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**| RESEARCH ARTICLE**

## **Relative Abundance in the Land of Oil: Reorganization of Extractive Resource Governance in Decentralizing Indonesia**

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**| ABSTRACT**

This study aims to examine the governance of extractive resources by the state as an axis of development at the national and subnational levels. This study focuses on Indonesia and Bojonegoro Regency as the main unit of analysis. Using the method of historical sociology, this article argues that the institutional capacity of the state in the governance of extractive resources, particularly oil, depends on the extent to which the mechanisms of autonomy and distribution of state power are reorganized to achieve developmental transformation. The combination of historical evidence not only adds to the theoretical understanding of state social power but also contributes to development theory by adding a historical dimension. As a country with abundant natural resources, Indonesia has faced challenges in the governance of extractive resources since colonial times. The abundance of natural resources is not always linear with development outcomes in each period of governance. Indonesia has seventeen oil and gas-producing provinces. However, the resource curse still applies in eight provinces where the number of poor people is higher than the national average. The governance of Indonesia's extractive industries is no longer monopolized by the national government but involves subnational governments. Politically, many local governments have complained that the process of calculating, distributing and reporting oil and gas revenue-sharing funds often creates tensions between central and local governments. Synergies between the state and civil society in the governance of extractive resources are needed to accelerate development transformation. Historical experience shows that the limited distributive power of civil society in extractive resource governance hinders the process of accelerating development transformation in Indonesia.

**| KEYWORDS**

Extractive resource governance, state power, development transformation, historical sociology

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### **1. Introduction**

Historically, Indonesia, as a country rich in natural resources, has experienced changes in the strategies for managing extractive resources during different periods of government. Spices (nutmeg, pepper, cloves), forest products (timber, rattan, resin), plantations (tobacco, sugar cane, palm), mining (gold, tin, coal), and oil and gas have been important sources of government revenue since colonial times. The abundance of these natural resources is not always linearly proportional to the results of development, a puzzle that is still being explored.

The development of extractive industries, especially oil, faces a dilemma of governance strategies that affect the strengthening or weakening of the state's institutional capacity (Karl, 1997; Ross, 1999) to achieve inclusive, sustainable development. The governance of the oil and gas industry in Indonesia is no longer monopolized by the central/national government through the control of Pertamina, which sustains the authoritarian regime of the New Order (Barnes, 1995; Seda, 2001, 2005) but involves the local government (Pemda)/subnational through the distribution of revenue sharing funds (DBH) and the ownership of participating

interests (PI) as a form of economic incentive. This condition is a determinant of changes in power relations between central and local governments - especially fiscal capacity (Alisjahbana, 2005).

In 2022, Indonesia had seventeen oil and gas-producing provinces. However, the natural resource adagium still applies in eight provinces where the number of poor people is higher than the national average of 9.57% (BPS 2022), even though the regional income from oil and gas revenue sharing funds is quite high. In addition, politically, there are a number of local governments that complain about the process of calculating, disbursing and reporting oil and gas revenue sharing funds, which often leads to tensions between the central and regional governments.

This phenomenon is not unique to Indonesia. Government failures, both at the national and subnational levels, in the governance of extractive industries can also be found in various other parts of the world, particularly in South America, such as Peru (Yanguas, 2011; Ponce and Mc Clintock, 2014), Argentina (Rioseco, 2016), Colombia (Rodriguez, 2020), Nicaragua (Larson, 2002), Venezuela (Hammond, 2011); and some African countries, namely Uganda (Holterman, 2014), Ghana (Ayelazuno, 2014), Angola and Nigeria (Ovadia, 2014), and Sierra Leone (Voors et al., 2017). On the other hand, the extractive industry governance practices implemented by several countries such as Norway (Lie, 2018), Australia (Cleary, 2016), Chile, Malaysia, and Botswana (Rosser, 2006 and Kolstad and Wiig, 2008 in Feryawan, 2011) are considered by scholars as successful ideal examples. Why, then, can a country's abundance of extractive natural resources be positively correlated with development on the one hand and negatively correlated on the other? How do the mechanism and organization of a country achieve these two spectrums? What is the historical background that determines whether a country succeeds or fails in managing extractive natural resources?

## 2. Literature Review

Theoretically, the issue has been debated and researched by various scholars from different disciplines, such as political science, economics, international relations, public policy, development studies, sociology, etc. From the various research that have been conducted, there are at least three dominant views or approaches. First, a pessimistic view that sees the role of the state in managing extractive industries as inversely proportional to development outcomes. This view can be categorized as the "curse of natural resources" approach (Auty, 1993). Second, a realist view positions the state as an arena that can bring about development in both positive and negative directions, depending on the mechanisms and strategies chosen by the government. The author argues that this view falls under the political economy approach (Karl, 1997, 1999). Third, an optimistic view that looks to the institutional steps taken by the state in managing extractive industries to transform development for the community. This view can be categorized as the institutionalist or consensus approach (Cleary, 2016).

The first approach emphasizes the weak role of civil society elements compared to the role of the state and corporations in the process of extractive resource governance, which has an impact on the difficulty of improving the quality of life of the community. Then, the second approach emphasizes the role of corporations and market liberalism in the governance of extractive resources, which produces inequality, environmental damage, conflict, and even populism by intervening asymmetrically in state policies rather than involving the community. Then, at the end of the spectrum, there is a third approach that emphasizes the dominant role of the state in organizing extractive resource governance institutionally so that it has an impact on development transformation, especially for the community.

Despite their different analytical perspectives, the three approaches share a common focus in emphasizing the disparity in the triangulation of the three main development actors (Martinussen, 1999): society, the state, and the market (corporations), which tend to be exploitative, pragmatic, or constructive. This argument helps to see how the unequal relations between the three development actors produce different effects. However, these three perspectives do not specify the extent to which the organization of roles between society, the state, and the market has changed historically with each period of government. As a result, explanations of the impacts of extractive resource governance tend to neglect changes in autonomy mechanisms and the historical distribution of power as important determinants. In addition, these three approaches mostly discuss the unit of analysis of the study as the state at the national level, and there are still not too many studies whose unit of analysis is the state at the subnational level (state, province, regency, city).

This research seeks to raise the unit of analysis of the state at the national (Indonesia) and sub-national (Bojonegoro Regency) levels by looking at how power mechanisms operate throughout the history of extractive resource governance. A key point that the author agrees with from these approaches is that they all see the position of the state as the axis of triangulation of three development actors. This is in line with Evans' idea (Viterna and Robertson, 2015) that the state has always played a crucial role in economic transformation, especially in facilitating, isolating and inhibiting developmental change.

This article seeks to develop the premise that the institutional capacity of the state in the governance of extractive natural resources, especially oil, depends on the extent to which the mechanism of autonomy and distribution of state power is reorganized to meet the demands of developmental transformation. Starting from some elements of the theory of social sources of power developed

by Mann (1984, 1986, 2003, 2008, 2012a, 2012b) and integrating it with Evans' theory (1989a, 1989b, 1995, 1997) of autonomy and embeddedness, the author seeks to make theoretical breakthroughs by developing the following arguments:

The institutional capacity of the state and the state-society synergy in the governance of extractive resources are determined by the extent to which the mechanisms of autonomy and distribution of state power have been historically reorganized to meet the demands of development transformation at both the national and subnational levels.

### **3. Methodology**

This research adopts a qualitative approach (Creswell and Creswell, 2018) using the historical, sociological method initiated by Michael Mann (1986) and developed by several other scholars (Hawkins, 2014; Jacoby, 2014; Goldstone, 2005). The methodological framework focuses on how the relationship between the four networks of power (IEMP) is used as a means to explain social change and the development of extractive natural resource governance in Indonesia. By analyzing the history of society through the four networks of power, we can see how people, materials/commodities and territories are organized and controlled by governments. Historical analysis also helps to observe how power networks are used by different actors in society to achieve personal or collective goals. The combination of historical evidence not only expands the theoretical construction of the changing social power model of a state but also contributes to the development of development theory by using the historical dimension as a methodological bridge in looking at the governance of extractive natural resources, especially oil commodities.

### **4. Results/Findings**

#### ***4.a. History of oil governance in the colonial period (1602-1944)***

The principles and formulations of the governance of extractive natural resources (especially oil) in Indonesia historically show changes in government mechanisms and strategies to control and organize territorial sovereignty, society and raw materials in the form of colonialization, nationalization, centralization, liberalization and decentralization to achieve development transformation. In each period of governance, from colonial to decentralization, there have been various changes in the mechanism and organization of extractive natural resources. The question is whether these changes also provide continuity for development transformation. In each regime, there are different historical moments that show the turning points that affect how the social power of the state becomes a factor that causes development transformation.

Dutch colonization was basically not only the oppression of the people in the archipelago but also the exploitation of various natural resources that have economic value in the international market. The Dutch were present in the archipelago in the form of entities, namely a trading partnership (corporation or company) and a colonial government (state). The arrival in the imperialist format was a form of extension of the Dutch empire in the colonial region. On the other hand, the existence of local kingdoms in the archipelago became trade competitors, fighting not only for natural resources but also for access to coastal trade, namely the ports, which were mainly located on the island of Java. For Java in particular, Denys Lombard (2008a: 38) describes the north coast of Java as an arena of struggle for influence, both ideological and economic, between the Islamization of the Islamic kingdoms (15th-17th centuries) and the Europeanization of the colonial government (17th-19th centuries).

The use of extractive resources, in general, has traditionally been carried out by the people of the archipelago (Rahmana 2018) under the rule of several large kingdoms such as Srivijaya and Majapahit. Mining commodities such as gold can be found in Kalimantan and Sumatra using simple processes and techniques by panning in both caves and rivers (Darmono, 2009: 78). The exploitation of mining commodities such as gold can be found in Kalimantan and Sumatra using simple processes and techniques by panning in both caves and rivers (Darmono, 2009: 78). In particular, the royal mining license was granted by the king or royal officials. After the collapse of the two great kingdoms, a colonial era began that exploited the archipelago's natural resources.

Historically, mining in the colonial era (Redi, 2020) began in 1602. At that time, the VOC granted trade monopolies and colonial activities to the Dutch Parliament in the archipelago or the Dutch East Indies. The existence of VOC, in addition to taking spices and mining commodities, also carried out a study by bringing academic intellectuals to research mining products in the archipelago (Directorate of Processing, Deputy for Archives Conservation, 2011: 2-3). The VOC's business expansion in mining was carried out in a number of locations with different types of commodities, such as gold in the Salida area of West Sumatra (1669), tin in the Palembang Sultanate on Bangka Island (1710), Belitung Island (1851), and Singkep Island (1887); coal on Java Island (1854); asphalt on Buton Island (1909); nickel on Sulawesi Island (1916); and bauxite on Bintan Island (1925). In the era of VOC trade control, there was no rule of law governing mining in the archipelago, so management was carried out by local rulers, such as the Sultanate of Palembang, which controlled the tin mines on Bangka Island.

After reigning for almost two centuries (197 years), the VOC was finally dissolved (Redi, 2020) at the end of the 18th century (December 31, 1799, to be precise) because it could not pay its debts, so its monopoly rights were taken over by the government of the Kingdom of the Netherlands, then under the command of King Louis Napoleon Bonaparte. Instead, the Dutch East Indies Government was established in the early 19th century to maintain the power of the Dutch Kingdom in the archipelago and to

protect the sovereignty of the island of Java from the threat of attack by British troops. After the bankruptcy of the VOC, economic activity in the archipelago was dominated by the private sector, including mining. The establishment of the 'Dutch East Indies' region is a consequence of the colonial wars and international treaties that took place in Europe between France, England and the Netherlands (Lombard, 2008A: 77).

The role of the Dutch colonial government after VOC rule in the governance of extractive resources was not easy. The exploration of mining products in the archipelago continued, but with a more systematic and targeted strategy (Darmono, 2009: 61). Further developments came under pressure from the private sector against the Dutch East Indies government to establish a special commission to regulate and supervise mining business activities.

In 1850, during the reign of Governor-General Jan Jacob Rochussen (1845-1851), the Dutch East Indies government established a special commission (Redi, 2020: 62) to study and draw up regulations for the mining industry by issuing the Mijn Reglement 1850. The Mijn Reglement 1850 was the first legal benchmark for the Dutch East Indies government to control all mining resources in the archipelago, including the takeover of mining companies during the VOC era in the form of colonial government companies. Mijn Reglement 1850 was very effective outside Java (e.g. Sumatra), but not for Java because of the potential for agrarian conflicts (agriculture and plantations) because the cultuurstelsel system was practiced. At that time, Governor-General Johannes Van De Bosch made it mandatory for every village on the island of Java to set aside 20% of its land for agricultural activities for export, the prices of which were set by the Dutch East Indies government. In addition, villagers who did not own land were required to work 75 days/year in gardens owned by the Dutch East Indies government.

Dutch East Indies government formed a department of mining geology called Dienst van het Mijnwezen with the mandate to carry out geological exploration throughout the territory of the Dutch East Indies Government in 1852. Bureau of Geology (or Department of Mining Geology) located in Batavia, led by a head or called Chef van het Mijnwezen in accordance with the rules of Indische Wetgeving especially mining regulations or Mijnnordonnantie (Directorate of Processing, Deputy for Archives Conservation, 2011: 7).

The rapid growth of mining in the archipelago led the Dutch East Indies government under the era of Governor-General Jonkheer Carel Herman Aart van der Wijck (1893-1899) to publish the Indische Mijnwet stbl. 1899 No. 214 jo Stbl. 1906 No. 434 (Indische Mijnwet 1899) as a replacement for the Mijn Reglement 1850 (Redi, 2020: 64; Darmono, 2009: 66). The Indische Mijnwet 1899 is the milestone of the law of extractive industries such as coal, oil and natural gas. In Indische, Mijnwet 1899 also regulated mineral commodities. The two types of extractive natural resources in this period, namely oil and gas and general mining (mineral and coal), are distinguished by their arrangement due to differences in characteristics.

Furthermore, the Indische Mijnwet 1899 was supplemented by several supporting regulations, such as the Mijnnordonnantie 1907 on occupational safety supervision, and updated with the Mijnnordonnantie 1930 by removing the work supervision regulations. Indische Mijnwet 1899 Staatsblad year 1899 no. 214 by several amendment mechanisms, namely in 1910 and 1918, to facilitate business entities to carry out mining activities.

The reference to the Indische Mijnwet 1899 is not a benchmark for the emergence of the oil business in the colonial era. Before the regulation was issued, the first attempt to profitably explore for oil in the archipelago (Lestari, 2008; Basundoro, 2017) was made by Jan Reering - a Dutch government warehouse manager and grocery entrepreneur in Cirebon - in 1871-1874 on the plains of Mt. Ciremai. As a result, drilling activities did not succeed in obtaining commercially valuable oil.

Fourteen years later, in 1885, Aeliko Jana Zijlker - a Dutch administrator of the East Sumatra Tobacco Company's tobacco plantations - successfully discovered commercially valuable oil deposits in the Telaga Tunggal (Langkat) area after obtaining a concession from the archipelago government in 1883 (Ricklefs, 1993: 194). The location of the discovered "lake" was apparently the plantation concession area granted by the Sultan of Langkat to two British nationals named C. Black and S.S.M. Douglas (Djokopranoto, Endropoetro, Widharto, 2009: 33). Zijlker successfully persuaded the two men to exchange two concessions for other lands, which was approved by the Sultan of Langkat, Prince Indra di Radja. Zijlker then formed a consortium with the Nederlandsch-Indische Handelsbank and the trading company Tiedeman & Van Kerchem to form the Voorloopige Sumatra Petroleum Maatschappij, the forerunner of the first oil company in the archipelago. This was followed by the discovery of oil deposits in other areas, such as Surabaya, Jambi, East Aceh, Palembang and East Kalimantan.

The discovery of oil in the upstream sector (exploration and production) also had an impact on the downstream sector (distribution and consumption), which was marked by the establishment of the Royal Dutch Company by the Dutch East Indies government led by J.A. de Gelder. Downstream oil activities also influenced the development of the first oil refinery in Java in 1890 in the Wonokromo area in the Kruka field in East Java and in Cepu in Central Java after successful drilling in both areas. Then, in 1892, an oil refinery was built in Pangkalan Brandan, North Sumatra.

Then, in 1894, a small capacity distillery was built in Balikpapan by Shell Transport and Trading Co. by J.H. Meeten - originally a coal miner in Kutai - after he obtained concessions from the Sultan of Kutai and found oil reserves in Kalimantan, precisely in Sanga-Sanga. In 1897, Shell Transport & Trading Company began oil exploration, and in 1899, Shell built an oil refinery in Balikpapan.

The discovery of various oil resources in the archipelago attracted foreign oil companies, such as the Dutch company NIAM (Nederlandsch Indisch Aardolie Maatschappij) in 1921 in Jambi, Bunyu Bay and North Sumatra (Aru Bay). In 1925, a company from the United States, Standard Oil of New Jersey, operated in Java and Madura, and in 1939, Caltex (California Texas Oil Company) drilled in the Rokan block in the Sebangka Pekanbaru area.

#### ***4.b. Nationalization of oil companies during the old order (1945-1966)***

After Indonesia's independence, the Soekarno-Hatta government needed considerable financial resources to finance the development process. One of the efforts of the old order government was to nationalize Dutch companies, including oil companies. This effort was not easy to implement, as legal barriers became one of the biggest challenges amidst the emergence of pressure from various elements of society to immediately transform development.

The transition to petroleum resource governance began around 1947. At that time, the Laskar Oil Group (Sanusi, 2004) established PERMIRI (the Oil Company of the Republic of Indonesia), but a year later, in 1948, the company was forced to close and abandon its operations in Pendopo and Prabumulih as the Dutch and their troops began to regain power in the region. On the other hand, in Java, the Indonesian government established the PTMN (National Oil Mining Company), which operated in the Kawengan and CEPU oil refineries.

On November 2, 1951, President Soekarno issued Presidential Decree No. 181 of 1951 on the establishment of a State Committee on Mining Affairs, motivated by a motion (Soeharto, 1995) initiated by Mr. Teuku Moh Hasan (member of the Provisional People's Representative Council/DPRS-*Dewan Perwakilan Rakyat Sementara*) on August 2, 1951, which was adopted by the DPRS Parliament. The motion was a rare event in Indonesia after the restoration of the 1945 Constitution, as bills usually came from the executive branch. The motion submitted by Mr. Teuku Moh Hasan and other DPRS members was used to draft a mining law to replace the popular Indische Mijwet with its concession system and 5-A contract (Exploration Contract and Exploration-Exploitation Contract). It took nearly a decade for this proposal to become law.

This movement gave birth to two laws as wet substitution, namely colonial legal products at the level of laws, namely

- 1) Law Number 37 of 1960 on Mining.
- 2) Law Number 44 Prp. 1960 on oil and gas extraction.

The establishment of special rules in the field of mining and oil and gas signifies a new era of sovereignty in the governance of extractive resources, based on legal-political aspects and not as a result of conquest rules issued in the colonial era. Both laws repealed several provisions of the concession system. Mining concessions are replaced by the power of the mining company. The implication is that legally the right to mine materials is in the hands of the Indonesian nation by empowering the state to carry out mining operations for the welfare of the community. Regarding the status of the company (local and foreign) is none other than a contractor of state companies. The requirement is set forth in the Decree of DPRS No. 47/K/1951 and became one of the forms of success of the legislature that plays an active role in fighting for the interests of society.

The period 1958-1959 was a period in which the old order government issued many regulations (two laws and five government regulations) to nationalize extractive natural resources in Indonesia. In this period, the author argues that there are three stages of the nationalization of natural resources. The first stage with the issuance of Law No. 86 of 1958 on the nationalization of Dutch-owned companies and some of their operational rules. These regulations are Government Regulations No. 2, No. 3, No. 18 and No. 50 of 1959 concerning the implementation of the Law on the Nationalization of Dutch Enterprises, the establishment of the Agency for the Nationalization of Dutch Enterprises, the determination of Dutch-owned electricity and/or gas companies subject to nationalization, the determination of Dutch-owned industrial or mining companies subject to nationalization.

Dutch-owned companies that can be nationalized (Government Regulation No. 2 of 1959; Wasino et al. 2104) are 1) companies owned in whole or in part by individuals who are Dutch citizens and domiciled in the territory of the Republic of Indonesia; 2) companies owned by legal entities whose share capital or registered capital comes in whole or in part from individuals who are Dutch citizens and legal entities domiciled in the territory of the Republic of Indonesia; 3) companies located in the territory of the Republic of Indonesia and owned by legal entities domiciled in the territory of the Kingdom of the Netherlands. The implementation of asset nationalization was carried out through the establishment of the Nationalization Agency (Banas) to protect

the management of national economic assets (Government Regulation No. 3/1959). Some of the oil companies nationalized by Banas are :

- 1) NIAM nationalized into PT Permindo in 1959.
- 2) Exploration of North Sumatra Oil Mine (ETMSU) nationalized into PT Permina
- 3) The government established Pertamina.

The next step in the nationalization of natural resources was the promulgation of Law No. 10 of 1959 on the cancellation of mining rights and Government Regulation No. 25 of 1959 on the implementation of Law No. 10 of 1959. The implication of these two regulations is that in 1959, the Indian Mining Act of 1899 remained in force, but mining rights granted before 1949 were cancelled by law.

The third stage of nationalization of natural resources in this period was the enactment of Law No. 44 Prp. 1960 on oil and gas extraction. Since this law, foreign companies that had concession rights over mining areas based on the Indian Mining Act of 1899 were no longer valid. Then, the mining power was determined by the government on the proposal of the minister. Work agreements were then introduced to attract and retain capital from foreign companies. In addition, work agreements were entered into between state-owned companies and other foreign companies.

The nationalization of foreign companies was a turning point in various political conflicts between Indonesia and the Netherlands on the one hand and the different views of economic thought among the founders of the nation on the other (Wasino, 2016). The final option chosen was nationalization. Nationalization is seen as a strategy to build the self-esteem of the nation, indicating economic independence. The nationalization process also resulted in significant legal and economic implications. The problem of compensation resulting from the takeover of foreign companies' assets into Indonesian-owned companies is the price the government has to pay. After the establishment of Banas, it was realized that the funds needed for compensation were very expensive. If one examines the companies, there are those whose economic value is not equal to the compensation to be paid. As a result, in the 1960s, the idea of not paying compensation to nationalized companies was born. The discussion was led by the pro-Sukarno political parties (PNI and PKI). On the one hand, the rejection of the indemnity led to an anti-foreign spirit in the 1960s.

The organization of the state oil company was marked by the establishment of PERMINA (National Oil Company) in 1958 by A.H. Nasution, previously called ETMSU (Exploration of North Sumatra Oil Mines). The legal basis for the establishment of PERMINA is the Government Regulation No. 198 of 1961 concerning the establishment of the National Oil Mining State Company (PN Permina). Prior to the establishment of Permina in 1961, PERTAMIN (Indonesian Oil Mining) was established with the status of a state company, which originally had the status of Persero (PT) under the name PT PERMINDO (PT Indonesian Oil Mining). The legal basis for the establishment of Pertamina is the Government Regulation No. 3 of 1961 on the Establishment of the Indonesian State Oil Company (PN Pertamina). Subsequently, the Indonesian People's Oil Mining Company (PT MRI) was merged into PN Permigas through Government Regulation No. 199 of 1961.

During the establishment of a number of these companies, Indonesia joined OPEC (Organization of Petroleum Exporting Countries) in 1962. At that time, Pertamina became an instrument of the government in implementing OPEC policies. The placement of several Pertamina officials as OPEC Board of Governors from Indonesia and the appointment as host of OPEC conferences (1964-Jakarta and 1976, 1980, 1994-Bali) further strengthened Pertamina's position institutionally in the eyes of the world (Nokopranoto, Endropetro, Widharto, 2009: 67).

In addition, in the late 1950s and early 1960s, various oil companies from the Netherlands, the United States, and the United Kingdom withdrew their operations due to nationalization policies and the establishment of state-owned companies to replace several foreign companies. However, with the end of the Sukarno-led democracy and the beginning of the formation of the New Order period, some oil companies began to look again at doing business in Indonesia. The influx of foreign investment in the 1950-the 1960s was also supported by a military bureaucratic system, including the appointment of Ibnu Sutowo (a serving general) as director of PN Pertamina (Rosser, 2007). One of the factors supporting the rapid growth of foreign investors entering Indonesia is the enactment of Law No. 1 of 1967 on Foreign Investment. One of the mining companies that entered the country was PT Freeport Indonesia. PT Freeport Indonesia started its operations, and since then, the system of collective bargaining in the mining industry has come into effect.

#### **4. c. Centralization of the oil industry during the New Order period (1967-1998)**

The author sees the revival of Indonesia's oil industry in the establishment of Pertamina as a state enterprise with full and centralized power in managing the oil industry, supported by ABRI's dual function policy (Istyaningrum, 2004; Widayanti, 2005). Pertamina's power increased when it was blessed with an oil boom that occurred in two periods, 1973-1974 and 1978-1979.

However, the success of this management turned out to be disastrous when Pertamina expanded its business outside its corridors (e.g. hotel business), which led to bankruptcy.

In 1968, PN Pertamina (State Oil and Gas Mining Company) was established, which was none other than a merger between PERMINA and PERTAMIN based on Government Regulation No. 27 of 1968, which merged PN Pertamina and PN Permina. After the establishment of Pertamina as a state-owned company, Law No. 8 of 1971 on Pertamina was enacted, which gave Pertamina full authority as a regulator and player in the oil and gas industry from upstream to downstream. PN Pertamina is a state-owned company that is mandated to accommodate and conduct all Indonesian oil and gas business activities as a business unit covering various business lines (integrated state oil company).

The presence of Pertamina was not only a matter of the state's need to develop an integrated oil business but also the creation of a centralization of political power by the New Order government. The centralization of political power made Pertamina the engine of Indonesia's economic recovery, but it also created a crisis that led to Pertamina's bankruptcy. The factors that contributed to Pertamina's rise and fall were two developments in the mid-1970s. First, the oil boom ensured that oil and gas revenues became the engine of Indonesia's national development (Bresnan, 1993:164). Second, the Pertamina crisis (The New York Times. April 9. 1977: 37 and August 12. 1977: 1) in 1975 ensured that the idea of decentralization failed. The rise in oil prices during the two oil booms of 1973-1974 and 1978-1979 led to a sharp increase in government revenues from the oil sector in Indonesia.

In essence, political and economic centralization was the key to the survival of the Soeharto regime. The centralization of the political system came through the strengthening of ideologically driven politics, while the centralization of the economy came from natural resources, which the government regime supported through a system of patronage and clientelism. This strategy differs from the political policies of the Soekarno era. Under Soekarno's centralization regime, the political product was in the form of anti-colonial and anti-imperial policies that resulted in the nationalization of colonial state enterprises. Under Soeharto, centralization was seen as a means of maintaining the unity of the country and as an integral part of nation-building. Indonesian identity was emphasized over regional, ethnic, or religious loyalties, and all policies (including development) were structured with the larger national interest in mind. This has been at the expense of regional development, especially in the outer islands. The wealth and power gap between the rulers (the state) and the ruled (the people) widened, as did frustration in marginalized regions (Schulze in Kaldor, Karl, Said 2007). Moreover, during Suharto's reign, Indonesia was one of the top ten recipients of foreign aid and loans in the period 1970-1990, so the burden of public debt at the end of the New Order government became a factor that magnified the 1998 currency crisis.

The downfall of Pertamina, based on a study conducted by Riyadi (2021), was caused by internal factors in the form of a culture of corruption in the management of oil and gas resources in Indonesia. Transactional mechanisms are carried out by groups of politicians, bureaucrats, executive elites, local and foreign contractors to carry out rent-seeking in every transition period of oil resource governance by using the power and authority attached to Pertamina as one of the state-owned enterprises. These groups carry the interests of profit-seeking capital power (Hadiz 2003).

#### ***4.d. Liberalization and decentralization of oil industry policy (1999-2020)***

After the New Order, there were important changes in the governance of the oil industry in Indonesia. The new direction of oil governance became more liberal, considering aspects of decentralization and closer to the involvement of elements of civil society, although limited. However, this change does not guarantee an impact on the continuity of the development transformation. The main challenge lies in the non-renewable nature of the oil commodity and its limited reserves, which will lead to scarcity in the future unless alternative substitutes are considered.

The massive liberalization of the oil industry in Indonesia took place after the New Order government. However, it has been going on since the Dutch colonial era, albeit with different mechanisms and organization. The beginning of liberalization of the oil industry after the New Order began during the period of President B.J. Habibie, continued during the period of President Abdurrahman Wahid, and continued during the period of President Megawati Soekarno Putri. The third period of this government is the period when the oil and gas law was created and discussed after the monetary crisis that hit several regions of the world (Roziqin, 2015).

The first draft of the Oil and Gas Law after the New Order was prepared under President B.J. Habibie on March 24, 1999. The work on the oil and gas law was continued during the time of President Abdurrahman Wahid due to the insistence of the IMF, which explicitly demanded the reform of the oil and gas sector (item 80-81 Letter of Intent/LoI Republic of Indonesia-IMF January 20, 2000). If the oil and gas reform is proclaimed, then the IMF Board of Directors, on February 4, 2000, in Washington, committed to provide compensatory assistance of USD 5 billion until February 2002. This agreement was followed by several things. First, a special audit of Pertamina was conducted. Second, Pertamina's restructuring target was set for March 2000. Third, the assessment of the oil and gas bill and submit it to the DPR target June 2002. Fourth, the preparation of the draft implementation of the target

rules in June 2013 (Ma'arif, 2013). For the IMF program to run, USAID is involved. Suggestions from USAID are first, the role of the government should be reduced to the extent of regulators; second, reduce subsidies; third, prioritize the private sector in the oil and gas business.

As a result, the Oil and Gas Law was inaugurated in the era of President Megawati Soekarno Putri as a form of liberalization of the petroleum sector. The DPR Special Committee initially questioned the Oil and Gas Law but eventually passed it without any changes other than editorial ones. The entire formulation of oil and gas is very biased with foreign concepts (Syeirazi, 2009). The plenary session of the DPR took the decision to force a consensus when the approval of the oil and gas bill became law, although there were several DPR members who did not even agree to take action to walk out (Constitutional Court, 2003). With the enactment of Law No. 22 of 2001, the control and exploitation of petroleum previously held by Pertamina (Law No. 8 of 1971) was revoked. Production, storage, transportation and trading were then opened to the private sector, including foreign parties. The PSC (Production Sharing Contract) system used by many countries is no longer the only contract system for petroleum cooperation. Petroleum extraction is returned to the government as the holder of the extraction rights (Article 4, Paragraph 2). The ratification of the Oil and Gas Law marks the beginning of the liberalization of the petroleum sector as a condition for the disbursement of IMF loans to Indonesia. Another derivative regulation that supports the Oil and Gas Law is Government Regulation No. 42 of 2002 concerning BP Migas.

After the enactment of the Oil and Gas Law, President Megawati Soekarno Putri established BP Migas and BPH Migas and changed the status of Pertamina to Persero and changed the fourth generation PSC. During President Megawati Soekarno Putri's tenure, the Oil and Gas Law, which allowed fuel prices to be set according to market mechanisms, was also struck down by the Constitutional Court. A progressive step was taken by the Constitutional Court under President Susilo Bambang Yudoyono by dissolving BP Migas because it was deemed to be in violation of the Constitution (Davidson, 2015). The dissolution of BP Migas took a very long time, more than a decade. There were three applications for judicial review of Law No. 22/2001 by different parties (see Constitutional Court Decision No. 002/PUU-I/2003, Decision No. 20/PUU-V/2007, and Decision No. 36P/UU-X/2012).

Firstly, several elements of civil society who are members of the organization APHI, PBHI, SNB and SP KEP-FPSI Pertamina and individual citizens filed a petition in 2003 on the nature and several issues related to Law No. 22 of 2001. The result of the Constitutional Court's decision was to reject the petitioners' request for formal review and to partially grant the petitioners' request for substantive review.

Secondly, the request submitted in 2007 by the deputies of two parties, the PDIP and the PAN, regarding the nature and subject matter of Law 22 of 2001. The decision of the Constitutional Court stated that the petitioners' request could not be accepted.

Third, the lawsuit was prepared by twelve community organizations and thirty individuals - initiated by the Central Executive of Muhammadiyah and known as the "Jihad Constitution of Muhammadiyah" - on the nature and subject matter of Law No. 22 of 2001. The petitioners argued that BP Migas did not benefit the state and people of Indonesia but instead favored foreign contractors. The Constitutional Court's decision also shocked many parties because it resulted in the dissolution of BP Migas. Following the decision, President Susilo Bambang Yudoyono issued Presidential Decree No. 9 of 2013, which established SKK Migas.

During the administration of President Susilo Bambang Yudoyono, the Petroleum Revenue Sharing Fund (DBH) policy was introduced. This policy began with the enactment of Law No. 22/1999 (on Regional Government) and Law No. 25/1999 (on Financial Equilibrium between the Central and Regional Governments). The budget transferred by the central government to the local governments from the revenues of natural resources (one of which is oil) is given in the form of equalization funds. This policy was continued in 2004 by Law No. 32 of 2004 (on Regional Government) and Law No. 33 of 2004 (on financial balance between the Central and Regional Governments), and Law No. 23 of 2014 (on Regional Government). In the latest regulation, the term equalization fund was changed to DBH or revenue sharing fund, which is allocated to the regions based on a percentage.

The DBH is a budget derived from the revenues of the state budget, which is allocated to the region based on a percentage to finance the needs of the region in the framework of the application of decentralization (Ministry of Finance 2012). The funds are part of the balance of financial resources from the state budget transferred from the center to the regions. The DBH budget is legally directed to reduce the vertical gap between the center and the regions. In the view of several local governments, the application of the revenue sharing ratio between the center and the regions (both provinces, producing and non-producing regions) has not been able to fulfill participatory justice and has only been limited to fulfilling distributive justice (Kharissuhud 2014). This condition is evidenced by the inability of local governments (provincial, district/city) to achieve the goal of fulfilling public service standards by improving welfare conditions, education, health, environment, infrastructure, and others for society.

The next development in the era of the Joko Widodo government was the issuance of a rule on the provision of 10% Participating Interest (PI) in the oil and gas sector based on the Minister of Energy and Mineral Resources Regulation No. 37 of 2016. The



mechanism of PI is not a relatively new rule and was established in 2004 by Government Regulation No. 35 of 2004 (on upstream oil and gas business activities). The regulation requires the contractor to submit a 10% participation offer to the BUMD, which is owned by the oil and gas producing regional government when the POD (Plan of Development) is approved by the Minister of Energy and Mineral Resources.

The delegation of 10% PI distribution is a form of decentralization spirit so that BUMDs owned by oil and gas producing local governments actively participate in the governance of oil and gas natural resources. Therefore, it requires an in-depth understanding of the characteristics of the oil and gas industry, which is capital-intensive (sunk cost or sunk capital), uses high technology and high skill, as well as high risk. The oil and gas business also requires a long period of time to achieve results. So far, there has been a mistake by some local governments who consider PI as a "bonus" given by the central government, so they demand an increase in their percentage rights without considering the obligation to deposit their participation fund capital (Setiawan 2016). Although the ownership of PI requires investment funds that are not small in value, namely trillions of rupiah, the value is, in some cases, much higher compared to the APBD. When PIs are applied, producing regions that do not have the financial capacity tend to involve private investors outside the BUMD. Although this business is allowed, such practices are said to trigger the emergence of corruption among the political elite in the region. Although this business is allowed, practices like this are alleged to trigger the emergence of corruption among the political elite in the region. This model should be supported by other policies in the form of financial or capital support for local governments (especially BUMD) to compete with the private sector.

In addition to the PI policy in the Joko Widodo government period, Law No. 1 of 2022 on the financial relationship between the central government and regional governments was also issued. One of the important discussions of the law is about regional endowment funds (DAD). One of the strategies for establishing regional endowment funds is to invest and/or use SiLPA (remaining over budget calculation) by paying attention to regional priority needs that need to be met (Article 149 paragraph 2 of Law No. 1 Year 2022). DAD can be established through local regulation, taking into account the fiscal capacity of the region and meeting the needs of government affairs related to basic public services (Article 164, paragraphs 1-2). There are three benefits from the results of DAD management, including

- 1) Achieving economic, social and/or other predetermined benefits.
- 2) Contributing to regional revenues; and
- 3) Organizing public benefits across generations.

## **5. Conclusion**

An important question that needs to be asked regarding the governance of oil in Indonesia is how the future of oil resource governance in Indonesia can be developed amidst the problems of declining oil reserves and increasing consumption. On the one hand, the governance of the oil industry in Indonesia has started to improve, as evidenced by the 2017 Resource Governance Index (RGI) score of 68 or classified as satisfactory. On the other hand, the amount of oil reserves in Indonesia is decreasing by the day, indicating that oil can no longer be the main development commodity that can generate foreign exchange for the country. Local government participation has begun to increase in order to create a more inclusive oil industry management system where there is a relationship between the national government (central) and sub-national governments (provinces, districts, cities).

Indonesia has missed some golden opportunities in the extraction of various natural resources. In the colonial era, for example, spices were once the prima donna of international trade, bringing imperialist countries to the archipelago to exploit them for the development of their countries. Then, the teak wood in the forests around Bojonegoro was also a magnet for the colonizers because of the strength of this wood as a basic material for building houses, warships and merchant ships, as well as household furniture in European countries. The Havana type tobacco plantation, developed during the colonial era, was once a superior product in the international market trade, which is now limited in production. Bojonegoro has recently become the number one crude oil producing area compared to other regions in Indonesia. However, based on existing data, the existence of oil reserves in Bojonegoro, specifically the Cepu Block, is estimated to last only until 2030. If no more oil reserves are found after that, Bojonegoro will experience a budget deficit in regional revenues from oil and gas DBH, which will result in a decrease in regional economic growth. What lessons can be learned from the governance of extractive resources, particularly oil, in Indonesia and Bojonegoro?

The relative abundance of oil resources can occur in any period of government in the archipelago, Indonesia and Bojonegoro. The challenge is that this abundance can be a blessing or a curse for the development carried out by the state if its governance considers spatial, vertical and horizontal dimensions. However, the decision to choose the development strategy to be used must be made immediately, considering that oil resources have an expiration date that may one day run out. Creativity in formulating policies that are compatible with the DNA of society is necessary to achieve optimal development outcomes. In the future, alternative governance of extractive resources in the agricultural sector can restore the main livelihood of the people of

Bojonegoro, which has been passed down from generation to generation since the time of their ancestors to make a living from agriculture.

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