Indonesia's Oil and Gas Revenues: Using Payments to Governments Data for Accountability

Alexander Malden and Fikri Zaki Muhammadi

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Key messages

- The oil and gas sector is a major source of revenue for the Indonesian government. In 2018, it contributed 7.4 percent of government revenue.
- Mandatory disclosure laws in the European Union, Canada and Norway require companies listed or incorporated in these places to disclose the payments they make to governments for their extractive activities. Since 2014, under these regulations, 17 international oil and gas companies have disclosed over USD 15 billion in payments to Indonesian government entities.
- Civil society organizations, media outlets, government officials, parties to Indonesia's Extractive Industries Transparency Initiative (EITI) and oversight actors can use this timely source of payment data as an accountability tool. In Indonesia, oversight actors can use payment data in combination with other data sources to:
  - Verify the size and recipient of oil and gas project signature bonuses
  - Estimate and verify the revenue that local and regional government entities should receive from an oil and gas project that operates in their region
  - Estimate and verify the government's share of production from a project under the new gross split production-sharing contract (PSC) model

Summary

Under mandatory disclosure laws in the European Union, Canada and Norway, companies listed or incorporated in these countries must disclose the payments they make to government entities for their extractive activities. Under these laws, seventeen international oil and gas companies have reported over $15 billion in payments to Indonesian government entities since 2014.

This report explores some of the ways this timely source of payment data can be used as an accountability tool by civil society, media, government, Indonesia's EITI and oversight actors. This report will show how oversight actors can use payment data in combination with other data sources to:

VERIFY THE SIZE AND RECIPIENT(S) OF OIL AND GAS PROJECT SIGNATURE BONUSES

Why this matters:

- As one-off payments, signature bonuses are particularly susceptible to mismanagement or illegitimate diversion because they are high value and not always incorporated into the normal budgetary process.

How oversight actors can use payments to governments (PtG) data:

- PtG data can be used to raise public awareness on the payment of signature bonuses, which government entity received these payments and ask questions regarding how the resulting revenue was managed.
- Oversight actors can use PtG data to verify that companies have paid a signature bonus, that the recipient government entity matches what is expected under Indonesian law and to verify that the amount paid matches what was written in the contract.

Example questions that PtG data can answer:

- Did Italian oil and gas company Eni make a signature bonus payment following their signing of the contract for the East Ganal PSC in 2018?

ESTIMATE AND VERIFY THE REVENUE THAT LOCAL AND REGIONAL GOVERNMENT ENTITIES SHOULD RECEIVE

Why this matters:

- Revenue distributed to producing local and regional governments is an important revenue source to mitigate the negative impacts of extractive activities and to fund the development priorities of citizens in the area.

How oversight actors can use PtG data:

- PtG data, when used together with the country's revenue sharing fund formula, can be used to estimate how much local government entities should receive as a share of the revenue generated from a project, and how much should be kept by the central government.

Example questions that PtG data can answer:

- How much of the total non-tax revenue generated from the Tangguh project in 2018 should the West Papua regional government, and producing and non-producing regencies receive?

ESTIMATE AND VERIFY THE GOVERNMENT'S SHARE OF PRODUCTION UNDER THE NEW GROSS SPLIT PSC MODEL

Why this matters:

- Under the new gross-split PSC model, most revenue generated for the government by an oil and gas project will come from its share of production. The government's share of production is determined by the gross revenue of the project and the gross split formula agreed upon by the government and the contractor. As a result, it is important for oversight actors to be able to verify that companies are paying what is expected under the gross split PSC terms and to check how the recipient government entity uses the resulting revenues.

How oversight actors can use PtG data:

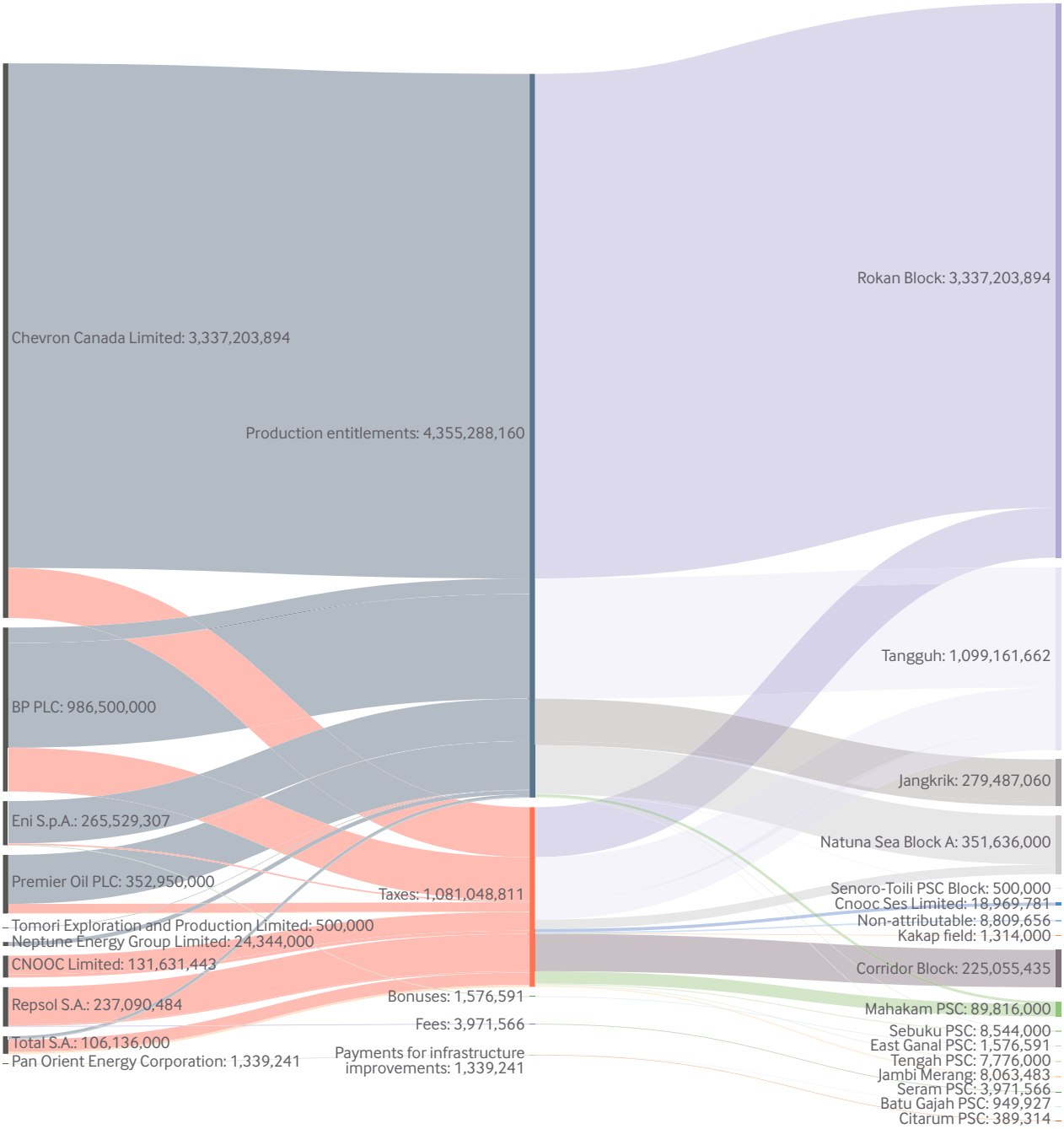
- PtG data, when used in conjunction with the project's gross split formula and gross revenue, can be used to verify that the value of the share of production the government receives from the contractor of a project managed under the new gross split PSC model matches what is expected.

Example questions that PtG data can answer:

- Once a contractor starts producing under the new gross split PSC model, oversight actors can ask: did the government's share of production paid by the contractor match what is expected given the gross revenue and gross split formula of the project?[1]

1 Given the gross split PSC regulation only came into force in 2017, and did not affect existing contracts, most oil and gas projects in Indonesia still currently operate under cost recovery PSCs. In early 2019 Eni, one of the PtG disclosing companies in Indonesia, signed a gross split PSC contract with the government for the Merekas Gas Field, it expects to start producing gas in the second half of 2020.

Figure 1. 2018 oil and gas company payments to Indonesian government entities by project and payment type (USD)



RECOMMENDATIONS

Improvements are needed within Indonesia and internationally to empower the country's citizens to conduct a more informed public debate on the country's management of its oil and gas endowment. These improvements include:

- **The Indonesian government should disclose oil and gas contracts.** As an EITI implementing country, Indonesia will be required to publish all oil, gas and mining contracts and licenses that it grants, enters into or amends after 1 January 2021. The government should consider taking a proactive approach and disclose oil and gas contracts before this deadline.

- **The Indonesian government should clarify how it manages signature bonus revenue.** NRGI understands that the Directorate General of Oil and Gas within the Ministry of Energy and Natural Resources (ESDM) requested Eni make its signature bonus payments for East Ganal PSC to a Directorate General bank account, rather than through the Online Non-Tax State Revenue Information System (SIMPONI) mechanism stated in ESDM regulation No. 30/2017. The state treasury can delegate the right to collect non-tax revenues to Directorate General's, however doing so restricts citizens ability to follow the money and hold government entities accountable for how this money is managed and used. The Directorate General of Oil and Gas should clarify why it has directed Eni to deposit the signature bonus payment of $1.5 million for the East Ganal PSC into a Directorate General of Oil and Gas bank account, rather than into the SIMPONI. The government should also clarify how this revenue is managed and transferred to the state treasury.

- **Reporting companies should disaggregate their oil and gas production entitlements, where applicable.** Disclosing companies that operate projects with significant oil and gas production should consider disaggregating their production entitlement disclosure by commodity. This will enable accountability actors to more effectively monitor whether these revenues meet expectations under the terms of the contract and to check how these revenues are managed by the government.

- **Companies not bound by PtG regulations should report their payments voluntarily.** ExxonMobil, ConocoPhillips and other companies without a global disclosure obligation under PtG regulations in their home countries should consider voluntarily disclosing their PtG data in Indonesia. Doing so would give citizens a more holistic picture of the recent payments their government receives from the oil and gas projects in their country.

- **The U.S. Securities and Exchange Commission should implement a strong Dodd-Frank Section 1504 rule.** Following the repeal of the Dodd-Frank Act Section 1504 regulation under the Congressional Review Act in 2017, the United States Securities and Exchange Commission (SEC) must release a new implementing regulation for this law. In the years since Dodd-Frank 1504 was introduced, the payment transparency international norm that the law helped to instigate has resulted in five years of reporting that is providing data being used as an accountability tool in resource-rich countries across the globe. When the SEC introduces a new implementation regulation for Section 1504, this rule should reflect and build on the strong payment transparency laws in place in the EU, Canada and Norway. The SEC is expected to propose a new rule on 18 December 2019 which will be subject to a public comment period before being adopted likely in 2020.

Introduction

The oil and gas sector is a significant source of revenue for the Indonesian government, contributing 7.4 percent of government revenue in 2018. Yet, a sharp decline in oil and gas revenues in 2015 has seen fundamental changes occur in the country's oil and gas sector in recent years. Specifically, in 2017, the government announced it was moving away from the cost recovery PSC model that had been in place for over 50 years. It shifted governance of Indonesia's oil and gas sector to a gross split PSC model, meaning the government's share of production from a project will, in future agreements, be based on the project's gross revenue, rather than the profit it generates. In 2018, the government removed the upper limit of $250 million on the value of signature bonuses when awarding a new PSC. Recently, there has also been increasing public debate on how to improve the governance of the distribution of revenues generated from the oil and gas sector.[2] This discussion has led to the government's effort to increase the amount that it generates from the oil and gas sector and to improve the management and allocation of the resulting revenue.

Drawing on these national debates within Indonesia, this report demonstrates ways that accountability actors, including civil society, government, media and official oversight actors can use newly released PtG data to hold companies and government entities accountable for the revenues generated from oil and gas projects in the country. In this report, we explore what this data can tell us about the country's oil and gas sector. We also look at what other extractives data sources oversight actors can incorporate into analysis of the sector.

This PtG data is the result of recently implemented laws in the European Union, Canada and Norway which require oil, gas and mining companies incorporated or listed in these countries to disclose their payments to government entities. These newly released PtG reports supply timely information on the payments oil, gas and mining companies make to Indonesian government entities for their extractive activities. Companies must categorize payments into one of seven payment types, such as taxes or royalties. (See table 1.) They must also report which government entity receives the payments and must break down the payments by project, where applicable.

2 Extractive Industries Transparency Initiative Indonesia. "Transparency as Efforts to Improve Governance of Distribution of Revenue Sharing Funds" (2019) eiti.ekon.go.id/en/siaran-pers-transparansi-sebagai-upaya-perbaikan-tata-kelola-penyaluran-dana-bagi-hasil/.

Table 1. Summary of European and Canadian mandatory disclosure laws

Which companies must disclose?	Oil, gas or mining companies[3] registered in or listed on a regulated stock exchange in Canada, the European Union or European Economic Area.[4]
What must they disclose?	Payments made to governments (including state owned enterprises) in relation to extractive activities. Companies should attribute payments to projects where applicable.[5] 1. Production entitlements 2. Taxes (on income, production or profits) 3. Royalties 4. Dividends 5. Signature, discovery and production bonuses 6. License Fees 7. Payments for infrastructure improvements
What is the threshold for payment reporting?	Single, or a series of, payments that amount to EUR 100,000 in the EU/EEA or CAD 100,000 in Canada.
When must they disclose?	EU. The date of the first required report from a company depends on when the EU member state enacted the relevant provisions of the European Accounting and Transparency Directives.[6] Canada. The Extractive Sector Transparency Measures Act came into force on 1 June 2015 and applies to any financial year starting after this date. Companies have 150 days after the end of their financial year to file their PtG report. Norway (as an European Economic Area country). Its law ("Forskrift om land-for-land rapportering") came into force on 1 January 2014 and applies to financial years beginning on or after this date

Seventeen international oil and gas companies have disclosed over $15 billion in payments to Indonesian government entities since 2014 under these laws. In 2018, both the largest oil producer, Chevron, and the largest gas producer BP, disclosed $3.3 billion and $987 million in payments to Indonesian government entities, respectively. (See table 2.) All the PtG data referenced in this report are available on NRGI's PtG data repository, www.resourceprojects.org.

The first section of this report provides an overview of Indonesia's oil and gas sector, the recent developments that have occurred and national debates on the governance of the sector. The second section shows how civil society, media, government, EITI and official oversight actors can access and use PtG data to analyze the country's oil and gas sector. The remaining three sections of the report outline ways in which oversight actors can use this data as an accountability tool in Indonesia. These sections explore how accountability actors can use PtG data to verify the size and recipient(s) of oil and gas project signature bonuses and how to estimate and verify the revenue that local and regional government entities should receive from an oil and gas project operating in their region. It also details how to estimate and verify the government's share of production from a project under the new gross split PSC model.

3 Private companies are only required to disclose if they meet thresholds in two of the following criteria: size of balance sheet (in the U.K. must exceed GBP 18 million), net turnover on its balance sheet (in U.K. must exceed GBP 36 million) and number of employees (in U.K. must exceed 250). For more information see: Directive 2013/34/EU of the European Parliament and of the Council (2013) www.legislation.gov.uk/eudr/2013/34/introduction

4 The EU and Norway also capture data for forestry companies.

5 A project is defined as "the operational activities that are governed by a single contract, license, lease, concession or similar legal agreements and form the basis for payment liabilities with a government. None the less, if multiple such agreements are substantially interconnected, this shall be considered a project." For more information see: Directive 2013/34/EU of the European Parliament and of the Council (2013) www.legislation.gov.uk/eudr/2013/34/introduction

6 All listed companies must report within six months of their financial year end. For private companies, this is at the discretion of the Member States, but it will be a maximum of one year after financial year end. The U.K. and France adopted national legislation in 2014, requiring reports for the first time in the 2015 fiscal year. For more information see: Directive 2013/34/EU of the European Parliament and of the Council (2013) www.legislation.gov.uk/eudr/2013/34/introduction

Table 2. Overview of oil and gas companies' disclosures of payments to Indonesian government entities in 2018

Disclosing company	When the company last reported	Reporting jurisdiction	Years of reporting	Operating projects in the country	Total payments disclosed for 2018 (USD)
BP	29 May 2019	UK	2015 - 2018	Tangguh	986,500,000
Chevron Canada Limited	29 May 2019	Canada	2016 - 2018	Rokan Block	3,337,203,894
CNOOC Limited	5 June 2019	Canada	2016 - 2018	CNOOC South East Sumatra Limited	112,661,662
				Tangguh	18,969,781
Eni S.p.A.	30 May 2019	Italy	2016 - 2018	Jangkrik	255,143,060
				Non-attributable	8,809,656
				East Ganal PSC	1,576,591
Neptune Energy Group Limited	28 November 2019	UK	2018	Jangkrik	24,344,000
Pan Orient Energy Corporation	29 May 2019	Canada	2016 - 2018	Batu Gajah PSC	949,927
				Citarum PSC	389,314
Premier Oil PLC	6 March 2019	UK	2015 - 2018	Natuna Sea Block A	351,636,000
				Kakap field	1,314,000
Repsol S.A.	27 February 2019	Spain	2016 - 2018	Corridor	225,055,435
				Jambi Merang	8,063,483
				Seram PSC	3,971,566
Tomori Exploration and Production Limited	16 April 2019	UK	2016 - 2018	Senoro-Toili PSC Block	500,000
Total S.A.	20 March 2019	France	2015 - 2018	Mahakam PSC	89,816,000
				Sebuku PSC	8,544,000
				Tengah PSC	7,776,000

I. Overview of Indonesia's oil and gas sector

OIL AND GAS SECTOR'S CONTRIBUTION TO THE INDONESIAN ECONOMY

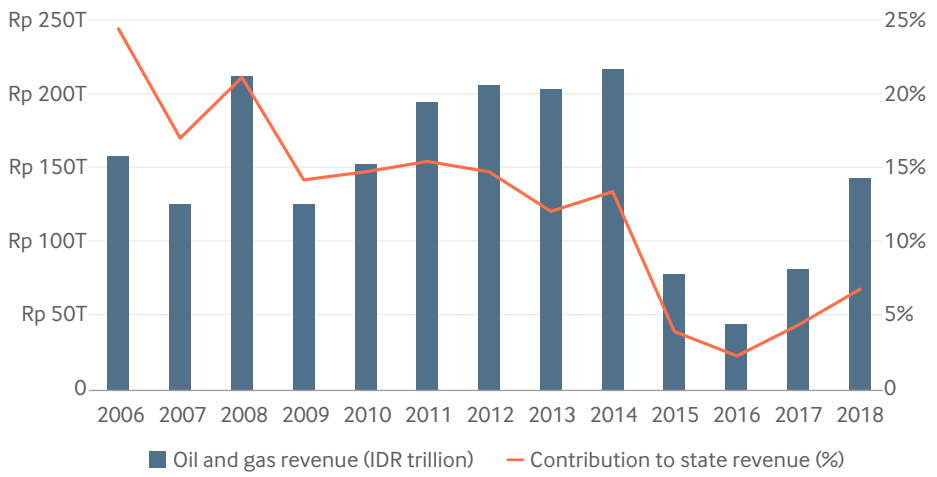
The economic contribution of the oil and gas sector to Indonesian state revenue has fallen dramatically over the past decade from around 25 percent in 2006 to 7.4 percent of government revenue in 2018. (See figure 2.) This is in part a result of a significant decline in production over this period. At the same time, domestic consumption has steadily risen, resulting in Indonesia becoming a net oil importer beginning in 2004.[7] The government has tried to address declining production and rising domestic consumption by requiring oil and gas contractors to allocate around 25 percent of their equity share of production to domestic demand, known as Domestic Market Obligation, reimbursed at Indonesia Crude Price (ICP).[8]

While Indonesia is endowed with considerable mineral resources, including significant deposits of gold, copper, coal and lead, the mineral industry generates significantly less revenue for the government than the oil and gas industry. According to Indonesia's most recent EITI report covering 2016, the mining industry contributed 3 percent of state revenue, compared to 7 percent from the oil and gas industry.[9,10]

INCLUDED IN THIS SECTION

- An overview of the oil and gas sector's contribution to the Indonesian economy
- An overview of key national debates on the country's oil and gas sector

Figure 2. Oil and gas revenues contribution to state revenue[11]



7 Dwi Atty Mardiana, Zulkifli Husin, Muhammad Zilal Hamzah, and RS. Trijana Kartoatmodjo. "Economy Growth and Oil Import Requirement in Indonesia" *Journal of Energy Technologies and Policy*. (Vol.3, No.11 – Special Issue for International Conference on Energy, Environment and Sustainable Economy, 2013) pdfs.semanticscholar.org/d071/1bf2555b3107c4fd58dc1a3043b3b80a6842.pdf.

8 Extractive Industries Transparency Initiative Indonesia. "2016 EITI Indonesia Report" (EITI, December 2018). eiti.org/document/2016-eiti-indonesia-report.

9 Ibid.

10 Seven mining companies have disclosed over $1.4 billion in payments to Indonesian government entities from 2015 to 2018: BHP Billiton Public Limited Company; Heidelberg Cement Group; Jardine Matheson Holdings Limited; LafargeHolcim Limited; Mercuria Energy Group Limited; Rio Tinto PLC; and Vale Canada Limited.

11 Figures are from Ministry of Finance; Indonesia and compiled by PWC in: PricewaterhouseCoopers. "Oil and Gas in Indonesia Investment and Taxation Guide" (PWC, 2019). www.pwc.com/id/en/energy-utilities-mining/assets/oil-and-gas/oil-gas-guide-2019.pdf

NATIONAL DEBATES ON INDONESIA'S OIL AND GAS SECTOR

Over the past two decades, Indonesia's oil and gas sector has suffered from a series of corruption scandals. In 2014, Rudi Rubiandini, then head of Indonesia's oil and gas regulator SKK Migas, was sentenced to seven years in prison for accepting bribes to provide preferential treatment in a tender process.[12]

In 2014, during his first term in office, President Widodo pledged to reform the oil and gas sector by developing a new oil and gas law. This law is intended to serve as the umbrella regulation for the sector, and to clarify many issues which are not covered in the existing 2001 law. For example, important elements including guidelines on permit extension, participating interest, organization of the oil and gas SOE holding and elements of the new gross split scheme are currently unclear. However, the Indonesian Parliament has been unable to reach a consensus and has not progressed with the oil and gas law revision, despite the legal certainty such a law could give to investors.

In the absence of the new legislation, the government and the Ministry of Energy and Mineral Resources (Energi dan Sumber Daya Mineral (ESDM)) have been issuing regulations to fill in the gaps that the existing law does not cover. This raises concern that the sector might experience a shock if, when parliament passes the new legislation, it includes clauses that contradict existing government and ministerial regulations that companies are currently following.

In 2017, the government announced it was shifting to governing the oil and gas sector through a gross split PSC model, moving away from the cost recovery PSC model that had been in place for over 50 years. The new approach stipulates that the share of production will be determined on a gross split basis, with the contractor receiving a greater share of oil, but no longer able to request reimbursement for operating costs on the project (cost recovery).

The Indonesian government introduced the gross split model in response to political pressure about the increasing percentage of oil going to cost recovery and declining investment in the oil and gas sector. The year prior to the introduction of this law, 2016, saw cost recovery expenditures total $11.4 billion, while total government revenue from the sector was only $9.3 billion.[13] The ESDM blamed these growing cost recoveries on the inefficient practices of companies operating in the sector. The government intends this new model to grant operators more spending and operational freedom, with a hope that this will lead to improved cost-efficiencies. It announced the changes in regulation and then implemented them abruptly. This attracted criticism from the oil and gas industry, who claimed there was very little consultation on this change. There is also some concern about how quickly companies will be able to reduce costs, citing the higher cost of procurement in Indonesia as compared to other resource-rich countries.

In 2018, the government passed a new regulation removing the earlier cap of $250 million on the value of signature bonuses, which it expects to lead to an increase in the value and economic significance of these payments. In May 2019, when Pertamina was awarded the PSC for the Rokan block, taking over operatorship from Chevron, the company agreed to pay a $784 million signature bonus, which underscored the importance of these bonuses.[14]

12 *The Jakarta Post*. "Rudi Rubiandini gets seven years for bribery" (The Jakarta Post, April 29 2014) www.thejakartapost.com/news/2014/04/29/rudi-rubiandini-gets-seven-years-bribery.html.

13 Brad Roach and Alistair Dunstan. "The Indonesian PSC: the end of an era" The Journal of World Energy Law & Business, (Volume 11, Issue 2, Pages 116–135, April 2018) academic.oup.com/jwelb/article/11/2/116/4958804.

14 Stefanno Reinard Sulaiman. "Pertamina signs Rokan contract, paves way for transition" (*The Jakarta Post*, May 10, 2019) www.thejakartapost.com/news/2019/05/10/pertamina-signs-rokan-contract-paves-way-for-transition.html.

Indonesia's system for subnational revenue sharing, Dana Bagi Hasil (DBH), also poses governance challenges. The DBH system has so far failed to address imbalanced revenue sharing among subnational governments. This has led to an unpredictable and fluctuating share of revenues that can lead to poor budgeting and the failure to promote economic diversification for when oil and gas production decreases and affects revenue transfers.[15]

15 EITI Initiative Indonesia, "Transparency as Efforts to Improve Governance of Distribution of Revenue Sharing Funds."

II. Accessing and using payments data for accountability

OIL AND GAS PAYMENTS TO INDONESIAN GOVERNMENT ENTITIES

Since 2014, 17 international oil and gas companies have disclosed over $15 billion in payments to Indonesian government entities under PtG laws. In 2018 ten oil and gas companies disclosed payments to Indonesian government entities, totaling $5.4 billion. Those companies included BP PLC, Chevron Canada, CNOOC, ENI, Pan Orient Energy, Neptune Energy Group Limited, Premier Oil, Repsol, Tomori Exploration and Production and Total S.A. In 2018, both the largest oil producer, Chevron, and the largest gas producer BP, disclosed $3.3 billion and $987 million in payments to Indonesian government entities, respectively.

As operator of Rokan Block, Chevron's $3.3 billion in payments represented 62 percent of all revenue paid by disclosing companies in 2018. (See figure 3.) In 2018, the government awarded Pertamina, an Indonesian national oil company, the Rokan Block and Pertamina took over operatorship from Chevron. While Pertamina, unlike Chevron, is not registered on the Canadian stock exchange and thus not bound to the Extractive Sector Transparency Measures Act (ESTMA), it should nevertheless continue the practice of revenue transparency for the economically critical Rokan block.

The Tangguh project, operated by BP and in which CNOOC is also a junior partner represents another major revenue generator with these two companies disclosing over $1.1 billion in payments to Indonesian government entities for this project in 2018.

The largest international oil producer in Indonesia, Chevron Canada, and largest international gas producer, BP, disclose their payments to Indonesian government entities. However, the second largest producers in the country for both commodities, ExxonMobil and ConocoPhillips, do not.[16] ExxonMobil and ConocoPhillips are both US-headquartered companies, and as such are not currently required to release a PtG report. While Chevron is also a US-headquartered company, its subsidiary Chevron Canada Limited manages its Indonesia operations. Because Chevron Canada Limited is headquartered in Canada, the Canadian Extractive Sector Transparency Measures Act (ESTMA) requires that it discloses its payments to the Indonesia government.[17]

The US was the first country to introduce a PtG law, Section 1504 of the Dodd-Frank Act in 2010, with the US Securities and Exchange Commission adopting an implementing rule in 2012. This rule was subsequently vacated following a lawsuit by the American Petroleum Institute.[18] A second version of the implementing rule for this law was repealed in 2017 under the Congressional Review Act. The SEC is expected to propose a new rule on 18 December 2019 which will be followed by a public comment period and the adoption of a final rule likely in 2020.

INCLUDED IN THIS SECTION

- An overview of Indonesia's oil and gas PtG data
- A guide on how to access PtG data
- An overview of more data sources for analyzing Indonesia's oil and gas revenues

16 PricewaterhouseCoopers. "Oil and Gas in Indonesia Investment and Taxation Guide" (PWC, 2019). www.pwc.com/id/en/energy-utilities-mining/assets/oil-and-gas/oil-gas-guide-2019.pdf

17 Both ExxonMobil and ConocoPhillips have subsidiaries that disclose payments in Europe, but these subsidiaries do not control these companies' Indonesian operations.

18 Alice Ross. "Dodd-Frank's bid to clean up extractive industries stymied by oil business" (*The Guardian*, July 2015) www.theguardian.com/global-development/2015/jul/22/dodd-frank-act-section-1504-natural-resources-extractive-industries-oil-api-sec.

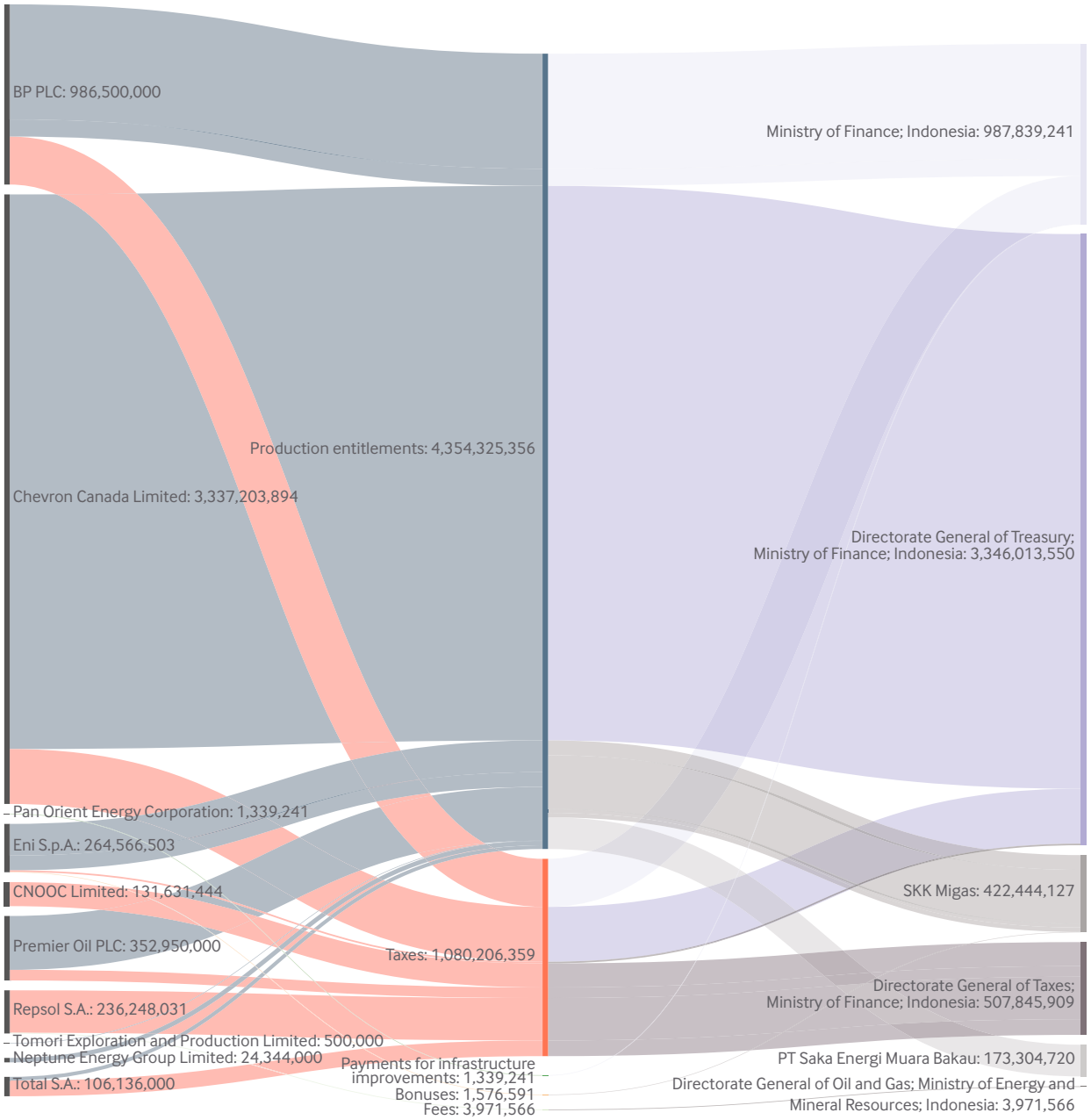
ExxonMobil, ConocoPhillips and other companies not bound by PtG regulations in their home countries should consider voluntarily disclosing their PtG data in Indonesia to provide citizens in the communities where they operate the same transparency as those with projects covered by PtG laws receive. Such a move would be in line with the EITI's Expectations for Supporting Companies which notes that all EITI supporting companies should "ensure comprehensive disclosure of taxes and payments made to all EITI implementing countries"[19], as well as EITI's promotion of "systematic disclosure" where companies and governments are expected to publish payments routinely in their own systems. As part of the research process for this report, NRGI asked ExxonMobil and ConocoPhillips to voluntarily publish their 2017 and 2018 payments to the Indonesian government in line with data disclosed by other companies covered in this report. ExxonMobil declined to publish the information. NRGI is in an ongoing dialogue with ConocoPhillips to address the issue. ExxonMobil and ConocoPhillips are both EITI supporting companies, with ExxonMobil also occupying an alternate seat on the EITI Global Board.

In 2018, 80 percent ($4.4 billion) of the revenue paid by disclosing oil and gas companies was in the form of production entitlements, as dictated by the production sharing model that governs the oil and gas sector. The other payment types made were taxes ($1.1 billion), fees ($4 million), payments for infrastructure improvements ($1.3 million), and bonuses ($1.6 million).

Under Indonesian law, all non-tax revenues (Penerimaan Negara Bukan Pajak (PNBP)), including production entitlements and bonuses, are to be deposited to the state treasury (Ministry of Finance) through the Online Non-Tax State Revenue Information System. SKK Migas receives in-kind payments of oil and gas and then transfers the resulting sales revenue to the state treasury. BP's 2018 PtG report includes a $93,525,739 production entitlement payment to the Ministry of Finance made in-kind in the form of 1,432,021 barrels (bbls). As part of the research process for this report, NRGI contacted BP to confirm that the Ministry of Finance was the recipient of their in-kind production entitlement, given that it would be unusual for a ministry of finance to take receipt of an in-kind payment of this nature. BP said that SKK Migas received this payment.

19 Extractive Industries Transparency Initiative International Secretariat. "Expectations for EITI supporting companies" (EITI, April 2018) eiti.org/document/expectations-for-eiti-supporting-companies.

Figure 3. 2018 oil and gas company payments to Indonesian government entities by payment type



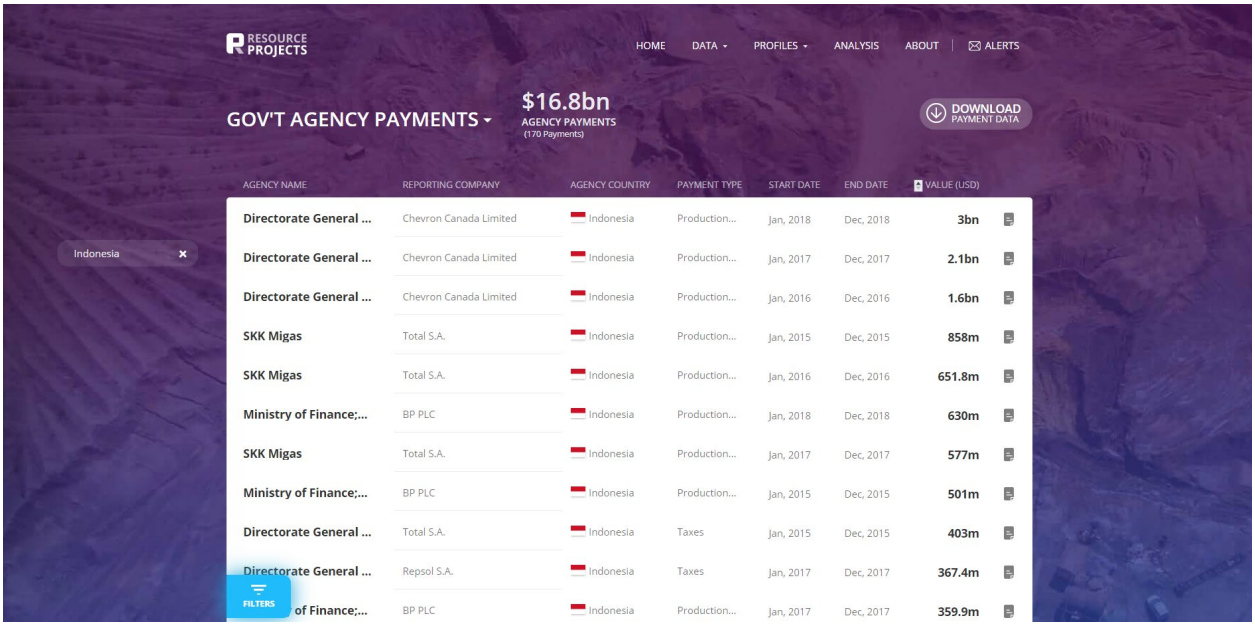
HOW TO ACCESS PTG DATA ON RESOURCEPROJECTS.ORG

Each country that has a PtG law has a different procedure for companies to disclose their PtG to regulators and how they make the resulting PtG data available to the public. (See box 1.)

As a result, it is often difficult for oversight actors in resource-rich countries to access and use the PtG data relevant to them. To address these accessibility and usability challenges, NRGI has developed a data repository for PtG data, www.resourceprojects.org. As of December 2019, www.resourceprojects.org contains data on over $800 billion in payments in over 150 countries from 2014 to 2019.

Key features of resourceprojects.org include:

- **Collection and standardization of PtG data.** Resourceprojects.org collects all identified PtG reports. It standardizes the currency, project name and government entity name data within the reports, making them easier to use for comparison and analysis.
- **Enables oversight actors to find data relevant to them.** The repository's filter feature enables users to search the data by country, project, recipient government agency, company, year and payment type. This feature allows users to quickly find and download the data relevant to them.
- **Subscribe for timely updates.** A key elements of PtG data as an accountability tool is its timeliness. Most companies are required to disclose their payments within six months of the end of their financial year. To maximize the benefits of this timeliness, www.resourceprojects.org has developed a feature where users can subscribe to receive an email when NRGI uploads a relevant PtG report onto the site.



Box 1. How PtG reports are made publicly available

Payment reports and the data they contain can be found in the following locations:

- **Natural Resources Canada (NRCAN) Extractive Sector Transparency Measures Act (ESTMA) Repository.**[20] NRCAN makes company disclosures available in PDF format on its online repository.
- **UK Companies House Extractives Service.**[21] UK-incorporated companies' disclosures are available in XML format.
- **National Storage Mechanism (NSM).**[22] UK main market-listed company disclosures must announce their reports' release on the NSM service.
- **Company reports.** Many companies incorporate their PtG report into their annual reports or as part of their transparency or sustainability reports.
- **Company websites.** Some companies publish their PtG reports on their websites.

MORE DATA SOURCES FOR ANALYZING INDONESIA'S OIL AND GAS REVENUES

Each of the uses of payment data for accountability that we present in this report rely on analyzing PtG data in conjunction with other data sources. To effectively hold companies and government entities accountable for the payments they make for extractive activities in Indonesia, it is often necessary to understand the fiscal terms of a project. The oil and gas fiscal regime dictates the types of payments that should be made by extractive companies operating in the country, how these payments should be calculated and what, if any, allowable deductions exist.

OIL AND GAS FISCAL REGIME

In 1966, Indonesia became the first country to implement a PSC system and uses this model to this day. In January 2017, the ESDM Ministry announced a new regulation that moved Indonesia from a PSC model based on cost recovery to one based on a gross split of production. Because gross split PSC regulation only came into force in 2017 and did not affect existing contracts, most oil and gas projects in Indonesia still operate under cost recovery PSCs. Under both the cost recovery and gross split PSCs, the government generates revenue mainly through their share of production, bonuses (upon signature and when specific production targets are met) and through taxes levied on income, dividends and land and building rental. (See table 2.)

20 Natural Resources Canada. "Links to ESTMA Reports" (2019), www.nrcan.gc.ca/mining-materials/estma/18198.
21 Companies House, "Companies House Extractives Service" (2017), extractives.companieshouse.gov.uk/.
22 Morningstar, "National Storage Mechanism" (2019), www.morningstar.co.uk/uk/NSM.

Table 2. Summary of Indonesia's cost recovery and gross split PSCs models[23]

	Cost recovery PSC	Gross split PSC
Income tax	The income tax rate is dependent on the date that the government and company signed the PSC. Indonesia's 2015 EITI report details information on changes in the tax rate over time.	The tax rate is currently 25 percent.
Land and building tax	The government applies a tax to land and/or buildings that are in areas used for extractive activities. The basis of charging land and building tax varies depending on the location (onshore or offshore) and phase (exploration or exploitation) of a project.	
Dividend tax (branch profit tax)	20 percent	
Non-tax revenue (share of production)	There are six steps involved in determining what share of the total production each party (the government and the contractor(s)) receives: **1) First tranche petroleum (FTP) -** an initial share of production is divided between the government and the contractor, with the specific distribution stated in the contract. **2) Investment credit** - an incentive that the government gives in the form of an additional return on capital directly related to oil and gas production facilities. **3) Cost recovery** - the reimbursement of costs of production, agreed upon between the government and contractor **4) Equity oil** - the distribution of the remaining oil as stipulated in the contract. **5) Domestic market obligation** - the contractor is also required to allocate up to 25 percent of its share to fulfill domestic needs in Indonesia. **6) Domestic market obligation fee** - remuneration from the government to the contractor for the domestic market obligation allocation	Under the gross split PSC, production will be allocated based on the base split formula. The government can adjust it in favor of either party, based on the variable and progressive particularities of the project. **Base split:** • Government: 57 percent for oil; 52 percent for gas • Contractor: 43 percent for oil; 48 percent for gas Base split can then be adjusted, depending on: **Variable components:** 1. Status of the field 2. Location of the field 3. Depth of reservoir 4. Availability of support infrastructure 5. Type of reservoir 6. Carbon dioxide content 7. Hydrogen sulfide content 8. Density of oil 9. Domestic component level 10. Production stages **Progressive components:** 1. Price of oil; price of gas 2. Cumulative amount of oil and gas production
Bonuses	**Signature bonuses** – a bonus, agreed upon between the contractor and SKK Migas, is due within one month of awarding of the contract. Historically these bonuses have generally ranged from $1 million to $15 million with a cap at $250 million. In 2018, the government removed the cap on the size of signature bonuses. **Production bonuses** – a contractor meets a bonus requirement when production exceeds a specified number of barrels per day. The contractor and SKK Migas agree on the specifics of this production limit.	

Cost Recovery PSC

Under the cost recovery model, the government and contractor share the initial share of production under conditions stipulated in the contract. The contractor is then able to bill the government for the operating costs of the project, paid in the form of cost oil. Following this, they divide equity oil based on terms in the contract, with the contractor also required to allocate a specific portion of its equity oil to meeting domestic requirements in Indonesia, known as Domestic Market Obligation.

Gross Split PSC

The new approach stipulates that the share of production will be determined on a gross split basis, with the contractor receiving a greater share of oil. The contractor will no longer be able to request reimbursement for operating costs on the project. Under this model, a base split is established in which the government receives 57 percent

23 EITI, "2016 EITI Indonesia Report." PricewaterhouseCoopers, "Oil and Gas in Indonesia Investment and Taxation Guide." Ernst and Young, "Global oil and gas tax guide 2019". (EY, 2019) www.ey.com/Publication/vwLUAssets/ey-global-oil-and-gas-tax-guide-2019/$FILE/ey-global-oil-and-gas-tax-guide-2019.pdf.

of production for oil, with the contractor receiving the remaining 43 percent. With gas, the government receives 52 percent of production and the contractor receives 48 percent. The government can adjust this base split to create more favorable terms for either party during the contract negotiation process, based on the variable and progressive components outlined in table 2.

OTHER INDONESIA-SPECIFIC EXTRACTIVES DATA SOURCES

Table 3 provides a non-exhaustive list of Indonesia-specific data sources that can be used in conjunction with PtG data to hold both government entities and companies accountable for resource revenues generated in the country. We used many of these data sources in this report's analysis.

Table 3. Additional data sources for analyzing Indonesia's extractives revenues

Data type	Indonesian source/example	How this data can be used
Company annual reports	ENI Factbook 2018	Company reports can provide contextual information on the activities of the company in the country. For example, the ENI Factbook for 2018 supplies information on the company's average realized price and gross production in Indonesia.
Government data	Ministry of Energy and Mineral Resources geoportal	Information on the oil and gas licenses awarded, including block name, operator, signature data and status.
Company engagement	Contacting the company directly	Engaging with companies directly can help supply more contextual information. This process can also show companies the importance of their PtG reports and show that they will be scrutinized.
EITI reports	Indonesia EITI Report for 2016	At the time of publication, the latest Indonesia EITI Report is for 2016. This report has a wealth of information on the country's oil and gas sector and governance challenges that arise in its management.
National acts and laws	Minister of Energy and Mineral Resources Regulation Number 8 of 2017 on gross split PSCs	National acts within Indonesia can outline the obligations of companies working in the country, including the fiscal regime.
Oil and gas association	Indonesian Petroleum Association (IPA)	The IPA is a valuable source of information on company developments within the Indonesian oil and gas sector and their position on changes in regulations and implementation.
Resource Governance Index 2017	RGI Data Explorer	The Resource Governance Index's data explorer supplies justifications for each of a country's RGI scores and links to relevant government documents.
Oil and gas contracts	ResourceContracts.org	Where available, the contract between the government and the company has a wealth of information that oversight actors can use to hold both parties accountable for their respective obligations. Currently four Indonesian contracts are available on Resourcecontracts.org.
Mass media within Indonesia		Mass media in Indonesia is a useful resource for finding political figures' current positions on governance challenges in the mining sector.

CONTRACT TRANSPARENCY

Many uses for the data that we present in this report focus on comparing payments to Indonesian government entities to what would be expected based on terms contained with the PSC. The contract should contain information on the gross split of production between the operator and the government, the value of the signature bonus and any production levels that trigger the requirement to pay a production bonus. While many of these terms can be estimated or gathered from other sources, such as EITI reports, disclosure of petroleum contracts would provide an important tool for accountability and increase public trust in both the government and companies.

III. Verifying the size and recipient of signature bonuses

Why this matters:

- Signature bonuses, as one-off payments, are particularly susceptible to mismanagement or illegitimate diversion as they are often high value and are not always incorporated into the normal budgetary process.

How oversight actors can use PtG data:

- PtG data can be used to raise public awareness on the payment of signature bonuses, which government entity received these payments and ask questions regarding how the resulting revenue was managed.
- PtG data can be used to verify that companies have paid a signature bonus, that the recipient government entity matches what would be expected under the law and to verify that the amount paid matches what was stipulated in the contract.

Example questions PtG data can answer:

- Did Eni make a signature bonus payment following its signing of the contract for the East Ganal PSC in 2018?

Table 4. Data required to analyze size and recipient of oil and gas project signature bonuses

Information required	Where this can be accessed
Information on the oil and gas license awarded, including block name, operator, signature date and status	Ministry of Energy and Mineral Resources geoportal
Bonus payment data from disclosing companies' PtG report from the year of award	Indonesian PtG data is available on resourceprojects.org. Information on signature bonuses is also available in Indonesia's EITI reports.
Where publicly available, information on the expected value of the signature bonus, based on the PSC agreement	For many new PSCs, the Ministry of Energy and Mineral Resources include information on the value of the signature bonus in the press release announcing the signing of the contract. The Indonesia EITI reports also contain this information.

To check payment of a signature bonus following the award of a new PSC, identify:

1. The date a new PSC was signed and the operator of the block[24]
2. The disclosing company's PtG report for the year the PSC was signed
3. Whether a signature bonus was disclosed for that project and the recipient government entity
4. Where the Ministry of Energy and Mineral Resources has disclosed information on the expected value of the signature bonus, verify that the payment disclosed in the PtG report matches this figure

Under both the traditional cost recovery PSCs and new gross split PSCs, the contractor must pay a signature bonus within one month of the awarding of a new contract. The government and the contractor agree upon the value of the signature bonus during the negotiation process. It has historically ranged from $1 million to $15 million.[25]

24 Energi dan Sumber Daya Mineral. "ESDM Geoportal" (ESDM, 2019) geoportal.esdm.go.id/indonesia-overview/.
25 PricewaterhouseCoopers, "Oil and Gas in Indonesia Investment and Taxation Guide."

As Global Witness notes, these types of one-off payments are particularly susceptible to mismanagement or illegitimate diversion because they are high value and are not always part of the normal budgetary process.[26]

Companies that are required to disclose their payments to governments must include any bonuses paid for commercial development, including signature bonuses. As a result, PtG disclosures supply oversight actors the ability to check whether an oil and gas company has paid the signature bonus and to verify to which government entity it made its payment.

The ESDM regularly discloses information on newly awarded PSCs, including the operator and agreed upon signature bonus value. Oversight actors in Indonesia can use this information to verify that the signature bonus disclosed in its PtG report matches what is stipulated in the PSC agreement.

FINDINGS

Table 5 shows the signature bonuses that have been reported by disclosing oil and gas companies, the date the PSC was signed and the value of the signature bonus as stipulated in the PSC agreement.

Each of the disclosing companies that Indonesia has awarded a PSC to since PtG reporting requirements came into force have reported a signature bonus. In each of these cases, information on the expected size of the signature bonus in the PSC agreement was disclosed by ESDM, enabling comparison between the expected and actual amounts disclosed. In all three cases, the amount disclosed closely matches that expected based on the PSC terms.[27] (Discrepancies of $0.76 million for Eni's East Ganal PSC signature bonus and of $4,443 for Equinor's Aru Trough PSC are likely a result of variations in reporting currency.)

BP disclosed a bonus payment of $18 million in its 2017 PtG report for the Tangguh project. As part of the research process for this report, NRGI contacted BP to ask about the purpose of this bonus payment. The company clarified that this payment was primarily for production bonuses for Trains 1 and 2 of this project, rather than a signature bonus. Production bonuses are payments made when production exceeds a specified number of barrels per day.

As governments and contractors do not often make information on the production level required to trigger a production bonus publicly available, it is difficult to check payment of production bonuses without knowledge of the terms of the agreement. The government's implementation of contract transparency would enable oversight actors to identify the contractually agreed upon production level threshold that triggers a production bonus and enable them to monitor the disclosure of this payment in the company's PtG report.

In accordance with ESDM regulation No. 30/2017, companies are required to make their signature bonus payment to the state treasury through the Online Non-Tax State Revenue Information System (SIMPONI).[28] In the company's 2018 payments to governments report, Eni stated that it paid its signature bonus payment for the

26 Global Witness. "Finding the missing millions" (Global Witness, 2018) www.globalwitness.org/en/campaigns/oil-gas-and-mining/handbook-using-extractives-data/.

27 Eni, in its PtG report discloses in euros, while Equinor discloses in Norwegian Krone. We have converted both to USD as part of the data standardization process conducted by NRGI on www.resourceprojects.org.

28 EDSM. "Permen ESDM Nomor 30 Tahun 2017 Tentang Cara Pengenaan, Pemungutan dan Pembayaran/Penyetoran Penerimaan Negara Bukan Pajak Yang Berlaku Pada Ditjen Migas Kementerian ESDM". https://migas.esdm.go.id/post/read/permen-esdm-nomor-30-tahun-2017-tentang-cara-pengenaan,-pemungutan-dan-pembayaran-penyetoran-penerimaan-negara-bukan-pajak-yang-berlaku-pada-ditjen-migas-kementerian-esdm

East Ganal PSC to SKK Migas. As part of the research process for this report, NRGI wrote to Eni to ask why SKK Migas was the recipient of this signature bonus payment. The company noted that this was a clerical error and that the bonus was actually paid to the Directorate General of Oil and Gas within the Ministry of Energy and Mineral Resources, and not - as incorrectly reported – to SKK Migas. The company is considering publishing a corrected version of the report.

ENI shared with NRGI an excerpt of its assignment decree for the East Ganal PSC which outlines that the company should deposit the signature bonus into a Directorate General of Oil and Gas bank account. Royal Dutch Shell and Equinor both also disclosed paying their signature bonus payments to the Directorate General of Oil and Gas, rather than the state treasury.

NRGI understands that the Directorate General of Oil and Gas requested companies to make the signature bonus payment to a Directorate General bank account, rather than through the SIMPONI mechanism stated in ESDM regulation No. 30/2017. The state treasury can delegate the right to collect non-tax revenues to director generals, however doing so restricts citizens' ability to follow the money and hold government entities accountable for how this money is managed and used.

Directorate General of Oil and Gas taking receipt of this non-tax revenue limits oversight actors' ability to track this money into the state treasury. Management of signature bonus revenues will only increase in importance following the government's decision to remove the cap of $250 million on the size of these one-off payments.

Table 5. Signature bonuses disclosed in PtG reports 2015 to 2018

Company	Project	Recipient government entity	Date of contract signing	Signature bonus according to ESDM/ press release (USD)	Signature bonus disclosed in PtG report (USD)
Equinor	Aru Trough	Directorate General of Oil and Gas	2015	1,000,000[29]	1,004,443
Royal Dutch Shell PLC	Pulau Moa Selatan	Directorate General of Oil and Gas;	2015	1,000,000[30]	1,000,000
Eni S.p.A.	East Ganal PSC	SKK Migas[31]	2018	1,500,000[32]	1,576,591

Conclusion: Oversight actors can use PtG data to verify that companies awarded new PSCs have paid the required signature bonus. They can also verify to which government entity they made this payment.

Potential avenues for inquiry: Why has the Directorate General of Oil and Gas directed Eni to deposit the signature bonus payment of $1.5 million for the East Ganal PSC into a Directorate General of Oil and Gas bank account, rather than into the SIMPONI, as specified in ESDM regulation No. 30/2017?

How can oversight actors check whether signature bonus payments that are due to the state treasury but paid to the Directorate General of Oil and Gas are subsequently deposited with the state treasury?

29 Disfiyant Glienmourinsie. "Pemenang Lelang WK Migas Harus Selesaikan Signature Bonus," (*Sindonews*, 2015). ekbis.sindonews.com/read/978228/34/pemenang-lelang-wk-migas-harus-selesaikan-signature-bonus-1426658484.

30 Ibid.

31 The company clarified to NRGI that this was a clerical error and that the bonus was actually paid to the Directorate General of Oil and Gas within the Ministry of Energy and Mineral Resources

32 Energi dan Sumber Daya Mineral. "Hasil Penawaran Wilayah Kerja Migas 2018 Ditandatangani: Wilayah Kerja East Seram, East Ganal dan Southeast Jambi" (ESDM, 2018). migas.esdm.go.id/post/read/hasil-penawaran-wilayah-kerja-migas-2018-ditandatangani-wilayah-kerja-east-seram-east-ganal-dan-southeast-jambi.

IV. Estimating and verifying local and regional government revenue

Why this matters:

- Revenue distributed to producing local and regional governments represents an important revenue source to mitigate the negative impacts of extractive activities. Revenue can fund the development priorities of citizens in the area.

How oversight actors can use PtG data:

- PtG data, when used in conjunction with the country's revenue sharing fund formula, can be used to estimate how much local government entities should receive as a share of the revenue generated from a project, and how much should be kept by the central government.

Example questions that PtG data can answer:

- How much of the total non-tax revenue generated from the Tangguh project in 2018 should the West Papua regional government, and producing and non-producing regencies receive?

Table 6. Data required to analyze local and regional government revenue

Information required	Where this can be accessed
Revenue Sharing Fund (DBH) formula	Information on revenue sharing fund (DBH) formula is available below, in Indonesia's 2016 EITI Report and in the Ministry of Finance – Directorate of Regional Balance Non-Tax Revenue DG.
Non-tax payments data from disclosing companies' PtG report from year of analysis	PtG reports are available on resourceprojects.org.
Information on the location of the oil and gas project of analysis	A company's annual report often contains information on which province and regencies its oil and gas projects are located.

To estimate the revenue that local government entities should receive from an oil and gas project operating in their region:

1. Identify the location of the oil and gas project, including whether it is onshore or offshore, and if onshore, which province and regencies it is located within
2. Identify the revenue sharing fund (DBH) formula
3. Identify the non-tax payment disclosed by the operator in its PtG report
4. Multiply the production entitlement payment by the resource revenue formula to estimate how much local government entities should receive as a share of the revenue generated from a project, and how much central government should retain

Since the Indonesian government's extensive decentralization in 2001, regional governments and the funding they receive has taken on greater importance. The central government shares revenues with local and regional governments where oil and gas projects exist through the revenue sharing fund (DBH).

Oversight actors have scrutinized the design and implementation of this revenue sharing fund. In particular, the opacity of the mechanism for allocation and distribution of revenues has caused difficulties for local governments' budgetary planning processes.[33]

33 EITI Indonesia. "Transparency as Efforts to Improve Governance of Distribution of Revenue Sharing Funds."

Under the DBH revenue sharing fund formula, the central government transfers 15.5 percent of oil and 30.5 percent of gas non-tax revenues to local governments in non-Special Autonomy Regions. It retains 84.5 percent of oil and 69.5 percent of gas non-tax revenues. Non-tax revenues includes both the government's share of production, which in the PtG reports are referred to as "production entitlements," as well as other non-tax revenues such as signature and production bonuses.

At the local level, 3.1 percent of a project's non-tax oil government revenues go to the provincial government where the oil is produced and 6.2 percent go to the producing regency. A further 6.2 percent goes to other cities and regencies in the same province. For gas, 6.1 percent of a project's non-tax gas revenues go to the provincial government where it is produced and 12.2 percent to the producing regency. A further 12.2 percent goes to other cities and regions in the same province. (See table 7.) For operations located 12 miles or further offshore, the central government retains 100 percent of the revenues.

The Special Autonomy Law grants the provinces of Aceh, Papua and West Papua the status of a Special Autonomy Region. As Special Autonomy Regions they are entitled to a higher share of revenues generated from oil and gas activities, with these regions receiving 70 percent of non-tax revenue generated in their area, with the remaining 30 percent kept by the central government.

At the local level, 58 percent of a project's non-tax oil government revenues go to the regional government where the oil is produced and 6 percent go to the producing regency. A further 6 percent goes to other cities and regencies in the same region. For gas, 46 percent of a project's non-tax gas revenues go to the regional government where it is produced and 12 percent to the producing regency. A further 12 percent goes to other cities and regions in the same region. (See. Table 8)

Table 7. Oil and gas revenue sharing formula for non-special autonomy regions (DBH)[34]

Resource	Percentage kept by central government	Province Producing	Regency/city within producing Province	
			Producing	Non-producing
Oil	84.50%	3.10%	6.20%	6.20%
Gas	69.50%	6.10%	12.20%	12.20%

Table 8. Oil and gas revenue sharing formula for special autonomy regions (DBH)[35]

Resource	Percentage kept by central government	Special autonomy region	Regency/city within producing Province	
			Producing	Non-producing
Oil	30%	58%	6%	6%
Gas	30%	46%	12%	12%

34 Andrew Bauer, Uyanga Gankhuyag, Sofi Halling, David Manley and Varsha Venugopal."Natural Resource Revenue Sharing." (NRGI & UNDP, 2016) resourcegovernance.org/sites/default/files/documents/nrgi_undp_resource-sharing_web_0.pdf.

35 EITI, "2016 EITI Indonesia Report."

FINDINGS. TANGGUH LNG

Company disclosures can help oversight actors in producing regions hold government entities accountable for the distribution of revenue to local government entities. This data allows oversight actors to check how these revenues are managed and used.

As the amount of oil and gas produced in a region determines the value of revenues the central government distributes, project-level PtG disclosures can be used to estimate how much revenue should be transferred to local governments. To make these estimations, oversight actors must know the production entitlement payment made for each commodity.

In the case of the Tangguh LNG project, which is located in the special autonomy region of West Papua, the operator BP provides a breakdown of production entitlements by commodity in its 2018 payments to governments report. The company states that the production entitlements payment for Tangguh 'includes payments in kind of $93.5 million for 1.4 million bbls of condensates valued per the Production Sharing Agreement and the remaining production entitlement for LNG was paid in cash'.[36] The government treats revenue resulting from condensates as oil revenue,[37] meaning that of BP's total production entitlement payment of $723.1 million in 2018, $93.5 million was considered oil or condensate revenue and the remainder, $ 629.6 million, was considered gas revenue. BP's 2018 payments to governments report also states that the company reports payments made in full by all partners in a project when it is the operator of a joint venture. As a result this production entitlements payment represents all non-tax revenue from this project in 2018.

Figure 4 shows the estimated amount of oil/condensate and gas non-tax revenue that the central government should distribute to local government entities. This analysis suggests that of the $629.6 million gas production entitlement payment made by BP for the Tangguh project in 2018, $188.9 million should be retained by the central government and $440.7 million should be distributed to local government entities. Of this local government entity distribution, $289.6 million should be distributed to the West Papua regional government, with $75.6 million distributed to the producing regency of Teluk Bintuni. The central government should distribute the final $75.6 million of BP's gas production entitlement payment to other non-producing regencies in the West Papua region. (see. Figure 4.)

Similarly, using the formula laid out in Table. 8 we can estimate that of the $93.5 million oil/condensate production entitlement, $28.1 million should be kept by the central government and $65.5 million should be distributed to local government entities. Of this local government entity distribution, $54.2 million should be distributed to the West Papua regional government, with $5.6 million distributed to the producing regency of Teluk Bintuni. The central government should distribute the final $5.6 million of BP's oil/condensate production entitlement payment to other non-producing regencies in the West Papua region.

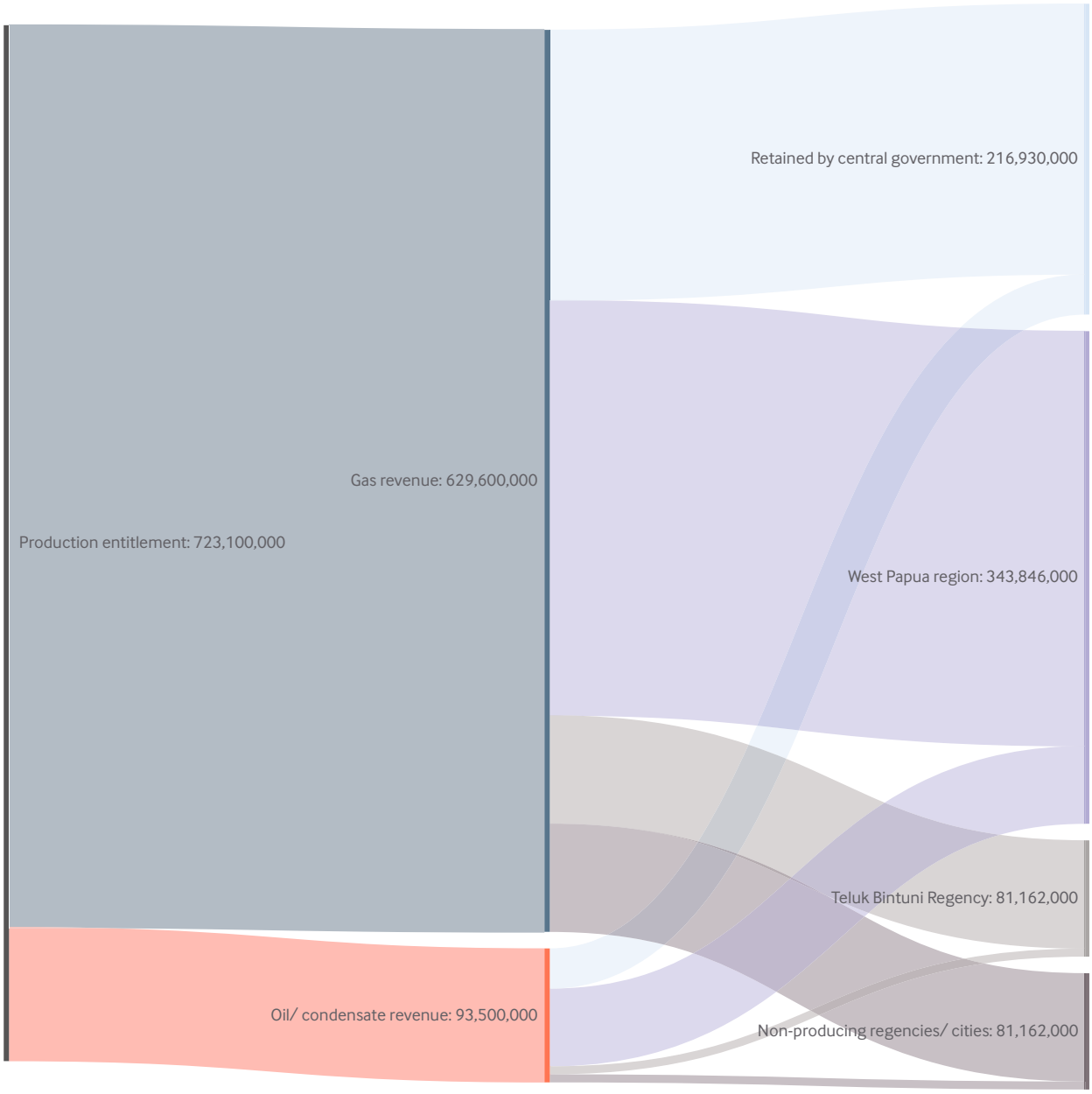
Oversight actors can replicate this type of estimation for any project in which the company has disaggregated its non-tax payments by commodity. When a project produces significant levels of oil and gas, but the company has not disaggregated its production entitlement payment by commodity, oversight actors can ask companies for a breakdown of the production entitlement payment by oil and by gas. The

36 BP "BP report on payments to governments 2018" (2019) pg. 16. www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/sustainability/group-reports/bp-report-on-payments-to-governments-2018.pdf

37 EITI Indonesia "Mekanisme Penghitungan DBH Migas" (2018) eiti.ekon.go.id/fgd-transparansi-dbh-di-batam/?aid=2390&sa=1

applicable European legislation requires that "[w]here payments in kind are made to a government, the report must state the value of such payments in kind and, where applicable, the volume of those payments in kind, and the directors must provide supporting notes to explain how the value has been determined." A reasonable interpretation of this provision is that the value and volume for each commodity should be disclosed.

Figure 4. Distribution of BP's 2018 production entitlement payment for the Tangguh project estimation (USD)



Conclusion: Oversight actors can use project-level payment data to estimate how much revenue local government entities should receive from a project and how much the central government should keep.

Potential avenues for inquiry: Have the West Papua regional government and its regencies received their share of BP's 2018 Tangguh production entitlement payment? How have these local government entities managed and used this oil and gas revenue?

V. Emerging use of PtG data: Estimating and verifying the government's share of production from a gross split PSC project

Why this matters:

- Under the new gross-split PSC model, the majority of government revenue from oil and gas projects will come from its share of production. The government's share of production is determined by the gross revenue of the project and the gross split formula agreed to by the government and the contractor. As a result, it is important for oversight actors to be able to verify that companies are paying what is expected under the gross split PSC terms and to check how the recipient government entity uses the resulting revenues.

How oversight actors can use PtG data:

- Oversight actors can use PtG data, in conjunction with the project's gross split formula and gross revenue, to verify that the value of the share of production the government receives for a project managed under the new gross split PSC model matches what is expected.

Example questions that PtG data can answer:

- Once a contractor starts producing under the new gross split PSC model, oversight actors will be able to ask: did the government's share of production paid by the contractor match what is expected given the gross revenue and gross split formula of the project?

Table 9. Data required to verify central government revenue

Information required	Where this can be accessed
Gross split terms stipulated in the PSC agreement	The gross split terms agreed between the government and contractor are available in the PSC agreement. These terms are often also made publicly available upon signing the contract. This happened when ENI and the Indonesian government recently signed the PSC agreement for the Merekas gas project.[38]
Gross revenue/estimation of the gross revenue of the project for the year of analysis	The gross revenue for a project is often available in the operator's annual report. Where information on the gross revenue of a project is not available, oversight actors can estimate using average realized price and total production data which may be available in the operating company's annual report.
Production entitlement payment disclosed for the project	For companies that must disclose a PtG report, this data is available in the project-level payments section of their report.

To check the government's share of production from a project under the new gross split PSC model:

1. Identify the gross split agreed between the contractor and government for the project
2. Identify or estimate the project's gross revenue for the year of analysis
3. Estimate the expected government share of production by dividing the gross split percentages by the gross revenue of the project
4. Compare the expected share of production for this project to the amount the contractor paid as a production entitlement, as disclosed in its PtG report

38 Indonesian Petroleum Association, "Dua Tahun Gross Split."

Under traditional profit-based PSCs, information on the costs a project incurs and for which it requests reimbursement is required to be able to determine the profit of the project, and thus how much of that profit the government should receive. Information on the costs incurred by a project is rarely publicly available. This means that accountability actors cannot accurately estimate how much of the gross revenue of a project the contractor can deduct in costs, before the government and contractors' share of production from the project are determined.

Under a gross split PSC, the amount the government and contractors generate from the project are determined based on the gross revenue, with the contractor likely to receive a larger share then they would under a profit-based PSC. However, under this model, the government no longer has to reimburse their costs.[39]

As a result, cost information is no longer necessary to determine how much revenue a project should be generating for the government. This allows accountability actors to use PtG data to check if the government is receiving what would be expected from a project, provided the gross revenue and gross split formula of the project is known. (See box 2.) Where information on the gross revenue of a project is not available, oversight actors can estimate using average realized price and total production information, which may be available in the operating company's annual report. BP's annual report, for example, includes this data.[40]

The gross split formula agreed upon by the government and contractor will be present in the PSC agreement. While public disclosure of oil and gas contracts is not yet standard practice in Indonesia, the gross split formula of the project may be publicly disclosed. For example, when announcing the signing of a new gross split PSC for the Merakes Gas Field, the operator, ENI, disclosed that the company will receive 67 percent of the gross split for oil and 72 percent for gas, with the government receiving 33 percent for oil and 28 percent for gas from this project.[41]

As this new gross split regulation was implemented in 2017, no oil and gas project operated by a disclosing company is yet producing under this new model. The Merekas gas field is not expected to start producing gas until the second half of 2020. However, when companies do begin disclosing payments under this formula, being able to estimate the government share of production from a project, and compare this to the actual production entitlement payments made will enable oversight actors to estimate if the government share of production is meeting expectations. They will be able to hold the government accountable for how the resulting revenue is managed, allocated and used.

Box 2 presents a hypothetical oil project run under Indonesia's new gross split PSC model and demonstrates how accountability actors will be able to monitor the government share of production received under this model.

39 Under the gross split system, some costs may still be deductible against corporate income tax.
40 BP. "BP Annual Report and Form 20-F 2018" (BP, 2019). www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bp-annual-report-and-form-20f-2018.pdf.
41 Indonesian Petroleum Association, "Dua Tahun Gross Split."

Box 2. Estimating government share of production from a hypothetical oil project under the gross split PSC model

Gross revenue = $50,000,000 (Average realized price ($50) X production (1,000,000 bbls) = estimated gross revenue ($50,000,000))

Gross split = 45 percent to the government and 55 percent to the contractor

(Average realized price ($50) X production (1,000,000 bbls) = estimated gross revenue ($50,000,000))

Divide by gross split percentages = 45 percent to the government ($22,500,000), 55 percent to the contractor ($27,500,000)

Identify production entitlement payment in contractor's PtG report = $23,000,000

Compare estimated government share of production with actual PtG disclosed by contractor = In this example, the payment by the contractor meets what we would expect from the estimated government share of production, with small discrepancies possible due to currency conversion or inaccuracy in the gross revenue estimation.

Conclusion: Under the new gross split PSC model, accountability actors will be able to monitor the government share of production from a project and verify if it meets expectations given the gross revenue and gross split of the project.

Potential avenues for inquiry: Going forward, will project operators in Indonesia or the government make the gross split formula of a project publicly available?

Conclusion and recommendations

In this report, we outlined some ways that government, civil society, media and official oversight actors can use newly-released oil and gas PtG data now and in the future to better understand the revenues generated within the Indonesian oil and gas sector to hold relevant actors accountable for its management and use.

PtG data enables accountability actors in Indonesia to verify the size and recipients of oil and gas project signature bonuses. It also allows for estimation and verification of the revenue that local and regional government entities should receive from an oil and gas project working in their region. Finally, it provides oversight actors with the information necessary to estimate and verify the government's share of production from a project under the new gross split PSC model.

Indonesia and the contractors operating there still need to make improvements to empower the country's citizens to conduct a more informed public debate on their country's management of its oil and gas endowment. These improvements include:

- **The Indonesian government should disclose oil and gas contracts**. Much of the prescribed analysis that we describe in this report focuses on using contract terms to compare actual to expected payments. Contracts should contain information on the production share gross split between the operator and the government, the value of the signature bonus and any production levels that trigger the requirement to pay a production bonus. While many of these terms can be estimated or gathered from other sources, such as EITI reports, disclosure of petroleum contracts would supply an important tool for accountability and increase public trust in both the government and companies. As an EITI implementing country, Indonesia will be required to publish all oil, gas and mining contracts and licenses that it grants, enters into or amends after 1 January 2021. The government should consider taking a proactive approach and disclose oil and gas contracts before this deadline.

- **The Indonesian government should clarify how it manages signature bonus revenue.** NRGI understands that the Directorate General of Oil and Gas requested Eni make its signature bonus payments for East Ganal PSC to a Directorate General bank account, rather than through the SIMPONI mechanism stated in ESDM regulation No. 30/2017. The state treasury can delegate the right to collect non-tax revenues to Directorate General's, however doing so restricts citizens ability to follow the money and hold government entities accountable for how this money is managed and used. The Directorate General of Oil and Gas should clarify why it has directed Eni to deposit the signature bonus payment of $1.5 million for the East Ganal PSC into a Directorate General of Oil and Gas bank account, rather than into the SIMPONI. The government should also clarify how this revenue is managed and transferred to the state treasury.

- **Reporting companies should disaggregate their oil and gas production entitlements, where applicable.** The formulas for determining each party's allocation under the new gross split PSC model and for determining local government shares vary for oil and gas. In order to effectively perform these analyses, accountability actors need disaggregated information to know which production entitlements come from oil and which come from gas. Disclosing companies that operate projects with significant oil and gas production should consider disaggregating their production entitlement disclosure by commodity to

enable accountability actors to effectively monitor how the government manages these revenues. Companies reporting their payments to governments under EU legislation could reasonably interpret their reporting obligation in this way.

- **Companies not bound by PtG regulations should report their payments voluntarily.** ExxonMobil, ConocoPhillips and other companies not bound by a global PtG disclosure obligation in their home countries should consider voluntarily disclosing their PtG data in Indonesia. Doing so would provide citizens in the communities where they operate the same transparency as those with projects covered by PtG laws receive. Such a move would be in line with the EITI's Expectations for Supporting Companies which notes that all EITI supporting companies should "ensure comprehensive disclosure of taxes and payments made to all EITI implementing countries", as well as EITI's promotion of "systematic disclosure" where companies and governments are expected to publish payments routinely in their own systems.
- **The U.S. Securities and Exchange Commission should implement a strong Dodd-Frank 1504 rule.** Following the repeal of the Dodd-Frank 1504 regulation under the Congressional Review Act in 2017, the United States SEC is required to release a new implementing regulation for this law. In the years since Dodd-Frank 1504 was introduced, the payment transparency international norm that that law helped to instigate has resulted in five years of reporting that is providing data being used as an accountability tool in resource-rich countries across the globe. When the SEC introduces a new implementation regulation for Dodd-Frank 1504, this rule should reflect and build on the strong payment transparency laws in place in the EU, Canada and Norway. The SEC is expected to propose a new rule on 18 December 2019 which will be subject to a public comment period before being adopted likely in 2020.

We have made the dataset used for the analysis in this report available on ResourceData.org and the PtG data covered in this report are available on ResourceProjects.org.

AUTHORS

Alexander Malden is a governance officer with the Natural Resource Governance Institute. Fikri Zaki Muhammadi is a Asia-Pacific associate with the Natural Resource Governance Institute.

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