

Rupiah fall will not last long: BI

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Global sentiment, particularly the United States Federal Reserve's plan to raise interest rates this year, continues to put pressure on the rupiah, which fell to Rp 14,052 per US dollar on Tuesday, the lowest level since December 2015.

The depreciation of the national currency caused market anxiety and drove the Jakarta Composite Index (JCI), the main gauge of the Indonesian stock exchange, down by 1.88 percent to 5,744.72 points on Tuesday, as foreign investors conducted Rp 8.2 trillion worth of net sells.

Bank Indonesia (BI) expressed confidence, however, that the rupiah's current volatility would not last long and said the public should remain calm. BI senior deputy governor Mirza Adityaswara said the Fed's rate hike plan was projected to affect the rupiah in the short run.

"BI notes that volatility from the adjustment in global capital flows is not as high as in 2013, when the US [Federal Reserve] first announced it will raise its interest rate," he said.

Mirza said Indonesia, despite running on a current account deficit, remained in an advantageous position, given that the deficit stemmed from an increase in the import of capital goods.

"The increase in imports sends a positive message, as it was driven by capital goods, raw materials and intermediary goods, which are essential for production," he said, adding that the increase in investment during the first quarter of this year confirmed that the imported goods were put to productive use.

BI projects the current account deficit to widen to between 2.2 and 2.3 percent of the gross domestic product this year from 1.7 percent recorded last year.

Ashmore Asset Management Indonesia director Arief Wana said Indonesia would have to endure pressure from abroad until the announcement of second-quarter results, but that would not be a problem, since the foreign currency reserves were still strong. "Our reserves are still equal to more than seven months of imports," Arief said.

According to BI data released on Tuesday, foreign currency reserves decreased by 0.87 percent to US\$124.9 billion in April from \$126 billion in March.

"The position is equal to 7.7 months of imports or 7.4 months of imports plus foreign debt installments," BI spokesman Agusman said.

On Monday, the Central Statistics Agency announced first-quarter year-on-year (yoy) GDP growth of 5.06 percent, up from 5.01 percent yoy in the same pe-

Fed rate hike plan to affect rupiah in short run

Forex reserves fall to \$124.9 billion in April

riod last year. Growth in private consumption was recorded at 4.95 percent yoy.

National Development Planning Minister Bambang Brodjonegoro said investment growth of 7.95 percent yoy in the first quarter was a good start to the year.

"We have to push investment growth beyond 8 percent and get public consumption back up to 5 percent. Hopefully we can do this, as government spending will be higher in this quarter," he said.

Meanwhile, Arief Wana said if the investment trend continued and consumption picked up ahead of regional elections on June 27, investors would look at Indonesia once again.

"This is a short-term adjustment, and the end of the second quarter is just 2.5 months away. In the second half, both private spending and fiscal spending will be better, as we will host the Asian Games," he said, referring to the quadrennial multisport event.

The JCI has dropped 8.91 percent since the beginning of the year, while the Indonesian blue chip index, the LQ45, fell even further, by 14.47 percent. Arief called that a "healthy correction".

"In 2017, as foreign investors mostly invested in big caps, the stocks increased a lot. Now the big cap stock price has corrected by 15 percent, and it will make the big caps more attractive again," he said.

Manulife Assets Management Hong Kong managing director Kenglin Tan said investors' expectations for Indonesian companies were unrealistic. Despite average earnings growth between 10 to 15 percent, the dividend yields were above 5 percent, yet investors kept complaining.

"We need an adjustment of market expectations to be more realistic," she said.

Moreover, she said, investors were overly worried about Indonesia's twin deficit of the current account deficit and the fiscal deficit amid the Fed's reference rate increase. Among regional peers such as Malaysia and Singapore, Indonesia was the only one with a twin deficit.

Wijen Pontus, an analyst with PT Royal Investium Sekuritas Indonesia, said after reaching the bottom, the JCI would rebound again, because the moment would be seized especially by local investors to buy stocks at reasonable prices. He predicted that the JCI would hover between 6,300 and 6,400 points by the end of this year.

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CONTRIBUTED TO THIS STORY.

Industry, govt gang up against EU

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THE JAKARTA POST/JAKARTA

At a two-hour seminar on the obstacles facing Indonesian palm oil exports on Tuesday, a representative from the European Union, which has moved to phase out the use of palm oil in biofuel, faced some tough questions from other speakers and the audience.

One of them came from Togar Sitanggang, the deputy chairman of the Indonesian Palm Oil Producers Association (Gapki).

"The timber industry, which cuts trees, has no problem at the EU.

"It has a legalized standard called the Forest Law Enforcement, Governance and Trade [FLEGT]. Doesn't that mean the EU backs deforestation?" Togar said during the seminar.

Earlier this year, the European Parliament approved draft measures to phase out the use of palm oil, which it attributes to deforestation, in biofuel by 2021.

The Indonesian government and industry players have called out the EU, calling the move "discriminative" to palm oil.

EU representative Michael Bucki, a counsellor on climate change, did not give detailed answers to questions aimed at him during the seminar.

He, however, said the EU had no intention of discriminating against palm oil, arguing that the union's policies were based on climate change concerns and to ensure the success of the Sustainable Development Goals (SDGs).

"Palm oil is just one of the sectors in the sustainability issue,"

Association questions EU's palm oil measures

EU rep says measure addresses climate change, ensure success of SDGs

CPOPC suggests single standard for palm oil

Bucki stressed.

In another session at the seminar, Coordinating Maritime Affairs Minister Luhut Pandjaitan continued to criticize the EU.

He told the audience about his recent visit to several European countries, where he lobbied to safeguard the long-term interests of the palm oil industry.

"I told them [EU] that we are not stupid. To address deforestation, we have issued a moratorium on palm oil land conversion, and that the cap is 12 million hectares," said Luhut.

Last month, he visited the Holy See to meet with Cardinal Peter Turkson, the director of the Pontifical Council for Justice and Peace, to discuss concerns over the fate of palm oil farmers.

Luhut, however, denied that the reason behind his visit to the Vatican was to lobby the EU.

He claimed that the visit was to address the issue of poverty and fair trade in all agricultural sectors, including palm oil.

"That's none of [the Vatican's] business. We just want to address poverty and fairness, which Pope [Francis] cares so much about," he said.

The Council of Palm Oil Producing Countries (CPOPC), whose members include Indo-

nesia and Malaysia who together produce 80 percent of the world's palm oil, suggested solutions that the EU could implement.

CPOPC executive director Mahendra Siregar said the EU could implement a single standard for palm oil, similar to the timber industry with FLEGT or the fishery industry with the United Nation's FLUX standard for sustainable fisheries.

"We need a single-standard, not only for environmental issues but also to address the economic and social impacts," he said.

The council predicted that by 2048 the global demand for vegetable oil is predicted to spike to around 200 million tons, which could be fulfilled by 30 million ha of palm oil plantations with a productivity of 6 or 7 tons per ha.

Lili Yan Ing, a special staff for international trade at the Trade Ministry, said the ministry would explain the country's stance on palm oil during negotiations at the Indonesia-European Union Comprehensive Economic Partnership Agreement, and with the European Free Trade Association.

Lili added that retaliation would not be a measure that the ministry would take as it could wound local and foreign palm oil producers.

"However, Trade Minister Enggartiasto Lukita said that if the discrimination continues, whether for palm oil or not, the government will take the necessary measures," she said.

Luhut, however, was open to the option to retaliate, but only as a last resort if it failed to lobby the EU.

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Reducing 'cost' of politics still challenging task

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Many believe that rampant corruption in Indonesia stems from costly elections.

Candidates for public office have to spend big, from getting the initial endorsement from a political party to then persuading voters to vote for them. This situation is widely believed to be among the major reasons for subsequent corruption and misappropriation of public funds.

Political scientists have long called for party- and campaign-financing reform as a means to address the challenge posed by high-cost politics. Corruption Eradication Commission (KPK) commissioner Alexander Marwata was recently quoted as saying that making politics "cheaper" would help reduce the rates of corruption in the country.

While acknowledging the damage inflicted on political parties when one of their members is arrested by the KPK for corruption, politicians suggest reform is too herculean a task.

Party officials are resigned to

Candidates need to spend billions for nomination, campaigns

Analysts call for political financing reform, better recruitment processes

the stranglehold of high electoral expenses, where candidates have to spend a fortune to get nominated by their party and then boost their profile among voters.

"These days, political parties can't avoid [boosting their] electability and popularity [by spending money]. Meanwhile, factors like capacity and capability are no longer significant [to voters]. This is the starting point of high-cost politics," NasDem Party central executive board member Willy Aditya said in a discussion in Jakarta recently.

The NasDem Party cited a study that estimated the political costs for elections, indicating that a candidate needed to spend a minimum of Rp 10 billion (US\$710,290) to get a seat in the House of Representatives, or Rp 1 billion for a seat in a regional council (DPRD).

A recent study by the KPK revealed the high cost of local-government elections, indicating that candidates for mayor or regent need between Rp 20 billion and Rp 30 billion to finance their campaigns, while a gubernatorial candidate needs between Rp 10 billion to Rp 100 billion.

Willy said that 30 percent of the costs usually went to the political party that endorses the candidate, as the latter needed to cover the *mahar* — "bride price" in English — in political terms the price to pay to get on a party's ticket. The candidate will spend the remainder on pre-campaign image building, campaigning and later on vote buying.

Next year, there will be 575 House of Representative seats in contention, up from 560 seats in the 2014 elections. At the regional level, 2,206 seats in DPRDs across the archipelago are up for grabs.

These numbers imply that trillions of rupiah will be circulating among political parties, candidates, sponsors and voters next year.

Gerindra deputy chairman Ferry Juliantono blamed direct elections as a cause of the problem, arguing that politics would

not be as costly if DPRDs directly elected their local leaders.

This argument reflected the position of Gerindra and its coalition partners in 2014 when they pushed for revision of the Legislative Institutions (MD3) Law.

Between 2015 and 2017 the KPK arrested 29 regional heads and 62 legislative members — of both the House and DPRDs — on allegations of corruption.

Based on KPK studies, KPK commissioner Alexander Marwata suggested that "the government help fund [candidates and political parties] during elections" to reduce dubious campaign-financing schemes.

The suggestion was echoed by Titi Anggraini, the director of election watchdog Perludem, who added that imposing caps on campaign spending and harsh law-enforcement against illicit practices pertaining to elections would contribute to the efforts to reduce electoral costs.

"Parties also need to reform their recruitment mechanisms to get candidates with strong social foundations so they won't necessarily need to spend a fortune to boost their profiles [among voters]," she said.

EXCHANGE RATE

Airlines call for govt help as rupiah slump increases costs

Farida Susanty

THE JAKARTA POST/JAKARTA

Domestic airlines have urged the government to adjust the airfare price ceiling because of skyrocketing operational costs caused by the ever-weakening rupiah against a stronger United States dollar.

The rupiah rose above Rp 14,000 per US dollar at the close of Monday's trading, the first time since December 2015, crossing the so-called psychological barrier following gradual weakening in recent months.

The slump has caused concern among airlines as operational costs continue to rise given the heavy reliance on the US dollar.

Private carrier Sriwijaya Air's commercial director Toto Nursatyo said the airline saw higher than expected operational costs as its earlier base projection of the exchange rate this year was as low as Rp 13,500.

The exchange rate gap is important as 70 percent of Sriwijaya Air's operational costs, including fuel, aircraft lease, maintenance and insurance, is paid for in US dollars, Toto said.

"We really hope that this slump is temporary," he said over the phone on Tuesday. "If it stays at Rp 14,000 we can hold on, but if it's more than that there has to be an increase in the ceiling fare [for flight tickets]."

With an increase in the airfare ceiling, Toto said there could be

an increase in the base fare for flight tickets.

While there are various airfare ceilings for each route, the prevailing Transportation Ministry regulation stipulates that the base fare should be 30 percent of the ceiling fare. For instance, the base fare for a flight from Jakarta to Surabaya, East Java is Rp 412,000 (US\$29.30), while the ceiling fare is Rp 1.37 million.

Airlines, especially members of the Indonesian National Air Carriers Association, have long voiced concerns on the need for the government to revise the baseline airfare, particularly to ease the price war among airlines.

The organization had earlier suggested a 10 percent increase in the base fare, from 30 percent of the ceiling fare for each route to 40 percent.

"We have to propose this [increase] to the Transportation Ministry, although we will take a wait-and-see approach to see how the [situation pans out]," Toto said.

Transportation Minister Budi Karya Sumadi said on Tuesday that the ministry was set to meet with the airlines on Friday to find a solution on the matter, but declined to mention whether it would increase the base airfare.

Although it calculated its finances in US dollars, national flag carrier Garuda Indonesia has also been affected by the rupiah's depreciation, as 80 percent of its revenue is in the local currency,

meaning that it would require higher rupiah-denominated revenue to maintain its cashflow.

"In terms of profit and loss caused by exchange rate, there is a benefit, but then the interest rates charged on the loans we receive will increase because we need [more] rupiah to pay for the dues in US dollars," said Garuda Indonesia finance director Helmi Imam Satriyono.

"In general, if the US dollar continues to strengthen, it will be bad for the [aviation] industry."

Garuda Indonesia previously stated that it had hedged its cash against currency risks despite being confident on managing its cashflow, even if the rupiah exchange rate hit Rp 14,000 per US dollar.

However, the company also faces rising oil price, so an increase in the base airfare might be the only solution to increase revenue as the measure would raise ticket prices, Helmi said.

Meanwhile, Sriwijaya Air chose to promote its international routes, particularly to China, as the strategy will increase its US dollar earnings, in an attempt to shield itself from currency depreciation.

Revenue from international flights only made up to 15 percent of Sriwijaya Air's total revenue, although Toto said it aimed at increasing it to 25 percent. At the same time, he said the airline had yet to hedge its cash against currency risks.

In North Sumatra, farmers prefer mangroves to oil palm

Moses Ompusunggu

THE JAKARTA POST/LUBUK KERTANG, NORTH SUMATRA

In a coastal village in Langkat regency, a three-hour drive north from North Sumatra's capital of Medan, locals have started to reap the benefits from the hundreds of hectares of rejuvenated mangrove forests that had previously been illegally converted by companies into oil palm plantations.

After securing a forest management permit in March 2017, Lubuk Kertang farmers and fishermen have constructed 20 eco-friendly ponds to farm shrimps, crabs and several local varieties of fish, as well as to produce snacks and syrups made from mangrove leaves and mangrove apples. They also plan to construct an ecotourism site.

As part of President Joko "Jokowi" Widodo administration's social forestry program, a permit was issued by the Environment and Forestry Ministry to Kelompok Lestari Mangrove, a group of 108 Lubuk Kertang farmers and fishermen, to manage 410 hectares of mangrove forests for a period of 35 years.

The Jokowi administration aims to grant permits to forest-dependent Indonesians to manage 12.7 million ha of state forests across the country. Yet it was an arduous journey for the locals before obtaining the permit.

Prior to the government's initiative, residents fought for nearly eight years to restore the area's mangrove forests, during which they faced a number of bloody encounters with palm oil companies. Several local leaders were apprehended for allegedly destroying oil palm plantations, which were planted on a massive scale in 2006.

"We stood up to the companies, and the thugs and security officers on the companies' payroll who protected the plantations," said Rohman, chairman of Kelompok Tani Lestari Mangrove, which translates to Mangrove Conservation Farmers' Group, as he stood beside one of the group's eco-friendly shrimp ponds.

The massive 2009 flash floods in Langkat, including in Lubuk Kertang, provided momentum for local activists to muster the support of fellow citizens to deal with the issues caused by the area's depleted mangrove forests. In October 2010, locals from seven villages surrounding the mangrove forests began a rehabilitation crusade, gaining support from civil society organizations like the North Sumatra branch of the Indonesian Forum for Envi-

ronment (Walhi), the Indonesian Traditional Fishermen's Association (KNTI) and the People's Coalition for Fisheries Justice Indonesia (Kiara).

The mangrove forests in Langkat have suffered from numerous kinds of land conversion in the past, but none have inflicted more severe economic losses than oil palm plantations, locals and activists interviewed by The Jakarta Post said.

"The reason we got involved was the real economic value of the mangrove ecosystem for locals compared to how things were after the forests were converted into oil palm plantations," said Doni Latuperisa, program manager of Walhi North Sumatra.

In the 1990s, around 100,000 ha of mangrove forests could be found in North Sumatra. Nearly half, however, have been converted, mostly for oil palm plantations or illegal fish ponds. Some 20,000 ha of mangrove forests have also been cut down by the charcoal industry, which flourishes in Langkat.

Nationwide, there are around 3.49 million ha of mangrove forests, equal to 21 percent of the Earth's total mangrove forests. However, according to the Food and Agriculture Organization (FAO), Indonesia has lost around 40 percent of its mangrove forests in the last three decades, with scientists calling it the fastest rate of destruction on the planet.

Lubuk Kertang fishermen had been the worst affected by the disappearance of mangrove forests, said Tajrudin Hasibuan, chairman of KNTI Langkat and social leader of Lubuk Kertang mangrove defenders. Embankments built by companies on the mangrove mud flats to protect their plantations drastically reduced the flow of freshwater into the area, preventing the process of fish spawning from occurring in the area.

Under the permit they obtained in 2017, the locals are protected from outsiders seeking to destroy the mangrove forests or claim unilateral ownership over the land. They were also given the responsibility to look after and protect the forests from destruction.

Lubuk Kertang women have also been involved in harnessing the economic value of their rejuvenated mangrove forests. Some 14 women in the village have established their own group, called Kelompok Tani Abadi Mangrove, to produce snacks from acanthus leaves, or jeruju in the local language, and syrup from mangrove apples, known locally as *pidada*.