



The New Era of Energy: Imagining Energy in the Future

Akihiro Watanabe: Consistency In The Regulatory Framework Is The Key To Attract Investment

IPA Held a Digital Technical Conference

The 49th IPA Annual General Meeting Held Virtually



Dear Readers,
The year 2020 has been an unprecedented year for the world, with the global COVID-19 pandemic affecting every area of society, including the upstream oil and gas industry. As we approach the end of the year, the world is continuing to readjust and look forward to a gradual return to a new normal with the arrival of effective vaccines.

In the upstream industry in Indonesia, we look back at a year where we have not only dealt with the impact of the pandemic, but also a year that has seen continued low oil prices as well as a new global focus by many companies on the energy transition to

greener, renewable energy.

But the hope is still rising. As we enter the year 2021, we will see the New Era of Energy. Not only the transition to renewables, but also some changes in regulations and continued collaboration with all of the stakeholders. We look forward to continuing this renewed spirit of cooperation in 2021. With the new spirit, we believe that the investment climate will improve.

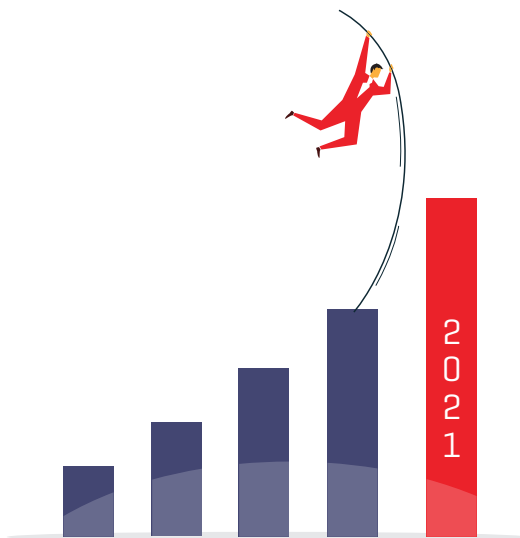
In the Focus section, we are reviewing the efforts of the IPA along with the government to improve the investment climate in 2021.

While in the CEO Talks, we can see how INPEX can survive for more than 50 years in Indonesia and make a maximum contribution to Indonesia through its CSR activities. We also report on the IPA Digital Technical Conference activities as well as the 49th IPA Annual General Meeting in the Highlights.

There is a lot of homework for next year. However, with the ongoing good collaboration between the IPA and Government, we are optimistic that 2021 will be a year of renewed growth for Indonesia, particularly for the upstream oil and gas industry.

Sincerely yours,

Gary Selbie
IPA President



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IPA Held a Digital Technical Conference

The low global oil price and the lack of investment in the oil and gas industry lately have not dampened the enthusiasm of the upstream oil and gas industry players in Indonesia to continue their contribution to the development of the oil and gas industry. Every year, the Indonesian Petroleum Association organizes the IPA Convention and Exhibition (IPA Convex) which is an international scale exhibition and convention attended by all stakeholders in the industry, as well as participants both from within and outside the country.

Due to the Covid-19 pandemic and restrictions on the gathering of large numbers of people, this year's IPA Convex was held differently. The IPA presented the "IPA Digital Technical Conference" which included several presentation sessions on various topics in the upstream oil and gas industry.

The event took place on September 14-17, 2020 virtually by presenting more than 60 technical papers with topics discussed including: Geology and Geophysics, Facilities Engineering and Project Management, Reservoir Engineering, Production Optimization and Drilling Services, Business and Commercial, and HSE and Community Development. There were about 1,700 participants who participated in 24 technical sessions and 2 special sessions during the event.

The SKK Migas Chairman, Dwi Soetjipto, in his remarks expressed his hope that through this event new breakthroughs would emerge that strengthen the national upstream oil and gas industry, to realize the oil production target of 1 million barrels per day by 2030 and at the same time make upstream oil and gas a driving force for the national economy. ○



The 49th IPA Annual General Meeting Held Virtually

JAKARTA - The Indonesian Petroleum Association (IPA) held its 49th Annual General Meeting (AGM) in Jakarta on Thursday, 10th December 2020 virtually online due to the pandemic. The meeting discussed the IPA's achievements in 2020 as well as the 2021 priorities.

In his opening speech, the Acting IPA President, Bij Agarwal, said that the IPA is grateful to experience the new spirit of cooperation with the Government as we look forward to assisting in improving the investment climate to help SKK Migas reach the new targets for increased oil and gas production by 2030.

The IPA also presented the changes of its Supervisory Board and the Board of Directors for the 2021 period. The expert staff of SKK Migas Chairman, Satya Widya Yudha, is elected to be the Supervisory Board. Satya is very familiar to all stakeholders of the oil and gas industry in Indonesia. While Gary Selbie, President Director of Premier Oil Natuna Sea B.V., is elected to be the IPA President for the year 2021.

"It is an honor to be elected IPA President for 2021. 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 the global competitiveness of Indonesia's upstream oil and gas sector while striving to enhance the communities where we operate," said Gary Selbie, in his first speech as the IPA President.

The 49th AGM 2020 was attended by more than 100 persons which consisted of the IPA Company Members, Associate Members, Supervisory Board and Board of Directors as well as the Committee Chairpersons. ○



Working for 30 years in the oil and gas industry has instilled Akihiro Watanabe, CEO of INPEX Indonesia, with the experience and an optimistic view of Indonesia as an oil and gas investment destination country. Akihiro assesses Indonesia's portfolio as one of the oil and gas investment destinations that is able to attract investors. In an interview with IPA News recently, Akihiro explained where Indonesia excels in the eyes of investors and what makes Indonesia attractive as an oil and gas investment destination. The following are excerpts from the interview:

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

Global competition to attract investment in the upstream oil and gas sector has been very tough with many countries offering a more conducive framework to investors. We are observing tireless efforts by the Government of Indonesia and SKK Migas to improve the country's oil and gas investment climate. We very much appreciate such efforts in a concerted manner between the government and the regulator. It is even more challenging now with the Covid-19 pandemic and the plunge in oil and gas prices has forced many oil and gas companies across the world to reassess their investment strategies and portfolios.

Amid such challenging tasks, we are also observing that there has been good signals from the government in terms of providing more incentives so that the oil and gas projects in Indonesia can improve their economics. There are also other positive pro-active approaches from the government and SKK Migas such as ongoing initiatives to streamline approval and permit processes in order to accelerate the development of the oil and gas projects as well as efforts for massive seismic surveys to improve the subsurface data availability of Indonesian basins for future giant discoveries. Further expectation from investors would be the consistent and continuous implementation of such efforts.

As an investor in the upstream oil and gas sector in this country, we would like to see additional positive measures that could stimulate oil and gas investment. It will give a win-win benefit for both Indonesia and investors, especially in the current environment where the global oil and gas industry is severely affected by Covid-19 and the sharp decline of oil and gas prices.



Consistency In The Regulatory Framework Is The Key To Attract Investment

PERSONAL DETAILS

Full Name:
Akihiro Watanabe
Place, Date of Birth:
Japan, 1 August 1965
Hobby:
Travelling

As one of the global PSCs operating in Indonesia, please describe what INPEX regards as obstacles in oil and gas exploration in Indonesia and what do you expect the Government to do to overcome them?

We would like to say that challenges may be a more appropriate term rather than obstacles. As we stated earlier, more incentives, streamlined approval and permit processes, and improved seismic data availability, are among the main challenges that need to be tackled. We think that the government and SKK Migas have been making good progress in addressing those challenges recently. We hope that there will be further consistent and continuous implementation of such efforts.

On the improved seismic data availability of Indonesian basins, it would be one of the strong Indonesian assets to lure investors, especially in the eastern part of Indonesia where the availability of such data is still at a minimum,

let alone the data quality. Therefore, efforts from the government and SKK Migas to fill the gap will be helpful for investors, particularly those who have been investing in Indonesia and consider there are still more opportunities to find new oil and gas reserves.

Currently, the government has given flexibility to PSC's to choose either to use cost recovery or gross split in the form of production sharing contracts. In your opinion, can this increase oil and gas investment in Indonesia? What is your opinion?

Production Sharing Contract (PSC) cost recovery and gross split have their respective advantages. For greenfield projects or frontier area projects, PSC cost recovery looks to have an edge over PSC gross split due to risk sharing between the investor and the government. For brownfield projects, PSC gross split may be a better choice as it reduces the administrative processes and the investor, shouldering all the costs under the gross split scheme, would seek ways to make their costs more efficient, which could lead to higher profit.

So, we really appreciate that now the government allows both options, PSC cost recovery and PSC gross split, to be available for investors to choose.

Besides the term of contract, what other flexibility does PSC'S expect to give a good impact on the upstream oil and gas industry in Indonesia?

Flexibility of incentives can be in the form of fiscal incentives such as tax exemptions and tax reductions, as well as non-fiscal incentives. Various incentive options are already there, and the key is how far those incentives will be granted to investors, based on several factors such as investor interest, government interest, other stakeholders' interest, and global competition etc.

As one of the international oil and gas companies, what do INPEX consider when investing in a country? How about Indonesia?

Oil and gas investment is for a long-term purpose given the fact that oil and gas exploration takes years of work prior to reaching the development stage and finally the production stage.

Therefore, we will usually assess the security and legal certainty of a country where we may invest, the historical relationship between our company and the destination country for investment, then we can go into details about the quality of subsurface data of potential working areas, possible incentives during exploration and project economics when the oil and gas discovery is made, etc. We also compare one potential investment portfolio with others before making an investment decision.

Indonesia is one of the potential destinations for our investment based on all those factors. In fact, INPEX has been participating in the upstream oil and gas projects in Indonesia for more than 50 years since its inception in 1966.

Please tell us about your career in the oil and gas industry from the beginning to the current position?

I have been working in the upstream oil and gas industry for more than 30 years, starting with Japan National Oil Corporation (JNOC) and

joined in INPEX in 2003.

I was assigned in the Abadi LNG project team in Jakarta in June 2014 and became the President Director in June 2019. Before the assignment in the Abadi LNG project team I was in the Ichthys LNG project team in Perth, Western Australia, from Pre-FEED to FID to early stage of EPCI.

What is your most memorable experience working in the oil and gas industry? Please describe.

The Revised POD-I for the development of the Abadi gas field was approved in July 2019 and its ceremony was held at Istana Merdeka in front of Bapak President of the Republic of Indonesia on 16 July 2019. It was one of the most memorable experiences working in the oil and gas industry. It was also a good opportunity to renew our commitment to the Abadi project. ○

"INDONESIA IS ONE OF THE POTENTIAL DESTINATIONS FOR OUR INVESTMENT BASED ON ALL THOSE FACTORS. IN FACT, INPEX HAS BEEN PARTICIPATING IN THE UPSTREAM OIL AND GAS PROJECTS IN INDONESIA FOR MORE THAN 50 YEARS SINCE ITS INCEPTION IN 1966."





The New Era of Energy: Imagining Energy in the Future

The oil and gas industry is currently facing difficult times. Is it true though that the upstream oil and gas industry has entered its twilight? Is the upstream oil and gas industry still a capable motor to drive the national economy? What strategy should the government take to attract incoming investment and increase national oil and gas exploration?

This year has been probably the toughest year for the energy industry as well as the upstream oil and gas sector. Apart from continuous undermining by the low world oil prices, the energy and oil and gas industry are also being hit by low demand for crude oil due to the COVID-19 pandemic.

In addition, the upstream oil and gas investment's rate has not moved up. However, hope still exists in abundance. Indonesia is known to still have great potential in the upstream oil and gas sector, even though some industries call it entering the twilight.

Executive Director of The Energy Watch, Mamit

Setiawan, said that the oil and gas industry will still be the cornerstone of state revenue for the next five years. "Indeed, there is a plan that in 2025 the energy mix should reach the target of 23% in renewable energy. However, the Government's target, for crude oil production of 1 million barrels of oil per day and 12 billion cubic feet of natural gas by 2030, shows that the oil and gas industry is still running strong and is one of the mainstays of state revenue," he told the IPA News recently.

He is of the opinion that after the shock that has been experienced due to the drop in world oil prices and the COVID-19 pandemic, the government must immediately take anticipatory steps to increase exploration, to meet domestic energy needs. "As a result of the COVID pandemic, there will be stiff competition from oil-producing countries to determine how to attract investment. Indonesia must be able to capture this moment by producing more investor-friendly policies," he said.

The government, he continued, also needs to accelerate the process of revising the Oil and Gas Law in order to create legal certainty for oil and gas investors. In addition, fiscal policy must also be attractive for foreign investors in

the oil and gas sector. "The government's steps to open gross split and cost recovery options for KKKS have been good. Now what is needed is regulatory certainty and availability of basin data, especially in eastern Indonesia," he said.

Meanwhile, a member of Commission VII of DPR RI, Ramson Siagian, said that the Oil and Gas Bill was delayed and it should have been completed in 2019. According to Ramson, the Indonesian Parliament must look at the 2021 national legislative program and adjust it to the Job Creation Law that was just passed. "The National Upstream Oil and Gas Industry will be influenced by the Omnibus Law and the Oil and Gas Bill which will be discussed next. But the government, in this case the Minister of Energy and Mineral Resources, must also adjust its energy policy with developments in the realities in the field," he said.

On one occasion, Deputy Head of SKK Migas, Fatar Yani Abdurrahman, said that Indonesia must be able to compete in terms of attracting oil and gas investors to invest in Indonesia despite the increasing global competition. For that to happen, according to him, a stimulus is needed related to the profit-sharing system, taxation, and the ease of doing business. "A stimulus is needed to ensure that the oil and gas projects are still attractive to investors," he said.

In fact, he added, all parties have the same enthusiasm in finding a concept or incentive formula that can provide investment certainty in the early stages of investment. Incentives are needed by the upstream oil and gas industry because of the large gap between the level of production and consumption in the country. For information, currently most of the existing work areas are relatively old (mature) working areas or are in fact located in places with very scarce infrastructure (frontier areas).

"To increase reserves, exploration is absolutely necessary. Currently, the direction of exploration is starting to move to more difficult areas, namely from western Indonesia to eastern Indonesia, and moving from onshore to offshore areas. Therefore, these incentives are needed," he said.

He added that the types of incentives needed by contractors vary greatly depending on the activities they are going to carry out. The incentives needed in the short term include the revision of PP 27 of 2017 and PP No. 53 of 2017 related to tax facilities in the Cost Recovery Production Sharing Contract and the Gross Split Production Sharing Contract.

He assessed that the revision was necessary so that tax facilities on indirect taxes could be provided from the exploration stage to the end of the contract period. This is to support the creation of certainty in terms of the economics of an oil and gas project.

Separately, the President Director Indonesia of INPEX Masela Ltd., Akihiro Watanabe, explained that global investors really consider several things when determining investment destination countries, including: the security and legal certainty of a country, the historical relationship between the company and the investment destination country, the quality of subterranean data of the potential work area, and the incentives provided during the exploration period as well as the economic level of the project. "This is needed because oil and gas investment is a long-term investment, so it is hoped that the cooperation between industry players and the government can run well in the future," he said.

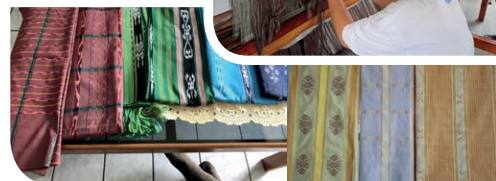
He added that he saw many changes that had occurred in terms of regulations and the approach used by the Government towards cooperation contractors in recent years. The government is already willing to hold dialogues with investors and potential investors in determining the policies to be taken to produce a win-win solution for both parties. "We see the Government's tireless efforts, in this case SKK Migas, to improve the current oil and gas investment climate. One of these is by providing more incentives to make oil and gas projects in Indonesia more attractive," he said.

Apart from the issue of incentives, he also saw a good signal from the government regarding oil and gas projects in Indonesia. Currently, the Government and SKK Migas have initiatives to streamline the approval and licensing process, to accelerate the development of oil and gas projects and other exploration activities. As one of the upstream oil and gas investors in Indonesia, he hopes that he will continue to see additional positive steps taken by the Government to encourage oil and gas investment.

"This will provide benefits for both parties, both the government and investors, especially when the global oil and gas industry is affected by the COVID-19 pandemic and a significant drop in world oil prices," he said. ○



"AS A RESULT OF THE COVID PANDEMIC, THERE WILL BE STIFF COMPETITION FROM OIL-PRODUCING COUNTRIES TO DETERMINE HOW TO ATTRACT INVESTMENT. INDONESIA MUST BE ABLE TO CAPTURE THIS MOMENT BY PRODUCING MORE INVESTOR-FRIENDLY POLICIES."



INPEX Successfully Conducts Social Investments Before Operating

Weavers in Tanimbar Islands Regency, Maluku Province, probably never thought that their woven cloth would one day be used by the number one person in Indonesia, President Joko Widodo. This happened when President Joko Widodo attended the 2018 Indonesia Trade Expo. Not only that. Tenun Tanimbar was even able to make Indonesia proud in a fashion show in Tokyo, Japan.

This achievement cannot be separated from the role of INPEX Masela Ltd. who provide guidance to women crafters in Tanimbar Islands Regency (formerly West-Southeast Maluku Regency), where INPEX-operated Abadi LNG Plant will be built.

This Ikat weaving program is just one example of INPEX Masela Ltd successes in the Community Development program as INPEX Masela Ltd have actually carried out other noteworthy Community Development programs since 2011 focusing on education, economic empowerment, health, environment sectors and natural disasters.

Donny Rijaluddin, Social Performance Specialist of INPEX Masela Ltd, in a meeting with IPA News recently, said INPEX Masela Ltd indeed saw that Tanimbar ikat weaving has the potential to shine like ikat weaving from other regions, therefore it decided to provide assistance to women crafters in Tanimbar since 2015. This was done to develop Tanimbar weaving, which at first looked stiff, heavy, and had a color that faded easily, but was transformed into a lighter, softer fabric, with a fade-resistant color.

Donny said that through the Community Development Program INPEX Masela Ltd carried out, the weaving craftswomen were introduced to non-machine looms (ATBM) to enable craftswomen to produce woven fabrics with finer threads. The woven fabrics produced can be used for everyday clothing.

"So, there are two tangible impacts. First, appreciation and acceptance. Originally the cloth was only used for certain ceremonies or rituals, now it can be used daily. Second, in terms of usability. By modifying the woven fabric using ATBM, we change it from a hard and stiff fabric to a smoother and better quality one," he said.

Furthermore, Donny revealed that the impact of the Tanimbar weaving program and other community development programs carried out by INPEX Masela Ltd. is not merely on the economic side but has also succeeded in changing the mindset of the people in the area. As a result, these programs are carried out in a sustainable manner and have a real impact on people's daily lives.

Donny gave an example of when INPEX Masela Ltd first arrived in the working area, some of the community in the nearby villages were reportedly still not used to using the toilet facilities and often practices open defecation. As a result, these conditions had an impact on the quality of public health. Thus, INPEX Masela Ltd Social Investment team had started the PHBS (Clean and Healthy Lifestyle) program by providing counseling on the importance of MCK (public washing and toilet facility) and maintaining cleanliness in the surrounding environment.

"We did counseling and facilitation for more than 6 months continuously because it is admitted that changing people's mindsets is very essential but in the same time proven to be a very difficult thing. Ultimately, the people built their own awareness and started to take the initiative to establish communal toilets in each RT (neighborhood). We only assisted them in providing the materials needed," said Donny.

He admitted that the Community Development program carried out by INPEX Masela Ltd. still needs to be further developed. In his opinion, to achieve maximum results, cooperation and support from the local government and community leaders is necessary. "Collaboration and synergy is very important factor in order for this program to achieve sustainability. So, we are not just doing something ceremonial. That way, the target we hope for can be achieved," he said.

Moreover, in order for the program to succeed, it is important to understand and conduct good communication and engagement skills to the community. By taking a personal approach and exploring the existing community culture, Donny argues, there will be better communication between the corporation and the community. "We carry out Community Development and engagement programs not only as a form of fulfillment of our obligations, but more than that we do it wholeheartedly," he said firmly.

No wonder. The hard work of the INPEX Masela Ltd. team received a Gold award in the category of "Community Development Based CSR Program" from the PR Indonesia Award in 2018. ○