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Indonesia: Law and Practice

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SSEK

INDONESIA

Law and Practice

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SSEK is one of Indonesia's leading law firms for oil, gas and renewables. Its energy practice has 30 lawyers, including five partners and foreign legal advisers. SSEK has been a leading firm in Indonesia for both upstream and downstream projects and transactions in the country's oil and gas sector since the firm's founding more than 30 years ago. SSEK has worked with numerous multinational oil and gas companies doing business in Indonesia, including BP, Chevron, ExxonMobil, Shell, and Total. The team also does a lot of work in the renewables and blue and green energy spaces – handling solar, geothermal and hydro projects – and has advised on first-of-their-kind projects for Indonesia involving plastic credits. SSEK's multidisciplinary ESG practice pulls in lawyers from the firm's corporate governance, corporate transactions, environment, finance, labour and employment, litigation, projects and natural resources, risk management and compliance, and tax practices.

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1. General Structure of Hydrocarbon Ownership and Regulation

1.1 System of Hydrocarbon Ownership

Law No 22 of 2001 regarding Oil and Gas (the "Oil and Gas Law"), as last amended by Law No 6 of 2023 regarding the Stipulation of Government Regulation in lieu of Law No 2 of 2022 regarding Job Creation (the "Job Creation Law"), stipulates that oil and gas resources in Indonesia are national assets controlled by the state. The Oil and Gas Law confers the exclusive right to and authority over oil and gas exploration and exploitation in Indonesia upon the Indonesian government.

Any private company wishing to engage in the exploitation and exploration of oil and gas must enter into co-operation contracts with the Indonesian government through the Special Task Force for Upstream Oil and Gas Business Activities (*Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi*, or "SKK Migas"). These co-operation contracts typically take the form of production sharing contracts (PSCs).

1.2 Regulatory Bodies

The oil and gas sector in Indonesia is divided into the upstream and downstream sectors. Both sectors are generally governed by the Ministry of Energy and Mineral Resources (MEMR).

Upstream Regulatory Bodies

The upstream sector is governed and supervised by SKK Migas, which was established through Presidential Regulation No 9 of 2013 regarding the Management of Upstream Oil and Gas Activities, as amended by Presidential Regulation No 36 of 2018.

Generally, SKK Migas is responsible for overseeing the management of upstream oil and gas activities, to the extent this management aligns with the relevant PSC. The head of SKK Migas reports directly to the President of Indonesia. In fulfilling its duties, SKK Migas is supervised by a committee comprising the Minister of Energy and Mineral Resources, a deputy Minister of Energy and Mineral Resources, a deputy Minister of Finance, and the head of the Capital Investment Co-ordinating Board.

Downstream Regulatory Bodies

The downstream sector is governed and supervised by the Downstream Oil and Gas Regulatory Agency (*Badan Pengatur Hilir Minyak dan Gas Bumi*, or "BPH Migas"). BPH Migas was established through Presidential Decree No 86 of 2002 regarding the Establishment of Regulatory Agency for the Supply and Distribution of Oil Fuel and Business Activities for Transporting Natural Gas via Pipelines, as amended by Government Regulation No 45 of 2012, as well as Government Regulation No 67 of 2002 regarding Regulatory Agency for the Supply and Distribution of Oil Fuel and Business Activities for Transporting Natural Gas via Pipelines, as amended by Government Regulation No 49 of 2012 and partially revoked by Government Regulation No 9 of 2025.

BPH Migas is responsible for the supervision of the implementation of the supply and distribution of oil fuel and the transportation of natural gas through pipes, ensuring the orderly arrangement, availability and distribution of fuel oil throughout Indonesia. It is also responsible for increasing the use of natural gas domestically.

1.3 National Companies

Indonesia's state-owned enterprise (*Badan Usaha Milik Negara*, or "BUMN") in the oil and gas sector is PT Pertamina (Persero) ("Pertamina"), which was formed through Government Regulation No 31 of 2003. Formerly both a regulator and operator in the oil and gas sector, Pertamina's regulatory role ended with the enactment of the Oil and Gas Law, which transferred regulatory authority to the Indonesian government.

Pertamina was later designated as the holding company for BUMN in the oil and gas sector, with six sub-holdings, through BUMN Decree No 198/MBU/06/2020 and Pertamina Decree No Kpts-18/C00000/2020-S0. Pertamina currently has the following six sub-holdings:

- upstream (PT Pertamina Hulu Energi);
- refining and petrochemical (PT Kilang Pertamina Internasional);
- commercial and trading (PT Pertamina Patra Niaga);

- gas (PT Perusahaan Gas Negara Tbk);
- power and new renewable energy (PT Pertamina Power Indonesia); and
- integrated marine logistics (PT Pertamina International Shipping).

The reorganisation took place after the consolidation of state-owned enterprises in the oil and gas sector – namely, PT Perusahaan Gas Negara Tbk (PGN) and PT Pertamina Gas. In April 2018, the Indonesian government transferred its ownership in PGN to Pertamina. That same year, PGN acquired 51% of PT Pertamina Gas shares from Pertamina.

In the upstream sector, PT Pertamina Hulu Energi (PHE) and its subsidiaries act as PSC contractors. PHE currently operates 27 working areas and is a non-operator in 13 areas.

In refining and petrochemicals, PT Kilang Pertamina Internasional operates six major refinery units with a total installed processing capacity of 1,031 mbopd (or approximately 90% of the existing processing capacity in Indonesia).

In the downstream sector, PGN owns and operates over 10,000 km of gas pipelines, accounting for 96% of the national network.

1.4 Principal Hydrocarbon Law(s) and Regulations

The primary regulation governing the oil and gas sector in Indonesia is the Oil and Gas Law. The state maintains ownership of mineral rights across Indonesian territory and the Indonesian government possesses the authority to regulate mining activities. The oil and gas sector in Indonesia consists of upstream and downstream (which also captures midstream) activities, both of which are regulated separately.

Upstream Sector

Upstream activities in Indonesia, which include exploration and exploitation, are mainly governed by Government Regulation No 35 of 2004 regarding Upstream Oil and Gas Business Activities ("GR 35/2004"), as last amended by Government Regulation No 55 of 2009. The upstream sector is regulated by SKK Migas. Given Indonesia's unique archipelagic composition, upstream oil activities can occur both onshore and offshore. The MEMR determines work areas for these operations after consulting with and receiving recommendations from the respective regional governments.

Under the Oil and Gas Law, the Indonesian government has exclusive rights to oil and gas exploration and exploitation, requiring all private companies that wish to explore and exploit such resources to enter into PSCs with the government through SKK Migas. Currently, there are two types of PSCs used in Indonesian upstream oil and gas activities.

Prior to 2017, all PSCs operated on a cost-recovery basis, allowing PSC contractors to recover their operating costs from oil and gas production. However, in January 2017, the Indonesian government introduced a gross production sharing arrangement, in which the portion of production is determined by fixed percentages ("Gross Split PSC"), which eliminated cost-recovery arrangements. Under the Gross Split PSC, PSC contractors receive a higher production split compared to the cost-recovery model, but they must cover all their costs independently.

The MEMR amended the Gross Split PSC framework through MEMR Regulation No 13 of 2024 regarding Gross Split PSCs ("MEMR Reg 13/2024"), which was supported by MEMR Decree No 230.K/MG.01/MEM.M/2024 regarding Guidelines for the Implementation and Components of Gross-Split PSCs ("MEMR Decree 230/2024").

Please refer to **7.4 Material Changes in Law or Regulation** for further discussion on the changes under MEMR Reg 13/2024 and MEMR Decree 230/2024.

Downstream Sector

Downstream activities, including processing, transportation, storage, and trading, are regulated by Government Regulation No 36 of 2004 regarding Downstream Oil and Natural Gas Business Activities ("GR 36/2004"), as amended by Government Regulation No 30 of 2009. These operations are overseen by the MEMR and BPH Migas.

Separately, in September 2025, the Indonesian government updated its National Energy Policy through Government Regulation No 40 of 2025 ("GR 40/2025"), which revokes and replaces the previous framework under Government Regulation No 79 of 2014. It extends the national energy policy framework to 2060 and places greater emphasis on energy sovereignty, self-sufficiency and resilience, as well as the gradual decarbonisation of the energy sector in support of Indonesia's net zero emissions target by 2060. Further details on the updates are addressed in **6.1 Energy Transition Laws and Regulations**.

Through Presidential Regulation No 3 of 2016, as amended by Presidential Regulation No 109 of 2020, the government has also introduced major downstream oil and gas initiatives as national strategic projects. These include refinery expansions in Bontang and Tuban, facility upgrades, and fuel and LPG storage construction in eastern Indonesia.

2. Private Investment in Hydrocarbons: Upstream

2.1 Forms of Private Investment: Upstream

Under the Oil and Gas Law and GR 35/2004, upstream oil and gas activities in Indonesia can be conducted by either a business entity or a permanent establishment (PE). A business entity must be a legal entity established, operating and domiciled in Indonesia. This includes state-owned enterprises, regionally owned enterprises, co-operatives, small-scale businesses, and private limited liability companies. A limited liability company may take the form of a wholly Indonesian-owned company (Penanaman Modal Dalam Negeri, or PMDN) or a partially or wholly foreign-owned company (*Penanaman Modal Asing*, or PMA).

Conversely, a PE is a business entity established outside Indonesia that conducts activities within Indonesia and is subject to its laws and regulations. An offshore subsidiary holding a participating interest in a PSC is considered a PE.

Private entities obtain the authorisation to explore and extract oil and gas resources by entering into a PSC with the Indonesian government (through SKK Migas), thus acting as a contractor to SKK Migas. Each entity is limited to holding one PSC, usually awarded for 30 years (typically consisting of ten years of exploration, followed by 20 years of exploitation).

2.2 Issuing Upstream Licences/Obtaining Hydrocarbon Rights

Upstream business activities take place in designated regions known as "work areas". These areas are established following approval from the MEMR in consultation with SKK Migas and relevant local governmental authorities. Work areas can be allocated through either a tender process or a direct offer as regulated under MEMR Regulation No 35 of 2021 regarding the Procedure for Allocating and Offering Oil and Gas Working Areas ("MEMR Reg 35/2021").

New working areas are mostly awarded through a tender process. To participate in a tender process, the bidder must purchase the bid documents for the work areas to register as a tender participant, acquire government information on the work area, and submit and complete bid documents to the MEMR by the tender closing date.

The direct offer process enables a party to propose a working area for inclusion in a tender process, with or without prior joint study. If a joint study is conducted, the proposing party earns the right to match the highest bidder in the subsequent tender for that specific contract area. Direct offers without a joint study are restricted to areas previously tendered but left without a successful bidder.

Business Licensing

In June 2025, the Indonesian government issued Government Regulation No 28 of 2025 regarding the Organization of Risk-Based Business Licensing ("GR 28/2025"), which revokes and replaces the previous risk-based licensing framework under Government Regulation No 5 of 2021 ("GR 5/2021"). For energy and mineral resources, the updated framework is implemented through MEMR Regulation No 7 of 2026 regarding Standards for Business Activities During the Implementation of Risk-Based Business Licensing in the Energy and Mineral Resources Sector ("MEMR Reg 7/2026"). We discuss in more detail the changes under GR 28/2025 and MEMR Reg 7/2026 in **7.4**

Material Changes in Law. Notwithstanding these regulatory developments, licensing requirements for the upstream oil and gas sector remain largely unchanged. Upstream oil and gas activities may continue to be conducted by business entities or PEs through the obtainment of a PSC and a Business Identification Number (*Nomor Induk Berusaha*, or NIB) through the OSS system.

2.3 Typical Fiscal Terms: Upstream

Cost-Recovery PSC

In the conventional production sharing scheme applied in Indonesia, production output is generally subject to requirements such as first tranche petroleum (FTP), cost recovery, and applicable taxes, and the remaining portion is shared between the PSC contractor and the Indonesian government according to the proportions specified in the Cost-Recovery PSC. The PSC contractor bears all financial risks associated with operations under the PSC. Upon advancing to the exploitation stage, the contractor becomes eligible for cost recovery.

Gross Split PSC

In early 2017, the Indonesian government introduced the Gross Split PSC scheme through MEMR Reg 8/2017 as amended. In 2024, the government revoked MEMR Reg 8/2017 as amended and further refined the Gross Split PSC scheme for both conventional and unconventional oil and gas activities through MEMR Reg 13/2024 and MEMR Decree 230/2024. One of the most significant changes is the adjustment to the calculation of base splits for Gross Split PSCs. The base split is now set at 47% of crude oil and 49% of natural gas to PSC Contractors, while the state retains shares of 53% and 51%, respectively.

2.4 Income or Profits Tax Regime: Upstream

Taxes applicable to PSCs in Indonesia encompass income tax, VAT, import duties, regional taxes, and other levies. Each PSC specifies whether it adheres to tax laws and regulations in effect at its execution or follows subsequent changes.

Additionally, PSC contractors pay non-tax state revenues such as exploration and exploitation fees, signing bonuses, and production bonuses, varying by PSC terms. Tax frameworks for Cost-Recovery PSCs are governed by Government Regulation No 79 of 2010 regarding Recoverable Operational Costs and Income Tax Treatment in the Upstream Oil and Gas Sector ("GR 79/2010"), as last amended by Government Regulation No 93 of 2021 regarding Income Tax Treatment for the Transfer of Participating Interests in Offshore Oil and Gas Business Activities ("GR 93/2021"). Gross Split PSCs are regulated under Government Regulation No 53 of 2017 regarding Tax Treatment in the Upstream Oil and Gas Sector for Gross Split PSCs ("GR 53/2017"), as partially revoked by GR 93/2021, with detailed tax facilities specified in Ministry of Finance Regulation No 67/PMK.03/2020 regarding the Granting of VAT or VAT and Luxury Goods Sales Tax, as well as Land and Building Tax Facilities for Upstream Oil and Gas Business Activities through Gross Split PSCs ("MOF Reg 67/2020").

Both GR 79/2010 and GR 53/2017 regulate income and non-income tax for PSC contractors, offering similar incentives and facilities. These include exemptions from import duties during exploration and exploitation, VAT or Luxury Goods Sales Tax exemptions for specified goods and services, and 100% reductions in Land and Buildings Tax (*Pajak Bumi dan Bangunan*, or PBB) during the exploration and exploitation stages. The Ministry of Finance determines tax facilities during the exploitation stage based on project economics. GR 79/2010 also provides tax incentives such as a domestic market obligation holiday and state asset use for upstream activities. MOF Reg 67/2020 outlines procedures for VAT, Luxury Goods Sales Tax, and PBB exemptions under Gross Split PSCs.

2.5 Federal or State Companies

Under GR 35/2004, Pertamina has a right of first refusal if a contractor intends to transfer its interest in a PSC to a third party. Additionally, under MEMR Regulation No 23 of 2021 regarding the Management of Oil and Gas Working Areas for which the PSC will Expire ("MEMR Reg 23/2021"), as partially revoked by MEMR Reg 13/2024, Pertamina may choose to take over the operations of a work area upon the expiration of its PSC, regardless of whether the original contractor applied for an extension. If both Pertamina and the original contractor indicate interest in operating the work area, the MEMR has the discretion to determine

whether Pertamina, the original contractor, or both will resume operations.

Further, upon approval of the first Plan of Development (POD), a PSC contractor must offer a 10% participating interest in its PSC to a regionally owned enterprise (Badan Usaha Milik Daerah, or BUMD). This BUMD must be:

- wholly owned by the regional government;
- at least 99% owned by the regional government (with the remainder owned by a regional government-affiliated entity);
- established through regional government regulations; and
- solely engaged in managing the offered participating interest without other business activities.

The BUMD has the discretion to accept or decline the offer based on its financial capacity. If declined, the offer must then be tendered to a state-owned enterprise (Badan Usaha Milik Negara, or BUMN). While the regulation governing this PI transfer was revised in January 2025, its fundamental structure and key principles remain unchanged. Further details on the specific amendments are addressed in **7.4 Material Changes in Law or Regulation**.

2.6 Local Content Requirements: Upstream

The Oil and Gas Law requires businesses engaged in oil and natural gas activities to prioritise local manpower, domestic goods, services, and engineering and design capabilities in a transparent and competitive manner. Under MEMR Regulation No 15/2013 regarding the Use of Domestic Products for the Upstream Oil and Natural Gas Business ("MEMR Reg 15/2013"), procurement activities must comply with the Domestic Product Appreciation Book (the "APDN Book") published by the MEMR. This book categorises goods and services as mandatory, maximised, or empowered for domestic use.

The method for calculating Local Content (*Tingkat Komponen Dalam Negeri*, or TKDN) is as follows.

- For goods, TKDN is calculated based on the ratio of domestic component costs to the total cost of the finished goods.
- For services, TKDN is calculated based on the ratio of domestic service costs to the total service cost.
- For a combination of goods and services, TKDN is the ratio of the total domestic component costs to the combined cost of goods and services.

The provider's status also affects the TKDN value. The MEMR divides providers into three categories:

- domestic company (at least 50% owned by Indonesian entities);
- national company (50% or more owned by foreign entities); and
- foreign company.

Additionally, SKK Migas outlines TKDN requirements for the procurement of goods and services by PSC contractors under SKK Migas Working Guidelines (*Pedoman Tata Kerja*) No PTK 007/SKKIA0000/2023/S9 regarding Procurement Guidelines for Goods and Services (5th Revision) ("PTK 007/2023"), as last amended by Head of SKK Migas Decree No KEP-0082/SKKIA000/2025/S9 of 2025 and Circular Letter of the Deputy for Business Support of SKK Migas No EDR-0143/SKKIH0000/2023/S0 of 2023 regarding Implementing Guidelines for Goods/Services Procurement, as last amended by Circular Letter of SKK Migas No DR-0254/SKKIH0000/2025/S0 of 2025.

2.7 Development and Production Requirements

In the context of both Cost-Recovery PSCs and Gross Split PSCs, upon commercial discovery, the PSC contractor is required to prepare a POD for the respective field. The initial POD requires approval by the MEMR, following evaluations by SKK Migas, marking the commencement of the exploitation phase. SKK Migas grants approval for any subsequent PODs.

Upon approval of the relevant POD, the PSC contractor must commence operations within five years following the conclusion of the exploration period. Failure to do so will result in the termination of the PSC and the relinquishment of the work area.

The POD approval process is stipulated in SKK Migas Working Guidelines No PTK-037/SKKMA0000/2021/S1 regarding POD (3rd Revision).

2.8 Other Key Terms: Upstream

The terms of each PSC vary based on factors such as the generation of the PSC and the contractor's capacity to negotiate deviations from standard PSC terms.

A PSC is granted for 30 years, with up to ten years for exploration and 20 years of exploitation. The term of a PSC may be extended for up to 20 years.

- PSC contractors must commence activities within six months of the PSC's effective date and fulfil the work programme in the first six years of the exploration period. They assume full financial responsibility and risk if exploration is not successful. The PSC contains annual exploration expenditure for the initial six years and any extensions, subject to approval by SKK Migas through annual work programmes and budgets (for PSCs with a cost-recovery mechanism).
- Most new-generation PSCs now contain provisions requiring the execution of abandonment and site restoration (ASR) programmes and funding. The Oil and Gas Law emphasises post-operation responsibilities to ensure environmental management and protection, while GR 35/2004 requires contractors to allocate funds for these activities. MEMR Reg 23/2021 requires near-expiry PSCs to fulfil outstanding post-operation obligations assigned by the MEMR, potentially involving entities such as Pertamina or another contractor. MEMR Regulation No 15 of 2018 regarding Post-Operation Activities in Upstream Oil and Gas Business Activities ("MEMR Reg 15/2018") specifically directs PSC contractors to conduct post-operation activities using designated funds.
- PSC contractors must develop a post-operation activity plan submitted via a work programme and budget during exploration stages or as part of a field development plan during exploitation stages, subject to approval by the MEMR before implementation.
- Under the Oil and Gas Law and GR 35/2004, PSC contractors must gradually relinquish part or the entirety of their working areas to the MEMR via SKK Migas after fulfilling all exploration-stage obligations in the PSC.

Government Regulation No 36 of 2023 regarding Foreign Exchange Export Proceeds from the Business, Management and/or Processing of Natural Resources, as last amended by Government Regulation No 21 of 2026 ("GR 36/2023 as amended"), and Bank Indonesia Regulation No 7 of 2023 regarding Foreign Exchange Export Proceeds and Foreign Exchange Import Payments, as last amended by Bank Indonesia Regulation No 5 of 2026 ("BI Reg 7/2023 as amended"), require Indonesian exporters of natural resources, including LNG, to deposit their export foreign exchange proceeds in the Indonesian financial system as follows.

- Indonesian exporters must deposit all their export proceeds into Indonesian bank accounts within a designated timeframe.
- Exporters in the oil and gas sector must retain at least 30% of those proceeds in these accounts or approved equivalents for a minimum of three months.
- Exporters in the mining (excluding oil and gas), plantation, forestry, and fisheries sectors must now retain 100% of their export proceeds domestically for a duration of 12 months.

For further details on the licensing requirements for export of oil and gas products in Indonesia, please refer to **3.13 Laws and Regulations: Imports and Exports**.

2.9 Transfers of Interest: Upstream Licences and Assets

The approval requirements for transferring participating interests in PSCs vary based on the generation of the PSC. In some PSCs, no approval is necessary for transfers to an affiliated company. However, transfers to non-affiliated companies generally require approval from either the MEMR or SKK Migas.

MEMR has issued MEMR Regulation No 48 of 2017 regarding Business Supervision within the Energy and Mineral Resources Sector ("MEMR Reg 48/2017"), as partially revoked by MEMR Regulation No 7 of 2020. To implement this regulation, SKK Migas issued SKK Migas Guidelines Procedure No PTK-057/SKK-MA0000/2018/S0 regarding Administration of Co-operation Contract (1st Revision), which requires any

transfer of participating interests to affiliated or non-affiliated companies to obtain the prior approval of the MEMR through SKK Migas. In practice, the Indonesian government currently refers to this rule instead of any rules stipulated in individual PSCs.

GR 35/2004 and MEMR Reg 48/2017 prohibit PSC contractors from transferring majority participating interests to a non-affiliated party or changing operatorship during the initial three years of the exploration phase.

There are two types of change of control of a PSC contractor: direct and indirect. Under MEMR Reg 48/2017, "direct control" refers to a parent company one level above directly owning a majority of shares with voting rights. "Indirect control" involves the transfer of shares by a parent company more than one level above, which holds a majority of the voting shares in a PSC contractor. MEMR Reg 48/2017 stipulates that a direct change of control requires prior approval from the MEMR via SKK Migas, whereas indirect changes of control require notification to the MEMR through SKK Migas – typically after the transaction is finalised.

Additionally, both direct and indirect transfers of participating interests – as well as changes in control – are subject to taxation under GR 79/2010, as further detailed in Minister of Finance Regulation No 81 of 2024 regarding Taxation Provisions for the Implementation of the Core Tax Administration System, as last amended by MOF Regulation No 1 of 2026 ("MOF Reg 81/2024").

2.10 Restrictions on Production Rates

Indonesia does not impose any regulatory restrictions on production rates. Indonesia joined the Organization of the Petroleum Exporting Countries (OPEC) in 1962 but left the organisation voluntarily in 2008, owing to dwindling oil production and becoming a net importer of crude oil, which is against OPEC's statute for membership. Indonesia rejoined OPEC briefly in 2016 but suspended its membership again within a year, owing to disagreements over a mandated 5% production cut.

3. Private Investment in Hydrocarbons: Midstream/Downstream

3.1 Forms of Private Investment: Midstream/Downstream

The Oil and Gas Law liberalised the downstream market and effectively ended Pertamina's monopoly on the sector. Private entities can now enter the downstream sector by establishing a limited liability company in Indonesia and procuring the relevant downstream business licence, subject to any applicable foreign shareholding restrictions stipulated in Presidential Regulation No 10 of 2021 regarding the Investment List, as last amended by Presidential Regulation No 49 of 2021 (the "Investment List"). In short, the Investment List contains the list of business lines that are open or closed for foreign investment.

3.2 Downstream Operations Run by a National Monopoly: Rights and Terms of Access

There are no monopolies in the downstream sector and thus there are no rights and terms of access granted to any monopoly or near monopoly.

3.3 Issuing Midstream/Downstream Licences

The issuance of downstream business licences is administered by the MEMR. In addition to obtaining the standard corporate licensing, business actors intending to conduct processing, transportation, storage or trading activities must apply for a business licence for such activity from the MEMR via the OSS system. The procedure is regulated under MEMR Regulation No 29 of 2017 regarding Licensing in Oil and Gas Business Activities ("MEMR Reg 29/2017"), as last amended by MEMR Regulation No 52 of 2018. Generally, applicants must satisfy administrative requirements (ie, corporate deeds and taxpayer number) and technical requirements (ie, feasibility study), which depend on their scope of business activity.

A single company can possess multiple downstream business licences. The applicable business licences in this sector are the Oil and Gas Processing Licence, the Oil and Gas Storage Licence, the Oil and Gas Transportation Licence, and the Oil and Gas Trading (Retail or Wholesale) Licence.

3.4 Fiscal Terms and Commercial Arrangements: Midstream/Downstream

The downstream sector does not have specific fiscal terms or production sharing schemes.

As stipulated in BPH Migas Regulation No 1 of 2023 regarding Procedures for Calculating and Determining the Tariff for Transportation of Natural Gas Through Pipelines ("BPH Reg 1/2023"), BPH Migas regulates the tariffs imposed for gas transportation. The operator must submit the proposed tariffs to BPH Migas and BPH Migas will verify and evaluate the proposed tariffs.

Pursuant to Government Regulation No 9 of 2025 regarding the Amount and Use of Business Entity Fees in the Oil and Gas Business Activities at BPH Migas ("GR 9/2025"), companies holding wholesale trading business licences, limited trading business licences, processing business licences for the distribution of oil as an expansion of the processing business, or specific licences for the transmission of natural gas are required to pay a royalty fee to BPH Migas (see **3.5 Income or Profits Tax Regime: Midstream/Downstream**).

3.5 Income or Profits Tax Regime: Midstream/Downstream

The downstream sector does not have a specific tax regime. Generally, the following taxation rules apply.

- Tax Holiday for Pioneer Investors: MOF Regulation No 130/PMK.10/2020 regarding Provision of Corporate Income Tax Reduction Facility, as amended by MOF Regulation No 69 of 2024, provides tax holiday incentives for the oil and gas refinery industry in Indonesia. Companies may enjoy a corporate income tax reduction from 50% to 100% for five to 20 fiscal years depending on the value of their investment. An additional 25% or 50% reduction may apply for the next two fiscal years. The minimum investment value to be eligible for this incentive is IDR100 billion.
- Tax Allowances: Certain industries (eg, lubricant manufacturing, organic-based chemical production from oil, natural gas and coal, and natural and artificial gas supply) qualify for tax allowance facilities under Government Regulation No 78 of 2019 regarding Tax Allowances Facilities for Investments within Certain Business Sectors and/or within Certain Regions. These allowances include deductions of net income by 30% of the total investment value in the form of:
  (a) tangible fixed assets used for the primary business activity, charged for six years deductible by 5% each year;
  (b) accelerated depreciation;
  (c) lower withholding tax on dividends for foreign taxpayers; and
  (d) conditional loss carry-forward compensation for up to ten years.
- Withholding Tax: The sale of fuel, gas and lubricants is subject to withholding tax in accordance with MOF Reg 81/2024. The standard withholding tax rate is 0.3% excluding VAT. However, for fuel purchased from Pertamina or its subsidiaries, the withholding tax rate is reduced to 0.25%, excluding VAT.
- VAT: The current VAT rate is 11%. However, Government Regulation No 49 of 2022 regarding VAT Exempted and VAT or VAT and Sales Tax on Luxury Goods Not Collected on Import and/or Delivery of Certain Taxable Goods and/or Delivery of Certain Taxable Services and/or Utilisation of Certain Taxable Services from Outside the Customs Area exempts crude oil and natural gas from VAT upon delivery.
- Import Duty: Import duties vary depending on the product and its Harmonised System (HS) code.
- Royalty: Companies must pay royalties to BPH Migas if engaged in fuel oil supply and distribution or natural gas transmission through pipelines. The royalty rates, specified in GR 9/2025, vary based on sales volume.

3.6 Special Rights for National Companies

There are no special rights given to national oil and gas companies with regard to downstream licences.

3.7 Local Content Requirements: Midstream/Downstream

There are no separate laws or regulations in Indonesia for local content requirements for midstream/downstream operations. However, there are some sectors that are restricted for foreign investment, as regulated under the Investment List – including LNG transporta-

tion by shipping, which is restricted to 49% foreign ownership.

Generally, under GR 36/2004, downstream business actors must prioritise the use of domestically sourced goods, equipment, services, technology, and engineering capabilities in a transparent and competitive manner. The same also applies for the fulfilment of workforce requirements.

3.8 Other Key Terms: Midstream/Downstream

Downstream business activities must operate through a limited liability company that has obtained the relevant business licence, which may be applied for through the MEMR via the OSS system. A separate downstream business licence will be issued for processing, storage, transportation, and trading (which consists of retail and wholesale) activities.

A single company may hold multiple business licences. For all types of downstream activities, business licences are first issued in the form of a temporary business licence that is valid for up to five years, followed by a permanent licence once the company is ready for operations. What follows is an overview of downstream business licensing under MEMR Reg 29/2017.

- Processing: This licence requires submitting periodical reports to the MEMR and BPH Migas. This licence is valid for up to 30 years, extendable for an additional 20 years.
- Storage: This licence requires the submission of periodical reports to the MEMR and BPH Migas. This licence is valid for up to 20 years, extendable for another ten years.
- Transportation: This licence requires the submission of periodical reports to the MEMR and BPH Migas. For natural gas transportation, a gas transportation agreement and access arrangement approved by BPH Migas is required. This licence is valid for up to 20 years, extendable for another ten years.
- Trading: This comprises retail and wholesale trading. If trading is carried out by a PSC contractor, a separate business trading is not required, as the trading activities are considered as ancillary to the upstream activities. This licence is valid for up to 20 years, extendable for another 20 years.

3.9 Condemnation/Eminent Domain Rights

A private company in the downstream sector does not have condemnation or eminent domain rights. Land rights are typically acquired through negotiations with owners and occupants, following existing laws, either through land purchase or land lease for facility usage. Business entities in the downstream sector may hold land titles under their own name.

3.10 Laws and Regulations Governing Transportation

The transportation of oil and gas products would fall under the purview of the MEMR, the Ministry of Transportation (MOTR), the Ministry of Environment and Forestry (MOEF), and/or BPH Migas, depending on the type of product and the mode of transportation.

Generally, the MOTR, the MEMR and BPH Migas are responsible for the transportation of oil and gas products, whether by land, sea, or water. BPH Migas is also responsible for the supervision of oil fuel distribution through pipelines. Additionally, the transportation of certain oil and gas products may have to comply with terms set out by the MOEF if the products are categorised as hazardous or toxic waste.

3.11 Third-Party Access to Infrastructure

GR 36/2004 obliges downstream storage and transportation companies to provide access to third parties for facility use. However, this obligation is not commonly implemented in practice. In response, MEMR Regulation No 4 of 2018 regarding the Operation of Natural Gas in Downstream Oil and Gas Activities, as amended by MEMR Regulation No 19 of 2021, empowers BPH Migas to conduct tenders for gas transmission lines. This regulation also outlines the licensing criteria for engaging in natural gas transmission, either through pipelines or other designated facilities within specified transmission zones or distribution networks.

3.12 Restrictions on Product Sales: Local Market

The Indonesian government periodically imposes price caps on natural gas sales to meet its Domestic Market

Obligation (DMO). Business actors should consider Presidential Regulation No 40 of 2016 regarding the Determination of Natural Gas Sales, as amended by Presidential Regulation No 121 of 2020, and MEMR Regulation No 15 of 2022 regarding Procedures for the Determination of Certain Natural Gas Users and Certain Natural Gas Prices in the Industrial Sector, which cap gas prices at USD6.50-USD7 per MMBTu for the sale of gas at the plant gate to the domestic fertiliser, petrochemical, oleochemical, steel, ceramics, glass, and rubber glove industries. This cap also extends to the sale of gas for the electricity industry (including for sale to potential buyers such as PLN), as regulated by MEMR Regulation No 45 of 2017 regarding Natural Gas Utilisation for Power Plants, as amended by MEMR Regulation No 10 of 2020.

Nevertheless, if the quoted gas price exceeds USD6.50-USD7 per MMBTu, the MEMR will adjust the price paid to PSC contractors by reducing the government's own revenue in the PSC to compensate for the difference.

3.13 Laws and Regulations: Imports and Exports

Import/Export of Natural Gas (including LNG)

Cross-border sales of natural gas are allowed under specific conditions – namely, if domestic demand for natural gas has been met (in cases of inadequate infrastructure) or if domestic purchasing power is insufficient. MEMR Regulation No 6 of 2016 regarding Provisions and Procedures for Stipulating the Allocation and Utilisation as well as Pricing of Natural Gas ("MEMR Reg 6/2016"), as partially revoked by MEMR Regulation No 30 of 2021 regarding Procedures for Stipulating the Allocation and Utilisation as well as Pricing for Flare Gas in the Upstream Oil and Gas Industry, prioritises natural gas production for government programmes, national production enhancement, and industrial needs.

Import and export approvals are issued by the Ministry of Trade (MOT), with a recommendation from the Directorate General of Oil and Gas (DGOG). For imports in general, an NIB also acts as an import licence.

Import/Export of Oil

Cross-border sales of oil must adhere to the DMO requirements (for upstream entities). MEMR Regulation No 18 of 2021 regarding the Priority to Use Crude Oil for Meeting Domestic Needs stipulates that Pertamina and crude oil processing licence holders are to prioritise domestic crude oil from PSC contractors before considering imports. PSC contractors or their affiliates must offer their crude oil to Pertamina through negotiation. The process, however, lacks clear implementation details. Imports and exports of oil require MOT approval based on DGOG recommendations, with an NIB for imports.

3.14 Transfers of Interest: Midstream/Downstream Licences and Assets

Downstream business licences are not transferable. The transfer of assets forming a distribution network would require the revocation of the special rights over the distribution network and the issuance of new special rights to the acquirer. In some cases, the acquirer must notify the relevant government body (ie, BPH Migas for the sale or transfer of a gas distribution pipeline) of the transfer of asset ownership. Further, for share transfers within downstream companies, MEMR Reg 48/2017 requires a post-transfer notification to the MEMR.

4. Foreign Investment

4.1 Foreign Investment Rules Applicable to Domestic Investments in Hydrocarbons

Generally, Law No 25 of 2007 regarding Capital Investment, as amended by the Job Creation Law, ensures equal treatment for both domestic and foreign investors and protects them against expropriation or nationalisation. Expropriatory acts should be compensated accordingly.

Separately, the Indonesian government stipulates restrictions on foreign ownership for different business sectors in Indonesia under the Investment List. Under the current Investment List, upstream oil and gas activities in Indonesia are open to 100% foreign ownership. However, certain downstream activities (ie, LNG transportation via sea, lake/rivers, or air cargo) are limited to 49% foreign ownership.

4.2 Sanctions

There are no sanctions or restrictions when investing in oil and gas ventures abroad.

5. Environmental, Health and Safety (EHS)

5.1 Environmental Laws and Environmental Regulator(s)

Both upstream and downstream operations are subject to environmental oversight by the central government through the Ministry of Environment and Forestry (MOEF) and regional governments (eg, governors, mayors, and regents). Environmental licences, depending on the type, may be issued by either the MOEF or regional agencies as per regulations. The issuing authority will also handle administrative sanctions for violations. By way of example, the MOEF handles sanctions for its approvals, whereas governors handle sanctions for theirs. However, the MOEF may intervene and assume control from regional governments in cases of severe violations by businesses.

The primary environmental regulations in Indonesia are:

- Law No 32 of 2009 regarding Environmental Protection and Management (the "Environmental Law"), as amended by the Job Creation Law, which is the main law regarding environmental management in Indonesia and covers a wide range of environmental protection, environmental damage, sanctions, and enforcement for environmental crimes;
- Government Regulation No 22 of 2021 regarding Implementation of Environmental Protection and Management ("GR 22/2021"), which regulates the environmental licensing regime for business entities operating in Indonesia and was issued after the enactment of the new licensing regime under the Job Creation Law; and
- MOEF Regulation No 4 of 2021 regarding Types of Business and/or Activities Which Are Mandated to Have Environmental Impact Analysis, Environmental Management Effort and Environmental Supervision Effort or Letter of Capability of Environmental Management and Supervision ("MOEF Reg 4/2021"), which stipulates a list of business activities that require an Environmental Impact Assessment (*Analisis Mengenai Dampak Lingkungan*, or AMDAL) or Environmental Management and Monitoring Measures (*Upaya Pengelolaan Lingkungan dan Upaya Pemantauan Lingkungan*, or UKL-UPL).

5.2 Environmental Obligations for a Major Hydrocarbon Project

As a general rule, business activities are subject to different types and degrees of environmental assessment depending on their risk level. Under the Environmental Law and its implementing regulations, business activities with a significant impact require an AMDAL, business activities without a significant impact require a UKL-UPL, and low-risk business activities only need a self-declaration (*Surat Pernyataan Pengelolaan Lingkungan*, or SPPL). This classification is set forth in MOEF Reg 4/2021. These documents are not business licences, but they are prerequisite steps for the obtainment of an environmental approval.

During the exploration phase, PSC contractors must complete a UKL-UPL report. In the subsequent phase of exploitation, PSC contractors must conduct an AMDAL. PSC contractors must regularly report compliance with their UKL-UPL or AMDAL to the appropriate government authorities. Furthermore, PSC contractors are required to obtain environmental approvals from the Indonesian government for their activities.

5.3 Offshore Environmental, Health and Safety (EHS) Requirements

Health, safety and environment (HSE) requirements in the oil and gas sector apply generally, without distinction between offshore and onshore operations. The DGOG at the MEMR oversees the implementation of HSE regulations in the oil and gas sector and enforces sanctions for non-compliance. It deploys designated teams to ensure safety standards are met. If the facilities and systems comply with the DGOG's standards, the DGOG will issue certifications for installations and equipment. If a company fails to meet the applicable HSE rules, it will be subject to various administrative sanctions up to the revocation of its licence.

5.4 Decommissioning Requirements

In the upstream sector, as discussed in **2.8 Other Key Terms: Upstream**, most new-generation PSCs now contain provisions requiring the execution of ASR programmes and funding. The Oil and Gas Law outlines the importance of post-operation obligations for environmental management and protection, and GR 35/2004 mandates PSC contractors to set aside funds for these activities. MEMR Reg 23/2021 stipulates that the remaining post-operation obligations of an expiring PSC are to be handled by the entity appointed by the MEMR, which could be Pertamina and/or another contractor.

Post-operation activities – as provided under MEMR Reg 15/2018 – include well-plugging, site restoration and disposal of equipment, using allocated funds before or upon the expiration of the PSC. These activities must be reported to SKK Migas either:

- through the submission of a work plan and budget if the PSC is in the exploration stage; or
- as part of the POD if the PSC is in the exploitation stage.

PSC contractors are also required to obtain approval for their post-operation activity plan from the DGOG prior to implementing post-operation activities. PSCs that do not contain provisions regarding post-operation obligations are subject to the rules set forth in MEMR Reg 15/2018. The procedures to reserve and deposit ASR funds are set forth in SKK Migas Working Guidelines No PTK-040/SKKMA0000/2023/S9 regarding ASR (2nd Revision).

Further decommissioning obligations are detailed in various regulations, such as MEMR Regulation No 02P/1992, requiring land reclamation, and Government Regulation No 17 of 1974, requiring dismantlement of unused facilities. An SKK Migas working guideline in 2015 also includes well-plugging as part of drilling work completion. Please note that there are no decommissioning obligations in the downstream sector.

5.5 Climate Change Laws

Indonesia ratified the Paris Agreement through Law No 16 of 2016. As part of its commitment to achieve net zero emissions by 2060, Indonesia has recently issued the following regulations related to Carbon Capture and Storage (CCS):

- MEMR Regulation No 2 of 2023 regarding the Implementation of Carbon Capture and Storage and Carbon Capture, Utilisation and Storage for Upstream Oil and Gas Business Activities ("MEMR Reg 2/2023");
- SKK Migas Working Guidelines No PTK-070/SKKIA0000/2024/S9 ("PTK 070/2024");
- Presidential Regulation No 14 of 2024 regarding the Implementation of Carbon Capture and Storage Activities ("PR 14/2024"); and

MEMR Regulation No 16 of 2024 regarding the Implementation of Carbon Storage Activities in Carbon Storage Licence Areas for the Purpose of CCS Activities ("MEMR Reg 16/2024").

PR 14/2024 outlines the licensing and rights allocation process for CCS work areas from exploration to decommissioning. It permits cross-border CO_2 transport and storage, capping foreign CO_2 at 30% of storage capacity. PTK 070/2024 also provides technical guidelines detailing CCS/Carbon Capture, Utilisation and Storage (CCUS) procedures and requirements for upstream oil and gas contractors, which complement MEMR Reg 2/2023. MEMR Reg 16/2024 sets out the requirements and procedures for business actors to engage in CCS within designated carbon capture and storage areas. These areas include open-access areas, mining business licence areas, and oil and gas working areas under PSCs. Notably, MEMR Reg 16/2024 also establishes procedural steps for non-PSC contractors to conduct CCS activities in MEMR-designated areas, which are not limited to PSC oil and gas working areas.

5.6 Local Government Limits on Development

Generally, oil and gas operations in Indonesia are overseen by SKK Migas. However, the province of Aceh has been granted special authority to administer its own natural gas and oil resources. To facilitate this, Aceh established a dedicated body known as the Aceh Oil and Gas Management Agency (*Badan Pengelola Migas Aceh*, or BPMA) to supervise and manage the province's upstream oil and gas operations.

6. Impacts of Energy Transition

6.1 Energy Transition Laws and Regulations

National Energy Plan

Through GR 40/2025, Indonesia has updated its National Energy Policy and extended the policy framework to 2060, in line with its net zero emissions target. Under the updated framework, the share of new and renewable energy in the primary energy mix is targeted to reach 19% to 23% by 2030, 53% to 55% by 2050, and 70% to 72% by 2060. While the role of oil is expected to decline significantly, natural gas remains part of the transition pathway, particularly for electricity, industry, households, and transportation.

Energy Conservation Services Framework

In January 2026, the MEMR issued MEMR Regulation No 1 of 2026 regarding Energy Conservation Service Businesses, which implements the energy conservation framework under Government Regulation No 33 of 2023. The regulation provides a framework for investment-grade energy audits, energy-efficiency project financing, operation and maintenance of energy installations, and measurement and verification of energy performance. While not specific to oil and gas, it is relevant to energy-sector businesses in connection with energy-efficiency and decarbonisation initiatives.

Carbon Economic Value

In October 2025, the Indonesian government updated its outlined carbon economic framework through Presidential Regulation No 110 of 2025 regarding the Implementation of Carbon Economic Value Instruments and National Greenhouse Gas Emission Control ("PR 110/2025"), revoking and replacing Presidential Regulation No 98 of 2021. PR 110/2025 retains carbon trading as one of the main carbon economic value instruments, including emissions trading and greenhouse gas emissions offsetting, while introducing a more detailed framework for carbon allocation, carbon unit registration, corresponding adjustments for international transfers, and the recognition of certain internationally certified carbon units in domestic carbon trading.

Carbon Tax

Law No 7 of 2021 regarding Harmonisation of Taxation (the "Taxation Harmonisation Law") allows entities engaging in carbon emission balancing or trading to potentially qualify for reduced carbon tax. The Taxation Harmonisation Law also increases VAT, potentially affecting future carbon credit transactions from CCS/CCUS activities.

CCS/CCUS Regulations

The Indonesian government has issued several regulations to govern CCS and CCUS activities, namely MEMR Reg 2/2023, PTK 070/2024, PR 14/2024, and MEMR Reg 16/2024. CCS aims to reduce greenhouse gas emissions by injecting and storing carbon in work areas, whereas CCUS aims to reduce emissions and boost oil and gas production by using and storing carbon in these areas. PSC contractors may do this by capturing emissions from upstream oil and gas operations or deriving the carbon from other industrial activities. Implementation of these activities will require approval from the MEMR and SKK Migas.

6.2 Energy Transition and Oil and Gas Development

The new regulatory regime for CCS/CCUS allows PSC contractors to inject, store and utilise carbon emissions generated from their upstream oil and gas operations in designated work areas, including oil and gas reservoirs, saline aquifers, and coalbed methane gas seams. These activities require the approval from the MEMR and SKK Migas with regular reporting to the DGOG. Specifically, PTK 070/2024 provides comprehensive technical guidelines for CCS/CCUS activities in the upstream oil and gas sector.

Expenses related to CCS/CCUS activities can be classified as "operational costs" in the PSC, provided emissions originate from the contractor's designated work area. Emissions from other industries used for CCUS can be categorised as "operational costs" for downstream activities. The recoverability of such costs depends on whether the PSC follows a traditional cost-recovery model or a gross split contract.

PSC contractors may generate revenue from injection and storage services, potentially maximising the utilisation of current infrastructure and storage facilities.

PSC contractors engaging in CCS/CCUS activities also qualify for tax incentives applicable to upstream oil and gas operations, including exemptions from import duties and deductions on land and building taxes, enhancing the economic attractiveness of these initiatives.

Additionally, the recently issued PR 14/2024, which focuses on CCS activities, emphasises Indonesia's role as a CCS hub. It introduces two CCS schemes:

- first, integrating CCS into existing oil and gas operations with amendments to the PSCs; and
- second, granting permits for exploration and storage in designated non-working areas.

MEMR Reg 16/2024 also establishes a detailed legal framework for implementing CCS activities in designated carbon capture and storage areas. The regulation sets out a structured process for obtaining the required permits for both PSC Contractors and non-PSC Contractors, as well as the procedures for the designation and preparation of carbon capture and storage areas by the MEMR.

6.3 Other Energy Transition Considerations

In Indonesia, gasoline and petrochemicals are vital to the energy and industrial sectors. The country is dependent on fossil fuels, with petroleum making up a significant portion of its energy consumption. The government aims to reduce imports and strengthen domestic production capacity, including through refinery upgrades, biofuel blending initiatives, and the development of petrochemical production, to meet growing domestic demand.

Under the biodiesel regulatory framework of MEMR Regulation No 24 of 2021 and MEMR Regulation No 4 of 2025, licensed fuel oil business entities are required to blend biodiesel-type biofuel with diesel oil at the percentage determined by the MEMR. In June 2026, the MEMR issued MEMR Decree No 257.K/EK.01/MEM.E/2026, which increases the mandatory biodiesel blending requirement for diesel oil from B40 to B50, effective 1 July 2026, as part of Indonesia's broader policy to reduce diesel imports and increase the utilisation of biofuels.

In addition, Indonesia has also continued to promote the development of CCS/CCUS. The Indonesian government has reported that Indonesia has 19 CCS/CCUS projects – most (almost 80%) of which are spearheaded by Pertamina. These projects are expected to commence within the next five years. The largest upcoming project on the list is the CCS Tangguh, operated by BP Berau Ltd, which is scheduled to be operational by the third quarter of 2028. The project aims to store 25–33 million tonnes of CO_2 over ten to 15 years, with an estimated investment cost of nearly USD3 billion.

The Indonesian government issued key renewable energy regulations in April 2025, namely MEMR Regulation No 10 of 2025 regarding the Energy Transition Roadmap, which targets 443 GW of installed energy capacity by 2060, and MEMR Regulation No 5 of 2025 regarding Guidelines for Power Purchase Agreements from Renewable Energy Sources, which streamlines power purchase agreements. Despite the renewables push, natural gas remains vital, with PLN allocating 10.3 GW for new gas and LNG power plants in its 2025–2029 plan.

7. Additional Information

7.1 Unconventional Interests: Upstream

Unconventional oil and gas exploration and production are regulated under the Oil and Gas Law and further addressed by MEMR Regulation No 35 of 2021, which outlines procedures for designating and offering these areas either through direct offers or standard tenders. Further, the newly enacted MEMR Reg 13/2024 and MEMR Decree 230/2024 also now set out terms for the base split calculation for unconventional oil and gas interests in Gross Split PSCs.

7.2 Liquefied Natural Gas (LNG)

LNG facilities may be operated by entities in the upstream sector as an ancillary activity to their upstream operations under the PSC or by entities in the downstream sector to engage in processing/trading activities.

As discussed in **3.13 Laws and Regulations: Imports and Exports**, exporters of LNG products must obtain

an export approval from the MOT, with a recommendation from the MEMR.

7.3 Unique or Interesting Aspects of the Hydrocarbon Industry

Indonesia's oil and gas history spans more than 130 years, starting with the first significant oil discovery in Asia in Telaga Said, North Sumatra in 1885. The Talang Akar Field, discovered in South Sumatra in 1912, was the largest field until the Second World War. In 1966, Indonesia became the first country to use the PSC, allowing international oil companies to act as contractors while Indonesia retained sovereignty over its petroleum resources. The first Indonesian PSC was signed on 18 August 1966 for the Offshore Northwest Java Block, involving Pertamina and US company Independent Indonesian American Petroleum Company.

The PSC system evolved significantly in 2017 when the Gross Split PSC was introduced alongside the traditional cost-recovery model. This new model allows contractors to receive a gross split percentage of production share before taxes, marking a pivotal shift in Indonesia's upstream sector.

This shift was driven by fiscal pressures from inefficiencies in the traditional cost-recovery system. For instance, in 2016, cost-recovery expenditures amounted to USD11.4 billion, while the Indonesian government's revenue from the oil and gas sector was only USD9.29 billion (Brad Roach and Alistair Dunstan, The Indonesian PSC: the End of an Era in Journal of World Energy Law and Business, 2018).

7.4 Material Changes in Law or Regulation

There have been several key updates in Indonesia's oil and gas regulatory landscape, as follows.

New Regulations on Gross Split PSCs

Indonesia has revised its Gross Split PSCs framework through MEMR Reg 13/2024, which replaces MEMR Reg 8/2017 as amended. The updated framework, applicable to both conventional and unconventional oil and gas activities, provides more detailed guidelines on profit-sharing mechanisms. MEMR Decree 230/2024 was issued to supplement this regulation. Key revisions include:

- Adjustments to the Base Split Calculation: The base split for Gross Split PSCs has been revised, with PSC Contractors receiving 47% for crude oil and 49% for natural gas, while the state retains 53% and 51%, respectively.
- New Criteria for Base Split Adjustments: Unlike MEMR Reg 8/2017, the revised regulation differentiates between conventional and unconventional operations when determining the base split adjustments.
- Conventional PSCs: Adjustments are based on variable components (reserve size, field location, and infrastructure availability) and progressive components (such as oil and gas prices).
- Unconventional PSCs: The split is fixed at 46% for PSC contractors.

Recent Amendment to SKK Migas Guidelines for the Procurement of Goods and Services by a PSC Contractor

In August 2025, SKK Migas issued an amendment to PTK 007/2023 on the procurement guidelines for PSC contractors, through Head of SKK Migas Decree No KEP-0082/SKKIA000/2025/S9 of 2025. This amendment introduces several significant changes, including:

- revision of classification terminology to align with investment law terminology, under which the former category of "Domestic Company" is now referred to as "PMDN Company," while the former category of "National Company" is now a "PMA Company";
- adjustment of procurement value thresholds by revising the USD reference rate from USD1 = IDR10,000 to USD1 = IDR15,000;
- migration of SKK Migas's supply-chain information system from SI-PRS to the new STREAM platform;
- updated approval mechanisms for Master Agreements, including revised procedures and approval flows within SKK Migas; and
- adjustments to provisions on sanction categories, including the refinement of sanction categories, implementation procedures, and financial sanctions tied to actual TKDN shortfalls.

New Safety Guidelines for the Oil and Gas Sector

To enhance industry safety standards, the MEMR issued MEMR Decree No 176.K/MG.01/MEM.M/2024 regarding Guidelines for Assessing the Implementation of Oil and Gas Safety Management Systems ("MEMR Decree 176/2024") in July 2024, replacing the 2018 decree on oil and gas safety management systems. MEMR Decree 176/2024 mandates that all PSC contractors and downstream business entities implement comprehensive safety guidelines, including mandatory emergency response drills and the integration of environmental sustainability measures into safety protocols, and a revised compliance scoring system in assessing companies' adherence. These updated safety measures took effect on 25 January 2025.

Revised Regulation for Offering of 10% Participating Interests to BUMDs

In January 2025, the MEMR introduced Regulation No 1 of 2025 ("MEMR Reg 1/2025"), which amends MEMR Regulation No 37 of 2016 regarding the Offering of 10% Participating Interests in Oil and Gas Areas. Key changes under MEMR Reg 1/2025 include:

- Eligibility Criteria for BUMDs: The definition has been amended from "regional company fully owned by a regional government" to "a regional company whose entire capital is owned by a single region and is not divided into shares".
- Offering Procedures: Regional governors will now determine which BUMDs or subsidiaries are responsible for managing the participating interests. Any BUMD that accepts the offer must establish a BUMD subsidiary.
- Transfer Procedures: The approval period for participating interest transfers is extended from 30 to 60 calendar days. Recipients are now permitted to transfer their shares to another BUMD or a subsidiary established by the regional government, as long as there is no private sector involvement in the transfer.

Co-Operative Production Enhancement Framework in Working Areas

In June 2025, the MEMR issued MEMR Regulation No 14 of 2025 regarding Cooperation in the Management of Parts of Oil and Gas Working Areas to Enhance Production ("MEMR Reg 14/2025"), which was further implemented by SKK Migas Working Guideline No PTK-023/SKKIA0000/2025/S9 ("PTK-023/2025"), to enhance oil and gas production by allowing PSC contractors to form management partnerships. These partnerships include (i) operational and/or technological co-operation; (ii) well production co-operation with BUMDs, co-operatives, or micro, small, and medium-sized enterprises ("MSMEs"); (iii) co-operation on crude-oil mining at old wells; and (iv) other forms of co-operation, as approved by SKK Migas/BPMA.

Updated Risk-Based Licensing Regime Under GR 28/2025 and MEMR Reg 7/2026

The government issued GR 28/2025 in June 2025, reforming the risk-based licensing framework and revoking GR 5/2021. Existing permits issued under GR 5/2021 remain valid if not conflicting with the new regulation. Applications already in progress will continue to be processed under GR 5/2021 until the OSS system is fully aligned with GR 28/2025. In June 2026, the MEMR issued MEMR Reg 7/2026 as the sectoral implementing regulation for GR 28/2025. MEMR Reg 7/2026 sets out the updated standards for business licences and supporting business licences in the energy and mineral resources sector, including the oil and gas subsector. Key updates under MEMR Reg 7/2026 include:

- updated standards for supporting business licences, including those supporting operational and/or commercial activities in the oil and gas subsector;
- simplified spatial-approval treatment for certain upstream oil and gas activities, including general survey activities and working areas that have been designated by the government;
- an updated administrative sanctions framework; and
- confirmation that existing licences remain valid until their expiration, while pending applications may continue to be processed under the previous framework until the OSS system has been adjusted.

For oil and gas business actors, the overall licensing structure remains unchanged. However, business actors for supporting activities, non-pipeline trans-

portation and biofuel blending activities may need to reassess their OSS-based licensing requirements, supporting licences and applicable business-activity standards against MEMR Reg 7/2026.

In addition to the above, discussions on a new oil and gas law have continued. In April 2026, the House of Representatives indicated that a new Oil and Gas Bill was being prepared as a comprehensive replacement of the existing Oil and Gas Law, rather than as a limited amendment, in order to address issues such as upstream oil and gas governance, legal certainty and Indonesia's energy-security challenges. As of the date of this publication, however, no new oil and gas law has been enacted.

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