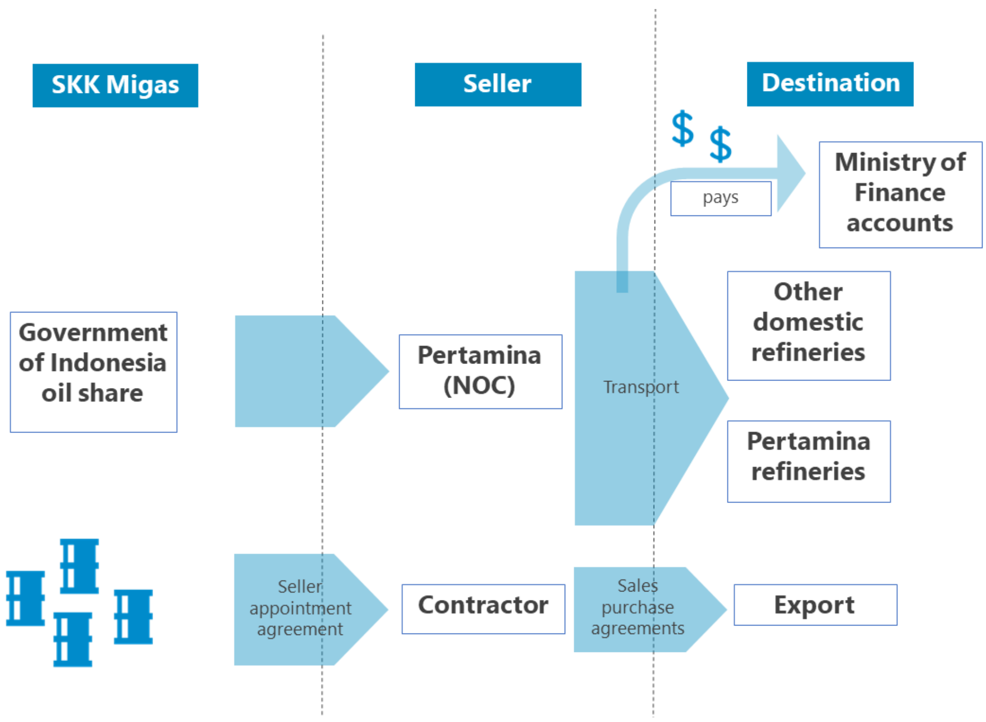
Indonesia: Identifying corruption risks in commodity trading

The EITI multi-stakeholder group (MSG) in Indonesia commissioned Open Oil to look into the government's sales of oil and gas. This brief contains the findings and recommendations of the report.

Key facts and findings from Indonesia's commodity trading report:

- Scope: 1,909 transactions (exports) covered, 115 million barrels of crude and condensates shipments with a value of USD 4.74bn.
- On average, 730,000 barrels of oil are lifted every day. Less than half is exported. Majority of crude oil exports are made by international oil companies.
- LNG prices show great variation. Sales of identical gas from the same field or terminals to different customers can vary by as much as 400% within a single month
- Even with the same customer, some variations can be observed. For the block Cepu, the same type of oil, being sold to the same customer, sees his price rising from USD 26,86 to USD 49,57.
- Singapore is the biggest export destination with more than 160 000 barrels for an amount of USD 7 million.
- More than 99% of the production is sold to the refinery units of the national oil company Pertamina.

Oil and cash flows in Indonesia



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Recommendations:

While the EITI Indonesia's commodity trading report discloses significant amount of information, data from 80% of commodity trading transactions in the country are not included in the report. Indonesia's commodity trading report recommends that the following information be disclosed to give a more accurate picture of commodity trading in Indonesia:

- **Imports.** Imports comprise nearly a million barrels of crude oil and fuel products a day. The USD 4.74bn disclosed in the report represents less than 20% of commodity trading by Indonesian SOEs.
- **Buyers and buyer selection process.** The report only includes country destination, but not the names of buyers. A robust and transparently managed buyer selection process can help to mitigate the governance challenges and corruption risks that can arise when companies compete for the right to buy the state's share of production of oil.
- **Sales proceeds from dynamically priced commodities.** Commodities that are dynamically priced such as gas and LNG exports, LNG sales, are excluded from the report. The focus of interest in commodity trading is on transactions taking place on commercial terms because of potential over or under pricing that might occur which makes dynamically priced commodities more susceptible to corruption.

	Export	Domestic	Import
Crude Oil	OPEC ~1%	Cilacap Refinery 28%	Cilacap Refinery 34%
Natural Gas & LNG	Tangguh LNG plant ~1%	PLN electricity company 7%	NONE
Petroleum Products	Residue ~1%	Gas stations (5,200 onsellers)	Gas stations (one buyer) 28%

Lower Trading Risk   Higher Trading Risk

- **Invoice or Bill of Lading number.** A credible transparency report requires unique identifiers to be applied to each shipment. Information such as the date of invoice and Bill of Lading number helps establish when the sale took place. This is important because prices change frequently. This information will improve monitoring of the shipments.
- **Pricing.** Pricing and the method for determining prices are the issues of greatest interest and concern to many stakeholders, so it is important for them to fully understand how it works. The rules and actual practice followed in setting prices under the Indonesia Crude Oil Pricing System should be explained to make it possible to understand whether government is getting a good deal from the sale.
- **Foreign currency.** The ICP is denominated in US dollars but Pertamina pays its refinery system in Indonesian rupiah. Variations of even a fraction of a percent in exchange rates could cost the government millions of dollars. It would be useful to indicate the exchange rate used for each transaction.

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- **Payment date and amount confirmed to have been received.** Knowing the date of payment and when it was received by government would be helpful in tracking the flow of money in commodity trading transactions.

Background

One of the key objectives of the EITI is to shed light on the return that a country gets in exchange for its oil, gas and minerals. In many resource-rich countries, payments by companies to the government for rights to extract resources happen in-kind, through physical transfers of oil, gas and minerals, rather than transfers of money. Physical revenues can also occur because the state or a state-owned enterprise (SOE) owns shares in a producing license. The state or the SOE then sells these physical resources, often to trading companies or domestic refineries. In order for governments implementing the EITI to *fully account for all revenues received from natural resources*, it is therefore necessary to know *how much revenue the state or SOE gets from the sales of these resources* as well as whether these sale proceeds are transferred to the budget.

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