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The IEA-Indonesia Energy Transition Alliance: Towards Indonesia's Leadership in Global Energy Governance?

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Summary

A few weeks ago, Indonesia and the International Energy Agency (IEA) have signed an agreement to establish the IEA-Indonesia Energy Transition Alliance. The Alliance will be the platform for both parties to enhance collaboration in developing energy policy, mobilizing high-level political engagement, and accelerating the energy transition. But regardless of its technocratic measures, there is a more important political mission underlying the establishment of The Alliance, which is Indonesia's aspiring leadership in global energy governance. As stated in the IEA's press release, the Alliance will allow the IEA and Indonesia to build new partnerships and workstreams to support Indonesia's international energy leadership (IEA, 2021). Can Indonesia be successful in carrying out this mission? The normative answer is that only the time will tell, but Indonesia certainly has the potential to be so. Ensuring that it has political and economic influence will be crucial should Indonesia aspires to a leadership role in the global energy governance.

Keywords: The Alliance, leadership, Indonesia, the International Energy Agency (IEA), energy transition, political and economic influence

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Lessons from the Past

Historically, Indonesia has had significant roles in shaping the global energy order. A country of abundant natural resources, Indonesia holds enormous potential to be a leading energy-exporting country. Prior to its independence, Western-colonial powers have paid attention to Indonesia's energy potential. At the end of the 19th century, the Netherlands Indies Government had exploited Indonesia's coal reserve in South Kalimantan and West Sumatra (Friederichs and Leeuwenb, 2017; Devi and Prayogo, 2013). By the beginning of the 20th century, the Dutch had even begun to exploit oil reserves in East Kalimantan, which later became the baseline for the emergence of the Royal Dutch Shell (Yergin, 1991).

Following the independence of Indonesia, the government initiated massive nationalization for almost all of the ex-colonial companies. Energy companies were included in the agenda, and the Indonesian government started to use them to fulfill domestic demand. Regardless, foreign companies were still trying to extract Indonesia's oil reserves. Under the New Order regime, the government decided to introduce a new oil contract known as Production Sharing Contract (PSC), allowing a foreign company to exploit oil reserves only as a contractor, while the whole concession area belonged to state-owned oil enterprises (Dunn, 2017). The contract introduced by Indonesia's government was one of the first-known PSC in the global upstream industry and was followed by many oil-producing countries afterwards.

As an oil-exporting country, Indonesia joined The Organization of the Petroleum Exporting Countries (OPEC) in 1962. Indonesia was supposed to benefit significantly from the oil boom taking place a decade later, as it brought profit from the rising oil price in the international market. However, due to the mismanagement of state-owned oil company Pertamina and the undergoing corruption around New Order elites, Indonesia missed a chance to make use of the oil boom to build the country even further (Davidson, 2015). On the contrary, Pertamina was nearly bankrupted, and the government was forced to spend billions in bailing out the company.

While the oil boom had been a fortune for most oil-exporting countries, oil-importing countries saw this event as a crisis, and they began to mobilize political interest into the institutional arrangement. This is how the International Energy Agency (IEA) was born; it served as an institutional arrangement to cope with oil supply disruptions and as an agency for policy development, information-sharing, and technology transfer for the Organisation for Economic Co-operation and Development (OECD) countries (van de Graaf, 2013). Many prominent scholars regard this period as *the age of oil*, a period when oil became an essential source for industrial and military needs, as well as a commodity that shaped the global geopolitical pattern (Maugeri, 2008; Pfeiffer, 2004; Yergin, 1991).

Despite maintaining its oil production, Indonesia's energy demand has grown significantly. By the beginning of the 21st century, Indonesia's oil consumption had exceeded its domestic production, forcing them to import oil from abroad. It changed Indonesia's energy profile to be a net oil importer, and eventually, Jakarta decided to leave OPEC. Following this event, Indonesia's bargaining power within global energy governance had reduced significantly, not only because it did not belong to any influential global energy institution but also because of its fossil fuels-based energy profile.

In parallel with the technological development, the cost of renewables has reduced significantly, allowing countries to phase out from fossil fuels at the end of the 2000s. The fossil fuels phase-out was also driven by the global decarbonization agenda, mandated in the Paris Agreement, to reduce the amount of CO₂ emission in favor of preventing climate breakdown. They marked the beginning of the large-scale energy transition process from fossil fuels to low-carbon renewables. However, Indonesia seemed to misunderstand this dynamic. Compared to its neighboring countries, Indonesia's pledge for energy transition was relatively unambitious², leaving Indonesia from taking significant roles in the current global energy order.

Given the trend of growing energy consumption outside of OECD countries, followed by effort to globally decarbonize energy sector, the global energy governance is currently facing complex multi-dimensional problems. Adjusting to this development, the IEA has tried to expand its scope and began to partner with non-OECD countries, including Indonesia in 2015. As a country that is projected to have significant energy demand growth,³ combined with abundant and yet untapped renewable energy potentials, Indonesia once again becomes relevant to get involved heavily in the global energy governance.

Looking Ahead: Indonesia's Role in Global Energy Transition

Indonesia will gain the momentum to increase its role in the global energy governance. In 2022, Indonesia will hold the presidency of G20 and the chairmanship at the Association of Southeast Asian Nations (ASEAN) in the following year. But this momentum will vanish if Indonesia fails to shape the institutional agenda of these organizations. Indonesia's leadership is therefore expected, and to become a leader in Southeast Asia and beyond, it needs to have political and economic influence (Suryadinata, 2021). Regarding energy affairs, Indonesia needs to assess in which part it can play a significant role.

To generate the political influence in the global energy governance, Indonesia should become the representation and voice out the aspiration of the Global South. With its political and historical background, Indonesia is arguably respected by both Northern and Southern counterparts. But in the context of international energy relations, the energy transition will present challenges for the Global South, particularly on the trias of technology, finance, and trade (Goldthau et al., 2020). At the same time, global energy governance lacks a figure that can bridge the gap between developed and developing nations in carrying out a just and inclusive energy transition. Indonesia could fill this role by sharing its experiences and directing the available capacity development measures to developing countries. Under Indonesia's leadership, the global energy governance must ensure that the energy

² Indonesia pledged to increase its renewables share by as much as 23% by 2025. However, as of the first quarter of 2021, the share of renewables in Indonesia's energy mix only accounted for 11.3%, relying upon a significant proportion of primary energy sources from oil and coal. Indonesia is also lagged behind Vietnam and Thailand in Total Renewable Energy Capacity by 2019. See: Umah 2021, Power Technology 2021.

³ Indonesia will undergo energy demand growth of 4.3%-5.0% annually up to 2050, depending on the selected scenario. It opposes the projection of energy demand in developed countries, mostly declining due to energy efficiency and technology development. See: National Energy Council 2019.

transition will not only result in a decarbonized energy sector, but also increasing economic development, social welfare, and political stability of the Global South. It will facilitate the developing countries to take part in the energy transition while simultaneously strengthening multilateral institutions to preserve common goals.

The burden to generate political influence now lies at Indonesia's decarbonization commitment. Indonesia might become the representation of the Global South. Still, it also has to initiate considerable decarbonization efforts to assert its political influence, mainly by pledging a more ambitious energy transition scenario with detailed regulations on accelerating the utilization of low-carbon renewables. In other words, the challenge for Indonesia to assert its international leadership depends highly on how far Indonesia can transform its current energy landscape, the least by showing alignments towards renewables instead of the fossil fuels utilization. Here, the Alliance might hold a critical role, as it is projected to catalyze Indonesia's energy transition policies and intensify Indonesia's normative presence among OECD countries. On the other hand, Indonesia can provide examples of improving rural electrification in rural and isolated areas in socially accepted manners. This could increase the IEA's expertise to expand its scope in delivering policy advice to developing countries. The Alliance, therefore, could be a mutually beneficial platform that enhances the technical capacity and political influence of both parties.

As for generating the economic influence, Indonesia cannot rely on its overall growth measured by traditional economic benchmarks. Beyond energy demand and supply consideration, Indonesia must develop specialty based on the advantage that it holds. Considering it keeps a quarter of global nickel reserves, Indonesia can build a specialty as a global hub of battery production, a central commodity for electric vehicles and power generation. Indonesia had realized this matter, having attempted to develop its downstream nickel industry in the last couple of years (Guild 2021). The government has also arranged a plan to establish the Indonesia Battery Corporation (IBC) involving Pertamina, the state-owned electricity company PLN, and state-owned mining companies MIND ID and Aneka Tambang (Tani 2021).

While Indonesia has gone in the right direction in adapting its industrial capacity, it still needs to address challenges to establish a distinguished battery industry ecosystem. First, it is essential to secure huge capital investment without sacrificing future market potentials and local content prioritization. In other words, the investment needs to be collected through low-risk funds, avoiding geopolitical implications of great-power rivalries. Second, Indonesia has to enhance its Research and Development (RnD) capacity and drive low-carbon inventions, such as renewable power generation, smart grid, and battery technologies breakthroughs. Innovation lies at the heart of the high-tech industry, and only by enhancing RnD capacity can Indonesia create a good ecosystem for it. In addressing these challenges, Indonesia might and shall utilize the platform provided by the Alliance, as it paves a way to explore the possibility of investment and technological expertise from OECD countries.

Transforming industrial structure from purely extractive to technologically advanced will result in inevitable resistance from the forsaken ones. But to generate the economic influence, Indonesia must catch the trend from global dynamics and reduce its dependency on extractive and carbon-intensive

industry. Taking a lesson from the past, Indonesia must not lose the current “green technology boom” momentum to increase its economic development. Persuading industrial players to work hand-in-hand will be the key for Indonesia’s industrial transformation that leads to an increasing role in the global energy order.

Conclusion

Following the establishment of the IEA-Indonesia Energy Transition Alliance, it is important for Indonesia to generate the political and economic influence should it aspire to be a leader in the global energy governance. Given its projected energy demand growth, historical background, and natural resources, Indonesia has the potential to embody the leadership role. To translate its aspiration, Indonesia needs to represent the Global South in global energy governance and show a considerable commitment to decarbonizing its energy sector. Moreover, Indonesia needs to prescribe its economic expertise by building a distinguished battery industry ecosystem and transforming its industrial structure. As global energy governance moves towards a decarbonized world, Indonesia should position itself as an influential figure in carrying out a just and inclusive energy transition.

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