BUSINESS REGULATIONS

RI eyes oil and gas investment boost with new gross split tax rule

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Divya Karyza (The Jakarta Post)

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The government is finalizing revisions of tax stipulations under the gross split profit-sharing contract (PSC) scheme, hoping the amendment could attract more investments in the upstream oil and gas sector.

Djoko Siswanto, head of the Upstream Oil and Gas Regulatory Special Task Force (SKK Migas), said the updated stipulations, which will include changes in indirect taxes and domestic market obligation (DMO) fuel pricing, are expected to be released "soon".

He went on to say that the monitoring and evaluation process will be based on a single investment parameter conducted by SKK Migas and the Energy and Mineral Resources Ministry, which would no longer involve the Finance Ministry.

The gross split scheme has undergone several revisions following input from contractors, with 46 contracts now using the scheme since its launch in 2019, according to Djoko.

“Initially, the gross split model had too many variables to qualify for incentives. We realized the need for simplicity,” he said during a plenary session at the International Petroleum Association (IPA) Convention & Exhibition event at ICE BSD City, Tangerang, on Tuesday.

SKK Migas head of accounting Desti Melanti said in the same event that the new policy has been discussed several times. She explained that the task force is preparing to finalize the revision of Government Regulation (PP) 53/2017, which regulates tax for gross split PSCs.

Tri Winarno, the energy ministry’s acting oil and gas director general, emphasized Indonesia’s commitment to improving its investment climate. He said the government has been giving a higher profit-sharing percentage to contractors operating in frontier areas

“The government is trying [to offer] more attractive [profit-sharing contracts] especially for gas. For example, contractors can get up to 50 percent or more,” he said at the same event.

“Internal Rate of Return [IRR] exceeds 15 to 17 percent. We’re expediting permits, we’re working to [make Indonesia] be more attractive [to investors], and to cut bureaucracy,” Tri added.

Oki Muraza, the senior vice president of technology innovation at state-owned oil and gas company Pertamina highlighted that 70 percent of its capital expenditure over the next five years will be focused on supporting the national agenda on energy security.

“This aligns with the national energy strategy. [We aim to] boost production while expanding into geothermal, carbon capture storage and other emerging sectors,” Oki said at the same event.

In 2020, Indonesia attracted around US$10.6 billion worth of oil and gas investment, 13 percent lower compared with realization in 2019 of $12.5 billion, SKK Migas data shows.

In 2021, investment reached $10.9 billion, which was 110 percent of the target. In 2022, investment increased to $12.3 billion for the upstream sector, or 93 percent of the $13.2 billion target.

However, there is still a concern around a lack of new reserve discoveries to replace depleting reserve, according to a PricewaterhouseCoopers (PwC) report published in 2023.

As SKK Migas noted, investment in exploration areas amounted to a mere $154 million in 2019, compared to the $12 billion invested in exploitation areas.

These factors were also partly caused by the relinquishment and expiration of numerous oil and gas working areas, from 312 working areas in 2015 to 199 remaining working areas in 2019, according to the same PwC report.