34th IPA Convention Opening Speech
Ron Aston, IPA President
on behalf of the
IPA Board of Directors

INTRODUCTION

- Your Excellency **Bapak Boediono** Vice President, Republic of Indonesia,
- Your Excellency Dr Darwin Seleh, Minister of Energy and Mineral Resources,
- Dr. Evita Lebowo, Director General MIGAS,
- Bapak Priyono, Chairman of BPMIGAS
- Ambassadors,
- Distinguished participants, IPA colleagues, ladies and gentlemen.

Please allow me to welcome you all to the 34th IPA Convention and Exhibition with the theme of **"Investing together for future growth".**

In recent conventions we've talked about challenges the industry faced - declining production, volatile commodity prices, and global recession. Let's be under no illusion that we are still facing these challenges today, however this year we take a more optimistic perspective and focus on investment in Indonesia's energy sector.

Over the next three days you will hear detailed analysis and commentary on the investment opportunity. The overall summary is straightforward. Indonesia is blessed with rich hydrocarbon resources, conventional oil & gas, CBM, geothermal and other forms of energy. The country has come through the economic crisis comparatively unscathed, the Government has an ambitious growth objective and needs energy to fuel that growth. This will require investment and lots of it and the overriding message from industry is keep the investment climate positive and avoid doing anything to harm it.

MISSION

The Mission of the IPA is clear. It is to fully realize the hydrocarbon potential of Indonesia for the benefit of all stakeholders, the investors, the Government and above all the people of Indonesia.

To do this the IPA works closely with the Government, particularly ESDM and our regulators MIGAS and BPMIGAS as a true partner of choice where the keys to success are mutual respect and trust as well as a common goal and vision. The IPA represents almost the entire upstream industry in Indonesia and the annual convention presents the perfect occasion to showcase the capability of the sector, highlight its achievements and point to future investment opportunities.

OPPORTUNITIES

The need for investment is at all levels, whether maintaining oil production from increasingly mature fields, installing vital infrastructure to monetize gas reserves or conducting exploration to discover future resources.

Gas

Increasingly gas represents the future focus in Indonesia bringing with it more complexity and a need for far greater financing particularly when the gas is found in remote and very challenging areas. The complexity surrounds the need for infrastructure - pipelines, liquefaction plants, receiving terminals - which must be underpinned by long term supply agreements to secure the necessary financing. Cost, duration and quantities will impact the economics but the principal driver will be price and therein lies the key issue - the gas price must be market driven and not be limited by producers providing indirect subsidies to end users.

Of course Government policies to prioritise domestic needs are fully understood but it is essential not to forsake the enormous benefits of export revenues at a time when the supply and demand centres are imbalanced and there is comparatively little infrastructure to enable widespread domestic consumption. There is nothing wrong with export, gas is simply another form of hydrocarbon molecules and exporting oil has never been regarded as an issue.

Exploration

Exploration is the front end of future production and it is essential to encourage as much exploration activity as possible. MIGAS have been very successful in reinvigorating the sector with a significant upturn in licence awards three or four years ago but the response to the recent open tender rounds has been comparatively disappointing.

No doubt this reflects a combination of global and domestic factors. Obviously the geological prospectivity of the blocks is the prime consideration but uncertainty around economic returns and other issues such as ring-fencing of developments undoubtedly played a

part. Measures should be introduced to attract exploration investment and the IPA is keen to work with MIGAS to restore momentum.

And again the cost of this exploration can be huge, particularly as the industry moves into remote frontier areas.

Over the next three years in the deepwater Makassar straits companies will spend well over a billion dollars to drill a dozen or so exploration wells….imagine a billion dollars just to look if any hydrocarbons are there….staggering…..and then if successful the development costs will probably run into the tens of billions…….the focus should therefore be on doing everything possible to encourage these investors. There should be far greater coordination from all government departments on issues such as permitting, environmental laws, cabotage and in particular taxation be it VAT exemption or Withholding tax …….all these things need to be handled very carefully or they could well deter future investors.

The IPA member companies are the best ambassadors for future investment, either from themselves or from new companies, treat existing investors well and they will attract further investment. Ours is a joint venture industry where companies are more focused on cooperating than competing and a mantra for the IPA is to focus on making the pie bigger for everyone, investors and government alike.

ISSUES

The need for more investment is compelling and the amounts required huge. Focus should be on keeping the investment climate attractive and in that regard the IPA recognises certain issues of concern:

- The most important of these is certainty of Cost Recovery. There needs to be a fundamental recognition that cost recovery is not reimbursement or incentive but vital investment and as a new Government Regulation is being considered the industry strongly argues against any capping or application to existing contracts.

- The IPA pushes strongly for a tax and fiscal regime that provides Clarity, Consistency and Certainty for the investor.

- We would like to see a Clear and Transparent process for PSC licence extensions to avoid any slowdown of investment in the latter years of a contract life.

- We would like to see a regulatory regime that facilitates approvals in a speedy fashion - we strongly believe that this would have the greatest impact on increasing current production. BPMIGAS themselves are working very hard to ensure their processes provide faster approvals and we very much welcome this. However the IPA feels there needs to be far greater coordination within the Government from outside of ESDM towards the industry.

- Lastly we would strongly request early engagement with the Government in policy formulation particularly relating to national gas strategy and the new oil & gas law – use the industry as your main sounding board and principal partner.

PROGRAMME

Ladies and gentlemen, over the next three days, you will have the opportunity to see first hand the very best that the industry has to offer in Indonesia.

Exhibition & Technical Papers
The main hall will showcase over 100 exhibitors; producing, exploration and service companies and downstairs you will have the opportunity to listen to over 150 technical papers covering a wide range of topics

Plenary Sessions
In the auditorium there will be two plenary sessions and two special technical discussions. The themes of the plenary sessions are:

- **How Best Can Indonesia Attract Investment in the Oil & Gas Sector** and
- **The Role of Gas in Meeting Indonesia's Revenues and Growing Energy Demand**

And for the two specialist discussions:

- **Emerging Issues Under The New Environmental Law**
- **Understanding & Managing the Upstream Oil & Gas Business"**

We are delighted that all sessions will include contributions from the Government, Parliament, Industry and International Institutions and to all the distinguished panellists and our friends from the Boston Consulting Group, who will again help with the moderating of the sessions I would like to express our sincere appreciation.

Gala Dinner
Tomorrow evening in a break from tradition we have organised a special Gala Dinner next door at the Mulia Hotel. We are delighted that HE Minister DS will join us and make a keynote speech and the evening will also feature some special entertainment showcasing the industry's musical talents. It promises to be a very special night and I hope that many of you will join us; tickets are still available at the registration office.

Signing & Announcement Ceremonies
It is also an honour for the IPA that the Government has again chosen our annual Convention as the opportunity to award new PSC contracts, sign important gas supply agreements and announce new license acreage. These will take place later this morning and on Thursday in the closing ceremony.

CLOSING REMARKS

Ladies and Gentlemen, shortly after our last convention we witnessed the terrible tragedy at the Marriott and Ritz Carlton hotels. The incident at the Marriott wreaked a terrible impact on industry colleagues both National and Expatriate who were meeting to discuss energy issues and I think it is a wonderful testimony that two senior members of the IPA who were seriously injured have shown their commitment to the country and the industry by returning to Indonesia to continue their work, our deep appreciation goes to them and our thoughts go to all those impacted by the tragedy.

In closing, I would like to remind us all of the words of HE the President of the Republic when at the start of the current government he referred to Indonesia as having a **GOLDEN CHANCE** to grow and prosper. In order to realize that chance the country needs energy and investment. Let's hope that this convention helps attract that investment.

To HE the Vice President, to HE the Minister of Energy and to our other distinguished guests I would once again like to extend our sincere appreciation for joining us today.

To all participants we welcome your attendance and trust you will enjoy the experience.

And finally to all investors old and new we bid you a very warm welcome with the message let's seize this **GOLDEN CHANCE** and succeed in investing together for future growth in Indonesia's energy sector.

THANK YOU - TERIMA KASIH BANYAK