



Update on Fossil Fuel Subsidies in Indonesia

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DREAM



$\pm 5,000$ km



$\pm 4,600$ km





INDONESIA

GDP 2015 : USD 872.6 billion (16th in the world)

Economic Growth 2015: 4.79%

Population: 250 million



Indonesia is both a producer & consumer.

2015



CRUDE OIL



LPG



GAS

Production

830,000 BOPD

Import

770,000 BOPD

Consumption

1.6 million BOPD

Annual
Consumption
Growth

3%

Production

2.27 million MTonnes

Import

4.3 million MTonnes

Consumption

6.57 million MTonnes

Annual
Consumption
Growth

13%

Production

8,113 MMSCFD

Export

3,048 MMSCFD

Consumption

3,703 MMSCFD

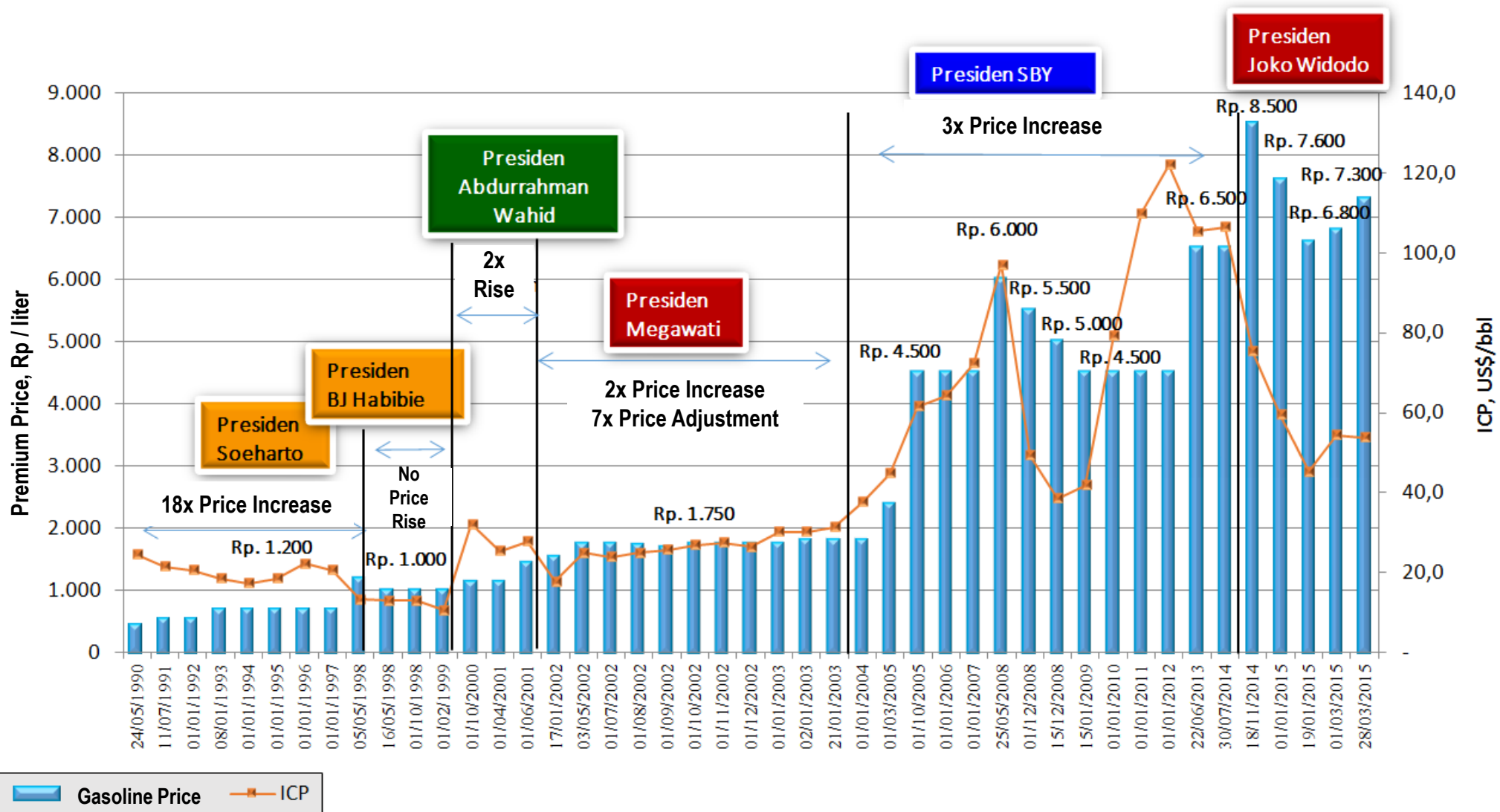
Annual
Consumption
Growth

2%

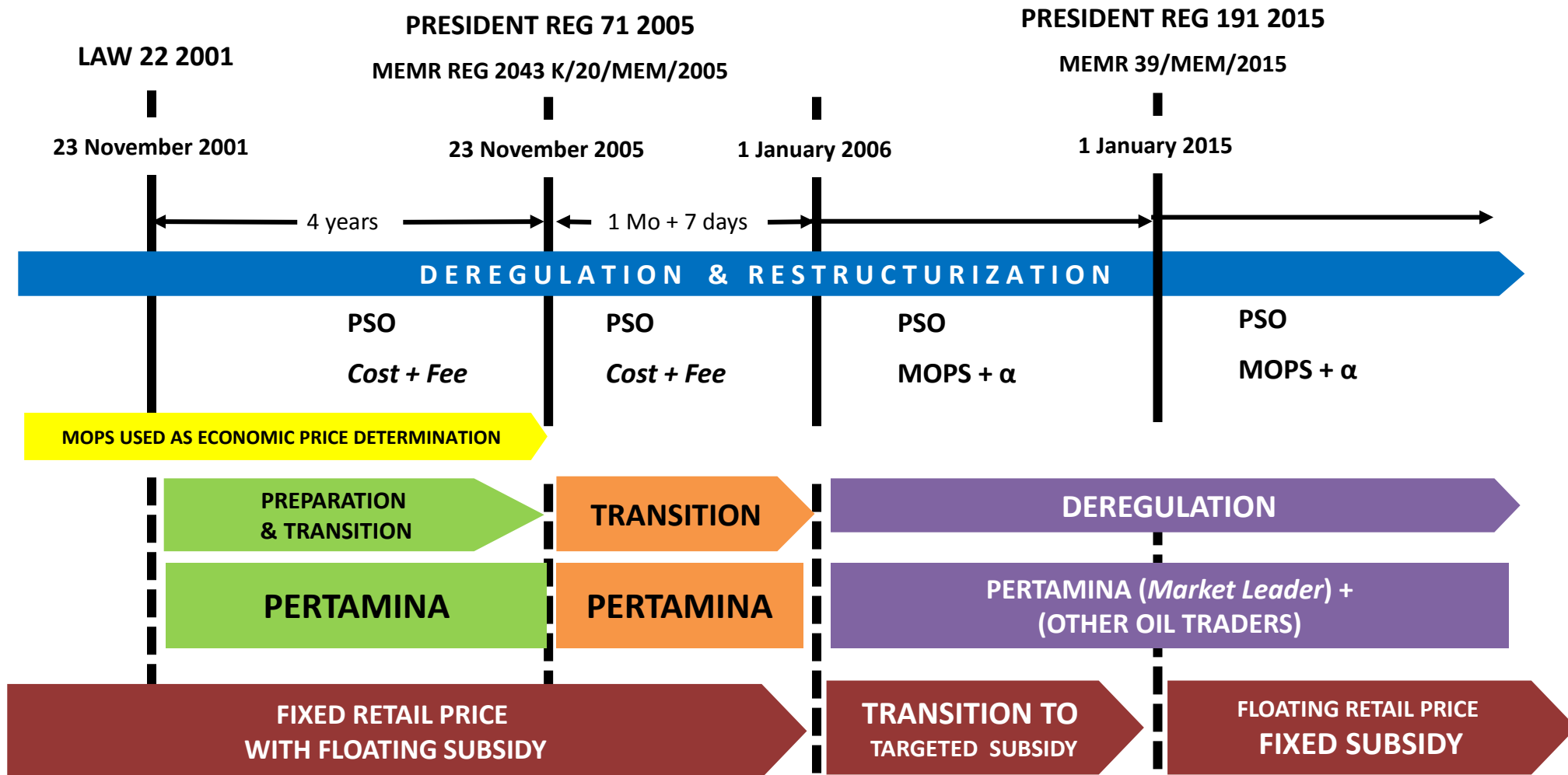
Gas export & consumption as of October 2015



History of Gasoline Price in Indonesia



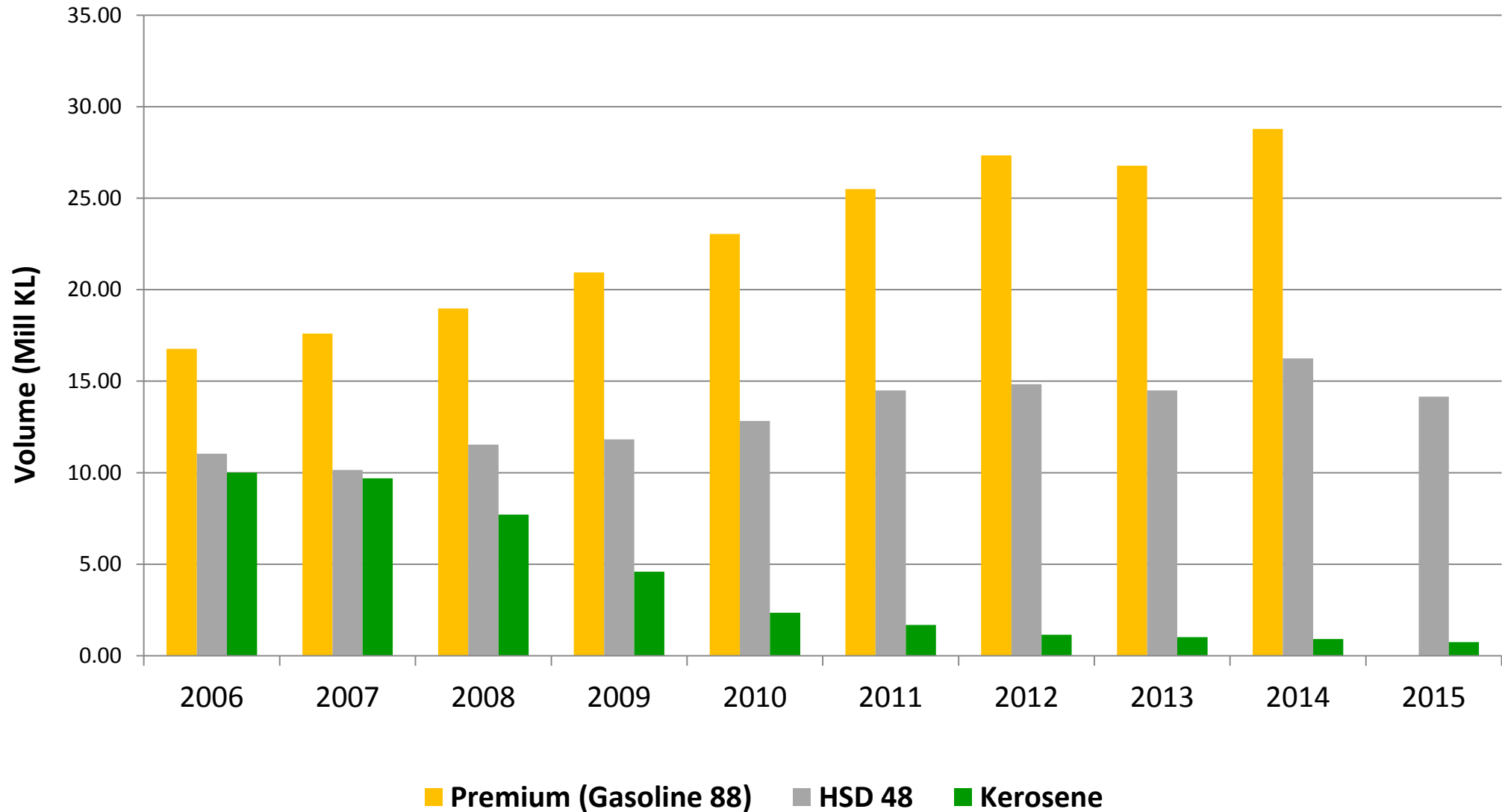
PSO Fuels Regulation Roadmap



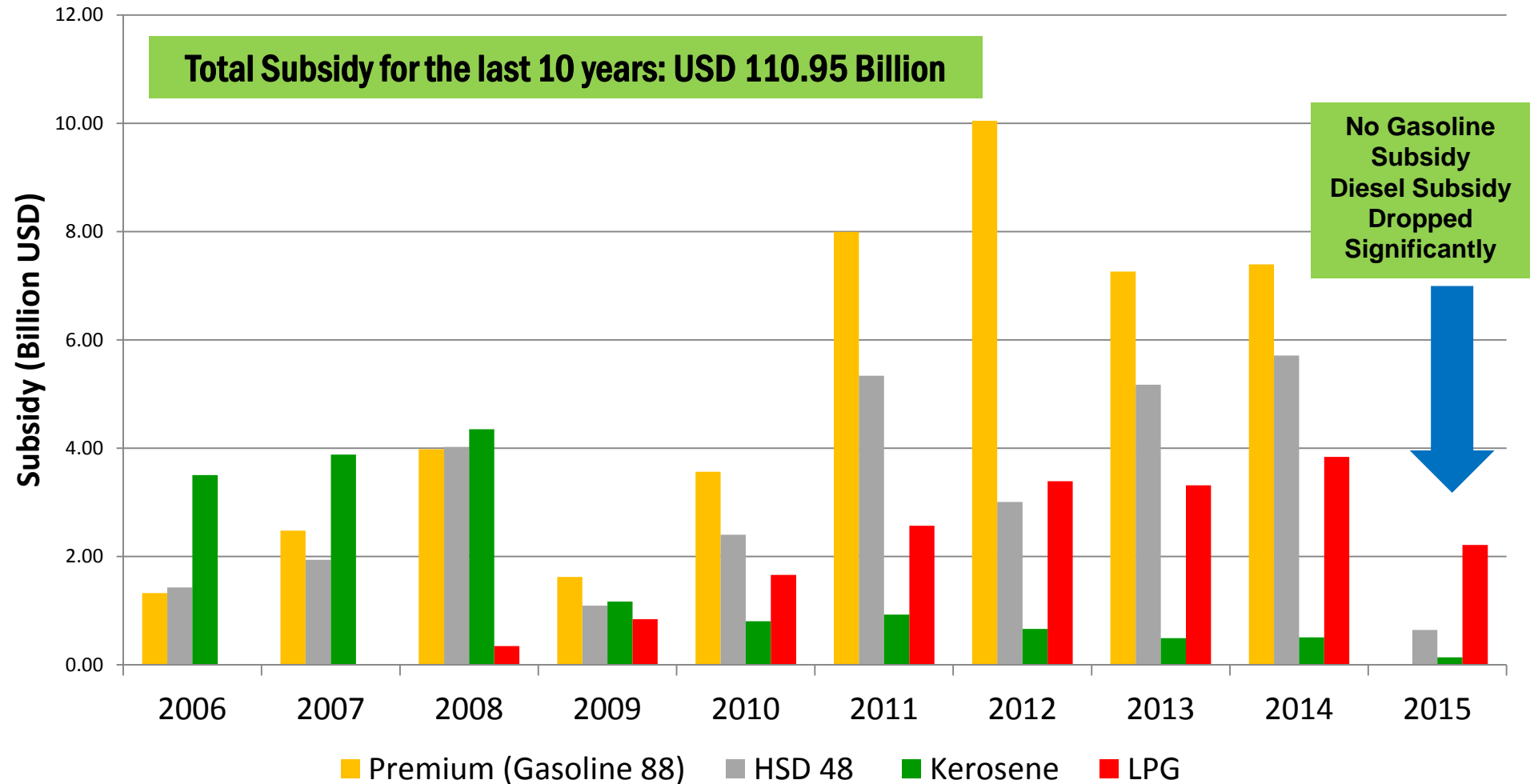
1. Since 2005, MOPS was used as a basis pricing formula, due to multi retail players assigned to manage PSO
2. Starting in 2015, targeted subsidy with fixed subsidy level



Volume of Subsidized Fuel



Fuel Subsidy Spending



- Consumption of LPG 3 kg is continuously growing :

- ✓ Open distribution system → no limited users, everyone can buy a subsidized commodity
- ✓ Illegal practice : taking out LPG from 3 kg canisters to be refilled to 12 or 50 kg canisters → price disparity
- ✓ Migration of users : people who previously used LPG 12 kg prefer to buy LPG 3 kg because of the cheaper price



Shifting Fossil Fuel Subsidies

- Government has larger fiscal space for State Budget
- The funds are used for infrastructure development and social security program
- Not only for developing energy access, also can be used for multi sectoral infrastructure

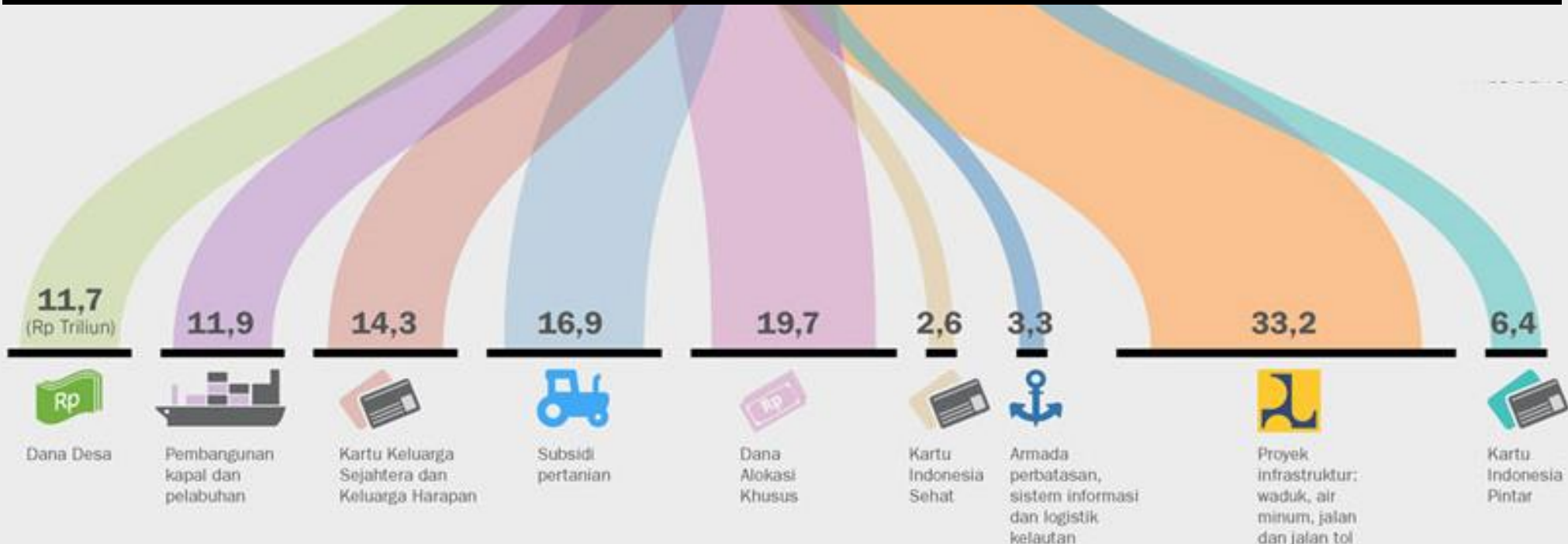


Encourage the construction of public infrastructure, such as Bridge, Irrigation, Road, etc





Shifting fuel subsidy to infrastructure & social security program

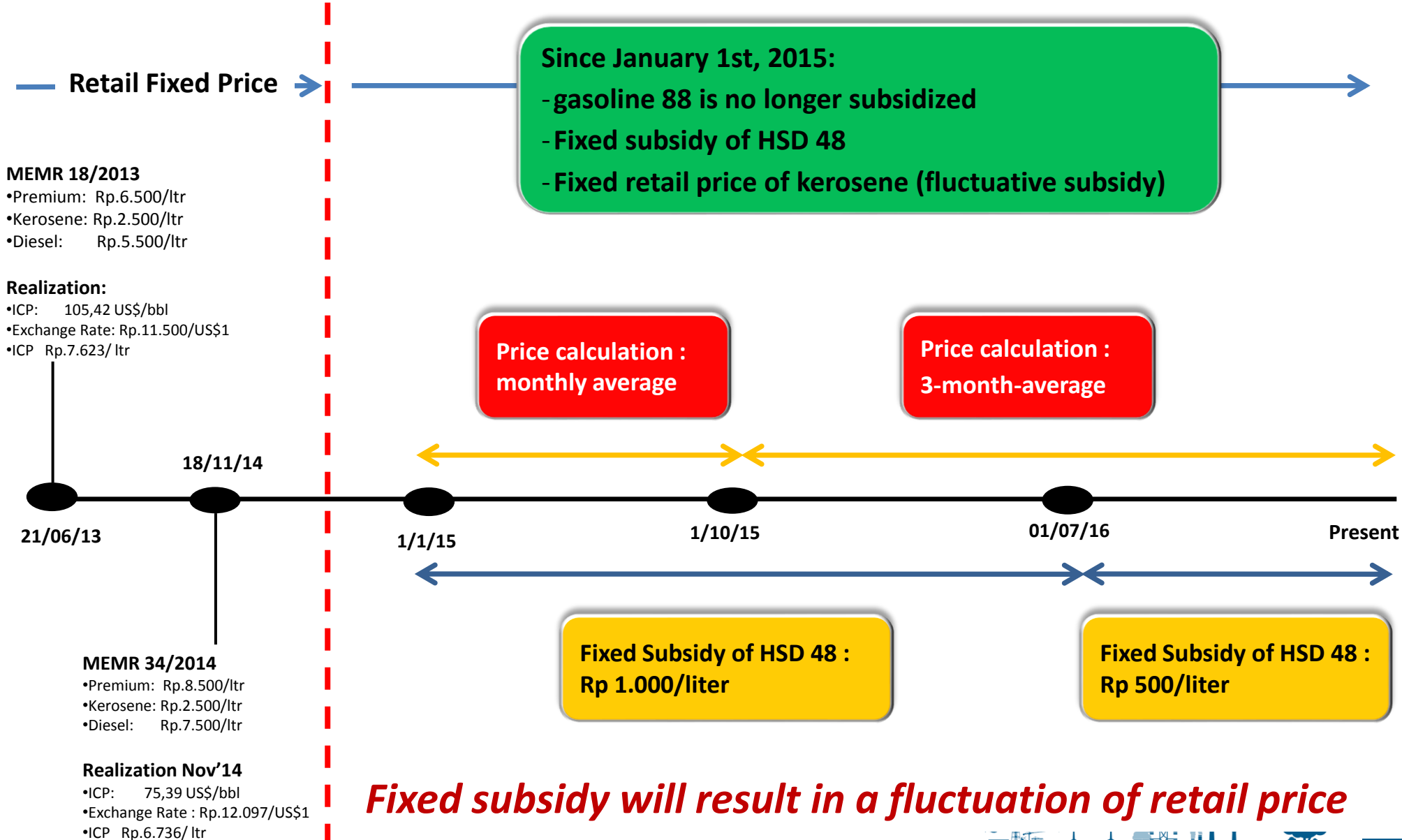


Shifting fuel subsidy to infrastructure & social security program



Subsidy Scheme Reform

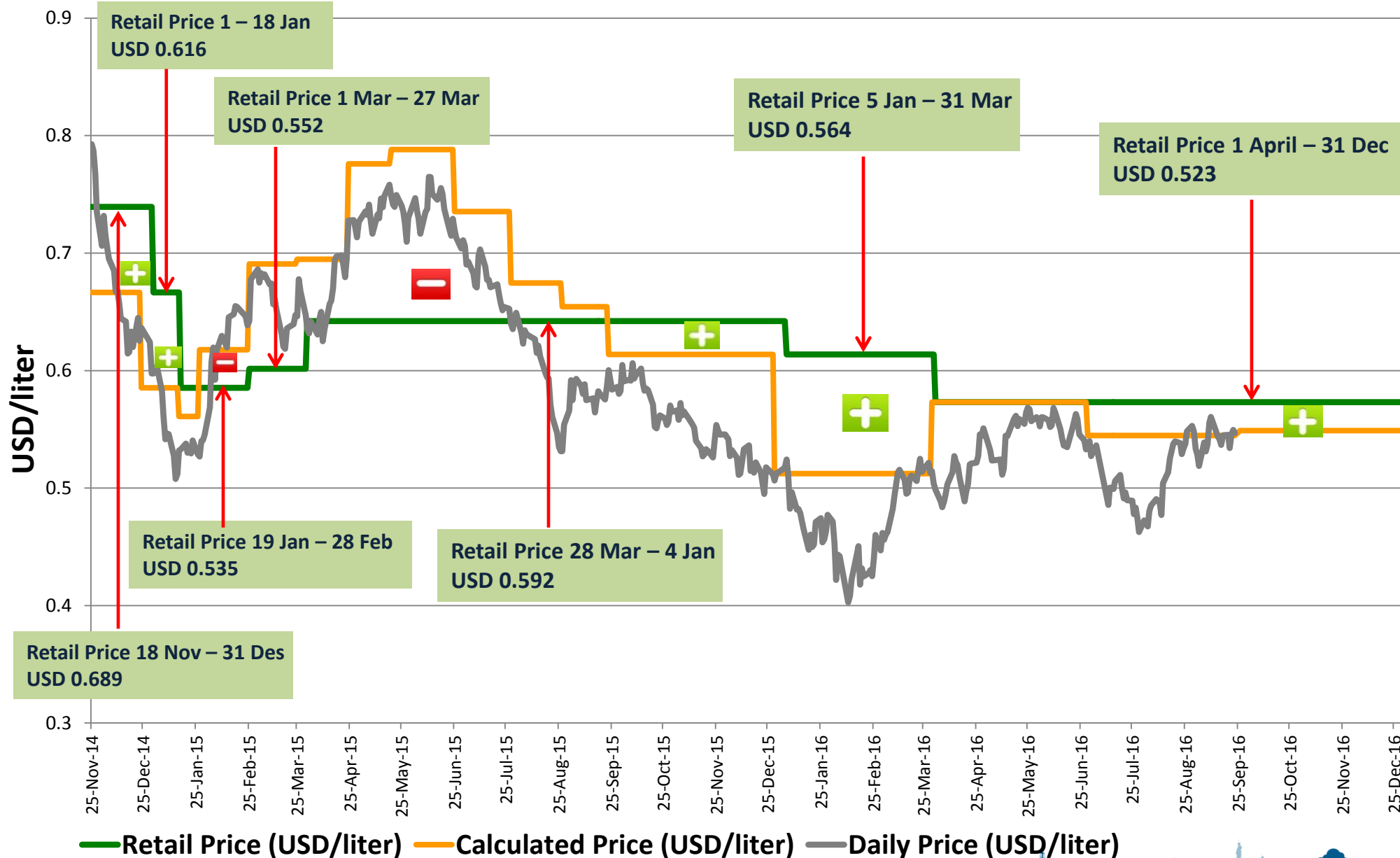
(Transformation of Floating to Fixed Subsidy)



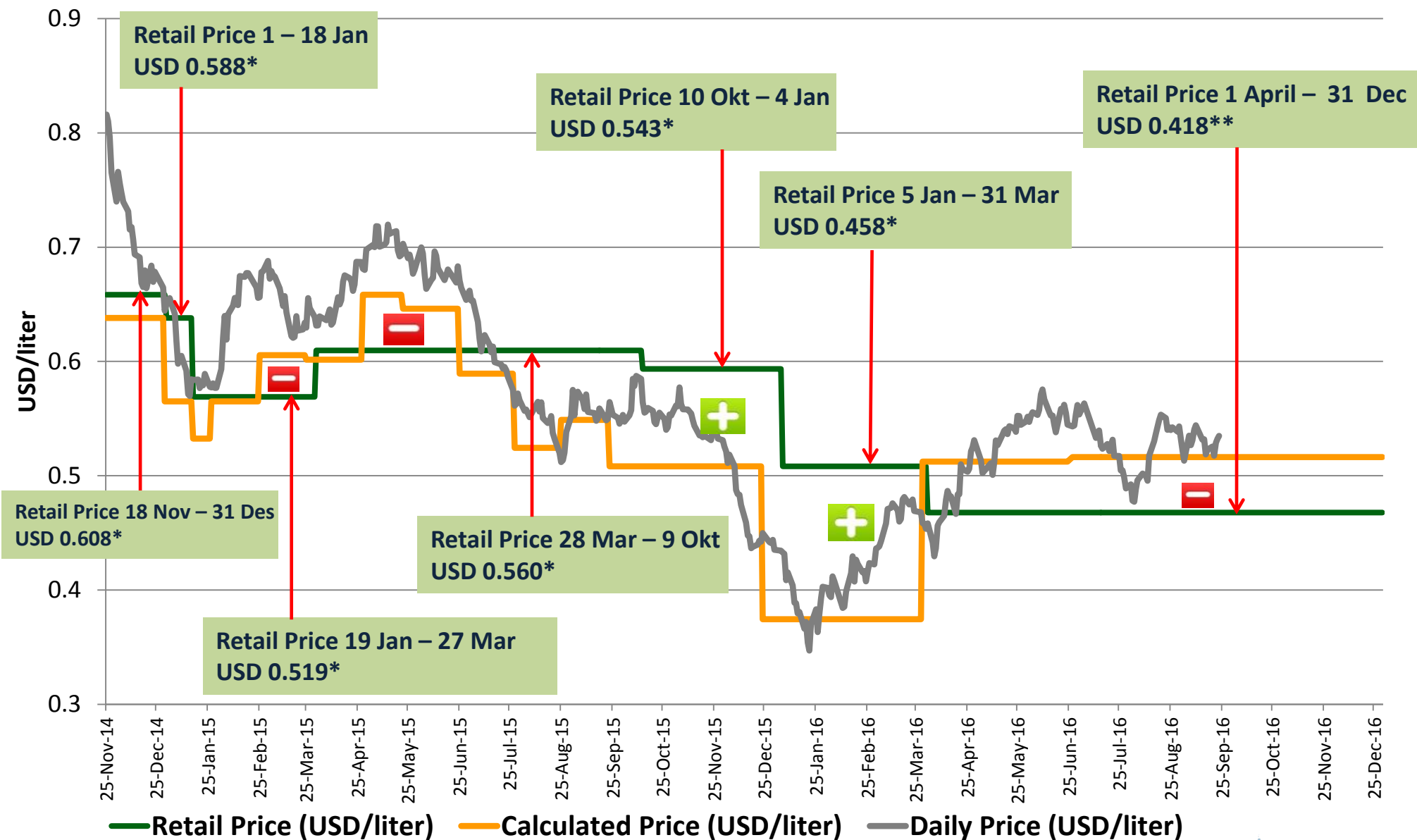
Fixed subsidy will result in a fluctuation of retail price



Strategy How to Handle Gasoline RON 88 Price Fluctuation



Strategy How to Handle HSD 48 Price Fluctuation



* Subsidy Rp 1.000/liter

** Subsidy Rp 500/liter



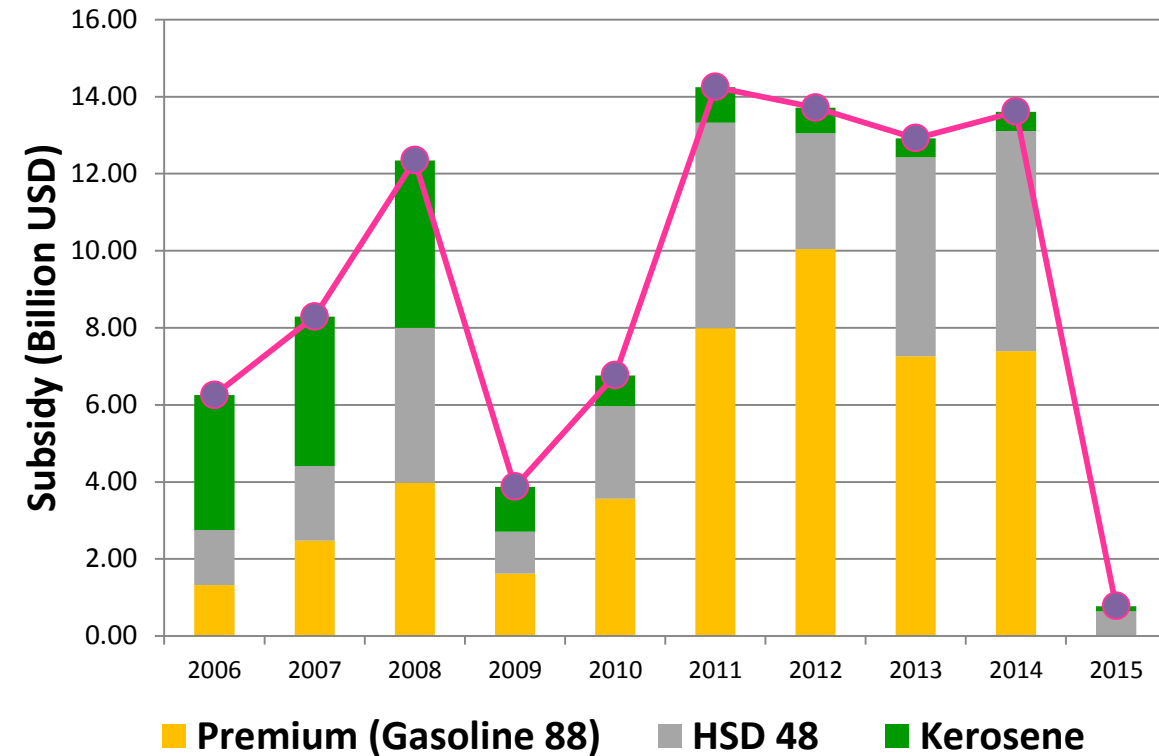


Fuel Price vs Macroeconomy Indicators



Subsidy Scheme Reform

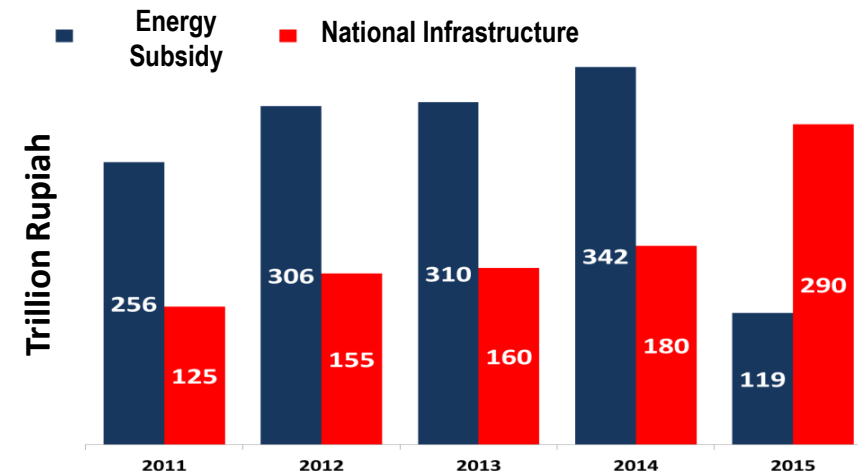
Shifting Subsidy Budget



“For the last 10 years, Government has spent USD 100 Billion for fuel subsidy (LPG not included), in the next 5 years it is expected that fuel subsidy will decrease by USD 50 Billion”



Shifting to productive sectors



Note:

- Subsidies are assumed to be dependent on shifting policies and State Budget

Fuel Price vs. Inflation

- Inflation of **7,8%-8,5%** (yoy) is a result of increasing fuel price in 2014 .
- Transportation cost also increased by **14% (considered only fuel price)** and affected the inflation rate by 2,58%.
- But if transportation cost also takes other costs into account, the transportation cost would increased by **27,26% and** affect the inflation rate by **3,26%** (yoy).

Unregulated Transportation Tariff

Impact of Fuel Price Increase (Premium and Diesel) of Rp 2,000/liter Respectively

Impact of Subsidized Fuel Price Increase	Value (%)	Inflation (%)	Impact (%)
Direct Impact			1.27
Gasoline	3.95	30.77	1.21
Diesel	0.16	36.36	0.06
Indirect Impact to Transportation Cost			1.42
Ferry	0.01	28.58	0
Intercity Transport	0.66	27.26	0.18
Public Transport	2.57	47.08	1.21
Sea Transport	0.05	5.92	0
Train	0.12	11.16	0.01
Taxi	0.09	10.18	0.01
Indirect Impact to Other Commodity			0.57
Core	63.1	0.57	0.36
Volatile Food	17.46	1.21	0.21
Total Impact to Inflation			3.26

- *Impact to Transportation Cost is conservative, considering the rise of staple costs in 2014 (not only fuel oil, but also other components such as capital costs, cost of crew, depreciation, etc.)*
- *Indirect costs are based on estimation using latest data (elasticity of 10% subsidized fuel increase will raise the pressure of core inflation of 0.17% and Volatile food of 0.36%*

Regulated Transportation Tariff

Impact of Fuel Price Increase (Premium and Diesel) of Rp 2,000/liter Respectively

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Direct Impact			1.27
Gasoline	3.95	30.77	1.21
Diesel	0.16	36.36	0.06
Indirect Impact to Transportation Cost			0.73
Ferry	0.01	14.68	0
Intercity Transport	0.66	14	0.09
Public Transport	2.57	24.18	0.62
Sea Transport	0.05	3.04	0
Train	0.12	5.73	0.01
Taxi	0.09	10.18	0.01
Indirect Impact to Other Commodity			0.57
Core	63.1	0.57	0.36
Volatile Food	17.46	1.21	0.21
Total Impact to Inflation			2.58

- *Impact to Transportation Cost is optimistic, and only considers the rise of fuel oil of Rp 3,000/liter (reflecting upon the success of regulating transportation tariffs in 2013)*
- *Indirect costs are based on estimation using latest data (elasticity of 10% subsidized fuel increase will raise the pressure of core inflation of 0.17% and Volatile food of 0.36%*





Success Story Of Kerosene To LPG



Background of Kerosene to LPG Conversion



In 2006, fuel subsidy was amounted to IDR 64.212 Trillion. Out of that amount, IDR 31.58 Trillion was dedicated for Kerosene that put a huge burden to the State budget



National Energy Policy → to diversify sources of energy supply and reduce dependency on fossil fuels in particular Kerosene



LPG has a higher energy density and lower emission compared to Kerosene

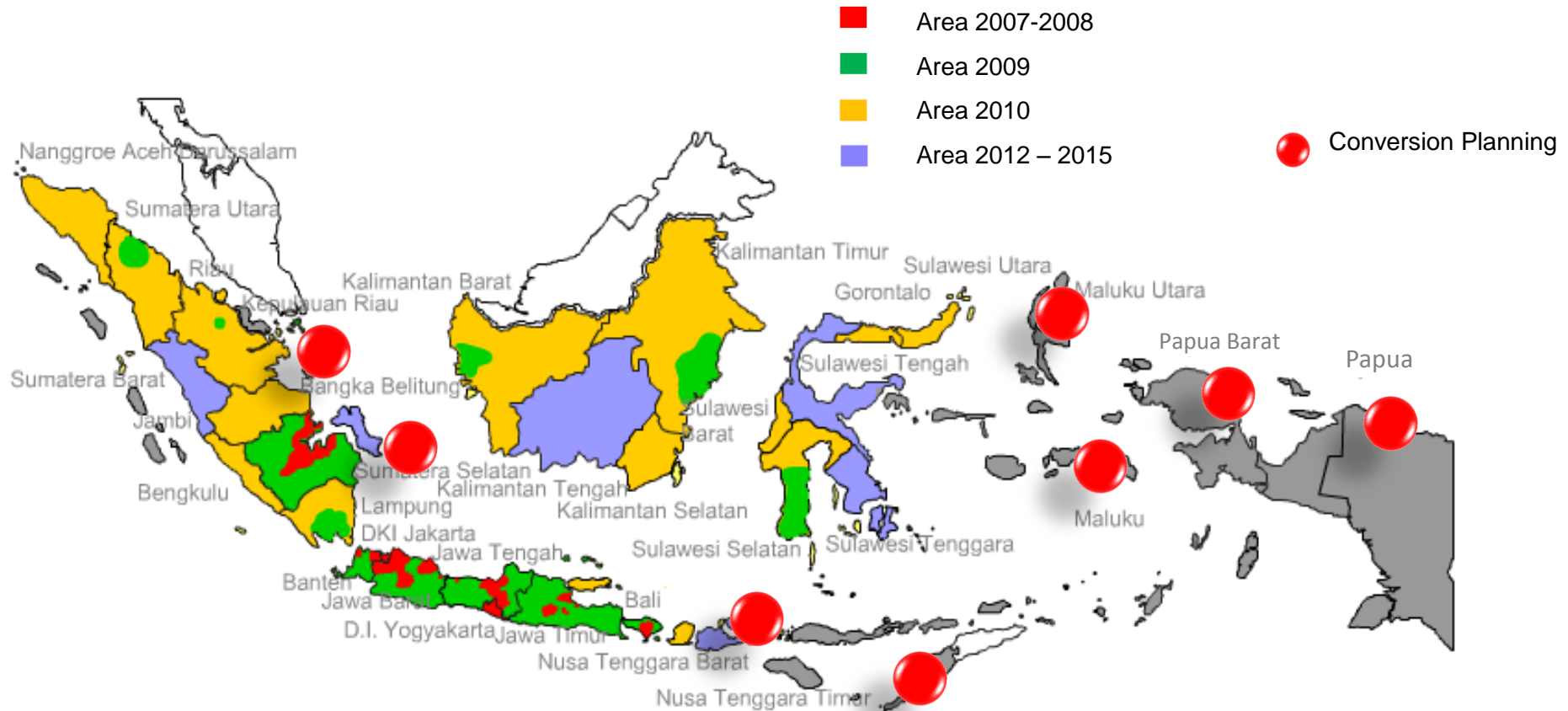


Reducing Kerosene will deliver advantages:

- Added value → Kerosene can be upgrading to avtur
- Reducing misuse of subsidized kerosene
- Remanaging the distribution system of subsidized fuel to minimize illegal practice and shortage



Kerosene to LPG Conversion Area



Distribution = 57,19 million initial packages

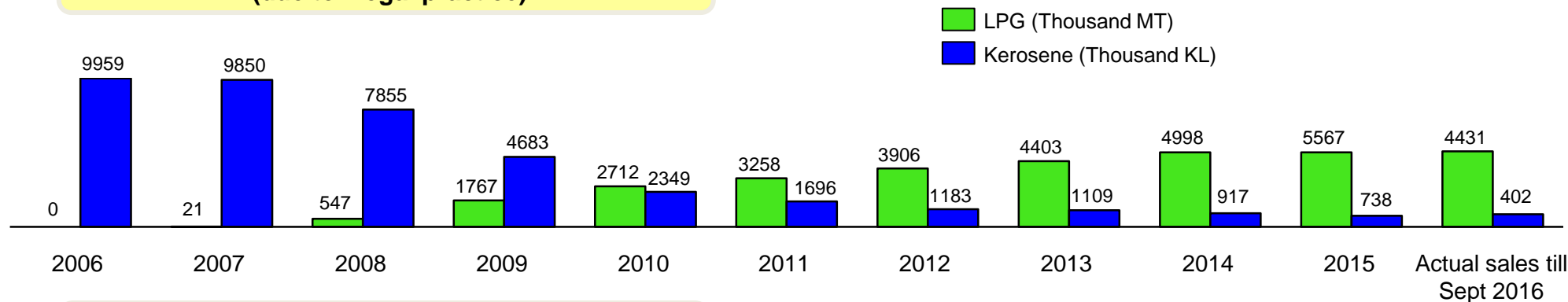


Savings Due to Conversion Program

Sales of Kerosene vs Sales of LPG 3 kg

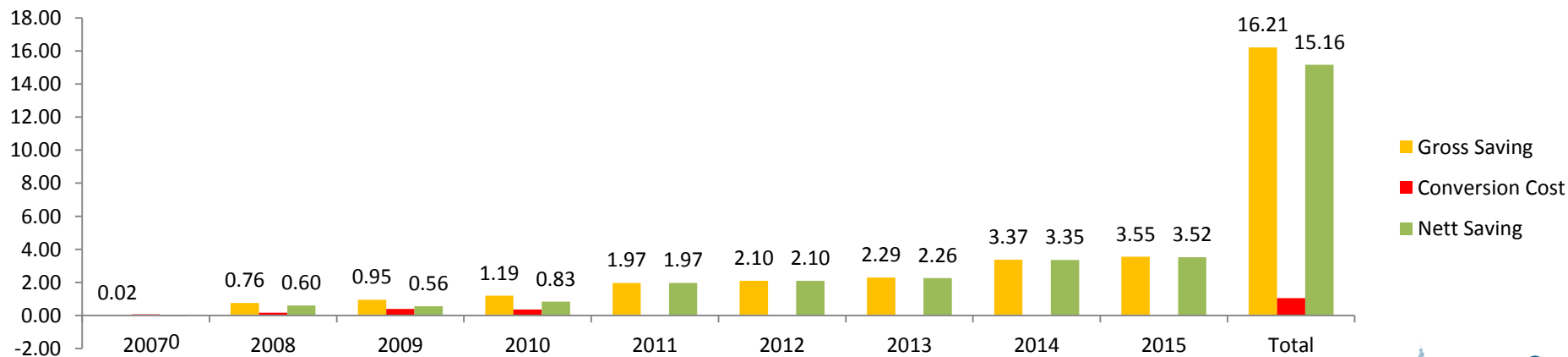
1 liter kerosene ~ 0,4 kg LPG

Diminishing misuse of Kerosene for Cooking
(due to illegal practice)



Subsidy Saving (un-audited)

Reaching USD 15.16 Billion



Background of Closed LPG 3 Kg Distribution System

Since its launching in 2007 the kerosene to LPG program has distributed ± 57 million initial packages

LPG 3 kg consumption and its subsidy is growing rapidly

Open distribution system, no limited access

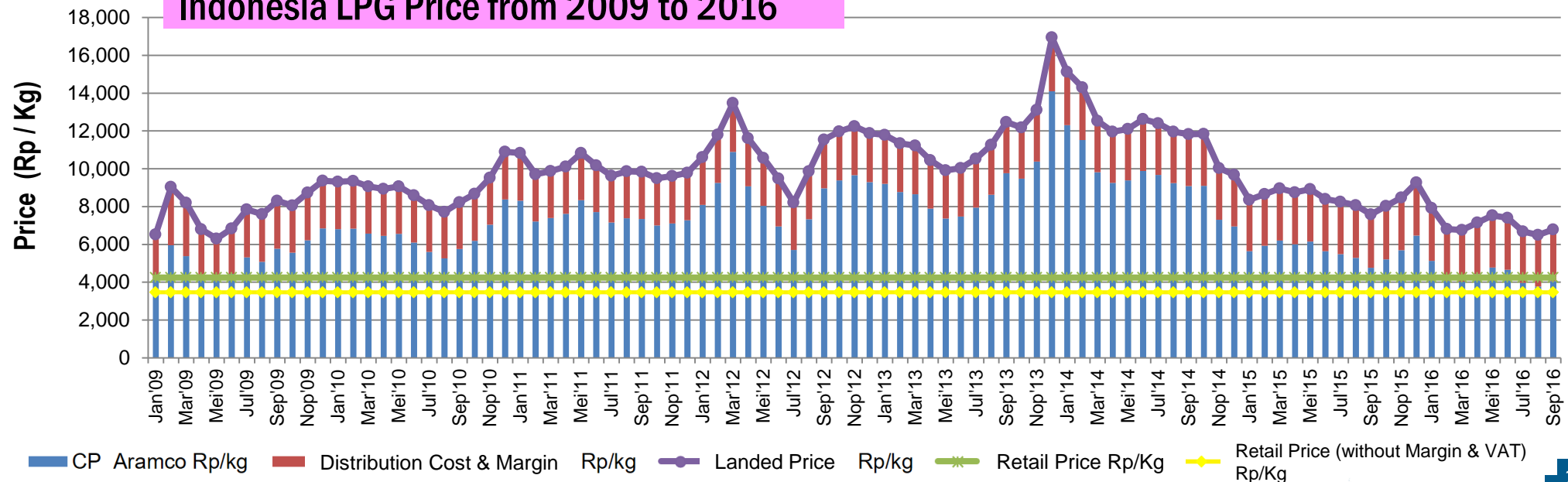
Implementation of Closed Distribution System

Re-arranged Distribution System, Information Technology, *Law Enforcement*

- Targeted Group
- Quota Based
- Appropriate Price

- Efficient
- Accountabel
- Transparant
- Under Control
- Sustainable

Indonesia LPG Price from 2009 to 2016



Advantages of Closed Distribution System of LPG 3 Kg

Government



Subsidy is given only to the targeted group



People

Security of supply



People



Wealth improvement



People

People buy LPG 3 kg according to the price stipulated by the local government



- **Continuous Reform to targeted subsidy as single social security policy**
- **Establishment of “Energy Resiliency Fund” to develop NRE, energy infrastructure development, R&D and HRD**
 - **Create Dynamic Adjustment Retail Oil Pricing Scheme**
 - **Fundraising strategy**
 - **Fund Management**



Closing Remarks

Indonesia is both a
producer and consumer



Total Fuel Subsidy Spending in last 10 years:

USD 110.95 Billion

Harmonizing fuel pricing policy



To maintain economic stability



THANK YOU
migas.esdm.go.id

