

Rupiah falls to record low amid rising pressures

The Jakarta Post

JAKARTA

The rupiah plunged to a record low of Rp 15,000 per United States dollar on Tuesday at noon, the lowest rate since the 1998 financial crisis, as a result of a combination of pressures such as the escalating US-China trade war and rising oil prices that may increase the country's trade deficit.

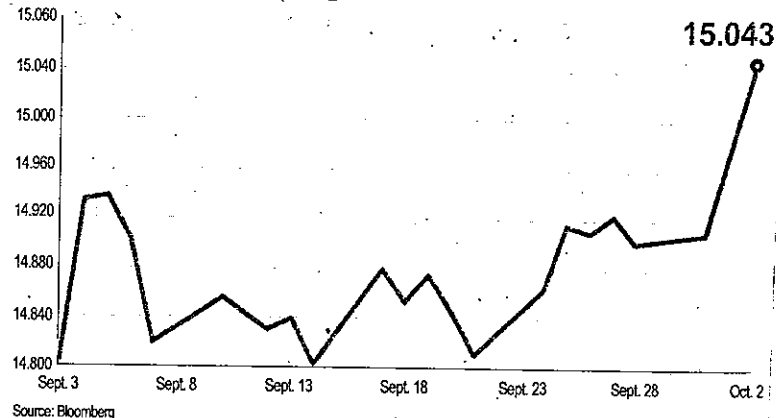
The drop came as a blow to Bank Indonesia (BI), which increased its benchmark interest rate five times since May to defend the rupiah. The latest hike was on Sept. 27, when BI increased its policy rate — the seven-day reverse repo rate — to 5.75 percent.

The central bank's decision was consistent with efforts to maintain the current account deficit at a safe level, said BI Governor Perry Warjiyo.

PermataBank economist Josua Pardede said the drop in the rupiah was attributable to two main factors — the US' upper hand in its trade war with China and rising global oil prices.

Since the US began imposing

US\$ to rupiah exchange rate



Source: Bloomberg

trade sanctions on Chinese products in July, the US dollar index — a measure of the US dollar's value relative to a basket of foreign currencies — has climbed 5 points to 95.5 from 90.05 in April.

Furthermore, the US has escalated sanctions on China by coaxing Mexico and Canada to join the imposition of trade restrictions on Chinese products via a new North American trade deal.

Meanwhile, global oil prices have risen significantly since April, straining the country's al-

ready gaping US\$1.52 billion deficit recorded in May — one of the highest among emerging economies.

Josua referred to crude oil benchmarks, Brent and West Texas Intermediate, the prices of which stood above \$85 and \$75 per barrel respectively on Tuesday, far higher than \$64 and \$63 respectively on April 1.

"These have potentially negative effects for net oil importing countries [such as Indonesia] because they will pressure their

current account deficits," said Josua on Tuesday as reported by *kompas.com*.

Data from the Energy and Mineral Resources Ministry shows that Indonesia required 1.3 billion barrels of oil per day in 2017, out of which 59 percent was produced locally while the other 41 percent was imported.

The government's most recent attempt to reduce oil imports was the requirement that all diesel sold within the country be 20-percent palm oil-based. The move, effective Sept. 1, is expected to reduce the country's foreign exchange spending by \$5.6 billion annually.

The government has also introduced an array of measures to reduce the current account deficit, which hit \$8 billion in the second quarter, equal to 3 percent of gross domestic product.

The measures include a higher tax on 1,147 foreign-made consumer goods and a temporarily halt of infrastructure projects that rely heavily on imported goods.

Commenting on the rupiah's slump, Finance Minister Sri Mu-

lyani Indrawati told reporters at the Presidential Palace on Tuesday that the government and BI would continue monitoring the rupiah and major economic indicators, including the resilience of the banking industry.

"Based on [banks'] capital adequacy ratio, non-performing loans and lending rates as of this October, it seems the adjustment to 15,000 is going well," she said, hinting that domestic banks might have anticipated that level.

Piter Abdullah, research director at the Center of Reform on Economics, concurred with Josua of PermataBank that the strengthening US dollar and rising oil prices were the main factors behind the rupiah's fall.

He said the rupiah's slide was predictable considering contemporary global economic uncertainty because of the US-China trade war combined with the trade deficit.

"I wouldn't be surprised if the rupiah sinks past 15,000 today," he said. **(nor)**

— MARGUERITE AFRA SAPIE
CONTRIBUTED TO THE STORY

Indonesia welcomes foreign assistance

Marguerite Afra Sapiie,
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THE JAKARTA POST/JAKARTA/PALU

Indonesia has welcomed assistance from foreign donors, ranging from transport aircraft to medical supplies, to speed up relief efforts in disaster-stricken Central Sulawesi.

Although the government has yet to officially declare a 7.4-magnitude earthquake and tsunami that struck the region on Friday a national disaster, President Joko "Jokowi" Widodo has opened the doors to foreign aid.

Coordinating Political, Legal and Security Affairs Minister Wiranto, who is in charge of overseeing the assistance, said 14 countries had expressed their commitment to helping ongoing disaster relief efforts.

Singapore, Malaysia, India, South Korea and the United States, for example, have agreed to send Hercules C-130 military transport aircraft.

"At least 10 [Hercules] C-130 aircraft will be deployed to assist the [Indonesian] Air Force," Wiranto said on Tuesday, adding that "[this] is the kind of air transportation we need to speed up rescue efforts."

Indonesia needs more Hercules aircraft to speed up relief efforts

Survivors in dire need of clean water, tents

The government specifically requested the Hercules C-130 because Mutiara Sis Al-Jufri Airport in Palu, Central Sulawesi, had sustained damages during the earthquake and the plane is capable of taking off and landing on unprepared runways.

The 10 military aircraft will be stationed in cities across neighboring provinces, including in Balikpapan in East Kalimantan and Makassar in South Sulawesi, to ensure the timely delivery of food and water and other basic needs for survivors.

Four days after a massive earthquake and ensuing tsunami devastated Palu City and the regencies of Donggala, Sigi and Parigi Moutong, the National Disaster Mitigation Agency (BNPB) recorded more than 61,000 survivors living in 109 temporary shelters.

As clean water was scarce, the government had included water treatment units on its list of aid requested to foreign donors who

were willing to help, including Japan, Switzerland and the ASEAN Coordinating Center for Humanitarian Assistance on Disaster Management (AHA Center), Wiranto said.

He went on to say that Japan, ASEAN member countries, Qatar and India would contribute by sending electrical generators.

India, Japan and several ASEAN nations will deploy field hospitals, alongside medical supplies and personnel, while Japan and the AHA Center have also agreed to send tents.

"The donors will not stop at disaster-response measures but will continue [to be involved in] rehabilitation and reconstruction projects," he said.

The Indian government deployed 37 medical personnel to Palu on Tuesday, confirmed India's Consul General to Medan Shalia Shah.

More help is also on the way to Central Sulawesi from different parts of the country, with local administrations preparing to send aid and supplies.

According to the latest BNPB data, the death toll has reached 1,234, while 799 people are heavily injured.

Rescue teams on Tuesday were finally able to reach Dong-

gala, Sigi and Parigi Moutong, the regencies that were previously inaccessible, said BNPB spokesman Sutopo Purwo Nugroho.

The remains of victims continue to be transported from each regency to Palu for identification and burial, he added.

However, BNPB head Willem Rampangilei said logistic support to at least 10 isolated areas in Sigi and Palu was still hampered and at least 20 more helicopters were needed to carry aid and transport rescue and medical teams.

He also noted that survivors living in temporary shelters were in dire need of tents and water treatment units.

"We need about 2,000 tents and they need to be delivered here soon," Willem said.

Meanwhile, 16 excavators have been deployed to remove rubble and rescue victims trapped under debris.

However, challenges remain as aftershocks continue to jolt the region, said National Search and Rescue Agency (Basarnas) head M. Syaugi.

NURNI SULAIMAN IN MEDAN AND
SUHERDJOKO IN SEMARANG CONTRIBUTED
TO THE STORY

SOEs lend hand in Palu recovery

Riza Roidila Mufti

THE JAKARTA POST/JAKARTA POST

As authorities race against time to rescue survivors and recover bodies trapped under collapsed buildings in Palu and Donggala, Central Sulawesi, the government is urging state construction companies to deploy heavy equipment to help in the rescue efforts.

The Public Works and Housing Ministry's construction director general, Syarif Burhanuddin, said heavy machinery such as excavators and loaders were crucial not only for rescue but also opening areas that are still isolated.

"There are several areas in Palu, Donggala and Sigi where survivors have not been rescued. In Balaroa, at least 1,300 houses have collapsed and it's unimaginable how many people are buried there," he said on Tuesday, referring to one of the areas in West Palu worst hit by the 7.4-magnitude earthquake.

Heavy equipment is also needed to clear debris left by the tsunami.

"Cleaning up the city is crucial so that people will not be traumatized when they see debris. Heavy equipment is very important in solving these problems," he said.

The Public Works and Housing Ministry expressed hope that both state-owned and private construction companies — members of the Indonesia Construction Companies Association (AKI) such as Adhi Karya, Bumi Karsa, Wijaya Karya and others — will take part in Palu's recovery.

Heavy equipment belonging to state-owned companies, such as Adhi Karya and Bumi Karsa, were seen in Palu, but the number is limited.

Excavators, loaders crucial for opening access to affected areas

100 heavy vehicles needed to speed up recovery

15 public hydrants available, more to be installed

Syarif urged construction companies that are deployed on construction projects in areas near Palu to mobilize more heavy equipment and help in the rescue efforts. He assured the government would not use heavy machinery for free but pay for it.

AKI chairman Budi Harto said the association is willing to help, such as by deploying heavy machinery and mobilizing equipment from nearby projects.

"Fifteen heavy vehicles have been deployed in Palu. [...] the need for heavy machinery could be in the hundreds as we need to quickly rescue and recover," said Budi.

To speed up the recovery, the Public Works and Housing Ministry pledged to focus on four emergency procedures: rescue, clean water and sanitation procurement, clearing debris and recovering infrastructure to help logistical and transportation access.

Regarding clean water and sanitation procurement, the ministry has placed water hydrants in at least 15 locations such as in Watulemo field, the front yard of City Hall, Biromaru traffic circle and Siranindi Stadium. Water equipment such as water tanks, sewage vehicles, as well portable toilets and other equipment like

emergency tents have been delivered from Makassar, South Sulawesi, and Surabaya, East Java, on Sunday. More will be delivered on Thursday, the ministry said.

"Power outages meant water company PDAM and wells are not functioning, resulted in low water availability. We have operated public hydrants by using drilled wells, artesian wells and surface water sources. As of now, there are only 15 public hydrants located in shelters, and we plan to increase this number," said Minister Basuki Hadimuljono in a press statement on Tuesday.

Meanwhile, in clearing debris, the ministry is focussing on Balaroa, Petobo and hotel debris as well as around Talise Beach, considered the most devastated areas.

For city cleaning alone, the ministry has deployed heavy equipment including three excavators, five loaders, four dump trucks and one motor grader.

"We are targeting to complete clearing debris within two weeks, to minimize trauma. Today, the ministry's team arrived at Donggala regency and Sigi regency to do the same thing [city clean up]," said Basuki.

He also said the national highway to Palu from the west, east and central areas was accessible. The west highway connects Palu-Pantoloan Port-Tolitoli-Buol, spanning 546 kilometers, and Palu-Donggala-Pasangkayu-Mamuju spanning 420 km. The central highway connects Palu-Napu-Poso, spanning 427 km, and Palu-Kebon Kopi-Parigi-Poso spanning 220 km. The east highway includes Palu-Kebon Kopi-Marisa-Gorontalo, spanning 607 km.

TRADE BALANCE

Ministry's formula goes against mainstream

Stefanno Reinard Sulaiman

THE JAKARTA POST/JAKARTA

The Energy and Mineral Resources Ministry insists that its plan to use a new formula to calculate the trade balance can help the government in formulating energy policies, but experts warn the move could disrupt data continuity and reflects a lack of coordination between state institutions.

In its own assessment of the oil and gas trade, the ministry includes state revenue from the energy sector aside from the calculation of exports and imports, but excludes several products Statistics Indonesia (BPS) usually counts.

Energy and Mineral Resources Minister Ignasius Jonan argued that the basic trade balance calculation comprising only exports and imports and resulting in either a surplus or a deficit was insufficient.

"Instead, we should add state revenue, counted in dollars, plus exports, and then subtract the imports," he said in Jakarta recently. "Why is this [formula] not recognized? [...] This is what you [the press] need to show [the public]."

The first effort by the Energy and Mineral Resources Ministry to promote its own formula was in early September, when the rupiah weakened against the US dollar, just days after BPS announced that the oil and gas sector was the main contributor to Indonesia's trade deficit in August.

With its own formula, presented to journalists in early Septem-

ber, the ministry showed that, while booking an oil and gas trade deficit of US\$3.32 billion in the second quarter of 2018, state revenue from the sector amounted to \$3.57 billion in the same period. It argued that, had the revenue been included, there would have been a surplus of \$250 million.

Using the same formula and ministry data, the oil and gas trade deficit from January to August 2018 would amount to \$7.33 billion, \$1.02 billion less than BPS data showing a deficit of \$8.35 billion over the same period.

The ministry's formula also differs from that of Bank Indonesia (BI), including a smaller number of exported and imported products, permits for which are issued by the ministry.

"One example [of an omitted product] is lubricant, a product for which permits are [issued by] the Industry Ministry, not us," said Deputy Energy and Mineral Resources Minister Arcandra Tahar. "In total, the BPS includes 58 types of products for the oil and gas sector, but our calculation only includes 29 products."

However, experts have warned of negative consequences should the ministry use a different formula to that used by BPS.

Bhima Y. Adhinegara, an economist from the Institute for Development of Economics and Finance (INDEF), argued that the trade balance had never added state revenue into the existing calculation of exports and imports.

Bhima said the ministry's move could damage the credibility of

the BPS.

"It would be better if the two institutions talk to each other to find common ground," he told *The Jakarta Post*, adding that the ministry's move could create a disincentive for oil and gas investors.

Ramson Siagian, a member of House of Representatives Commission VI, which oversees energy policies, said the ministry's formula was "illogical", as the trade balance in basic accounting only comprised of exports and imports.

The ministry's move also appears to contradict a statement made by President Joko "Jokowi" Widodo two years ago, when he stressed that the BPS was Indonesia's only state agency in charge of official data.

To support his statement, Jokowi pointed to inaccuracy in nationwide rice production data, as the figures varied from one institution to another, including the Agriculture Ministry, Trade Ministry and the BPS.

"From now on, only the BPS is responsible for data, and the BPS must take its job seriously," Jokowi said, as quoted from the Cabinet secretariat's website during the declaration of the 2016 Economic Census and the inauguration of a technical coordination meeting.

When asked what the ministry would do with the data, Arcandra said it would soon talk to the BPS for "synchronization".

Contacted separately, BPS deputy for statistics distribution and services Yunita Rustanti said the agency would "check the formula first".

Govt told to boost fisheries research

The Jakarta Post

JAKARTA

In a bid to promote the sustainable cultivation of marine life, fishery representatives at a recent open dialogue hosted by the Maritime Affairs and Fisheries Ministry in Jakarta demanded government bodies intensify fishing-related research as a prerequisite to formulating policies.

"We're concerned about the reduced supply of natural crabs because it means the business is not sustainable," executive director of the Indonesian Blue Swimming Crab Association (APRI) Hawis Madduppa told the meeting. The association, comprising 16 crab processing companies, reported a 16 percent decrease in the natural crab supply to 1,600 tons in 2017 from 1,900 tons in 2016, despite a considerable increase in profit of US\$300 million from \$200 million.

He added that APRI also noticed a decrease in the crab stock this year and was therefore planning a moratorium to stop members from opening new processing plants.

According to APRI, the association's members control 34 crab processing plants throughout the country.

Hawis said APRI was also experimenting with cultivating crabs to reduce the strain on the environment.

"We're aiming at an ideal target that 20 percent of our production comes from cultivation," he said.

Meanwhile, the Indonesian Fishermen Association (HNSI) pointed to the lack of alternative

Associations demand gov't intensify research on sustainable cultivation

Unstandardized, unsustainable practices still common

and standardized fishing equipment that would minimize environmental damage.

HNSI board member Bustami Mahyuddin pointed to *cantrang* (seine net) fishing — a productive but environmentally disastrous fishing method that involves dragging a giant net across the sea floor — which the Maritime Affairs and Fisheries Ministry banned in January.

Maritime Affairs and Fisheries Minister Susi Pudjiastuti lifted the ban a few days later in response to mounting protests from fishermen nationwide but still banned the construction of new seine net boats.

"Many fishermen on Java still use the method because they don't know any other alternative," said Bustami.

Bustami also said there were hundreds fishing tools that were unstandardized — such as trolls, seine nets and pull and lines — which if standardized would reduce environmental damage. The HNSI encountered difficulty in encouraging members to use sustainable fishing methods because of a lack of alternatives.

The Indonesian Pull & Line and Handline Fisheries Association (AP2HI), which represents 37 tuna processing companies, said they needed research on alternative tuna bait.

AP2HI general manager Ab-

dul Sulaiman explained that pull and line fishermen would normally use anchovies as tuna bait, but increasing demand for anchovies as a food item made it harder for pull and line fishermen to acquire anchovies.

"They waste around 50 to 60 percent of their time and money catching anchovies instead of tuna," said Abdul.

He added that it was important to preserve pull and line fishing because it was one of the most sustainable forms of fishing that specifically targeted single types of fish instead of bulk catching. The AP2HI was looking for alternatives to tuna bait such as milkfish, but it required more funding.

"We will appreciate it if the government and academic bodies are willing to do the research," he said.

Maritime Affairs and Fisheries Ministry ecology and maritime resources adviser Aryo Hanggono thanked the associations for their input and said the ministry would follow up by establishing a forum to compile suggestions for the formulation of a sustainable fishing policy that could satisfy all stakeholders.

Research, Technology and Higher Education Ministry productivity adviser Agus Puji Prasetyono also expressed appreciation for the ideas but acknowledged that the ministry lacked funds for such research. The ministry's research budget for the year was 0.25 percent of GDP, far lower than the ideal of 1 to 2 percent.

"We need a law that sets a minimal amount of the annual state fund for research," said Agus. (nor)

LOGISTICS

Rail freight seeks bigger role amid truck crackdown

Rachmadea Aisyah

THE JAKARTA POST/JAKARTA

The state-owned rail freight transport industry is seeking to benefit from its crackdown on freight trucks, which have frequently been caught transporting goods that are more than their allowed capacity.

Data from the Transportation Ministry shows that freight trains only account for 0.6 percent of the country's freight transport sector to date, while 90 percent are still carried by vehicles.

State-owned railway company PT Kereta Api Indonesia (KAI) president director Edi Sukmoro said the company aimed to transport 47.2 million tons of cargo this year, up 23.7 percent from last year's 40.1 million tons.

As of August, KAI had only transported about 29.5 million tons of cargo, said Edi.

"However, we are confident that we will be able to reach 47.2 [million tons], more or less," he said on Tuesday. "Especially with [the government's increased restriction on overloaded and oversized freight trucks], we hope that businesses would take another look at KAI and hopefully boost our freight business."

Edi was referring to the government's weighbridge rules for freight trucks — effective Aug. 1 — which, if violated, can result in

sanctions ranging from a warning or a traffic ticket to a legal suit. The rules aim to protect roads and reduce congestion.

Edi did not elaborate on the company's revenue from the freight business, but said it made up at least 40 percent of the company's total revenue. The company, he added, had allocated an undisclosed amount of capital to develop the supporting facilities for its freight business, such as loading terminals.

KAI was also in the process of procuring 278 flatcars and 19 freight locomotives that cost between Rp 30 billion (US\$2 million) and Rp 35 billion each, he added.

Transportation Ministry special staffer and KAI main commissioner Cris Kuntadi said there were several challenges the rail-based freight industry faced in its competition with road and sea transportation. For example, while businesses acknowledge the affordability of rail freight, it will incur more costs on consumers for door-to-door services.

Furthermore, the government still imposed a 10 percent value-added tax (VAT) for all types of freight services, which added to the logistic costs, he said.

"I am currently pushing a proposal to the Finance Ministry to strip off 10 percent VAT [for rail freights], so there will be more

significant benefits to encourage consumers to shift to trains from trucks," Cris said.

KAI's logistics subsidiary PT Kereta Api Logistik (Kalog), meanwhile, said it experienced imbalanced demand in the Java region — the only island in Indonesia it services end-to-end.

Kalog vice president for non-containers Edi Sudiarto said the company suffered from only a 60 percent occupancy rate for freight services because trains were only full when it carried processed goods from the western part of the island, where major industrial estates like Karawang, West Java, are located, and were empty when it came back from the east.

Furthermore, freight trains passing the greater Jakarta region had to fight for space with passenger trains whose schedule was non-negotiable.

"Aside from acquiring new clients, we are also upgrading our technology to be able to carry raw materials instead of just processed products," Kalog's Edi said.

Indonesian Truck Business Association vice chairman Kyatmaja Lookman said businesses were still reluctant to switch to rail because of its impracticality and cost. However, he supported the development of the industry because trains would be able to cover longer distances.

Crude palm oil prospects in near future mandiri

Dendi Ramdani

JAKARTA

The crude palm oil (CPO) industry faces both domestic and international challenges in the near future. On the domestic side, the government just released Presidential Decree No. 8/2018, which halts any new proposals for land expansion.

Further, the decree mandates the evaluation of oil palm plantations, whether located in conservation forest areas or not.

Subsequently, the government may impose compensation or legal action on plantations. In addition, the decree accelerates the issuance of land certificates to smallholders for 20 percent of oil palm plantations.

All in all, we believe this presidential decree is aimed at improving the environmental and social sustainability of oil palm plantations and the palm oil industry. We realize there are a lot of environmental issues, such as deforestation, and social issues, such as land ownership disparity in the palm oil industry that should be resolved in the interest of a better future.

On the international side, the industry has to deal with trade restrictions on palm oil and its products in India, the largest importer in the world. In March, India increased its import tax on crude palm oil to 44 percent from 30

percent and on refined palm oil to 54 percent from 40 percent. More restrictions have been imposed in the European Union, which has a policy to exclude palm oil-based biofuel as a renewable energy based on the EU Renewable Energy Directive (RED II). Even though the EU states that its market is still open for palm oil and its products, for sure the palm oil demand for biofuel will decrease by 2.7 million tons. In addition, the United States also imposes antidumping duties of 60.44 percent to 276.65 percent on biodiesel from Indonesia and Argentina since April 2.

Data for the first half of 2018 indicate that CPO exports from Indonesia as the world's leading exporter decreased in volume and value by 6.8 percent and 14.1 percent, respectively. The decrease in value is bigger because of the lower price in 2018. Up to the end of September, the CPO price (FOB Malaysia) decreased by 14.95 percent year-to-date to US\$511 per ton.

The decrease in the CPO price was mainly caused by those trade restrictions in India, the EU and the US. Another reason is the trade war between the US and China, in which the import tariff

in China has increased for soybean from the US.

Based on our description above, the palm oil industry as well as the government need to resolve the challenges with constructive solutions. It is worth noting that palm oil has grown as the largest industry supporting the Indonesian economy. Exports have reached \$18.5 billion, and the industry directly employs 5.3 million people and indirectly approximately 7 million.

Given the contribution of the palm oil industry to the economy, we should maintain this contribution to support economic growth and public welfare.

At the same time, we should, of course, resolve environmental problems in the palm oil industry to ensure the industry's sustainability. Environmentally friendly plantation practices are a must to maintain the industry's long-term prospects.

The fact that the EU excludes palm oil-based biofuel from renewable energy is a good example to show that environmental sustainability is the norm for the future business. Clearly, the exclusion policy in EU countries may be triggered by their idea that unfriendly environmental practices should be stopped.

However, we view the exclu-

sion of palm oil from renewable sources of biofuel as an unfair policy, as it is obvious that palm oil comes from a renewable source, as opposed to fossil fuels.

We think a fairer and more constructive policy would be for the EU to apply technical requirements for palm oil to meet EU sustainability criteria. Accordingly, we believe that palm oil producers will follow the criteria in order to have market access to the EU biofuel market.

By contrast, we believe the exclusion of palm oil as a renewable source of biofuel is counterproductive for environmental sustainability. As explained above, this exclusion reduces demand for palm oil, implying lower prices in 2018. The lower price may prompt plantations to find ways to reduce costs by implementing environmentally unfriendly practices, such as burning peat.

In addition, we could also expect the EU to be willing to pay premium prices for green crude palm oil products to show their commitment to supporting environmental sustainability.

In the near future, some important decisions are waiting to be made. First, both large plantation operators and smallholders should be more aware of environmentally unfriendly plantation practices, because their future prospects are really determined by these practices. Consumers

now and in the future will be more demanding with regard to products they consume, which should be environmentally friendly.

Second, we think the government should be more active in negotiating bilaterally with India, the EU and the US. As for India, bilateral negotiations to find a give-and-take balance in trade should be formulated, because India may get more access to Indonesia for their goods, such as pharmaceutical and automotive products. Further, bilateral negotiations with the EU are also important to convince them that palm-oil based biofuel is a renewable energy and to demand their technical requirements for them to accept palm oil as a renewable source of energy. Similarly, bilateral negotiations with the US are also important to reduce antidumping tariffs on CPO-based biodiesel.

We believe more active bilateral negotiations by the government are key to maintaining market access for crude palm oil to those countries. At the same time, of course, we should apply and improve environmentally friendly and sustainable plantation practices.

The writer is the head of industry and regional research at Bank Mandiri.

