

## Executive Summary

# An Economic Impact Analysis of Chevron in Indonesia

Economic development and improved welfare of its citizens is one of the crucial goals of the Indonesian government. In the National Long-term Development Plan 2005-2025 (RPJPN), the government's 11 priority areas include education, poverty reduction, energy, and investment in the business sector as keys to development.<sup>1</sup> Chevron Indonesia recognizes that it is a major partner of Indonesia in building the capacity necessary to achieve national and local economic and community development goals.

Chevron's partnership with the people and the Government of Indonesia can be traced as far back as 1924. Currently, Chevron delivers approximately 40% of national oil production from its operations in Riau and East Kalimantan and provides electricity to millions of Indonesians from its geothermal projects in West Java. Through its subsidiaries, PT. Chevron Pacific Indonesia and Chevron Indonesia Company, they conduct oil and gas operations. Chevron also manages geothermal projects through Chevron Geothermal Indonesia, Ltd., and Chevron Geothermal Salak, Ltd., in Indonesia.

Chevron's operations in Indonesia generate economic and social impacts to the Indonesian economy. This study is comprised of two parts: (1) the economic contributions to Indonesia based on Chevron's operations and capital spending in Indonesia for 2009 to 2013; and (2) the impacts of Chevron's social investment programs in the communities it operates in. In analyzing Chevron's economic contributions, the study focuses on its upstream operations in Indonesia. This study was commissioned by Chevron Indonesia and a partnership between the University of Indonesia's Institute for Economic and Social Research (LPEM) and IHS was established in order to effectively deliver this analysis.

The objective of measuring Chevron's economic footprint in Indonesia is to fully "size" the company's economic influence by capturing all of the production, supply-chain and income effects associated with its operations.

LPEM and IHS's comprehensive assessment of Chevron's contribution to the Indonesian economy, as measured in GDP or value-added contribution<sup>2</sup>, jobs, labor income and government revenues support the fact that it is a partner for the country's development. The results of the study are also benchmarked against other key sectors within the economy and validated through the experiences of beneficiaries of its social programs.

The economic impact analysis (EIA) begins with Chevron's reported schedules for capital expenditures (capex), operating expenses (opex) and production. These data serve as the primary inputs to the models used by the LPEM/IHS team to quantify Chevron's contribution to the Indonesian economy. The data and models are then supplemented with additional information gathered from government and other public resources to validate model assumptions and Chevron data. In addition, IHS Global Insight

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<sup>1</sup> "Indonesia's Structural Reform Priorities", APEC: 2011/SOM/WKSP/009, [http://mddb.apec.org/Documents/2011/SOM/WKSP/11\\_som\\_wksp\\_009.pdf](http://mddb.apec.org/Documents/2011/SOM/WKSP/11_som_wksp_009.pdf), retrieved 4 February 2015

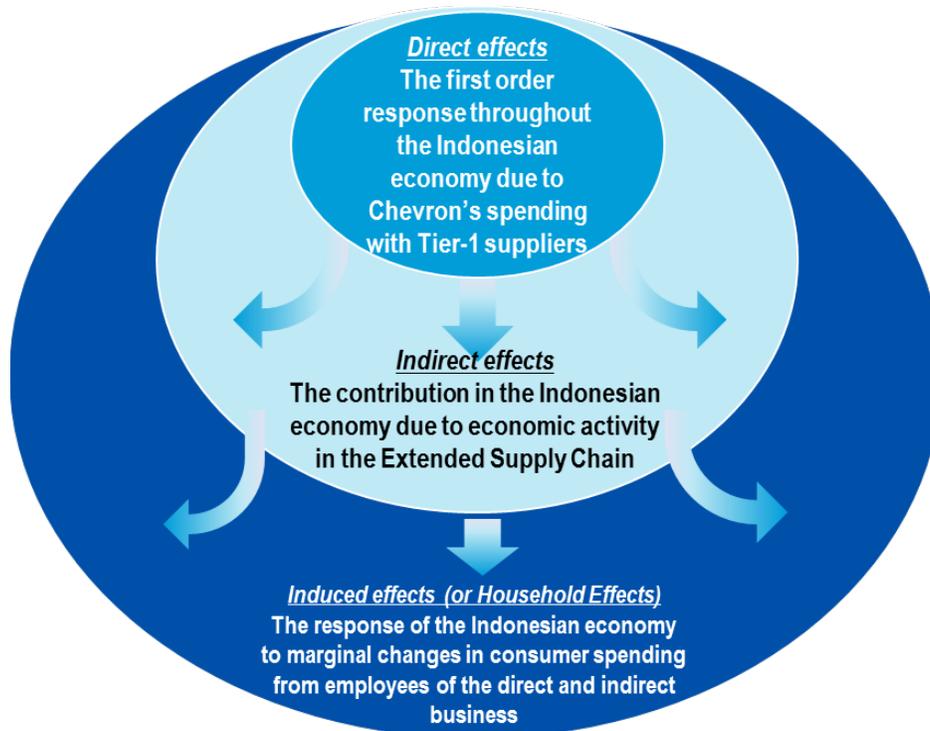
<sup>2</sup> Value added pertains to the difference between the revenue received for a product or service and its non-labor input costs.



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forecasts and the IHS World Economic Services database are used to update the Input-Output model of the Indonesian economy. Publicly available data from the Ministry of Finance, and Ministry of Energy and Natural Resources and SKK Migas are referenced for fiscal contribution analysis.

A complete picture of Chevron's role in the Indonesia economy is established through the examination of three tiers of Chevron economic contributions:



Results of the LPEM and IHS EIA indicate Chevron maintains a significant role in the Indonesian economy. In 2013 alone, Chevron and its extended value chain contributed Rp125 trillion<sup>3</sup> to the nation's gross domestic product (GDP) and generated Rp101 trillion in government revenues through government lifting entitlements and taxes. In the same year, Chevron directly employed 6,219 workers and supported another 259,247 jobs through its business activity with tier-1 suppliers and their extended supply chains. Additional key findings include<sup>4</sup>:

- Chevron's operation generated government revenues for Indonesia approximately Rp455 trillion in five (5) years for 2009 to 2013, including its partners, which is more than enough to construct the Trans-Sumatra highway from Aceh to Lampung which is 2,700km.<sup>5</sup>

<sup>3</sup> Chevron's total contribution (value added) to the Indonesian economy includes their direct contribution, tier-1 suppliers, indirect and induced contributions.

<sup>4</sup> Findings below refer to the average annual contribution of Chevron from 2009-2013.

<sup>5</sup> Total estimated cost for the construction of the Trans-Sumatra highway is Rp300 trillion and the total length is 2,700km. It starts from Banda Aceh in the north then ends at Bandar Lampung in the South. Source: <http://www.indonesia-investments.com/news/todays-headlines/construction-trans-sumatra-toll-road-expected-to-start-in-april-2015/item5376>

- The average annual government revenue for Indonesia from Chevron's operations of approximately Rp91 trillion was equivalent to 7.7% of the State Budget, including direct suppliers and the extended supply chain. This is enough to build 41,000 health clinics.<sup>6</sup>
- Chevron's Indonesian operations contributed more than Rp120 trillion to the nation's Gross Domestic Product in 2013, accounting for 1.4% of Indonesia's GDP – this is equivalent to the construction of 46,000 primary schools (Rp2.7 billion each).<sup>7</sup>
- Chevron's operations generated Rp7.7 trillion of personal income for working people in Indonesia including Chevron employees and its partners in 2013. This is enough to pay for the secondary tuition fee for 1.8 million students.<sup>8</sup>
- The company's operations supported more than 260,000 direct, indirect and induced jobs across a broad range of industries in 2013 – enough to provide employment opportunities for the working age population of Yogyakarta city.<sup>9</sup>
- Every Chevron job supported an average of 36 other jobs in Indonesia from 2009 to 2013.
- Every Rp10 trillion of Chevron direct local spend in 2013 drove another Rp7.2 trillion in additional output for contractors and suppliers.

Another way to identify economic benefits from Chevron's activities in the country is to understand the impact of the company's social investment projects – these are the voluntary investments that Chevron makes to support the local communities in areas where it operates. Thus, the second part of this report uses a Social Program Analysis to capture data encumbered by uncertainty or nuance (e.g. people's perceptions, values and priorities) that can demonstrate outcomes or cause-and-effect relations directly from the community projects that Chevron invests in with its partners. This is a more qualitative approach to demonstrating the economic and social value of Chevron's social investments in Indonesia.

Chevron has several social investment programs in place that focus on making education accessible, improving higher education quality, and development of human capital through skills transfer and the promotion of entrepreneurship. The various programs target local communities and its members in the Riau Province, East Kalimantan and West Java region. In particular, the programs are:

<sup>6</sup> The 2011 cost estimate was Rp2 billion. The 2013 cost estimate was Rp2.2 billion. Source: Schools Reconstruction Program in West Java and West Sumatra, Independent Completion Report, June 2011, accessed on 6 April 2015 through <http://www.dfat.gov.au/about-us/publications/Documents/school-recon-icr-re.pdf>.

<sup>7</sup> The average cost of a single story primary in Indonesia is Rp2.7 billion (2013 cost estimate). The 2011 cost estimate was Rp2.4 billion. Source: Schools Reconstruction Program in West Java and West Sumatra, Independent Completion Report, June 2011, accessed on 6 April 2015 through <http://www.dfat.gov.au/about-us/publications/Documents/school-recon-icr-re.pdf>

<sup>8</sup> Average secondary education fees cost Rp3.75 million in 2011. This was adjusted to 2013 inflation rate and the result is Rp4.16 million. Source: <http://thejakartaglobe.beritasatu.com/archive/is-this-the-final-bell-for-school-fees-in-indonesia>.

<sup>9</sup> According to the 2010 Population Census result, the population of Yogyakarta is 388,637. Statistics Indonesia; the average working age population ratio in Indonesia is 52% in 2013, based on World Bank data. Sources: [http://bps.go.id/eng/download\\_file/Population\\_of\\_Indonesia\\_by\\_Village\\_2010.pdf](http://bps.go.id/eng/download_file/Population_of_Indonesia_by_Village_2010.pdf); <http://data.worldbank.org/indicator/SP.POP.DPND>

- Improving access to Education
  - i. Darmasiswa Chevron Riau Scholarship (DCR)
  - ii. Polytechnic Caltex Riau (PCR)
  - iii. University Partnership Program (UPP)
- Enhancing opportunities for Economic Development
  - i. Vocational Training for Employment and Entrepreneurs (VOTEE)
  - ii. Local Business Development (LBD)
  - iii. Microfinance & Entrepreneurship Advisory

To understand and demonstrate the effects of Chevron’s programs, interviews with key stakeholders were conducted by LPEM and IHS in December 2014. Each stakeholder shared their experience and knowledge on the circumstances prior to the implementation of the programs and the impacts it has created for the beneficiaries. Apart from their experience and knowledge on the program, stakeholders were also able to share their feedback, comments and suggestions on how to improve the program (please see Appendix for more details). The interviews were also an instrument to evaluate the programs’ effectiveness. In total, there were 22 stakeholders interviewed for the six programs. Most of them are direct beneficiaries and administrators of the programs. Their responses and insights revealed the impacts of Chevron’s programs in their lives and their community.

### About LPEM FEUI ([www.lpem.org](http://www.lpem.org))



*Lembaga Penyelidikan Ekonomi dan Masyarakat Fakultas Ekonomi Universitas Indonesia (LPEM FEUI)* or the Institute for Economic and Social Research is an integral part of the Faculty of Economics, University of Indonesia. The institute has been working with governments, private sectors and NGOs primarily on policy-related issues and known for its active involvement in the economic development of Indonesia. Past projects range from the development planning preparation to policy formulation. LPEM FEUI was founded in 1953 by Professor. Dr. Soemitro Djojohadikusumo, former dean of the Faculty of Economics, University of Indonesia.

### About IHS ([www.ihs.com](http://www.ihs.com))



IHS is a leading source of information, insight and analytics in critical areas that shape today’s global economic and business landscape. Businesses and governments in more than 150 countries around the globe, and international organizations, rely on the comprehensive content, expert independent analysis and flexible delivery methods of IHS to make decisions and develop strategies. IHS was founded in 1959 and is headquartered in Englewood, Colorado, USA. It employs approximately 8,800 people in 32 countries around the world. Since 2004, IHS has acquired more than 60 companies including Global Insight, a leading macroeconomic firm whose founders include Nobel Prize winner in Economics, Lawrence R. Klein. IHS is also led by Pulitzer Prize winning author and leading authority on energy, international politics and economics, Daniel Yergin. Dr. Yergin is the founder of IHS Cambridge Energy Research Associates (CERA) and Vice Chairman of IHS.