

Implications of the Downstream Policy of Nickel Export Activities to the European Union on the Fluctuations in the Stock Price of the Mining Sector on the Indonesia Stock Exchange



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Downstream Policy, Nickel Export, European Union, Stock Price Fluctuations, Indonesia Stock Exchange

ABSTRACT

This study evaluates the impact of Indonesia's nickel export downstream policy on fluctuations in the stock price of the mining sector on the Indonesia Stock Exchange (IDX), especially in the context of trade with the European Union. By banning the export of raw nickel ore and encouraging domestic processing, the government aims to increase the added value of commodities and strengthen the national economy. This policy provides challenges and opportunities, affects the dynamics of the capital market, and triggers a trade dispute with the European Union that opposes the ban. This study uses a normative juridical method to analyze the impact of the policy on the performance of mining sector issuers and capital market response. The results show that the downstream policy has the potential to increase stock price volatility in related sectors and create uncertainty in the market, although it can support long-term price stability and attract investment.

1. INTRODUCTION

International trade is a sector of economic cooperation that is often carried out by subjects of international law. such as the trade carried out by Indonesia to the European Union by carrying out nickel export activities. International trade or it can also be said that trade between nations, was first known in the European continent and then developed in Asia and Africa. Countries that are members of international trade activities also have the initiative to make laws that bind all other legal subjects (such as individuals and companies), bind legal objects and events that occur in their territory, including trade in their territory and also play a direct or indirect role in the formation of international trade organizations in the world such as *General*

Agreement on Tariffs and Trade (GATT), *World Trade Organization* (WTO) *International Trade Organization* (ITO), *United Nation Conference on Trade and Development* (UNCTAD), *International Chamber of Commerce* (ICC) and others (Hassanah, 2021). In recent years, the Indonesian government has implemented a downstream policy that aims to increase the added value of Natural Resources (SDA) including nickel by banning the export of raw nickel ore and encouraging domestic processing. This policy has far-reaching implications, both for the national economy and global market dynamics, including the European Union, which is one of the main consumers of nickel for the Indonesian nation. The European Union, which relies heavily on nickel for high-tech industries such as electric vehicle batteries,



is certainly affected by the policy regarding the availability and price of nickel in the international market.

The downstream industrial policy carried out by the Government is expected to strengthen the competitiveness of the national economy in facing the challenge of uncertainty in the current global economic conditions. Indonesia is also determined to become a global key player in the commodity-based downstream industry by reducing raw material exports and increasing the downstream of natural resources-based industries in the country. One of the commodities with a large amount of reserves in Indonesia is nickel where U.S. data *Geological Survey* shows that Indonesia's nickel reserves rank first, reaching 21 million tons or equivalent to 22% of global reserves. Indonesia's nickel production also ranks first at 1 million tons, surpassing the Philippines (370 tons) and Russia (250 thousand tons). Nickel downstream has also proven to contribute positively and throughout 2022 has contributed 2.17% to total non-oil and gas exports (Limanseto, 2023).

Down streaming in the mineral and coal sector has become a mandate of Law Number 3 of 2020 concerning Amendments to Law Number 4 of 2009 concerning Mineral and Coal Mining. The downstream obligation inherent in the mining industry is none other than to provide added value for mining profits. If viewed from the perspective of the capital market, of course these are related to each other. In the stock exchange, the company's internal events that contain information can have an influence in the form of price movements on the issuer which causes the potential for abnormal returns, where the information contained in the company's external events is related to the level of price fluctuations and the volume of stock transactions on the securities traded (Setiawan, 1998). With an efficient stock exchange, all available information will underlie all movements and equilibrium prices of securities within the market, so abnormal returns will be low and may even not occur.

The reaction in the Indonesia Stock Exchange in response to the policy of banning the export of nickel ore can be seen from the price movement and trading volume of the shares of nickel mining and processing sector companies listed on the IDX. A positive market reaction can result in an increase in stock returns, which is caused by an increase in the price of securities that moves to a new equilibrium price. If this movement is not anticipated in advance by the market or anticipated but the price increase is more or less than the calculation of the expected normal return of the stock, an abnormal return will be formed (*abnormal return*), which is mathematically written as the difference between the actual returns (*Real Return*) with *expected return* (Hartono, 2010).

It can be seen, from the perspective of the stock market, the mining sector on the Indonesia Stock Exchange, especially nickel, is greatly affected by this policy, the restriction of raw nickel exports to the European Union, of course this has implications / impacts on stock prices, where stock price fluctuations in the mining sector often occur in response, to changes in government policies, global demand and supply dynamics, as well as nickel commodity prices in the world market (Firdaus, 2022).

However, the downstream policy also brings challenges such as potential retaliation from international trading partners, including the European Union, who may lodge protests or take legal steps related to banning the export of raw nickel ore. This uncertainty has the potential to trigger volatility in the stock market, particularly in the mining sector as investors seek to anticipate the long-term impact of the policy on corporate performance and commodity prices. Therefore, based on the description above, the title of the study "Implications of Downstream Policy of Nickel Export Activities to the European Union on Stock Price Fluctuations in the Mining Sector on the Indonesia Stock Exchange" was raised.

2. METHOD



The research method used in this study is a normative juridical approach or doctrinal legal research. With the normative legal approach, it means that it involves the study of documents to analyze the sources of legal materials that are manifested in the form of written regulations such as laws and regulations, decisions or court rulings.

The data collected will be analyzed qualitatively, by interpreting and assessing the rule of law and its impact conceptually and normatively. This analysis focuses on how downstream policies affect capital market regulation, international trade, and economic dynamics in the mining sector.

In the context of the title "**Implications of Downstream Nickel Export Activities to the European Union on Stock Price Fluctuations in the Mining Sector on the Indonesia Stock Exchange**", the normative juridical approach will focus more on regulatory aspects and government policies related to the downstream of nickel exports.

3. RESULT AND DISCUSSION

How Does the Nickel Down streaming Policy Implemented by the Government of Indonesia Affect the Performance of Mining Sector Issuers in the Indonesian Capital Market?

The nickel downstream policy in Indonesia is a strategic step taken by the government to maximize the potential of natural resources, especially nickel, by increasing added value through domestic processing. Nickel, which has an important role in the battery and electric vehicle industries, is a much-needed commodity in the global market. Through this policy, the government not only seeks to increase state revenue, but also creates jobs and encourages sustainable economic growth (Mineral, 2022).

However, the implementation of this downstream policy has broader implications, especially on the performance of mining sector

issuers in the Indonesian capital market. Given that the dynamics of the capital market are greatly influenced by relevant government policies. Thus, an in-depth analysis of the impact of nickel downstream policies on the performance of mining sector issuers will provide valuable insights for investors, stakeholders, and decision-makers in Indonesia.

In recent years, nickel downstream policies have become one of the main focuses of the Indonesian government, in line with the increasing global demand for nickel, especially for the electric vehicle battery industry and renewable energy technology. This policy aims not only to increase the added value of abundant mineral resources, but also to reduce dependence on raw material exports. By processing nickel domestically, the government hopes to create jobs, attract investment, and encourage sustainable economic growth (Mineral, 2022)

As one of the largest nickel producers in the world, Indonesia has great potential to become a center for nickel processing and its downstream industry. In this context, mining sector issuers in the Indonesian capital market are at the forefront of facing challenges and opportunities resulting from downstream policies. However, regulatory changes and the need to adapt to new technologies can be a challenge for issuers that have been focusing on resource exploration and exploitation.

The issue of banning nickel ore exports resulted in a lawsuit by the European Union against Indonesia at the WTO. This started from the European Union which objected to the export restriction policy of raw nickel or nickel ore which took effect from January 1, 2020, although then the government imposed relaxation (Haddad et al., 2022). Indonesia has a global nickel 120 market in various countries such as China, Japan, South Korea, Australia, and the European Union.

Indonesia has a reason for prohibiting exports. There are at least two main reasons that are the



basis for the Indonesian government in taking a policy of banning nickel exports:

1. The development of smelter technology in Indonesia has the opportunity to trigger an increase in domestic nickel demand. Indonesia now has 21 smelters, which are planned to increase to 53 smelters by 2024. Domestic nickel demand as raw material for smelter processing is predicted to reach 100 million tons in 2022 and will continue to increase. Nickel processed by the smelter has higher quality and a selling price that is not low so that the export profit is greater than nickel ore alone. Instead of selling abroad, the government aims to secure domestic nickel ore stocks for smelter needs.
2. The nickel export ban policy is seen as able to develop the domestic downstream industry related to nickel commodities. The Indonesian government is targeting more investment in the nickel downstream industry, especially the development of the electric battery industry. Currently, Indonesia can only Produce Class 2 nickel derivative products needed to produce stainless steel. Meanwhile, class 1 nickel derivative products are needed in the manufacture of electric batteries. In his statement, President Jokowi wants Indonesian nickel to be processed into level 1 nickel products and raw materials for lithium batteries to produce electric vehicles. The level 1 nickel processing industry is considered promising for Indonesia in the future (Winona, 2022).

Indonesia's involvement in free trade stimulates Indonesian industries to compete in the international market. However, since the downstreaming of the industry is very promising at the international level, the opening of market share is increasingly promising and as Indonesian exporters, it is necessary to analyze world market flows in mapping opportunities and national interests as considerations. With the implementation of the suspension of nickel ore

exports, the government must cooperate with investors in industrial development. As a consequence this case was brought to *World Trade Organization*, but unfortunately the case of Indonesia's nickel export dispute with the European Union in *World Trade Organization* suffered the defeat of the lawsuit and must provide a claim for damages to the European Union (Setiawan & Emeria, n.d.)

Nevertheless, Indonesia remains optimistic about filing an appeal because Indonesia has a strong basis in determining the policy. Nevertheless, it is hoped that Indonesia will remain optimistic in developing industrial downstream because its economic impact has great potential in advancing the Indonesian economy. Indonesia's involvement in an international organization as a media for countries to communicate about international trade problems is certainly not always profitable (Hutabarat, 2023).

Indonesia in this nickel dispute has involved the European Union as a circle of economic interests of European countries that are classified as developed countries and have dragged third parties from developed and developing countries

Currently, it is beginning to be seen how the welfare of developing countries continues to experience a very significant decline due to global political maneuvers and the development process is hampered by regulations, conditions, and sanctions imposed by international organizations. There is still exclusivity for products from developing countries that are difficult to penetrate the markets of developed countries. Moreover, in developed countries, there are still very high non-tariff barriers, for example setting standards for goods and services, as well as high standards for border areas based on health and security factors. So it is quite difficult for middle to low power countries to penetrate the market (Hutabarat, 2023).

To protect the availability of nickel ore in the country, Indonesia has taken a strategic step by



tightening the number of nickel ore commodity exports to the global market. This policy is based on Indonesia's national interest in conserving natural resources for domestic nickel ore supplies. This is done because it was found that Indonesia's crude nickel inventory is getting thinner and will be estimated to run out. This concern is further exacerbated because raw nickel commodities are non-renewable natural resources, so that if the supply runs out, the commodity cannot be produced again. The restrictions carried out by the Government of the Republic of Indonesia have caused commodity export licensing to be tightened. To carry out nickel export activities, nickel ore must be down-streamed in the domestic industry. The goal is to supervise the supply of nickel ore, in addition to that, with domestic down streaming, it is able to increase the country's foreign exchange because the value of these commodities exported has increased from usual. However, this nickel export restriction policy resulted in an international dispute between Indonesia and one of the European Union's nickel export partners (Hutabarat, 2023).

The nickel downstream policy implemented by the Indonesian government aims to increase the added value of mineral resources, especially nickel, in the country. This policy has a significant impact on the performance of mining sector issuers in the Indonesian capital market. Here are some of the effects:

1. **Increased Added Value:** With a focus on downstreaming, issuers involved in processing nickel into more valuable products, such as batteries for electric vehicles, can see an increase in revenue and profit. This can attract investors' attention.
2. **Investment and Development:** This policy encourages issuers to invest in processing facilities and new technologies. This investment not only increases production capacity but also the company's competitiveness in the global market.
3. **Price Stability:** With downstreaming, Indonesia can reduce its dependence on

raw material exports, which can help stabilize nickel prices in the international market. This stability has a positive effect on the performance of issuers that depend on commodity prices.

4. **Investor Attractiveness:** Issuers that successfully adapt to downstream policies can attract investors, so that their share prices in the capital market can increase. This can also increase the liquidity of these stocks.
5. **Regulations and Policies:** Downstreaming policies are often accompanied by new regulations. Issuers need to adapt to these regulations, which can be challenging, especially for those who are not ready to invest in new technologies and infrastructure.
6. **Supply Chain Development:** This policy also affects the development of supply chains, where issuers need to work together with various parties, from suppliers to downstream industries. This can open up new opportunities and increase collaboration within the industrial sector.
7. **Risks and Challenges:** On the other hand, this policy also presents risks, such as potential conflicts with foreign companies that previously explored nickel in Indonesia. Issuers need to face challenges in managing these relationships.

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able to adapt and take advantage of existing opportunities.

The nickel downstream policy in Indonesia aims to increase the added value of mineral resources through domestic processing. Some of the legal sources that govern this policy are as follows:

1. Law Number 4 of 2009: concerning Mineral and Coal Mining. This law is the main legal basis for the management of mineral resources, including the obligation to process and refine minerals in the country.
2. Government Regulation Number 1 of 2017: concerning Non-Tax State Revenue Applicable to the Mining Sector. This PP regulates the obligation to process domestic minerals and provides incentives for companies committed to downstreaming
3. Regulation of the Minister of Energy and Mineral Resources (ESDM) Number 7 of 2020: concerning Amendments to the Regulation of the Minister of Energy and Mineral Resources Number 11 of 2019. This regulation regulates terms and conditions for companies that want to carry out downstream activities
4. Presidential Regulation Number 9 of 2016: concerning the One Map Policy. This regulation supports transparency and spatial management of mining areas which is important in the context of nickel⁴ downstreaming.
5. Regulation of the Minister of Industry: related to the development of the nickel downstream industry, especially in the context of the battery industry and its derivative products.
6. National Industrial Development Master Plan: which includes strategies to increase the added value of natural resources, including nickel, through downstreaming⁶.
7. Job Creation Law (Law No. 11 of 2020): to facilitate and accelerate the licensing process for the business sector, including mining and downstream industries.



This downstream policy aims not only to increase state revenue, but also to create jobs and encourage sustainable economic growth in Indonesia. Mining sector issuers that can adapt to this policy have the potential to gain significant benefits in the capital market.

How Does the Indonesian Capital Market React to the Trade Dispute Between Indonesia and the European Union Regarding the Ban on Crude Nickel Ore Exports?

Indonesia, one of the world's largest nickel producers, imposed a ban on the export of crude nickel ore in 2020. This policy aims to encourage nickel processing in the country and increase added value, in line with the government's policy to develop the electric vehicle industry.

In the context of the trade dispute, the European Union filed a complaint with the World Trade Organization (WTO), claiming that this ban violates Indonesia's commitments in international trade. The EU argues that the export ban creates barriers to trade and is contrary to the principle of fair treatment in the General Agreement on Tariffs and Trade (GATT).

Talking about the reaction of the capital market, the following can be described:

1. **Stock Fluctuations:** After news of this dispute spread, there were fluctuations in the stocks of companies engaged in the mining and nickel processing sectors. Investors showed panic, which led to a decline in the stock price.
2. **Stock Price Index:** The stock price index in the mining sector has decreased. Many analysts assess that this uncertainty could hinder investment in the nickel sector.
3. **Government Response:** The Government of Indonesia seeks to provide investors with assurances about the sustainability of the policy and the potential of the nickel market in the future. However, legal uncertainty remains a factor that makes investors wary.

The legal basis that can be seen from the response is:

- Law of the Republic of Indonesia Number 3 of 2020 concerning Amendments to Law Number 4 of 2009 concerning Mineral and Coal Mining, which supports mineral processing in the country.
- Regulation of the Minister of Energy and Mineral Resources (ESDM) No. 11 of 2019 concerning the Prohibition of Raw Mineral Exports.

The articles that are bound by the above discussion are:

- Article 1 Paragraph (1) and Article 102 of Law No. 3 of 2020 mention the obligation to process minerals domestically.
- Article 3 of the Regulation of the Minister of Energy and Mineral Resources No. 11 of 2019 which regulates the prohibition of the export of raw mineral ores.

The capital market's reaction to this dispute shows how important regulatory stability in the mining sector is for investor confidence. Legal uncertainty can be a barrier to investment, which in turn affects Indonesia's economic growth in this sector.

With the suspension of nickel ore exports, the government must take the following actions to find investors who are interested in establishing an industry, legal rules that protect the downstream of the natural resources industry, consistency in the availability of raw materials for mining processing, shelter of downstream industry commodities both domestically and abroad, protection of investors from policy changes, political stability, imposition of taxes and the obligation of investors to collaborate with business actors regions/MSMEs in carrying out industrial downstream and technology transfer (Puspita et al., 2022).

The regulation and prohibition of the export of raw minerals was previously regulated in Law Number 4 of 2009 concerning Mineral and Coal

Mining in Article 102. The content states that holders of Mining Business Permits and Special Additional Business Permits are obliged to increase the added value of mineral and/or coal resources in carrying out mining, processing, and refining as well as the utilization of minerals and coal. In Article 103 paragraph 1, the steps taken to implement the program require the processing and refining of mining products (smelters) in the country. Article 170 also requires Contract of Work companies to carry out their obligations to build smelters in the country. To implement these rules, the government issued two rules. First, Government Regulation Number 1 of 2014 concerning the Implementation of Mineral and Coal Mining Activities.

Second, Regulation of the Minister of Energy and Mineral Resources Number 1 of 2014 concerning Criteria for Increasing Added Value.

Government Regulation Number 1 of 2014 Number 1 emphasizes that the holder of the work contract in accordance with Article 170 of Law Number 4 of 2009 concerning Mineral and Coal Mining, is obliged to purify domestic mining products. The regulation states that the sale of raw minerals abroad can be carried out in certain quantities and in the form of processing within three years from the issuance of the Regulation of the Minister of Energy and Mineral Resources Number 1 of 2014 (Firdaus, 2022b)

Some basic prohibitions are based on many factors. One of them is the results of the analysis of the impact of government policies. In the report "Analysis of the Policy on the Export Prohibition of Mining and Mineral Raw Materials" published by the Ministry of Trade, it was stated that Indonesia's nickel resources in 2011 amounted to 2,633 million tons of ore with potential reserves reaching 577 million tons of ore. According to data from the Central Statistics Agency (BPS), 2013 was the highest peak of Indonesia's nickel exports which reached 64,802,857 tons or 1,685,247 US dollars. Referring to the data, there are six main countries that are the destination of Indonesian

nickel exports, namely Japan, China, Australia, Switzerland, Greece, and Ukraine, to show the sovereignty of the Indonesian people in managing their natural resources, the Government of Indonesia once again strictly prohibits exports through the issuance of the Regulation of the Minister of Energy and Mineral Resources Number 11 of 2019 concerning the Second Amendment to the Regulation of the Minister of Energy and Mineral Resources Number 25 of 2018 concerning Mineral and Coal Mining Business.

Principles of National Policy

Since the enactment of the Mineral and Mineral Law, until January 11, 2014, it turns out that mining companies are not fully ready, smelters have not been built. This condition makes the government inevitably have to get around and find a way out. One of them is by revising a number of derivative regulations from the Mineral and Mineral Law. In addition to the Impact Analysis of the Policy on the Export Ban of Mineral and Mining Raw Materials issued by the Ministry of Trade, there are two factors that are the basis of the Indonesian government's policy in the mineral and mineral sector, namely Internal Factors and External Factors. Internal factors include downstream mining, increased national development, increased investment, and job opening. Meanwhile, external factors that affect this policy are countries that use mineral raw materials in Indonesia and companies that generally object to the mineral and mineral policy because it is considered difficult and increases the company's production costs.

The trade dispute between Indonesia and the European Union related to the ban on the export of crude nickel ore has a significant impact on the Indonesian capital market, especially on companies related to the mining industry, especially nickel. Here are some of the reactions and impacts:

1. Volatility of Nickel Mining Company Stocks



Shares of nickel mining companies in Indonesia such as PT Vale Indonesia Tbk (INCO) and other companies involved in the nickel mining sector show price volatility. Uncertainty over the outcome of the trade dispute could affect the long-term outlook for the sector, both in terms of exports and production capacity. However, as Indonesia focuses on downstreaming and utilizing nickel for electric vehicle batteries, many investors are still optimistic about the industry's long-term prospects.

2. Index Movement

If there is tension in trade relations between Indonesia and the European Union, negative sentiment may affect the market in general, especially the Jakarta Composite Stock Price Index (JCI). However, the impact is usually more focused on sectors directly affected by export policies and nickel-related industries.

3. Foreign Investment Interest

The crude nickel ore export ban policy implemented by Indonesia actually aims to attract more foreign investment in the nickel processing and refining sector (smelter). Although the European Union filed a complaint at the World Trade Organization (WTO), this move did not necessarily stop the interest of foreign investors, particularly from countries such as China and South Korea, who are still interested in investing in the development of electric battery supply chains in Indonesia.

4. The Strength of the Rupiah

This dispute could have a short-term impact on the rupiah exchange rate, especially if the market perceives risks to Indonesia's trade balance. However, the downstream policy is expected to strengthen Indonesia's economic position in the future.

Considering the legal basis of the ban on the export of raw nickel ore in Indonesia is:

1. Law Number 4 of 2009 concerning Mineral and Coal Mining (Minerba) - In

this law, the government encourages the construction of smelters and reduces the export of raw minerals so that added value can be produced domestically.

2. Regulation of the Minister of Energy and Mineral Resources Number 11 of 2019 - The ban on the export of accelerated nickel ore, which was previously planned to take effect in 2022, becomes effective as of January 2020. This is the basis for the implementation of the crude nickel ore export ban policy.
3. Dispute at the WTO - The European Union is suing Indonesia at the WTO over this ban, on the basis that the policy is considered to violate the principle of free trade and hinder the EU's access to raw materials needed by their steel industry.

Overall, the capital market's reaction to this trade dispute depends on how it is resolved at the international level, especially decisions from the WTO. If the WTO's decision favors Indonesia, the nickel market and related stocks are likely to strengthen. However, if Indonesia is forced to change its export ban policy, there will be challenges for nickel industry players, which could ultimately affect capital market performance.

4. CONCLUSION

The downstream nickel export policy implemented by the Indonesian government has had a significant impact on the fluctuation of the share price of the mining sector on the Indonesia Stock Exchange (IDX) (Sihotang & Suandika, 2023). This step is carried out with the aim of increasing the added value of nickel commodities and reducing dependence on raw material exports. The implementation of this policy triggered a market response, including an increase in expectations for the earnings of domestic nickel mining companies, which ultimately affected the volatility of the mining sector's stock prices.

On the other hand, this policy also creates



uncertainty related to trade relations between Indonesia and the European Union, which has the potential to affect financial market stability (Haddad et al., 2022) In general, this downstream creates opportunities and challenges for the mining sector, with stock price responses that tend to fluctuate as a reflection of investors' expectations for the future impact of this policy.

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