LEGAL FRAMEWORK ON POLICY FOR NATURAL GAS DEVELOPMENT AND UTILIZATION

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ABSTRACT

Due to declining of crude oil production and global energy crisis, development and utilization of natural gas policy should arrange to meet domestic demand. The gas sector's potential is bright; domestic, regional and international demand for natural gas is expected to rise dramatically over the next decade. To capitalize on this opportunity, Indonesia must improve its gas infrastructure, expand power capacity and attract new investment that will create new sources of production. Legal framework for natural gas exploration and production and downstream activities should be directed to create conducive investment atmosphere and to provide the sustainable of natural gas availability.

Key words: Legal framework; National Policy; Natural Gas Development and utilization.

I. INTRODUCTION

With reference too the energy demand and utilization in Indonesia, particularly to fill the industry and power plant requirements, so that energy reserves development including natural gas will be the most urgent subject. Due to the current Indonesia's natural gas reserves left on 94 TCF approximately for the national energy necessity to the next 30 years (World Bank, 2002) or it has been exploited in sum of 188 trillion cubic feet (TCF) of natural gas reserves, which constituted the twelfth largest in the world based on the Directorate General for Oil and Gas (2007).

According to *Oil and Gas Journal*, (2007) Indonesia had 97.8 trillion cubic feet (Tcf) of proven natural gas reserves as of January 2007. Indonesia is the tenth largest holder of proven natural gas reserves in the world and the single largest in the Asia-Pacific region. According to the Indonesian government, more than 70 percent of the country's natural gas reserves are located offshore, with the largest reserves found off Natuna Island, East Kalimantan, South Sumatra, and West Papua.

Based on these reserves, Indonesia becomes the country which owns the bigger natural gas reserves in the world; unfortunately, the utilization for domestic needs is not optimum yet.

The major domestic consumers of natural gas in Indonesia are fertilizer and petrochemical plants, followed by power generators. The Government hopes to change this, by advancing gas usage to 39% by 2020, while reducing current oil consumption from 55% at present to between 10-15% in 15 years. If these goals could be realized, there will need to be a substantial amount of new investment in gas-fired power projects and electrical transmission infrastructure.

Natural gas demand is projected to increase from 40 Mtoe in 2002 to 87 MTOE in 2030, at an annual growth rate of 2.8 percent. The electricity sector will lead natural gas demand, accounting for 53 percent of the incremental natural gas demand growth. Over the outlook period, natural gas demand will be met by domestic supply – by both pipeline and internal LNG shipments.

Global energy crisis is currently facing by this country, obliged the policy makers to organize the utilization and productions of alternative energy, therefore they need to arrange the legal framework on Natural Gas development and utilization for domes

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tic demand. Otherwise, on the absence of regulations for natural gas utilization except the policy for kerosene conversion to LPG or fuel oil for commercial transportation to Compressed Natural Gas (CNG), there are no regulations for Natural Gas Development and Utilization yet for industry and major public facilities such as Electricity or Fertilizer industry.

The objectives this paper is to contributing to the policy maker on the arrangement policy for development and utilization of natural gas to support the domestic energy demand in framework to conducting the order of Article 2 Law number 22 of 2001 regarding to Oil and Gas and to discuss for natural gas development and utilization on the legal analyses generally including the policy for Natural gas selling and marketing and the implementation of regulations for natural gas development and utilization.

II. METHODS

- Data Collecting;
- Legal review (statutes and case studies on oil and gas industry using hard copy and on-line legal sources) ;
- Discovering any statements of policy and other policy documents on gas development and utilization.
- Desk review and overview of oil and gas sector legal framework support.

III. LEGAL REVIEW AND OVERVIEW

Regulation of natural gas exploration and production is based on Law No. 22 of 2001 (the "Law") and it's implementing regulations (in particular, Government Regulation No. 35 of 2004). Following the enactment of the Law, the State oil and gas company, Pertamina, which previously had also been responsible for regulating upstream oil and gas activities, lost its regulatory role. This has now been assumed by BP Migas, a State agency, and the Ministry of Energy and Mineral Resources. Downstream activities (which include transportation and storage) are the responsibility of BPH Migas.

Under the 1945 Constitution, the Republic of Indonesia owns all oil and gas rights within its territory. Private sector companies participate in oil and gas activities through Production Sharing Contracts, entered into with BP Migas. Under the Production Sharing Contract, a contractor is entitled to a certain percentage of oil and/or gas production. Traditionally, for gas, the after-tax production split has been 70% for BP Migas and 30% for the upstream contractors. In exchange, contractors are required to finance all exploration, production and development costs in the contract areas, and are entitled to recover operating, exploration and development costs from the oil and gas produced.

Downstream gas activities (including processing, transportation, storage and trading), must be carried out by an Indonesian legal entity. In practice, this means that a foreign company must establish a local subsidiary and obtain a downstream license from the Government. In recent years, the Government has offered more attractive production splits and other fiscal terms for new gas blocks and marginal gas fields to try to attract more investment in the development of natural gas reserves.

The following statutes form the main legislative framework are among others:

- Law No. 22 of 2001 Regarding on Oil and Natural Gas;
- Government Regulation No. 17 of 1974 Regarding on Supervision of the Implementation of Offshore Oil and Gas Exploration and Exploitation;
- Government Regulation No. 35 of 1994 Regarding on Requirements and Guidelines for Production Sharing Contracts;
- Government Regulation No. 42 of 2002 Regarding on Implementing Body for Oil and Natural Gas Upstream Business Activities ;
- Government Regulation No. 67 of 2002 Regarding on BPH Migas for Supply and Distribution of Fuel Oil and Business Activities of Transporting Natural Gas Through Pipelines;
- Presidential Decree No. 42 of 1989 Regarding on Cooperation between Pertamina and Private Entities in Oil and Gas Refining Process;
- Presidential Decree No. 31 of 1997 Regarding on Construction and Operation of Oil and Gas Refineries by Private Entities;
- Presidential Decree No. 86 of 2002 Regarding on the Establishment of BPH Migas for Supply and Distribution of Fuel Oil and Business Activities of Transporting Natural Gas Through Pipelines and;
- Presidential Decree No. 5 of 2005 Regarding on Energy Policy;

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- Presidential Decree No. 1 of 2006 Regarding on the national energy policy on the term of 2006 to 2025;
- Decree of the Minister of Mines and Energy No. 0579.K/325/M.PE/1984 Regarding on Selling Price of Natural Gas for Domestic Use.

Pursuant to the Law 22 of 2001, as stated above, the Minister of Energy and Mineral Resources will establish the Master Plan and, given its general authority over transmission and distribution of natural gas and specific authority to determine joint utilization of transportation systems and intervene in pipeline operator disputes. BPH Migas will likely play a key role in determining questions of access to natural gas transportation systems, and interconnection of and cooperation between pipeline systems.

IV. DISCUSSION

A. *Legal Frame Work for Natural Gas Development And Utilization*

Natural Gas Export Policy still dominated to selling of liquefied natural gas abroad. It could be caused by the high price disparity. The national price of LNG is US $ 5.5/MMBTU, in the contrary for world market between US$9 to US$10. That is why Pertamina most like to export LNG to Japan and they signed the agreement to supply LNG until 2011 for more than US$10.

However, this allegation does not match with Article 2 Law Number 22 of 2001 regarding to Oil and Gas that stated that "the process of oil and gas activity should based on economic democracy, unity, beneficially, justice, harmony, distribution of prosperity, social welfare, security, safety and law certainty and environmental oriented also"

The significant stressing is ordered by Article 8 Paragraph 1, that stated among others:" The Government should give the priority against natural gas utilization for domestic demand…".

Based on the fact above, there are no neglected demands that the development and utilization national policy on the use of natural gas to support the economic wheel and national development is extremely expected.

Government Regulation No. 36 of 2004 stated that, gas transportation (if this is intended to be a profit centre) is considered a downstream oil and gas activity. As such, it must be carried out by an Indonesian legal entity (which may be domestically or foreign-owned). Foreign-incorporated companies may only conduct downstream activities if these form part of their upstream activities.

A central question then, how can a host government through its legal regime strike a balance between investment and competition in its gas industry? In posing this question, consideration must be given to a number of related issues. First, quite fundamentally, is the country's level of economic development, its investment policy, and its political stability. For gas specifically, devising a gas strategy must also take into account the country's existing gas reserves and production volumes, downstream infrastructure, and objectives for gas development, whether for power generation, domestic consumption, export, or some other purpose. Finally, at a governmental level, the structure and functioning of energy related agencies and regulatory body will have a bearing on how effectively the desired balance between investment and competition can be struck.

Indonesia as the host country to implement Oil and Gas regulations has the legal foundation to operate the oil and gas industry, as follows:

- Oil and Gas as strategic non-renewable natural resources within the Indonesia legal territory are controlled by the state
- Law 22/2001 regulate oil & natural gas activities, upstream activities shall be conducted and controlled through the cooperation contract
- The cooperation contract shall meet the following requirements:

a. The ownership of resources remains under the government of Indonesia.
b. Directorate General for Oil and Gas conducts and evaluates the acreage offering process.
c. The implementing body controls the management of operation.
d. the business entity or permanent establishment undertakes capital and risk.

Government Regulation No. 35 of 2004 as amended by Government Regulation No. 34 of 2005 regarding upstream oil and gas business activities and Government Regulation No. 36 of 2004 regarding on downstream oil and gas business activities, the gas business in Indonesia remains in transition. Law No 22 of 2001 and these government regulations sub

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stantially changed the existing business structure for both oil and gas activities, especially for downstream gas activities. While Law No. 22 of 2001 outlines the objectives and policies of the government for the natural gas sector, details of the new regulatory scheme will be established through a series of government regulations to be issued under Law No. 22 of 2001. Nowadays, six government regulations have been enacted. Government Regulation No 35 of 2004 and Government Regulation No. 36 of 2004 were enacted to provide certain details concerning the regulation of the upstream and downstream oil and gas business activities in Indonesia, respectively, while the remaining three government regulations deal with the establishment of the governmental agencies to supervise the upstream and downstream of oil and gas sectors, BP Migas and BPH Migas, and the establishment of PT Pertamina (Persero).

BPH Migas is managing natural gas transportation through transmission and distribution pipeline activity under Government Regulation No. 67 of 2002 in order to the utilization of natural gas shall open to the entire sectors and to encourage the advantage for domestic utilization of natural gas.

The increasing of domestic market demand potential has a significant opportunity. On 2004 domestic market demand was 2,924 MMSCFD approximately and the estimation of demand on 2020 could reach 4,400 MMSCFD.

The cancellation of fuel oil subsidy has brought the competitive impact on natural gas utilization and development.

The planning for development of transmission and distribution pipelines and LNG receiving terminals will open access the opportunity of natural gas marketing; therefore it will bring the consequences for bigger investment to exploits the proven reserves of natural gas. The investor need to get the legal certainty to conduct the natural gas development project in Indonesia. On oil and gas business activity particularly for natural gas development, the government has arranged the National Gas Distribution and Transmission Network Master Plan which is decided by the Minister c.q Directorate General for Oil and gas, where as BPH Migas on behalf of the Government of Indonesia has the authority to manage the natural gas downstream activity and stated that the legal entity as a business holder of natural gas transportation through transmission and distribution pipeline should own the special right from BPH Migas

The National Energy Policy in Indonesia based on the Presidential Decree Number 5 of 2005 and Presidential Instruction Number 1 of 2006, are ordered the national energy policy on the term of 2006 to 2025 should be purposed to non fossil energy advantage. Even though natural gas is including on non renewable fossil energy, but natural gas reserves in Indonesia are basically still plentiful.

The Prime policy for National energy utilization to be based on energy supply consists of several factors, among others:

- To increase energy supply capability;
- To optimized energy production; and
- Energy resources conservation

Energy supply improvement is also directed to improve for natural gas supply capability for domestic demand. On the last decade the tend of natural gas supply and demand road map, particularly for domestic demand showed of no balance graphic as explained above, except on the several regions in Indonesia are concerned to become deficit.

Following the Presidential Decree for Energy policy in Indonesia No. 5 of 2005, the government has arranged the Gas Balance, a natural gas supply and demand road map as a raw model and to ensure the legal certainty investment for the foreign and domestic investor.

Gas Balance has been prepared based on the data of January 1st 2007. This data consists of supply and demand data. It could evaluate when there were found the alteration data .

Natural gas availability is divided on region. The region determining criteria based on, firstly, the amount of reserves and secondly, on this region is having a lot of demand, and thirdly, this region is connected with pipeline will merged in to one region

During 2006, the total of gas demand in Java reached up to 2,934 MMscfd (million standard cubic feet per day) but gas supply only reached up to 1,252 MMscfd. Meaning that the deficit of gas fuel was increased to 1,682 MMscfd.

For example of gas supply and demand in East Kalimantan on 2006 as shown bellow on Table 1.

Natural gas supply in East Kalimantan will seize up on 2008 with total of production 4.13 TCF. It is

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caused by the added supply as much as 1.02 TCF from Total E&P Indonesia and Chevron Pacific Indonesia including Gendalu field.

There is planned an addition 300 BCF from Gendalu field on 2008 from Chevron Pacific Indonesia. After 2008, natural gas production will decline as 4,01 TCF and 3,91 TCF on 2010.

There are several energy diversification policies to optimize energy production, among others Coalbed Methane Development as described on the Ministry Regulation of Minister of Energy and Mineral Resources No. 033 of 2006 regarding on Coalbed Methane Development that has been refered to Government Regulation No. 35 of 2004 regarding on The Upstream Activity on Oil and Gas.

Energy Conservation should be directed to utilization and development including on optimizing energy resources efficiently for the industry domestic importance.

On one hand, for domestic utilization of natural gas, the government must create the domestic gas utilization policy, to arrange the domestic natural gas price road map for domestic needs and should be based on the consensus of producer and consumer. The Government shall take action to maintain of sustainable for natural gas development if necessary. On the other hand the producer has the obligation to submit 25% of their production as Domestic Market Obligation (DMO) for the basic Plan of Development arrangement and to Optimized utilization of gas resources in specific area by concerning reserves, demand/market (capacity/location), and gas infrastructures, technical and economical feasibility (specification/deliverability).

The ratio of natural gas consumption and production from 1984 to 2004 based on the Annual Energy Information Administration as shown in Figure 1

Due to increasing of world crude oil price and the opposite that the production is declining, the utilization of natural gas hopefully could fulfill energy domestic necessity, therefore in this case, there is need some special policy to solving the domestic energy crisis.

Table 1
The estimation for gas demand in East Kalimantan (TCF)

	2007	2008	2009	2010	2011	2012
Supply	3,91	4,13	4,01	3,91	3,59	3,36
Demand	3,77	3,58	3,71	3,38	3,75	3,36

(Source: Gas Balance sheet DESDM 2006)

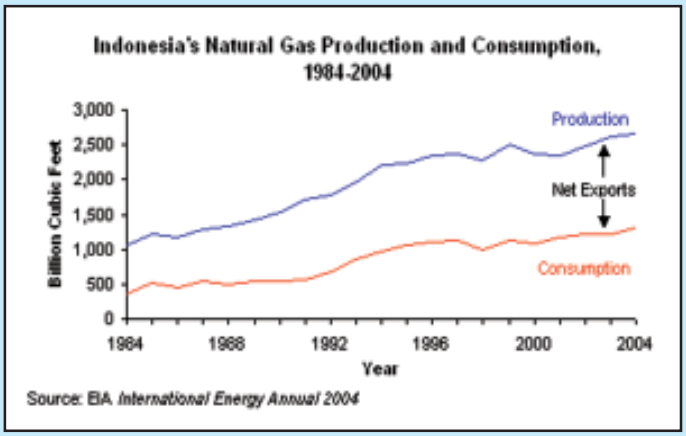

Figure 1
Indonesia's natural gas production and consumption

B. *Policy For LNG National Selling and Marketing*

On 2001 Indonesia has begun to export LNG through 400 miles long sub-sea pipeline for 325 cubic feet of LNG per day from West Natuna to Singapore and in August 2002, Indonesia delivered 250 MMcf/d of piped natural gas to Malaysia's Duyong platform. And in August 2003, a second natural gas connection to Singapore was opened when the South Sumatra-Singapore pipeline was completed. This line reached 350-MMcf/d maximum capacity during 2006 and will deliver natural gas to Singapore over a 20-year contract. Besides that Indonesia exports around 57% of its annual gas production of 3 Tcf as LNG. About 63% of this goes to Japan based on the selling of natural gas agreement contract and will terminate on 2010-2011, 20% to South Korea, and the reminder to Taiwan. Every year Indonesia and Japan renegotiate the LNG price to adjust it to the world market price.

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isting supply is more or less than 6,000 MMSCFD, on the contrary, the peak of existing supply will occurred on 2009, still under the committed demand, whereas the committed demand requirement as much as 8,000 MMSCFD. This deficit must be fulfilled through the investment policy to built CNG or LNG Receiving Terminal.

On the Gas balance sheet of Directorate General for Oil and Gas (MIGAS) 2006, expressed that Eastern Kalimantan natural gas production will deficit on 2011, with the total of gas supply 3.59 TCF, on the contrary, energy demand is 3.75 TCF. This deficit would continue until 2020 and could threaten the whole operational of National Electricity Enterprise (PLN) power plant, East Kalimantan fertilizer factory (P.T. Pupuk Kaltim) and Bontang LNG Refinery. This condition will bring the economic and social suffer if the government not arrange the investment policy as soon as possible to emphasize the decline of natural gas production.

The other case to compare the fact above is the fertilizer factory located at Lhok Seumawe, Nangroe Aceh Darussalam currently has undergone the production difficulty caused by shortage of supply of natural gas.

Supply of natural gas that has been received by Pupuk Iskandar Muda Factory may less than the normal demand on 120 MBTU per day. On the other hand, even the policy of natural gas export is remain required, there is no significant problem however, because the foreign exchange entered not more than 50% when compared with revenue from national industry.

The Government has taken the action to call for the investors to solve the deficit of gas demand, through arrangement of National Gas Distribution and Transmission Network Master Plan (NGTDMP) The reason of arrangement for natural gas policy as presented by Minister of Energy and Mineral Resources on IICE, 2006, are:

- Establishment of National Gas Distribution and Transmission Network Master Plan (NGTDMP), as tools to promote natural gas utilization the plan is update annually incorporating government project initiatives and business entities proposed networks.
- NGTDMP shall consist of Pipeline Networks *That Fall Into Different Categories, Such That It Honors The Sanctity of Previous Contracts* related to the production and the utilization of the transported natural gas as well as preserving the government rights to supply the natural gas for domestic purposes through open access mechanism.
- Automatically identifies *PSC and Cooperation Contracts Existing Networks as Fully Dedicated or Shared Dedicated Networks* and incorporates them in the NGTDMP. Such networks *Requires No Business License or Operating license* for they are legally covered by the PSC or *Cooperation Contracts*. However, a third party institution hired to operate the networks should process these licenses.
- Further expansion of *Fully Dedicated Or Shared Dedicated Networks Are Allowed To Fall In The Same Category* provided the business entities could prove that no profit gain is acquired in

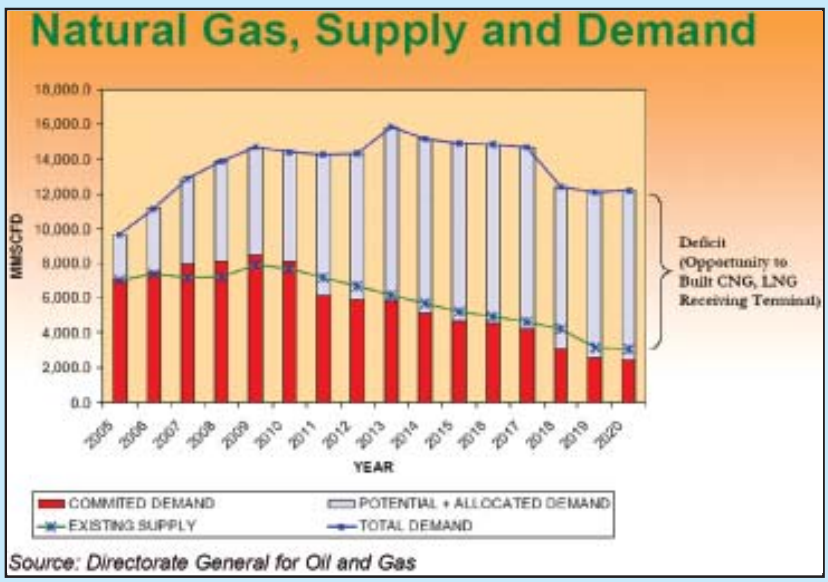

Figure 2
Indonesia's Natural Gas Supply and Demand 2005-2020

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the transportation services and the transported gas is part of he PSC or *Cooperation* contracts. These networks are to be incorporated in the NGTDMP

- All networks that *Earn Profit For The Services Should Process Business and Operating Licenses.* These networks are categorizes as open access
- All third parties hired to operate fully dedicated, shared dedicated and open access midstream facilities and networks should possess business and operating licenses

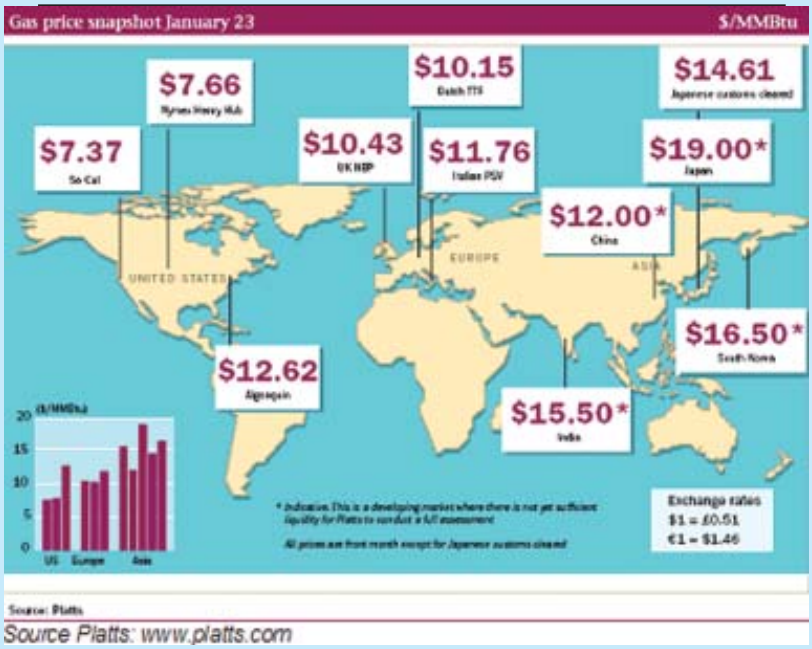

Figure 3
Platss assessment for international gas price

In accordance with the increasing of the world LNG demand, the Government of Indonesia is remain sustaining LNG export policy with no disregard gas domestic demand particularly for electricity, fertilizer industry and transportation. This policy is triggered by the world gas demand and price as base on Platts assessment as shown in Figure 3.

Refer to the Minister of Energy and Mineral Resources presentation, Indonesia will begin LNG export to China and United States on 2008. This marketing policy is purposing to:

- Maintenance of traditional LNG markets
- Creation of new LNG markets
- Realization of construction of LNG infrastructure (LNG plants and LNG receiving terminals) in stages, in line with need
- Achievement of increased utilization of natural gas as a domestic energy source
- To maintain state revenues/foreign exchange
- To create of a conducive investment climate
- To maintain credibility as a reliable LNG supplier by endeavoring to fulfill commitments of LNG supplies to consumers
- To foster good relations with consumers and prospective consumers
- To undertake integrated LNG marketing efforts
- To increase natural gas reserves in the effort to guarantee supplies of natural gas for LNG plants.
- To seek extensions to LNG sales contracts in the traditional markets with due attention to competitiveness and maximum benefits for the state
- To apply the right marketing strategy to obtain new LNG markets.
- To increase promotion (road shows) of national LNG potential
- To increase efforts to obtain new LNG markets
- To develop an information system on Indonesia's LNG
- To build LNG infrastructure in stages and in line with the need.
- To set policies that can encourage development of the national LNG industry.

Due to LNG marketing policy for LNG development and utilization The Government of Indonesia has created the market structure to promote gas demand and supply mechanism as shown in Figure 4 bellow

Nowadays, natural gas market segmentation in Indonesia particularly for electricity, industry and urban area, on the contrary, refer to Ministry of Energy

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created the market structure to promote gas demand and supply mechanism as shown in Figure 4.

Nowadays, natural gas market segmentation in Indonesia is intended particularly for electricity, industry and urban area, but on the contrary, with reference to Ministry of Energy and Mineral Resources the natural gas market opportunity are aimed to industries, households and commercial transportations.

C. *The Implementation of Natural Gas Policy in Indonesia*

A goal of Law 22 is to ensure "effective implementation and monitoring" of upstream and downstream activities. One of its purposes is to encourage further development of Indonesia's substantial natural gas reserves, for both domestic use and export. Another goal is to ensure that sufficiently natural gas is available to meet domestic demand. Satisfying such demand at present is limited by insufficient natural gas transmission and distribution infrastructure. At the same time, the Law aims to encourage competitive activity (eg by the conversion of Pertamina into a commercial oil and gas company competing with private sector companies and by opening downstream activities to private investment).

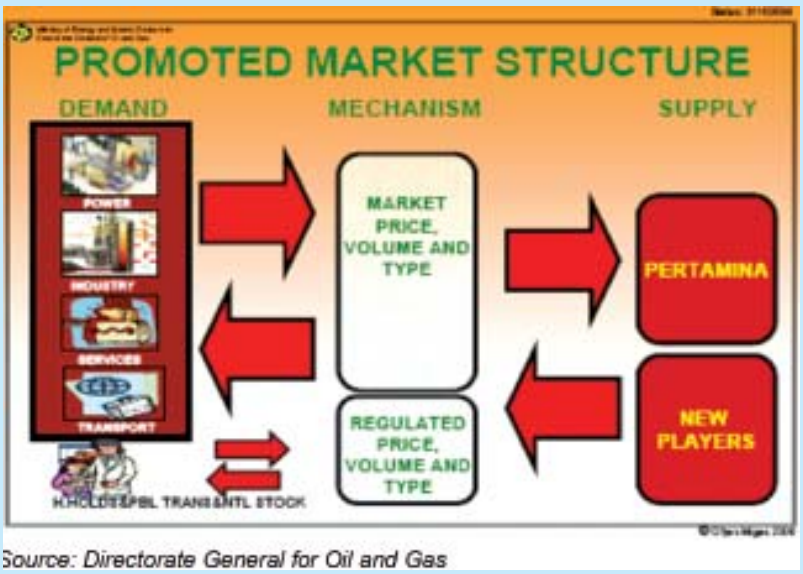
Investors who are conducting upstream oil and gas activities under a Production-Sharing Contract (referred to the Oil and Gas Law as a "cooperation contract") with BP Migas. Pursuant to the Production-Sharing Contract, the upstream contractor is entitled to a certain percentage of natural gas production from the point of export or point of domestic sale.

The Production-Sharing Contract is a legally binding contract governed by, and enforceable in accordance with Indonesian oil and gas law. The Production-Sharing Contract covers all stages of the upstream activities, from exploration through to commercial production. The term of the contract is 30 years (extendable for a further 20 years). During the first 6 years of the contract the contractor carries out exploration work, and is required to commit to minimum levels of expenditure. The exploration term is extendable for a further 4 years.

The proceeds of sale of natural gas produced under PSC are shared between the government and the contractor. Historically, the general after tax split between the government and contractors for natural gas has been 70:30 after a contractor has recovered its costs in accordance with the provisions of a given PSC. Generally, the current split is 65:35 and, at least theoretically, the split for any given cooperation contract is subject to negotiation. In addition to sharing production under cooperation contracts (which it, in turn, is required to share with local governments) the government also levied taxes on profits of contractors and companies engaging in downstream business, as well as the profits of Pertamina

There are no direct regulatory restrictions on the quantity of natural gas that can be produced by contractors under cooperation contracts, but all work programmes (whether for exploration, drilling or production) are subject to the prior approval of BP Migas and plans of development are subject to the prior approval of BP Migas or the Minister.

During the exploration term, the contractor is also required to relinquish parts of its working area, so



Source: Directorate General for Oil and Gas

Figure 4
National Promoted Market Structure

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that ultimately it will retain only 20% of the original working area. Significant control over operations is exercised by BP Migas through the annual work programme and budget for the contract area, which must be approved by BP Migas (the initial work programme and budget must also be approved by the Minister of Energy and Mineral Resources or "Minister").

Additionally, the terms of the Production Sharing Contract require upstream contractors to offer a 10% participating interest in the Production-Sharing Contract to an Indonesian Regional Government-owned company upon first approval of a Plan of Development. Furthermore opportunities are given by the state to the national companies (either State or Regionally-owned or private) to participate in the development of natural gas reserves by giving a right of first refusal over the sale of any interests under the cooperation contract.

A separate downstream general business license from the Minister is required in order to carry out each type of downstream activity; e.g. for transportation, a Transportation Business License is required. However, if a company performs downstream activities that overlap with other downstream activities, the company will only be required to obtain a single business license. In addition to the general business license issued by the Minister, gas transportation through a section of transmission pipelines or through a gas distribution network, requires an additional Special Right, issued by BPH Migas. The Special Right is granted for the term of the transportation business license or for a maximum of twenty years if no term is stated in that license. The Special Right is issued through a tender process conducted by BPH Migas, which will evaluate the bids submitted by the bidders based on their administrative, technical and financial qualifications. A single Special Right will be issued to a company for an area of a transmission segment or a distribution network.

BPH Migas is authorized to oversee and supervise the organization of gas pipelines and associated infrastructure (as identified in the National Gas Distribution and Transmission Network Master Plan above), which is reviewed annually. The relevant license holders are also required to submit periodical reports to the Minister (copied to BPH Migas) regarding the plan and realization of their business.

The national policy for development and utilization of natural gas in Indonesia is extremely important to be implemented to overcome the energy crisis and the dependence to the fossil fuel and the decline of crude oil production.

Based on the current data shows that natural gas infrastructures insufficiency such as transmission and distribution pipelines network, gas fuel stations and re-gasification terminals are the prime trouble which could be an obstacle to the national planning and policy.

Global energy crisis should be underlined to utilize natural gas for domestic demand rapidly. Beside that natural gas export must be reduced. Natural gas utilization should be directed to meet the domestic use. Even though exportation contracts to Japan, Korea and China could be continued until the of contract are terminated.

IV. CONCLUSSIONS

- Legal framework on natural gas development and utilization are currently remaining for the purpose of export.
- This conditions does not match with Article 2 Law Number 22 of 2001 regarding on Oil and Gas that stated that "the process of oil and gas activity should based on economic democracy, unity, beneficially, justice, harmony, distribution of prosperity, social welfare, security, safety and law certainty and environmental oriented also"
- The national policy on natural gas development and utilization should arrange to meet energy domestic needs and should optimized to industry, households, transportation and urban area without lack natural gas exportation continually to another country as consumers considering that the national natural gas reserves is plentiful.;
- The Government of Indonesia would give the special facilities and should warrant the legal certainty for investors to develop the LNG refineries in Indonesia and remain pay attention to environmental oriented with specification that BPH Migas on behalf the Government of Indonesia has the authority to manage the natural gas downstream activity and stated that the legal entity as a business holder of natural gas transportation through transmission and distribution pipeline should own the special right from BPH Migas

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- The Government of Indonesia should create the conducive investment atmosphere to provide the sustainable of natural gas availability;
- Natural Gas Development and Utilization should be based on the economic principles consideration;
- Natural Gas reserves management is not intended for export only but it must fulfill for and domesticrequirement either.

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