



**SATUAN KERJA KHUSUS
PELAKSANA KEGIATAN USAHA HULU MINYAK DAN GAS BUMI
(SKK MIGAS)**
*Special Task Force for Upstream Oil and Gas Business Activities
Republic of Indonesia*

UPSTREAM OIL & GAS IN INDONESIA
Administering Fiscal Regime

Parulian Sihotang, PhD

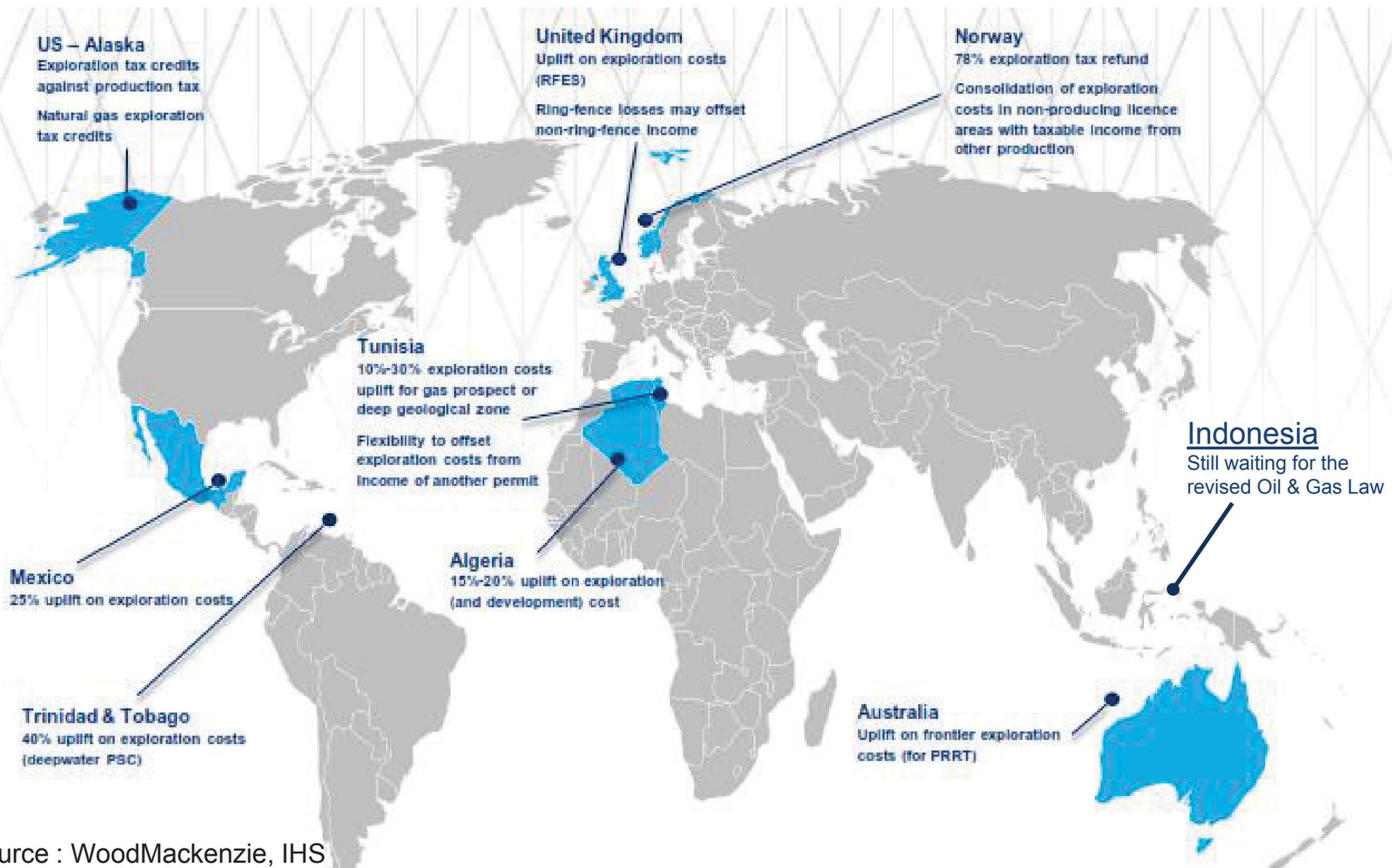
Deputy for Finance



“Natural Resource Taxation in the Asia-Pacific Region”

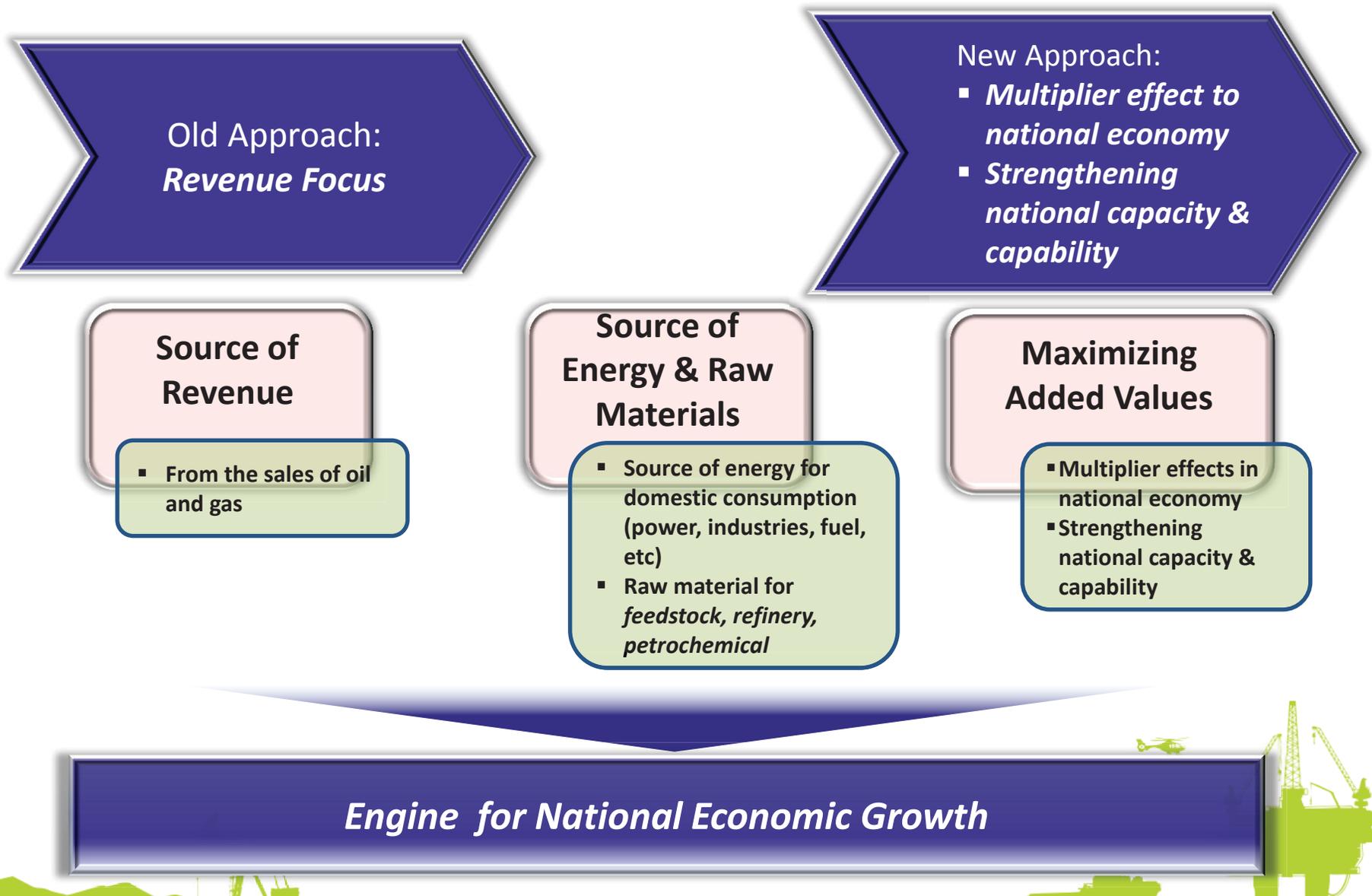
- **OVERVIEW: Fiscal in Upstream Business**
- **Issues and Challenges**
- **Forward Strategic Actions**

The Downfall of Oil Price Has Endorsed Countries To Take Certain Measures In Fiscal Area



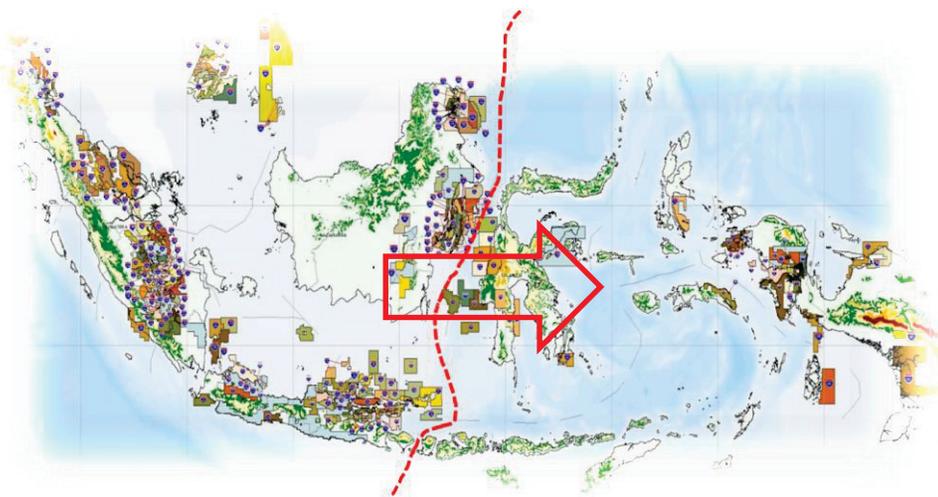
Shifting Paradigm: beyond revenue..

Because it's limited...we need to optimize the exploitation



Upstream Oil and Gas Trend in Indonesia

- Current hydrocarbon discoveries are more GAS dominated.
- The activities are moving toward the **eastern part** of Indonesia.

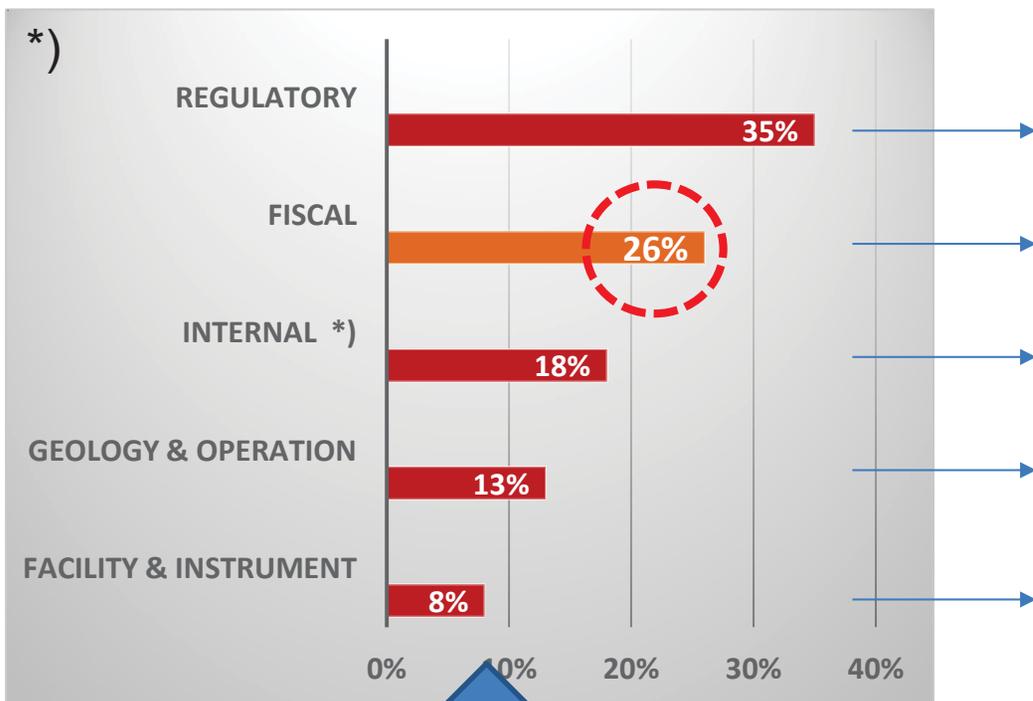


- More in the **offshore and deep water**.
- More remote, at the **frontier area** in eastern area.
- More capital and technology.

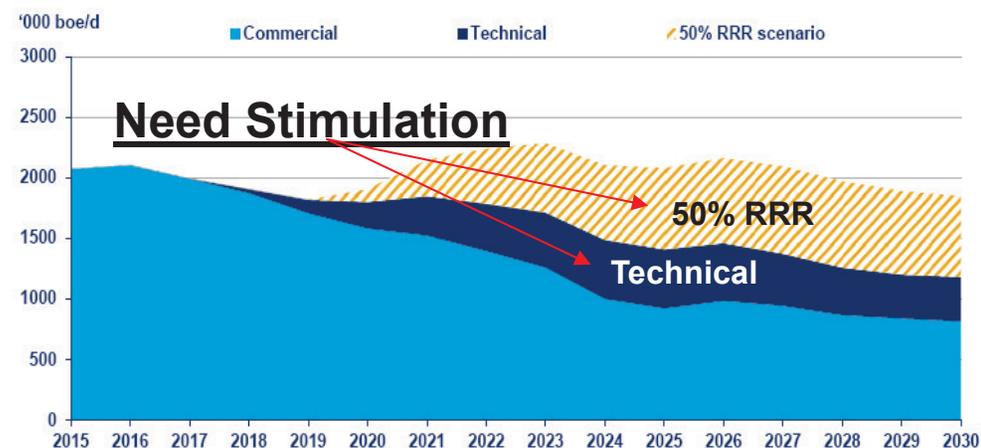
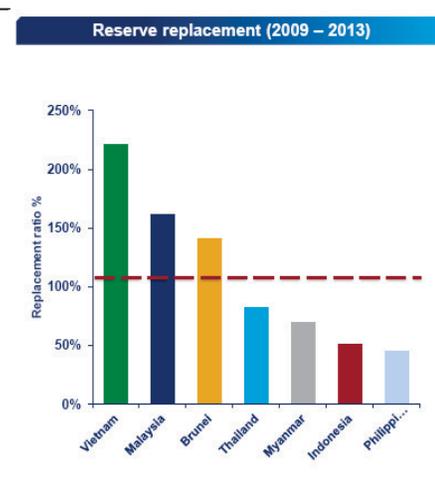
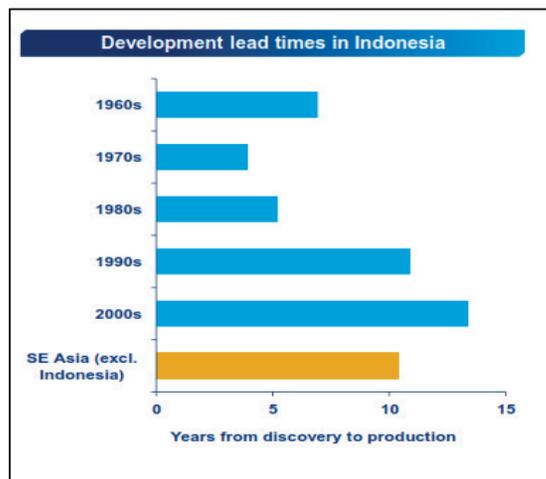
- State-of-the art technology will be dominated by:
 - ✓ Enhanced Oil Recovery (EOR) on the western part,
 - ✓ Offshore and stranded area on the eastern part, and
 - ✓ gas processing, transportation, and storage (infrastructure).
- Development of **unconventional** hydrocarbon (CBM, shale gas).



Regulatory and Fiscal Parameter Contribute >50% Of The Success Of Development In Upstream Energy Sector In Indonesia



The impact of these parameters gives result in statistic performance of Reserve Replacement Ratio, Upstream Development lead times, and Stimulation for better future profile of upstream sector in Indonesia



*assuming 50% RRR from 2016, fully commercial, and development lead time from discovery to production of 5 years
 **technical = discovered fields which we believe could be developed but for which there are no current development plans

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EXPERIENCE IN INDONESIA (1/2)

Harmonization Between PSC* and Taxation Law: Special vs General Characteristics

PSC* Principle: *Lex-Specialis*

PSC* has special characteristics, where it is the only business-model that is intended to uphold Nation's interest, with its business owned by State, regulated by Government, managed by GOI's body/agency. Its characteristics :

1. Government select contractor to develop and operate upstream area
2. Financing and technology resource provided by contractor, as well as taking its risks
3. All asset for operation of the upstream area owned by the Government
4. Contractor shall take the financial risk of not finding any resource/reserve. In case of success in finding and developing, the Profit shall be shared with parties in the PSC.

Taxation Law: *Lex-Generalis*

Taxation Law has to be general and equal for all people and institution, in order to preserve justice and enforce equality where everyone will be treated equal before the law.

*PSC : Production Sharing Contract



LAND & BUILDING TAX, Enforce To Exploration Area

- The amount of Tax is bigger than its Exploration commitments. It has potential to stop exploration activities. MoF than declare new rules, that gives 100% deduction of such Land Tax for Exploration, for 2014 forward.
- The pending matters in 2012 and 2013 is on going process in Tax Court

IMPORT TAX For Upstream Sector

- There are differences between implementation of Import Tax on Upstream Sector, with the clause in PSC where Import Tax shall not applied for material, equipment, and supplies needed for upstream development and operation
- The issue has been managed by Gov't regulation, by rule of MoF No.142/2015 where no Import Tax during exploration phase

Usage Of TAX TREATY To Fulfill Obligation Of Branch Profit Tax

- Disputed amount of Petroleum Tax, caused by different perspective from the point of view of Indonesia Tax Law and Bilaterally Tax Treaty
- Contractors has willing to renegotiate or making PSC amendment regarding Tax Treaty, with point forward basis

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STRATEGY to Maintain Upstream Profile

- Maintain economic level of developing and operating upstream area
- Prioritizing infill drilling on existing fields with the most less cost.
- Optimizing workover, well services, and maintenance.
- Speed up completion of ongoing projects.
- Reform of business process, to make it faster

Production incremental expected at current and near future

Production incremental expected at mid-term

Production incremental expected in the future

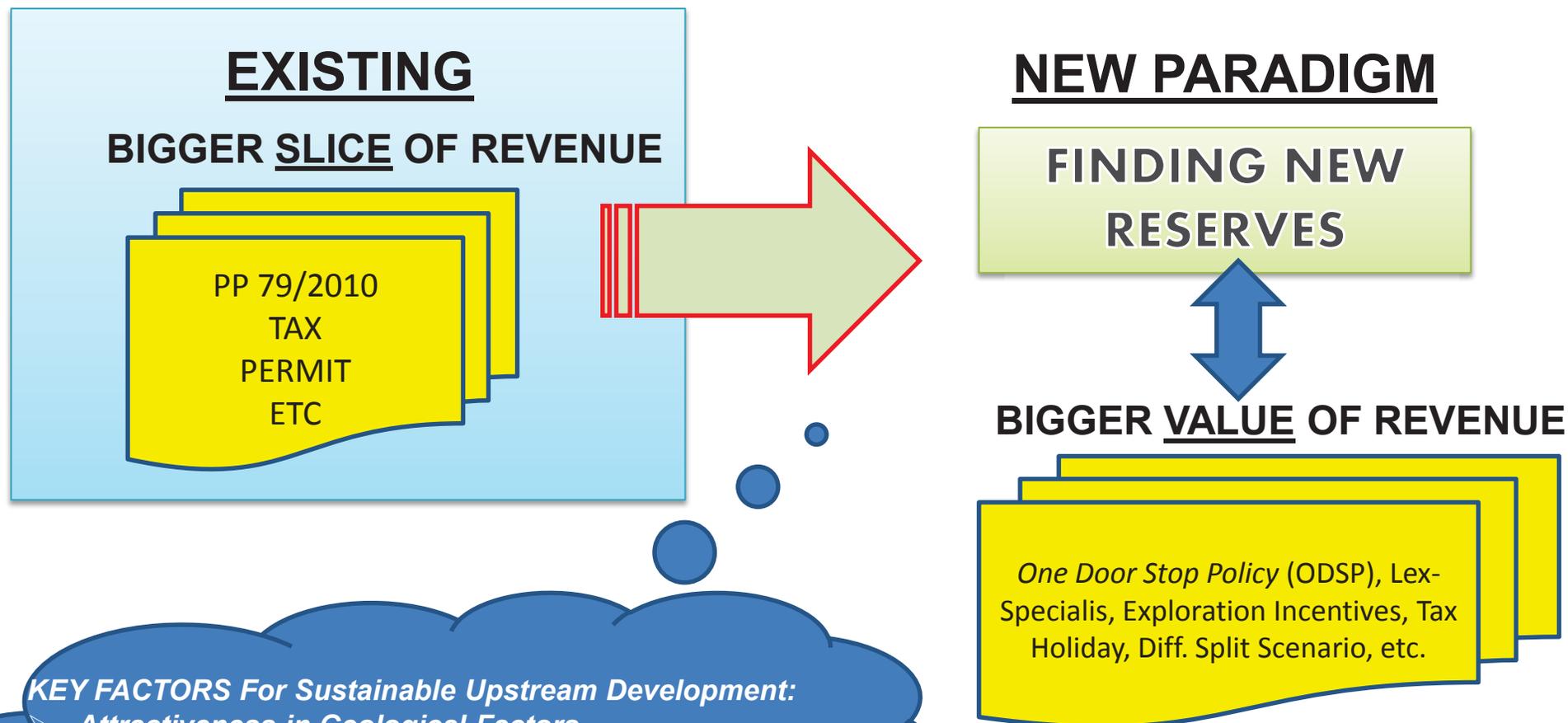
- Speed up realization of approved POD.
- Need incentives of FISCAL and REGULATION, to boost the process
- Implementation of NEW technology and methods, with most efficient and effective output.

- Promoting massive exploration activities, with incentives.

...all these efforts are simultaneously ongoing. Expecting production incremental occurs at current and near future will require maximum value creation on mature fields....



NEW PARADIGM For Better Future In Indonesia's Upstream Sector



KEY FACTORS For Sustainable Upstream Development:

- Attractiveness in Geological Factors
- Interesting and Flexible Fiscal Terms
- Consistency and yet Supportive Regulatory Management
- Monetization Of Upstream Reserves That Gives Mutual Benefit For Government and Contractors



Challenges

- The slump of oil price may affect the spending of E&P companies, especially those with high production cost.
- Finding new resources and additional reserves: geologically, geographically and technologically more challenging.
- Mature existing fields: cost level is a real challenge
- Oil & gas is no longer treated as '**lex specialis**': land clearance, environmental issue, cabotage, forestry, and some other overlapping regulations.
- Competition from other countries in the region and other parts of the world.
- Democratization and decentralization of government control: national and regional stakeholders are demanding more involvement and added value.



Concluding Remarks

- Oil & gas still play vital role as a source of both revenue and primary energy supply.
- Moving towards east part of Indonesia, offshore, remote, deeper sea water -> more financial capital, risk, robust technology. Finding new resources and reserves will be more challenging.
- Efforts to maintain and enhancing upstream production profile shall require support from all stakeholders: One-Door-Stop Policy for efficiency in business process).
- Harmonization and synchronization among all FISCAL regulations
- Exploration focus: Require relaxation and incentives in Fiscal / Tax. (e.g. Land & Building Tax)
- A mutual co-operation with overseas parties to create more business opportunities as well as added value to the stakeholders.



A close-up photograph of a vibrant green leaf, possibly a basil leaf, which has been shaped into a heart. The leaf's veins are clearly visible, creating a textured pattern. The leaf is set against a dark, blurred background. Overlaid on the leaf is the text 'Thank you' in a white, handwritten-style font, followed by '感謝' in a white, bold, sans-serif font, and 'Terima kasih' in a white, bold, sans-serif font.

Thank you
感謝
Terima kasih

HAVE A HEART! GO GREEN!

When we heal the earth, we heal ourselves. ~David Orr