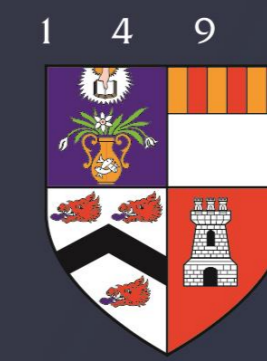


SHOULD INDONESIA CHANGE ITS PETROLEUM FISCAL SYSTEM FROM PRODUCTION SHARING CONTRACT (PSC) TO ROYALTY?

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BACKGROUND

- Government's proposal to change petroleum fiscal system from current PSC system to a proposed royalty system
- Better fiscal system that will generate higher government take for the government while still encourage investor to invest
- Which system works better for Indonesia?

PSC System

- Production sharing mechanism
- Government own the resource, company as the contractor

Royalty System

- Early revenue for the government
- Company's exclusive right over the resource

METHODOLOGY

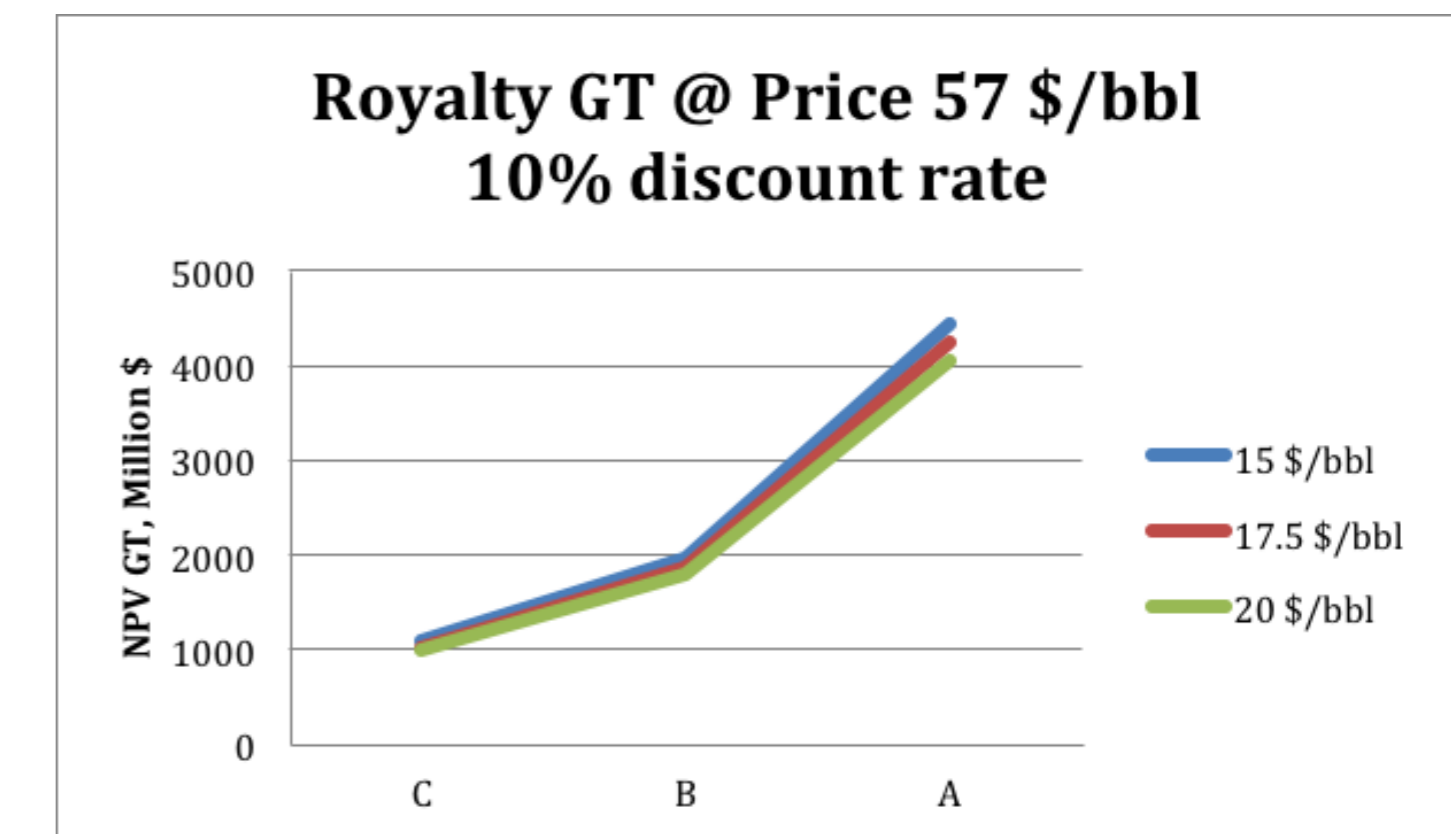
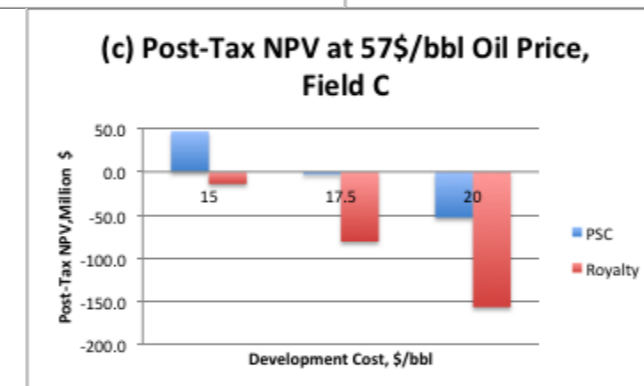
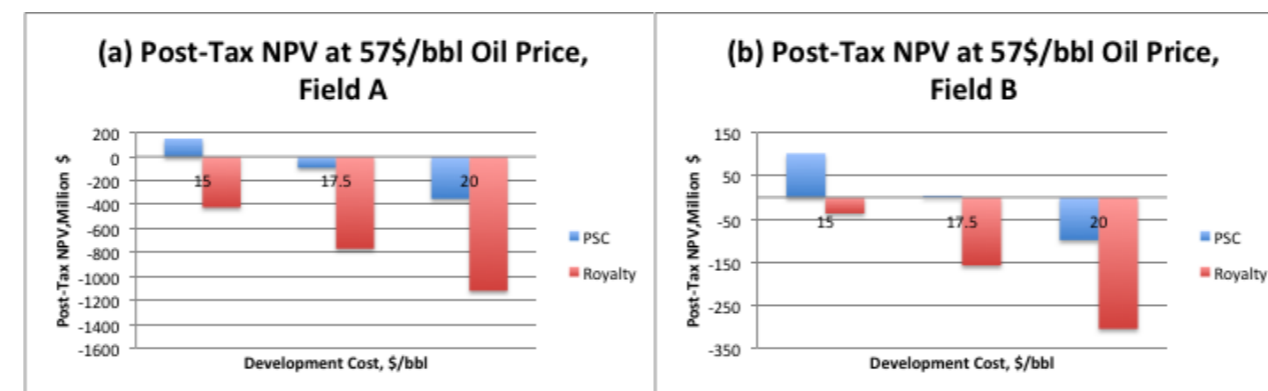
- Deterministic Sensitivity Analysis and Monte Carlo Simulation
- Variables for analysis: oil price, reserve, development cost, operating cost, discount rate
- Key parameters: Percentage of Government Take (GT) and Government Share from Gross Revenue (GSGR), Total Government Take, Post-tax NPV

RESULT

		Government Take (GT) From Fiscal System	
Field	Reserves	PSC	Royalty
A	High, 250MMbbls	77.27%	75.48%
B	Medium, 100MMbbls	77.49%	72.19%
C	Low, 50MMbbls	78.17%	75.33%

$$GT = \frac{\text{Total Government Share}}{\text{Gross Revenue} - \text{Cost Recovery}} \quad GSGR = \frac{\text{Total Government Share}}{\text{Gross Revenue}}$$

		PSC		Royalty	
Field	Reserves	GSGR	Cost Recovery, Million USD	GSGR	Cost Deduction, Million USD
A	250MMbbls	42.09%	7421	53.23%	6404
B	100MMbbls	39.71%	3597	40.52%	3237
C	50MMbbls	34.41%	2064	37.67%	1885



Conclusion

- Cost recovery affects GT and GSGR Calculation
- Total Government Take is increasing as project's profitability increasing
- Both methods show PSC system is more

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