



Oil and Gas Industry Enters **A New Era**



Tumbang Parlindungan, Application of
Technology for Efficiency

Interview : Yustinus Prastowo

Gross Split Scheme Hasn't Effective
to Attract Investor

IPA Highlighted Its 2019 Priorities to SKK Migas



Welcoming the New Era

President Joko Widodo's victory for the next 5 years raises new questions in the oil and gas industry. Will there be a breakthrough that will be made by the elected President? Although there have been several achievements made by President Jokowi during 2014-2019, it is undeniable that the upstream oil and gas industry has been long abandoned. Meanwhile, the global economic condition is still at the lowest level.

The entire upstream oil and gas industry is now awaiting the government's strategy to overcome this. The Gross Split scheme is claimed to be able to overcome the conditions of investment in the oil and gas industry that have deteriorated in the last 5 years. In fact, there is no meaningful exploration in Indonesia. Gross split scheme, seen from fiscal perspective have been successful elsewhere in the world. However, the scheme may not be well suited to Indonesia's oil and gas industry where there are a large number of low-margin, high-cost fields and very capital intensive projects located in deep water frontier areas. At this point, an expert says that incentives will play significant role to the development of the industry.

Entering the New Era of Joko Widodo's government, this time the IPA News will



explore the various challenges of the oil and gas industry and how the government steps in overcoming these challenges in Focus. An expert view of the current oil and gas industry policy in The Expert, and the latest activities from the Indonesian Petroleum Association in highlights.

Our plan is for the IPA News to be a vehicle for communication between the members of the association; to further encourage the strong cooperation amongst out members

It's time to welcoming a new era of oil and gas industry!

Tumbur Parlindungan
IPA President

- **Publisher:**
Indonesian Petroleum Association
- **Adviser:**
IPA Board of Directors
- **Editorial Board:**
Marjolijn Wajong, Posman Sianturi,
Craig Binks, Fanny Febyanti



T. +62 21 515-5959
F. +62 21 5140-2545/6
E. inquiries@ipa.or.id
<http://www.ipa.or.id>

Indonesia Stock Exchange
Building Tower II, 20th Floor
(Suite 2001)
Jl. Jendral Sudirman Kav. 52-53
Jakarta 12190.

Application of Technology for Efficiency

Nobody ever thought that PT Saka Energi Indonesia, which had been established in one of the warehouses in Jakarta, was now able to control 12 oil and gas blocks in Indonesia. **Tumber Parlindungan, President Director of PT Saka Energi Indonesia**, never once guessed this when he accepted the offer as Chief Executive Officer of this subsidiary of PT Perusahaan Gas Negara (PGN).

In a relatively short time, Tumber managed to lead Saka Energi to become one of the oil and gas companies that matter both on a national and international scale. Under his leadership, Saka Energi's track record is quite shocking for the oil and gas industry in Indonesia. "The beginning of Saka was established to be aimed at supporting PGN in terms of infrastructure. But then it developed to be able to manage its own blocks," he said when he met IPA News in his office recently.

Tumber explained that Saka Energi is a subsidiary that is wholly owned by PGN and was established in 2012. The initial objective of the company's establishment was to ensure long-term gas supply for PGN's interests. He explained that the process of building Saka Energi is not easy. Saka Energi has contended with ebbs and flows as a result of the declining world oil prices so that it can continue to this day.

The company, he added, continues to make a number of reforms that were deemed necessary. Even breaking the traditional bureaucracy that is ingrained into state companies' culture. "We cut the existing bureaucracy, such as the process from the submission of ideas to approval. In the past (the approval process) could be up to four stages, but now it's only two. As long as (the ideas) are proper and accountable, it can be approved immediately," he said.

Not only breaking the complicated bureaucracy, but Tumber also carried out a technological revolution in all aspects of the company's operations. According to him, by using the current technology, his team could complete a project that initially took three weeks, in only 30 minutes. "So if we rely on technology, the effectiveness of the time is felt. The human resources who originally worked on the project manually, from entering the required data to analyzing it, are now converted into analysts. "They simply analyze the results of the existing engine," he explained.

Not surprisingly, currently Saka Energi has a very lean organization. To manage 12 oil and gas blocks at present, Saka only has around 300 employees. "To streamline the

company, we do rely on the most updated technology," he added.

As a recognition for the innovation, Saka Energi won an award from SKK Migas for Best Performance in the category of Offshore Workover and Well Services 2016. Saka Energi won the first rank out of 128 KKKS evaluated by SKK Migas according to the criteria for program fulfillment, the fulfillment of working days, communication, reports, costs, acquisition and realization of production.

"In these difficult times, we achieve production yields 15 percent higher than the set production targets and all jobs are completed on time and according to the budget," said Tumber.



EFFICIENCY IS THE KEY

According to Tumber, efficiency and use of technology is the key to all the breakthroughs, encouraging the company to achieve maximum performance. For him, investment in the field of technology does indeed carry a considerable price, but it is commensurate with the results to be obtained.

"We employ a lot of millennials who are more fluent in technology. As a leader, I do not want to limit myself to what I know, but also learn from the generation below me to keep up-to-date on the progress of the times," he said.

Tumber asserted that the oil and gas industry actually has increased efficiency through technology ahead of other industries. There are many exploration jobs that rely on technology. "So if the oil and gas industry is currently encouraged to implement technology to be more efficient, this is actually irrelevant because we have done it since forever," he concluded.

Instead, added Tumber, efficient efforts to increase oil and gas exploration and investment must come from the Government. In this case, the Government plays the most important role in generating efficiency in the oil and gas industry. "What should be done is efficiency in terms of bureaucracy and licensing so that investors do not have to wait a relatively long time for project approval," he said.

If efficiency in terms of bureaucracy and licensing is successfully carried out by the Government, Tumber believes the oil and gas industry will return to its former glory and foreign investors will also be interested in investing in Indonesia. The oil and gas exploration and production target as announced by the Government is undoubtedly achievable.

In particular, Saka Energi, according to him, will remain focused on the exploration and development of existing oil and gas projects. "We are working hard to produce the best technology that enables us to increase efficiency and set very competitive prices," he said as he concluded the meeting. ○



Oil and Gas Industry Enters A New Era

After experiencing a slowdown from 2015 to 2017, the national oil and gas industry began to show an increase in 2018. This is evident from the increase in investment in this sector.

Based on SKK Migas (Special Task Force for Upstream Oil and Gas Industry) data, upstream oil and gas investment in 2018 was recorded at USD 11.9 billion or an increase of around 16.7 percent compared to the previous year, which only reached USD 10.2 billion. In comparison, upstream oil and gas investments in 2015 and 2016 were recorded at USD 15.3 billion and USD 11.6 billion, respectively.

From these figures, there is a downward trend in investment in upstream oil and gas in the period 2015 to 2017. However, in 2018 the oil and gas industry actually experienced an increase. This is clearly a positive signal for the national oil and gas industry. The Ministry of Energy and Mineral Resources (ESDM) even claimed that the increase in oil and gas investment occurred after the implementation of the Gross Split Production Sharing Contract scheme in early 2017.

However, according to the President of the Indonesian Petroleum Association (IPA), Tumbur Parlindungan, when he met the IPA News in his office, the increase in oil and gas investment actually did not happen in a large number of salable work areas taken by potential investors. But more than that, the success of increasing oil and gas investment will be evident from the number of exploration activities carried out by contractors, both seismic surveys and exploration drilling.

He added investment in the oil and gas sector is currently very small compared to a dozen years ago. In fact,

oil and gas reserves in Indonesia are known to be still very large and there are still many that have not been explored. "If we compare 10 years ago with the present, the amount of exploration is much reduced. Investment is greatly reduced even though the resources or potential are believed to be still far greater than other countries in Southeast Asia. What does it mean? Oil and gas investment in Indonesia is still considered less attractive than in other countries," he concluded.

Tumbur highlighted a number of obstacles that hampered the potential oil and gas investments to Indonesia, one of which was the handling of non-comprehensive investments. This is seen as slowing down the investment process and at the same time reducing investor interest in investing in Indonesia. "Regulators should give investors an opportunity to work by making better handling. Later, after exploration is done, then we can talk about the impact," he said.

In line with Tumbur, Executive Director of the Center of Indonesia Taxation, Yustinus Prastowo, said that the Government's current focus should be more on upstream oil and gas regulation and fiscal policies that encourage investors to invest in Indonesia.

He contends that there is currently a consumption gap between demand and existing energy production. On the demand or consumption side, the increase is inversely proportional to the amount of production and the search for new energy reserves. "To patch the emerging consumption gap, the Government uses a lot of foreign exchange to buy foreign oil (imports). If the performance of domestic oil and gas production is not fixed, then it has the potential to lead to dependence on imports," he explained.

Yustinus added, the Government's mistake is that it often made policy without first looking at the industry's

needs. He highlighted the change in the oil and gas revenue sharing scheme from PSC Cost Recovery to PSC Gross Split in 2017. "Initially, the Government strongly stated that this scheme would increase oil and gas investment. In fact, the planned Gross Split PSC scheme has not proven successful," he said.

From the available data, continued Yustinus, the number of working areas taken by investors is still very small compared to other countries. The limited choice of oil and gas investment schemes will make investors more careful in making their investment decisions because the split calculation variable tends to be large, with greater risk on the investor side. "In the end, investors can only participate in Work Area tenders with large and fairly certain potential findings," he concluded.

Economically, Yustinus also believes that the Gross Split scheme will be very attractive if the existing investment climate is very conducive including the certainty of regulations and simplification of the permit process.

Meanwhile, a member of the Commission VII of the Indonesian House of Representatives, Kardaya Warnika, said that the currently implemented Gross Split PSC scheme had errors. He contended that there are several gross split rules that are not fully implemented by the Government. "Since it was introduced 10 years ago, the gross split scheme clearly provides that the distribution of revenue is at the start. The system is very simple, in which the production splits are conducted up front between the Government and the KKKS. So the supervision work by the Government over the procurement process is no longer needed," he said.

Kardaya added that, in the Gross Split PSC scheme, the contractor was given the freedom to determine the procurement of the most efficient items. However, the current conditions in which the licensing process is long and often changing actually makes it difficult for investors to carry out exploration activities efficiently.

A NEW ERA

Tumbur Parlindungan said that it is time for the national oil and gas industry to enter a new era; where the industry must be able to attract investors to explore, taking advantage of the currently improving macro conditions in the Indonesian economy. "Indonesia's macroeconomic conditions are actually the most attractive among Southeast Asian countries. So is the potential for oil and gas exploitation. Now is the right moment to carry out total reforms in the oil and gas industry in Indonesia," he explained.

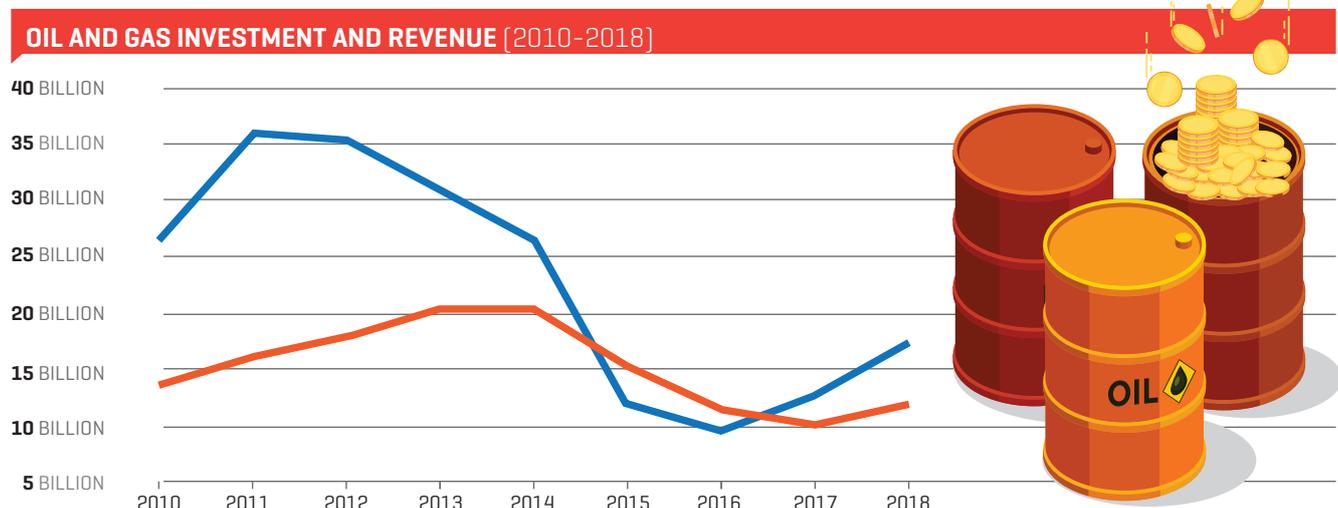
Tumbur added that the Government must also carry out comprehensive regulatory reform, not just creating popular policies. "So you can go with either cost recovery or gross split, KKKS; as long as the regulations support it well. Change the now, where the regulations of the Central Government and Regional Government are still overlapping," he said.

In line with that, Yustinus also explained that a number of remedial steps must be taken by the Government to welcome the new era of the national oil and gas industry. "Considering the geological conditions, the focus of the Government should be to improve regulations related to the upstream

oil and gas industry and fiscal policy. The regulations that must be corrected include the issue of overlapping land rights, an unattractive profit sharing scheme, contradictory regional regulations, complicated import policies, and zero protection against the sanctity of contract," he explained.

He hopes that the Government would be able to create an attractive investment scheme for investors while maintaining the continuity of existing business conditions; including reviewing other investment schemes with open ideal concepts. "Thus, the Government is expected to be able to create an in-advance breakthrough and certainty in order to increase Indonesia's competitiveness compared to other countries; for Indonesia to become an attractive investment destination for investors," he concluded, closing the discussion. ○

"IT IS TIME FOR THE NATIONAL OIL AND GAS INDUSTRY TO ENTER A NEW ERA; WHERE THE INDUSTRY MUST BE ABLE TO ATTRACT INVESTORS TO EXPLORE, TAKING ADVANTAGE OF THE CURRENTLY IMPROVING MACRO CONDITIONS IN THE INDONESIAN ECONOMY."



Source: Ministry of Energy and Mineral Resources of the Republic of Indonesia



Gross Split Scheme Hasn't Effective to Attract Investor

The oil and gas industry in Indonesia is in for a challenging time. The current lack of exploration activities raises big questions for a number of parties, including **Yustinus Prastowo**, Tax Observer who is also the Executive Director of the Center of Indonesia Taxation (CITA). One of the main discussions currently floating around is how effective the Gross Split PSC scheme is for attracting oil and gas investment to Indonesia and at the same time increasing efficiency in the oil and gas industry?

IPA News had the opportunity to speak with Yustinus recently. The following is a quote from the interview.

State revenue from the oil and gas sector in 2018 has increased due to the impact of rising world oil prices. The government is advised to continue to increase domestic oil production. What do you think about that?

Of course, I agree with the idea. In my opinion, the Government must immediately take action to increase domestic oil production. As we know, national oil and gas demand is very large. Based on the 2016 consumption realization data released by BP's Statistical Review of World Energy of 2017, the portion of petroleum is 41 percent, natural gas 19 percent, coal 36 percent and renewable energy at 4 percent. Looking ahead, the projected energy needs are still dominated by oil and gas.

The government has also released the 2015-2050 General National Energy Plan (RUEN) stipulated in Presidential Regulation No. 22/2017. As stated in RUEN, the projection of national energy needs in 2025 consists of 23% renewable energy, 25% petroleum, 22% natural gas, and 30% coal. Meanwhile, in 2040, the portion will change to renewable energy 31%, petroleum 20%, natural gas 24%, and coal 25%.

Despite very large oil and gas needs, there is a significant problem related to the management of the main energy productivity, namely the consumption gap. At present, Indonesia is at a critical point where an increase in energy demand is inversely proportional to the rate of decline in production levels, followed by a reduction in the replacement rate of existing production and reserves (reserve replacement ratio). This is because oil production continues to decline due to aging production wells and the lack of significant new reserve discovery activities.

To patch the consumption gap that occurred, the Government was forced to spend a lot of foreign exchange reserves to buy oil from abroad (imports). If the performance of domestic oil production is not fixed, then it has the potential to force Indonesia into dependence on imports and ultimately drain existing foreign exchange reserves.

The Gross Split scheme launched by the Government is expected to increase efficiency for K3S, why is that?

Unlike the previous profit sharing contract that uses a cost recovery scheme, the production sharing contract with the gross split scheme is expected to create cost efficiency for the Contractor. In other words, the Contractor will have the motivation to reduce operating costs to be more efficient, considering that the costs are the full responsibility of the contractor. Because costs are reduced, the profits and Contractor can reap a better return on investment.

This new system will also save time because the procurement process does not need to wait for permission from SKK Migas.

Is the Gross Split scheme really appealing to oil and gas investors?

The Gross Split scheme proved to be unattractive. Now the data shows that only block tender sells well. Meanwhile, we see increasing oil and gas investment in other countries. So, it could be surmised that Gross Split is less attractive to investors. Unfortunately, the contractor currently has no choice. If you want to invest, you must use the Gross Split scheme. Investors will certainly think more carefully before setting their investment decisions because the split calculation variable tends to be large and the risk is greater.

It could be that investors will only participate in the tender offers for the work area with the potential for large and quite certain findings. Or in other words, there will only be a few blocks or areas of work offered that investors can sell. Economically, the Gross Split scheme is actually more attractive when the existing business and investment climate is conducive and able to support its implementation. Including the ease of investment, the stability of economic fundamen-

IPA Highlighted Its 2019 Priorities to SKK Migas

Starting the activities in the new year, the Board of Directors of the Indonesian Petroleum Association (IPA) held a meeting with the Head of SKK Migas, Dwi Soetjipto, and the Deputy Heads, in Jakarta on Wednesday, January 16, 2019. The meeting was held to discuss and coordinate a number of issues in the national oil and gas industry.

In the opening to the meeting, IPA President, Tumbur Parlingungan, said that the IPA was very open to discussions with SKK Migas relating to a number of matters of concern to national and international oil and gas investors, such as regulations, permits, and other rules. "We are very open to discuss a variety of inputs and obtain advice from SKK Migas in order to better align steps this year," he said.

Tumbur explained a number of IPA Priorities in 2019, including the implementation of Gross Split Production Sharing Contracts, rules relating to Abandonment & Site Restoration, rules on the Foreign Exchange Export Results, permits, land and building tax (PBB), VAT on LNG, and the plans for the 2019 IPA Convex.

Regarding the 2019 IPA Convex, he explained that the event would take place from September 4-6, 2019 at the Jakarta Convention Center, with the theme "Driving Exploration and Optimizing Existing Production for Long Term Energy Security". The theme was chosen considering the need for major exploration activities to maintain and develop Indonesia's energy needs in the future. Tumbur added that the IPA priorities in 2019 require well-oiled cooperation among stakeholders in the national oil and gas industry. He hopes that the existing cooperation between IPA and SKK Migas can be further improved in the future ○



tals, and legal certainty or the quality of regulations that have been stipulated by the Government.

What should be the focus of the Government to increase investment in the oil and gas sector?

The government should set its focus first. The government must understand the conditions and variety of current Indonesia's geological challenges. The prospect of exploiting natural resources in Indonesia is actually still very promising. However, the success ratio of the discovery of new reserves is currently falling sharply. Based on the IHS & Wood MacKenzie (2016) survey, it was mentioned that the results of exploration drilling have a large failure ratio, with only two percent for the commercial success rate and 34 percent of the geological success rate.

Taking into account the geological conditions, the Government should focus on efforts to improve regulations related to the upstream oil and gas industry and supporting fiscal policies. Various regulations that need to be improved include issues concerning overlapping land rights, profit sharing schemes, the existence of contradictory regional/local regulations, goods import facilities, and the lack of protection against the certainty of contracts that have been made.

What are the future hopes for oil and gas investment in Indonesia?

The hope is that the Government will be able to create

GROSS SPLIT CONCEPT IS BASED ON THE SIZE OF THE RETURN ON INVESTMENT; AND THE BENEFITS THAT THE CONTRACTOR WILL GET GREATLY DEPENDS ON HOW EFFICIENT THEY ARE IN CARRYING OUT PETROLEUM OPERATIONS.

attractive investment schemes for investors while maintaining the continuity of existing business conditions. Several ways to do that include investment credit for new fields in the form of competitive financing schemes, reviewing other investment scheme options with an open ideal concept, and deregulation.

Going forward, the Government is expected to create a breakthrough and

in-advance notification to contractors in order to increase Indonesia's competitiveness so that it becomes a country of interest for foreign oil and gas investors. The government must also maintain the conduciveness of the business climate and physical security of energy infrastructure and work areas.

In order to strengthen the infrastructure, the Government has indeed spent APBN (State Budget) funds with an annually increased portion to catch up with global competition and inter-insular equitable distribution of development. On the other hand, efforts to strengthen energy resilience and independence cannot merely rely on the APBN as well as infrastructure, but more than that investment schemes are also needed for investors to bring their capital to Indonesia.

It is characteristic of the oil and gas industry, namely the high level of risk and a large amount of capital needed in the upstream oil and gas project, that makes this sector difficult to be financed by the APBN. Therefore, the improvement of investment schemes is the most important thing for the Government to do while building Indonesia 4.0. ○



Four Pillars for Community Empowerment

Although fairly new, PT. Saka Energi Indonesia has succeeded in establishing its position as a respectable oil and gas company both nationally and internationally. This subsidiary of PT Perusahaan Gas Negara (PGN) continues to make a positive contribution to the relevant stakeholders, especially the communities around the operating area.

There are four things that have become the focus of Saka Energi in carrying out Corporate Social Responsibility (CSR), namely: economic empowerment, environmental management, community health services, and education. "Everything is a synergy with each other, contributing to the improvement of the standard of living of communities around the operation area," said the Saka Energi External Relations and Social Responsibility Program, Yayan Mulyana, to IPA News, recently.

According to Yayan, Saka Energi sees the CSR activities not as a temporary activity, but sustainable ones. The community, he continued, needs assistance not only in the form of physical buildings or short-term assistance but also in continuous and long-term support. "In implementing CSR, Saka Energi always involves community leaders and conducts in-depth surveys of community needs," he explained.

For example, the existence of Saka Energi in Ujungpangkah Subdistrict, Gresik Regency, East Java Province, has benefited many people in terms of providing clean water. "For example, the construction of clean water in the Manyar District and Ujungpangkah.

It helps the Government program," Yayan said.

The clean water program carried out by Saka Energi has greatly benefited the community. Prior to this program, the community needed to spend Rp. 300,000 to Rp. 500,000 monthly to buy clean water. However, with the clean water made available by the company, the community now has to spend only around Rp. 20,000 to Rp. 25,000 per month for clean water.

In education, Yayan explained, Saka Energi provides scholarships to communities around the operating area (ring one) and Gresik Regency. Scholarships are given to outstanding students who want to continue studying at Gresik National Energy College (STEN). "The main thing is that our program must really benefit the community and be useful in the long term. In the future, people are expected to be more independent instead of depending on Saka," he said.

At first, Yayan said, he saw a number of problems experienced by communities around the company's operations, including low levels of income, poorly maintained environment, poor public health, lack of awareness for a clean environment, and lack of health and education facilities.

In line with this reality, the company started a CSR program by managing the environment around the operating area. "In the past, people did not understand the importance of mangroves. They cut down the existing mangrove forests until it resulted in abrasion. We start from there because we believe that by doing environmental conservation, other things related to health and

economic empowerment will also work out," he explained.

At the beginning of the program, the company planted more than 10,000 mangrove seedlings, involving the whole communities. Although at first the community did not understand and just followed along, with the growth of mangroves the community began to feel the impact. Multiplier effects begin to appear; from better catches, cleaner environments to reduced abrasion. The company then began to develop mangrove ecotourism in Pangkah. The result was very exciting. The community gets additional income from the sale of souvenirs and other merchandise typical of Pangkah and boat rentals in the ecotourism area. Communities increasingly recognize the importance of environmental management for everyday life.

The success of Saka Energi of developing the CSR program was finally rewarded with various national awards, including the "Dharma Karya Energi" Award from the Ministry of Energy and Mineral Resources for the implementation of CSR with the concept of "Living in Harmony". In addition, the company also won an award from the Gresik Regent for the "Minimum Service Standards Capacity Development" program and 2018 Padmamitra Award from the Ministry of Social Affairs for the category of Poverty Management for the consistency of companies implementing CSR programs around the operating area.

In the future, Yayan hopes that the CSR programs that have been carried out can be further developed in accordance with the needs of the surrounding community. The lives of the people around the company's operational areas will be better so that they can maintain a harmonious relationship with the company. ○