



INDONESIA ENERGY SUBSIDY BRIEFING

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

November 2015

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

- In 2016, Indonesia's state budget allocates IDR63.7 trillion (US\$4.5 billion) to a combination of fuels, including diesel, LPG, kerosene, and liquefied gas for vehicles (LGV). The budget further allocates IDR38.4 trillion (USD\$2.7 billion) to electricity subsidies.
- On 7 October, the government announced a range of fuel price decreases. This included a price reduction of Solar-brand diesel from IDR 6,900 per liter to IDR6,700 per liter as well as price reductions on a range of non-subsidized fuels such as Avtur (aviation fuel), Pertamax (RON 92 gasoline), Pertalite (RON 90 gasoline) and non-subsidized 12kg LPG.
- The 2016 allocation for electricity subsidies shows a significant decline compared to 2015, reflecting the government's intention to implement electricity subsidy reform in 2016.
- The quota of subsidized diesel is set at 16 million kiloliters and budgeted at IDR16 trillion (US\$1.12 billion). The quota for subsidized LPG is set at 6.6 million tonnes, equaling IDR31 trillion (US\$2.17 billion). The allocation for LGV subsidies does not include a maximum quota, but a monetary ceiling at IDR6.4 billion (US\$0.44 million). The volume of subsidized kerosene is capped at 688 thousand kiloliters, totaling IDR2.6 trillion (US\$0.182 billion).

Indonesia's 2016 State Budget and Fuel Subsidies

On October 30, the Indonesian parliament passed the 2016 State Budget. The state budget estimates overall growth to slow from 5.7% in 2015 to 5.3% in 2016. Annual inflation is estimated to total 4.7% in 2016, 0.3 percentage points lower than 2015. The state budget foresees a continued depreciation of the Indonesian rupiah against the US dollar and is based on a crude oil price at US\$50 per barrel. This is slightly down from US\$60 per barrel in the revised 2015 budget and significantly lower than the original 2015 budget where crude oil prices were estimated at US\$110 per barrel.

Capital Injections to State-Owned Enterprises

Since the beginning of President Joko Widodo term in 2014, large capital injections to state-owned-enterprises

(SOEs) have served as the government's main policy tool to redistribute the fiscal savings gained from fossil fuel subsidy reforms in late 2014 and early 2015. In 2015, the government used state budgetary transfers to reinforce 40 SOEs with IDR64.88 trillion (US\$5.5 billion) (GSI, 2015). In the government's initial 2016 state budget proposal, the Widodo administration once again signaled its intent to reinforce SOEs via state budgetary transfers, but the parliament challenged the plan and it has not been included in the approved budget on October 30. Instead, the issue will be discussed in the parliamentary Commission VI on Industry, Investment, and Business Competition, and subsequently be included in the revised state budget for 2016 (Detik Finance, 2015).

Table 1 Indonesia's State Budgets - Macroeconomic Indicators

Indicator	FY 2014 Audited Budget	FY 2015 Original Budget	FY 2015 Revised Budget	FY 2016 State Budget
Growth	5.06%	5.8%	5.7%	5.3%
Inflation (yoy)	8.36%	4.4%	5.0%	4.7%
Exchange Rate (IDR/US\$)	11,878	11,900	12,500	13,900
Interests Rate (3 months)	5.80%	6.0%	6.2%	5.5%
Indonesia Crude Price (USD/barrel)	97	105	60	50
Oil Production (thousand barrel/day)	794	900	825	830
Natural Gas Production (million BOE/day)	1,224	1,248	1,221	1,155

Source: State Budget 2014 Audit Report, Fiscal Note and State Budget 2016 Proposal, (Cabinet Secretariat, 2015), (Antara, 2015).

Table 2 Volume of Subsidized Fuel and LPG in Indonesia's State Budgets

Fuel Type	FY 2014 Budget	FY 2015 Original Budget	FY 2015 Revised Budget	FY 2016 Budget
Gasoline (million kiloliter)	29.4	29.6	0	0
Diesel (million kiloliter)	15.7	16.2	17.05	16
Kerosene (million kiloliter)	0.9	0.9	0.85	0.69
LPG (million tonnes)	4.99	5.77	5.77	6.6

Source: (Ministry of Finance, 2015); (Badan Pemeriksa Keuangan, 2014); (TPID-DIY, 2014); (CNN Indonesia, 2015), (Detik.com, 2015).

Fossil Fuel Subsidies in the 2016 State Budget

In 2016, the state budget allocates IDR63.7 trillion (US\$4.5 billion) to a combination of fuels, including diesel, LPG, kerosene, and liquefied gas for vehicles (LGV). The government initially proposed IDR70.96 trillion (US\$4.9 billion) to be allocated for fuel subsidies, but the amount was lowered as a result of parliamentary discussions (Ministry of Finance, 2015). The quota for subsidized diesel is set at 16 million kiloliters and budgeted at IDR16 trillion (US\$1.12 billion). The quota for subsidized LPG is set at 6.6 million tonnes, equaling to IDR31 trillion (US\$2.17 billion). The allocation for LGV subsidies does not include a maximum quota, but a monetary ceiling at IDR6.4 billion (US\$0.44 million). The quota for subsidized kerosene is set at 688 thousand kiloliters, totaling IDR2.6 trillion (US\$0.182 billion). In addition, the 2016 state budget carries over fuel subsidy expenditure equaling IDR12.7 trillion (US\$0.89 billion) from fiscal year 2015 (Detik.com, 2015).

The 2016 state budget further allocates IDR38.4 trillion (USD\$2.7 billion) to electricity subsidies. Similar to the parliamentary discussions around the allocation for fuel subsidies, the government's initial proposal of IDR50 trillion to electricity subsidies was slightly lowered as a result of parliamentary negotiations (Ministry of Finance, 2015).

The 2016 allocation for electricity subsidies shows a significant decline compared to 2015 where electricity subsidies are estimated to amount to IDR73.1 trillion (US\$5.1 billion) and reflects the government's intention to implement electricity subsidy reform in 2016. More details on electricity reform plans below.

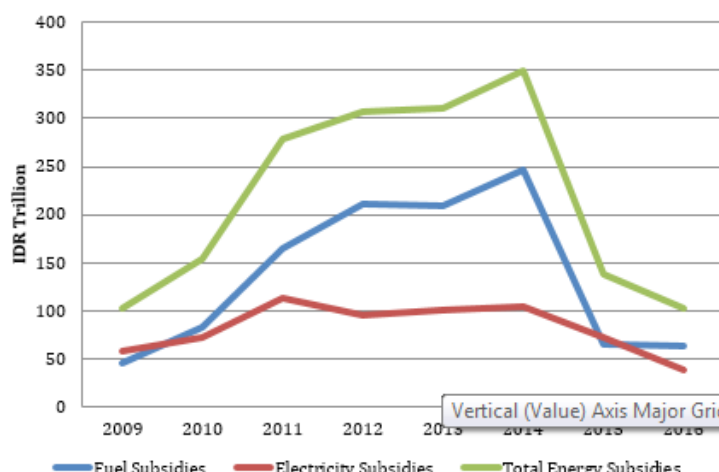
Electricity Subsidy Reform in 2016

With the 2016 State Budget, the Indonesian parliament has signaled its approval of the government's plan to reduce electricity subsidies. Electricity subsidy reform was originally planned to be implemented in January 2016 (Kompas, 2015), but on 4 November, the Minister of Energy and Mineral Resources, Sudirman Said, announced that the implementation of reform would be pushed back to July 2016 due to technical reasons.

Indonesia's existing electricity subsidy scheme provides support to the two lowest household connection groups, 450VA or 900VA. The total number of connections covered is estimated at 45.36 million, consisting of 22.9 million 450VA connections and 22.47 million 900VA connections (Kompas, 2015). While the modalities of reform are still being discussed within government, Minister Said has indicated that the number of subsidy recipients will be significantly reduced and that the subsidy going forward will be targeted poor and vulnerable households only. Currently, according to Minister Said, 23 million households who are not categorized as poor or vulnerable benefit from the

subsidy policy. Minister Said further noted that Indonesia's state-owned electricity company, PT PLN (PT Perusahaan Listrik Negara), will be responsible for targeting beneficiaries by visiting customers one by one to check eligibility and ensure customer data to be completely accurate. One of the indicators for eligibility, according to Minister Said, could for example be the ownership of social welfare cards such as the "Social Protection Card" and the "Family Welfare Card" (Riau Pos, 2015). It is expected that the implementation of reform will also draw upon the "Unified Database" for social protection developed by the National Team for the Acceleration of Poverty Reduction (TNP2K). The database compiles social economic information of 96 million individuals, equivalent to around 40 percent of Indonesia's total population and may support PT PLN in its efforts to target electricity subsidies (Bah, Mardianingsih, & Wijaya, 2014; TNP2K, n.d.; CNN Indonesia, 2015).

Figure 1 Indonesia's Energy Subsidies 2009 - 2016



Source: (Ministry of Finance, 2015), (CNN Indonesia, 2015), (Cabinet Secretariat, 2015).

Recent Fuel Pricing Updates

On 7 October, Minister Said, announced a range of fuel price decreases. This included a price reduction of Solar-brand diesel from IDR6,900 per liter to IDR6,700 per liter as well as price reductions on a range of non-subsidized fuels such as Avtur (aviation fuel), Pertamina (RON 92 gasoline), Peralite (RON 90 gasoline) and non-subsidized 12kg LPG. The price of Premium-brand gasoline and officially subsidized 3kg LPG did not change.

Since reforming fuel subsidies in early 2015, the government has been deliberating over the issue of how often to adjust consumer prices. In the first three months after reform, fuel prices were adjusted on a frequent basis, but have remained stable from 28 March to 1 October. Minister Said, however, recently

announced the government's decision to adjust fuel prices every three months going forward. The next round of changes are expected in January 2016 (Antara, 2015).

Table 3 Recent Fuel Price changes

Fuel Type / Brand	Unit Cost	Price Before October 2015	Price After October 2015
Premium (RON 88 Gasoline) – Java, Madura, and Bali	IDR / liter	7,400	7,400
Premium (RON 88 Gasoline) – Outside Java,	IDR / liter	7,300	7,300
Solar (Automotive diesel)	IDR / liter	6,900	6,700
LPG 12kg	IDR / 12kg	141,000	134,000
Pertamax (RON 92 Gasoline)	IDR / liter	9,250	9,000
Peralite (RON 90 Gasoline)	IDR / liter	8,400	8,300
Avtur (aviation fuel)	NA	NA	Down by 5.33%

Source: (Antara, 2015).

Despite subsidies to Premium-brand gasoline being officially reformed in early 2015, PT Pertamina has signaled publicly that it has been incurring losses on sales due to the fact that prices were not adjusted according to the government's pricing formula (GSla, 2015). In continuation hereof, the Ministry of Energy and Mineral Resources recently offered an overview of the difference between the politically determined price for Premium Gasoline (Non Jama-li) and the calculated price (i.e. the price of Premium Gasoline as according to the price formula).

Depicted below, the overview shows that in spite of the official removal of subsidies to Premium in January 2015, with the exception of distribution costs outside the Java-Bali-Madura area—Indonesia's new pricing policy has in fact been incurring de facto subsidies since March 2015.

Figure 2 Price of Premium-brand Gasoline (Non Jamali) - Pump prices versus actual prices

Date	Calculated Fuel Price (IDR per litre)	Politically Determined Fuel Price (IDR per litre)	Difference per litre	Total subsidies IDR billion (based on volume of sales)
1 January	7.600	7.600		
19 January	6.600	6.600		
1 February	6.300	6.600	300	
1 March	7.000	6.800	-200	-202,18
28 March	7.900	7.300	-600	-596,36
1 May	7.950	7.300	-650	-663,54
1 June	8.950	7.300	-1650	-1.640,79
1 July	9.100	7.300	-1800	-2.015,51
1 August	8.450	7.300	-1150	-1.207,70
1 September	7.700	7.300	-400	-412,53
Total				-6738,61

Source: (Ministry of Energy and Mineral Resources, 2015).

Indonesia's New Oil and Gas Bill

Indonesian policymakers are currently discussing the design of a new bill to regulate Indonesia's oil and gas sector. The revision of the so-called oil and gas bill has partly been prompted by a Constitutional Court ruling in 2012, dissolving Indonesia's independent regulatory agency since 2001, BPH Migas. While the modalities of the new oil and gas bill are not yet clear, early drafts suggest that the government's control of the oil and gas sector will be strengthened, including the role of state-owned oil company PT Pertamina (ReedSmith, 2015). Moreover, it is expected that the new oil and gas bill will revise or completely remove the existing system of Production Sharing Contracts (PSCs) which currently allows foreign investors to be reimbursed by the Indonesian government for exploration and production costs (SKK Migas, 2015). The PSCs have previously been contested on grounds that companies artificially inflate exploration costs to increase their revenue, but at the same time it is recognized that the PSCs serve as an incentive to attract foreign investors which helps maximize output from Indonesia's upstream activities (Hoang, 2015). As an alternative to the PSC system, it has been debated whether or not to transfer control and oversight of upstream activities to PT Pertamina (or another state-owned

entity created for the purpose) and only allow foreign companies to provide technology and capital (Reed-Smith, 2015).

The new oil and gas bill is also likely to revise the setup of Indonesia's regulatory system. Since the dissolving of BPH Migas in 2012, regulatory functions have been carried out by SKK Migas, a unit created under the Ministry of Energy as a direct response to the ruling of the Constitutional Court. The government is now planning to create two new public entities as part of the oil and gas bill to regulate upstream and downstream activities respectively.

Finally, it should be noted that a key part of the new oil and gas bill is expected to be the establishment of a petroleum fund. The petroleum fund will be utilized to support PT Pertamina in its upstream activities in order to increase oil and gas reserves as well as to reduce company losses and keep energy prices stable (Deal Street Asia, 2015). Funding for the Petroleum Fund is to be derived from various sources, including the state budget and tax revenue. It is not yet clear how the fund will be administrated (Rambu Energy, 2015).

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