

## **Challenges Facing Indonesia and Pertamina**

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On December 3 and 4, I had an opportunity to participate in an international conference titled "Pertamina Energy Outlook 2015" in Jakarta. In the second conference of that kind sponsored by Indonesia's state-run oil company Pertamina, participants discussed the Indonesian energy sector's prospects and challenges, and Pertamina's relevant roles. Many Pertamina executives including President Director Dwi Soetjipto attended the conference, serving as presenters or moderators. Indonesian government officials and experts, foreign consultants and experts from the International Energy Agency also took part in the two-day conference, discussing a wide range of topics including the international oil and gas situation and its implications, the future course and challenges for the Indonesian oil/gas sector, and challenges for Pertamina in new business areas ranging from coal and biofuels to geothermal energy. I here would like to summarize impressive points regarding discussions at the conference and other conversations in Jakarta.

The opening session of the conference covered problems regarding the current crude oil price decline. Presentations for panel discussions indicated a view that crude oil prices would likely remain weak until mid-2015 or even later due to the global oil demand slump, expanding non-OPEC oil production including U.S. shale oil output, the recent decision by the Organization of the Petroleum Exporting Countries and Saudi Arabia's policy trends. As a result, participants implicated that (1) oil price drops will exert various positive and negative impacts on both oil consuming and producing countries, (2) many high-cost oil and gas projects will be screened again and revised, and (3) oil and gas companies will come under pressure to reduce costs and streamline themselves.

These implications, though important for all countries, are extremely significant for Indonesia and Pertamina. First, Indonesia, while being a major oil/gas producer, is a major oil/gas consumer. Particularly, it has become a major oil importer. International oil (and gas) price drops lead to lower earnings and income in the upstream sector (production and development), affecting Indonesia and Pertamina.

In some sense, however, oil price drops' positive macroeconomic effects on Indonesia are greater than negative ones. In FY2013, Indonesia logged a trade deficit of some 45 trillion rupiah, net oil and gas imports worth some 152 trillion rupiah and a budget deficit of about 45 trillion rupiah,

indicating that oil price drops would make contributions to cutting them. After cutting oil subsidies recently, Indonesia could reduce costs further thanks to oil price falls. At the same time, however, Pertamina has a great challenge of how to reconstruct its mainstay oil/gas upstream, midstream and downstream sectors. Pertamina's business performance, Indonesia's economy and its energy security will depend heavily on whether the state-run oil company can successfully reconstruct these sectors.

At the conference, Pertamina executives reiterated that the state-run company would aim to enter the Fortune 100 list (after ranking 123rd in 2013) and become the Asian Energy Champion by 2025 by stepping up its growth and development to contribute to Indonesia's development. They also gave sector-by-sector targets to attain this objective by enhancing the present core of oil/gas upstream, midstream and downstream operations, new business operations in petrochemical, coal, biofuel and electricity areas, and overall business efficiency. Panel discussions covered these targets.

Pertamina's setting of these challenging targets was appreciated as indicating its positive and ambitious efforts. Through the conference, however, I felt that Pertamina stakeholders have acknowledged the present difficult situation and great challenges. Under the past Suharto administration, Pertamina had maintained its position as the Asian Energy Champion and a state-run firm with powerful authorities. Through later institutional reforms, Pertamina has lost its domestic power base and fallen behind Chinese and Malaysian state-run oil companies. Even at present, however, Pertamina is the most important company in Indonesia and retains long-term business experience mainly in the oil/gas area, know-how regarding the domestic market and significant human resources. Therefore, Pertamina may be able and expected to develop to achieve its visions.

To this end, however, Pertamina will have to implement specific, feasible actions for each sector or segment related to the visions. In this respect, strong leadership will be required. In a broader sense, Indonesia may have to redefine or revise the roles and authorities of Pertamina in line with its national policies. The abovementioned Chinese and Malaysian state-run oil companies' business models and their relationships with their respective governments could be a significantly useful reference for Pertamina.

Indonesia, a major Southeast Asian country, is strategically important for Japan in respect to politics, economics and geopolitics. Japan should appropriately and strategically engage and cooperate with Indonesia in the latter's development. Particularly, cooperation with Pertamina as a central player in the key energy sector will be important. At the Jakarta conference, Indonesian participants indicated their serious interests in how to learn from Japanese experiences regarding the enhancement of energy security and sustainability. Industry-government-academia initiatives will have to be implemented for enhancing bilateral relations.

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