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Indonesia's Post-Election Energy Policy: Growing Economic Nationalism?

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Synopsis

Indonesia's energy policy in the next administration is likely to come under, pressure for change. While both presidential candidates offer rather similar energy policies, will they pursue nationalistic and protectionist policies should they get elected?

Commentary

ENERGY SECURITY is one among many policy issues that receives special attention from the two pairs of presidential and vice-presidential candidates. In their vision statements, they suggested ways of enhancing Indonesia's energy security if they are elected.

Whichever pair win in the presidential election on 9 July 2014, there are indications that Indonesia's energy policy will likely experience a shift towards energy sovereignty and economic nationalism. However, it is difficult to determine whether both candidates will live up to their rhetoric and vision statements.

Current Energy Policies

Indonesia's current energy policy covers a broad spectrum, ranging from energy subsidies; energy diversification; energy conversion; encouraging bio-fuel & renewable utilisation; and energy infrastructure development, among many others. Although it covers dozens of aspects and/or programmes, the basis of the current energy policies remains focused on meeting domestic energy demands.

Another point to note is that liberal and market-oriented factors shaped the direction of the current energy policy primarily in the oil and gas sector. Under the controversial oil and gas regulation (*UU No. 22/2001 Tentang Minyak dan Gas Bumi*), the role of Pertamina is restricted and it is no longer a major player in the oil and gas sector.

Additionally, the regulation is also deemed as the primary cause of Indonesia's energy infrastructure deficiency.

Energy subsidies remain as the most important programme among Indonesia's energy policies considering that it could either substantially strengthen regime legitimacy or severely weaken it. Another reason why subsidies are important is that they have the ability to alter the price of goods and services. The past and the current administration have maintained this 'tradition' – although in varying degrees – to boost public approval over

their administration.

But the ever-increasing price of oil in the international market and growing domestic energy demand have placed pressures on the state budget. In 2013, the Yudhoyono administration buckled under the possibility of a budget deficit due to the increasing requirement of budget subsidies to maintain the price of fuel despite their commitments to ekonomi kerakyataan (people-oriented economy). The price increases of subsidised fuel have disillusioned the public and incurred sporadic-but-nationwide demonstrations and riots.

What to expect in the next administration

The energy visions offered by Prabowo-Hatta and Joko Widodo-Kalla have similar tones. Both candidates will pursue energy policies that are oriented towards energy sovereignty and self sufficiency. Rhetoric from both candidates strongly indicates that the overall economic policy, as well as energy policy, will lean towards economic nationalism. Moreover, both candidates explicitly state that they will revise the Oil and Gas regulation to be in accordance to Article 33 of the Indonesian Constitution to exert greater control over Indonesia's energy sources.

On another note, similarities between the energy policy blueprints of both candidates extend beyond nationalistic tendencies and into other aspects, particularly to enhancing the country's renewable energy capacity; increasing the electrical coverage rate up to 100 per cent; and accelerating the country's energy infrastructure development.

Both candidates also propose a reform on the current subsidy system that tends to benefit the haves rather than the have-nots. Although the general principle is quite similar, each candidate proposes a different approach.

Joko Widodo proposes a reallocation of the budget devoted to fuel subsidies to other sectors, primarily natural gas infrastructure development and exploitation, to lessen the burden of state budget and the country's dependency on imported oil. He also proposes a reallocation of subsidies to encourage the biofuel industry. Prabowo on the other hand, proposes a new tax and excise for the upper class to suppress their consumption of subsidised fuel.

Different administration, different policies?

If closely examined, both candidates offer energy policies that are essentially similar to that of the current administration, except for some notable differences. For example, Joko Widodo – Kalla propose to formulate a strategic reserve to ensure long-term energy security, enhance domestic oil production and introduce new investment schemes to encourage investor participation. Prabowo-Hatta alternatively, propose special plantations dedicated to biofuel material production. Yet, biofuel and development of renewable energy have already been pursued by the current administration.

It is unlikely that the SBY administration's energy diversification and nuclear energy programmes are going to be discontinued by either pair of candidates as they are already underway. A feasibility study for nuclear power has been conducted in different areas with Indonesia's Nuclear Energy Agency proposing different potential locations for a nuclear power plant.

Regardless of who wins the election, there is not likely to be any significant shift in energy policies from the current administration. Despite their nationalistic rhetoric, it remains unlikely that they can translate such a posture into policy. Rather, both candidates are likely to be more pragmatic given their business backgrounds which will tend to make them less ideological.

The private sector – or in most cases big foreign energy companies – possesses the necessary capital and technological knowledge to harness Indonesia's energy resources. Cutting off the foreign players for nationalistic reasons would be counterproductive. It is better to cooperate and work together with them to enhance Indonesia's capabilities and advance its energy security.

To avoid being exploited by foreign powers, the next administration would need to formulate win-win contracts keeping in mind Indonesia's future needs.

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