



Change won't be easy

Indonesia will go to the polls for the second time this year on 9 July, this time to elect either Joko Widodo or Prabowo Subianto as the country's next president. As voters decide who will take office in October, the oil and gas industry waits to see how the election's outcome will impact Indonesia's energy future.

Both candidates propose platforms that suggest the recent trajectory of more state and Indonesian private sector interests in oil and gas will continue. In addition to formal statements and official candidate platforms, it is also useful to consider the "networks" of supporters of each presidential candidate to identify policy directions.

Joko Widodo's – Jokowi – team released a quite detailed list of policies regarding oil and gas. They propose to support enhanced oil recovery including using special regulations and financial stimulus to encourage use of old oil wells, better calibrate risk with flexibility considering potential rewards to encourage state and private sector investment while recognising existing fiscal systems are out of date. Additional incentives to invest will go

beyond production sharing to include aspects like net present value, internal rates of return, payback periods and profitability ratios in the context of the geology of sites.

Jokowi's team also proposes to encourage more national energy autonomy and encourage long-term legal certainty by issuing an emergency regulation to become a revised Oil and Gas Law focused on building national capacity.

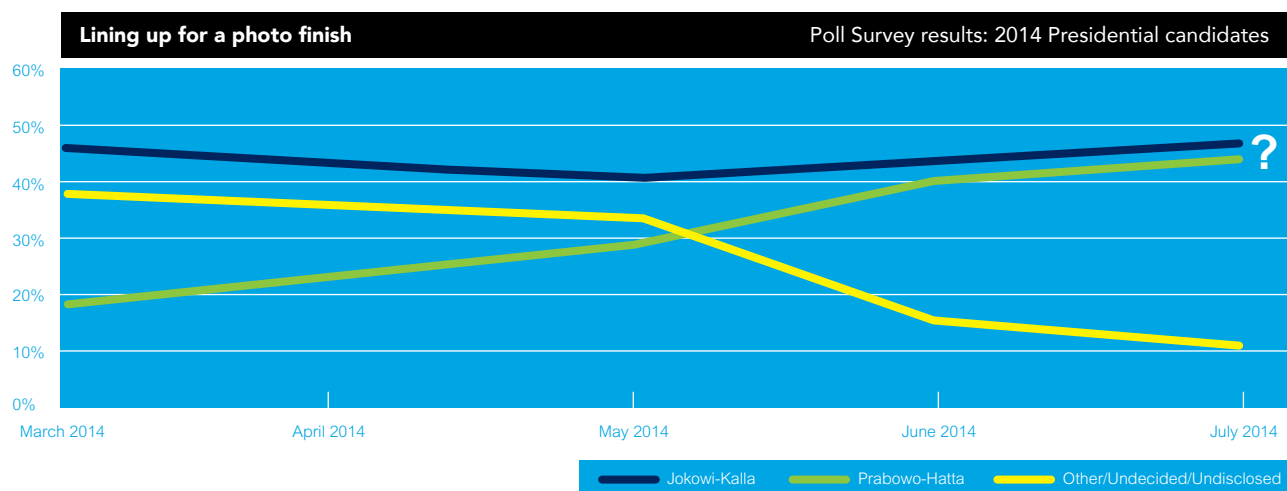
Prabowo's team has provided much less detail but does propose to revise the Oil and Gas Law so that it aligns with contemporary economic nationalist interpretations of the Constitution. They also propose to build various oil and ethanol refineries as well as terminal and distribution facilities through state and private sector investment.

Both teams propose to encourage more use of gas and bio-fuel for transportation, as well as buoying renewable energy sources - with Team Prabowo specifically proposing a target of 10,000 MW for geothermal.

There is also alignment in a stated desire for the gradual reduction of fuel subsidies, although the manner of execution and

extent of removal differ. Jokowi articulates a program of gradual subsidy elimination over four years; Prabowo seeks to retain fuel subsidies for the poor and removal for everyone else. While both sides may see the practical benefit of subsidy reduction, there is likely insufficient pressure from both Parliament and the public to reallocate such funds away from fuel subsidies to other areas.

It may well be that some of the economic nationalist and populist rhetoric of the candidates around oil and gas represents the standard electoral hyperbole. Even so, there is no reason to suggest the inclination to resource nationalism evident in the last several years is likely to change in the near future. Moves to create a policy environment that genuinely encourages foreign investment would require a major economic shock such as economic growth falling to, say, 3% over a two year period. With the current trajectory set to continue, there is little reason to expect dramatic and material change in government policy with regards to an oil and gas sector that is already struggling to attract sufficient investment.



Source: Jakarta Globe; final data point from Indo Barometer survey 19-22 June 2014 (1,200 sample size in 33 provinces).