

CHAPTER III

THE DYNAMIC OF INDONESIA IN OPEC

This chapter talks about the dynamic of Indonesia in its relations with OPEC. This chapter explains the condition of Indonesia when Indonesia joined OPEC in 1962, before Indonesia decided to withdraw from OPEC in 2008, and after Indonesia withdrew from OPEC in 2008-2015. This chapter helps readers to understand what happened to Indonesia during its dynamical relations with OPEC.

A. Indonesia Joined OPEC in 1962

In 1962, Indonesia's oil production was in good condition. Indonesia's oil production exceeded the domestic needs, therefore Indonesia could export some of its oil to the world. Furthermore, the establishment of OPEC was also caused by the fight toward US oil companies monopoly to the world oil price. As a developing country which has a long history of fighting the west's domination, Indonesia understood the struggle of OPEC. Due to the good oil production at that time, Indonesia was confident to join OPEC. Thus, Indonesia joined OPEC in 1962.

In 1962, Indonesia decided to join OPEC because Indonesia understood OPEC's vision. Indonesia perceived OPEC as a group of developing countries that was struggling to compete with the oil industry superpower countries and

the enormous multinational companies. Indonesia had also exported its oil at that time. Therefore, Indonesia also possessed the same national interests with the other OPEC member states, which are the guarantee of price stability that could significantly help the national budgeting.

The joining of Indonesia in OPEC membership was also supported by the dynamic of Indonesia's foreign affairs at that time. The basic principle of Indonesia's foreign policy was free and active. Free and active is defined as the independent and active participation of Indonesia's national interest. This participation was then specifically implemented in the establishment of non-bloc politics, which means that Indonesia did not side with either the Western Bloc or the Eastern Bloc. The implementations of those principles are changing as the situation of international politics developed. The implementation becomes the reflection of the changing condition of external situations and acts as the alteration of Indonesia domestic needs' changes.

The policy of a state, either international or domestic, will always be based on the national interest. Obviously, the foreign policy made by a certain country is the representation of their national interest. In this case, national interest becomes the main milestone for a country to arrange its position in international issues. Therefore, a foreign policy will always be made to the goodness of both international and national condition of the country.

Ever since Indonesia became the member of OPEC in 1962, Indonesia has been actively involved in determining the direction and policy of OPEC, especially in stabilizing the number of production and the oil price in international market. Since the establishment of OPEC's secretariat in Vienna in 1965, Indonesia's embassy in Vienna had been very active taking parts in the oil price monitoring, substantial problem handling, and diplomacy in many conferences held by OPEC.

The prominent role that Indonesia had been playing in OPEC had led Indonesia to be trusted as the Secretary General of OPEC and the OPEC conference chair. In 2004, the Minister of Energy and Mineral Resources of Indonesia was chosen as the temporary President and Secretary General of OPEC. However, the membership status of Indonesia in OPEC in 2008 became the main topic of debate of many parties in Indonesia because Indonesia was a net importer country. Regarding to that matter, Indonesia discussed its membership status in OPEC and formed a team to talk about that issue from both economic and political perspective.

B. Indonesia Decided to Withdraw from OPEC in 2008

Indonesia was known as one of the main producers and exporters of world oil. During the era of President Soeharto in 1966-1998, the average rate of oil production reached 1.38 million barrels each day. Indonesia was very rich

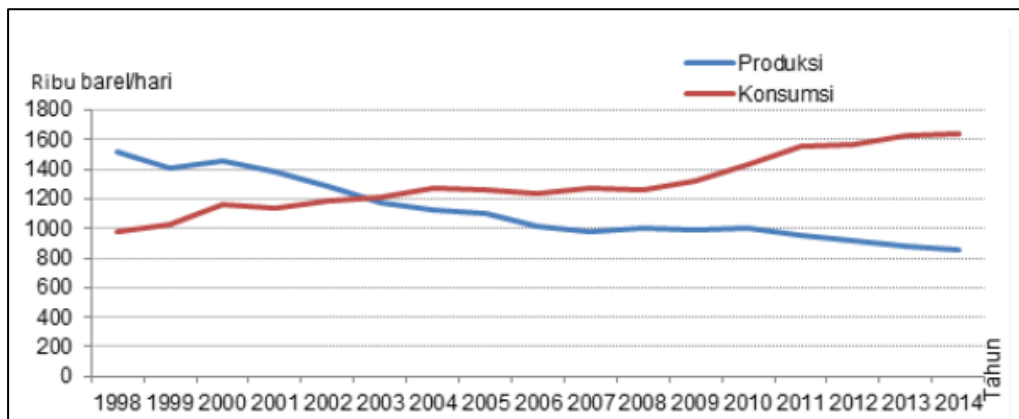
of oil. Furthermore, most of the national development was funded by the oil profit. However, the production of Indonesia's oil declined gradually to the point that Indonesia stopped becoming an exporter and became an importer country since 2004. In the 149th conference held in the Headquarter of OPEC in Vienna, every member states approved the suspension of Indonesia's membership status in OPEC. OPEC expected that Indonesia would return as one of its member states again once the country is capable of being an oil exporter country again.

During the 1970s, Indonesia's production of crude oil had always been 1 million barrels or sometimes 1.6 million barrels each day. At that time, the price of oil was also once soared five times from 2.5 USD to 12 USD for each barrel. As a result, Indonesia obtained a lot of income which was able to be allocated for the country's development in various sectors. However, the oil price decline in the beginning of 1980s impacted significant stagnation to Indonesia's economy. The economic growth which was usually above 7% suddenly fell to 1%. This incident shows just how much Indonesia depends and relies on the oil sector for the national development and the national budget.

Today, the domestic consumption of oil was approximately 1.6 million barrels a day. On the other hand, Indonesia's oil production is predicted to keep falling. In 2014, the oil production of Indonesia only reached 852 thousands barrel a day, with a production decline rate at 3.07% along with the depleting

source of Indonesia's crude oil supply. The oil supply of Indonesia declined from 4.3 billion barrels in the beginning of 2004 to 3.7 billion barrels in 2014. The gap of Indonesia's domestic consumption and production to oil is incredibly worrying and expanding. Even today, the gap of production and consumption of oil in Indonesia is really big. The trend of Indonesia's oil production and consumption could be seen in figure 3.1.

Figure 3.1. Trend of Indonesia's Oil Production and Consumption 1998 - 2014



Source: Indonesia's Oil Production and Consumption Trend, 1998 - 2014.

BP Statistical Review of World Energy 2014

Today, Indonesia is on the crisis of oil production and consumption gap. The tendency of declining production and increasing consumption makes the country to have a really hard time to fulfill the domestic needs toward oil. As a result, the government is forced to import the oil from another country.

Ironically at the same time, the price raise of fuel oil has always been a problem for the people of Indonesia.

One of the biggest problems for Indonesia was that its people think that Indonesia is really rich of oil, while the assumption is totally false. The oil supply of Indonesia was only 3.7 billion barrels or around 0.2% of the world's total oil supply. The production of Indonesia's oil only reached 852 thousand barrels a day or 1% of the world's total oil production, while the people's consumption rate is 1.6 million barrels a day or 1.8% of the world's total oil supply. In other words, Indonesia is actually on a crisis for energy security.

In oil sector, Indonesia was facing an energy crisis due to the gradual fall of oil production. The low rate of Indonesia's oil production was caused by several factors, such as:

1. The increasing operation and distribution facilities troubles;
2. The reserve decline of the existing production fields;
3. There has not been found any big new supply of oil;
4. Technical problems on the production tools procurement;
5. The unachieved target of oil well development and;
6. The other technical problems that inhibit the realization of oil production, like the long and complicated bureaucracy, extreme weather, and old production facilities that cause the unplanned shutdown and extended maintenance.

In the last two decades, Indonesia has been experiencing the ageing of oil well. The ageing of these oil wells significantly impacts the production of oil and more difficulty in discovering new oil wells. Beside the lack of exploration activities in which affects the political and economic crisis, fact shows that Indonesia currently only possesses 4.1 billion barrels of oil supply, which is only 0.3% of the total world oil. Ever since Indonesia's success in reaching the peak of oil production in the 1996s, its production has been declining gradually. Recently, exploration activities to discover new oil fields have been conducted. However, the significant effect will only be actualized in the next 6-8 years later in the future.

Indonesia's oil production was less than 1 million barrels a day, while 60-70% of it is to cover the cost of production and profit sharing. With that number of production, Indonesia is forced to import at least 300 thousand barrels of crude oil and 400 thousand barrels of fuel oil. Thus, Indonesia is indeed a net importer of oil. Moreover, Indonesia also has the interest to secure some of its oil for the purpose of oil security in the future. Some efforts that Indonesia had conducted are increasing the oil stock and production through investment increase and exploration activities. According to the blueprint of National Energy Management, it is predicted that Indonesia will still be relying

to oil as the main energy source for the next 20 years¹⁸. That condition made Indonesia to look for another source of energy from another country.

Looking at the reality of Indonesia's limited oil source, the country needs to look for another way to develop its oil sector. As what the other countries do, Indonesia needs to develop the sources of oil in another country that will be run by our national company.¹⁹ Good partnership with OPEC countries could also be used as a fine asset in regards to this issue. One of the examples is that the concession of oil field in Iraq by Pertamina. Pertamina also has obtained an oil field in Libya and Qatar. Joint business has also been established with Iran to manage the oil production in the country.

In the governance era of President Susilo Bambang Yudhoyono, Indonesia applied the controversial foreign policy, which was the withdrawal of Indonesia from OPEC. This decision was because of the switching of Indonesia's interest from being a net exporter into a net importer. Some experts believed that the decision that Indonesia took by withdrawal from OPEC is the right decision to make, considering the situation of Indonesia's oil industry. Indonesia's withdrawal from OPEC was not without rational reasons. First, Indonesia tried to avoid the conflict of interests within the OPEC forum. Second, Indonesia's resignation from OPEC is expected to make the people of

¹⁸ Kementerian ESDM Republik Indonesia. (2005). *Blueprint Pengelolaan Energi Nasional 2005 - 2025*. Jakarta: Republik Indonesia.

¹⁹ Gigris, M. (1984). *Industrial Progress in Small Oil Exporting Countries*. Westview Press.

Indonesia realized that Indonesia is no longer an oil-rich country. Keeping in mind that Indonesia is today a net importer of oil, the government wanted the people of Indonesia to be much more motivated to improve the efficiency of oil consumption as well as developing the new alternative energy sector.

The withdrawal of Indonesia from OPEC in 2008 was not an absolute matter. Indonesia resigned from this huge oil countries forum because of their consideration toward the dynamic of Indonesia's national interest at that time. Ecuador's case could be used as an example. Ecuador rejoined the OPEC membership in 2007 after 15 years of its withdrawal. Indonesia could also do the same thing in the future if considered necessary. Beside Indonesia's suspension status from OPEC membership, the most important thing is that Indonesia's good relations with the OPEC member countries. These relations should be maintained bilaterally or multilaterally even though it is not conducted through the OPEC forum. Indonesia will still be able to offer its role as a bridge between consumers and producers to OPEC for the stability of world oil market, especially to the developing countries.

It also needs to be noted that Indonesia is not fully dismembered from OPEC membership. Indonesia was actively involved along the history of OPEC development. However, the decision of the withdrawal was mainly because of Indonesia's switching position from a producer into being a consumer of oil. Thus, Indonesia's status was actually suspended, not fully dismembered. After

Indonesia's suspension from OPEC membership, Indonesia became more active in other oil organizations, like the International Energy Forum (IEF) and International Energy Agency (IEA). Furthermore, Indonesia also conducts partnership in energy sector with ASEAN and APEC in order to strengthen the national security of Indonesia in terms of energy.

The Ex-Governor of OPEC from Indonesia, Meizar Rahman, was very sorry to hear the suspension status of Indonesia from OPEC membership. However, he understood that the decision was taken after a very long consideration from the government of Indonesia. When Indonesia was still an active member of OPEC, Indonesia was obligated to pay the annual fee by 2 million USD a year for research purpose. It was quite a big number. However, the fee was not the main cause of Indonesia's decision to suspend its membership in OPEC. The main cause was the situation of Indonesia as an oil net importer that could not fulfill the expectation as an oil exporter.

As an oil importer, we could not sit together in a forum with the other oil exporters discussing about the decline or the raise of the world oil price. We as an importer obviously want the price to be as low as possible, while they want the price to be as high as possible. Therefore, Indonesia's position did not fit in the forum. Despite of the condition of Indonesia being an oil importer, the President of OPEC, Sheikh Ahmad Fahad Al-Ahmad sent a letter in June 17th 2005 to Indonesia, particularly to the Minister of Energy and Mineral

Resources, Purnomo Yusgiantoro. Written in the letter, the President of OPEC had wished that OPEC and its members did not want to Indonesia to suspend its position and membership in OPEC.

Despite of the will of the other OPEC member states to hold Indonesia from withdrawing from OPEC, Indonesia had made its resolve. Being an OPEC member states did not serve the national interests of Indonesia at that time. The considerations were such as Indonesia was no longer obliged to pay 2 million USD annual fee to OPEC. In order to run the organization along with its functions, OPEC needs a lot of funding. Furthermore, OPEC also runs a research body that is responsible to develop and discover the newest technology in oil sector, which needs a huge amount of budget. Therefore, OPEC obliges all of its members, without exception, to pay 2 million USD every year. After Indonesia's suspension from OPEC membership, Indonesia was then no longer obliged to pay the annual fee to OPEC. The huge amount of money, 2 million USD, could be allocated for funding the other domestic infrastructure development of Indonesia, especially in improving the capability of Indonesia in terms of oil production.

Furthermore, Indonesia was no longer obliged to follow the oil production quota that OPEC applied. OPEC is an international organization that tries to control the world oil production and price. OPEC could control the world oil price because it set a certain quota of oil production that its member

states should follow. Should OPEC wants to increase the price of oil, it would command its member states to limit and reduce its oil production. On the other hand, if OPEC wants to reduce the price of oil, OPEC would command its member states to increase its member states' oil production. Indonesia was once an oil exporting country, but it changed since 2004. Indonesia became an oil importer country because its consumption of oil exceeded the production. Being an importer country, Indonesia's national interest was to obtain the price of oil as cheap as possible, while OPEC states would not want to do so. When OPEC commanded its member states, including Indonesia, to reduce its oil production, Indonesia would be at loss. Indonesia's current production even could not cover the people's needs towards oil, let alone to reduce its production number. In addition, if OPEC commanded its member states, including Indonesia, to increase their oil production, Indonesia could not guarantee its capability due to its low rate of oil production. Thus, Indonesia's suspension from OPEC membership in 2008 would bring a benefit that Indonesia was no longer obliged to limit or increase their production as OPEC asked it to. Indonesia could finally be independent and produce its oil as much as Indonesia believed to be necessary, without other's intervention.

Indonesia's status in OPEC membership was finally suspended as announced in OPEC Conference that was held in Vienna, Austria, September 9th 2008. That 149th OPEC Conference approved the suspension and wished that Indonesia could return to being the member of OPEC once again when possible.

But, Indonesia still maintained its good relations with OPEC and its member states despite of the suspension status of Indonesia.