

Dr. Agus Pakpahan

Deputy State Minister for Agro-industry, Forestry, Pulp, Printing & Publication at (Ministry of State Owned)

Academic, researcher and writer of several books, Dr. Agus Pakpahan who currently holds the position of Deputy State Minister for Agro-industry, Forestry, Pulp, Printing & Publication tell us about the investment opportunities within his sector.

“There is a huge investment opportunity here if we can cooperate in the industrialization process”

Since almost half of the population is active in agriculture, which contributes more than 14% to the GDP, agriculture is an important sector in Indonesia. Could you please give us a general overview of the agriculture sector?

Just like every developing country, Indonesia is driven by the contribution of agriculture, especially in terms of employment opportunities and income for the people. Being the fourth largest population in the world in terms of palm oil for example, Indonesia is right now being the largest producer. As for rubber, coffee and tea, are the third fourth and fifth largest in the world, compared to our production capacity. The opportunity for supplying the future's sustainable energy for example, such as bio fuel, ethanol and bio mass from agriculture has been increasing as well. I would like to relate it between agriculture, food, and energy because in the past we usually saw agriculture only as primary product, as what we harvested from the field. We have not yet developed secondary or tertiary industry such as agro processing industry, which is actually a huge potential. For example, Indonesia produces rice around 60 million tons. Right now we only use the rice itself. We have not used rice husk, which amount about nine GWH of electricity. Neither have we extracted the silica, which is 94% of rice husk. So there is a huge potential in re-growing the agriculture and the rural economy. If we just identify the major products, for example palm oil in the year 2020 we estimated that the production will be around 40 million tons while right now we produce 20 million tons. There is a huge investment opportunity here if we can cooperate in the industrialization process, the next 30-40 years phase after the year 1970 for example, and for the next 30 years until 2040, we still have plenty of rooms for cooperation in agriculture. Not to mention in the fisheries sector. Two third of our area exists of sea. We have potential sustainable harvest in fisheries around 4.2 million tons per year.

Could you please expand on the investment opportunities and how the government intends to explore them?

We have a great potential in the rice sector. If we would like to develop an integrated rice industry, we need investment of around 400 billion Rupiah for every ten thousand hectares to be invested in five industries; in modern rice milling with the capacity of 400 tons per day, producing rice cooking oil or rice stabilized brand, to develop the rice flour industry, rice silica industry, and also building materials. By

using modern technology, intensive capital and invested capital, we are able to develop the economy, which is open for foreign investors to be able to make a better cooperation with us. We have just developed a new joint venture with PT Padi Energi Nusantara (PEN) – Rice Energy Nusantara Lda – which is owned by 10 State Owned Enterprises to develop the opportunity and to add the potential economy in the rice sector. For example, in one year we could harvest around eleven million hectares with the production of 60 million tons. If we can process this into an integrated rice business industry, it will create a ten times bigger value than we have right now. We also have a similar situation in the palm oil sector. If we can invest and develop palm oil based industries here in Indonesia, we can multiply the values more than ten times. Another example, the world industries cannot be separated from rubber where we have developed this potential. While in the forestry area, we are planning to develop what we called ‘Hutan Rakyat’ or the People’s Forest together with Perhutani. In the next five years we hope to be able to develop two million hectares area, which means it will generate the production of wood in 2015 or 2016 for about two million hectares times 100 meter cubic, which equals 200 million meter cubic of new woods. This is also related to the global climate change, since we would like to absorb the carbons and it can be available for carbon credits. We are still focusing on Java, because right now we are experiencing water shortage. There is no substitute of forest to improve the cycle of water. For Java, we are concentrating on two things mainly in rice industry, because rice farmers are the poorest that is because we have not yet generated the maximum added values. The second one is creating new forests. In the outer area we still have the potential in developing agriculture, especially plantation. This is what we would like to do, by using the State Owned Enterprise as the agent and as a partner for the future investment.

An upcoming sector in Indonesia is pulp and paper. How is the forestry sector making sure that pulp and paper can be provided with raw materials and what is the government doing in order to attract more foreign investors?

In terms of our pulp and paper sector in Indonesia especially as a state owned enterprise, we would like to switch from wood based paper to non wood based paper. For example, we would like to switch our pulp and paper production in East Java into using bagas as raw material (bagas is a waste from sugar raw material) which is called bagas pulp. Of course we also develop fast growing species of trees for the future of pulp and paper especially in our State Owned Enterprise.

This coming June, there will be an assignment between Kuala Lumpur Kepong Berhad with PTPN II in North Sumatra. The opportunity is open for investors, as long as we can sit together and negotiate to find a win-win solution.

You are also the Deputy State Minister for Printing and Publishing. Can you please tell us more about this sector?

Right now, our market share in this area is so small. Therefore we would like to convert our business strategy for example for Balai Pustaka, the oldest printing company in Indonesia, where in the past they have played similar roles as a private public printing company. Now, we would like to focus on cultural issues.

When US State Secretary Mrs. Hillary Clinton visited Indonesia, she emphasized on the desire of the new Obama Administration to further improve relations between Indonesia and the US. What is your opinion on this and how will it benefit Indonesia?

If we learn from the history, Indonesia is actually a very open country, an open society ever since hundreds even thousands of years ago. So, if I define the way the culture thinks, feels and beliefs on this

product of interaction, it can make the relation between the Indonesian society and the US and even others countries better.

The Ministry of Finance expects an economic growth of between 4 and 5% this year. In line with the economic growth an increase of agricultural exports of 16% is expected. What is your future outlook on the agriculture sector?

One of the problems regarding the agriculture sector is that we have the image of projecting the same product, which is mainly raw material such as rubber, cocoa, palm oil, etc. If we look at the price trend movement for example for 40 years, we find that the figures that the real price of agriculture primary products are declining from time to time. As an example, if you look at the price of crude palm oil in the 70's, it was more than US\$1000/ton. But now, even though it has reached for about US\$800, last 2003 it was only around US\$350/ton, which shows a decline. The same goes to tea and cocoa. So, if you want to make a better situation for Indonesia in the future, we have to interpret that we will gain a higher percentage if we can cooperate with developing countries to produce added values products that can be share. So, Indonesia does not only depend on raw material exports. If you read the book written by Hiroyosi Kano, it is said that if we see the export figures for example, only two sectors for Indonesia that can gain capitals which are exports in workers and tourism. So, we need to improve this. Coffee, for example, how much retail added values margin can be gained by exporting countries like Indonesia? We can only gain 10 percent. That is why, if the developed countries can help us to improve or develop it into not only raw material but half processed, I think it will give us a growth of more than 4-5%.

Within a couple of years there will be changes in terms of quantity but not in quality of growth. So, when there is a gap between what we have and what we had expected, there would be a room for investment. Because win-win solution can only be gained when there is a surplus. If there is no surplus, then a zero sum game happens. One gains one loss.

Our readers are also interested in you as well. Could you please tell us a little bit more about yourself and your personal background and what has been your main achievement within your career?

I have varieties of backgrounds. I am an academic, researcher and became a bureaucrat. I am also the Head of Gaperindo, which stands for Gabungan Asosiasi Petani Perkebunan Indonesia. In English it means The Estate Farmers Association which specializes in plantation.

In terms of my duties I have achieved and am proud of myself for having taken part in making a success in the revitalizing of sugar cane industry in Indonesia. That is when the IMF said it should be closed, but we tried to revitalize it. Now the sugar cane farmers could survive and get better. Another achievement is when I worked for Bappenas (National Planning Development Agency) where the World Bank has given me a certificate for this one project called CoreMap, which is coral reef rehabilitation and management program, a back bone of our World Ocean Conference in Manado. This was one of the best project designs at that time. Of course, I am proud of being able to help the farmers. We have already developed around twelve farmer associations in Indonesia which are dealing with rubber, sugar cane, etc. In the sugar cane sector, for example, at past time banks did not look at their potentials here in Indonesia. Right now, we have fought for credit up to more than 9 trillion Rupiahs. And personal, I am glad that I was able to stay in the US for almost five years and took my PhD. In 1996 I gained my Research Professor.

What will be your personal messages to all the reader of the NY Daily News and the visitors of Winne.com?

We are glad if we can work together with people all over the world and come to Indonesia. We would like to serve, in term of the best serve you can have you can give, we are happy to join together especially in agriculture.

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