

# Indonesia Rejoining OPEC: Dynamics of the Oil Importer and Exporter Countries

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## Abstract

*Reactivation of Indonesia's full membership to the Organization of the Petroleum Exporting Countries (OPEC) triggered discussion surrounding global petroleum governance. The country which decided to suspend its full membership at the end of 2008, currently labelled as net oil importer. However, in OPEC terms Indonesia never really left, instead of the organization termed it as a "suspension". Departing from the abovementioned context and perspectives, purpose of this essay is to answer the questions about the significance of the Indonesia's membership reactivation to OPEC, and the strategic context of the reactivation in the current global oil market. In answering these questions, this article draws the dynamics of the relation of Indonesia and OPEC through the history in the first part and explores Indonesia's interests in rejoining OPEC in the second one. In the third part, this essay will explore the possible benefit for OPEC as an organization as well as for its member countries could achieve by approving Indonesia's request to reactivate its membership, despite its status as a net oil importer.*

Key words: International Oil Trade, Oil Exporting Countries, OPEC, Global Petroleum Governance

## Introduction

The submission of Indonesia's official request to reactivate its full membership to the Organization of the Petroleum Exporting Countries (OPEC) triggered discussion surrounding global petroleum governance. The country which joined OPEC in 1962, then decided to suspend its full membership at the end of 2008 mostly because of declining its oil production and rising domestic consumption. Indonesia has submitted the request to rejoin OPEC at September 8, 2105 and OPEC has formally reactivate Indonesia's full membership at the OPEC meeting in Vienna on Friday, December 4,

2015. In a statement before the Vienna meeting, OPEC official said that "this will include the formalities of reactivating Indonesia's membership of the organization... Indonesia has contributed much to OPEC's history. We welcome its return" (Chilkoti & Raval, 2015).

However, the improvement is not a great surprise as in OPEC terms Indonesia never really left, instead of the organization termed it as a "suspension". Since, before the case happened with Indonesia, the precedent has been made while Ecuador reactivates its OPEC membership in 2007, for a return from suspension. OPEC officials made clear the

door was always open. Despite Indonesia's current status as net oil importer had raised the question of whether the country would return as a full member given that OPEC's Statute says any country with a "substantial net export of crude petroleum" may become a full member (Lawler & Suroyo, 2015).

OPEC expects that the Indonesia's membership reactivation would add almost three percent to the organization's petroleum production, which already close to the peak. Currently, Indonesia has an oil output target of about 825,000 barrels a day in 2015, roughly half of its peak production in the early 1990s (Chilkoti & Raval, 2015). Indonesia would also be the fourth-smallest producer among OPEC's member before of Libya, Ecuador and Qatar, and bring the number of membership to 13 countries. Moreover, the important thing regarding OPEC's global representation is the fact that Indonesia was the only Asian member for 46 years before leaving the organization at the end of 2008, while oil prices reached its peak and the country turned into a net oil importer. It was the period while other oil exporting countries enjoyed the peak price and Indonesia suffered with its import, then evaluation of its OPEC membership made sense.

### **Literature Review**

#### ***Global Petroleum Governance and Energy Security***

The 'global struggle' for energy has made the oil markets naturally cross-border and inevitably framed by the politically defined rules of the game. "Politics and power plays a big role with regard to how markets are organized,"

Goldthau & Witte (2010) argued. Goldthau & Witte frame the global energy issues into two focuses; the first is on 'global energy governance' that concentrates on markets and institutions that structure them. By this focus, energy becomes a multi-dimensional policy arena in which, as Stanislaw (2004: 17) sees, the issue is "not who is winning the battle [for access], but rather how the market can accommodate the divergent needs of the individual players and encourage the cooperation that has become more prevalent in recent years."

Nevertheless, Goldthau and Witte (2010) see the predominant issues are on the second focus, which pay more attention on the "competition among states to secure the energy supply that provides the key to continued prosperity and state power." This zero-sum perspective maintains a paradigm that energy security is an exercise in geopolitical scheming and competition, and brings concerns to the balance of power among the actors. Chevalier (2009: 19-20) sees the geopolitics of energy is associated with 'the appropriation of oil money and its allocation through political decisions' for the exporting countries; and 'the security of supply' for the importing countries.

According to Chevalier, the geopolitics of energy embraces energy policy, foreign policy and sometimes military action, because of three main reasons: first, the large consuming areas do not correspond to the large producing areas; second, oil production and consumption generate huge amounts of money; and third, the exporting countries which is grouping in OPEC have key role in determining the oil price and as the main benchmark for world energy

pricing. Moreover, for some particular cases, OPEC member countries also exercise oil as an instrument for political measure.

Debates between the 'global governance' approach and 'geopolitics and security' approach largely mirror the Liberal versus Realist debate. Ziegler (in Guo and Hua, 2007: 197) sees the Liberals would argue that the growing interdependence might motivate the consumer nations to rely on the international oil market as well as transnational organizations. The Liberal arguments should eventually lead to broadened regional and global cooperation, rather than conflict.

Markets dynamics are structured by the inter-states-created institutions that are certainly very political. A governance approach is far from neglecting the state and the role of governments in energy sector. On the other side, the states' role is crucial in determining the quantity of energy supply at affordable prices and securing their investment in energy. Goldthau & Witte see this condition as a fact where the 'governance' perspective and the 'geopolitics' approaches actually intersect.

Discussing global petroleum governance, we could not go through without concerning dynamics inside the most significant player in the global oil market, which is OPEC. Moreover, Gordon (in Maza, 2015) views that "OPEC is in the center of this paradigm shift." The condition happened while OPEC as the organization of oil exporter countries reactivate Indonesia's full membership in OPEC, despite Indonesia is currently labelled as net importer country. However, Deborah Gordon, Director of

the Energy and Climate Program at the Carnegie Endowment for International Peace explains that "the idea of nations that are oil exporters and others that are sheer oil importers is becoming fuzzy." She gives the US as an example, despite the oil boom, the country remains an oil importer, yet the US export a tremendous amount of refined product.

Departing from the abovementioned context and perspectives, purpose of this essay is to answer the questions about the significance of the Indonesia's membership reactivation to OPEC, and the strategic context of the reactivation in the global oil market. In answering these questions, I will draw the dynamics of the relation of Indonesia and OPEC through the history in the first part and explore Indonesia's interests in rejoining OPEC in the second one. In the third part, I will explore the possible benefit which OPEC as an organization and for its member countries could achieve by approving Indonesia's request to reactivate its membership, despite its status as the net oil importer.

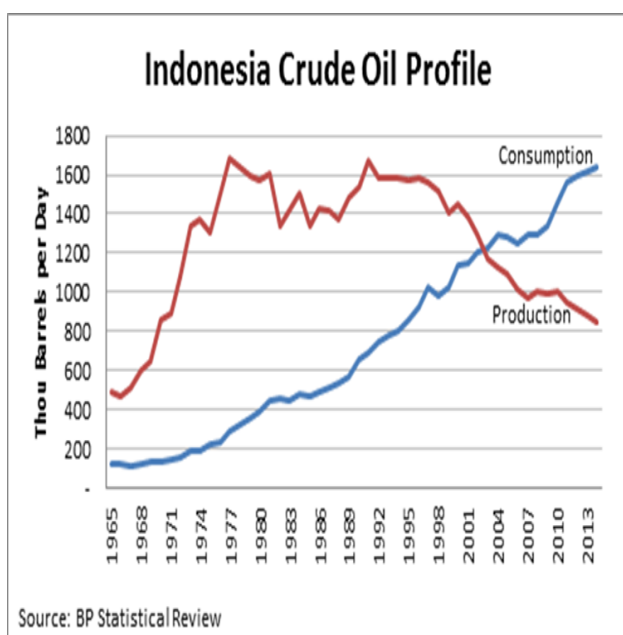
### **Indonesia and OPEC's Key Figures**

Indonesia was an early producer of oil started in the 1870s. Up to the Second World War, Indonesia produced 148,000 barrels of oil per day. The energy industry boosted Indonesia's economic growth during the 1970s and 1980s by accounting around 80% of the country's annual exports and 70% of the central government's annual revenues (Rosser, 2007). LNG is also Indonesia's most significant energy export and has been its largest foreign exchange earner (Stott, 2008). Indonesia had been the largest LNG exporter for nearly three decades since

1977 to 2005, and its peak export was in 1998 for around 36.1 billion cubic meters (Nugroho, 2010). Indonesia has estimated reserves of around 9 billion barrels of proven and potential crude oil and 182 trillion cubic feet of natural gas, according to energy ministry data (Ali, 2007).

In order to draw the real condition of Indonesia's oil production and consumption, the chart from BP Statistical Review below (Figure 1) describes that Indonesia's oil production reached its top in 1991 at 1.67 million barrels per day and has declined steadily since then. Meanwhile, domestic consumption reached a high of 1.64 million barrels per day in 2014. We also could see that year 2003 was the turning point when consumption began to surpass production, then Indonesia left OPEC by the end of 2008. From 2004 to 2014, the average gap between production and consumption has been 438,000 barrels per day. By comparison, from 1990 to 2000, Indonesia produced on average 674,000 barrels per day more than it consumed (Ashton, 2015).

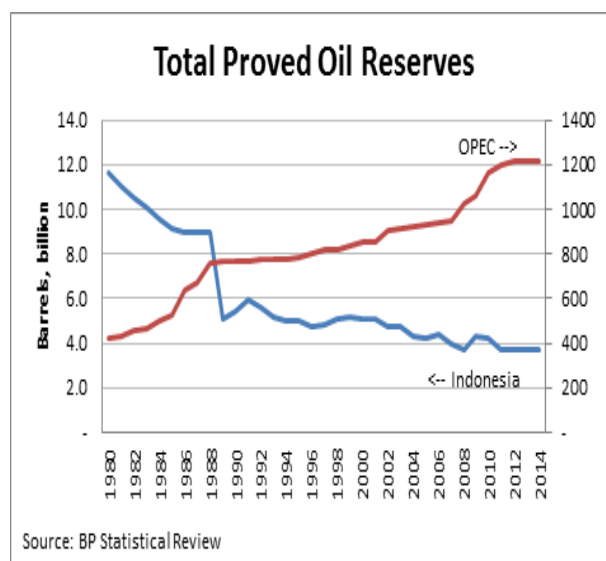
Figure 1. Indonesia Crude Oil Profile



Source: BP Statistical Review of World Energy 2015

Another condition that makes Indonesia stand out relative to other OPEC members is the amount of its crude oil reserves. Chart from BP Statistical Review below (Figure 2) shows the diverging trend between Indonesia's reserves and the reserves of OPEC as a whole from 1980 to 2014. In 1980, Indonesia accounted for 2.73% of OPEC's total crude oil reserves, which is not a very large number, but certainly more than the insufficient 0.30% it has in 2015. So even with Indonesia's involvement to OPEC, it is coming back as a much less significant member than in years past (Ashton, 2015).

Figure 2. Total Proved Oil Reserves



Source: BP Statistical Review of World Energy 2015

Despite that perspective, Indonesia had been playing important role in the global oil and gas industry. Particularly before its domestic production has declined over the past decade as producing oilfields have matured and investment and exploration have fallen

short. The country is now the world's 20<sup>th</sup> largest oil producer, accounting for just over one percent of global oil production (Chilkoti & Raval, 2015). In terms of export capability, Indonesian Government's data (Pusdatin ESDM, 2014) informs that Indonesia exported 117 million barrels in 2013, which was dropped about 47 percent compare to its export in 2000.

Meanwhile, according to the BP Statistical Review of World Energy 2015, Indonesia's imports over the same period rose about 50 percent to 118 million barrels. Indonesia depended on overseas shipment to meet nearly one-third of its domestic oil demand in 2012. In terms of proved oil reserves, at the end of 2014 Indonesia has stood at 3.7 billion barrels, compared with 267 billion in Saudi Arabia and 103 billion in Russia (Wulandari, 2015).

### Indonesia's Interests to Rejoin OPEC

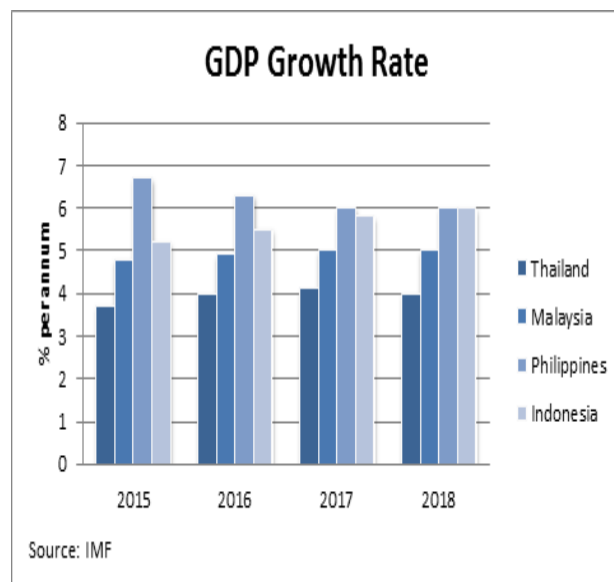
Indeed, the most interesting part in discussing this case study is to analyze reasons, purpose, or interests behind Indonesia's reactivation of its full membership in OPEC. This part will explore about what interests are could be achieved by Indonesia as results of its effort to rejoin OPEC.

### Indonesia's Economic Development

Some analysts see that the reactivation of Indonesia's membership in OPEC seems as a sensible strategy of the Indonesian government to secure its economic development program in the future. Especially since Indonesia's GDP growth rate has been increasing and it is projected to accelerate in the next couple years. As described by chart from the International Monetary Fund (IMF) below

about Indonesia's economic growth expectations for the next few years.

**Figure 3. GDP Growth Rate of Four ASEAN Countries**



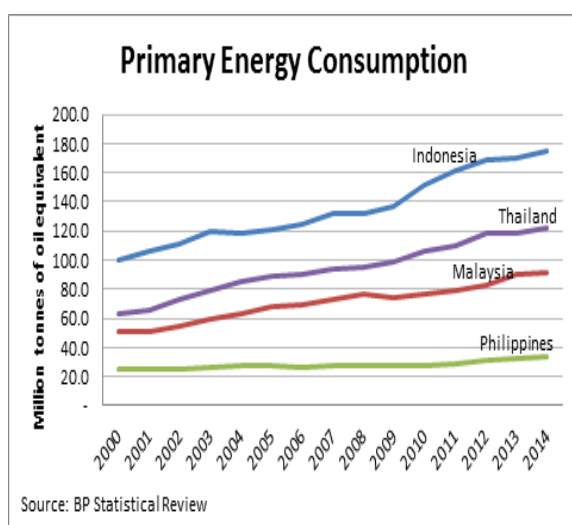
Source: International Monetary Fund (IMF)

From the above projection data, the IMF also expects other countries in Southeast Asia region to have broadly stable growth rates. Aston (2015) analyses some countries such as both Malaysia and Thailand are projected to have grown at around 5% and 4%, respectively, while the IMF forecasts that the Philippines's growth will slow slightly from 6.7% in 2015 to 6% by 2018. In the meantime, Indonesia will be one of the only countries with accelerating GDP growth, rising from 5.2% in 2015 to 6% in 2018.

This economic growth will require much more resources, especially energy. Set of statistical data from BP Statistical Review (BP, 2015) shows how energy demand in these four economies has changed over the last 14 years. Ashton (2015) also estimates that Indonesia has always had a higher energy requirement, causing the country's primary energy consumption to pull further away from

Malaysia and the Philippines. He claims that it is easier to understand reason behind Indonesian government's eagerness to rejoin OPEC, despite the fact that Indonesia doesn't need to export oil to restore relations with its fellow oil exporting countries.

**Figure 4. Primary Energy Consumption of Four ASEAN Countries**



Source: BP Statistical Review (2015)

On the other side, as global oil prices dropped, Indonesian government won acclaims for cutting expensive fuel subsidies and promising to redirect government spending to more productive infrastructure projects. However the sharp drop of oil price is not unambiguously positive for the Indonesian economy, given the large domestic oil consumption and the government's obligation to cover the oil price subsidy. As Indonesia's status is net oil importer, finally the net impact for the country should be positive. Sacha Winzenried, an analyst in Jakarta says that "The problem is at the state budgets, government still generates significant revenue from oil sales... Clearly [the industry is] still a significant employer and a very significant taxpayer" (Chilkoti & Raval, 2015).

### *Securing Source of Oil Supply*

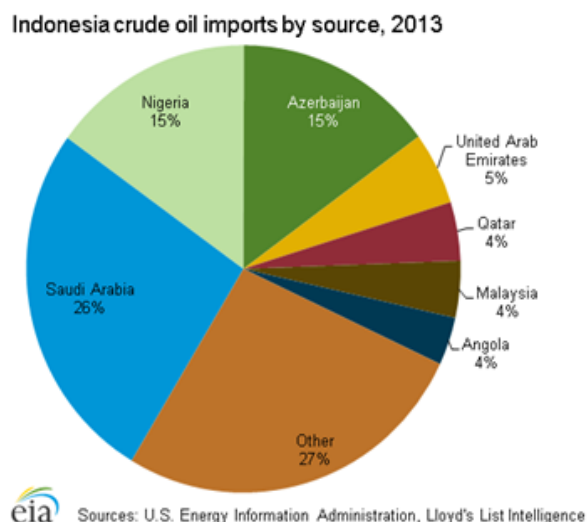
As net oil importer, Indonesia strategically needs to secure source of oil supply from other exporting countries in order to guarantee its economic development. It is clearly stated by the newly-appointed Indonesian governor for OPEC, Widhyawan Prawiraatmadja who explains that reactivation of Indonesia's membership in OPEC would help Jakarta to strengthen relations with large exporter countries which are also Indonesia's traditional friends in the oil trading. Prawiraatmadja confidently stated about Indonesia's formal involvement within OPEC "gives us a lot of benefit" (Chilkoti & Raval, 2015).

Another analyst, Berndt (2015) is sure that Indonesia itself will gain maximum benefits from reactivation of its OPEC membership. She says that "Indonesia is well aware of the challenges inherent in a growing, urbanizing population. Having guaranteed energy suppliers among OPEC nations will increase overall energy security, and Indonesia will benefit by shoring up relationships while OPEC nations are frantic for consumer markets."

Therefore, Ashton (2015) sees that Indonesia's main drive to reactivate its OPEC full membership is more about building bridges to crude oil suppliers than it is about being part of an oil exporting organization. It is reasonable that since Indonesia has not been an oil exporter, it appears to be looking to access the group's network to 'help' the other members offload their oil supply. Practically, Indonesia has been importing oil from other OPEC members, such as Saudi Arabia and Nigeria to fulfill its rising domestic oil consumption. The

chart below from the US Energy Information Administration (EIA) draws that Indonesia imports its oil supply mostly from Saudi Arabia, Nigeria and Azerbaijan.

**Figure 5. Indonesia Crude Oil Imports by Source, 2013.**



Source: US Energy Information Agency, 2013

However, another analyst sees that the OPEC's approval for Indonesia's proposal to rejoin the organization is confusing. An analyst on the oil and gas sector from a Jakarta-based Wood Mackenzie sees that "to have good contacts, which membership of OPEC would give them, would help them in procuring or negotiating competitive deals." Despite, the analyst sees that OPEC member's decision to allow Indonesia back in was "perplexing", because it will give a significant buyer of crude oil a window into discussions on production and pricing (Chilkoti & Raval, 2015).

With the reactivation, Indonesia is believed to gain biggest benefits from the closer relation with other 12 OPEC

member countries. Indonesia will be securing a guaranteed energy supply from any other OPEC countries that will also increase overall energy security. Indonesia could also play its position as the importer country by tighten up relationships while OPEC nations are desperate for consumer markets. Berndt (2015) suggests that Indonesia urgently needs OPEC technological expertise and investment to develop its domestic resources. Indonesia's aging energy infrastructure is desperately in need of modernization and the risky business environment has historically discouraged foreign investment.

Then Ashton (2015) continue to analyze that despite on the surface, the market seems to expect Indonesia's return to OPEC to lead to increased output, adding to the surplus in the global crude oil supply. Instead, it seems that the country's return to OPEC actually represents a series of 'shifting loyalties' to ensure security of supply and procure the crude oil needed to fuel its future economic growth. The resulting impact on markets is likely to surprise when it is realized that Indonesia's rejoin to OPEC is more than just being in the exporting group of countries.

### ***Investment for the Domestic Petroleum Industry***

It has widely known that Indonesia's problem is not only about its demand of crude oil supply from other countries, but also problem with its lack capability to refine its domestic crude oil production. Indonesia is very dependent in importing refined oil from its small neighbor country, Singapore. Because of that, Berndt (2015) analyzes that Indonesia needs OPEC countries'

investment and their technological expertise to develop its domestic oil industry. The country's aging petroleum industry infrastructure is desperately in need of renovation and the risky business environment has historically discouraged foreign investment.

In solving the abovementioned problem, the Indonesian Ministry of Energy targets to increase its oil refining capacity to 1.73 million barrels a day by 2025. It is a ten year-target that Indonesia will start in 2016 by gaining about 1.23 million barrels a day of refined product. The ten-year target will require investment of \$23.6 billion which will include construction of two new refineries. Edward Morse, Citigroup Inc.'s global head for commodity research, analyzes that with plans to expand refineries faster than it can increase crude output, demand for imported oil, and financing for the new plants, is set to rise further. He suggests that "the most likely place they're going to get refinery investment is going to come from Middle East producer. They're keenly aware of competition for market share by Middle East producers. They can enhance that competition by having their nose under that tent" (Wulandari, 2015).

In order to realize Indonesia's interest to build more oil refineries, Saudi Arabia is the foremost country to make an agreement to build Indonesia and Saudi's first jointly owned refinery in the Southeast Asia. The Indonesia's energy minister Sudirman Said explains that the refinery is tentatively planned to have capacity of 300,000 barrels a day, although he declined to give a cost estimate. Additionally, minister Said expected that the refinery could be the first outcome of

Indonesia's formal acceptance as a member of the OPEC.

The expectation is on its way to be implemented, while the Indonesian state oil producer PT. Pertamina agreed with Saudi Arabian Oil Company and JX Nippon Oil & Energy Corporation to upgrade two existing Pertamina's refineries. Pertamina President Director, Dwi Soetjipto calculated that the proposals are requiring \$5 billion of investments for each upgrading project (Mahdi & Sergie, 2015).

Furthermore, minister Said acclaims that Saudi Aramco will be potentially handle one of the projects because it is already involved in a Cilacap revamping project with Pertamina, and the Saudi "has promised crude oil supply and investment in the petrochemical industry." Minister Said was referring to a recent deal by Saudi Aramco and Pertamina to team up and improve the capacity of the Cilacap refinery, with an estimated investment total of US\$5.5 billion (Cahyafitri, 2015).

Indonesia's plan to develop refinery facility through its state owned company Pertamina, has also been attracting some petroleum companies mostly from OPEC member countries as strategic partners. Pertamina invites them to participate in its RDMP (Refinery Development Master Plan) projects to upgrade and expand five existing domestic refineries (Cilacap; Balongan; Dumai; Plaju; and Balikpapan) from 820 MBD of aggregate processing capacity to 1,680 MBD. Especially for Aramco, Pertamina designated the Saudi company as biggest partner by involving in three of the five refineries, which are Cilacap and Balongan in Java; and Dumai in Sumatra.



As Saudi Aramco website (2015) describe that particularly for the Cilacap refinery upgrade will facilitate to process more sour crudes, produce refined oil with specifications of Euro IV standard. The Cilacap will expand its capacity into 370 MBD of refined products, beside that it is also produce lubricant base oils and petrochemicals. And the most important thing for Indonesia's energy security is about the agreement that includes a long-term supply agreement for Arabian crudes to Cilacap refinery.

From the Saudi's point of view, the Saudi Aramco explains that their participation in the Pertamina's long term program –which is called as 'Refinery Development Master Plan' (RDMP)— will benefit the company with a major growth component which is in line with their portfolio ambition to expand their downstream business globally. Moreover, Saudi Aramco is also account their join project with Pertamina as part of their expansion strategy with the ambition to improve Saudi Aramco as world leading and integrated energy and chemicals company. The investment would take place within a high growth petroleum demand in South East Asia which has been reserved in the company's downstream strategy.

### ***Involvement in the OPEC Policy Making Process***

With Indonesia's formal membership, gives the country ticket to involve in the decision making process inside OPEC. Despite such a condition will also raise such a dilemma on the OPEC decision making table that they should listen to any other essentially different interest. Because with Indonesia's status as net importer

country, the country will prefer to decrease crude oil price in order to get cheaper crude oil in the global market. But, at the same time, the other twelve exporting countries will tend to push OPEC to make decision that conducive for higher crude oil price.

In this context, Indonesia's involvement inside OPEC will also be potentially creates a new variable of conflict inside the organization. The potential conflict will be appeared especially when OPEC comes to a discussion to decide the amount of oil production quota that will affect the total supply and demand in the global oil market. According to Rahman (2015) in an interview with author, this kind of OPEC's internal dynamics frequently happened along the organization's history, particularly when they come to decide the accumulative OPEC's production quota and specific production quota for each member countries.

Indonesia's membership reactivation in OPEC will affect most of its member countries, moreover in an era of unprofitable production. However, Berndt (2015) analyzes that for Saudi Arabia, the Indonesia's reactivation is incrementally align with the strategic goal to expand its market share. However, some OPEC member will not be pleased by the addition of another different voice to the bargaining table. The tight oil export-dependending countries like Venezuela, Nigeria, and other struggling nations have long been pressuring Saudi Arabia to cut production, and will now meet an incoming member with very different priorities. Berndt (2015) further analyzes that while OPEC's struggling producers have structured their economy around high oil prices, Indonesia will

continue to remain a net oil importer with its own interest to keep oil prices low, to accelerate its domestic growth. Indonesia has a challenging road ahead to regain influence among OPEC's disgruntled members, especially after its seven years absent.

However, Indonesia's position regarding how to manage oil production quota inside the OPEC is quite moderate. This position was reflected from the country's new-appointed governor for OPEC, Widhyawan Prawiraatmadja's statement that the collapse of crude oil price will give negative impact in the overall energy industry. The consequences will not only suffer for the exporting countries, but also for the importer countries. Prawiraatmadja further warns that the collapse of crude oil prices has worsened an "increasingly unappealing" energy investment climate and dependence on foreign oil grows. He says "Our interest is to keep prices from rising too high and from falling too low... If Indonesia is a part of OPEC, we can be sure that OPEC's policy is in line with our interests" (Wulandari, 2015).

#### **OPEC's Interests to receive Indonesia**

In the condition of rock-bottom oil prices, adding more amount of supply to the global energy surplus through the integration of an additional member appears counter-productive. As Berndt (2015) analyzes that reactivation of Indonesia's membership seems as inviting new problem into the exporting countries group. However, it is an impossible for the oil exporter organization to open their door for a net importer country without any benefit that they want to achieve. In this part, we are going to explore interests behind OPEC's decision to allow

Indonesia to rejoin as full member of OPEC, despite with the country's status as a net oil importer.

#### **Representativeness of OPEC Membership**

While Indonesia returns to join OPEC, the country become the fourth-smallest producer in the organization before Libya, Ecuador and Qatar, and it brings the number of participants become 13 countries. Despite Indonesia's oil production is not as big as most of OPEC member countries, Indonesia has been playing significant position in the global petroleum market. Indonesia could also position itself as the country which could fill in the 'blank spot' of 'global representativeness' of OPEC. As the only Asian country which involve in the oil exporter group, Indonesia could symbolize the OPEC's representation beside Middle Eastern countries' dominance. Global representativeness is quite important for OPEC for the sake of getting recognition as an international organization. This is concurring with analysis of an energy and foreign policy specialist from Georgetown University, Brenda Shaffer that "Indonesia is OPEC's only member in Asia, and Jakarta's return extends OPEC's global coverage" (Maza, 2105).

Moreover, with the shifting of global economic epicenter from the western countries into Asia, global oil market players have been going to pay more attention into the region. This phenomenon is growing alongside with the rising economic power of the Asian countries. OPEC countries need to maintain their link to the Asian petroleum market, as it is also has been the most growing oil market compare to any other

regions. Therefore, involvement of a country which has significant political and economic position in the region is very important. Moreover, Indonesia is currently also recognized as third largest democracy in the world, which also has been liberalizing its economy, and according to the World Bank (2014), it is positioned as the tenth largest economy in the world

These set of political and economic status of Indonesia, bring more representative identity that make OPEC seems friendlier to the global liberal market. The Indonesia's global status could be compared to any other OPEC member countries that have not embrace liberal democracy and market economy as practiced by Indonesia yet. These set of global political and economic status, are positioned Indonesia in the better relation among countries with the liberal or market economy, which are mostly grouped at the Organization of Economic Cooperation and Development (OECD).

To be sure, control over the global oil market is still a looked-for significance of Indonesia's reentry into OPEC. Maza (2015) analyzes that Saudi Arabia has a lot to gain from obtaining a grip in Asia. Regional stability in Asia, where the oil exporter organization could benefit from a growing demand for refined products, is important for the organization in the long run. Consequently, it is in OPEC's interest to promote economic stability in the region and to incorporate Indonesia, which despite being a net importer, is still an important player in the global oil market.

### *Securing Sustainable Demand for Oil*

In the time of economic slowdown, supply and demand

conditions of oil in the global market become imbalance. The emerging economies which should be the locomotive of the global economy are decreasing their demand for oil, as a consequence of the shortage of order to generate their production machines. Moreover with the increasing production of the shale oil by the United States, total supply of oil in the global petroleum market become much higher compare to the demand.

The condition generates tensions among OPEC member countries, as struggle over market share and increasing concerns following economic slowdown in China as the largest oil importer in the world. Amid the condition, Chilkoti & Raval (2015) analyze that most of oil exporting countries in the OPEC, especially Saudi Arabia –as the organization's de facto leader and largest producer— have been courting consumer countries in Asia such as China, India and Indonesia to secure buyers for crude during the global oil surplus. They explain that OPEC countries are desperately looking for markets and retaining market share and there is a fit for them getting convenient with Indonesia.

Analyses that the exporting countries, especially Saudi Arabia is very eager to expand its market in Asia, especially in Indonesia, are supported by statement of the President and CEO of Saudi Aramco, Amin H. Al-Nasser that "Indonesia is a rising powerhouse in the global economy, and has long deep rooted trade and cultural ties with Saudi Arabia. Its refining sector has enormous potential, and with Indonesia's fast-growing demand for refined products" said the President of the Saudi's petroleum

company. Furthermore, Al-Nasser continued to explain the Saudi's intention to involve deeper in Indonesia, "Indonesia is an important country for Saudi Arabia, a rising global economy, we would like to be a part of the growth of Indonesia" (Asmarini, 2015b).

Furthermore, Berndt (2015) analyzes that the reasons behind Saudi Arabia's latest strategy to support the Indonesia's reintegration into OPEC is both market-driven and geopolitical. With the abundance of the US shale and the slowing of China's economy, OPEC is increasingly driven to view new energy customers. As OPEC's suspended member for seven year, Indonesia has high population and enormous growth potential will demand greater energy resources over the next few decades. Indonesia is also home to the world's fourth largest population beside it is also the world's tenth largest economy with a projection to have high growth over the next few decades. Indonesia's potential is very advantageous for the oil exporting organization to market their surplus of oil.

Moreover, referring to the International Energy Agency (2015), the projected energy consumption of the entire Southeast Asia region is estimated to rise 80 percent by the year 2040. Among these total consumption of Southeast Asian countries, International Energy Agency (2015) also predicts Indonesia will import 40 percent of its oil consumptions by 2018. That is why Indonesia's economic potential is very prospective for OPEC member countries, as the group of oil exporter are getting the net oil importer country in their midst.

### *Mediation to the Consumer Countries (IEA of OECD)*

As a suspended member of OPEC and currently become net importer country, indeed Indonesia has unique position when the country rejoined to OPEC. Besides that, Indonesia also has another unique position while in the same time the country could successfully reactivate its full membership into the group of oil exporting countries, on the other side Indonesia has also received an approval to become a part of the group of oil importer countries. As already announced, Indonesia currently has also been formally join to the International Energy Agency (IEA), the organization which dedicated to serve interests of the oil importer countries, particularly within the Organization for Economic Cooperation and Development (OECD).

The process of Indonesia's entrance into the IEA was taking place while Indonesia received an offering as new member of the International Energy Agency (IEA) during the G20 Energy Minister Meeting in Istanbul, Turkey at early October 2015. The offering was delivered directly by Director of IEA, Fatih Birol to the Indonesian Minister of Energy and Mineral Resources, Sudirman Said. The document of the Joint Ministerial Declaration of the 2015 IEA Ministerial meeting (2015b) stated that Indonesia received an approval together with other countries such as China and Thailand and was officiated as associated member during the IEA meeting in Paris, November 18 2015.

The Indonesia's two positions both in the group of exporter and the group of importer, potentially equip Indonesia to play better role in the two sides of the

market players. Some officials in the OPEC analyze that Indonesia's involvement inside the oil exporter organization will provide insight from the point of view of oil consumers (Tan, 2015). Rahman (2015) also analyze that OPEC could gain benefit from Indonesia's position as net importer country and also member of the IEA to provide view from the oil importer perspective. Furthermore in the interview, Rahman (2015) also explain that Indonesia could also become a 'bridge' between oil exporter group and oil consumer group. By viewing from the 'bridging' perspective that could be acted by Indonesia, OPEC and IEA or OECD could utilize Indonesia as a 'liaison party' that could convey views from one side to the other.

#### *Geopolitical Interest in Malacca Strait*

One more strategic thing that could also beneficial for OPEC by reactivating Indonesia's membership is related to the country's geopolitical position. Berndt (2015) analyzes that as the sole Asian member of OPEC, Indonesia could serve as a geopolitical gateway into Southeast Asian and East Asian markets. Moreover, Indonesia's strategic position become actual when Indonesia could supervises the Malacca Strait, which plays as one of the most important choke points through which 15.2 million barrels of oil passage every day from global suppliers to consumers in fast growing economic region of Asia.

This condition will benefit more for OPEC, while its member at the controls of one of the world's major oil transportation routes that could improve the security of OPEC supplies to the most growing oil market in the world. An energy and foreign policy analyst, Brenda

Shaffer confirms this perspective that Indonesia also straddles the Malacca Strait, a major global oil transit waterway that is likely to see increased traffic as Asian energy demand grows. That is why Shaffer importantly notes that Indonesia's OPEC membership reactivation not only meaningful for the economic interests but also gives OPEC more control over the transport of oil from core producers to core consumers, which is also beneficial in terms of geopolitical perspectives (Maza, 2105).

#### **Conclusion**

The reactivation of Indonesia's membership to OPEC gives benefit not only for Indonesia, but also for OPEC. Since Indonesia became net oil importer and therefore it decided to suspend its full membership at the end of 2008, the country positioned itself as oil consumer which creates a diametric gap from the group of oil exporter. However, after about seven years of membership suspension, Indonesia decided to reactivate its full membership in OPEC, despite its oil production has been decreasing and it has to import more oil. On the other side, OPEC also welcomes Indonesia's intention to rejoin the group of oil exporting countries.

The condition seems presenting such an inconsistency in the OPEC's maneuver responding the decrease of oil demand in the global market. However the view is refused by Deborah Gordon, who explains that "the idea of nations that are oil exporters and others that are sheer oil importers is becoming fuzzy." She takes the US as an example that despite the oil boom, the country still remains as an oil importer, but in the same time it also exports a big amount of refined

product. Gordon argues that globalization has been changing the character of oil market and industry, and she views that OPEC is currently in the center of the paradigm changing process.

Concluding from the above analysis, we could see that the article presents Indonesia's interests in rejoining OPEC, which are providing sufficient demand of oil in order to support the fast growing of Indonesia's economic development, the second one is about the mission to secure the external supply of oil that should be imported from the global oil market, the third is about the need to look for foreign investment and technological support in order to modernize petroleum industry in Indonesia, especially to develop the refinery facility. And the fourth is about the need to be involved in discussing global petroleum dynamics inside the decision making process in the OPEC.

On the other side, this paper also tries to identify interests of OPEC in accepting Indonesia to reactivate its full membership in OPEC, which are the global representation of OPEC membership, the second one is to strengthen direct access into Indonesia as a potential market that has fast growing demand of the imported oil, the third one is to gain important views from Indonesia as it is could bring the consumer perspectives into the OPEC decision making process and also to play bridging with the group oil importer countries (IEA or OECD), which Indonesia is also member of it, and the fourth one is about geopolitical motive that related to interest in Malacca Strait as Indonesia could serve as a geopolitical gateway into Southeast Asian and East Asian markets.

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