

March 2010 security summary:

On Terrorism:

Indonesia has been excluded from a new Australian list of countries identified for tougher visa screening rules. Australian Prime Minister Kevin Rudd at the beginning of the month released his country's long-awaited counter-terrorism white paper. Indonesia, along with Pakistan and India were not among the 10 countries singled out for toughened visa screening. Yemen and Somalia – identified in the White Paper as the emerging centers of radical Islamist terrorism would be included in the list. The white paper highlighted a new Australian attitude – seeing home grown extremists – as opposed to transnational groups such as al Qaeda – as the main terror threat confronting the country. Carl Ungerer, a prominent Australian security analyst, noted an 'improvement' on the previous government's security white paper, saying that Indonesia and India were not major exporters of terrorism. It remains to be seen whether the Australian government will relax its travel warnings to Indonesia including Bali.

Indonesia's counter-terrorist dragnet has drawn tighter with the killing of one of the region's most-wanted Islamist militant. Dulmatin, who was shot and killed on the outskirts of Jakarta helped plan the 2002 Bali bombings and was a key operative in the Jemaah Islamiah (JI) terrorist network. He was killed in a raid near an internet café in Jakarta based on intelligence gleaned from interrogation of operatives captured in an earlier raid in Aceh province. Authorities in the Philippines assisted by US Special Forces spent some years searching for Dulmatin after he fled there following the Bali bombings and joined the Islamist separatist group Abu Sayyaf. The United States had also offered a \$10 million reward for the capture of Mr. Dulmatin. The raid began late morning outside of an internet café. Soon afterwards, Indonesia's elite counter-terrorist unit Detachment 88 raided a house nearby, shooting and killing two men who attempted to escape by motorbike. Police linked the raids to the ongoing search for Islamist militants who had escaped an earlier raid on a terrorist camp in Aceh, Indonesia's westernmost province. Police officials said information gleaned from interrogations and the ensuing manhunt led them to Dulmatin. Dulmatin was one of the last veterans of the al Qaeda training camps in Afghanistan and his death will be a serious blow to the network. The 39-year old was an electronics specialist and a top bomb technician for JI. Dulmatin may well have had the capability to succeed Noordin Mohammed Top, a Malaysian-born militant and bomb maker killed by police last year during a raid in central Java. His group had allegedly secured \$54,500 to buy weapons and for military training and had supplied arms to the group in Aceh. The killing and arrest of JI cadres both in Aceh and in Java will no doubt affect JI's capabilities for some time to come and this will continue as Indonesia's crack counter terror team Densus 88 follow up on the results of interrogation with further raids and arrests. There was some concern by analysts that once the July 2009 twin hotel bombing cell was finally mopped up that

the police would find it difficult to identify new cells. The information received from villagers of training activities in Aceh was just the sort of break that Densus 88 needed and they appeared to be in top gear as they combed those areas of Aceh being used as training camps and also urban areas from where the leadership directed activities and procured the necessary funds.

There are therefore grounds for optimism given the devastating blow that JI has received as a result of the police action. However a note of caution needs to be injected lest we feel too cozy with the situation and allow apathy to creep in as it did prior to the 2009 twin hotel bombings. The numbers involved in the Aceh training camps and the administration and leadership head in Jakarta and other areas of Java should serve as a reminder that there are still many active cadres out there despite the successes enjoyed by the Indonesian Police over the past decade. There is therefore a need for the police to avoid resting on their laurels and for us not to become too complacent. We are not suggesting that Indonesia has just become a more dangerous place to work and live in and indeed it can be argued and has been several times in the past that the threat from terrorism is not the greatest danger facing multinational companies and expatriate employees in Indonesia. The lack of an efficient communications infrastructure with poor roads, ill disciplined driving and under regulated ferry services is a greater and more immediate danger than the terrorist's bomb or automatic weapon. Coupled with this is the vast distance covered by the archipelago served by an aviation industry which is expanding fast and some might say too fast with short cuts being taken which put safety at risk. Allied to this is the poor state of medical care with dangers from misdiagnosis and less than efficient hospital care. It is therefore important to put the threat into perspective and Indonesia cannot be compared to Iraq, Afghanistan or Pakistan as far as risk from terrorist actions is concerned. Similarly crime levels in Indonesia are nowhere near as bad as those to be found in the Philippines, South Africa or indeed in some cities in the west. By and large Indonesia is a relatively safe operating base for multinationals offering good services in the fields of education for dependent children, housing and shopping and entertainment facilities. However the type of training being conducted by JI in Aceh and the weapons they were using should fire a shot across our complacent bows. There is a worry that the procurement of and training with high powered automatic weapons might be an indication that JI is once again about to change its tactics. The devastating effect of a multi faceted attack in the Mumbai showed both to us and to potential terrorists that such tactics are not only easy to mount but perhaps more important are extremely difficult to mitigate and protect against. It should also be noted that Dulmatin spent the last few years in the south of the Philippines where high powered automatic weapons have been used to good effect. We do not know exactly what target the terrorists had in mind (although the police have hinted that the targets may be senior Indonesian officials) nor do we have any intelligence on the method of attack but the number of terrorists involved and the training in field craft with automatic weapons perhaps signals a new direction. Another concern is the clearly porous nature of Indonesia's boundaries with terrorists such as Dulmatin being able

to move relatively freely between countries. We know for a fact that there are still many JI cadres in the south of the Philippines and cannot rule out that others such as Umar Patek, Zulkarnaen and Upik Lawanga will come to Indonesia to fill the vacuum left by the death of Dulmatin, Noordin Muhammad bin Top and Dr. Azahari and indeed they might already be here. It is also of concern that this latest active terrorist group was not only able to hide away in the remote areas of Aceh but also right under the nose of the police in Pamulang and Depok.

Indonesian counter-terrorist police are stepping up cooperation with Philippine authorities in the wake of the Aceh arrests, which highlighted links between regional terrorist groups. Indonesian police have asked their Philippines counterparts to track down an Indonesian fugitive wanted in connection with several beheadings and who is now helping to train militants in an insurgency-wracked Philippine region. Philippines authorities were tracking a militant named Sanusi, who had been monitored on the island of Mindanao. He fled to the Southern Philippines after being accused of ordering militants to be beheaded in 2007 in the East Indonesian town of Poso, where militants had launched a series of attacks on Christians and government workers. Sanusi was spotted in the Southern Philippines in February of this year. Senior Philippines military intelligence officials were quoted as saying Sanusi had emerged as a key operative of Jemaah Islamiyah. He is thought to have helped fund and organize religious and combat training for new Indonesian militant recruits in Mindanao, where local guerillas are fighting to create an independent Muslim state. Sanusi has not been implicated in any particular attack, and authorities are still trying to uncover his role. Authorities estimate there are at least two dozen JI members in Central Mindanao. At least another 25 Indonesian and Asian militants who belong to other underground groups have been given refuge primarily by the Abu Sayaf extremist group on southern Jolo Island and nearby Basilan province. Abu Sayyaf is another regional terror group linked to al Qaeda, the international militant network.

On issues that might cause public disruption or demonstrations:

Separatists in Papua province were behind the attacks last year on workers near the mine run by Freeport McMoran Copper & Gold Inc., according to a report released during the month by the International Crisis Group (ICG). In recent months, anonymous gunmen have launched a series of attacks on vehicles traveling to and from Freeport's Grasberg copper and gold mine near Timika, wounding more than 20 people and killing two. So far, the attacks have not disrupted production at Grasberg, which accounts for nearly 40 percent of Freeport's total copper reserves, and the world's largest gold reserves at a single location. The ICG, an international NGO and think tank, said the culprits were likely to be part of the separatist Free Papua Movement (OPM), who may have believed attacks would lead to the mine's closure. The report said some elements of OPM and the National Committee for West Papua (KNPB) – a group with roots in the student movement – were becoming

increasingly strident and militant. “They decided there was no longer any hope of achieving their main objective – a referendum on independence – through peaceful means, and led some to advocate violence and in some cases directly participate in violent acts,” the report said. The report recommended broadening talks between Jakarta and Papuan leaders to address grievances related to political, historical and economic issues. ICG reports are usually generous with their recommendations. The report also recommended allowing foreign journalists into Papua to report on conditions there.

The Indonesian military is considering the controversial move of sending thousands of additional troops to the easternmost Papua province. Rear Marshal Sagom Tamboen said up to four battalions from a “Rapid Reaction Strike Force” division in Jakarta could be sent to the province to “maintain the territory’s unity within eastern Indonesia”. Marshal Tamboen told Agence France Press, the news agency, several things were considered for the decision, including tackling the separatist movement and the potential for terrorism. “In case of an emergency, it takes at least eight hours to send troops from Jakarta to Papua. If we have (more) troops there, automatically we can save time and react swiftly” he said to AFP. There are an estimated 10 battalions of troops in Papua. The deployment has not yet been approved. Marshal Tamboen said in media interviews the planned deployment had nothing to do with recent shootings of police and employees of US mining giant Freeport McMoran Copper and Gold. It is however known that the military and the police have severe problems in moving quick reaction personnel around the country due to a lack of serviceable transport aircraft.

Indonesia’s biggest environmental disaster is again stirring Jakarta politics. The ruling Democrat Party of President Susilo Bambang Yudhoyono suggested reopening an inquiry into the giant mudflow in East Java, which implicates a company controlled by a political rival. A drilling accident in 2006 by a mining company controlled by the family of Golkar chairman Aburizal Bakrie opened a mud volcano in Sidoarjo, East Java. The mudflow has since swallowed dozens of villages and factories and displaced over 40,000 people, despite having slowed from 1.7 million cubic feet a day to 70,000 ft³/d. On a recent visit to the giant lake of mud ISBY suggested it be turned into a mud flow tourism site! The Supreme Court last year declared the company was not guilty of the disaster. The government had also declared the mudflow a natural disaster, implying Lapindo Brantas, the drilling company, should not be blamed. The verdict was controversial. Lapindo claimed it was a 2006 earthquake in Yogyakarta, Central Java that caused the disaster. International experts, including volcanologists at leading centers such as Durham University claim a drilling accident opened up the mudflow. SBY and the Democrats have since changed their minds. Despite the Supreme Court ruling, parliament speaker Marzuki Alie, a senior Democrat Party official, said the party would call on the police and Attorney General’s office to reopen the case. Speaking to victims in East Java, SBY called on Lapindo to speed up compensation payments. The shift in

position comes after the break-up of the coalition between the Democrats and Golkar. Tensions between Aburizal Bakrie and SBY's star minister Sri Mulyani Indrawati helped fan the political tensions. Mr. Alie denied, however, reopening the case was political retaliation against Golkar.

In an ironic twist, even for Indonesia, Mr. Bakrie's party is supporting Lapindo executives to run for local elections in Sidoarjo. Three Lapindo executives declared their candidacy to run in the upcoming Sidoarjo regency election. The three – Yniwati Teryana, Gesang Budiarmo, and Bambang Prasetyo Widodo denied their nomination was linked to Lapindo's political interests. A local mudflow victims' association has filed an official protest to the local elections commission over the candidacy of the three, claiming it will slow down payments. The mudflow could prove to be a potent weapon against Mr. Bakrie if the case is reopened. Even if investigators or the courts declare the mudflow a natural disaster again, the publicity will still be damaging. The mudflow – along with tax evasion allegations – will not help Mr. Bakrie win a presidential election in 2014 if he decides to run.

On issues that may affect business in Indonesia:

Indonesia remains the most corrupt country in Asia, according to a survey published during the month. In fact, according to the Political and Economic Risk Consultancy (PERC), graft is getting worse. The annual poll by the PERC put Indonesia last in a table of regional economies with a score of 9.27 out of the worst possible score of 10. Indonesia also came last in 2009, but had a marginally better score of 8.32. Cambodia was ranked the second most corrupt regional nation with a grade of 9.10, followed by Vietnam and the Philippines. Singapore was the most 'honest' or 'graft free' country with a score of 1.42, while Australia was second with 2.28 and Hong Kong third on 2.67. The Hong-Kong based consultancy said Indonesian parliamentarians' call for a criminal probe into the SBY government's bailout of Bank Century in 2008 reflected attempts by a "corrupt establishment" to maintain the status quo. "Corruption has become a charged being used by corrupt people to protect themselves and to stifle reform," PERC said.

The United Nations has issued a temporary travel ban on its foreign staff for Aceh province due to ongoing police operations against Islamist militants. The travel restriction does not apply to Indonesian staff and is expected to stay in place until the situation is stable. The Associated Press reported that foreign staffers already based in Aceh have not been told to leave, but additional U.N. workers would not be allowed to travel there. U.N. personnel working in the provincial capital of Banda Aceh are following basic precautions, such as limiting their travel outside the city to essential journeys. There are about 300 U.N. staffers in Aceh with about 10 foreigners. The U.N. workers are helping Aceh rebuild after the December 2004 tsunami.

A major global food group has cancelled a contract with an Indonesian conglomerate over concerns about its involvement in rainforest destruction. Nestle, the world's single largest food company, said it had stopped buying palm oil from Sinar Mas over concerns about rainforest destruction in the wake of a similar move by consumer goods firm Unilever. Nestle's announcement came after Greenpeace released a report putting the spotlight on how the company sources palm oil. Switzerland-based Nestle, which uses the palm oil in many of its products, said it had replaced Sinar Mas with another supplier for further shipments after conducting its own investigations into its palm oil supply chain. Greenpeace claimed Sinar Mas, Indonesia's biggest palm oil producer and the second largest in the world, had been responsible for widespread environmental damage. Nestle said in a statement, "we will continue to pressure our suppliers to eliminate any sources of palm oil which are related to rainforest destruction and to provide valid guarantees of traceability as quickly as possible." Nestle claimed it had only bought from Sinar Mas for manufacturing in Indonesia. The cancellations by Nestle and Unilever highlight the rising power of environmental NGOs amidst global concerns on issues such as climate change and deforestation. Companies are well advised to be aware of the environmental practices, as well as the overall corporate reputation of local partners. Foreign investors in Indonesia have been affected by concerns over human right concerns of their local partners, corruption (Monsanto), and now questionable environmental practices. Given the heightened state of global awareness of the environment, particularly in Indonesia, such NGO pressure is likely to be a more regular feature on the political landscape.

President Susilo Bambang Yudhoyono was gracious and diplomatic over the cancelled visit by U.S. President Barack Obama, with a spokesman saying Indonesia 'understood' the delay. (Those dealing with senior Indonesian officialdom will certainly be no strangers to last minute cancellations). President Obama put back the visit to June to deal with the health care bill in Washington. "The delay of President Obama's visit to Indonesia is related to urgent internal matters, so we understand," said Indonesian presidential spokesman Julian Pasha. It's not clear how gracious those who helped plan the trip were privately. Rooms were booked, hundreds of security officials had staked out Jakarta, as well as Guam and locations in Australia on the same trip. In an interview on the Indonesian station RCTI, President Obama said it made sense to wait to travel to the region until June so he and his family were not rushed when they visit Indonesia. He also said he was looking forward to eating bakso, the popular meat-ball soup often sold on streets here. President Obama's return to his childhood home was, of course, much anticipated here. Obama supporters groups and fan clubs, unlike the government, said they were disappointed. Recently a statue of Obama as a child was moved from a major park in Menteng to his former school after 60,000-member group on the social networking site Facebook complained he had 'done nothing for Indonesia.' Still, the U.S. President remains popular here. The visit was expected to

be heavier on symbolism than substance or tangible deals. Indonesia, as the world's third largest democracy and largest Muslim-majority country is an important ideological ally for the U.S. Washington pundits often claim Indonesia's success in building democracy in the last decade has proven that Muslim countries need not be run by tyrants. There may be large grants for education, particularly in Islamic institutions. Indonesia is also an important geopolitical ally as China's influence in the region expands. Foreign Ministry officials said they were working on a broad-reaching agreement for the two countries to sign when he comes. The Comprehensive Partnership Agreement (CPA), under preparation between the United States and Indonesia, officials said, would cover the economy, science and technology, education, social issues, politics and military cooperation.

The location of the Chinese Commerce Minister's car almost hidden away in a side parking lot of a well known 5 star hotel during the Good Friday holiday was perhaps an indicator that the following day Indonesia and China would agree to implement the wide-ranging ASEAN-China Free Trade Agreement (ACFTA), brushing aside concerns here over job losses and its impact on exports. The ACFTA took effect on January 1 2010, but Indonesia had asked China to exempt a number of goods to give those industries more time to adjust. Several industry associations, fearful of the impact of Chinese competition, had called on the government to delay application of 228 tariff posts. Under the agreement, 90 percent of tariff posts in both countries have been reduced to zero. China's commerce minister Chen Deming conceded that local industries may find it difficult to adjust to the new conditions under the ACFTA. To help, China agreed to lend \$2 billion dollars for investment in Indonesian infrastructure. Beijing is also to hand over \$1.8 billion dollars worth of preferential export buyer's credits as well as a concessional loan of 263 million dollars. The \$2 billion loan will help boost Indonesia's \$140 billion infrastructure plan over the next five years.

An International chemical firm was fined in March in the UK for bribing public officials in Indonesia – along with Iraq – to get around local laws. The British arm of U.S.-based Innospec Ltd. conspired to give illegal payments of more than \$.5 million dollars to officials in return for Indonesian government contracts between February 2002 and December 2006. The corruption, according to court documents, involved the supply of a fuel additive called Tetraethyl Lead that was a major source of income for the company before health and environmental restrictions led to its banning in the US and Europe by 2000. The court imposed the maximum penalty it could and the presiding Judge said he would have preferred to have imposed more. Lord Justice Thomas at the Southwark Crown Court said the maximum he could pass was the pound sterling equivalent of \$12.7 million. Any more, he said, would have threatened 400 local jobs. The company's defense lawyers argued it had been cooperative and should thus not be put out of business. Even so, the judge spoke in strong and harsh terms. Corrupting a government, he said, "was almost at the top of the criminal calendar for a company." The guilty plea was the culmination of more than two years' worth of negotiations between the UK's Serious Fraud Office, the US

Department of Justice, the US Securities and Exchange Commission and Innospec. In the U.S., Innospec agreed to a \$40.2 million global settlement with the SEC, the U.S. Department of Justice, U.K. treasury and U.K. serious fraud office (SFO). Innospec, according to the SEC complaint, routinely paid millions of dollars in bribes to sustain its sales of tetraethyl lead (TEL) to state owned refineries and oil companies in Iraq and Indonesia. Innospec also paid kickbacks to officials in Iraq to gain contracts under the United Nations Oil for Food Program. The SEC's complaint alleged that Innospec's internal controls failed to detect the illicit conduct, which took place from 2000 to 2007. The SEC, which aggregated figures from Iraq and Indonesia, said Innospec had made illicit payments of more than \$6.3 million and promised an additional \$2.8 million in illicit payments to Iraqi ministries and government officials. Specifically in Indonesia, the SEC said, Innospec had several schemes to pay bribes to Indonesian government officials to win contracts. More than \$2.8 million in bribes were funneled through an Indonesian agent. In one case, bribes were paid annually to a senior official at the BP Migas. Another case involved "special commissions" paid to a Swiss account. The bribes were paid to maintain the company's TEL sales when Indonesia was aiming to promote unleaded fuel. The SEC's complaint reported one Indonesian official had said he would help Innospec to maintain TEL sales, but wanted more than just "cents" in return. The Innospec case highlights the changes in international and even Indonesian standards with respect to corruption and graft payments. Enforcement of foreign corrupt practices acts has become increasingly tight in recent years.

The case also illustrates the danger of giving in to the prevalent culture of graft in Indonesia. The current administration has been attempting to combat corruption through institutions such as the anti-corruption commission. But even last week, a senior detective, himself accused of taking bribes accused his bosses and colleagues in the national police of being at the top of a pyramid of graft. Some Indonesian officials may still regard such payments as a facilitation fee, or 'user pays' system. The Innospec case, however, shows that not only errant Indonesian bankers and policemen can fall prey to anti-corruption efforts.

Indonesia's annual inflation eased slightly in March due to lower food prices, the government statistics office said. The Central Statistics Agency (BPS) said annual inflation fell to 3.43 percent from 3.81 percent, clearing the way for Bank Indonesia (BI), the central bank to maintain interest rates at their current levels.

The consumer price index fell 0.14 percent from a month earlier in March, compared with a rise of .3 percent in February. Annual core inflation, which excludes volatile food prices and government price-controlled products slowed to 3.56 percent from 3.88 percent. The rice harvest in many regions also pushed down prices, the BPS said. BI is to meet on April 6 to review interest rate policies. It has kept interest rates unchanged since lowering them to a record low in August to help avoid a recession. So far, BI has not followed other regional central banks, such as Malaysia, India and Australia in raising interest rates, even as inflation returns to the

region amidst a global recovery. Indonesia's exports, which account for about 30 percent of gross domestic product, rose 57.1 percent in February from a year earlier after rising 59 percent in January. Imports climbed 59.9 percent in February from a year earlier. That left a trade surplus of \$1.7 billion, according to data from Bloomberg.

On the Police

A disgraced detective has emerged as a would-be hero in the latest round in Indonesia's civil war over graft. Gen. Susno Duadji, former chief of detectives, surfaced from a four-month suspension to claim it was his colleagues and bosses in the force, not him, who were on the take. The Police were quick to counter-accuse, threatening him with a criminal defamation suit and repeating claims he was corrupt. The spat is a reminder that it will take many years to repair Indonesia's law enforcement institutions. The first question is which institution will investigate the flurry of accusations, which hit the highest levels of the police force. The obvious choices would be either the anti-corruption commission (KPK) or the Attorney General. Both institutions have had previous conflicts with the police, which have investigated officials at both for corruption. None of this news helps Indonesia's reputation as it reemerges as a major emerging stock market, 12 years after the Asian financial crisis. Susno has been on four-month suspension since his removal in November last year following his "gecko vs. crocodile," comment before parliament's Bank Century special inquiry. Now, he claims that graft is endemic in the police, a surprising charge from a serving policeman. In a public statement Susno, a three-star general accused three of his colleagues of accepting up to Rp. 25 billion in bribes in exchange for stopping a probe into a tax official's suspicious bank accounts. The claims followed a report from the Financial Transaction Reports and Analysis Centre, finding indications of 'irregularities' in the bank account of the tax officer Gayus Tambunan worth some Rp. 25 billion. The police quickly struck back, threatening Susno with a defamation suit and issuing a counter-claim of corruption. Although Susno did not identify the alleged bribe-takers, they quickly identified themselves. Brigadier-General Radja Erisman, director of economic crimes, and his predecessor, current Lampung police chief Brigadier-General Edmond Ilyas both filed police complaints against Susno, claiming he had defamed them. Gen. Erisman went further, claiming that "a thief had cried thief." Police spokesman Edward Aritonang at the same press conference denied the claims. Susno's motivations seem mixed. Revenge could be part of it. Insiders say he fell out with his boss, police Chief Gen. Bambang Hendarso Danuri, after he fired him from his position. Susno was fired from the post of chief of detectives following the feud with the Corruption Eradication Commission (KPK) last year. The conflict between the KPK and the police surfaced over the KPK's wiretapping of Susno over allegations he had demanded a bribe from a wealthy businessman. Susno was later accused of framing the two deputy chairman of the KPK on charges of bribery and abuse of power. Both were released and charges against them were dropped.

Susno famously referred to the KPK as a 'cecak' or lizard, trying to challenge a 'buaya' or crocodile. Susno may also be trying to clear his name. He recently launched a biography in which he claimed he was an honest cop hounded out of the force by his seniors.

Indonesia's obsession with corruption reflects a wider struggle for power that began in 1998, when long-ruling President Suharto stepped down amidst riots and protests. Bribery and patronage, along with control of the armed forces, was one of Suharto's main tools of government in his 32-year rule. Since 1998, the elites have been struggling to hold on and new elites, sometimes with democratic power bases, have been trying to shake their power and privileges. Potential and current investors in Indonesia could be as confused and frustrated as most citizens at the endless 'cinecron' or soap opera of graft and corruption investigations. But each case is an important reminder that many of Indonesia's legal and regulatory institutions remain weak.

On Crime:

There are no major crime issues this month