

LAW OF THE REPUBLIC OF INDONESIA

NUMBER 22 OF 2001

CONCERNING

PETROLEUM AND NATURAL GAS

BY THE GRACE OF GOD ALMIGHTY

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

Considering :

- a. whereas the national development must be aimed to achieve welfare for the people by reforming all aspects of the national and state life on the basis of the state ideology of Pancasila and the 1945 Constitution;
- b. whereas Petroleum and Natural Gas are non-renewable strategic natural-resources controlled by the state and constitutes a vital commodity that controls the life of the public at large and plays an important role in the national economy, thus the Exploitation of Petroleum and Natural Gas must be able to provide maximum contribution to the people's prosperity and welfare;
- c. whereas Petroleum and Natural Gas related business activities plays important role in proving real added value for an improved and sustainable national economic growth;
- d. whereas Law Number 44 Prp. Of 1960 concerning Petroleum and Natural Gas Mining, Law Number 15 of 1962 concerning the Stipulation of a Government Regulation To Replace Law Number 2 of 1962 concerning the Obligation of Oil Companies to Meet the Domestic Demands, and Law Number 8 of 1971 concerning State-Owned Oil and Gas Mining Companies are no longer suitable to meet the demands of the Petroleum and Natural Gas mining business developments;
- e. whereas by continuously observing the national and international developments, it is deemed necessary to amend the legislation on Petroleum and Natural Gas mining so as they may create an independent, reliable, transparent, competitive, efficient and environmental friendly Petroleum and Natural Gas business activities, as well as encourage the growth of national potential and role;
- f. whereas based on the considerations as referred to in the above points a, b, c, d and e as well as to provide legal basis for the renewal and arrangement of the Petroleum and Natural Gas business activities, it is deemed necessary to promulgate a Law on Petroleum and Natural Gas;

Bearing in mind:

1. Article 5 paragraph (1), Article 20 paragraphs (1), (2), (4) and (5), Article 33 paragraphs (2) and (3) of the 1945 Constitution as already amended by the Second Amendment to the 1945 Constitution;
2. Stipulation of the People's Consultative Assembly of the Republic of Indonesia Number XV/MPR/1998 concerning the Implementation of Regional Autonomy; Regulation, Distribution, and Exploitation of the National Resources on the Basis of the Principle of Justice; as well as Financial Balance between the Central Government and the Regional Government within the framework of the Unitary State of the Republic of Indonesia.

With the collective approval of

THE HOUSE OF REPRESENTATIVES OF THE REPUBLIC OF INDONESIA

DECIDES :

To promulgate:

LAW ON PETROLEUM AND NATURAL GAS.

CHAPTER I

GENERAL PROVISION

Article 1

Reference to the following under this Law shall mean:

1. Petroleum shall mean the result of the natural process in the form of hydrocarbon that will take the form of a liquid or solid material in a pressurized condition and at an atmosphere temperature, including asphalt, mineral candle or ozokerit and bitumen obtained from the mining process, excluding coal and sediments of other hydrocarbon in the form of a solid material procured during non-Petroleum and Natural Gas business activities.
2. Natural Gas shall mean the products of a natural process in form of hydrocarbon that will take the form of a gas in a pressurized condition and at an atmosphere temperature, which is procured from a Petroleum and Natural Gas mining process.
3. Petroleum and Natural Gas shall mean petroleum and natural Gas.
4. Oil Fuel shall mean the fuel derived and/or processed from Petroleum.
5. Mining Concession shall mean the authority delegated by the State to the Government to carry out Exploration and Exploitation activities.
6. General Survey shall mean field activities comprising the collection, analysis and presentation of data relating to geological condition information to predict the location and potential of Petroleum and Natural Gas resources outside the Working Area.

7. Upstream Business Activities shall mean the business activities focused or based on Exploration and Exploitation business activities.
8. Exploration shall mean the activities aimed at obtaining geological condition information to find and establish an estimate of Petroleum and Natural Gas reserves in the stipulated Working Area.
9. Exploitation shall mean a series of activities aimed to produce Petroleum and Natural Gas from the stipulated Working Area, consisting of drilling and well completion activities, construction of the transport, storage and processing facilities to filter and refine the Petroleum and Natural Gas on the field as well as other supporting activities.
10. Downstream Business Activities shall mean the business activities focused or based on the Processing, Transport, Storage and/or Trading activities.
11. Processing shall mean the refinery, procurement of parts, quality improvement and improving the added value of Petroleum and/or Natural Gas, excluding on-site processing.
12. Transport shall mean the reposition of Petroleum, Natural Gas and/or their processed products from the Working Area or from the storage site and Processing plant, including the transport of Natural Gas through the transmission and distribution pipes.
13. Storage shall mean the receipt, collection, storage and discharge of Petroleum and/or Natural Gas.
14. Trading shall mean the purchase, sales, exportation, and importation of Petroleum, Natural Gas and/or their processed products, including the Trading of Natural Gas through pipelines.
15. Indonesian Mining Jurisdiction shall mean the entire Indonesian mainland, waters and continental shelf territories.
16. Working Area shall mean a certain region within the Indonesian Mining Jurisdiction where the Exploration and Exploitation activities take place.
17. Business Entity shall mean a company in the form of a legal entity that engages in a business on a permanent and continuous basis, and is established in accordance with the prevailing legislation and is domiciled in the territory of the Unitary State of the Republic of Indonesia.
18. Permanent Business Entity shall mean a business entity established in the form of a legal entity outside the territory of the Unitary State of the Republic of Indonesia that engages in activities within the territory of the Unitary State of the Republic of Indonesia and is obliged to comply with the prevailing legislation of the territory of the Unitary State of the Republic of Indonesia.
19. Cooperation Contract shall mean the Production Sharing Contract or other models of Cooperation Contract to engage in the Exploration and Exploitation activities, for the interest of the State and the results of which shall be used to the maximum extent to improve the people's welfare.
20. Business License shall mean the license granted to a Business Entity to Process, Transport, Store and/or Trade with the aim of gaining an advantage and/or profit.

21. Central Government hereinafter referred to as the Government shall mean the instrument of the Unitary State of the Republic of Indonesia consisting of the President and the Ministers.
22. Regional Government shall mean the Head of the Region along with other instruments of an Autonomous Region as the Regional Executive Board.
23. Implementing Agency shall mean the agency established to control the Upstream Business Activities in the Petroleum and Natural Gas sector.
24. Regulatory Board shall mean the board established to regulate and supervise the supply and distribution of Oil Fuel and Natural Gas in the Downstream Business Activities.
25. Minister shall mean the Minister in charge of Petroleum and Natural Gas business activities.

CHAPTER II

PRINCIPLE AND OBJECTIVE

Article 2

The implementation of Petroleum and Natural Gas business activities stipulated under this Law shall be based on the principles of people oriented economy, integration, benefit, justice, balance, equal distribution, collective prosperity and public welfare, security, safety and legal certainty principles as well as environmentally friendly.

Article 3

The implementation of Petroleum and Natural Gas business activities shall be aimed to:

- a. guarantee the effective implementation and control over the Exploration and Exploitation business activities of the state-owned Petroleum and Natural Gas that are strategic and non renewable by nature through an open and transparent mechanism so as it will be effective, efficient, highly competitive and sustainable;
- b. guarantee the effective implementation and control over the Processing, Transport, Storage and Trading businesses based on the principle of accountability and carried out through a reasonable, fair and transparent business competition mechanism;
- c. guarantee the efficient and effective supply of Petroleum and Natural Gas, both as a source of energy and material for the domestic demand;
- d. support and promote the national's capacity to increase its ability to compete nationally, regionally and internationally;
- e. increase the state's income to provide a maximum contribution to the national economy and to develop as well as strengthen the position of industry and trade in Indonesian;
- f. create job opportunities, improve the public welfare and prosperity in a fair and equally distributed manner, while continuously maintaining the preservation of the environment.

CHAPTER III

CONTROL AND CONCESSION

Article 4

- (1) Petroleum and Natural Gas as non-renewable strategic natural-resources that is accommodated within the Indonesian Mining Jurisdiction shall constitute the national assets controlled by the state.
- (2) The state's control as referred to in paragraph (1) shall be carried out by the Government as the holder of the Mining Concession.
- (3) The Government as the holder of the Mining Concession shall establish an Implementing Agency as referred to in Article 1 point 23.

Article 5

Petroleum and Natural Gas business activities shall consist of:

1. Upstream Business Activities, which composed of:
 - a. Exploration;
 - b. Exploitation.
2. Downstream Business Activities which composed of:
 - a. Processing;
 - b. Transport;
 - c. Storage;
 - d. Trade.

Article 6

- (1) The Upstream Business Activities as referred to in Article 5 point 1 shall be carried out and controlled through the Cooperation Contract as referred to in Article 1 point 19.
- (2) The Cooperation Contract as referred to in paragraph (1) shall at least contain the following requirements:
 - a. ownership of the natural resources still lies in the hand of the Government up to the point of delivery;
 - b. control over the operational management shall be held by the Implementing Agency;
 - c. the capital and risks shall be fully borne by the Business Entities or Permanent Business Entities.

Article 7

- (1) The Downstream Business Activities as referred to in Article 5 point 2 shall be carried out by virtue of the Business Licenses as referred to in Article 1 point 20.
- (2) The Downstream Business Activities as referred to in Article 5 point 2 shall be carried out through a reasonable, fair and transparent business competition mechanism.

Article 8

- (1) The Government shall prioritize the Exploitation of Natural Gas for domestic demands and holds the duty of preparing strategic Petroleum reserves to support the supply of Oil Fuel in the country, which shall be further regulated under a Government Regulation.
- (2) The Government shall guarantee the availability and smooth distribution of Oil Fuel, which is a vital commodity and controls the life of the public at large throughout the territory of the Unitary State of the Republic of Indonesia.
- (3) The transportation of Natural Gas through a pipeline that is related to the public interest shall be regulated so that it may be utilized openly by all users.
- (4) The Government shall be responsible for the regulation and supervision over the business activities as referred to in paragraphs (2) and (3), which shall be implemented by the Regulatory Agency.

Article 9

- (1) The Upstream and Downstream Business Activities as referred to in Article 5 points 1 and 2 may be carried out by:
 - a. state-owned enterprises;
 - b. regionally owned enterprises;
 - c. cooperatives;
 - d. small businesses;
 - e. private Business Entities.
- (2) Permanent Business Entities may only carry out Upstream Business Activities.

Article 10

- (1) Business Entities or Permanent Business Entities that engages in Upstream Business Activities shall be prohibited from carrying out Downstream Business Activities.
- (2) Business Entities that engage in Downstream Business Activities may not carry out Upstream Business Activities.

CHAPTER IV

UPSTREAM BUSINESS ACTIVITIES

Article 11

- (1) The Upstream Business Activities as referred to in Article 5 point 1 shall be carried out by Business Entities or Permanent Business Entities pursuant to a Cooperation Contract with the Implementing Agency.
- (2) Every Cooperation Contract that has already been signed shall at least contain the following principal provisions, namely:
 - a. state revenue;
 - b. Working Area and its restoration thereof;
 - c. obligation to disburse funds;
 - d. transfer of ownership over the Petroleum and Natural Gas products;
 - e. period and conditions of the extension of contract;
 - f. settlement of any dispute;
 - g. obligation to supply Petroleum and/or Natural Gas to meet the domestic demand;
 - h. expiration of contract;
 - i. post-mining operation obligations;
 - j. work safety and security;
 - k. environmental management;
 - l. transfer of right and obligation;
 - m. requisite reports;
 - n. field development plan;
 - o. prioritization to utilize domestic goods and services;
 - p. development of the communities in the surrounding areas and guarantee for the rights of the traditional community;
 - q. prioritization for the recruitment of Indonesian workers.

Article 12

- (1) The Working Area to be offered to the Business Entities or Permanent Business Entities shall be stipulated by the Minister after consultation with the Regional Government.
- (2) The proposal of the Working Area as referred to in paragraph (1) shall be made by the Minister.

- (3) The Minister shall stipulate the Business Entities and Permanent Business Entities authorized to undertake the Exploration and Exploitation business activities in the Working Area as referred to in paragraph (2).

Article 13

- (1) Every business entity or Permanent Business Entities shall only be given 1 (one) Working Area.
- (2) In the case a Business Entity or Permanent Business Entity is managing several Working Areas, a separate legal entity shall be established for every Working Area.

Article 14

- (1) The term of the Cooperation Contract as referred to in Article 11 paragraph (1) shall be a maximum of 30 (thirty) years.
- (2) Business Entities or Permanent Business Entities may apply for the extension of the term of the Cooperation Contract as referred to in paragraph (1) for a further maximum period of 20 (twenty) years.

Article 15

- (1) The term of the Cooperation Contract as referred to in Article 14 paragraph (1) shall comprise the Exploration period and Exploitation period.
- (2) The Exploration period as referred to in paragraph (1) shall be 6 (six) years and can only be extended 1 (one) time for a maximum period of 4 (four) years.

Article 16

Business Entities or Permanent Business Entities shall be obliged to gradually restore part or all of their Working Areas to the Minister.

Article 17

Business Entities or Permanent Business Entities that have already secured the initial approval to carry out a field development activity in a Working Area but has not carried out their activities for a maximum period of 5 (five) years as of the date of expiration of the Exploration period shall be obliged to restore their entire Working Area to the Minister.

Article 18

The guidance, procedure and requirements for the Cooperation Contract, stipulation and proposal of Working Areas, the amendment and extension of the Cooperation Contract as well as the restoration of the Working Areas as referred to in Articles 11, 12, 13, 14, 15, 16 and 17 shall be further stipulated under a Government Regulation.

Article 19

- (1) To support the preparation of the Working Area as referred to in Article 12 paragraph (1), a General Survey shall be carried out with or by virtue of a permit from the Government.

- (2) The procedure and requirement for the implementation of the General Survey as referred to in paragraph (1) shall be further stipulated under a Government Regulation.

Article 20

- (1) The data procured from the General Survey and/or Exploration and Exploitation shall mean the state's property controlled by the Government.
- (2) The data procured by the Business Entities or Permanent Business Entities in their Working Areas can be used by the said Business Entities or Permanent Business Entities for the duration of the Cooperation Contract.
- (3) Should the Cooperation Contracts expire, the Business Entities or Permanent Business Entities shall be obliged to hand over all of the procured during the period of the Cooperation Contract to the Minister via the Implementing Agency.
- (4) The confidentiality of the data procured by the Business Entities or Permanent Business Entities in their Working Areas shall be valid for the specified period.
- (5) The Government shall regulate, manage and utilize the data as referred to in paragraphs (1) and (2) to plan the preparation for the opening of the Working Areas.
- (6) The implementation of the provisions on ownership, utilization period, confidentiality, management and utilization of the data as referred to in paragraphs (1), (2), (3), (4) and (5) shall be further stipulated under a Government Regulation.

Article 21

- (1) The field development plan that will initial be used for production activities in a Working Area should be approved by the Minister based on the considerations of the Implementing Agency after consulting with the relevant Provincial Government.
- (2) In developing and producing the Petroleum and Natural Gas fields, the Business Entities or Permanent Business Entities shall be obliged to optimize and execute them in accordance with proper technical principles.
- (3) Provisions on field development, production of the Petroleum and Natural Gas reserves, and provisions on the technical principles as referred to in paragraphs (1) and (2) shall be further stipulated under a Government Regulation.

Article 22

- (1) The Business Entities or Permanent Business Entities shall hand over a maximum of 25% (twenty five percent) of their portion from the Petroleum and/or Natural Gas production to meet the domestic demand.
- (2) The implementation of the provisions as referred to in paragraph (1) shall be further stipulated under a Government Regulation.

CHAPTER V

DOWNSTREAM BUSINESS ACTIVITIES

Article 23

- (1) The Downstream Business Activities as referred to in Article 5 paragraph (2) may be carried out by Business Entities after securing a business license from the Government.
- (2) The business license required to implement the Petroleum and/or Natural Gas business activities as referred to in paragraph (1) shall be distinguished as follows:
 - a. Processing License;
 - b. Transport License;
 - c. Storage License;
 - d. Trading License.
- (3) Every business entity may be given more than 1 (one) business license to the extent that they do not contradict the provisions of the prevailing legislation.

Article 24

- (1) The business licenses as referred to in Article 23 shall contain at least the following:
 - a. name of the operator;
 - b. type of the business granted;
 - c. obligations during the business operation;
 - d. technical requirements.
- (2) Every business license that has been granted as referred to in paragraph (1) can only be used in accordance to its designation.

Article 25

- (1) The Government may issue a written reprimand, suspend activities, freeze activities or revoke the business licenses as referred to in Article 23 on the basis of:
 - a. violation against any of the requirements stated in the Business License;
 - b. repeat violation against the Business License requirements;
 - c. failure to meet the requirements stipulated under this Law.
- (2) Before revoking the business licenses as referred to in paragraph (1), the Government shall first provide opportunities for the Business Entities to remedy the existing violation or fulfill the stipulated requirements during a certain period.

Article 26

The field processing, transport and sales of production activities carried out to follow up the Exploration and Exploitation activities carried out by the Business Entities or Permanent Business Entities shall not require any separate business licenses as referred to in Article 23.

Article 27

- (1) The Minister shall stipulate the national master plan for the transmission and distribution of natural gas.
- (2) The Business Entities holding a Business License to Transport Natural Gas through pipeline can only be given certain transport segments.
- (3) The Business Entities holding a Business License to Transport Natural Gas through pipeline can only be given certain Trading areas.

Article 28

- (1) Oil Fuel and certain processed products that are marketed in the country to meet the public demands shall comply with the standards and quality stipulated by the Government.
- (2) The Oil Fuel and Natural Gas prices shall rely on the fair and reasonable business competition mechanism.
- (3) The implementation of the pricing policy as referred to in paragraph (2) shall not reduce the social responsibility of the Government towards certain community groups.

Article 29

- (1) In regions where there are scarce amounts of Oil Fuel and in the remote areas, the Transport and Storage facilities, including their supporting facilities can be utilized collectively with other parties.
- (2) The utilization of the facilities as referred to in paragraph (1) shall be regulated by the Implementing Agency by continuously observing the technical and economic aspects.

Article 30

Provisions on the Processing, Transport, Storage and Trading businesses as referred to in Articles 23, 24, 25, 26, 27, 28 and 29 shall be further stipulated under a Government Regulation.

CHAPTER VI

STATE REVENUE

Article 31

- (1) The Business Entities or Permanent Business Entities engaging in the Upstream Business Activities as referred to in Article 11 paragraph (1) shall pay state revenues in the form of taxes and Non-Tax State Revenues.
- (2) State Revenues in the form of taxes as referred to in paragraph (1) shall consist of: taxes; import duty, and other levies on the import and excise; regional taxes and levies.
- (3) Non-Tax State Revenues as referred to in paragraph (1) shall consist of: state portion; state levies in the form of fixed contribution and Exploration and Exploitation contributions; bonuses.

- (4) The Cooperation Contract shall stipulate that the obligation to pay tax as referred to in paragraph (2) point a shall be carried out in accordance with: the provisions of taxation laws applying upon the signing of the Cooperation Contract; or the provisions of prevailing taxation laws and regulations.
- (5) Provisions on the stipulation of the amounts of the state portion, state levies and bonuses as referred to in paragraph (3) as well as the procedures for the deposits thereof shall be further stipulated under a Government Regulation.
- (6) The Non-Tax State Revenues as referred to in paragraph (3) shall mean the revenue of the Central Government and Regional Governments, of which distribution shall be stipulated in accordance with provisions of the prevailing legislation.

Article 32

The Business Entities undertaking the Downstream Business Activities as referred to in Article 22 shall pay taxes, import duty and other levies on importation, excise, regional taxes and regional levies as well as other liabilities in accordance with the prevailing legislation.

CHAPTER VII

THE RELATION BETWEEN PETROLEUM AND NATURAL GAS WITH LAND TITLE

Article 33

- (1) The Petroleum and Natural Gas business activities as referred to in Article 5 shall be carried out within the Indonesian Mining Jurisdiction.
- (2) Rights over the Working Areas shall not comprise surface land rights.
- (3) Petroleum and Natural Gas business activities cannot be carried out in:
 - a. cemeteries, places that are considered sacred, public places, public facilities and infrastructures, nature preserve, cultural preserve as well as land belonging to the traditional community;
 - b. state defense fields and buildings as well as the land in the surrounding areas;
 - c. historic building and state symbols;
 - d. buildings, residences or factories along with the yards in the surrounding areas, except a permit from Government institutions, approval from the community, and individuals pertaining to the said matter.
- (4) The Business Entities or Permanent Business Entities that intends to undertake an activity may remove the buildings, public places, public facilities and infrastructures as referred to in paragraph (3) points a and b after first securing licenses from the authorized Government institutions.

Article 34

- (1) In the event the Business Entities or Permanent Business Entities intends to use the land rights or state lands within their Working Areas, the relevant Business Entities or

Permanent Business Entities shall first enter into a settlement with the holders of such rights or users of such state lands in accordance with the prevailing legislation.

- (2) The settlement as referred to in paragraph (1) shall be carried out by means of deliberation to reach a consensus through a sale and purchase transaction, the grant of a reasonable compensation, recognition or other forms of compensation to the holder of such right or users of such state lands.

Article 35

Land title holders shall be obliged to allow the Business Entities or Permanent Business Entities to carry out the Exploration and Exploitation activities on the relevant land if:

- a. prior to commencing the activities, the Business Entities or Permanent Business Entities has first shown a Cooperation Contract or their valid copies, and has notified their intention and the place where the activities shall be carried out;
- b. the Business Entities or Permanent Business Entities shall first enter into a settlement or a settlement guarantee approved by the holder of such rights or users of such state lands as referred to in Article 34.

Article 36

- (1) In the event the Business Entities or Permanent Business Entities have already been given a Working Area, then with respect to the lands that will be used directly for Petroleum and Natural Gas business activities along with their safety areas, a utilization right shall be granted in accordance with the provisions of the prevailing legislation and they shall be obliged to maintain and secure the land plots.
- (2) In the event the Working Area that has been granted as referred to in paragraph (1) comprises a wide area over the state land, then the land plots that are not used for such Petroleum and Natural Gas business activities may be given to other parties by the minister in charge of the agrarian affairs or land affairs by prioritizing the local community after securing a recommendation from the Minister.

Article 37

The provision on the procedures for the settlement pertaining to the utilization of land rights or state lands as referred to in Article 35 shall be further regulated under a Government Regulation.

CHAPTER VIII

FOSTERING AND SUPERVISION

Part One

Fostering

Article 38

The Petroleum and Natural Gas business activities shall be fostered by the Government.

Article 39

- (1) The fostering activity as referred to in Article 38 shall comprise:
 - a. implementation of the Government's affairs in the Petroleum and Natural Gas sector;
 - b. the stipulation of policies on Petroleum and Natural Gas business activities shall be based on the existing Petroleum and Natural Gas reserves and potentials, production capacity, domestic demand for Oil Fuel and Natural Gas, proficiency in technology, environmental aspect and environmental conservation, national capacity and development policies.
- (2) The fostering activity as referred to in paragraph (1) shall be applied carefully, transparently and fairly in the implementation of the Petroleum and Natural Gas business activities.

Article 40

- (1) The Business Entities or Permanent Business Entities shall guarantee that the applying standard and quality shall conform to the provisions of the prevailing legislation and implements proper technical principles.
- (2) Business Entities or Permanent Business Entities shall guarantee the work safety and security as well as the environmental management and abide by the provisions of the prevailing legislation on the Petroleum and Natural Gas business activities.
- (3) The environmental management as referred to in paragraph (2) shall constitute the obligation to prevent and overcome pollution as well as to restore the environmental damages, including the post-mining operation obligation.
- (4) The Business Entities or Permanent Business Entities undertaking the Petroleum and Natural Gas business activities as referred to in Article 5 shall prioritize the use of local manpower, goods and services as well as the reengineering capability and design & construction and engineering capacities in a transparent and competitive manner.
- (5) The Business Entities or Permanent Business Entities undertaking the Petroleum and Natural Gas business activities as referred to in Article 5 shall also be responsible for the development of the environment and local community.
- (6) Provisions on work safety and security as well as environmental management as referred to in paragraphs (1) and (2) shall be further stipulated under a Government Regulation.

Part Two

Supervision

Article 41

- (1) Responsibility to supervise the job and the implementation of the Petroleum and Natural Gas business activities in regard to its compliance to the provisions of the prevailing legislation shall lie with the department whose duties and authority comprise the Petroleum and Natural Gas business activities and other relevant ministries.

- (2) Supervision over the implementation of the Upstream Business Activities pursuant to a Cooperation Contract shall be carried out by the Implementing Agency.
- (3) Supervision over the implementation of the Downstream Business Activities by virtue of a business license shall be carried out by the Implementing Agency.

Article 42

The supervision as referred to in Article 41 paragraph (1) shall include:

- a. conservation of Petroleum and Natural Gas resources and reserves;
- b. data management on Petroleum and Natural Gas;
- c. implementation of proper technical principles;
- d. types and quality of the Petroleum and Natural Gas products;
- e. allocation and distribution of Oil Fuel and raw materials;
- f. work safety and security;
- g. environmental management;
- h. utilization of domestic goods, services, and reengineering capability and design & construction;
- i. employment of foreign manpower;
- j. development of Indonesian manpower;
- k. development of the local environment and community;
- l. proficiency, development and application of the Petroleum and Natural Gas technology;
- m. other activities in the Petroleum and Natural Gas sector to the extent that they are not related to public interests.

Article 43

Provisions on the fostering and supervision activities as referred to in Articles 38, 39, 41 and 42 shall be further stipulated under a Government Regulation.

CHAPTER IX

IMPLEMENTING AGENCY AND REGULATORY AGENCY

Article 44

- (1) The supervision over the implementation of a Joint Operation Contract for the Upstream Business Activity as referred to in Article 5 point 1 shall be carried out by the Implementing Agency as referred to in Article 4 paragraph (3).

- (2) The Implementing Agency as referred to in paragraph (1) shall supervise the Upstream Business Activities so as the exploitation of Petroleum and Natural Gas resources belonging to the state can generate maximum benefit and revenue to the state for the maximum benefits of the community.
- (3) The duties of the Implementing Agency as referred to in paragraph (1) shall be as follows:
 - a. providing considerations to the Minister in regard to the preparation and proposal of the Working Areas as well as the Cooperation Contract;
 - b. signing the Cooperation Contract;
 - c. assessing and conveying the field development plans that will initially be produced in a Working Area to the Minister for his approval;
 - d. approving field development plans other than those referred in point c;
 - e. approving work plans and budgets;
 - f. monitoring and providing a report on the implementation of the Cooperation Contract to the Minister;
 - g. appoints a Petroleum and/or Natural Gas seller for the state's portion that may generate maximum profit for the state.

Article 45

- (1) The Implementing Agency as referred to in Article 4 paragraph (3) shall take the form of a state owned legal entity.
- (2) The Implementing Agency shall consist of managerial elements, experts, technical personnel and administrative personnel.
- (3) The head of the Implementing Agency shall be appointed and dismissed by the President after consulting with the House of Representatives of the Republic of Indonesia and be accountable to the President in executing his/her duties.

Article 46

- (1) Supervision over the supply and distribution of Oil Fuel and the Transport of Natural Gas through the pipeline shall be carried out by the Regulatory Agency as referred to in Article 8 paragraph (4).
- (2) The Regulatory Agency as referred to in paragraph (1) shall establish a regulation so that the supply and distribution of Oil Fuel and Natural Gas stipulated by the Government can be guaranteed throughout the territory of the Unitary State of the Republic of Indonesia and increase the domestic utilization of the Natural Gas.
- (3) The duties of the Regulatory Agency as referred to in paragraph (1) shall comprise the task of regulating and stipulating the following matters:
 - a. supply and distribution of Oil Fuel;
 - b. national Oil Fuel reserves;

- c. utilization of the facility to transport Oil Fuel and Store Oil Fuel;
 - d. tariff to transport Natural Gas through a pipeline;
 - e. selling price of the Natural Gas to households and small-scale customers;
 - f. the transmission and distribution of the Natural Gas.
- (4) The duties of the Implementing Agency as referred to in paragraph (1) shall also comprise the task of supervising the sectors as referred to in paragraph (3).

Article 47

- (1) The structure of the Regulatory Agency as referred to in Article 8 paragraph (4) shall consist of a committee and a division.
- (2) The committee as referred to in paragraph (1) shall comprise of 1 (one) chairman that also serve as a member and 8 (eight) members, who are selected from the professional circle.
- (3) The chairman and members of the Regulatory Agency Committee as referred to in paragraph (1) shall be appointed and dismissed by the President after securing the approval of the House of Representative of the Republic of Indonesia.
- (4) The Regulatory Agency as referred to in Article 8 paragraph (4) shall be accountable to the President.
- (5) The establishment of the Regulatory Agency as referred to in Article 8 paragraph (4) shall be stipulated under a Presidential Decree.

Article 48

- (1) The budget with respect to the operational costs of the Implementing Agency as referred to in Article 45 shall be based on the fees of the Government in accordance to the prevailing legislation.
- (2) The budget with respect to the operational costs of the Regulatory Agency as referred to in Article 46 shall be based on the State Revenue and Expense Budget and contributions from the Business Entities that are regulated under it in accordance with prevailing legislation.

Article 49

The provisions on the organizational structures, status, function, duties, personnel, authority and responsibility as well as the working mechanism of the Implementing Agency and the Regulatory Agency as referred to in Articles 41, 42, 43, 44, 45, 46, 47 and 48 shall be further stipulated under a Government Regulation.

CHAPTER X

INVESTIGATION

Article 50

- (1) In addition to Investigators from the Police of the Republic of Indonesia, certain Civil Servant Officials within the department in charge of Petroleum and Natural Gas business activities shall be granted a special authority to act as investigators as referred to in Law Number 8 of 1981 concerning the Code of Criminal Procedure to investigate crimes in the Petroleum and Natural Gas sector.
- (2) Civil Servant Investigators as referred to in paragraph (1) shall be authorized to:
 - a. conducts an examination to certify the reports and information received pertaining to crimes in the Petroleum and Natural Gas sector;
 - b. investigates the individuals or entities that are alleged to have committed crimes in Petroleum and Natural Gas sector;
 - c. summons individuals to testify and examine them as witnesses or suspects in the Petroleum and Natural Gas sector;
 - d. conducts a raid on the places and/or facilities that allegedly have been used to commit crimes in the Petroleum and Natural Gas sector;
 - e. inspects the facilities and infrastructures of the Petroleum and Natural Gas business activities and discontinues the utilization of the equipments that allegedly have been used in committing the said crimes;
 - f. sealing and/or confiscating the equipments used in the Petroleum and Natural Gas business activities that were used to commit the said crimes as evidences;
 - g. invites the necessary experts in connection to the investigation of the crimes in the Petroleum and Natural Gas sector;
 - h. discontinues the criminal investigation in the Petroleum and Natural Gas sector.
- (3) The Civil Servant Investigators as referred to in paragraph (1) shall provide a notification on the commencement of a criminal investigation to the Police of the Republic of Indonesia in accordance with the provisions of prevailing legislation.
- (4) The investigators as referred to in paragraph (1) shall be obliged to discontinue the investigation in the event there is no sufficient evidence to the events as referred to in paragraph (2) and/or such event does not constitute a crime.
- (5) The authority as referred to in paragraph (2) shall be exercised in accordance with the provisions of the prevailing legislation.

CHAPTER XI

CRIMINAL PROVISION

Article 51

- (1) Any person who has unrightfully undertaken the General Survey as referred to in Article 19 paragraph (1) shall be subjected to a maximum jail sentence of 1 (one) year or a maximum fine of Rp. 10.000.000.000,00 (ten billion rupiah).

- (2) Any person who has unrightfully delivered or handed over or transferred the data as referred to in Article 20 in any form whatsoever shall be subjected to a maximum jail sentence of 1 (one) year or a maximum fine of Rp. 10.000.000.000,00 (ten billion rupiah).

Article 52

Any person who has carried out an Exploration and/or Exploitation activity without any Cooperation Contract as referred to in Article 11 paragraph (1) shall be subjected to a maximum jail sentence of 6 (six) years or a maximum fine of Rp. 60.000.000.000,00 (sixty billion rupiah).

Article 53

Any person who undertakes:

- a. The processing activity as referred to in Article 23 without any Processing License shall be subjected to a maximum jail sentence of 5 (five) years or a maximum fine of Rp. 50.000.000.000,00 (fifty billion rupiah).
- b. The transporting activity as referred to in Article 23 without a Transport License shall be subjected to a maximum jail sentence of 4 (four) years or a maximum fine of Rp. 40.000.000.000,00 (forty billion rupiah).
- c. The storage activity as referred to in Article 23 without a Storage License shall be subjected to a maximum jail sentence of 3 (three) years or a maximum fine of Rp. 30.000.000.000,00 (thirty billion rupiah).
- d. The trading activity as referred to in Article 23 without a Trading License shall be subjected to a maximum jail sentence of 3 (three) years or a maximum fine of Rp. 30.000.000.000,00 (thirty billion rupiah).

Article 54

Any person who have produced bootleg or false Oil Fuel and Natural Gas and the processed products thereof as referred to in Article 28 paragraph (1) shall be subjected to a maximum jail sentence of 6 (six) years or a maximum fine of Rp. 60.000.000.000,00 (sixty billion rupiah).

Article 55

Any person who have misused the Transport and/or Trade of Oil Fuel that is subsidized by the Government shall be subjected to a maximum jail sentence of 6 (six) years or a maximum fine of Rp. 60.000.000.000,00 (sixty billion rupiah).

Article 56

- (1) In the event the crimes as referred to in this Chapter has been committed for and on behalf of a Business Entity or Permanent Business Entity, the charges and sentence shall be imposed on the Business Entity or Permanent Business Entity and/or their caretakers.
- (2) In the event the crimes were committed by a Business Entity or Permanent Business Entity, a criminal fine shall be imposed on the said Business Entities or Permanent Business Entities, under the condition that it shall not exceed the maximum fine for the crimes plus one thirds of the fine.

Article 57

- (1) The crimes as referred to in Article 51 shall constitute violations.
- (2) The crimes as referred to in Articles 52, 53, 54 and 55 shall constitute crimes.

Article 58

In addition to the criminal provisions as referred to in this Chapter, additional sentence may be given in the form of the revocation of right or seizure of goods used for and procured from the crimes in the Petroleum and Natural Gas sector.

CHAPTER XI

TRANSITIONAL PROVISION

Article 59

Upon the enactment of this law:

- a. within a maximum period of 1 (one) year, the Implementing Agency shall be established;
- b. within a maximum period of 1 (one) year, the Regulatory Agency shall be established.

Article 60

Upon the enactment of this law:

- a. within a maximum period of 2 (two) years, Pertamina's status shall be converted to a State Limited Liability Company (Persero) by virtue of a Government Regulation;
- b. during the period where the State Limited Liability Company as referred to in paragraph (1) has not been established yet, Pertamina, which was established pursuant to the Law Number 8 of 1971 (State Gazette of 1971 Number 76, Supplement to State Gazette Number 2971) shall be obliged to carry out the Petroleum and Natural Gas business activities as well as to regulate and manage the assets, personnel and other important matters that are necessary;
- c. upon the establishment of the new State Limited Liability Company, Pertamina's obligation as referred to in point b shall be assigned to the relevant State Limited Liability Company.

Article 61

Upon the enactment of this law:

- a. Pertamina shall continue to execute the task and function of supervising the Exploration and Exploitation operations by the contractors, including the Production Sharing Contractors up to the establishment of the Implementing Agency;
- b. upon the establishment of the State Limited Liability Company to replace Pertamina, the said state-owned enterprise shall be obliged to establish a Cooperation Contract with the Implementing Agency to continue the Exploration and Exploitation activity in the Pertamina's ex-Mining Concession areas and is deemed to have secured the business

licenses as referred to in Article 24, required to carry out the Processing, Transportation, Storage and Commercial businesses.

Article 62

Upon the enactment of this Law, Pertamina shall continue to supply and provide Oil Fuel service to fulfill the domestic demand for a maximum period of 4 (four) years.

Article 63

Upon the enforcement of this law:

- a. upon the establishment of the Implementing Agency, all of the rights, obligations and consequences resulting from the Production Sharing Contract between Pertamina and other parties shall be assigned to the Implementing Agency.
- b. upon the establishment of the Implementing Agency, other contracts relating to the contracts as referred to in point a between Pertamina and other parties shall be assigned to the Implementing Agency.
- c. all contracts as referred to in points a and b shall be declared to remain effective up to the expiration of the relevant contracts;
- d. the rights, obligations and consequences resulting from the contracts, agreements or commitments other than those mentioned in points a and b shall continue to be exercised by Pertamina up to the establishment of Persero set up for such purpose and be assigned to the said State Owned Limited Liability Company;
- e. the negotiations between Pertamina and other parties within the framework of a Exploration and Exploitation cooperation shall be assigned to the Minister.

Article 64

Upon the enforcement of this law:

- a. state-owned enterprises other than Pertamina, that engages in the Petroleum and Natural Gas businesses shall be considered to have already secured the Business License as referred to in Article 23;
- b. the development activities that are being carried out by the state-owned enterprises during the valid period of this Law as referred to in point a shall upon the enactment of this Law continue to be carried out by the state-owned enterprises;
- c. no later than a period of 1 (one) year, the state-owned enterprises as referred to in point a shall be obliged to establish a Business Entity to undertaking their business activities in accordance to the provisions of this Law;
- d. the contracts or agreements between the state-owned enterprises as referred to in point a and the other parties shall remain effective up to the expiration of the relevant contracts or agreements.

CHAPTER XIII

MISCELLANEOUS

Article 65

This law shall apply to the Petroleum and Natural Gas business activities, other than those mentioned in Article 1 points 1 and 2, providing that they have not or are not regulated under other Laws.

CHAPTER XIV

CONCLUSION

Article 66

- (1) Upon the enforcement of this Law, the following are declared to be no longer effective:
 - a. Law Number 44 Prp of 1960 concerning Petroleum and Natural Gas Mining (State Gazette of 1960 Number 133, Supplement to State Gazette Number 2070);
 - b. Law Number 15 of 1962 concerning the Stipulation of Government Regulation to Replace Law Number 2 of 1962 concerning the Obligation of Oil Companies To Meet the Domestic Demands (State Gazette of 1962 Number 80, Supplement to State Gazette Number 2505);
 - c. Law Number 8 of 1971 concerning State-Owned Oil and Gas Mining Companies (State Gazette of 1971 Number 76, Supplement to State Gazette Number 2971) along with any amendments thereof, lastly amended by Law Number 10 of 1974 (State Gazette of 1974 Number 3045);
- (2) All of the implementing regulations for Law Number 44 Prp of 1960 concerning Petroleum and Natural Gas Mining (State Gazette of 1960 Number 133, Supplement to State Gazette Number 2070) and Law Number 8 of 1971 on State-Owned Oil and Gas Mining Company (State Gazette of 1971 Number 76, Supplement to State Gazette Number 2971) shall remain effective providing that they do not contradict or have not yet been replaced by new regulations pursuant to this Law.

Article 67

This law shall enter into force as of the date of promulgation.

For everyone to take cognizance thereof, this Law shall be promulgated by placing it in State Gazette of the Republic of Indonesia.

Ratified in Jakarta

On November 23, 2001

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

[signed]

MEGAWATI SOEKARNOPUTRI

Promulgated in Jakarta

On November 23, 2001

THE SECRETARY OF STATE

[signed]

BAMBANG KESOWO

STATE GAZETTE OF THE REPUBLIC OF INDONESIA OF 2001 NUMBER 136

ELUCIDATION ON LAW NUMBER 22/2001
CONCERNING
PETROLEUM AND NATURAL GAS

GENERAL

Article 33 paragraphs (2) and (3) of the 1945 Constitution affirms that the state controls the branches of production that are deemed important for the state and controls the life of public at large. The same also applies to the earth and water as well as the natural resources contained within to be used for the maximum welfare and prosperity of the people. In view of the fact that Petroleum and Natural Gas are non-renewable strategic natural resources that is controlled by the state and constitutes a vital commodity that plays an important role in supplying raw materials for industries, fulfilling the domestic demand for energy and constitutes an important source of foreign exchange revenues, it is important that they be managed optimally so that they can be used for the maximum welfare and prosperity of the people.

Within the framework of complying with the provisions of the 1945 Constitution, and after four decades as of the enactment Law Number 44 Prp. of 1960 concerning Petroleum and Natural Gas Mining and Law Number 8 of 1971 concerning State-Owned Oil and Natural Gas Mining Company, various obstacles were discovered during the implementation due to the fact that the material substances of the two Laws are no longer suitable to meet the current and future demands.

In facing the global demands and challenges in the future, there is a demand for the Petroleum and Natural Gas sector to improve their capability in supporting the sustainability of the national development within the framework of improving the people's prosperity and welfare.

Based on the above, it is deemed necessary to formulate a law on Petroleum and Natural Gas to provide the legal foundation for the steps to renew and rearrange the Petroleum and Natural Gas business activities.

The following is the objectives based on which this Law was formulated:

1. realization and control over the Petroleum and Natural Gas as natural resources and development resources that are strategic and vital in nature;
2. supporting and developing the national ability to compete;
3. increasing the state revenue and providing maximum contribution to the national economy, developing and strengthening the industries and trade in Indonesia;
4. creating job opportunities, repairing the environment and improving the people's prosperity and welfare.

This Law sets out the principal substance that has stated that the Petroleum and Natural Gas as strategic natural resources contained within the Indonesian Mining Jurisdiction are national assets controlled by the state and implemented by the Government as the holder of the Mining Concession in the Upstream Business Activities. The Downstream Business Activities may be carried out after securing a business license from the Government.

To ensure that the Government's function as a regulator, fostering agency and supervisor can be carried out more efficiently, an Implementing Agency is established for the Upstream Business Activities and a Regulatory Agency is established for the Downstream Business Activities.

ARTICLE BY ARTICLE

Article 1

Sufficiently clear

Article 2

Sufficiently clear

Article 3

Sufficiently clear

Article 4

Paragraph (1)

Based on the spirit of Article 33 paragraph (3) of the 1945 Constitution, Petroleum and Natural Gas as strategic natural resources contained within the earth comprised in the Indonesian Mining Jurisdiction constitutes a national asset controlled by the state. The control executed by the state as referred in the above is intended so that the said state assets can be utilized for the maximum welfare of the entire Indonesian people. Therefore, individuals, communities and business players, although they possess rights over a land surface, shall not be entitled to control or own the Petroleum and Natural Gas contained within the land.

Paragraph (2)

Sufficiently clear

Paragraph (3)

Sufficiently clear

Article 5

Point (1)

Sufficiently clear

Point (2)

In this provision, the term Trade shall include the Trade of Natural Gas both through transmission and distribution pipelines.

Article 6

Paragraph (1)

In addition to complying with the prevailing legislation, the Business Entities or Permanent Business Entities must also abide to certain obligations in executing their business activities.

Paragraph (2)

In this provision, the Cooperation Contracts shall take the form of a production sharing contract and other Exploration and Exploitation contracts that are more beneficial to the state.

Furthermore, reference to the following in this contract shall mean:

1. Point of Delivery shall mean the point of sale of the Petroleum and Natural Gas.
2. Control over the operational management shall mean the grant of approval over the working plans and budget, field development plans as well as supervision over the realization of the said plans.
3. Capital and risks fully borne by the Business Entities or Permanent Business Entities shall mean that in this Cooperation Contract, the Government through the Implementing Agency pursuant to this law shall not be allowed to invest and bear any financial risks in the implementation of the Cooperation Contract.

Article 7

Paragraph (1)

Sufficiently clear

Paragraph (2)

Implementation through a reasonable, fair and transparent business competition mechanism shall not be construed as a waiver of the Government's social responsibility.

Article 8

Paragraph (1)

The Government Regulation as an implementation of this provision shall contain, among others, the following principal substance: prioritization in the utilization the of Natural Gas, quantity, type and locations of strategic Petroleum reserves.

Paragraph (2)

The Government shall be obliged to maintain a sufficient supply of Oil Fuel to meet the demands throughout the country, including the remote areas, and also maintain a national reserve in a sufficient quantity for a certain period.

Paragraph (3)

Since the Natural Gas pipe network constitutes a facility that is naturally monopolistic, the utilization thereof needs to be regulated and supervised within the framework of guaranteeing an equal service treatment for all of the users.

Furthermore, reference to public interest in this provision shall mean the interests of producers, consumers and other communities connected to the transport of Natural Gas.

Paragraph (4)

Sufficiently clear

Article 9

Paragraph (1)

This provision is intended to open maximum opportunities for the Business Entities, be it large-scale, medium-scale and small-scale Business Entities, to engage in the Upstream Business Activities and Downstream Business Activities at an operational scale that is based on the financial and technical capability of the said Business Entities.

Paragraph (2)

Most of the high-risk upstream business-activities are carried out by international companies that have an extensive international network. In order to create a investment climate that is conducive to investments, including foreign investment, an opportunity that does not require a Business Entity to be established is provided.

Article 10

Paragraph (1)

Bearing in mind that the Upstream Business Activities are activities carried out to extract non-renewable natural resources that are classified as state assets, the state must gain maximum benefit for the people's prosperity from the said activities.

The Downstream Business Activities are an activity that in general is deemed as a business activity, in which the production costs and potential risks cannot be imposed (consolidated) to the costs of Upstream Business Activities. The restriction to consolidate the cost of the Upstream and Downstream Business Activities is also aimed to ensure transparency in regard to the distribution of revenues between the Central Government and the Regional Government as referred to in Article 31 paragraph (6).

In the event the Business Entities are concurrently engaging in the Upstream and Downstream Business Activities, they must establish a separate legal entity, among others in the form of a Holding Company.

Paragraph (2)

Sufficiently clear

Article 11

Paragraph (1)

The Government sets forth the obligations under a Cooperation Contract so that the Government is able to exercise control over the Upstream Business Activities through

the requirements under the said Cooperation contract and the prevailing legislation as referred to in Article 6 paragraph (1)

Paragraph (2)

A copy of every Cooperation Contract that has already been approved and signed by the two parties must be delivered to the Commission of the House of Representatives of the Republic of Indonesia that is in charge of Petroleum and Natural Gas affairs.

Paragraph (3)

This provision is intended to provide legal certainty for the parties who have entered into the Cooperation Contract.

Article 12

Paragraph (1)

Consultation with the Regional Government is carried out to provide explanations and obtain information pertaining to the proposal plans of certain regions that are deemed to hold contain Petroleum and Natural Gas resource potentials to become Working Areas.

Consultation with the Regional Government shall be carried out with the Governor who resides over the Regional Government's administration in accordance to the provisions of the Law on Regional Government.

Paragraph (2)

In its implementation, the Minister shall coordinate with the Implementing Agency.

Paragraph (3)

In its implementation, the Minister shall coordinate with the Implementing Agency

Article 13

Paragraph (1)

Sufficiently clear

Paragraph (2)

This provision is intended to avoid the consolidation of encumbrances and/or reimbursement for the Exploration and Exploitation costs in a Working Area by another Working Area.

This provision is also intended to prevent unclear distribution of revenue between the Central Government and the respective Regional Governments in relation to the said Working Areas.

Article 14

Sufficiently clear

Article 15

Paragraph (1)

Sufficiently clear

Paragraph (2)

In the event that during the Exploration period the Business Entities or Permanent Business Entities has not discovered any Petroleum and/or Natural Gas reserves that may be produced during the Exploration period, they must return the entire Working Areas.

Article 16

This provision is intended to ensure that part and/or the entire Working Areas that are not used can be offered to other parties as new Working Areas.

Therefore, the Government can obtain optimal results from the utilization of the natural resources potentials in a Working Area.

Article 17

Sufficiently clear

Article 18

The Government Regulation as the implementing regulation for this provision shall contain, among others, the following principal substances: the terms and conditions for the Cooperation Contract, the requirements and procedures for the stipulation and proposal of Working Areas, extension of the Cooperation Agreement, stipulation and restoration of Working Areas.

Article 19

Paragraph (1)

Sufficiently clear

Paragraph (2)

The Government Regulation on the General Survey shall contain, among others, the following principal substances: the implementation of the General Survey, types of activities, schedule of implementation, implementation procedure, and processing the data produced by the survey.

Article 20

Paragraph (1)

Sufficiently clear

Paragraph (2)

Sufficiently clear

Paragraph (3)

Sufficiently clear

Paragraph (4)

The data or information pertaining to the underground condition from the results of the investment carried out by the Business Entities or Permanent Business Entities cannot be directly disclosed to the public to protect their investment interests.

The said data can be disclosed after a certain period and the parties who hold interest on the said data may use them.

The period of confidentiality with respect to the data relies on the type and classifications of such data.

Paragraph (5)

Sufficiently clear

Paragraph (6)

The Government Regulation as the implementing regulation for this provision shall contain, among others, the following principal substances: the authority and responsibility of the Government, types of data, classifications and periods of confidentiality, data administration and maintenance as well as the utilization periods and the return of such data.

Article 21

Paragraph (1)

The Minister's approval in this provision is required bearing in mind that the initial field development in a Working Area shall determine whether the Working Area shall be returned or continue to be operated by the Business Entity or Permanent Business Entity.

Approval on the subsequent plan to develop the fields in the Working Area will be granted by the Implementing Agency.

Reference to consultation with the Regional Governments as referred to in this provision is required to ensure that the proposed plans to develop the fields can be coordinated with the Regional Government for the Provincial Area particularly with respect to the regional space administration plans and regional revenue plans from the Petroleum and Natural Gas sector in the said region in accordance with the prevailing legislation.

Paragraph (2)

This provision is intended to ensure that the Business Entities or Permanent Business Entities observes the optimization and conservation of the Petroleum and Natural Gas reserves in exploiting the Petroleum and Natural Gas and executes it in accordance to the proper technical principles.

Paragraph (3)

The Government Regulation as the implementing regulation for this provision shall contain, among others, the following principal substances: the field development types and plans, technical principles, obligations to submit reports as well as the procedures to obtain an approval for the field development plans.

Article 22

Paragraph (1)

This provision is intended to guarantee the availability of the Petroleum and Natural Gas supply produced from the areas within the Indonesia Mining Jurisdiction to meet the domestic demand for fuel. The term maximum delivery of 25% (twenty five percent) of the portion from the Petroleum and/or Natural Gas product in this provision shall mean to ensure that if a Working Area produces Petroleum and Natural Gas, the Business Entities or Permanent Business Entities shall then be obliged to deliver a maximum of 25% (twenty five percent) of its portion from the Petroleum production and a maximum of 25% (twenty five percent) of its portion from the Natural Gas production.

Paragraph (2)

The Government Regulation as referred to in this provision shall contain, among others, the following principal substances: the condition of the domestic demands, the implementation mechanism and price stipulation as well as the policy to grant incentives in relation to the implementation of the obligation to deliver the portion of the Petroleum and/or Natural Gas belonging to the Business Entities or Permanent Business Entities from the production results.

Article 23

Paragraph (1)

A Business License shall mean the license granted by the Government to the Business Entities in accordance to their respective authority, to carry out the Processing, Transport, Storage and/or Trade business activities after fulfilling the necessary requirements.

In the event of matters relating to the region's interests, the Government issues a Business License after the said Business Entity secured a recommendation from the Regional Government.

Paragraph (2)

This provision is intended to improve the effectiveness of the supervision and control over the Business Entities engaging in the Processing, Transport, Storage and/or Trade business.

The Government is obligated to approve or deny the applications to obtain a Business License submitted by the Business Entities within a certain period in accordance to the prevailing legislation.

Paragraph (3)

Sufficiently clear

Article 24

Sufficiently clear

Article 25

Paragraph (1)

Sufficiently clear

Paragraph (2)

Based on the considerations, among others that the Downstream Business Activities involves commodities that control the life of the public at large and is a huge investment, the Central Government and Regional Government according to their respective authority shall then open the opportunity for the Business Entities to remedy the violations committed by them before revoking their business licenses.

In addition to the violations, the Business License can also be revoked upon the request of the holders of the Business License.

Article 26

Bearing in mind that in the field Processing, Transport and Sales of Petroleum and Natural Gas activities within the framework of continuing the Exploration and Exploitation activities, the facilities that have been built are not intended to gain benefits and /or profits from the activities, thus it shall not require any Business License.

These provisions shall not be effective if the facilities owned by the Business Entities or the Permanent Business Entities are used collectively with other parties by collecting a fee or rental fee so as to gain benefits and/or profits, therefore the Business Entities or Permanent Business Entities must secure a Business License.

Article 27

Paragraph (1)

The master plan stipulated by the Government will be used as an investment reference with respect to the development and establishment of the Natural Gas transmission and distribution network for the Business Entities who are interested.

Paragraph (2)

This provision is intended to encourage fair business competition and enhance efficiency in the utilization of the infrastructure as well as the quality of service.

The division of the Transportation business segments shall be carried out based on the consideration of the technical, economical, security and safety aspects.

Paragraph (3)

This provision is intended to encourage fair business competition and enhance efficiency in the use of infrastructures as well as the quality of service.

The division of Trade areas is carried out based on the consideration of the technical, economical, security and safety aspects.

Article 28

Paragraph (1)

This provision is intended to protect the interests of consumers, the communities' health and the environment.

Paragraph (2)

Sufficiently clear

Paragraph (3)

The Government may grant special aids to replace the subsidies given to certain consumers for certain types of Oil Fuel. The Government stipulates the Natural Gas pricing policy for household purposes and small-scale consumers' demands as well as other particular usage.

Article 29

Paragraph (1)

This provision is intended to open up an opportunity for other parties to use the collectives facilities belonging to a Business Entity based on a joint agreement within the framework of optimizing the utilization of the facilities and the efficiency of the operation to reduce the distribution costs, particularly in the event there is a shortage of oil fuel supply in a region and relatively isolated areas.

Paragraph (2)

Sufficiently clear

Article 30

The Government Regulation as the implementing regulation for this provision shall contain, among others, the following principal substances: types of business activities, procedures for the submission of applications and implementation of the business licenses, standards and quality, obligations of the Business Entities, classifications of violations, reprimanding procedures, postponement, freezing and revocation of the Business License, and the authority of the relevant Regional Governments related to the Business License.

Article 31

Paragraph (1)

Since the provision as referred to in this Article is based on the understanding that Upstream Business Activities in the form of Exploration and Exploitation activities are the activity of extracting non-renewable natural resources that is considered to be the state assets, then in addition to the obligation to pay tax, custom, and other obligations, the Business Entities or Permanent Business Entities are obliged to hand over the Non-Tax State Revenue comprising of the state's portion, state levies and bonuses.

Paragraph (2)

Point a

Sufficiently clear

Point b

Sufficiently clear

Point c

Besides paying the regional taxes, the Business Entities or Permanent Business Entities are also obliged to pay regional levies.

Paragraph (1)

Point a

The state's portion shall be the production portion delivered by the Business Entities or Permanent Business Entities to the state as the owner of the Petroleum and Natural Gas resources.

Point b

This provision is based on the understanding that the Business Entities or Permanent Business Entities are obliged to pay a regular contribution in accordance to the size of the Working Areas as a compensation for the "opportunity" to undertake the Exploration and Exploitation activities.

The Exploration and Exploitation contributions shall be borne by the Business Entities or Permanent Business Entities as a compensation for the extraction of non renewable Petroleum and Natural Gas resources.

A state levy that shall become the revenue of the Central Government is considered to be a Non-Tax State Revenue (PNBP) in accordance with the provisions of the prevailing legislation.

Point c

Reference to bonuses in this provision shall mean the bonus data, bonus signature and production bonuses based on the accomplishment of a certain cumulative production level.

Paragraph (4)

The provision under this article is intended to enable the Business Entities or Permanent Business Entities to choose the taxation regulation alternatives that will be applied in the Cooperation Contract. The opening of such opportunity provides for the Business Entities of Permanent Business Entities to choose the taxation provisions in accordance to the feasibility of their business, bearing in mind that the Exploration and Exploitation activity is a long-term business, requires a large amount of capital and is highly risky.

Paragraph (5)

The Government Regulation as the implementing regulation for this provision shall contain, among other, the following principal substances: regulation on the amount of the state portion based on the net production percentage, and state levies comprising the regular contribution per unit of the Working Area, Exploration and Exploitation fees per production volume, bonuses and the regulation of certain requirements for the Cooperation Contract.

Paragraph (6)

Reference to “the distribution shall be determined according to the provisions of the prevailing legislation” in this provision refers to the provision of the Law concerning the financial balance between the Central Government and the Regional Government.

Article 32

Considering that the Downstream Business Activities in the form of the Processing, Transport, Storage and Commerce are not deemed as business activities that are directly related to the extraction of non-renewable natural resources, the obligations to pay taxes, import duty and other liabilities to the state as like industrial and/or trading business activities in general shall apply.

Article 33

Paragraph (1)

Sufficiently clear

Paragraph (2)

Sufficiently clear

Paragraph (3)

In principal, all of the Petroleum and Natural Gas business activities that are carried out in a location shall require a license from the Government institution.

However, in certain places before securing any license from the Government institution, the businesses must first obtain a permit from the community and/ or individuals.

Point a

Reference to public places, public facilities and infrastructures shall mean the facilities provided by the Government for the interests of the public at large and holds social functions such as among others: roads, markets, cemeteries, parks and places of worship.

Point b

Sufficiently clear.

Point c

Sufficiently clear

Point d

Sufficiently clear

Paragraph (4)

Considering that the public places, facilities and infrastructures, defense fields and buildings shall constitute the facilities built by the Government for the public's interest or security interests, a license from the relevant Government institutions shall be required, with due regard to the communities' suggestions.

Article 34

Paragraph (1)

Sufficiently clear

Paragraph (1)

Reference to recognition in this provision shall mean the recognition to traditional rights of the traditional communities in a region, thus a settlement may be carried out by means of deliberation to reach a consensus on the basis of the relevant traditional law.

Article 35

Sufficiently clear

Article 36

Paragraph (1)

Considering that rights over the Working Area does not comprise of any right to the land surface, Business Entities or Permanent Business Entities does not automatically warrant a right to utilize land plots in the Working Area.

In the event the Business Entities wishes to use the land plots directly, the right to use the land must be exercised in accordance with provisions of the prevailing legislation.

Paragraph (2)

Sufficiently clear

Article 37

The Government Regulation as the implementing regulation for this provision shall contain, among others, the following principal substances: procedures for the settlement

or negotiation rights and obligations of the respective parties, guidance on the amount of compensations and technical provisions on the settlement schemes with respect to the utilization of the land.

Article 38

The fostering activities carried out by the Government in the Petroleum and Natural Gas sector shall be based on the state's control over natural resources and production fields controlling the life of the public at large.

Article 39

Paragraph (1)

Point a

The implementation of the Government affairs in the Petroleum and Natural Gas sector shall include, among others, the dissemination of information, education, training, technological research and development, improvement of the added value of the products, standardization, accreditation, fostering the supporting industrial/business activities, fostering the small-scale/medium-scale businesses, utilization of domestic goods and services, maintenance of the work security and health, environmental conservation, creating a conducive business climate as well as maintaining security and orderliness.

Point b

Sufficiently clear

Paragraph (2)

Sufficiently clear

Article 40

Paragraph (1)

Sufficiently clear

Paragraph (2)

Sufficiently clear

Paragraph (3)

Sufficiently clear

Paragraph (4)

This provision is intended to support and develop the national capacity so as to improve its ability to compete.

Paragraph (5)

Reference to “also responsible for the development of the local community” in this provision shall mean the participation of the Business Entities or Permanent Business Entities in developing and utilizing the potentials and capacities of the local communities, among others by mean employing workers in a certain number and with a certain quality as well as by increasing the community residential areas to establish harmony between the Business Entities or Permanent Business Entities and the surrounding communities.

Paragraph (6)

The Government Regulations as the implementing regulation for this provision shall contain, among others, the following principal substances comprising the following obligations of Business Entities or Permanent Business Entities:

- a. in terms of work safety and security, comprising the safety and health of the workers, the conditions and requirements for the working places and working environment, and the standards of installation and equipment;
- b. in terms of the environmental management, comprising the prevention and means of handling environmental pollution and restoration of environmental damages during and after the Cooperation Contract.

Article 41

Sufficiently clear

Article 42

Point a

Sufficiently clear

Point b

Sufficiently clear

Point c

Sufficiently clear

Point d

Sufficiently clear

Point e

Sufficiently clear

Point f

Sufficiently clear

Point g

Sufficiently clear

Point h

In its implementation, the said utilization shall continue to observe the economic values in the respective projects or activities.

Point i

In employing foreign manpower, the prevailing procedures and requirements in must be observed in accordance to the requirement.

Point j

Sufficiently clear

Point k

Sufficiently clear

Point l

Sufficiently clear

Point m

Sufficiently clear

Article 43

The Government Regulation as the implementing regulation for this provision shall contains, among others, the principal substances as mentioned in the elucidation for Article 39 paragraph (1) point a

Article 44

Sufficiently clear

Article 45

Paragraph (1)

The state-owned legal entity as referred to in this provision holds a status as a the subject of the civil law and is a non profit institution and professionally managed.

Paragraph (2)

Reference to the management element in this provision shall mean the chairman and a vice chairman elements along with the deputies. Experts shall mean the functional personnel who are experts in their fields.

Paragraph (3)

Reference to consultation shall mean to test the capability and feasibility of a candidate chairman of the Implementing Agency by the House of Representatives of the Republic of Indonesia in this case the commission in charge of the Petroleum and Natural Gas sector.

Article 46

Paragraph (1)

This provision is intended to protect the interests of the consumers pertaining to the continuous supply and distribution of Oil Fuel throughout Indonesia.

Supervision over the Transport of Natural Gas through a pipeline is carried out to optimize and prevent monopoly in the utilization of the transmission, distribution and storage pipe facilities by certain Business Entities.

Paragraph (2)

The Government is responsible for the sustainability of stocks and service as well as to avoid the scarcity of oil fuel throughout Indonesia.

Paragraph (3)

Reference to the utilization of the Oil Fuel Transport and Storage facilities in this provision shall particularly mean that it is intended for certain regions or remote areas where the market mechanism has not been able to operate thus the existing transport and storage facilities needs to be regulated so as it can be used to achieve an optimum condition and the lowest price may be attained.

Household shall mean every consumer who utilizes the Natural Gas for household purposes.

The operation of Natural Gas transmission and distribution shall be regulated by the Regulatory Board that is related to the business aspects of the said Natural Gas distribution and distribution activities.

Paragraph (4)

Sufficiently clear

Article 47

Paragraph (1)

Sufficiently clear

Paragraph (2)

Reference to professional expert in this provision shall mean the people who have the necessary expertise, experience and knowledge in the oil, environmental, law, economy and social sector and has a high integrity in executing their duties and obligations.

Paragraph (3)

The Regulatory Board is independent and considering that its duties and function is related to the interests of the public at large, the appointment and dismissal of its personnel requires the approval of the House of Representatives of the Republic of Indonesia.

Paragraph (4)

Considering that the duties and functions of the Regulatory Board is directly related to the commodities that are highly required by the public at large, thus significantly affecting the national economy and constitutes a widely sensitive issue within the society and its regulation that is inter-sectoral by nature, the Regulatory Board shall be accountable to the President.

Paragraph (5)

Sufficiently clear

Article 48

Paragraph (1)

Any state revenue procured from the Business Entities or Permanent Business Entities engaging in the Upstream Business Activities shall be directly deposited to the state treasury. In controlling the Cooperation Contract with the Business Entities or Permanent Business Entities, the Regulatory Board shall earn a fee as a managerial wage received from the Government with respect to the activities that are carried out.

Paragraph (2)

The operational cost of the Regulatory Board originating from the State Revenue and Expense Budget (APBN) is intended to be used as the initial capital of the regularity board. Subsequently, the operational cost of the Regulatory Board shall be obtained from contributions of the Business Entities regulated by the board.

Article 49

Sufficiently clear

Article 50

Sufficiently clear

Article 51

Sufficiently clear

Article 52

Sufficiently clear

Article 53

Sufficiently clear

Article 54

Sufficiently clear

Article 55

Reference to misuse in this provision shall mean the activity intended to gain benefits for the individuals or the Business Entities by means that are detrimental to the interests of the public at large and the state, such as illegal mixing of fuel, misallocation of oil fuel and the Transport and Sales of oil fuel to other countries.

Article 56

Sufficiently clear

Article 57

Sufficiently clear

Article 58

Sufficiently clear

Article 59

Sufficiently clear

Article 60

Point a

The form of the limited liability company as referred to in this provision shall mean the form of a company as referred to under the Law concerning state-owned enterprises.

Point b

Sufficiently clear

Point c

Sufficiently clear

Article 61

Point a

Sufficiently clear

Point b

The Cooperation Contract as referred to in this provision shall set out payment liabilities to the state, of which amount shall conform to the prevailing provisions in the Pertamina's Mining Concession areas specified under CHAPTER V.

Article 62

Sufficiently clear

Article 63

Point a

In implementing this provision, the Cooperation Contract that is related to the parties to the contracts shall be amended without altering the conditions and requirements of the contracts.

Point b

Sufficiently clear

Point c

Sufficiently clear

Point d

Reference to contract, agreement or commitment in this provision shall mean among others the contracts to sell liquefied natural gas.

Point e

Sufficiently clear

Article 64

Point a

State-owned enterprises other than Pertamina, engaging in the Petroleum and Natural Gas businesses shall mean among others PT. Perusahaan Gas Negara (Persero) established by virtue of the Government Regulation Number 37 of 1994.

Point b

Sufficiently clear

Point c

Sufficiently clear

Article 65

Reference to petroleum and gas in this provision shall mean petroleum or gas produced from an artificial process (unnatural process)

Article 66

Sufficiently clear

Article 67

Sufficiently clear

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