external risks [can adversely affect the rupiah exchange rate] is still open. Those are the reasons why we hold the rate,” BI executive director for monetary and economic policy Dody Budi Waluyo told a press conference on Thursday.

Controlled inflation is supported by a declining trend in core inflation due to low import prices and limited consumption, he added. Core inflation stood at 3 percent year-on-year (yoy) in September after touching a historical low of 2.98 percent in August.

Indonesia’s consumer price index hovered at 0.13 percent in September, bringing the annual inflation rate to 3.72 percent yoy. The figure is still within the central bank’s expectation of below 4 percent and the government’s target of 4.3 percent by year-end.

“I think BI will hold its benchmark rate until the end of next year considering the expected three-time increase in the United States Federal Reserve fund rate by 75 bps in total,” PermataBank economist Josua Pardede wrote in a text message, adding that the current policy rate had been in line with inflation and rupiah targets.

After 2018, BI’s policy direction will be subject to the effects of the Fed balance sheet normalization, beginning at the end of October, its fund rate hikes and the US’ economy data.

The Fed’s normalization and fund rate hikes will potentially push up the US Treasury yield and lead to a stronger greenback, that will eventually suck up capi-

tal from emerging markets, such as Indonesia.

CIMB Niaga chief economist Adrian Panggabean said a further rate cut would trigger profit taking and shake up the assets market. “Going forward, BI no longer has room to lower its benchmark rate,” he said.

The central bank expects the Fed to push its fund rate up in December, that has been priced in by the market. Now, BI is paying more attention to the rattles caused by a change at the Fed’s chairs as the new leader will reflect the institution’s stance in the future.

“The market will continue to make assessments during the process and those assessments will shake the market,” BI Governor Agus Martowardojo said separately, adding that geopolitical developments in Europe and the Korean Peninsula also had his office’s attention.

Bank Tabungan Negara (BTN) chief economist Winang Budoyo said 4.25 percent would be the lowest rate level at the moment and the central bank would keep it unmoved until June 2018. “BI’s stance can change in the second half of 2018 in which it will increase its policy rate if the Fed consistently increases its benchmark rate,” he stated.

Government gives Inpex extra 20 years

01-2024
J. Post

Fedina S. Sundaryani

THE JAKARTA POST/JAKARTA

The government has assured Japan's Inpex Corp. that the firm will receive another 20 years to operate the gas-rich Masela block after its contract expires in 2028.

Although the block is touted to have one of Asia's largest gas reserves, its development has been held up for several years because of government in-fighting over whether a planned liquefied natural gas (LNG) plant would be located onshore or offshore.

In its latest attempt to wet the investor's appetite, Energy and Mineral Resources Minister Ignasius Jonan gave the assurance

Inpex receives 27-year extension after contract expiration

Govt allows Inpex, Shell to pick location of plant

to Inpex CEO Toshiaki Kitamura during a meeting in Tokyo earlier this week.

"With this decision on Inpex made, we will extend Inpex's contract for another 20 years as it is coming to an end. This is in addition to the seven years we have already granted the company to compensate for the change in the LNG development plan from an offshore scheme to an onshore scheme," Jonan said in statement

on Thursday.

The project garnered the public's attention after President Joko "Jokowi" Widodo decided last March that the block would be developed under an onshore scheme instead of an offshore scheme as previously planned.

He considered that the former would bring more benefits to the local economy by way of job creation and industrial growth through the construction of petrochemical and fertilizer plants.

Under the offshore scheme, the plan of development (POD) estimated that the gas field could start production by 2024 and operation by 2026, just two years shy of the contract's expiration date.

The government has since promised extra time of seven years for Inpex, Japan's largest energy developer, and its partner, Royal Dutch Shell Plc., to compensate for the time lost and has given strong consideration to Inpex's request for a cost recovery worth US\$1.2 billion.

The two contractors originally submitted their POD for an offshore scheme in 2010, but the discovery of larger reserves led them to submit a revised POD two years ago, tripling the capacity of the floating LNG plant to 7.5 million tons per year (mtpa).

However, the government recently gave the nod to Inpex and Shell to conduct a pre-front end engineering design (FEED) for

a much greater capacity of 9.5 mtpa, in addition to piped gas of 150 mmscfd. Moreover, Jonan also explicitly said that the contractors had free reign to choose the location of the LNG plant.

Separately, representatives from Inpex declined to comment on the government's approval of a 20-year contract extension.

"We are aware of the media reports. Nevertheless, as we continue to be engaged in discussions with the Indonesian government regarding the extension of the Masela PSC [production-sharing contract], we are not in a position to elaborate the details," Inpex' senior media relations specialist, Moch. N. Kurniawan, told *The Jakarta Post* in a short message.

Located in Indonesia's eastern province of Maluku, Masela block is estimated to be able to produce 1,200 million standard cubic feet of gas per day (mmscfd) and 24,000 barrels of condensate each day for 24 years.

The government expects the total capital expenditure of the project to reach a maximum \$16 billion only, much less than the \$22 billion initially estimated.

However, negotiations have continued to stretch on after Japanese Prime Minister Shinzo Abe met with Jokowi in January. The government's impatience was evident following Jonan's threat to revoke the PSC if the contractors failed to conduct a pre-FEED in the near future.

Major conference expected to boost Jokowi's land policies

Moses Ompusunggu

THE JAKARTA POST/JAKARTA

A government-sponsored conference on land tenure is set to take place next week, in which experts are expected to provide insights to bolster the implementation of the current administration's land reform and social forestry policies.

Organized by the Environment and Forestry Ministry, the Presidential Chief of Staff Office (KSP) and numerous agrarian and social civil groups, the 2017 Tenure Conference will be held in Jakarta from Oct. 25 to 27 and will be joined by relevant high-level officials and

hundreds of agrarian experts.

The previous Tenure Conference was held in Lombok in 2011, wholly organized by civil society groups.

Hanni Adiati, an expert staff member under Environment and Forestry Minister Siti Nurbaya, said the government had decided to work together with NGOs in the coming conference because it had partiality toward people living in rural areas.

"The previous administration did not give affirmation specifically for the struggle of village people, who either live inside or outside forest areas," Hanni said in a press briefing on Wednesday.

Hanni said President Joko "Jokowi" Widodo had several pledges outlined in his *Nawa Cita* document, which details the former Jakarta governor's nine political promises that focused on improving the welfare of the people.

"Outcomes of the 2011 conference were used as a basis for the *Nawa Cita*, which was also drafted by environment and social activists. Maybe that's why Jokowi could win the hearts of the public back then," Hanni said.

Jokowi's administration aims to give tenure certainty for small-scale farmers on around 9 million hectares of land through the land reform program, while through the

social forestry, it gives permits to citizens to manage and harness 12.7 million ha of land in forest areas.

Legal uncertainty over land tenure has been blamed as a cause of rampant land conflicts, victimizing mostly poor people who are falling prey to massive exploitation by both timber and oil palm businesses.

"Tenure rights would not only provide land [for citizens] but also would better land administration and allow citizens to harness land," said Hanni.

Also present at the briefing was Usep Setiawan, senior adviser on social, cultural and ecological affairs with the KSP, who said the

government had established in May the Agrarian Reform Team, chaired by Coordinating Economic Affairs Minister Darmin Nasution.

The team consists of three working groups, each chaired by Environment and Forestry Minister Siti Nurbaya, Agrarian and Spatial Planning Minister Sofyan Djalil and Village, Disadvantaged Regions and Transmigration Minister Eko Putro Sandjojo.

"The draft of the presidential regulation on agrarian reform is also expected to be signed before the end of this year," Usep said.

Despite the pledges and structural improvement, both Hanni

and Usep admitted the land reform and social forestry programs had encountered various obstacles on the field.

For example, Hanni said, there had been growing resistance toward the government's move allowing citizens to manage degraded forests owned by state forest firm Perhutani, which is included as part of the social forestry program.

"It is an erroneous claim saying the policy could further destroy the environment," said Hanni, adding people who fueled such claims were "illegal cultivators" fearing a crackdown by the government on their activities.

COSTLY HABIT

Smokers to pay higher price for cigarettes

Fedina S. Sundaryani
and Anton Hermansyah

THE JAKARTA POST/JAKARTA

Smokers in Indonesia may have to start thinking about quitting smoking as the government has decided to raise the tobacco excise in January as part of its efforts to prioritize public health and shed its reputation as one of the world's biggest smoking countries.

President Joko "Jokowi" Widodo approved the plan to raise the excise by 10.04 percent on Thursday following a closed-door meeting with Cabinet members at the State Palace in Jakarta.

Jokowi, who is a former furniture businessman, mulled over various factors related to the plan with Coordinating Economic Minister Darmin Nasution, Finance Minister Sri Mulyani Indrawati and Health Minister Nila Moeloek, among other ministers present at the meeting, before coming to the decision.

"Many factors were considered, including those concerning tobacco farmers, cigarette factory workers, health issues and illegal cigarettes. It [the excise rate increase] was decided to be

around 10 percent based on our calculations," he said following an event at Hotel Borobudur in Central Jakarta.

However, several ministers in attendance said the 10.04 percent figure was only the average across 12 cigarette categories, as Indonesia classifies cigarettes based on production methods, nicotine levels and whether the tobacco is imported or sourced locally.

"Although the average is 10.04 percent, this does not mean the increase will be the same for all. Some will be raised more than others," Sri Mulyani said, adding that a ministerial decree on the excise increase would be issued immediately.

Indonesia Tobacco Community Alliance (AMTI) declined to provide detailed comments on the upcoming policy as the Finance ministry decree had yet to be issued, but hoped the government would issue a rational excise policy as the plan would affect up to six million tobacco and clove farmers as well as cigarette industry workers.

"We would be opposed to any excessive excise hike, and if [the government] really does increase it by

10.04 percent, it would be too big a hike for current circumstances," AMTI media team head Hananto Wibisono told *The Jakarta Post*.

Despite the upcoming increase, Sri Mulyani projected it would not significantly boost state revenue from excise next year, brushing off speculation the plan was just a desperate attempt by the government to jack up its revenue.

The target for state revenue from excise next year is currently set at Rp 155.4 trillion (US\$11.5 billion) in the proposed 2018 budget, which is being deliberated at the House of Representatives. The target for next year is 1.43 percent higher than the Rp 153.2 trillion set in the revised 2017 state budget.

Data from the University of Indonesia's Center for Health, Economics and Policy Studies (CHEPS UI) reveal that cigarette consumption skyrocketed to 274.9 billion cigarettes in 2011 from 33 billion in 1970.

Moreover, Central Statistics Agency (BPS) data has shown that about 20 percent of Indonesians between the ages of 14 and 24 were smokers in 2015, with the greatest prevalence of smokers, 35 percent, among the 25 to

44 age bracket.

Minister Darmin argued the average increase set for next year was lower than the 10.54 percent increase in 2017 as Jokowi had ordered a crop replacement program for tobacco farmers to prevent them being severely affected by the government's tighter policy on smoking.

"We need to think about persuading tobacco farmers to shift to other productive crops," he said.

Despite Jokowi's order for crop replacement, the Industry Ministry has yet to develop a road map for tobacco farmers seeking to cultivate other commodities.

Some reluctant voices have also emerged from inside the government, as the upcoming policy would turn up the heat on the tobacco industry, which has suffered under the current excise structure.

"As the industry's caretaker, the Industry Ministry has sympathy toward tobacco businesses, but the Finance Ministry has the final say on the excise decision," said Willem Petrus Riwu, the Industry Ministry's director of beverages, tobacco and refreshments.

Jokowi to discuss police's antigraft squad

JAKARTA: President Joko "Jokowi" Widodo is set to gather his aides at a Cabinet meeting next week to discuss the National Police's controversial plan to set up a new anticorruption squad.

"It is only a proposal; we [the government] will discuss it at a [Cabinet] meeting next week," Jokowi said on Thursday as quoted from *kompas.com*.

Proposed by National Police chief Gen. Tito Karnavian, the plan has caused concern among antigraft activists who fear it will bring additional tension to the deep-rooted rivalry between the police and the Corruption Eradication Commission (KPK).

Vice President Jusuf Kalla has also signaled opposition to the plan.

However, the proposal has received full support from the House of Representatives that is currently running a political inquiry into the KPK, which many believe is an attempt to reduce the KPK's power. —JP

Foreign minister in control

Tama Salim
and Indra Budiari

THE JAKARTA POST/JAKARTA

After three years with President Joko "Jokowi" Widodo at the government's helm, experts believe the Indonesian foreign policy legacy he inherited remains largely intact, even as interest from the Presidential Palace wavers.

This has been largely possible because of the professionalism of the country's current cohort of senior diplomats, who have shown the initiative to further the country's 'independent and active' foreign policy on their own amidst domestic political turmoil and global uncertainty.

However, in order for them to perform effectively, the country's norms and values must first have been enshrined in a "default setting" which includes previous doctrines, laws and regulations governing foreign policy.

"Indonesia has a well-established foreign policy bureaucracy [...] but when the president is not directly involved in foreign policy, quite often bureaucratic politics occur," said Dewi Fortuna Anwar from the Indonesian Institute of Sciences (LIPI).

"What the bureaucracy did yesterday it will do today and it will do tomorrow."

With a hard-working foreign policy team led by Foreign Minister Retno LP Marsudi, Jokowi has not been sorely missed in Indonesia's international engagements this year. Throughout the year, Indonesia has proven its mettle mediating international conflicts, from the Rakhine humanitarian crisis in Myanmar to the 50-year struggle for Palestinian statehood.

In ASEAN, Retno's trademark shuttle diplomacy has been pivotal to the centrality and unity of the regional bloc on its 50th anniversary. From early on in his presidency, populist Jokowi has found it hard to persuade his constituency that he is an internationally minded leader. This label persists three years down the line, although he has made improvements in the way he has handled international forums with growing ease, as was particularly evident during the G20 leaders' forum in July.

Even so, his absence at this year's United Nations General Assembly in New York (UNGA) — the third in succession he has missed — did not make any visible dent on Indonesia's ongoing campaign to join the UN Security Council in 2019.

Vice President Jusuf Kalla once again assumed the lead in the annual UN meeting, aided by the ever-industrious Retno, who racked up more than 90 meetings in the span of about 10 days.

Other ASEAN leaders were also missing from the UNGA, which further cushioned the President's choice not to attend the multilateral forum.

Foreign policy team runs well without leader

'Business as usual' approach curbs creative problem-solving

However, the President's hands-off approach to foreign policy still has its own repercussions, as a bureaucracy on autopilot can rarely formulate new policies or come up with creative solutions, Dewi noted.

While Retno's silent diplomacy approach — getting results without getting them mentioned in the headlines — is undoubtedly effective, the international relations expert insisted that Indonesia's approach to leadership does not always have to be invisible.

With regard to ASEAN, Dewi said: "Criticisms have been voiced by outside observers that ASEAN is in danger of disunity and, among other things, that is because of the lack of a clear leader."

Phillips Vermonte, executive director of the Centre for Strategic and International Studies (CSIS), said Indonesia could take more action in a region that is mired in regional issues that have developed out of national ones.

"To some extent, it was also because of the lack of leadership of Indonesia, which in the past was able to take various initiatives to solve such issues," he said, citing examples like the Rakhine crisis.

Similarly, Dinna Wisnu from Atmajaya University's Public Policy Institute said Jokowi's "domestic-oriented foreign policy" has done little to contribute to the debate on human rights.

"The limits [to this foreign policy] are that we are more likely to act more defensively than actively abroad and this is largely discernible in the aspect of human rights," she said.

Most factions back Jokowi's regulation on mass groups

Nurul Fitri Ramadhani
THE JAKARTA POST/JAKARTA

The majority of political factions at the House of Representatives are set to endorse President Joko "Jokowi" Widodo's policy that grants his government the power to disband an organization without due process, despite concerns raised by legal experts and rights activists that such a policy could lead to authoritarianism.

Seven out of ten factions at the House, including the Democratic Party, a major opposition party, have voiced their support for the government's regulation in lieu of the law (Perppu) on mass organizations, issued in July. The Perppu is now undergoing deliberation at the House over whether it can be passed into law to replace the 2013 Law on Mass Organizations.

"Of course we support [the Perppu]. We will support [the government] to disband all things or groups that contravene the Pancasila ideology," Democratic Party lawmaker Evert Ernest Mangindaan said on Thursday.

House set to decide Perppu's fate today

Only PAN, PKS, Gerindra reject Perppu

Only three factions — the National Mandate Party (PAN), the Gerindra Party and the Prosperous Justice Party (PKS) — are opposed to the Perppu on the grounds that it gives the government authoritarian power.

PAN is a member of the ruling coalition led by Jokowi's Indonesian Democratic Party of Struggle (PDI-P), but it is also close to Muhammadiyah, the nation's second-largest Muslim organization, that is strongly opposed to the policy.

PAN lawmaker Yandri Susanto confirmed Coordinating Political, Legal and Security Affairs Minister Wiranto had invited all executives from ruling parties to his official residence last night to talk about the Perppu, where PAN emphasized that his party would keep its stance in rejecting the policy.

"The party is committed to

rejecting the policy because it scraps the court process [in the disbandment procedure]. Just because we reject it doesn't mean we're anti-Pancasila or siding with the HTI," Yandri said, referring to Hizbut Tahrir Indonesia (HTI), a hard-line Islamic group seeking the establishment of a global caliphate.

HTI was disbanded just a week after the Perppu was issued.

"No party can threaten or force PAN [to accept the Perppu], not even if our position [in the cabinet] is at stake. Even if we accept it, there's no guarantee that it will keep us in the cabinet," Yandri said.

Political factions are set to elaborate their final stance on Friday, before bringing the result of the deliberation to a plenary session next week, where lawmakers have to decide whether or not to legislate the Perppu into law. The parties rooting for the Perppu control 399 of the 560 seats at the House.

"We will definitely accept the Perppu. But we have to find ways to accommodate the concerns of those parties that reject it. Besides,

we will also need to monitor the government so that it won't abuse its power and misuse the Perppu," PDI-P lawmaker Sirmadji said.

The House had held a one-week deliberation and welcomed a total of 18 legal experts and 22 mass organizations, including hard-liner Islamic Defenders Front (FPD), in addition to HTI representative to give their views on the Perppu.

Most of them pushed the House to reject the Perppu and instead propose an amendment to the 2013 law. They feared the regulation could be used to target all groups and restrict the freedom of association and expression.

Constitutional law expert Irman Putra Sidin said the Perppu was unconstitutional. "We should not exclude the judicial process because we are a nation based on the rule of law."

Indonesia Ulema Council (MUI) called on the House to be wise and careful in deciding whether to approve the Perppu or not, saying a rash decision could create unrest among religious groups.

Higher coal prices, efficiency jack up Bukit Asam's profit

Winnie Tang

THE JAKARTA POST/ JAKARTA

State-owned coal miner PT Bukit Asam expects to continue efforts to boost operational efficiency and diversify its business, as those measures have improved its performance during the first nine months of the year.

The publicly listed company saw its net profit skyrocket in the third quarter of 2017 to Rp 2.63 trillion (US\$194.62 million), a staggering increase of 250 percent from the corresponding period of last year.

"The surge in net profit was

achieved by [higher production] and efficiency and the optimization of the average selling price of coal," Bukit Asam chief financial officer Orias Petrus Moedak said on Thursday.

The average selling price of coal in the first nine months increased by 15 percent from last year, in line with the hike in the Indonesian Coal Index and the coal reference price (HBA), both of which buoyed the firm's bottom line.

Meanwhile, the price of Asian benchmark Newcastle thermal coal reached this year's highest level of \$103.5 per ton in mid-

September, after hovering at an average of \$86.6 per ton in the first half.

Bukit Asam has also intensified efforts to expand its market by selling low-to-medium-calorie coal amid higher prices, resulting in a 31.7 percent jump in its revenues to Rp 13.22 trillion in the first nine months of this year.

The company increased its sales volume to 17.24 million tons of coal in the period of January through September, up 13.8 percent from the same period last year.

The majority of its coal, or 63.9 percent, was sold in the domestic market, while the remainder was

exported to various countries, including China, India and Cambodia.

The coal miner targets to hike sales to 23.17 million tons in 2017.

It has devised plans to make its business more sustainable, such as by operating coal-fired power plant of its own with a capacity of 3x10 megawatts, which will supply electricity to its mining sites in Tanjung Enim, South Sumatra.

It also has a 2x8 MW power plant that supports its Tarahan port in Lampung.

To reduce its reliance on coal, Bukit Asam also plans to diversify its business by venturing into renewable energy, a move that

would be supported by its massive plots of lands of up to 20,000 hectares, said president director Arviyan Arifin.

It plans to build solar power plants at its former mining areas to realize its renewable energy plan, namely in Tanjung Enim and Ombilin, West Sumatra, starting early next year.

Based on its calculations, 2 ha of land are generally needed to generate 1 MW of electricity from solar energy. Thus, the 20,000 ha of mining sites it currently owns may be sufficient to build solar power plants for up to 10,000 MW.

Notwithstanding the solar

power plans, the company will continue to develop coal-fired plants that will require huge funding and collaboration with state-owned electricity firm PLN as well as other parties.

The projects include the Banko Tengah Sumsel 8 coal-fired power plant in Muara Enim, South Sumatra, which is expected to generate 2x620 MW of electricity; the Peranap power plant with a capacity of 2x300 MW; and the Sumsel 6 power plant with a capacity of 2x300 MW.

"The total investment for those three projects is about \$600 million," Orias said.