

EITI Commodity Trading in Indonesia

Scoping and Inception Report from inception mission August 2017

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Summary

This scoping report is based on extensive interviews with officials from Pertamina, Indonesia's upstream regulator SKK Migas, other state agencies, and industry experts conducted during the inception visit to Jakarta from July 15 to July 22, 2017. It suggests a scope for Indonesia's first round of reporting on commodity trades, reconciling the reality on the ground in the country with EITI's Reporting Guidance issued by the Commodities Trading Transparency Working Group.

Recommendations

Reporting Cycle

Indonesia should follow the Reporting Guidelines issued by the Advisory Group and publish data with less than 12 months delay.

Definition of First Trade

EITI Guidance recommends that all there should be reporting of First Trades of all state agencies and companies. Indonesia's history means that most of these trades, by monetary value, are now imports and domestic sales. The Terms of Reference state as a specific goal "To address negative allegations against Pertamina and provide an opportunity to rebuild their reputation as an SOE". This cannot be adequately achieved if the scope is restricted only to exports, and that imports by the Indonesian state of crude oil and fuel products should be included. It is to be noted that month-by-month data for imports already exists within Ministry of Trade statistics. In addition, a large proportion of Indonesian oil and gas is sold internally, to go into a state refining network and power plants, as well as a significant proportion of gas to private sector customers. These first trades should also be included.

Materiality – reporting to the Cargo Level

Indonesia should follow the recommendations of the Advisory Paper, which is to report trades to the maximum available level of granularity. In this case, sales data are already within the systems of various government agencies to the level of individual cargoes of oil, gas and fuel products. EITI reporting should therefore work at this level in Indonesia.

Mainstreaming

The MSG should integrate the "A0" series of reports compiled by the regulator SKK Migas for upstream reports of sales by Pertamina, and the reports on imports included within Ministry of Trade statistics.

Reconciliation

The Guidance suggests that, at least in an initial instance, the MSG can "prioritize the direct disclosure of data by the NOC", rather than conducting a full reconciliation. We recommend adopting this direct reporting procedure for the first round of trading reports, while notifying all traders who are prequalified with Pertamina's trading unit ISC of the new initiative.

Data Accessibility

The MSG should follow general guidelines for EITI reporting - 7.1.(c) of the Standard – and ensure that all data is published in either .xls or .csv format.

Blended sales

Trading data should include the separate parcels of different crudes where these are combined as one shipment, as recommended in the Advisory Guidance. The internal reporting system of SKK Migas for the upstream already appears to contain this information, listing different parcels going into a single lifting as separate items.

Trading Partner Selection

Indonesia operates a pre-qualification system for buyers and sellers involved in First Trades with Pertamina and ISC. The MSG should publish the standard operating procedures which relate to such pre-qualification, including available beneficial ownership information.

Sales Contracts

The key terms of sales contracts should be disclosed, and where they contain a formula (as in gas term contracts, for example), the formula should be stated. Sales of Indonesian oil and gas can be either spot, open tender, selective tender, or private sale. The rationale for each kind of sale should be reported.

Currency Management

Pertamina buys and sells tens of billions of dollars of petroleum products in US dollars, yet remits to the Ministry of Finance in Indonesian rupiah. Transfers in rupiah should be quoted against the US dollar value they represent.

Indonesia Crude Price

The MSG should collate all Standard Operating Procedures relating to the definition of the Indonesia Crude Price. It should also publish a report analysing the implementation of the ICP in practice over a sample period of time, for example, calendar year 2016.

The context of recommendations of scope

Change to Consumer, and Net Importer

Indonesia's state agencies and entities, chiefly the state oil company Pertamina, trade tens of billions of dollars of oil, gas and fuel products every year. But the pattern of trading changed markedly over the years, as Indonesia's domestic demand for all forms of energy rose sharply. Whereas Pertamina and associated entities were net exporters for decades, presenting major governance challenges, Indonesia became a net importer of energy in 2005¹.

Meanwhile production has dwindled, from about 1.5 million barrels a day at the turn of the century to less than half that now – liftings of crude oil are averaging about 730,000 barrels of oil across the country according to the upstream regulator SKK Migas. Of this total less than half is exported – and the vast majority of crude oil exports from Indonesia are directly by international oil companies who lift the crude they produce directly themselves under the contractual arrangements of the Production Sharing Contracts, meaning that there is no involvement of Indonesian state entities in the First Trade, other than defining the Indonesian Crude Price (ICP) by which such exports are valued. Interviewees at SKK Migas and ISC, Pertamina's trading unit, report that there was only been one cargo of crude oil exported by Pertamina in the first half of 2017. Rising demand also means that a greater proportion of production owned by Pertamina and its affiliates has been directed to the domestic market.

The same is true for gas. Although Indonesia developed Liquefied Natural Gas terminals for export in the 1970s and 1980s, most recent gas developments have been for domestic consumption, and since 2014 LNG terminals have started to deliver shipments within Indonesia.

The change in trading patterns around fuel products is even more marked. Indonesia imports about 400,000 barrels a day of crude oil to feed the national refinery network to make fuel products, and another 400-500,000 barrels a day of finished fuel products. Interviewees at ISC estimated that low grade fuel product exports by Pertamina ran to 1.2 million barrels a month, or about 40,000 barrels a day. And these were mostly relatively low value heavy products which the Indonesian refinery network, built decades ago, is unable to further process.

The implication of these trends for commodity reporting in Indonesia are clear. A scope which was restricted to First Trade exports conducted by Indonesian state entities would capture no more than 20% of the total value of First Trades in which they are involved. Domestic shipments – into the refinery network, to the state electricity company and to private sector companies – must be included to achieve a comprehensive scope, as well as imports of crude oil and fuel products.

This is particularly important because current trends are only set to continue.

Pricing and Valuation

Terms of gas sales contracts

Indonesia's gas production has become complex over the last few years. There are dozens of operating fields, and a network of pipelines with multiple owners, including two state-owned companies that fall under the EITI definition of a National Oil Company, Pertamina, an affiliate of Pertamina, and Perusahaan Gas Negara, or PGN.

In addition, sales to private consumers of gas, such as industrial clusters, have been growing. Precise data are hard to come by, but industry sources estimate between 20% and 40% of gas sales are now to private sector entities. Cases in which gas prices have risen by over 100% from First Trade to "Final Trade" (delivery for use) have been recently reported in the Indonesian media.

Gas pricing is generally more complex, since unlike oil there is not a global spot market. Major differences in price remain between East Asia, Europe and North America, and the difficulty of transportation means that long-term contracts lock in supply through many cycles of market volatility. In addition, there has been a global trend towards decoupling formulae used to value gas from oil prices, and in Indonesia the ICP is no longer widely used as a formula component. Industry sources in Indonesia estimate that fixed price contracts represent account for less than half of total sales value, although they constitute a "long tail" of small contracts.

Data shown to the consultant show that sales of identical gas from the same fields or terminals to different customers can vary by as much as 400% within a single month.

The innate complexity of gas pricing means that there are many legitimate reasons why prices could vary. But it means that it is only possible to determine that fair prices are being achieved, and that differences are due to genuine business rationales, if the terms and formulae of gas sales contracts are published. A delay of 12 months should be sufficient to avoid prejudicing the position of entities within the market, and still be recent enough to provide the oversight function that is the goal of EITI reporting.

Indonesian Crude Price

The valuation of all crude produced in Indonesia is determined by the Indonesia Crude Price (ICP). Prices for each of eight grades of crude are established each month by a committee of various government agencies, quoting a premium or discount against Dated Brent, the most widely quoted crude benchmark price in international markets. The prices of another 46 grades of crude produced in Indonesia are then set against one of these eight².

These values are used to determine all liftings by international companies, regardless of any prices they achieve in the market. They also determine the volumes of liftings that

Pertamina is entitled to, and form the basis of valuation for payment Pertamina must make to the Ministry of Finance for crude it ships to its refineries to be processed into fuel products.

General information about the principles governing the ICP has been published but precise interpretation remains vague. For instance, the general guidance in a decree issued by the Ministry of Petroleum stipulates that the ICP will be set according to three components: first, a review of physical characteristics of each grade of crude oil using the Gross Product Worth (GPW) system; second, spot prices for each grade of crude as reported in two commercial price reporting systems, Platt and RIM; and third, adjustments made by the Indonesian state to deal with what is termed “sustainability” – in case of a need to balance the mix of crude oils going into the country’s refinery system, or to ensure energy security, and continuity of supply.

International company executives say the GPW, the first component, is already effectively factored in to spot prices in international markets. But since Pertamina hardly sells crude oil on international markets, this may not apply to the large quantities of crude retained for use in Indonesia’s national refinery system. Also, it is not clear how the third component, the sustainability factor, is integrated into each month’s price setting by the government.

Mainstreaming Current Commodity Trade Reporting

SKK Migas

The upstream regulator, SKK Migas, publishes some details of all liftings of oil and gas on its website.³ Statistics are available by loading terminal and individual shipment, but without price data.

The regulator also maintains an internal system of reports known as the “A0” series, broken down by category as follows: A1 deals with crude oil exports, A2 domestic crude shipments, A3 is export gas (both pipeline and LNG), A4 domestic shipments of gas, and A5 are shipments made according to any Domestic Market Obligations drawn on from Indonesia’s PSC contract system.

Jenis	Tanggal	Titik Lifting	KKKS	Volume [BBLs]
OIL	30/04/2017	DUMAI	PT. CHEVRON PACIFIC INDONESIA	164.819,00
OIL	29/04/2017	DUMAI	PT. CHEVRON PACIFIC INDONESIA	448.817,00
OIL	28/04/2017	DUMAI	BOB PT. BUMI SIAK PUSAKO - PERTAMINA HULU	64.032,00
OIL	28/04/2017	DUMAI	PT. CHEVRON PACIFIC INDONESIA	91.474,00
OIL	26/04/2017	DUMAI	PT. CHEVRON PACIFIC INDONESIA	474.982,00
OIL	26/04/2017	DUMAI	PT. SARANA PEMBANGUNAN RIAU LANGGAK	8.550,00
OIL	25/04/2017	DUMAI	PT. CHEVRON PACIFIC INDONESIA	400.812,00
OIL	24/04/2017	DUMAI	PT. CHEVRON PACIFIC INDONESIA	200.603,00
OIL	23/04/2017	DUMAI	PT. CHEVRON PACIFIC INDONESIA	297.704,00

Figure 1: Screen capture of liftings entry on SKK Migas website from the terminal of Dumai, Sumatra. Columns from the left: Commodity, Date, Terminal, Lifting Entity, Volume in barrels

These forms include significant other information such as price, contract invoice number, the bill of lading number, type of oil or gas, and vessel. The Reporting Guidance document contains a suggested template for information required on sales. Below is a table which matches that template against known sources of information already within reporting systems of various relevant agencies in Indonesia.

Data Field in Reporting Guidance	SKK Migas A0	Comment
Name of Seller	No	Known in all cases as Pertamina
Source of Data	No	Some data is aggregated by SKK Migas from other agencies. Original source not explicitly stated for each entry, but known by class (for instance, all bills of lading from Customs authorities)
Invoice Number	Yes	
Bill of Lading Date	Yes	
Delivery Method	Yes	Implicitly, as this is known through loading terminal.
Type of State-owned oil	No	Known in all cases
Field or Block of Origin	Yes	
Oil / gas type	Yes	
Quality	No	API grade and physical characteristics stable separately available.
Buyer	No	The form shows the lifting entity. In the case of PSCs this is the producing company.

Beneficial Owner	No	
Load port	Yes	
Incoterms	N/A	Sales terms in Indonesia are FOB
Vessel	Yes	
Destination	Yes	First destination
Contract Type	No	
Nominal Price	N/A	For exports, valuation is made against the ICP and the quantity lifted measured accordingly.
Actual Price	Yes	
Nominal Quantity	N/A	Quantity lifted is against ICP valuation
Actual Lifted Quantity	Yes	
Forex Rate	N/A	Trades are denominated in USD
Pricing Option	No	Not known to be pertinent in Indonesia, since export liftings are valued under ICP
Payment Received Date	Yes	
Payment Account	No	

Ministry of Trade Statistics

The Ministry of Trade published statistics about all significant imports and exports of crude, gas, and fuel oils. Data are stored to the level of month and country of import and export, showing both volumes and price. See below for example, data relating to \$2 billion of crude oil imports, averaging about 85,000 barrels per day, from Saudi Arabia during 2015.

Month	Year	Country	Value	Weight (kg)	Desc_hs07
1	2015	SAUDI ARABIA	\$206,863,320	489,316,224	Crude petroleum oil
2	2015	SAUDI ARABIA	\$102,558,360	244,981,824	Crude petroleum oil
3	2015	SAUDI ARABIA	\$215,670,036	483,432,940	Crude petroleum oil
4	2015	SAUDI ARABIA	\$215,957,112	488,223,230	Crude petroleum oil
5	2015	SAUDI ARABIA	\$126,652,512	244,034,260	Crude petroleum oil
6	2015	SAUDI ARABIA	\$246,888,266	489,016,910	Crude petroleum oil
7	2015	SAUDI ARABIA	\$120,744,807	244,476,060	Crude petroleum oil
8	2015	SAUDI ARABIA	\$216,523,329	503,000,490	Crude petroleum oil
9	2015	SAUDI ARABIA	\$187,434,061	489,339,000	Crude petroleum oil
10	2015	SAUDI ARABIA	\$185,186,653	490,603,340	Crude petroleum oil
11	2015	SAUDI ARABIA	\$91,151,755	244,932,540	Crude petroleum oil
12	2015	SAUDI ARABIA	\$149,895,166	489,301,350	Crude petroleum oil

This data is not enough to fulfil transparency requirements under the Reporting Guidance but it can provide a baseline against to determine analysis of trends (there are over 20 different fuel product description categories, for example, with volumes and prices against each entry), and also to corroborate data reported by ISC on behalf of Pertamina.

NOTES

¹ <https://www.eia.gov/beta/international/country.cfm?iso=IDN>

² <http://www.migas.esdm.go.id/public/images/uploads/posts/icp-juli-2017.pdf>

³ <https://lifting.skkmigas.go.id/tab/lifting2/index.php>