FOREIGN CAPITAL INVESTMENT IN UPSTREAM OIL AND GAS: A CASE STUDY OF PASE WORKING AREA, ACEH PROVINCE, INDONESIA

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ABSTRACT

This paper explores the management of the Pase Upstream Working Area of oil and gas (MIGAS) by Triangle Pase Inc as a Foreign Direct Investment, which is not according to the Revenue Sharing Agreement signed by the parties and regulations Indonesia. The main obstacle in the implementation of Foreign Direct Investment in the Upstream MIGAS sector in Pase Working Area is the failure to establish the APGE as a Joint Venture Company that operated as a subsidiary company required by the Investment Law and Regulation of the Minister of Trade 08/2017. It has a severe impact on the Aceh government's income from the cooperation management of the Upstream MIGAS sector in the Pase Working Area. The Arbitration Award that BANI has granted, which rejected The PDPA lawsuit, has reduced and even eliminated the privilege of the Aceh Government in managing the Upstream MIGAS sector in the Pase Working Area as stipulated by Law Number 11 of 2006 and Aceh's MIGAS Government Regulation. As a solution, the BPMA has ordered Triangle Pase Inc. to revise the legality of APGE to comply with the prevailing laws and regulations in Indonesia. Therefore, the BPMA, as the regulator, and The PDPA as the parties in the Upstream MIGAS management in the Pase Working Area and Commission III of the Aceh's House of Representative to immediately summon Triangle Pase Inc. to resolve the dispute between The PDPA and Triangle Pase Inc. The PDPA, as the losing party in the award granted by BANI, needs to take immediate legal steps to prevent the execution of the BANI's Arbitration Award

Keywords: BPMA; Pase Upstream Working Area; MIGAS; Aceh Province

A. INTRODUCTION

1. Background

Indonesia is one of the countries in the world with an abundance of Natural Resources (SDA) such as mineral and coal, and oil and gas (MIGAS). Therefore, it is not surprising that Indonesia has become one of the targets of multinational cooperation (MNC). The SDA that Indonesia has is a potential resource to Indonesians prosperity. However, poor management

can cause serious problems. Empirical data proves that 70% of the world's conflicts begin with a struggle over oil, gas, or energy resources.

Aceh is one of the provinces in Indonesia that has a relatively large amount of SDA, such as MIGAS. The history of petroleum in Aceh is marked by discovering MIGAS fields at Arun Oil Field in 1971. Since then, the centralistic management of the oil field by the Central Government has been applied. However, since Government Regulation Number 23 of 2015 on the Joint Management of Aceh MIGAS Resources (Aceh's MIGAS Government Regulation), the management and development of MIGAS in Aceh have been conducted by both local and central government.

MIGAS management requires a lot of funds, high-quality human resources, and have geological risks. Therefore, to reduce the burden, the Aceh government invites domestic and foreign investors to invest in the MIGAS sector in Aceh. Since Aceh's MIGAS Government Regulation was issued, there are 10 MIGAS Working Areas spread along the North coast of Aceh. Those working areas are managed by Cooperation Contract Contractors (KKKS), namely: Pertamina Hulu Energi, PT Medco EP Malaka, Triangle Pase Inc, Zaratex NV, KRX Energy Pte Ltd, Talisman. In detail, the names of KKKS Working Areas and the status of their activities can be seen in the table below.

Table 1. Cooperation Contract Contractor of MIGAS Working Area in Aceh

No	Working Area	Operator	Status
1	North Sumatera Block "B"	Pertamina Hulu Energi NSB	Exploitation
2	Block "A"	PT Medco E&P Malaka	Exploitation
3	Block Pase	Triangle Pase Inc. (PMA)	Exploitation
4	Lhokseumawe	Zaratex N.V. (PMA)	PoD (Transition-Exploitation)
5	South Bloc "A"	Renco (PMA)	Exploration
6	Andaman III	Repsol (PMA)	Exploration
7	WK Rantou	Pertamina EP	Exploration
8	Arakundo	ITB	Joint Study
9	ONWA		JS
10	OSWA		JS

Source: BPMA

The table above clearly shows that some foreign investors carry out the MIGAS management in Aceh through Foreign Direct Investment (FDI). Nevertheless, this paper is

only focused on the Pase Block Working Area as the object of FDI activities in the Upstream MIGAS sector.

In order to facilitate and the foreign investor, the Indonesian government has enacted Law Number 25 Year 2007 on Capital Investment. The Government of Aceh has also issued a similar regulation, Qanun Number 5 of 2018 on Capital Investment, to simplify any permits at the provincial level. Normatively, both central and local governments have conducted essential efforts to support any Foreign Capital Investment (PMA) in the form of FDI. However, at the practical level, the implementation of FDI has yet to run smoothly and effectively. The problems come not only from the Government but also from the FDI itself. This paper will be focusing on the implementation of FDI in the Upstream MIGAS sector conducted by Triangle Energy Global or Triangle Pase Inc, a foreign company from Australia. Specifically, it raises the question of how is the management of the Pase Working Area through FDI? Furthermore, what are the obstacles in implementing FDI on the Upstream MIGAS sector in Pase Working Area, and what are the solutions?

2. Research Methods

The nature of this research is normative empirical as drawn from the conduct of the research. The normative, empirical method is a combination between the normative legal approach and empirical legal approach. The normative-empirical method is used to observe the implementation of the legislation as normative resources in every particular legal action that happened in society. There are three legal approaches to this method: non-judicial case, judicial case, and live case. This paper's non-judicial case approach will be used to observe the problem raised in this article.

B. RESULTS AND DISCUSSION

1. The Definition of Capital Investment

The word capital investment as a legal term in Indonesia has a narrower meaning than the word investment as in the economic and business term. Although both are derived from English translations of the word investment (Supanca, 2015), capital investment indicates direct investment, while the term investment indicates direct investment and indirect investment.

Direct investment is an investment in which investors directly participate in determining how to manage the invested company (Supanca, 2015). On the other hand, indirect investment is an investment in which investors do not directly participate in determining how to manage the invested company through the capital market.

Article 1(1) of Law Number 25 Year 2007 on Capital Investment (hereinafter abbreviated as UUPM) defines Capital Investment as "All forms of investment activities, both by domestic investors and foreign investors to conduct business in the territory of the Republic of Indonesia." It is clear that from the definition, the term capital investment used in that law is limited to only direct capital investment. In this case, the investor has the right to some degree of control throughout the company (Ilmar, 2004). Share ownership in such investments can be done by domestic investors, as well as foreign investors. The latter is also called FDI (Sembiring, 2007).

The definition of Foreign Investment is also mentioned in the UUPM, which stated that: "investing activities in conducting business in the territory of the Republic of Indonesia conducted by foreign investors either using foreign capital wholly or jointly with domestic investors (Law Number 25, 2007). In practice, it is usually done by establishing a Joint Company or *Joint Venture Company* that serves as an operating company. Salim HS and Budi Sutrisno also explain this, who said that foreign investment through joint ventures is a foreign capital in cooperation with domestic investment, provided that foreign parties control a maximum of 95% of capital. In comparison, domestic investors have a minimum of 5% capital (Salim, 2006).

Sornarajah explained that the definition of FDI is: "Foreign investment involves the transfer of tangible or intangible assets from one country to another country for their use in that country to generate wealth under the total or partial control of the owner of the assets (Sornarajah, 2004).

Several essential things can be seen from the above definition: the investment is made directly, which means that the investor is directly responsible for all the risks involved with the investment. However, according to the law, foreign direct investment is foreign capital invested in Indonesia by investors should go according to the substance, procedures, and terms that the regulations of the Government of the Republic of Indonesia have determined.

Furthermore, the definition of running a company in Indonesia is that a foreign company or a joint venture company in Indonesia must conduct its business activities in Indonesia (Salim and Sutrisno, 2007).

All forms of foreign investment in Indonesia must be in Limited Liability Companies (Ltd) established in Indonesia. Foreign investors should cooperate or partner with Indonesian persons or legal entities as shareholders. Foreign investors can own from 30% to 95%, even up to 100% ownership in different industries. However, this varies depending on the business sector (Zulfikar, 2019).

Therefore, FDI is a foreign investment that involves establishing a new business and the transfer of capital to bear the investment. In other words, FDI means some long-term investments into a company in a foreign country, where the company is called a *Joint Venture Company* (JVC). Foreign investors, who wanted to invest directly, should be physically present to run the business.

The presence of FDI causes legal consequences that the business entity (JVC) must be subject to the Indonesian legal system. It is stated in Law Number 40 Year 2007 on the Limited Liability Companies, which requires that Subsidiary Company must be established with their Notarial deed, separated from the deed of the parent company. However, the parent company is obliged to include its shares in the subsidiary company to have authority over the subsidiary. In addition, the establishment of the subsidiary company should adhere to Regulation of the Minister of Trade Number 08/M-DAG/PER/2/2017 on the Second Amendment of the Regulation of the Minister of Trade Number 37/M-DAG/PER/9/2007 on the Implementation of Corporate Registration.

In FDI, several main characteristics become the basis for investors to make investments. The first characteristic is ownership, an internal advantage owned by a company that makes it advanced or prominent in some sectors and can be utilized domestically or abroad, usually consisting of tangible assets and intangible assets. The second characteristic is location, which is defined as advantages owned in certain areas and can only be used in that area. Nevertheless, this advantage is open to all companies, for example, cheap labor, abundant natural resources, and a supportive climate. The final characteristic is internalization advantages, which means that a measure to avoid disadvantages or capitalization of natural

resources is caused by the market and government policy system's price system (Adistuti, 2011).

Foreign investors should consider several important things before investing in a host country: legal certainty, investor protection, nationalization risks, and political conflicts. As argued by Agung Sudjati Winata, that although Indonesia has excellent potential and attracts many FDI, foreign investors often have problems in realizing their investments. That is because of inadequate infrastructure throughout Indonesia, employment issues; regulatory issues; bureaucracy issues; quality of human resources; uncredible dispute resolution mechanisms, local regulations, ministerial decisions, or laws that distort investment activities, investment uncertainty, and legal certainty issues. (Winata, 2018).

A similar argument by Supancana stated that there are several factors that investors usually consider before deciding to invest or to not invest in a country or region. Those are country risk, long bureaucracy (red tape), transparency and legal certainty, technology transfer provisions, investment guarantee and protection, employment, availability of infrastructure, the existence of natural resources, market access, ease of taxation, and effectiveness in dispute resolution (Supancana, 2005).

2. The Role of FDI

At present, FDI is used to create jobs and increase economic growth in various sectors. One of them is the Upstream MIGAS sector. As revealed by Justin Kuepper:

FDI has become the foundation for governments and companies. By acquiring controlling stock in foreign assets, companies can quickly acquire new products and technologies and sell existing products to new markets. Moreover, governments can create jobs and increase economic growth by encouraging direct foreign investments, especially if an area has vast resources, both natural and human. For international investors, foreign investments play a crucial role, using capital to purchase tangible assets, typically gold, land, homes, and so on (Kuepper, 2021)

Justin Kuepper further asserts that FDI provides several advantages for country hosts: Economic growth; countries receiving FDI are often experiencing higher economic growth by opening up to new markets, as seen in many emerging economic countries. Job creation & employment; most FDI is designed to create new businesses in the host country, which usually

translates to job creation and higher wages. Finally, technology transfer; FDI often introduces world-class technologies and technical expertise to developing countries (Kuepper, 2021).

In developing countries, FDI has become a crucial capital source for the development of the country. Global community has recognized the tremendous benefits of the FDI to gain both new technologies and managerial expertise. Usually, those things are formulated in PSC. Sudha revealed that "the existence of FDI in improving technology, managerial skills and abilities is now well accepted by the wider community. FDI continues to benefit as a form of international economic transaction and as an instrument of international economic integration" (Sudha, 2013).

For developing countries, FDI is used as "one of the best ways to increase their economic growth, in case one of the problems in developing countries is the lack of national savings to finance state investment" (Putri, Teziajanuarita, and Wilantari, 2016). Likewise, as a developing country, the Government of Indonesia needs a large fund to build its economy. Strat, Alecsandru, Davidescu, and Paul (2020) mention that Indonesia, as a developing country, needs significant funds to develop its economic development. Furthermore, Start et al. also explain that "macroeconomic stability and the labor market of an economy have been identified by the literature, as some of the main aspects that investors analyze before deciding for a future host country."

3. The Pase Working Area Management through FDI

Upstream MIGAS investment is a capital investment that involves high risk as well as requires competent human resources. For this reason, the Government of Aceh invites foreign investors or FDI to invest in that sector.

To cover the lack of funding, the Central Government of Indonesia and Aceh Government-owned Perusahaan Daerah Pembangunan Aceh (PDPA) formed new joint management with Triangle Pase Inc (TPI), an Australian company engaged in MIGAS, to manage the Pase Block.

In 1982, Pase Working Area was managed by Mobil Pase Inc. A State-owned MIGAS Mining Company and Mobil Pase Inc. signed a Production Sharing Contract (PSC) on February 12, 1981, for 30 (thirty) years with an area of 942 km square located in East Aceh, North Aceh, and Bireun (Triangle Pase Inc, 2018). In 2012, the Pase Working Area contract period expired and was handed over to the Ministry of Energy and Mineral Resources of the

Republic of Indonesia. To avoid management vacuum and unwanted occurrence such as blow out, on February 10, 2012, the Ministry of Energy and Mineral Resources, based on letter Number 1132/12/MEM. M/2012 provides temporary management assignments to Triangle Pase Inc. Currently, Pase Working Area is managed by Triangle Pase Inc under PSC signed on May 22, 2015, between The Special Task Force for Upstream MIGAS Business and Triangle Pase Inc.

Aceh's MIGAS Government Regulation states that MIGAS management in Aceh should include Regional Owned Enterprises (BUMD) in Aceh. Thus, the existence of the PDPA, now PEMA Ltd., as an Aceh Owned Enterprise (BUMA) is the result of Aceh's MIGAS Government Regulation that applies specifically in MIGAS working areas in Aceh. Triangle Pase Inc (TPI) and the Aceh Regional Development Company formed a Joint Venture Company as a legal entity to study, explore, develop, manage and operate the Pase Working Area where the company is named Aceh Pase Global Energy Ltd (APGE). It was agreed and stated in the Memorandum of Agreement dated April 23, 2013, and joint venture agreement on July 27, 2013. All pre-signed agreements, whether a Memorandum of Understanding, Joint Venture Agreement, or Revenue Sharing Agreement, are a single entity and cannot be separated from the PSC.

In the PSC, some rights and obligations have been initially agreed upon. Rights such as the use of operational capital activities, employment, the division of shares between the PDPA and the TPI, allocation of community development funds (CD), representation of the Government of Aceh in a subsidiary company managing Pase Working Area, income to the Government of Aceh through MIGAS production activities in the Pase Working Area, dispute resolution and some others are the substance of the PSC.

4. Obstacles in the Implementation of FDI Upstream MIGAS Sector in Pase Working Area and its solutions

One of the legal consequences of FDI in Indonesia is the mandatory establishment of a Joint Venture Company (JVC), commonly called a Subsidiary company. Law Number 40 Year 2007 on Limited Liability Companies does not recognize or regulate group companies or holding companies or practices, known as parent companies and subsidiary companies. However, the procedure for establishing a subsidiary company still refers to Law Number 40

Year 2007, which stipulates that a Subsidiary company must be formed with its Notarial deed, separated from the deed of the parent company. However, the parent company must include its shares in the subsidiary so that it has the authority to control the subsidiary company (Nurdhani, 2021).

Each subsidiary company must be registered as mandated in Regulation of the Minister of Trade Number 08/M-DAG/PER/2/2017 on the Second Amendment to Regulation of the Minister of Trade Number 37/M-DAG/PER/9/2007 on the Implementation of Company Registration. Company registration is done by the owner, administrator, person in charge, or authorized company at the Office of Corporate Registration (KPP) District/City/ Municipality at the company domicile (Nurdhani, 2021).

In the registration of a subsidiary company, one of the necessary documents is the Deed of Establishment of the company. It is stipulated in Article 9 paragraphs (3) and (4) of the Minister of Trade of the Republic of Indonesia Regulation 08/2017 (Ministry of Trade Reg 08/17), which reads:

Article 9(3) the Regulation of the Ministry of Trade Reg 08/17 mentions that:

Company registration is done by filling out the registration form as stated in Appendix II.A to Appendix II.F of this Ministerial Regulation is submitted directly to the Head of Regency/City/Municipality by attaching the document requirements as stated in Attachment III to this Ministerial Regulation.

Article 9(4) the Regulation of the Ministry of Trade Reg 08/17 mentions that:

Company registration for the agents or subsidiary company applies the provisions as referred to in paragraph (3) following the form of the parent company. Documents that must be attached as new company registration requirements are:

- a) Copy of the Deed of Establishment of the Company;
- b) Copy of the Deed of Change of Establishment of the Company (if any);
- c) Original and copy of Ratification Decision as a Legal Entity and approval of changes for Limited Liability Companies that have been incorporated before the enactment of the Law of Limited Liability Companies;
- d) Copy of National ID Card or Passport of the owner, management, and company person in charge;
- e) Copy of Business Licence or any letter that equal to such documents that issued by the authorized agency; and
- f) Copy of Taxpayer Identification Number.

To conclude, according to UUPT, an applicant shall have a Deed of Establishment issued by a notary in order to establish a subsidiary company. As stipulated in the Ministry of Trade Reg 08/17, the registration procedure of establishing a subsidiary company is similar to the establishment of Limited Liability Companies (as its parent company).

In conducting operational activities in the Pase Working Area, both the PDP and Triangle agreed in the Memorandum of Understanding (MoA) and The Joint Venture Agreement (JVA) to form a subsidiary company. Article 2(2)(3) of the Memorandum of Understanding (MoA) confirms that the Parties agreed to establish a JVC headquartered in Banda Aceh, which will manage the Pase Working Area. The agreement to establish a subsidiary is then reaffirmed in the Joint Venture Agreement (JVA) letter E confirming that:

Following the MoA, Triangle Energi Global (TEG) and The Aceh Regional Development Company have agreed to cooperate through a joint venture as a legal entity to study, explore, develop, manage and operate the Pase Working Area. The Parties have agreed that the legal entity will be named Aceh Pase Global Energy Ltd (the company).

All provisions relating to the establishment of the subsidiary company are communicated in the Revenue Sharing Agreement (KBH). It outlined in point 15.7.5 that all provisions of the Memorandum of Agreement and Joint Venture Agreement between the PDPA and Triangle Energy Global Ltd as the Holding Company Contractor are an integral part of this Contract and apply to the party who signed it. According to article 2(2)(3) MoA and the letter E of the JVA that the parties agreed to establish a subsidiary company, namely Aceh Pase Global Energy (APGE) which is located in Banda Aceh. Thus, the APGE office located at Jalan Gabus Number 49, Lamprit Kampung Bandar Baru, Kuta Alam District, Banda Aceh city was inaugurated by the Governor of Aceh on August 10, 2016. In his speech, the Governor of Aceh said that the involvement of the Government of Aceh through the PDPA in natural resource management in Pase Working Area and Triangle Pase Inc. is a new milestone (Serambi, 2016).

In order to ensure that APGE can run effectively, both parties placed their respective representatives into the APGE Board of Directors with the composition of two commissioners representing the PDPA and four people representing TPI. One of the primary duties of the

commissioners is to ensure that all rights and obligations in the KBH are exercisable. However, through interviews, the board of commissioners is rarely invited or involved in carrying out the rights and obligations referred to. According to Rizal (2019), since they were appointed commissioners at APGE, they have only been invited to meetings once. On their initiative, there was a time when they visited the directors of Enso Asia Inc. to ask some important matters related to field activities, including the TPI activity report, but until now has not been given (Rizal, 2019).

According to Hasballah (2019), APGE as a subsidiary company is not incorporated in Indonesia because it was not registered in Indonesia and did not have its notarial deed as mandated by Law Number 40 Year 2007 and the Ministry of Trade Reg 08/17. APGE was only registered in Singapore on August 1, 2013. As proof of registration, APGE was granted an Accounting and Corporate Regulatory Authority (ACRA) from Singapore. The APGE's ACRA was then submitted to the PDPA as proof that APGE has been recorded and registered in Singapore. The registration of APGE in Singapore gives no legal force in Indonesia until it is registered to the Ministry of Law and Human Rights of Indonesia. Therefore, APGE's current status is not yet a subsidiary company that has the right to be the Pase Working Area operator (Rizal, 2019).

Ironically, PDPA is aware of the documentation problem of the APGE. However, it does not want to force Triangle Pase Inc. to immediately register its subsidiary company under Indonesia's law because they are still waiting for the right timing to discuss the matters (Rizal, 2019). PDPA is aware that Triangle Pase Inc. still has many contractual obligations to fulfill. However, to avoid conflicts that will affect their cooperation, PDPA has yet publicly demanded the Triangle Pase Inc. perform its obligation (Sahim, 2020).

According to article 13 of Aceh's MIGAS Government Regulation, Badan Pengelola MIGAS Aceh (BPMA) must implement, control, and supervise the Cooperative Contract (KKS). Therefore, it has the right to solve the problem of Aceh Pase Global Energy (APGE). The BPMA may order Triangle Pase Inc. (TPI) to revise APGE per Indonesia's company regulations and other related provisions in Indonesia. In the case where Triangle Pase Inc. is unwilling to comply with the order, BPMA has the right to delay the discussion and acceptance of the Work Program and Budget (WP&B) of Triangle Pase Inc.

Meanwhile, as the parties to the Revenue Sharing Agreement, PDPA can resolve this issue through discussion. However, the discussion was not successful. Thus PDPA sued Triangle Pase Inc. to the BANI Arbitration Center (BANI) as the appointed forum for the dispute settlement agreed in the Revenue Sharing Agreement. BANI granted the Arbitration Award on July 24, 2020, stated that it rejected the lawsuit of The PDPA and ordered it to pay arbitration costs to Triangle Pase Inc (TPI) amounting to Rp. 490.303,550. (four hundred ninety million, three hundred three thousand, five hundred and fifty rupiahs).

C. Conclusion

The Pase Working Area Upstream MIGAS management by Triangle Pase Inc as an FDI is not yet per the Revenue Sharing Agreement signed by the parties and other related laws and regulations in Indonesia. The main obstacle in the implementation of Foreign Direct Investment in the Upstream MIGAS sector in Pase Working Area is the failure to establish the APGE as a Joint Venture Company that operated as a subsidiary company required by the Investment Law and Regulation of the Minister of Trade 08/2017. It has a severe impact on the Aceh government's income from the management cooperation of the Upstream MIGAS sector in the Pase Working Area. The Arbitration Award that BANI has granted, which rejected The PDPA lawsuit, has reduced and even eliminated the privilege of the Aceh Government in managing the Upstream MIGAS sector in the Pase Working Area as stipulated by Law Number 11 of 2006 and Aceh's MIGAS Government Regulation. As a solution, the BPMA has ordered Triangle Pase Inc. to revise the legality of APGE to comply with the prevailing laws and regulations in Indonesia.

It is expected that the BPMA, as the regulator, and The PDPA as the parties in the Upstream MIGAS management in the Pase Working Area and Commission III of the Aceh's House of Representative to immediately summon Triangle Pase Inc. to resolve the dispute between The PDPA and Triangle Pase Inc. The PDPA, as the losing party in the award granted by BANI, needs to take immediate legal steps to prevent the execution of the BANI's Arbitration Award

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