

## EXECUTIVE SUMMARY

In 2000, Indonesia ranked seventeenth among world oil producers, with approximately 1.9 percent of the world's production. Indonesia's oil reserves are approximately 9.6 billion barrels. At 1.41 million barrels of oil per day (MMB/D) in 2000, Indonesia's production of crude oil and condensate continued a gradual decline from 1.55 MMB/D in 1999 and 1.56 MMB/D in 1998. The Government's revised 2002 draft budget assumes 2002 crude oil production of 1.23 MMB/D, down from a revised 2001 figure of 1.46 MMB/D.

The budget also assumes an exchange rate of Rp 9,000/US\$ and an oil price of \$22/barrel, down from a revised 2001 price of \$24/barrel. (Actual crude oil prices, depressed by a worldwide economic downturn after the September 11 tragedies, were below even this conservative figure.)

With substantial reserves of natural gas and coal, Indonesia could remain a net energy exporter for a longer period than current forecasts. To do so, the government must implement legislation and policies that will rationalize use of Indonesia's energy resources. Energy policy reform would prolong Indonesia's status as a net oil exporter and enhance efficient use of energy resources.

In line with its International Monetary Fund (IMF) commitments, the government is still pressing forward with plans to hike domestic fuel prices and secure passage of a new draft oil and gas law in the face of earlier failures on both fronts. Fuel prices were raised across the board first in October 2000, then again in June 2001. The Indonesian Parliament

(DPR) agreed to a further 30-percent increase planned for January, which, if implemented in a timely fashion, would reduce the GOI's fuel subsidy burden from Rp 53.7 trillion in 2001 (21 percent of central government spending) to Rp 32.3 trillion (13 percent). As a step forward toward reforming Indonesia's petroleum sector, the DPR passed the oil and gas bill into law in a plenary session on October 23, replacing Oil and Gas Law No. 44/1960 and Law for Pertamina No. 8/1971. The new law changes the face of Indonesia's petroleum sector by radically redefining the role of state-owned Pertamina and deregulating the downstream market.

The Government was also implementing Law 22/1999 on Regional Autonomy and Law 25/1999 on Fiscal Decentralization, which entered into force in January 2001. While current petroleum contracts would be grandfathered, uncertainty over details of the implementing regulations and specific policies continued to create uncertainty and diminished the level of new investments in the petroleum sector.

### In 2000 and 2001

- The dollar value of oil and gas exports rose to \$14.4 billion in 2000, compared with \$9.8 billion in 1999.
- In the first six months of 2001, oil and gas exports reached \$7.0 billion.
- Oil and gas imports also rose in 2000 to \$6.0 billion, compared with \$3.7 billion a year earlier.

- In the first six months of 2001, crude oil and oil product imports totaled \$3.1 billion.

## Crude Oil

Indonesia's major crude oil customers (in rank order) were Japan, South Korea, China, Australia, Singapore and the United States. Indonesia's overseas markets generally showed a modest increase in sales in 2000 with the exception of China and a particularly sharp decline in sales to Japan and Australia. Except Total Indonesia, the largest production sharing contractors -- Caltex, YPF/Maxus, BP, Conoco, Vico and ExxonMobil -- lowered their production in 2000. Expenditures by petroleum companies also declined 10 percent in 2000 to US \$3.6 million from \$4.0 million in 1999.

The upward trend in the number of new exploration and appraisal wells peaked in 1998 at 145, then fell to 89 in 1999 and 82 in 2000, significantly below the 100 wells drilled in both 1996 and 1997. Unocal continued its ambitious drilling program in the deepwater, offshore East Kalimantan blocks. The number of new production sharing contracts (PSC's) signed improved to 5 in 2000, from 4 in 1999 and the record 29 signed in 1997. Ten contracts were totally relinquished. Three new PSC's were signed in May 2001.

Indonesian crude production profited from high world oil prices, averaging \$26.39/barrel for Sumatran Light Crude (SLC) for the first half of 2001. As a result of OPEC decisions to reduce oil production, Indonesia received three quota declines, of 77,600 B/D in February 2001, 52,000

B/D in April and a further 42,000 B/D in September.

## Natural Gas

- Reserves: 170.3 trillion standard cubic feet (TSCF).
- Gross Production: 2,901 billion cubic feet (BCF).
- Export revenue from LNG and LPG: \$7.2 billion in calendar year 2000.

Indonesia has natural gas reserves of over 170.3 trillion standard cubic feet (TSCF) – 94.7 TSCF proven and 75.6 TSCF potential. Under production sharing contracts (PSCs) with Pertamina, Indonesia's largest producers are ExxonMobil, Total, Vico, Arco and Unocal.

Indonesia moved forward on two natural gas agreements with Singapore. The West Natuna pipeline project supports a supply contract with the Singaporean consortium SembGas. Pertamina and Singapore Power Gas signed a Memorandum of Understanding for delivery of natural gas from fields in South Sumatra.

In a further development, Pertamina and Malaysian national oil company Petronas signed an agreement in October 2000 for the supply of natural gas from the West Natuna Sea. Pertamina will supply a total of 1.5 TCF of natural gas to Petronas for 20 years from the B block operated by Conoco. First gas deliveries are expected to commence in July 2002 at 100 million cubic feet per day (MMSCFD), reaching 250 MMSCFD in 2004. Pertamina and its PSC

partners plan to invest \$3.5 billion to build production and underwater pipeline facilities. Revenues from the gas sales are projected to reach \$6.2 billion over the life of the contract.

The largest percentage of Indonesia's natural gas production is processed into LNG and LPG, followed by use by the electricity and petrochemical sectors. LNG production at Arun and Badak (Bontang) for 2000, at 27.3 million metric tons (MMT), fell slightly from 1999 production of 29.8 MMT, reversing the upward trend of the preceding years. Japan, South Korea and Taiwan were the key markets for LNG. LPG production fell further to 2.1 MMT from 2.3 MMT in 1999, with exports also falling from a 1993 peak to 1.31 MMT to the four top customers -- Japan, Hong Kong, Taiwan and Australia.

The government continued actively to promote BP's giant Tangguh gas field, under development in Papua, with a particular focus on potential markets in China and India and awarded a contract for development of Bontang's Train I expansion.

## **Refining and Imports**

- Installed capacity: slightly over 1.02 million B/D at eight state-run refineries.
- Capacity utilization: 96 percent.

Indonesia's nine refineries, with installed capacity to process over 1.02 million B/D of crude oil, continued to experience difficulties in 2000.

In 2000, Indonesian crude oil imports rose to 90 million barrels, largely from

Saudi Arabia, Nigeria and Malaysia, with imports valued at \$2.3 billion for the year. Fuel product imports rose significantly to 90 million barrels valued at \$3.0 billion for the year due to increased domestic demand and limited refinery capacity.

Domestic fuel consumption increased to 54.8 million kiloliters in 2000, about 4.5 million kiloliters higher than pre-crisis levels. It is unclear, however, how accurately this reflects resurgence in consumer demand, as a significant amount of refined fuel was smuggled out of the country to profit from a large differential between the government-subsidized domestic price and prices in neighboring countries. Pertamina experienced difficulty coping with the increased demand, leading to spot shortages of diesel fuel, gasoline, and kerosene in parts of the country in mid-2000 and again in mid-2001. As a consequence, Pertamina sharply increased imports of refined products, reaching agreements for additional monthly purchases from Kuwait and agreements to refine its crude and crude purchases at foreign refineries for re-import to Indonesia. The Indonesian Government estimated its expenditures on fuel subsidies would total Rp 53.8 billion for 2001 (approximately US \$6.4 million) and budgeted Rp 32.3 billion (US \$3.8 million) for the 2002 fuel subsidy.

## **Petrochemicals**

The petrochemical industry was again stagnant in 2001, with no new plants completed. In the wake of the financial and economic crisis that erupted in mid-1997, projects under construction remained in limbo.

## Chronology of Recent Events

Month/Year	Event
March 1998	President Soeharto selected for seventh term.
May 1998	President Soeharto resigned; Vice President B.J. Habibie became President.
June 1999	Parliamentary (DPR) elections.
October 1999	New Parliament installed. People's Consultative Assembly (MPR) selected Abdurrahman Wahid as President and Megawati Soekarnoputri as Vice President
July 2001	Special session of People's Consultative Assembly (MPR) removed Abdurrahman Wahid; installed Megawati Soekarnoputri as President and Hamzah Haz as Vice President

## Decentralization

On January 1, 2001, Law 22 of 1999 on Regional Autonomy and Law 25 of 1999 on Fiscal Decentralization entered into effect. Law 25/1999 contains formulas for sharing revenue between the central government and various regional authorities. A persistent problem has been local representatives' misunderstanding of the operation of oil and gas revenues, which may lead regional administrations and residents to overestimate future transfers.

## Shares of state revenue before and after implementation of Law No. 25/1999

Type of revenue	Central Gov.	Province	Regencies
<b>Before (%):</b>			
- Oil	100	-	-
- Natural gas	100	-	-
- Mining land rent	20	16	64
- Mining royalties	20	16	64
- Land/building tax	10	16.2	64.8
- Duties on land/building acquisition	20	16	64
<b>After (%):</b>			
- Oil	85	3	12
- Natural gas	70	6	24
- Mining land rent	20	16	64
- Mining royalties	20	16	64
- Land/building tax	-	16.2	64.8 (+)
- Duties on land/building acquisition	-	16	64 (+)

## Major Milestones for Oil in Indonesia

Year	Event
1890	Telaga Said production field sold to a company that later merged to form Royal Dutch Shell. First production was in 1892.
1912	Standard Oil of New Jersey through its Dutch subsidiary received permission to explore for oil in South Sumatra.
1921	The Talang Akar field discovered, which proved to be the biggest find before WWII.
1942	Japanese took over most oil fields during WWII and slow production.
1945	Indonesia declared independence from The Netherlands.
1962	Pan American Oil Company signed the first contract of work with Pertamina.
1962	Indonesia joined OPEC.
1968	National oil companies Permina and Pertamina merged to form Pertamina.
1978	First LNG plant entered production.