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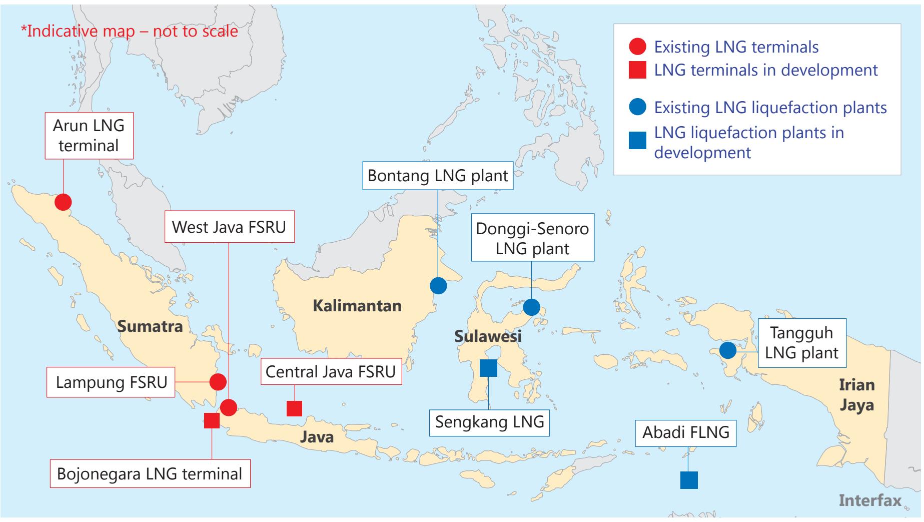
Indonesia's Abadi FLNG mired in politics



Indonesia's LNG infrastructure. The deepwater Abadi field could contain 304 bcm of reserves.

Damon Evans in Singapore

THE development of Inpex and Shell's proposed Abadi FLNG project in eastern Indonesia remains bogged down in a high-profile political tussle.

The deepwater Abadi field, which lies in the Masela Block and is estimated to hold 304 billion cubic metres of gas reserves, is expected to be a major new source of energy for Indonesia at a time when resource decline is closing its ageing LNG plants.

But accelerating Masela's development seems unlikely as the government has yet to decide whether the block should be developed offshore using an FLNG vessel, or via a traditional land-based liquefaction plant. The debate remains mired in political controversy and shadowy business interests.

Japanese operator Inpex was close to obtaining approval for the 7.5 mtpa FLNG scheme from the upstream regulator, SKKMigas, until Coordinating Minister for Maritime Affairs Rizal Ramli publicly challenged the concept last September.

Cost is at the heart of the dispute. Ramli claims an onshore plant would need around $16 billion, while FLNG would cost more than $19 billion. He also argues an offshore processing plant would contribute less to the nation's development than the onshore scheme. However, SKKMigas disagrees, saying FLNG would cost only $14.8 billion, while the onshore option would require more than $19 billion.

As the debate continues to rage within the government, Faisal Basri, an economist at the University of Indonesia and deputy chief of the team tasked by the Energy Ministry to supervise the process of choosing a development route, told local media the most important aspect is not which concept to use but the internal rate of return – set at 12%. Based on his analysis, the government will only hit that target if the FLNG option is chosen. Under the FLNG proposal, Jakarta's take will be 70%, with the contractors splitting the remaining 30%, he said.

A study from the University of Indonesia's economic thinktank shows a one-year delay to the project would mean billions of dollars in potential losses to the economy, ranging from $3.6 billion under the onshore plan to $4.2 billion under the floating scheme.

Wood Mackenzie estimates Abadi FLNG would start up in 2026 if the development plan were approved this year and FID taken in 2020. Inpex declined to comment as it is holding talks with the government. ▶

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"The outlook for major capital projects in the current price environment is challenging, which combined with the difficult investment climate in Indonesia and the oversupply of Asia Pacific LNG in the medium term, [makes it] hard to see anything happening before then [2026]," Andrew Harwood, a Southeast Asia upstream specialist at Woodmac, told *Interfax*.

If the onshore plant is pursued, Inpex and Shell will need to build a pipeline up to 600 km long across a technically challenging deep-sea trench. This would significantly increase the costs and cut the contractors' profits, added Faisal. Under this scenario, the government's take will be much less than for the FLNG proposal. It would also delay the project startup as not only would a new plan of development need to be drafted, but more than 600 hectares of land would also need to be acquired.

A change of concept would have serious implications for chances of the project happening at any point in the next decade, said Harwood.

Self-interest groups

Faisal, as well as political analysts in Jakarta, remains suspicious about the importance placed on the onshore proposal, which would involve one of the longest pipelines in Indonesia's history. He believes powerful business and political figures that control big engineering companies are lobbying hard for the land-based concept, thereby profiting at the expense of the government and the contractors.

Energy Minister Sudirman Said is adamant that the best development solution for the Masela Block is FLNG. This is based on the results of an independent study carried out by consultants Poten & Partners in the wake of Ramli's challenge, as well as analysis by the upstream regulator.

Following the Poten review, the development plan was due to be finalised by the end of 2015. However, given the size and strategic importance of Masela, President Joko Widodo, known as Jokowi, has asked for further studies on the potential for regional economic development, should an onshore plant be built. The plant would be located on the Aru Islands, close to the Abadi field and near the border with Australia.

Developing the Arafura Sea block – which holds at least twice as much gas as Mahakam, Indonesia's largest producing field – in a timely manner will be crucial as the country's gas output is set to decline. Woodmac predicts Indonesia will become a net importer of gas in 2030. But any further delays could see the archipelago increasingly reliant on foreign gas. ■

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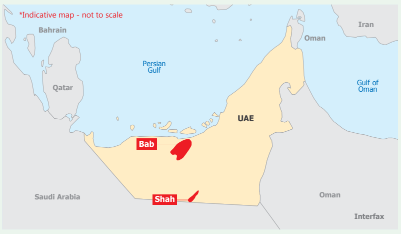

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