

## IN BRIEF: POLITICAL

he issued for a palm oil plantation during 2000-2001 when he was Indonesia's Forestry Minister. Nurmahmudi's legal uncertainty and somewhat coloured past has not been lost on Depok residents who back the PKS.

Two PKS supporters in Depok told the *Report* that they are becoming disenchanted with the party. "The PKS has started to play," one of them told the *Report*, signalling that they are no longer a party lacking corrupt candidates.

PKS has long been cited by analysts as one of the most highly organised political parties in Indonesia but one that lacks candidates and a well-dispersed support base across Indonesia. "Their organisational structure is among the best," explains Indra from CSIS. "But to get mass support they are not that good because they have a very segmented market like Muslims in the cities and college campuses."

Looking forward, analysts inside and outside Indonesia are anxiously awaiting the Jakarta governor race tabbed for late 2007. The exact date has not yet been decided, but when it finally occurs, it will serve as the real litmus test for the strength of the PKS, and Islamic parties in general, in Indonesia.

For the PKS to be a force in that election and in the future, it must first get its own house in order. An ongoing internal dispute between non-secular members, who control the party, and a more moderate secular faction, who joined after becoming disenfranchised with other Indonesian parties, threatens to derail it all together. Furthermore, the decision by the party to throw its weight behind a draconian anti-pornography bill being debated in the DPR was not a politically astute move, as PKS fence sitters have always worried that the party would try and inject Islam into Indonesia's social fabric through legislative laws.

The party, however, may have recognised the need to again tone down its message. Information recently surfaced that the party is going to back former Indonesian actor Rano Karno as its candidate in the Jakarta gubernatorial race. But if the LSI poll from December 2005 is any indication of things to come, it's going to take more than acting to reinvigorate the party.

### Cepu decision stokes nationalist fires

After months of continuing speculation, a new board of directors was finally installed into the state oil and gas firm Pertamina, signalling the end to a five-year battle between Pertamina's previous management and the US oil giant ExxonMobil over the control of one of Indonesia's most lucrative oil fields.

Having bought the rights to the Cepu oil field in 2000, Exxon announced the discovery of additional huge oil reserves in 2001, prompting a scramble for its control when Exxon applied for a contract extension of 30 years. First, under the Wahid administration, it looked as though Pertamina would be given full rights to operate Cepu. Once Megawati took over the presidency, negotiations were re-opened, involving not only Pertamina and Exxon, but also the Chinese oil firm PetroChina. With no conclusion reached by 2004, SBY appointed a new board of commissioners to Pertamina, the head of which led the negotiation

## IN BRIEF: POLITICAL

team that eventually awarded 45 percent of the shares to Exxon, 45 percent to Pertamina, and 10 percent to the local governments in the Cepu vicinity.

Since then, the Pertamina board has blocked the exploitation of the new Cepu oil reserves by contending the rights to operate the field. On March 8, the government finally brought an end to the uncertainty by engineering the replacement of the Pertamina CEO with another who would award Exxon full rights to operate Cepu, with some allowance for input from Pertamina staff. The new CEO, Ari Soemarno, accordingly made the announcement in favour of Exxon on March 13, just one week after he took up his new position.

Foreign involvement in the exploitation of Indonesia's oil reserves is an extremely sensitive political issue with roots reaching back to pre-independence. Until 1951 Indonesian oil was completely owned and managed by Dutch and US companies, with no obligation to share any of the profits with Indonesia. That situation led to the inclusion of the now famous Article 33 of the Indonesian Constitution, which states "natural resources shall be controlled by the State and shall be exploited for the greatest welfare of the people." Today, Indonesian politicians and analysts still often refer to this article of the constitution when discussing foreign investment in the oil sector.

For 35 years foreign investment was regulated through the "production-sharing contract" where Pertamina had ultimate management rights over every contract. In 2001, this contractual structure changed when the highly contentious oil and gas bill was eventually passed after six years of delays and revisions. The new bill gave contractors more flexibility in the types of contracts they could enter into with Pertamina and more scope for bargaining the terms of the contracts, including the profit share and management responsibilities. Such flexibility, aimed at attracting much needed investment into the oil sector, has also left contract negotiations vulnerable to delays and obstructions by bureaucrats who are ideologically opposed to profits from domestic oil production leaving the country.

Such opinions are far from isolated. In recent days, demonstrations have been held in Jakarta and Yogyakarta against Exxon's control of Cepu and a split public opinion of the issue was revealed on public phone-ins on local radio and television in March. The Cepu case has also prompted nationalist voices in the DPR to claim that Exxon's management of the oil field has the potential to cause losses to the Indonesian state, echoing previous controversies surrounding the disposal of various IBRA assets abroad, such as the sale of oil palm plantations to a Malaysian company in 2001.

Within the DPR, the main parties opposing the government's decision over Cepu have been PDI-P, PAN, and PKS, with the PDI-P implementing its constitutional right of inquiry to investigate the government's decision. The identification of those particular parties with the economic nationalist cause has become stronger in recent months, with the *Report* receiving information that the recent violent opposition to US mining company Freeport-McMoRan's Grasberg mine in Papua has been allegedly orchestrated by members of PDI-P and PAN.

## IN BRIEF: POLITICAL

The government has defended its decision on Cepu, pointing to the greater resources and technical capacities which Exxon can bring to oil exploitation, and the urgent need to raise domestic production as Indonesia has now become a net importer of oil at a time of soaring world oil prices. Other analysts suggest that the government has no real choice, raising the perceived inefficiencies of Pertamina, including continued corruption. Reports of direct US government pressure to support the US's biggest domestic corporation have also frequently appeared to explain the government's decision.

Apart from the resolution of the Cepu issue, the new board of directors are expected to continue reform within Pertamina, but who are they and what does their appointment mean for the future of Pertamina?

The new CEO, Ari Soemarno, has spent over 25 years working in Pertamina and has not escaped the taint of corruption pervading one of the richest state-owned companies in Indonesia. Ten years ago he was implicated in a relatively small bidding irregularity for an LPG plant, a deal which he claims he was only tangentially involved in through the official title of his post. Soemarno's appointment was reportedly championed by Minister of Energy Purnomo Yusgiantoro, who previously appointed him to help draft the oil and gas law in 2001 and worked closely with Soemarno's younger sister, Rini Soewandi, as a fellow minister under President Megawati. The rest of the board are all career Pertamina insiders, with low public profiles and no overt political ties.

As the fourth new CEO of Pertamina in eight years, Soemarno has repeated the mantra of reform and restructuring heard from the previous incumbents, with an emphasis on internal organisational efficiency and external competitiveness. However, as his own appointment shows, the functioning of Pertamina depends not only on capable internal management, but also the wider political environment.

### Support for SBY and Kalla wanes

The latest public opinion poll from respected social survey institute *Lembaga Survei Indonesia* (LSI) shows a gradual decline of public confidence in the performance of President Yudhoyono and his Administration.

Based on a representative random sample of 1,109 respondents spread proportionally across Indonesia's 33 provinces, the survey was undertaken in mid-December and probes public opinion on the government's handling of social, economic, law, and security issues.

Public satisfaction with the performance of President Yudhoyono and Vice-President Kalla fell steadily since November 2004 (see Graph One) with the sole exception of July 2005 when satisfaction figures rose temporarily before falling again in September 2005.

Without the accompanying data, it is difficult to pinpoint the reason why the Yudhoyono-Kalla team received this brief respite in July 2005. But one reason may be the relative success of the regency elections in the provinces, 80 percent of which occurred in June 2005. Another likely reason could be