GSI Global Subsidies Initiative
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INDONESIA ENERGY SUBSIDY BRIEFING

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

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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. **This special edition reports in length on some of the major policy changes that have taken place in Indonesia since November 2014.** For more information, contact Lucky Lontoh at lucky.lontoh@iisd.org and Christopher Beaton at cbeaton@iisd.org.

Highlights

- On 31 December 2014, Indonesian President Joko Widodo announces the removal of subsidies on Premium gasoline and the introduction of a "fixed" subsidy on Solar diesel. Due to low world oil prices, the immediate impact of this decision is a decrease in gasoline and diesel prices on 1 January and then again on 19 January 2015. The latest figure in the proposal for the Revised State Budget shows an anticipated decline in fuel subsidy expenditure of IDR 194.2 trillion (US$ 15.5 billion).
- The government also announces a new pricing mechanism for petroleum fuel. Premium gasoline is to be sold at market prices, but the distribution costs to remote areas will continue to be subsidized. Solar diesel will be sold at IDR 1,000 below the market price. The government is to announce price changes every two to four weeks.
- A detailed synthesis has yet to emerge on exactly how the government will propose to reallocate the savings from subsidy expenditure. Latest reports indicate plans to inject IDR 67.86 trillion (US$ 5.4 billion) into state-owned enterprises for infrastructure.
- These policy changes follow closely on gasoline and diesel price increases in November 2014. A number of new systems to provide compensation were introduced before these price increases, including a new health card and cash transfer systems that deliver funds directly to individual savings accounts. This may be indicative of how the government plans to cope with high energy prices once world oil prices rise again.
- A number of price reforms have also taken place for 12kg-cylinder LPG and electricity tariffs.

Indonesia Discontinues Gasoline Subsidy for Java-Madura-Bali, Transitions to Semi Automatic Pricing System—While Lowering Fuel Prices

On 31 December 2014, cabinet representatives—consisting of the Coordinating Minister of Economic Affairs, the Coordinating Minister of Maritime Affairs, the Minister of Energy and Mineral Resources, the Minister of Finance and the Minister of State Owned Enterprises—announced that Indonesia's fuel prices would be lowered as of 1 January 2015. The price of Premium (gasoline RON 88) was decreased from IDR 8,500 to IDR 7,600 per liter (US$ 0.68 to US$ 0.61 per liter)[1], the price of Solar-brand automotive diesel from IDR 7,500 to IDR 7,250 per liter (US$ 0.6 to US$ 0.58 per liter) and the price of kerosene remained at IDR 2,500 per liter (US$ 0.20 per liter) (Kompas, 2014a).

During the same announcement, Sofyan Djalil, the Coordinating Minister of Economic Affairs, declared that the new Premium price was from 1 January onwards to be subsidy free. The new prices are to be determined based on assumptions of crude oil prices at US$ 60 per barrel and an IDR 12,380 per US$ 1 exchange rate (AntaraNews, 2014).

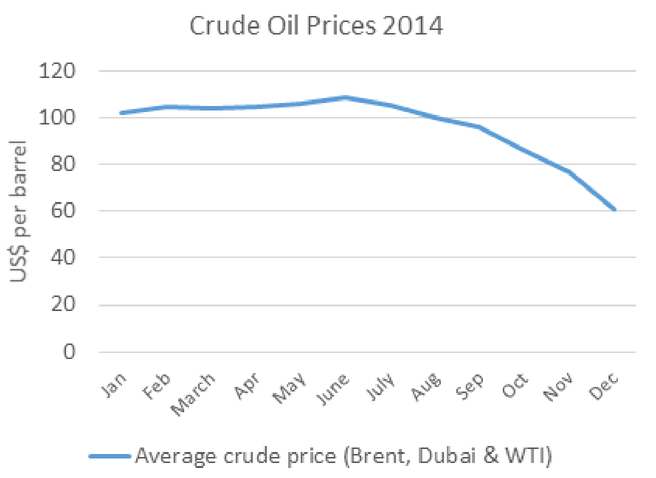
Two weeks later—on Friday 16 January—the government announced that the price of automotive fuels would be decreased once more, as of Monday 19 January. The

1. Unless otherwise stated, an exchange rate of US$ 0.00008 per IDR is used for all exchange conversions in this briefing.

price of premium fuel was lowered from IDR 7,600 to IDR 6,600 per liter (US$ 0.61 to US$ 0.53 per liter) and the price of Solar-brand diesel from IDR 7,250 to IDR 6,400 (US$ 0.6 to US$ 0.51 per liter) (Liputan6, 2015a).

Indonesia has been able to announce the removal of subsidies on gasoline at the same time as lowering the price of this fuel because of the sharp decline in international oil prices since July 2014 (see Figure 1), which ultimately brought international oil prices below the levels of domestically regulated prices.

Figure 1. Average International Crude Oil Price, 2014



Source: World Bank, 2015.

Efforts to remove subsidies also took place in 2014, but to the opposite effect, when on 17 November it was announced that domestic prices would be increased to cut subsidy spending. At this point in time, international oil prices were still higher than domestic prices. The government increased the Premium price from IDR 6,500 to IDR 8,500 per liter (US$ 0.52 to US$ 0.7 per liter) and Solar from IDR 5,500 to IDR 7,500 per liter (US$ 0.44 to US$ 0.62 per liter). The new prices immediately took effect on 18 November 2014, 00:00 Western Indonesian Time, putting an end to months of speculation about possible fuel price changes following the Presidential election.

A summary of all recent fuel price changes is shown in Table 1, below.

Table 1. Changes in Indonesian Fuel Prices, 2014-2015

	Pre-reform	18 Nov 2014	1 Jan 2015	19 Jan 2015
Prem. gasoline	6,500	8,500	7,600	6,600
Solar diesel	5,500	7,500	7,250	6,400
Kerosene	2,500	2,500	2,500	2,500

In November, President Widodo explained that the decision to reform subsidies is a government effort to shift the subsidy from consumptive to productive sectors, especially for infrastructure, health and education purposes (see Box 1).

At the current time, it is difficult to predict what the outcome of these reforms will be. On the one hand, the moves show that the Widodo government is serious in its commitment to reforming subsidies, an objective that it has emphasized during the Presidential elections and in the run-up to the inauguration. The frequency of recent price changes is startling for a country that, until November 2014, has seen gasoline and diesel prices changed only four times since 2005. On the other hand, it remains to be seen how the government will be able to respond when world prices rise again. The decision to decrease prices back to pre-November levels is a popular one, but it also means that a larger absolute scale of price increases will be necessary in future. Depending on other political circumstances, it may be difficult for the government to maintain its commitment to price increases, particularly among a citizenry who are not used to prices changing. When world prices rise, the government will have to choose between the unpopularity of domestic price increases or the budgetary risk of re-introducing significant energy subsidies.

New Subsidy Scheme

The government's 31 December announcement did not just change prices—it also saw the introduction of a new fuel subsidy scheme. The scheme introduces three classifications of fuel product, the specific fuel (bahan bakar minyak tertentu), the designated fuel (BBM khusus penugasan) and the general fuel (bahan bakar umum).

The first category, "specific fuels", includes Solar diesel and kerosene, products that still receive a subsidy. The new Solar diesel subsidy will run based on a "fixed subsidy" mechanism, while the kerosene will run on "fixed price" mechanism. This means that the price of Solar should vary in 2015, with a fixed overall subsidy margin between domestic and market prices, whereas the price of kerosene will remain the same, and the overall cost of the subsidy will depend on the exact gap between market and domestic prices throughout the year.

The second two categories, "special designed fuels" and "general fuels", include Premium gasoline. Special designed fuels includes gasoline that is intended to serve remote or hard-to-reach areas. It is described as "non-subsidized", but it will in fact still receive a subsidy that

Box 1. President Widodo's November Address on Fuel Price Changes

"Assalamualaikum Warahmatullahi Wabarakatuh [Peace be upon you, and Allah's mercy and blessings]

For time to time, we as a nation face difficult choices. However, we have to choose and make a decision. Today, after series of detailed discussions in a Cabinet Meeting at the Coordinating Ministry of Economic Affairs and a smaller meeting at the Palace, the government has decided to undertake the reallocation of fuel subsidies from consumptive to productive sectors.

Until now, the State has needed funds for infrastructure and to develop education and healthcare. But the funds for these things has not been available because it was frittered away on the fuel subsidy. As the consequence of reallocating the subsidy, I, as the President of the Republic of Indonesia, set the new fuel price which will be effective at 00.00 Western Indonesian Time, starting from 18 November 2014. The price of Premium is changed from IDR 6,500 to IDR 8,500. The price of Solar is changed from IDR 5,500 to IDR 7,500.

For the less fortunate classes, social assistance is prepared in form of a package, the Prosperous Family Card, the

Indonesia Healthy Card and the Indonesia Smart Card, which can maintain people's purchasing power as well as boosting activities in economically productive sectors.

There must be pros and cons. The government truly appreciates each input. May this subsidy reallocation to the productive sectors be the open way to provide a more useful budget for the Indonesian people as a whole. Hereby I deliver this speech.

Wassalamualaikum Warahmatullahi Wabarakatuh."

Source: Sekretariat Kabinet RI YouTube Channel, 2015)

compensates for its distribution cost. In essence, the price of special designed fuels sold in remote areas should be the same as fuels sold in central areas such as Java. "General fuel" is the term for such fully non-subsidized gasoline. It is to be distributed at its full market price in the Java-Madura-Bali area, the center of Indonesia's population and economic activities.

Table 2. Indonesia's New Fuel Subsidy Scheme 2015

	Premium gasoline	Solar diesel	Kerosene
A. Classification			
Specific Fuel / Subsidized Fuel		✓	✓
Special Designated Fuel	✓		
General Fuel	✓		
B. Subsidy Type			
Fixed Price			✓
Fixed Subsidy		✓	
Distribution compensation	✓		

Source: MEMR, 2014.

BPH Migas, Indonesia's downstream oil and gas regulator, declared that the task to distribute kerosene, Solar and Premium in 2015 will be carried out by two companies, PT Pertamina and PT Aneka Kimia Raya (AKR) Corporindo Tbk. The quota for PT Pertamina is reported to consist of 850,000 kiloliters of kerosene, 15.045 million kiloliters of Solar and 29.46 million kiloliters of Premium, while the quota for PT AKR Corporindo is reported to consist of 625,000 kiloliters of Solar and 20,000 kiloliters of Premium (Rambu Energy, 2014). It is currently unclear what share of Indonesia's Premium supply will be sold at full market price in Java-Madura-Bali and what share will have its distribution costs subsidized as "special designated fuel".

New Pricing Formulae

The general pricing formula includes the basic price, taxes, and a subsidy, if there is any. This is varied across fuels in the following ways:

- Kerosene: The price will be uniform across the country at IDR 2,500 (US$ 0.20) per liter, with value added tax included in this price.
- Solar: The price is determined by a base market price

plus taxes (value added tax and a motor fuel tax) and includes a fixed subsidy at the rate of IDR 1,000 (US$ 0.08) per liter.

- Designated gasoline: The price is determined by a base market price plus taxes (value added tax and a motor fuel tax) and includes a 2 per cent subsidy, to compensate distribution costs, paid to the distributor. The exact retail price is to be decided by individual marketing companies, with a profit margin pegged at between 5 to 10 per cent of the base market price used by the government.

The base price of each fuel product will be determined by the government on a regular basis. This could be monthly or 2-weekly, and is to be based on the average international oil price index (Indonesia currently uses the Mean of Platts Singapore (MOPS)) and the central bank's USD buying rate from day 25 to day 24 in the previous month. The concept of a base price in the fuel pricing formula is intended to articulate and preserve the core principle that the state controls the domestic fuel price (MEMR, 2014).

Indonesia's valued added tax is set at 10 per cent. The motor fuel tax is set at 5 per cent for designated gasoline, while the tax for non-subsidized fuel will be decided by regional governments and should not exceed 10 per cent.

According to recent reports, fuel retailers in Java-Madura-Bali are allowed to have a 5 to 10 percent profit margin, while the profit margin for the retailers outside Java-Madura-Bali is uniform at 5 per cent (Merdeka, 2015a).

The government has stated that it will explore if it is possible to give greater flexibility to regional governments and retailers to determine these components of the price, if the future situation is conducive to this (MEMR, 2014).

During the announcement of the policy change, Coordinating Minister of Economic Affairs Djalil further explained that the government is confident that Indonesia needs to have a pricing system that passes through and regularly responds to the international market price for oil (AntaraNews, 2014).

With this scheme, the government is attempting to achieve an enormous reduction in the cost of the fuel subsidy as originally budgeted. The proposal for a Revised State Budget 2015 estimates that the fuel subsidy will plummet from IDR 276.4 trillion (US$ 22 billion) to IDR 81.8 trillion (US$ 6.5 billion) (RAPBN-P 2015, AntaraNews, 2014; Business Recorder, 2014; Asia One, 2015).

The first application of the formula can be seen as of the latest 19 January price rise in Indonesia. The decision was taken after the government evaluated the December average of Mean of Platts Singapore (MOPS), Indonesia's designated international oil price reference (Liputan6, 2015a). Following the changes, the Director of Marketing of PT Pertamina, Ahmad Bambang, explained that in Java and Madura the price of Premium is IDR 6,700 (US$ 0.54) per litre, while the Premium price in Bali is IDR 7,000 (US$ 0.56) per liter. This difference from the announced price of IDR 6,500 (US$ 0.52) per liter is caused by the differential application of the motor fuel tax: in Bali, the regional government applies a tax rate of 10 per cent, compared to the 5 per cent rate applied in Java-Madura (Liputan6, 2015b).

Recommendations by Team for Oil and Gas Reform

At the same time as the fuel price increase in November 2014, the government set up a team to conduct a thorough assessment on the country's oil and gas management. The team was officially titled Team for Oil and Gas Reform, sometimes referred to as the "Anti-Oil and Gas Mafia Team", in relation to allegations about corruption in Indonesia's oil and gas trading activities. The team is led by an economist, Faisal Basri, and has been given 4 months to conclude its assessment and to deliver its recommendation to the government.[2]

In addition to this, on 28 November 2014, the government named the new CEO of PT Pertamina, Dwi Soetjipto. Rini Suwandi, the Minister of State Owned Enterprises, explained that the appointment of Soetjipto at the helm of PT Pertamina is expected to improve corporate performance and transparency, which she considered crucial to improving the competitiveness of PT Pertamina in the global market (Detik, 2014a).

On 21 December 2014, the Team for Oil and Gas Reform

2. List of the Team for Oil and Gas Reform members: 1. Faisal Basri (Chairperson); 2. Naryanto Wagimin (Vice Chairperson), ad interim Oil and Gas Director General; 3. Susyanto (Secretary), Head of Legal and Public Relations of Ministry of Energy and Mineral Resources. 4. Darmawan Prasodjo, economist, former member of the Jokowi Transition House; 5. Fahmi Radi, energy observer from Gadjah Mada University; 6. Rofikoh Rokhim, Head of Management Research Center at the Faculty of Economy, Universitas of Indonesia; 7. Agung Wicaksono, former adviser to the Chairperson of the President's Working Unit for Development Monitoring and Control (UKP4); 8. Daniel Purba, Vice President Engineering and Project Management PT Pertamina; 9. Parulian Sihotang, Vice President of Risk Management Treasury and Tax of SKK Migas; 10. Chandra Hamzah, former Deputy Chairperson of the Anti-Corruption Commission (KPK); 11. Teten Masduki, an anti-corruption activist.

delivered six recommendations on fuel products to the Minister of Energy and Mineral Resources and PT Pertamina, as follows (Detik, 2014b):

1. Stop import of RON 88 and Gasoil 0.35 per cent sulphur and replace each with Mogas 92 and Gasoil 0.25 per cent sulphur, respectively;
2. Increase the quality of Solar diesel produced by domestic refineries in order to meet the standard of Gasoil 0.25 per cent sulphur;
3. Convert domestic refineries' production of gasoline RON 88 to RON 92;
4. Introduce a fixed subsidy on gasoline RON 92, for example, at IDR 500 (US$ 0.04) per liter.
5. Pay attention to the supply of Solar for public transportation and logistic transportation related to the public interests, maintaining the existing subsidy mechanism;
6. Note that converting the production of domestic refineries will require:
   - A rejuvenation of domestic refineries so that the production of RON 88 can be changed to RON 92, over a fixed transition period;
   - The government to facilitate an accelerated rejuvenation and expansion of refinery facilities;
   - PT Pertamina to be entirely handed the management of Trans Pacific Petrochemical Indotama (TPPI) refinery, so that it can maximize the escalation in gasoline RON 92 production;
   - RON 88 product [produced by domestic refineries] to be marketed in the area around the refinery site or placed under PT Pertamina's discretion, within the transition period;
   - The subsidy for RON 88 per liter to be smaller than the subsidy for RON 92;
   - The base price of gasoline RON 88 to refer to the international market price index, with the current pricing formula.

These recommendations from the Team for Oil and Gas Reform are not automatically adopted by the government, and they will not be the last recommendations coming from the team. The team's primary focus is to assess and suggest a new architecture of Indonesia's oil and gas management, so its core focus will be devoted to building Indonesia's new Oil and Gas Act. However, it can be assumed that the team's opinion will influence the government's policy options on individual issues, such as the government state budget proposal and the initiative to replace the distribution of Premium and Solar, two fuel products which are historically associated with subsidies. On this particular issue, Basri noted that it is complicated to estimate the actual production costs of Premium RON 88 due to the blending process that is needed to meet the desired octane rate. Consequently, the price of Indonesia's Premium RON 88 cannot be straightforwardly compared to benchmark fuel prices commonly provided by pricing agencies. Subsequently, this makes fraud possible if subsidies are based on the difference between a fixed price of Premium and claims of what its market price should be (Republika, 2014a).

A core principle of these recommendations is that domestic refineries should produce higher quality fuel products, equal to the standard sold by foreign fuel retailers in Indonesia, such as RON 92. Basri stated that transforming what is produced by Indonesia's refineries could be completed within five months (Republika, 2014b).

Budget Reallocation Scheme

As declared by President Widodo in the APEC Forum in Beijing, 10 November 2014, the general principle behind Indonesia's subsidy reallocation is to shift the budget from the consumptive to productive sectors (Rappler, 2014). Such budget reallocation is a critical step that will define the medium- and long-term impacts of Indonesia's fuel subsidy reform. Indonesia's state budget accounting, however, does not recognize the idea that funds can be transferred directly from one area of expenditure to another, such as from fuel subsidies to other areas in the budget. This means that the concept of "reallocation" is not identified in budgetary documents, and it is necessary to infer how savings have been reallocated by looking at changes to the Revised State Budget 2015, expected to be finalized in mid-2015.

Nonetheless, Widodo's administration has given several indications of how it would like to use the fuel subsidy savings. In various statements, Widodo and his Ministers have explained that the subsidy reduction will allow the government to increase its contributions to state owned enterprises (SOEs). The latest reports on this indicate that the government plans to "inject" IDR 48 trillion (US$ 3.8 billion) into a range of SOEs. This will be directed especially to SoEs in the construction and transportation sectors. Early reports indicated that this would include PT Kereta Api Indonesia (SOE railway), Pelindo (SOE seaport), Angkasa Pura (SOE airport), PT Hutama Karya (SOE construction), PT PLN (SOE electricity, expected to complete 12,000 MW out of 35,000 MW power plant

Table 3. Proposed reallocation of subsidy savings to state-owned enterprises

SoE	Sector	Project Value	Proposed Reallocation
PT Angkasa Pura II	Air services	13,000	3,000
PT ASDP	Sea transport	7,000	1,000
PT Pelni	Sea transport	1,290	500
PT Djakarta Lloyd	Sea transport	850	350
PT Hutama Karya	Construction	30,837	3,600
Perum Perumnas	Housing	20,000	2,000
PT Waskita karya	Construction	47,832	3,500
PT Adhi Karya	Construction	9,689	1,400
PTPN III	Plantation	-	3,150
PTPN VII	Plantation	1,172	17.5
PTPN IX	Plantation	4,050	100
PTPN X	Plantation	1,496	97.5
PTPN XI	Plantation	1,477	65
PTPN XII	Plantation	2,141	70
PT PNM	SMEs Finance	1,000	1,000
PT Garam	Salt	300	300
PT RNI	Agro-industry	1,175	280
Perum Bulog	Strategic food	15,000	3,000
PT Pertani	Agricultural	565	470
PT SHS	Agro-industry	400	400
PT Perikanan Indonesia	Fisheries	300	300
PT Dirgantara Indonesia	Aerospace	400	400
PT DPS	Ships	700	200
PT DKB	Ships	1,450	900
PT IKI	Ships	400	200
PT ANTAM	Mining	40,800	7,000
PT PINDAD	Defense	700	700
PT KAI	Rail	3,000	2,750
PT PPA	State treasury	2,000	2,000
PT Pengembangan Pariwisata	Tourism	2,232	250
PT Bank Mandiri	Banking	9,166	5,600
PT Pelindo IV	Ports	2,000	2,000
PT Krakatau Steel	Steel		956
PT Bahana PUI	Finance		250
Total		221,652	48,006

Source: Jakarta Post, 2015a.

projects in the next 5 years) and PT Garuda Indonesia Tbk. (SOE airlines) (CNN Indonesia, 2015; Berita Satu, 2015; Fastnews, 2015; Bloomberg, 2015). However, recent budget proposal data released by the Ministry of State-Owned Enterprises confirmed some of these SOEs but made no reference to others (see Table 3). The recently released Revised State Budget proposes to provide an additional IDR 67.86 trillion (US$ 5.4 billion) to SOEs, but details have yet to emerge as to how the proposed funding would be distributed.

On a separate occasion, the Minister of Agriculture, Andi Amran, reported that the budget for his ministry will receive IDR 16.9 trillion (US$ 1.4 billion) from subsidy cuts, which will be used mainly to revitalize the irrigation infrastructure for 3.3 million hectares of farmland all across Indonesia, boosting rice seed production, fertilizer distribution, increasing the production of cacao, sugarcane, chilli and shallots and providing financial support to import female cattle (Liputan6, 2015c; Kontan, 2015). In the current State Budget 2015, the Ministry has been allocated IDR 15.4 trillion (US$ 1.2 billion). Significant funding increases have also been proposed for two other ministries, the Ministry of Public Works and Public Housing and the Ministry of Transportation, to the sum of IDR 33 trillion (US$ 2.6 billion) and IDR 20 trillion (US$ 1.6 billion), respectively (Jakarta Post, 2015g).

Nonetheless, the above are indications only, and account for just a share of the expected IDR 194.2 trillion (US$ 15.5 billion) in total savings. Other areas for reallocation are likely to include social assistance programs, which have been expanded during previous reforms, reflecting the fact that the subsidy is intended to help the poor; energy and the environment, where government decisions on transport and electricity infrastructure may have important implications; and debt reduction.

The full proposal for the Revised State Budget was made public on 20 January 2015. Detailed reporting on its contents are still pending, and it may yet change significantly, subject to debate and agreement by parliament. Opposition parliamentarians have, however, stated that they are “satisfied” with the proposed reallocations to infrastructure, and that they would not seek to oppose them (Jakarta Post, 2015b). Unless there is a serious break-down in negotiations—currently considered unlikely—the budget is due to be negotiated and finalized within one month of its publication.

LPG Price

The beginning of 2015 also saw a number of changes in the price of LPG (liquefied petroleum gas). On 31 December 2014, Ahmad Bambang, Director of Marketing for PT Pertamina, announced that the reference price of LPG for 12 kilogram cylinders would be increased by IDR 1,500 per kilogram (US$ 0.12 per kg), starting from 1 January 2015 (Bisnis, 2014). This brought the price of 12kg-cylinder LPG from IDR 7,569 to IDR 9,069 per kg (US$ 0.61 to US$ 0.73 per kg) (TribunNews, 2015).

Including bottling and transportation costs, value added tax and distributor profit margins, this results in a an retail price of IDR 11,225 per kg or IDR 134,700 per 12kg cylinder (US$ 0.90 per kg or US$ 10.78 per 12kg cylinder). Prices may be higher than this depending on transportation costs and other factors that lead retailers to mark up prices. Outside of Jakarta, prices as high as IDR 12,500 per kg or IDR 150,000 per 12kg cylinder (US$ 1 per kg or US$ 12 per 12kg cylinder) have been reported (Jakarta Post, 2015c; Merdeka, 2015b).

On 19th January, prices were adjusted once again, this time downwards. The cost of 12kg-cylinder LPG was reduced from IDR 134,700 rupiah to IDR 129,000 rupiah per cylinder (US$ 10.7 to US$ 10.3 per cylinder) (Jakarta Globe, 2015).

According to government terminology, PT Pertamina's 12kg-cylinder LPG is a "non-subsidized" energy product and, according to Minister of Energy and Mineral Resources Regulation No. 26/2009 article 25, the price of non-subsidized LPG is decided at the company level. However, in practice the company's pricing authority is not entirely immune from political intervention. This is demonstrated by the fact that 12kg-cylinder has been sold below the cost of supply for a number of years, and that an attempted LPG price increase in 2013 was withdrawn, after controversy and an instruction from the President to reevaluate the decision (Sindonews, 2013).

Learning from that coordination breakdown, PT Pertamina developed a price adjustment scheme, declaring a timeframe for price increases of "non-subsidized" LPG every 6-months that would last until the end of 2016. In August 2014, Ali Mundakir, the Vice President of Communication of PT Pertamina, declared that the government had given the green light for the January 2015 LPG price increase (Liputan6, 2014a). The previous increase, which took the price of 12kg-cylinder LPG from IDR 6,069 to IDR 7,569 per kilogram (US$ 0.47 to US$ 0.61 per kilogram), took place in September 2014, during Susilo Bambang Yudhoyono's administration (Bisnis.com, 2014). PT Pertamina claimed that outdated pricing and difficulty in introducing a new price has forced it to sell the non-subsidized LPG product below its economic value.

In the days following the 1 January increase in new LPG prices, there was a diminished stock of subsidized 3kg-cylinder LPG in several regions.

This 3kg LPG product, formally considered "subsidized" by the budget because distributors are compensated for selling it below-cost, is the same product as 12kg-cylinder LPG, except that it is sold in smaller containers at a lower price of IDR 5,000 per kg and IDR 15,000 per 3kg cylinder (US$ 0.40 per kg and 1.2 per 3kg cylinder), less than half the price-per-kilogram of the current retail price for 12kg-cylinder LPG. It is accessible freely to any buyers regardless of their economic status. Any widening in the price gap encourages consumers to switch from non-subsidized LPG to subsidized LPG (MetroTVNews, 2015; JPNN, 2015).

Electricity Tariff

PT PLN (PT Perusahaan Listrik Negara), Indonesia's state owned electricity company, declared an increase of electricity tariff for several classes in 2015. Indonesia has been bringing the electricity tariff up with periodical adjustments according to a predetermined timetable since 2013 (see Table 1 overleaf for the full schedule). The PT PLN website has also started to publish monthly tariff announcements, since May 2014 (PLN, 2014).

According to the newest regulation signed on 24 December 2014 by the Sudirman Said, the new Minister of Energy and Mineral Resources, the electricity tariff will be determined by PT PLN, and tariff adjustment will be conducted on monthly basis, based on an evaluation on the IDR—USD exchange rate, the Indonesian Crude Price and the inflation rate. This regulation is operational on 1 January 2015.

Indonesia is still subsidizing several tariff classes, especially for the low power connections in residential, business and industry classes. By number of power connections, those classes compose the largest block of electricity users in Indonesia. In 2013, the low power connection class (up to 1,000 V) made up more than 99 per cent of the total of PT PLN's consumers with more

Table 4. Electricity Tariff Adjustments for Selected Consumer Classes, May 2014 to Jan 2015

Tariff Group	Tariff Class	IDR per...	May-14	Jul-14	Sept-14	Nov-14	Jan-15*
Residential	R1 up to 450 VA	kWh	415.00	415.00	415.00	415.00	415.00
	R1 900 VA	kWh	605.00	605.00	605.00	605.00	605.00
	R1 1,300 VA	kWh	979.00	1,090.00	1,214.00	1,352.00	1,496.05
	R1 2,200 VA	kWh	1,004.00	1,109.00	1,224.00	1,352.00	1,496.05
	R2 3,500 VA - 5,500 VA	kWh	1,145.00	1,210.00	1,279.00	1,352.00	1,496.05
	R3 > 6,660 kVA	kWh	1,352.00	1,352.00	1,352.00	1,352.00	1,496.05
Business	B1 up to 450 VA	kWh	535.00	-	-	535.00	535.00
	B1 900 VA	kWh	630.00	-	-	630.00	630.00
	B1 1,300 VA	kWh	966.00	-	-	966.00	966.00
	B1 2,200 VA - 5,500 VA	kWh	1,100.00	-	-	1,100.00	1,100.00
	B2 6,600 VA - 200 kVA	kWh	1,352,00	-	-	1,352.00	1,496.05
	B3 > 200 kVA	kVArh	1,117.00	-	-	1.117.00	1,159.30
Industry	I1 450 VA	kWh	485.00	485.00	485.00	485.00	485.00
	I1 900 VA	kWh	600.00	600.00	600.00	600.00	600.00
	I1 1,300 VA	kWh	930.00	930.00	930.00	930.00	930.00
	I1 2,200 VA	kWh	960.00	960.00	960.00	960.00	960.00
	I1 3,500 VA - 14 kVA	kWh	1,112.00	1,112.00	1,112.00	1,112.00	1,112.00
	I3 Tbk > 200 kVA	kVArh	938.00	1,018.00	1,105.00	1,200.00	1,159.30
	I4 > 30,000 kVA	kVArh	819.00	928.00	1,051.00	1,191.00	1,011.99
Government	P1 6,600 VA - 200 kVA	kVArh	1,352.00	1,352.00	1,352.00	1.352.00	1,496.05
	P2 > 200 kVA	kVArh	1,026.00	1,081.00	1,139.00	1,200.00	1,159.30
	P3	kWh	997.00	1,104.00	1,221.00	1,352.00	1,496.05

Notes: There are differences between the tariffs published in PT PLN announcements and MEMR Regulations. In this table, tariffs from May to November 2014 are extracted from MEMR Regulations. For January 2015, wherever there are differences, numbers from PT PLN announcements are used, which seem likely to be more accurate in reflecting the current situation. * indicates PT PLN tariff announcement. Blue indicates no change, green indicates tariff increases and red indicates tariff decreases. Source: PLN (2014); MOEMR Regulation No. 9/2014; MOEMR Regulation No. 19/2014; MOEMR Regulation No. 31/2014.

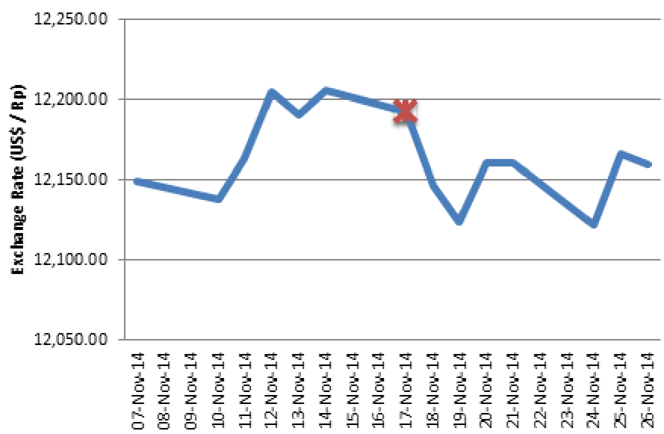
than 53.85 million consumers (MOEMR, 2014, p. 52). Fuel consumption for PT PLN's power generation in Indonesia is dominated by coal, with 35.51 million tons in 2012 (PLN, 2013), equal to 57.35 per cent of the fuel consumption in Indonesia's power generation (Pusdatin, 2014).

Impacts of price changes

Some similar and some quite different impacts have resulted from the fuel price increases in November and the price decreases in January. In the days following the November price hikes, the Indonesian rupiah exchange rate against the US dollar slightly improved (Figure 2), and similar responses were also seen in exchange rates against the British pound, the Euro, the Yen and Yuan (Bank of Indonesia, 2014). The Jakarta Stock Exchange also reacted positively towards the government's decision (Figure 3). The day after the new price announcement, the composite index increased by 23.61 points to 5,077.1 (Kompas, 2014b). The price reforms were generally credited with increasing investor confidence in the country.

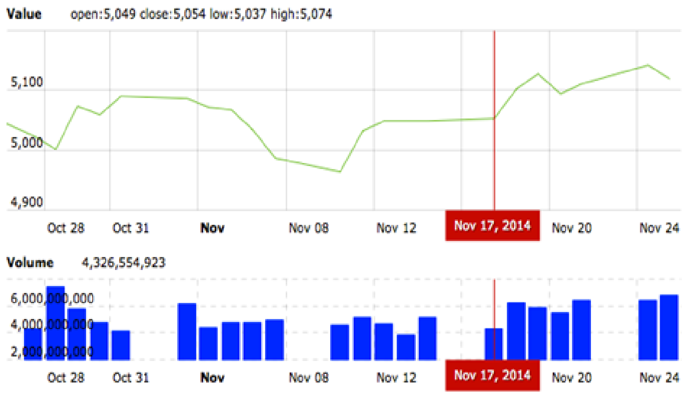
At the same time, the November price hikes caused direct and indirect increases in the cost of living. The Bank of Indonesia estimated that annual inflation would hit 7.9 per cent—still within the acceptable range of between 7.7 to 8.1 per cent—with the fuel price increase contributing additional annual inflation by as much as 2.6 to 3 per cent. The inflationary impact was expected to come from a direct impact of 1.3 per cent and an indirect impact from transportation costs of 0.7 per cent and food prices of 0.6 per cent (Liputan6, 2014b). The latest release from the National Statistics (BPS) shows that the annual inflation in 2014 was at 8.36 per cent, 0.26 per cent higher than the maximum level estimated by Bank of Indonesia. In a seemingly well-orchestrated effort to moderate the inflation, on 18 November, the Bank of Indonesia increased the interest rate from 7.5 percent to 7.75 per cent and increased the lending facility rate by half a

Figure 2. Changes of Exchange Rate (USD / IDR) Following November Price Increase Announcement



Source: Bank of Indonesia, 2014.

Figure 3. Jakarta Composite Index Following November Price Increase Announcement



Source: Kontan (2014).

percentage point to 8 per cent (New York Times, 2014). This step was not taken during the previous fuel price increase in July 2013.

The downward fuel prices in January saw similar impacts on the exchange rate and stock markets. Although exchange rates remained "stagnant", the price reductions were viewed as a positive change, thought to have counter-acted pressure on the currency from China's low demand (Jakarta Post, 2015d; Jakarta Post, 2015e). In stock markets, the composite index rose slightly by 0.07 per cent, to finish at 5,152.09 (Jakarta Post, 2015).

Impacts on average prices in January, however, have been modest, with a number of commentators noting that price "stickiness" appears to have prevented the reduction in fuel prices from flowing through into price reductions in other goods or services where fuel is part of the cost structure. Government representatives have urged businesses and public transport operators to adjust their prices, at the same time as assuring that it may take time for price reductions to take full effect. Some believe that the introduction of the new pricing mechanism has played a role in the situation, as suppliers may be unwilling to put prices down now, in the knowledge that they may then lose out if energy prices then increase again (Establishment Post, 2015). As of the end of January, the situation appears to have eased somewhat, with prices for a number of non-energy goods falling in response to lower energy costs.

Public Response

Reducing energy prices is generally a popular policy, and Indonesia's January policy changes have been no exception. The one main criticism that has been levied at the government relates to the above-mentioned issue of "price stickiness", whereby energy price reductions appear not to have been passed through into price reductions elsewhere in the economy. Chairman of the Indonesia Consumer Protection Foundation (YLKI), Tulus Abadi, has argued that this reflects a lack of preparation on the part of the government, starting, "Why aren't the prices down? Because the government has no policy to control prices because they've thrown everything (prices) to the market" (Establishment Post, 2015).

Increasing energy prices, on the other hand, is generally an unpopular policy. It is not clear how the Indonesian public will respond to price increases in future, but the reactions witnessed in November provide some indication of what may be expected.

In general, the response to price hikes in November was muted in comparison with previous reforms, but still resulted in some degree of disorder and protest. The announcement was immediately followed by massive panic buying at gas stations all across Indonesia, creating multiple queues of hundreds of meters. During the rush, PT Pertamina gas stations were heavily guarded by armed policemen (Republika, 2014c). Fuel sales in several areas in Indonesia soared to more than twice from their daily average, but PT Pertamina's gas stations managed to operate throughout the critical hours without any major supply shortage (Tempo, 2014a). PT Pertamina is said to have maintained a fuel reserve capacity at around 20-22 days of average consumption. The rush ended shortly after the new price was officially applicable.

The price hikes were also met by violent protests in several cities, largely rallied by university students. The most violent one took place in the city of Makassar, the capital of South Sulawesi province in the east of Indonesia. The street protest in Makassar had been staged for days before the announcement and peaked on 18 November, as the students blocked the main streets in the city with rocks and burning tires. In an unexpected twist—tired of long-drawn-out security and transport obstruction—the locals in Makassar fought the students to clear them away from the street (Tempo, 2014b). Many protests ending with physical clashes were also reported in major cities in Indonesia including Jakarta Solo, Yogyakarta, Surabaya, Medan and Banjarmasin (Sindo, 2014). Sporadic student protests continued to take place in the subsequent weeks.

The Indonesian Land Transport Operators Association (Organda) called for a one day nation-wide strike on 19 November to push an immediate negotiation to manage the impact of fuel price increases on the public transport sector (Kompas, 2014c; Republika, 2014d). The strike in various areas of Indonesia left commuters, including school children, helplessly walking for kilometers to their destinations. Members of Organda claimed that the decision caught them by surprise in the middle of a negotiation with the government on how the fuel price increase should be conducted, which included an instruction from the government to land transport operators not to increase their fares for the first three months after the new price announcement (Radar Tasikmalaya, 2014). Chairwoman of Organda, Eka Sari Lorena Surbakti, argued that the government should maintain a fuel subsidy for public transport. In a subsequent talk with the Ministry of Transportation, Surbakti reiterated Organda's position that the government should apply half-price discounts on licensing costs for public transport (Republika, 2014e).

Ignasius Jonan, the Minister of Transportation, responded quickly by allowing public transport providers to increase tariffs by 10 per cent. The ceiling of public transport fares (bus and taxi) in Indonesia is set by government regulation (The Jakarta Post, 2014). Jonan noted that the authority to set public transport fares is not solely in the hands of the central government: tariffs for intra-city public transport (including taxi tariffs) in any province are set by regional governments, while the Ministry of Transportation is responsible for intra-city public transport tariffs between provinces. Organda claims that the increase is not sufficient to allow the public transportation sector to sustain the actual economic shock of 27-32 percent (Kompas, 2014d).

Workers unions joined the street protest in a synchronized call to revoke the fuel price increase and asking for an immediate upward adjustment of the minimum salary. The minimum salary cap for 2015 is the center of the unions' dispute over the increased fuel price. As of 24 November, 29 out of 33 provinces in Indonesia had set the minimum salary cap for 2015, with an average of 12.77 per cent increase from the 2014 minimum salary cap, making it an average IDR 1.78 million (US$ 142.4) per month per worker in 2015. That average is 99.5 per cent of the minimum national proper living cost which stands at IDR 1.8 million (US$ 144) (Liputan6, 2014c).

The reaction from the public was not entirely negative. The Indonesian Consumers Association (YLKI) stood in firm support of the fuel subsidy reduction policy. However, Chairman of the Indonesia Consumer Protection Foundation (YLKI), Tulus Abadi, warned the government that the subsidy reallocation scheme needs to be detailed and devoted to develop an affordable and comfortable public transport system (Pos Kota, 2014). Abadi also warned the government that it would need to make a significant breakthrough in promoting alternative energy utilization to reduce the dependency on liquid fuels in the public transportation sector (Merdeka, 2014a). From the universities, two student associations, the University of Indonesia and the University of Padjajaran Faculty of Economy Student Executive Body (BEM), came under the spotlight after making public their stance to support the fuel price increase. This is an exception to the political stance of most Indonesian student organizations in general. Student leaders from both faculties argued that the inaccurate targeting of the current fuel subsidy scheme has contributed to a widening welfare gap in Indonesia (Detik, 2014c).

Fadli Zon, the Vice Chairman of the People's Representative Council (DPR, the parliament) from the Gerindra Party led the criticism of the government's decision. Zon disputed the decision on that basis that it was not necessary because the international oil price was declining throughout the end of 2014 (Kompas, 2014e). He further expanded on this by claiming that the subsidy removal was related to IMF pressure (Merdeka, 2014b).

Regional leaders in Indonesia appeared to be divided in their initial position towards the November price increase. Indonesia has been running direct elections for executive and legislative offices from central to district levels since 2005, but the direct election regime for regional executive branches ended in 2014 after a political scuffle that resulted in Constitutional Court going back to the party-elected system. The Mayor of Surakarta, FX Hadi Rudiyatmo, previously the Vice Mayor to Joko Widodo while he was the Mayor of Surakarta, sent his written objection on the fuel price increase to the President. On 24 November, all Indonesian governors under the Association of Provincial Governments in Indonesia (APPSI) held a closed meeting with President Widodo in Bogor. The meeting resulted a resolution from the Indonesian governors to support the central government's decision on the fuel subsidy. The message of support was delivered by the Chairman of APPSI, Syahrul Yasin Limpo, the Governor of South Sulawesi province (Republika, 2014f). In addition to this, President Widodo also emphasized that efficiency measures will have to be taken at the regional level by cutting the expenditure for meetings and official trips. Widodo estimated that such measures should be able to cut down the overall regional budget for official meetings and trips from IDR 40 trillion to IDR 25 trillion (US$ 3.2 billion to US$ 2 billion) (Deutshce Welle, 2014).

Mitigation Measures

No compensation measures have been announced in January 2015 related to the reform of fuel subsidies. In large part, this is likely due to the fact that the January reforms have led to price reductions, which would benefit vulnerable businesses and households.

Compensation was, however, prepared to assist the vulnerable for price increases in November. Well ahead of the fuel price increase announcement, on 3 November, the government launched a social assistance scheme titled the Productive Family Program (Program Keluarga Produktif), which covers financial assistance, education, and healthcare support, implemented with card technology called Digital Financial Service (Layanan Keuangan Digital). The funds allocated to this social assistance scheme were taken from State Budget 2014 and did not represent a reallocation of any subsidy savings. The program introduced 4 cards: the Indonesia Smart Card (KIP, Kartu Indonesia Pintar), the Indonesia Healthy Card (KIS, Kartu Indonesia Sehat), the Prosperous Family Saving Card (KSKS, Kartu Simpanan Keluarga Sejahtera) and a mobile phone SIM card used for checking an account status without going to the bank or post offices. Overall, the programs were coordinated under the Coordinating Ministry of Human Resource and Cultural Development (Harian Nasional, 2014).

The distribution of the Indonesia Smart Card (KIP) was handled by the Ministry of Education and the Ministry of Religious Affairs. The fund for the first payment of support through the KIP in 2014 was IDR 81.8 billion (US$ 6.5 million), targeting 152,364 students from elementary to high school from age 7-18 years old. The KIP is planned to expand the coverage of Indonesian educational assistance—previously provided under the Poor Students Assistance program (BSM, Bantuan Siswa Miskin), covering 18 million students from poor families—to 24 million students, by including additional students from near poor families, the homeless, drop-outs, orphans and children with disabilities. The first batch of KIP was launched in 18 districts or cities, including Jakarta, Pandeglang, Cirebon, Bekasi, Kuningan, Semarang, Tegal, Banyuwangi, Surabaya, Balikpapan, Kupang, Mamuju Utara, Pematang Siantar and Jembrana (Liputan6, 2014d).

Table 5. First Payment of Educational Support through Indonesia Smart Card (KIP) Program in 2014

Education level	No. of recipients	Value of assistance
Elementary	100,776	IDR 450,000/year
Junior High	36,229	IDR 750,000/year
Senior High – General	5,484	IDR 1 million/year
Senior High – Vocational	9,875	IDR 1 million/year

Source: Liputan6, 2014d.

The Indonesia Healthy Card (KIS) functioned in a similar fashion, expanding the coverage of existing healthcare insurance from 86.4 million to 88.1 million target recipients, with the inclusion of households from the near poor class (Republika, 2014g). The program is coordinated by the Healthcare Social Security Agency (BPJS Kesehatan, Badan Penyelenggara Jaminan Sosial Kesehatan). The budget allocated for KIS was IDR 6.44 trillion (US$ 0.5 billion), taken from State Budget 2014, and its first payment targeted 432,000 recipients in 19 areas.

The Prosperous Family Saving Card (KSKS, Kartu Simpanan Keluarga Sejahtera) provided a cash transfer. The KSKS was coordinated under the Ministry of Social Affairs and distributed through nation-wide post offices. Unlike previous cash transfer programs in Indonesia, the KSKS distributed cash directly into saving accounts rather than physical money into the hands of recipients. The size of the first cash transfer was IDR 400,000 (US$ 32) to each individual account.

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International Institute for Sustainable Development
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

cbeaton@iisd.org
lucky.lontoh@iisd.org

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

http://www.iisd.org/gsi/