



# JISEA

Journal of International  
Studies on Energy Affairs

**Cynthia Eka Wahyuni**

**Indonesia's Energy Diplomacy Strategy in Acquiring Oil Field in Algeria in 2013**

**Hardhana Danastri**

**The Rising Dragon and The Defending Eagle: Understanding the Geopolitical Rivalry between U.S. - China in South China Sea**

**Aris cynatha Putra Ingpraja**

**Political Implications of Turkey – Qatar Gas Pipeline Construction on European Union Energy Security**

**Hartanto**

**Political Aspect as the Main Constraint to Realize Green Growth In East Kalimantan**

**Arfian Rachmat Putra**

**Understanding the Role of Multinational Enterprise Representatives in Indonesia Towards Geothermal Investment Opportunity in Emerging Economies**

## Preface

With great pleasure, we would like to present the inaugural volume of a new scholarly journal, *Journal of International Studies on Energy Affairs* (JISEA). This journal is more focusing on energy issues within the lenses of International Relations Perspectives, from theoretical aspects to empirical studies with the validation of current emerging phenomena. JISEA was envisioned and founded to accommodate the growing discussions of energy issues in the context of social studies, especially International Relations as energy had become a vital commodity that affects the states' policymaking and implementation. JISEA aims to represent the result of thinking of the International Relations Scholars community, therefore it can span the gap between academic and policy approaches. JISEA is committed to a broad range of intellectual perspectives. Articles promote new analytical approaches, iconoclastic interpretations, and previously overlooked perspectives. Its pages encourage novel contributions and outlooks, not particular methodologies or policy goals.

This inaugural volume has the spirit to open a broader view on the energy issue and other international phenomena discussions. There are 5 articles published in this volume that exemplify a valuable point of view regarding the studied problems, particularly regarding geopolitics of energy, energy diplomacy, and renewable energy cooperation.

The first article, "Indonesia's Energy Diplomacy Strategy in Acquiring Oil Field in Algeria in 2013" by Cynthia Eka Wahyuni explains Indonesia's strategy in implementing its energy diplomacy towards Algeria in 2013. To find oil fields that can be explored, the Indonesian government took a certain approach of diplomacy and negotiation with Algeria which has a tremendous amount of energy reserve. The concepts of grand strategy, energy diplomacy, and normative power were used to analyze Indonesia's approach. The result of the research is that the Indonesian government plays a significant role in the acquisition of oil fields in Algeria in any technical process.

The second article, "The Rising Dragon and The Defending Eagle: Understanding the geopolitical rivalry between US-China in South China Sea" by Hardhana Dinaring Danastri elaborates on the competition between two major power countries in seeing the significant role of South China Sea. Both countries are thirst for controlling this area. The geopolitical strategy approach is used to analyze the rivalry to understand how both countries aim to strengthen their powers. In the conclusion, it argues that the South China Sea is important for China's influence as regional hegemon, while the US uses the area to rebalance China's rising power.

The third article, "Political Implications of Turkey - Qatar Gas Pipeline Construction on European Union Energy Security" by Arischynata Putra Ingpraja elaborates on the effects

of energy cooperation between Turkey and Qatar regarding the Gas Pipeline towards the European Union. The article uses the perspective of Realism with the concept of states' national interest to explain how Turkey can control the gas distribution to Europe. In the end, this pipeline construction will affect the energy security of European Countries in general, especially those who depend on the import of natural gas as the main energy source. The discussion result is that the building of gas pipeline has political impacts on European Union as energy importers.

The fourth article, "Political Aspect as the main constraint to realize green growth in East Kalimantan" by Hartanto explores the reasonable factor which inhibits the implementation of green growth in East Kalimantan, Indonesia. It is widely recognized that Kalimantan has high potencies for Indonesia's economic growth. However, this growth should be parallelly connected with the environmental sustainability concept, in which Indonesia is still struggling to manifest the green growth. The result of the discussion shows that several political hindrances must be solved first to support the implementation of green growth in East Kalimantan.

The fifth article, "Understanding the Role of Japanese Multinational Enterprise Representatives in Indonesia Towards Geothermal Investment Opportunity in Emerging Economies" by Arfian Rachmat Putra analyzes the activities of multinational enterprise representatives in Indonesia, especially in encouraging investment in the geothermal sector. Indonesia has been known for its huge geothermal reserves in the world. Therefore, geothermal industries should be developed. However, Indonesia is still developing its regulation and working hard to solve its energy problems within society. By using the theory of investment and internalization, this article argues that multinational enterprises can help to increase investment.

We would like to express our gratitude to all the authors for their contributions to this journal. We also thank all scholars who were kind to provide valuable information and opinion on the review process. All the articles have been sorted through editorial staff who worked hard for the first publication of JISEA. We are hoping that the collections of articles will be a valuable insight for all of the readers. We will continuously invite all prospective authors to publish their papers on the upcoming issues.

June 2020

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# Indonesia's Energy Diplomacy Strategy In Acquiring Oil Field In Algeria In 2013

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## Abstract

Indonesia's energy diplomacy to Algeria was one of the efforts of the Indonesian government to maintain national energy security. Considering that the production produced from domestic sources has not been able to meet national energy needs, the Indonesian government tried to find exploration and production fields outside of Indonesia's territory. In effort to find fields that can be explored, the Indonesian government took a certain approach of diplomacy and negotiation with other governments. For that reason, this article aims to raise this topic is to find out what kind of strategy or approach was being carried out by the Indonesian government in conducting energy diplomacy in Algeria. To examine this topic, researcher used the concept of a grand strategy related to energy, energy diplomacy, and the concept of Indonesia's normative power. Researcher tried to prove that Indonesia's energy diplomacy strategy in acquiring oil fields in Algeria was done through strategy and decision making, which in the strategy there was a political approach and in the decision-making there was a business approach. The two approaches should synergize and complement each other, therefore consolidation between the two approaches was needed. Researchers using qualitative methods with analytical techniques using process tracing. One of the conclusions of this research is that the role of the Indonesian government was needed in supporting the acquisition of oil fields in Algeria.

**Key Words:** Energy Diplomacy, Oil Field Acquisition, Indonesia-Algeria

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## INTRODUCTION

According to the data from Agency for the Assessment and Application of Technology (2018), Indonesia was the largest energy-consuming country in Southeast Asia. While in the Asia Pacific region Indonesia ranked fifth as the largest consumer of primary energy<sup>1</sup>. The increasing demand for energy in Indonesia cannot be separated from the growth rate of Gross Domestic Product (GDP). Since 2004, Indonesia has become a net oil importer<sup>2</sup> country (Agency for the Assessment and Application of Technology, 2018). In 2012, 54% of national oil consumption was obtained from imports (Falahti et al, 2013). This occurred due to the imbalance between the increasing demand for oil consumption and limited oil production in consequence of the relatively constant refinery capacity. If Indonesia's increasing energy needs continue to be dominated by petroleum and there are no changes in other energy use patterns, especially in transportation, the condition of national energy security can be disrupted in the future (Agency for the Assessment and Application of Technology, 2018). Moreover, the growth in petroleum energy consumption in Indonesia is also influenced by population growth. The population figure in Indonesia continues to increase and is projected to reach 284.83 million in 2025 and 328.52 million in 2050. This will be in line with an increase in the need of energy (Agency for the Assessment and Application of Technology, 2018).

Indonesia was very dependent on petroleum (Alami *et al*, 2017). Based on the publication of the Directorate General of Oil and Gas, Ministry of Energy and Mineral Resources, in 2013, Indonesia's fuel demand reached 1.3 million barrels per day (bpd). However, national fuel production was only able to reach 650 thousand bpd (Directorate General of Oil and Gas, Ministry of Energy and Mineral Resources, n.d). One of the ways to overcome the inability of national fields to meet increasing domestic demand was to seek energy supplies in other

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<sup>1</sup>Primary energy is energy provided by nature and has not undergone further processing (Government Regulation of the Republic of Indonesia Number 79 of 2014).

<sup>2</sup>Countries that import petroleum.

countries by acquiring fields for exploration and production operations. For this reason, a diplomatic approach related to the energy sector was needed.

Indonesia's energy diplomacy to Algeria was one of the Indonesian government's efforts to obtain conventional energy (petroleum), as well as effort to maintain national energy security. Algeria is a country rich in natural resources, mainly petroleum. The last estimate made by the Organization of Petroleum Exporting Countries (OPEC)<sup>3</sup> in 2015, Algeria was estimated to have 12.2 billion proved reserves<sup>4</sup> of petroleum. This was the discovery of the third-largest petroleum reserves in Africa and the fifteenth in the world (Anon, 2014; Abada & Bouharkat, 2018). This discussion is interesting due to Algeria was a milestone for Pertamina. Through this acquisition, for the first time, Pertamina was exploring the upstream business abroad by acquiring ownership of production fields and becoming the operator. Pertamina's business expansion abroad was part of Pertamina's efforts to meet the increasing national energy needs and maintain national energy security (COPAL, 2015).

In addition, Africa was one (besides Central Asia) of regions that became the target of China in its efforts to obtain energy sources abroad<sup>5</sup> (Crane et al, 2009; Goldthau, 2010). Through a case study of the acquisition of oil fields in Algeria by Pertamina, Indonesia has proven that a middle power<sup>6</sup> country was able to compete with other countries to obtain petroleum energy sources outside the national territory. That condition leads to the question: what is the energy

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<sup>3</sup>An International Government Organization (IGO) founded by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela in 1960. OPEC exists as a forum for petroleum exporting countries to coordinate on oil production and processing to achieve maximum investment returns (Sovacool & Florini, 2012).

<sup>4</sup>Estimated amount of petroleum quantity, which in terms of geological and technical data shows certainty that it can be commercialized (recoverable) for a certain period in the future by calculating existing economic and operating conditions (BP, 2019)

<sup>5</sup>China was a latecomer in the international petroleum business. China entered the global oil market in the early 1990s. Considering the structure of the world oil market was already dominated by actors from Western countries (especially the United States), China then tried to find areas abroad that had minimal involvement and presence of the United States (low American corporate, government, and military presence). Areas that fulfilled this character were Africa and Central Asia (Crane et al, 2009; Goldthau, 2010).

<sup>6</sup>Middle power is a country with power, capacity and influence that is neither too large nor too small and tends to act as a party that promotes cohesion (closeness) of relations and stability in the international system (Jordaan, 2003).



diplomacy strategy undertaken by Indonesia in acquiring oil fields in Algeria in 2013?

This study is going to examine the diplomatic strategy and approach adopted by Indonesia consider its interests, position and capabilities. Moreover, there was an important collaboration between government agencies (through strategizing) and business entities (through decision-making) in conducting energy diplomacy to Algeria. The success of Indonesia's energy diplomacy to Algeria was also supported by the longstanding bilateral good relations between the two countries. To support the explanation in detail, the first part of this article will explain the theoretical framework and its explanation. Then in the next section, the article will demonstrate the conditions and interests of Indonesia towards energy, bilateral relations between Indonesia and Algeria, the actors who had important roles, and a detail explanation of how Indonesia conducted its energy diplomacy towards Algeria.

## **METHOD**

In analysing the topic, researcher uses qualitative methods with multi methods in collecting the data: interviews, document-based research, and internet-based research. The type of qualitative research method used by researcher is the case-study method.

## **THEORETICAL FRAMEWORK**

Indonesia's grand strategy was to put energy as ends, due to Indonesia's position as a consumer country. To achieve Indonesia's interests in Algeria, Indonesia elaborated its strategy using a political approach (strategizing) and a business approach (through involvement in decision making). The political approach was carried out by government agencies, while the business approach was done by

national oil companies. The transaction mechanism undertaken to facilitate the interaction between the two countries.

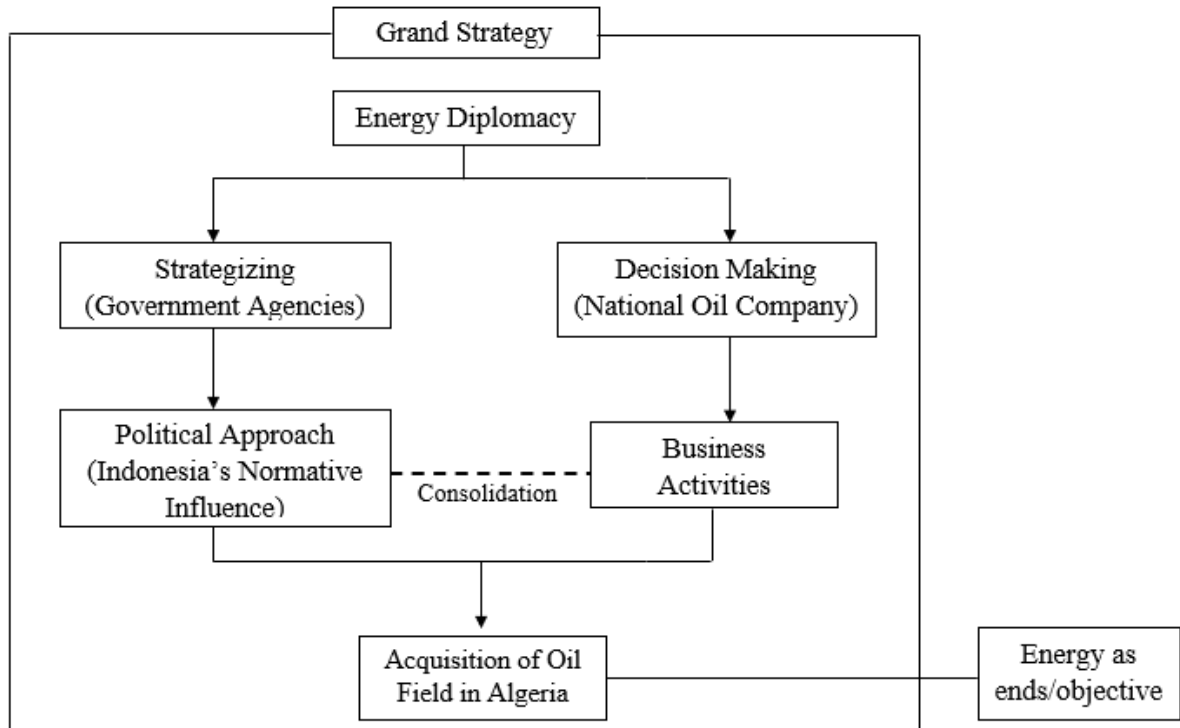


Figure 1 Theoretical Framework

## Grand Strategy

O'Sullivan in his writing entitled 'The Entanglement of Energy, Grand Strategy, and International Security' defines grand strategy as “an all-encompassing concept which guides a country in its effort to combine its instruments of national power to shape the international environment and advance specific national security goals” (O'Sullivan, 2013: 32). A good grand strategy according to O'Sullivan, is a grand strategy that can unite the vision of leaders, policymakers, and the people in a country. Besides that, a good grand strategy can help a country avoid scarcity of natural resources. Energy can be placed into three categories in a grand strategy: ends, ways and means (O'Sullivan, 2013).

In examining this issue, we put energy as the ends of a grand strategy. Consumer countries who placed energy as their ends aim to secure its energy needs at the affordable price. Energy is essential to ensure the prosperity and stability of a country. Countries that place energy as their objective will use any instrument to ensure their energy security. In many countries, the tools to obtain the desired energy are limited, therefore most countries rely on the global market to meet their energy demands. Grand strategy possess by a state with limited instruments usually tries to collect foreign currency to buy an oil and gas or other forms of energy. However, some countries have certain instruments and resources to gain interest in the energy sector. Countries that have these instruments or resources, sometimes elaborate their strategies with political, diplomatic, economic and military means to obtain energy-related needs (O'Sullivan, 2013).

### **Energy Diplomacy**

The concept of energy diplomacy has no definite definition, and it is not something new, oil and gas have long been commodities with political content (Goldthau, 2010). According to Dent (2013), diplomacy in general can be defined as a method of political interaction that involves relations between countries, or relations between states and other actors at the international level. Moreover, Dent defines energy diplomacy as how countries and other actors try to obtain their interest in energy security in the international system. Dent emphasizes that energy security is a fundamental goal that the state wants to achieve in conducting energy diplomacy. Meanwhile, according to Andreas Goldthau (2010), the concept of energy diplomacy can generally be seen when the state uses its energy companies to compete for natural resources using state power. Consumer countries will strengthen supply by making energy contracts through diplomatic relation, while producing countries will use diplomacy to increase access to markets.

Energy diplomacy has links to foreign policy in other fields such as trade, environment, development and aid. The practice of energy diplomacy is varied in all countries. Energy diplomacy can be said to be a derivative function of a country's energy policy and is operationalized through

foreign policy actions. In designing energy diplomacy, the state will involve the state apparatus both in making strategies (strategizing) and in decision-making. Strategizing is concerned with long-term planning, processes and thought carefully, and tends to involve a set of core government agencies (institutions) or state representatives, such as institutions that are involved in making policies related to energy or institutions in charge of regulating affairs related to foreign affairs. Meanwhile, the decision-making process is formed with a strategic framework of energy diplomacy that involves agents (institutions) who are in charge of making daily tactical policies on certain issues that arise, such as national oil companies in making agreements with other countries or other international actors (Dent, 2013).

Furthermore, energy diplomacy can be carried out by involving “transaction mechanisms” to achieve energy security objectives. Transaction mechanism can be interpreted as a means to facilitate all forms of energy diplomacy interactions and exchanges between relevant actors (Dent, 2013: 960-961). Several mechanisms tend to lead to the economy matter, such as the acquisition or control of energy sources in the territory of other countries (Dent, 2013).

### **Indonesia's Normative Influence**

According to Amitav Acharya, Indonesia is identical as an 'emerging power'<sup>7</sup> (Acharya, 2014; Davies & Harris, 2016). He also mentioned although Indonesia is not strong economically and militarily, Indonesia has power in other forms and certain influence in international system. This influence is not directly obtained from policies made by Indonesia, but from values understood by other countries. There are three dimensions of Indonesian normative influence: modeling, diplomatic posture, and civil-society activism. Modeling is defined as the ideal position and character of a particular country. Indonesia in this regard is seen as the country with the largest Muslim majority population in the world, has a democratic government that has shifted from the

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<sup>7</sup>A country with a growing economic and political situation, but sometimes still categorized as a “Third World” or “Global South” country. Indonesia considered as a country that capable connect three factors: democracy, development and stability. Also, actively involved in the international world order (Acharya, 2014).

authoritarian, massive use of social media, and a multicultural country. In 2004, Foreign Minister Hassan Wirajuda claimed, at the United Nations (UN) General Assembly, that Indonesia is a country with the largest Muslim population in the world, and has proven that Islam can coexist with democracy and social justice (Wirajuda, 2004; Davies & Harris, 2016).

The second dimension is the diplomatic posture. This is related to the concept of leadership of each regime and the tendency of Indonesian leaders. There are two concepts of diplomatic posture. The first is related to the various diplomacy used by diplomats or state representatives (high diplomacy). Second, diplomacy is carried out with a people-focused orientation, tries to "sell" certain messages, which aim to build a positive view or tendency of people in other countries. In the era of President Susilo Bambang Yudhoyono (SBY), the diplomacy carried out tended to high diplomacy<sup>8</sup>. At time time, Indonesia often voiced 'a thousand friends and zero enemies'<sup>9</sup> in dealing with the international community. The third dimension is civil society activism, which is closely related to the activities of civil society groups in showing the values and identity of the state. These three dimensions affect Indonesia's relations with other countries, due to those create the perception of other international actors towards Indonesia (Davies & Harris, 2016).

## DISCUSSION

### INDONESIA'S ENERGY DIPLOMACY STRATEGY TOWARDS ALGERIA

Indonesia's position as a consumer country that put energy as an end in its grand strategies was carrying out energy diplomacy to Algeria by strategizing and decision-making. In strategizing, the focus was on the political approach and efforts by creating policies or regulations.

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<sup>8</sup>Diplomacy which carried out by diplomats in an innovative way (Davies & Harris, 2016).

<sup>9</sup>The idea that Indonesia will be friendly with all countries and not be an enemy of any country (Shekhar, 2018).



Meanwhile, in decision-making, it emphasized on the business approach undertaken by the national oil company. Both strategies and approaches should be carried out simultaneously in order to achieve energy interest. When the two approaches work simultaneously, the final stage of energy diplomacy will result in a transaction mechanism, which in this case study was acquisition.

### **Strategizing**

State as the main actor in carrying out energy diplomacy, will strategize to get its interest in the energy sector. Strategizing is a process related to formulation, thought processes, long-term planning and tends to involve government agencies who have important roles, such as energy policy makers and the foreign ministry (Dent, 2012). As the main actor in energy diplomacy, state has several roles, including as an actor who discuss the methods of diplomacy and the objectives of state energy policy, carrying out international energy cooperation, and conduct negotiations in making energy agreements with partners abroad (Dent, 2012).

One of the long-term planning processes regarding energy diplomacy or international cooperation to obtain energy is stipulated in Indonesian Law No. 30 in 2007 concerning Energy, in article 3 and article 10. In article 3, point b is explained in order to support national development in a sustainable manner and increase national energy security, energy management is carried out with the aim of ensuring the availability of domestic energy that can be sourced from within the country or from abroad. Meanwhile, Article 10 explains about international cooperation in the energy sector. Article 10 paragraph 1 explains that international cooperation in the energy sector can be carried out with several objectives including ensuring national energy security, ensuring domestic energy availability, and improving the national economy. Then it is said in article 10 paragraph 2, that international cooperation is possible, carried out and implemented in accordance with statutory regulations. The existence of a law which states that energy sources to meet domestic needs can be obtained from abroad through international cooperation, indicating that the

Indonesian government fundamentally has carried out the formulation and planning to obtain energy in order to meet national energy needs.

In strategizing, Indonesian government also acted as an actor who implemented international energy cooperation and did negotiation regarding energy agreements with foreign partners. The government role can be seen in the existence of a concrete cooperation agreement on energy between Indonesia and Algeria. On July 29, 2008, Indonesia and Algeria signed a Joint Declaration for the Development of Cooperation in the Field of Energy and Mining as a legal framework for cooperation (Ministry of Energy, Algeria, n.d).

Furthermore, talking about government agencies in strategizing, the role of the Indonesian Ministry of Foreign Affairs cannot be neglected. According to Presidential Regulation Number 24 of 2010, article 93, the Ministry of Foreign Affairs is mandated to coordinate related to Indonesia's foreign relations. In this case, the Ministry of Foreign Affairs, through the Embassy of the Republic of Indonesia (KBRI) in Alger, was the party that played an important role and was the party that assisted Pertamina in connecting with Algeria institutions. The Indonesian Embassy in Alger is an entity that is assigned by the state as a diplomatic representative in the receiving country (Algeria) to represent and helping Indonesia to obtain national interests, this is in accordance with Presidential Decree No. 108 of 2003, article 1 paragraph 4.

When Pertamina took steps to expand its business to Algeria, coordination with the Indonesian Embassy in Alger was certainly necessary, given that Pertamina's existence in Algeria dealt with diplomatic relations between the two countries. Indonesian Embassy in Alger helped to bridge communication between the Indonesian government and the Algerian government. Political communication was needed due to Algeria itself was a country that was still dominated by political elements in various strategic sectors such as energy. The approach to Algeria could not carry out by a state-owned business entity solely such as Pertamina, but a political approach was also very

necessary (Ramadhan, Interview, 15 November 2019). For this reason, Indonesian Embassy in Alger assisted Pertamina through informal and formal approaches.

Indonesian diplomats in Algeria approached informally by establishing good relationship with the parties involved in the acquisition process, including the Algerian Ministry of Energy, Sonatrach, Alnaft, and Pertamina's competitors in Algeria (Ramadhan, Interview, 15 November 2019). Furthermore, the formal approach was carried out in two ways. First, inserted the issue of oil and gas cooperation in every formal activity between Indonesia and Algeria, and invited high-ranking Algerian government officials to every Indonesian event held at the embassy (Ramadhan, Interview, 15 November 2019). The second way was to present Indonesian government officials to meet with number of Algerian government agencies to discuss cooperation between the two countries in the energy sector. This meeting was important, because there should be a Government to Government (G to G) interaction process to support Pertamina's business abroad.

On November 11<sup>th</sup> 2013, a group of representatives from the Indonesian government, such as the Director General of Oil and Gas of the Ministry of Energy and Mineral Resources, Pertamina's Commissioner and Pertamina's President Director as well as other relevant officials made a working visit to Algeria and met with several the Algerian government representative in charge of the energy sector. The meeting was conducted with the Secretary General of the Ministry of Energy and Mines of Algeria, Director General of Hydrocarbons from the Ministry of Energy and Mining of Algeria, representatives of Sonatrach, and representatives of Alnaft. At the meeting, Indonesia expressed its desire to obtain oil supplies from Algeria to meet the needs of oil refineries in Indonesia and hope that the Algerian government would consider Indonesia as a partner in the oil and gas business (Directorate General of Oil and Gas, MEMR, 2013a; Directorate General of Oil and Gas, MEMR, 2013b).

The Indonesian government also invited Algerian workers to take part in offshore field training in Indonesia, as a collaboration in human resource capacity with Algeria (Directorate General of Oil and Gas, Ministry of Energy and Mineral Resources, 2013a; Directorate General of Oil and Gas, MEMR, 2013b). Then, regarding Pertamina's plan to acquire Block 405a, Sonatrach's representatives advised Pertamina to sit together (negotiate) regularly with Conoco Phillips Algeria and Talisman to reach an agreement point. If the related documents have been submitted to Alnaft completely and correctly, Alnaft will immediately process the document and submit it to the Ministry of Energy and Mining of Algeria for approval, in accordance with the rules (Directorate General of Oil and Gas, Ministry of Energy and Mineral Resources, 2013b).

### ***Decision Making***

According to the concept of *decision making* by Dent (2012), *decision making* process was created by energy diplomacy strategic framework involving relevant actors to develop policies or address issues that arise in day-to-day. In this case, Indonesia's problem related to increasing domestic energy needs require the involvement of the Indonesian national oil company, PT Pertamina (Persero), which is directly involved in the process of upstream oil and gas production activities. Talking about the need and fulfilment of domestic fuel in 2012, production of Pertamina was only able to meet 79% of the domestic demand for diesel fuel, while for the premium type of Pertamina's oil refineries Pertamina could only meet 38% of the national need (Falahti et al, 2013). Pertamina was trying to do various things to increase production and try to meet the national oil needs. One of the efforts was by acquiring oil fields abroad.

Since 2010, ConocoPhillips, an energy exploration and production multinational companies, were known to sell their assets massively. This was part of the ConocoPhillips's business strategy. ConocoPhillips planned to divest international assets that have a higher business risk (riskier) and concentrate more on opportunities for increased growth in the shale (oil and gas) business in the United States. By divesting its

international assets, ConocoPhillip expected to improve its balance sheet and increase shareholder value. One of the assets that ConocoPhillips divested was the Algerian asset (Kompas, 2012; Sreekumar, 2013).

In other side, Pertamina's tendency to 'Go International' has been emerged since the early 1990s. The discourse was present in anticipation of Indonesia becoming a net importer (oil), which then happened. From Pertamina's perspective, "Go International" was a must and a consequence of national needs and aimed to strengthen national energy security. Pertamina's owned tendency to possess assets in the African region could be seen since 2008. Based on 2008 Annual Report of Pertamina, Pertamina mentioned a possibility to develop business in the African region, but it has not become the main focus yet. In the following year, it was stated in Pertamina's 2009 Annual Report, Pertamina started to focus its business development in Africa region and North African region (Maghreb) was possibly to be chosen to develop its business.

In 2010, the business development strategy of Pertamina in expanding abroad, increasingly focused with the business development groupings abroad, investment strategies, and the formation of a new directorate in charge of handling acquisitions. Based on 2010 Pertamina Annual Report, Pertamina's business development abroad in 2010 categorized according to the focus area with the grouping of Rim 1, Rim 2, and Rim 3. The Rim 1 region was Southeast Asia-Australia, then the Rim 2 region consisted of Middle East, Africa. North and Central Asia, while the Rim 3 region was another prospective area (Pertamina, 2011).

Pertamina also had an investment strategy in the Company's Long-Term Plan (also known as RJPP), which allocated a larger portion of funds to the upstream sector. According to Pertamina's Finance Director at that time the upstream sector needed to be a top priority in business development carried out by Pertamina, either in abroad or domestic. By optimizing the development of upstream activities, it is expected there will be an increase both in production and in reserves.



Pertamina was planned to invest through *organic growth*<sup>10</sup> or *inorganic growth*<sup>11</sup> mechanism in the upstream. Pertamina has also declared the fields that will be acquired later, should be already in the production stage or have reserves with 1P status, in other words, they have a proved reserve<sup>12</sup> which are significant and able to increase the reserves of Pertamina (Pertamina, 2010b).

Ambition of Pertamina to expand its business development in the upstream sector through inorganic growth such as acquisitions was increasingly visible. In February 2010, the government as a shareholder of PT Pertamina (Persero) decided to form a new directorate, namely the Directorate of Investment Planning and Risk Management. The new directorate was tasked with handling all acquisitions made by Pertamina, such as assessing and analyzing investment risks. The formation of this new directorate cannot be separated from plan to make many acquisitions in the following years (Jati, 2010). In the following year, 2011, Pertamina still prioritized investing in the acquisition of oil and gas blocks at home and abroad. However, business development in North Africa region in 2011 was temporarily suspended due to the unfavourable geopolitical situation in there (Pertamina, 2012b).

In early June 2012, on the 25th World Gas Conference (WGC) in Kuala Lumpur, Malaysia, Pertamina signed a cooperation agreement with Sonatrach. This important moment was also attended by Algerian officials, Sonatrach officials, and other Pertamina officials (Pertamina, 2012c). It was known that the cooperation agreement between the two national oil companies includes two things. First, the exchange of experts and increased capabilities in various matters related to hydrocarbons, especially in research and development of hydrocarbons

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<sup>10</sup>Organic growth strategy refers to a strategy developed by a company that focuses on developing assets, exploiting technology, building good relationships with customers, developing innovations such as new technology to fill gaps in the market. This strategy requires an annual process (Chari, 2006).

<sup>11</sup>Inorganic growth strategies such as mergers, acquisitions, takeovers, and spinoffs (breaking the company from the parent) are ways that a company can choose to enter new markets, develop market share, eliminate competition, and are shortcuts to growth and increase. shareholder value (Chari, 2006).

<sup>12</sup>Estimated quantity of petroleum, which in terms of geological and technical data shows certainty that it can be commercialized (recoverable) in a certain period in the future by calculating the existing economic and operating conditions (BP, 2019).

in Indonesia and Algeria. Second, there was an exchange of information about the gas industry and its derivatives (Pertamina, 2012c). The existence of this cooperation agreement also allowed the participation of the two national oil companies in upstream, downstream, and oil and gas services projects in two countries (Directorate General of Oil and Gas, Ministry of Energy and Mineral Resources, 2016). Sonatrach saw cooperation with Pertamina had great and strategic value for the two companies, while Pertamina argued this cooperation was an important step to possess oil and gas fields in Algeria (Pertamina, 2012c).

The signing of the cooperation between Sonatrach and Pertamina in June 2012, led Pertamina started its business development in Algeria. On 18 December 2012, Pertamina successfully signed a Share Purchase and Sale Agreement<sup>13</sup> regarding the acquisition of 100% ownership shares of ConocoPhillips Algeria (Ltd) with Burlington Resources International Holding LLC, an affiliated body of ConocoPhillips. Even though Pertamina has signed an asset purchase with ConocoPhillips, Pertamina still needed to carry out business development through political approach to the Government of Algeria, because the acquisition required approval from the Government of Algeria.

### ***Consolidation of Political Approach and Business Approach***

In an effort to acquire oil fields in Algeria, Pertamina needs Indonesian government agencies, especially the Ministry of Foreign Affairs to communicate and liaise with actors in Algeria. This showed the need for consolidation or synergy between a political approach and a business approach. Referring to the concept expressed by Dent, the state will involve the state apparatus both when strategizing and decision-making in carrying out energy diplomacy. The consolidation of political approach efforts is carried out through strategizing, while the business approach is carried out through decision-making. The two approaches then produce what is called the transaction mechanism. In the case study of Indonesia's energy diplomacy strategy to Algeria, the

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<sup>13</sup>A contract or legal agreement between the seller and the buyer which with the agreement indicates that both parties have entered into a sales agreement (such as the number of shares and the price) (Hummel, 2017).

strategizing concept focuses more on the role of government agents from both Indonesia and Algeria. Meanwhile, decision-making places emphasized on the two roles of the state's national oil companies.

In this case study, the Indonesian government through Indonesian Law No. 30 in 2007 has created the basis for Pertamina to obtain oil from abroad. Based on this law, it has been stipulated that Indonesia's energy resources can come from abroad, and it is possible for international cooperation in the energy sector to achieve national energy security. The existence of these laws indicates that there is already a long-term plan to obtain energy from outside Indonesia's territorial territory.

The synergy or consolidation process between government agencies and Pertamina can be traced since 2008. On July 29, 2008 through their respective energy ministries, the governments of the two countries agreed on a Joint Declaration for the Development of Cooperation in the Field of Energy and Mining (Ministry of Energy of Algeria, n.d). In the same year Pertamina showed interest in developing business in the African region (Pertamina, 2009). However, Pertamina revealed that they would focus on developing business in the North African region in 2009 (Pertamina, 2010a).

As the business development process that occurred within Pertamina continued, in December 2012 Pertamina announced they had signed a Share Purchase and Sale Agreement to acquire 100% ownership shares of ConocoPhillips Algeria (Pertamina, 2013a). According to Share Purchase and Sale Agreement between Pertamina and ConocoPhillips, the transaction between the two parties should have been completed in June 2013, however, there were obstacles that hindered the transaction settlement of two parties. To acquire ConocoPhillips assets in Algeria, Pertamina needed to wait for approval from the Algerian government (Aryanto & Sandi, 2013). Saw the key in the acquisition process was in the hand of the Algerian government, the Indonesian government through government agencies should be directly involved in assisting Pertamina.

Indonesian Embassy in Alger and the Ministry of Energy and Mineral Resources of Indonesia had an important role in the acquisition process. Political communication was necessary due to Algeria at that time, was a country that dominated by political elements in various strategic sectors such as energy. The approach to Algeria cannot be carried out by a state-owned business entity such as Pertamina solely, but a political approach was very necessary (Ramadhan, Interview, 15 November 2019). In the process of approaching politically with Algeria, Indonesia was supported by Indonesia's normative strength and longstanding good relations of both countries.

In looking at Indonesia's normative strength, researchers use two dimensions: modeling and diplomatic posture. The first dimension, modeling, can be interpreted as the ideal position and character of a particular country. In the eyes of the international community, Indonesia's image as *middle power*<sup>14</sup> was increased while Indonesia transformed to be a democratic country (Shekhar, 2018). Indonesia's position as a democracy with a Muslim majority is also considered to be important in the international world order (Shekhar, 2018).

The second dimension is diplomatic posture. The concept of diplomatic posture is defined as the concept of leadership in each regime and the tendency of Indonesian leaders. The researcher used a diplomatic posture in the era of President SBY's leadership, considering that the acquisition process and the moment of the acquisition agreement occurred in the era of President SBY's leadership. In the era of President SBY, diplomacy tended to conduct in high diplomacy (Davies & Harris, 2016). President SBY had a tendency to be outward oriented and global worldview (Shekhar, 2018). In Shekhar's (2018) writing, at least three components were recorded in the grand foreign policy design in the era of President SBY's leadership. The researcher will only use two of the three components. The first component was related to Indonesia's previous normative strength, namely Indonesia is the third largest

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<sup>14</sup>Middle power is a country with power, capacity and influence that is neither too large nor too small, and tends to act as a party that promotes cohesion (closeness) of relations and stability in the international system (Jordaan, 2003).

democracy in the world and a democracy with the largest Muslim majority population. This has become important rhetoric in the era of President SBY's leadership to project Indonesia's position in the international world (Shekhar, 2018), especially in relation to Algeria.

Second, Indonesia was a country that actively participates in various multilateral, quasi-global, and regional forums. In a quasi-global forum, Indonesia actively plays its leadership role in Asia Africa in the Non-Aligned Movement (NAM). For example, Indonesia was hosted the 50th anniversary of the NAM which gave birth to a Joint Declaration on the New Asian-African Strategic Partnership (NAASP). The Joint Declaration is a framework for building cooperation between Asia and Africa in three areas: political solidarity, economic cooperation, and socio-cultural relations (Shekhar, 2018). In addition, in the era of President SBY's leadership, the government tended to respond to international dynamics through a doctrine approach '*million friends and zero enemies*'<sup>15</sup> and '*dynamic equilibrium*'<sup>16</sup>. Rejecting conflicts and potential competition in Indonesia's relations with other countries and focusing on efforts to gain national interests (Shekhar, 2018).

The tendency of the government under the auspices of President SBY strengthened the relationship and position of Indonesia with Algeria. President SBY, who has an outward-oriented, global worldview, played an active role in multilateral forums such as the Non-Aligned Movement (in which Algeria is involved), and adhered to the doctrine of million friends and zero enemies strengthened Indonesia's position to be more open in collaborating and communicating with the international world, especially with ally countries like Algeria.

The close relationship between Indonesia and Algeria cannot be separated from the condition of the two countries where the majority of the population is Muslim (The Maghreb Times, 2017). In addition,

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<sup>15</sup>The idea that Indonesia will be friendly with all countries and not be an enemy of any country (Shekhar, 2018).

<sup>16</sup>A situation where no single country is in power (has great power) in the Indonesian region, but more countries are involved in multilateral issues such as security, politics, environment, economy, and socio-culture. This doctrine is closely related to the non-hegemonic presence of major powers, emphasizes balance in regional orders, and applies balance in the relationship between Indonesia and the great power country (Shekhar, 2018).



history has recorded that Indonesia has been a good friend to Algeria since the era of the independence struggle. Until now, this good relationship has been developed in various sectors such as politics and security, as well as the economy. These things then helped the Indonesian government to approach politically with the Algerian government.

In an effort to approach politically, the Indonesian Embassy in Alger helped Pertamina through informal and formal approaches. The efforts made by Indonesian government agents then succeeded in bringing Pertamina to the final process of the transaction mechanism, as the completion of acquisition transactions.

### **Transaction Mechanism**

On 27 November 2013, Pertamina successfully completed the asset acquisition transaction of ConocoPhillips Algeria Limited (COPAL), a subsidiary of ConocoPhillips, from Burlington Resources International Holding LLC, an entity affiliated with ConocoPhillips (Pertamina, 2013b). This acquisition was valued at USD 1.75 billion at an exchange rate of IDR 10,000 / USD, or equivalent to IDR 17.5 trillion (Aryanto & Sandi, 2013). After successfully completing the acquisition, Pertamina legally has a participating interest of 65% in Block 405a, the Berkine Basin, Algeria. Previously, the signing of the acquisition agreement was carried out in December 2012 by the President Director of Pertamina, Karen Agustiawan, and the Executive Vice President of Commercial Business Development and Corporate Planning, COPAL, Don Walette, at the Dharmawangsa Hotel, Jakarta (Pertamina, 2012a; COPAL, 2015). This acquisition by Pertamina is known as a transaction mechanism. By definition the transaction mechanism can be defined as a means to facilitate all forms of energy diplomacy interactions and exchanges between the relevant actors (Dent, 2013: 960-961). In Block 405a, there are three oil fields owned by ConocoPhillips, namely Menzel Lejmat Nord (MLN), Ourhoud (OHD), and El-Merk (EMK). After the completion of the acquisition, the three fields legally belong to

Pertamina. Pertamina is known to be an operator<sup>17</sup> in the MLN area, and a partner<sup>18</sup> in the EMK and OHD areas (COPAL, 2015).

## CONCLUSION

In acquiring oil field in Algeria, Indonesia implemented grand strategy which contains various efforts made by the state to achieve energy security. Energy diplomacy is at the core of Indonesia's grand strategy in acquiring oil field in Algeria. In energy diplomacy, it is necessary to have consolidation or simultaneous efforts through political approach and business approach. The state through government agencies used forms of power such as normative power and long-standing good relations as capital to carry out energy diplomacy, especially in the political approach through strategizing. Researcher found that in the strategizing, Indonesia also has provided a legal basis for obtaining natural resources from abroad, as well as enabling international cooperation to achieve energy security. This showed that Indonesian government has carried out a long-term planning and thought process, which can accommodate the needs and conditions of Indonesia in the future.

Furthermore, all efforts that have been made by Pertamina, along with the support of the Indonesian government through the making of legal regulations and approach taken by Indonesian Embassy in Algeria, have led Pertamina was able to possess assets in Algeria. This was marked by the signing of the Share Purchase and Sale Agreement in December 2012. There was obstacle in the transaction settlement, but it can be solved through consolidation or synergy between the political and business approaches. This consolidation was to fill the gap between two approaches. Then, the legal ownership was marked by the completion of the ConocoPhillips Algeria asset acquisition transaction process in November 2013.

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<sup>17</sup>Parties who have participating rights and carry out exploration and production activities in an oil field

<sup>18</sup>Parties who have participating rights in a field, but do not carry out exploration and production activities

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# The Rising Dragon and The Defending Eagle: Understanding the Geopolitical Rivalry between U.S. - China in South China Sea

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## Abstract

This paper aims to understand the geopolitical rivalry between the long-standing great power U.S. and the world's emerging economic power China, particularly their rivalry within contested South China Sea. This article conducted qualitative methods to produce in depth analysis towards the phenomenon. One question is at stake which is what both powers want in South China Sea. The answer raises an additional inquiry; what kind of significances that South China Sea promises for either U.S. or China? This article argues that U.S. and China both strive for control over the territory. To answer the latter question, this paper is using a geopolitical approach, emphasizing on the lines of communication and centers of resources that South China Sea offers. This paper also argues that China's geopolitical objective is intended to strengthen their regional hegemony, ultimately global pre-eminence in the long-term. Meanwhile, U.S. seeks to re-assert their power in the region and to rebalance their rising power.

**Key Words:** U.S., China, South China Sea, Geopolitics, Lines of Communication, Center of Energy

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## INTRODUCTION

The intense rivalry between two great powers, China and U.S., has not yet come to the end. The continuous rivalry has intensified significantly in the Southeast Asia region for the last few years. Both countries compete to spread their influence across the region, either politically or economically. Yet, the rivalry between U.S. and China do not fully affect ASEAN countries negatively. Such case can be exemplified by an ambitious mission named Belt Road Initiative (BRI) which was initiated by China under Xi Jinping administration. BRI is considered as a great opportunity for ASEAN to improve their economy. In addition to that, U.S. Free and Open Indo-Pacific (FOIP) strategy, as a response to China aggressive behavior in the region (such as assertive actions in South China Sea and economic expansion under the name of BRI), is actually helpful for ASEAN to maintain their regional security. However, the rising tension between the great powers has been putting ASEAN neutrality principle under pressure.

China's maritime claiming the region, generally referred as the 'nine-dash line' that is used by the government based on historical accounts, has brought major concern to all ASEAN Member States. The absence of a concrete settlement of the maritime claims has caused the territorial dispute remains 'unresolved'. Beijing has been acting assertively in the South China Sea since the territory is very strategic and has a potential for future energy exploration. As a globally emerging economic power, China's energy demand has increased rapidly, was estimated to triple over the last two decades. Also, China's assertive behavior is certainly motivated by their ambitious BRI plan. Looking at the improvements and trends, it is really reasonable that South China Sea matters for China more than ever.

Furthermore, U.S., as China's rival that champions a free and open Indo-Pacific, is strengthening their policy in a vital part of the region that is South China Sea. The U.S. government, however, has significant role over the territory. Seeing that the claims as unlawful and intimidating, U.S. has offered naval facilities to secure the assertiveness.



However, U.S. presence is also caused by their intention to balance China's influence over the region. Being economically challenged and feared of being replaced as the hegemony in the region, US must be aware of the China's intentions over the South China Sea's energy reservation. Thus, China's interest in this case has motivated further U.S. involvement in the region.

The everlasting dispute between U.S. and China, including their dynamic in South China Sea have become a debate within geopolitics realm. This paper, therefore, is aimed to seek understanding regarding both great powers' geopolitical interests in the South China Sea. The geopolitical approach is intended to emphasize the struggle between the long-standing U.S. and the emerging power China to obtain lines of communication as well as center of resources in the South China Sea.

## **METHOD**

This study is conducted with qualitative approach in order to gain better understanding of the issue being discussed. In this qualitative study, the writer collects data and information from different sources based on the research design. Afterwards, writer examines the collected data to identify pattern and themes. Hopefully, through this qualitative study, readers can gain valuable insight of the issue.

### **Theoretical Framework: Geopolitics Defined and Applied**

Geopolitics combines an analysis of geographical features of power – relative economy, social, cultural – owned by a state to determine its strategic interests, tactical ability, and foreign policy to accomplish such interests. In brief, geopolitics aims to understand geographical factors of power relations as well as inter-state relations. Thus, geography will continuously have the role in shaping grand strategy of state, but it is not a mere useful factor to explain geopolitical situation itself. Geography, geopolitics, and geostrategy are related but they do not determine each other. Grygiel (2006) in *Great Powers and Geopolitical Change* argued that in pursuit of survival and great power, states must be able to match their geostrategy with the underlying geopolitical

reality in order to maintain their gains within their relative power. Therefore, when states fail to do so, according to Grygiel (2006), either their political success or even survival are at risk.

Moreover, geopolitics constitutes the human factor in geography. Geopolitics is defined by lines of communication and center of resources. First, lines of communication which link states with one another is important because it is the route for states to project power and access the center of resources. Through these lines of communication, relations among states usually occur. They conduct international relations, such as trades, information exchanges, as well as military clashes. The communication lines do not only consist of land, but sea lanes and air routes become increasingly significant for states, especially for logistic and commercial needs. There has been changes of trends towards these lines as those are not solely geographically determined, but technology development has been playing critical role as well. A state's capability to gain control over these well-suited channels will pave the way for their whole strategic independence. It will open their access to sources, relations, power projection which it desires. That is why, states compete to gain control over these lines of communication.

Secondly, another important element within geopolitics is center of resources. These resources, unfortunately, are unevenly distributed among states – some may have more than the other. Either natural or economic resource fuel a state's economic and military capacity. Natural resources, such as oil, coal, or water, has experienced rise and decline in importance of a particular resources due to new discoveries or technological improvements. Thus, it will eventually alters the values of the state or region where the resource is located. On the other hand, the alterations of economic resources – usually refer to industrial goods – is more complex case to explain. Hence, the economic resources distribution is best understood through multicausal argument. Grygiel (2006) provided four categories of explanation: geographic, cultural, institutional, and fatalistic. These explanations can indicate conditions that favored or hindered economic growth.

Nevertheless, possession of abundant resources ultimately cause states to become geopolitically more relevant than others as military or diplomatic attention will be drawn to them. Moreover, access to resource is vital because, according to Morgenthau, when the state of being or nearly being self-sufficient is met, a country will consequently has a great advantage over those who are not. To that end, a state must focus their control of lines of communication and access to resources in order to maintain and increase its power position.

In addition, the importance of communication lanes along with centers of resources in geopolitics applies aptly in the pursuant of present developments to South China Sea. The South China Sea is acknowledged for covering significant portion of world's trade as commercial getaway. As a result, it also becomes an important economic and strategic for Southeast Asia as well as sub-region of the Indo-Pacific. Besides, the South China Sea is said to reserve potential values of resources. The strategic elements that they possess have been triggering several complex territorial disputes. It has been the cause of conflict and increased tension within the region.

## **RESULTS AND DISCUSSIONS**

### **China Geopolitical Interest: Pursuing Energy Trade and Reservation in South China Sea**

The assertive stand of China in the South China Sea becomes grave concerns for countries in the region and other interest groups, especially when the government happens to claim their sovereignty over the territory, saying that it is an inherent part of China historically. China clearly has been spreading their influence across the region. China's vision in the area becomes more apparent since Xi Jinping is prioritizing periphery diplomatic relations with their neighboring countries. The purpose is to build a community with a common vision – “a community of common destiny” – which is inclusive through cooperation based on win-win solution (Callahan, 2016). To realize the vision and to challenge U.S in the region, China has initiated several ambitious projects named Asia Infrastructure Investment Bank (AIIB),

the Silk Road Fund, and Belt Road Initiative (BRI). Through these projects, China intends to create networking within economic, politics, and socio-cultural sectors which is centralized on China. Through this narrative, it is obvious that South China Sea as well as their abundant resource and strategic location, will pave the way for China to becoming a leading maritime power.

China's presence in the territory cannot be separated from their BRI ambitious large project which aim to improve regional cooperation through better and broader connectivity among China and their neighboring countries. BRI is expected to cover connectivity within transportation, energy, information, and commercial sectors. The project includes Silk Road Economic Belt for the land part and 21st Century Maritime Silk Road for the sea part. For the Maritime Silk Road itself, South China Sea is projected as a channel linking the Indian Ocean and Pacific Ocean. South China Sea, therefore, is the key area for the route construction. Thus, maintaining its presence in the water is important for China since the South China Sea has been an important route for world's merchant shipping since ancient times. However, despite the geopolitical goals of the Chinese government, the project is indeed gaining support for Southeast Asian Countries, especially the low-income ones, such as Myanmar.

Furthermore, as the economic power with robust energy demand growth is raising yet crude oil production is stagnant, maintaining South China Sea as the world energy trade route has been put into the Chinese geopolitical aim. South China Sea is an important route for world energy trade route, particularly for crude oil shipments. More than 30% of global maritime trade – or was estimated at 15 million barrels a day – passed through the territory in 2016. The South China Sea is a vital route for oil crude shipments for the Middle East. It is estimated to account for more than 70%. The importance of South China Sea as the world energy route is also due to an intraregional energy trade which majorly flows through South China Sea. The growth of natural gas demand also causes South China Sea to becoming vital in global LNG trade. In 2011 alone, more than half of the world's LNG

trade passed through the channel, specifically through the Malacca Straits. In addition, the world's two largest coal exporters, Australia and Indonesia, have been shipping their large quantities of coal through the South China Sea. Thus, as one of the world's largest oil crude, coal, and natural gas importer, possessing domination in the territory becomes important for China to realize their vision.

China's economic growth and their constraints in producing energy are another forms of motivation of their assertive behavior in South China Sea. China must recognize the inherent massive energy resources that the South China Sea possesses. Thus, it can be the most important economic incentive for China to seek rich energy reservation for exploitation. South China Sea offers the prospective for significant natural oil and gas discoveries, creating an incentive to secure larger portions of the area for domestic needs. Therefore, in this case, China's recent island-building is a reflection of the government's goal to prevent further Southeast Asian claimants from any action that might prevent Beijing from exploiting potential natural resources in the territory – since the South China Sea itself has been an overlapping disputed territory by many interest groups.

China's claims over the territory as well as its objectives, however, may remain unsolved since it has divided the Southeast Asian Countries common actions toward the assertiveness. Economic and strategic incentives that the Beijing offers have caused China and their neighboring countries relations becoming more problematic, especially for ASEAN as an institution. China uses more bilateral approach to tie closer economic connection with South Asian Countries. This later has implications on the complexity of their political relations and economic dependency of all parties (Ujvari, 2019). Commitment towards South China Sea Code of Conduct must be held responsibly by all interest groups, particularly China. The failure of the framework, unfortunately, will only ease the way for China to accomplish their geopolitical objectives of South China Sea.

## **United States: An Open and Free Asia-Pacific**

In contrast to their rival, U.S. stand, I argue, is more likely to be defensive, hoping to contain the spreading influence of the emerging power. U.S. strategic policy within the contested territory, under the Trump presidency, is aiming to make South China Sea (as a sub-region of Indo-Pacific) to be free and open for all. The U.S. vision is reflected by their foreign policy regarding Free and Open Indo-Pacific (FOIP) strategy. The U.S. presence in South China Sea is mainly supported by their military capability to ensure the stabilization of Indo-Pacific region. The four U.S. commitment to maintain peace within the region was written in the FOIP: (1) respect for sovereignty and independence of all nations; (2) peaceful resolution for disputes; (3) free, fair, and reciprocal trade based on open investment, transparent agreements, and connectivity; and (4) adherence to international law, including freedom of navigation and overflight.

South China Sea has become the vital part of U.S. foreign policy due to China's assertive actions to challenge the liberal rules-based order that the U.S. has promoted. Sovereignty, prosperity, and peace are the main elements for U.S. government to maintain regional order with ultimate objective of impressive economic growth and regional prosperity. As a long-standing naval power in the region, China's unlawful claims over the territory has engaged U.S behavior in the region. U.S. emphasizes freedom in South China Sea in terms of navigation operations of the sea lanes communication and right to transit. The U.S. side argued that China's big navy and aggressive coast guard is causing smaller states in the region difficult to operate and navigate.

The rising tensions for territorial disputes between China and those Southeast Asian Countries has been utilized by U.S. to counter as well as contain China's rise and growing influence in the region – while maintaining their pre-dominance position in the Western Pacific . Hence, U.S. geopolitical objective is to rebalance Asia as a response to the new rising power, China. U.S., therefore, is obliged to maintain the future of current regional order and the security of their allies by



defending the alliance system and reassuring center of resources which is associated with China's intention.

U.S. also concern with China's claim to offshore resources across the vast majority of South China Sea. While not accepting their claim, U.S. is siding with the international law and remaining neutral over the sovereignty disputes within South China Sea. The U.S. strength in the midst of existing tension between China and Southeast Asia Countries is that U.S. may act as the security guarantor. Hence, U.S. is expected to use their maritime power in order to increase their influence in the region – though there has been some jump in defense spending. Moreover, being economically challenged, U.S. should be focusing their strategic policy to hold China's ambitious vision otherwise U.S. will not be able to conduct their trade and exchanges the way it used to be. Consequently, the U.S. energy trade with their respective allies is at stake. By allowing China to grow their economic power, by any means U.S. also allows China's military modernization.

### **Two Great Powers Rivalry and the Contested Territory**

The existing dispute within South China Sea between U.S. and China has brought my attention to both parties' geopolitical objectives. Both great powers, I argue, want the same thing over the territory; the answer is simply to gain control. Though Mike Pence stated in the Washington Post that it is more of 'collaboration over control' principle and President Xi has been promoting regional cooperation. Both U.S. and China has been pointing toward securing their strategic lines of communication, right of passage, as well as access to maritime resources – gas, oil, and fish.

First, securing the communication lines of South China Sea is an important task for both countries as it is the 'nerve system of the world'. Both U.S. and China are oil importers and important players within the global trade. Meanwhile, South China Sea offers reliable routes for global trade. The annual world trade is estimated at 5 trillion USD which passes through the South China Sea, including more than a half

of the shipping merchant fleet, a third of global crude oil trade, and over a half of global LNG trade. In addition, South China Sea offers the shortest sea route among African and Persian Gulf suppliers and Asian Consumers, making it increasingly significant over the last two decades. The route becomes even more important especially when U.S. and China have been the major consumers of African Crude Oil – despite U.S. increase of domestically-produced crude oil, making China is now the world's largest importer of African suppliers.

In this case, when South China Sea as the sea lane is being dominated by one great power, according to Gyrgiel (2006), the other one must rely their goodwill and protection of other states. A state consequently has to face very limited access to conduct their relations and to exercise their power. If U.S. or China fails to gain control over these lines of communication which link it with access to resources and also strategic location, thus the defeat has to fall under the influence of the power in charge. That is the reason why U.S and China struggling over the lines of communication in the South China Sea is indeed inevitable. Both powers consequently continuously compete against each other since no one is willingly controlled by their rival.

China's objective in gaining control over the sea lines of communication is motivated by future implementation of various massive projects. If China really wants to craft economic connection with their neighboring countries, thus defending South China Sea as their inherent territory should become their main priority. Indeed, with the U.S. naval presence, China will not be able to do so. Instead, U.S. geopolitical objective towards the sea lanes is to maintain their long-standing maritime hegemony. The U.S. believes that these lines of communication, which relies on the South China Sea, must be free and equally accessible for all states since these are not under the sovereign control of a state. As the maritime hegemony, U.S is ensuring and guaranteeing the free flows of goods and services on the seas under their known liberal-based order.

However, these patterns might change due to discoveries and creation of new routes, Grygiel argued. Though geographic discoveries era has

ended, new routes are possibly established with today's magnificent and advanced new transportation technologies. Technological changes most of the time contributes to the configuration of existing routes. Furthermore, the discovery of new rich of natural resources may also lead to new route inventions.

Secondly, beyond the South China Sea onshore, there relies massive natural energy reservation. U.S. Energy Information and Administration (2013) estimated that the territory contains about 11 billion barrels of oil. It is also said that the territory is a huge natural gas reservation which is estimated by the EIA about 190 trillion cubic feet, rated as proved or probable reservattion. Looking at the current estimation, it is clear that South China Sea is expected to meet countries' demand for oil and natural gas. In this case, these center of resources are significant strategic incentives for U.S. and China rivalry within the South China Sea. While both powers are contesting to become world's economic leader, access to natural resources without a doubt remains as both geopolitical objectives.

For the states, having access opened to these sources means increasing their military and industrial capacity. Hence, when U.S. and China are able to possess the resources in the South China Sea, it means they are one step forward in preserving their power status. In South China Sea, China's stand is more likely to achieve traditional objective, that is acquiring wealth. On the other hand, U.S intends to enforce rules which result in regional or global market creation through which resources are obtained. Nonetheless, South China Sea is extremely disputed territory, thus it seems difficult to obtain or to control vast portion of the resource. However, geopolitically, either for U.S. or China, by preventing their rival for gaining access to it, they can exercise promising political leverage.

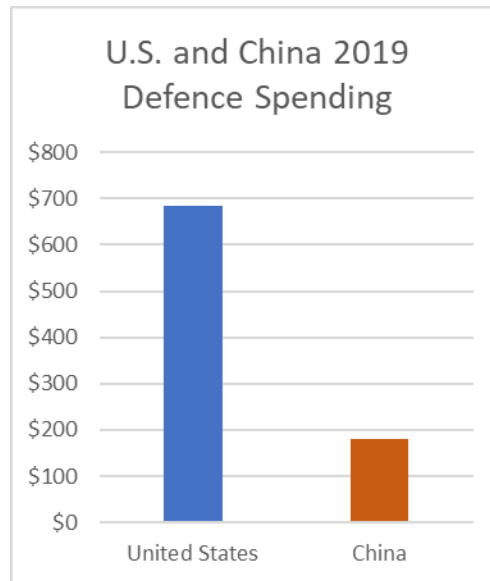


Figure 1. U.S. and China 2019 Defence Spending  
(The Military Balance, 2020)

The figure above portrays the defence budget spending by both U.S. and China. In 2019, defence spending of U.S. and China rose by 6.6% compared to 2018 defence spending. The U.S. defence budget increase alone was US\$53.4 billion. In total, U.S. defence budget nominal was US\$684.6 billion. Meanwhile, China's nominal increase was US\$ 10.6 billion or US\$ 181.1 billion in total.

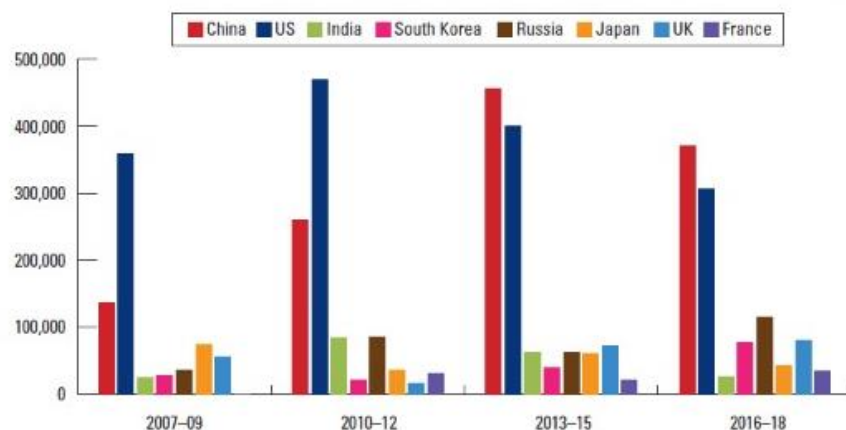


Figure 2. China and U.S.: domestically built naval vessels launched between 2007–18  
(The Military Balance, 2020)

China's People's Liberation Army (PLA) Navy is able to run as a blue-water navy by constantly improving the area of which they are lacking. Hence, it focuses more on raising the capability levels of its platforms instead of boosting inventory numbers. In 2019, China has launched the first and the fifth (of eight) Type-055 (*Renhai-class*) cruiser. In September, PLAN also launched its first Type-075 landing helicopter dock (LHD) large amphibious-assault ship, while another Type-075 is under construction and another more is planned. Moreover, China's naval capability will remain under significant progress, picturing the China's ambitions to position a truly global multi-carrier capability in the future. China carried out a drill, including its first salvo-launch of anti-ship ballistic missiles in the South China Sea. This indicates that China's naval activities appeared more assertive in the region. The recent US Defense Intelligence Agency (DIA) report on 'China Military Power' stated that the PLAN as well as the coastguard and also the maritime militia are increasingly visible throughout the region.

## CONCLUSIONS

To sum up, both parties will continuously seek to possess control over the territory as it provides strategic lines of communication and also center of resources. China's assertive behavior in the South China Sea reflects their efforts to become regional hegemony in the short-term, challenging U.S. position in the region. In the long run, China clearly has the intention to rise as the world's new power. Or simply we can say to reorder the status quo. Taking advantage of unsettled disputes within the South China Sea, China tends to secure their strategic position to benefit from South China Sea offshore energy reservation, to execute their grand BRI project, and to further spread their influence. On the contrary, their opponent, the U.S. seeks to make South China Sea become free and accessible for all states again, not being constrained by China's aggressiveness. Once U.S. is capable of gaining control over the routes and reservation, U.S. position in the region will be re-asserted. U.S, however, shows more defensive behavior in order to contain their rival regional influence and to rebalance their position in the region. Nonetheless, the patterns of U.S-China rivalry within the

South China Sea over geopolitical objectives might possibly change in the future due to new human discoveries and inventions.

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# Political Implications of Turkey – Qatar Gas Pipeline Construction on European Union Energy Security

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## Abstract

This paper will discuss the political implication caused by Turkey-Qatar Gas Pipeline to the European Union energy security. The development of a logistics facility in this program could be a double-edged sword for the European Union member. Using realism as the leading theory that emphasizes politics as the main power to gain the state's national interest, writers try to build analytical case studies. With its hold of the logistics facility, Turkey could control the distribution of natural gas exporting to Europe. European Union members need to import natural gas to strengthen the energy security sector of their lack of energy sources. Through the dependency energy sources created by both actor, this will affect the European Union energy security, notably, by the facility owner's state.

**Key Words:** Politics Implication, Qatar-Turkey Gas Pipeline, Energy Security

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## INTRODUCTION

The crisis that occurred in Ukraine, which also involved Russia regarding the annexation of Crimea, became an incident that reminded the European Union to reduce its dependence on natural gas supplies from Russia. Energy experts predict that in the next decade, the energy market in European Union member states will increase due to increasing energy needs. Another cause is the increase in prices where there is a plan to increase the tariff for carbon fuels (CO<sub>2</sub>) at US \$ 25 and US \$ 30-40 per tonne in 2025 (Rosendahl, 2018). The European Union's concern about instability involving Russia has recognized and responded to since 2000. This response marked by the release of a Green Paper by the European Commission, which discusses plans to reduce the dependence on imports of natural gas from Russia. Also, in 2004 this response was increasingly evident with the adoption of a Directive Document with the primary objective of "ensuring an adequate level for the security of gas supply, in particular in the event of a major supply disruption" and "ensuring an adequate level for the security of gas supply, in particular in the event of a major supply disruption." These two goals are strong evidence of the EU's desire to reduce dependence on Russia, which within a decade has had three conflicts with neighboring countries such as Ukraine and Georgia, thus affecting regional stability in Europe.

According to Eurostat data in 2016, the percentage of Russian natural gas supplies to the European Union was 39.9% of the total EU gas imports. This number has increased by 2.3% from 2015. This figure places Russia as the largest exporter of natural gas commodities to the European Union, only one rank different from Norway, which supplies 24.8%. The large percentage of imports consider having positioned EU member states in a vulnerable position in energy security if one day there is instability or a conflict involving Russia, especially in Ukraine. The conflict that occurred in Ukraine since 2014 has become necessary because Ukraine, which lost the Crimea Province after being annexed by Russia through the occupation and establishment of the Republic of

Crimea, is a transit country in the natural gas distribution channel to the European Union. The existence of the Soyuz and Brotherhood natural gas pipelines lead to the Transgas pipeline with the main terminal in Plavecky Peter, Slovakia. This gas pipeline with Ukraine as a transit point to Europe in 2018 has distributed 116 bcm of natural gas (Pirani and Roland, 2018).

Qatar has not played an essential role in energy policy in Europe, especially in the European Union. However, Qatar sees bright market prospects with this critical momentum to increase natural gas consumers and foreign exchange earnings. The diplomatic crisis between Qatar and Gulf countries such as Saudi Arabia, the United Arab Emirates, and Bahrain also involved Egypt. The diplomatic crisis that led to an embargo on export-import activities to and from Qatar caused this country to lose its income source. The accusation that Qatar supports the funding of terrorism activities in the Middle East and the ownership of good relations with Iran to the point of interfering in the internal politics of the Persian state is the leading cause (Al Jazeera, 2017). According to data from the British Petroleum Company in the BP Statistical Review of World Energy (2018), Qatar has a natural gas production capacity of 175.7 bcm or 4.8% of the world's total natural gas production and proven reserves of 24.9 tcm or 12.9% of the world's total natural gas reserves. Qatar's gas exports have not competed in the European market because the price was too high due to logistical costs via tankers, which was expensive and at high risk due to conflict-prone routes. Building a natural gas pipeline installation to Turkey as a transit gate is considered a solution to save logistics costs. With reduced logistics costs, Qatar's natural gas will compete with comparable commodities supplied by Russia to Europe.

The existence of a market in Europe and a supplier of Qatar resources is seen as an opportunity by Turkey to gain material and non-material profits. With the construction of the Qatar - Turkey natural gas pipeline, the country led by President Erdogan will get a transit fee and other energy fee benefits (Chang, 2015). Turkey, which is strategically between the continents of Europe and Asia, has long been a transit for

other commodities so that it holds the title as the gateway to the two continents. As with other countries, Turkey has relations with European countries, especially those of the European Union. Both Turkey and the European Union view each other that their relationship is vital to achieving their national interests. In other words, Turkey and the European Union share influence in the global world order. Since 1987, Turkey has submitted its application to join the European Economic Community (ECC), the European Union's forerunner. However, until now, with the existing dynamics, Turkey has not fulfilled the EU membership requirements requested through the European Council. Still talking about the transit gate, since the European refugee crisis in 2015, this crisis was caused by conflicts that occurred in the Middle East region, especially the Arab Levant region. Refugees seeking protection (asylum seekers) take one way through Turkey before reaching their destination, namely in European countries as refugee recipient countries (Clayton, 2015).

In this paper, the authors see something interesting to discuss. Considering the construction of the Qatar-Turkey natural gas pipeline can become a double-edged knife, especially for the European Union. On the one hand, the EU can reduce its dependence on natural gas supplied from Russia utilizing strengthening its energy security. However, on the one hand, Turkey has assumed new control with its ability to influence energy supply in Europe, which can be a playing card to obtain its national interests and foreign exchange gains.

## **Realism Theory**

The theory of realism is one of the oldest theories in international relations. This theory has also dominated the international relations discipline, especially after the Second World War. The theory, which has a core at the centrality of the state, has several main principles in viewing the world and international relations, such as maximize the power of a country both against other countries and to defend its national interest, emphasizing national security, having the concept that human nature is evil, as well as the assumption that international

relations are anarchic. If there is a conflict, these problems resolution will use war (Jackson and Sorensen, 2013).

Realism views that the state has a goal in the form of national interest that can pursue through maximizing power. Power referred to in realism is hard power in the form of efforts to influence other political bodies' behavior or interests through military and economic power (Copeland, 2009). In the realist view, conflict is inevitable, and the best way to avoid war is to strengthen oneself, who is represented by the state. Besides, the state acknowledges it as an entity that acts aggressively because it wants national security interests to pursue and be protected (Mearsheimer, 1995). Then the three fundamental values in realism are; (1) survival, (2) self-help, and (3) stagnancy focus in a separate section. In this paper, the author views that realism's theory is a unified theory used as a case analysis knife. A gas pipeline that connects natural gas production in Qatar to Turkey as a gateway to consumers in Europe will be a tool by Turkey under Erdogan's leadership to influence politics on the blue continent.

The definition of energy security taken from Samantha Olz et al. in the Contribution of Renewables to Energy Security (2007) is "Adequate, affordable, and reliable access to energy fuels and services, it includes availability of resources, decreasing dependence on imports, decreasing pressures on the environment, competition and market efficiency, reliance on indigenous resources that are environmentally clean, and energy services that are affordable and equitably shared." In short, it is a condition when energy sources are affordable in terms of price, and their existence is not disturbed. More deeply, the dimensions of energy security are divided into two, namely; (1) long-term energy security relates to timely investment to supply energy in line with economic development and sustainable environmental needs, and (2) short-term energy security focuses on the ability of the energy system to react quickly to sudden changes in the balance of supply and demand. Energy security is considered necessary considering that human activity is so dependent on energy sources that if one day it is disturbed, it will impact the economic and social sectors. In its dynamic, EU member



states depend on energy sources in natural gas imported from outside (the majority from Russia). This dependence has made importing countries vulnerable to energy security if the leading exporters stop their exports one day. In this case, the Qatar - Turkey gas pipeline is considered another alternative to diversify natural gas distributors so that the dependencies can also be divided.

## DISCUSSION

### **Qatar-Turkey initiative in building a Natural Gas Pipeline to Europe**

This section will discuss Qatar and Turkey's initial problems in carrying out or initiating a natural gas pipeline project to Europe. Various internal and external factors pushed the Qatar-Turkey project to build a natural gas pipeline to Europe. The existence of internal and external factors will also be explained to find out the main objective of this project. The internal factor that initiated the construction of a natural gas pipeline to Europe was caused by the bloodshed of more than 400 thousand people due to the Syrian War, which was considered a war over energy resources in the Middle East (Cochrane, 2020). President Bashar al-Assad, who rejected the plan to build a gas pipeline, aims to prevent European energy resources' dependence on Russia from weakening. Also, Syria has a national interest by establishing a "Four Seas Strategy" policy which aims to turn the Syrian state into a gas transit center between the Gulf, Black Sea, Caucasus, and the Mediterranean by utilizing the Euro-Arab Mashreq Gas Pipeline (AGP). However, the AGP project cannot meet domestic demand and export gas to Europe because Egypt does not have enough gas to export. After all, Egyptian gas production has decreased from 220 mcf per day in 2010 to 80 mcf in 2011 (Cochrane, 2020). The AGP project was finally closed in 2012 after a terrorist attack on the Sinai pipeline. To overcome this, a Qatar-Turkey natural gas pipeline to Europe was built to fulfill demand and diversify European gas imports. A consortium made the idea of European and Turkish energy companies in 2002. This project's

result is that Qatar will achieve more straightforward access to the European market than any Syria pipeline.

Syria's action, which continues to oppose the construction of the Qatar-Turkey gas pipeline firmly has become a polemic in the regional politics of Arab countries resulting in a rebellion. The insurgency by some groups has been supported by the United States, as evidenced by the US bombing of Syria to overthrow Assad and allow Europe to diversify its dependence on Russia (Cochrane, 2020). Further explains that the external factor in this project is Europe's desire to diversify its dependence on Russia's gas energy resources to create energy security stability in the European region. On the other hand, the construction of a gas pipeline expecting to benefit Turkey as a transit country so that it will have the opportunity to enter into European Union politics, which Turkey has previously tried to apply to join the European Economic Community (ECC), although the membership requirements have not been fulfilled. However, the Qatar-Turkey gas pipeline has given Turkey the role of controlling the energy supply in Europe. One of the Turkish gas pipeline projects is called the Turkstream Gas Pipeline Project. This project is a new gas pipeline system with a maximum capacity of 31.5 bcm per year for two lines, each of which has 15.75 bcm per year; the project is operated from Russia to the Black Sea and across the territory of the Republic of Turkey to the border with the countries-neighboring countries (Republic of Turkey Ministry of Energy and Natural Resources, 2006).

### **Realist View on the Case Study**

As explained above, the author uses realism theory as a theoretical basis to analyze this case study. The writer will use 2 of 3 realism assumptions, namely survival, and self-help. As we know, Turkey has not been able to become part of the European Union because of the constraining factors and assessment criteria that prevent Turkey from joining the European Union. The factors that cause the European Union refusing Turkey to join the bands firmly are related to the refugee issue. Where the European Union does not want to take the risk of a large number of

refugees or exodus coming to the European Union who is feared will disrupt the economic stability of the European Union countries. There are differences in culture and political ideology (Gerhards, Jurgen, 2011).

Therefore, in this case Turkey is starting to prioritize its national interests which are manifested by the many plans to be executed behind the construction of the Qatar-Turkey gas pipeline to the European Union, especially to influence the European Union in providing a strategic position and strengthening Turkey's existence. in the political aspect of the European Union (The Irish Times, 2018). Turkey's new dependency on the European Union is a form of survival carried out by Turkey by intensifying steps related to how the Turkish state can strengthen its existence in the European Union region. The concept of survival here is that Turkey must survive and keep its country stable and not experience political, economic, and security shocks. Turkey is optimistic that it will be able to position itself so that it is increasingly needed by European Union countries, namely by the construction of the Qatar-Turkey gas pipeline and the transmission of natural gas supply as an energy source needed to drive all activities in EU countries, especially in the industrial sector.

Through the construction of the Qatar-Turkey gas pipeline, Turkey's position will become increasingly important as an "energy corridor" in the transmission or distribution of abundant oil and natural gas resources from Middle Eastern countries, one of which is Qatar to the Western market, especially the European Union which in fact, they are very dependent on natural gas as their main energy commodity. Continuing the concept of survival, which departs from the realism paradigm, it can be seen that Turkey is implementing this concept by trying to improve the oil and gas pipeline infrastructure to accommodate the increased energy consumption demanded by the Western market, namely the European Union. The goal that Turkey hopes is to be able to regulate the supply of natural gas that will enter the European Union and be able to lead the European Union, especially in its political policy, to consider Turkey to become a member of the

European Union and have a major influence on the dynamics that occur in the European Union itself. Seeing Turkey's strategic location, which is directly adjacent to the European Union, makes Turkey in a vital position to diversify European supplies related to natural gas through the construction of the Qatar-Turkey gas pipeline (Kilic, 2006).

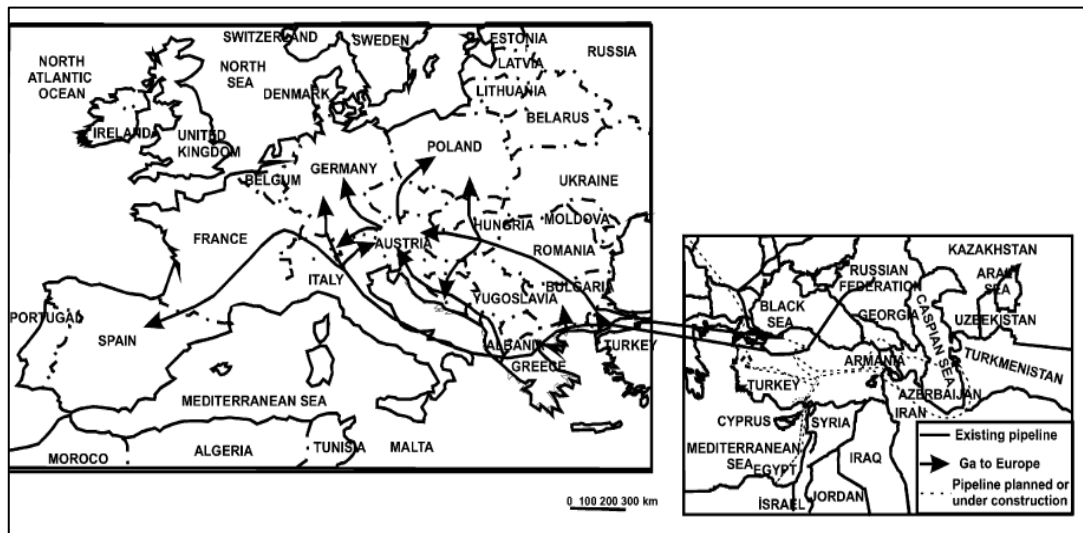


Figure 1. Turkey Gas Pipeline Route to Europe (Republic of Turkey Ministry of Energy and Natural Resources, 2006)

From the figure 1, Turkey is not playing games in carrying out the construction of the gas pipeline project. The gas pipeline construction will later flow natural gas resources to various countries in the European Union such as Germany, Spain, Italy, Poland, Austria, and several other countries. It will have implications for Turkey's existence and position, which is getting more robust in the Middle East region and being the hub country for the Qatar gas pipeline project to the European Union. If analysed more deeply, the author also sees that Turkey applies the concept of self-help, where Turkey under Erdogan's leadership says that Turkey must exist as a country with the capability and is independent of other countries. Turkey wants to prove that with this Qatar-Turkey gas pipeline project, there will no longer be a country that thinks Turkey can survive in this international system because it depends on other countries, especially the European Union. Turkey

wants to reverse the situation where the European Union can grant certain privileges or strategic positions, especially in the political aspect, to Turkey, because it can reduce its dependence on Russia for natural gas supplies.

It will make it easier for Turkey to carry out cooperation or negotiation processes with EU member countries. Through the concept of self-help, Turkey realizes that with its very strategic geographical location because it is located along an energy-rich area and is passed on to countries with very high levels of energy consumers, it can be used as a political tool capable of lifting Turkey to gain more power from the previous. Suppose Turkey is smart in exploiting the potential and geographical situation given to it, which is said to be the main chain in energy supply, especially oil and natural gas throughout the world. In that case, Turkey will become a developed and enormous country. Moreover, Turkey presenting as "The Bridge Energy between East and West," which makes Turkey's presence very vital in the distribution of energy between energy-rich countries, which incidentally originates from the Middle East to Western countries which tend to strongly encourage industrialization (Kilic, 2006).

It can be concluded that the concepts of survival and self-help that depart from the realism paradigm can be drawn into a case study of the construction of the Qatar-Turkey gas pipeline for the European Union, where Turkey takes advantage of this situation for its political interests in the European Union to gain a strategic position and gain greater power. From before, Turkey also plays a role in the supply of natural gas that will enter the European Union.

### **Security Challenges in Building the Turkey-Qatar Gas Pipeline**

Erdogan's interest in a US-Turkey cushion zone in Syria will probably forestall Kurdish independence and not battle ISIS. It likewise empowers the structure of the Turkey-Qatar natural gas pipeline proposed in 2009. With the proposed pipeline going through the Aleppo locale—a similar territory for the cushion zone—the Turkey-



Saudi-Qatar-sponsored Army of Conquest would set up a Sunni Salafist statelet in Syria to empower Ankara, Riyadh, and Doha to partake later on the abundance of the pipeline.

In 2009, Qatar proposed the natura gas pipeline would go through Syria's Aleppo and Turkey into Europe. Be that as it may, Assad hosed this fantasy in 2011 when he rather manufactured an agreement with Iraq and Iran to run an "Islamic pipeline" toward the east to the European market. Presently circumstantially, around the Aleppo locale is additionally where Turkey proposed the US set up the cushion zone to supply "moderate renegade" powers.

On the off chance that Kurds had associated along Turkey's outskirt and shaped a self-sufficient area, plans for the Qatar-Turkey pipeline by means of Saudi Arabia would be entirely devastated. It isn't astonishing that Turkish authorities drew a line from Aleppo to Kobani as a cushion zone, and the US consented to their requests.

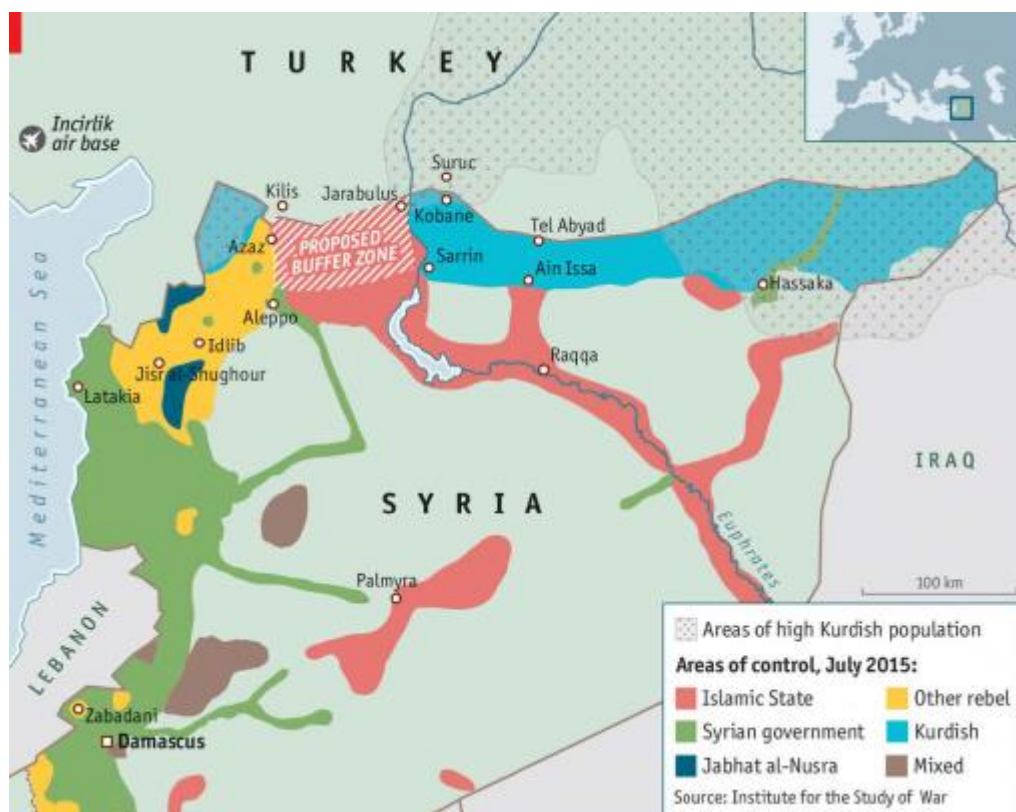


Figure 2. Proposed buffer zone in Syria (The Economist, 2015)



ISIS likewise profits by the forceful Turkish invasion against PKK—the best boots on the ground battling ISIS. Joined by their shared disdain of the Kurds, Turkey additionally kicked back and watched ISIS pound the YPG in Kobani a year ago.

Writing in *Armed Forces Journal*, Major Rob Taylor (2014) joined various different intellectuals in seeing that the Syrian common war is a pipeline battle over control of energy supply, with Saudi Arabia, Qatar, and Turkey expecting to eliminate Assad "so they can control Syria and run their own pipeline through Turkey."

"Saudi Arabia and Qatar, just as al Qaeda and different gatherings, are moving to oust Assad and exploit their sought-after Sunni triumph in Damascus. By doing this, they would like to pick up a portion of power over the 'new' Syrian government, and an offer in the pipeline riches." Even on the off chance that it incorporates Turkey clandestinely supporting ISIS against Assad.

In this manner, regardless of whether the Saudi/Qatar/Turkey-upheld Army of Conquest can control barely enough land in Syria for a Salafist statelet to fabricate the Qatar-Turkey pipeline, these Sunni states can at last understand their pipeline dream.

Undoubtedly, the 2012 Defense Intelligence Agency report proves their craving to cut out a Salafist statelet in Syria east of Assad-controlled domain to squeeze his system (In 2012 it was further east, however since Assad has lost a lot of an area it is only east of Latakia).

In gas, the Gas Exporting Countries Forum, with its headquarters in Doha, groups major gas exporters including Iran, Qatar, Russia, Algeria, Egypt, Libya, the UAE, and others. It therefore represents the interests of gas exporters but could again be a venue for considering emergency measures. However, a disruption affecting Russia, for example, would probably not affect Qatar, and vice versa, hence the members can have divergent interests. Some are mainly pipeline exporters and others are more concerned with LNG (Mills, 2016).

## **The Future of the Qatar-Turkey Natural Gas Pipeline Project**

It cannot be ruled out that Turkey and Qatar's efforts to be able to build gas pipelines to Europe are very ambitious projects and need special attention from the European Union as the recipient of natural gas supplies. If this project has been successfully implemented in the future, the European Union will benefit from having a supplier of energy sources other than Russia. However, on the other hand, this policy made Turkey strengthen its current position in the Middle East region and impact European dynamics. The uncertainty of Turkey's position in Europe, both geographically and organizationally, requires policies that are quite beneficial for Erdogan's country. Through this project, Turkey felt to have sufficient strength to strengthen its position and impact membership in the European Union organization.

Before going any further on the future of the Turkish and Qatar gas pipelines, there is one thing that needs special attention to support this project's implementation. Namely, the gas pipeline project being carried out by neighboring Qatar, Iran. In this case, Iran is carrying out the same project to help the European Union be less dependent on Russia as its natural gas supplier. These two projects have a significant state role behind them. The Syrian conflict itself also impacted these two projects because the route that had to be passed from the gas pipeline needed to go through Syria. The Qatar-Turkey project is controlled or fully supported by the US. Based on the US's desire, through Obama, to assist Europe in overcoming the problem of dependence on Russia after the Ukraine conflict several years ago. Besides, the US also wants to cut or reduce Russia's influence on the European continent itself. By cutting or reducing the supply of gas sent by Russia, that country's influence will also decrease accordingly.

On the other hand, the Iranian gas pipeline project has the full support of Russia as a permanent gas supplier to Europe. When viewed easily, Iran is much more likely to carry out its gas pipeline project than the gas pipelines run by Turkey and Qatar. This convenience then did not find a bright spot for Iran after the Arab Spring and the civil war in their

domestic sphere. Even though Qatar first proposed this project in 2009, however, due to the Syrian war factor and US \$ 3 trillion of funding for the Anti-Assad group between 2011 and 2013, Qatar's big obstacle to carrying out this gas pipeline project. It was further hindered after Saudi Arabia was found to have also funded several terrorist groups in the region.

Judging from the obstacles and the presence of other challengers from neighboring countries, it is known that this gas pipeline project will not run smoothly if Syria, through Assad, does not give full permission for the construction of the gas pipeline. Regardless of the big US role in it, if they are unable to meet another route or carry out diplomacy against Assad, then this project itself will fall to Iran and Russia, once again, will regain control of the natural gas market share in Europe, indirectly. Although, in this case, Russia did not ultimately intervene in this project, Iran received strong support and back-up from Russia. So that can be said, the ongoing Iran gas pipeline project will again strengthen Russia in becoming the largest exporter to Europe.

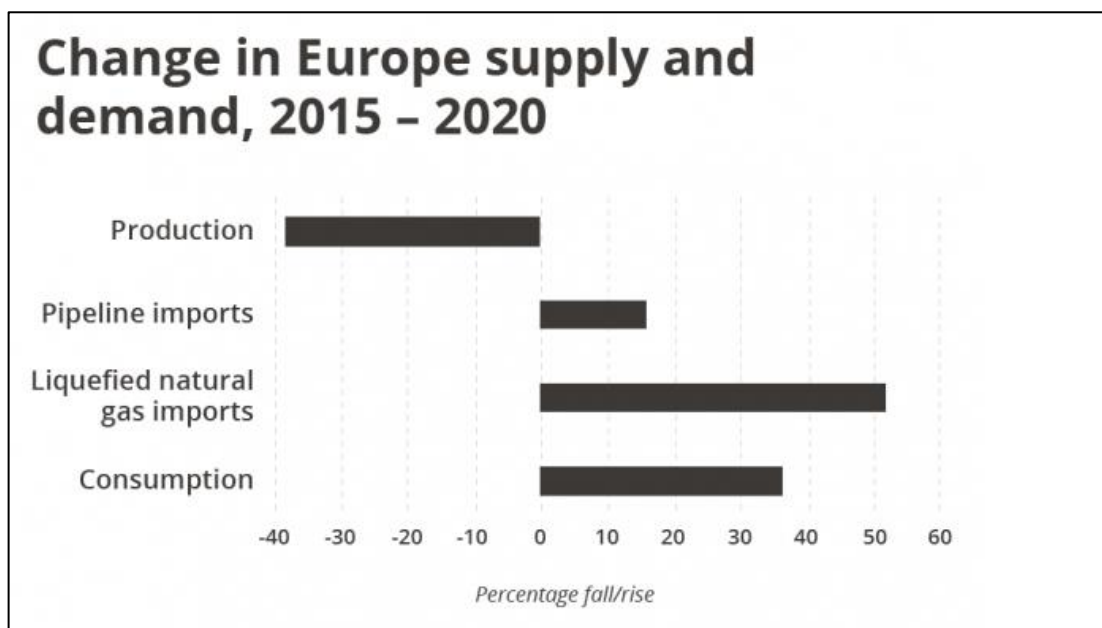


Figure 3. Change in Europe Supply and Demand between 2015-2020 (Cochrane, 2020)

Referring to figure 3, from the data presented, it was found that between 2015 and 2020, there was a decrease in natural gas production figures by up to 40% in Europe. Meanwhile, on the other hand, in the same period, consumption actually increased to 35%. With this situation, countries in Europe, especially members of the European Union, need natural gas imported from outside their territory through important activities using pipeline and shipping logistics facilities.

Judging from the existing data, Europe's dependence on natural gas exported by Russia is quite large. In 2014, Germany imported around 33% to 60% of natural gas from Russia. This figure is relatively high, considering that other member countries do not import the same amount. This dependence then becomes the base why Europe wants to continue to look for other suppliers to diversify natural gas energy sources. As previously explained, Qatar will face severe difficulties if it wants to help Europe diversify its natural gas energy sources. Seeing how the figures are shown in 2014 on the level of natural gas supply by Russia will give Qatar even more challenges if this project is to be implemented.

Apart from Qatar, the future of this gas project itself can also be optimized by Turkey to strengthen its position in the Middle East region. Turkey will also have a political impact on the European Union, especially its efforts to become a supranational organization. They will use the logistics route through Turkey to influence EU policy to open the door to their membership system. This means that Turkey also controls the gas supply that will enter the European Union. Indirectly, Turkey is the hub country for natural gas supplies from Qatar to Europe.

The future of the gas pipeline project carried out by Qatar will provide many benefits for all parties involved. It is starting from Qatar, Turkey, the European Union, to the United States. Qatar will become a new supplier to the European Union and reduce Russian exports, which is enough to create dependency on the country led by Putin. Turkey will strengthen its position in the Middle East region and become a hub country for the Qatar gas pipeline project. This will enable Turkey to

regulate the gas supply that will enter Europe and impact the European Union's political policy in considering Turkey to become a member and provide its dynamics for the supranational organization. The US itself will have an indirect impact through this project because it supports Qatar itself. Also, the US will be successful in reducing Russia's influence through this project. With Russia's reduced gas supply, it will also make it easier for the US to spread its influence in the region. For the European Union itself, they will have a new, unfocused energy source and are likely to reduce their dependence on Russia gradually. However, none would happen without the right solution to persuade Assad to agree to this project because of the path that is followed by the gas pipeline itself. It is felt that proper diplomacy between the countries involved will provide smoothness to Assad's policy of approving the Qatar-Turkey gas pipeline project to Europe.

## CONCLUSIONS

The author concludes that Turkey is taking advantage of the potential and situation of the Qatar-Turkey gas pipeline project to the European Union as a political tool to gain a strategic position and the privilege that Turkey did not get before the planned gas pipeline construction project. The concept of self-help and survival developed by realists can be drawn and reflected in Turkey's current position, which puts forward its national interests to prove that Turkey can survive and is not dependent on other countries, especially the European Union. With this gas pipeline construction project supported by Turkey's very strategic location and directly adjacent to the European Union, it is hoped that it will lead the EU's political policy to place Turkey in another position that is more special than other countries. The author considers the use of this distribution installation to threaten European Union member states' energy security. This scenario is illustrated if Turkey closes the tap of natural gas exports to the European Union, then the fluctuation of energy shortages can occur.

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# Political Constraint to Realize Green Growth In East Kalimantan

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## Abstract

The journey of economic growth and development is on an unsustainable trajectory, marked by conditions that endanger natural assets and environmental services, both of which form the basis of long-term economic growth and human well-being. Indonesia is the 6th largest emitter in the world, while East Kalimantan itself is the 6th largest emitter nationally. This study is focused on the constraints associated with green growth policy in East Kalimantan. This study intends to answer the following question by analyzing East Kalimantan Provincial Government's green growth policy, particularly what are the key constraints for the implementation of green growth policy in East Kalimantan? In response to this, a concept known as green growth emerged. To discuss this, the author uses qualitative methods with case studies. This method provides a form of data collection and analysis that focuses on emphasizing and understanding meaning. The data collected comes from official documents and other supporting documents. The author makes interpretations of what is seen, heard and understood based on research questions, conceptual framework and research design. The author then examined the collected data to identify patterns and themes. Through this qualitative study, readers are expected to gain valuable insights into this case. The results showed that in order to achieve Green economic growth in East Kalimantan, political, economic and social aspects must be considered. Political aspects are the most important thing because policies play a key role in realizing green growth, policy makers can build green growth strategies, with the help of their commitments. However, the political, social and economic aspects are interrelated and mutually supportive.

**Key Words:** Political constraint, green growth, East Kalimantan

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## INTRODUCTION

Around the world, economic growth and development paths are on an unsustainable trajectory, marked by conditions that jeopardize natural assets and environmental services, both of which form the basis of long-term economic growth and human well-being. Efforts to tackle depletion of natural resources, pollution, loss of biodiversity, and climate change are pressing in developing countries. These environmental challenges have the potential to undermine development efforts in developing countries and reverse the attainment of the standard of living and welfare that has been achieved to date (OECD, 2014: 18).

In the Indonesian context, for the past 10 years or so, Indonesia's economic growth has been in the position of 5- 6%. In fact, the source of economic growth to date still relies on the use of natural resources. Industrial activities and utilization of natural resources that occur continuously will cause negative externalities to the environment in the form of pollution and environmental damage. Externalities occur when a person carries out an activity that has an impact on others, both in the form of benefits and external costs that do not require an obligation to receive or pay for it (Astuti et al, 2014: 50).

One of the negative externalities for the environment due to economic growth is climate change which has become a World issue. Indonesia is committed to reducing greenhouse gas emissions by 26- 41% (26% with self-funding and 41% with assistance from foreign/donor countries). In the era of President Susilo Bambang Yudhoyono, it was inaugurated through Presidential Regulation No. 6 of 2011 concerning the National Action Plan for reducing greenhouse gas emissions (RAN-GRK). Then, President Joko Widodo strengthened his commitment to reduce emissions to 29-41% for the period up to 2030. The commitment to 2030 was formalized through Law no. 16 of 2016 concerning the Ratification of the *Paris Agreement to the United Nations Framework Convention on the Climate Change* (*Paris Agreement on the United*

*Nations Framework on Climate Change*). Indonesia is the 6th largest emitter in the world, while East Kalimantan itself is the 6th largest emitter nationally (Andersen et al, 2016: 31).

On the other hand, the development of the extractive sector in East Kalimantan leaves problems in development, due to inadequate externalities management schemes. This is inseparable from the oil and gas and mineral and coal revenue sharing schemes which do not provide free space for local governments to manage externalities. In the oil and gas sector, the Profit Sharing Fund (DBH) sharing scheme is in accordance with Law no. 33 of 2004 concerning Financial Balance between Central and Regional Government, it is inadequate for local governments (provincial and district) in the province of East Kalimantan to manage externalities in this sector (Sulistio et al, 2019: 146).

The unavailability of a mechanism for calculating environmental costs means that the ecological impacts cannot be properly covered. The ecological losses to the economy are exacerbated by the mechanism of unfair income and DBH between the national and the regions. In East Kalimantan Province, DBH inequality is caused by the main result being received by the central government. However ecological losses that impact on economic productivity must be financed by the local government. These problems prompted the Provincial Government of East Kalimantan to proclaim green growth even though there were still many problems, especially on the political side in the form of policies.

To cope with the challenges of economic growth and ecological losses, the need for a new economic growth paradigm for future sustainable development is apparent. The “Green Growth Policy” initiated by the East Kalimantan Provincial Government symbolized the paradigm shift to a new future economic growth approach. This study is focused on the constraints associated with green growth policy in East Kalimantan. This study intends to answer the following question by analyzing East

Kalimantan Provincial Government's green growth policy, particularly what are the key constraints for the implementation of green growth policy in East Kalimantan?

## **METHOD**

The author built a research design using qualitative methods with case studies. Qualitative writing methods present a form of data collection and analysis that focuses on emphasizing and understanding meaning. The data collected comes from official documents and other supporting documents. The author in this method makes interpretations of what he sees, hears, and understands (Edmonds and Kennedy, 2017: 141), based on research questions, conceptual framework and research design. The author then examined the collected data to identify patterns and themes. Through this qualitative study, readers are expected to gain valuable insights into this case.

## **THEORETICAL FRAMEWORK: LIMIT TO GROWTH AND GREEN GROWTH**

Growing industrialization and increasing scale of economic activity had a negative impact on the ecosystem. Nature is under pressure from human population growth and economic growth. In the 20th century, 142 billion tonnes of petroleum, 265 billion tonnes of coal, 38 billion tonnes of iron, 760 million tonnes of aluminium and 480 million tonnes of copper have been consumed. The world economy is expected to grow by 3% per year until 2030 and more than 9 billion people are expected to live on earth by 2050 (Febriana et al, 2019: 5). From these data, economic growth will still have a bad impact on the environment.

The economy needs to be sustainable. This happens when simultaneously fulfilling all human needs and at the same time realizing that there are limits to maintaining the ability of the environment to meet present and future needs. Although, the price of natural resources rising due to an increase in the consumption of natural resources. However, nature still has limitations. As stated in the Book



of *Limits to Growth*, economic growth cannot continue indefinitely due to limited environmental capacity (Meadows et al, 2005: 30).

As a response of it, there arose a concept known as *green growth*. The concept of green growth concept originated from the Asia Pacific Region at the *5<sup>th</sup> Ministerial Conference on Environment and Development in Asia and the Pacific of the Economic and Social Commission for Asia and the Pacific of the United Nations Economic and Social Council* in 2005 (Chung and Lee, 2005: 30). Green growth is intended to drive economic growth and development by utilizing natural resources in a sustainable manner, efficiently utilizing clean natural resources, minimizing pollution and environmental impacts and resilience to disasters. In addition, green growth emphasizes on environmentally friendly economic progress in order to promote emission reduction and socially inclusive development. Green growth is also important for dealing with the impacts of climate change and is closely related to the concept of a green economy which aims to equalize and improve social welfare, and significantly reduce the risk of environmental damage and ecological scarcity (Harisman, 2012: 2).

The characteristics of green growth include: (a) Increased investment in *natural capital*, (b) An environmentally friendly economy through improved efficiency in the use of natural resources and ecosystem services in economic activities, (c) Strengthening environmental management and increasing environmental goods and services, (d) Creating multiple benefits for the economy and the environment. In the long term green growth can have an impact on poverty reduction because there is an increase in growth prospects and a reduction in the vulnerability of the socio-economic system to crises and external shocks in the long term (Jacobs, 2012: 7).



Figure 1. Five Desired outcomes of Green Growth  
(National Green Growth Roadmap for Indonesia, 2015)

## RESULTS AND DISCUSSIONS

### Economic Bases in East Kalimantan

It has been about 3 years since the author lives in Samarinda, the capital city of East Kalimantan Province. The author has had many conversations with residents, government officials and existing stakeholders about various aspects, particularly economic aspects. From this discussion, it can be concluded that since 1990 until now, East Kalimantan has depended on the economic sector based on non-renewable natural resources. For approximately 20 years the forestry sector has been the backbone of the economy, the rate of economic growth at that time was able to reach 7.42% per year. The shift in the basis of the economic sector occurred in the 90s when the mining sector began to become the basis for the regional economy replacing the forestry sector. In the 1990-2000 period, the mining, oil and gas sector and the refining industry for oil and natural gas began to take over economic dominance. The economic growth rate is relatively lower, namely a maximum of 5.71% per year. Entering 2000, the non-oil and gas mining sector, namely coal, shifted the position of the oil and

gas mining sector. Currently, the coal mining sector can no longer be relied on to sustain the economy of East Kalimantan (Harefa, 2019: 149).



Figure 2. Biggest Economic Bases in East Kalimantan  
(Central Statistics Agency of East Kalimantan, 2020)

Based on data from the Central Statistics Agency of East Kalimantan Province, economic growth in East Kalimantan is greatly affected by fluctuations in the mining industry. In 2015 and 2016, economic growth in East Kalimantan was recorded at -1.20% and -0.36%, in line with the mining sector's performance which was also recorded to be negative. The mining sector's contribution to the economy reached 46.33%. Thus, when this sector contracts, it will generally suppress economic growth. The potential of abundant natural resources is still vulnerable to affect regional economic growth. Commodity price fluctuations have even become a major obstacle to economic acceleration. East Kalimantan's main economic sector, namely coal mining, is predicted to remain stagnant until 2019 (Official Statistic News, East Kalimantan Statistics Agency, May 5, 2019).

On the other hand, East Kalimantan is one of the deadliest provinces for its citizens. Since the colonial era, they have exploited nature. Through exploration and natural gas and until now this has

happened, natural wealth continues to be dredged. The area owned is 12.7 million hectares. Of that figure, 46 percent or the equivalent of 5.2 million hectares is allocated for mining. Meanwhile, the plantation area is only 3.37 million hectares. No more than 4.27 million hectares is the living space that must be divided for houses of worship, hospitals and schools, roads and markets, as well as playgrounds and settlements for a population of 3.4 million. East Kalimantan with all forms of policies, both central and local, plans to create a living space that is bad to frighten the people. The author believes that any kind of extraction permit will cause destructive, threatening, illegal and life-threatening powers (Yovanda, 2017).

### **Political Aspect as the Main Constraint**

Therefore, the East Kalimantan Provincial Government together with the Ministry of Environment and Forestry, District / City Governments, representatives of civil society and representatives of the private sector in East Kalimantan, in 2016 carried out the Kaltim Green Declaration, compiling strategic documents for Low Emission Development , RAD GRK, SRAP REDD +), development of supporting policies for the development of East Kalimantan Green (Pergub and Perda), institutional strengthening (Regional Council for Climate Change and development partners), as well as jurisdictional and landscape-based trials (PKHB, HoB, FCPF, landscapes Wehea-Kelai). In order to expand the initiatives that have been built and as an effort to accelerate the realization of the development of Kaltim Green throughout the East Kalimantan region, the stakeholders agreed to unite their commitments, initiatives, enthusiasm and work steps in the *Green Growth Roadmap* (Wahyuni et al, 2019: 146) .

This is based on the fact that the economy of East Kalimantan is becoming increasingly inefficient in the use and management of its energy resources. High economic growth is created solely through increased production / exploitation of natural resources, such as oil and gas and coal. Therefore, an economic transformation is needed which

necessitates a change in the economic structure of East Kalimantan. The development of East Kalimantan must be more directed at releasing economic dependence on non-renewable natural resources, such as oil and gas and coal (Nababan et al, 2016: 211-228).

This dependence is mainly caused by obstacles posed by political aspects in the form of policies that do not or do not respect natural resources which are natural capital that should not be exploited. Besides, investment policies with conventional patterns where only concerned with profit without thinking about the impact on the environment. Lastly, the problem of institutional design and this is very difficult to solve because it deals with various stakeholders. Institutions in Indonesia are arguably still inefficient. This is due to high transaction costs, high information asymmetry, and overlapping regulations or policies in Indonesia.

### **Future Resolutions**

To realize *Green Growth* in East Kalimantan, of course, it is necessary to pay attention to several aspects which according to the author are very important, namely politics, economy and social. Political Aspects, policies play a key role in realizing *green growth*, policy makers can build a *green growth* strategy, with the help of their commitments. For example, Kazakhstan is making a shift towards *green growth* by integrating *green growth* with green economy with the help of the National Strategy for Sustainable Development, regional management strategies, and programs initiated by the State. Likewise, China and South Korea have *green growth* plans for 5 years which are supported by *green industry* policies based on *green technology*. Another example is the UK, where a low carbon economy was proposed in an energy white paper entitled "Our Energy Future: Creating a Low Carbon Economy" which was published by the UK government in 2003. Policy makers can use policy instruments to increase *green growth* with taxes carbon, carbon tax adjustments and virtual carbon trading.

Economic Aspects. *Green growth* can be realized primarily through innovation in *green technology*; entrepreneurship; *Eco Industrial Park* and green supply chain. *Green growth* can be achieved through innovations that can result in production processes and products that are environmentally friendly. Innovation in green technology can be enhanced with patent policy instruments, universities as knowledge-producing institutions can be involved as engines of economic growth through cross-sectoral university partnerships and collaboration between universities and social stakeholders. Entrepreneurship can drive innovative sustainability technologies and clean technology markets. Entrepreneurship can play an important role in the development of a sustainable economy. The green technology market and the green product market can be supported by eco labeling because it can affect consumer demand for these products. Not only products but also production processes must be environmentally friendly so that *green growth* can be achieved. *Eco Industrial Park* and green supply chain can improve the sustainability performance of the whole production process.

Social Aspects. *Green growth* can be achieved if it is supported and embraced by individuals. Individuals play a key role in driving change towards sustainability because they can influence both production processes and products as well as policies and institutions through their demands and awareness. Individuals and organizations, as *sustainable leaders*, can act as agents of change for sustainability and can encourage *green growth*. The emergence of these agents of change can be supported primarily through formal and informal education and through the media. Political, social and economic aspects are interrelated and mutually supportive. Political and economic aspects are intertwined because policy instruments can influence a company's decision to invest in an environmentally friendly production process. For this reason, the three aspects must be considered together so that *green growth* in East Kalimantan can be realized.



## CONCLUSION

The economic condition in East Kalimantan is currently dependent on natural resources. This creates negative excesses, both in environmental and social aspects. In the environmental aspect, extractive economic activities have made East Kalimantan one of the provinces with the largest carbon emission contributor in Indonesia. Meanwhile, on the social aspect, the extractive economic activities carried out have not provided maximum benefits to the surrounding community. Therefore, it is necessary to have efforts to realize Green Growth in East Kalimantan by paying attention to political, economic and social aspects. The political aspect is the most important thing because policies play a key role in realizing green growth, policy makers can build a green growth strategy, with the help of their commitments. However, political, social and economic aspects are interrelated and mutually supportive. Political and economic aspects are interrelated because policy instruments can influence a company's decision to invest in an environmentally friendly production process and have an impact on social aspects. These three aspects must work together in harmony so that green growth in East Kalimantan can be realized.

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# Understanding the Role of Multinational Enterprise Representatives in Indonesia Towards Geothermal Investment Opportunity in Emerging Economies

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## Abstract

Indonesia is a nation that is surrounded by aquatic resources and other major natural resources which can be utilize and converted to power through an investment program that allows investors to set up a clean energy project from geothermal, hydro (river or reservoirs), wind, biomass and wave (ocean). The most significant issue is the implication of internalization towards multinational enterprises by investing in geothermal energy projects in Indonesia. Indonesia's natural resources has attracted foreign enterprises to invest in a state with emerging economies, understanding that is still under development. Presently, Indonesia is still developing its regulation and availability to supply power demands from multiple areas that are rural, lack of electricity and transmission lines by comprehending the role of multinational enterprise which was triggered by the theory of internalization and investment.

**Key Words:** Multinational enterprise, Geothermal, Investment

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## INTRODUCTION

Multinational enterprise (MNE), as one of the main non-state actors plays an important role in developing states and also as an enterprise that governs and manage organization and productions that exist in at least two countries (Caves, 2007). A multinational enterprise has various terms such as transnational enterprise which may refer to as 'corporation' others are international corporation which may refer to as 'firms' (Kusluvan, 1998), however, others has its own preference to utilize the term 'firm' when explaining the emerging market (Hennart, 2009).

An enterprise is commonly known as a business organization, a concept that is practically operated by a certain individual who placed capital or a number of funds to run its business before earning profits (Caves, 2007). When the existence of an enterprise has multiplied throughout different states, then it is referred to as multinational. One of the purposes for MNE to strive its business is to invest in a developing country such as Indonesia, that is still in the process of improving its economy growth, increase of infrastructure and utilization of natural resources.

The economic growth of one nation is commonly supported by both private public partnership (PPP). Even so, some resources that the Indonesian Government started to harvest intensely such as oil and gas and geothermal resources. The Geothermal exploration activities has begun to excavate for the upstream section in 1970 but in the 1960's, geothermal surveys were conducted and resulted more than 200 potential heat temperature signatures shown (Hoshstein & Sudarman, 2008) while 300 more were detected which is equivalent to approximately 28 giga watt (GW) within the ring of fire (Pambudi, 2017) that can be utilized and transformed to electricity.

In 1983, a large scale of geothermal development started in Kamojang, West Java (Radja, 1995) as one of the slowest developments progresses

commencing 110 MW in 1982-84 (Fauzi, Bahri, & Akuanbatin, 2000) by PT. Unocal Geothermal Indonesia (UGI). Nevertheless, the success of the Kamojang project resulted UGI's geothermal exploration with 32 production of steam and 19 injection in total which were supposed to be able to generate 345 MW.

In 1991, the amendment of the 1981 Presidential Decree No. 22 granted the State Oil and Mining Company (*Perusahaan Tambang Minyak* (Pertamina) currently known as Pertamina, the authority to undertake exploration and exploitation of geothermal energy resources in Indonesia as well as to generate electricity from these resources. In 1993, PT. Unocal North Sumatera Geothermal's (UNSG) investment program resulted 3 successful wells out of 13 to explore the upstream of geothermal resources. This success gave the opportunity for UNSG to collaborate with Pertamina and State Gas Enterprise (*Gas Bumi Negara*) currently known as *PT. Perusahaan Gas Negara* (PGN) which they legally engaged as Joint Operation Contract (JOC) in February 27<sup>th</sup>, 1993, in conjunction to the signing of the Energy Sales Contract (ESC) with the General Electricity State-Enterprise (*Perusahaan Umum Listrik Negara*) currently known as *PT. Perusahaan Listrik Negara* (PLN) that allows one side of the collaboration to manage the heat and steam as a source of primary fuel and on the other side to manage the downstream, off-taking the electricity distribution.

When the Asian Financial Crisis hit in July 1997, the Indonesian Central Government was stranded, leaving the state with insufficient funds to execute multiple projects that involves high way road, buildings and several geothermal power plant projects such as Wayang Windu, Kamojang, Sibayak, Cibuni, Sarulla and Bedugul, to be suspended as poured under the Presidential Decree No. 9 year 1998. For several years the Indonesian Government effortlessly managed to recover its economy by promoting foreign investment opportunities in the energy sector as one of the solutions.



In year 2000, when the political and economic situation gradually calmed, the system eventually became neutral leaving the economic state plundered which then required foreign investments to assist with the recovery of the Indonesian economy by calling out investment opportunities mainly to trading companies to invest in Indonesia since it needed the economy to grow by utilizing geothermal resources and appointing the Utility State-owned Company (PT. Perusahaan Listrik Negara (Persero) or PLN) to manage all resources involving with the Indonesian electrification through a series of procurement stages scheme.

## **METHODOLOGY**

The research is using constructivism approach type of qualitative research, concentrating and understanding a foreign company's approach towards the host country. Constructivism, can be defined as a “state interaction is not among fixed national interest, but one must be understood as a pattern of action that shapes and is shaped by identities over time” (Griffiths, O'Callaghan, & Roach, 2008). As an example, country A may not have any benefit by establishing a diplomatic relation with country B but from a business perspective, country B may want to seek opportunities towards country A. Assuming that country A is Japan and country B is Indonesia, Japan may lack of resources but it turns out that Japan is far more advanced compared to Indonesia because they are superior in terms of economic growth, advanced in technology and knowledge. From this point of view, country B with lack of technological advance and economic growth requires support from country A.

By adapting various theories, the Internalization concept that is was developed by Ronald Coase in the field of international business in the 1930's (Casson, 2014) which was used to describe the injection of foreign capital as an investment towards prosperous future market. Casson (2014) believed that by applying the internalization theory, MNE can play a greater role in the international economy after

determining the location and trade activities. Buckley and Casson (2009) describes internalization as “general principle that explains the boundaries of organization” (p. 1566) which means that every corporate organization whether its private or state-owned has limitation to play its role in the international level should they succeed their business in the home country.

The act of injecting capital in Indonesia gives the opportunity for MNE and host country to improve its economic growth in an indirect act of exchange MNE to invest long term in the energy sector is also known as international investment, however, international investment is classified into two parts, foreign portfolio investment (FPI) and FDI. Soltani (2009) describes FPI as an act of investing in a portfolio of foreign securities such as stocks and bonds (p. 695).

## RESULTS AND DISCUSSION

### **The Role of Multinational Enterprise Representative Office as an Independent Power Producer**

The role of home country representative office gives an important role to investigate the domestic market and investment opportunities. Under geothermal development, developers need to understand the mechanism as IPP in relation with the acquirement of license and permits from upstream and downstream.

Every head quarter office that intends to expand their organization and increase portfolio designates its representatives to set up branch offices in the host country. A representative office generally contains two primary officers, Chief Representative and Deputy Chief Representative, these two are dispatch to represent the company in assessing the market to seek new portfolio or investment opportunity. When marketing and business development support is required, local employee will be hired only to perform the necessary and specific given task. The representative office is also provided with a limited decision making, mainly which involves low level general issues. One of the main reasons

for representative office to have a slow pace of coordination is due to the company system that requires particular employee or management level that has the power to decide.

In the case of IPP (Independent Power Producer), Representative Office has the obligation to comprehend regional and national regulation involving administrative and commercial aspects. As an investor and developer, acquiring principle license (*Izin Prinsip*) would essential to initiate the investment activity accompanied by a project proposal comprising of location, fuel supply and demand area. The coordination of the representative office towards local government officials to obtain land acquisition followed by location permit (*Izin Lokasi*). To conduct electricity business supply, an IPP need to obtain an electricity business supply permit (*Izin Usaha Penyediaan Tenaga Listrik*).

The above paragraph is a common practice for IPP investment, however, in the field of geothermal the procedure is unique unlike other IPP. Geothermal poses a serious making and losing money. Initial exploration was held by the Indonesian Government with positive result of proven or potential energy which can be managed as these heat working areas (*wilayah kerja panas*) will be procured for the license by the MEMR to select credible enterprise with strong financial and technical background.

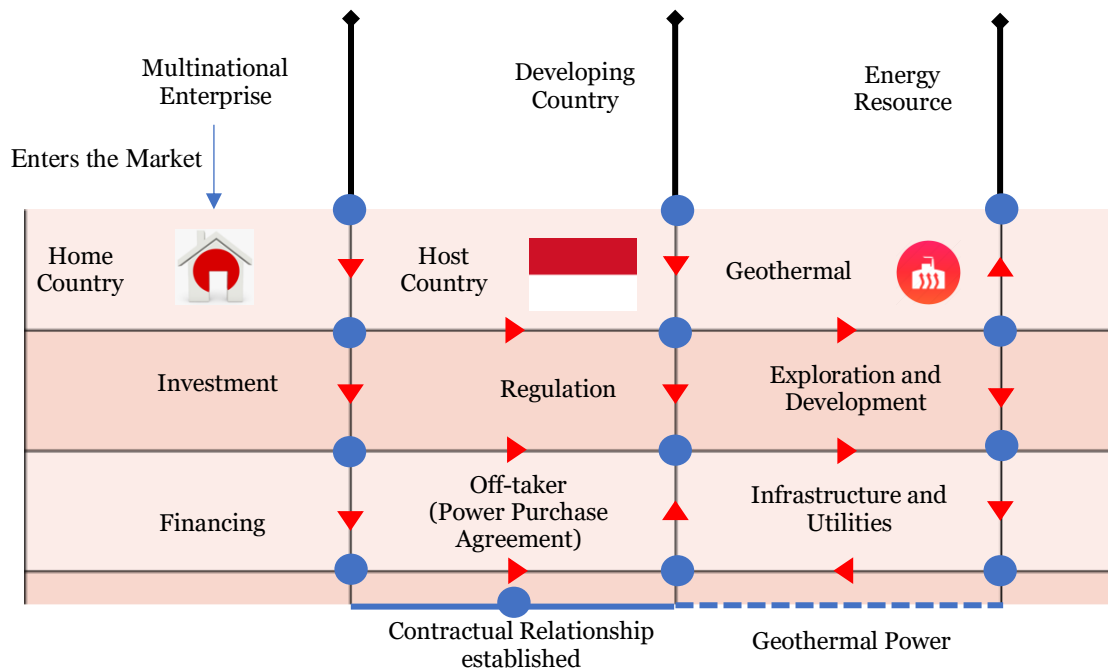
Table 1 Type of Geothermal Business for Foreign Capital Investment

No.	Business Field	Requirement
1	Geothermal Exploration (drilling)	Maximum foreign capital investment 95%
2	Geothermal survey	Maximum foreign capital investment 95%
3	Operation and Maintenance of Geothermal Services	Maximum foreign capital investment 90%
4	Power Plant < 10 MW	Maximum foreign capital investment 67%
5	Power Plant > 10 MW	Maximum foreign capital investment 95%

Source: President Regulation of the Republic of Indonesia No. 44/2016 (*Peraturan Presiden Republik Indonesia Nomor 44/2016*)

In the schematic diagram of IPP illustrates how MNE would enter into the Indonesian market from home country base and monitor the movement of the Indonesian law. At the same time, host country has prepared a set of law for implementers wanting to invest. It is up to the representative office to identify which market they intend to enter. Once all regulatory law has been acknowledged, an MNE is able to execute the necessary obligation to fulfill and accountant to the content of the PPA.

Figure 1 Schematic Diagram of IPP



There are multiple efforts that need to be done and the importance of a representative office to act on behalf of the principle office in home country. The host country's responsibility is to provide with a set of underlying regulation to manage investors so they can follow and implement accordingly. According to Figure 3 below, compliances and understanding on the law as regulated for various investment

requirements are mandatory to avoid any unwanted and unexpected activities in the future.

Under the President Regulation, the Indonesian Investment Coordinating Board (*Badan Koordinator Penanaman Modal / BKPM*) can directly issue its regulation as instructed by the President for investment purposes. The BKPM regulation No. 6 Year 2011 (*Peraturan BKPM No. 6 Tahun 2011*) revised to No. 5 Year 2013 (*Peraturan BKPM No. 5 Tahun 2013*) concerning Guidelines for License and Permits of Non-Capital, allows an organization or individual to create a new entity. Foreign enterprise can be registered as a local company under *Perseroan Terbatas* (PT) with maximum capital.

The function of a representative office is absolute and in need to comprehend every aspect of legalities that are poured down by the Government of Indonesia. Each of the ministries governs its own domain to rule. Without comprehending the domestic law, doing investment would be difficult especially foreign MNEs have certain obligation towards business networking and obtaining local partners that are able to point and guide their foreign partner to the right direction of investment.

When Indonesia faced the financial crisis in the end of 1997, the Gross Domestic Product (GDP) declined to 13% which shows fixed investment fell by 35.5% and finally started to grow in 2000 by 4,5% (Strauss, et al., 2004). The currency of Indonesian Rupiah towards US Dollars depreciated massively, and it has been more than a decade for Indonesia to revitalize its economy.

One of the plans to recover Indonesia's economy was to increase the investment program throughout various sectors such as utilities and infrastructure. After many years of planning and developing, the Indonesian Government finally took a leap of step of prosperity towards economic growth. The breakthrough of encouraging a bilateral and multilateral cooperation with neighboring countries such as Japan is to

earn infrastructure loan with relatively small amount of interest from the Japan International Cooperation Agency (JICA) or other financial organization known as Asian Development Bank (ADB) or Export Credit Agency (ECA) and even World Bank, that may be able to fund potential geothermal energy projects which are scattered throughout the country. This tactic is one of the diplomacies ways of influencing the society and persuade the Government to reduce the usage of fossil fuel and start supporting the possibilities of utilizing renewable energy basis as part of the go-green program since the 20<sup>th</sup> century.

As part of the Japanese Government plan to enhance their cooperation with its Asian neighboring countries is by expanding market influence in exchange of fossil fuels and carbon credit. The strategy to realizing a vast opportunity, the Indonesian Government performed a direct advertise to promote foreign investment in the Indonesian soil, and by setting up representative offices, these enterprises are able to monitor as well take part in the investment plan, financing and construction opportunities and even trading activities of coal for instance.

### **Demand and Renewable Energy as Solution**

Natural resources are abundant with several disadvantages to implement; possessing lack of skills, labor and funds. According to the 2016 Statistic of New, Renewable and Conservation Energy of the Ministry of Energy and Mineral Resources (*Statistik EBTKE 2016, Kementerian Energi dan Sumber Daya Mineral*), Indonesia's natural resources has the capability to electrify the whole archipelago, considering the significance and major additional investment is required to reach remote and isolated areas mainly renewable energies. With tremendous energy potential such as hydro and geothermal, Indonesia would have been able to strengthen its economic growth from microeconomics point of view although multiple obstacles still need to be considered.

According to Table 2 below, the table indicates that the potential of renewable energy in Indonesia is tremendously vast where each part



has been declared as unity of the Indonesian energy mix (Hasan, Mahlia, & Nur, 2011) whereas in 2017, both MEMR and the National Energy Council (*Dewan Energi Nasional*) agreed to reduce fossil fuels and focus in clean energy programs and maximize the natural resources which then was applied through the Government Regulations No. 79 Year 2014 (*Peraturan Pemerintah No.79 Tahun 2014*).

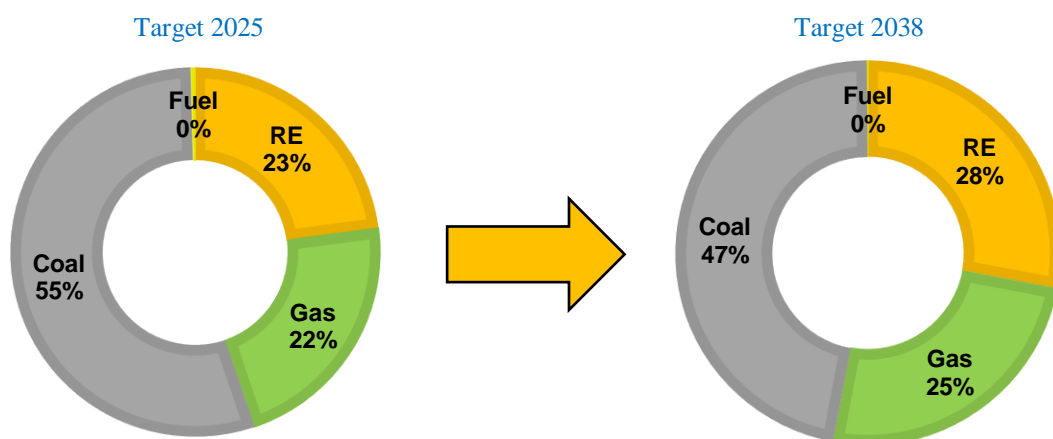
Table 2 List of Indonesia's Potential Renewable Energy

No	Type	Potential (MW)
1	Hydro	75,000
2	Solar Photovoltaic (PV)	207,898
3	Bioenergy (Biomass)	32,653
4	Wind Power	60,647
5	Wave Energy	287.822
6	Geothermal	29,543

Source: EBTKE Statistik, 2016

This situation caused global stakeholders to witness Indonesia's investment opportunity. It cannot be denied that Indonesia has several potential disadvantages such as lack of knowledge and experience, technology, financial resources and most of all constant change of investment regulation.

Figure 2 *Energy Mix from 2025-2038*



Source: RUKN 2019-2038

In order to preserve the national energy's reservoir, countless of issues such as renewable energy has been predicted to sustain Indonesia's natural resources such as gas and geothermal and even Biomass. Foreign enterprise as investors or IPP developers finds interest in investing and importing Indonesia's finest resources, considering a nation who holds 40% of the world's geothermal energy (Wijaya & Limmeechokchai, 2009), the larger the energy production, the bigger the risk and the heavier investment is needed (Gupta & Roy, 2007).

Since 1978, Indonesia has been operating the first geothermal plant, by 2005 only 3-4% of the reserves were used for power generation (Haehnlein, Bayer, & Blum, 2010) and until present, Indonesia has implemented approximately 2,133 MW which is considered as the second largest geothermal implementer in the world (Richter, 2020). While the raising energy demand still increases in each major island with the upcoming special economic zones, industrial estates, smelting plants and regasification facilities, etc, as referred to Table 6 below.

### **MNE's Strategy for Conducting Geothermal Investment in Indonesia**

Geothermal IPP developers are mostly dominated by foreign MNE's involvement. As a state, Indonesia has the interest to strengthen its currency by enforcing every individual or organization to utilize Rupiah within the state of Indonesia based on the regulation issued by Bank of Indonesia number 17/3/PBI/2015. Investors would find it less interest to invest by receiving payment in Rupiah by the off-taker, and as most of the foreign MNE are importing goods using foreign currency, investors will have difficulties to adjust with the local ceiling tariff due to the raise of currency risk to hedge their cost. Hedging tariff allows the developer to input more contingencies by referring to the present currency and minimize the risk.

Some adjustments were taken into consideration for the Central Government to provide flexibilities and easiness for investors. The one stop service (OSS) were strengthen since the issuance in 2009 and reapplied in 2016 regarding the application of local permits. Previously, local permits are often difficult for developers to obtain with several obstacles from land issue and bureaucratic intervention. The OSS were endorsed over to the Investment Coordinating Board (*Badan Penanaman Modal*) to manage all offices whether provincial or regional. Ever since then, managing license and permit are must simple as some of the advanced provincial areas have applied online system.

The second flexibilities which that allowed geothermal developers to use foreign currency within the state of Indonesia based on the approval from Bank of Indonesia on December 27<sup>th</sup>, 2016, giving permission to geothermal developers to use foreign currency which then it shall be paid in Rupiah for twelve type of transaction including the import of main equipment that are not able to be fabricated domestically. The Sarulla Operations Ltd were listed as one of the companies given this privilege as they have acquired their financial support from JBIC and ADB as well other twenty enterprises in order for them to manage their flexibilities with the master list that comprises of equipment of goods and services that are not able to be manufactured locally and should be import. The master list is generally provided or proposed by the contractor to allow them reduce cost and receive custom duty exemption.

The business concept of an IPP requires 30 percent of equity and 70 percent of debt in order to maintain stability of the company's financial statement. In some case, lenders would provide more than 70 percent which require guarantor, it can be an insurance company or even a government guarantee, such case happens when a state is seeking external loans, mostly through JICA, KFW or even ADB that will be inserted into the Green Book of external loans of the National Development Planning Agency (*Badan Perencanaan dan Pembangunan Nasional*). Each financial institution has compliances

from the World Bank and debarment of global enterprises that are highly recommended not be involved with the development or construction or any sort of activities that need to be followed by the borrower including holding tenders, if necessary, the holder will need to follow their procurement guidelines.

An IPP investment specifically in geothermal, because of its large investment in the upstream to explore possible steam from the heat after it has been injected into the earth, a large number of funds are needed to be spent for such activity. In case the first injection fails to produce steam from the heat, the exploration will need to be continuously conducted until there are possible outcomes.

The result of UNSG's involvement during the development stage forced them to spend USD \$80 million, which is the value that was proposed to be sold to PLN and Pertamina while the agreed price to be taken over was USD \$60 million. This will sum up to the total investment from the exploration of the steam production and included into the fuel expenditure or Component C based on the PPA ceiling tariff.

Ever since the issuance of the MEMR Regulation No. 17 Year 2014 (*Peraturan Menteri ESDM No. 17 Tahun 2014*), ceiling tariff has been exclusively issued for geothermal, indicating three different regions (region 1 for Sumatera, Java and Bali; region 2, Sulawesi, West and East Nusa Tenggara, Halmahera, Maluku, Irian Jaya and Kalimantan; and region 3, that are isolated from region 1 and 2) with different ceiling tariff.

Table 3 Geothermal Ceiling Tariff

Year of Commercial Operation Date (COD)	Ceiling Tariff (cents US\$ / kWh)		
	Region I	Region II	Region III
<b>2015</b>	11.8	17.0	25.4
<b>2016</b>	12.2	17.6	25.8
<b>2017</b>	12.6	18.2	26.2
<b>2018</b>	13.0	18.8	26.6
<b>2019</b>	13.4	19.4	27.0
<b>2020</b>	13.8	20.0	27.4
<b>2021</b>	14.2	20.6	27.8
<b>2022</b>	14.6	21.3	28.3
<b>2023</b>	15.0	21.9	28.7
<b>2024</b>	15.5	22.6	29.2
<b>2025</b>	15.9	23.3	29.6

Source: MEMR Regulation No. 17 year 2014  
(Peraturan Menteri ESDM No. 17 Tahun 2014)

The Multinational Enterprises have started to attract each other, learning that the market can finally be created to race towards renewables. The world is at pursue for geothermal projects whereas as per 2019, Indonesia have set its rank to be the second largest geothermal implementer in the world after the USA, leaving a gap of 1.5 GW differences. Indonesia is setting a course to increase more geothermal power plants and other renewables in order to achieve 23.80% of renewables.

## CONCLUSION

The concept of MNE and internalization gives a broader view of why investors stepped into the Indonesian soil. As a result, natural resources are the main objective to harvest for the interest of an organization's internal economic stability, profit, etc. But the main point is due to home country investment opportunities have grew less and Indonesia happens to be a developing country with over 100 million of population

and still lack of electricity. The people in Papua are striving to be educated with limited facility, some may still need to work during evening with candle lights; remote and isolated islands that lack of infrastructure and transportation.

MNE are extremely enthusiast to invest but political intervention can cause to slow down due the unpredicted shift of law's. Nonetheless, stakeholder involvement is quite significant in the power industry and power market, even private organizations such as *Masyarakat Energi Terbarukan Indonesia* have stood up against stakeholders and government to concentrate on the renewable investment program to reduce CO<sub>2</sub> and be more sustainable towards the environment.

Although public announcement was made to inform investors that major islands such as Java, Sumatera and Kalimantan have claimed to be over supply except in rural areas, but the most strategic location with various selection of economic boost comes from these areas.

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