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SUPPLY CHAIN

RI still behind neighbors in global production sharing

Marchio Irfan Gorbiano
THE JAKARTA POST/JAKARTA

Indonesia has benefited from global production sharing but is still lagging behind its neighbors, an expert said.

Prema-Chandra Athukorala, a professor of economics in the Crawford School of Public Policy in Australian National University (ANU), revealed compiled data from the United Nations Comtrade database — which is customs-based data — that shows Indonesia lacks integration with global production networks.

"Global production sharing has been a prime mover of export dynamics in East Asia, and the emerging opportunity for international exchange [was] reflected in Indonesia's export patterns as well, but Indonesia has lagged behind the other East Asian countries," Athukorala said in his speech during the 2018 Hadi Soesono Policy Forum. The forum was held by the Centre for Strategic and International Studies (CSIS) in Jakarta on Monday.

The share of global production network products accounted for 57.1 percent of total Indonesian exports from 2015 to 2016, the data revealed, lower than Thailand and Malaysia, at 64.6 percent and 68.9 percent, respectively, of its exported products used in global production networks.

Indonesia's share of its global production network products represented US$40 billion worth of goods during the period, while Thailand and Vietnam exported goods worth $99.8 billion and $108.5 billion, respectively, of global production network products.

Athukorala defined global production networks as the interfirm relationship that binds a set of firms engaged in global production sharing, which is a dispersion of separate stages of an integration production process across national boundaries.

The same data revealed that the share of Indonesian exported products of information, technology and communication (ITC) — which he said was one of the prime movers of export dynamism in other high-performing Asian economies — accounted for only 18.3 percent.

Athukorala said there were three things that were important for a country in participating in the global production network, namely availability of trainable labor, service link cost — which is the cost incurred in coordinating production processes across borders — as well as proactive investment promotion campaigns.

He suggested Indonesia combine further reforms to cut service link cost, with proactive investment promotion campaigns to attract multinational companies that are engaged in global production networks. CSIS senior researcher Haryo Aswicahyono said continuing reform would be key for Indonesia to eventually join global production networks.

"If we don't solve [the problems], we risk lagging behind more and not being [considered] part of [global production networks]," he said.

He added that other countries, such as Thailand in the automotive sector, have been consistently reforming their regulations to attract investment.

However, Haryo was upbeat that several of Indonesia's manufacturing sectors, such as automotive and petrochemical, could be ready to join the global production network.

"The automotive sector has a long history. We already have the experience, and the companies are already here. So the potential to move forward are big as our domestic market is strong and our export markets remain open, particularly in ASEAN," he said.

Industry Minister Airlangga Hartarto previously said boosting the export output of the automotive industry was among the quick ways in which the country could reduce its current deficit in the trade balance.

He, however, emphasized the need for fiscal incentives in the form of the exemption of luxury tax (PPnBM) for exported sedans to be able to effectively boost the industry's export output.

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SUSTAINABILITY

RI pushes for circular economy

Dewanti A. Wardhani
THE JAKARTA POST/BANGKOK

The government is pushing for the implementation of the circular economy concept in Indonesia as global trends shift from the traditional linear economy.

According to the World Business Council for Sustainable Development (WBCSD), the concept of the circular economy moved away from the traditional "take-make-dispose" economic model to one that was regenerative by design.

The goal of this concept is to retain as much value as possible from resources, products, parts and materials to create a system that allows for long life, optimal reuse, refurbishment, remanufacturing and recycling.

The Environment and Forestry Ministry's deputy director for recycling and specific waste, Haruki Agustina, said the implementation of the circular economy concept for industries was important, as it sought to utilize industrial waste as an alternative to raw materials or as a source of fuel.

"We are directing many [companies] to [implement the circular economy concept]," Haruki told *The Jakarta Post* on the sidelines of the 2018 Sustainable Development Symposium held by Thai cement giant SCG in Bangkok, Thailand, on Monday.

Haruki said the circular economy was a means to reduce greenhouse gas emissions as stipulated in the 2015 Paris Agreement.

She said several companies from various industries in the country, from cement to paper, have already started implementing the concept.

However, Haruki added, many still had a long way to go, despite waste management being a requirement to obtain an environmental permit.

She said the circular economy was a relatively new concept in Indonesia and that the government had taken baby steps toward full implementation.

Last year, Haruki added, President Joko "Jokowi" Widodo issued Regulation No. 97/2017 on the national strategy on waste management.

The regulation stipulates, among others, that all regions must establish a waste management strategy.

The circular economy, she added, had economic potential.

One example is the establishment of waste banks, which she said currently contributed 1.7 percent to the reduction of waste in Indonesia thus far.

Haruki added that she hoped to learn more about the implementation of the circular economy concept in other countries to understand global expectations and trends in sustainable development during the symposium.

The Industry Ministry's director for the upstream chemical industry, Muhammad Khayam who also attended the symposium, said the ministry was preparing incentives for companies to implement the circular economy under its green industry program.

"Sustainability programs among companies operating in Indonesia are still sporadic. Not all companies are doing it," Khayam said on the sidelines of the symposium.

He acknowledged that incentives and a change in regulation were needed to encourage sustainable practices among businesses.

Khayam, however, did not elaborate on the types of incentives the ministry was considering.

During the symposium, SCG was among the companies that shared their experience in implementing the circular economy in their operations in Thailand.

"The circular economy needs collaboration, not only within the industry, but also with the government, policy makers and the public in general has to commit and set examples by collaborating and innovating," SCG sustainable development committee chairman Cholanat Yanaranop told the press at the symposium.

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REGIONAL ELECTIONS

Smaller parties make biggest gains

Karina M. Tehusijarana
THE JAKARTA POST/JAKARTA

Small and medium-sized parties made the most gains in the 2018 simultaneous regional elections with their candidates snatching gubernatorial posts in a number of provinces.

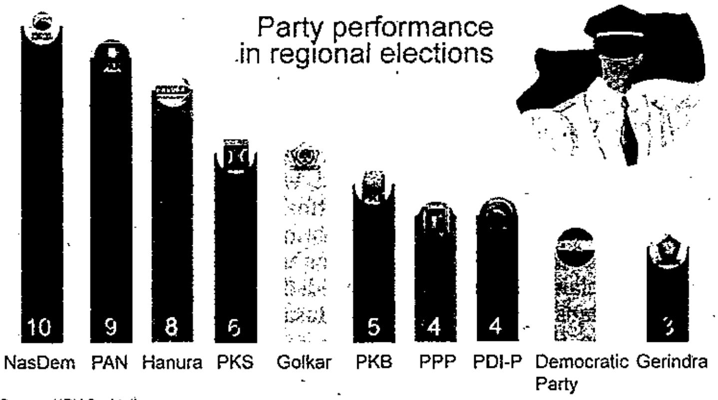
An official final tally from the General Elections Commission (KPU) shows that the NasDem Party, the National Mandate Party (PAN) and the Hanura Party, in coalition with other political parties won elections in 10, nine and eight provinces respectively.

As of Monday evening, the KPU had wrapped up manual vote counting in 16 out of the 17 provinces that held elections on June 27. The election commission is yet to announce the final tally from Papua because of a delay in the vote-counting process in Jayawiya, Mimika and Paniai regencies.

NasDem, a political party founded by media baron Surya Paloh in 2011, was particularly impressive with four of its own candidates winning governorships in East Nusa Tenggara, West Kalimantan, South Sumatra and Southeast Sulawesi.

Of the three best-performing parties, NasDem is a medium-sized party with 35 seats in the House of Representatives, while PAN controls 49 seats, and Hanura 16 seats, making up only 17.9 percent of seats in the legislative body.

In contrast, major political parties like the Indonesian Democratic Party of Struggle (PDI-P), the Democratic Party and the Gerindra Party put in lackluster performances based on the final tally.



Source: KPU final tally

The PDI-P only secured victory in four out of the 16 gubernatorial elections, while the Democratic Party and Gerindra won only three each. The three major political parties collectively control 43.4 percent of the seats at the House.

The NasDem performance in the poll is even more pronounced when looking only at major provinces. The party was a member of coalitions that won in four out of five of the country's most populous provinces; West Java, Central Java, East Java and North Sumatra.

Gerindra, however, failed to win in any of the Java elections, although it shared a success with NasDem in a coalition in North Sumatra. The PDI-P secure wins in Central Java and South Sulawesi, while the Democrats were in coalitions that won elections in Central and East Java.

"I think that the 2018 regional elections brought good news for small to medium-sized parties, because they have shown that they are more flexible in building coalitions," Centre for Strategic and International Studies executive director Philips Jusario Vermonte said.

Philips pointed out that NasDem, a pro-government party, had worked together with opposition parties such as Gerindra and the Prosperous Justice Party (PKS) in several provinces.

PAN, which has often been critical of President Joko "Jokowi" Widodo's administration, had in fact joined with the PDI-P and other members of the pro-government coalition in many regions.

Smaller parties were also quick to support popular, technocratic candidates and less insistent on nominating their own members.

NasDem, for example, endorsed popular Bandung Mayor, and now West Java governor-elect, Ridwan Kamil despite Ridwan's lack of party membership.

Gerindra and the PDI-P, however, insisted on nominating their own, less well-known members in the West Java race, both of whom lost.

"They [smaller parties] are more willing to try and expand their base," Philips said. "This may be part of their strategy for the upcoming legislative elections."

NasDem secretary-general Johnny Plate said the party's impressive performance in the polls was the outcome of its insistence on doing away with money politics, whereby candidates pay to get on a party's ticket.

"We call that a 'political dowry, and we did not resort to such practices and that allowed us to form coalitions and pick candidates based on competence, integrity and electability," he said on Monday.

The PDI-P, meanwhile, defended its performance, with secretary general Hasto Kristiyanto saying that the party was proud of having endorsed "quality members".

Gerindra, meanwhile, has already turned its attention to the 2019 presidential elections, where party chairman Prabowo Subianto is expected to run at the top of the ticket.

"We will step up our efforts to form a coalition [for the presidential elections]," Gerindra vice chairman Fadli Zon said.

— Severianus Endi in Pontianak and Apriadi Gunawan in Medan contributed to this story.

Revamped rule on track amid uncertainty

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Farida Susanty
THE JAKARTA POST/JAKARTA

Proposed regulation to require ride-hailing firms to change status

Ongoing tensions remain between drivers, govt, companies

The government is going ahead with a draft of a new regulation that will change the direction of the booming ride-hailing business despite concerns that the implementation might fall short of expectations.

The regulation will serve as a detailed follow-up on existing Ministerial Regulation No. 108/2017 on nonroute public transportation, which regulates various aspects of the ride-hailing business.

The prevailing regulation stipulates a requirement for drivers to posses a type A driver license for public transportation, undergo a roadworthiness test (KIR) as well as base and ceiling fares for the service, among others.

The upcoming regulation, meanwhile, will include an article that will require ride-hailing firms to change their status to transportation companies.

The Transportation Ministry's director general for land transportation, Budi Setiyadi, told *The Jakarta Post* on Monday that the upcoming regulation would be in the form of a director general's decree as the ministry would not "annul Ministerial Regulation No. 108/2017".

He said currently, the draft had been completed but the ministry would first conduct a public hearing to discuss the matter in seven major cities, including Jakarta, Surabaya in East Java, Medan in North Sumatra and Makassar in North Sulawesi.

In the upcoming hearing, he said the ministry would invite academics, transportation association representatives and experts, before wrapping up and issuing the regulation in August.

However, Budi said there might not be any sanctions for the app-based companies if they failed to change their status to transportation firms, adding that the ministry would probably allow time for the process.

Budi's statement that there would probably be no sanctions for noncompliant ride-hailing companies seems to reflect the ongoing situation between the government and the players in terms law enforcement.

The ministry introduced the first regulation for ride-hailing apps in May 2016, through Transportation Ministerial Regulation No. 32/2016, as a legal basis for the operation of ride-hailing apps due to massive protests from regular taxi drivers amid the booming online transportation business.

The ministry repeatedly postponed the implementation for more than a year due to mounting complaints, leading to a Supreme Court annulment of several points in the regulation, finally resulting in the issuance of Ministerial Regulation No. 108/2017.

At the same time, Southeast Asia is a hotbed for ride-hailing apps, being the world's third-largest ride-hailing market after China and the United States.

In Indonesia, while the government is hoping to regulate the booming ride-hailing industry, tensions are ongoing between drivers and the companies.

So far, ride-hailing companies are just required to partner with a legal entity permitted to run a transportation business, of which its drivers are members. The Transportation Ministry argued that if ride-hailing companies can turn into transportation firms, they might be able to monitor their driver partners through their system, reducing the risk of identity mismatch, which happens often among the drivers.

The new regulation might also face hurdles like a foreign ownership cap in chartered land transportation companies at 49 percent, according to Presidential Regulation No. 44/2016.

Two major ride-hailing players in Indonesia, regional player Grab and homegrown unicorn Go-Jek, have had considerable capital inflow.

Go-Jek has been backed by US giant Alphabet Inc. through Google and Chinese Tencent Holdings Ltd. Meanwhile, its regional ride-hailing rival Grab has also recently secured investment from Japanese automaker Toyota Motor Corporation at US$1 billion.

Indonesian Transportation Community (KTI) presidium chairman Musa Emyus said his side had been rejecting the government's plan to turn ride-hailing firms into transportation companies as it violates the law.

"The government seemed to just want to get their hands off the issue of online drivers protesting [the government]," he said.

Meanwhile, Online Driver Association (ADO) chairman Christiansen F. Wagey echoed the statement, stating that the upcoming regulation was not a solution for the ongoing issues between drivers and the companies.

"It might even bring us as online drivers at a disadvantage, because as an individual driver we might be taken over by big [car] rental companies," he said.

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GAS PRODUCTION

Pertamina criticized over Mahakam's performance

Stefanno Reinard Sulaiman
THE JAKARTA POST/JAKARTA

The country's largest gas block is in trouble as the new operator, state energy giant Pertamina, is expected to have a shortfall of around 20 percent gas transmission in its year-end result, a state agency has said.

After being appointed the operator of the Mahakam Block in January, Pertamina has continued to show symptoms of weak performance in the first half by posting 16.7 percent less than its target despite vowing to transmit 1,100 million standard cubic feet per day (mmscfd) of gas.

The Upstream Oil and Gas Regulatory Special Task Force (SKK Migas), which is mandated to supervise the operator, said there were two main issues causing the gloomy outlook.

SKK Migas chairman Amien Sunaryadi told the press recently that the first cause was external as drilling realization had been mismatched with the initial reserve data provided by former operators.

"Mahakam's [gas] lifting missed its target because of a gap between expectation and realization," he said in Jakarta recently.

Before Pertamina took over the block six months ago, it was operated by two foreign oil and gas giants for 50 years, namely French company Total E&P Indonesie and Japanese firm Inpex Corporation.

When asked whether a poor transition between operators was one of the reasons for Pertamina's slow performance, Amien denied the claim, pointing out that a mitigation process of drilling new wells had begun before the old contract was terminated.

"A year before the contract expired, Total had begun to drill new wells for Pertamina. Hence, I believe it is not a case of transition issues," he said.

The transfer began on March 13, 2017 when Pertamina signed bridging and funding agreements with its two counterparts. Consequently, it was allowed to carry out drilling to maintain continuity and production at the block.

Therefore, when the official transfer document was signed in January, Pertamina Hulu Energi (PHI) had drilled 14 wells in the block, in which the firm allocated US$1.7 billion for developing and drilling 70 wells.

Mahakam is considered an old block where production will decline in the years to come.

Bambang Manumayoso, president director of PHI, Pertamina's subsidiary that manages the block, said last November that the firm expected to reduce the rate to 20 to 25 percent per year from 51 percent annually.

SKK Migas further predicted that declining gas lifting at the block could subsequently reduce gas supply to the Bontang Refinery.

"But I hope it could be solved by using the surplus of gas at other blocks such as Jangkrik," Amien said.

In 2017, the Mahakam Block produced 52,000 barrels of oil per day (bopd) and 1,255 mmscfd of gas, respectively accounting for 6 and 20 percent of Indonesia's oil and gas lifting that year.

However, in the 2018 state budget, the block was expected to produce 42,000 bopd of oil and 1,100 mmscfd of gas.

The second cause of the gloomy outlook is the absence of a definitive president director of Pertamina, which Amien believes is stopping the firm making any major decision to improve the block, such as appointing a joint operator.

"A decision to pick a partner can't be addressed soon as the firm has yet to pick an official president director," he said.

When asked about its slow performance, Pertamina corporate secretary Syahrial Mukhtar said usually the firm's performance would be better than the previous year, while the company would conduct a further evaluation.

Since the management reshuffle last April, Pertamina has been led by acting president director Nicke Widyawati, who is also the company's human resources director.

Meanwhile, Fahmy Radhi, an energy observer from Gadjah Mada University, said the decline of production was an initial indication that Pertamina had failed in operating Mahakam.

He said the poor performance could affect the government's trust in Pertamina in operating other blocks, such as at the productive Rokan Block in Riau.

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Special team inspects buildings in Pulogadung

Ivany Atina Arbi
THE JAKARTA POST/JAKARTA

> Anies said at least 80 buildings in East, West Jakarta to be examined
>
> Four buildings in Sudirman-Thamrin have complied following raids

As part of an effort to ensure that groundwater and waste water at buildings in the capital are managed in accordance with regulations, the Jakarta administration has deployed a special team to examine dozens of buildings in industrial areas in East Jakarta and West Jakarta.

Governor Anies Baswedan visited Jakarta Industrial Estate Pulogadung (JIEP) in East Jakarta on Monday to mark the start of inspections. He said that at least 80 buildings in industrial areas in Cengkareng and Kalideres in West Jakarta and Pulogadung and Cakung in East Jakarta would be examined from July 9 to 20.

"Starting today [Monday], we will inspect industrial buildings to see whether they have infiltration wells, waste water treatment systems and groundwater treatment systems, as regulated under prevailing laws," Anies said, adding that the administration had sent warning letters to the buildings' management staff to inform them about the inspections.

The letters were sent out on June 29.

The inspections will be carried out by a special team comprising around 120 officials from, among other agencies, the city's spatial planning agency, the environment agency and the industry and energy agency.

The mayors of each municipality are expected to help the team.

Anies said he hoped that the inspections could change the way Jakarta residents manage groundwater and waste water.

Similar actions were carried out from March 12 to 21 in the capital's business district. Eighty high-rise buildings located along Jl. MH Thamrin and Jl. Sudirman were examined, and the administration found that the majority of the buildings had violated the law, including Gubernatorial Decree No. 20/2013 on infiltration wells.

The findings from the inspections in March showed that only 40 of the examined buildings had infiltration wells. Of the 40, only one was built in accordance with the decree.

The inspections also found that the majority of the buildings did not manage waste water properly.

The administration had informed the buildings' management staff about its findings and asked them to update their systems, or else it would revoke their building permits.

Jakarta Spatial Planning Agency head Benny Agus Chandra said separately that 68 management teams out of 80 in the Sudirman-Thamrin area were asked to fulfill the requirement of having infiltration wells and systems that properly managed groundwater and waste water.

They were informed through letters sent out on April 30.

Benny explained that the management at 69 buildings had devised plans to update their systems.

Four buildings that previously violated regulations, namely Astra Tower, Le Meridien Hotel, Mandarin Oriental Hotel and the Sultan Hotel and Residence, met all requirements after making changes, he further said.

"We will send second warning letters to the building management teams that have yet to show up and prepare their corrective action plans as of today. We will definitely take firm actions against those who fail to comply with the regulations, in accordance with the law," Benny added.

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Argentina welcomes Indonesia's election to UNSC

Dian Septiari
THE JAKARTA POST/JAKARTA

Argentina welcomes the election of Indonesia as a non-permanent member of the United Nations Security Council (UNSC), the Argentinian envoy said on Monday, saying Indonesia shares his country's profound respect of the international community.

Ambassador Ricardo Luis Bocalandro said both Indonesia and Argentina "fully respect the non-intervention, territorial integrity principles, fully respect the resolution of all international disputes through diplomacy and conversation and negotiation".

"We are extremely happy that Indonesia will join the council because we know the principles Indonesia respects," he said at a reception of the 202nd anniversary of Argentinian Independence Day in Jakarta.

Argentina celebrates its Independence Day on July 9, marking its independence from Spain which was declared on July 9, 1816, six years after the creation of the first Argentine government on May 25, 1810.

Bocalandro said as the chairman of the G20, of which Argentina and Indonesia are members, officials from Indonesia, as well as others, had worked together intensively in Buenos Aires.

"This year, we have a long set of agendas and schedules together. Indonesian and G20 ministers are flying to Argentina regularly."

He also noted the planned visit of President Joko "Jokowi" Widodo to Buenos Aires for the G20 summit at the end of this year.

"It is a great news for us as we still remember the incredible visit of his excellency Sukarno to Argentina," he said, adding that the last visit by an Indonesian president to Argentina was in 2000.

He said he still remembered when he entered the foreign service, many diplomats still remembered Sukarno's visit to Argentina.

The two countries opened up diplomatic relations in 1956, after which then-president Sukarno visited Argentina in 1959.

Former Argentinian president Cristina Fernandez de Kirchner visited Jakarta in 2013.

"He was famous," Bocalandro said. "Sukarno was not only the founding father of Indonesia, he was also the founding father of the Non-Aligned Movement, which was a major standpoint of Indonesian development, and we still remember that."

Meanwhile, Research, Technology and Higher Education Minister Mohamad Nasir highlighted the close cooperation the two countries have had for 62 years. He noted that in November 2017, Indonesia and Argentina held the 7th joint commission meeting and the first consultation forum.

In May, Foreign Minister Retno Marsudi attended the G20 foreign ministers' meeting in Buenos Aires and had a bilateral meeting with her Argentinian counterpart.

"We believe this meeting will boost our relations and encourage both countries to work closer together," Nasir said.

However, on trade, both counties had suffered a steady decline. Based on Trade Ministry data, Indonesia and Argentine had showed a decrease in total trade value, with an average decline of 7.38 percent in the last five years. Total trade value was down to US$1.4 million last year from $1.5 million the year before.

Textiles, textile products, footwear, rubber, auto parts and palm oil were the main exports to Argentina, while the key commodities imported to Indonesia were soybean flour, wheat and meslin flour.

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Freeport divestment, capital flight and collateral damage

COMMENTARY

Vincent Lingga
THE JAKARTA POST/
JAKARTA

For the umpteenth time the government announced last week it would soon close the deal to acquire the controlling ownership of PT Freeport Indonesia (FI), which has owned and operated the world's largest gold and copper mine in the easternmost province of Papua since 1972.

Many times, the government has renewed FI's license to export copper concentrate even though the 2009 Mining Law has banned the export of unrefined minerals since 2014. The latest renewal was in February 2018

Acquiring the majority ownership of FI, the subsidiary of American mining giant Freeport-McMoran, would indeed generate big political gains for President Joko "Jokowi" Widodo ahead of the presidential election in April 2019. No previous president has been able to discipline FI under Indonesian laws.

FI has been able to dodge for more than seven years the government regulation that requires the American company to cede its controlling ownership of the mine to Indonesian interests.

The divestment agreement would also bring to an end to decades of rising public anger over the American control of the country's largest mining venture, which has been looked on with suspicion and perceived to be a symbol of American economic imperialism in Indonesia.

But there is an immediate loss as well: the capital flight of US$4 billion, the estimated sum the government or state-owned Inalum Holding Company will have to pay for the share acquisition at a time when Bank Indonesia's foreign reserves have been eroded steadily in defending the rupiah from further weakening against the United States dollar.

During the first semester, the rupiah depreciated by 5 percent. Last month alone, the central bank had to take $3.1 billion from its international reserves to prevent the rupiah from falling steeply, thereby decreasing its foreign exchange reserves to $120 billion.

Many foreign analysts have also warned that the compulsory divestment would cause collateral damage as it would strengthen the public perception that Indonesia can now afford to stay the nationalistic path in the natural resource sector.

This is quite a sensitive topic, as the upcoming campaigns for the legislative and presidential elections in April 2019 could again raise the ugly head of inordinate nationalist sentiments.

This may scare off new investors in the mining industry.

But given FI's notorious reputation with all the preferential treatment and generous mining concessions it has enjoyed over the past 45 years, several analysts have also opined that it is the right time for Indonesia to discipline FI.

The government has been facing extraordinary pressure from the people and national media to be firm with FI. This is driven by a perception that the company has consistently taken advantage of the Indonesian government since it entered the country in 1967 as its largest foreign investor.

Hence, FI has been seen as a special case. Jokowi's determination to acquire the controlling ownership of FI cannot be considered a "conventional" breach of the sanctity of a contract but the revision of a contract that was made in bad faith by a foreign giant mining group exploiting the weakness of Indonesia's government.

We should give the benefit of the doubt to Inalum as to whether FI will run better and generate more benefits for the Indonesian people or not, despite the notorious reputation of many state companies as cash cows for politicians and senior officials.

Certainly the primary challenge during the remaining 23 years of FI's operation until 2041 (including a 20-year extension under the Special Mining License) is to secure financing for the estimated $20 billion in additional investment needed and the billions of dollars more in annual working capital as the mining operations will soon go underground.

Technically wise, we are confident FI's operations will continue to be fairly smooth because Freeport-McMoran will remain as the operator and manager, which will simply execute whatever business plan is given by the government (Inalum) as the controlling owner.

The question though is the source of financing for investment and operational funds because the bulk of the money is supposed to be fulfilled with loans, while the lending capacity of local banks is severely limited. At issue now is how high the credit rating of FI is under the government's controlling ownership.

Another task is to ensure that the smelter, one of the three key conditions for the extension of Freeport's Special Mining License, is completed within the next five years. The 2009 Mining Law prohibits the export of unprocessed minerals. The ban should have been enforced in 2014, but it has since been postponed because most mining companies have yet to build their smelters.

The construction of the smelter has become even more imperative because of the lingering suspicions that Freeport-McMoran has not been fully transparent and honest with the gold concentration it extracted from the copper mine because the refining has from the outset been done overseas.

Another factor is the local administration. The government made the right decision to allocate 20 percent of the central government's equity holding to the Papua provincial and regency administrations. But controlling ownership will not automatically mean direct benefits to the local people, especially because many state companies have yet to build good corporate governance. Papua has long been Indonesia's least developed and most restive province, with intermittent waves of security disturbances.