

BILATERAL TIES

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Q&A

Luhut on front line transforming maritime fulcrum into reality

Coordinating Maritime Minister Luhut Pandjaitan is spearheading the implementation of President Joko "Jokowi" Widodo's most defining initiative: turning the nation back to the sea — a promise the President made out of concern that maritime development had been largely neglected despite its gargantuan potential. The Jakarta Post's Rendi A. Witalar interviewed on Wednesday Jokowi's key confidant about how he deals with the challenges in turning the initiative into reality, and on his take over recent attempts by certain groups to fuel anti-Chinese sentiment. Here are excerpts from the interview.



Luhut Pandjaitan
(JP/Ohmi Setawan)

Question: Can you sum up the progress the administration has achieved so far in implementing the maritime development initiative?

Answer: We have made a lot of progress, the most recent involved attempts to regulate and manage anchoring points for ships destined for Singapore. That country's reclamation of its sea has caused its maritime territory to decline. This has made it more difficult for vessels to anchor in the city state. What happens is that many of the ships then decide to anchor in Indonesian territory. We have identified 18 spots for the anchoring activities that are currently unregulated and unmanaged.

By regulating and managing these spots with local governments, we estimate potential revenue of more than Rp 2 trillion (US\$150 million) a year. We also have Tolok Island and Manihap Island that the vessels can use for anchoring, and where the locals can provide fuel and logistical services for the ships there. I expect this can be settled after the

Idul Fitri holiday, and that we will negotiate with Singapore for the anchoring fees based on international standards.

Other progress in the initiative is related to the maritime highway routes to cut logistics costs and bring down the price of goods. For example, after the Idul Fitri holiday we will promote the use of ro-ro [roll-on/roll-off] vessels to ship goods from Jakarta directly to Surabaya (in East Java), Semarang (in Central Java), and Lampung. This will reduce highway traffic in Java, and the shipment costs will be lower.

For eastern Indonesia we have improved the flow and number of cargo vessels. There are five areas that have reported a decline in the price of goods by 22 percent as a result of improved vessel management. A drastically improved marine highway can cut logistics costs as well prevent prices of goods from fluctuating.

I thought we could resolve the maritime highway in two years, but I guess it may take five years be-

cause we have to start from scratch. This administration has spurred the importance of maritime issues, as 75 percent of our territory comprises water, and there had been no big concept before on how to capitalize on it. Now through the recently issued presidential regulation, we have the big concept on how to specifically develop our maritime tourism, infrastructure and diplomacy. For example, the incident in Raja Empat (a tourist destination in West Papua where recently a cruise ship run by a Swedish-registered company rammed into coral reefs in a protected marine area there) was caused by the absence of shipping traffic signs.

Dwell times (at Tanjung Priok Port in North Jakarta) have also improved to less than three days, but we are still dissatisfied because of pervasive high costs at ports from illegal fees. State port operator Pelindo II has estimated that we can save Rp 11 trillion if we can eliminate such fees.

For marine tourism, we will soon sign a deal with the Pacific Eden cruise line to serve seven destination spots between Bali and Labuan Bajo (in East Nusa Tenggara) aside from improving cruise ports and roads into and out of the ports.

We have also selected 10 main tourism destinations with three of them immediately prioritized for development. They are Lake Toba (in North Sumatra), Mandalika (in West Nusa Tenggara) and Borobudur Temple (in Central Java). More than Rp 2.8 trillion has been allocated from the state budget this year for improving tourism infrastructure in those three destinations.

Next year, we will embark on a massive tourism campaign as we host the annual meetings of the World Bank and International Monetary Fund in Bali. The immediate focus now is to improve facilities in tourism destinations, start a massive campaign to clean marine debris and trash, and open direct flights from Bali to other main tourism destinations.

Chinese tourists have accounted for the largest number of arrivals in Indonesia in the past couple of years, and are going to be the backbone of the tourism sector. But how far will the recent anti-Chinese sentiment impact the business landscape here?

We have to unite in fighting the attempts to fuel such sentiment.

Globalization cannot be stopped.

We should not make a fuss about this sort of thing. When Saudi Arabian King Salman visited China, the country agreed to buy a large stake in Aramco (Saudi Arabia's state oil company, slated to go public soon). There is no opposition to that. We only have 12,000 (Chinese workers) in Indonesia and many have twisted it into a ruckus.

There are indeed certain groups that often produce incorrect and improper reports about the Chinese workers. Yes, we should be aware of their (the workers') presence, but it should not be blown out of proportion.

I've recently visited Morowali (in Central Sulawesi) where there are five Chinese smelters under construction. One smelter costs \$5 billion and can create 30,000 jobs. But during the construction stages, a smelter operator has had to import 5,000 Chinese workers and along the way the number will decline. Now they only employ 2,000 workers and probably this will soon drop to 1,000.

The operator understands that they cannot keep the Chinese workers for long because the costs are just too high compared to hiring local workers. Even during its early stage, Freeport (gold and copper company operating in Papua) once had to employ 1,000 Westerners, and now they mostly employ local workers.

We have to create a conducive environment for China to come to Indonesia. I have recently tried to speed up a demand from China to open direct flights from Shanghai to Bali and from Shanghai to Surakarta (in Central Java) as they believe the loading rate will be around 85 percent. China has demanded this for over a year now.

Indonesia has enjoyed a stable political environment, sound macro economy indicators, and a vibrant middle class with rising purchasing power. How come our economy cannot grow even faster?

Because there are still many hurdles. Infrastructure is a problem as we can only allocate 20 percent of the state budget for infrastructure. Another thing is perception. The mass rallies on Nov 3 and Dec 2 (the biggest mass mobilization since the 1998 reform era, demand the prosecution of Jakarta Governor Basuki "Ahok" Tajabura Purnama, a Christian of Chinese descent, for allegedly insulting the Quran) gained the attention of the international community. But now they're upbeat on Indonesia as we can resolve and manage the issues accordingly.

Another thing is that there is a lack of promotion (of the potential of Indonesia) by many major investment firms. I recently had dinner with representatives of these firms and I told them to help us promote Indonesia.

Bankers' club



Bank Central Asia president director Jahja Setiaatmadja (right to left), vice president directors Eugene Keith Galbraith, Armand Wahyudi Harsono and director Subur Tan prepare for the private lenders' annual shareholders meeting in Jakarta on Thursday. The meeting approved Rp 4.9 trillion (US\$367.5 million) in dividends.

MINING

Freeport expects to reach export deal 'imminently'

Laura Millan Lombrova and Danielle Bochvara
BLOOMBERG/SANTIAGO/TORONTO

Freeport-McMoRan Inc. expects to have permits in place "imminently" to resume exports of semi-processed copper from Indonesia for the next six months, allowing the miner to focus on fleshing out a long-term agreement to stay in the country.

"We have been working with the government on this approach, but it has not yet been formally documented," CEO Richard Adkerson said Wednesday in an interview in Santiago.

"We understand that's to happen immediately and that there are no areas of controversy in the documentation."

This step is a positive step for the process," Adkerson said in the interview. "It's in nobody's interest to keep us from exporting."

Through its Indonesian arm, Freeport has majority ownership of the Grasberg copper and gold mine, which generated about 18 percent of its revenue last year.

The world's largest publicly traded copper producer has been embroiled in complex negotiations with the Indonesian government for years as it attempted to extend its so-called Contract of Work (CoW) in the country that's set to expire in 2021.

In January, the government suspended Freeport's right to export copper concentrates and in response the company began to curtail production and lay off workers. In February, Freeport served notice saying it has the right to begin arbitration in 120 days if it can't reach an agreement.

In Wednesday's interview, Adkerson said that while the notice stands, arbitration wouldn't happen if talks are proceeding well.

Grasberg is currently running at about 40 percent to feed a smelter in Gresik on Java island.

standing in which it agreed to increase royalties, build a smelter and divest as much as 30 percent. He said that while the company's shareholders are being "very supportive," they're struggling to understand why the government isn't respecting the contract.

"They clearly don't want us to give up our long-term rights just for the short-term ability to export," he said, referring to shareholders.

One of those shareholders is Carl Icahn, an activist investor and special adviser to United States President Donald Trump on regulatory matters, who Adkerson said holds "just over 6 percent" of the company.

While the CEO is unaware of any involvement by Icahn in the Grasberg efforts, he said the company has been updating the US administration directly on the matter.

The contract talks in Indonesia are of national interest given the high number of US citizens who have part of their savings invested in funds that own Freeport stock, Adkerson said. That interest extends to the financial viability of a company whose domestic mines account for about 40 percent of copper in the US, he said.

"We expect the US government will be very supportive of our position," Adkerson said.

If talks fail to yield a mutually beneficial arrangement, Freeport's best option could be a full sale of Grasberg, according to Jefferies LLC analyst Chris LaFemina.

If that happened it would likely be to the Indonesian government, possibly with a third party or as part of a consortium, in which case the sale would be at a significant discount, LaFemina said Tuesday in an interview from New York.

Based on valuations, the Indonesian government made a year ago, LaFemina estimates the net present value for the asset at US\$5.9 billion. That compares to an NPV of \$9.8 billion if the political risk were eliminated and the company was allowed to be operated under its current CoW until 2041, the Jefferies analyst said.

"The notion of trying to sell this business with these degrees of uncertainties hanging over it would be difficult," Adkerson said.

Correction

In the photo caption published on Wednesday in this page, we misidentified Bank CIMB Niaga's Head of Market Helena Lapan as the lender's risk management director. The correct position is human resources director. We apologize for the error.

—THE EDITOR

UK eyes FTA with RI after Brexit

Linda Yulisman
THE JAKARTA POST/JAKARTA

As the United Kingdom seeks more trade opportunities worldwide after Brexit, it hopes to seal a bilateral free trade agreement (FTA) with Indonesia.

The UK last week formally started its two-year separation process from the 27-member European Union bloc that it joined in 1973. Prior to the process, it has begun informal talks with dozens of countries for post-Brexit deals, including with some of Asia's biggest economies like China, India and South Korea.

Visiting UK international trade secretary Liam Fox said on Thursday that the UK would push for higher exports to Indonesia in the future although the current state of the former's exports was "quite good". Similarly, it also wanted to increase investment to benefit Indonesia's economic growth, abundant natural resources and demographic advantage.

"For the UK, we need to widen our horizons and leaving the EU is an opportunity for us to look to trading and export opportunities, as well as investment in areas such as project management, design, engineering, health care, education, accounting and finance."

Fox said that the talks on the FTA were likely to be carried out in the near future. The UK particularly expected to boost trade in services as well as investment in areas such as project management, design, engineering, health care, education, accounting and finance.

He noted, however, that the bilateral FTA could be achieved if the CEPA negotiations had not been concluded and ratified by the time the UK finished separation from the bloc. Otherwise, it might adopt the CEPA, the pace of talks on which he described as surrounded by "over optimism".

During his two-day visit to Indonesia, which is part of his Southeast Asian tour to include the Philippines and Malaysia, Fox met with Investment Coordinating Board (BKPM) chief Thomas Lembong, visited the light rail transit (LRT) project and witnessed the international partnership program between the UK Space Agency and Inmarsat Plc

The UK wants talks on the FTA to be carried out in the near future

Indonesia remains undecided over the proposal

for the Maritime Affairs and Fisheries Ministry.

Bilateral trade rose by 5.9 percent to US\$2.48 billion last year, with Indonesia exporting \$1.59 billion worth of commodities and goods to the UK, up 4.14 percent from 2015, while importing \$893.84 million, up 9.15 percent on a yearly basis, according to data from the Trade Ministry.

UK firms funneled \$306.7 million worth of investment into Indonesia, according to the BKPM.

Indonesian Chamber of Commerce and Industry's (Kadin) deputy chairman for international relations Shinta Kamdani said economic business people considered the UK as affording similar opportunities to the EU members and therefore they would welcome a bilateral FTA with the UK.

Such an FTA was expected to pull more investment from the UK into what she called "priority sectors", such as renewable energy and creative industry.

"Basically, what we would look for from the FTA is not only trade, but also investment, particularly in the services sector, which is [the UK] is very strong at," she told The Post in a text message. She, however, added that Indonesia still needed to address some issues for investment in the services sector, such as restrictions on foreign workers.

The Trade Ministry's director general for international trade negotiations, Iman Bambang, said the current ongoing talks on the CEPA with the EU was still based on the assumption of the UK's presence until Brexit was fully complete. "I still cannot provide clear guidance on whether there will be there with the UK, but I underscore that our relationship with that country will be important even after it's outside the EU," he said.