



Initial Investigation: Lampung, Sumatra

Overview

Lampung's security conditions do not pose an immediate threat to Höegh's operations in the near-term, despite it being one of the moderately poor provinces in Indonesia. Lampung's religious, ethnic, political and economic composition are a microcosm of the Indonesian archipelago which is home to more than 7.6 million inhabitants. Although Indonesia is known for its tolerance and diversity, Lampung occasionally experiences periods of social instability that have led to riots and violent activity. These events are fueled by Lampung's high unemployment rate, currently at 14%, and its population's income, which earns 50-70% less than the national average.

Situation

There is a direct correlation between the security of Höegh's operations and Lampung's political and socioeconomic conditions. Like most of Indonesia, Lampung favors a decentralized political system where local politics is the recognized authority over far removed national institutions. Additionally, Lampung's relationship with state institutions remains weak which creates the space for tensions to manifest over issues where the population feels strongly.

For example, in 1998, cuts to the national fuel subsidy caused nationwide riots that eventually resulted in the overthrow of the Suharto government. This subsidy is popular with the public because it is widely believed to keep the costs of public transportation and basic commodities affordable.

Though the Indonesian government spent \$16.5 billion USD on fuel subsidies in June 2013, the new elected President Joko Widodo is expected to decrease the subsidy in October, as part of an economic reform policy. Opposition against the unpopular decision is expected to create unrest across Indonesia, including Lampung.

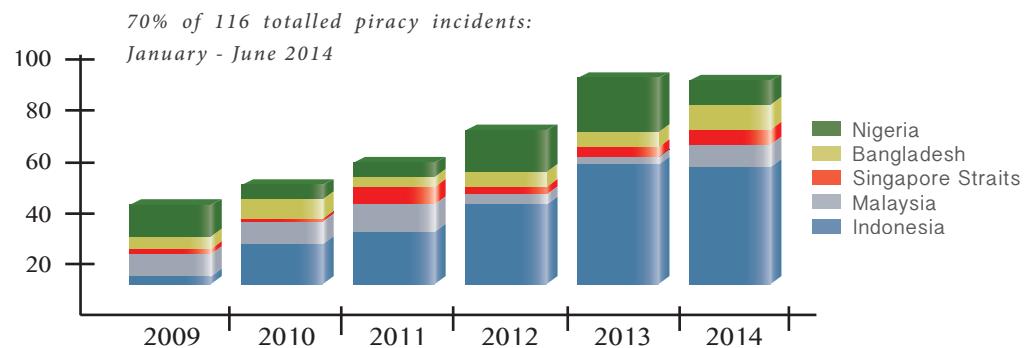
Underlying Lampung's social tensions are cultural nuances not often recognized or understood by westerners. Many of Lampung's citizens abide by *Piil pesenggiri*, a philosophy that covets personal dignity and forbids retreat. *Piil pesenggiri* is often a catalyst for civil disobedience and social unrest; in June 2013, a geothermal power plant project in the Gunung (Mount) Rajabasa area was suspended due to protests from the local population that the project would negatively impact the social structure. Also on March 12th, 2013, shrimp farmers employed at PT Central Pertiwi Bahari (CPB) shrimp farm in Dente Teladas district violently clashed over a disputed partnership agreement, leaving four dead.

Problem

Although the immediate security environment is benign, Höegh's operations can quickly become vulnerable to changes in the human terrain. Höegh's contract with the Indonesian government, guarantees operations in Lampung for the next twenty years, but does not guarantee security. Engagement that is limited to the national level through state institutions such as PT Perusahaan Gas Negara (PGN) will not create the local credibility and goodwill Höegh LNG requires to conduct business successfully over the course of two decades. The relationship Höegh has established with the Indonesian government and PGN will not be sufficient to safeguard operations or mitigate threats that emanate from Lampung's communities.



Lampung is unable to satisfy its current demands for electricity. Höegh's distribution of natural gas will help Lampung meet the growing needs for electricity in its industrial sectors. However, there is concern locally that the Lampung FSRU, which begins to serve parts of West Java this year, will make the natural gas distribution chain longer and more expensive for end users in Lampung. With fuel subsidies expected to decrease this year, Indonesians are particularly sensitive to this issue. Any negative perceptions concerning Höegh, due to increased prices for natural gas, have the potential to adversely affect its operations.



According to the IMB Piracy Reporting Centre in Kuala Lumpur, Malaysia piracy attacks worldwide declined 11 percent. Attacks in Indonesia, however, rose dramatically; 106 of the 264 pirate attacks in 2013 took place in Indonesia—a seven-fold increase in the region in five years. A third of the 106 incidents were reported in the last quarter, suggesting “a potential for such attacks to escalate into a more organized piracy model unless they are controlled,” said a report by German insurer Allianz. According to the IMB, six fuel tankers have been hijacked and drained in the Malacca Strait or nearby waters of the South China Sea. The IMB has called the rise of petro-piracy “alarming”, and in mid-June warned tankers to maintain strict anti-piracy measures in the area.

Solution

Design and implement a long-term security plan that leverages community support to create an enduring security environment. Höegh can shape its future security environment in Lampung and safeguard its operations by developing stakeholder relationships with Lampung’s local communities. To develop these relationships a comprehensive understanding of Lampung’s social, economic, religious and political conditions is required. With this knowledge, Höegh can support culturally attuned, low-cost development projects that provide instant and enduring utility to Lampung’s local communities.

Engaging local communities early in the project is critical in solidifying Höegh’s relationship within Lampung’s communities. Once established, these relationships enable Höegh to identify potential drivers of instability and aid in the development of reliable local information networks. These networks allow Höegh to receive immediate threat indications and warning regarding local and outside threats, including piracy networks that may seek to target the PNG FSRU Lampung project. Without trusted local intelligence networks and local community support, Höegh LNG will be limited in its ability to forecast threats, protect its investments, and secure its profitability throughout the lifecycle of the project.

A small investment in Lampung’s local communities today will pay security dividends over the next two decades.





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