

January 2010 Security Summary:

On Terrorism:

Baharudin, alias Baridin the father-in-law of the slain Malaysian terrorist leader Noordin Mohammed Top was arrested in a raid late last year. The raid came weeks after the bombing of two major tourist hotels in Jakarta. Police, acting on leads from the investigation into the blast, said they found bomb-making materials in his property. Top had married Baharudin's daughter Arina Rahmah in 2006 and the couple had two children. The moping up of the twin hotel bombing cell continues.

A major challenge for 2010 will be avoiding the complacency that set in before the July hotel attacks in Jakarta. Many security analysts had discounted or dismissed the offensive capabilities of the violent wing of Mr. Top's organization, Jemaah Islamiah (JI). Although the loss of Top is a major set back for the violent splinter faction of JI, he certainly would have been able to pass on some of his skills and it is known that highly experienced JI terrorists Dulmatin and Umar Patek are active in the south of the Philippines and could well return to continue the fight here in the absence of Top. The attempted attack on a Delta Airlines aircraft over the holiday period should serve to illustrate that al Qaeda continue to be active particularly against the United States of America. It should also be kept in mind that the idea of attacks against US aircraft was born here in South East Asia with the Bojinka plot which was hatched in Manila by Khalid Sheik Mohammad, Ramsay Yusuf and Hambali (see details of Yemini connections in Indonesia and Malaysia below). That said the standard of security checks at Indonesian airports is far from international standards and continues to provide cause for concern.

In mid January the police announced that there may be links between illegal immigrants to Indonesia from South Asia and international terrorist groups. The police said that they had received intelligence information showing that immigrants might be followed by "those who share a relationship with some terrorist organizations." The terrorist organization in this case, however, is not likely to be the local Jemaah Islamiah (JI) network, but rather the Liberation Tigers of Tamil Eelam, (LTTE), known as the Tamil Tigers. The many groups of Sri Lankan asylum seekers bound for Australia through Indonesian waters, some analysts believe, contained some former LTTE members who may seek to operate covertly overseas.

A member of the militant wing of the Jemaah Islamiyah (JI) group Mohamad Azmi bin Ali, 41, has been arrested by authorities in Singapore who claimed that he had received training in bomb-making and firearms in the Philippines. Azmi who is being detained under the Internal Security Act fled Singapore in December 2001 after counter-terrorist officers broke up a local JI cell whose members were allegedly planning to bomb US and other foreign targets in the city. It was reported that he

remained in hiding overseas and was eventually arrested with the cooperation of regional authorities.

During the second week of the month the US Embassy in Kuala Lumpur issued a warden message on the threat from terror groups in Sabah close to the border with Indonesia.

The United States government has announced it is considering plans to bring Riduan ‘Hambali’ Isamuddin, the Indonesian ‘star’ of JI to its capital Washington D.C. for a trial. Hambali helped plan the 2002 Bali bombings and several failed attacks against Singapore. A final decision is expected in a few weeks time. The plan to try Hambali in the U.S. is part of a wider plan to close the Guantanamo Bay military detention center, which still holds hundreds of terror suspects, including ‘high-value’ detainees such as Hambali. Mr. Hambali, the one-time alleged leader of regional terrorist group Jemaah Islamiah (JI) who had contact with Al Qaeda was captured in Thailand in 2003. He was kept in secret prisons run by the Central Intelligence Agency (CIA), before being transferred to Guantanamo in 2006. The U.S. authorities may not have enough evidence to convict Hambali. His treatment in the CIA prison could also raise legal challenges that could prolong a trial for a protracted period of time. Cost is another issue. The cost of trying Hambali in Washington D.C. could be as much as \$250 million. Hambali is widely believed to have been the provider of funds for the 2002 Bali bombings. However if the US trial is unsuccessful; there is little chance that he could be returned to Indonesia to face trial because the two other men involved with the funding of the bombing are detained in Guantanamo as well, and those two cannot be brought to Indonesia. Even if he is found not guilty it is unlikely that he would be returned to Indonesia as there is a lack of evidence against him that would stand up in an Indonesian court. They could send him to Singapore, where he would most likely be charged with the alleged plot to launch a bomb attack against a Mass Rapid Transit station and under Singapore’s Internal Security Act, they could keep Hambali in detention for any length of time.

Malaysian Police arrested a number of suspected terrorists at the end of the month following a raid on a religious study group led by Aiman Al Dakkak, a Syrian academic who has lived in Malaysia since 2003. All those present were arrested but most were released the following morning after five hours of questioning. At least ten were not released and are being held under the Internal Security Act which allows for detention without trial for an indefinite period (Singapore and Malaysia inherited this draconian legislation from their British former Colonial rulers). They included at least one Malaysian, four Syrians, one Yemeni, one Jordanian and two Nigerians. It is reported that the arrests were part of a broader international terrorist investigation and there are as yet unconfirmed reports that they were members of a group connected to Umar Farouk Abdulmutallab, the 23-year-old Nigerian who allegedly attempted to detonate explosives on a flight to Detroit. The Malaysian Home Minister, Hishammuddin Hussein, insisted that the detained men were “a

serious security threat to the country”. “We were working with other international anti-terrorism agencies and nabbed the ten suspects who are on the international wanted list,” he said. “If you are talking about international linkages, international terrorism, it cannot stop with just the people we apprehended because we don’t know who else is out there. “I think this is a very good wake-up call because the playground for the terrorist is no longer one location. In this borderless world that we live in now, the whole world is their playground.” The alleged links to the Yemen in these latest arrests is disturbing as there have been reports that there was a Yemini connection to the attacks on the J W Marriott and Ritz Carlton Hotels in Jakarta in July of last year. The Yemen is without doubt a new base for al Qaeda operations and the lack of effective government control by the Yemini government makes it an attractive operating hub. The arrests in Malaysia serve to illustrate that there is no room for apathy following the apparent mopping up of the JI cell that attacked the two Jakarta hotels and there could be other cells in Indonesia in touch with these international groups.

It has been a tense month in Malaysia. A dispute over the use of the word Allah in Malaysian translations of Christian scripture led to arson and vandalism against churches. Last week, in what appeared to be an act of retaliation for those attacks, the heads of boars, a creature abhorrent to many Muslims, were thrown into two mosques. Indonesian religious authorities have been at pains to deter such incidents here.

At the end of the month the Indonesian National Police Counter Terrorism Squad Densus 88 arrested Eko Budi Wardoyo in Sidoarjo, East Java for involvement in terror related offences and the murder of a priest in Central Sulawesi. Police reports have alleged that Wardoyo was responsible for the bomb attack in the Tentena market in Poso in May 2005 that killed 22 and wounded close to 100. This arrest is part of an ongoing campaign by the National Police anti terror unit to mop up those known terrorists who remain at large and it is of interest that they have in the past decade arrested over 500 suspects of which over 200 have been convicted and sentenced. Some of those convicted and given relatively short prison sentences have already been released. Some of these can be regarded as success stories in the Government program to change their attitudes and to turn them away from acts of terror. However the success stories are certainly a minimum with many simply going back to a life of terror. In another development the police are currently preparing casework against over 50 terrorists who have yet to come to trial for a series of terror related offences ranging from having played a part in the twin bombing of the J W Marriott and Ritz Carlton Hotels to more minor roles including harboring Noordin Muhammad bin Top. They also include Supono and Rohmat Puji Prabowo who the police allege were involved in the preparation of a 500 kilogram truck bomb designed to assassinate President SBY.

On issues that might cause public disruption or demonstrations:

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Indonesia's President Susilo Bambang Yudhoyono (SBY) fended off criticisms his government had failed its first 100 days last week, as his popularity fell in the polls. However only 7,000 out of an expected 40,000 turned up to protest the government's alleged failures. Surveys by the Indonesian Survey Institute (LSI) and others blamed the political controversy surrounding the Bank Century bailout for SBY's falling popularity. It may also be that voters are adjusting to the prosaic realities of governing as opposed to the hype and hope of a presidential campaign.

Predictably, anti-corruption groups, civil society organizations and opposition groups lambasted the government's performance. Anti-corruption groups and civil society NGOs derive their *raison d'être* from criticizing the political establishment: as reports praising the government of the day rarely draw much media attention.

It is true that cases such as the Bank Century bailout and alleged framing of the anti-corruption court leaders have presented SBY with his first real political scandals. But while his popularity has fallen, it is still relatively high. Many political leaders who win on landslide votes, such as the U.S. President Barack Obama see their popularity fall in the first years of government.

What is a reasonable yardstick to measure the government on? There is no finite answer to this question. Ultimately, of course, voters will decide. Critics will say SBY should have intervened more heavily upon learning of possible police involvement in framing the KPK leaders. They also claim he must bear responsibility for the misuse of Bank Century funds. SBY supporters will say that despite his apparent cautiousness, SBY is setting a precedent for strictly following the law and not abusing the powers of his office. Perhaps the answer is that it is time that SBY realized that he does not have to prepare for another term – he is already in his final term – and throw caution to the wind and do what governments are supposed to do govern!

Golkar indicated it would back down from impeachment of Vice President Boediono. Golkar executive Priyo Budi Santoso said using impeachment to resolve the Bank Century case would be "too costly for the country." Mr. Santoso said as quoted, "we have yet to see the urgency for impeachment, unless the inquiry committee finds gross violations against the Constitution and a betrayal of the state."

Earlier, senior Golkar official Setya Novanto had said that BI, the financial system Stability Committee, Capital Market and Financial Institution Supervisory Agency and Deposit Insurance Corporation were responsible for the bailout. Mr. Novanto told Koran Tempo newspaper that Golkar would, "recommend Boediono be impeached." Meanwhile Golkar Chairman Aburizal Bakrie said on his Twitter account that, "impeachment [of SBY or Boediono] is not an option."

On issues that affect the Security Forces in Indonesia:

Ethnic conflict flared again in Papua during the month when rival groups in the Mimika district clashed over an alleged rape case. Clashes between groups are common in Mimika, close to the Grasberg gold mine operated by Freeport McMoran Copper & Gold Inc's local subsidiary. In 2006, a lengthy conflict left 18 dead, mostly killed by bows and arrows. Another conflict between groups in Kwamki Lama claimed eight lives in 2007. Papua is in many ways unique in Indonesia. It is more akin to Melanesia than Asia, with some ethnic groups spanning the border with Papua New Guinea. Traditions of tribal warfare are ancient and enduring.

Gunmen have again carried out attacks on vehicles near the world's largest gold mine in Papua, wounding seven people, including one foreigner. Papua police spokesman Col. Agus Rianto said a vehicle convoy was attacked as it traveled from the Grasberg mine to the town of Timika. The wounded included a foreigner, four policemen, another worker and a child. The foreigner and two policemen were evacuated to Jakarta for treatment. This is the latest in a long line of incidents that have occurred over several months. The attacks have taken place on the road that runs from the mine site to the coast over a distance of one hundred kilometers. The length of the road and the fact that it runs through sparsely populated areas lined with thick forest has made the task of guarding it extremely difficult. The police have made several arrests but seem to be no closer to being in a position to put a stop to the incidents.

On issues that may affect business in Indonesia:

Indonesia is pushing for a renegotiation of a free trade deal between China and Southeast Asia, but Asean, the regional body does not seem likely to agree to the delay. It is believed that Indonesia had sent a letter to the Association of Southeast Asian Nations (Asean) asking for a one-year delay in imposing zero tariffs on a range of goods due to concerns over low-cost Chinese imports. The items under the delay include textiles, steel and chemicals, to give local businesses more time to adjust to the pact. Indonesia's Industry Ministry says the country needs more time to adjust domestically. Affected industry associations and employers have been vocal in their opposition to the deal. In comments to the media, Sofjan Wanandi, chairman of the Indonesian Employers' Association said members weren't able to compete and would have to close their factories. Some sectors in Indonesia already face tough competition from low-cost Chinese clothes, toys and electronic goods, which are often smuggled into Indonesia. Trade between China and Asean was around \$200 billion last year. The trade deal that came into effect on January 1 lowers tariffs to zero on a range of items. Under a free trade deal signed in 2004, tariffs on the China-Asean trade were lowered in stages to an average of 5 percent last year.

Another agreement lowered trade tariffs between six of Asean's economies, Indonesia, Thailand, Singapore, the Philippines, Malaysia and Brunei.

Indonesia's cabinet is divided over the impact of the free trade deal with the trade and industry ministers at loggerheads over the local impact. Industry Minister MS Hidayat and Trade Minister Mari Elka Pangestu presented parliament with sharply differing views of the ACFTA. Mr. Hidayat called for the pact to be renegotiated, saying he feared full implementation of it would dramatically boost unemployment, particularly in the steel, textile and furniture sectors. Ms. Pangestu, a U.S.-trained economist, defended the trade deal, saying it would be good for domestic exporters and would bring badly needed foreign direct investment from Chinese firms. Ms. Pangestu spoke of the benefits arising from "strategic alliances" and "technology transfers" between Asean and China. She said the government was negotiating with Asean in a bid to find a "win-win" solution that was best for national interests. Finance Minister Ms. Mulyani told lawmakers the trade deal would reduce import duties this year by 8.5 percent to Rp. 16.5 trillion (\$1.8 billion). She said revenue from the value-added tax on imports would surge by 54 percent this year to Rp.102.2 trillion.

Indonesia has imposed a requirement for metal and coal miners to set aside a portion of their production for domestic needs. The metal and coal industries have been waiting to see if Indonesia, a major global producer, will switch more coal output to home use and away from exports, particularly given the rapid growth in import demand from the Asian giants China and India. Bambang Setiawan, director general of coal, minerals and geothermal at the Energy Ministry confirmed in a mobile phone text message a ministerial decree has been issued. It is reported that the document was signed by Energy and Mineral Resources Minister Darwin Zahedy Saleh on Dec. 31 2009 for immediate effect, saying the government would set a minimum percentage for domestic sales of coal and minerals each year. The percentage will be calculated based on total domestic consumption of coal or minerals, divided by the total production of coal or minerals. Coal and metal miners can export their products as long as they are able to meet the minimum percentage, the document says. Another minimum domestic sales percentage, which was set before the decree was issued and included in the 2010 plan, will continue to be effective. Previously, domestic coal consumption was set at 75 million tonnes for 2010, or about 30 percent of production. The government is expected to decide by June at the latest the amount companies must set aside for local production in 2011. Companies that fail to comply could face an output cut of up to 50 percent, according to the energy ministry. According to ministry forecasts, coal demand in Indonesia could rise to 11 million tons in 2014 from 5 million tons this year. Ministry officials said last week they have begun to calculate how much domestic demand will be for next year, according to the director general for coal, minerals and geothermal.

Chief Economics Minister Hatta Radjasa said in December there would be no hike in power tariffs as the government was still reviewing the impact of any hike on its 2010 state budget. Some analysts have said they are concerned a planned increase in power tariffs this year could boost inflation, prompting the central bank to start tightening monetary policy. Chairman of the Finance Ministry's fiscal policy board Anggito Abimanyu said the government was still studying the impact on the budget deficit, which is forecast at 1.6 percent of gross domestic product in 2010. Indonesia's state power firm Perusahaan Listrik Negara (PLN) said in September it may propose a 20-30 percent hike in the power tariff to reduce subsidies. PLN last increased tariffs in 2003 by an average of 30 percent. With rates of about 7 U.S. cents per kilowatt hour, Indonesia enjoys some of the cheapest power in Southeast Asia. Consumer prices fell on a month-on-month basis in November, driving annual inflation to 2.41 percent, the lowest in nine years. Inflationary pressures are expected to pick up this year. The timing of a power hike could be an important factor in determining when interest rates will rise. Bank Indonesia (BI), the central bank, said it would keep its key interest rate at a record low of 6.5 percent provided inflation stays within the expected target range of 4-6 percent this year. Some analysts have said the government is unlikely to bring in an earlier hike in power tariffs this year because of the Bank Century scandal. In pure security terms, the delay of the power tariff hike is a positive. Energy prices are very politically sensitive in Indonesia. It was a hike in power tariffs that triggered rioting that led to the resignation of President Suharto in 1998, although no one seriously expects such an outcome this time. In economic terms, PLN is in dire straits and a hike in power tariffs is essential to stave off a burgeoning generation crisis on the main Java-Bali power grid.

However cash-strapped power utility PLN has reported that it had about 85 percent of the financing requirement for its own contribution to the second 10,000 megawatt (MW) power program, covering about half of the cost of the overall program. The program, due to begin this year, will see the construction of power plants with a total capacity of 10,677 MW. PLN is to be responsible for half of the power plants. The remaining capacity is to be constructed and financed by independent power producers (IPPs). PLN needs as much as \$6 billion for its power plants and another \$400 million for transmission systems. PLN's first 10,000 MW coal-fired "crash" power program in 2006 was supported by a government unconditional guarantee in support of project financing. It guaranteed the government would cover debts owed to developers during the construction stage. For the second 10,000 MW program a 2010 presidential decree – signed in January - only stipulates the government will subsidize PLN. Nearly half of the second phase of the crash power program – 45 percent – is to come from sustainable energy – 11 percent from hydro and 34 percent from geothermal. Indonesia has some of the world's most favorable geology for geothermal power as it sits atop the Asia-Pacific 'ring of fire.' In the near-term, Jakarta's intermittent power supplies aren't likely to get any better. PLN said in

December it would be “difficult” to meet a presidential directive to end Jakarta’s power crisis in 2010.

On Crime:

Gangs intent on robbing motorists have turned to rocks and boulders to stop vehicles on the major toll roads leading out of Jakarta. Criminal gangs place rocks on the toll road to destroy car tires, forcing drivers and motorists to stop. The criminals would then rob the motorists using weapons. There have been several anecdotal reports of similar incidents, although police have not officially confirmed the ‘rock robberies’ as a new trend.

Jakarta police arrested 12 suspected heroin traffickers in the past month in a sign that anti-narcotics operations remain a priority for the current administration. Police said the 12 included three Nigerian citizens linked to an international drug ring who brought in the heroin in their stomachs from Nigeria to Indonesia through Thailand and Malaysia. Such arrests are a reminder of the vast underground and illegal economy in Jakarta. The police are keen to publicize such arrests in a bid for media attention but many more cases go unsolved. That said, the police under the SBY administration have been given orders to crack down on narcotics possession and there has been a string of arrests involving foreigners in locations such as Bali. A foreign passport is no protection against drug possession, if apprehended.

Indonesian waters emerged as a bright spot in global maritime security in 2009; reported attacks fell to 15 last year, down from 28 in 2008, according to the International Maritime Bureau’s Kuala Lumpur-based center. The Indonesian figures stand in sharp contrast to global trends. There are however major shortcomings with the IMB reports and many piracy attacks go unreported. Sometimes it is easier for a ship-owner to simply negotiate and pay a ransom than to insist that authorities pursue the pirates, particularly in areas that may include several countries including the Malacca Strait. Overall, however, the statistics do capture general trends: in this case, that of improving maritime security at least outside of Somalia. Southeast Asian governments have claimed credit for improved security patrols in the Malacca Strait, including the ‘eye in the sky’ air patrols and some credit must go to the US government for their input into the program.

Police are investigating a \$550,000 bank scam that saw funds illegally withdrawn from ATMs during the month. Criminals used digital ‘skimming’ techniques from accounts at Bank Central Asia (BCA) Bank Negara Indonesia, Bank Mandiri, Bank Permata and Bank International Indonesia. Police said the thieves stole account details and PIN numbers from the ATMs as cardholders were using the machines, then used fake cards to steal money from their accounts. Bank Central Asia, whose depositors bore the brunt of the loss, blocked transactions in Australia and Canada following the scam. Police said thieves had used the technique of installing a fake

slot on ATMs to trick customers. Police in Bali said data-capturing devices had been seized from ATMs in Denpasar and Kuta, saying the local thieves may have been part of a syndicate linked to criminal groups in Australia, Russia and Canada. One method may have included attaching a device to the ATM that captures a customer's card information or using a device to capture the same details during electronic transactions at shops.

A 20-year old student was allegedly raped in a police cell in East Aceh during the month after being arrested with her boyfriend under local Sharia or Islamic laws. Rights activists said Sharia police were not empowered to detain anyone and could only issue warnings. A page on the social networking site Facebook condemning the sharia police over the rape has so far attracted more than 4,000 members. Provincial Deputy Governor Mohammad Nazar defended the Sharia Police, saying the rape was an isolated incident. The governor has said the Aceh police cannot be disbanded as they are needed to implement sharia law. "What went wrong is the personal integrity of the three officers," he told the Agence France Press news wire, "not the institution," adding the three would be punished. The alleged rape incident has ramifications going beyond Aceh province. Many of Indonesia's regions considering implementing Sharia – or a harsher version of it – are looking to Aceh as a model. Local civil society groups have responded by condemning the entire institution of the Sharia police. In the short-term, the Sharia police are likely to lay low and avoid the heavy-handed tactics that have become their norm.