Fact Sheet Five: Indonesia

Basic information

Population: 240,271,522 (July 2009 est.)

GDP: $915.9 billion (2008 est.)

Population below poverty line: 17.8% (2006)

Area: 1,919,440 sq km

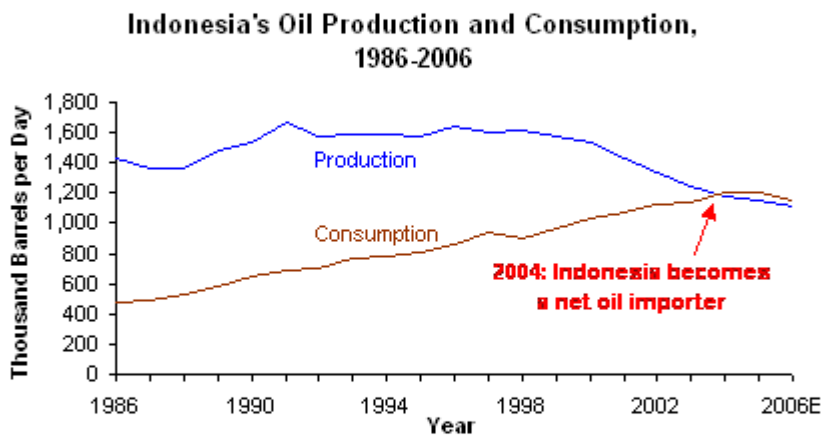
Structure of the oil sector

From 1960 to 2001, the oil industry of Indonesia was nationally owned and managed, through the state-owned company, Pertamina. In October 2001, however, the Indonesian government liberalized upstream oil development by mandating that Pertamina's monopoly be removed by 2003. The government also decreased regulation, making foreign investment easier.

At this time, the regulatory and administrative functions of Pertamina were transferred to a new regulatory body, Badan Perlaksanaan Minyak Gas, or BP Migas. Pertamina was turned into the limited liability company PT Pertamina (Persero) in 2003. While PT Pertamina is still state owned, the groundwork has been laid for a full privatization in the future.

Since privatization, several large International oil companies have come to dominate Indonesia's oil sector. Of these, Chevron, which controls Caltex Pacific, is the single largest producer, though BP, ConocoPhilips, Total and ExxonMobil are also large producers. China's state-owned companies also have a significant presence.

Indonesia has been governed by OPEC quotas since the country became a full member of OPEC in 1962. Since 2002, however, Indonesia has failed to meet its output quota, as domestic demand almost doubled between 2002 and 2004, to 6.38 million barrels a day, while oil reserves decline. In May 2008, Indonesia announced it would withdraw from OPEC after becoming a net importer of oil.



Source: EIA *International Energy Annual*; *Short-Term Energy Outlook*

Oil production and processing

Production levels: Annual oil production in Indonesia peaked in 1977 at over 600 million barrels; it has since been declining. Since 1996, Indonesia's oil production has dropped a massive 32% as the largest oil fields continue to decline. For example, in 2006, production averaged 1.1 million barrels per day (bbl/d). By 2007, it averaged only 969 bbl/d, a drop of 4.9%. Indonesia is now estimated to have 4.4 bbl/d in reserves (1 January 2007, BP est.).

Major Pipelines: Trans-Java.

Major Oil-ports: Java: Cilegon, Cilacap, Surabaya, Ardjuna B (offshore) Sumatra: Pangkalan Brandan, Belawan, Dumai, Musi, Perlak, Palembang, Tanjung Uban (offshore) Kalimantan: Balikpapan Sulawesi: Ujung Pandang Irian Jaya: Sorong, Jaya Seram: Bula Natuna Sea: Ikan Pari.

Refining Capacities: According to the *Oil and Gas Journal* (OGJ), as of January 2007, Indonesia has nearly a million bbl/d (992,745) of refining capacity, distributed between eight facilities. These are operated by Pertamina, which retains a dominant position in the downstream industry. In 2006, Pertamina announced it would significantly boost Indonesia's downstream sector over the next five years, investing between $10 and $11 billion in refineries and other processing infrastructure.

Major Oil Fields: Chevron operates Indonesia's two largest oil fields – Minas and Duri, which are located along the eastern coast of Central Sumatra, Indonesia's largest oil-producing province. These two fields are in decline. One of Indonesia's last undeveloped oil fields is the Cepu block, located in East and

Central Java. An ExxonMobil subsidiary discovered 250 million barrels of proven oil reserves here in 2001, and claim there could be up to 600 million barrels of recoverable oil reserves. After lengthy negotiations, a join operation agreement between ExxonMobil and PT Pertamina was signed in March 2006. Production was scheduled to begin in 2008, but the project is currently behind schedule. Offshore developments include those offshore of northwestern Java, East Kalimantan, and the Natuna Sea.

Oil Imports: 672,000 bbl/day (2008 est.)

Oil Consumption: 1157 thousand million barrels daily. A 1.9% yearly increase on 2006.

The politics of oil in Indonesia: revenue distribution

Prior to the privatization of the oil industry in 2001, revenues from oil were disbursed in a hierarchical fashion. Parliament allocated monies to the central government, which passed funds to the provincial government, which, in turn, funded local governments that had been granted the funds for specific purposes. Since 2001, however, Parliament now distributes funds to the central government, which passes on portions of these revenues to both provincial and local governments directly, without earmarking funds for restricted use. The devolution of expenditure responsibility was also paired with a revenue-sharing scheme that increased natural resource revenues at the local level from oil, gas, forestry and mining as well as receipts from land, real estate and personal taxes.

The provinces of Aceh and Papua were given Special Autonomy Status, thereby increasing their portion of revenues received. Still, the separatist movements in these resource rich regions ostensibly created pressure for President Megawati Sukarnoputri to grant them a greater share of revenues. This has caused considerable conflict in the country.

At the same time as provinces were clamoring for a greater share of revenues, the Supreme Audit Agency (BPK) discovered losses of US $3.53 billion to the government through the violation of product sharing agreements after analyzing the 2004 and 2005 financial reports of many oil companies doing business with the government in Indonesia.[1] This means that corruption remains a serious problem in Indonesia, making it difficult for the revenues derived from oil to reach the masses. In fact, Indonesia ranks near the bottom (at 143rd place) on Transparency International's Corruption Perception Index.

As of 2007, oil and gas revenues made up 25% of total government revenue – indicating a relatively heavy dependence on energy exports. In fact, they made up 11.7% of total exports that year.

Indonesia Natural Resource Sharing (% of revenue)

Type Revenue Share	Standard	Special Autonomies	
		Aceh	Papua (Irian Jaya)[2]
Oil Revenue	15	55	70
Province	3	22	-

[1] Indonesian law does not require contract transparency.
[2] The provincial, district and adjacent district distribution rates have not yet been reported.

District	6	14	-
Adjacent District	6	19	-

The politics of oil in Indonesia: conflict and human rights issues

Four resource rich nations within Indonesia (Aceh, East Kalimantan, Irian Jaya, Riau) have separatist movements that threaten resource exploitation. Aceh separatists seek to garner control over northern Sumatra's strategic Strait of Molucca. Irian Jaya and Kalimantan protest low revenue sharing within their regions and insurgency groups threatened the stability of existing extractive operations. For the most part, separatists point to things like the fact that while Aceh accounted for 30% of Indonesia's oil and gas exports (11% of the country's total exports) in the late 1980s, government sources showed 40% of Acehnese villages could be classified as living in poverty. Separatist groups see the vast amounts of oil extracted from their regions, but not the wealth that these resources earn for the country. They also identify negligent or violent oil company operations in their provinces.

As a result, Indonesian environmental and human rights groups brought class action suits against Pertamina in Prabumulih, Muara Enim and South Sumatra for negligence in operational conduct.

The International Labor Rights fund also filed suit against ExxonMobil in 2001, citing violence committed by Indonesian military forces that were defending ExxonMobil operations in Arun. Eleven people from the Free Aceh Movement (GAM) were murdered, tortured, raped and kidnapped by the Indonesian military, which then buried the people with ExxonMobil excavation machinery. In the wake of these allegations ExxonMobil withdrew its operations from Arun for 5 months in 2001 after the accidental shooting of a company plane and a kidnapping incident. In August 2008, this case was finally cleared to come to trial.

Similarly, Indonesian security forces have been indicted for the abduction and killing of Papuan independence leader Theys Eluay on November 10, 2001.

Local communities also fight back. Communities in East Java, for example, blockaded the area around the Pertamina-Devon oil well in May of 2002 demanding: a) compensation for exposure to hydrogen sulfide as a result of oil exploration, b) the construction of a medical clinic, c) compensation for loss of fertility on lands adjacent to the oil well, d) provision of community funds up to 100 million Rupiah, and e) first right to employment by the oil company for community members, with at least 40% local employment rates. The police brutally ended the demonstration by severely injuring nine people and shooting seven others.

In September 2002, an offshore oil spill in the East Kalimantan Unocal project at West Seno renewed environmental and human rights protests, which questioned the company's plans to create 40 new wells and two 60 km pipelines in the region. The villages of Rapak Lama, Marangayu and Terusan have suffered the destruction of rice crops, deaths of livestock, pollution of community ponds and shorelines, and forced removals without proper compensation or contract. Communities have effectively been silenced by the violence wrought on protesters in 2000 when 23 people were injured, 16 beaten and 7 shot.