



## EXECUTIVE SUMMARY

### 40<sup>th</sup> INDONESIA PETROLEUM ASSOCIATION ANNUAL CONVENTION AND EXHIBITION - 2016

#### INTRODUCTION

The 40<sup>th</sup> Annual Convention and Exhibition (Convex) of the Indonesian Petroleum Association (IPA) was held on 25-27 May 2016 at the Jakarta Convention Centre with the theme:

#### **'Shifting Paradigms in Indonesia – Supplying Energy in the New Reality'**

As the biggest annual regional event for the upstream oil and gas industry, this year's Convex included the following highlights:

#### HIGHLIGHTS

- Opening of the 40<sup>th</sup> IPA Convention & Exhibition by H.E. Darmin Nasution, Coordinating Minister for Economic Affairs on behalf of H.E. President Joko Widodo
- Over 21,000 visitors, including over 1872 delegates from 19 countries
- Excellent industry participation with 161 exhibiting companies, despite the current low oil price
- Around 170 technical papers and poster presentations from professionals and students covering Geosciences, Engineering and Business/Commercial subjects
- Strong media turnout with 532 journalists attending from a range of national, international, local and specialist media organizations

#### PROGRAM SUMMARY

##### I. OPENING CEREMONY

The 40<sup>th</sup> IPA Convention and Exhibition was officially opened on behalf of President Joko Widodo by H.E. Darmin Nasution, Coordinating Minister for Economic Affairs on 25 May 2016.

In his opening address, the Minister raised the following key points:

- Government and industry have collectively addressed many key issues over the past two years of the global slowdown and the government is now committed to prioritizing key industries to support the economic growth of the country. The infrastructure industry and oil and gas sector are two key areas in which the government are focused on.
- The Minister emphasized that the oil and gas industry remains a key driver for economic growth as well as providing significant revenue to the government and that attempts are being made to improve bureaucracy and reduce regulations to encourage investment. 12 stimulus packages have been developed, including modification of the negative investment list. Economic growth is being maintained, and although there has been a small reduction in growth in 1Q 2016, this is still higher than 1Q 2015 and is anticipated to remain at 5% for 2016 as a whole.

- Government is committed to the process of reform, firstly by implementing infrastructure development but also by providing licenses and reducing bureaucracy across multiple sectors.
- The Minister emphasized the importance of human resources and the need to develop a competent, trained workforce and recognized the role of government in this key area to establish policies that encourage private investment in training to provide certified, competent graduates to support industry.
- He also noted that oil and gas investment has shown a significant decline in the past two years and that this is not just because of the oil price, but because of the design of government policies. He emphasized that “to delay reform is a luxury we cannot afford” and that the time to act is now to revitalize the sector.
- The Minister also noted that licensing is to be simplified, but that this is not enough on its own – policy design needs to change and all Ministries need to be involved in a coordinated effort, including Oil and Gas, Finance, Forestry, Maritime Affairs, etc. He noted that his Ministry will, in conjunction with the Ministry of Energy, work together on these reforms for the upstream sector.
- In summary, the Minister welcomed all attendees to the Convention and looks forward to the industry working together during the event to produce substantive resolutions for the industry in Indonesia.

In his opening speech to the Convention, Minister of Energy and Mineral Resources, H.E. Sudirman Said stated that even though the industry is seen to be in decline, the Convention was still a critical event for the sector and for the government and that collectively, we must remain optimistic. He emphasized the need to challenge and re-test our way of thinking in the low oil price environment as the industry is not just a revenue earner for the government, but is now seen more as the driver for economic growth. Other key points made by the Minister were as follows:

- Recent efforts have been made in the Ministry to reduce the number of licenses to 20 and cut bureaucracy.
- SKK Migas management is becoming more open and will give more certainty on decision making.
- Collectively, we need to control costs and efficiencies and adapt to survive in the current environment and we must do this together in a spirit of collaboration.

In summary, the Minister remarked that as an industry, we are being tested – there is worrying data but the bottom line is to find solutions in the new reality and that this cannot be avoided. He hoped that the Convention would act as a forum to identify and agree on solutions for the industry.

Christine Verchere, President of the IPA, noted in her opening remarks that the IPA has a long history of working closely with the government and that in the new reality, government and industry should look at the issue as a whole between all stakeholders to ensure the future energy security of the country. She noted that oil prices will continue to remain challenging and that industry and government need to adapt and improve productivity.

She also remarked that change and reform is required to be addressed in 4 critical areas during the Convention plenary sessions:

- How can Indonesia compete for investment on a global scale
- How to address inter-sectoral reform
- The importance of gas production and investment in the new reality to ensure energy security
- The role of oil and gas as a catalyst for regional development

In summary, the IPA President highlighted the need for industry and government to be aligned to ensure that disincentives are removed in order to encourage investment. She noted that we have seen change in Indonesia but more needs to be done and she asked government to let the IPA work in collaboration with government to enable the energy sector to grow. Attractive investment returns,

together with an improved regulatory environment, are essential to enable the sector to grow to deliver the energy that the country requires in the new reality.

## **2. PLENARY SESSIONS**

### **2.1 Plenary Session I**

**Theme: “Surviving the Oil and Gas Industry in Indonesia under the Current Oil Price”**

#### **Panelists:**

- 1. H.E Bambang Brodjonegoro – Minister of Finance, RI**
- 2. Darmawan Prasodjo – Deputy Chief of Staff of the Presidential Staff Office**
- 3. Craig McMahon – Head of Asia Pacific Research, Wood McKenzie**
- 4. Dwi Soetjipto – President Director and CEO, Pertamina**
- 5. Cedric Creamers – Vice President Commercial and New Business Development Asia, Shell**
- 6. Ronny Hendrawan – Vice President Global Marketing, Schlumberger**

**Moderator: Dewi Fortuna Anwar**

#### **1. H.E. Bambang Brodjonegoro, Minister of Finance, RI**

The Minister commenced his keynote address by noting that the oil and gas industry was now producing just 5% of total government revenue, a significant decrease from previous years and that the majority of government revenue now comes from taxation. He noted that the impact of the oil price has been severe and that although the overall situation in Indonesia was not too bad from a financial standpoint, the oil and gas producing areas and regions of Indonesia had been adversely affected due to reduced budgets and a reduced share of revenue.

The Minister also recognized that reserves levels are declining and that production was seen to be averaging 800 MBOED in the current year, which is below planned and budgeted levels. He remarked that government wants to help the situation and that he was anticipating an oil price in the range of USD 60-70 in 4Q 2016, but that nobody can predict the price and there was an ongoing high level of uncertainty. For this reason, he recognizes that fiscal incentives are important, however he views the cost recovery mechanism as the primary incentive and noted that oil and gas operators have enjoyed a high oil price for many years prior to the current downturn. From a downstream viewpoint, he encouraged future cooperation and partnership with government in the public / private investment in refineries.

He added that the government is focusing on improving current fiscal regulations, namely on land and buildings tax and also on reducing VAT on imported good to assist the industry. The Minister also noted that he wanted operators to track their assets carefully as these were government assets and that the government would be monitoring these assets carefully in future. In summary, the government are aiming to improve the investment climate although he also asks for more cooperation on cost recovery. Incentives will be given to the industry based on priorities, particularly for new fields.

#### **2. Darmawan Prasodjo – Deputy Chief of Staff of the Presidential Staff Office**

Pak Darmawan opened his speech by saying that the country is not running out of oil, but is running out of cheap oil. In Indonesia, production is down but demand is increasing, resulting in the need for imports. He also noted that exploration levels are significantly lower but that new investment will only happen if risk and return are considered carefully by all stakeholders.

He remarked that the problem with government is that there is a “one size fits all” style of fiscal planning and that there needs to be a paradigm shift in thinking. From a positive standpoint, he highlighted the existence of the Nawacita government-produced document which outlines a flexible fiscal system that the government has prepared to address this issue and encouraged all participants to

review the document. As he noted in his presentation, the fiscal split is not the issue – the real issue is the ROI (Return on Investment) and noted the need to move from a regressive to a progressive fiscal system in order to change the paradigm.

He also noted that there was to be 12 deregulation packages and that one of these would address industry concerns within the oil and gas sector. He summarized by remarking that there needs to be a paradigm shift from a bureaucratic environment to a more business-like environment.

### **3. Craig McMahon – Head of Asia Upstream Research, Wood McKenzie**

Craig McMahon, South East Asia director for Wood McKenzie, opened his presentation by saying that there was a rebalancing underway and that his research indicated that prices would remain around USD 50 per barrel in 2016, rising to approximately USD 60 per barrel in 2017. Globally, he noted that there had been savage capex cuts across the globe and that the breakeven price had fallen dramatically from USD 93 to USD 43 due to severe cuts in capex and operating costs throughout the industry. He anticipates that when the upturn comes, it will be focused on unconventionals in North America, where the ROI is much more favorable.

In Indonesia, he noted that exploration has under performed and this was shown by the fact that no licenses had been awarded in 2015.

He concluded by saying that we are all in this together and that there is a need to reposition and use this as an opportunity to change the industry. Companies have changed – they are now focused on 3 key areas – new projects producing a high ROI, returning cash to shareholders in the form of dividends and buybacks and finally paring down their debt levels. The overriding message was that CAPEX discipline is here to stay. Investors in Indonesia need certainty and positive signs that the government is actively engaged in reform at all levels and that Indonesia needs to adapt now if it continues to want to grow.

### **4. Dwi Soetjipto – President Director and CEO, Pertamina**

The CEO of Pertamina opened his remarks by saying that Pertamina was not just an operator – the company was focused more on the future energy security of the country. By 2050, Indonesia will be one of the top 5 economies in the world and therefore needs energy to fuel that growth.

The strategic priorities for Pertamina were in 5 key areas – upstream development, improving operational efficiencies, increasing refining capabilities, developing marketing opportunities and financial prudence. The company is focusing on several major refinery upgrade projects amounting to billions of dollars in investment. He closed his speech by saying that Pertamina welcomed future partnership opportunities, from both the public and private sectors.

### **5. Cedric Creamers – Vice President Commercial and New Business Development Asia, Shell**

In his speech, Cedric Creamers explained that Shell are positioning themselves as “lower for longer” in terms of the oil price, although he emphasized that he believes that in the longer term, supply and demand factors will return and energy demand will rise. He believes this is an opportunity for the oil and gas industry to make the sector stronger and that in the current environment, companies must do what they can to remain competitive. In Shell, for example, capex is down 35% and operating costs have been reduced by 20%.

This same principle applies to countries – they must focus on the long term and stay attractive for investment. Countries should also note that when less capital is available, investment is much more competitive and Indonesia needs to react to this scenario and make themselves more attractive for external investment. In Indonesia, for example, by the end of the decade the country will be a net gas importer and the fiscal terms therefore need to change in order to reverse this trend.

On a positive note, he noted that Indonesia still has a lot of unexplored areas offering great potential, with a widespread resource base of people and the availability of expanding infrastructure. In terms of recommendations as to what to do next, he offered two key areas – firstly, the need for fiscal reform and secondly, regulatory reform particularly in the area of permitting where he has experienced the need to obtain 331 permits and many of them sequentially rather than in parallel, thereby extending the project lead times beyond accepted norms. In summary, he remarked that radical reform is needed and that this requires both courage and political will to succeed.

## **6. Ronny Hendrawan – Vice President Global Marketing, Schlumberger**

The VP of Schlumberger requested that in order to succeed, industry and government must act together. The service sector was experiencing a massive downturn in activity and he noted that activity levels are now back to where they were in 2003. These previous downturns were typically driven by demand, whereas this is being driven by the market.

He remarked that in this new reality, service companies simply will not survive unless something changes as cost cutting has reached its limit. Service companies need a flexible business model to operate and he urged government to work together with industry in Indonesia to create a business model that was effective for all stakeholders.

## **7. Question and Answer Session**

In the Q and A session, the Minister of Finance was asked why there was negative public opinion of government and big business and how this could be changed? He replied by reiterating that the revenue from oil and gas was no longer important – the industry must now be seen as the driver for the multiplier effect on economic growth. The Minister wants to improve Gas production and in reply to a further question concerning potential further investment incentives, commented that cost recovery is the incentive and is already in place. However, he did note that he would be promoting further tax incentives where appropriate and would be reviewing tax holidays and possible investment credits.

In reply to a question concerning what the government was doing to uncover the potential of East Indonesia, the CEO of Pertamina noted that he was seeing expiring Blocks in a number of regions and and that Pertamina would be interested in reviewing options. Pak Darmawan from the Presidential office noted that there was 600 TCF potential in Indonesia as a whole but the issue was how to turn that into production. In summary, the Panel agreed that action is needed now and the Minister noted that he was open to receiving comments and / or complaints but that some issues cannot be addressed immediately.

## **2.2 Plenary Session II**

**Theme: “Inter-Sectoral Reforms Key to Energy Sustainability”**

**Keynote Speaker: H.E. Sudirman Said – Minister of Energy and Mineral Resources, RI**

**Panelists:**

- 1. Satya Widya Yudha – Commission VII, House of Representatives**
- 2. Amien Sunaryadi – Chairman of SKK MIGAS**
- 3. Andang Bachtiar – Chairman of National Exploration Committee**
- 4. San Afri Awang, Director General of Forestry Planning and Environmental Governance  
Minister of Environment and Forestry, RI**
- 5. Sacha Winzenried, Lead Advisor, Energy, Utilities and Mining, PWC Indonesia**
- 6. Christina Verchere – IPA President**

**Moderator and Facilitator: Tommy Tjokro**

**Keynote Speech: H.E. Sudirman Said – Minister of Energy and Mineral Resources, RI**

Plenary Session 2 was opened with a speech by H.E. Sudirman Said. In his opening, the Minister reiterated the IPA Presidents' views that we are all in this together and that it is not the business of government alone to seek solutions to the current situation in the industry – he emphasized that collaboration is key. He noted that the industry has experienced such downturns before, but that what is missing now is the lucrative margins for business and that is driving uncertainty in terms of investment in Indonesia which had decreased significantly to only USD 18 billion in 2015. On a positive note, the Minister noted that permitting had been improved significantly and that within the Ministry, they are focused on what they can control and what they can improve.

The Minister also referenced his recent OPEC meeting in Doha in April where participants had been unable to agree on phased production, but that there would be a further meeting on 2 June to continue discussions on the issue. He noted the declining power of OPEC to affect global markets, and that the market is dictating the current oil price.

In terms of the future, he remarked that technology will continue to increase and improve and we cannot assume that oil and gas will remain as the single source of energy in the future. His key message was that no single industry will be dominant in the years to come.

In summary, he requested that government and industry sit down together and work in collaboration to identify solutions and improve the investment climate in the spirit of a sustainable partnership.

### **1. Satya Widya Yudha – Commission VII, House of Representatives**

In his speech, Satya Yudha emphasized that government now do not look at the oil and gas industry as a revenue base, but rather as a means to grow the economy. This is a fundamental change and it is a difficult process to enable the transition.

He also noted the balance between the needs of government and the need to address environmental concerns, particularly with regards to emissions, an example being the decision to use coal to drive the proposed new 35000 MW power plant, as opposed to using gas which is the method he is promoting to industry. He concluded his speech by reiterating the need for government to work closely with relevant ministries and industry to address current concerns and that we all collectively share a commitment to the future. Changing the culture is not easy, but together this could be achieved.

### **2. Amien Sunaryadi – Chairman of SKK Migas**

The Chairman of SKK Migas opened his speech by stating that for future energy resilience, the country needs to explore more and we need to react quickly. He noted that it is taking far longer to go from POD stage to production now, and in many cases up to 15 years whereas in previous decades the country and industry had been able to reach the same stage within 5 years.

SKK Migas were therefore focusing on addressing these concerns through accelerating process improvements and reducing permitting requirements. The organization are also strengthening representative offices in the regions through a soon to be enacted Presidential decree.

### **3. Andang Bachtiar – Chairman of National Exploration Committee**

The Chairman of the National Exploration Committee remarked that 12 key recommendations had been submitted to the Ministry of Energy and Mineral Resources in January 2016 but that these had not been acted upon as yet, including the abolition of certain regulations that are inhibiting exploration investment.

He also described the current reserves situation, whereby there was 3.4 billion barrels of oil reserves formally announced as in place, whereas there were actually 5.4 billion barrels of proven reserves, although the gap can be explained by the fact that these are often smaller fields that are deemed to be currently uneconomic to develop. He encouraged government to provide “the keys” to unlocking these reserves in the way of incentives for exploration investment. Data openness was also key – it is essential to make data available to those who are interested in developing small and marginal fields. He concluded by remarking that there should be “Area Development Plans” encompassing multiple fields and that we need to work together to release these reserves for the benefit of all stakeholders. The offshore Natuna area was a prime example where this approach would be feasible.

#### **4. San Afri Awang, Director General of Forestry Planning and Environmental Governance Minister of Environment and Forestry, RI**

The Director General remarked that it was essential to benefit from energy and resource exploitation but that there was a need to preserve the environment in a sustainable manner. The country has to manage and preserve areas that are affected by industry and ensure the ongoing protection of the communities and environments where industry operates.

He noted that with regard to the permitting process, his Ministry was able to process permits within 75 days but that this could be reduced if industry provided all the correct documentation at the correct time.

#### **5. Sacha Winzenried, Lead Advisor, Energy, Utilities and Mining, PWC Indonesia**

The Lead Advisor on oil and gas from PwC opened his speech by noting that the current downturn was an opportunity to improve the regulatory regime for investment. Investors are still positive on the geologic prospects for Indonesia but that the lack of consistent policies within and between Ministry's and different government sections was still an issue and was hampering progress.

Reform is needed in many areas, including tax and GR79 on cost recovery. Permitting improvements are also required, although the creation of the coordinating body BKPM was seen as a positive sign. The recent survey of the industry performed by PwC had identified that 40% of respondents perceive that processes will get worse rather than better, and that this is a sign that we need to work together and be committed to action. PwC were recommending that a single body that operates across all government sectors would significantly help the process.

#### **6. Christina Verchere – IPA President**

In her remarks, the IPA President posed the question to the panel as to what needs to be done in Indonesia to change the existing mindset and unlock the keys to enable investment to grow. She noted that the current low oil price was exacerbating existing problems that were already in place before the price decline and that a collective effort was required to reverse the situation for the benefit of all stakeholders.

She continued by emphasising the structural, process and behavioural changes that are needed to bring about positive change. From a structural standpoint, she noted that fiscal reform is needed as project economics are being continually economically challenged. In addition, she remarked that the existing PSC model was a good model but has become too bureaucratic. Cost Recovery has also become a political issue rather than a technical issue and has resulted in slow decision-making. GR79 has also resulted in changes in fiscal policy during a PSC and while in the middle of an investment cycle and that this is seen as a disincentive for future investment by major operators.

Regarding process improvements, the IPA President noted the need for permitting to improve and also for the approvals process to be accelerated. She also remarked that the resolving of the PSC extensions issue needs to be speeded up to create a more positive investment environment. With regard to potential behavioural improvements, she emphasized that change has to come from the top levels of management in both industry and government to achieve solutions and that this was key to any future recovery. In addition, a move towards more digitisation and away from paper based processes would be a significant efficiency improvement.

She concluded her remarks but saying that if business was seen to be working well in Indonesia, then this would naturally result in improved conditions that would encourage further exploration and investment and result in businesses wanting to develop more in Indonesia. She emphasised the need to work in collaboration to achieve these clear goals.

## 2.3 Plenary Session III

Theme: **“Gas Governance in Supporting the Acceleration of Indonesia Economic Development”**

### Speakers:

1. **I Gusti Nyoman Wiratmadja – Director General of Oil and Gas, Ministry of Energy and Mineral Resources, RI**
2. **Amin Subekti – Regional Business Director of East Java and Bali, PLN**
3. **Agung Wicaksono – Vice Chairman, Unit of the National Electricity Development Program (UP3KN)**
4. **Muhammad Wahid Sutopo – Director of Strategy and Business Development, PGN**
5. **Sabrun Jamil Amperawan – Head of Indonesia Natural Gas Trader Association (INGTA)**
6. **Luca De Caro – Managing Director, ENI Indonesia**
7. **Muhammad Lutfi - Chairman, PT. Medco Energi Internasional**

### Moderator and Facilitator: Lenita Tobing

1. **I Gusti Nyoman Wiratmadja – Director General of Oil and Gas, Ministry of Energy and Mineral Resources, RI**

In his opening address, the Director General remarked that from 2019, Indonesia will be a net importer of gas and the challenge now is to make the necessary reforms and develop gas production and infrastructure. However, he noted that the current price of gas is inadequate to support the development of infrastructure and that the price varied between East and West Indonesia. He noted that the price therefore needs to be consistent. In summary, he remarked that USD 48.2 Billion needs to be invested to produce the infrastructure and improved production levels that are needed to support the growing demands for gas in Indonesia. He also noted that the design of the oil and gas sector needs to change and that in future, gas will be the main economic driver for growth.

2. **Amin Subekti – Regional Business Director of East Java and Bali, PLN**

In his speech, Pak Amin expanded on the details of the proposed 35000 MW power project in Indonesia and noted that since 2011, gas consumption had risen significantly and that the problem is the gas balance and the supply demand gap. From a PLN perspective, they have sufficient supplies for 2016 but from 2017 to 2019 there will be a significant deficit in gas supply compared to demand.

He identified three key challenges going forward. Firstly, the supply condition and that with many PSC's expiring, this may be a future problem. Secondly, the location of future gas supplies and bringing that gas to market with adequate infrastructure. Lastly, pricing was a challenge in terms of consistency and maintaining price levels for PLN.

3. **Agung Wicaksono – Vice Chairman, Unit of the National Electricity Development Program**

Pak Agung also expanded on the proposed 35000MW power generation program by explaining that the program cost was anticipated to reach USD 73 Billion and that it is expected to provide great benefits to Indonesia. The presidential decree of April 2016 was focused on prioritizing electricity supply and pricing and that he expects that the gas plant portion of the program could be more than 25% of the total requirement, thereby providing a good business opportunity for the oil and gas industry.

He highlighted that the electrification of East Indonesia was also a key priority and required the development of infrastructure and gas supply to fulfill demand. Currently, ship to ship was the only way to get gas to the remote areas of East Indonesia and this needs to change in future.

4. **Muhammad Wahid Sutopo – Director of Strategy and Business Development, PGN**

Muhammad Sutopo highlighted the significant investments in gas infrastructure to date, including the

63km pipeline in the Cirebon area, the 470km trunkline from Grissik to Singapore, 1002km pipeline from South Sumatra to West Java, FSRU terminal capacity increases and summarized that the total PGN pipelines under management totaled 7026km at end 2015.

He noted that in order to improve infrastructure, it was imperative to have alignment and joint planning between all stakeholders. The paradigm needs to shift from a point to point business model to one of satisfying specific demand or utilization.

He noted 4 key points for future discussion, namely to have a proven and tested business model, to create alignment and joint planning in supply and allocation, to create a portfolio model to replace the point to point model and finally to enable new policies and regulations that view and protect infrastructure projects and market their development as long-term investments.

#### **5. Sabrun Jamil Amperawan – Head of Indonesia Natural Gas Trader Association (INGTA)**

Pak Amperawan from INGTA outlined his organization which comprises 29 member companies and further outlined their current main concerns including the demand slump which indicated that industrial consumption had slowed down. The oil price was cheap, so the organization was seeing a switch back to using fuel. He noted that it was difficult for producers to identify government priorities to maximize production and give incentives to producers and encouraged the government to give these incentives in future to enable them to develop their businesses.

#### **6. Luca De Caro – Managing Director, ENI Indonesia**

The Managing Director of ENI Indonesia highlighted the upcoming huge gap in the supply / demand balance and noted that future supply is not assured – he summarized with several key points and suggested actions to close the gap:

- a) The need to mitigate the decline of existing fields and particularly focus on clarity surrounding the PSC extension process as this has a detrimental effect on production.
- b) Currently, there are only 4 gas projects of any note in Indonesia – 1 in execution and 3 in the POD phase. Project activity needs to be boosted through more access to the market and clarity on contract terms and fiscal terms.
- c) New, improved regulations are needed to encourage investment in exploration
- d) The building of infrastructure was important for the government to carry out in order to attract operators to develop their projects
- e) Still many opportunities in East Kalimantan and other regions and opportunities for industry and government to work together to exploit existing infrastructure

#### **7. Muhammad Lutfi - Chairman, PT. Medco Energi Internasional**

The Chairman of MEDCO provided a vision of the future, noting that in Indonesia there would be massive industrialization in the years to come and new growth areas. Oil and gas will no longer be a source of income for the government and there will be a clear shift from gas exporting to domestic use. There will also be a transition in focus from West to East Indonesia and a move from onshore to offshore and finally, a renewed focus on gas, geothermal and solar for future energy supply.

The main “gamechangers” were demography, demand, climate change and democracy and he compared Indonesia to neighboring ASEAN countries, noting that Indonesia exported a huge amount of commodities and very few manufactured goods in comparison to these other countries which were directly opposite this model.

He summarized his speech by requesting that the IPA and government should come together as an umbrella organization and work together to create the right environment to enable future growth.

### 3. SPECIAL SESSION

**Theme: “Case Studies of Oil and Gas as Catalysts for Regional Development”**

**Keynote Speaker:**

**Panelists:**

1. Amien Sunaryadi – Chairman of SKK Migas
2. Suyoto – Regent of Bojonegoro
3. Rukijo – Director of Financial Balance, Ministry of Finance, RI
4. Stepanus Malak –Bupati of Sorong
5. Asril Awaloeddin – Director, PT.Asrindo Citraseni Satria
6. Ronald Gunawan – IPA Board Member
7. Andang Bachtiar – Association of Oil and Gas Producing Regions, RI

**Moderator & Facilitator: Hakim Nasution**

The Special session this year focused on the role of oil and gas as a catalyst to increase and develop the regions of Indonesia, particularly in remote areas where the industry can have the greatest impact on local communities and economic growth. Speakers were present from government, from industry and included the Bupati and Regents from a number of regions.

The Moderator opened the session by noting that there had been significant job losses in multiple regions due to the decline in the oil price and that this, in conjunction with lower share of revenue / profit-share from central government, was having a severe affect. As an example, 100,000 jobs had been lost in Batam, with some local employees in this number but many being migrant workers.

The Chairman of SKK Migas noted in his address that the upstream industry was a catalyst for regional development. There are two types of regional development brought by the Oil & Gas projects : result (from revenue sharing – Dana Bagi Hasil DBH) and process (from direct and indirect support services and industries required from the project activity), and that there had been many successes but also some failures as well. Regents had been complaining that budgets and funding were being cut and this was a common theme of each speakers comments during the session. Pak Amien also noted in his speech that the industry provided significant benefits to regions in terms of supporting services, logistics companies and associated employment.

Bojonegoro, housing the Cepu Block development, has been successful in benefitting from the Oil & Gas project in their area. The key to the optimal utilization of the project impacts is to have sustainable programs and objectives, dialogue between stakeholders and transparency.

- Bojonegoro’s share of the revenue-sharing is used to improve public services (focusing more on education and health), Village Fund, improving the human capital, and encouraging fiscal sustainability through local banks. As a result there is an incentive to invest in Bojonegoro due to the performing region.
- The success is demonstrated quantifiably by the increasing employment rate and the decreasing GINI ratio (to measure poverty and inequality gap)  
Sorong, housing several oil blocks, also shared their success story in managing the benefits. The oil & gas projects have induced economic growth that trickled down to other sectors, namely electricity , education and health.
- Sorong government has aided investors in various processes such as AMDAL and land acquisition, where the government has set clear rules to be followed, and introduced to different stakeholders. For examples, setting a target time of completion for several permits.
- However, Sorong government addressed the importance of transparency. He requested for a more transparency in calculating the revenue sharing.

Speakers noted the need for government transparency and accountability and the ongoing need to maximize the benefits of the oil and gas industry for local people. Pak Rukijo from the Ministry of Finance also noted that many people in the regions depend on natural resources and they are being adversely affected, with revenue being down and an apparent lack of funding for new projects. He expressed the challenges and issues around division of revenue sharing. The amount of revenue received by the end of the sharing might not be equal to the budgeted amount since the revenue also depends on the oil price, and however such concept is not entirely known to all regions. He noted that by the end of 2016, there would be new regulations relating to profit-sharing and the subsequent channeling of funds to the regions.

IPA Board member Ronald Gunawan remarked that we have common challenges to face together – we have gas, but if we carry on as “business as usual”, then we will suffer. The reserves replacement ration in Indonesia is 50% for oil, lower than other countries and we must therefore increase exploration. Project cycles have increased up to 15 years for new projects and this trend must be reversed for the benefit of all, including the regions. The challenges of increasing regulations, cost elements and the related reduction in spending, combined with security and social disturbance, have all had an effect on regional development and he commented that the IPA was there to help in terms of identifying reforms and future assistance.

In summary, the speakers agreed to support each other and build partnerships to facilitate transparency and accountability around revenue sharing and other key areas.

#### **4. CLOSING CEREMONY**

The closing ceremony of the 40<sup>th</sup> IPA Convention and Exhibition commenced with an address by Pak Djoko Siswanto from the Ministry of Mines and Energy, who announced the new concepts for the Petroleum Bidding Rounds for 2016. These included the option for operators to suggest revenue-sharing splits and signature bonuses to government for negotiation as a means to encourage investment. The government will choose the winners of tenders from the best offering based on owners estimates. The process will include 2 stages – an initial Basic Assessment of operators financial and technical capabilities, followed by a Final Assessment which will be on a combination of participants’ proposals for work programs and commitments, signature bonus and sharing split. The schedule was announced for 2016 and an outline provided of the new e-tender process.

Awards were then given to the winners of the Technical papers and Poster sessions as well as the winners of Best Booths during the Convention exhibition.

In her closing speech, the IPA President, Christine Verchere, outlined the pride that the oil and industry has in the role of oil and gas in society and the value of efficient and effective energy supply to a country the size and scale of Indonesia. She reiterated that it was time for change and to look for solutions together to address current industry concerns and she added that although it was encouraging to see new Blocks being opened, the industry as a whole needs to act and look for solutions after the event had closed.

The Director General of Oil and gas, IGN Wiratmaja Puja, remarked in his closing speech to the Convention that there were two key issues to address – firstly, the need for flexibility, especially for fiscal policies so that the business climate can be maintained and secondly to continue building momentum to ensure that the paradigm shift is realised for the benefit of all stakeholders. Finally, he noted some other key points, namely that government must work hand in hand with industry in accordance with the President of RI’s wishes, to improve policy making to develop national capabilities and that the IPA and government synergy needs to be maintained and developed in future. The Director General then officially closed the Convention and hoped to see all participants at the next IPA Convention in 2017.

## **5. CONCLUSIONS**

The 40<sup>th</sup> IPA Convention and Exhibition was a great success, including over 21000 visitors, 161 exhibiting companies and over 1900 registered participants from 19 countries. Plenary Sessions and the Special Session were also well attended, and proved to be productive and insightful. There was also wide coverage in the media, with over 500 national journalists and foreign journalists in attendance, covering the key issues discussed and raised during the Convention. The Technical Papers and Poster Presentations had also been a great success, with 116 oral presentations and 56 posters being displayed at the Convention.

The IPA sincerely hope that the government and industry can continue to work together in close collaboration to find solutions to ensure the future energy security of Indonesia.