FOSSIL FUEL SUPPORT COUNTRY NOTE

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

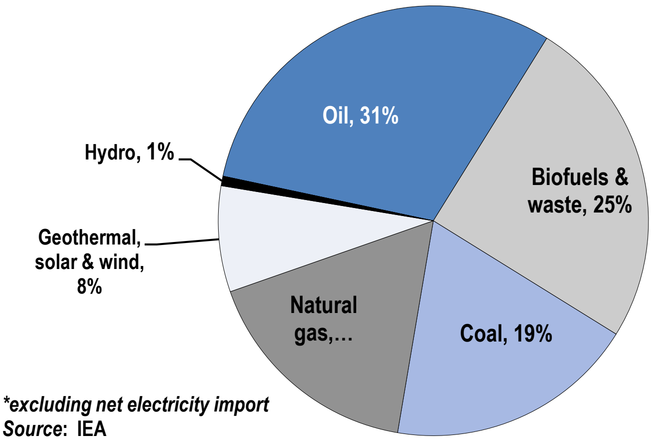
April 2019

Indonesia

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight partner economies (Brazil, the People's Republic of China, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

Total Primary Energy Supply* in 2016



*excluding net electricity import
Source: IEA

Indonesia is Southeast Asia's largest economy and is a major fossil-fuel producer and exporter. The country is also the largest coal exporter, the seventh-largest liquefied natural gas (LNG) exporter, and the world's largest producer of biofuels. With rising domestic demand and maturing oil fields, the country became a net importer of oil in 2004.

In 2017, fossil fuels accounted for around 66% of Indonesia's Total Primary Energy Supply (TPES), led by crude oil and oil products. Indonesia's oil and natural-gas upstream sector is dominated by international oil companies (IOCs), though state-owned companies retain a leading position in the downstream sector. As of early 2018, Chevron was the largest oil producer, accounting for about one third of domestic crude-oil production, while BP Tangguh, Total and ConocoPhillips produced nearly half of Indonesia's natural-gas. This contrasts with the downstream sector, where state-owned company Pertamina operates nearly all of Indonesia's nine refineries and is the sole distributor of lower-priced fuel products at the retail level.

Coal production is concentrated in the hands of a small group of companies. In 2018, the top six producers in Indonesia accounted for about 60% of total coal production. At least 80% of domestic production is exported overseas, mainly to China and India.

The upstream oil and natural-gas sector has been regulated by SKK Migas since 2012. SKK Migas is a temporary special task force operating under the purview of the Energy and Mineral Resource Ministry (MEMR) until the government amends the 2001 Oil and Gas Law. The downstream oil and natural-gas sector is regulated by BPH Migas.

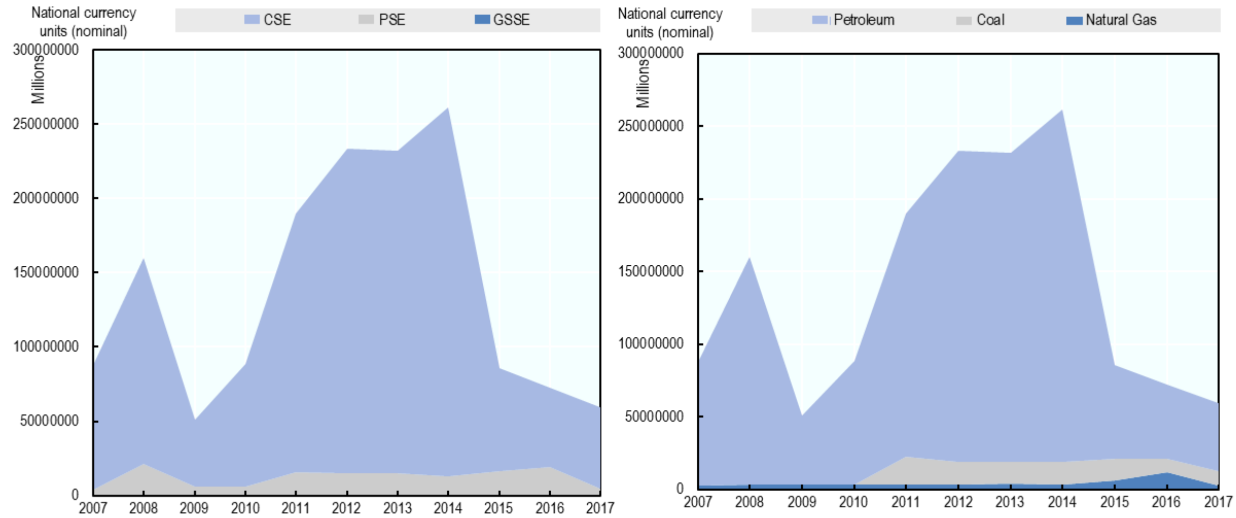
The state-owned power-utility company, Perusahaan Listrik Negara (PLN), has a near vertical monopoly over Indonesia's electricity sector. The company currently owns and operates about 69% of the country's generating capacity through its subsidiaries, and has complete market control over the transmission and distribution of power. As a result, PLN consumes about 80% of the total domestic coal supply.

Indonesia relies mostly on fossil fuels for electricity generation, with 55% and 26% of the electricity generated in 2016 coming from coal and natural gas respectively. The country is the second-largest geothermal power producer in the world after the US. It is also the largest biodiesel producer in Asia, with 56 000 barrels per day of output.

Energy prices and taxes

The bulk of Indonesia's support to fossil fuels stems from the government compensating Pertamina for the low retail prices the company charges on its sales of Premium RON 88 gasoline, diesel, and certain sales of LPG and kerosene. To offset the resulting costs to Pertamina, the government provides direct transfers to the company every year. The use of fossil fuels is also supported through so-called domestic market obligations (DMOs), which require producers of coal, oil, and natural gas to sell a portion of their output (usually between 15% and 25%) on the domestic market at discounted prices.

Total support for fossil fuels in Indonesia by support indicator (left) and fuel type (right)*



Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate.

*The above charts are based on an arithmetic sum of the individual support measures identified in the Inventory. Because they focus on budgetary costs and revenue foregone, the estimates for partner economies do not reflect the totality of support provided by means of artificially lower domestic prices. Particular caution should therefore be exercised when comparing these estimates to those reported by the IEA for these countries.

A reimbursement programme also exists for electricity, whereby the MEMR compensates electricity provider PLN for the difference between the lower domestic tariff and the average cost of the electricity generated. Motor fuels sold in Indonesia are subject to a regional Automotive Fuel Tax, the rates for which may vary by province. Most energy products are levied the standard 10% VAT rate, as well as electricity customers with 6600 VA power connections. Other categories of electricity consumers are exempted from VAT.

Recent developments and trends in support

Consumer subsidies for petroleum products and electricity (largely fossil-fuel based) in Indonesia accounted for almost 20% of all central-government spending in 2011, an amount roughly equal to that spent on education, and one that was much higher than all spending on health and infrastructure combined. As pressures mounted, the Indonesian Government subsequently managed to phase out gasoline subsidies in its revised 2015 budget, leaving in place the smaller subsidies for LPG, diesel fuel, and kerosene, and freeing up resources for more investments in infrastructure. The Indonesian government has continued to develop its energy-market reforms in an effort to rein in expenditure on fossil fuel support. In 2016, it reduced its cap on diesel subsidies by half, from USD 0.08 per litre to USD 0.04 per litre, and began a pilot programme to better target subsidies for 3-kg LPG cylinders used by households as cooking fuel with the objective of lowering the number of beneficiaries from 57 million to 26 million households. In 2014, the Indonesian government started its electricity pricing reforms, removing subsidies for 12 groups of PLN customers: household customers using 1 300 VA and above, large-scale business, industries, and government buildings. In early 2017, the government started to phase out electricity subsidies for households using 900 VA and above, which it considered as not low-income. In March 2018, President Widodo instructed ministers to freeze fuel prices and electricity tariffs in response to rising international oil prices in order to maintain consumers' purchasing power. Estimates of energy subsidies show a rise in budgetary transfers to state-owned enterprises Pertamina and PLN to compensate them for below-market prices.

Examples of measures	
Compensation for Below-Market Price for Electricity	The Indonesian Government compensates public utility PLN for losses incurred in selling electricity (mainly generated from fossil fuels) below prevailing market rates. In 2016, the support thus provided amounted to IDR 63.1 trillion.
Compensation for Below-Market Price for Premium RON 88, Solar, LPG and Kerosene (1967-)	The Indonesian Government compensates state-owned Pertamina for selling Premium RON 88 gasoline, Solar diesel, and kerosene fuels below market-level prices. Following the reform of 2015, support for this measure has decreased from IDR 240 trillion in 2014 to IDR 43.6 trillion in 2016.