

Day 3

Focus Discussion RUU Migas

Recent Update and Industry Expectation on New Oil & Gas Law

Present at this FGD as resource persons were Maman Abdurrahman-Deputy Chairman Of Commission VII DPR RI. Benny Lubiantara-Deputy of Exploration, Development and Working Areas Management-SKK Migas, Noor Arifin Muhammad-Director of Upstreaming Development, Deny Rijadi – Chairman Energy Transition Committee, Pri Agung Rakhmanto, Ph.D- Founder and Advisor of ReforMiner Institute.

As an introduction to the discussion, Ali Nasir, IPA Regulatory Affair Committee, presented O &G Industry expectations towards the proposed Oil and Gas Law revision.

Maman Abdurrahman **Deputy Chairman Of Commission VII DPR RI** **Progress Of The Revision Of The Oil And Gas Law**

Since 2020, major oil companies such as ExxonMobil, Chevron, Shell, BP, and Eni have experienced a consistent decline in their global investments, averaging around 25%. Instead, they have shifted their focus towards investments in RNE. On a national level, the upstream oil and gas sector is gradually heading towards a decline, with proven reserves mainly comprising natural gas. In order to adapt to this changing landscape, the industry is looking towards non-conventional sources of oil and gas. Despite these transformations, the demand for fuel is expected to keep rising steadily until 2050.

The state's wealth is dedicated to the well-being of its people, aiming to maximize the benefits for Indonesia, irrespective of whether the source of this wealth is managed by state-owned enterprises, multinational corporations or other international institutions. Therefore, the implementation of the Oil and Gas Law will be aligned with genuine nationalism. Additionally, this legislation strives to facilitate a smooth energy transition, considering the evolving situation in the oil and gas sector. As fossil fuels are expected to become less relevant with the target of achieving Net Zero Emissions by 2060, measures will be taken to prevent the wasteful depletion of resources, such as limiting coal exports when they are still in high demand in the global market. Therefore, the revised Oil and Gas Bill embodies the essence of being investor-friendly and aims to strengthen the Upstream Oil and Gas institutions, in alignment with Article 33 of the 1945 Constitution and Constitutional Court Decision No.36/PUU-X/2012.

One of the key focuses is the enhancement of fiscal terms to attract more investments. Additionally, the bill considers reinstating the "assume and discharge" principle to provide a more secure investment environment. A core objective of the bill is to establish legal certainty, providing a stable framework for the oil and gas industry. This certainty will give confidence to investors and foster long-term commitments to projects. Furthermore, the bill emphasizes the simplification of licensing procedures to streamline the process for businesses, encouraging smoother operations in the sector.

The proposed amendments to the Oil and Gas Draft Bill encompass several important chapters, which are as follows:

1. Chapter III: Ownership and Enterprise Rights

This chapter aims to streamline the authorization process for oil and gas operations. It may introduce provisions to expedite the approval of licenses and permits required for companies to engage in upstream and downstream activities. The focus is on promoting efficiency and reducing bureaucratic hurdles to encourage investment and development in the sector.

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The responsibility for preparing and determining the Work Area has been transferred to Badan Usaha Khusus (BUK Migas), which will replace SKK Migas. However, BUK Migas is not granted the authority to award concessions due to the potential for excessive control. In the past, BUK Migas was responsible for providing opportunities for wealth sources, including oil and gas blocks, to state-owned and regional-owned enterprises (BUMN/BUMD). This was done because BUK Migas acts as the government's representative for managing oil and gas blocks. Offering these opportunities to BUMNs is considered an ultra-nationalist policy, as it directly benefits the country's economy. The benefits aimed at the welfare of the oil and gas sector are now provided through a tender process conducted by BUK Migas, without any preferential rights given to specific entities beforehand.

2. Chapter IX: Oil and Natural Gas Special Business Entities and Regulatory Agency for Downstream Oil and Gas Business Activities

Chapter IX focuses on the establishment of special business entities BUK Migas which dedicated to the oil and natural gas sector. These entities may have specific roles in regulating and overseeing downstream oil and gas business activities. Additionally, a dedicated regulatory agency may be created to monitor and enforce compliance with industry standards and regulations in the downstream sector. The form of BUK Migas will consist of a Supervisory Board and a Board of Directors who are appointed and dismissed by the President. In addition, it is proposed that supervisory members consist of 5 professionals, some of whom will be selected by the DPR.

3. Chapter IXd: Oil and Natural Gas Fund

Chapter IXd likely pertains to the creation of an Oil and Natural Gas Fund. This fund could be used to manage and allocate financial resources generated from the oil and gas sector. The purpose might include financing infrastructure projects, supporting research and development initiatives, or funding environmental conservation efforts related to the industry.

These amendments seek to address various aspects of the oil and gas industry, ranging from simplifying the authorization process for businesses to enhancing regulatory oversight and responsibly managing the financial resources derived from the sector's activities. The ultimate goal is to promote growth, efficiency, and sustainable development in the oil and gas industry.

Additionally, the Oil and Gas Bill includes provisions for cross recovery (CR). Under this system, if a company holds multiple blocks with different costs for CR in each block, the holding company is obligated to pay for each one separately. However, if there is any unused CR in a specific block, it can be utilized in other blocks within the ring fencing. The Oil and Gas Law has undergone review by the Constitutional Court, ensuring that it undergoes an open cumulative discussion process. Currently, the Legislative Body of the DPR RI (People's Representative Council of the Republic of Indonesia) is in the process of harmonizing the draft Oil and Gas Bill. Once this harmonization is completed, the bill will be forwarded to Commission VII of the DPR RI for further discussion and evaluation. The aim is to finalize the regulation draft by October 2024.

The initial discussion began with opinion of the panelists regarding the presentation of the revision of the Oil and Gas Bill.



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Noor Arifin Muhammad-Director of Upstreaming Development stated that discussions regarding the implementation of the Oil and Gas Bill began in the middle of the year, focusing on the issues raised. The Ministry of Energy and Mineral Resources has agreed to implement the Oil and Gas Bill as a means to enhance the appeal of investment in the oil and gas sector. This decision takes into account that not all Indonesian basins possess oil and gas potential. During the discussions, the ministry has also explored topics related to tax consolidation on ring fencing and the resumption and discharge operations, both of which are set to be included as subjects within the Oil and Gas Bill. By addressing these matters, the government aims to foster a more conducive investment environment in the oil and gas industry, promoting its development and growth.

Benny Lubiantara-Deputy of Exploration, Development and Working Areas Management-SKK Migas said that the revision of the Oil and Gas Bill has ushered in an atmosphere of positive change, making it easier for the oil and gas industry to flourish in Indonesia. This legislative initiative has provided multinational companies with new opportunities to actively participate and compete in the development of oil and gas blocks within the country. By streamlining regulations and offering a more favorable business environment, the Oil and Gas Bill encourages increased investment and involvement from multinational corporations. This, in turn, fosters the growth and advancement of the oil and gas sector in Indonesia, bringing potential benefits to both the industry and the nation's economy.

Deny Rijadi-Chairman Energy Transition Committee of IPA mentioned that The Indonesian Petroleum Association (IPA) has presented a proposal to Commission VII of the DPR (People's Representative Council) with key considerations for the revision of the Oil and Gas Law. They emphasize that the new law should be in sync with the current state of the oil and gas industry, taking into account technological advancements, market dynamics, and geopolitical factors.

The revision is expected to create a favorable investment climate by providing certainty in various aspects. In the legal domain, the law should offer clear and unambiguous provisions, ensuring easy understanding and consistent application. This includes recognizing decarbonization activities, reducing legal uncertainties, and minimizing potential disputes.

Regarding fiscal matters, the law should establish a stable and predictable fiscal framework for the industry, offering clarity on taxation, royalties, and other financial aspects. Such clarity allows investors to make well-informed financial decisions. In the business aspect, the law aims to ensure transparent and predictable business operations within the oil and gas sector. This will involve streamlining the licensing process, standardizing regulatory requirements, and promoting fair competition.

Pri Agung Rakhmanto, Ph.D- Founder and Advisor of ReforMiner Institute emphasized the importance of incorporating the fundamental philosophy concerning state asset control into academic texts, which will be a requirement for the ratification of the Oil and Gas Bill. The bill is eagerly anticipated by oil and gas practitioners and is seen as a positive step to stimulate the development of the oil and gas industry in Indonesia. It represents a breath of fresh air for both the industry professionals and investors, bringing renewed hope and encouragement for future growth and progress.

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Q & A

1. **The principle of the Oil and Gas Bill needs to pay attention to legal certainty to attract new investment. How the Bill revision could ensure legal certainty is a crucial principle of the Oil and Gas Bill to attract new investments and maintain existing investment interest in Indonesia?**

It is crucial for the Oil and Gas Bill to consider the significance of ring fencing and legal certainty to protect existing investments and maintain a conducive investment climate. By doing so, the bill can strike a balance between attracting new investments and providing reassurance to current investors, ultimately contributing to the sustainable growth of the oil and gas industry in Indonesia. **(Maman Abdurrahman)**

2. **If BUK Migas is formed, what will happen to BP Migas Aceh?**

The development of BUK Migas by the government will necessitate a considerable amount of advice and input, particularly regarding the establishment of BUK Migas in regions with special autonomy, such as BP Migas Aceh. This process is critical to ensure that the new entity aligns with the specific needs and requirements of each region while adhering to national energy policies and goals. **(Maman Abdurrahman)**

3. **How far will the Revision of Oil and Gas Bill encourage new investment with increasingly limited capital interested in developing new oil and gas fields that may not necessarily produce. And how are the regulations regarding the energy transition, especially concerning CCS, because investment opportunities in this field are increasing.?**

Absolutely, policy makers should prioritize the interests of the people when crafting policies related to investments in the oil and gas and Carbon Capture and Storage (CCS) sectors. The ultimate goal should be to utilize these opportunities for the maximum welfare and benefit of the population. While considerations of sovereignty are important, they should not hinder the country's economic development and its pursuit of becoming a respected global player. **(Maman Abdurrahman)**