



# Fossil fuel exploration subsidies: Indonesia

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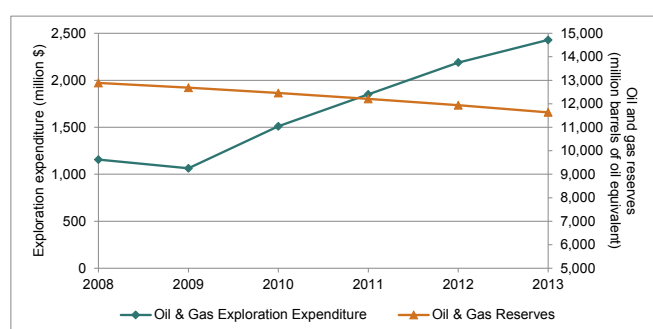
This country study is a background paper to the report **The fossil fuel bailout: G20 subsidies for oil, gas and coal** by Oil Change International (OCI) and the Overseas Development Institute (ODI).

For the purpose of this report, exploration subsidies include: national subsidies (direct spending and tax expenditures), investment by state-owned enterprises and public finance. The full report provides a detailed discussion of technical and transparency issues in identifying exploration subsidies, and outlines the methodology used in this desk-based study.

The authors would welcome feedback on the full report and on this country study, to improve the accuracy and transparency of information on G20 government support to fossil-fuel exploration.

Argentina  
Australia  
Brazil  
Canada  
China  
France  
Germany  
India  
**Indonesia**  
Italy  
Japan  
Republic of Korea  
Mexico  
Russia  
Saudi Arabia  
South Africa  
Turkey  
United Kingdom  
United States

**Figure 1. Oil and gas exploration expenditure and reserves in Indonesia**



Source: Rystad Energy, 2014

## Background

Indonesia holds reserves of 2.9 trillion cubic metres of gas, 3.7 million barrels of oil and 28 billion tonnes of coal with active exploration and extraction of all three fossil-fuels (BP, 2014). The Indonesian Government's medium-term development plan (2010-2014) targeted an increase in crude oil production to 1.01 million barrels per day by 2014, alongside reform of the state owned enterprises (SOEs) operating in the fossil-fuel industry (both upstream and downstream) (President of the Republic of Indonesia, 2010).

The Ministry of Energy and Mineral Resources is responsible for overseeing the fossil-fuel industry, with upstream oil and gas activities controlled through a special task force, SKK Migas (*Satuan Kerja Khusus Pelaksana*

*Kegiatan Usaha Hulu Minyak dan Gas Bumi*), and coal production overseen by the Directorate General of Mineral and Coal. Indonesia's extractive industries contributed approximately 30% to government revenue in 2011, approximately three quarters of which was from exports of oil and gas (Ministry of Energy and Mineral Resources, 2012).

The production of fossil fuels has shifted significantly in recent decades in Indonesia. Between 1990 and 2013, oil production fell 43% while gas production increased 60% over the same period (BP, 2014). The past 10-15 years have also seen a significant increase in the amount of coal mined and exported in Indonesia, with net coal exports increasing from 33.6 to 204.5 million tonnes of oil equivalent (MTOE) between 2000 and 2013 (BP, 2014),<sup>1</sup> making Indonesia the world's largest coal exporter (World Coal Association, 2014). In addition, these data are thought to include only legal coal mining, with one estimate suggesting that coal valued at \$6 billion was also mined illegally and exported in 2013 (Riseborough, 2014).

## National subsidies

Although no direct spending supporting exploration for fossil-fuels was identified in Indonesia, a number of tax incentives are provided for these activities. These include an investment credit allowance for exploration in new fields (valued at \$115 million in 2008) and exemptions from VAT, import taxes and duties for exploration and production equipment (\$130 million in 2008) (Braithwaite

**Table 1. Indonesia's national subsidies**

Subsidy	Subsidy type	Targeted fossil fuels	Estimated annual amount (million \$)	Timeframe for subsidy- value estimate	Stage
Tax breaks	Exemptions from VAT, import duties and taxes for exploration and production equipment	Oil and gas	130	2008	Exploration and extraction (including an exploration component)
Investment credit allowance	Incentive to develop new fields that provide extra returns on current production	Oil and gas	115	2008	Exploration
Research and Development (R&D)	Government funded and run R&D institute. Unclear if research is supplied at below-market rates	Oil and gas	n/a	n/a	n/a
Total exploration			115		
Total exploration and extraction (including an exploration component)			245		

<sup>1</sup> 'Net coal exports' = Production minus consumption.

et al., 2010). The value of these subsidies was estimated as part of a 2010 study by the Global Subsidies Initiative, and analysis of more recent tax guidance confirmed that the subsidies described in the 2010 study still exist (Deloitte, 2013; EY, 2013; PwC, 2012). In addition, intangible exploratory costs can be expensed for production-sharing contracts (PSCs) signed prior to 2011 as can onsite coal-exploration activities (PwC, 2012). At present, the costs of any unsuccessful oil and gas exploration activities are borne solely by the operator (SKK Migas, 2012), while oil, gas and coal licences are distributed according to commercial tenders (PwC, 2012; Devine and Ginting, 2009).

No evidence of direct financing by government for exploration research and development (R&D) was found. However, R&D institutes owned and run by the government – such as LEMIGAS – conduct research specifically for the extractive industries, which used to offer research outputs freely but now charge, may continue to offer subsidies if research is provided at below-market rates to fossil-fuel companies (Braithwaite et al., 2010).

### Investments by state-owned enterprises

Pertamina is Indonesia's 100% state-owned oil and gas company with a monopoly in the midstream and downstream sectors and influence in upstream oil and gas sectors. PTBA (PT Bukit Asam (Persero) Tbk) is the country's (65%) state-owned coal producer and holds both coal and coal-bed methane interests. Both SOEs are minority operators in their respective upstream industries, with domestic and international private companies responsible for the majority of fossil-fuel exploration and extraction.

Pertamina's exploration costs were \$210 million in 2013, which may include international and domestic exploration. In that year, Pertamina had overseas exploration activities in Sudan, Viet Nam and Qatar, and was active in Malaysia, Algeria, and Iraq (although it is unclear if this was through upstream or downstream operations). Additional exploration costs that resulted in commercially viable oil and gas may be captured within the company's reporting of 'assets under construction' (\$1.3 billion) or 'tanks, pipelines and other equipment' (\$3.8 billion), but it is not possible to ascribe the portion of either of these to exploration activities (Pertamina, 2012).

PTBA's latest annual report notes the existence of exploration and evaluation costs but does not provide estimates of their values (PTBA, 2013).

## Public finance

### Domestic

National and state-owned banks are important to the extractive industries in Indonesia, providing \$9 billion for the procurement of goods and services for the oil and gas industry in 2012 (SKK Migas, 2012). It was not possible to determine the specific levels of this support dedicated to exploration activities; however, as most exploration was assumed to be financed internally, the level of subsidy linked to support through public finance was judged to be small (Braithwaite et al., 2010).

### International

International finance is provided by Indonesia Exim Bank, and the recently renamed export credit agency PT Asei (formerly Asuransi ASEI). Between 2009 and 2013, Indonesia Exim Bank provided \$251 million to mining products (including coal) and \$42 million for oil and gas projects (Indonesia Exim Bank, 2013), including support for the integrated energy company ABM Investama (IJ Global, 2014). It is not possible to determine the level of finance specific to exploration activities or even to those that may include an exploration component. Little information could be found for government-owned PT-Asei, although the company appears to offer insurance for oil and gas exploration activities and notes cooperation with the domestic mining sector in its 2012 Annual Report (PT Asei, 2013; PT Asei, 2012).

Between 2010 and 2013, Indonesia contributed 0.9% of the total funding to multilateral development banks (MDBs), which makes it responsible for an annual averaged exploration investment of \$6.8 million (Oil Change International, 2014).<sup>2</sup>

## Major companies

### Oil and gas

In 2013, oil and gas companies in Indonesia made \$30 billion in revenue and \$4.7 billion in profits from upstream operations. Chevron is the country's largest oil and gas producer, followed by Pertamina. Multinational corporations from several countries make up most of Indonesia's remaining largest oil and gas producers, including Inpex (Japan), Total (France), ConocoPhillips (U.S.), BP (UK), Talisman Energy (Canada) and CNOOC, a state-owned Chinese enterprise (Table 2).

Of the \$56.2 billion in oil and gas revenue, the Government of Indonesia received \$5.3 billion in income taxes and \$26.1 billion in royalties. In 2013, the share of revenue (aside from royalties) going to income taxes

<sup>2</sup> Data are based on shares of multilateral development banks (MDBs) held by each G20 country from the respective MDB annual reports and replenishment agreements.

averaged 18% for Indonesia's upstream oil and gas industry.

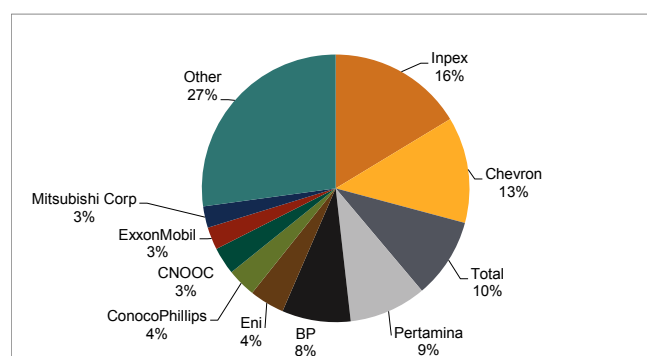
Multinational corporations hold the largest shares of Indonesia's oil and gas reserves, which totalled 10.9 billion barrels of oil equivalent (BOE) at the start of 2014 (Figure 2). Inpex (16%), Chevron (13%) and Total (10%) hold the three largest shares, followed by Indonesian SOE Pertamina.

While Indonesia's oil and gas reserves are falling, exploration expenditure in the country is rising as companies search for additional resources, reaching a high of \$2.3 billion in 2013. International corporations account for the vast majority of exploration spending, led by Exxon Mobil, which spent \$377 million on exploration activities in 2013 (Figure 3) (Rystad Energy, 2014).

### Coal

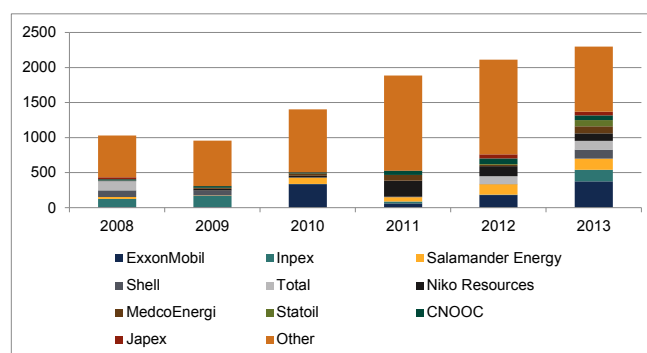
Coal mining in Indonesia involves a number of producers as the data for 2012 in Figure 4 show. A total of 400 million tonnes of coal was mined in Indonesia in 2012 (World Coal Association, 2013). The majority of production is generated by private companies with state-owned PTBA responsible for approximately 2% of the total coal mined in 2013. Despite attempts by the Government attempts to curb such activity, a large amount of 'informal' mining continues, with estimates of 71 million tonnes of coal unaccounted for in 2013 (Riseborough, 2014).

**Figure 2. Indonesia's top 10 oil and gas reserve holders' share of total Indonesian reserves as of January 2014**



Source: Rystad Energy, 2014

**Figure 3. Oil and gas exploration expenditure in Indonesia**



Source: Rystad Energy, 2014

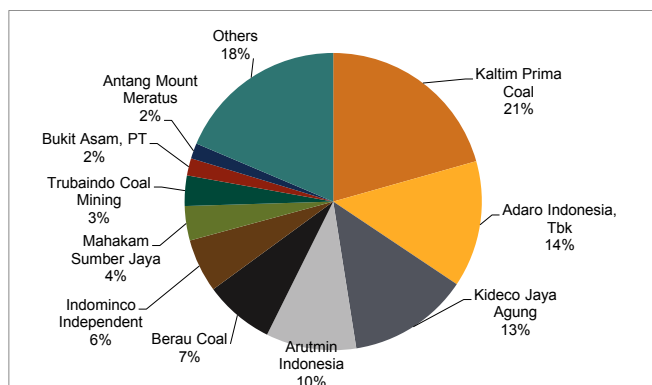
**Table 2. Indonesia's top 10 oil and gas producers' revenues, profits and income taxes, 2013**

Company	Headquarter Country	Revenue (million \$)	Profit (million \$)	Income-tax payments (million \$)	Income-tax share of revenue <sup>*</sup>
Chevron	U.S.	\$7,472	\$1,911	\$1,919	18%
Pertamina	Indonesia	\$4,265	\$404	\$891	26%
Inpex	Japan	\$3,555	\$969	\$478	21%
Total	France	\$2,418	\$527	\$407	13%
ConocoPhillips	U.S.	\$1,853	\$607	\$392	17%
BP	UK	\$1,349	\$490	\$281	21%
CNOOC	China	\$1,028	\$137	\$120	12%
Talisman Energy	Canada	\$908	\$236	\$312	34%
ExxonMobil	U.S.	\$989	-\$370	\$18	2%
Energi Mega Persada	Indonesia	\$518	\$75	\$31	6%

Source: Rystad Energy, 2014

\* The income-tax share is calculated by dividing income tax by revenue, excluding royalties, bonuses and government profit.

**Figure 4. Coal production in Indonesia in 2013**



Source: Directorate General of Minerals and Coal, 2014

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