



COORDINATING MINISTRY FOR ECONOMICS AFFAIR

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MINUTES OF MSG MEETING

- Date : Thursday, 20 April 2017
Time : 13.30 – 15.30 WIB
Place : Meeting Room 4th floor, Ali Wardhana Building, Coordinating Ministry for Economic Affairs, Jl. Lapangan Banteng Timur No.2-4, Jakarta
- Agenda : Discussion on Scoping Study for EITI Report 2015
Discussion on Commodity Trading Report
- Meeting Participants : - State Development Audit Agency (BPKP): Sri Madihastuti M. Insawan
- DG Budget, Ministry of Finance: Istiyanti Elpani, Seprina Hasan E Fauziah Astrini Faisal J.A
- SKK Migas Runi Nariswari Selvi Daru Dewanto
- Government of East Kalimantan Province: Amrullah Vinsentius
- DG Mining and Coal: Sri Raharjo
- DG Treasury, Ministry of Finance: Sigit H
- EITI International: Gay Orlenes Dyveke Rogan
- World Bank: Noriko T Nat Adams
- Secretariat General Ministry of ESDM: Ruslim B
- Government of Riau Province: Rudi Saleh
- Scoping Study Consultant: Ambarsari, Dewi Yuliandini
- PWYP: Aryanto Asri Nuraeni
- Pertamina: Yogi Utomo, Singgit, Prana Jaya Mardiono
- NRG1: Jelsen G
- Coordinating Ministry for Economic Affairs: Ahmad Bastian Halim, Agus Haryanto Rosiana, Tesi Triani
- EITI Indonesia Secretariat: Edi Effendi T, Ronald T, Agus Prasentiono, Agus Trianto, Doni E, Venta A.,Hadian, Anggi G, Astari M, Eka W, Arief

A. OPENING

Technical team meeting led by Mr. Ahmad Bastian as Deputy Assistant of Extractive Industries, by delivering the following discussion agenda:

- Discussion of Scoping Study Eiti 2015 Report

- Discussion on Pilot Commodity Trading

B. PRESENTATION

1. **Presentation of EITI Scoping Study Report 2015**, by Mrs. Ambarsari, Scoping Study Consultant: Delivering the scope of the 2015 EITI Indonesia Report, covering the following:

- Contents of Scope in 2015 EITI report
- Way to explain the Scope
- Period & Definition
- Regulatory Framework - Req.2: Constitution
- Regulatory Framework: Oil and Gas
- Regulatory Framework: Minerba
- Fiscal Policy: General
- Oil and Gas Fiscal
- Fiscal Policy Mineral and Coal
- Government Agencies - Oil and Gas
- Government Agencies - Mineral and Coal
- Other Related Regulations
- Extractive Industries Contribution - Req. 3 & Req. 6
- Contributions: Revenue of Oil and Gas State
- Contributions: State Revenue Mineral and Coal
- Licensing and Contract - Req. 2.2, 2.3, & 2.4
- Extractive Industries SOE- Req. 2.6 & 6.2
- Social & Environmental Responsibility
- Reconciled State Revenue - Oil and Gas
- Reconciled State Revenue - Mineral and Coal
- Unreconciled State Revenue - Oil and Gas
- Unreconciled State Revenue - Mineral and Coal
- Material Companies
- Government Entities
- Reporting Form - Oil, Minerals and Coal

2. **Presentation on Commodity Trading Pilot**, by Dyveke Rogan, EITI International Secretariat.

- The presentation was presented by EITI International Policy Director, Dyveke Rogan. Dyveke said that one of the goals of EITI is to explain the amount of state revenue from extractive industries, which tends to focus on the reconciliation of payments from companies and state revenues. However, sometimes reconciled transparency has not revealed all state revenues from Natural Resources. In many countries, payments by companies to governments occur directly, through physical transfer of some kind of oil rather than money transfers.
- For example Azerbaijan, Cameroon and Yemen account for more than 80% of total revenues from oil sales received from companies operating their fields. This means there are at least two important transactions and disclosures necessary to determine whether a country gets a fair result:
 - Information relating to the marketing and sales of the commodity, ie to whom oil is sold? How many are sold? And at what price?
 - Information relating to the transfer of proceeds from sales to the budget, ie how much is transferred by oil companies to state revenues? If not all of them, where does the rest of the money go?
- In determining which companies will become oil buyers, there is a risk of corrupt behavior, including bribery by companies to secure business, or a conflict of interest by officials in granting the right to purchase oil. Some examples of corrupt behavior in international oil sales include big traders like Gunvor and Trafigura in Angola and Congo. Indonesia also has the same challenges.

- Another risk is that the income generated is not directly transferred to the government. Sometimes seller companies keep the proceeds from selling oil to their accounts. In Nigeria for example, their state-owned NNPC did not send oil sales to the country for 2 years.
- Implementation of the pilot commodity trading is based on the requirements of EITI 4.2. If sales of production or state income are collected in kind, the government (including state-owned enterprises) is required to disclose the volume sold and the revenue received. Published data should be sorted by buyer company
- Why commodity trading transparency pilots are required:
 - SOEs play an important role in producing, transporting, refining and selling oil, gas and minerals on behalf of the government. Often, the EITI Report has not provided a comprehensive picture of government revenue.
 - Around 20 EITI countries collect "in-kind" income, but the trade process varies greatly from country to country. Need to document the various practices of each country.
 - The EITI report tends to focus on sales and revenues, but there are also other trade-related governance challenges.
- Implementation of transparency commodity trading to answer some questions like what product of oil, gas, and products are sold? Who is the buyer company? and What does the country get from the trading?
- Countries that become commodity trading pilots are: Albania, Colombia, Chad, Indonesia, Ghana, Nigeria and Mauritania. The report will be completed in 2017 and will be evaluated in 2018.

C. DISCUSSION, RESPONSE AND INPUT

The points of discussion, feedback and input from the participants of the technical team meeting are summarized as follows:

1. Discussion of the EITI Scoping Study Report 2015

- Input from Mr. Ahmad Bastian, Deputy Assistant of Extractive Industries

- When we look at this EITI report together with previous reports, it is possible that in this report we can include it downstream like a smelter.
- Is it possible to discuss about Law 23/2014 in a specific and particular topic? •
- Data still refers to previous year's data. Is it possible in the discussion of the latest regulations can include in recommendations? For example: Law no. 4 Year 2009
- Thus the report can be a recommendation for Coordinating Ministry for Economic Affairs

- Response from DG Mining and Coal, Mr. Sri Raharjo

- Input from Mr. Ahmad Bastian had to be discussed again about the development of the latest information about mining & oil and gas.
- Geothermal may be included in the next EITI report.
- Mineral and coal Regulation Framework: - Discussion of Law no. 4 Year 2009.
- Related Government Agencies – Mining and coal: Based on Law no. 23 of 2014 the structure of the district / city government no longer exists, so it may be abolished. •
- Related to licensing and contract, actually, open public access is easy. User must come and pay. But unfortunately, it is still hampered by Government Regulation no 9 /2012. It is currently being prepared revision for Government Regulation No.9 / 2012.
- Social contribution (CSR) and Environment of the company, agreed to be included as a social expenditure because the amount is large enough.
- Need to be reconciled with Landrent. To find out what the difference and how much debt
- List of companies in EITI Report 2015, there are still 4 companies that have not CNC. So, will they be included or not?

- Response from Mr. Edi Tedja Kusuma, Team Leader of EITI Secretariat:

- Responding to input and suggestion from Pak Bastian and Pak Sri, Pak Edi Agree to include it in the next report

- Respond from Mr. Rudi, Government of Riau Province

- What are the benefits for the region with EITI? •

- Agree to include Law no. 23 of 2014, CSR, and Social Responsibility of contractor in the EITI Report.
- CSR contribution to boost the economy from social payments
- How EITI can increase regional participation in the process of improvement of mining governance?
- The proposal of property taxes of oil and gas is opened and reconciled. it needs confirmation with related institutions
- Signature Bonus, revenue sharing of oil and gas need to be opened but in reality revenue sharing of oil and gas never be reconciled
- Post-operational oil and gas reserves need to be included so that we know the benefits

- Responses from Mr. Faizal, Directorate General of Budget

- Will be fixed upon the current scheme in the flow of fiscal policy acceptance.
- For record of income taxes of oil and gas from January to June 2015 with DG of Budget, while for July - December 2015, reconciled with DG of Taxes.
- Reconciliation of the property taxes of oil and gas is already in the area between the Government and the contractor
- For reconciliation of local taxes can be done between the local government and the oil and gas companies in the area

- Response from Mrs. Fauziah DG of Budget

- Revenue of forest area does not included in revenue sharing

- Respond from Mr Aryanto, Publish What You Pay

- Current Oil and Gas Law, with the nuance of "upstream" of oil and gas, whereas the trend in the future, if there is no significant exploration effort, Indonesia will be increasingly trapped into oil and gas importing countries (due to the continuous domestic demand increase). Therefore, it is important to begin to write down the downstream sector of oil and gas in the EITI report gradually. Including providing more portions related to the downstream setting of oil and gas into the Revision of Oil and Gas Law forward.
- Regarding the suggestion of Mr. Bastian, who proposed the downstream sector to the EITI report, we are very supportive, although it can be done gradually. In the contextual report, it can be started by including the regulatory framework, the downstream and downstream oil and gas business downstream business chains. New in subsequent reports, can be pushed deeper.
- Proposed FGD to discuss reconciliation of revenue sharing with Director General of Budget, Director General of Treasury, Director General of Fiscal Balance, Local Government of Riau, Local Government of East Kalimantan
- Definition of Extractive Industries to include Geothermal, Forests, Fisheries, and others can be included in the discussion of revision of Presidential Regulation No.26 of 2010.
- Implications of Law no. 23 of 2014, how the permitting system in 2015 and also how the transition.
- BKPM (Capital Investment Coordinating Board) requirements for mining permits
- Landrent still needs to be reconciled because it is not as complicated as royalty and the area is familiar enough with its calculation, so it will be useful.
- MOMI information disclosure related to Government Regulation 9/2012, before any revision, I hope it can be opened partially
- Public information disclosure, contract disclosure
- Open data version data can be made excel version on EITI web, so it can be more useful.

- Input from Mr. Amrullah, Head of ESDM of East Kalimantan Province

- Landrent need to be reconciled in mining and coal sector

2. Pilot Commodity Trading Discussion

- **Nat Adams (World Bank):** Everyone will know about lift, what is a PETRAL? PETRAL becomes the body that imports oil on behalf of the state. In reality many irregularities are done by PETRAL, because there is no openness which in practice can be controlled by one or several people. Without openness nobody knows how much the state pays for oil purchases. Although PETRAL has been dissolved, the role of PETRAL is still being treated and is currently being implemented by ISC Pertamina. ISC is expected to save state revenues for the welfare of the people as Article 33 of the 1945 Constitution.
- **Emanuel Bria (NRGI):** Export import data is already available but there is no price data. Because of the price fluctuation, the price of oil will rise and fall must be considered due to state revenue.
- **Selvi (SKK Migas):** At the beginning of the conversation only in kind sales, but in the last discussion also discusses imports, minerals etc.
- **Edi (EITI Secretariat):** We will only make a report on the sale of in kind materials rather than imports, only exports.
- **Dyveke:** We can read in commodity trading guide and can do further discussion.
- **Nat:** I am just passing on how transparency commodity trading functions through the PETRAL for example, not trying to push whether the report should include imports.
- **Gay Ordenes (EITI International):** We have also agreed that it has been included in the TOR.
- **Edi:** So, it is clear that it will be included in the report that in kind of oil only (export) excluding imports.
- **Dyveke:** We have distributed guidance for commodity trading which consists of 3 parts:
 - Reporting template for trading involving the country section •
 - Report containing contextual information about trade
 - Report on certain cases in oil sales.

D. CONCLUSIONS AND SUGGESTIONS

- For Record of Oil and Gas Income Tax from January to June 2015 with Director General of Budget, while for July - December 2015, its Record with Director General of Taxes.
- For non-CNC companies the decision remains to be included as a reporting company, but is provided with a notification.
- Regarding the reconciliation of royalty and sales of mining products data with whom to be reconciled whether with the DG mining and coal or DG treasury. The decision from the MSG meeting is to be reconciled with DG Mineral and Coal.
- It need reconciliation between DG Mineral and Cola and companies for landrent.
- Feedback, responses and suggestions on the results of today's meetings will be summarized and included in the 2015 EITI Scoping Study Report as part of MSG member approval of the 2015 EITI Scoping Study Final Report!
- The Commodity Trading report contains in-kind sales information from parts of the country, and covers only oil and excludes gas and minerals. The report contains country exports on oil commodities and excludes imported information.