

Athiqah Nur Alami
Ganewati Wuryandari
R.R. Emilia Yustiningrum
Nanto Sriyanto

Foreign Policy and Energy Security Issues in Indonesia



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Athiqah Nur Alami · Ganewati Wuryandari
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Athiqah Nur Alami
Research Center for Politics
Indonesian Institute of Sciences
Jakarta
Indonesia

R.R. Emilia Yustiningrum
Research Center for Politics
Indonesian Institute of Sciences
Jakarta
Indonesia

Ganewati Wuryandari
Research Center for Politics
Indonesian Institute of Sciences
Jakarta
Indonesia

Nanto Sriyanto
Research Center for Politics
Indonesian Institute of Sciences
Jakarta
Indonesia

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Chapter 1

Indonesia's Foreign Policy and Energy Security Issues: The Missing Link in Indonesia's Energy Sector

Abstract Energy security is one of the important issues that Indonesia's foreign policy and diplomacy should pay attention to. However, as a natural resource-rich country, Indonesia has not yet managed and utilized its potential resources because of lacks of advanced technology, capable human resources, and political will. The Indonesian government has been so far weighing its focus on a domestic-oriented and inward-looking energy management. The government also has not yet treated energy as a strategic commodity. Its importance in foreign policy can help Indonesia play the most effective diplomacy at the regional and international levels. This study aims to scrutinize the aspects of foreign policy in terms of energy security issues that Indonesia is currently dealing with.

Keywords Energy security · Institutionalization · Securitization · Foreign policy · Nontraditional security

1 Introduction

This book is an attempt to examine strategic nontraditional issues related to Indonesia's foreign policy. Energy security is one of the important issues that Indonesia's foreign policy and diplomacy should pay attention to. The significance of the issue can be seen in a study by Erahman et al. (2016) on Indonesia's energy security performance. It finds that Indonesia's energy security is less satisfactory and it should be improved, particularly in the aspects of acceleration of economic development, environmental policies, and energy diversification target (Erahman et al. 2016).

In the energy sector, the government has been so far weighing its focus on a domestic-oriented and inward-looking energy management. The major problem in Indonesia's energy is the mismanagement of the energy sector at the domestic level, especially after the enactment of Law No. 22/2001 on Oil and Gas, wherein the private sector is given a greater role than the government. Because the management of its energy sector is anchored to the strengthening of market mechanisms in fuel

and electricity pricing, Indonesia's policy in energy security tends to conceive energy as a market commodity.

The Indonesian government, therefore, has not yet treated energy as a strategic commodity. Given its importance in foreign policy, energy issues can help Indonesia play the most effective diplomacy at the regional and international levels. This condition can be seen, for example, in the weak institutionalization of energy security policy among the governmental institutions which serve as the vanguard of Indonesia's diplomacy, particularly in the Ministry of Foreign Affairs. There is no specific or particular bodies under the Ministry of Foreign Affairs that are in charge of the issues of energy security. Instead, it is technical ministries who play a more active role in the global energy partnerships.

The government also shows a half-hearted effort in encouraging the national and private energy companies to play a major role in the regional and international energy markets. In other words, the government has not yet seriously taken the regional and international dynamics into account when dealing with energy issues, whereas integration of energy into foreign policy has become a global development and a major national interest among the advanced industrial countries. This also suggests that there is a missing link in Indonesia's energy policy, i.e., the absence of an international and outward-looking perspective both in policy and political realities, as well as its lack of foreign policy dimension.

This is the reason why this book finds it important to scrutinize the aspects of foreign policy in terms of energy security issues that Indonesia is currently dealing with. It is acknowledged that energy security is a crucial issue for many states; however, it has been unique in the case of Indonesia. As a natural resource-rich country, Indonesia has not yet managed and utilized its potential resources because of lacks of advanced technology, capable human resources, and political will.

Using international security of international relations as its theoretical framework, this study posits energy as part of contemporary international security issues, focusing not only on state security but also human security in the country. In addition, the issue of energy security is indispensable from a geopolitical conception of a country's geographical position and its potential in the international political constellation.

Since foreign policy is a reflection of the domestic politics that follows the development of the international situation, it will become the focus of this study. Thus, this book is divided into two main sections: domestic and international dimensions of energy security issues. The first section examines the Indonesian government's strategic policy in energy security issues at the national level as well as its relations to the interests of players engaged in the management of the national energy sector. On the other side, the second section explores Indonesia's position in the Asia Pacific energy market and the performance of the country's foreign policy and diplomacy in energy security issues.

2 Energy Security and Foreign Policy in the Study of International Relations

In the context of foreign policy, energy security has been a major subject in the study of International Relations (IR). Foreign policy is closely linked to the struggle for national interest in international forums. Scholars in the academic study of International Relations widely agreed on the articulation of national interest in international forums (Brown 2001). The concept of national interest becomes problematic when the unit of analysis is broken down into sub-countries wherein formulation of the term will be deeply influenced by a number of perspectives and interests of the state and non-state apparatus. This line of argument suggests that definition of national interest is not as rigid as the one initially adopted by the Realists in the study of IR. The other opinion, widely adopted by the Liberalists, considers that the national interest is a complex concept which will be affected by a various number of domestic and international factors, therefore, will not be necessarily monolithic (Viotti and Kauppi 1999).

Allison (1971) is one of those who proposed bureaucratic models of foreign policy as a high variation of the national interest. In the context of energy policy, Krasner's work, *Defending the National Interest: Raw Materials Investments and US Foreign Policy* (1978), represents the Realist perspective in the formulation of national interest intertwined with the United States (US) foreign investment policy. Anwar (2000) confirmed these different perspectives for which she divides them into "objective and subjective" approaches. The first approach perceives that the national interest is "something that can be distinctively defined by using objective criteria and, the formulation of a country's national interests will be relatively constant over time." On the contrary, the second approach puts an emphasis on the "subjective" national interest. According to this approach, the national interest is "something that will always change according to the subjective preferences of decision makers" (Anwar 2000).¹

Allison (1971) himself distinguishes the pluralistic model (organizational and bureaucratic model) from rational policy model in which state is considered as a capable decision-maker based on national interest. This is due to assumption of unitary of state. Nevertheless, the assumption also becomes more scrutinized since the definition of national interest mostly refers to power which has broad definition. Power which comes to International Relations from the tradition of realist politics commonly refers to military and material capability relate to high politics. But in the development of the study of international politics, distinction of high versus

¹As for decision-makers' influence on the national interest, it is intriguing to see Mearsheimer and Walt's criticism on the US policies, especially in the era of Bush Jr. during which Israel lobbyists and neoconservative think tanks are highly influential in the American politics. Despite their academic credits as being realist thinkers who assume an objective national interest, it seems that Mearsheimer and Walt acknowledged the possible influence of political-interest groups in a given country; see Mearsheimer and Walt (2003, 2007).

low politics is gradually mixed and intertwined. It could no longer be separated especially since the oil blockade from oil-producing countries in 1973. The blockade had significantly affected some countries, even the USA when it changed the status of oil exploration in Alaska (Bahgat 2011). High–low politics distinction has blurred when the terrorist threat could also damage the economic and energy sector by sabotaging the strategic sites. Therefore, for securing these interests which previously considered as low politics, the USA has deployed its military personnel to protect the high-valued economic and energy sites (Youngs 2009). It is obvious from the different opinions above that the formulation of national interests is a dynamic process that can be detached from its context.

Just like in the case of national interest, the definition of energy security is similarly problematic because it can have very diverse meanings depending on the standpoints of the government. Initially, consumer countries dominate the perspectives of energy security because of their concerns on energy supplies. The establishment of the International Energy Agency (IEA) in 1974, which was a response to the turmoil caused by the oil embargo, is one of the key points in the study of foreign policy and energy security. In the 1970s the issue of energy security emerged during the embargo of Arab countries that led to an oil price turmoil. Since then the definition of energy security has been linked to an effort to secure oil supplies from the Middle East. The IEA, which was established by the oil and gas importer countries incorporated in the Organization for Economic Cooperation and Development (OECD), defines energy security as an attempt to secure energy supplies at affordable prices. In the twenty-first century, other factors affecting the stability of energy supplies and the rise of energy prices have been added into the definition. They include political conflicts, potential natural disasters, terrorist attacks to energy supply, transportation and distribution, as well as energy-related environmental problems (Alhajji 2007; Aponte 2007).

The growing trends in the study of energy security in many countries also gave a new perspective on the definition of energy security as an attempt to maintain and open up accesses to places where oil exists in abundance. The US, during the reign of George W. Bush, in the 2001 Energy Report defines the term as reliable, affordable, and environmentally sound supply of energy (Alhajji 2007; Aponte 2007). China, which is lately very dominant through its national oil companies and its rising industry, has been paid an attention to the definition of energy security since 1993 when an increase in the import value has turned the country into a net energy importer. Thus, according to China's perspective, energy security refers to the acquisition of sufficient energy supplies to protect China's core objectives at prices that neither too high nor too low to undermine those objectives (Atje and Hapsari 2008; Downs 2006).² Japan, which has limited domestic energy resources,

²Erica Down said in the same page that, according to his search in China BankInfo, the term "energy security" emerged only in 41 publications between 1994 and 1999, and in 1.150 between 2000 and 2005.

defines energy security, Yergin (2006) said, as offsetting of its stark scarcity of domestic resources through diversification, trade, and investment. As for Indonesia, which has not yet officially established a definition of the term since its removal from OPEC, energy security, is understood as securing sufficient energy supplies for the best performance of the national economy (Atje and Hapsari 2008).

Amid different perspectives above, APERC (Asia Pacific Energy Research Centre)³ defines energy security according to the concept of the 4 A's of energy security, which are energy resource availability, accessibility barriers, environmental acceptability, and investment cost affordability. A study by APERC reveals that indicators of energy security include diversification of energy supply sources, net energy import dependency, non-carbon-based fuel portfolio, and net oil import dependency. The 4 A's of energy security can be summarized into (1) the physical aspects in terms of energy availability and accessibility; (2) the economic aspects that include resources and infrastructure affordability; and (3) the environmental sustainability and acceptability (Aponte 2007). Seemingly, the APERC's definition of energy security still leans on the regional contexts and the generalised characteristics of the APEC members. However, as a research institution, APERC has offered an operational definition that is useful for this research to examine the context of Indonesia's energy security.

Keliat (2011) summarizes the aforementioned different definitions of energy security into two paradigms: energy as both a strategic and a market commodity that can depict the trends of energy policy in a given country. Both paradigms put forward different arguments leading to various policy recommendations. Table 1 is based on prescription of two grand paradigms in International Relations studies, the realist paradigm and liberal internationalist paradigm. The first paradigm considers energy security must be gained through self-help efforts by securing the production for the domestic needs. It can be seen since the colonial era to the post-Cold War era when mercantilist approach is used by most newly emerging economies in Asia, like India and China. Since the oil resources and deposits show greater scarcity and high rise in demands, states need to secure their access to area with greater production capability (Dannreuther 2013). On the other hand, the second paradigm focuses on the role of market as part of liberal order in international politics. According to scholars who support this paradigm, international regime and institution are essential parts in reducing trust deficit in anarchic international system. The role of liberal market is therefore to facilitate the energy producing and consuming countries in a manageable forum in which both sides could secure and communicate through economic transaction. According to the paradigm, pluralist actors need energy. Despite its necessity as tools for economic growth, the way to

³APERC is a research center that focus on energy issues that was established to support the activities of APEC member countries in economic cooperation and follow the directive of APEC Leaders in the Osaka Action Agenda. This center not only conducts the study and analysis of regional energy demand but also develops a database of statistics on energy.

Table 1 Different paradigms of energy (Keliat 2011)

Paradigms	Energy as a strategic commodity	Energy as a market commodity
Arguments	Determining economic growth	Avoiding energy and state budget inefficiency
	Securing physical supplies will require state security institutions	Creating economic interdependence between energy-exporting and importing countries
Examples of policy recommendations	<ul style="list-style-type: none"> • Energy dependence from external sources is reduced • Energy-producing regions are managed and controlled • Regulations that restrict domestic consumption are imposed • Energy storage is provided • Energy prices are determined by the government 	<ul style="list-style-type: none"> • Energy prices are determined by the market • State-owned and private enterprises are treated equally for energy investments under the framework of bilateral cooperation between energy importer and exporter countries

secure the access to energy could be gained through cooperation among states. The liberalists also believe that the states could not fully control the market since it is operated by pluralist actors other than states, such as MNCs and international organizations (Dannreuther 2013).

Table 1 also shows that national interest, and domestic and international conditions, have a strong influence on energy security. The national economic interests and the demands of domestic markets forced each country to fulfill their national needs from domestic sources and exploration or from energy imports. Similarly, turmoil in other country's energy security will affect on how a given country defines its energy security. In short, the definition of energy security displays a country's domestic and international position. The development of studies in energy security also shows us that energy issues initially are not part of the subject of traditional security in the study of IR.

Therefore, different conceptions of energy security mentioned above lead to three main analyses in the study of IR. The first analysis suggests that energy security is an extended concept of security in the study of IR in which the term includes both national and human security. The concept of human security which comes in post-Cold War emphasizes on the people centeredness in terminology of security. In the 1990s, various scholars would familiarize the concept as freedom from wants and freedom from fear. While freedom from fear relates to human rights and freedom from domestic political oppression by states. The first category of human security concept urges state to provide basic livelihood for its people, in terms of human development and basic needs. The Janus face of human security concept could not be separated though most of developing states gave more attention toward the freedom from wants. In context of energy security, the term is

implemented in securing the availability of energy in the supply side. Various countries would necessarily secure their energy needs since the availability of energy will guarantee the pace of economic growth and industry. For most of developing countries this precept is part of their strategy in fulfilling the basic needs for their people (Heazle 2007).

It was the theorists of the Copenhagen School who initiated the extended meaning of the term by opening up the security agenda to different types of threats. Buzan et al. (1998), for example, argues that security threats and vulnerabilities may come from a variety of things, both military and nonmilitary. In addition, Rothschild (1995) analyzes that the concept of security has been extended to include four issues, i.e., from a state to a human/individual/group security; from a state to an international system or physical environmental security; from a military to a social, economic, political, and environmental security; and from physical state to non-state actors' (non-governmental organizations, public opinion, market pressures) security. In the further development, the definition of energy security as part of many nontraditional securities has been adopted by UNDP, Australia (during the era of Prime Minister Paul Keating), Canada, Norway, Japan, the World Bank, and the IEA, and has been closely related to environmental safety (as initiated by the United Nations Environmental Program-UNEP, the Organization for Security and Cooperation in Europe-OSCE, OECD, United Nations University-UNU, EU), food safety (as promoted by, among others, WHO, and the World Bank), and energy security as well (Brauch 2009).

The aforementioned fact indicates that securitization has been taking place in energy issues. The term securitization itself, as Buzan et al. (1998) argued, refers to assignment of an issue as a real security threat that requires justified emergency measures outside the normal procedures. This definition implies that securitization is in fact a more intersubjective—to use Buzan's (1997) terminology—rather than an objective process. That is, securitization has a close linkage with the state's interests and it, therefore, may result in the politicization of the issue. Securitization of an issue by a particular country will also bring a political consequence because it will require an “actor” to behave differently than it is used to be (Buzan et al. 1998). Therefore, it is true to say that securitization is an effort to politicize an issue, including energy security. It means that the fulfillment of energy needs has been considered as a national security issue because it affects a country's survival and existence and a given country promulgates exceptional and extraordinary laws accordingly.

The second analysis emphasizes the linkage between the domestic and international aspects of energy security. It is what later known as an intermestic concept (DeLaet and Scott 2005). The term “intermestic”, which literally stands for “international” and “domestic”, was basically unknown to the study of IR; rather, it evolved from a strategic management approach in the field of foreign policy that sees domestic and international issues as equally important. In the United States, the intermestic concept is commonly used to analyze the roles of the Congress and the President in determining the direction of foreign policy. The term intermestic has

been introduced in Indonesia by the former Indonesian Foreign Minister, Hassan Wirajuda, during his appointment in January, 2002. He defines the intermestic concept as an effort to bring closer the relationship between domestic and international issues in order to answer global challenges, while at the same time exploit global opportunities for national benefits. The term further means an effort to make all the sectors of society work together in dealing with important issues, both nationally and internationally, through an integrated approach to diplomacy. This definition accords the statement of the former Vice President Mohammad Hatta that foreign policy should fall into line with the Indonesia's domestic politics. Harry S. Truman called the intermestic concept as a Total Diplomacy referring to the inseparability between domestic and international issues (Pada 2006).

Born in the area of strategic management, the intermestic concept actually also resembles to that of linkage first laid down by Rosenau (1969) and further developed by Putnam (1988) in his article, "Diplomacy and Domestic Politics: The Logic of Two Level Games" in which he attempts to outline, in a more rigid theoretical scheme, the interaction between the domestic and international factors. It is interesting to see that Putnam (1988) provides us with a list of studies that establish the link between domestic and international factors. He includes a study by Snyder and Diesing (1977) who find out the relations between domestic conditions and international bargaining positions. Even though the two analysts of foreign policy belong to a Neo-Realist school of thought that assumes the state/government as the only player, their empirical studies reveals that in half of time-crisis decisions, the final decision-makers in the government had failed to reach agreements. They concluded that "prediction of international outcomes is significantly improved by understanding the internal bargaining, especially with respect to minimally acceptable compromise" (Putnam 1988). To sum up, the relations between domestic and international sphere are necessary since energy sector is affected by both sides of diplomacy. This was a true condition for energy sector in Indonesia after transition of democracy since the reformation era. Public in domestic sphere requires the government to act on behalf of their interest which include the energy policy in international forum. Meanwhile, domestic turmoil could also be stipulated by the instability of oil price in global market.

The third argument is the issue of energy security has confirmed further the high level of interdependence between countries as a consequence of the global political-economic interactions. Interdependent relationship between countries, both economically and politically, in the energy sector rests on the fact that not all countries have the same energy resources available for their energy needs. The high level of interdependence on energy supplies from other countries means that cross-border relations and exports and imports for energy commodities have also heightened. In this sense, interdependence in the energy sector, in one hand, has driven all the countries to engage in international cooperation. On the other hand, it has also escalated the potential for competition and conflict between countries in pursuing and securing their energy resources and supplies.