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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 Periuangan) 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 leaded 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, 2014l). 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









Subianto and Rajasa have submitted a vision and mission statement to the Election Committee that vows "to restore national energy management in accordance with Indonesia's 1945 Constitution"² (Viva, 2014a). One way to interpret this ideal is by looking at the manifesto of the Gerindra party (Great Indonesia Movement or Gerakan Indonesia Raya), the party founded and led by Subianto. In this document, Gerindra strongly criticizes economic liberalization, capitalistic practices and negative foreign influence, for unsettling the trajectory of the national economy in pursuing the Indonesian people's welfare. The manifesto perceives subsidy removal as a policy motivated by foreign pressure (Gerindra, n.d., p. 14-20).

Rajasa is known as a key figure in navigating economic policy under President Susilo Bambang Yudhoyono's administration, and was instrumental in orchestrating the subsidized fuel price increase policy in June 2013 (Detik, 2013k). He served as Minister of Transportation from 2004 until 2009, and was the Coordinating Minister of Economic Affairs from 2009 until his candidacy declaration in 2014.

The written "vision-mission" statements of Indonesia's presidential candidates can be found at the following links:

- Joko Widodo Jusuf Kalla: http://kpu.go.id/koleksigambar/VISI_MISI_Jokowi-JK.pdf 1.
- Prabowo Subianto Hatta Rajasa: http://www.kpu.go.id/koleksigambar/VISI_MISI_prabowo-Hatta.pdf

Note: This report is primarily based on candidates' official political statements as of the beginning of June 2014. The alignment between political factions in Indonesia can change swiftly during the run-up to a presidential election and political regroupings may yet affect the stances of parties or candidates on many issues, including the fuel subsidy policy.

Fuel Subsidy Over Quota, State Budget Revision

The government of Indonesia has proposed a state budget revision for the fiscal year 2014 that includes adjusting fuel subsidies from IDR 210.7 trillion to IDR 285 trillion (from US\$ 19.0 billion to US\$ 25.7 billion) and electricity subsidies from IDR 71.4 trillion to IDR 107.1 trillion (US\$ 6.4 billion to US\$ 9.6 billion). The main reason behind the proposal is continuing pressure on the rupiah since last year. Parliamentary discussion of the proposal started in mid-May and a result is expected sometime in June. In these discussions, the government is represented by the Minister of Finance, Minister of National Development Planning, Minister of Energy and Mineral Resources, and the Central Bank Governor (Detik.com, 2014c).

The proposed increases in the fuel subsidy are higher than previously suggested by the Minister of Finance,

^{2.} Indonesia's 1945 Constitution, Article 33, reads: "(1) The economy shall be organized as a common endeavor based upon the principles of the family system. (2) Sectors of production which are important for the country and affect the life of the people shall be under the power of the State. (3) Land, water, and natural resources within them shall be under the power of the State and shall be used to the greatest benefit of the people. (4) The organization of the national economy shall be conducted on the basis of economic democracy upholding the principles of togetherness, efficiency with justice, continuity, environmental perspective, self-sufficiency, and keeping a balance in the progress and unity of the national economy. (5) Further provisions related to the implementation of this article shall be regulated by law."







Chatib Basri, who has stated that the fuel subsidy adjustment would range from IDR 20.3 trillion to IDR 35 trillion (from US\$ 1.8 billion to US\$ 3.2 billion) (Ministry of Finance, 2014, Detik.com, 2014d). This discrepancy implies that a factor has been adjusted or newly added to the government's calculations. The most influential factors that would have determined fuel subsidy expenditure so far in 2014 are consumption volume, level of oil production and exchange rate.

As regards consumption volume, PT Pertamina, the state owned oil company that is responsible for distributing subsidized fuel, declared that it had distributed 14.99 million kiloliters of fuel by 30 April, equal to 31.7 per cent of the annual subsidy quota. The distribution of subsidized Premium-brand gasoline is within expectations—at 9.5 million kiloliters or 29.4 per cent of the quota. But the distribution of subsidized Solar-brand diesel—at 5.15 million kiloliters or 36.42 per cent of the quota—is above the expected level (Berita Daerah, 2014).

Oil production is below target levels, due to a delay from several oil contractors. The Minister of Energy and Mineral Resources, Jero Wacik, explained that oil and gas production will reach 804 thousand barrels per day. This is below the initial state budget 2014 assumption, which set oil production at 870 thousand barrels per day. With a decline in domestic oil production, Indonesia is forced to use more imported oil to meet its domestic needs, and this drives up fuel subsidy expenditure. Mr. Wacik added that he has asked oil contractors to optimize their output in order to meet a revised target of 818 thousand barrels per day (Okezone, 2014a).

The Indonesian rupiah has been below the state budget assumption for several months, requiring the government to adjust its calculations to reflect recent exchange rates. State budget 2014 assumed the rupiah would stay at IDR 10,500 per US\$ 1, but the actual exchange rate has been consistently above that assumption since the end of August 2013 (Bank of Indonesia, n.d.).

Efficiency Measures over Price Increase

The Minister of Energy and Mineral Resources, Jero Wacik, denounced the idea that a fuel price adjustment would take place in state budget revisions. This is because the tenure of the current administration lasts only until October (Antara, 2014). He added that the government is instead trying to identify a solution that would tackle increasing fuel consumption. The newest proposal is to stop the purchase of subsidized fuel on weekends (Okezone, 2014b). Although a fuel price increase is unlikely, the Fiscal Policy Agency (BKF) is reported to be preparing various schemes, one of which is a recommendation to increase the price of energy (Inilah.com, 2014a).

Previously the government has developed several policies aimed at controlling fuel consumption. This has included preventing government vehicles from purchasing subsidized fuel and a plan to install a tracking instrument (called RFID) that could regulate the quantity of fuel purchased by individual vehicles. Both programs have received strong criticism: the first, for having little impact on fuel consumption; the second for slow progress. From July 2013 until May 2014, for example, the RFID instrument has been installed in 331,000 vehicles in Jakarta. This only comprises 7.3 per cent of its target of 4.5 million vehicles (Detik, 2014e).







The Head of Jakarta Transportation City Council, Azas Tigor Nainggolan, questioned the government's new move to limit fuel distribution on the weekend. Nainggolan suggested that the most effective way to solve the fuel subsidy problem would be to increase the fuel price (Liputan6, 2014a).

Another pressing issue behind the decision is probably the rising political tension in the election race in 2014. Head Economist of Bank Danamon, Anton Gunawan, stated that the idea of increasing fuel prices is difficult to implement due to the election schedule and the closing holy Ramadhan month (Detik, 2014f). Andin Hadiyanto, the interim Head of the Fiscal Policy Agency, explained that a fuel price increase should ideally take place during a period of low inflation, to mitigate the inflationary impact. The government has been advised not to rush a price increase amidst the unstable economic conditions and inflation rate that is normally expected in an election year and during the holy Ramadhan month (RMOL Sumsel, 2014).

Low Cost Green Car (LCGC): A Solution or an Additional Problem?

The controversy surrounding Indonesia's late 2013 initiative to support the production and sales of small and fuel efficient cars, known as low cost green car (LCGC) (IISD, 2013), reached a new level as it was criticized openly by key officials in March 2014.

The LCGC policy was introduced as a way to support the growth of the national automotive industry in Indonesia. But debate has focused on what kind of fuel an LCGC should consume. The government has not issued any guiding policy.

The Minister of Finance, Chatib Basri, expressed his concerns about the policy, saying that LCGC should consume non-subsidized fuel (Tempo, 2014f). Basri sent a letter to the Ministry of Industry, responsible for the LCGC policy, questioning the fact that fiscal incentives might be given to produce LCGCs that consume subsidized fuel. The Minister of Energy and Mineral Resources, Jero Wacik, said that his ministry does not have any influence over the policy. He added, however, that no mechanism exists to ensure that LCGCs are treated differently than other vehicles (Medan Bisnis, 2014).

In response to the Ministry of Finance's concern, the Ministry of Industry vowed to evaluate the production of LCGCs and to discuss the issue with the LCGC producers (Inilah.com, 2014b).

What Does the Future Hold? Updates and Estimates for 2014

On 18 March, Jim Brumby, Sector Manager and Lead Economist of the World Bank's Indonesia country economics program, announced the publication of the Bank's Indonesia Economic Quarterly, March 2014, estimating that Indonesia will exceed its planned budget deficit of 1.69 per cent of GDP. The Bank projects that it will in fact amount to 2.6 per cent of GDP. Among other issues, Brumby emphasized the role of Indonesia's energy subsidies and elaborated two fuel price increase scenarios for Indonesia. The first scenario is price







increase of IDR 2,000 (US\$ 0.18) per liter for gasoline and IDR 1,000 (US\$ 0.09) per liter for automotive diesel. This would reduce subsidy expenditure by IDR 45.2 trillion (US\$ 4.1 billion) and draw in the budget deficit to 2.1 per cent of GDP. The second scenario is to increase fuel prices by half. This scenario would reduce subsidy expenditure by IDR 68 trillion (US\$ 6.1 billion) and draw in the budget deficit to 1.9 per cent of GDP (Merdeka, 2014b; Antara News, 2014b).

In response to this analysis, Vice Minister of Finance, Bambang Brodjonegoro, explained that the possibility of exceeding the fuel subsidy allocation is looming because of continued depreciation of the rupiah against the US dollar. He added that the Ministry of Finance is welcoming any suggestions from international financial agencies, and will treat estimates and suggestions from them as input for further evaluation by the Ministry (Vivanews, 2014b).

Previously in February 2014, Chatib Basri, Minister of Finance, who has been in office since May 2013, clarified the government's position on the possibility of fuel price rationalization in 2014. According to his statement, the government has no plan to adjust the liquid fuel price this year, but instead continues to promote the program of conversion from liquid fuel to automotive gas (Bahan Bakar Gas, BBG) in the transport sector (Tempo, 2014d). Basri reiterated his view that the government should consider the possibility of reducing the subsidy, as it accounts for a very large proportion of government expenditure. The day before, Agus Martowardojo, Indonesia's Central Bank Governor, articulated the same opinion (Antara, 2014c).

Who Consumes the Most Subsidized Fuel? West, East and Central Java Were Top Three in 2013

This March, PT Pertamina released an update showing the top five regions that consumed the largest share of Indonesia's subsidized Premium-brand gasoline in 2013.

West Java province is in first place, having consumed 5.11 million kiloliters, followed by East Java (4.26 million kiloliters), Central Java (3.30 million kiloliters), DKI Jakarta (2.21 million kiloliters) and North Sumatera (1.71 million kiloliters). The estimated overall subsidized gasoline consumption in 2013 was 29.2 million kiloliters, slightly lower than the volume quota set out in the Revised State Budget 2013 at 30.7 million kiloliters (Detik, 2014g). This means that the top five regions taken together consumed over 55% of the subsidized Premiumbrand gasoline in 2013.

A previous report compiled by IISD's Global Subsidies Initiative (GSI), based on BPH Migas data, shows that this distribution of subsidized fuel consumption is fairly typical. The largest share of the benefits of fuel subsidies are concentrated on economic centers in Indonesia, primarily in the Java-Bali region (IISD, GSI, and IESR, 2012).

As of 28 February 2014, PT Pertamina has distributed 7.26 million kiloliters of subsidized fuel, according to Ali Mundakir, the Vice President of Communication of PT Pertamina. This includes 4.60 million kiloliters of Premium-brand gasoline, 2.48 million kiloliters of Solar-brand automotive diesel and 0.17 million kiloliters of







kerosene. He added that the PT Pertamina's fuel reserve is sufficient to maintain 19 days' supply of gasoline and automotive diesel, 17 days' supply of LPG and 59 days' supply for kerosene (Ministry of Energy and Mineral Resources, 2014a).

Fuel Subsidy for 170 Pioneer Aviation Routes

On 12 March, the General Director of Civil Aviation, Herry Bakti Gumay, explained that the Ministry of Transportation has opened a tender for 170 aviation routes in 22 provinces that serve remote areas or small airports in Indonesia. These routes, known as pioneer aviation (penerbangan perintis) routes, are serving remote areas, small airports, or areas that are considered to have low economic capacity or to be hard to reach because of limited transportation infrastructure. (Tempo, 2014c; Merdeka, 2014). Three aviation services have been declared as the tender winners: Susi Air, Trigana and Avia Star. The program has been allocated a subsidy of IDR 350 billion (US\$ 32 million) per area in 2014. In 2013, the subsidy was IDR 280 billion (US\$ 25 million) per area (Sekretariat Kabinet Republik Indonesia, 2014).

The subsidy for pioneer aviation routes is intended to reduce the cost of airplane tickets and includes a fuel subsidy component. According to Musdalifa Muslima, the Head of the Sub Directorate of Unscheduled Commercial Air Transport, the government will compensate two thirds of fuel costs for the first three trips of each route. The fourth and subsequent trips will not receive the subsidy any more, in order to foster fair competition among the air transporters (Detik, 2014h).

According to several tender proposals, the subsidy for Indonesia's pioneer aviation program is transferred as part of the Program Implementation List (DIPA, Daftar Isian Pelaksanaan Program) for specific airports who implement this program. This makes it different than the general mechanism for fuel subsidies in land transport, which are paid to state oil and gas company PT Pertamina. Sources also indicate that this particular subsidy is not only applied to the price of fuel, but to broader fuel supply activities as well, such as the provisioning of fuel containers and the transportation of fuel (Ministry of Transportation, 2014a; Ministry of Transportation, 2014b).

In general, Indonesia's commercial air transportation sector does not receive a fuel subsidy anymore. The fuel subsidy for the aviation industry was the first kind of fuel subsidy to be removed by Indonesia following the Asian financial crisis (Ministry of Energy and Mineral Resources, n.d.; Legowo, 2012).

Fuel-Subsidy Policy for Fishery Sector Revised

Sharif Cicip Sutardjo, Minister of Fisheries and Maritime Affairs, stated on 18 February that fishing boats with gross tonnage up to 60 gross tonnes (GT) would continue to receive a diesel subsidy (Tempo, 2014c). According to Sharif Cicip Sutardjo, Indonesia can still afford to provide the diesel subsidy to fishermen and government support is needed to revitalize the country's fishing fleet, as stipulated in another regulation, Presidential Instruction No. 15/2011 (Antara News, 2014d).







Previously, in 2012, Presidential Decree No. 15/2012 established that only two consumer groups in the fishery sector would be eligible for diesel subsidies: fishing boats with gross tonnage below 30 gross tonnes and small aquaculture businesses. On 15 January 2014, BPH Migas, Indonesia's oil and gas downstream regulator, started implementing this instruction by issuing BPH Migas Circular No. 29/07/Ka.BPH/2014 on the prohibition of subsidized fuel distribution to any boats above 30 gigatonnes. This instruction targeted PT Pertamina, PT AKR Corporindo, and PT Surya Parna Niaga who are distributors of subsidized fuel in Indonesia (Okezone, 2014c). Andy Noorsaman Sommeng, head of BPH Migas, explained that the decision had been taken assuming the financial capacity of large fishing boat operators to pay the full cost of fuel (Detik, 2014i).

Various groups immediately opposed BPH Migas's decision. On 5 February 2014, thousands of fishermen staged a demonstration in front of the presidential palace in Jakarta (RMOL, 2014). Rieke Diah Pitaloka, a politican from PDI-P, the largest opposition party, argued that the policy could potentially harm small fishermen because the operation of big fishing boats might involve co-funding arrangements between small fishermen and boat owners (JPNN, 2014). Milton Pakpahan, a member of parliament from the Democratic Party, also demanded the government to reconsider the policy, stating that the parliament had not been well-informed about it (Okezone, 2014d). Yugi Prayanto, Deputy Chairman of the Fishery and Maritime Chamber of Commerce of Indonesia, claimed that currently there are approximately 10,000 fishing boats above 30 gross tonnes that are unable to operate because they cannot afford diesel. He added that the situation might put the fate of around 500,000 fishermen and boat crews at risk of losing their jobs (Sindonews, 2014b).

In a subsequent protest on 17 February 2014, a fishermen's demonstration had a clash with the police in the proximity of the PT Pertamina's refinery in Balongan, West Java (Pikiran Rakyat, 2014). After a meeting between the Coordinating Ministry of Economic Affairs, the Ministry of Fisheries, and the Ministry of Energy and Mineral Resources, the government responded by instructing BPH Migas to revise the policy. This represents another revision to Indonesia's downstream fuel subsidy policy, following the January 2014 decision in which President Yudhoyono revoked PT Pertamina's decision to increase the price of 12kg cylinders of liquefied petroleum gas (LPG).

Subsidized "Solar"-brand automotive diesel is sold at IDR 5,500 (US\$ 0.50) per liter, while its non-subsidized price is around IDR 13,500 (US\$ 1.22) per liter (Detik, 2014j). According to the National Statistics of Indonesia, the country's fishery industry is employing 808,775 fishing boats (data from 2012), and is a source of income for around 920,000 households (data from 2011) (National Statistics, n.d.).

PLN Claimed Loss, Electricity Tariff Adjustment Continues in 2014

This February, Perusahaan Listrik Negara (PLN), the state-owned company responsible for Indonesia's power distribution, released an unaudited report that indicated a net loss in 2013 of IDR 30.9 trillion (US\$ 2.8 billion). PLN's operational revenue in 2013 amounted to IDR 258 trillion (US\$ 23.2 billion) while its operational cost reached IDR 223 trillion (US\$ 20.1 billion). Although recording an operational profit, the rupiah's depreciation has resulted in a negative balance in the second half of 2013. This is because 30 per cent of PLN's debt is held in







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 (13 and 14), 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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