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Stable surplus may be seen at year-end as imports pick up

Stefani Ribka
THE JAKARTA POST/JAKARTA

Indonesia may record a more stable growth in trade surplus by the end of the year as the holiday season approaches, while economic activities prepare to face the rising political climate in 2018, economists have said.

After posting a record-high surplus a month earlier, Indonesia has seen a plunge in its trade surplus by 49.1 percent on a monthly basis to US$895 million in October due to higher growth in imports than exports and an increase in crude oil prices, the Central Statistics Agency (BPS) announced on Wednesday.

The monthly trade surplus in October was also 27.4 percent lower year-on-year (yoy) than the $1.21 billion seen in the same month last year.

Exports grew by only 3.62 percent month-on-month (mom) to $15.09 billion in October, while imports were up by 11 percent to $14.19 billion, the data show.

The trade surplus was expected to continue its moderate growth until year-end, while rising imports in capital goods and raw materials might be used to propel the economy further, said Ari Kuncoro, an economist from the University of Indonesia (UI).

"Until year end, the monthly surplus will continue on the low, but that doesn't always mean that economic growth is bad," he told *The Jakarta Post* on Wednesday.

"The point is how we turn that into a healthy surplus that can then generate manufacturing activity, export, employment and public demand."

Based on their types, growth was seen in imports of raw materials and capital goods, an early indication of rising activity in manufacturing, economists said.

Among raw materials, significant growth in October was recorded in imported iron and steel, organic chemicals, plastics and articles as well as machinery.

The increase in global oil prices also helped trigger imports in October, as Indonesia is a net oil importer. Brent crude oil price tended to increase throughout the month from $52.38 per barrel on Sept. 1 to $61.37 per barrel on Oct. 31.

Meanwhile, imports of consumer and manufactured products were seen in meat, processed fish, processed fruits and vegetables, each of which grew more than 20 percent, BPS data show.

Imports of vehicles, spare parts and housewares increased by more than 10 percent.

Imports had started to increase due to seasonal factors as we approach year-end festivities, but it might also indicated a minimal absorption of local manufactured products, said Bhima Yudhistira Adhinegara, an economist at the Institute for Development of Economics and Finance (INDEF).

The small absorption of locally-made products was reflected in recent data, which shows only 7 percent of goods sold online in Indonesia were produced in the country, Bhima argued.

Aside from the approaching festive season, the regional and presidential elections in 2018 and 2019, respectively, had contributed to triggering the increase of imports, as companies had started to stock more capital goods and raw materials, UI's Ari said.

"This is what we call a political business cycle, where firms are buying more stock [for their production in the hope of better economic conditions in the future]," said Ari.

From January to October, exports grew by 17.49 percent to $138.5 billion on a yearly basis, helped by a double-digit increase in shipments to non-traditional countries, including Turkey, Egypt and Brazil.

Major commodities include rubber to Turkey and Brazil as well as coffee, tea and spices to Egypt.

The Indonesian government has been trying to penetrate non-traditional markets outside the 13 main trading partners such as China and the United States, including by restructuring trade center officials and trade attaches abroad to upgrade their business skills from merely bureaucratic.

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T. Post

PLN told to review contracts

Viriya P. Singgih
THE JAKARTA POST/JAKARTA

PLN told to review deals with major power plants

Govt wants efficient electricity production

The government's request for state utility firm PLN to review deals the company made with independent power producers (IPPs) has sent shockwaves through the private sector, which believed the move would impair the sanctity of contracts.

The government has asked PLN to review its power purchase agreements (PPAs) with private developers of major coal-fired power plants in Java in an effort to reduce electricity production costs.

The request was made in a letter dated Nov. 3 from the Energy and Mineral Resources Ministry's electricity director general Andy Noorsaman Sommeng to PLN president director Sofyan Basir.

Through the letter, which was leaked to the press on Wednesday, Andy requested PLN to reassess the purchase of electricity from "big scale" coal-fired power plants in Java, specifically those that have yet to start construction or have not received a guarantee letter of business (SJKU) from the Finance Ministry.

"One of the reasons behind the review is so that the maximum price of electricity from these plants can be set at 85 percent of the local electricity supply cost [BPP]," Andy said in the letter.

The Energy and Mineral Resources Ministry's spokesman, Dadan Kusdiana, confirmed the letter, saying that the government had intended to ensure an affordable supply of electricity for the public.

"One of the policies is to make electricity production more efficient, including through the review of the PPA between PLN and the IPPs on a business-to-business basis," he said.

The adjustment in PPAs will not only help reduce electricity rates in the long run, but also ease PLN's financial burden amid concerns voiced by Finance Minister Sri Mulyani Indrawati over PLN's capacity to settle its piling debt.

Sri Mulyani has warned PLN — Indonesia's biggest state enterprise by assets — to keep its debt service coverage ratio (DSCR) in check.

Based on its earnings before interest, taxes, depreciation and amortization (EBITDA), PLN's DSCR has stood at below 0.87 since 2011, according to calculations based on its 2017 first half financial report. A ratio of below 1.0 indicates there is not enough cash flow to service debt.

Indonesian Independent Power Producer Association (APLSI) chairman Arthur Simatupang said PLN could not arbitrarily review and bring new adjustments to signed agreements, as it would only serve as a bad precedent that would scare investors away.

All this time, he said, IPPs had won power plant projects through transparent tender processes. Private developers had also gone through months-long negotiations with PLN before agreeing on electricity prices, he added.

"If PLN suddenly brings adjustments to the agreement, it will change everything, including the internal rate of return [IRR] of the project's feasibility," Arthur said. "That's why we must respect the sanctity of the contract. Otherwise, investors will be reluctant to make agreements with PLN in the future."

PLN spokesman I Made Suprateka said the firm would be open to the possibility of a review as there was still room for electricity production to be more efficient.

"Even with the BPP at 85 percent, IPPs can still reap sufficient profit," he said.

The request will also help PLN ease the financial burden of excess capacity at its power plants.

Energy and Mineral Resources Minister Ignasius Jonan previously told *The Jakarta Post* that PLN would have an oversupply of 5 to 8 gigawatts after the supply was reduced by a 30 percent reserve margin requirement.

It is feared that excess capacity could saddle PLN with a multibillion-dollar bill as it is required to buy the electricity produced by IPPs in the take-or-pay scheme.

Due to excess capacity in the Java-Bali system alone, PLN will be obliged to pay US$16.2 billion for idle capacity in the 2017-2026 period, according to a recent report published by the United States-based Institute for Energy Economics and Financial Analysis (IEEFA).

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Tax rule to set friendly measures

Prima Wirayani and Grace D. Amianti

THE JAKARTA POST/JAKARTA

Govt to relax requirements for tax amnesty participants applying for income tax waivers

Modernization of tax structure, administration still needed

The government appears to be attempting a balancing act between maintaining a positive business climate and meeting its herculean goal to boost tax collections in the final two months of this year, as shown by the direct involvement of the finance minister in clearing up issues surrounding taxation.

Following the completion of its flagship tax amnesty program in March, the government has expressed its willingness to pursue a softer approach toward tax compliance amid criticism that taxpayers, particularly businesspeople, felt threatened by the taxman's stronger tax collection efforts.

The Taxation Directorate General held a sudden press conference on Wednesday afternoon, to clarify recent media reports that tax offices in several regions had rejected application letters submitted by tax amnesty participants for income tax waivers.

According to the current tax rules, participants who declared their land and buildings currently registered under other people's names are entitled to an ownership transfer income tax waiver (SKB PPh) when transferring the properties to be under their own names.

However, several taxpayers have reportedly had their SKB PPh applications rejected by regional tax offices, or have been required to supply various supporting documents during the process.

In response to the complaints, Finance Minister Sri Mulyani Indrawati said her ministry would revise the existing rule, Finance Minister's Regulation (PMK) No. 118/2016, which had already been amended by PMK No. 141/2016.

"We need to respond to public complaints about the ownership transfer [...] to provide the best services to taxpayers who have participated in the tax amnesty and will transfer their land and building ownerships," Sri Mulyani told the press briefing.

The revision, expected to be issued on Friday at the latest, will stipulate that taxpayers can use either the SKB PPh or a tax amnesty participation letter to receive a notarized statement letter to process property ownership transfers at the National Land Agency (BPN).

It will relax the existing regulation, which designates the SKB PPh, which is valid until Dec. 31 at the latest, as the only valid document taxpayers can use to obtain their waivers.

Tax office data shows that at least 151,000 tax amnesty participants will need to use the tax waiver, but that only 29,000 had applied as of Nov. 14 with approximately 80 percent of applications approved.

The remaining 20 percent were rejected because of unfulfilled formal requirements or data discrepancies, among other reasons.

"In performing our duty to collect taxes, we will remain disciplined, so people will not need to be concerned or afraid [of the tax authority] doing things that go beyond existing regulations," Sri Mulyani said.

Indonesia should continue stubbornly reforming the structural issues within its taxation administration despite sound and prudent macroeconomic policies, the International Monetary Fund (IMF) wrote in its 2017 Article IV Consultation published on Tuesday evening.

"Indonesia is in critical need to implement a medium-term revenue strategy that centers on early tax policy reforms and improved tax administration to strengthen the business environment," IMF Asia and Pacific department head Luis E. Breuer said in a statement.

Breuer said modernizing the tax structure was an area in which Indonesia had seen less progress in the last few years, yet such reform was highly important to ensure the government had the adequate fiscal space required to boost the economy.

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EXTRACTIVE INDUSTRY

Clock ticking for amendment of mineral, coal contracts

Viriya P. Singgih
THE JAKARTA POST/JAKARTA

The government may be running out of time in its quest to revise 102 mineral and coal contracts by 2017 as dozens of mining firms remain reluctant to comply with prevailing tax and duty laws.

This will consequently hamper the state from boosting its revenue from the extractive industry in years to come.

The government has amended only 50 coal contracts of work (PKB2B) and 20 mineral contracts of work (CoW), with the addition of 13 coal miners who finally agreed to change their contracts on Tuesday — after lengthy negotiations that began in 2010.

Overall, the government hopes to amend 68 coal contracts and 34 mineral contracts before year-end to meet a 2009 Mining Law mandate, which proposes a shift of the decade-long mining regime based on "contract" to "permit" to give the state the upper hand.

The law stipulates that holders of coal and mineral contracts can continue their mining operations until their contracts expire, but it also requires them to revise those contracts in accordance with existing regulations in order to jack up state income.

Miners can then only extend their operations in the country if they agree to convert their old contracts into special mining permits (IUPK).

"At present, there are still 18 PKP2B and nine CoWs that have yet to be amended," Bambang Gatot Ariyono, the Energy and Mineral Resources Ministry's director general for mineral and coal said on Tuesday. "Almost all of those miners have yet to agree on clauses related to state income, especially on reimbursement and coal as a tax subject."

The amendment will require miners of three-generation contracts to pay coal production fees (DHPB) totaling 13.5 percent in cash. Previously, a number of miners paid the fees in kind with their output under a wide range of percentages.

Meanwhile, first-generation miners who signed their coal contracts during the 1981-1990 period will see their land rent payments increase to US$4 per hectare from $1 per ha. They will also have to store higher lump sum payments.

"The amendment of these 13 PKP2B will bring an additional state income of $68 million per year," said Bambang, adding that the biggest contribution would come from land rent and lump sum payments.

Meanwhile, Energy and Mineral Resources Minister Ignasius Jonan said he would try to expedite negotiations with miners who had yet to amend their contracts in order to meet the deadline. This contradicts with his previous statement, in which he said the government would not force a contract amendment if that could prevent miners from continuing their operations.

Jonan also reiterated that all miners should place deposits into the reclamation-guarantee fund, which would be used for post-mining rehabilitation activities to ensure sustainable mining.

"If they haven't made their deposits for post-mining activities, I will reject their mining permits," he said.

As of September, 48 percent of a total of 9,730 permit holders in the country have made their deposits to regional administrations. Of the overall figure, only 6,058 were granted a "Clean-and-Clear" (CnC) status, which acknowledges their compliance with environmental policies as well as tax and non-tax financial obligations, in addition to absence of overlapping land rights.

As of the second week of November, non-tax revenues from the mineral and coal sector reached Rp 34.4 trillion ($2.54 billion), surpassing the full-year target of Rp 32.7 trillion.

The positive result was triggered by a hike in global coal prices, thanks to China's efforts to curb its domestic supply amid surging demand, as well as disrupted production in major producers, Australia and Indonesia.

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J. Post

Setya cites immunity right as to evade questioning

Kharishar Kahfi and Nurul Fitri Ramadhani
THE JAKARTA POST/JAKARTA

Setya says he will not answer summons without Jokowi's approval

Jokowi slammed for giving vague response to Setya's statement

When the Corruption Eradication Commission (KPK) first named Setya Novanto a graft suspect and summoned him for questioning in July, the House of Representatives speaker said he was too ill to face interrogation.

Setya had to stay at the hospital until the South Jakarta District Court ruled that the KPK's move to name him a suspect was unwarranted.

Last week, the KPK decided to rename him a suspect and summon him for questioning again. But the politician, who refused to step down as House speaker and Golkar Party chairman, has found a new excuse: As legislator he has been granted partial immunity from prosecution.

Wednesday should have been the first time for the antigraft body to confront Setya, who has been implicated in the high-profile e-ID graft case.

It was the first summons for Setya as a suspect after the KPK announced last Friday that it had charged him with graft for the second time.

Setya instead showed up at the House building in Senayan, Central Jakarta, to attend a plenary meeting and lead a House leadership meeting. He refused to give details when asked about whether he would fulfill the KPK's summons. "We'll look into it later. I have sent a letter to the commission," Setya told journalists after the plenary meeting.

In the seven-page letter, Setya along with his team of lawyers asserted the right to immunity granted to him as a high-ranking lawmaker. Also, he has maintained that the KPK must obtain approval from the President Joko "Jokowi" Widodo to be able to question him, as stipulated in a 2014 Constitutional Court ruling regarding the Legislative Institutions (MD3) Law.

However, constitutional law experts have said another article in the MD3 Law, which was not annulled by the court, mentioned that immunity was not applicable for extraordinary crimes, including corruption.

The article stipulates that once a person is named a graft suspect by the KPK, special procedures on suspect investigation stipulated in other laws are no longer valid.

On Monday, Setya and his team of lawyers filed a judicial review with the Constitutional Court to challenge Article 46 (1) and 2 of the 2002 KPK Law on suspect interrogation. "We have challenged the article so that there will be no misinterpretation," Setya said.

KPK spokesman Febri Diansyah said the judicial review process would neither halt nor hamper the ongoing investigation into Setya's alleged involvement in the e-ID case. "We'll keep going."

The Golkar politician has cited various reasons for dodging KPK summonses, both as witness and suspect. The latest no-show was on Monday, when he failed to appear for a session as witness for suspect Anang Sugiana Sudihardjo, citing a work visit to his constituency in Kupang, East Nusa Tenggara. Setya also failed to heed two previous summonses on Oct. 30 and Nov. 6.

As Setya has dragged Jokowi's name into the commotion, the latter is now being pressured to comment on the matter, especially about whether the KPK needs his permission to summon the lawmaker.

The president, however, has only given a short response: "Open all the regulations and follow the rules as mandated by them."

Indonesia Corruption Watch (ICW) deputy coordinator Agus Sunaryanto said the president had implied in his statement that Setya should heed the KPK summons.

However, he regretted the statement was not firm enough as, he perceived, Jokowi might not have wanted to damage both institutional and political relations.

"It would be better if the president was firmer-yet-diplomatic [on the matter] by, for example, suggesting that Setya should attend the questioning in order not to stir commotion among the public," Agus said.

"Right now, the general public is missing the president's assertiveness regarding major cases, including the e-ID graft," he went on to say.

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PATIMBAN PORT

Japan to soon disburse 118.9b yen loan

Farida Susanty
THE JAKARTA POST/JAKARTA

Japan will soon disburse a 118.9 billion yen (US$1.05 billion) loan in a move that will allow Indonesia to kick off construction of Patimban Port in Subang, West Java, early next year.

Both parties signed a loan agreement for the project on Wednesday after inking another agreement that specified the approved terms, technically known as an exchange of notes, on Monday.

The funds will be used to finance the first phase of the project, which will comprise the development of a 8.1 kilometer access road to the port, a new terminal, a bridge and a back-up area.

The loan will benefit from the Special Terms for Economic Partnership (STEP) from the Japan International Cooperation Agency (JICA), including a fixed interest rate of 0.1 percent with a 40-year maturity period.

JICA senior vice president Shinya Ejima said the agency would also gear up to process another loan agreement by next year.

"Because the project cost is quite huge, it will be covered by two consecutive loans. We would like to process the second loan agreement next year," he said in his speech on the occasion, noting that the effort was aimed at achieving the target of operating facilities at the port, including a new terminal, in March 2019.

The Patimban Port project, one of the national strategic projects prioritized by the government, has been delayed for four months because of administrative issues, such as a location permit from the regional government.

This has delayed the beginning of construction to March next year instead of January as planned.

The project, which will cost $3 billion in total, is one of the flagship projects between Indonesia and Japan.

Patimban Port will be located about 70 kilometers from the Karawang Industrial Estate and Bekasi in West Java, where many Japanese industrial firms, particularly automotive manufacturers, operate. It will also help ease heavy congestion at Indonesia's busiest port Tanjung Priok.

The container terminal planned at the new port will be 14.7 hectares, while the container yard will be 35 ha with a capacity to handle 250,000 twenty-foot equivalent unit (TEU) containers. It will also host a car terminal.

In the next phase, the government will extend the container terminal to 60.9 ha, while its yard will be extended to 66 ha with a 3.5 million TEU capacity.

The government expects its container capacity to reach 7.5 million TEUs by 2027.

Apart from the Japanese funding, the government will cover the land-procurement costs of around Rp 500 billion ($36.9 million). Meanwhile, port operators will be in charge of procuring and maintaining equipment to support operational activities.

Transportation Ministry port director Chandra Irawan said the government also planned to wrap up the land-procurement process through a special public agency, National Asset Management (LMAN), by January.

"The land procurement is expected to be done in January. It has gone through the appraisal process so we just have to make the payment," he said.

Finance Minister Sri Mulyani Indrawati said the development of the port would significantly boost economic growth in the Subang area where the port will be located.

"Patimban Port will facilitate a more efficient and productive value chain between Jakarta and Subang to the rest of Indonesia as well as the rest of the world," she said.

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TRANSHIPMENT

Govt moves to double capacity at Tanjung Priok Port

Marchio Irfan Gorbiano
THE JAKARTA POST, JAKARTA

The government aims to increase traffic at Tanjung Priok Port in North Jakarta following reforms of the latter's authorities in a move that would allow it to become an international transhipment hub.

Transportation Minister Budi Karya Sumadi said the port could increase the annual capacity of containers handled from 7 million twenty-foot equivalent units (TEUs) at present to 15 million TEUs in the next three years.

"If I am being ambitious then it [traffic] would double in the next three years. Hopefully, the private sector is on the same page. We could achieve it [the target] if we work together," said Budi in Jakarta on Tuesday.

The ministry shook up the port's management to cut lengthy procedures and promote efficiency.

One change to immediately take place is the opening of the port's office to seven days a week as, currently, goods arriving on weekends cannot be cleared and shipped from the port, Budi further said.

The Office of the Coordinating Maritime Affairs Minister is conducting a study to measure the competitiveness of service costs at Tanjung Priok Port against competing ports.

State-owned port operator PT Pelindo II boosted the capacity of the port to cope with a surging number of containers.

Pelindo II president director Elvyn G. Masassya said the port's annual capacity would increase to 11.5 million TEUs with the addition of 4.5 million TEUs from new terminals at Kalibaru Port that are slated to begin operating in 2019.

Citing an example of shipments to South Korea from Semarang via either Singapore or Tanjung Priok, Elvyn said that Tanjung Priok held a competitive advantage over its rival in Singapore.

"We could offer US$100 less because of cost and handling efficiencies," he said.

Elvyn further said the port operator would continue to reform its business processes to ensure more efficient services for its customers, including by digitalizing them.

As the port business was in the service sector, Pelindo II focused on providing speedy, accessible and transparent services with adequate infrastructure, he added.

The technical director of customs at the Finance Ministry's directorate general of customs and excise, Fajar Doni, said the simplification of procedures was vital to support Tanjung Priok's bid to become a major international transhipment hub.

"The key is that we need to simplify [the procedures] for automated and speedy services," he said.

Fajar said his office was drafting a revision for Ministerial Decree No. 90/2007 on transhipment in order to further streamline procedures pertaining to transhipment.

Customs authorities offered a variety of customs facilities at the port to slash down logistics costs, he said, adding that they also worked closely with, among other stakeholders, Pelindo II and the Jakarta International Container Terminal Office (JICT) to use information technology-based surveillance in monitoring shipments.

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PAPUA VIOLENCE

Separatists claim responsibility for attacks

Nethy Dharma Somba and Gemma Holliani Cahya
THE JAKARTA POST/JAYAPURA/JAKARTA

Courtesy of Papua Police

End of journey: Security personel recover the body of Brig. Firman, who was reportedly shot dead while on a routine patrol at Mile 69 in Tembagapura, Mimika regency, Papua.

A separatist group known as the National Liberation Army of West Papua (TPNPB) has claimed responsibility for recent attacks in Tembagapura, Mimika regency, Papua, as violence continued on Wednesday.

"This is a war. We will continue our attacks until Papua's sovereignty is recognized" Hengky Wamang, one of leaders of the TPNPB, which is the military wing of the Free Papua Organization (OPM), told *The Jakarta Post* via a phone interview on Wednesday.

In the latest violence in the area around PT Freeport Indonesia's (PTFI) mine, two members of the National Police's Mobile Brigade (Brimob), Brig. Pol. Firman and Chief Brig. Rumthe Yongky Ateng, were shot by unidentified assailants while they were patrolling on Mile 69 on Wednesday morning.

Firman died at the scene, while Rumthe remained in critical condition at Tembagapura Hospital.

The shooting happened a day after an unidentified gunmen fired at a patrol car owned by PTFI in the same area, injuring an employee.

Shooting have escalated since Oct. 22, when Brimob officer First. Brig. Berry Pramana Putra was killed by unidentified gunmen in Utikini village.

Police subsequently issued its highest security alert in response to the escalating attacks, due to concerns that they might affect preparations for the upcoming elections for governor and seven regents in Papua.

The police, however, continued to call those responsible for the attacks "armed criminal groups."

The police also said these unidentified gunmen had been responsible for what they called a "hostage situation" in Kimberly and Banti villages in Mimika regency, Papua, where 1,300 people have reportedly been held against their will since Nov. 5.

Hengky, however, claimed that they are the ones protecting the villagers, whose lives are at risk due to the conflict.

"We are protecting the civilians in these two villages who cannot leave their homes in this war situation. It is not safe out there, and if they do leave the villages and get shot by the police, we might be accused of being the shooters," he said.

Hengky added that people in the villages, both outsiders — most of whom work as miners and merchants — and the indigenous Papuans are all unharmed.

He said aid from the government can be distributed through religious figures or tribal leaders, but not through the police or military personnel.

Papua Police have also included 21 members of an armed criminal group involved in a string of attacks in Mimika on their most-wanted list.

"The hostage situation is still happening [...] We are still mediating with the help of local leaders and religious figures, to [persuade the gunmen] to release the hostages," National Police spokesman Brig. Gen. Rikwanto said.

"However, there is still no good intention from the armed criminal groups.

"We are still prioritizing a persuasive and diplomatic approach [through dialogue] so there will be no casualties. But of course, there is a limit to this."

Papuan human rights lawyer Yan Christian Warinussy said dialogue was the only way to end the violence in Papua and prevent it from happening again.

President Joko "Jokowi" Widodo has pushed for infrastructure development in Papua and also stated the importance of peaceful dialogue between Jakarta and the people of Papua to ensure that there would be no more violence.

However, Yan said nothing has happened.

"This is the moment that we really need the dialogue to happen. If the shootings keep happening, the conflict can grow to other areas. And in the end, civilians will be the victims," Yan told the *Post* on Wednesday.

"Indigenous Papuans or not, they are all Indonesians citizens and the President must protect them."

National Police chief Gen. Tito Karnavian said the police would posthumously promote Firman in honor of his service.

Firman leaves behind a wife who is five months pregnant with their second child.

"Both parties involved in the crisis must refrain from actions that could lead to casualties, and they must also ensure that civilians have better access to food and basic needs," said Amiruddin Al Rahab, a member of the National Commission on Human Rights (Komnas HAM).

Everyone wants slice of emerging Morowali

Resource-rich Morowali in Central Sulawesi is a honey pot that has attracted many people. An investment of more than US$5 billion from China has changed the foundation of the regency that once depended on agriculture to support its economy. The Jakarta Post*'s* **Viriya P. Singgih** *visited Morowali, a regency of 114,000 people that is about 1,700 kilometers from Jakarta, last month to look into China's efforts to turn the regency into the world's biggest center for integrated nickel-content stainless steel production almost overnight. This is the final of a two-part series.*

The number of residents of Bahodopi district in Morowali has spiked two-fold after Chinese venture PT Indonesia Morowali Industrial Park (IMIP) employed 15,000 Indonesian workers in less than five years for its nickel processing industry.

The district has now become the economic backbone of Central Sulawesi and attracts people from nearby provinces to sip the industrial honey pot in a largely backwater region.

Asbut, 45, a resident of Morowali regency in Central Sulawesi, used to know every person living in his village, Keurea. But lately, it seems like everyone is a stranger.

"New people are coming here every day to work for the company [IMIP], mostly from southern Sulawesi, including the Torajan or Bugis ethnic groups [from South Sulawesi]," Asbut, the head of hamlet V in Keurea, told *The Jakarta Post* last month.

The number of families in Keurea has skyrocketed to 1,600 from only around 300 in 2013.

Keurea and 11 other villages in the Bahodopi district in Morowali are at the epicenter of the development by IMIP, a joint venture between China-based Shanghai Decent Investment Group and local mining firm Bintangdelapan Group, which is linked to several retired military generals.

China has thus far spent more than US$5 billion to develop the Morowali industrial complex and its supporting infrastructure since the third quarter of 2013. When the entire project is completed in 2019, the complex will employ around 22,000 to 25,000 workers.

As the region is suffering from an economic slowdown due to a decline in commodity prices, people from outside Morowali come in droves to find steady employment. And they are willing to do just about anything to get a job.

A 31-year-old excavator operator interviewed by the *Post* admitted that he got the job at the industrial estate in early 2015 after paying Rp 3.5 million ($258.28) to certain individuals, while adding that the figure had doubled to around Rp 7 million at present.

Because IMIP has been prioritizing Morowali natives in its recruitment, people from outside the regency have jostled to be registered as local residents. This has quickly been seen as a political opportunity by some.

"My relative, who owns a rented house here, once told me that one of the tenants had been offered a new ID. In return, he was asked to vote for a certain candidate in the upcoming Morowali regional election [in 2018]," Asbut said.

For blue collar workers in the region, Morowali is the place to be as its economy skyrocketed by 67.82 percent in 2015 before stabilizing at 13.18 percent in 2016, far higher than national growth of 5.02 percent in 2016.

Bahodopi has been particularly impacted by the rapid development, especially Fatufia and Labota villages where IMIP is developing its new industrial complex.

Jl. Trans Sulawesi, the main road in Fatufia, was once dark woodland and largely avoided by travelers after 6 p.m. But now, small restaurants, rented houses, machine shops, fuel retailers and banners of regent hopefuls from a number of political parties litter the road.

Even though IMIP's presence has turned Bahodopi into an industrial area, people still have a long list of complaints about the company's overall operations.

People have questioned IMIP's corporate social responsibility (CSR) programs, including one related to electricity procurement.

Last year, IMIP signed a power purchase agreement with state electricity firm PLN that paved the way for the latter to buy excess electricity of 5 megawatts (MW) from IMIP's power plants at the Morowali industrial complex.

IMIP currently operates three coal-fired power plants with a total capacity of 1,130 MW and an annual coal demand of 6 million tons. It is also in the process of developing another coal-fired facility worth $650 million with a capacity of 700 MW.

As a result, PLN has distributed electricity to 12 villages in Bahodopi since May using transmission lines built by IMIP.

"Initially, IMIP promised to provide subsidies so that we could just pay half the electricity rates. In fact, we were forced to pay full price. Dozens of people staged a rally in October, and the company agreed to honor its promise," Asbut said.

During the rally, people also protested about the delay in the disbursement of the company's annual CSR funds worth Rp 5 billion for 2016.

IMIP senior vice president for external relations Slamet Viktor Panggabean, however, said IMIP could not disburse the funds because it had yet to receive the 2015 accountability report from residents.

He added that the Bahodopi district administration had formed a dedicated team to manage the company's CSR funds, whether to repair public roads or construct public facilities such as a mosque.

"Nonetheless, we haven't received any reports about the proposed developments or even seen the physical construction of such facilities," Slamet said, indicating that there might have been some embezzlement of the CSR funds.

On the other hand, it is hard for regional administrations to directly benefit from IMIP's operations because the company pays export duties, mining royalties, foreign workers' levies and even reclamation-guarantee funds directly to the central government.

IMIP also pays water taxes to the Central Sulawesi provincial administration, not to the Morowali administration.

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J. Post

RI benefitting from China's love of nickel

Given its plan to boost the use of electric vehicles, China's love of nickel is projected to remain robust in the years to come, making it crucial for the country to make long-term investments in Indonesia, which is home to 40 percent of the world's high-grade lateritic nickel ore.

The price of benchmark nickel for three-month delivery on the London Metal Exchange (LME) reached US$12,945 per ton on Nov. 7, the highest price since June 2015, on the back of soaring demand from China.

Within the first nine months of 2017, China imported 26 million tons of nickel ore and concentrates, up nearly 9 percent compared with the same period last year. In September alone, its nickel imports stood at 5.67 million tons, the highest monthly figure since January 2014.

Nickel is also used widely in mobile phones, food preparation equipment, buildings, steel products and power generation.

Mirae Asset Sekuritas Indonesia analyst Andy Wibowo Gunawan predicted that global nickel demand would increase further following China's plan to restrict the production and sale of fossil fuel vehicles to address pollution.

"To move from fossil fuel vehicles to electric vehicles, China will need a large number of raw materials for the manufacturing process. This should boost global nickel demand over the long term, as the raw materials required to make electric vehicle batteries mostly comprise nickel, graphite and lithium," Andy said recently in a note.

Macquarie Research has also estimated that nickel use in electric vehicle batteries could grow by an average of 20 percent a year until 2022, when prices might reach $17,500 per ton.

At the same time, global deficit in nickel supply is predicted to average around 58,300 tons a year in the period between 2018 and 2020, after reaching as high as 108,000 tons this year.

Hence, as Indonesia implemented a raw mineral exports ban in 2014, Chinese investors have flocked to the archipelago to put their money into the development of various nickel smelters in an effort to secure a long-term supply of nickel-based products, including nickel pig iron (NPI) and stainless-steel slab.

From 2012 to 2016, Indonesia saw the development of 32 new processing facilities with a total investment of $18 billion, 24 of which were nickel smelters and 16 of which were located in Sulawesi.

As of last year, Indonesia's measured nickel resources stood at 1.43 billion tons, while its proven nickel reserves were at 238.64 million tons.

One Chinese investor that has invested significantly in Indonesia is PT Indonesia Morowali Industrial Park (IMIP), which is developing a nickel-based industrial complex measuring 2,000 hectares in Morowali regency, Central Sulawesi, with an investment of more than $5 billion.

When the Morowali industrial complex has been fully developed in 2019, IMIP estimates it will process around 14 to 19 million tons of nickel ore per year in four nickel smelters operated by its affiliates in the industrial estate.

The Morowali complex will also produce 3 million tons of stainless-steel slab, all of which will be used to manufacture 2.5 million tons of hot rolled coil (HRC) and 500,000 tons of cold rolled coil (CRC) per year.

"We will eventually export all of our HRC because, at present, the country has no facilities to process such material," said IMIP chief executive officer Alexander Barus, adding that the CRC might also be exported if there was no domestic demand.

Nickel miner PT Central Omega Resources (COR) Industri Indonesia has also teamed up with Marconing Group from China to develop a smelter worth Rp 5.5 trillion ($406.62 million) in North Morowali, Central Sulawesi.

The smelter, which has the capacity to produce 300,000 tons of NPI per year, was commissioned in July and will see 90 percent of its production exported to China.

Additionally, there is also Bantaeng Industrial Park (KIBA), which occupies roughly 3,000 hectares in South Sulawesi with a total investment value of around $5 billion.

The Bantaeng administration has stated that two nickel smelters are set to start operations at KIBA this year.

Those smelters are being built by joint ventures between local Indonesian companies and Chinese investors, namely PT Titan Mineral Utama, with an investment of Rp 4.7 trillion and PT Huadi Nickel-Alloy Indonesia with an investment of Rp 1.7 trillion.

Meanwhile, another Chinese firm PT Virtue Dragon Nickel Industry is developing an industrial estate measuring 2,200 ha in Konawe, Southeast Sulawesi, with an investment value of around $5 billion.

It is currently finalizing the construction of a ferronickel smelter with a production capacity of 600,000 tons a year.

"We are focusing on developing mineral processing facilities in eastern Indonesia, especially for nickel ore, as can be seen in industrial parks in Morowali, Bantaeng and Konawe," said I Gusti Putu Suryawirawan, the Industry Ministry's director-general for metal, machinery, transportation equipment and electronic industries.

Therefore, the Industry Ministry expects that the current efforts to the strengthen nickel processing sector will eventually bear fruit by 2020, when Indonesia is projected to be able to produce at least 4 million tons of downstream nickel products a year, or about 10 percent of the total global demand.

The realization of China's foreign direct investment (FDI) in Indonesia grew 72.2 percent to $2.73 billion in the first nine months of 2017, slower compared to the staggering 291.5 percent growth to $1.58 billion in the same period last year.

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Farmers lose out in industrialized regency

A huge expansion in mining activities in Morowali regency, Central Sulawesi, has allegedly damaged the environment in the past decade, resulting in a series of flash floods and crop failures that have threatened to wipe out farming in the area.

Morowali's gross regional domestic product (GRDP) from the processing industry jumped by 28.34 percent last year after seeing a staggering increase of 338.2 percent in 2015, thanks to the rapid development of a nickel-based industrial complex belonging to PT Indonesia Morowali Industrial Park (IMIP) in Bahodopi district.

China-based Shanghai Decent Investment Group controls 74.69 percent of IMIP, while the remaining 25.31 percent is owned by local mining firm Bintangdelapan Group, linked to several retired military generals.

The GRDP from the agriculture, forestry and fisheries sector, however, only climbed by 4.29 percent last year, far below the 10.94 percent growth in 2015.

"It's getting harder to find a farm worker in Morowali nowadays. It seems like everyone, especially the younger generation, is dreaming of working as an industrial worker in IMIP, which indeed provides greater income certainty," Adinur Makna Putra, an activist with advocacy NGO the Free Land Foundation (YTM), told *The Jakarta Post*.

Adinur, who lives in Onepute Jaya village, East Bungku district, Morowali, also alleged that mining waste had polluted the water system in the region and made the land unproductive for crops.

His claim is not without foundation, especially considering that a number of flash floods have occurred since the massive mining of nickel began in Bahodopi in 2007.

It all started on July 24, 2010, when locals witnessed the first flash flood in Bahodopi in decades. It was triggered by deforestation and the narrowing of the Bahongkolangu River following the construction of a hauling road right over the river.

Several villages, including Bahomakmur and Fatufia, were subsequently inundated by 1.5 meters of floodwater, damaging countless crops and settlements in the process.

Local residents were furious. A mob attacked the Bintangdelapan office on August, 2010, and set some of the company's mining equipment on fire. Four protesters were arrested by the police.

Since then, flash flooding returned in 2011, 2012 and 2015, leaving the locals with little to cheer about as they become resigned to accept it as routine.

"Before the mining activities, there were times when farmers in Bahomakmur were able to harvest at least 7 tons of rice from 1 hectare of paddy field," said Syahrudin Ariestal Douw, the director of the Central Sulawesi Network for Mining Advocacy (Jatam).

"But after flash floods hit those farmers hard in 2010, they just neglected their farms once and for all."

The Morowali administration formed two working groups (Pokja) tasked with determining the cause of the flooding and assessing the social impacts of the mining operations. Both groups presented their findings in 2014, but no follow-up action has been taken.

The Pokja reports revealed that farmers in Bahomakmur had utilized 296 ha of the total 372.75 ha of farms in the village during the period of 1996 to 2010, when rice production averaged 2 to 2.5 tons per ha.

As of 2014, about 33 ha of the previously utilized land had been converted into oil palm plantations, 5 ha for secondary-crop farming, while the rest remained neglected because heavy metals that arrived with the flooding had polluted the Bahongkolangu River and damaged the land.

Another report shows that 86 families were heavily exposed to dust from passing trucks on the hauling road in Bahomakmur between 2010 and 2013.

There were 226 people suffering from various acute respiratory diseases, diarrhea, pharyngitis, dermatitis and asthma between 2012 and 2014.

People have continued to voice similar concerns. In the second week of October, dozens of protesters held a rally to demand the company, among other things, take responsibility for the spread of coal dust to settlements near its hauling road.

"We have discussed this matter with those protesters and made a deal to install a kind of dust barrier system at our seaport to a height of around 20 m," IMIP senior vice president for external relations Slamet Viktor Panggabean said.

Apart from the dust, activists from YTM and Jatam have long criticized IMIP's seaport-expansion project, which they say threatens the livelihoods of fishermen.

The developer is currently in the process of upgrading its seaport to have a docking capacity of 250,000 deadweight tons (DWT) from the previous 30,000 DWT.

"We will try to find a win-win solution so that the fishermen will not have to lose their income, whether by providing fishing boats for them or by assembling net cages for a fish cultivation program," Slamet said.

However, IMIP chief executive officer Alexander Barus said it was difficult for the company to take good care of all environmental issues amid the ongoing development of the industrial complex.

"When you are building a new house, do you bother to take a look at the trash bin? No, you don't. You will handle it properly later after the development is fully completed," Barus said.