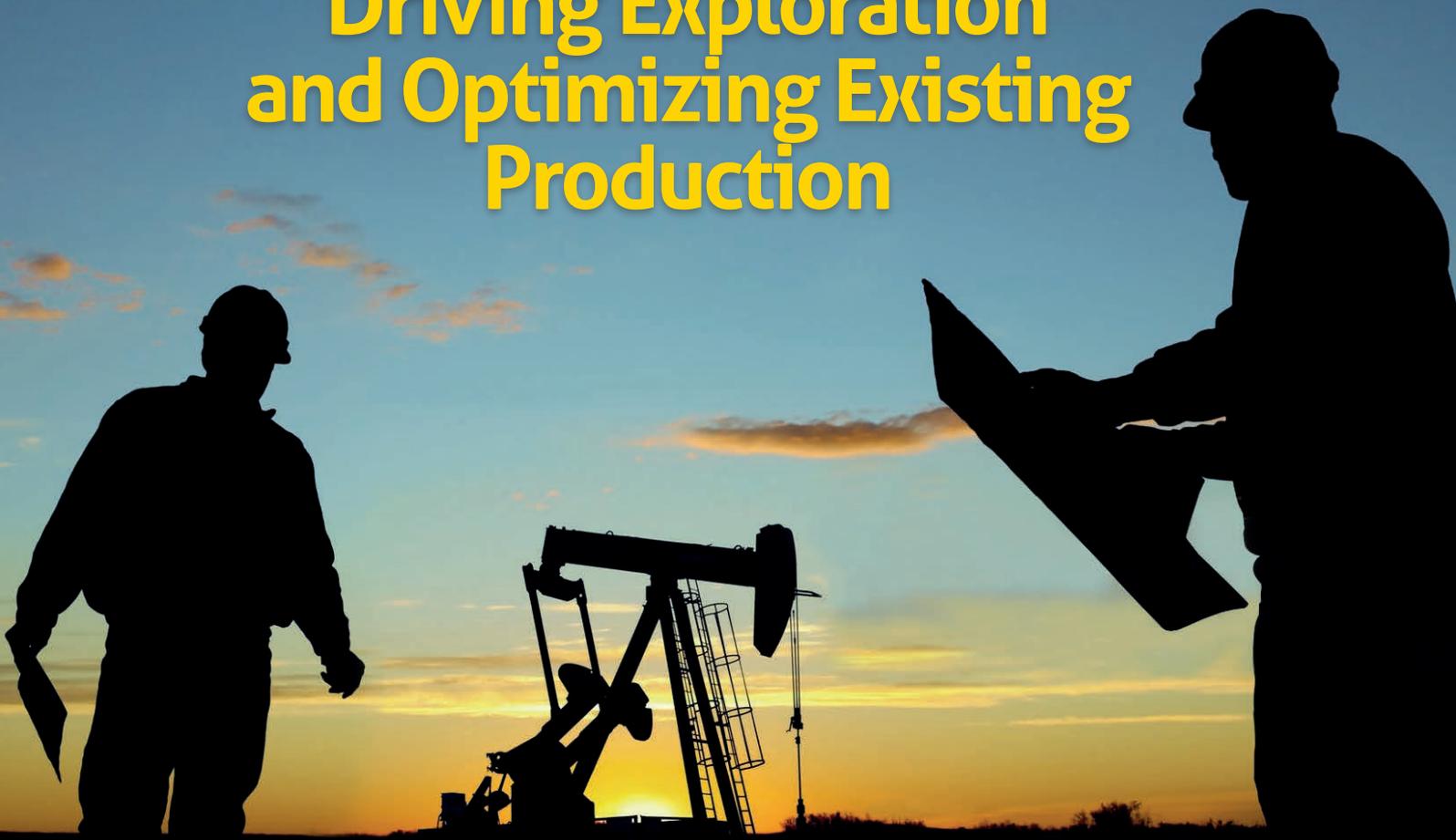




Homework for 2020: Driving Exploration and Optimizing Existing Production



**Bij Agarwal: Indonesia Still Attractive
For Global Investors**

**Increasing Exploration and Optimization of
Production: An Everlasting To-Do**

Interview : Professor Peter Cameron

Increasing The Partnership With Industry



During 2019, Indonesia's oil and gas industry experienced many changes and many were good changes. Last September, we held our 43rd IPA Convention and Exhibition with the theme of "Driving Exploration and Optimizing Existing Production for Long Term Energy Security". As Indonesia's population and economy continues to grow, the demand for energy to fuel that growth - in which oil and gas plays a significant role - will also continue to grow. Affordable and plentiful energy is an absolute essential for economic development, it creates opportunities and improves the welfare and quality of life for all people. Through the Convex event, a significant level of collaboration, optimism and efforts were

made between the IPA company members and the government.

In this 4th edition of IPA News, we are reviewing the efforts that can be made to increase exploration and maximize current and future oil and gas production in the Focus section. In addition, Professor Peter Cameron, who was also one of the panelists at the 43rd IPA Convex, has provided his thoughts on what Indonesia could do to increase oil and gas production in The Expert. In the CEO Talks article, we present how ConocoPhillips has grown and thrived for 45 years in Indonesia and made a significant contribution to Indonesia through its CSR activities in the Members section.

As additional material for review, we also report on the 43rd IPA Convex activities and the Annual General Meeting where the new IPA President was announced and we also discuss about IPA strategies for the future in Highlight.

Lastly, it is clear that we still have a lot of homework that must be done in 2020. However, with the collaboration and hard work of all IPA members, we are optimistic that 2020 will be a better year for Indonesia, and particularly for the Oil and Gas industry.

Sincerely yours,

Bij Agarwal
Joint Acting IPA President



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Synergy and Collaboration are the Keys to Oil and Gas Industry Success

On September 4-6, 2019, the Indonesian Petroleum Association (IPA) held its 43rd annual IPA Convex Exhibition and Convention. The event titled "Driving Exploration and Optimizing Existing Production for Long Term Energy Security" was attended by a large number of upstream oil and gas industry players and other relevant stakeholders, both national and international.

At the closing of the event, Acting President of the IPA, Bij Agarwal, revealed that the theme of this year's Convex IPA was picked by considering various existing conditions of the upstream oil and gas sector; one of which was the need for efforts to cut the trade balance deficit due to the relatively high amount of oil and gas imports, given that the level of consumption energy is much higher than current oil and gas production.

Of course, Bij added, the efforts to reduce the deficit must be accompanied by an increase in exploration in order to find new oil and gas reserves and to optimize the production from existing fields.

Bij is optimistic that there will be improvements in the upstream oil and gas industry in Indonesia. One of the keys needed to achieve these improvements is to ensure synergy or cooperation among all stakeholders, including the Government of Indonesia and particularly the relevant Ministries or Agencies. "Hopefully, the 2019 Convex IPA can kickstart the emergence of various oil and gas exploration and optimization activities for the sake of increasing national production; while at the same time increasing the global attractiveness of Indonesia in the eyes of investors so we can lure them to invest in Indonesia," he explained. ○

Indonesian Petroleum Association Held its 48th Annual General Meeting

The Indonesian Petroleum Association (IPA) held its 48th Annual General Meeting (AGM) in Jakarta on Wednesday December 4, 2019. The AGM discussed IPA's 2019 activities as well as 2020 strategic priorities.

Additionally, the IPA also presented the changes to its Supervisory Board and the Board of Directors for the 2020 period. The Supervisory Board now will be led by Kuntoro Mangkusubroto whose many achievements include Minister of Mines and Energy from 1998 to 1999 as well as Head of President's Delivery Unit for Development Monitoring and Oversight (UKP-PPP) from 2009 to 2014. Meanwhile, the President of ExxonMobil Cepu Limited, Louise McKenzie, will serve as the President of IPA for the 2020 period accompanied by 12 other oil and gas company leaders who are the IPA Board of Directors.

"It is an honor to be elected IPA President for 2020. The IPA strives to continue the strategic partnership with the Government and stakeholders to ensure we can attract more investment, encourage exploration, increase production, and further strengthen global competitiveness of Indonesia's upstream oil and gas sector while striving to enhance the communities where we operate," said Louise McKenzie, IPA President.

The recent focus of IPA's agenda is to simplified permits and



regulations, including the oil and gas data open access by the ESDM Ministry, and further efforts to enhance coordination between ministries and with local governments, are continued steps in the right direction. "IPA appreciates the government's continued accessibility and willingness to work with industry. Maintaining this sense of partnership is critical if we are to jointly develop world class resource projects." Louise added. ○



Increasing Exploration and Optimization of Production: **An Everlasting To-Do**

In the near future, the oil and gas industry is projected to face a pretty tough time. Since the drastic decline in global oil prices in 2014, the price of oil has never touched the USD 100 per barrel rate again. This has forced people in the upstream oil and gas industry to increase efficiency and take a number of strategic steps to keep the business health score high while ensuring the availability of oil and gas supplies for current and future energy needs.

The Indonesian Petroleum Association (IPA) Executive Director, **Marjolijn Wajong**, who we met with during the recent IPA Convex 2019 event explained that oil and gas production would be difficult to increase if there were no new reserves discoveries. "Indeed there are fields that are already producing. But this will not be enough without being balanced by new findings," she said.

She added that Indonesia's oil and gas potential is still quite promising. Of the 128 basins in Indonesia, hitherto only 54 basins have been explored and 18 of them are now in the production phase. The rest, about 70 basins, are still unexplored. Most of the potential of Indonesia's unexplored oil and gas, she continued, is in the deep sea, remote, and in areas with limited infrastructure. These conditions drive up the investment costs. Therefore, said Marjolijn, there must be improvisation in the efficiency of project costs so that investment may continue to run.

The Head of the Special Task Force for Upstream Oil and Gas Business Activities (SKK Migas), **Dwi Soetjipto**, said in a separate occasion that the main problem in the management of production wells today is a drastic decline in production. He said that if existing oil and gas contractors in Indonesia do not conduct exploration activities or otherwise try to curb the

rate of decline in production, that rate could reach 20 percent per year. "I think everyone understands that we are in a period of decline. If we don't do anything, the decline can reach up to 20 percent. So, one of the things we do is optimization. We are committed to the Work Plan & Budget that must be controlled and implemented," he said at a press conference session at the 43rd IPA Convex 2019 event, in Jakarta.

On another occasion, the President and General Manager of ConocoPhillips Indonesia (Grissik), **Bij Agarwal**, stated that the effort to increase exploration and optimize production was a collaboration involving all stakeholders, including the Government of Indonesia. "The government needs to hear input from industry players, in this case KKKS. Then increase cooperation in terms of providing data and shorter licensing red tape, to make it easier for investors," he said optimistically.

Bij is optimistic, there is hope to increase oil and gas exploration activities in Indonesia, considering the current development of the oil and gas industry. In addition, he said, the Government had opened itself to collaborate with KKKS. "I am convinced that the Indonesian oil and gas industry is currently on the right track; it now hinges on the commitment of all parties to want to work together and collaborate to maximize the process and results," he concluded.

Meanwhile, Minister of Energy and Mineral Resources **Ignasius Jonan** in his opening remarks of the 43rd Convex IPA 2019 recently stressed the importance of using technology and increasing efficiency. "The important thing for the Contractors is to increase efficiency in production costs or exploration costs by using technology that is more up to date, to drive production costs down," he said.

In addition to encouraging KKKS to be efficient and to carry out exploration, on the other hand the Government also provides incentives to support the increasing number of required oil and gas search activities. These incentives are provided for in the Minister of Finance Regulation (MFR) No.122 / PMK.03 / 2019. As is well known, PMK which was promulga-

ted in August 2019 is a regulation derived from Government Regulation No. 27/2017 which provides for taxation and a list of incentives for oil and gas companies using a cooperation contract scheme with a refundable investment cost mechanism (PSC Cost Recovery). Based on the MFR, the KKKS is entitled to obtain several tax facilities related to exploration and exploitation activities.

NOT JUST EFFICIENCY

Increasing oil and gas exploration is very important, given the importance of fossil energy for Indonesia's energy security in the future. The key in increasing exploration and optimization of oil and gas production in Indonesia actually lies in a good investment climate. Oil affairs observer from the ReforMiner Institute, **Pri Agung Rakhmanto**, assessed that the key to success in exploration and investment lies in flexibility.

"The government may have done some deregulation, but apparently (the climate) is not yet competitive enough. For example, the form of contracts on offer, especially gross splits. It still tends to be less flexible and adds a portion of risk to in-

"INCREASING EFFICIENCY SHOULD NOT BE THE MAIN FOCUS, BECAUSE IT IS AN EVER PRESENT PROCESS. EVEN MORE IMPORTANT IS THE UPSTREAM FOCUS ON HOW TO BRING IN AS MUCH EXPLORATION AND DEVELOPMENT INVESTMENT AS POSSIBLE, SO THAT OUR RESERVES AND PRODUCTION CAN INCREASE,"

vestors," he told IPA News some time ago.

He suggested that the government first sit down to discuss the form of contracts with KKKS, in order to achieve collaboration with maximum results. "Increasing efficiency should not be the main focus, because it is an ever present process. Even more important is the upstream focus on how to bring in as much exploration and development investment as possible, so that our reserves and production can increase," he said.

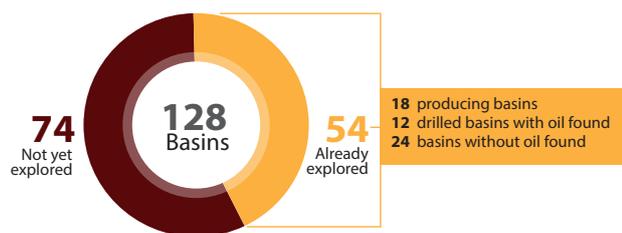
In line with **Pri Agung**, the Director of the Center for Energy, Petroleum and Mineral Law & Policy from the University of Dundee in Scotland, Peter Cameron, said that to increase exploration, the Government needs to send positive signals to investors and potential investors given that oil and gas reserves continue to experience a long-term decline and there is intense global competition for the capital needed for exploration and production activities. "What is needed is a clear policy based on current realities. Cooperation is also needed between government agencies and KKKS to achieve these goals," he stressed through written replies to an IPA News inquiry. ○

STATISTIC

POTENTIAL OF OIL AND GAS RESOURCES IN INDONESIA

Indonesia's upstream oil and gas industry has a huge potential to be developed. In summary, 58 percent or 74 of the total 128 potential basins in Indonesia have not been explored

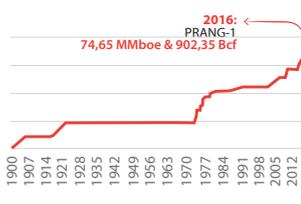
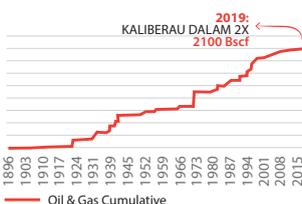
INDONESIAN OIL AND GAS POTENTIAL



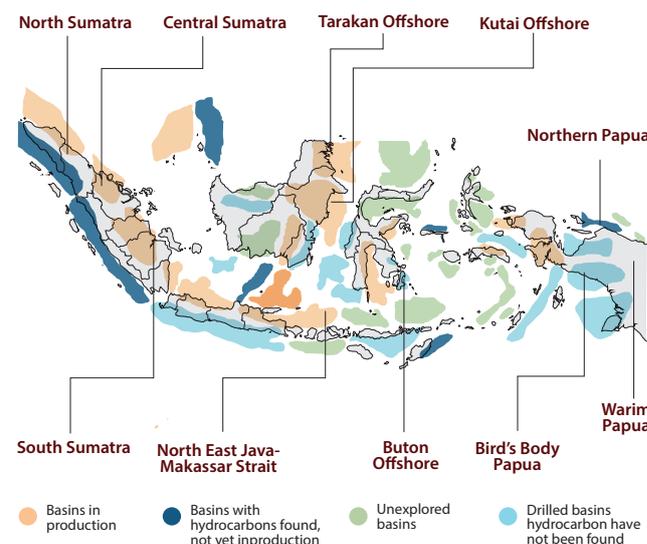
RECENT DISCOVERIES

South Sumatra Basins
Well : KBD 2x and Budi Deep-1
Companies : Repsol, Mitsui Oil Exploration, Petronas, Tately
Year : 2019

Offshore Tarakan
Well : Parang-1
Companies : Pertamina
Year : 2016



10 POTENTIAL BASINS OF SIGNIFICANT OIL AND GAS RESERVES



Source: ministry of energy and mineral resources (ESDM), special task force for upstream oil gas business activities (SKK Migas), IHS Markit

Sources: Infographics of IPA Convex 2019



Indonesia Still Attractive For Global Investors

***Bij Agarwal, President and General Manager of ConocoPhillips Indonesia* thinks that Indonesia still has tremendous potential in the oil and gas industry. In his three years leading the Indonesian operations of the global United States oil and gas company, Bij has acquired a new perspective on the national oil and gas industry. He views that the most crucial thing right now is to increase exploration activities and optimize existing production to meet the national energy needs.**

Furthermore, Bij argues that Indonesia's upstream oil and gas sector has an important and strategic role in reducing the trade balance deficit caused by high oil imports. This objective can be achieved by accelerating the development of discovered resources, currently mostly gas, so that the production can be used for domestic needs, partly as a substitute for oil, and for export. Large exploration efforts to find new oil and gas reserves must also be done to replenish the production.

In terms of oil and gas resource management, he added, Indonesia is somewhat unique and it is this quality that can make Indonesia more competitive in attracting global investors to explore. ConocoPhillips, along with its partners in Corridor Block, will continue operations in Indonesia for the next 20 years. "I am of the view that the oil and gas industry in Indonesia has something unique to offer, and recent changes made by the Government to encourage oil and gas investment is appreciated by the investors," he told IPA News in Jakarta recently.

According to the man who started his career as a reservoir engineer in 1986, the Government's move to shorten the permitting process and reduce regulations is a breath of fresh air for the oil and gas industry in Indonesia. Moreover, oil and gas investment is a long-term, capital and technology intensive investment. The shorter the permitting process, the better it is for investors and Indonesia. "I think the oil and gas industry is now on the right track. The Government's willingness to listen to feedback and suggestions from investors to simplify the permitting process and improve the regulations provides optimism to the industry players," said Bij.

In addition to streamlining the permitting process, a very important aspect in the management of the oil and gas industry is the certainty of regulations, including fiscal policy. According to Bij, the certainty of regulations and fiscal poli-

cies is very crucial for investors to consider when investing in a country. "We use financial metrics as a key consideration in exploring for oil and gas and in exploitation activities; therefore, it is very important that the Government provides assurance of fiscal certainty throughout the PSC period," he said.

According to Bij, the biggest challenge for investors to develop an oil and gas area actually depends on the level of economic and exploration risk that exists in the project. The high risk of exploration accompanied by inadequate project economics will make investors think hard about exploration for new oil and gas reserves.

The increasing need for Indonesia to find new reserves through exploration activities is immediate. "On the one hand, the potential of Indonesia's oil and gas reserves is still very large and can potentially be developed. But on the other hand, an attractive investment climate is needed so that oil and gas investors, especially global companies, will be interested in investing in Indonesia," he said.

HUMAN RESOURCES

Since his appointment as the head of ConocoPhillips Indonesia in 2016, Bij revealed that one of his main focus areas has been improving the quality of human resources (HR). This is in line with ConocoPhillips' own values and the mission of the Government of Indonesia, which is to create superior Indonesian human resources.

He explained that the upstream oil and gas industry is an industry that has a very large investment (ranging from millions to billions of U.S. dollars) where most of its workers are Indonesia's best sons and daughters who have achieved high standards and competencies. "That's why at ConocoPhillips, we have a focus on human resources. We work to improve their competency so that they can contribute to the company and to the country to the fullest," he said.

Bij always encourages employees to provide new and fresh ideas that can support the company, and to continue to grow while also increasing efficiency for the business. According to Bij the success in overcoming competition in the oil and gas industry, is highly dependent on the vision and mission that is in harmony with quality assets, skilled workforce and a strong company reputation.

He said that ConocoPhillips has a strong portfolio and workforce globally, approximately 10,400 as of Sept. 30, 2019. "I am confident that ConocoPhillips will continue to advance and can achieve the main corporate goal of helping to meet the world's energy needs." ○



Increasing The Partnership With Industry

Reflecting on his experience in analyzing various oil and gas related policies in other countries, Peter Cameron concluded that there is no universally accepted answer to the question related to how a country can increase exploration investment. In an interview, Peter Cameron answered a number of questions raised by the IPA News. The following are excerpts of the interview.

The Government of Indonesia has taken various steps to increase national oil and gas exploration. Unfortunately, there has been no significant increase in the oil and gas exploration activities nowadays. In your opinion, what things should the Government do to increase the oil and gas investment for a country?

The Government needs to send out positive signals to investors that it understands the changed context: petroleum resources are on a course of long term decline in Indonesia and the international competition for capital investment is getting tougher, so it needs to give a signal that it wants to do what it can to make the cake as big as possible not that it wants a bigger share of the existing, shrinking cake. The North Sea is a good example of a location that had a similar problem. What is required is a clear policy that is based on present not historical

“INDONESIA IS ENTERING A NEW PHASE AND NEEDS TO CONSIDER WHAT IT CAN DO TO ACHIEVE MORE FROM ITS PETROLEUM INDUSTRY PARTNERS IN THE FINITE YEARS AHEAD.”

realities and alignment of institutions to achieve this.

What is your comment about the regulatory certainty factor in order to increase the oil and gas investment?

Crucial and not difficult to fix. So many variables are difficult to fix but this one just requires government to take charge of its policy and stick to what it says. With the Energy Transition ahead and rapidly impacting on the industry, uncertainties are growing for long term investment. By offering predictability, the Government can counter this new source of uncertainty and give a message that Indonesia continues to be stable and welcoming.

Is there any successful example of regulatory reforms that have been carried out by other countries and that impacted with an increase in oil and gas investment?

The best thing for an experienced and advanced petroleum nation like Indonesia to do is look at the North Sea states and possibly Australia where institutional reform has been attempted. However, no state is a model so careful and critical assessment of these experiences is necessary.

Is there any fiscal policy that Indonesia can apply from other countries to boost the oil and gas exploration?

I would suggest that the best examples are from countries that are focusing not so much on big ideas or grand initiatives but on better, more efficient ways of managing fiscal affairs in detail. Not glamorous options but sound, effective ways of ensuring the country has a fair share of its geological gift.

What is your suggestion for the Government of Indonesia regarding their efforts to increase oil and gas exploration and production?

Partnership with the industry is essential, but every partnership needs to be renewed occasionally. Indonesia is entering a new phase and needs to consider what it can do to achieve more from its petroleum industry partners in the finite years ahead. I would look around the world and ask if there are examples of good and efficient behavior I would like to learn from at this stage in my life.

What is your hope for the global oil and gas industry as well as especially in Indonesia?

The industry has probably never entered a period of such uncertainty as demand patterns change due to the Energy Transition and companies become legally required to explain the social benefits of their activities. I hope that the huge contribution the industry has made to transforming lives for the better in Indonesia and elsewhere gets more of a hearing. There are very few vehicles for countries to advance in their social and economic wellbeing. This is one of them and it's one that Indonesia has embraced and contributed to in a way that very few other countries have. ○



The Positive Impact for the Community

Forty-five years is not a short time to operate in Indonesia. There is always something new to be done to stay adaptable and perform well. That is also what ConocoPhillips Indonesia does in order to continue operating in Indonesia and have an impact on the communities around its operational area.

For ConocoPhillips, Indonesia is not just a place of business, it is a shared home. That is why the company continues to run its social responsibility programs for the communities around its operational area to create values on the community and the environment.

Manager Corporate Social Responsibility ConocoPhillips Indonesia, Adjie Suryaningrat, told the IPA News that the CSR programs are integrated parts of ConocoPhillips Indonesia's operations. The company, he continued, is always committed to ensure positive impacts on the environment and surrounding communities. "The main aim of CSR is to have a positive impact on the communities wherever we operate. The way to do this is by helping them increase their socioeconomic potential, getting better opportunities and eventually increasing their economic independence", he said.

In the implementation of the CSR programs, Adjie revealed that his team worked with local stakeholders, especially the Government and the related communities, to develop various sustainable programs. "The success of the community programs has been shown from various awards and recognitions from the Government for the CSR programs that we run," he added.

There are four pillars of CSR programs that ConocoPhillips Indonesia brings to the community around the operational area, namely; economy, education, health and infrastructure.

In the economic field, said Adjie, his team has provided training in rubber plantations since 2002. He added that this program is designed to improve farmers' knowledge and skills including marketing techniques for modern rubber agricultural products. "This program includes a series of training programs, field monitoring, and farmers group discussions. So, they know how to choose the best seeds to plant, secure and grow trees up to the optimal age to produce quality products in large quantity," he explained.

Furthermore, Adjie revealed that the program has created three nursery groups with 30 members, and three latex marketing groups with 395

members. The total beneficiaries of this program are approximately 500 people.

In the education program, ConocoPhillips Indonesia has provided scholarships for undergraduate students, including local teachers who are pursuing further education, capacity building training for teachers, and student competition. Undergraduate scholarships conducted by the company have benefited more than 5,400 local students, including teachers from 42 villages and 14 sub-districts around the company's operational area, in Musi Banyuasin Regency, South Sumatra Province.

"There have been many success stories from the scholarship recipients who have gained good careers at their workplace. One of them, Yulianti Citra, from Macang Sakti Village. Currently, Yuli is the Deputy Principal of a Senior High School in her hometown who is also running a catering and lodging business," said Adjie.

Moreover, in the environment and health program, ConocoPhillips continuously carries out environmental and safety campaigns along with health education programs for young people and support for medical personnel. In the infrastructure program, ConocoPhillips also plays an active role in helping the construction of schools, sports venues and libraries.

He hopes that the CSR programs not only will become routine but also proof that the company conducts its business responsibly and becomes a reliable partner for stakeholders; contributing to the improvement of the health, safety, and economic opportunities of the communities around the areas of its operations. "One of ConocoPhillips SPIRIT values is Responsibility. Our CSR activities are part of the way we conduct business responsibly, which includes being responsible to the communities in which we operate," he said, ending the conversation. ○