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The Royston Report

"The real struggle is for the citizen to cease to be the property of the state"
Adam Michnik-Born in Poland in 1946, essayist and political commentator.

A leader of the democratic opposition in Poland and advisor to Leach Walesa, creator of Solidarity. Jailed twice by the communist Government before fleeing to safety in the USA but now returned to his homeland awarded honorific 'European of the Year' in 1989.

He expanded this theory in books, magazines and speeches with his belief that the determination of Democratic Governance means an acceptance that those in Government do not own the land, resources, manufacture or produce, these being the rights, benefits and freehold of all the population. Presidents, Prime Ministers, Ministers and Parliamentarians are elected in a free and transparent fashion for a given term, to run the day to day affairs as determined by the electorate and to be paid for their work. Without understanding and endorsement of this, democracy cannot and will not flourish but will wither and die to be replace by turmoil and inevitable dictatorship.

With this edition of the Royston Report we are delighted to include exclusively written articles by well known experts from various sectors of business.

Indonesia needs to set its own price reference for CPO

Why should number one follow number two? It's time *(for price reference)* to come home. Indonesia forms a new exchange to renew the government's ambition and dream to establish global benchmark for crude palm oil (CPO).

CPO plays a very important role in Indonesia as it is a strategic commodity in the Indonesian economy. It is the raw material for cooking oil consumed in Indonesia and its price plays a very important role in determining the inflation rate of the Indonesian economy. It is also a source of foreign exchange earnings from its exports.

cooking oil came from copra (from which most crude coconut oil is made). In 1971, 93% of total expenditures on crude vegetable oil were devoted to coconut oil. However, coconut oil production only increased at a modest rate of 1.2% during the 1979-1994 period. Concurrently, the production of palm oil grew rapidly from only 0.6 million metric tons in 1979 to 4.1 million metric tons in 1994 (Winrock International (1996)). Thus, palm oil has become an important source of Indonesian cooking oil and fatty acids since the late 1970s.

Since 1984, the market share of manufactured cooking oil made from palm oil has exceeded the share of coconut oil and made palm oil the most prominent edible oil consumed in Indonesia. Along with this change, the share of palm oil exports declined significantly.[1]

To control the domestic supply and price of CPO and cooking oil, Indonesia's government imposed an export tax in August 1994. With the imposition of export tax this had substantial impacts on various aspects of the industry. Export tax policy has somewhat inhibited growth rate of investment, production, export and farm income but this policy has successfully achieved its main objective which is to control the domestic CPO and cooking oil price. This happened when the world CPO prices increased or when the rupiah was substantially depreciated. Under this policy, producers will lose because they receive lower prices and exports decline. Consumers in the country gain through lower prices and the government generates revenue. Having market power on the world market, the export tax causes a reduction in domestic production; thus, exports decline and the world price increases. In this case, consumers, producers and the government in the exporting country can gain from this policy.

While not widely accepted and agreed as a policy, export taxes have proved to be a good instrument to control domestic CPO and cooking oil prices. Under Minister of Trade Decree No:14/M-DAG/PER/3/2010, Export taxes for Indonesia are determined by the government based on CIF Rotterdam prices for CPO less freight and insurance. CIF Rotterdam price poses some arguments. Firstly, CIF Rotterdam prices is not an exchange price and as such transparent or visible to the industry as a whole. Secondly, CIF Rotterdam is the price of one particular destination regardless of origin which could be Indonesia, Malaysia or even Africa. It is not reflective of export prices globally. CIF Rotterdam prices are also subject to variables like freight. Free on Board (FOB) prices are arguably better reference tool as this excludes external factors like freight and not focused on a single destination, Rotterdam. Without it being traded on an exchange, it loses its credibility, appeal and strength as reference price. Nevertheless, the lack of confidence in a local market and a sense of colonialism has created a real but intangible allegiance to the idea that anything foreign is still better.

This can change and will change. Indonesia is ready to rise to the occasion of cementing itself as number one CPO producer. The key measure of success is when Indonesia CPO prices is the global price reference. That is the function of any exchange, to establish a price reference for any particular commodity. Since 2007, Indonesia overtook Malaysia as the top producer of CPO. While that position grows stronger year by year, market participants outside of Indonesia still look to Malaysia as number one. This is because Malaysia has an established exchange for CPO. Buyers and sellers of Indonesian CPO look at Malaysian CPO prices before concluding a deal. Is the world ready for a new price reference for CPO? The answer is yes. And the answer lies with the local participants in Indonesia. Like Dalian Commodity Exchange in China, the domestic trade volume for RBD Palm Olein is enough to create its own liquidity and with that create a reference price for the world to see.
ICDX, or Indonesia Commodity and Derivatives Exchange, started operations in July 2009 and launched a

Crude Palm Oil Futures contract (Ticker symbol – CPOTR) on 21 May 2010. ICDX traded 115 lots on the first day of trading and to date trades a daily average of 2500 lots with an average open interest of 500 lots. The contract size of CPOTR is 10 metric tonnes. Prices quoted on ICDX are based on export prices or FOB prices for CPO that is shipped out of Dumai and Belawan but quoted in Rupiah. As FOB prices may differ from one exporter to another due to various individual and independent cost plus and stockpiles, ICDX uses an assessment of FOB prices taken from trading members of the Exchange and physical brokers. This serves as a more accurate and transparent price benchmark of Indonesian export prices. To add credence to ICDX CPOTR prices, the Ministry of Trade has intimated that ICDX CPOTR prices will be factored in when calculating the export taxes year 2011 onwards and eventually be the primary price benchmark for fixing export duties. This will bring global attention and focus to Indonesian CPO prices.

As an exchange traded product, CPOTR also allows producers as well as exporters to hedge against export prices when price CPO has decreased or increased substantially. ICDX current trading members of ICDX are Wilmar, SMART, Duta Palma, Asian Agri, Sampoerna Agro, BW Plantation, Bakrie Sumatra Plantation, Tunas Baru Lampung, Palm Mas Asri, Royal Industries Indonesia, Ivo Mas Tunggal, and ED&F Man Indonesia.

By Megain Wijaya

(Founder and CEO Indonesian Commodity and Derivatives Exchange (ICDX)

WCapital Advisory

Telco Tempest

By David Burke (Founder and CEO of Wellington Capital Advisory, and Former Executive Vice President Telkom)

The Indonesian Telecommunication sector has experienced an amazing growth trajectory over the last five years, providing substantial returns to investors and users alike over the same period of time. To understand why the Indonesian Telecommunication Industry accelerated the way it did over the past few years we have to take a close look at the country itself. Bear in mind that the Indonesian economy has doubled in five years and Indonesian Gross Domestic Product has also increased 94% over the same period and is projected to experience 233% growth from 2006-2015. Then take into account a range of Investment analyst forecasts, Gross Domestic Product could reach US$ 1.2T in 2015, potentially making Indonesia the 15th largest economy in the world. Against this almost poster child economic backdrop one should not be surprised that the Telecommunications sector of Indonesia also took full advantage of such high speed economic momentum.

Added to this mix thus far, Indonesia seems to have weathered well the global credit crisis of 2008 and the ensuing economic downturn in western industrialized countries. The Indonesian economy has shown considerable resilience and fortitude in the face of the global credit crisis and economic growth rates have remained extremely positive.

Add to the mix, that along with this sterling growth Indonesia has the world's fourth largest population with approximately 237m people, with the country dominated by young people. Almost 70% of the population is under the age of 40. The current total has doubled since 1970, which, in turn, had doubled since 1930. By 2050, the population could well approach half a billion and this alone is driving a strong localized economic growth across the archipelago.

With all this good news, Indonesia was rewarded by an upgrade of its rating, on 17 January 2011 when, Moody's upgraded Indonesian sovereign debt, lifting the rating from Ba2 to Ba1; just one notch below investment grade.

Moody's stated: *'We have upgraded the sovereign credit ratings as momentum in the economy is expected to be sustained by steady domestic demand, a reasonable pace and sequencing of policy and structural reforms, and rising foreign direct investment.'*

Within the Telecommunications sector the industry saw mobile subscribers increase at almost 195% in the last five years from 2006-2010, internet users and broadband subscribers growth was even more phenomenal over the same period, about 567% and 2431% respectively, coupled with the earlier mentioned strong forecasted economic growth, things look positive for those actively developing data services, internet content, social network applications and support services to the data sector.

Some interesting points in regards to broadband growth: The broadband market is estimated to reach ± 7.7 million subscribers (Q3 2010), where mobile broadband (75% share) preferred to fixed broadband (25%). Mobile broadband subscribers have shown tremendous growth in the last year (260%), far more rapid than fixed broadband's growth (63%).

The key players in broadband markets at the end of 2010 were PT.Telkom and PT.Indosat. Telkomsel holds the biggest share in Indonesia mobile broadband (64%) while Indosat and Smart come on 2nd (17%) and 3rd rank (12%).

According to The Australian Market & Social Research Society Limited (AMSRS), Indonesia has the potential to become the largest BlackBerry market in the world

As of January 2011, Indonesia had the second largest group of Facebook users globally, with numbers almost reaching 40 million; Twitter also recorded almost 5 million users in Indonesia, making it the fourth largest group globally.

However the picture for the Telecommunication operators is not exactly a rosy one, especially if we take a closer look at the voice and sms businesses, which still represents a lion's share of current revenues. With 11 licenses in Indonesia, competition since 2007 has been fierce, the average revenue per user has decreased as tariffs dropped on a revenue per minute basis by over 50% in the 36 month period from 2007 to 2009, we are seeing pressure on margins in this business sector, the only real way one can assess this is that the top five licenses still have profitable businesses today, whilst sadly I would be surprised if any of the bottom five licenses are covering basic expenses.

Where all the Telecommunication operators are focusing and where there should be opportunity for further growth is in the data services and broadband sectors I described earlier, to date the penetration rate of broadband in Indonesia is still very low in comparison to other Asian countries, approximately 18% as of January 2011, however it's worth bearing in mind that disposable income increased 52% from 2006 to 2010, so the next wave of growth for the Industry should be clearly in data services.

Hopefully as we the subscribers continue to support the Telecommunication sector with our wallets, in return the Operators may actually begin to provide us with secure and reliable data services, but I personally do wish they would address the voice side of the business also, as I would really like to make a mobile phone call that lasted more than 15 seconds.

Clean, Clear, & Constructive

By David Parry PhD, MSc, BA, DIP.Ed FIPS FRGS

(Founder and CEO of Wellington Capital Advisory, and Former Executive Vice President Telkom)

Environmentalism and Climate Change – a Road Map

The health of the Earth's environment and the sustainable management of its organic (carbon-based) and non-organic (non-carbon-based) resources, is at or very near the top of most governments' political agendas. This has to be good for mankind and for the planet but is it delivering the kinds of changes and hard choices that need to be made if we as a global society are to deliver, for example, clean water and sanitation to the billions of people without access to such basic services, or provide basic health care and education to billions of poor people, while at the same time conserving our water and agricultural resources to feed an expanding global population?

Concern for the natural environment is not new and has been a guiding principle of many development programs initiated by governments, multi-lateral and bi-lateral funding agencies during the latter half of the twentieth century but with a very mixed record of success. What is new in the twenty-first century is the all-embracing political clout that the environmental movement, in its myriad forms, has acquired in tandem with the whole-hearted support of academia and state-sponsored scientific organizations. From being something of a 'fringe' movement often ridiculed for it tree-hugging antics or concern over the fate of an esoteric insect in the face of a new by-pass, environmentalism has in a very short time become quite simply the most powerful and well-funded civil society movement in history.

What has bought this about? No mystery here – the fear that human activities, particularly the burning of fossils fuels and organic matter in all its forms, is increasing the temperature of the earth through the emission of carbon dioxide and other green house gasses. Such emissions, it is argued, could lead to dangerous over-heating of the planet with dire consequences predicted for water supplies, rainfall patterns, human health and the low-lying coastal areas and many coral atolls that will be submerged by rising sea levels caused by melting ice sheets and glaciers. This fear and the 'doomsday' scenarios that are the standard fare of the world's media, has focused the attention of international agencies like the UN and its member states on this complex issue. Meteorology and its regional longer-term counterpart climatology, have transformed from being small but interesting or daunting, depending on your comfort level with physics and chemistry, parts of 'O' level geography, to being the core disciplines surrounding the made-made (anthropogenic) global warming debate. Such exposure of two arcane disciplines in our globalized and interconnected society has, inevitably and unfortunately, created a vast body of instant experts whose vitriolic ramblings for both sides of the debate fill the internet bulletin boards.

The media are hardly blameless here since it is they who fuel the debate with ever increasing numbers of alarmist and catastrophic scenarios for the future of our planet in a warming environment based very largely on the higher range of predicted temperature increases and rises in sea-level from the IPCC Assessment Reports. So, how is the layperson supposed to navigate his or her way through this minefield of fact, fiction, exaggeration, hyperbole and deceit in what is touted frequently as the greatest challenge facing mankind?

First, by stepping back and putting the whole debate into perspective and establishing some basic principles and definitions that brook no argument from the AGW (anthropogenic global warming) adherents or their opposite numbers, generally referred to rather disparagingly and often inaccurately as 'climate change deniers'. In this series of articles, I will attempt to provide this balanced perspective together with the essential definitions of the 'climate change 'buzz' words and terms that are trotted out by a generally uncritical and woefully biased and ill-informed media, in addition to examining whether the overwhelming concern of governments and the UN for carbon dioxide emissions reduction is really the sensible way forward or whether it is diverting human and financial resources away from more pressing and effective strategies to cope with actual and predicted changes in global climates.

One of the most common mistakes concerning climate change that appears in both the popular media and, surprisingly in some scientific journals is the reference to **a global climate**. The physics and chemistry of the gaseous envelope surrounding our planet called the atmosphere and its interaction with the solar heated land and ocean surfaces creates a myriad of local weather events (meteorology) which when averaged over a 30-year period provide the basis for defining regional patterns of weather which are generally referred to as climates. The classification of different climates is one of the pillars of the science of climatology and the most frequently used climate classification system is that of Wladimir Köppen devised in 1900, updated by Rudolf Geiger in 1961 and most recently updated in 2006 by the Climate Research Unit (CRU) at East Anglia University and the Global Precipitation Climatology Centre (GPCC) at the German Weather Service using temperature and rainfall data sets for the 50-year period 1951 to 2000.

In the latest update, 31 different climate classes are recognized and the resulting world map of **climates** corresponds quite well with the historical hand-drawn maps of the Köppen-Geiger climates but shows more regional details due to the higher spatial resolution of 0.5 degree the latitude/longitude data grid. The predicted rise in the average global temperature, whether caused by increased made-made greenhouse gas emissions or more natural processes associated with an inter-glacial warm period which our planet has been experiencing since the end of the last Ice Age approximately 11,000 years ago, will have both positive and negative impacts on mankind and the world's flora and fauna within each of the 31 climatic zones or climates recognized by two of the prime references and data sources for the IPCC Assessments. Even within a climate zone, the impact of local influences such as mountains, lakes, proximity to the coast and, in the case of Indonesia, the vast number of small islands, will modify any general regional climate changes.

The second mistake perpetrated by the media, the more extreme adherents to the man-made global warming mantra and some governments is the oxymoronic dictum to "Stop Climate Change". Climates change, with or without man's help; they always have done and will continue to do so; the geological and the historical record provide unequivocal proof of this. One may as well try to stop the tide coming in, as history records King Canute did although to be fair to him, he did so to prove to his courtiers the limitations of kingly power, as stop climates changing. Whether man can influence in any way the nature of such changes is open to debate. Undoubtedly at a local level, man's activities can have profound and long-lasting effects on local climates. In Indonesia, the long-term felling of forests in parts of North Sumatra, for example, has reduced local rainfall and created extensive areas of semi-arid grassland in an area surrounded by lowland tropical rain forest. The 'dust bowl' of the American mid-west is perhaps the most well known example of the misuse of land causing extensive changes in a regional climate. But in a world where statistically the local 'Pawang' has as much chance of stopping rain over any given area as a silver iodide cloud seeding sortie by an aircraft has of inducing local rainfall - about 50% or the toss of a coin – the idea that man can regulate the temperature of the planet in a predictable and controlled manner through a worldwide consensual reduction in carbon dioxide emissions, one of a number of potential climate change forcing agents, as one might adjust the temperature on a thermostat belongs firmly in the realm of science fiction and suggests a scientific arrogance born of the mistaken belief that the science of climate change is settled. It is far from settled as an increasing number of peer-reviewed articles presenting less extreme scenarios for a warming planet and rigorous data sets that run counter to the general warming-more extreme weather event- melting ice caps- coastal inundation scenarios put out by the media, are being published.

Science is never settled but is continually seeking to test to destruction any hypothesis; it is how science progresses and the very idea of science by consensus, the phrase so often used by both the media and found in respected scientific journals when referring to climate change, runs counter to the very basis of scientific research. As the great nineteenth century English biologist T.H. Huxley, famously remarked, "the great tragedy of science is the slaying of a beautiful hypothesis by an ugly fact". In the anthropogenic global warming debate there a number of 'ugly facts' out there to render any claim that the science is settled invalid. Foremost among these is the existence of the Roman and Medieval Warm Periods when temperatures in Northern Europe were between 1^0 and 3^0C higher than today, grapes were grown in England as far north as Hadrian's Wall and olive trees grew in the Rhine Valley, all at a time when CO_2 emissions were but a fraction of what they are today.

The Inauguration of Royston Roundtable on July 18, 2011

From left to right Emiritus Prof. DR. Dorodjatun Kuntoro Jakti, Sir Tim Lankester, John Slack, Reza A. Maulana at the inauguration of the Royston Roundtable

Royston Advisory on July 18, 2011 inaugurated the Royston Roundtable, an occasional gathering of leading figures from the worlds of Government, academia and the corporate world to openly and freely discuss crucial issues emanating from global, regional and domestic sources which have the potential to impact us all. This first event was highlighted by the presence of Sir Tim Lankester and Emiritus Prof. DR. Dorodjatun Kuntoro Jakti and the evening covered a wide range of subjects from the European Debt Crisis, the true state of the American economy, the financial world and the impact, of course, to date and potentially, here in Indonesia. All guests had the opportunity to join in with questions and opinions.

The Royston Roundtable is by invitation only and will continue after the Ramadhan period. For more information please contact :

Royston Managing Director, Reza A. Maulana at info@royston-advisory.com

Below is the impressive list of guests at the inauguration of the Royston Roundtable.

1. Sir Tim Lankester
2. Prof. Emiritus DR. Dorodjatun Kuntjoro Jakti
   President Commissioner Bank Tabungan Pensiunan Nasional
   Formerly Dean Faculty of Economics Universtiy of Indonesia, Indonesian Ambassador at Washington DC then Coordinating Minister for the Economy.
3. DR. Juwono Sudarsono
   Dean Faculty of Social Affairs and Politics, University of Indonesia, Vice Governor LEMHANAS (National Defense Institute), Minister of the Environment, Minister of Education, Minister of Defense, Indonesian Ambassador at London, Minister of Defense.
4. H.E. Suharso Monoarfa
   Minister of Public Housing.
5. H.E. Julian Wilson
   EU Ambassador and Head of Delegation to Indonesia and ASEAN.
6. DR. David Parry PhD, MSc.
   Senior Advisor for Mott MacDonald Indonesia.
7. Megain Wijaya
   Founder and CEO ICDX Indonesian Commodity and Derivatives Exchange.
8. John Slack
   Business Director of the British International School formerly CFO and Member of the Board Astra International and Astra Agro.
9. David Burke
   Founder CEO Wellington Capital Advisory Services, formerly executive Vice President of Telkom.
10. Reza A. Maulana
    Managing Partner of Royston Advisory.
11. Eduard Depari
    Senior Advisor Chairman Board of Counselors, Royston Advisory.
12. Affan Alamudi
    Partner of Royston Advisory
13. Umar Said
    Commissioner of Pertamina
14. Iskandar Saleh
    Secretary Ministry of Housing
15. Tri Sukma Djandam
    Head of Central Government Affairs HM Sampoerna

royston advisory

Business Diplomacy Strategic Communication

Reza Achmad Maulana | Managing Director | Royston BMI Advisory

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Royston BMI Advisory, established in 2008 and now a multi-disciplined leader in public affairs and strategic communications with clients ranging from Government Ministries, Ministers, State Owned Companies such as and leading domestic and international corporates such as s. Areas of expertise include Market Entry, Due Diligence, Stakeholder Management and Engagement, National and Regional Regulatory Interplay, Crisis Management, HRD Advisory, Litigation, CSR and Communications in all media formats from Electronic domestic and International, Social and print Media. It established Royston Politica to handle work in campaign advice and communications. Most recently Royston launched a monthly Royston Report with exclusive articles from international and Indonesian acknowledged experts in most major business and political areas. Associated is the new Royston Roundtable, an elite private event where senior figures from Government, Diplomacy, Academia and the Corporate World gather to discuss issues of the day, global, regional and local. The Roundtable is by invitation only.

A closing thought given the non-stop local media headlines these days.

PECUNIA NON OLET "Money has no Smell" - Juvenal, a Roman Activist from the first century AD