T. 6.3.2018
J.Post

CENTRAL BANK

RI's rate slasher seen as safe choice to stay as chief

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BLOOMBERG/JAKARTA

Indonesia central bank watchers know precisely what they want from its next governor: stability.

With three months to go before Agus Martowardojo's term ends, there's still no word from President Joko "Jokowi" Widodo on whether he'll nominate the governor for a second run. Whoever lands the job, economists want someone who'll continue Martowardojo's reforms: they've helped cool inflation, tame currency volatility and earned the central bank credibility with investors and credit rating firms.

"Under his watch, monetary policy credibility has been strengthened further," said Euben Paracuelles, senior economist for Southeast Asia at Nomura Holdings Inc. in Singapore. "Amid all the reforms and policy changes, there has been a great deal of transparency, which is critical from a central bank communication standpoint," he said, with Bank Indonesia (BI) now "in a strong position to address risks, particularly from external factors."

After eight rate cuts since 2016 and inflation at a one-year low, Agus' track record gives him a good chance of nomination, said six economists contacted by Bloomberg. If he does get a second term, it will be the first time in 40 years that a central bank chief is reappointed.

Economists say that other possible candidates include former finance ministers Chatib Basri and Bambang Brodjonegoro, now planning minister, along with the central bank's Senior deputy governor Mirza Adityaswara. Another option is deputy governor Perry Warjiyo, whose term ends in April, and who will be replaced by one of the three candidates already nominated by Widodo for the deputy position. The president's office declined to comment.

Agus, 62, became head of the central bank in May 2013 after serving as finance minister for three years. As his five-year term winds down, his approach to managing inflation and the currency looks anything but timid.

Within a month of taking over the monetary policy levers, the former banker led his board to unexpectedly hike rates as the 'taper tantrum' prompted an exodus of capital from emerging markets. Bank Indonesia later embarked on an aggressive easing cycle at the start of 2016 in a bid to fire up Southeast Asia's largest economy. Growth remains stuck at about 5 percent, while bank lending has been lackluster.

Annual inflation, which soared above 8 percent just three months after Martowardojo took office, eased to 3.25 percent in January, according to data released on Thursday. The currency is also more stable, having weathered three United States rate hikes last year.

Whoever the parliament approves from Jokowi's shortlist will be taking the reins as central banks elsewhere start withdrawing stimulus. The Federal Reserve is penciling in another three hikes for 2018, creating fresh risks for emerging markets. And with a presidential election for Indonesia likely next year, another stint for Agus would underscore a desire for stability.

"We believe that if there is a transition, the transition will be carried out smoothly and that the financial system stability, macroeconomic stability and all of Bank Indonesia's policy mix will remain consistent," Agus told reporters last week. He declined to say whether he wants a second term.

Widodo is expected to submit his picks for governor within weeks. The parliament is required to conduct a fit-and-proper test and approve any appointment at least one month before the incumbent's term ends.

"Agus has been quite good at maintaining low inflation and a stable rupiah and for me, he deserves another term," said David Sumual, chief economist at PT Bank Central Asia in Jakarta. "But this is a political decision, and it's very rare. Usually, if the regime changes, the governor also changes."

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RI to file case on biodiesel

JAKARTA: Indonesia plans to file a case against the United States Department of Commerce at the US Court of International Trade over anti-subsidy duties imposed on Indonesian biodiesel shipments, a Trade Ministry official said on Friday.

The government is also planning to bring a complaint to the World Trade Organization, Pradnyawati, director of trade security at the Trade Ministry, told Reuters. She did not give a timetable.

Paulus Tjakrawan, vice chairman of Indonesia's Biodiesel Producers Association, said the case at the US Court of International Trade would be filed immediately to meet a Feb. 3 deadline.

The US Commerce Department set final countervailing duties over alleged subsidies ranging from 34.45 percent to 64.73 percent for Indonesian biodiesel in November.

Anti-subsidy and anti-dumping investigations were launched against Argentine and Indonesian biodiesels last year following a spike in biodiesel imports to the United States.

Argentina was expected to follow Indonesia in filing a case against the US Department of Commerce at the US Court of International Trade on Monday, a Buenos Aires-based industry source with knowledge of the matter said on Friday.

"The export companies that are being investigated and the Foreign Ministry of Argentina will make a presentation to the court on Monday, like Indonesia," said the source, who asked not to be named. Foreign ministry officials were not immediately available for comment.

The Commerce Department is expected to set the final duty soon following its anti-dumping investigation.

"The government of Indonesia is even ready to defend the interest of Indonesian industry at the WTO. Just as the government has done against the EU and we won," Pradnyawati said.

The WTO ruled in favors of several challenges by Indonesia to anti-dumping duties imposed on its biodiesel exports to the European Union. — *Reuters*

Feb. 5. 2018
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DEFENSE

Oz, ASEAN 6 discuss further cooperation

Dian Septiari
JAKARTA POST/JAKARTA

Defense ministers from six countries grouped in the Our Eyes intelligence initiative have agreed to expand the alliance by inviting the four other ASEAN member states.

Indonesia, Malaysia, the Philippines, Brunei Darussalam, Singapore and Thailand launched the Our Eyes initiative on Jan. 25 to curb the influence of the Islamic State (IS) in the region.

The initiative was modeled on the post-World War II Five Eyes intelligence alliance involving the United States, Britain, New Zealand, Australia and Canada, which was established to monitor the Soviet Union.

Defense Minister Ryamizard Ryacudu said in a statement released on Friday that although the initiative currently involved only six out of 10 ASEAN countries, it is expected to welcome more nations.

He had previously explained that only six countries were originally included because the threat of IS and extremism was centered in their region.

IS in Southeast Asia has made its base in the southern Philippines, Indonesia and Malaysia, he said, but if it spreads to other countries, other ASEAN members might be invited to join.

The decision to include Cambodia, Laos, Myanmar and Vietnam was made during a recent meeting in Perth, Australia, hosted by Australian Defense Minister Marise Payne.

The six ASEAN members states affirmed their commitment to further enhance their counterterrorism cooperation in Southeast Asia during the Sub-Regional Defense Ministerial Meeting on Counter Terrorism, dubbed the Perth Meeting.

During the meeting, Ryamizard said the six-country initiative had already established working groups, with representatives from each country set to meet periodically and hold strategic exchanges of information related to terrorism and radicalism.

On handling regional terrorism threats, he said, there had to be concrete action, like the trilateral cooperation between Indonesia, the Philippines and Malaysia for coordinated patrols in the Sulu Sea, launched in 2017, and the Our Eyes initiative.

Furthermore, he added, in addition to current developments in the Sulu Sea and southern Philippines, countries in the region must also pay special attention to the Rohingya crisis in Myanmar's Rakhine state, because if it was not handled properly, the refugees could be recruited by IS to strengthen its network.

Meanwhile, Payne said that in the meeting, countries in the region shared lessons learned from recent operations and discussed enhanced measures to improve information sharing, as well as identified opportunities to work together to improve maritime security in the region.

"The Perth Meeting provided a platform for the ministers to reaffirm a shared commitment for defense organizations to work together in the fight against terrorism," she said in a statement released on Friday.

Indonesia will host the next meeting in 2019.

Prior to attending the Perth Meeting, Ryamizard and Payne met on Thursday to sign a renewal of the Australia-Indonesia Defense Cooperation Arrangement (DCA).

The original cooperation agreement was signed on Sept. 5, 2012, and expired on Sept. 5, 2017.

Several new issues were also discussed in the meeting, including possible cooperation in the region under the Trilateral Coordinated Patrol and Our Eyes initiative.

In addition, the two ministers discussed several strategic issues, including North Korea, developments in the South China Sea, returning foreign terrorists from IS and the development of the Rohingya crisis.

"Our bilateral defense relationship is built on mutual respect for each other's sovereignty and territorial integrity, which is underpinned by the Lombok Treaty," Payen said.

Signed in 2008, the Lombok Treaty established a modern framework for Australia and Indonesia cooperation in the fields of defense, law enforcement, counterterrorism, maritime security and disaster response.

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TRADE

Ministry sets higher export target after Jokowi's criticism

Marchio Irfan Gorbiano and Winny Tang
THE JAKARTA POST/JAKARTA

Mere days after the Trade Ministry was criticized by President Joko "Jokowi" Widodo for the country's poor export value, Trade Minister Enggartiasto Lukito responded by setting a higher export target for this year.

Enggartiasto revised the ministry's 2018 export target to 11 percent from the previous 5 to 7 percent. He said he would meet the target by intensifying efforts to open trade with "non-traditional" partners and cutting red tape.

He claimed the revised target had also been prompted by the optimistic outlook of a global economic recovery.

"Considering that the global economy is showing signs of recovery, and given our existing approaches — though trade agreements have yet to be signed — as well as our counter trade initiatives, I have set the [2018] export target at 11 percent," he said on Friday as part of the closing speech of a three-day working meeting held in Jakarta.

At the meeting's opening on Wednesday, President Jokowi slammed the ministry for Indonesia's poor export performance and its lack of trade promotions overseas.

The country's overall exports rose 12.6 percent — higher than the initial target of 5.6 percent — to US$ 168.73 billion in 2017, from $145.2 billion in the previous year.

Despite the increase, Indonesia's exports remain below that of its ASEAN peers, with Thailand recording $236.69 billion in exports, and Malaysia and Vietnam posting $219.45 billion and $213.77 billion, respectively, over the same period.

"We are losing to Thailand, Malaysia and Vietnam. If we continue like this, we will be defeated by Cambodia and Laos," Jokowi said on Wednesday.

Enggartiasto seemed confident of the ministry's ability to achieve double-digit trade growth this year. But whether it could surpass the trade value of neighboring countries was a different matter. He assured that he would meet the target with the help of, among others, several trade agreements to be completed this year.

These include the Indonesia-European Union Comprehensive Economic Partnership Agreement (CEPA), the Indonesia-Australia CEPA and Indonesia-Turkey CEPA, among others.

However, Enggartiasto's belief that the trade agreements could jack up exports was criticized by economic analysts.

Center of Reform on Economics (CORE) Indonesia executive director Mohammad Faisal pointed out that in order to boost exports, Indonesia needed to boost the competitiveness of its manufacturing industry.

To do this, the government needs to prioritize the industry's development in the same way it emphasizes infrastructure development, he told *The Jakarta Post.*

He further said that additional trade agreements would not have a greater impact on exports, but would instead drive imports.

"If we evaluate all the free trade agreements the government has signed in the past 10 years, none have been able to boost exports significantly," he said.

Mahmud Syaltout, chief analyst of ANP Insight and lecturer at the Paramadina Graduate School of Diplomacy, emphasized that businesspeople as well as the government must improve their market intelligence skills so they could better promote Indonesian products overseas.

"Our international market assessments were weak compared to other countries' like China, Vietnam or Thailand," he said, adding that businesspeople usually did not know in detail what products to sell to which countries and at what price, and so on.

Enggartiasto acknowledged the slow progress of negotiating the aforementioned trade agreements, as the process can be hampered by the "sectoral interests" of different ministries. The issue will be discussed at an upcoming meeting led by Vice President Jusuf Kalla, he added.

"Why has it been so hard to realize the [trade] agreements for the past seven or eight years? Because, first, the sectoral ego among state institutions remains high," Enggartiasto said.

He said the meeting aimed at identifying and revising regulations seen to impede trade negotiations, and also turn the prevailing laws of Indonesia's ASEAN neighbors into a benchmark for regional best practices. (kmt)

Feb. 3.2018
J.Post

Gas firms get 30-year exclusivity right

Viriya P. Singgih
THE JAKARTA POST/JAKARTA

New decree grants 30-year exclusivity right in gas trading

Business players cheer, pointing out business certainty, benefit in long term

The Energy and Mineral Resources Ministry has finally allowed investors to exclusively trade gas in certain areas for 30 years, giving them more certainties in the gas distribution business.

The new arrangement is outlined in Decree No. 4/2018 on downstream gas business, passed on Jan. 25, but only made public on Thursday. The regulation replaced Decree No. 19/2009 on gas pipe business.

The ministry's secretary general Ego Syahrial said the decree was expected to improve the domestic gas distribution chain and benefit industrial users.

"By issuing this new decree, we expect to create efficiency in the management of downstream gas infrastructure and eventually reduce industrial gas prices," he told *The Jakarta Post* on Friday.

Under Decree No. 19/2009, gas traders are obliged to transport gas through open access pipelines in certain distribution network areas (WJD).

However, if such open access pipelines do not exist in the areas, whether because of technical or economical issues, investors are permitted to construct downstream dedicated pipelines. They may transport their own gas using these pipelines after submitting their sales and purchase agreements with their suppliers and customers to the Energy and Mineral Resources Ministry.

Furthermore, gas distributors must use their own infrastructure in their operations and cannot trade gas with those facilities.

In a change to the previous decree, Decree No. 4/2018 introduces a bundling scheme that, among other things, obliges gas transporters to have a gas trade permit as well before delivering gas on their own infrastructure. They can also construct new pipelines to expand their existing facilities.

The new decree also annuls the previous dedicated pipeline mechanism, while requiring gas firms to obtain both transportation and trade permits before running their businesses.

Consequently, these gas firms will be granted exclusivity in certain gas trading areas (WNT) and WJDs for 30 years. In return, those gas firms must develop new distribution pipelines in their operating areas under the supervision of the Downstream Oil and Gas Regulatory Agency (BPH Migas).

Within a year and a half after the enactment of the new decree, the Energy and Mineral Resources Minister will determine the WJDs that will be included in the National Gas Distribution and Transmission Networks Master Plan (RIJTDGBN).

During the same period, BPH Migas will auction the right to operate all existing gas pipelines in WJDs across the country, which will enable winners to secure 15-year exclusivity rights.

"With this exclusivity right, we will be able to develop the infrastructure and markets in certain areas without having to worry about the presence of any new competitors in the process," said Adi Munandir, the marketing and product development head at state-owned gas company PT Perusahaan Gas Negara (PGN).

He added that the decree also permitted big players such as PGN to team up with existing smaller players in their WJDs and engage the latter in the gas trading business there. Meanwhile, the new decree also stipulates that gas traders can sell and transport compressed natural gas (CNG) and liquefied natural gas (LNG) in their operating areas as long as they possess supporting infrastructure.

Indonesian Natural Gas Trader Association (INGTA) chairman Sabrun Jamil Amperawan welcomed the issuance of the new decree as that would provide certainty for all gas players in the country.

"Investors of gas pipeline projects often have to wait for more than 15 years before they can reach a break-even point. So, the 30-year exclusivity right gives certainty for gas players," he said.

However, Sabrun underlined that the benefit of the new decree by way of gas price reduction would only be felt more than 10 years after all rules were effectively implemented.

Feb. 5. 2018
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Pertamina set to grow bigger than ever

Viriya P. Singgih
THE JAKARTA POST/JAKARTA

Holding firm formation enables Pertamina's monopoly in oil and gas sector

Draft regulation awaits Jokowi's signature

If everything goes as planned, state-owned energy giant Pertamina is set to control about half of national oil and gas production, as well as nearly all of the country's downstream gas pipelines by the end of 2018, partly owing to the government's role in transforming the company into a holding firm.

The transformation will take place once the government has transferred its 57 percent shares in state-owned gas firm Perusahaan Gas Negara (PGN) to Pertamina, a move that is expected to boost the latter's value, debt leverage and efficiency.

The process should take place following the issuance of a government regulation (PP) that would serve as the legal basis for the holding firm formation, said Fajar Harry Sampurno, the State-Owned Enterprise (SOE) Ministry's undersecretary for mining, strategic industries and media affairs.

"The draft regulation was submitted to President Joko Widodo on Jan. 31. We hope the draft is signed by the President within the next one week or two weeks at the most," he told *The Jakarta Post* on Sunday.

"After that, Pertamina will immediately hold an extraordinary general shareholders meeting and conclude its transformation."

Under the restructuring plan, the operation of PGN's upstream subsidiary, Saka Energi Indonesia, would later be consolidated with Pertamina's upstream subsidiaries such as Pertamina Hulu Energi and Pertamina EP.

As of September 2017, the combined domestic oil production of Pertamina and PGN stood at 276,800 barrels of oil per day (bopd), while their total gas production reached 1,740 million standard cubic feet per day (mmscfd). The figures accounted for around 35 percent and 27 percent, respectively, of Indonesia's ready-to-sell production, or also known as lifting.

In the same period, Pertamina also booked overseas oil and gas production of 104,000 bopd and 291 mmscfd, respectively.

It must be noted that the domestic output figures had yet to take into account production from the Mahakam block in East Kalimantan, which was acquired by Pertamina at the beginning of this year from France's Total E&P Indonesie and Japan's Inpex.

Mahakam generated 52,000 bopd and 1,255 mmscfd of gas throughout 2017, respectively, accounting for 6 percent and 20 percent of Indonesia's oil and gas lifting that year.

As mandated by the government, Pertamina has also stated its readiness to take over eight oil and gas blocks, the contracts of which with their existing operators will expire this year. The blocks are: Tuban, Ogan Komering, Sangasanga, Offshore Southeast Sumatra, North Sumatra Offshore, Tengah, East Kalimantan and Attaka.

As of 2016, total oil and gas production from those eight blocks stood at 47,245 bopd and 452 mmscfd, respectively, accounting for 5.75 percent and 6.8 percent of national lifting figures that year.

However, as Pertamina has participating interest and production splits in some of those blocks, its potential extra production after the takeover will only reach around 43,812 bopd and 375.9 mmscfd.

"We will team up with strategic partners that have investment capacity to help finance our upstream expansion," said Gigih Prakoso, Pertamina's investment planning and risk management director.

Consolidation with PGN will also pave the way for Pertamina to strengthen its grip in the management of downstream gas infrastructure.

As of last year, PGN operated gas transmission and distribution pipelines spanning 7,435 kilometers, or 76 percent of the country's overall downstream gas pipelines. Meanwhile, Pertamina, through its subsidiary Pertamina Gas (Pertagas), operated 2,085-kilometer transmission pipelines.

In its report published on Jan. 31, global energy think tank Wood Mackenzie lauded the Pertamina-PGN consolidation, particularly given their complementary gas businesses.

The group said Pertamina could leverage the PGN's wide customer base to extend its reach and marketing, especially in finding customers for its liquefied natural gas (LNG) cargoes.

The merger is also expected to provide a head start for the government's domestic price reforms, the report said.

"The government is seeking to implement a price pooling mechanism, whereby it will blend prices from diverse supply sources. This will help soften price fluctuations to customers and also accommodate the rising use of higher priced LNG," Wood Mackenzie said.

"Without the merger, this policy cannot be fully implemented."

Feb. 3. 2018
J.Post

Police move to close down alleged river polluters

Arya Dipa
THE JAKARTA POST/BANDUNG

Police close four companies, three laundry businesses accused of polluting Citarum River

Hundreds of tons of waste disposed in river

The West Java Police have closed down four textile factories for allegedly dumping waste into Citarum River in West Java after the government pledged to impose sanctions on polluters as part its effort to rehabilitate the heavily polluted river.

Police accused the four companies, namely PT Gede Indah in Cimahi regency, PT Sinar Sukses Mandiri in Purwakarta regency, PT Selasar Idola Abadi in Bandung regency and PT Surya Tekstil in Karawang, of disposing liquid chemical waste from their factories into creeks that feed into Citarum River.

"Some of them looked as though they used waste water treatment plants [IPAL], but when we checked, they also dumped waste directly into the creeks," West Java Police chief Insp. Gen. Agung Budi Maryoto said on Thursday.

No suspects have been named yet, as the police are waiting on the results of forensic laboratory tests on waste samples to assess the levels of pollution released into the river.

The decision to close down the companies was made after the police conducted an investigation and gathered at least two pieces of evidence against them. The move follows the closure of three laundry businesses that were suspected of dumping liquid waste into the river.

President Joko "Jokowi" Widodo launched a campaign earlier this year to rehabilitate the 297-kilometer-long river, which supplies 80 percent of Jakarta's untreated water.

The river basin is crucial to the livelihoods of at least 27 million people in West Java and Jakarta. The water is used to irrigate some 4,200 hectares of rice fields in Karawang, which supplies five percent of the country's rice demand.

However, the river's health has long been overlooked despite its importance. The Office of the Coordinating Maritime Affairs Minister has recorded that more than 3,000 textile companies operate in the river basin area without being properly equipped with water treatment facilities, leading to 280 tons of chemical and medical waste ending up in the river.

Jokowi has previously called for cooperation among ministries and institutions at the central and local levels to help solve the problem.

The companies closed down on Thursday were small-scale textile firms with no more than 100 employees. Furthermore, when police visited PT Gede Indah, the management could not produce environmental permit documents for the operation. Later on, the police discovered that the company had received repeated warnings from the Cimahi Environment Agency in 2013, 2015 and 2017 over its incorrect waste disposal but nothing had changed, Agung said.

The company was also said to lack proper management procedures for hazardous waste materials.

As for PT Sinar Sukses Mandiri, investigators recorded that the company dumped liquid waste directly into the river, which caused white steam to appear as the waste touched the water's surface.

"We still don't know what chemical substances they used that could produce such steam," Agung said.

From the investigation into PT Idola Selaras Abadi, the company has been accused of disposing of liquid waste into Cikembang River that did not meet quality standards.

"This company has also received a sanction from the authorities before," he added said.

Meanwhile, during the investigation in PT Surya Tekstil, investigators found that although the company had a waste treatment plant, the waste was not treated before being dumped into the river.

Police could charge the owners and the management of the companies under the 2009 law on the protection and management of the environment, which carries a penalty of up to 10 years in prison and Rp 10 billion (US$700,000) in fines.

West Java Siliwangi Military Command had previously accused 31 companies in Citarum River area of environmental violations after conducting a survey.

Siliwangi Military Command spokesperson Col. M Desi Arianto, said the survey from Jan. 17 to 23 had documented videos and pictures of the violations. The TNI had also made a report to the police for follow up.

The director of the West Java chapter of the Indonesian Forum for the Environment (Walhi), Dadan Ramdan, said the police had moved too slowly in the enforcement of the law.

"Companies should have started being shut down 20 years ago when the serious pollution problems caused by textile factories began," Dadan said on Friday.

He urged the government and law enforcement authorities to impose strict environmental audits on all companies operating along Citarum River.