INDONESIA ENERGY SUBSIDY BRIEFING

A bi-monthly review of developments in Indonesian energy subsidy policy and energy markets

April 2016

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 Lasse Toft at ltchristensen@iisd.org.

Highlights

- On 30 March, the Indonesian government announced new prices of subsidized fuels to be applied from 1 April 2016.
- The price changes in April are the second round of price adjustments since the government announced in November 2015 that it would evaluate and adjust the price of subsidized fuel every three months.
- The government is considering reforming diesel subsidies. A full removal of diesel subsidies is anticipated to save IDR 16 trillion (USD 1.21 billion).
- Coal companies are calling on the government to subsidize coal, but are being countered by civil society organizations.

April Fuel Price Changes

On 30 March, the Indonesian government announced new prices of subsidized fuels to be applied from 1 April 2016. This includes gasoline (RON 88) and automotive diesel (CN 48) which were both lowered by IDR 500 per litre (USD 0.04). The price of kerosene remains the same at IDR 2500 per litre (USD 0.19) (Antara, 2016).

The price changes in April are the second round of price adjustments since the government announced in November 2015 that it would evaluate and adjust the price of subsidized fuel every three months. As part of the announcement, the government also noted that the price of fuel in Indonesia is ranked as the 16th lowest out of 173 countries around the world, and third lowest among member countries of the Association of Southeast Asian Nations (ASEAN) (Ministry of Energy and Mineral Resources, 2016).

Throughout 2015, the government deliberated over how often to adjust subsidized fuel prices, but seems to have now finally settled on a three-month period for price adjustments. The recent price changes in April followed according to schedule since the latest fuel price changes on 5 January 2016. The price changes have been signalled clearly as well throughout March, when Indonesia's state-owned oil and gas company, PT Pertamina, reported that it had been instructed by the government to prepare to lower domestic fuel prices by 1 April 2016 (CNN Indonesia, 2016). The message has also been emphasized by Minister of Energy and Mineral Resources, Sudirman Said, who on 24 March 2016 publicly stated that the price of subsidized fuels would

Table 1: Indonesian Subsidized Fuel Price Adjustments in April 2016

Type of Subsidized Fuel	Price January 2016	Price April 2016
Gasoline (RON 88) – for regions	6,950 (USD 0.52)	6,450 (USD 0.49)
Automotive Diesel (CN 48)	5,650 (USD 0.42)	5,150 (USD 0.39)
Kerosene	2,500 (USD 0.2)	2,500 (USD 0.2)

Source: Ministry of Energy and Mineral Resources, 2016.

be adjusted in April (Ministry of Energy, 2016). Nevertheless, the price of subsidized fuels continues to be a debated topic in Indonesia. A recent forecast by the World Bank estimates that the government will miss its 2016 revenue target by IDR 275 trillion (USD 20.8 billion). This led the Governor of Bank Indonesia, Agus Martowardojo, to encourage the government to step up its effort to improve the new fuel pricing mechanism that was implemented after subsidy reforms in January 2015. Both with a view to balancing the 2016 budget, but also to improve Indonesia's credit rating with Standard and Poor's, an international rating agency. According to Martowardojo, this would help Indonesia attract much-needed international investment and reduce borrowing costs, both of which could help stimulate growth (Jakarta Globe, 2016).

Previously, Indonesia's fuel subsidy policies have been a major fiscal challenge, greatly influencing the country's credit rating and overall economic performance. Prior to reforms in January 2015, fuel subsidies to gasoline, diesel, kerosene, and LPG 3kg comprised the single biggest post on the state budget, totalling around 18 per cent of total government expenditure in 2013 and 2014.

Reform of Diesel Subsidies Coming Up?

Apart from recent price adjustments, the government is also considering reforming its diesel subsidy policy. In 2015, the government changed the subsidy for diesel from a fixed-price system to a fixed-subsidy system, providing automotive diesel sold by PT Pertamina with a subsidy of IDR 1,000 per litre (USD 0.08). With an annual quota of 16 million kiloliters, the diesel subsidy removal would be anticipated to save IDR 16 trillion (USD 1.21 billion) of government expenditure.

According to the Head of Center of Public Communication of the Ministry of Energy and Mineral Resources, Ir. Sujatmiko, a part of the savings from diesel subsidy reform would be transferred to the government's "Indonesia Bright Program" (Program Indonesia Terang, or PIT) that aims to increase the country's electrification rate from 85 per cent in 2015 to 97 per cent in 2019 (Republika, 2016).

The plan, however, has been postponed due the upcoming Holy Ramadan month in June. Prices in Indonesia are normally seen to increase during the Ramadan month, and diesel subsidy reform has been postponed in order not to create additional inflationary pressure. Nevertheless, government is expected to continue discussions around diesel subsidy reforms with the parliament and other stakeholders in the months ahead.

Table 2: Indonesian Fuel Subsidy Allocations in Budgets 2013–2015 (IDR and USD in billion)

<table>
<tr><th>Energy product</th><th>2013 (Audited budget)</th><th>2014 (Audited budget)</th><th>2015 (Revised State Budget)</th></tr>
<tr><td>Gasoline RON 88</td><td>99,564.30 (USD 7.54)</td><td>108,957.69 (USD 8.25)</td><td rowspan="5">64,674.80 (USD 4.90)</td></tr>
<tr><td>Automotive Diesel</td><td>73,200.55 (USD 5.55)</td><td>74,860.54 (USD 5.67)</td></tr>
<tr><td>Kerosene</td><td>6,253.11 (USD 0.47)</td><td>7,200.49 (USD 0.55)</td></tr>
<tr><td>LPG 3kg</td><td>30,982.03 (USD 2.35)</td><td>48,975.34 (USD 3.71)</td></tr>
<tr><td>Subtotal Fuel Subsidy</td><td>209,999.99 (USD 15.91)</td><td>239,994.06 (USD 18.18)</td></tr>
<tr><td>Electricity</td><td>99,979.71 (USD 7.57)</td><td>101,816.32 (USD 7.71)</td><td>73,149.20 (USD 5.54)</td></tr>
<tr><td>Total Energy Subsidy</td><td>309,979.70 (USD 23.48)</td><td>341,810.38 (USD 25.89)</td><td>137,824.00 (USD 13.80)</td></tr>
<tr><td>Total Central Government Expenditure</td><td>1,137,162.90 (USD 86.15)</td><td>1,280,368.60 (USD 97.00)</td><td>1,392,442.3 (USD 105.49)</td></tr>
</table>

Source: Ministry of Energy and Mineral Resources, 2016.

Public Transportation Tariff Dropped Following Fuel Price Adjustment

The announcement of subsidized fuel price changes on 30 March 2016 was followed by an adjustment to public transportation tariffs by the Ministry of Transportation, a step that was publicly endorsed by President Joko Widodo (also known as Jokowi) (Merdeka, 2016). In early April, Minister of Transportation, Ignasius Jonan, announced that starting from 7 April, inter-province transportation tariffs would be reduced by 3.5 per cent, and inter-island transportation tariffs would be reduced by 3.38 per cent (BeritaSatu, 2016). The Ministry of Transportation cited low oil prices as the main reason for reducing tariffs, and Minister Jonan also issued a circular letter advising regional governments to reduce fares for public transportation in their respective regions (Republika, 2016).

The link between Indonesia fuel prices and public transportation tariffs, both of which are regulated by the government, has traditionally been a sensitive topic in Indonesian politics. In July 2013, when fuel prices increased, transportation tariffs were allowed to increase by 20 per cent despite claims from the Organization of Land Transportation that tariffs should have increased by up to 35 per cent. Likewise in 2014 following a fuel price increase, the Organization of Land Transportation staged a nation-wide strike because the government did not allow transportation operators, including small taxi and scooter companies, to increase their tariffs as well in response to the new fuel price (GSI, 2015; GSIa, 2015).

Public Transportation Tariff Dropped Following Fuel Price Adjustment

On 7 March 2016, the Indonesian Coal Mining Association (APBI-ICMA) announced the results of their joint study with PricewaterhouseCoopers on the readiness of the coal industry to supply 20 GW of new power capacity as part of the government's 35 GW electricity plan.

The report is based on—among other things—a confidential survey of mining companies and interviews with coal miners and producers. It argues that with the current low coal prices, coal companies will have to scale down exploration by 29 per cent compared to 2012, which will lead to an exhaustion of coal reserves in 2033–2036. This will jeopardize the ability of the industry to supply enough coal to deliver the 20 GW of coal-fired power capacity as anticipated in the 35 GW plan. On this basis, the APBI-ICMA argues that the government should support coal mining companies by introducing a so-called "cost-based-pricing" system to subsidize the extraction of coal (Indonesian Coal Association, 2016).

Only three days after the announcement, APBI-ICMA met with Minister Said to deliver its recommendations directly. Minister Said diplomatically clarified that the real problem is not a scarcity of coal, but the fact that coal extraction is not economically viable at a certain price level. Minister Said promised to facilitate talks between coal producers, power producers, and Indonesia's state-owned electricity company, PT PLN, to find a solution (Ministry of Energy and Mineral Affairs, 2016).

APBI-ICMA's call to subsidize coal companies via artificially increasing the domestic coal price immediately attracted negative reactions from civil society organizations. In a press release on 10 March 2016, Greenpeace Indonesia strongly opposed the claims by APBI-ICMA on both environmental and economic grounds. Citing gross profits for mining companies of USD 6.5 billion in 2011, Greenpeace Indonesia estimates that the call for surcharging domestic coal prices would cost Indonesian taxpayers between USD 230 million and USD 680 million a year. In no uncertain terms, Greenpeace Indonesia also criticized the report's proposal to fund coal subsidies via Indonesia's pension funds.

Moreover, Greenpeace Indonesia noted that the call from APBI-ICMA underlines the fact that Indonesia needs to turn away from coal entirely as sources of coal finance are drying up and becoming a huge fiscal liability as stranded assets. Instead, Greenpeace Indonesia argues that the government should look for cleaner energy sources, highlighting India's experience in rolling out cost-competitive solar capacity.

From an international perspective, experience also shows that other countries are moving away from coal. China, for example, has reversed its decision to back coal following significant public outcry over the health impacts of coal power pollution and recently decided to implement a three-year stop for approvals of new coal mines. It also ordered 15 provinces to halt the construction of already-approved power plants (Energy Desk, 2016; Reuters, 2016).

International Recognition of Indonesia's Reform Efforts

Indonesia's efforts to reduce fossil fuel subsidies to consumers under the Jokowi Administration have drawn significant international attention over the past year—most recently from the Vice President of Switzerland, Doris Leuthard, during a meeting in Jakarta with Director General of New Renewable and Energy Conservation, Rida Mulyana. Leuthard underlined that the Government of Switzerland appreciates the steps taken by Indonesia to reform subsidies and commended the progress made so far. The meeting took place on 31 March, only one day after the new subsidized fuel prices had been announced by the government.

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Published by the International Institute for Sustainable Development.

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GSI is an initiative of the International Institute for Sustainable Development (IISD). GSI puts a spotlight on subsidies—transfers of public money to private interests—and how they impact efforts to put the world economy on a path toward sustainable development. In cooperation with a growing international network of research and media partners, GSI seeks to lay bare just what good or harm public subsidies are doing; to encourage public debate and awareness of the options that are available for reform; and to provide policy-makers with the tools they need to secure sustainable outcomes for our societies and our planet.

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