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Topping up the tanks

Indonesia wants to open its downstream to attract tens of billions of dollars in private investment this year / DAMON EVANS, Jakarta

INDONESIA's president Joko Widodo, known as Jokowi, has not kept his penchant for courting foreign capital secret. But political infighting, rising nationalism and continuing legal uncertainty have kept energy investors away. If proposed reforms, designed to help boost energy security, are implemented in 2016, that could change.

The government has agreed two goals to boost energy security. It is targeting 30 days worth of operational stocks for each fuel product, including crude for processing, by 2020.

It will also create an energy buffer reserve, which if built by the end of the decade would be Southeast Asia's largest oil-storage terminals. The buffer would be a public emergency stock, equal to 30 days of net imports.

Aside from inadequate fuel storage, Indonesia has not one trading hub. Traders largely buy fuel offshore, either in neighbouring Singapore or Hong Kong. Funds are not available to invest in new energy infrastructure, and regulations, in force since the late 1990s, have deterred much-needed private investment – instead enforcing the interests of the so-called oil mafia, which controls imports.

The archipelago needs investment totaling $82bn to quadruple its downstream oil infrastructure by 2025 and achieve reasonable energy security, say Jakarta-based energy specialists. That's an enormous task.

National oil company (NOC) Pertamina would need to increase its total yearly budget by 1,700% and sustain it for nine years to support the required expansion. It will spend $0.5bn of its total $5bn investment budget in the downstream this year.

The sensible solution is to attract private investment through reforms, which could be introduced as early as mid-year. These include stripping away the bureaucracy for bonded storage (inventory held awaiting payment of excise duties), which would put Indonesia on par with Singapore, Asia's premier oil trading hub.

Bonded oil-storage zones are being prepared in Karimun Island, just 25 nautical miles from Singapore, as well as in Balikpapan in East Kalimantan, already home to existing energy infrastructure, and the port of Merak on the northwestern tip of Java, Indonesia's most populous island.

Steps to progress When it comes to reforms Jokowi is not short on ideas but implementation is another story. On taking office in October 2014, he promised an investment-friendly business climate. That looks to be on it's way.

Last year there were moves to make the notoriously complex investment process more manageable. This year, Jokowi's administration could finally get down to business. Indeed, energy companies are queuing up to invest in the downstream.

The president has publicly highlighted the need to build up stockpiles while oil prices remain low. But to shorten the supply chain and cut out the oil mafia, Jokowi knows he must act now.

His government has already started to roll out regulations to support refinery development, in part by opening up the business to private players, as well as planning to give incentives to investors who wish to help build new refineries.

But building new refining capacity alone does not improve energy security. It costs more to produce fuels domestically, even with fiscal incentives, or bolting on petrochemicals, than to import fuels. To ensure stable energy supplies long-term Jokowi must encourage downstream investment. Only then can the outlook start to improve. PE

Preparing for output: Workers in Sangatta oilfield, Balikpapan, East Kalimantan, where bonded oil-storage zones are being created