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❖ **ONGC's profit slide**

India's state-run ONGC saw its profit fall 21% in the April-June quarter to US\$632.5 million on the back of weaker oil prices.

❖ **Upstream struggle**

Indonesia has struggled to convince investors to maintain upstream spending, leading to some dire production forecasts.

❖ **Vietnamese refinery IPO**

Vietnam intends to hold an IPO for its US\$3 billion Dung Quat refinery by the end of June 2017.

❖ **Drilling bans Down Under**

Australia could see more restrictions on unconventional development at the state level, as others potentially follow Victoria in bringing in bans.



Indonesia's upstream struggle set to last

The country has done a poor job of convincing foreign and domestic companies to maintain spending and while it hopes to reduce excessive red tape, the upstream industry's short-term prospects remain grim, writes Sam Imphet

COMMENTARY

WHAT:

SKK Migas has warned that output might drop to 480,000-550,000 bpd by 2020.

WHY:

Dwindling investment in new projects has limited the country's ability to replace mature production.

WHAT NEXT:

President Joko Widodo must appoint a permanent Energy Minister before any meaningful changes can be made.

INDONESIA is planning to revise upstream investment and tax rules in an attempt to halt a continuing decline in oil production driven by domestic and foreign explorers' deep spending cuts. But it may be a case of too little, too late.

Two state upstream agencies are forecasting dramatic falls in crude production up to 2020 if no new discoveries are made soon.

Interim Energy Minister Luhut Pandjaitan told a Jakarta business conference last week that his office was looking at eliminating regulations that "don't make sense for the oil business". These include having to pay taxes before any oil is lifted.

Pandjaitan's comments coincided with a statement by the Indonesian Petroleum Association (IPA) that domestic banks had lost interest in providing loans to the upstream sector. "No national banks are capable of providing US\$100 million for oil drilling projects," IPA executive director Marjolijn Wajong told the Jakarta Post.

The IPA's 48 members include domestic and foreign oil and gas firms, including BP, Chevron, Total, CNOOC Ltd, Ephindo Energy and Medco Energi. There are also 121 associate members with industry links.

Wajong, who is also general manager of Santos Indonesia, urged the government to create more incentives to stimulate the country's oil and gas industry.

State regulator SKK Migas, meanwhile, has predicted that annual output may drop to 480,000-550,000 bpd by 2020. The Energy Ministry's target for crude production this year is 820,000 bpd, which is only half of Indonesia's annual demand.

"With a lack of new material developments on the horizon, and several legacy projects reaching the mature stage of their life-cycles, oil output will continue to decline [in Indonesia]," Wood Mackenzie Asia-Pacific Research Director Andrew Harwood told to *NewsBase*. "The government needs to continue to work to improve conditions for investors if the country is to remain competitive for new upstream oil and gas investment."

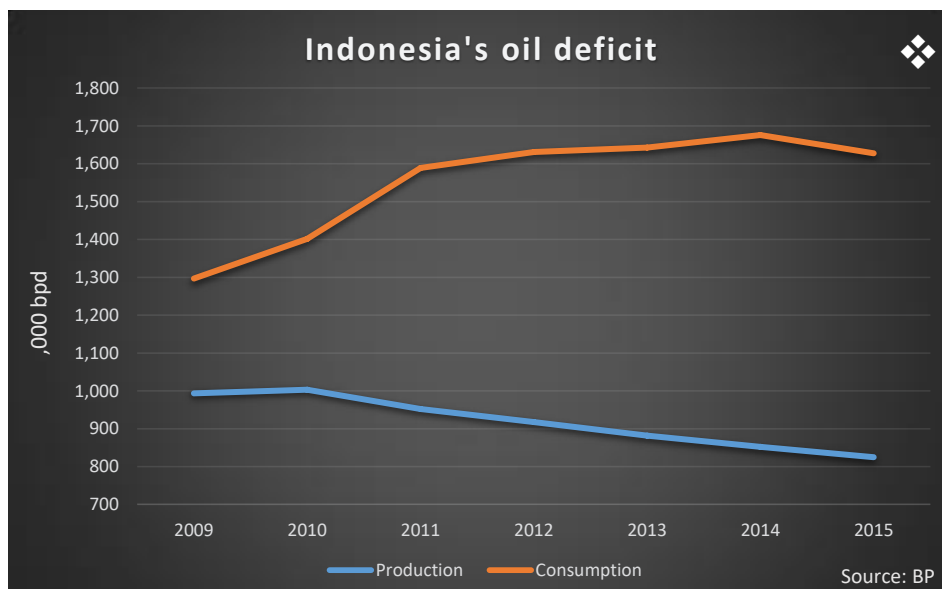
Uphill battle

Indonesian President Joko Widodo has been fighting an uphill battle to streamline the country's energy industries since entering office in October 2014. He has made it clear that he sees oil, gas, coal and power generation improvements as pivotal to his hopes of maintaining high economic growth into the 2020s. However, he frequently finds himself hampered by national assembly stalls on significant changes to ponderous laws that have started to deter investors, both domestic and foreign.

Indonesia's Research Institute for Mining and Energy Economics has suggested Widodo could



Indonesian President Joko Widodo has been fighting an uphill battle to streamline the energy industry.



► seek to implement a regulation on cutting the red tape that affects the upstream because of the deadlock surrounding changes to the country's exploration and production law. It was important to try this, the institute said, as there was no hope of changing in the law in the near future.

Only US\$367 million was invested in 113 active exploration sites in the first half of this year, The Jakarta Post quoted the Energy Ministry's director-general for oil and gas, I G N Wiratmaja Puja, as saying.

The low level of exploration was mainly the result of heavy tax obligations from the start of investors' ventures, Puja said.

The government is now considering removing all tax obligations for investors still in the exploration process, such as VAT and import tax on equipment, he said. There will also be unspecified incentives to encourage investment in exploring Indonesia's deep waters and its remote areas.

Painful bureaucracy

Widodo-led reforms to raise interest in upstream investment are essential if he is to succeed in transforming the economy, Singaporean consultancy Consulus' CEO, Lawrence Chong, told *NewsBase*.

"The president is also aware that red tape is one reason why economic development in Indonesia has not reached its potential," Chong said. "If the government does this well it will have its intended impact of making a difference. The question is how well will this policy be executed."

Indonesia's incredibly bureaucratic state is underlined by the continuing confusion over who will lead the Energy Ministry and implement any of the president's investment incentives.

At present, Pandjaitan remains the Minister for Maritime Affairs and was only appointed as an emergency replacement when Widodo was forced to fire Arcandra Tahar, a veteran of the US oil industry. Tahar was appointed Energy Minister in July specifically to spearhead reforms, but lost his job three weeks later after it was disclosed

he held US citizenship. This barred him from office under Indonesian law.

This week, however, reports have appeared in the Indonesian media that Tahar may soon be reappointed because he has relinquished his US citizenship. While Tahar's experience and knowledge of the global energy industry certainly count in his favour, his reappointment could play against Widodo.

The Jakarta Post said: "Many believe the concern revolving around Arcandra is more than simply about his US citizenship status when he took the job as a minister in Jokowi's Cabinet, but rather the legality of his use of an Indonesian passport."

What next

As it stands, the Jakarta political elite seem far more interested in agonising over citizenship issues than facing up to a crisis of far greater importance to the country's future.

Stand-in Pandjaitan has said the work load at the Energy Ministry is mounting, with industry portal Katadata quoting the minister as saying there were 32 postponed oil and gas projects awaiting action. Harwood noted that non-fiscal challenges would remain a barrier to activity in Indonesia, referring to the bureaucracy surrounding licence approvals.

As such, Tahar's return to the Energy Ministry would arguably be good for the industry, given that he is less a politician and more an executive with a keen knowledge of the oil and gas business.

Perhaps Tahar and Widodo working in tandem can finally break through the bureaucracy that is stifling Indonesia's upstream sector. If they fail to do so then industry regulator SKK Migas' prediction of a decline to 480,000 bpd by 2020, while dire, might become a reality.

Changes to the financial terms for oil and gas projects will improve Indonesia's attractiveness to investors, Harwood said, but in view of the current global depression in the upstream industry the changes "will not be enough to reverse declining investment levels in the short term". ♦