

**THE REDUCTION IN NATURAL GAS PRICES
STRENGTHENS PETROKIMIA GRESIK'S COMPETITIVENESS**

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Petrokimia Gresik is Agroindustry Solutions Company and holding member of Pupuk Indonesia positively welcoming the new regulation about the adjustment of natural gas prices by the government, and increasingly optimistic to face global competition.

The adjustment of natural gas prices is regulated in the Decree of the Minister of Energy and Mineral Resources (MEMR) No. 89K / 10 / MEM / 2020 on 13 April 2020 concerning Users and Specific Natural Gas Prices in the Industrial Field. There are seven sectors that get price adjustments, one of which is the fertilizer industry, where prices at the user gate point (plant gate) are set at a price in the range of US\$ 6 per MMBTU (Million British Thermal Units).

President Director of Petrokimia Gresik, Rahmad Pribadi appreciated the regulation from Ministry of Energy and Mineral Resources. Rahmad said that natural gas is the main raw material for producing subsidized fertilizers of Urea, ZA and NPK types.

"Thus, the reduction in natural gas prices will have an impact on the agriculture sector and national food security," Rahmad said.

Rahmad explained that the portion of natural gas for producing urea fertilizer reaches 70 percent. While the price of natural gas that has been obtained by Petrokimia Gresik from a number of suppliers is quite high, on average at US\$ 7.45 per MMBTU.

"The price of US\$ 7.45 per MMBTU is quite high when compared to other fertilizer factories in Indonesia. And it is very high when compared to other countries in Southeast Asia such as Vietnam, Malaysia, and so on," Rahmad said.

Rahmad explained that, with the new regulation from the Ministry of Energy and Mineral Resources, Petrokimia Gresik will receive natural gas prices in the range of US\$ 6 per MMBTU. Rahmad projecting the cost efficiency of the production of Urea, ZA, and Petrokimia Gresik NPK will reach Rp 743.97 billion per year, which also has an impact on reducing the fertilizer subsidy costs that must be paid by the government.

At present, Petrokimia Gresik has 31 plants (fertilizer and non-fertilizer) with a total capacity of 8.9 million tons per year. The plant which using 15 units of natural gas as raw material, namely two units of ammonia plant (Urea raw material) with a production capacity is 1.1 million tons per year, two units of Urea plant with a capacity of 1 million tons per year, three units of ZA plant with a capacity of 750 thousand tons per year, and eight NPK plants with a capacity of 2.7 million tons.

Although the price range of US\$ 6 per MMBTU is still above the price of natural gas in other countries (US\$ 3-4 per MMBTU), Rahmad remains optimistic that this price reduction has greatly helped improve the efficiency of the company in dealing with global competition.

This efficiency is in line with the business transformation program that has been promoted by Petrokimia Gresik since 2019. One of the goals is to improve and increase the efficiency of

the value chain. At present, all business processes are at the most effective and efficient stages, so that the cost of products sold by Petrokimia Gresik becomes more competitive.

"In the business transformation program, we are also trying our best to reduce the cost of non-natural gas to be lower than the average of similar industries in Indonesia and China. We have done this to balance the high price of gas so far," Rahmad said.

Meanwhile, Rahmad also explained that the reduce in the price of natural gas not only had an impact on increasing the competitiveness of the company, but could also be felt by the government through the efficiency of subsidies.

If the cost of fertilizer production is getting smaller, the subsidy budget which is paid by the government to Petrokimia Gresik can be more efficient. Considering that in 2020, the allocation of subsidized fertilizer that must be distributed by Petrokimia Gresik is 4.1 million tons or 52 percent of the total national allocation (7.9 million tons) which is the responsibility of Indonesian Fertilizers.

"The government will get benefits in the form of subsidy budget savings in the state budget, or can increase the volume of subsidized fertilizer production, or it can also adjust the highest retail price (HET) that is affordable for farmers," explained Rahmad.

Thus, in addition to the government, farmers can also indirectly enjoy or get the multiplier effect of this gas reduction regulation. Petrokimia Gresik itself can also utilize existing efficiency to improve product quality.

"In addition getting the benefits of a more affordable price, farmers can also enjoy improving product quality and of course also the services of Petrokimia Gresik," Rahmad said.

Finally, with the natural gas price reduction regulation, Petrokimia Gresik hopes to realize the goals of the business transformation program, which is to support the national food security program, as well as to become the market leader and dominant player for agro-industry solutions.

PT Petrokimia Gresik

Yusuf Wibisono
Corporate Secretary

For further information contact:
Corporate Secretary: Yusuf Wibisono
Office: (031) 3981811
Ext 2218
Mobile: 0811 378 571
Email: wibisono@petrokimia-gresik.com
yusufwibie@gmail.com