ANNEX 1: Report on the Task Force Field Trip to Indonesia (20-27 February 2011) by the CCICED Task Force on Investment, Trade and Environment

China Council for International Cooperation on Environment and Development (CCICED)

Investment, Trade, and Environment

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1. Introduction

The China Council for International Development on the Environment and Development (CCICED) is a high level, non-profit, international advisory body established by the Chinese Government in 1992 devoted to providing a platform for policy dialogue between China and the international community in the fields of environment and development. The CCICED members are high profile Chinese and international experts who report directly to the State Council of China, and is financially supported by China and many international agencies to conduct policy studies relevant to China’s sustainable development. The CCICED established a Task Force on Trade, Investment, and Environment in early 2010 to address the importance and increasing environmental challenges of sustainable development, especially on China’s trade and investment. The Task Force proposes to examine the environmental and social impacts, technologial challenges as well as its economic opportunities and other consequences that need to be addressed in terms of China’s short and long term policies for both incoming and outward foreign investments activities, and its implications for trade.

Among the various exercises of the Task Force, it was decided to undertake fact finding trips to two developing regions, which have trading and investment relations with China, in order to gather direct, first-hand information. The ASEAN region is one of the more important and traditional areas for China, and within ASEAN, Indonesia is the largest country. Indonesia was the first country to visit. The second visit was made later in June of the same year to South Africa and Zambia (see ANNEX 2 for the African Field Trip report).

The Indonesia field trip was arranged through Mr. Ismid Hadad, a member of the Task Force from Indonesia, with the assistance of the Indonesian Institute for Energy Economics (IIEE). The team visited Indonesia between February 20 and 27, 2011. The goal of the Indonesia visit was to obtain first-hand information concerning the environmental and social foot prints of China’s trade and investment relations with Indonesia.

The Indonesian Institute for Energy Economics (IIEE) assisted the Task Force in the initial data and information gathering, selection of field site locations, contacting resource persons and institutions to be visited. It arranged the meetings with all parties in 3 locations, as well as summarizing inputs and report findings during the Team visit to Indonesia.

The general selection criteria used for the choice of visited locations was the magnitude of impacts and examples that could provide key information on improvement for future policies and strategies. The first step before selecting the sites to be visited was undertaking a desk study on trade and investment between China and Indonesia. Statistical figures indicate that coal, palm oil, forest products and other natural resources are major export commodities from Indonesia to China. On the other hand, among the top commodities exported from China to Indonesia are electrical apparatus, machineries, power plant components and agricultural products. Compared to trade figures, data on foreign direct investment was less available since China companies prefer to place their capital through business affiliates from other countries. Among the few foreign direct investment figures, the presence of China’s oil and gas companies is more visible.

The Task Force recognized that trade and investment topics covers a wide range of issues. A list of questions was developed to communicate the purpose of the Task Force visit to the parties they will meet in Indonesia. The list can be found under appendix A.
Based on the statistical data and other secondary sources of information, there were 3 locations selected for the Task Force visit in Indonesia and their respective topics are as follows:

- **Jakarta and Bogor (West Java):** the Task Force discussed policies and issues on trade and investment between the two countries with the Central Government officials, prominent figures and resource persons. A meeting with civil society organizations and private sector representatives was held to obtain the stakeholders’ views prior to the site visits. The Task Force also met with a private Chinese company producing electricity generation equipment (ZUG POWER GROUP, PT. ZUG Industry Indonesia).

- **East Java:** the Task Force visited Bojonegoro and Tuban districts of the East Java Province, which are the operational areas of the Tuban Oil Production Sharing Contractors a consortium of oil and gas companies where Petrochina is one of the partners. There had been some media reports on health, environmental and social concerns related to the company’s operations. On the other hand, Petrochina is among the companies participating in the first multi-stakeholder dialogue promoting financial transaction transparency. This case highlights the dynamics of foreign direct investment by Chinese company in Indonesia.

- **East Kalimantan:** the visit objective was to review trade impacts to the host country. East Kalimantan is one of the largest forest based provinces, the largest coal producer and an important palm oil production area in Indonesia. China is one of the major trading partners for these commodities. While export revenue is significant for Indonesia, there are widespread environmental and social adverse impacts from these activities. The Task Force visited Balikpapan, Samarinda and its surrounding areas to meet the local government officials, as well as local NGOs and academics working on forest and land-use issues. In addition, the team also visited several coal mining sites and forest areas to see the impact of coal mining and palm oil businesses to the ecosystem.

Figure 1 illustrates the locations visited by the Task Force. Appendix B presents the overall schedule during the Task Force trip in Indonesia.

![Figure 1. Locations of the Task Force Visit in Indonesia](image)
Section 2 of this report highlights the trade and investment figures between China and Indonesia. The rest of the chapters present the activities, key inputs and main findings of the Task Force during their presence in Indonesia. Section 3 briefly reports on meetings in Jakarta and Bogor, Section 4 for East Java visit, and Section 5 for East Kalimantan trip. We also include chapters on the questions and answers of these meetings in Section 6: while general key findings are listed in Section 7. Opportunities and challenges are described in Section 8, whereas Section 9 lists some of the main conclusions and related recommendations produced from this trip.

2. China – Indonesia Trade and Investment

As of 2010, the items on the lists of commodities exported from China to Indonesia have been telecommunication, ship and vehicle components as well as food products. On the other hand, coal is at the top of the list of Indonesian export commodities to China, followed by processed rubber, chemical products, pulp/paper and palm oil.

In 2010, China’s statistics recorded a trade surplus with Indonesia of US$ 2.8 Million, while Indonesian statistics documented a trade deficit of US$ 5-7 Million for the same year. Although China ranks second in the top list of export destination countries of Indonesia, it is also the largest source of imported goods for the Indonesian economy. During 2010, the largest growths of imported commodities from China were electronics (+ 90%), toys (+ 72%), furniture (+ 54%), textile and textile products (+ 33%), machineries (+ 22.2%) and metals (+ 18%).

The ASEAN-China Free Trade Agreement (ACFTA) that took effect in 1 January 2010 was seen as contributor to the deterioration of several economic sectors in Indonesia. Although China has enjoyed a trade surplus with Indonesia since 2008, the current situation is deteriorating for Indonesia and generating many anxieties. The public perception is that many Chinese products come at an unbeatable low price, offer a wide and full variety of choices and can be easily found in all markets. Despite some concerns on quality standards, the low price and high availability make Chinese goods more competitive.

Some manufacturing sectors and various industry groups in Indonesia complained and demanded the Government’s attention to the issue. The Government assigned two independent teams to investigate: Komite Anti Dumping Indonesia (KADI, Indonesian Anti Dumping Committee) and Komite Pengamanan Perdagangan Indonesia (KPPI, Indonesian Trade Security Committee). Based on their findings, the Indonesian Ministry of Trade publicly stated that they identified the use of some unfair trade practices. The Government of Indonesia has reacted by issuing new policies and demanding the renegotiation of certain clauses of ACFTA as a response to this situation (Kompas daily, Tuesday 12 April 2011).

Nevertheless, it has been also recognized that many Indonesian products cannot compete with Chinese commodities due to inherent issues in the country. Limited infrastructure, inefficient energy distribution and transport modes lead to a high cost economy that makes input for production more expensive. Likewise, investing is limited by the difficulties in accessing and high cost of capital markets. Indonesia’s competitiveness is further constrained by the use of obsolete and inefficient technologies. Finally, Indonesia is increasingly loosing competitiveness for its home products as it is unable to control the growing illegal trade in many of its traditional fronts.
2.1 Export from Indonesia to China

Coal Trade:

- China has a strong demand for coal. As of 2009 the country became a net coal importer, increasing its volume of imports by over 400% over the prior year. Despite its position as the world's largest coal producer at 2.9 billion ton in 2009, China imported 124 million ton of coal that year. This is equivalent to about 15% of traded coal worldwide.
- In recent years, the average price of Indonesian coal is the lowest among other imported coal supplying the Southeastern China market, and can often beat China’s domestic coal price. More than 24% of imported coal in China during 2009 was from Indonesia (Morse and He, 2010). This condition attracts China businesses to finance coal production in Indonesia.
- Firm demand and financial support from international markets, including Chinese buyers, provide strong incentives for Indonesians to produce more coal. Such incentives also attract unlawful coal mining activities, which appear often to involve government officials and other authorities.

Coal exports from Indonesia to China have increased by ten-fold from 2006 to 2010 (Indonesian MEMR website, 2010). However, statistical discrepancies are quite alarming. In 2009 Indonesian statistics stated that coal exports to China reached 12.7 million tons, while China’s recorded imports of coal from Indonesia indicated 30 million tons. This implies that only half the exported volume was recorded by the Indonesian government in 2009. The more recent significant increases in declared export volumes could already reflect an improvement in Indonesia’s tracking of its trade activities.

It is worth noting that Chinese companies do not seem to be operating in the upstream coal business in Indonesia. Their presence is clearly evident in the shipping and financing of coal for the export market.

Palm Oil Trade:

- Many palm oil plantations in Indonesia are allegedly linked to massive conversion of natural forest and peat land, as well as unjust displacement of local communities and other negative social impacts that result from the increasing extension of Palm Oil plantations.
- Even though some palm oil companies are voluntarily participating in the Roundtable for Sustainable Palm Oil (RSPO) scheme, complaints about negative social and environmental impacts of the palm oil industries in Indonesia continue unabated.
- The presence of Chinese companies in the upstream segment (plantation, processing) in the palm oil industry is less apparent. However, China absorbed 14% of all Indonesian Palm oil exports in 2010. Further research is required to assess the degree of Chinese involvement in the upstream palm oil industry in Indonesia, as well as their contribution to the negative social-economic-environmental impacts of this business.
Timber Trade:

- Illegal logging refers to native timber that is illegally harvested from old growth forests and protected areas, transported and bought or sold in violation of national laws. It has been identified as the most important activity damaging the forest ecosystem of Indonesia, namely at the islands of Sumatera and Kalimantan in the 1980-90s and more recently in Papua and in other small islands in the eastern part of Indonesia. These illegal logging and timber trade activities led to the worst rate of deforestation and forest degradation in Indonesia. China is the world’s largest buyer of hardwoods and is often accused of promoting the illegal timber trade although there are no figures and statistics to prove these claims.

2.2 Import from China to Indonesia

The highest values of imported commodities from China are electrical apparatus for telecommunication, data processing machines and equipments for power plants. In 2009, each of them also dominates the Indonesian import market of similar categories, i.e. 47.8% for telecom electrical apparatus and 56.7% for data processing machines.

Power plant equipments from China occupy an even larger share of Indonesian imported goods of similar types in 2009:

- 78.1% of imported auxiliary plants for boiler systems
- 58.4% of steam turbines and vapor turbines
- 74.8% of steam or other vapor generating boilers

Highlights on the relevance of Power Plant Components issue in Indonesia, and therefore the importance of China as the majority trade partner in this market:

- Importation of power plant equipments is generally due to the competitive price of Chinese products. However, the Indonesian policy of accelerating the development of coal powered generation known as the “10,000 MW Crash Program phase I” (CP-1) also helps explain the current market domination of Chinese made equipment in the Indonesian market.
  - Decision on CP-1 policy were made by the highest state officials of the two countries. The initial plan was to use all equipments made in China, built by Chinese contractors, and financed by export-credit scheme from Chinese banks.
  - However, there were long delays in securing the financing terms that pushed PLN (the State-Owned Electricity Utility) to redirect its cash flow towards investment, and the government to mobilize domestic banks to support the project.
  - Financing difficulties led to long delays of project completion. Originally planned to conclude by 2009/2010, currently only about 20% of the capacity addition is in operation.
  - Majority of generation capacity addition of CP-I is in Java.
  - All power plants in CP-1 are owned by PLN. Despite changes in financing sources, the project exclusively uses Chinese made equipments and employs Chinese contractors.
  - Other concerns on CP-1 include power plant under-performance and environmental implication due to the absence of greenhouse gas emission handling units in these facilities.
Many Independent Power Producers (IPP) in Indonesia also use Chinese made equipments in their power plants.

Power plant equipments imported by Indonesia includes refurbished turbines and boilers. There are concerns that China’s policy to improve efficiency and performance of its power plants are transferring their older equipment and related problems to Indonesia.

2.3 Investment

In the past decade China’s Foreign Direct Investment (FDI) in Indonesia had been gradually increasing. More recently, however, there has been an acceleration as new FDI projects quadrupled from 37 in 2009 to 113 in 2010. This might be a result of the first year implementation of ACFTA. Many attributed this jump in FDI from China to the launch of ACFTA.

The total FDI from China during 2000-2010 was US$ 594 Million. The largest investment value took place in the metals, machinery and electronics industries. Other industries in the top 2 and 3 at the FDI placement are food and mining.

Jakarta received 21.9% of the total China FDI during the recent decade in Indonesia, involving 112 investment projects. The other top ranks of China FDI in the country are in Banten (17.2%), Lampung (13.5%) and South Sumatera (11.4%) provinces.

FDI placement in East Java amounted to 2.6% from the total. East Kalimantan represents and even smaller amount with merely 0.9% of the total investment during the past decade (amounting to US$5.6 Million).

2.4 Economic, Social and Environmental Impacts

Mining and extractive industries are required to develop and maintain their own road infrastructures, but these regulations have not been respected. Heavy trucks carrying coal, palm oil and timber with over 20 ton loads are using the existing public roads, while the majority of these public roads around Kalimantan are designed for up to 8 ton weights per vehicle max. As a result, this activity is damaging the Kalimantan public roads and transportation systems, transferring maintenance costs to the local governments and causing severe negative impact for the local populations.

Other negative impacts of increased coal mining and transportation:

- Open mining pits have contaminated surface and ground waters, and led to floods in the surrounding areas
- Busy traffic of heavy trucks led to frequent accidents involving injuries and fatality to drivers/passengers of smaller vehicles
- Damage of public roads destroying the local economy, because transportation of people and consumer goods become much more difficult, takes much longer time, and therefore becomes very expensive causing high-cost to the economy
- Spread of coal dust along the road is reportedly causing respiratory & other health problems to local communities.
Other negative impacts of illegal logging (EIA, 2005):

- Loss of Indonesian government revenue due to illegal logging was estimated at US$ 3 billion a year
- Threat of livelihoods of forest communities
- Threat to the biodiversity of forest
- Flooding and forest fires are danger to ecological security
- Increased corruption and lawlessness

3. Jakarta and Bogor Meetings

3.1 Background

Jakarta is the capital city of Indonesia, and also the central point for business and trading activities. The Central Government administration of the Republic of Indonesia, all governmental offices and foreign embassies are established in this city. Policy questions on trade and investment were addressed during the meeting with government officials and prominent resource persons in Jakarta. A meeting with two Vice Ministers was held in Bogor, a city about 60 kilometers south of Jakarta, while they were having a break from a cabinet plenary meeting held at the Bogor Presidential palace. Many company headquarters and non-governmental organizations main offices are located in Jakarta as well. The Task Force met and attended working sessions with all of these parties during their stay in Jakarta.

3.2 Activities

The Task Force first agenda was an introductory meeting on Sunday, 20th February 2011 with the IIEE Executive Board and its management and support team for the Task Force.

On Monday, 21th February 2011 the Task Force on ITE met with high ranking government officials and prominent resource persons, who are knowledgeable on economics, development and environmental policy issues. After lunch, they attended a special session with stake holders and prominent leaders of some Indonesian non-governmental organizations (NGOs) operating on social, environment and governance issues.

TF members met with East Kalimantan government officials and NGOs.
On Friday, 25th February the Task Force had a working session with the private sector representatives, business associations and selected NGOs on various issues related to economic, social and policy issues involving Indonesia’s trade and economic relations with China. The team visited PT Zug Industry, a private medium sized Chinese commercial manufacturer of electrical turbine and other machineries on Saturday, 26th February 2011. Appendix B-1 shows the detailed agenda, and Appendix C-1 the list of participants in the meeting series in Jakarta and Bogor.

3.3 Inputs and Findings

3.3.1 Trade

Remarkable changes in the last 10 years have placed China as a new engine for global growth. It has also become an important neighboring country for Indonesia. China is now among the top 10 trading partners of Indonesia. China’s imports from Indonesia are dominated by natural resources, while Indonesia imports electronic components, manufactured goods and machineries from China.

The two countries are engaged in numerous bilateral and multilateral agreements such as the ASEAN-China Free Trade Agreement (ACFTA). Indonesia and China have agreed to look for sectors negatively affected by ACFTA and to work together in addressing these issues bilaterally. The aim is to narrow the gap impacted by asymmetrical condition at various economic sectors in both countries. For example, low price toys and textiles from China reach Indonesia easily and lead to business shut-downs and related unemployment in Indonesia. On the other hand, Indonesian companies have limited access to China due to import quotas there, which makes the case for unfair trade relations.

3.3.2 Investment

The majority of China’s current investment in Indonesia takes place in the form of portfolio equity investments instead of direct investments in operating or manufacturing industries. Chinese investors act mostly at the corporate rather than the field levels. Most Chinese investments also tend to be informal in nature or placed under or through overseas partners. Offshore tax free havens are often the domicile of these investments. Therefore there is little transparency. The preferred sectors for investment are in manufacturing. Nevertheless, in
terms of investment size, both China and Indonesia have relatively small holdings, particularly when compared to the values exchanged in the commercial trading business. The Indonesian Investment Coordinating Agency (BKPM) data for 2010 shows China as the 15th ranked investor in Indonesia.

In the past, Indonesia seems to have given preference to trade over investment. That was very practical for China, who preferred to import raw and unprocessed natural resources for its domestic processing facilities. That way it left the responsibilities over the upstream impacts of this business entirely for the host country. As China becomes a more important global player, its trading partners expect it to take up more of its responsibilities.

For example, Indonesia as a major producer and exporter of palm oil and coal in the world faces increasing challenges to overcome forest resources depletion and degradation related to these activities. On the other hand, China would need the equivalent of nine times the land mass equivalent to plant soy bean in a volume that would substitute the quantities of Indonesian palm oil it imports. For industries in the southeastern part of China, the Indonesian coal has been among the most competitive compared to domestic supply. A sustainable palm oil production and coal mining would need significant changes in the management, institutional capacity improvements, new technology, and other additional investments. Ultimately, incorporating sustainability concerns into goods and products produced and traded will have a more positive effect to both China and Indonesia. Investment from and to both countries is expected to develop more understanding on such social and environmental issues.

3.3.3 South-South Collaboration

Despite the recent past history of politically motivated animosities against Chinese communities in Indonesia, Chinese companies operating in Indonesia find little difficulties in assimilating their respective cultural differences in the host country. Moreover, there is a growing confidence generated by the identification of alignments of interests based on mutual experiences as developing countries facing similar liberation histories and development hurdles. These are two southern hemisphere economic giants with many experiences in common, adaptable Asian cultures, discovering great complementarity and moving simultaneously towards their respective positions as global growth locomotives.

Guan Temple in Tuban, East Java.
3.3.4 Development Policy and Governance

Discussing trade and investment in Indonesia, as is the case for China or anywhere else, cannot be separated from its broader economic and development policy context. Its impact on the environment cannot be disassociated from its governance, social conditions and law enforcement aspects. All of these also impact the environment. During the Task Force meetings in Jakarta & Bogor it was apparent that trade, investment and environment are very much linked to the following policy issues.

Development Objectives

The essential task of a government is to serve the needs of its people and improve their welfare. Health, education, and poverty alleviation are major issues for emerging countries. To serve this purpose, trade and investment among countries, including China and Indonesia, need to ensure sustainable benefits for the people.

The Indonesian government adopted 4 pillars of development principles: pro-growth, pro-poor, pro-job and pro-environment. Foreign investments, including those with China, are expected to increase and add value to the Indonesian economy through employment, technology transfer and experience sharing. At the same they are expected not to pollute the environment nor degrade the natural resource base of the country’s economy. Likewise the pressing needs to ensure efforts to address climate change should not be done at the expense of poor communities.

Low carbon development

Now emerging economies are expected to share similar responsibilities as developed countries when they face the global challenge of managing greenhouse gases concentrations.
in the atmosphere. Both individually and together, China and Indonesia must face the challenges to improve their natural resource utilization and environmental management.

The Government of Indonesia is committed to implement the Bali Action Plan of the UNFCCC and voluntarily set emission reduction target at 26% below projected levels with its own national budget, and an additional 15% reduction with international support by the year 2020. These ambitious emission reductions of 26 to 41% make Indonesia the first large developing countries making such a voluntary commitment to the global community. These targets will be achieved through National Action Plan on Climate Change, which have been translated into sectoral development programs and integrated in the mid-term national development planning process and low carbon development strategy.

The rapid growth of the Indonesian economy has caused emissions from fossil-fuel combustion, in the energy, industry and transportation sectors to grow rapidly, even faster than GDP growth in the long run. Nevertheless, the largest share (more than 65%) of Indonesia’s GHG emissions still comes from forest, peat-land and land-use change. Therefore Indonesia’s current efforts is focused on Reducing Emissions from Deforestation and forest Degradation (REDD). This could only be done by creating an effective system of REDD Plus (+), which the government is aggressively pursuing. REDD Plus and LULUCF programs could play a significant role in reducing Indonesia’s emissions, and credible MRV system (result based, demonstrable, transparent, verifiable, and estimated consistently over time) is a necessary element of the system. At this point, Indonesian emissions are expected to increase from 1.72 to 2.95 GtCO2e (2000-2020).

Despite this projected increase in emissions, private companies and the lower echelons of the government bureaucracy have not taken up the low carbon development target in their operations. This is due to the absence of clear rules and comprehensive information from the Government of Indonesia. In the power sector investment, for instance, China technologies in Indonesia do not support the national emission reduction target and the Indonesian government seems to allow such practice which is in contradiction with the prevailing national policy.

**Investment policy**

In the discussions with government officials, prominent resource persons, private business and NGOs in Jakarta, the Task Force members got the impression that China’s expanded investment in Indonesia are quite welcome and are expected to be realised soon in the economic sectors that could bring added value to the broader community, with technologies that could help support the low carbon development ambitions of the country. China’s investment in the infrastructure and technologies for the development of renewable energy resources, and in the agriculture and forestry sectors, are among the examples mentioned and suggested to the Task Force. However, when meeting with Indonesia’s investment authority, there seemed to be an expectation that China’s investment in Indonesia should be directed instead to a large and capital intensive infrastructure project such as building the Membramo hydro-dam and related electric power generation facilities on the island of Papua. This raises the question on what and where is the preferred investment policy of Indonesia in its current pro-growth, pro-poor, pro-job and pro-environment development strategy.
**Sustainability Standards**

China is a member of the International Council on Mining and Metals (ICCM), an organization that brings together 18 mining and metal companies as well as 30 national and regional mining associations and global commodity associations to address sustainable development challenges faced by the industry. ICCM applies high standards and prudent financial investment policies for the financial sector.

Although China’s trade and investment with more developed countries seem to comply with their more sophisticated standards, some observations indicate this is not the case in countries with weak governance and high poverty levels such as Indonesia. In Indonesia, China has been perceived to participate in providing financial supports for the illegal trade of coal, minerals, and timber, as well as supplying low quality products and relocating unsustainable businesses from the motherland.

Developed countries have their own rules and standards for products and environmental quality. Developing countries find it difficult to catch up with the internationally recognized sustainable development standards introduced by European countries. Both China and Indonesia are under pressure to improve the management of coal utilization and land use respectively. As a response, China started to improve the environmental performance of its industries, while Indonesia initiated its own Indonesia Sustainable Palm Oil (ISPO) standard.

Certified products can increase production costs for companies, but they also increase their relative value in the market and often open profitable new markets, such as those in the European Union. Product and process certification programs should facilitate businessmen in obtaining incentives and faster transit through the bureaucracy. The ISPO certificate, for instance, should become a marketing leverage instrument. However, like other certification, ISPO does not automatically increase the price and market a product. The Chinese government should consider the adoption of policies that promote the purchase of certified products.

**Cooperation, Dialogue & Public Response**

China and Indonesia need to work together to seek common approaches to overcome some of the global challenges they face as global players. Strong cooperation is needed at all levels in the government, businesses, academics and the general public. They often face similar hurdles and should share their experiences, technologies and strategies for sustainable development whenever possible. This approach requires continuous efforts and dialogue, generating focused programs that are specifically relevant to both countries.

For instance, while currently no institutions are working on the subject of border tariffs, a joint approach to address this challenge would certainly be very rewarding. A form of South-South dialogue with a flexible agenda and a permanent platform may be needed to help facilitate this improved contact. Such dialogue shall not be limited to government participants only. It must also include businesses and a broader selection of stakeholders. This dialogue is in line with China’s new pro-active approach in the global climate change negotiations, as well as the Indonesian initiatives to engage finance and trade ministers during global climate change negotiations at the Conference of Parties (COP) 15 at Bali in 2007.
4. Visit to East Java

4.1 Background

East Java is a large province in terms of population and the second richest economy in the island of Java. It has a population of over 38 million people (2009) growing at + 0.55% per annum. It occupies a total land area of over 47,000 km2 and a total maritime territory of about 111,000 km² including 229 separate islands. The East Java province is divided into 29 districts and 9 major cities, of which Surabaya, the second biggest city in Indonesia, is the capital city of the province.

The dominant sectors in East Java’s economy are trade, oil & gas, manufacturing industry, hotel & restaurant services, and agriculture. The province’s gross domestic regional product (GDRP) reached Rp 321 trillion in 2009 up 5% from the year before. Appendix D illustrates the map and economic indicators of this province, and brief information about the sites of the Task Force visit.

East Java is of interest to the Task Force because it is rich in natural resources, particularly oil & gas, and hosts the foreign direct investment in crude oil production by JOB Petro China (Petrochina’s Joint venture operations with PERTAMINA in the Tuban and Bojonegoro Regencies). Furthermore, the oil production is located onshore and can therefore offer many interesting and accessible illustrations of how FDI impacts the environment as well as the human and social conditions. It is a living example of how a large Chinese State owned company has coped and plans to cope with managing the impact of its presence in the location.

4.2 Team and activities

The TF team visiting East Java included:

- Mr. John Forgach, TF International Co-chair
- Mr. Yansheng Zhang, TF Chinese Team Member
- Prof. Ying Chen, TF Chinese Coordinator
- Ms. Huihui Zhang, TF International Coordinator

The team visited East Java for 3 days from 22nd to 24th February 2011. It held meetings at the regional offices of a local NGO, met extensively with local government officials and visited some of the desulfurization oil & gas installations of Petrochina. The team discussed with many local stakeholders in Bojonegoro, met with the Regents and governments officials in Tuban and Bojonegoro, held several meetings with the Provincial Government officials and BP Migas regional offices in Surabaya, the capital city of East Java province. Appendix B-2 shows the detailed agenda, and Appendix C-2 the list of participants in the meeting series in the East Java trip.

4.3 Inputs and Findings

Petrochina’s Social and Environmental challenges

During introductory meetings with local and international NGOs in Jakarta the days before visiting East Java, the Task Force had heard that Petro China was facing many social and
environmental hurdles in developing its exploration and production activities in the Region. The principal issues can be summarized as follows:

a) Human and Social challenges: The Task Force were told that Petrochina faced, for instance, opposition from local farmers who complained about the heat and noise and luminosity effects of the gas flares around the desulfurization units operated by the Chinese Oil Company. We were informed that local farmers were deeply disturbed by the flares, that their crop yields within a one mile radius of the flares had diminished by up to 2/3, that they were suffering from illness and health effects (due to the spread of ammonia gazes from the flare stacks) and that the noise and luminosity was disturbing the husbandry activities, of local shepherds, especially at night.

b) Health and Security challenges: We were told that the firm was conducting onshore oil exploration without much concern for potential risks (explosion, air contamination with production gazes such as H2S and methane or leakage of toxic fuels as well as contaminated production water at the site) for local communities living in proximity to the oil wells. We were also told that the firm had little concern for the security of its own employees, mainly rig operators (mostly subcontractors) as the Chinese rigs, were of less good quality and exploration equipment had safety instructions labels printed only in Chinese language, which was not understandable for Indonesian workers.

c) Environmental pollution at the production site: We were told that the oil company only desulfurized about 80% of its gas production as it cleaned merely the portion used by the plant to run its own system. In other words, the claim was that the company was flaring non-desulfurized gas straight into the atmosphere, emitting highly toxic H2S gas in the process. We were also told that the firm conducted a very dirty and noisy flaring operation with little concern for its impact on the Environment. A common complaint was that they were disposing of solid desulfurization residues without much concern for the disposal sites. We were also told that the firm barely complied with the Environmental regulations, but “did not read them” and adopted short cuts when facing Environmental requirements “in order to gain time” in production and exploration. The common habit in Indonesia was still to “fix after the fact rather than pre-empt”.

d) Human resources management and training: the team was told that Petrochina was “slow in replacing personnel” and overworked its teams, leaving little spare time for community engagement and other social interaction. It did not offer sufficient on the job training opportunities nor were there enough executive position exchanges within the group. Another common complaint was that Petrochina’s presence and activity did not create many opportunities for low skilled jobs, which have great impact on the neighboring community. The crude oil, once processed, was shipped off to China and the Gas continued to be flared (i.e wasted) instead of helping produce more jobs in the community.

e) Contribution to the country’s economy and local community: as a producer and exporter of crude oil, Petrochina does not contribute much to the local communities. A common complaint was that while it made, from time to time, monetary contributions and services to the local communities, it did not offer permanent job opportunities and therefore did not help the local economy. The local people felt that they suffered the Environmental and safety degradation risks of Petrochina’s presence but did not benefit from any direct compensation in the form of economic or other benefits. They fared poorly, for instance, against Indian investments, which they claimed, were more vertically integrated into the local economy, exploring downstream opportunities such as the production and distribution of fertilizers from gas, electricity from gas, transportation and other household applications derived from NLG, etc.
Petrochina Facilities and Work Area
The team visited the industrial site in Tuban and Bojonegoro, where the JOB Pertamina - Petrochina conducts its crude oil and NLG desulfurization activities. This is an impressive and large site surrounded by rice paddies under full cultivation. Along the main road and the plant’s access road one can see many residential houses, orchards surrounded by healthy banana and other fruit trees, schools, grocery stores, pharmacies, temples, storage barns, garages and other urban type housing immediately adjacent to the high fences of the oil/gas operation. Many of the houses and stores were recently constructed and many were under construction. One could see the high gas flares alight in the distance.

*Crops grow next to JOB Pertamina - Petrochina desulfurization site, Tuban, East Java.*

*JOB Petrochina - Pertamina crude oil and gas desulfurization unit, Tuban, East Java*
After passing through the appropriate security and identity checks at the main entrance gates, which were quite thorough (they kept our passports and identity papers which were returned when we exited the premises) the team changed to diesel powered vehicles (their gasoline powered vehicles could not be used inside the desulfurization plant area). All this procedure was carried out in a very polite but firm manner.

The team was received by the full top management group of the company, including their Environmental and Safety manager. Everyone was fluent in English. Before the meeting started, the team was given very detailed safety briefings and instructions for evacuation in case of fire or explosion. They were informed that this plant was a very sensitive installation handling extremely delicate and volatile/explosive products and that they needed to observe the safety rules with great care.

Before they started the actual tour of the plant they were given another round of instructions about security and health by the fire and health security site managers. The team was told that they had to stay in the vehicles and not use flash photography. Emergency exit procedures and shelters were indicated to them. The briefing was thorough and carried out very professionally. The head safety manager was an Indonesian engineer employed directly by Petrochina.

Having worked in the oil industry for many years, Mr. Forgach, one of the TF team members, is personally quite familiar with desulfurization units in the Southern USA, Africa and Latin America. These are indeed very sensitive crude oil & gas processing units, which require the utmost care and safety precautions in their operations. They need several layers of safety measures with double or triple redundancies. Their maintenance is very demanding as they deal with highly corrosive and toxic materials.
From what the team observed during its tour, Petrochina has a first class safety record (the curb on the accidents chart has moved to zero since Petrochina has become a partner in the operation) and demonstrated a high degree of diligence in their safety measures. The plant is clean, there are no leaks, all the equipment is well maintained, pipes are freshly painted, instruction signs are well positioned and in top shape. There were no signs of neglect or poor maintenance. Safety pumps, generators, water hoses and fire-fighting equipment were kept in top shape, the electronic monitoring systems in the control room are manned 24/7 by well qualified engineers and everything appeared to be in absolutely top working conditions.

The team talked quite openly and freely with the Senior management, before they initiated the site tour. The management had prepared a power point presentation but the group ended up discussing openly throughout the ppt. The JOB has a “blue” Indonesian environment rating and is working towards the “green” level. They are aware of the problems caused by the flares and dispute the claims that they reduce agricultural productivity or create direct health hazards to the surrounding communities. They refute completely the assertion that H2S gas is flared into the atmosphere. In fact the Sulfur filtering system is monitored constantly so that any amount of gas with even 15 ppm of Sulfur is recycled again through the unit so that it is totally clean. They use a zero tolerance approach for H2S emissions.

![TF members meeting with the management of JOB Petrochina-Pertamina at the Tuban plant.](image)

They admit the problems with the unusual luminosity caused by the flares at night, which can be very disturbing. They have made compensations to the community, helped them financially and have started installing new closed-end flares and heat exchangers that reduce the noise, heat and luminosity to a small fraction of the traditional ones. These units cost US$ 1.0 MM each and they plan to install more such units. The team passed right under the high flare stacks, which were in full power. There were birds flying around them and the sheep and cattle were in the pastures, right on the other side of the high fences, with their owners right next to the flares. No one seemed very bothered.
In fact Petrochina would like very much not to have to burn all this precious gas. It is a valuable commodity. The firm has been patiently waiting for almost 3 years to get connected to a LNG gas pipeline which has been awarded to PT Gasuma Corporindo, who has been unable so far to close the financial package to finance the pipeline. It seems like the situation continues to be frozen as the Bojonegoro Regency is blocking any further licenses for new oil exploration wells until the gas flaring problem has been resolved. The Bojonegoro regency would prefer to see the gas used to produce electricity and fertilizers for the Region rather than being flared or exported. Petrochina appears to be doubly prejudiced in this quagmire as it cannot pursue its drilling program, is being blamed for flaring the gas that it wishes to sell but cannot because the firm that has been awarded the renewed license for the pipeline construction is unable to deliver.
While the team waited to meet the Regent of Bojonegoro, he was delayed because he was attending a public library inauguration ceremony for children of his community, which was co-sponsored by Petrochina and ExxonMobil Corp. He stated openly to the TF team that he was very pleased with Petrochina’s presence in the area and that the firm was often unjustly blamed for community actions over which they had no control. He said that Petrochina had voluntarily offered to build a new school for children that were located close to their new exploration fields. They put the funding at the disposal of the community but nothing has been done over the past year and a half because the community cannot decide where to relocate the school. The Regent added that he felt Petrochina could be much more present in the community if they invested (or brought investors) into downstream business that was related to their oil business. He suggested that they could use a larger refinery, build a fertilizer plant and a gas powered electric utility, as well as other related distribution businesses.

With respect to the oil exploration activities, the Regent confirmed that Petrochina is now being blocked by his Regency (Bojonegoro), as it will not issue new drilling permits until the Natural Gas and flaring issues are duly resolved. There seemed to be some disagreement between the licensing authorities and the Regency in this respect. Whatever the case maybe, it appears that Petrochina is unfairly blamed for a situation over which it has little control and runs contrary to its interests.

The oil fields which are targeted for exploration are relatively sure bets with an 80% success rate (according to Petrochina’s management) and the crude oil is of high quality. While the company is doubling its offshore pipeline to the loading port, it is unable to increase production in the same proportion. This is hurting performance and frustrating the management.

**Welcoming China as an investor**

During the trip the TF team was quite impressed by the friendly and supportive welcome it received from all levels of the population. It is clear that Indonesians in East Javas like
China and are proud of their Chinese roots and ancestry. In Tuban, the team was received most graciously by the Regent, Mrs Haeny Relawati Rini Widyastuti, and her full cabinet at the Government Palace. During the lunch banquet, the team members were introduced to several Indonesian and local culinary delicacies, which are often strongly influenced by Chinese recipes, and she explained to us how important it was to emphasize the deep cultural roots that exist between these two large Asian Nations. In fact she requested that some of her Cabinet officials accompany the team to a giant Chinese cultural and entertainment center recently built right on the public sidewalk next to the Tuban shoreline. After lunch the team was introduced to the various investment opportunities available in the booming economy of Tuban, through a power point presentation that was narrated and explained by the Regent herself. Again, there was a clearly manifested interest in seeing more Chinese investments in Tuban. The Regent was aware of the TF program and brought up some of the community issues that exist with Petrochina’s operations in Tuban. She also insisted that if Petrochina and/or other Chinese State firms invested in downstream operations, creating more low skill employment opportunities, the community problems around Petrochina’s presence would be very much compensated for.

H. E. Mrs Haeny Relawati Rini Widyastuti, Regent of Tuban honored CCICED TF Delegation with symbol of the Regency of Tuban, East Java.

H.E. the Regent of Tuban welcoming TF delegation at Regency Government Palace.
This warm and friendly attitude towards China was also very much present at the closing meeting discussions at the East Java provincial Government Energy and Mineral Resource Agency in Surubaya. Ms. Dewi J. Putriatni, the Head of the Agency, told the TF team quite clearly that they were looking forward to much closer and intense business relations with China. She further explained that they felt comfortable dealing with a partner that had similar historical roots and experienced the same “South-South” emerging markets issues as they did, rather than the traditional North American and European investors, whose approach to business was not well adapted to Indonesia’s customs and was often more arrogant.

During the field trip the team encountered many NGO representatives at the different meetings. Right at that start of the visit it stopped by WHALI’s regional office in Surabaya and met with the local representatives. In general the impression was that the NGOs were not very well equipped in the field and had a very minor presence in the TF discussions. The level of involvement with local firms and government agencies seemed more junior and not very effective. It is clear that the NGOs representatives that the team met in Jakarta were much better prepared and informed. The team felt that this weaker NGO presence in the field was a handicap for progress on all the governance implementation and community dialogue needs. This point was brought up and reinforced in many of the discussions with the regents.
and the Petrochina management. A stronger and better equipped NGO presence would surely improve the dialogue with the community.

5. Visit to East Kalimantan

5.1 Background

East Kalimantan is one of the largest provinces of Indonesia with a geographic area of about 218,000 Km2. Located in Indonesia’s largest island of Kalimantan, the province has 10 districts and 4 major cities with a total population of only 3.1 million people (2009) but its population grows on average 2.3 % per annum. Samarinda is the capital city in the inland of East Kalimantan, and Balikpapan is the industrial & port city in the coastal area of the province.

The dominant sectors in East Kalimantan’s economy are mining, forestry and manufacturing industry. Coal, liquefied natural gas, palm oil, timber and other forest products are its major traded commodities. The province’s gross domestic regional product (GDRP) was Rp 281.5 trillion in 2009 with 2.32% economic growth in the same year. Appendix E illustrates the map and economic indicators of this province.

East Kalimantan is the largest producer of coal and among the top 5 producers of palm oil in Indonesia. While it still has large forested areas, the province faces a continuous problem of illegal logging, illegal timber trading, land conversion, forest reduction and intense environmental degradation. The massive scale of coal mining, palm oil plantation and logging activities have also damaged public roads and created various economic and social problems for the local communities. High demand for coal and palm oil from the international markets provide strong incentives for illegal trade and illegal businesses, oftentimes involving the very authorities responsible for law enforcement.

However, in 2009 the newly elected Governor Awang Farouk Ishak declared East Kalimantan as a “Green Province” and launched a new policy framework for sustainable development and reduction of greenhouse gas emissions in the province, called the “Kaltim Green Program”. These initiatives acknowledge the urgency of actions needed to combat illegal logging and to reduce emissions from deforestation and forest degradation through 5 programs: (1) carry out low carbon emission development; (2) integrate sustainable development targets for the region; (3) analyze and reform current development policy accordingly; (4) reduce the ecological and climate change related threats such as landslides, flooding, droughts, forest fires, degradation of terrestrial and water ecosystems in East Kalimantan; and (5) supporting national mitigation efforts in cooperation with the local universities, civil societies and international institutions.

The Task Force team that visited East Kalimantan province wanted to have the opportunity to meet and discuss the above policy issues and their implementation with provincial government officials across related sectors, local university experts and local NGOs. The team also wanted to see how extended was China's involvement in trading and investment activities there, as well as the socio-economic and environmental impacts that may arise from those activities. The team also intended to probe the possibility of sustainable development relationship opportunities. The main subjects explored were all related to coal, timber/forestry products, and palm oil industries.
5.2 Team and activities

The TF team that visited East Kalimantan was composed of:

- Mr. Ismid Hadad, TF International Team Member
- Dr. Arthur Hanson, International Chief Advisor CCICED
- Ms. Haiying Li, Project Manager CCICED
- Mr. Laihui Xie, TF Chinese Researcher

It visited East Kalimantan for 3 days, from February 22nd to 24th 2011. Activities in the first day included intensive discussions with leaders of 5 local NGOs, and the next morning with the local academics and university experts, while the afternoon of the second day was devoted to have 6 hours of intensive meetings and open dialogue at the Governor’s office with practically all key provincial government officials in the mining, forestry, plantation, agriculture, oil & gas energy, trade, manufacturing industry, investment and environment officers. The provincial government of East Kalimantan also made a presentation about the province’s development plan, Kaltim’s Green Program and the investment plan especially in the 2 newly built integrated industrial & port areas of East Kalimantan. Both university experts and all related government officials have provided the Team with written documents and statistical data on trade and investment, also information on overall development and environmental conditions in the province.

On the last day, the team enjoyed a full day field trip visiting two coal mining sites in the city of Samarinda and in the afternoon also went to see degraded and rehabilitated forest sites due to mining at the Bukit Soeharto protected areas. In the 2 different coal mining locations in Samarinda, the mining operators did not apply good mining practices as required by the government. Both mining operators were not only doing open pit mining operation, which contaminate local environment, but also transported their raw coal by using heavy trucks, which again damaged the public roads, and generate many complaints by local communities.

The trip to Bukit Suharto also involved two different site visits. One was a Forest Research area with many varieties of plant species managed by the University of Mulawarman, and the other a large degraded former forest land area, which was used for illegal coal mining and then for illegal plantations. Although these illegal activities had been stopped by the government, there were still some excavators dredging and trucks transporting the coal in that protected area of Bukit Suharto. Appendix B-3 presents the detailed agenda, while Appendix C-3 shows the list of stakeholder participants in the meeting series held by the Task Force in the East Kalimantan trip.
Open pit surface coal mining in two separate locations in East Kalimantan.

5.3 Inputs and Findings

East-Kalimantan’s Development pathways

The East Kalimantan province of Indonesia has achieved a record of development progress largely driven by the exploitation of the province’s abundant natural resources. The pumping, cutting, mining, and processing of East Kalimantan’s oil, gas, timber, coal and other mineral deposits accounted for more than two-thirds of the regional GDP.

Economic development remains an imperative option for East Kalimantan, because almost 10% of the 3.1 million people living in the rich province is still below the poverty line. Decentralization has increased the accountability and pressure on the district and provincial governments to pursue economic growth and increase local revenues often at the expense of making wider gaps between the richer modern sectors and the poor rural communities.

Oil and gas have been a mainstay of East Kalimantan economy since 1980s, but as its production rates decline in the province mature fields, its contribution to GDP also decline from 80% to currently 50% of the economy, and will continue to fall in the future. Fortunately, the province’s economic growth then has been supplemented by the rapid development of new economic sectors: forest woods/timber, coal mining, palm oil, and services.
Under a business-as-usual growth scenario, East Kalimantan economy will grow moderately at 3% per annum, as new growth from forestry, coal mining and palm oil will be partially offset by the continued decline of the oil and gas sector. But this resource intensive exploration development strategy has led to sizeable CO2 emissions, with 250 MtCO2 expected to be emitted in 2020 alone, making East Kalimantan the third largest emitter among Indonesia provinces.

Since 2009 East Kalimantan is changing its development strategy. The government is committed to Green Growth, moving onto a climate-compatible development policy. The provincial growth strategy tries to reconcile growth with climate change mitigation by focusing on: 1) a “greening program” involving the entire community of the province with the obligation to plant 5 trees per person reaching the target of 17.5 million trees planted in a year; 2) reducing the carbon footprint of its current economic sectors; 3) Applying REDD Plus (Reduced Emissions from Deforestation and forest Degradation) as a new policy framework that can help both reduce emissions and increase GDP; 4) moving to higher value-added activities such as processing wood industries (instead of just cutting raw logs), and developing new low carbon downstream industries such as pulp & paper mills and CPO refineries, and 5) making adaptation efforts to prepare the economic infrastructure to be more resilient to climate change.

Achieving a different, low carbon, climate-compatible development pathway will require substantial changes to East Kalimantan’s economic structure, land-use planning and government policies. The above low carbon development strategy is to ensure that the people do not achieve reduced emissions at the cost of reduced growth. Therefore additional financing and capital will be needed to underwrite the considerable investments associated with the transition to the green growth pathway. Some of that financing will likely be
provided by domestic government, some by the private sector, and others are expected from international donor agencies and development partners, including China.

The new development pathway of East Kalimantan faces many challenges, but it also provides a new platform and generates several new opportunities for its stakeholders and development partners such as China. The aim is to develop a more productive partnership with the resource rich province, which are expecting China to move from the current short-term trade partner to a strategic long-term investment and development cooperation relationship, which will mutually support the sustainable development of both China and Indonesia.

Socio-economic and environmental impact of China trade and investment:

- Low priced technology and a variety of consumer products from China are easy to find in East Kalimantan. They threaten the continued existence of locally produced goods, such as textiles, food, and electronics. Technology from China increasingly appears to dominate various aspects of the business networks of the region.
- Coal trade with China, is deemed to be a threat. China is the number one export destination of coal from Indonesia, and 92% of Indonesia's coal exports come from Kalimantan. In the Kutai Kartanegara Regency there are 30 large open pit mining holes, which are impossible to be closed, generated by the activities of huge but irresponsible mining companies. In addition, coal mining also threatens agricultural land, since at least 12,000 hectares of agricultural land has been converted into mining until 2010.
- There are too many coal mining operators in East Kalimantan. Some of them are owned and operated by large, duly established national or multi-national companies. But the majority are run by medium to small sized coal mining operators, many of which are not licensed and do not even have a corporate identity. They are the ones that the government cannot control, who are producing low grade coal and damaging the environment. While registered, the most medium-size mining operators do have duly awarded operating licenses, but are unable to access sufficient funding to buy and use modern equipment, apply good mining practices or, more importantly, restore abandoned sites when the coal is exhausted. For the Chinese coal buyer or importer, instead of relying on the unpredictable supply of untreated raw coal shipments, it would be in their advantage to provide finance or make investment in those smaller local coal operating companies to secure their long-term and stable supply of refined and selected coal from East Kalimantan.
- The Crude Palm Oil (CPO) industry is currently impacting significantly the environment in East Kalimantan, primarily due to their relations with forest conversion for the establishment of palm oil plantations and the damage they cause to the road infrastructure carrying the CPO from inland centers to the seaports. Some plantation operators even violated the High Conservation Value Forest (HCVF) areas as they expand their Palm Oil stands indiscriminately. China is expected to avoid purchasing CPO produced by companies violating environmental regulations and damaging the environment.
- China is expected to help introduce and implement environmentally friendly technology and operating standards. China investors should not take advantage of the relatively weaker law enforcement capacity of local governments but should work proactively, instead, towards helping to safeguard the environment.
China trade and investment activities in East Kalimantan should not violate the principles of sustainable development. An ideal approach for Chinese investment in East Kalimantan should include a serious research and development (R&D) activity and technology transfers, which should be aimed at a more strategic, longer term and sustainable development relationship with local partners.

Opportunities Offered by Local host Government:

- East Kalimantan plantations produced several commodities: rubber, cocoa, pepper, coconut, cassava, and oil palm. Among these commodities, palm oil has the highest demand and leads, therefore in share of exports. There are about 3.345 million hectares of land provided by the local government for 196 palm oil plantation companies. Of these, 35 firms are the result of FDIs covering 385,178 hectares of plantation area. The East Kalimantan government encouraged investors to invest in Crude Palm Oil (CPO) factories. There are about 30 CPO factory units currently in the program, 20 already operating and another 10 still under construction. These palm oil products are mainly to be exported to or through Singapore and Malaysia.
- For the development of this palm oil industry, the provincial government of East Kalimantan has adopted a new sustainable development policy to be followed by new investors. Palm oil plantation cannot be developed on primary forest and peat-lands; should not open the watershed and not penetrate into High Conservation Value Forest (HCVF). They are not allowed to lead to new land clearing by the burning of trees. Management should use certified seed, follow the system of Good Agriculture Product, and the processing activities should be in line with Good Manufacturing Product Standards. In addition, palm oil companies are expected to apply internationally accepted standards of RSPO (Roundtable for Sustainable Palm Oil) or use Indonesian Sustainable Palm Oil (ISPO) standards.
- The government of East Kalimantan also has a master plan to develop 2 large infrastructure projects, one of them is the “Maloy special economic zone” at East Kutai Regency, which is built as an integrated industrial area supported by international river/seaport, expected to be the main port for palm oil export from East Kalimantan. The other is the “Kariangau Industrial Area” at the coastal area of Balikpapan, built as the main basis of economic activities to support non-oil & gas industrial area near the Balikpapan harbor. There is also a coal generated power plant to be built to support development of the new industrial areas. China and other foreign investors have been invited to participate in the development of those infrastructure projects.
- China imports 50% of its total needs of cassava from overseas, including Indonesia. According to a study conducted by a Chinese research agency, East Kalimantan soil has been identified as a very suitable area to grow cassava. The local government has agreed to provide about 50 hectares of dry land for planting cassava, if Chinese potential investors are interested to invest in East Kalimantan.
6. Key findings of the field trip

6.1 Questions asked by the Task Force team
During the interviews, the general themes and issues discussed were summarized by the TF Team into four main questions:

- Is China’s trade and investment a challenge, an opportunity—or both?
- What are the impacts of China’s trade and investment on Indonesia’s environment and society?
- What kind of standards (environmental, developmental, governance) does Indonesia prefer: western standards, Chinese standards, Indonesian standards or new jointly-developed standard?
- Who are the key actors that should be engaged for improved Chinese and Indonesian cooperation models?

6.2 Answers given to the TF team:
6.2.1 China’s trade and investment: challenge, opportunity or both?
The rapid growth of China’s market, capital and technology will drive the development of the ASEAN region. However, in terms of trade and investment, China can expect both competition and cooperation. Competition is a natural condition. The real challenge is to develop cooperation. The main space for China and Indonesia to explore their cooperation opportunities will be found in global governance reform (cooperation at the G20 level), regionalization (ACFTA), and comprehensive economic and technology cooperation.
The discussions revealed in general that Indonesia’s government officials, both at the central and regional levels, as well as local entrepreneurs, corporate executives and academics saw that trade and investment development between China and Indonesia as an opportunity for both countries.

As for foreign trade, China is now carrying out the initiatives to stabilize exports, expand imports and reduce its trade surplus. This likely will increase imports from Indonesia. In recent years, China’s import demand has become an important factor of Indonesia’s economic growth.

As for outward direct investment, up to the end of 2010, China’s official foreign exchange reserves amounted to 2.85 trillion US dollars, while foreign financial assets totaled nearly 4 trillion US dollars. China is carrying out a ‘Going Out’ strategy to expand outward direct investment. This will be an opportunity for Indonesia’s agriculture, manufacturing and service development, employment and increase in tax revenues.

In terms of domestic development, from 2011, China is engaging on an expansion strategy for its domestic consumer demand strategy coupled with an accelerated urbanization strategy and a low-carbon development strategy. Taken together these measures can boost comprehensive cooperation between China and Indonesia, including urban-rural cooperation, regional cooperation and industry cooperation. They should increase the opportunities for green development, inclusive development, balanced development and comprehensive economic and technology cooperation.

Notwithstanding the above, during the discussions, the TF teams encountered some dissenting views, mostly from the NGO community, which argued that China’s trade and investment is a threat for Indonesia’s environment, resources, energy and community development. They used the following arguments:

- As a fast emerging major economy, China will bring new challenges and threats to the domestic and offshore environment of Indonesia’s development.
- China’s foreign trade can have adverse influences through uneven quality product standards, specific commodity or product demand exhaustion and uncontrolled local production/exploration environment deterioration.
- China’s trade and investment may cause cultural and developmental shocks to the traditional agriculture methods of the host society, community and region.
- China’s mining and extractive activities can cause threats to local environments and resources. As examples they cited zinc and manganese mining in native permanent protection zones. Even if there were an agreement at some governmental level allowing mining in such zones, the local communities were not consulted and have therefore opposed such activities.

Both China and Indonesia are taking on responsibilities to create cleaner, low carbon development processes, hence environmental concerns are expected to be embedded in the development policies and measures of each country. Both countries have to deal with the problems of land conversion and sustainable management of forestry, as well as the social and environmental impacts of extractive industries, especially coal, oil and gas. Developing
and applying more appropriate instruments and environmentally friendly technologies are required to face these challenges. Both countries share similar and common concerns. They should take advantage of their respective strengths to address these common concerns together.

6.2.2 Impacts of China’s Trade and Investment on Indonesia’s Environment and Society

In terms of trade

Remarkable changes in the last 10 years have placed China as a new engine for global growth. It also has become an important neighboring country for Indonesia. China is now among the top 15 trade partners of Indonesia. China imports from Indonesia are dominated by natural resources, while Indonesia imports electronic components, manufactured goods and machineries from China.

The two countries are engaged in numerous bilateral and multilateral agreements such as the ACFTA. Indonesia and China have agreed to look for sectors negatively affected by ACFTA and to work together in addressing such issues bilaterally. The aim is to narrow the gap impacted by asymmetrical conditions in the various economic sectors of the two countries. For example, low price toys and textiles from China reach Indonesia easily and have led to uncompetitive practices and business closures in Indonesia. On the other hand, Indonesian companies have limited access to China due to its import quotas.

In terms of investment

The majority of current Chinese investment in Indonesia are based on equity participations with reduced management and operational functions. In terms of relative size, investment volumes are heavily overshadowed by trade volumes.

From the receiving end, in general Indonesia has appeared to have a preference for trade instead of fully sustainable forms of investment. It has been suggested that China businesses are often more interested in importing raw materials and resources for their domestic processing facilities, leaving thereby the responsibility for the upstream impacts of such business entirely for the host country. In the case of Indonesia the capacity to adequately handle environmental and societal impacts is still limited. As China continues to increase its appetite for natural resources, its trading partners expect to see it taking more responsibilities in addressing such matters.

For example, Indonesia is a major producer and exporter of palm oil and coal, but faces growing challenges to control the negative impact of such activities on preserving native forest resources and limiting the site degradation related to these activities. For industries in southeast China, Indonesian coal has been among the most competitive resources as compared to domestic supplies. In order to become more sustainable and environmentally acceptable, Indonesian palm oil production and coal mining demand significant changes in the way the business is managed, institutional capacity improvements, new technology, and major new investments. Incorporating such sustainability concerns into goods and products
traded would affect positively both China and Indonesia. Both FDI and ODI must now include CSR and environmental considerations in order to benefit the two countries and improve relations among them.

During the meetings with the Vice Minister of Indonesia’s Department of the Environment, it became apparent that there were many opportunities for China and Indonesia to work on win-win joint investment solutions, which would assure good returns while preserving the Environment. When it come to the production of energy, whether in the traditional fossil sector or the newer biomass and other renewable energy cases, the two countries could adopt new commonly developed technologies, explore new ideas jointly, create new co-management and new sustainable protection systems that would boost joint-development opportunities. Points that came up in these discussions include the fact that:

- China’s investment in Indonesia should provide not only good export returns but produce local durable community benefits, increase local job opportunities, both for skilled and unskilled labor, boost tax revenues, encourage local sustainable development, help Conserve the environment as well as the local and traditional cultural values.
- Compared with investment programs of the World Bank and the ADB in Indonesia, the environmental, natural protection and social responsibility standards of China’s investment appear to be lower. That can be problematic for the environment as programs that are difficult to be implemented according to ADB environmental and social standards have been successfully taken over by China’s enterprises. This is the case for China’s numerous and often controversial Hydro-Dam construction projects throughout South East Asia.
- China’s enterprises that invest in Indonesia should stimulate and support some of the social and public interest programs that are demanded by the local communities impacted by Chinese ODI. These include, for instance, the improvement or construction of new and better hospital facilities, better schools and enhanced involvement with local community affairs. Such demands were constant in all the TF visits.
- There should be a concerted effort to promote more interaction between the people and/or local stakeholder group representatives to take part in the environment assessment of China’s investment. That will help reduce conflicts between local government and the impacted communities. This was evident in the oil & gas sector, where Petrochina struggles to accommodate its community impacts as it expands its oil exploration activities.
- China’s trade and investment development in Indonesia places sometimes undue competitive pressure on local enterprises and farmers.
- China’s enterprises should adopt preemptive strategies to manage environment concerns rather than the traditional Indonesian post-accident remedies approach.
- Trade and investment development are imbalanced between China and Indonesia. For example, China is already the most important trade partner of Indonesia, but the scale of China’s ODI in Indonesia is still small. Indeed, China is currently the 16th investment partner of Indonesia. There are still many obstacles to growth of ODI in Indonesia. Things like work permits are almost impossible to obtain and capacity building of local unskilled labor still leave a lot to be desired.
In the TF meetings it became clear that China’s large enterprises, mostly SOEs, attached more importance to complying with and implementing environment and social standards, than the smaller and privately held Chinese enterprises.

6.2.3 Choice of Standards

What kind of standards (environmental, developmental, governance) does Indonesia prefer: western standards, Chinese standards, Indonesian standards or new jointly-developed standards? Overall, the problem of standards is a governance issue that has both national and international components. For example, in the case of palm oil, a prolonged process to develop a voluntary international standard has been underway since 2004 via the Roundtable for Sustainable Palm Oil (RSPO). This standard can be used in certification processes by producers and investors, traders, and manufacturers and food companies using palm oil. Now Indonesia is in the process of introducing a mandatory standard for palm oil for its producers. And China will need to make some decisions about whether to accept a range of standards, or whether to develop its own, based on Chinese needs.

Although China trade and investment arrangements with developed countries often comply with standards such as the ICCM, to which it has adhered, some observations indicate this is not the case in countries with weak governance and high poverty level such as Indonesia. In Indonesia, Chinese interests have often been perceived to participate in providing financial supports for illegal trade of coal, minerals, and wood; export low quality products; and relocate unsustainable businesses. Nevertheless, both China and Indonesia are under pressure to improve the management of coal utilization and land use respectively. China started to improve environmental performance of its industries, while Indonesia is initiating its own Indonesia Sustainable Palm Oil (ISPO) standard.

During the TF meetings, there were repeated comments made about the unsustainable practices employed in China’s lumber, palm oil, mining, food and illicit fishing trade (China’s mainland and Hong Kong SAR are the biggest buyers). They suggest that China should make a stronger effort to enforce the laws and promote the adoption of international standards and authentication systems, such as ICMM, FSC, MSC, Equator principles and ISO. That is particularly important in the case of trade with developing countries where environment and social standard are somewhat lower. China should at least abide by the standard of its own.

At this stage, China’s trade and investment activities in Indonesia use technology, environment and social responsibility standards that are commonly available in the developing phase of its own economy. Generally speaking, EU and US enterprises seem to adopt stricter standards. For example, in the case of China and US oil & gas business in Indonesia, China’s enterprises appear to be somewhat behind their American counterparts in some of the crucial pollution emissions abatement, dust reduction, noise elimination equipment and technology standards, but China’s investments are generally more competitive costs wise. Conversely, in the dam construction area, China is picking up the projects which have been turned down by the World Bank and the ADB, making it a controversial albeit competitive player with greater responsibilities overall.
There were many comments made about the quality of Chinese products. Some products and technology have high quality standard, others not. For example, China’s solar energy program in Indonesia is unsuccessful, mostly because product quality is low. Unfortunately many Indonesian importers prefer the lower priced and lower quality products rather than the higher priced and better performing products. In any case the complaints about poor after-sale services and low stocks or inexistence of spare parts was very commonplace. China’s enterprises should set up or organize after sale office networks in Indonesia, and prepare themselves for continued technical assistance through local service networks providing complete local repairs and dependable stocks of spare parts.

As China moves towards a low Carbon development it should strengthen cooperation with Indonesia, seek alignments of interests in order to complete the low carbon economy transformation and develop technology, equipment, management and service systems that would be adapted to their current mutual development phase.

6.2.4 Key Cooperation Actors

Who are the key actors that should be engaged for improved Chinese and Indonesian cooperation models? China and Indonesia need to identify and develop synergies that can help them work together towards aligning their environmental and sustainability needs. Both nations will face increasing responsibilities and challenges in terms of the efficient use of their natural resources and markets. Strong cooperation is needed at all levels in the government, businesses, academics and the general public. Constant and permanent changes in perspectives require continuous efforts and focused programs in both countries.

As an example, border tariffs are a real threat to development and a drain on resources as they protect markets and generate inefficiencies. Yet they are a reality that is just around the corner. Both countries need to address this issue but currently there are no institutions clearly assigned to work on this subject. A form of south-south dialogue with a flexible format may be required to canvass these issues. Such a dialogue should not be limited to government participants only. It also must include businesses and a broader base of stakeholders. This dialogue is in line with China’s recent efforts in the global climate change negotiation (e.g., in the Tianjin Conference in 2010), as well as the Indonesian initiatives to engage finance and trade ministers during global climate change negotiations at the Conference of Parties (COP) 15 in 2007.

China should establish multiple channels to get overseas feedback information about China’s outward investment and trade. Institutions including business offices and the economic departments of China’s overseas embassies, China Council For Promotion of International Trade and so on, should take the responsibility for collecting overseas information and criticism in order to increase awareness of its actions and react as appropriate and in a timely manner.

China should establish institutional facilities responsible for harmonizing outward investment, evaluating environmental conditions, host country society characteristics, economic and poverty-reduction influence opportunities for local societies affected by
Chinese ODI and trade so that it can better participate in the life of these societies and a fully integrated member of the community. For this to be effective it will have to consider establishing international capacity building programs and international training, promote discussion venues, information and statistics exchange programs, social and cooperative aid facilities as well as cultural exchange events. All elements in society must be stimulated to participate in such an effort as ultimately it ends up reflecting the image of China’s society as a whole.

7. China–Indonesia Trade & Investment: Opportunities & Challenges

China and Indonesia have many things in common: concerns, needs, potentials and development goals, therefore together they could offer a leading complementary role in the development of a more environmental friendly and low carbon economic growth for the ASEAN region. However, while economic and environmental cooperation between the two biggest emerging economies of East and Southeast Asia has lots of potential and opportunities, it also faces a number of significant constraints and challenges that need to be addressed and resolved in the near future.

7.1 Here are some Key Opportunities that have been identified by the TF team

7.1.1 Forestry & REDD Partnership

Since more than 60% of the country’s total Green House Gas (GHG) emissions comes from land use changes in forestry and peat-land, Indonesia has placed high priority in its policy to reduce emissions from deforestation and forest degradation (REDD) in the forestry, peat and agricultural/plantation sectors. This will require large investments and massive low-cost abatement technologies in implementing sustainable forest management, biodiversity conservation, water-resources management and rewetting of degraded peat-land as well as reforestation.

This could be a golden opportunity for China to play a more positive role not only to counter the perception in some views of China as a current driving market force behind illegal logging and forest destruction in Indonesia, but especially to use China’s advanced financial and technological resources to launch a new platform for a mutually beneficial cooperation with Indonesia in the promising area of sustainable forest management, rehabilitation of degraded peat-lands, reforestation programs, and implementation of REDD+ Partnership.

China’s financial institutions such as its Development Bank, Export-Import Bank, and China Investment Corporation could step forward to provide specific development aid as well as south-south economic cooperation and technology development in addressing Indonesia’s priority for poverty alleviation and low carbon economic growth in the forestry and agricultural sectors.

If China and Indonesia could be successful in joint efforts to mitigate GHG emissions from the large forestry sector in Indonesia, this will make a very significant contribution not only
for increasing economic growth and people’s welfare in both countries, but also help to conserve the world’s biological wealth and to reduce global GHG emissions.

7.1.2 Palm Oil

Indonesia currently is ranked second as producer and supplier of palm oil in the world market and China is also ranked as the second largest importing country in the Indonesian trade relations on palm oil. However, increasing demand for and the lucrative nature of palm oil business in the international market combined with weak public governance at the domestic level have provide strong incentives for the practice of illegal logging, deforestation and forest land conversion into palm oil plantations in Indonesia. This type of palm-oil operations has caused massive ecological damage and adverse social-economic impacts to various parts of the country and to local communities. On the other hand, there is a perception that China is more interested to import raw natural resources for its domestic processing facilities, while leaving the responsibility of the upstream impacts of this business, such as illegal logging and degraded forests, entirely in the hands of the host country.

However, international consumers and the world markets are now preferring and demanding palm oil products, which are not produced from natural forest area and/or from unsustainable forest and land management. Environmental and social awareness of international communities are increasing, and they want to buy products which are proven and certified as environmentally safe and friendly products. The Indonesian government is fully aware of this issue and currently is making several policies and progressive steps towards the development of internationally recognized standards and criteria for sustainable production and trade of palm oil in the country and its relations with international partners. And, as China emerged to be a new economic giant, its trading partners expect to see that China takes more responsibilities, such as the introduction of certified sustainable palm oil standards as an importation requirement.

Expanded cooperation on palm oil could be a priority area for China-Indonesia economic cooperation in the near future, since the two countries have mutual interests in the growth of palm oil businesses. China could bring environmentally friendly technologies and operating standards. Sustainability should be a key priority for both countries. They should establish a common platform for the development of sustainable palm-oil plantations, production and trade in the future. It should start by having an agreement on the use of mutually agreed standard and criteria of sustainable palm oil production and trade, institutional capacity improvements, and based on that China could embark upon increasing investments in various aspects of palm-oil business venture in Indonesia. There are opportunities within the processing business and export infrastructure. For example, use of Chinese technology to convert waste biomass to electrical power locally rather than shipping the waste as far away as Europe to be burned in power generators abroad. And in East Kalimantan there is a search for capital to build advanced port and road infrastructure along with processing facilities that will provide value added products rather than simply exporting raw palm oil to countries such as China and India.
7.1.3 Renewable & Clean Energy

Indonesia’s commitment to reduce its GHG emissions by 26% from its own resources and up to 41% with international support by 2020 is such a huge challenge that it cannot be met even by creating an effective system for REDD+, but will have to be combined with efforts to reduce rapidly growing emissions in the energy, transportation, industrial and urban sectors. To fulfill the above challenges, the Government of Indonesia has designed a national action plan to reduce GHG emissions from related development sectors, of which the energy sector will contribute a reduction of 5.30% of the national target in 2020 or approximately 30 million tones of CO₂ equivalent. In addition to meeting GHG emission reduction targets, the energy sector has equally important function to secure the domestic energy supply (energy security). With an average growth of 7% per year and a high dependency to volatile fossil fuel energy supplies, particularly oil, the Indonesian energy sector must shift its energy management paradigm, from the existing supply side management to demand side management. For that purpose, the policy priority is to focus on energy efficiency in order to reduce growth of energy demand and to meet the energy supply with clean energy technology and more sustainable energy sources, such as renewable energy.

Therefore, Indonesia will have to ramp up its efforts in developing abundant renewable energy resources available in various areas of the country including geothermal, small hydro power, biomass & biogas (bio-energy), wind and solar energy. These so far remain untapped and under-developed due to the high capital cost and lack of appropriate technologies to be applied in a developing country such as Indonesia. Recently the Indonesian Ministry of Energy & Mineral Resources has launched an integrated clean energy initiative called ‘Reducing Emission from Fossil Fuel Burning (REFF-Burn). The initiative is to answer the twin challenges of energy security and environmental sustainability through clean energy development programs that could supply more energy with lower carbon emissions (‘more energy, less carbon’).

Again, this is another big area of opportunity for China to export its green development model to a large developing country such as Indonesia by fostering a more integrated program of bilateral economic and technology cooperation in the development and application of renewable energy resources as well as in clean energy technologies.

In the area of developing renewable energy resources, China could focus on development cooperation in micro & small hydro electric power generation and in bio-energy such as biomass, biogas and waste-to-energy sources, using the abundance of such resources in the rural areas and could directly contribute to the welfare of low income rural communities in Indonesia, as well as help to reduce emissions from methane gases in the agricultural sector.

Of course for a larger scale of investment program, China could embark on the development of Indonesia’s rich geothermal resources which are available practically in all major islands of Indonesia, except Kalimantan. Since the location of those geothermal resources are often in the forest or protected areas, its exploration and operation technologies should use non-destructive impacts to the local environment.
In the area of cleaner fossil fuel energy technologies, China and Indonesia, two countries with plentiful coal resources, should work closely together in the development and utilization of clean coal technologies. In addition, China could also help Indonesia with flared gas reduction technology and cooperating on the development of Carbon Capture and Storage (CCS) technology.

### 7.1.4 Infrastructure Development

Improving the conditions and the enhanced development of peat-land, forestry and plantation sectors, as well as developing the renewable energy resources in Indonesia, would require and will create huge demand for capital investment in infrastructure, such as roads and bridges, railways, sea and river transports, seaports, etc., which would be beneficial in strengthening trade and economic linkages between the two countries and enhancing local economy and social development in the regions. In this case, China could consider providing technical assistance and foreign aid which then to be followed by investments in the related infrastructure needs. Since infrastructure financing is still a major constraint for Indonesia’s development, China’s public banks such as China Development Bank and China Export & Import Bank could also take a lead role in financing large-scale infrastructure investment projects. Of course these new infrastructure investment schemes should take environment and social safeguard standards very seriously, ensuring local participation and sustainable development in the long run.

There are many other opportunities for closer economic cooperation between Indonesia and China that could produce environmental benefits. However, if only one or two or even a combination of the four opportunities mentioned above could be given priority by both countries as a focus for their common future of sustainable development, there would be major contributions not only for meeting their own objectives but also for demonstrating to others the value of these new forms of partnerships for the good of people and planet.

### 7.2 Current Constraints & Key Challenges

#### 7.2.1 Perception & Image of China: Cheap but Low Quality Goods and Products

During the last 5 years Indonesian consumer markets have been increasingly flooded by a massive inflow of consumer goods and products made in China. They have become attractive and very popular, primarily because the products are cheap, with their prices much lower than any other products available in the Indonesian market and they can be easily found everywhere in the country. However, many electronics, motorcycles, machinery and technical components made in China are known to have low price with questionable quality. For small items, the implication is a very short product lifetime. For large projects, especially those funded by foreign loans, a compromised product quality benefits China’s businesses at the expense of the Indonesian economy. This is a serious issue in relation with procurement regulations for projects funded by the budget of the Government of Indonesia, which applies a least cost principle but without performance standards.
7.2.2 Creating Unfair Relations with Local Industries

Low prices of Chinese-made products create a tough, sometimes unfair competition for Indonesian-made products. This has even caused some local industries to be put out of business. This problem is exacerbated by the application of ACFTA since January 2010. Dialogues between the two governments are under way to address this issue, however, the likely compromise seems to be only a postponement of the problem or would primarily benefit large industries, leaving the Indonesian small and medium enterprise complaints unresolved. While low price toys, textiles and motorbikes from China reach Indonesian market easily, the Indonesian companies have very limited access to China market due to import quotas. These asymmetrical conditions at various economic sectors in both countries could create much bigger economic and political problems if left unaddressed.

7.2.3 Trading Partner for Unprocessed Natural Resources

China now is among the top 15 trade partners of Indonesia, while current and future trend lines suggest that it will soon become at least one of the top five trading partners. However, while Indonesia imports from China electronic components and machineries, China imports from Indonesia are dominated by unprocessed natural resources, such as coal, timber, palm oil, etc.

The strong demand from China and some other countries for natural resources such as coal and timber leads to rampant illegal activities in the forestry business as well as negative environmental and social impacts. While the problems in Kalimantan are not generally caused directly by Chinese company operations, however, China is recorded as the number one export destination of coal from Indonesia, and 92% of Indonesia’s coal exports came from Kalimantan. And it is these coal mining operations which have contributed a lot to forest degradation and threaten agricultural lands in Kalimantan, Sumatra, Papua and other islands in Indonesia. So even though the driving force comes from China’s high demand for natural resources, China’s role in coal and palm oil business in Indonesia is mainly as a trader and not as investor or contractor. Thus they could easily escape from the responsibility of reclamation and reforestation of the damaged former coal mine fields. The same operational mode also applies to palm oil, where many forests were converted into plantations. There is only a small number of mainland China owned plantations. China’s purchases of crude palm oil from Indonesia often are made through local, Singapore or Malaysian intermediaries.

7.2.4 Limited Interest in Investment

The above pattern and practices of Chinese economic operations in/with Indonesia indicates that Chinese businesses still prefer short-term economic gains rather than long-term investment and long lasting economic and social benefits.

7.2.5 Governance Issues

While emerging country governments are faced with many urgent demands from their populations, they cannot ignore social and environmental governance issues as their absence only worsens the long terms sustainable growth prospects of their economies. Health, education, and poverty alleviation are major issues for emerging countries. To serve this
purpose, trade and investment among countries, including China and Indonesia, need to ensure sustainable benefits for the people and their environmental conditions. Unfortunately, these governance requirements are still absent in many cases.

8. Conclusions

8.1 Cooperation at All Levels

There are opportunities for China to strengthen its functioning economic links with Indonesia, as well as in developing China-Indonesia joint efforts to overcome global economic and environmental challenges and for both countries to enhance how they carry out their respective responsibilities. However, currently there are several trade barriers and investment constraints that need to be addressed seriously and systematically by both countries. For that, more intensive dialogues and strong cooperation are needed at all levels in the government, and by businesses, academics and the general public. Perspective changes require a common platform, continuous efforts and focused programs and targets in both countries.

8.2 Start immediate dialogue on border tariffs

Many challenges involving border tariffs need to be addressed, while currently no institutions are working on this area. A form of south-south dialogue with a flexible format may be required to canvass these issues. Such dialogue should not be limited to government participants only. It must also include businesses and wider stakeholders. This dialogue is in line with China’s new proactive approach in the global climate change negotiation, as well as the Indonesian initiatives to engage finance and trade ministers during global climate change negotiations at the Conference of Parties (COP) 15 in 2007.

8.3 Sustainability Standards

Developed countries have their own rules and standards for products and environmental quality. Developing countries find it difficult to catch up with the sustainable development standards. Both China and Indonesia are under pressure to improve the management of coal utilization, forest and land use respectively. As a response, China started to improve environmental performance of its industries, while Indonesia initiated its own Indonesia Sustainable Palm Oil (ISPO) standard. In the near future, both countries should initiate bilateral arrangement to develop their mutually agreed sustainability standards for palm-oil production and trade first, to be followed by other products and other sectoral program agreements.

8.4 Beyond Trade and Investment

Low Carbon Development Strategies which have been adopted by both China and Indonesia provide a new momentum and wider opportunities for both countries in having closer development cooperation beyond trade and investment. Indonesia’s commitment and current priority to push economic growth, reduce poverty and reduce GHG emissions in the peat-land, forestry and plantation sectors combined with efforts to increase energy efficiency and development of renewable energy resources should be considered by China as a new
opportunity to reform its development and international economic cooperation policies to address such opportunities offered by Indonesia by adopting south-to-south cooperation pursuing a common goal of low carbon development. Such development opportunities in the forestry, palm-oil and renewable energy could improve China’s economic and social capital by providing technical assistance, foreign aid, and development cooperation with Indonesia. In addition, China’s Development Bank and Exim Bank could also play a more active role in development project financing as well as long-term capital investment in infrastructure and large scale development operations in Indonesia.

9. Recommendations

- Explore the venues and opportunities for more and better quality communications: between national level governments, local governments, NGO, Companies (learning, to hear complaints), Communities (e.g. with schools), bilingual, trilingual instructions for exported equipment;
- Engage and focus in Trust building: monitor equipment quality, after sale services, spare parts stocks, product warranties, and general compliance of working contracts.
- Use the new proposed communication platforms to openly discuss and explore policy reform, law enforcement measures and trade & investment regulatory components.
- Openly face and address the issues related to business Corruption and the informal economy on all sides.
- Engage in proactive initiatives for capacity building to implement the new environmental and CSR policies. Focus on domestic, offshore, local and international capacity building.
- Launch a pro-active and permanent initiative to address the external perception of China’s actions. This will involve a constant and committed re-education process involving all Ministries and official institutions of the government, embassies, customs, tourism and commercial services industries, academic and multilateral agencies as well as cultural and institutional promotion bodies.
- Promote and help implement a positive agenda for a low carbon economy instead of imposing punitive and growth inhibiting Carbon taxes or border tariffs.
- Promote, engage and stimulate product and process Certification measures on agriculture products (palm oil), marine and timber as well as mining resources.
- Encourage and facilitate Chinese down-stream investment that generates low skilled labor job opportunities.
Final group picture of Indonesia field trip team: TF members, representatives from IIEE and Indonesian industrial association and NGOs.
Appendix A: Internal Guidelines for Questions to be addressed during Indonesia Field Trip

The following questions provide a starting point for discussions with various people in Indonesia, including senior decision-makers and political and business leaders; NGOs; international organization representatives; local officials; academics and other experts.

The questions are grouped, with the last group specifically oriented towards Chinese matters. Obviously not all questions would be asked to everyone. Nor is the list of questions exhaustive.

Overview Questions on Investment, Trade and Environment Issues – to Policy Makers, Officials, Others

- What are the key elements required for satisfactory investment, trade and sustainable development relationships, as viewed from an Indonesian perspective?
- What are the main Indonesian policies at national and local levels intended to promote sustainable approaches to FDI and trade?
- How are these policies enforced and what incentives are in place to help?
- Does the Indonesia Investment Coordinating Board (BKPM) provide guidelines and monitoring of FDI to ensure adequate environment and development practices?
- Are there Indonesian bilateral or other arrangements with specific countries or groupings of countries (ASEAN, EU, etc.) that provide a basis for best environmental practices for trade and investment?
- Which sectors are the most important at the present time in terms of improving sustainability? Are there specific sustainability initiatives that can be helped by participation of international organizations, or by investment from other countries such as China?
- Have specific enterprises (Indonesian, joint ventures with Chinese enterprises or those of other countries, etc.) oriented to export markets developed model facilities or approaches that might be considered “best practices” or at least “better practices” on environment and development?
- Which international agreements (investment, trade, environment) have been the most successful in helping Indonesia address its sustainable development interests, and how have these been related to environmental improvements in the country’s trading and investment arrangements?
- In the coming years will Indonesia likely continue to press for improved environmental performance in the various sectors where FDI and trade are important issues? If so, which sectors and issues are likely to be the most significant?
- Do you fear Border tariffs and protective market measures or do these represent further trading opportunities?

Environmental/Sustainability Certification Questions – to Government Officials, Private Enterprises, NGOs & Others

- What are the main environmental or sustainability certification systems being implemented in Indonesia now, or planned for the near future (including both international and Indonesian systems)?
What are the key drivers for certification, and over what time frame (present, 3 to 5 years, longer-term)?

Where are the key markets for certified products? Is there a Chinese market for Certified Sustainable products in particular sectors or types of enterprises? If yes, does that represent an opportunity for market share expansion? If yes, can you get better prices on certified products? Is the margin better?

For enterprises and traders:

- If markets for Certified Sustainable products are identified, can you impose demands on your suppliers for producing such products or will they shift to the competition?
- To what extent can you transfer the increased costs of certified products to your clients?
- Have you identified any trends in demand for Sustainable products? Are you interested in promoting expansion of these markets?
- Do you feel there are increased financial facilities? Lower interest rates and fiscal incentives? For financing trade in sustainable products? Would you increase your business in this if there were incentives?
- Are traceability and segregated logistics requirement for certified Sustainable products a problem for shipping these goods?
- Do you feel vulnerable entering certified sustainable markets?

FDI and ODI Questions – to Investors and Private Enterprises, also Officials

- What do you feel are the most important measurement, monitoring and certification systems for determining whether investments are sustainable/environmentally friendly?
- Have you identified demand for sustainable investments?
- Would you cancel an investment plan if you were challenged in its sustainability?
- Do you feel there is a strategic advantage in using Sustainability as an investment argument to gain market share either within Indonesia or abroad?
- What types and levels of increased costs or benefits do you see in making Certified sustainable investments?
- Do you obtain any fiscal or financial advantage from using Sustainable investment approaches?
- Have you identified any implementation advantages from going sustainable or have you found it more challenging/costly?
- Do you feel that you can invest in sustainable approaches without further training of your human resources or do you need better prepared staff? Are you willing to train your staff to be able to adopt sustainable investment policies?
- Is it harder to identify investment partners if you want to go sustainable?
- Do you believe sustainable investments, even at increased costs, are justifiable?
- Do you follow your own sustainability principles or simply obey the law?
- Do you feel it is right to be proactive in promoting sustainability or do you feel that is not your responsibility?
- Are you interested in the social and environmental impact of your investment on the host location or do you feel that is none of your business?
- If you feel it is your business, would you participate in local social and environmental initiatives to improve the impact?
• Do you feel, as an investor, that you should participate in the environment and socio-economic aspects of your area of impact?
• Is it important to build political alliances with local leaders for the advancement of FDI projects?
• Do you believe that corporate governance of FDI enterprises should influence host country habits and businesses. Should FDI firms influence the improvement of corporate governance and transparency of local corporate governance rules? Or should they not interfere in the life of host country rules?

Issues Related Directly to China Investments and Trade

• What are the key ways in which Chinese investment and trade have shifted over the past half decade, and what are some of the trends important for environment and development in the future?
• Do you feel China is any different from other large investors in its investment approach? If so, what are the implications for environment and development?
• How is Chinese investment materially improving sustainable development and environmental situations in Indonesia at the present time? And how could these improvements become enhanced through wider adoption on the part of FDI?
• What are the key challenges of Chinese FDI to environment and development in Indonesia? How significant are these in relation to other challenges or impacts at the present time, or perhaps in the future?
• Are there significant opportunities for environment and development improvements within Indonesia as a consequence Chinese investment and trade?
• What do you suggest should change in China’s FDI methods to address the challenges and opportunities?
• To what extent should these improvements be made in the context of Chinese investments, and to what extent should they be mediated via other international mechanisms such as those related to the IFC/World Bank, Equator Principles, etc.?
• Do you believe that a higher degree of transparency and better internal corporate governance of investment, joint ventures or other corporate arrangements would help to address challenges or to realize opportunities for environmental improvement? Or do you believe you need external controls including both market-based instruments, and government regulation to meet challenges?
• What are some of the main ways in which Chinese FDI is good for your Nation? Besides GDP increase, what other benefits do you believe it brings?
• Do you feel you can influence the behavior of Chinese FDI in your country? If yes, what are the main drivers and bodies (e.g. NGOs, Government, general public and consumers, media, other groups?)
• Do you feel China adopts reciprocal rules in trade and FDI?
• Are there ways in which China might improve its overseas investment sustainability performance either via international rules, or Chinese laws?
• Are there other high environmental performance approaches of investment that might be instructive for Chinese investors to learn from? Do you believe China FDI is any more polluting than others? Do you feel Chinese investors are concerned by their potential environmental footprint or are they are oblivious to these issues?
Appendix B-1: Agenda - Visit to Jakarka East Kallmantan, East Java

### AGENDA

**CCICED TASK FORCE on INVESTMENT, TRADE and the ENVIRONMENT**

**VISIT to INDONESIA : Jakarta, East Kalimantan, East Java**

**20-27 February 2011**

<table>
<thead>
<tr>
<th>Day/Date</th>
<th>Time</th>
<th>Subject &amp; Participants</th>
<th>Place</th>
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<tbody>
<tr>
<td>Saturday, 19 Feb</td>
<td></td>
<td><strong>Check in at the Grand Mahakam Hotel, Jakarta</strong>&lt;br&gt;<strong>All Task Force Indonesia Participants</strong></td>
<td>Hotel Gran Mahakam, Jakarta Jr.</td>
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<tr>
<td>Sunday, 20 Feb</td>
<td>18.30 - 21.30</td>
<td><strong>Wellcoming Dinner Meeting by IIEE &amp; CCICED:</strong>&lt;br&gt;Background information &amp; overview of ITE problems, challenges &amp; opportunities in Indonesia&lt;br&gt;- Presentation &amp; Discussion on Agenda Program visit in Indonesia&lt;br&gt;IIEE : Subroto, John Karamoy &amp; Ami indriyanto and All Task Force participants</td>
<td>Hotel Gran Mahakam, Jakarta Jr.</td>
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<tr>
<td>Monday, 21 Feb</td>
<td>08.00 - 10.00</td>
<td><strong>Breakfast Meeting :</strong>&lt;br&gt;<strong>Session I :</strong>&lt;br&gt;Task Force Consultation meeting with Senior Resource Persons : Dr. Umar Said (PERTAMINA/IIEE) and Prof. Rachmat Witoelar (National Climate Change Council)</td>
<td>Hotel Gran Mahakam, Jakarta Jr.</td>
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<td></td>
<td>10.00-12.00</td>
<td><strong>Session II :</strong>&lt;br&gt;Task Force Consultation meeting with NGO Leaders : WWF Indonesia, WALHI (National Environmental Forum), Institute for Essential Servicess Reform (IESR), and Revenue Watch Institute</td>
<td>Hotel Gran Mahakam, Jakarta Jr.</td>
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<td></td>
<td>14.00 - 16.00</td>
<td>Task Force Consultation Meeting with Mr. Imam H. Abu Ismoyo, Deputy Minister for Environmental Governance</td>
<td>Ministry of the Environment office in Jakarta Jr.</td>
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<td></td>
<td>17.30 -19.00</td>
<td>Task Force Consultation Meeting with Mr. Mahendra Siregar (Vice Minister of Trade) and Dr.Bayu Krisnamurthi (Vice Minister for Environmental Governance)</td>
<td>Hotel Salak, Bogor Jr.</td>
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<td></td>
<td>19.30</td>
<td>Dinner at the Bogor Botanical Garden Restaurant</td>
<td>Botanical Garden, Bogor</td>
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<tr>
<td>Thursday, 22 Feb</td>
<td>TF 1</td>
<td>Task Force Field Trip to Surabaya and Tuban</td>
<td>East Java Jr.</td>
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<td></td>
<td>TF 2</td>
<td>Task Force Field Trip to Balikpapan and Samarinda</td>
<td>East Kalimantan Jr.</td>
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<tr>
<td>Wednesday, 23 Feb</td>
<td>TF 1</td>
<td>Task Force Field Trip to Tuban Regency</td>
<td>East Java Jr.</td>
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<tr>
<td></td>
<td>TF 2</td>
<td>Task Force Field Trip to Samarinda area</td>
<td>East Kalimantan Jr.</td>
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<tr>
<td>Thursday, 24 Feb</td>
<td>TF 1</td>
<td>Task Force Field Trip to Bojonegoro regency &amp; Surabaya</td>
<td>East Java Jr.</td>
</tr>
<tr>
<td></td>
<td>TF 2</td>
<td>Task Force field trip to Samarinda, Bukit Suharto, Balikpapan</td>
<td>East Kalimantan Jr.</td>
</tr>
<tr>
<td>Friday, 25 Feb</td>
<td>10.00-11.30</td>
<td>Task Force Consultation Meeting with Mr. Gita Wiryawan, Chairman of Investment Coordinating Board (BKPM)</td>
<td>BKPM Office, Jakarta Jr.</td>
</tr>
<tr>
<td></td>
<td>13.00-17.30</td>
<td>Task Force Roundtable Discussion with Multistakeholders: Private Sector, Business Association, and NGOs</td>
<td>Hotel Gran Mahakam, Jakarta Jr.</td>
</tr>
<tr>
<td>Saturday, 26 Feb</td>
<td>08.00-10.30</td>
<td><strong>CCICED Task Force &amp; IIEE Debriefing :</strong>&lt;br&gt;Structure &amp; main content of Indonesia visit draft Report</td>
<td>Hotel Gran Mahakam, Jakarta Jr.</td>
</tr>
<tr>
<td></td>
<td>11.30-15.00</td>
<td>Task Force visit to PT. Zug Industry Indonesia, Chinese Company producing biomass &amp; coal fired turbine &amp; boiler for power generator</td>
<td>Jl. Rawa Melati, Tegal Alur, West Jakarta Jr.</td>
</tr>
<tr>
<td></td>
<td>16.00 - 17.00</td>
<td>Task Force &amp; IIEE Concluding Session</td>
<td>Hotel Gran Mahakam, Jakarta Jr.</td>
</tr>
<tr>
<td>Sunday, 27 Feb</td>
<td></td>
<td>Task Force member departure from Jakarta</td>
<td>Hotel Gran Mahakam, Jakarta Jr.</td>
</tr>
</tbody>
</table>
## Appendix B-2: Agenda - Visit to East Jawa

### AGENDA
**CCICED TASK FORCE ON INVESTMENT, TRADE & ENVIRONMENT**  
**East Jawa Field Trip, 22-24 February 2011**

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Subjects</th>
<th>Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thursday, 22 Feb</td>
<td>06.00</td>
<td>Departure from Jakarta to Surabaya by Garuda Indonesia</td>
<td>Soekarno Hatta Airport, Jakarta</td>
</tr>
<tr>
<td></td>
<td>07.20</td>
<td>Arrival at Surabaya, East Jawa</td>
<td>Juanda Airport, Surabaya</td>
</tr>
<tr>
<td></td>
<td>09.00 - 10.30</td>
<td>Discussion with WALHI (Environmental NGO Forum)</td>
<td>WALHI Office in Surabaya</td>
</tr>
<tr>
<td></td>
<td>12.00</td>
<td>Lunch time</td>
<td></td>
</tr>
<tr>
<td></td>
<td>13.30 - 16.30</td>
<td>Travel from Surabaya to Tuban by car</td>
<td>Surabaya - Tuban, East Jawa</td>
</tr>
<tr>
<td></td>
<td>17.00</td>
<td>Check in at Hotel Mustika, Tuban</td>
<td>Hotel Mustika, Tuban</td>
</tr>
<tr>
<td>Wednesday 23 Feb</td>
<td>09.00 - 11.30</td>
<td>Task Force Field Trip to JOB PERTAMINA - PETRO-CHINA of East Jawa (PPEJ) operation</td>
<td>JOB PPEJ’s office in - Tuban</td>
</tr>
<tr>
<td></td>
<td>12.00</td>
<td>Lunch time</td>
<td>Regency Government of Tuban Office</td>
</tr>
<tr>
<td></td>
<td>13.30 - 16.00</td>
<td>Task Force Discussion with the Regency Government of Tuban</td>
<td>Hotel Mustika, Tuban</td>
</tr>
<tr>
<td></td>
<td>16.30</td>
<td>Back to Hotel Mustika</td>
<td></td>
</tr>
<tr>
<td>Thursday, 24 Feb</td>
<td>06.30</td>
<td>Check out from Hotel Mustika to go to Bojonegoro</td>
<td>Tuban - Bojonegoro</td>
</tr>
<tr>
<td></td>
<td>08.30 - 10.30</td>
<td>Task Force Dialogue with Local NGOs and other stakeholders</td>
<td>Griya Dharma Kusuma Hotel, Bojonegoro</td>
</tr>
<tr>
<td></td>
<td>11.00 - 13.00</td>
<td>Task Force Meeting with the Government of Bojonegoro Regency Officials</td>
<td>Bojonegoro Regency Government Office</td>
</tr>
<tr>
<td></td>
<td>13.00</td>
<td>Lunch time</td>
<td></td>
</tr>
<tr>
<td></td>
<td>14.00 - 17.00</td>
<td>Leave Bojonegoro to Surabaya by car</td>
<td>Bojonegoro - Surabaya</td>
</tr>
<tr>
<td></td>
<td>17.00 - 18.00</td>
<td>Task Force Discussion with the Mining and Energy Officers of the East Jawa Provincial Government</td>
<td>Mining and Energy Office of East Jawa Province in Surabaya</td>
</tr>
<tr>
<td></td>
<td>20.00</td>
<td>Departure from Surabaya to Jakarta</td>
<td>Juanda Airport, Surabaya</td>
</tr>
<tr>
<td></td>
<td>21.20</td>
<td>Arrival at Jakarta</td>
<td>Seokarno-Hatta Airport , Jakarta</td>
</tr>
</tbody>
</table>
# AGENDA

**CCICED TASK FORCE on INVESTMENT, TRADE & ENVIRONMENT**

**East Kalimantan Field Trip, 22-24 February 2011**

<table>
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<tr>
<th>Date</th>
<th>Time</th>
<th>Subject</th>
<th>Place</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Thursday, 22 Feb</strong></td>
<td>05.45</td>
<td>Departure Jakarta to Balikpapan by Garuda Indonesia</td>
<td>Soekarno Hatta Airport &amp; Balikpapan</td>
</tr>
<tr>
<td></td>
<td>08.50</td>
<td>Arrival in Balikpapan, East Kalimantan</td>
<td>Sepinggan Airport, Balikpapan</td>
</tr>
<tr>
<td></td>
<td>09.30 - 12.30</td>
<td>From Balikpapan to Samarinda by car</td>
<td>East Kalimantan Province</td>
</tr>
<tr>
<td></td>
<td>13.00</td>
<td>Check in at Swissbell Hotel and Lunch</td>
<td>Swissbell Borneo Hotel, Samarinda</td>
</tr>
<tr>
<td></td>
<td>14.30 - 17.00</td>
<td>Task Force Discussions with Local NGOs</td>
<td>Swissbell Borneo Hotel, Samarinda</td>
</tr>
<tr>
<td><strong>Wednesday 23 Feb</strong></td>
<td>09.00 - 11.30</td>
<td>Task Force Discussion with Experts from University of Mulawarman</td>
<td>Swissbell Borneo Hotel, Samarinda</td>
</tr>
<tr>
<td></td>
<td>12.00</td>
<td>Lunch time</td>
<td></td>
</tr>
<tr>
<td></td>
<td>13.30 - 17.30</td>
<td>Task Force Discussions with Sectoral Agencies and Provincial Government of East Kalimantan and Municipal Authorities of Samarinda</td>
<td>Governor's Office in Samarinda</td>
</tr>
<tr>
<td><strong>Thursday, 24 Feb</strong></td>
<td>08.00 - 11.30</td>
<td>Field Trip to Coal Mining operation near Samarinda</td>
<td>Samarinda area</td>
</tr>
<tr>
<td></td>
<td>12.30</td>
<td>Lunch time and Check out from hotel</td>
<td>Swissbell Borneo Hotel</td>
</tr>
<tr>
<td></td>
<td>13.30 - 17.00</td>
<td>Field trip to Palm Oil &amp; Bukit Suharto - forestry protected area</td>
<td>Bukit Suharto area, East Kalimantan</td>
</tr>
<tr>
<td></td>
<td>19.30</td>
<td>Departure from Balikpapan to Jakarta by Garuda Indonesia</td>
<td>Sepinggan Airport, Balikpapan - Jakarta</td>
</tr>
<tr>
<td></td>
<td>21.30</td>
<td>Arrival in Jakarta</td>
<td>Sukarno-Hatta Airport &amp; Hoel Gran Makam, Jakarta</td>
</tr>
</tbody>
</table>
## 1. LIST OF INDONESIAN PARTICIPANTS – in JAKARTA

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Position</th>
<th>Institution/Organization</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Subroto</td>
<td>Chairman of the Board</td>
<td>Indonesian Institute for Energy Economics (IIEE)</td>
<td>Host Country Partner</td>
</tr>
<tr>
<td>2</td>
<td>John S. Karamoy</td>
<td>Member of the Board</td>
<td>Indonesian Institute for Energy Economics (IIEE)</td>
<td>Host Country Partner</td>
</tr>
<tr>
<td>3</td>
<td>Asclepias R.S. Indriyanto</td>
<td>Executive Director</td>
<td>Indonesia Institute for Energy Economics (IIEE)</td>
<td>Host Country Partner</td>
</tr>
<tr>
<td>4</td>
<td>Umar Said</td>
<td>Commissioner</td>
<td>PERTAMINA – National Oil &amp; Gas Company</td>
<td>Host Country Partner</td>
</tr>
<tr>
<td>5</td>
<td>Rachmat Witoelar</td>
<td>Executive Chairman</td>
<td>Indonesia’s National Council on Climate Change (DNPI)</td>
<td>Government</td>
</tr>
<tr>
<td>6</td>
<td>Mahendra Siregar</td>
<td>Vice Minister</td>
<td>Ministry of Trade</td>
<td>Government</td>
</tr>
<tr>
<td>7</td>
<td>Bayu Krisnamurthi</td>
<td>Vice Minister</td>
<td>Ministry of Agriculture</td>
<td>Government</td>
</tr>
<tr>
<td>8</td>
<td>Gita Wiryawan</td>
<td>Chairman</td>
<td>Investment Coordinating Board (BKPM)</td>
<td>Government</td>
</tr>
<tr>
<td>9</td>
<td>Indra Darmawan</td>
<td>Director for Investment Regulation</td>
<td>Investment Coordinating Board (BKPM)</td>
<td>Government</td>
</tr>
<tr>
<td>10</td>
<td>Hana A. Makarim</td>
<td>Executive Assistant to the Chairman</td>
<td>Investment Coordinating Board (BKPM)</td>
<td>Government</td>
</tr>
<tr>
<td>11</td>
<td>Imam H. Abu Ismoyo</td>
<td>Deputy Minister for Environmental Governance</td>
<td>Ministry of Environment</td>
<td>Government</td>
</tr>
<tr>
<td>12</td>
<td>Laksni Widyajayanti</td>
<td>Director of Environmental Impact Assessment</td>
<td>Ministry of Environment</td>
<td>Government</td>
</tr>
<tr>
<td>13</td>
<td>Dicky E. Hindarto</td>
<td>Head of Carbon Trade Division</td>
<td>National Council on Climate Change (DNPI)</td>
<td>Government</td>
</tr>
<tr>
<td>14</td>
<td>Franky Welirang</td>
<td>Chief Executive Officer (CEO)</td>
<td>PT. INDOFOOD Sukses Makmur</td>
<td>Business/Private Sector</td>
</tr>
<tr>
<td>15</td>
<td>Timotheus Lesmana</td>
<td>Director for Sustainability</td>
<td>PT. SINO MAS Group/ APP Indonesia</td>
<td>Business/Private Sector</td>
</tr>
<tr>
<td>16</td>
<td>Herman K. Kasih</td>
<td>Deputy Chairman for Government Relations</td>
<td>APBI-ICMA (Indonesian Coal Mining Association)</td>
<td>Business/Private Sector</td>
</tr>
<tr>
<td>17</td>
<td>Bogan Tanardi</td>
<td>Chairman for Investment Affairs</td>
<td>Indonesia China Business Council (ICBC)</td>
<td>Business/Private Sector</td>
</tr>
<tr>
<td>18</td>
<td>Soegiono Darmatjipto</td>
<td>Executive Assistant</td>
<td>PT. BOGASARI Flour Mills/INDOFOOD Group</td>
<td>Business/Private Sector</td>
</tr>
<tr>
<td>19</td>
<td>Henkie Leo</td>
<td>CEO</td>
<td>PT. ZUG Industry Indonesia</td>
<td>Business/Private Sector</td>
</tr>
<tr>
<td>20</td>
<td>Fu Jian Ren</td>
<td>Senior Engineer/ Manager of Boiler Production</td>
<td>PT. ZUG Industry Indonesia</td>
<td>Business/Private Sector</td>
</tr>
<tr>
<td>21</td>
<td>Nazir Fouad</td>
<td>Director</td>
<td>WWF-Indonesia</td>
<td>NGO</td>
</tr>
<tr>
<td>22</td>
<td>Chandra Kirana</td>
<td>Regional Representative</td>
<td>Revenue Watch Institute</td>
<td>NGO</td>
</tr>
<tr>
<td>23</td>
<td>Fabby Tumiwa</td>
<td>Executive Director</td>
<td>Institute for Essential Services Reform (IERS)</td>
<td>NGO</td>
</tr>
<tr>
<td>24</td>
<td>Pius Ginting</td>
<td>Advocacy &amp; Campaign Coordinator</td>
<td>WALHI (Indonesia’s Environmental Forum)</td>
<td>NGO</td>
</tr>
<tr>
<td>25</td>
<td>Bobby A.T. Wattimena</td>
<td>Executive Director</td>
<td>Pelangi Foundation</td>
<td>NGO</td>
</tr>
</tbody>
</table>
### 2. LIST OF INDONESIAN PARTICIPANTS - in TUBAN & BOJONEGORO – EAST JAVA

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Position</th>
<th>Institution/Organization</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bambang Catur</td>
<td>Advocacy Coordinator</td>
<td>WALHI – Indonesian Environmental Forum (NGO), Surabaya – East Java</td>
<td>NGO</td>
</tr>
<tr>
<td>2</td>
<td>Mustofirin Zahri</td>
<td>Research Coordinator</td>
<td>Bojonegoro Institute (NGO), Bojonegoro – East Java</td>
<td>NGO</td>
</tr>
<tr>
<td>3</td>
<td>A. Basith Syarwani</td>
<td>Field Administration Superintendent</td>
<td>JOB PERTAMINA –PETRO-CHINA Tuban – East Java</td>
<td>Business</td>
</tr>
<tr>
<td>4</td>
<td>Budi Wiryono</td>
<td>Contracting and Maintenance Superintendent/Operation Manager</td>
<td>JOB PERTAMINA - PetroChina East Java Tuban – East java</td>
<td>Business</td>
</tr>
<tr>
<td>5</td>
<td>Haeny Relawati Rini Widyastuti</td>
<td>Regent (Bupati)</td>
<td>Tuban Regency Government– East Java</td>
<td>Government</td>
</tr>
<tr>
<td>6</td>
<td>Heri Sisworo</td>
<td>Regent Secretary (SEKDA)</td>
<td>Tuban Regency Government– East Java</td>
<td>Government</td>
</tr>
<tr>
<td>7</td>
<td>Suyoto</td>
<td>Regent (Bupati)</td>
<td>Bojonegoro Regency Government, East Java</td>
<td>Government</td>
</tr>
<tr>
<td>8</td>
<td>Dewi J. Putriatni</td>
<td>Head of Energy and Mineral Resources Dept.</td>
<td></td>
<td>Government</td>
</tr>
<tr>
<td>9</td>
<td>Budi Arman</td>
<td>Representative of BP-MIGAS for East Java, Papua and Maluku</td>
<td>BP-MIGAS Regional Office in Surabaya – East Java</td>
<td>Government</td>
</tr>
<tr>
<td>10</td>
<td>Bambang Irawan</td>
<td>Head of Environmental Supervision and Law Enforcement</td>
<td>Environmental Management Office of Tuban Regency– East Java</td>
<td>Government</td>
</tr>
<tr>
<td>11</td>
<td>Fajar Yudhi Hartanto</td>
<td>Head of Natural Resources Department</td>
<td>Bojonegoro Regency Government Office – East Java</td>
<td>Government</td>
</tr>
<tr>
<td>12</td>
<td>Musaffa</td>
<td>Head of Environment Management Office</td>
<td>Bojonegoro Regency Government Office – East Java</td>
<td>Government</td>
</tr>
<tr>
<td>14</td>
<td>Warno Harisasono</td>
<td>Head of Investment Board</td>
<td>Provincial Investment Board of East Java, Surabaya – East Java</td>
<td>Government</td>
</tr>
<tr>
<td>15</td>
<td>Indra Wiragana</td>
<td>Head of Environment Management Agency</td>
<td>Environment Management Agency of East Java Province, Surabaya – East Java</td>
<td>Government</td>
</tr>
</tbody>
</table>
## Appendix C-3: List of Indonesian Participants in Samarinda

**CHINA COUNCIL for INTERNATIONAL COOPERATION on DEVELPOMENT and ENVIRONMENT (CCICED)**

**TASK FORCE on INVESTMENT, TRADE & ENVIRONMENT**

**INDONESIA FIELD VISIT, 20 to 27 FEBRUARY 2011**

### 2. LIST OF INDONESIAN PARTICIPANTS - in SAMARINDA - EAST KALIMANTAN

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Position</th>
<th>Institution/Organization</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Carolus Tuah</td>
<td>Coordinator</td>
<td>Pokja – 30 – NGO on Advocacy for Good Governance</td>
<td>NGO</td>
</tr>
<tr>
<td>2</td>
<td>Satria Iman Pribadi</td>
<td>Director</td>
<td>KWPLH- Balikpapan (Environmental Education for Nature Conservation Area)</td>
<td>NGO</td>
</tr>
<tr>
<td>3</td>
<td>Niel Makinuddin</td>
<td>Program Manager</td>
<td>The Nature Conservancy (TNC), East Kalimantan</td>
<td>NGO</td>
</tr>
<tr>
<td>4</td>
<td>Kahat Al Bahri</td>
<td>Campaign Manager</td>
<td>JATAM – Mining Advocacy Network</td>
<td>NGO</td>
</tr>
<tr>
<td>5</td>
<td>Mustofa Agung Sardjono</td>
<td>Professor, Director</td>
<td>Center for Social Forestry (CSF), University of Mulawarman</td>
<td>University/Academic</td>
</tr>
<tr>
<td>6</td>
<td>Deddy Hadriyanto</td>
<td>Director</td>
<td>Center for Climate Change Studies (C3S), University of Mulawarman</td>
<td>University/Academic</td>
</tr>
<tr>
<td>7</td>
<td>Rusmadi MS</td>
<td>Director</td>
<td>Development Planning Agency of East Kalimantan Province</td>
<td>Government</td>
</tr>
<tr>
<td>8</td>
<td>Abu Helmi</td>
<td>Head of Economic Bureau</td>
<td>Governor Office of East Kalimantan Province</td>
<td>Government</td>
</tr>
<tr>
<td>9</td>
<td>Vinsentius Y Tarukan</td>
<td>Dept. of Mining &amp; Energy</td>
<td>Provincial Government of East Kalimantan</td>
<td>Government</td>
</tr>
<tr>
<td>10</td>
<td>Head of Forestry Department</td>
<td></td>
<td>Provincial Government of East Kalimantan</td>
<td>Government</td>
</tr>
<tr>
<td>11</td>
<td>Head of Plantation Department</td>
<td></td>
<td>Provincial Government of East Kalimantan</td>
<td>Government</td>
</tr>
<tr>
<td>12</td>
<td>Head of Investment &amp; Trade Department</td>
<td></td>
<td>Provincial Government of East Kalimantan</td>
<td>Government</td>
</tr>
<tr>
<td>13</td>
<td>Deputy Head for Forestry &amp; Plantation Planning</td>
<td>Development Planning Agency of Samarinda Municipal Government</td>
<td>Government</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Head of Environmental Management Office</td>
<td></td>
<td>Provincial Government of East Kalimantan</td>
<td>Government</td>
</tr>
<tr>
<td>15</td>
<td>Maslan Tanzi</td>
<td>Chairman</td>
<td>Indonesia – China Friendship Association, Samarinda Chapter</td>
<td>Business/Private</td>
</tr>
<tr>
<td>16</td>
<td>Hasan Basri</td>
<td>Vice Chairman</td>
<td>Indonesia – China Friendship Association, Samarinda Chapter</td>
<td>Business/Private</td>
</tr>
</tbody>
</table>
Appendix D: Additional Notes on East Java Site Visit

Figure D-1. Map of East Java

Table D.1. Economic Profile of East Java

<table>
<thead>
<tr>
<th>No</th>
<th>Indicator</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manpower (people)</td>
<td>18,751,421</td>
<td>1,888,227</td>
<td>19,305,056</td>
</tr>
<tr>
<td></td>
<td>• Unemployment</td>
<td>1,366,503</td>
<td>1,296,313</td>
<td>1,033,512</td>
</tr>
<tr>
<td>2</td>
<td>GDRP (Rp Trillion)</td>
<td>288</td>
<td>305</td>
<td>321</td>
</tr>
<tr>
<td>3</td>
<td>Economic Growth (%)</td>
<td>6.11</td>
<td>5.90</td>
<td>5.01</td>
</tr>
<tr>
<td>4</td>
<td>Dominant Sectors (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Agriculture</td>
<td>17.44</td>
<td>16.57</td>
<td>15.65</td>
</tr>
<tr>
<td></td>
<td>• Mining and Quarrying</td>
<td>1.96</td>
<td>2.17</td>
<td>2.21</td>
</tr>
<tr>
<td></td>
<td>• Manufacturing Industry</td>
<td>27.55</td>
<td>28.49</td>
<td>25.96</td>
</tr>
<tr>
<td></td>
<td>• Electricity, Gas &amp; Water Supply</td>
<td>1.73</td>
<td>1.91</td>
<td>13.60</td>
</tr>
<tr>
<td></td>
<td>• Construction</td>
<td>3.47</td>
<td>3.34</td>
<td>3.21</td>
</tr>
<tr>
<td></td>
<td>• Trade, Hotel &amp; Restaurant</td>
<td>29.08</td>
<td>29.36</td>
<td>29.91</td>
</tr>
<tr>
<td></td>
<td>• Transport &amp; Communication</td>
<td>5.66</td>
<td>5.32</td>
<td>7.10</td>
</tr>
<tr>
<td></td>
<td>• Financial, Ownership &amp; Business Services</td>
<td>4.94</td>
<td>4.60</td>
<td>5.42</td>
</tr>
<tr>
<td></td>
<td>• Service</td>
<td>8.17</td>
<td>8.15</td>
<td>9.17</td>
</tr>
<tr>
<td>5</td>
<td>Income per Capita (Million Rp)</td>
<td>14.07</td>
<td>16.01</td>
<td>18.45</td>
</tr>
<tr>
<td>6</td>
<td>• Export (Million US $)</td>
<td>11,019</td>
<td>10,515</td>
<td>11,017</td>
</tr>
<tr>
<td></td>
<td>• Import (Million US $)</td>
<td>11,147</td>
<td>17,846</td>
<td>11,267</td>
</tr>
<tr>
<td>7</td>
<td>Inflation rate (%)</td>
<td>2.99</td>
<td>2.65</td>
<td>1.72</td>
</tr>
</tbody>
</table>

Sources: East Java Provincial Government and Statistics of East Java Province
Tuban PSC and JOB Pertamina Petrochina East Java

The Tuban block is located onshore at East Java Province. It covers an area of approximately 7,391 sq km when it was awarded to Trend East Java Limited on February 29, 1988 under a Joint Operating Body (JOB) with Pertamina.

The joint operation of the block has been changed several times due to mergers and acquisition. In April 2002, PetroChina took over the operatorship following acquisition of Devon Energy’s Indonesian Assets. A month earlier, PT Medco Energi Internasional Tbk completed the acquisition of a 25 percent interest in the block from EEX Corporation.

From 1990 to 1993, six exploration wells were drilled, all of which were dry except for Gondang-1 discovery wells, which flowed 779 BPD of Oil and 4.41 MMCFD of gas. In 1994, a sidetrack to exploration well Mudi-1 was drilled, which led to the discovery of the Mudi field. In 1995, Pertamina gave the preliminary approval of a plan of development (PoD) for Mudi Field. Oil production from the Mudi Field began in December 1997 with production reaching a peak of 22,000 BPD in 1998.

Other exploration successes on the Tuban block include the Sukowati-1 wildcat drilled in August 2001 and tested 7,697 BPD of oil and 5.08 MMCFD of gas. Sukowati field is located approximately 10 km southwest of Mudi Field.

In July 2004, the JOB received approval for the phase 1 of Sukowati field development from BPMIGAS. This was followed by an initial production of 7,000 BPD in August 2004. The Sukowati field, however, overlaps into the adjacent cepu block, which is operated by ExxonMobil Corp and Pertamina. In September 2004, ExxonMobil and JOB concluded a provisional production sharing deal for the field on an 80:20 basis in favor of ExxonMobil.

In October 2007, the JOB signed a GSA with PT Gasuma Corporindo for a gas supply totaling 13.14 TBTU over a six-year period starting in 2008. Gasuma will use the gas supply for electricity in East Java. The agreement amended in July 2009 in order to increase the volume contracted to 37.23 TBTU for a period of 6 years starting in 2009.

In July 2008, Medco Energi sold a 25 percent participating interest in the Tuban JOB to PT Pertamina Hulu Energi and PT Pertamina Gas, for a net price of approximately US$38 million.

In August 2009, oil production from the Tuban block reached 40,000 BPD. Output is expected to reach a level of 60,000 BPD within the next three years.

China Sonangol International Holding Limited invested in PT Surya Raya Energy (SER) as a partner of PT Asri Dharma Sejahtera (local enterprise of Bojonegoro’s government) to fund 4.5% participating interest – about U.S. $ 200 million – , which was the share of the Bojonegoro’s authority. China Sonangol has gradually withdrawn their capital from January 2009 to 23 April 2009.

Production

- In 2009, the Tuban block produced 3,306,671 barrels of oil and 3,204,278 MSCF of natural gas (mostly flared).
• Oil produced from Mudi field is transported through a 36.5 km onshore pipeline and an 18.6 km offshore pipeline to FSO Cinta Natomas located offshore in the Java Sea. Meanwhile, oil from Sukowati field will be piped to Mudi CPA (central processing area). Oil produced from Tuban block is currently sold to China Oil.

• Gas Production from the Lengowangi oil field is transported via a 4.7 km 10-in pipeline to PT Petro Kimia Gresik.

**Issues**

One of the well named Sukowati 05 repeatedly experienced problems such as:

- H_{2}S (Hydrogen Sulfur) poisoning at 2006, 2008, and 2010, which resulted hundreds of people from three villages around the well affected. At the beginning of this year, JOB Pertamina Petrochina East Java gave compensation to 1.772 persons in Sambiroto Village to compensate the gas kick incident on January 2010.
- Right after the gas kick incident in the end of January 2010, hot water appeared over the top of Joint Operating Body Pertamina Petrochina East Java (JOB PPEJ) oil and gas pipe, overside the Pakah-Plumpang road.

Early December 2010, Campurejo’s Villagers demanded the Joint Operating Body (JOB) Pertamina-Petrochina East Java to halt the drilling plan of a new oil well in Field A before their demands were fulfilled. The demand signed by BUMDes Business Unit representative, Imam Sutikno, requested (i) compensation, and (ii) involvement of 159 local labor to work in various areas such as procurement of catering, laundry, diesel fuel, waste handling, safety equipment and other needs.

![Figure D-2. Working Area of JOB Pertamina-Petrochina East Java](image-url)
Appendix E: Additional Notes on East Kalimantan Site Visit

Figure E-1. Map of East Kalimantan Province

Government Policies

Referring to the mandate of the law on climate change, there must be at least 30% green open space in East Kalimantan. Businesses are required to have at least 10% green open space. To support reforestation, Provincial Government launched the "Kaltim Green" program which obligate the entire community of the province to plant five trees per person (OMFIT, One Man Five Trees). At least 17.5 million trees are expected to be planted in a year.

In the mining sector, coal businesses are required to perform Good Mining Practice. Therefore, coal companies are required to perform the reclamation and reforestation of former mine field. If it (the reclamation and reforestation) are not possible to do, then the provincial government through the relevant agencies will find a suitable alternative activity.
Under the Act of Mineral and Coal (Mining Law) No. 4 / 2009, small Mining Concession (KP), which less than 5,000 hectares, should not be given a license to operate. However, the problem in East Kalimantan is already too many mining permits, including small KP, published since 2001 by the regents and mayors.

<table>
<thead>
<tr>
<th>No</th>
<th>Indicator</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Manpower</td>
<td>1,249,488 people</td>
<td>1,460,996 people</td>
</tr>
<tr>
<td></td>
<td>• Unemployment</td>
<td>142,506 people (11.41 %)</td>
<td>158,224 people (10.82 %)</td>
</tr>
<tr>
<td>2.</td>
<td>GDRP</td>
<td>Rp. 315.02 trillion</td>
<td>Rp. 281.44 trillion</td>
</tr>
<tr>
<td>3.</td>
<td>Economic Growth</td>
<td>4.82 %</td>
<td>2.32 %</td>
</tr>
<tr>
<td>4.</td>
<td>Dominant Sectors</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Mining</td>
<td>45.83%</td>
<td>41.62%</td>
</tr>
<tr>
<td></td>
<td>• Manufacturing</td>
<td>34.25%</td>
<td>34.80%</td>
</tr>
<tr>
<td></td>
<td>• Trade. Hotel. &amp; Restaurant</td>
<td>5.74%</td>
<td>6.54%</td>
</tr>
<tr>
<td></td>
<td>• Agriculture</td>
<td>4.97%</td>
<td>5.63%</td>
</tr>
<tr>
<td>5.</td>
<td>Income per Capita</td>
<td>Rp. 38.85 million</td>
<td>Rp. 23.58 million</td>
</tr>
<tr>
<td>6.</td>
<td>• Export</td>
<td>$26.31 billion</td>
<td>$22.32 billion</td>
</tr>
<tr>
<td></td>
<td>• Import</td>
<td>$5.232 billion</td>
<td>$5.75 billion</td>
</tr>
<tr>
<td>7.</td>
<td>Inflation rate</td>
<td>13.06 %</td>
<td>4.31 %</td>
</tr>
</tbody>
</table>

Source: East Kalimantan Provincial Government

Plantation

Commodities from the plantations in East Kalimantan are Cocoa, Rubber, Pepper, Oil Palm, and Coconut. Of the five commodities, which is becoming the trend lately is the oil palm and rubber.

The entire palm area locations that have been issued by the authority of the East Kalimantan area is 3.345 million hectares for 196 companies, with 877 thousand hectares are certified as Rights to Cultivate (HGU). Of 196 companies, 35 of whom are foreign direct investment (FDI) with 385,178 hectares of plantations area.

East Kalimantan currently has 30 Crude Palm Oil (CPO) factory units, 20 units have been operating while the other 10 units were under construction. The main export destinations are Singapore and Malaysia. Role of India and China in trade does not appear directly because the two countries is usually purchased CPO through Singapore.

There are some important things to consider in developing oil palm plantations in East Kalimantan, namely the Spatial Plan area which do not allow the planting of oil palm in peat lands and primary forest. Management of oil palm plantations should follow the system of Good Agriculture Product, and the oil palm processing activities should be in-line with Good Manufacturing Product standard. In addition, oil palm companies also have to apply the standards of the Roundtable for Sustainable Palm Oil (RSPO) or Indonesian Sustainable Palm Oil (ISPO)\(^1\).

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\(^1\) ISPO is the oil palm plantation development standards created by the government of Indonesia as a substitute for the RSPO, which is often considered detrimental to the interests of Indonesia as a major producer of palm oil internationally.
East Kalimantan does not allow burning in land clearing activities. Other requirements include implementing a zero-waste, avoid the watershed and the High Conservation Value Forest (HCVF), and must use certified seed.

On this occasion the Government of East Kalimantan province also deny the allegation of international NGOs concerning palm plantation on peatland. He stated that as the matter of fact, there is no peat land in East Kalimantan Province.

**Forestry**

The main reference in forest management in East Kalimantan is the Ministry of Forestry Decree No. 79/2001 regarding the designation of Forest Area and waters to the East Kalimantan Province. The function of the forest area under the decree is conservation, protection forest, limited production, and the permanent production forest (see Table E-2). The priority of forestry is the development of multifunctional forest, instead of to generate economic value. Prevailing regulations on forest management in East Kalimantan among others are:

- Former IUPHHK - HA (Business License Utilization of Forest Wood - Natural Forest)\(^2\), including unproductive forest land, will be returned to HTI (Industrial Plantation Forest) with fast-growing plants.
- KBK (Cultivation Area Forestry) may be used to plant rubber, which was previously not allowed.

However, potential problems in forest management in East Kalimantan arise from the fact that coal mining area, especially in forest areas, has not been mapped in the regional spatial plan. Therefore it is very likely that mining areas within KBNK (Non Cultivation Area Forestry) to be considered as in a conservation area.

**Table E-2. Forest Area Classification**

<table>
<thead>
<tr>
<th>A. Forest Conservation Area</th>
<th>Hectares</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nature Reserve</td>
<td>173,272</td>
</tr>
<tr>
<td>2. National Park</td>
<td>1,930,076</td>
</tr>
<tr>
<td>3. Nature Tourism</td>
<td>61,850</td>
</tr>
<tr>
<td>B. Protected Forest</td>
<td>2,751,702</td>
</tr>
<tr>
<td>C. Limited Production Forest</td>
<td>4,612,965</td>
</tr>
<tr>
<td>D. Permanent Production Forest</td>
<td>5,121,688</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14,651,553</td>
</tr>
</tbody>
</table>

Source: Forestry Ministerial decree No. 79/2001

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\(^2\) Business license granted to use forest products in the form of timber in natural forests through the activities of harvesting or logging, enrichment, maintenance and marketing (formerly known as Forest Management Rights - HPH).
Environment

The Environment Office of East Kalimantan implements “PROPER” method to conduct environmental monitoring, similar to the method used by the central government. It directly supervise environmental compliance of the companies concerning environmental destruction, pollution, or negligence in the reclamation activities. The provincial Environment Office gave awards to the best companies in environmental management.

To raise awareness at the community level, the government provides environmental education in schools, and educating people to manage waste disposal better.

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PROPER stands for Program Penilaian Peringkat Kinerja Perusahaan dalam Pengelolaan Lingkungan Hidup, or Corporate Performance Rating Program in Environmental Management.