



Arifin Tasrif: Synergy between the Government and Industry for the Future of Oil and Gas

Interview :

Louise McKenzie | President of ExxonMobil Indonesia

Covid 19, the Oil and Gas Industry **Turning Point**

Volume

05

2020



Dear Readers,
As we release this IPA NEWS, the world is continuing to battle through the COVID-19 pandemic and we are all fully aware of the great challenges that are being addressed by the government of Indonesia in responding to the effects of the COVID-19 virus. On a positive note, we are seeing that through the combined efforts of government and the community, we are starting to see the benefits of the strict protocols that have been introduced and we all hope that this trend continues in future as we gradually move out of the pandemic period and return to working from our offices.

Many people have predicted that this year the upstream oil and gas industry will enter its twilight era as there was also

a drastic fall in the global oil price beside the COVID 19 pandemic.

However, in this edition the IPA NEWS presents the theme of Energizing the Future. In the FOCUS section, we have outlined the future energy needs and how the upstream oil and gas industry is responding to the planned transition of energy from fossil fuels to renewable energy.

We are also grateful for the privilege to interview the Minister of Energy and Mineral Resources, Arifin Tasrif in between his busy schedule. The vision and mission of the Ministry of Energy and Mineral Resources for the upstream oil and gas industry and the efforts made under the President Joko Widodo's energy program can be read in THE EXPERT section.

Don't forget to read this edition's CEO Talk about my own organization, ExxonMobil Indonesia, which also contains some examples about community programs conducted by ExxonMobil Indonesia to provide additional benefits to the communities around the company's operational areas.

We hope that this edition of the IPA NEWS can provide an accurate picture to all concerned parties about the upstream oil and gas industry in Indonesia and how to face the challenges ahead.

Have a good read!

Louise McKenzie
IPA President



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IPA Postpones Convex 2020

The Indonesian Petroleum Association (IPA) has postponed the 44th Exhibition and Convention in 2020, which was previously scheduled for 2-4 September 2020. This decision was taken after considering the impacts of the COVID-19 pandemic and the safety and health of visitors, exhibitors, and other parties involved were the primary concerns of IPA and PT Dyandra Promosindo as the organizer of the event.

"The postponement of the Convex IPA program is indeed beyond our control. We hope that all parties involved in organizing the IPA Convex can understand this," said the Chairman of the Convex 2020 IPA Committee, Mr. Agus Suprijanto, recently.

He described this delay as one of the efforts of the IPA to help the Government of Indonesia in combating the COVID-19 pandemic. For this reason, IPA calls on all parties to understand and conform to the Government's recommendations in carrying out social restrictions and conduct under the health protocol.

The next IPA Convex IPA will be held on 1-3 September 2021, at the Jakarta Convention Center (JCC).

Although the main event will be postponed to next year, the IPA Convex will continue to hold two activities this year, namely publishing of Infographics on key industry data and also the publication of Technical Papers through the Technical Program. Mr. Agus added that the implementation of this program will be carried out online through the Website and Social Media IPA. ○



The Government Ensures Continuous Operation of Oil and Gas Companies During The Covid-19 Pandemic



Efforts to prevent the spread of COVID-19 have created restrictions on daily activities, including the operations of oil and gas companies. This limitation also affects the movement of oil and gas workers into and out of the mining locations. In turn, this affects the oil and gas companies operating under the enactment of the Large-Scale Social Restrictions (PSBB) in several regions.

To overcome these obstacles, the Directorate General of Civil Aviation of the Ministry of Transportation issued a new regulation that gives exceptions to transportation activities for workers in the oil and gas fields. The regulation is stipulated in article 20 paragraph 1 of the Minister of

Transportation Regulation No. 25 of 2020.

Previously, SKK Migas had sent a letter requesting exceptions regarding transportation for oil and gas workers to the Ministry of Transportation. This support is deemed necessary to ensure that national upstream oil and gas activities continue albeit with due regard to established health protocols.

This policy was welcomed by the Indonesian Petroleum Association (IPA). IPA President Ms. Louise McKenzie appreciated the Government's efforts to continue supporting the oil and gas industry during the COVID-19 pandemic. ○

Once lined up to be the Minister of the Indonesia Maju Cabinet of 2019-2024, Arifin Tasrif has immediately undertaken a variety of measures to help the oil industry to speed up in these current times. Recently, the IPA had the opportunity for an exclusive interview with him and in this interview, he explained the government's plans to increase oil and gas investment, exploration and production. Included in this interview was President Joko Widodo's program related to new and renewable energy as well as the future for the oil industry. The following are the excerpts:

In accordance with President Jokowi's order, the national oil and gas industry must work hard to reduce oil and gas imports which causes a deficit in the national trade balance. What is your prediction on the future of the oil and gas industry?

Overcoming the oil trade deficit is one of the priority tasks that President Jokowi has given to us, among others. The biggest culprit for the trade balance deficit is the high imports of fuel and LPG. Moreover, the nationwide production of oil and gas has also decreased relative to the ever-increasing demands. We still have the potential to increase the existing production of oil and gas. We will seek to exploit this potential in a timely and precise manner. Should it require more regulatory support, we would implement this. Currently there are more than 70 basins to be explored. Hopefully this semester will see action in regard to the exploration of these areas.

On the other hand, we also have a large enough source of biofuel and in the future, we will indeed focus on how biofuel can replace fossil based fuel. Throughout 2019, the oil and gas trade balance deficit has seen a decrease to USD 9.3 billion, compared to the 2018 number of USD 12.7 billion. This was partly because of the success of the biodiesel or B30 mandatory program that led to a reduction in fuel imports.

We predict that we will be able to overcome various challenges in the oil and gas industry in the medium term. National oil and gas production capacity will be increased, oil and gas infrastructure will be completed, and energy diversification can be carried out.

What would the Ministry of Energy and Mineral Resources do to accomplish this task?

As a ministry in charge of energy, we implement

initiatives to find new reserves and increase oil and gas production. Based on existing data, proven oil reserves are 3.7 billion barrels and natural gas is 77 trillion cubic feet (TCF).

As mentioned earlier, Indonesia's oil and gas potential is still quite large. In addition to finding new reserves and increasing production, we also focus on continuing the B30 program until it is upgraded to B40, B50, or B100, construction of new refineries and revitalization of existing refineries, construction of city gas networks, reduction in industrial gas prices, and coal gasification into DME (Dimethyl Ether) to increase coal value added and reduce LPG imports. These various efforts would secure domestic energy demand and reduce the trade balance deficit.

What regulations have and will be issued by the government regarding plans to increase exploration and production of the oil and gas industry?

We currently offer an option for industries to choose between PSC Gross Split and PSC Cost Recovery. We give this choice so that they can improve their performance in oil and gas exploration and production. In addition, we also need other input from the industry. We will examine carefully what can be applied, for example related to the speed or processes in terms of licensing and so on. Simplification of licensing is needed so that the process is not delayed. Because oil and gas is also related to other sectors, we always coordinate all steps for improvement with the relevant Ministries /Institutions. We also have plans to increase refinery capacity, including the planned refineries that the President has just visited. Hopefully everything can be completed on time so that it will have a significant impact on the implementation of the tasks given to us.

President Joko Widodo also instructed the Ministry of Energy and Mineral Resources to prepare New and Renewable Energy (EBT) for energy in the future. This instruction also affects the oil and gas sector. According to the Minister, what is the impact of these instructions on the oil and gas sector?

Sooner or later, (EBT preparation) must be carried out, including the utilization of natural gas resources which is quite optimal at this time. Energy sources from natural gas also have a time limit. They are non-renewable. We have a huge (renewable) potential to be utilized. Of course, with the current developments, the cost is becoming more competitive. Renewable energy must be accelerated because it has become the President's commitment as well as a



"FROM THIS SYNERGY WE HOPE THAT THE INDUSTRY CAN ALSO MAKE VARIOUS BREAKTHROUGHS TO MASSIVELY INCREASE OIL AND GAS PRODUCTION AND EXPLORATION IN ORDER TO SUPPORT THE PRODUCTION TARGET OF 1 MILLION BARRELS OF OIL PER DAY BY NO LATER THAN 2030."

global commitment. This is also mentioned in the Paris Agreement in 2015, which was ratified into law in 2016.

In terms of the ESDM investment plan for the next 5 years, the portion of oil and gas investment is still quite dominant, amounting to USD 117 billion or around 59% of the total USD 198 billion. For the remainder, electricity investment is around USD 39 billion, minerals and coal amounts to USD 22 billion, and renewable energy around USD 20 billion. In addition, the Government is also currently pushing the program to increase national oil production to 1 million barrels per day by no later than 2030.

So, what should the upstream oil and gas sector do?

The oil and gas industry must focus on developing the application of technology to be able to produce oil and gas in the old, frontier, deep sea, and non-conventional oil and gas fields. But we also hope that the oil companies will gradually begin to transform into being energy companies and expanding into the renewable energy industry. This can be started by allocating Corporate Social Responsibility (CSR) funds for the development of new and renewable energy around the operational areas. Or, by using renewable energy in its own field operations.

The government has taken steps to help the industry to increase oil and gas exploration and production going forward, namely by improving contract terms & conditions, including providing flexibility for the use of contracts, both the Gross Split PSC scheme or the PSC Cost Recovery scheme. We will also conduct the first stage of the oil and gas block auction in 2020 as soon as possible. Other efforts include activating old wells that have been abandoned and also by utilizing Enhanced Oil Recovery (EOR) technology. The government has also made improvements in terms of supporting regulations to accelerate the licensing and administration processes needed and to implement oil and gas data disclosure. It is hoped that the oil and gas fields will be developed more quickly.

What is the future of fossil energy in Indonesia related to the energy transition policy?

Indonesia's current energy demands are still dominated by oil and gas at 58% with renewable energy at 9%. In the medium term or by 2025, renewable energy is targeted to increase to 23% and the portion of oil and gas will slightly decrease to 55%. The decline was particularly the case for oil



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production.

Basically, the energy transition is a process of substituting fossil energy by renewable energy. Although renewable energy will continue to be developed massively, on the other hand we are still encouraging the development of fossil energy sources, especially natural gas. On the other hand, Indonesia's energy needs will continue to increase every year. The transition from fossil fuels to renewable energy must be carried out in stages keeping in mind the competitiveness, cost, availability and sustainability.

What are your hopes for the IPA in particular and the upstream oil and gas industry players in general?

Yes, of course we must continue the synergy, specifically that the industry can provide input to the Government. Moreover, we can work together going forward so that we can achieve the future goals. We cannot work in isolation. From this synergy we hope that the industry can also make various breakthroughs to massively increase oil and gas production and exploration in order to support the production target of 1 million barrels of oil per day by no later than 2030. The industry is also expected to be able to adopt various technologies, innovations and technology transfers by optimizing resources such as national human resources and manpower. In addition, the industry players must increase efficiency. With efficiency, the industry can achieve better cost management and can afford more competitive oil and gas prices for end-users. So ultimately the upstream oil and gas industry can further support the growth of the national economy. ○

Immersion in the oil and gas industry for decades has provided many valuable experiences for Louise McKenzie. Born in Australia, this senior Executive has experienced various challenges in the oil and gas industry, both globally and while leading a global oil and gas company in Indonesia. Ms. Louise shared her vision about the Oil and Gas Industry in this challenging time with IPA News, herewith the interview.

What is your view on the current oil and gas investment in Indonesia?

Aligned with President Jokowi's direction towards Indonesia's vision, we appreciate Government's and Ministry of Energy desire to increase investment in Indonesia. Our industry is in a very challenging period, with both COVID-19 and supply/demand imbalances driving price volatility and increasing the complexity of safely delivering energy. Across the world investment in our industry is being dialed back, and ensuring efficiency in all that we do is paramount. This is a golden opportunity to pursue efficiencies that we should not let pass by.

It will also be critical to ensure Indonesia is well placed to compete globally to attract capital as it becomes available. There will be strong competition for each investment dollar. In our industry the investments are long term commitments, investors will bring know how, technology and global experience, but equally will expect a stable environment, efficient regulations and equitable fiscal terms. As IPA has highlighted many times, the resource opportunity is here. Studies suggest that half of the basins in Indonesia are yet to be fully explored. It means there is more we must do to locate and develop the necessary resources to fuel Indonesia's economic growth. It is excellent to see President Jokowi and ESDM Minister pursue integrated and orchestrated action between related ministries and the Parliament with the Omnibus Laws process. We hope that can simplify and improve regulation to enable more investment.

As one of the largest global PSCs operating in Indonesia, please describe what ExxonMobil regards as obstacles in oil and gas exploration in Indonesia and what ExxonMobil expects the Government to do to overcome them.

We'd rather see them as opportunities. We operate in so many countries globally and everywhere there is opportunity to do more. In the past five years of President Jokowi's administration, we have seen many accomplishments from the Government of Indonesia through ease of business initiatives to pro-growth fiscal initiatives. We have also observed a greater focus on the energy sector and energy policy. The recent focus on simplified permits and regulations are continued steps in the right direction. Other initiatives are also

the oil and gas exploration data open access by the Ministry of Energy as well as further efforts to enhance coordination between ministries.

The Government of Indonesia on one occasion said that the oil and gas industry is currently in sunset condition. What is your opinion on that statement?

Perhaps "Sunset" from a declining revenue perspective; but "core" if we see it from the perspective of 'energy to fuel economic growth' and the overall contribution to the economy both through direct and multiplier effects. In ExxonMobil's Outlook for Energy, which is published annually, we examine how energy is consumed; how supply-and-demand trends are shaping markets; and what the future might hold for every nation aspiring to growth and progress. What we see in the decades ahead is growth: population growth, economic growth, and energy demand growth. Much of the growth we will see in the next few decades will be driven by the dynamic economies of the Asia-Pacific region. Indonesia is one of its large contributors. In our long-term view, the combined economy of the Asian region is likely to triple in size by 2040. Energy demand is projected to grow

about 35 percent. Along with that the demand for energy, in which oil and gas will continue to play a significant role, will also continue to grow.

The current focus of the Government seems to be on the development of New and Renewable Energy (EBT), in your opinion, what should the oil and gas industry do to anticipate this?

ExxonMobil are committed to develop renewable energy as part of our vision

to support sustainability and efficiency. ExxonMobil started to develop algae biofuels in 2009, and in 2017 we successfully developed an algae strain that converted carbon into energy-rich fats. This is promising but will need a long and rigorous research. It is also encouraging to see the growth of new and renewable energy in Indonesia. In fact, the government is targeting 23 percent of new and renewable energy in Indonesia's energy mix by 2025.

ExxonMobil is currently one of the KKKS with the highest production rate in Indonesia. Can you tell us what efforts you made to achieve this? And what strategies will you employ to maintain the current of production rate?

The Cepu Block now produces up to 220 thousand barrels per day, up to 29 percent of Indonesia's national oil production, with reliable operations and world-class safety. As of November 30, 2019 our cumulative oil production from Banyu Urip field has reached 357 million barrels of oil (MBO). This means we have delivered our committed recoverable reserves in the initial Plan of Development, in less than half of Production Sharing Contract period. ○





Covid 19, the Oil and Gas Industry Turning Point

The COVID 19 pandemic presents a major blow to the world economy. The micro-sized virus has changed the world in unimaginable ways, including the oil and gas industry. The world oil price has been pushed down since the beginning of the year, reaching its lowest point in early March, below the USD 30 per barrel level.

Another major blow has come from the level of fossil energy consumption which dropped dramatically, due to some restrictive policies in various regions and countries. Oil and gas company operations have also been affected because they have had to adjust to health protocols during this pandemic.

In Indonesia, the oil and gas industry is feeling the impact of the COVID 19 pandemic due to the pressure to reach certain production targets. Therefore, SKK Migas has also revised its production target from 735 thousand barrels per day (BPH) to only 725 thousand BPH.

This figure is the technical target agreed upon in the Work Plan and Budget (RKA) between SKK Migas and the Cooperation Contract contractors (KKKS). Regarding natural gas, the production target has also been adjusted from 5,959 million cubic feet per day (MMSCFD) to 5,727 MMSCFD.

The Head of the Special Task Force for Upstream Oil and Gas Business Activities (SKK Migas), Dwi Soetjipto, said the present pressure on the national oil and gas industry is quite heavy and complex. SKK Migas must also evaluate all the upstream oil and gas projects that have been planned this year. "It is obviously affected. The ENI Merakes project was delayed until 2021. All suffer from similar problems caused by Covid-19. The mobility of goods and people is disrupted and project activities are affected," he said.

Dwi also has stated that the annual target for the remaining uncompleted projects would be revised. However, he still hopes that these projects can still be completed by the end of the year. As of the first quarter of this year, only four of 12 projects have been completed.

He added that the Government is currently making various efforts to maintain the sustainability of the national oil and gas industry. Paramount of these is coordination with all KKKS to review this year's work plan. Most KKKS have indeed proposed a revision of the RKA. The government and the industry players also conducted a thorough study of several options related to the condition of world oil prices and the economic level of the needed projects.

Restrictions on the mobilization of people and goods have compelled SKK Migas and KKKS to coordinate with stakeholders. The coordination

is necessary to ensure that the operational activities of oil and gas companies are not disrupted.

Dwi said that his institution had submitted a proposal to the Minister of Energy and Mineral Resources for the plan to provide a stimulus package to the KKKS so that the economic level of the projects being carried out could be maintained.

Meanwhile, the President Director of ExxonMobil Indonesia, Ms. Louise McKenzie, separately said that the global oil and gas industry is facing severe challenges due to the COVID 19 pandemic. However, she maintains that this condition can also be seen as an opportunity for the industry to increase efficiency. "Around the world, investment in the oil and gas industry will be stifled. Today's industry must prioritize efficiency. This is a golden opportunity to do it," she said.

Louise added that despite challenges due to the COVID 19 epidemic, the sustainability of the oil and gas industry in a country is determined by stability, both in the form of efficient regulations and fiscal policies that accommodate industry needs. "Indonesia is still attractive to oil and gas investors. The companies will appreciate a country that accommodates the needs of investors, so they can compete healthily and have no hesitation to invest their capital," she iterated.

Ms. Louise said that she highly appreciates the government's efforts to ensure the oil and gas industry continues to run during the COVID 19 pandemic, among others by issuing policies related to the transportation of goods and people supporting this sector.

The Chief Advisor of SKK Migas, Satya Widya Yudha, separately stated that Indonesia still has enormous exploration potential and is attractive to investors. For this reason, good coordination between the Government and KKKS is needed. "The government can encourage KKKS to explore eastern Indonesia through the stipulation of the Omnibus Law. That way, the target of one million barrels by 2030 can be achieved," he confided. ○



The Three Pillars of the Community Programs of ExxonMobil Indonesia

As the current largest petroleum company in Indonesia, contributing more than 29 percent of the national oil production, ExxonMobil Indonesia is highly committed to empowering communities around its operational areas. For the company, this commitment is a social investment that yields a big impact not only on the community but also on the growth and sustainability of the company's future operations.

The Vice President of Public and Government Affairs ExxonMobil Indonesia, Azi N. Alam, affirmed that corporate social responsibility is an inseparable part of the company's operational activities. Through this, the company wants to ensure that all of its operations have a positive impact on the environment and surrounding communities. "Our community development program aims to make the company's operations provide assistance to help develop the potential and increase the economic independence of the community around our operational areas," he told IPA News recently.

ExxonMobil Indonesia's community development program, commonly referred to as strategic community investment (SCI), consists of three pillars: economy, education, and health and sanitation.

One of the programs in the pillars of economic development is the Business Incubation Center (PIB) in Bojone-

goro Regency, East Java. This institution was established to assist new entrepreneurs in Bojonegoro to become independent and highly competitive. PIB has three focus activities: training, research, and marketing network expansion. Here, participants are given training and assistance in conducting small-scale production; they are given an interface to the market potential that is available for their products, helping them on their way to becoming independent.

Moreover, on the same pillar, the company also provides natural dyes batik training in Tuban, East Java. This program aims to improve the skills of batik makers in mastering modern batik design techniques following market tastes, with an environmentally friendly and safe coloring process.

Biogas, the company's flagship program, is on the pillar of economic development. The program, which was initiated in 2014, aims to promote the use of renewable alternative energy to the community. "We have built 221 biogas reactors in seven villages in Bojonegoro and Tuban Regencies," Azi enumerated. "The gas produced can be used for cooking and lighting when the electricity goes out, while the waste of cow dung used in the biogas production can be used as manure. Because of these benefits, the community's interest in this program is very high," he continued.

In the sector of education, Azi

explained, since 2014 ExxonMobil Indonesia has collaborated with the Tuban Regency Education Office and a national-level NGO to establish the Tuban Teacher Learning Center (PBG). Through PBG the teachers are given various types of training on creative and interesting learning methods. This program is an implementation of the company's commitment to improving the quality of existing human resources around the operational areas. PBG was established in Bojonegoro and Tuban Regencies. These two institutions continue to develop along the way. PBG Bojonegoro now has 1,738 registered teachers, while in Tuban, PBG now has 3,154 registered teachers. The access to a variety of training and library facilities with a complete collection of books is an added attraction for teachers to join.

In the health and sanitation sector, one of the company's flagship programs is the Health Awareness Community (I'm Healthy) Movement. In collaboration with the local Bojonegoro School of Health Sciences, there are four main activities in this program: mentoring for 965 assisted families from four villages, the establishment of a health information center for consultation and basic health services, capacity building for village health cadres, and community medical examinations and treatment.

Also in the health sector, the company has established a waste management program in Tuban, East Java, which was run in collaboration with the Institute for Rural Technology Development. The program aims to change people's behavior to conform to a clean and healthy lifestyle. The program also introduces various forms of waste management to the community, including waste banks, training in making souvenirs from waste, and building of public toilet facilities. "Specifically for organic waste that reaches 70 percent of the generated waste, the waste management program also teaches the community to produce commercial organic liquid fertilizer to provide additional benefits for the community," Azi said, closing the interview. ○