Indonesia

G20 coal subsidies

Indonesia provides significant support towards coal-fired power production and consumption

Key findings

• Indonesia provided over Rp 9,702 billion (US$0.7 billion) of fiscal support per year to coal-fired power production (2016–2017 average).
• In 2018, the Indonesian government decreed a maximum price for coal sold to power plants and a minimum domestic allocation (20–25%) of production for 2018–2019. This acts as a subsidy for the state-owned utility company, Perusahaan Listrik Negara (PLN), by controlling the market price.
• 2019 saw increased subsidies for electricity consumption to compensate for the rise in the price of fuel used in power plants. Since 60% of PLN’s power plants are coal powered, this subsidises coal use.
• Indonesia’s recent G20 fossil fuel subsidies peer review showed its progress in reform of petroleum subsidies and electricity pricing over the 2014–2017 period, but failed to acknowledge several subsidies such as domestic market obligation policy and subsidies to the coal industry (IISD, 2018; OECD, 2018).

Prominence of fossil fuels and subsidy phase-out commitments

• Indonesia obtains 87% of its electricity from fossil fuels (IEA, 2019), and the government still supports the production and consumption of all fossil fuels and fossil fuel-powered electricity.
• As a member of the G20, Indonesia has committed to the phase-out of inefficient fossil fuel subsidies over the medium term, as agreed in 2009 (G20, 2009). As a signatory of the Convention on Biological Diversity (Aichi Target 3), it has also committed to phasing out environmentally harmful subsidies, including those to fossil fuels, by 2020 (UN, 1992).

Government support to coal production

• The state-owned mining company PT Bukit Asam provided Rp 1,959 million (US$147 million) of capital investment per year (2016–2017 average).
• The government also provided Rp 96,300 million (US$6.7 million) per year of fiscal support for research, development, technology and training in coal exploration, mining and processing (2016–2017 average).

**Government support to coal-fired power production**

• The government is pushing for the development of coal-fired power plants using Clean Coal Technology to meet electricity demand (Ministry of Energy and Mineral Resources, 2018).
• The government launched a 35 gigawatt (GW) expansion programme in 2015 to boost electricity generation, with 57% of electricity expected to come from coal (PLN, 2019). The programme originally envisaged an additional 22 GW of coal power plants in Java – later revised to 13 GW due to oversupply (Agustinus, 2017). The programme received Rp 350,000 billion (US$26 billion) from government budgets and private investors (Sianipar, 2018). Since PLN was not allowed to increase electricity tariffs prior to 2019, the cheapest power source was chosen, explaining why coal accounts for 60% of PLN’s power generation.
• In 2018, the Indonesian government decreed a maximum price for coal sold to power plants (Rp 991,592 per tonne – around US$70) along with a minimum 20–25% domestic allocation. This acts as a subsidy for PLN by controlling the market price (Asmarini and Jensen, 2018). Around 114 million tonnes of coal were consumed by the domestic market, resulting in approximately Rp 20,000 billion (US$1.4 billion) of total savings for PLN (Meilanova, 2018).

**Government support to coal and coal-fired power consumption**

• Our research identified Rp 30,953 billion (US$2.3 billion) of fiscal support for coal-fired power consumption per year (2016–2017 average).
• According to more recent estimates, the subsidy for consumption of electricity in 2019 increased from the previous annual total of Rp 47,700 billion (US$3.4 billion) to Rp 57,000 billion (US$4 billion) (Asmara, 2018). The reason given is to compensate electricity producers for the increase in the fuel price for power plants, especially coal. The subsidy is to provide cheaper electricity for lower-income households, though allocation appears inconsistent.

### Indonesia's government support to coal and coal-fired power production and consumption

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Coal production</th>
<th>Coal-fired power</th>
<th>Coal consumption (^i)</th>
<th>Transition support (^iii)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal support (budgetary transfers and tax exemptions)</td>
<td>96,300</td>
<td>9,702,341</td>
<td>30,952,906</td>
<td>none identified</td>
</tr>
<tr>
<td>Public finance</td>
<td>none identified</td>
<td>3,815,499</td>
<td>none identified</td>
<td>none identified</td>
</tr>
<tr>
<td>Domestic</td>
<td>–</td>
<td>3,815,499</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>International</td>
<td>–</td>
<td>none identified</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>State-owned enterprise investment</td>
<td>1,959</td>
<td>none identified</td>
<td>none identified</td>
<td>none identified</td>
</tr>
</tbody>
</table>

Note: for more detail and sources see the Indonesia data sheet available at odi.org/g20-coal-subsidies/indonesia.

\(^i\) This category includes support for coal exploration, mining, processing and transportation.

\(^ii\) This category includes support for consumption of coal-fired power, and of coal other than for its use for coal-fired power generation (or for co-generation of power and heat).

\(^iii\) This category includes support for closing down mining sites, and for workers and communities in their transition away from coal and coal-fired power.
Government support to the transition away from coal and coal-fired power

- Indonesia has one of the highest levels of emission intensity in the power sector (755 gCO₂/kWh) among G20 members (Climate Transparency Initiative, 2018). No plan has been identified for transitioning away from coal.
- Coal remains the most important fuel source for electricity in Indonesia and is seen as a driver of economic growth.

References


This country study is one in an 18-part series. The country findings are collated in the summary report, which you can find at odi.org/g20-coal-subsidies along with full references, acknowledgements and further information about methodology and data sources.

Unreferenced information in this summary is from the analysis conducted for this report, available in the Indonesia data sheet at odi.org/g20-coal-subsidies/indonesia.

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