



## Press Release

### Improving Fuel Economy by Standards and other Policy Options

*Jakarta, 14 November 2014 - A good fuel economy standard helps companies and vehicle users to reduce costs by saving fuel, it also helps Indonesia achieve higher economic development as more efficient use of fuel reduces government spending on its fuel subsidy.*

On Today's event, taking place at Aryaduta Hotel, Jakarta, the Joint Committee for Leaded Gasoline Phase-Out (KPBB) with support from the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH will hold a public dialogue to discuss further fuel economy standard and other policy options for Indonesia.

It is vital for Indonesia to start introducing policies and measures for vehicles that promote a more efficient use of fuel. This has multiple benefits including less local air pollution, lower greenhouse gas emissions, enhanced energy security and at the same time reduced government spending on fuel subsidy. There is a range of policy options to improve the fuel economy of vehicles, for example, fuel efficiency standards and labels or tax incentives for fuel efficient cars.

Fuel economy is a term used to describe calculation of fuel that a vehicle consumes in kilometers per liter (km/l) or miles per gallon (mpg). The more distance per tank of fuel, the better the fuel economy. In the past, fuel price was relatively cheap and vehicle engines were designed to achieve more engine power without really considering fuel efficiency. However nowadays fuel economy has become a central issue to consumers due to the fact that fuel price is increasing from time to time.

In Indonesia, the national energy demand has been increasing strongly over the last few decades, with the transport sector as second-biggest consumer after industry. Like other energy-based sectors, the transport sector is dominated by liquid petroleum fuels. At this time, the high demand for fuel

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creates potential burden for the national economy, particularly government provision on fuel subsidy that could have significant pressure to the national economic growth. In the last 10 years, the growth of energy consumption for the transport sector in Indonesia reached approximately 5.7% per year<sup>1</sup>. Gasoline (Premium, Pertamina and Pertamina Plus) has the largest consumption share (61.66%) and followed by diesel fuel (37.5%) and Bio-Fuel, which includes Bio-Diesel and Bio-Ethanol (0.84%)<sup>2</sup>. Meanwhile the fuel subsidy budget in 2013 reached nearly IDR 195 trillions or equal to USD 17.7 billion<sup>3</sup>. Government efforts to address the growing fuel consumption from transport are limited so far, this could be seen from the fact that there is currently no regulation on fuel economy standard being enforced in Indonesia.

Although there is currently no regulation on fuel economy standard, there are several studies conducted to address the issue of fuel economy. In a Cost-benefit Analysis (CBA) report on fuel economy made by the Ministry of Environment in 2011 there are nine policy options proposed for implementation: implementation of Euro 2 standard for vehicle in 2005 and Euro 4 in 2020, to set up fuel efficiency standard of 10% starting 2009, fuel conversion to gas (CNG, LPG, LNG), vehicle retrofit (with catalytic converter), scrapping 50% of vehicles older than 10 years starting 2009, implementation of hybrid technology, use of bio-fuel, passenger shifting from private vehicle to public transport, and to accelerate the implementation of Euro 2 and Euro 4 standard.

“Scrapping of old vehicle fleets could bring the highest economical benefit and saving from subsidized fuel, followed by fuel efficiency policy and developing public transport system” said the CBA report. The report also mentioned that by comparing Cost-benefit analysis with Cost-effectiveness, the development of public transport system would be the best option because of its high economic gain and fuel saving and has the lowest cost in emission reduction per million ton of CO<sub>2</sub>. Those points are some examples of policy options that could be implemented in Indonesia.

Apart from the economic impact, fuel economy is also strongly related to various environmental issues. For example, air pollution reduction measures will become more effective if there is less emission sources and this could be achieved by among others, better efficiency in fuel consumption. Fuel saving from the implementation of fuel economy standard also contribute to lower greenhouse gas emissions.

“A good fuel economy regulation would help companies and vehicle users to save costs due to fuel saving” said Dr. Axel Friedrich, a German expert on vehicle emission and vehicle technology who will become one of the resource person in the dialogue. Other key stakeholders such as The Ministry of Energy and Mineral Sources, Association of Vehicle Manufacturers, The Ministry of Transport, The Ministry of Industry, University Lecturers, Research Institutes are also participating in the event. Therefore this dialogue could be a good

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<sup>1</sup> Data from The Ministry of Energy Resource (ESDM) 2014, Compiled and summarized by The National Energy Board (DEN) and The Joint Committee for Leaded Gasoline Phase-Out (KPBB)

<sup>2</sup> KPBB 2014

<sup>3</sup> Indonesia National Budget (APBN) Report 2013

session to discuss state of the art on fuel economy standard in Indonesia and how we could develop a roadmap towards the implementation of fuel economy standard in Indonesia.

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#### About KPBB

The Joint Committee for Leaded Gasoline Phase-Out (KPBB) is an Indonesian non-profit organization working in the issue of clean fuel, air pollution and sustainable transport. Since 2010, together with the Ministry of Environment, KPBB has been working to identify the fuel economy issues in Indonesia by working together to make the Cost-Benefits Analysis Report on Fuel Economy in Indonesia. KPBB is also maintaining strong network with key ministries, automotive industries, the State-owned Oil Company (Pertamina) and other experts in order to continuously advocate the importance of fuel economy standard for Indonesia.

#### About GIZ Transport and Climate Change (TCC) Project

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the ASEAN Secretariat jointly implement the project on Transport and Climate Change to assist ASEAN Member States to develop, implement and monitor strategies and action plans towards the improvement of energy efficiency and the reduction of greenhouse gas emissions. The project is financed by the German Federal Ministry for Economic Cooperation and Development and will run until end of 2015. In Indonesia, GIZ jointly implements the project with the Ministry of Transport.

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