EITI and challenges associated with resource development

Tokyo, Japan
26 January 2010

M. Husen
Assistant Deputy for Oil,
Coordinating Ministry for Economic Affairs

Japan matters to Indonesia

- Japan is a major market for Indonesian oil, gas and minerals. Firms from Japan not only buy, but also produce, these resources in Indonesia.
- Japan was one of the earliest, and is still one of the steadiest, buyers of LNG produced in Indonesia.
- Inpex owns half Mahakam, our largest gas producing field, and was recently awarded Masela, one of our most promising new gas blocks.
- Sumitomo is a large shareholder in our nation’s second largest copper and gold mine, Newmont Nusa Tenggara.

Challenges of Resource Development

Indonesia faces challenges associated with resource development. Three that may be worth mentioning:

1. Energy security: Our rate of economic growth exceeds our ability to produce oil. We are now a net oil importer, and are concerned with energy security.
2. Fiscal pressure: As oil production falls, so do revenues to government.
3. Revenue sharing questions: Our central government shares oil, gas, mineral and coal revenues with provincial and district governments. Some local governments wonder whether they are receiving the correct amounts.

We see EITI as one way to overcome these challenges.

Overcoming challenges: Energy Security

1. Increasing production: We want to ramp up our oil and gas production. But more production requires more foreign investment. And more foreign investment requires a better investment climate. We believe EITI enhances the investment climate by lowering information and transaction costs for firms by more clearly defining what revenues they are supposed to pay and why.
2. Domestic Market Obligation: To ensure adequate supplies are present in Indonesia to run our refineries and power plants, oil firms and now gas firms are required to sell 25 percent of their after cost recovery equity oil and gas to buyers in Indonesia.

Overcoming challenges: Fiscal pressure

- EITI is one tool available to help government ensure that it is receiving the full amount of revenues owed to it by oil, gas, mineral and coal producers.
- EITI is also a way to help ensure that revenues conveyed by producers to government actually make it all the way to the the National Treasury.

Overcoming challenges: Revenue Sharing

- In Indonesia, oil and gas firms convey equity oil and gas, and mineral and coal firms convey royalties, to the central government. Those royalties are then shared by the central government with local governments. We hope that EITI will help local governments better understand why they receive particular amounts of revenue from particular firms, and increase trust.
- Similarly, Indonesia has an estimated 7,000 district licensed mining companies, many if not most of which do not pay revenues to the central government, although they should. In the future, EITI could be a mechanism for bringing these firms into national revenue systems.

Current status of EITI in Indonesia:

- December 2008: Coordinating Minister for Economic Affairs (CMEA) sends a letter to EITI Secretariat indicating that Indonesia intends to become an EITI candidate and work toward achieving EITI compliance.
- January 2009: CMEA, Minister of Finance and Minister of Energy & Mineral Resources sign a Note of Understanding to prepare for implementation of extractive industries revenue transparency in Indonesia

Status of efforts in Indonesia (cont'd):

- March 2009: CMEA issues a Ministerial Regulation for the formation of a Coordinating Team for the Preparation of Implementation of the EITI.
- April to October 2009: Coordinating Team improves and refines a draft EITI Presidential Regulation.
- October 2009: CMEA specifies completion of the EITI Presidential Regulation, as one of only eight priorities in its 100 Day Program.
- January 2010: CMEA conveys draft EITI Presidential Regulation to the Cabinet Secretariat.

Draft Presidential Regulation stipulates:

- All material oil, gas and mining companies will report the amount of all material revenues streams that they have conveyed to the Government of Indonesia,
- The Government will separately report the amount of these revenue streams that it has received from these companies,
- An independent reconciler will crosscheck these two sets of figures, and explain discrepancies,
- This information will be made public.

Notably the draft Presidential Regulation:

1. Sets standards for the accuracy of data conveyed by firms and government
2. Has an innovative multi-level governance structure
3. Ensures voice for industry and civil society
4. Also addresses the sharing of revenues by the central government with local governments, and vice versa.

Many extractive firms with operations in Indonesia publicly support the EITI

Oil and gas: BP, ChevronTexaco, ConocoPhilips, Eni, ExxonMobil, Hess, Marathon, Santos, Shell, StatoilHydro, Talisman, Total, Woodside.

Minerals: BHP Billiton, Freeport, INCO, Newmont, OZ Minerals, Rio Tinto, Sumitomo.

I favorably note the support of Sumitomo, and hope to begin to see other large oil and gas firms from Japan and other Asian states starting to join this list.

Thank you