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Indonesia: From Energy Security to Social Security

Alvin Chew

30 June 2008

The global hike in oil prices has not only affected the economies of nations but also caused social disorder with protests breaking out in some countries. Are such demonstrations necessary, and will they be effective in exerting pressure on governments to give in to the demands of the general public?

THE RECENT spate of protests, including in Indonesia and Malaysia, over the fuel price hike had transformed energy security to one that is destabilizing society. In Indonesia, riots were staged and properties destroyed to protest the cut in fuel subsidies by the government. But the protests this time could not sway the government's decision to restore the subsidies because oil prices have risen beyond all expectations.

No Unique Solution

The global rise in oil prices which has led to an energy crisis is affecting many other nations as well. High oil prices are likely to stay. With factors such as the weakening dollar and rise in global demand for energy, there is no magic formula that could reverse the recent highs in oil prices. Financial institutions investing in fuel commodities will only drive the prices even higher. Oil-producing nations naturally face the dilemma of exporting their resources and offsetting consumers' growing thirst for alternative energy. Renewables and clean fuel alternatives would seem to be the light at the end of the tunnel, but until they are available on a large scale to be affordable, many nations could be in the doldrums.

The various strategies for coping with the current energy crunch have to be tailored to the individual needs of the nations. In other words, there is no one-size-fits-all solution. Renewable energy is currently in its infant stage of development, and it is also very unlikely to feature as a big proportion of a nation's energy mix. Developed nations, concerned with greenhouse gas emissions, see the need to invest in clean technologies and systems that rely less on traditional fossil fuels. Furthermore, policies aimed at energy efficiency and conservation, including carbon trading, would make it very attractive for their industries to create a greener environment. However, such policies will not be attractive to developing nations, whose main motive for economic development inevitably calls for the burning of

traditional fossil fuels such as oil, gas and coal.

Implications of social instability

The Indonesian government has long heavily subsidised fuel charges, thereby resulting in its locals paying very low fuel prices. However, with increasing oil prices in the international markets, it is unrealistic for the government to continue with the large subsidies. While it was promised that oil prices will not be raised prior to the next general election, the government is expected to save US\$3.8 billion this year with the planned reduction in its fuel subsidies. The current call from the Yudhoyono administration to raise the fuel charges came as a response to international market demands, thereby reflecting more realistically the price of oil.

Furthermore, Indonesia's withdrawal from the Organisation of Petroleum Exporting Countries (OPEC) has underscored its status now as a net importer of oil. Its presence in OPEC could have very little influence on the oil-exporting market, but it remains to be seen if major oil companies would be willing to invest in boosting its oil production levels.

Perhaps, the more pertinent question is to whether the 30% price hike in fuel would be justifiable. It was estimated that inaction by the Indonesian government could result in a 13% budget deficit. Its citizens, many whom survived on less than \$2 a day, would be impoverished as the fuel price hike will have serious downstream effects leading to higher inflation and worsening living standards. Raising fuel prices will have a greater impact on the middle-income, who are likely to have their own modes of transportation. However, with a society that is still plagued with a history of corruption, the Indonesian government would need to strive harder to pass down the savings from the reduction of fuel subsidies to the majority of its population who form the bulk of the lower income group.

The protests in Indonesia reflect the government's inefficiency to control domestic strife, and would have negative impact in attracting foreign investments into the country. Energy is a fungible product that should not be used as a political tool in relations between nations, and in the case of Indonesia, as a tool for the public to threaten national security.

The greater implication of the social instability in Indonesia is that it could destabilize the surrounding region. One way to strengthen energy security is through cooperative mechanisms that can be implemented region-wide. ASEAN has set the framework and infrastructure to lay out possible cooperative avenues; instability in Indonesia due to price hikes could impede regional energy cooperation. Shared infrastructure can be readily sabotaged in the event of a political discontent. Any future region-wide sharing of strategic commodities could be put under pressure.

Longer-Term Solution

The Indonesian government needs to put in place alternative sources of energy that would provide a middle to long-term solution in alleviating high fuel prices. Indonesia has plans to go for nuclear technology or geo-thermal power. However, that vision might take quite a while to materialize. In the current situation of high oil prices, it makes sense for not only Indonesia, but also other fuel importing nations to go for energy conservation and energy efficiency. This is not a long-term solution, but will at least ease the pain of high fuel prices until available technologies arrive. Regardless of a nation's availability of fuel resources, it is nevertheless a good practice to conserve energy.

Indonesia is a developing nation that would require base-load power to propel its economy forward. The current available resources to generate base-load power are limited. In striving to develop its economy, it has to view options that not only have impact on the global market prices, but also the global climate. To do it single-handedly and achieve energy independence might not be all that attractive. Working with other nations in the region to foster better energy interdependence would

make more sense to leapfrog its economy.

Indonesia is already hyped as the ‘supermarket’ of natural disasters, plagued by earthquakes and tsunamis in recent years. It can certainly do much better than aggravating the situation with social insecurity, thereby causing unnecessary upheavals in the country -- and the region.

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