



Indonesia Energy Subsidy Briefing

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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.

Fuel Subsidy Reform Plans of Indonesia's Presidential Candidates

On 9 July, Indonesia will hold a presidential election that pits two pairs of candidates against one another: Joko Widodo and Jusuf Kalla competing with Prabowo Subianto and Hatta Rajasa. Although both pairs have acknowledged the idea that Indonesia needs to reform its energy policy (Detik.com, 2014a), each has different plans for how energy subsidies should be reformed over the next five years.

Joko Widodo has openly voiced his intention to remove the fuel subsidy gradually over 4 or 5 years, with a regular price increase that is equally split over each year until it reaches the market price (Detik, 2014b). His general stance on the subject of fuel subsidies is consistent with the opinions he has declared as Governor of Jakarta over the past one and a half years, although his party, PDI-P (Indonesia Democratic Party—Struggle, *Partai Demokrasi Indonesia Perjuangan*) has consistently opposed fuel price increases.

Widodo's running mate, Jusuf Kalla, the former Indonesian Vice President, is also known for his firm stance in support of fuel price adjustments. Kalla's stance towards reform is primarily influenced by his perception that Indonesia's fuel subsidy scheme is unfairly distributed. Kalla has reiterated his view that any kind of subsidy should have a clear target and only be directed towards those who need it (Bisnis.com, 2014a). He was particularly instrumental in leading fuel subsidy reduction strategies during his vice-presidency.

Widodo and Kalla envisage saving IDR 60 trillion (US\$ 5.4 billion)¹ from fuel subsidies, at the same time as reducing energy prices by 20 per cent via a diversification scheme that supports the development of gas infrastructure (Bisnis.com, 2014b). They have also put a strong emphasis on increasing Indonesia's energy production to meet domestic demand (Viva, 2014a).

Subianto and Rajasa, by contrast, have indicated support for a limited fuel price adjustment, based on the premise that the primary problem with the subsidy is mis-targeting: the subsidy has led to undesired targets, the wealthy, and is not fully concentrated on the needy. Drajad Wibowo, a key economist from Subianto and Rajasa's campaign team, stated that the subsidy will be maintained, but only for the poor (Detik.com, 2014I). Fadli Zon, vice chairperson and co-founder of Gerindra added that following market prices may be too difficult for Indonesia, for economic reasons and limitations set out by the country's constitution (Portal KBR, 2014).

1. Unless otherwise stated, all currency conversations are based on an exchange rate of 0.00009 US\$ per IDR



foreign currency, so the rupiah value of this debt has increased (Liputan6, 2014; Tempo, 2014a). For comparison, in 2012 PLN recorded a net profit of IDR 3.2 trillion (US\$ 0.3 billion) (Indonesia Investments, 2014).

In 2013, PLN sold 188.1 TWh of electricity, slightly missing its annual target to distribute 189.7 TWh. The electricity production cost (BPP, Biaya Pokok Produksi [Listrik]) was estimated at IDR 1,338 (US\$ 0.12) per kWh and the non-fuel cost at IDR 211 (US\$ 0.02) per kWh (Antara News, 2014b). Nur Pamudji, CEO of PLN, reported that in 2013 the electrification rate has reached 80 per cent of Indonesia's population. In 2014, PLN expects to increase the electrification rate by another 1.4 per cent (Tempo, 2014b).

Decree No. 30/2012 of the Ministry of Energy and Mineral Resources provides a tariff adjustment roadmap, according to which the electricity tariff in Indonesia was adjusted gradually every three months in 2013. The regulation groups all electricity consumers in different classes. As a result of upward tariff adjustments in 2013, the retail rate for three customer classes (large residential R3, medium business B2, and government facilities P1) reached a level that is approximately sufficient to cover the full cost of operating and maintaining the electricity system, around IDR 1,350-1,380 (US\$ 0.12) per kWh. For other classes the tariff remained below the PLN's estimated electricity production cost, notwithstanding the upward adjustments.

In 2014, Indonesia's government and parliament reached an agreement to continue implementing the scheme to gradually remove electricity subsidies, especially for medium-sized and large industry (I3 and I4), large residential (R3), medium-sized and large business (B2 and B3) and government facilities (P1). Jero Wacik, Minister of Energy and Mineral Resources explained that household consumers with a connection below 900VA would continue to receive a subsidy amounting to IDR 47 trillion (US\$ 4.2 billion) in total in 2014. The total electricity subsidy allocation for all subsidized classes for the 2014 fiscal year is IDR 89.77 trillion (US\$ 8.1 billion), of which IDR 71.36 trillion (US\$ 6.4 billion) is the subsidy amount and IDR 10.41 (US\$ 0.9 billion) is the risk reserve allocation (MEMR, 2014).

Juda Agung, Chief Executive Director of Economic and Monetary Policy Department of the Bank of Indonesia, explained that the government would expect a moderate inflationary impact of the electricity tariff adjustment and it would not have to adjust the expected annual inflation target of 4.5 per cent for 2014 (Sindonews, 2014a).

According to Agung, the price increase of 12kg-cylinder liquefied petroleum gas (LPG) in January 2014 is estimated to be the strongest single factor driving increased inflation, accounting for 0.17 per cent of the overall inflation target of 4.5 per cent in 2014. The electricity tariff adjustment is expected to start from May 2014 (Okezone, 2014d).

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