Liquefied Natural Gas From Indonesia: The Arun Project

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Liquefied Natural Gas From Indonesia: The Arun Project

- History of the Project
- The Japanese Connection: Lack of Alternative Markets for Arun and Indonesian Gas
- Political and Institutional Consequences of the Arun Project
History of The Arun Project

- Discovery of Gas in Arun and Bontang
- Indonesian Government and Pertamina Seek Project Developers and Buyers:
  - California Contract
  - Japanese Western Group of Buyers
- Negotiations with Japan in 1970s:
  - Strategic Role of Trading Firms, Japanese Government in Maintaining Negotiations
  - Contracted for 8 mtpa
  - Development of Japanese Financing Institutions
  - Pricing, Japanese Concern for Supply Security, Diversity of Supply
### JAPANESE IMPORTS OF LNG BY COUNTRY, 1975-2001

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Brunei</th>
<th>UAE</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Australia</th>
<th>Qatar</th>
<th>Oman</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>20%</td>
<td>80%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1980</td>
<td>5%</td>
<td>32%</td>
<td>12%</td>
<td>51%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1985</td>
<td>4%</td>
<td>19%</td>
<td>8%</td>
<td>53%</td>
<td>16%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1990</td>
<td>3%</td>
<td>15%</td>
<td>6%</td>
<td>49%</td>
<td>19%</td>
<td>9%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1995</td>
<td>3%</td>
<td>13%</td>
<td>9%</td>
<td>40%</td>
<td>20%</td>
<td>16%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2001</td>
<td>2%</td>
<td>11%</td>
<td>9%</td>
<td>30%</td>
<td>21%</td>
<td>14%</td>
<td>12%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Alternative Uses for Arun Gas

- Demise of the California Connection:
  - California Siting Issues
  - Diminishing Strategic Role of California Alternative
  - Strong Japanese Desire

- Domestic Distribution:
  - Insufficient Domestic Demand on Java
  - Wariness of Foreign, Domestic Investors on Alternative Uses in Java
  - Predominance of Oil in Planning
Alternative Uses for Arun Gas

The Singapore Alternative, Pros:
- Strong, Steady Economic Growth in 1970s and 1980s
- Long History of Gas use, and Plans to Develop Petrochemical Industry
- Interest in Importing Gas from Neighbors

The Singapore Alternative, Cons:
- Singapore Small in Comparison to Japan and California (8 mtpa to Japan by 1980)
- Technological Issues and Fear of Technical and Safety Issues for Piped Gas and LNG
- Oil Industry Predominance in Planning, Discounting of Gas
Arun, Politics and Institutions

- Established Strong Role of the State in Developing Domestic Gas Market:
  - Final Guarantor of Investments
  - Coordinating if not Leadership Role in Negotiations
  - New Model of Cooperation Between State, Domestic Buyers, Trading Firms with Foreign Governments, NOCs and MNCs

- Established Popular Conceptions of Safety, Industry Perceptions of Profitability

- Relative Underdevelopment of Indonesian and Japanese Domestic Gas Distribution Systems in Long-Term