



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.

Indonesia's 2014 Fuel Subsidy Proposalⁱ

On 16 August, the government delivered a State Budget Proposal for the 2014 fiscal year. In the proposal, the energy subsidy emerged once again as the biggest item of central government expenditure: amounting to US\$ 29.2 billion, or 23.14 per cent of total central government expenditure. Of this, the fuel subsidy receives US\$ 19.99 billion (Fiscal Note and State Budget Proposal Fiscal Year 2014).

Table 1. Indonesian Energy Subsidy Proposal in 2014 (in US\$ billion)

Description	2013	2013 Revised	2014 Proposal
Electricity Subsidy	8.43	10.41	9.21
Fuel Subsidy	15.26	20.82	19.99
- Gasoline (Premium and biofuel Equivalent)	9.08	15.60	13.46
- Kerosene	0.84	0.69	0.63
- Diesel (Solar and biofuel equivalent)	5.34	6.21	5.77
- LPG 3kg cylinders	2.76	3.28	3.77
- Liquefied Gas for Vehicles (LGV)	0.01	0.01	0.01
- Value Added Tax	1.80	1.89	1.72
- Fuel subsidy carry-over to the next fiscal year	-	-2.35	-
- Fuel subsidy carry-over from 2010	-	0.00	-
- Fuel subsidy carry-over from 2011	0.36	0.42	-
- Estimated Fuel subsidy carry-over from 2012	-	1.96	-
- Estimated Fuel subsidy carry-over from 2013	-	-	1.03

Source: Fiscal Note and State Budget Proposal Fiscal Year 2014 (2013); Fiscal Note and State Budget Proposal Fiscal Year 2013 (2012)

The proposal is based on several macroeconomic assumptions, namely inflation which is estimated at 4.5 percent; an exchange rate of IDR 9,750 to the US Dollar; an interest rate at 5.5 percent; an average Indonesian Crude Price of US\$ 106 per barrel; oil production of 870,000 barrel per day; and gas production at 1,240,000 barrels of oil equivalent per day. The government also expects that Indonesia's economy will grow by 6.4 per cent

ⁱ This briefing uses an IDR 9,600/US\$ 1 exchange rate for figures up to and including 2013, and IDR 9,750/US\$ 1 for figures in 2014.





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in 2014 (Fiscal Note and State Budget Proposal Fiscal Year 2014). The estimated fuel subsidy for 2014 is around IDR 5 billion lower than the anticipated total fuel subsidy cost in 2013, despite the fact that 50.5 million kiloliters of fuel are expected to be consumed, around 5% higher than the allocation in 2013 (Metrotvnews, 2013). This indicates that the government is optimistic that the international crude price in 2014 will be lower than in 2013, and that it will succeed in stabilizing and improving the exchange rate.

The proposal is also based on a new alpha rate for the subsidized fuel price. The alpha rate is a component within the Indonesian subsidized fuel price structure that covers the distribution cost and profit margin for the distributor. In 2012 the alpha rate for subsidized fuel was US\$ 0.067 per liter and in 2013 the alpha rate was also set at US\$ 0.067 per liter. In 2014, it is to rise to US\$ 0.074 per liter (Fiscal note and State Budget Proposal Fiscal Year 2013).

According to the State Budget proposal 2014, the government will continue the existing measures to keep the fuel subsidy under control: converting kerosene consumers to liquefied petroleum gas (LPG) cylinders and encouraging an alternative fuel industry to improve energy diversification. It will also try to introduce some new systems in fiscal year 2014: a system for identifying the consumers who are entitled to purchase subsidized fuel and then the implementation of a “closed distribution system” (Fiscal Note and State Budget Proposal Fiscal Year 2014).

The term “closed distribution system” refers to a system where subsidized fuel can be distributed in a controlled manner to a targeted set of recipients. Plans for such a system have been discussed for some time, having been first introduced at the beginning of the second term of President Yudhoyono’s administration, in Presidential Regulation No. 45/2009 issued on 23 October 2009. At this time no detail was given on what “controlling mechanism” would be used. Since then, the plan has never really taken off, despite several efforts. To date, fuel subsidies have only been restricted to government vehicles and the only attempted forms of control mechanism have been identification cards for fishermen and trials of radio frequency identification (RFID) devices in several gas stations.

Even if they are followed through, it will take time and consistency for such cost controlling strategies to be implemented effectively. The installation of RFIDs on motor vehicles has started only recently and has been limited to the PT Pertamina’s vehicles and government’s vehicles (bandungekspres.com, 2013). BPH Migas, the downstream oil and gas regulator, has issued an instruction to install RFIDs on every gas station and private motor vehicle on 22 May (BPH Migas Regulation No. 6/2013), but the implementation has been delayed until August 2013 (Beritasatu.com, 2013). The schedule was once again moved back to September 2013 because of the difficulties in provisioning the imported equipment (Energytoday.com, 2013).

The problem of high fuel subsidy expenditure may remain unsolved for Indonesia, even after the latest hard-fought price increase in June. A Member of National Economic Committee, Dr. Ninasapti Triaswati, voiced out her doubt that the latest fuel price increase will be sufficient to compensate for the rising demand of fuel, unless it is accompanied by a strong energy diversification breakthrough (Investor Daily, 2013).



Political views of the fuel subsidy proposal

On 20 August, political parties in parliament commented on the government's proposal. Their interventions are summarized below.

Table 2. Five Compensation Packages Related to Fuel Price Adjustment

No.	Political Parties	Comment
1	Democrat Party	The Democratic Party supports the policy to reform the subsidy system from a general price subsidy to a targeted subsidy.
2	Golkar Party	No comment on the energy subsidy
3	PDI-P	The PDI-P opines that the government's proposal fails to articulate the promise to compensate the subsidy cut with capital and infrastructure development, because the fund for transportation, irrigation, farming, construction, telecommunication, and others, is reduced from IDR 103 trillion in 2013 to IDR 99.5 trillion in 2014.
4	Justice Welfare Party (PKS)	<p>Several comments were raised by the PKS, namely that the government needs to:</p> <ol style="list-style-type: none"> 1. Improve the formula of alpha, which includes the value added tax on fuel; 2. Implement the closed distribution system to prevent unintended people benefitting from subsidized fuel; 3. Improve the targeting and accuracy of the volume of subsidized fuel. <p>The PKS also criticized the recent price increase because the timing coincided with Ramadan, when the price of goods was expected to rise, even without the fuel price increase, putting a burden on the people of Indonesia and businesses.</p>
5	National Mandate Party (PAN)	No comment on energy subsidy
6	United Development Party (PPP)	The PPP express the opinion that the high amount of energy subsidy in 2014 shows that the government still continues a practice that benefits the wealthier. The Party recommends that the fuel subsidy should be allocated the farmers and agricultural sector, because it is more relevant in the context of poverty eradication and the improvement of country's food self-sufficiency and security.
7	National Awakening Party (PKB)	The PKB sees that the continuation of the energy subsidy in 2014 displays the government's consistency in supporting the poor by maintaining the stability of the price of domestic goods and services. It also calls for a more transparent database in determining the subsidy and a more credible distribution mechanism.
8	Gerindra Party	The Gerindra Party supports the continuation of the fuel subsidy. It perceives the fuel subsidy cut as part of a neoliberal approach adopted by the government, whereas, in its view, the subsidy is a valid fiscal policy.
9	Hanura Party	The government needs to improve the energy diversification by utilizing new and renewable energy sources.

Source: Source: Faksi Partai Demokrat (2013), Golkar Party (2013), Faksi Partai Demokrasi Indonesia Perjuangan (2013), Faksi Partai Keadilan Sejahtera (2013), Faksi Partai Amanah Nasional (2013), Faksi Partai Persatuan Pembangunan (2013), Faksi Partai Kebangkitan Bangsa (2013), Faksi Partai Gerindra (2013), Faksi Partai Hanura (2013).

The positions of political parties on the fuel subsidy policy are showing a spread of support and opposition across different groups. On one side, the Democrat Party, which leads the current coalition government, and the United Development Party, are showing a clear stance to move away from the existing fuel subsidy practice. On the other side, the National Awakening Party and Gerindra Party are showing clear support for preserving the subsidy policy. For the National Awakening Party, the fuel subsidy is the evidence of the government's commitment to the poor, while the Gerindra Party rejects the removal of the fuel subsidy because it sees this as a neoliberal move.

Other political parties are showing a moderate stance over the reform of fuel subsidy policy, proposing an improvement of the subsidy mechanism and better energy management in the future. And some have not stated their position. The Golkar party and the National Mandate Party, both members of ruling coalition, are not giving commentary on the issue.

At the time of publication, discussions over the 2014 State Budget are still ongoing. The process is scheduled to conclude sometime in mid or late October 2013.

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Head Office

161 Portage Avenue East, 6th Floor, Winnipeg, Manitoba, Canada R3B 0Y4

Tel: +1 (204) 958-7700 | Fax: +1 (204) 958-7710 | Web site: www.iisd.org

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International Institute for Sustainable Development

Global Subsidies Initiative

International Environment House 2

9 chemin de Balexert, 1219 Châtelaine, Geneva, Switzerland

Tel: +41 22 917-8373 | Fax: +41 22 917-8054

