



EIC COUNTRY REPORT INDONESIA

Executive summary

Indonesia is the largest island country in the world and the largest economy in South East Asia. The country has experienced a sustained period of economic growth, driven by its growing middle class and abundant natural resources – alongside China and India it is the only nation to continue to grow during the global financial crisis. This sustained development should see the country become the seventh largest economy in the world by 2030, up from sixteenth today.

The oil and gas industry has been a significant asset to Indonesia since first oil was discovered back in 1885, and while revenues have been falling in recent years due to an increasing number of maturing fields and falling exports resulting from increased domestic demand, the sector still plays a significant role in the economy. The Indonesian government is pushing new offshore frontier fields for development in the east of the country and has introduced policies such as the 'gross split' scheme to encourage investment and exploration in new blocks. However, there are significant challenges to overcome within the industry such as the considerably higher costs in the new deep-sea blocks and competition from overseas markets such as the Gulf of Mexico and Africa.

There are, however, new opportunities in the oil and gas industry such as decommissioning, stemming from fields reaching maturity and the ageing existing

infrastructure where circa half the 500 offshore oil rigs in the country are due to be decommissioned. Enhanced oil recovery (EOR) offers new scope to boost production with around 2.5bn barrels of oil reserves estimated to be recoverable through EOR activities by 2050. Furthermore, small-scale LNG is expected to experience significant growth due to the difficult geography and island make-up of the country, where larger scale developments are less economically feasible.

The power sector is coming under increasing strain due to the growing population of around 263 million people, with electricity demand expected to triple between 2010 and 2030. Areas such as Java and Sumatra have experienced the largest growth in demand, not only placing pressure on generation, but also the transmission and distribution infrastructure which is in need of investment. The government has introduced new policies to increase generation such as the 35,000MW Programme which aims to add 35GW of power generation between 2015 and 2019, and has allocated more projects to independent power producers to stimulate private sector investment in the market.

The country has also set new targets to develop renewable energy in order to diversify its generation portfolio and reduce carbon dioxide emissions. Renewable energy is advantageous to an island nation such as Indonesia due to the ability for generation to be deployed in a more decentralised manner, and its geography is such that it has significant

potential to take advantage of tidal, solar, hydro and geothermal resources. With the second largest geothermal resources in the world and a wealth of narrow straits between islands suited for tidal deployment, the Indonesian government has set a target to increase the renewable share of primary energy demand from 3% in 2015 to 23% in 2025.

While Indonesia has long been a difficult place to do business due to poor infrastructure, corruption and complex bureaucracy among other factors, it is opening up to foreign business and evidence of progress is clear in recent years with the country advancing 15 places in the World Bank Ease of Doing Business 2017 ranking to 91st out of 190 countries. The government is actively promoting foreign investment in Indonesia and strengthening the investment climate by improving the regulatory framework and business infrastructure. The government has issued several economic packages which aim to deregulate and simplify bureaucracy in several sectors including energy.

Indonesia has a substantial pipeline of projects across the energy industry, and with the government introducing policies to improve the investment climate for foreign businesses, the country offers growing export opportunities across the oil and gas, power and renewable sectors.



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