



Indonesia Energy Subsidy Briefing

JULY
2014

AS PART OF ITS WORK ON ENERGY POLICY AND SUSTAINABLE DEVELOPMENT IN INDONESIA, THE GLOBAL SUBSIDIES INITIATIVE (GSI) OF THE INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT (IISD) PUBLISHES A REGULAR BRIEFING ON ISSUES RELATED TO ENERGY SUBSIDIES. FOR MORE INFORMATION, CONTACT LUCKY LONTOH AT LUCKY.LONTOH@IISD.ORG AND CHRISTOPHER BEATON AT CBEATON@IISD.ORG.

State Budget Revision Finalized

In the midst of the race for the presidential election, Indonesia's government reached an agreement with the parliament on 18 June on increased subsidy spending in the revised state budget (see Table 1). The revised budget sees subsidies for transport fuel and LPG increase from IDR 211 trillion to IDR 246 trillion (US\$17.7 billion to US\$ 20.7 billion¹) and subsidies for electricity increase from IDR 71 trillion to IDR 104 trillion (US\$ 6.0 billion to US\$ 8.7 billion). Total budgetary expenditure on energy subsidies increased from IDR 281 trillion to IDR 350 trillion (US\$ 23.7 billion to US\$ 29.4 billion). This is less than the initially proposed increase, which would have seen total energy subsidies increase to IDR 392 trillion (US\$ 32.9 billion).

Table 1. Indonesia's Energy Subsidy in State Budget Revision 2014

Energy Subsidy 2014	Amount						Changes		
	State Budget		Revision Proposal		Approved Revision		Nominal		Increase in budget (%)
	IDR trillion	US\$ billion	IDR trillion	US\$ billion	IDR trillion	US\$ billion	IDR trillion	US\$ billion	
Fuel and 3kg LPG	210.73	17.70	284.97	23.94	246.49	20.71	35.76	3.00	17.00%
Electricity	71.36	5.99	107.15	9.00	103.82	8.72	32.45	2.73	45.50%
Total Energy	282.10	23.70	392.13	32.94	350.31	29.43	68.21	5.73	24.20%

Source: Fiscal Note and State Budget Revision Proposal 2014; Antara (2014).

A few days before, on 11 June, adjustments were also agreed on key macroeconomic assumptions. This changed estimates for growth, inflation, the exchange rate, the interest rate and the production of crude oil (see Table 2).

Table 2. Adjustments in State Budget Key Macro Economic Indicators

Economic Indicators	State Budget	Approved Revision
Growth (% yoy)	6.0	5.5
Inflation (% yoy)	5.5	5.3
Exchange Rate (Rp/USD)	10,500.0	11,600.0
SPN Interest Rate 3 months average (%)	5.5	6.0
Indonesia Crude Price (USD/bl)	105.0	105.0
Crude Production (thousand bl/day)	870.0	818.0
Natural Gas Production (thousand bl/day)	1,240.0	1,240.0

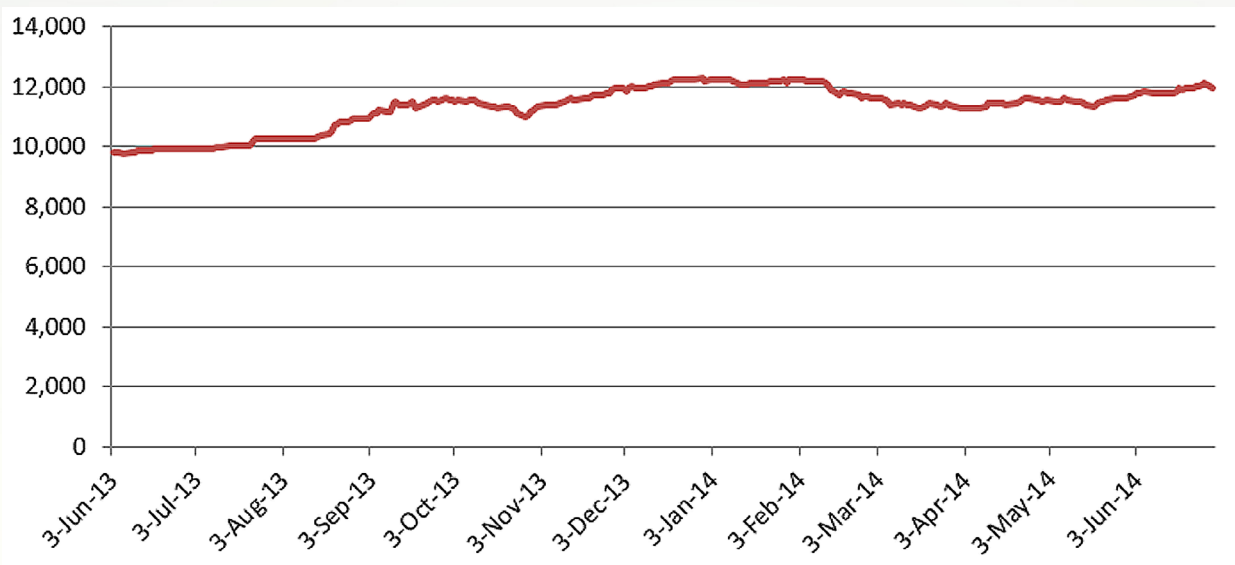
Source: Fiscal Note and State Budget Revision Proposal 2014; Liputan6 (2014).

1. Unless otherwise stated, all currency conversions are based on an exchange rate of 0.000084 US\$ per IDR.



The government pointed out that the main cause of the constant pressure on the rupiah has been the latest “tapering off” policy in the United States, which was started in mid-2013 (Fiscal Note and State Budget Revision 2014, p. 1-2; Vivaneews, 2014a; Bloomberg, 2013; The Guardian, 2013). The rupiah started to weaken shortly after this policy was launched, and has not recovered to its initial value since (see Figure 1). The rupiah hit the lowest point between December 2013 and February 2014, when its exchange rate to the U.S. dollar hovered above IDR 12,000, compared to IDR 9,811 per U.S. dollar in June 2013. Indonesia’s state budget preparation normally starts in July of the previous year. It is then confirmed by the government on 16 August, and is approved by the parliament by October.

Figure 1. IDR/USD Exchange Rate (June 2013 – June 2014)



Source: Bank of Indonesia (n.d.)

The IDR/USD exchange rate is one of the key factors that influences the size of Indonesia’s fuel subsidy, because of the large amount of imports required to meet domestic demand. The Vice Minister of Energy and Mineral Resources, Susilo Siswoutomo, stated that in order to supply to consumers 1.5 million barrels of fuel every day, Indonesia must import 850,000 barrels of fuel per day (Kompas, 2014a). According to Statistics Indonesia (BPS), the biggest components of Indonesia’s oil imports are—in order of magnitude—“other motor spirit (unleaded)”, crude oil, automotive diesel, “other diesel fuel” and motor spirit with RON 90 or above (BPS, n.d).²

Despite a 24.2 per cent increase in energy subsidy expenditure, the government and parliament agreed to adjust the fuel subsidy quota to a lower volume, from 48 million kiloliters in the original State Budget 2014 to 46 million kiloliters. Since the State Budget Revision has not allowed for an increase in the price of energy, the government will have to rely on non-pricing policies that control subsidized fuel consumption, such as radio frequency

2. This information is classified based on the import data set by BPS from HS 2709001000 to 2710990000, which covers oil-based products.

identification devices (RFID), limitation of government vehicles to purchase subsidized fuel and a plan to stop selling subsidized fuel at the weekend. To date, however, fuel consumption control programs in Indonesia have not achieved significant results.

The government and the parliament also agreed to reduce the subsidy for bioethanol from IDR 3,500 per liter to IDR 2,000 per liter (US\$ 0.29 per liter to US\$ 0.17 per liter), and for biodiesel from IDR 3,000 per liter to IDR 1,500 per liter (US\$ 0.25 per liter to US\$ 0.13 per liter), while the subsidy for liquid gas for vehicles (LGV) was maintained at IDR 1,500 per liter (US\$ 0.13 per liter) (Vivanews, 2014).³

Table 3. Adjustment Subsidized Fuel Quota in 2014

Subsidized Fuel Type	State Budget 2014	Revised State Budget 2014
Premium (gasoline RON 88 and biogasoline, million kiloliter)	32.46	29.43
Solar (automotive diesel and biodiesel, million kiloliter)	14.67	15.67
Kerosene (million kiloliter)	0.9	0.9
Total Subsidized Fuel Volume (million kiloliters)	48.03	46
LPG (million ton)	4,783	5,103

Source: Vivanews (2014b).

In addition to above adjustments, the revision has agreed to carry-over IDR 46.3 trillion (US\$ 3.9 billion) in fuel subsidy expenditure to fiscal year 2015 (Bisnis.com, 2014). This means that, of the total IDR 246.49 trillion (US\$ 20.7 billion) approved in the Revised 2014 State Budget, only IDR 200.19 trillion (US\$ 16.8 billion) will be paid for in 2014, with the “carry-over” of IDR 46.3 trillion to be paid during 2015. State Budget 2014 itself included a carry-over subsidy expenditure from fiscal year 2013 to the sum of IDR 20 trillion (US\$ 1.7 billion) (State Budget 2014 Act Article 14 point (3)).

In the electricity sector, the subsidy was adjusted by 45.5 per cent. The large rise in the cost of the electricity subsidy has been primarily driven by the weakening of the rupiah.⁴ In May 2014, Mr. Jarman, the Director General of Electricity in the Ministry of Energy and Mineral Resources, stated that for every IDR 100 drop in the IDR/USD exchange rate, there would be an IDR 1.1 trillion (US\$ 0.1 billion) increase in electricity subsidy expenditure. The government and the parliament agreed to cope with the issue by increasing gradually the electricity rate for six tariff classes every two months (Detik, 2014). As with fuel subsidies, IDR 10 trillion (US\$ 0.8 billion) of electricity subsidy expenditure will be carried over to fiscal year 2015.

3. The detailed portion of biofuel components in the subsidy amount and quota is not available as of now. It was also not detailed in the original State Budget document.

4. To demonstrate the magnitude of fuel consumption in Indonesia’s power generation: In 2012, 4,576 out of 5,048 power generators operated by PT Perusahaan Listrik Negara (PLN)—the state-owned power company and the primary power supplier in Indonesia—were diesel-fired generators. In 2012, PLN’s diesel generators consumed 8.21 million kiloliters of fuel, using a combination of high speed diesel (HSD), industrial fuel oil (IDO), and marine fuel oil (MFO). This produced 29.64 TWh, or around 21.8 per cent of PLN’s total power generation (PLN, 2013. p. 21, 24, 25, 27; Detik, 2014.). Diesel-fuelled power generation is the most expensive among all fossil fuel-based power generation in Indonesia.

Little Budget Flexibility on Energy Subsidy for Newly Elected Administration

In addition to the above revisions, the government proposed a clause that would allow it to adjust the energy subsidy budget if there were any significant changes to key factors affecting subsidy costs: the Indonesia Crude Price (ICP), the exchange rate and something called the “energy subsidy parameter”. This latter factor referred to all of the non-pricing policies that the current administration will use until the end of 2014 to help reduce subsidy costs by limiting the consumption of subsidized fuels.

Parliament, however, rejected the inclusion of the “energy subsidy parameter” in this clause. Only changes in the ICP or the exchange rate were accepted as grounds for further changes to the energy subsidy budget. The Chairperson of the Budget Body (Badan Anggaran) in the parliament, Ahmadi Noor Supit, explained that parliament took this decision so that the government would strive to keep the fuel subsidy within the quota (Media Indonesia, 2014).

Policies to be used under the “energy subsidy parameter” will attempt to reduce consumption in a number of ways. The government aims to save 460,000 kiloliters of subsidized fuel—equal to IDR 1.37 trillion (US\$ 0.1 billion)—via a combination of various efficiency programs such as the RFID; limitations in the mining, plantation, and forestry sectors; and a reduction in losses during fuel distribution, through increased cooperation with the police, army, and regional governments. This figure is expected to break down into 150,000 kiloliters of Premium-brand gasoline and 310,000 kiloliters of Solar-brand automotive diesel. Additional plans include:

- The conversion of fuel to gas in the transportation sector. This aims to save 90,000 kiloliters of Premium-brand gasoline, equal to IDR 270 billion (US\$ 23 million).
- The reduction of subsidized fuel lanes in gas stations is expected to save 950 thousand kiloliters, equal to IDR 2.83 trillion (US\$ 0.2 billion).
- A tightened distribution scheme by BPH Migas, the downstream oil and gas regulator, which will implement a coupon system in the regions of Batam, Bangka Belitung and Tarakan. BPH Migas’ plan is expected to save 500,000 kiloliters of Solar-brand diesel, equal to IDR 1.49 trillion (US\$ 0.1 billion) (Gatra, 2014).

The Minister of Finance, Chatib Basri, commented on parliament’s decision, saying that it may potentially cause difficulty for the new administration that will officially start work in October 2014. Apart from inheriting the subsidy carry-over from the previous administration, the new administration will also have to secure the remaining November and December fuel supply, without the possibility of adjusting the budget or quota (Media Indonesia, 2014).

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