



IPA News

Oil and Gas Outlook for 2017,
**BUILDING OPTIMISM IN
CHALLENGING TIMES**



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Plan to Save Oil and Gas Industry**

Volume **01** 2017



2017, Time for Optimism?

Challenging. That is the word that comes to mind when we describe the oil and natural gas industry lately. Various factors have put the brakes on the oil and gas sector, especially in Indonesia. Uncertain legislation, bureaucracy, and stalling global oil prices are some of the factors contributing to the bleak situation.

The Indonesian Petroleum Association is not standing by. Various diplomatic efforts and discussion sessions with the government have been launched. Although not everything has gone according to plan, there is hope in that both the IPA and the government are looking for much needed change.

The government, especially the Ministry of Energy and Mineral Resources, has promised to cut the bureaucratic red tape that the investors must wind through; various incentives and fiscal policies are being pushed to the parliament, one of them being the gross split scheme. Key to the IPA is to provide an oil and gas supply to underpin the economic growth of the Indonesia. To enable this, we need to see an improved investment climate in Indonesia that allows the oil and gas sector to be competitive for funding.

As industry players, we remain optimistic that this year will see the revival of the oil and gas industry. Hard work, continual discussion with all stakeholders and a drive for cost efficiencies will be the keys to move forward this year.



In the current edition, IPA News presents a number of articles on the condition of the oil and gas industry in 2017. Starting from the Focus column, giving an overview of the Challenges to the Industry in 2017 and the ongoing efforts to face them; the News moves on to present the Interview, featuring Ronald Gunawan, the Director of PT Medco E&P Indonesia. The column "Relax" explores the beauty of the Anambas Islands; and the Highlights column lists the association's many activities throughout 2016.

Our plan is for the IPA News to be a vehicle for communication and to further encourage the strong cooperation between the members of the association. ○

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Oil and Gas Outlook for 2017, Building Optimism in Challenging Times

The good times when the global oil price passed USD 100 per barrel in mid-2014 might not be coming again anytime soon. The global oil price has taken a long dive down. This plunge in the oil price has hit the national economy hard, especially the Indonesian oil and gas industry. It's an inevitable result and with the oil price at USD 30-50 per barrel, the oil companies have been re-arranging their production and exploration activities. Profits are still possible, although margins are now becoming smaller.

Deputy Minister of Energy and Mineral Resources (ESDM), Arcandra Tahar, when met by the IPA News in his office recently, said that there were three problem areas identified in the upstream oil and gas industry in Indonesia today: engineering or substance-related technical issues, commercial and political issues, including administrative matters and other matters relating to licensing in both the central and regional levels. "If we can admit that there are problems and these problems can also be precisely defined, I think then at that time we will have already reached 50 percent of the process to find a solution," he said.

According to him, one of the most common problems complained by investors are: licensing, local regulations and the regulatory policy changes that are suddenly imposed. While on the commercial side, the existing problems related to fiscal policy, taxation, and contract strategy. President of the Indonesian Petroleum Association (IPA) Christina Verchere declared 2016 as a critical year for the Indonesian oil and gas sector. "We saw many oil and gas companies were forced to undergo rationalization and restructuring. There are even companies that cancelled their plans to invest in other countries, including Indonesia," she pointed out.

Christina said that this condition in Indonesia is due to the sizable gap between supply and demand. On one hand, oil and gas production continues to decline, and on the other hand the demand

continues to soar. The declining production is caused by several factors such as existing oil and gas resources have decreased by nature, but reserves have not been replaced with new fields due to inadequate exploration efforts. As for the character of current exploration efforts, these are leading to increasingly complex geological conditions, the shift of operations from onshore to offshore and even to deep-water offshore areas, as well as in remote areas where there is a lack of infrastructure.

Christina hopes that in 2017, the IPA can continue being a strong partner for the government in formulating policies suitable for the national oil and gas industry. "Last year we saw the strength of the government's commitment in reviving the national oil and gas industry, by holding discussions with the IPA. We are optimistic that this trend will continue in 2017," she added.

There are several key focus areas for the IPA in 2017; for example the regulation on gas governance, the bill of revision to the Oil and Natural Gas Act, the Participating Interest of 10% collectible by the local government, fiscal incentives and a shorter licensing process in order to commence oil and gas operations. "Amongst these, improved fiscal incentives will undoubtedly help promote the level of oil and gas exploration and production in Indonesia," she added.

Christina admitted that in order to increase the attractiveness of the national oil and gas investment climate, the reform of regulations and a reduction in bureaucracy needs to be achieved by cooperation between relevant ministries such as the Ministry of Finance, Ministry of Environment and Forestry, etc.

From the government side, Arcandra stated that the Government has prepared a number of plans to raise the oil and gas industry in Indonesia in order to achieve energy security aligned with the Nawacita program of President Jokowi. "We will build refineries in four areas, such as Cilacap, Balikpapan, Balongan and Dumai. The Refinery Development Master Plan (RDMP) is to ensure the availability of energy supplies," said Arcandra.

Furthermore, he stressed that there are two great themes in 2017 that will be made by the Government to support the oil and gas industry, which is to halt the decline in production and improve the performance of oil and gas exploration. "The government has a plan to make the National Data Repository. We will integrate all the data. So, the government has the right to see them all," he said.

He added that the role of SKK Migas in the future will be more focused on technical problems or substance rather than administrative matters. It is because, he admitted, the administrative debate will have no impact on increasing production, but the substance of the debate will have an impact on finding new reserves so that it can increase national oil production. ○

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Arcandra Tahar,

Deputy Minister of Energy and Mineral Resources (ESDM)

From Vision to Passion

As Director and COO at PT Medco Energi International, Ronald Gunawan has changed his vision to work in Oil and Gas Industry into passion. His optimism to Oil and Gas Industry even in challenging situation is the key to his success.

Mr. Ronald Gunawan entered the oil and gas industry 29 years ago. He worked first as a field engineer trainee at Halliburton Indonesia for six months. Afterwards, the man born in Kaimana, West Papua, joined an American oil and gas company HUFFCO (now Vico Indonesia). He worked there until 2006. It is at this company that his career grew; from a junior engineer to Vice President of Resource Management.

After VICO, Ronald joined ENI Australia in Perth, Australia. In mid-2011, Ronald was assigned to Eni E&P Milan as the Asset Integrity Manager. A year later, he returned to Indonesia and took a position of President and the General Manager for Hess Indonesia, until 2014.

When Hess Corporation decided to exit Indonesia, Ronald decided to stay in Indonesia and took a position as VP Operation and Development at Premier Oil. During his 29 years career, Ronald has developed his strength in Production Operations, Production Optimization, Subsurface and Project Management. Nearing the end of 2015, he got yet another promotion as the Director & COO at PT Medco Energi International Tbk. "I was drawn to oil and gas ever since my high school days," he told IPA News in an interview at his office recently.

He described how he thought about becoming a doctor after he graduated from high school. However, this father of two decided against it for he thought working at an oil company would be more satisfying. "This was my vision. This work is way cooler than other jobs. Moreover, I am good at physics and chemistry. Informatics was a trend back then, but I'd like to see the different side. I took petroleum engineering in college, and the rest is history," he reminisced.

At the time, he added, it was predicted that the national oil and natural gas industry would enter a golden age. And there were so few Indonesian nationals working at oil and gas companies back then. This is why he was enthusiastic when he got admitted to petroleum engineering at the Bandung

Institute of Technology (ITB). After ITB, Ronald got a chance to study at the Texas A&M University where he got his Master's degree in Petroleum Engineering.

As an executive who started his career from zero, Ronald stated that he doesn't like the system of seniority still found in many companies. He thinks that this is unfair for high potential employees who possess good competencies at relative young age. He described how he became the Vice President at VICO when he was 38. "There was no waiting-in-line system. It was not smooth sailing either, there are lots of steps to be fulfilled," he added.

This avid aficionado of tofu and tempe revealed that many young talents who can potentially bring fresh air to leadership must lay in wait until their superiors resign or enter pension age. This, he reasons, can hamper companies' development, for old guards would be adamant to new views or vision that can potentially bring companies to new heights. Welcoming the New Year, Ronald predicted that the Indonesian oil and gas industry will see better days compared to the passing years. These better days will surely come when the global oil price stabilizes, even rises, followed by increasing rate of production and increasingly certain national regulations. Last year, he added, the national oil industry was adversely affected by the fluctuation of the global oil price; forcing nearly all companies to adjust their cost structure. "All countries were hit, except for Saudi Arabia. Their cutback was not as severe as other countries," he explained.

Aside from the global oil price, Ronald also said that the government's regulations were affecting the industry heavily. The current regulations are admittedly not giving investors sufficient incentives to begin investing. "If the Indonesian regulations give a better investment climate here compared to other countries, investors would choose to invest here," he said.

Ronald also disclosed the reason his current company acquired ConocoPhillips Indonesia, as the operator of the South Natuna Sea Blok B, in 2016. "Indonesia oil & gas operations will move to offshore areas. Medco should develop its capability and expertise in offshore operations. Furthermore, the facility in that oil block is quite extensive that could become a future hub for development of Natuna area. This would undoubtedly expand Medco's portfolio; a fit addition to the already existing onshore operations," he added.

With the acquisition, he added, the position of MedcoEnergi, an independent energy and natural resources company, in Indonesia will be strengthened its position in both onshore and offshore operations. ○





Anambas The Hidden Jewel of the South China Sea



A stretching string of white sandy beach, clear blue water and beautiful coral full with scampering fishes might be what heaven is for some people. And you don't have to travel far to the Maldives to enjoy this heaven in Indonesia. Try and visit the Anambas Islands, a hidden heaven under the South China Sea that will inevitably hold you thrilled.

Yes. Anambas, this pretty girl that captivates the attention of more and more people is one of the area of operation of Medco Energi, the South Natuna Sea Blok B, after an acquisition from Conoco-Phillips. This particular site is special not only for its reserve of oil; Anambas also hold huge potential for economic development.

Realizing the potential, Medco Energi is acting properly. Starting with the development of infrastructure, Medco Energi strives to give back to the community and develop their economic potential. They build airport

in Tarempa Island not only for operational logistics support, but also for use by commercial air transport open to the public.

And building transportation facilities is just the beginning Senior Manager & Security Medco E&P Natuna Ltd., Drajat Iman Panjawi, said that the company's CSR programs aim not to invalidate the role of the government; instead, it aims to support and strengthen the government's development projects.

Apart from infrastructure projects, Medco Energi also develops CSR projects to improve education, community economy and tourism. The manager of CSR for Medco E&P Natuna Ltd. Inneke Sundari is committed to bring prosperity to the communities around the area of operation. "We start with education because we know that education is the basis for progress. We develop environmental based education, what we call Sekolah Adiwiyata. This school has been given a provincial level award," she elaborated.

As a chain of islands, the Regency of Anambas Islands is also rich in marine and fishery potential. This potential includes biological resources, non-biological resources and environmental services. Realizing the potentials, Medco Energi lends a hand to fisher-folks around the Anambas Islands to develop the grouper cultivation. Hitherto, the Anambas grouper cultivators have to buy grouper fingerlings from Batam; with exorbitant price and cost.

Aside from cultivation, Medco

Energi also lends a hand to develop the quality of the small-medium businesses in its area of operation. The development is conducted mainly through training in packaging and marketing. There is in fact a whole village that is now being prepared to be a small-medium business center for fish products. "We are developing an area specially for fishery products, namely Kampung Bilis. We are looking forward to its completion this year," described Ineke.

Marine Tourism at the Forefront

Aside from its potentials in fisheries, the Anambas Islands also offer a myriad of unforgettable marine tourism experiences. Its tropical beaches are said to be amongst the best in the world. Anambas is a proof that an underwater vista is not exclusive to the eastern part of Indonesia. The island chain between the Malaya Peninsula and Kalimantan has plenty of untapped splendor in store.

Located right on the edge of the fierce South China Sea, the Anambas chain of islands offers a tranquil and exquisite experience for the tourists. And Anambas doesn't just offer one or two of such islands; instead, there are tens of gorgeous islands there. Almost every island in that regency has clean white sandy beaches.

In the near future, Medco are going to develop a CSR program to support tourism in the area. "We are going to develop the infrastructure and other supporting systems; in a coordinated effort with the local government, of course," Drajat explained. ○

2016 IPA ANNUAL GENERAL MEETING



IPA Calls for Regulatory and Fiscal Policy Reform to Raise the Oil and Gas Industry in Indonesia

On 7 December 2016, IPA conducted the Annual General meeting in Jakarta. The theme of the meeting is about the regulatory and fiscal policy reform to improve the Oil and Gas industry in Indonesia.

"It is estimated that world crude oil prices in the coming years will remain low. This condition needs to be seriously addressed by all stakeholders to reform the related rules and regulations in the oil and gas industry to attract investors to come to Indonesia," said President of the Indonesian Petroleum Association (IPA), Christina Verchere.

She explained that the Indonesian Government's efforts to attract more investment into the country has been demonstrated through some changes in the regulations which are related to the industry, but on the other hand there are still many challenges from other stakeholders who might have different interests.

Christina admitted that the IPA and the Indonesian Government have had many discussions and meetings to discuss

regulatory reform and fiscal policy throughout 2016.

"Going forward, we will continue working together with the Government to find a formula and the proper implementation of oil and gas in order to improve the oil and gas investment in Indonesia," she said.

Some of the issues that were discussed between the IPA and the Government of Indonesia during the period 2016 are the Revised Government Regulation No. 79 Year 2010 on Recovery of Operating Costs and Treatment of Income Tax in Upstream Sector of Oil and Gas, FGD related to Gas Governance, Deep Sea Gas Field Development, Implementation of Simplification of Permits Process in Ministry of Energy and Mineral Resources, Minister of EMR Regulation No. 38 Year 2015 on Acceleration of the Exploitation of Non-Conventional Oil and Gas, and input to draft of new Oil and Gas Law. In addition, the 45th Annual General Meeting also determined the IPA's Board of Directors and Committee who will be on duty for 2017 period. ○

IPA will conduct the 41st IPA Convention & Exhibition 2017

The Indonesia Petroleum Association (IPA) will return this year for its 41st Convention and Exhibition. This 41st IPA Convention and Exhibition will be held on 17-19 May 2017 in the JCC, Jakarta with the theme "Accelerating Reform to Re-Attract Investment to Meet the Economic Growth Target".

The IPA Convention and Exhibition is the primary oil and gas event in the Southeast Asia region. There are several discussion during the plenary and special sessions, cutting-edge technologies and services and new innovations all under one roof. The IPA Convex has always been the best platform in the region to conduct business discussions and network with industry professionals across the Southeast Asia region.

"We are looking forward to further strengthening our position in the region, and at the IPA Convention and Exhibition, we hope to continue to be recognized by major players as the leading oil and gas event in South-East Asia." said Michael C. Putra, Chairman of the 41 IPA Convex 2017. ○





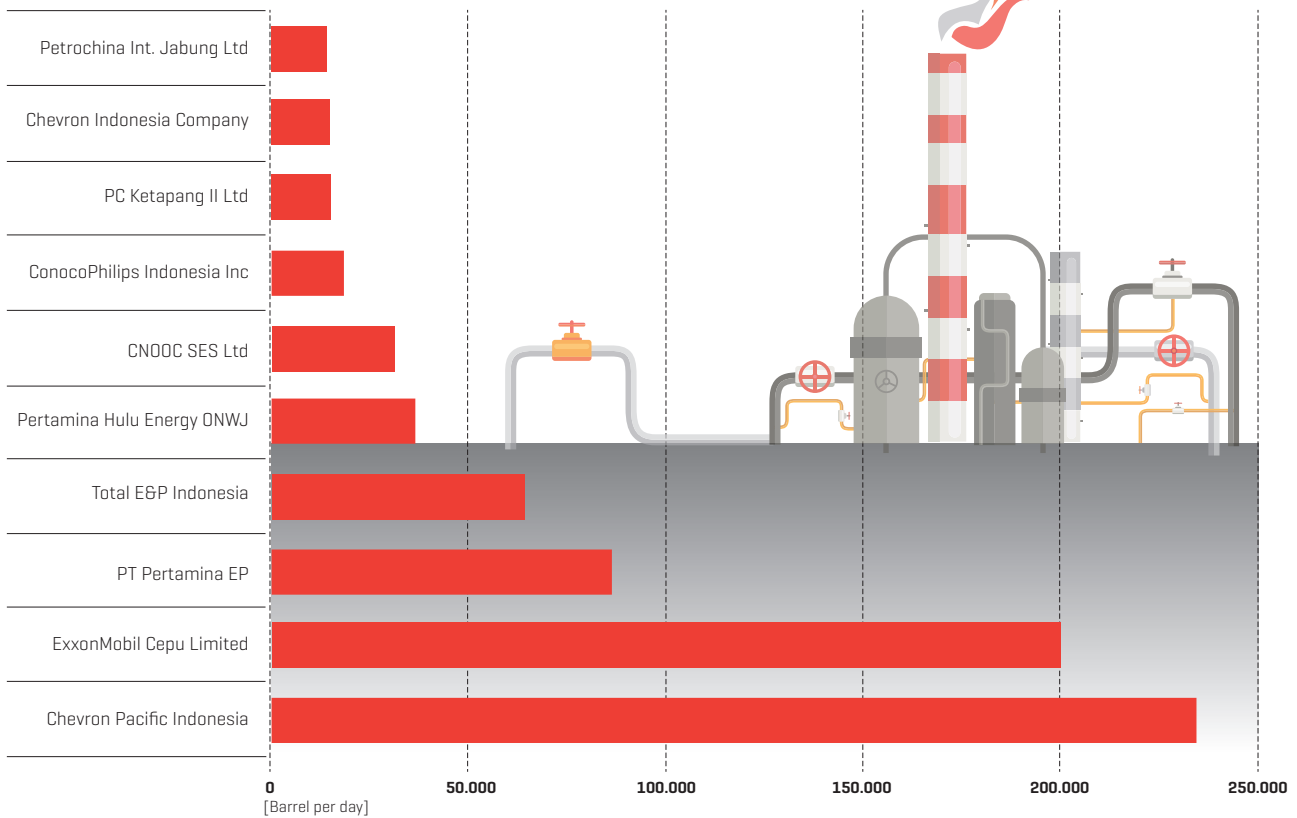
Board Liaison of Regulatory Affairs Committee, Chuck Taylor, explained the GR 79 Year 2010 revision updates to a hundred representatives of IPA Company Members on the Session Sharing in Jakarta on Monday, October 24th 2016. The changes to certain points in PP 79/2010 have been initiated to improve the investment climate of the oil and gas industry in Indonesia.



The Social Investment & Partnership (SI&P) Committee member, Asih Miko, delivered prizes to the participants of IPA Literacy Competition 2016, on 22 November 2016. The SI&P Committee in collaboration with Yayasan Pengembangan Perpustakaan Indonesia (YPPI) conducted the IPA Literacy Competition 2016 which participated by several elementary schools in Jakarta Province.

STATISTIC

10 Biggest Oil Producer PSC 2017



10 Biggest Oil Producer PSC 2017

Special Unit of Upstream Oil and Gas (SKK Migas) targets the oil lifting of 825 thousand barrels per day (bpd). This figure is higher than the target in the State Budget 2017, ie 815 thousand bpd. Cepu raising production target to 200 thousand bpd in 2017 from the previous year 169 thousand bpd create SKK Migas optimistic oil lifting in 2017 exceeded the budget target. The realization of oil lifting up to 822 thousand bpd, higher than targeted in ABPN-P in 2016 as many as 820 bpd. The operation of Train B Banyu Urip field is able to sustain a production capacity of 185 thousand barrels of oil since the beginning of January 2016. From January to November 2016, the Contractor Cooperation Contract (PSC) has been working on drilling 212 development wells, 1,055 re-work activities (work-over), as well as maintenance activities 33 925 wells (well service).

Source : Katadata

Needs Progressive and Clear Strategies Plan to Save Oil and Gas Industry

The dire condition of the oil and gas industry in 2016 left behind a number of challenges for the coming year but there are hopes that the industry is going to get better in 2017. The IPA interviewed the founder of the Reforminer Institute Pri Agung Rakhmanto, to gain his insights on the condition of the oil and gas industry throughout 2016. Below is the excerpt of this interview:

What was the condition of Indonesian oil and gas industry throughout 2016?

It was dire. The situation during 2016 is especially not conducive for the development of the national oil and gas upstream industry.

Can you describe the challenges faced by KKKS throughout 2016, and what you did to overcome them?

The first challenges to the oil and gas industry is an external one, the global relatively low price of oil. Secondly, it was the national situation, where the industry was faced by classical unsolved problems at the operational level; such as the red tape bureaucracy and complicated licensing schemes. Under these conditions, the industry also faced growing uncertainty. This reshuffling to and fro adds to the persisting uncertainty such as the delay on the promulgation of the Oil and Natural Gas Act. Lots of other regulations cropped up and added additional burden for the contractors; such as the obligation of the contractor to pay for the 10% Participating Interest, ASR (abandonment and site restoration) funds, and the plan to implement Gross Split.

In the future, the government should have more progressive and clear strategic plans regarding the oil and gas upstream industry. Focus first on the core business of the oil and gas upstream sector, which is the production increase and producing sustainable reserves.

With Jonan now officially appointed as the Minister of Energy and Mineral Resources, there are already a few policy changes in regard to the oil and gas industry. What do you say about that?

Some I have already mentioned. The new minister should have a more progressive and strategic vision, mission, projection and planning for the oil and gas upstream industry for the next five to ten years. The oil and gas upstream industry should not be treated in a business-as-usual fashion. Policies should be a derivative of that strategic and progressive planning vision. They should not be based on piecemeal discourses. This would only add uncertainty for the investors.



Considering the current situation, how would you predict the condition of the oil and gas industry in 2017? What are the challenges that await the KKKS?

The biggest challenge is, in my opinion, that there is yet to be a strategic and progressive planning from the government that can be used as a reference by the players and stakeholders in the oil and gas upstream industry. Without such references, there will inevitably be new policies and regulations made in a piecemeal fashion; disregarding the interests of the oil and gas upstream industry core business. This would inevitably be counter-productive to the oil and gas upstream industry.

What do you think needs to be done by KKKS and the government in the future to ensure the revival of the oil and gas industry?

It's a kind of cliché. Both should sit together and start building synergy. What kind of synergy? That would need further defining. And, to reiterate, without any guidance on the planning, without a clear direction, we will all walk in circles. If you want a revival, don't treat it in a business-as-usual manner. Set a progressive planning target and make it the reference; then synergize all the constituents and resources to reach it.

What is your hope for the oil and gas industry in 2017?

Don't put all your eggs in the government's basket. The oil and gas industry does need government's support. That is inevitable. But by becoming more independent, the industry can prove that it can achieve something with minimal support. That would be a boon for everyone. If, for instance, we can find a large scale reserve or significantly increase production through large scale EOR, the government would be whipped into more action. The contrary could also be true: that the government would think that they don't need to do anything anymore for the industry. Nevertheless, if the industry can be less dependent to the government, and prove that it can survive on its own, the lion's share of the resulting profit will be reaped by the industry itself. ○

