Will more LNG production benefit Indonesia?

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President Susilo Bambang Yudhoyono’s three-day visit to London early this month, followed by the announcement of the approval of the plan of further development (POFD) of the Tangguh liquefied natural gas (LNG) plant’s Train 3, has raised eyebrows of those critical of foreign investments.

With the coming of the third train, estimated to require US$12 billion in investment, the plant will see an increase in production capacity from 7.6 million tons per annum (mtpa) to 11.4 mtpa. The announcement was made directly by British Prime Minister David Cameron after a bilateral talk with President Yudhoyono.

British oil giant BP holds a majority share (37.16 percent) in the plant, which is located in Bintuni Bay, West Papua — an area with total proven gas reserves of 14.4 trillion cubic feet (tcf).

The third train is estimated to go online in 2018, but only 40 percent of its 3.8 mtpa will go to the domestic market through state power company PT PLN.

A question emerges: Will that additional LNG production, together with the coming new supplies from the Donggi-Senoro plant in Central Sulawesi (online in 2014) and the Masela block in the Arafura Sea (2018), benefit Indonesia?

Those who are not familiar with energy issues may be unaware that all LNG produced by three existing plants in Arun in Aceh, Bontang in East Kalimantan and Tangguh is exported.

In 2011, for instance, Indonesia shipped 362 cargo loads of LNG, of which 172 went to Japan, 68 to Korea, 55 to the US, 35 to China and 32 to Taiwan. None was used for domestic purposes due to the absence of an LNG receiving terminal in the country.

The policy contradicts the fact that Indonesian industries and PLN have been crying out for greater gas allocations over the last few years.

According to the Industry Ministry, this year, industries need 2,095 million standard cubic feet per day (mmmscf) of gas to be able to operate at their full capacities. However the Forum of Gas-Using Industries (FIPGB) claims that they receive not even a quarter of the demand.

Likewise, despite its status as a state-owned company, PLN received only around 903 mmmscf of gas in 2012, lower than the earlier estimates of 1,024 mmmscf due to the late completion of Indonesia’s first floating storage and regasification unit (FSRU) off West Java.

Last year, after receiving a cool response from the government to its request for more gas, PLN studied the possibility of importing LNG from Iran, Australia and Papua New Guinea. The company only received around 800 mmmscf, far below its actual need of 1,800 mmmscf.

A report from the Supreme Audit Agency (BPK), issued on September 2011, found that the company’s inability to meet its gas demand had caused severe operational inefficiencies. The report said that due to the gas shortage problem, PLN lost opportunities to implement fuel-cost savings of Rp 17.9 trillion ($1.86 billion) in 2009 and Rp 19.6 trillion in 2010.
Given the situation, is producing more LNG a solution? Infrastructure is absolutely the main constraint here.

The government has been committed to sorting out the infrastructure issue in several years to come. As of today, the country has only one FSRU of the planned three. In addition to the one in West Java, the second FSRU in Lampung, projected to have a total capacity of between 1.5 mtpa and 2 mtpa, is targeted to be completed in late 2014. The project, run by state gas distributor PT PGN, is still in the feasibility study phase.

After being temporarily halted, state oil and gas company PT Pertamina has decided to go ahead with the plan to build Indonesia’s third FSRU in Central Java. The facility will also begin operations in late 2014, with the LNG supply from the Tangguh LNG plant using a diversion of the allocation for US-based Sempra Energy.

By 2015, Indonesia will have three floating LNG receiving terminals that will increase its capacity to absorb its LNG production. But the presence of new LNG plants in Donggi-Senoro, Tangguh and Masela will most likely bring no fortune to Indonesia.

Almost all of 2.1 mtpa of LNG from Donggi-Senoro is exported to Chubu Electric (1 mtpa), Kyushu Electric Power (0.3 mtpa) and Korea Gas Corporation (0.7 mtpa), while only 40 percent of production from Tangguh’s Train 3 will be allocated for PLN. As for Masela, until now the government is still looking for potential buyers, most likely foreign companies.

LNG exports indeed generate state revenue, but it is not the revenue that matters, but how the country uses it. Oftentimes, the government says it needs more oil and gas to propel the economy to meet its high growth target.

It is widely known that most of oil and gas revenues go to subsidies. Data from upstream oil and gas regulator BPMigas reveals that in 2011, the oil and gas industry earned $35.23 billion, up from $26.49 billion in 2010, while subsidies hit Rp 249 trillion in 2011 and Rp 214 trillion in 2010.

The Transportation Ministry’s data indicates that in 2011, Rp 77.9 trillion, or 48 percent of Rp 165.2 trillion in fuel subsidies, was consumed by private cars. It means that almost half of the subsidy was enjoyed by car owners.

It is indeed debatable whether the subsidies are bad or good for development, but it is undeniable that the poorly targeted policy cripples the economy. That is an awful lot of money that could have been used for more productive purposes like building infrastructure or improving education and healthcare services.

The same applies to LNG production. It is better to use LNG domestically as enabling industries to operate at full capacity will absolutely create multiplier effects from the additional jobs that will become available. More gas supply will also improve PLN’s system reliability, which is good not only for household customers, but also businesses.

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