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Gross split production sharing contracts in the oil and gas business creating imbalance and in justice

Rani Fadhila Syafrinaldi[1], Toto Tohir Suriaatmadja[2], Chepi Ali Firman[3]
Universitas Islam Riau, Pekanbaru, Riau, Indonesia[1]
Universitas Islam Bandung, Bandung, Jawa Barat, Indonesia[2&3]
ranisyafrinaldi@gmail.com[1]

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Abstract

Purpose: This study examines the implementation of Gross Split Production Sharing Contracts (PSCs) in Indonesia's upstream oil and gas sector, with particular attention to whether the allocation of rights, obligations, and risks reflects the principles of balance and fairness in contract law.

Research/methodology: The research adopts a normative juridical approach using qualitative analysis. Secondary legal materials are analyzed, including oil and gas legislation, government and ministerial regulations, and the contractual provisions of Gross Split PSCs. The analysis focuses on contractors' obligations related to signature bonuses, firm commitments, and operating costs.

Results: The findings indicate that Gross Split PSCs place excessive financial, operational, and technological burdens on contractors, while the government bears minimal risk. Contractors are fully responsible for signature bonuses, firm commitments, and operating costs without cost recovery mechanisms. This contractual structure creates an imbalance of rights and obligations and contributes to contractors' difficulties in fulfilling firm commitments and achieving agreed production targets.

Conclusions: Gross Split PSCs, as currently regulated, do not adequately uphold the principles of balance and fairness. The unequal distribution of risks and obligations undermines contractual justice and the sustainability of upstream oil and gas operations.

Limitations: This study is limited to normative legal analysis and does not include empirical field data.

Contribution: This research provides theoretical insight into the application of balance and fairness principles in energy contracts and offers practical considerations for improving the Gross Split PSC framework.

Keywords: *Firm Commitment, Production Sharing Contract, Principles of Balance and Fairness*

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1. Introduction

Oil and natural gas are non-renewable resources. These natural resources remain promising commodities for generating revenue for the state (Yu et al., 2023). Generally, oil and gas-exporting countries in the Middle East, such as Saudi Arabia, the UAE, and Qatar, are developed nations whose economies are heavily dependent on oil and gas (Mohammed, 2023). Therefore, the upstream oil and gas businesses remain leading players in the natural resource sector (Sovacool, 2016). Natural resource wealth, such as oil and gas, must be controlled by the state and utilized for the greatest prosperity of the people (Cotula, 2018). To date, oil and gas still contribute significantly to state revenues within the State Budget (APBN) (Ramadani & Ismal, 2024). Oil and gas management can be handled by private parties, both domestic and foreign, as long as it does not diminish the state's control rights over oil and gas (Stevens, 2016). The management of the upstream oil and gas sector in Indonesia still utilizes Production Sharing Contracts (PSCs) between the government and contractors (Rizal & Murwani, 2025). The government was represented by the Special Task Force for Oil and Gas (SKK Migas) in signing the contract (Permatasari, Ambia, Kusrini, & Zulkarnain, 2023).

The current Production Sharing Contract (PSC) in Indonesia is a Gross Split Production Sharing Contract (GSP), which imposes all operating costs on the contractor or company (investor) (Anjani & Baihaqi, 2018). Achieving the expected profit for contractors as investors in the oil and gas business is a challenging task (Giranza & Bergmann, 2018). Previously, the government implemented a PSC with a cost-recovery scheme, where all production costs were borne by the state through the oil and gas produced by the contractor (Hasanov, Mammadov, & Al-Musehel, 2018). A Cost Recovery PSC places the burden of financial and technological risks on the state, while a Gross Split PSC places the financial and technological risks on the contractor (Permatasari et al., 2023). In general, the provisions of contracts or agreements are subject to the provisions of the Civil Code (KUH Perdata) (Hernoko, 2019). According to Article 1320 of the KUH Perdata, a valid contract is determined by four elements.
1. Competent legal subjects;
2. Consent;
3. Specific object; and
4. Lawful cause.

Referring to the provisions of Article 1320 of the Civil Code above, the requirements for a valid oil and gas management contract are met (Hernoko, 2019). The legal subjects of the agreement are SKK Migas and the Contractor, there is an agreement between the parties, the object is the oil field, and the cause is lawful; that is, the object is justified by law. Furthermore, a contract is bound by various legal principles that provide protection to the parties, such as the principles of balance and justice (Jaya & Yoga, 2025). The upstream oil and gas management business is not only capital-intensive but also requires sophisticated high-tech technology (Sovacool, 2016). For this reason, the upstream oil and gas business has been dominated by companies from developed countries, such as PT Caltex Pacific Indonesia (Caltex) from the United States, PT Chevron Pacific Indonesia, and other European companies, such as Shell (Mohammed, 2023). These companies operate oil businesses in Indonesia and other countries, such as Malaysia and several countries in the Middle East (Stevens, 2016).

Based on the financial and technological requirements, Caltex and Chevron are well-equipped to conduct oil and gas business (Verma, Ajit, & Muruva, 2015). A Production Sharing Contract (PSC) is a contract established by law and intended solely for the upstream oil and gas business, encompassing exploration and exploitation (Ftiti, Guesmi, Teulon, & Chouachi, 2016). One of the principles applicable to contracts is that of balance and fairness (Hernoko, 2019). This principle emphasizes the need for a balance of rights and oblingations between the two parties to an agreement. If this principle is ignored, the risk of default by the party feeling more burdened will potentially arise in the future (Sahara & Martinelli, 2025). A failure to maintain the principle of balance results in injustice to one of the parties (Al-Qarano, 2021).

Changes to Production Sharing Contract (PSC) regulations in oil and gas management in Indonesia have been in place since the enactment of Minister of Energy and Mineral Resources (ESDM) Regulation No. 8 of 2017, which changed the PSC from a Cost Recovery PSC to a Gross Split PSC (Rizal & Murwani, 2025). While a Cost Recovery PSC places the operational burden of exploration and exploitation on the state, a Gross Split PSC shifts the burden of oil and gas operating costs to the contractor (Roach & Dunstan, 2018). Contractors typically bear several costs, including
1. Signature bonus costs;
2. Firm commitment costs; and
3. Operational costs.

The burden of costs borne entirely by the contractor demonstrates the absence of a principle of balance of obligations between the parties, which ultimately leads to injustice (Hernoko, 2019). The government or SKK Migas is free from all financial risks and only has the right to benefit from the production generated (Anjani & Baihaqi, 2018). Meanwhile, the Contractor bears all operating costs, except for the signature bonus and firm commitment. The signature bonus is a fee charged to the contractor and must be paid after the Production Sharing Contract (PSC) is signed by the Government and the Contractor (Hasanov et al., 2018). The amount of this signature bonus is a crucial factor for the government in selecting potential contractors applying for oil and gas management in the work area (Johnston, 2007). Other factors considered by the government include the financial capacity to cover all operating costs, including the firm commitment fee, and the professionalism of its human resources (Mohammed, 2023).

The PSC includes a firm commitment, which is the contractor's obligation outlined in the PSC and must be implemented within a specified timeframe. Article 1, Number 19 of ESDM Ministerial Regulation No. 13 of 2024 states that a Firm Work Commitment is an investment made by a contractor to increase reserves and/or production within a maximum period of five years through exploration and exploitation activities under a Cooperation Contract (Aprizal, Juanda, Ratnawati, & Muin, 2022). However, for various reasons, the contractor is unable to fulfill this firm commitment in accordance with the PSC signed by the parties (Roach & Dunstan, 2018). "Firm Commitment" can be defined as the specific obligations and investments a contractor must make during the early stages of the contract, typically the first three years, to demonstrate their commitment to exploring and potentially developing the assigned area (Johnston, 2007). These commitments often include a minimum level of exploration activities and investments, such as drilling a certain number of wells or conducting specific surveys.

In Indonesia, a Firm Commitment can last from three to five years from the signing of the contract, with the aim of increasing oil and gas production at a cost approved by the government through the Special Task Force for Upstream Oil and Gas Business Activities (SKK Migas) (Aprizal et al., 2022). This study examines the relationship between Gross Split PSCs and the principles of balance and fairness in contracting. The various financial burdens borne by contractors in managing oil and gas in Indonesia, including Signature Bonuses, Firm Commitments, and Operating Costs, are the focus of this study.

2. Literature Review

2.1 Production Sharing Contracts in the Global Oil and Gas Industry

Production Sharing Contracts (PSCs) are contractual arrangements widely adopted by resource-rich states to govern upstream oil and gas activities while maintaining state sovereignty over natural resources. Under the PSC regime, contractors undertake exploration and production activities at their own risk in exchange for a predetermined share of production. Recent literature emphasizes that PSCs function not only as fiscal instruments but also as governance frameworks that define risk allocation, revenue sharing, and the balance of obligations between the state and contractors (Ftiti et al., 2016).

Contemporary studies highlight that the effectiveness of PSCs depends heavily on how risks and rewards are distributed among stakeholders. An imbalanced allocation of risks may discourage investment, reduce operational efficiency, and increase the likelihood of contractual nonperformance (Sovacool, 2016). Thus, PSCs are increasingly being analyzed in terms of economic efficiency, legal fairness, and sustainability of upstream operations.

2.2 Fiscal Regime Design and Risk Allocation

The design of a fiscal regime plays a crucial role in shaping contractor behavior and investment decisions. The literature consistently argues that risk should be allocated to the party best able to manage it, a principle rooted in both contract theory and energy economics (Boadway & Keen, 2010). In upstream oil and gas projects, risks include geological uncertainty, price volatility, technological complexity and regulatory instability. Recent empirical studies have demonstrated that excessive risk transfer to contractors without adequate compensatory mechanisms may lead to underinvestment and delayed production (Mohammed, 2023). Moreover, rigid fiscal regimes that do not account for field-specific characteristics tend to be less resilient during periods of low oil prices, further aggravating contractual imbalances (Masua & Mollet, 2025).

2.3 Indonesia's Shift from Cost Recovery to Gross Split PSC

Indonesia's transition from a cost-recovery PSC system to a Gross Split PSC regime marked a significant shift in upstream oil and gas governance. Introduced in 2017, the Gross Split PSC eliminates cost recovery and assigns all operational and financial risks to contractors, while production is shared based on predetermined percentages (Ikasari, 2019). Several studies argue that this shift was motivated by the government's desire to improve efficiency, reduce administrative complexity, and enhance state revenue (Rizal & Murwani, 2025). However, critical scholarship points out that the Gross Split PSC may weaken investment attractiveness, particularly for marginal and mature fields that require high capital and advanced technology (Anjani & Baihaqi, 2018). Comparative analyses indicate that contractors operating under Gross Split PSCs face higher exposure to downside risks than those under cost recovery regimes, raising concerns about long-term sustainability and production growth (Yuniza, Rebecca, & Ramadhaniati, 2020).

2.4 Signature Bonuses as Front-Loaded Financial Burdens

Signature bonuses are one-time payments made by contractors upon signing a PSC. While commonly used as a revenue-generating mechanism for the state, recent literature criticizes signature bonuses for imposing significant upfront financial burdens on contractors before any production is realized (Hasanov et al., 2018). In the context of Gross Split PSCs, signature bonuses become particularly problematic because they are non-recoverable and are combined with full cost responsibility borne by contractors. Studies suggest that high signature bonuses may distort bidding behavior and incentivize overly optimistic projections, ultimately increasing the risk of project failure (Kagel & Levin, 1986).

2.5 Firm Commitments and Contractual Performance Risks

Firm commitments represent mandatory work programs and investment obligations that contractors must fulfill within a specified period. Recent legal and economic analyses highlight that firm commitments are intended to ensure timely exploration and production; however, when combined with high financial burdens, they may become unrealistic and counterproductive (Johnston, 2007). Empirical research in emerging petroleum economies shows that failure to fulfill firm commitments is often linked to inadequate capital, technological constraints, and unfavorable fiscal terms, rather than contractor negligence (Sovacool, 2016). In Indonesia, the rigid enforcement of firm commitments under Gross Split PSCs has been identified as a key factor contributing to contractual disputes and production shortfalls (Aprizal et al., 2022).

2.6 Operating Costs and Investment Viability

Operating costs are a major determinant of project viability in upstream oil and gas operations. Under Gross Split PSCs, contractors bear all operating costs without reimbursement, regardless of production outcomes. Recent studies indicate that such arrangements disproportionately affect projects with high lifting costs, aging infrastructure, and complex geology (Yuniza et al., 2020). Economic modeling research demonstrates that when operating costs exceed certain thresholds, contractors may be unable to achieve breakeven points, leading to reduced exploration activity and early field abandonment (Masua & Mollet, 2025). These findings suggest that the absence of cost-recovery mechanisms under Gross Split PSCs may undermine investment incentives, particularly during periods of low oil prices.

2.7 Principles of Balance, Fairness, and Good Faith in Contract Law

The principle of balance in contract law requires a proportional distribution of rights and obligations between the contracting parties. Recent legal scholarship emphasizes that contracts dominated by one party, especially the state, risk violating substantive fairness and good faith principles (Hernoko, 2019). Good faith, as a fundamental principle of modern contract law, requires parties to act honestly and reasonably during both contract formation and performance. Studies in Indonesian legal journals argue that state-drafted standard contracts, such as PSCs, must be evaluated not only for formal legality but also for substantive fairness (Sahara & Martinelli, 2025). From this perspective, Gross Split PSCs raise serious concerns regarding fairness, as the state enjoys revenue benefits without sharing operational risks, while contractors bear extensive financial and technological obligations (Al-Qarano, 2021).

2.8 Research Gap and Theoretical Positioning

While the existing literature extensively examines Gross Split PSCs from fiscal and economic perspectives, fewer studies integrate contract law principles with the empirical consequences of financial burdens. Most analyses treat signature bonuses, firm commitments, and operating costs separately without assessing their cumulative impact on contractual balance and performance. This study addresses this gap by synthesizing the legal principles of balance and fairness with the economic realities faced by contractors under Gross Split PSCs. By framing Gross Split PSCs as a source of structural imbalance, this study contributes to a more holistic understanding of upstream oil and gas governance.

3. Research Methodology

This study adopts a normative or doctrinal legal research approach, which focuses on analyzing legal norms, principles, and statutory provisions, rather than collecting empirical data. This approach is commonly applied in legal scholarship to evaluate the coherence, consistency, and fairness of regulatory frameworks and contractual arrangements (Versteeg & Ginsburg, 2017). The use of normative legal research is appropriate for this study because the main issue examined concerns the legal structure of Gross Split Production Sharing Contracts (PSCs) and their conformity with fundamental principles of contract law, particularly the principles of balance and fairness.

This research relies primarily on secondary data as the main source of analysis. Secondary data consist of authoritative legal materials that are systematically examined to understand how the Gross Split PSC regime allocates rights, obligations, and risks between the government and contractors in Indonesia's upstream oil and gas sector. The primary legal materials used in this research include statutory laws and binding regulations, such as Law Number 22 of 2001 concerning Oil and Gas, relevant Government Regulations, Ministerial Regulations issued by the Ministry of Energy and Mineral Resources, and the contractual provisions contained in Gross Split Production Sharing Contracts. These materials form the core basis for analyzing the legal obligations imposed on contractors, including signature bonuses, firm commitments, and operating cost responsibilities.

In addition to primary legal materials, this study also utilizes secondary legal materials, including academic journal articles, legal commentaries, textbooks, and expert opinions related to oil and gas law, contract law, and natural resource governance. These materials are used to support doctrinal interpretation and provide theoretical perspectives on key legal principles such as contractual balance, proportionality, fairness, and good faith. The inclusion of scholarly discussions allows the analysis to be grounded in established legal theory while remaining relevant to contemporary developments in regulation. The analytical technique applied in this research is qualitative legal analysis. Legal norms and contractual clauses are examined through statutory interpretation, conceptual analysis and doctrinal reasoning. This process involves identifying relevant legal provisions, interpreting their normative meanings, and assessing their implications for the distribution of rights and obligations between contracting parties. Particular attention is given to how the Gross Split PSC framework assigns financial, operational, and technological risks to contractors and whether such allocation reflects a fair and proportional contractual relationship.

The research process was conducted in several stages. First, relevant laws, regulations, and contractual provisions governing the Gross Split PSCs are identified and systematically classified. Second, these legal materials are analyzed to determine their consistency with the fundamental principles of contract law. Third, the findings are synthesized to draw normative conclusions regarding the strengths and weaknesses of the Gross Split PSC regime, especially in relation to contractors' ability to fulfill firm commitments and achieve production targets. Through this doctrinal and qualitative approach, this study aims to provide a comprehensive legal assessment of Gross Split PSCs and offer normative insights that may contribute to regulatory evaluation and future legal reform in Indonesia's upstream oil and gas sector.

4. Results and Discussion

Production Sharing Contracts (PSCs) are the only type of contract used by the government to manage oil and gas natural resources. Gross Split PSCs have been in effect since 2017 with the enactment of Ministerial Regulation No. 08 of 2017. The enactment of Ministerial Regulation No. 08 of 2017 changed the government's policy in the upstream oil and gas business. Oil and gas contractors were shocked by the introduction of Gross Split PSCs, which fundamentally disregarded the principles of balance and fairness.

The principle of balance in a contract establishes an equal position for the parties in terms of:

a. rights and obligations;
b. bargaining power;
c. risk sharing; and
d. performance.

Ignoring this principle of balance results in injustice for one of the parties. This principle of balance serves to ensure that the contract:

a. is not exploitative;
b. contains proportionality; and
c. Guarantee fairness in the process and content of the contract.

Contracts must be executed in good faith, and balance is part of the realization of the principle of good faith.

The provision requiring contractors to pay a signature bonus, contained in the PSC, as a derivative of Law No. 22 of 2001 concerning Oil and Gas, has created an imbalance in the obligations of the parties. The explanation of Article 6, Paragraph (1) of the Oil and Gas Law clearly states that all obligations imposed on Contractors under the PSC, including the signature bonus, are valid and binding. It is also understood that the payment of this signature bonus constitutes direct compensation paid by the contractor to the state for granting the contractor the right to manage oil and gas as a strategic state asset.

Similarly, the provisions contained in Article 26 of Government Regulation No. 35 of 2004 in conjunction with Article 3 of Ministerial Regulation No. 08 of 2017 concerning Gross Split Production Sharing Contracts states that "A Cooperation Contract must contain at least the following basic provisions regarding:

a. State revenue;
b. Work area and its repayment
c. Obligations for the disbursement of funds
d. and so on."

The state revenue referred to in Article 26 letter a of Government Regulation No. 35 of 2004 includes, among other things, a signature bonus.

Article 10, letter g, of ESDM Ministerial Regulation No. 35 of 2021 concerning Procedures for Bidding Work Areas and Collaboration Implementation stipulates that contractors are required to include a signature bonus and firm commitment in the bidding documents for obtaining an oil and gas work area. The signature bonus payment is made only once, immediately after the signing of the PSC between the Government and the Contractor.

The obligation to pay firm commitment fees is found in ESDM Ministerial Regulation No. 08 of 2017 and is then translated into PSC provisions. Articles 6.1 and 6.2 of the Gross Split PSC concerning No Cost Recovery for Unfulfilled Work state: "Only the Firm Commitment work that is actually performed and approved by SKK Migas shall be eligible for Cost Recovery (for the PSC Cost-Recovery regime) or considered part of Operating Costs (for the Gross Split regime)." Furthermore, Article 6.2 of the Gross Split PSC states, "Any monetary payment made in lieu of unperformed Firm Commitment work shall be non-recoverable and shall not be considered Petroleum Operations costs.

Work Area bids are awarded to bidders with the best firm commitment. This means that the bidder with the highest firm commitment price has a greater chance of securing the work area (PSC) than bidders with lower prices. A work area bid is a series of activities to offer a specific Work Area to a Business Entity or Permanent Establishment to carry out exploration and exploitation activities in a Work Area through an auction or direct bidding. A firm commitment is a contractor's promise to the State through the PSC to commit to increasing oil and gas production within a period of 3 to 5 years by conducting exploration and exploitation activities.

Table 1. Signature Bonus Amounts from Several Oil and Gas Companies

No.	Company	Amount of Signature Bonus (USD)
1	PT Bumi Siak Pusako	10.000.000
2	BP Agung I Limited	100.000
3	BP Agung II Limited	100.000
4	Petronas PC North Ketapang SDN.BHD	500.000

Table 1 above explains that the signature bonus paid by Contractors to SKK Migas varies for each Company and its Working Area. The amount of this signature bonus is one of the administrative requirements that must be submitted when Prospective Contractors submit proposals to the Government for PSCs. The requirement to state the signature bonus amount can be seen as a significant factor influencing SKK Migas' decision, alongside other crucial factors such as the firm commitment amount. The larger the signature bonus amount, the stronger the contractor's financial capabilities.

Table 2. Firm Commitment Amounts from Several Oil and Gas Companies

No.	Company	Amount of Signature Bonus (USD)
1	PT Bumi Siak Pusako	10.000.000
2	BP Agung I Limited	100.000
3	BP Agung II Limited	100.000
4	Petronas PC North Ketapang SDN.BHD	500.000

Table 2 shows that PT BSP's five-year firm commitment is the largest compared to other contractors, at USD 130,400,000 (one hundred thirty million four hundred thousand US dollars), or the equivalent of IDR 2,086,400,000,000 (two trillion eighty-six billion four hundred million rupiah). Meanwhile, PT BSP's recent production has been approximately 7,000 (seven thousand) barrels per day. From these mathematical figures, it can be said that it is highly unlikely that PT BSP will be able to fulfill its firm commitment to increase production to 21,000 (twenty-one thousand) barrels per day in 2026 and to 56,000 (fifty-six thousand) barrels per day in 2033. Moreover, the oil wells managed by PT BSP are old and lack new technology to increase oil and gas production.

Failure to fulfill firm commitment obligations constitutes a breach of contract for which the Government, through the Special Task Force for Upstream Oil and Gas Business Activities (SKK Migas), can hold the contractor (PT BSP) accountable. Firm commitment is an absolute obligation during the exploration period. Failure to fulfill a firm commitment results in several legal consequences, including:

1) Contract Termination. There are several reasons for terminating a PSC, including:
    a. The Contractor fails to fulfill mandatory obligations.
    b. Failure to conduct exploration activities in accordance with the Work Plan and Work Plan (WP&B); or
    c. Failure to perform the required work (FC), such as drilling exploration wells, seismic surveys, or G&G studies.
2) The Contractor is required to pay unfulfilled commitment costs.
    a. Carrying forward or compensation is prohibited.

b. The contractor may be placed on the list of nonperforming contractors.
c. Potential legal action under the PSC clause.
d. The contractor loses the rights to the work area.
e. No tax exemptions or exploration incentives were provided.
f. The company's reputation suffers internationally.

Firm commitments are a gateway to increasing oil and gas production, as stipulated in a Gross Split PSC for a period of three to five years. Increasing oil and gas production is impossible without exploration work, which is a crucial component of Firm Commitment. A Gross Split PSC is a production-sharing contract without cost recovery. Operating costs are all costs incurred by the Production Sharing Contractor (PSC) to conduct upstream oil and gas operations to discover, develop, and produce oil and gas products. Even without cost recovery, operating costs are used as the basis for calculating the profit split for a Gross Split PSC. Under a Gross Split PSC, production is divided 57% (fifty-seven) for the government and 43% (forty-three) for the contractor.

Table 3. Differences Between Operating Costs and Firm Commitment

No.	Operating Costs	Firm Commitment
1	Costs to run day-to-day operations throughout the contract life.	A firm work commitment at the beginning of the contract (usually exploration).
2	Flexible and subject to change annually. Examples include O&M, drilling, and chemicals.	Fixed, mandatory before FID. Examples include seismic surveys and minimum exploration wells.
3	Refundable if PSC is Cost Recovery.	Unrecoverable.

Source: Processed PSC data.

The Gross Split PSC regime places the full burden of operating costs on the contractor. If the well produces oil and gas, the oil is divided 43% to the Contractor and 57% to the Government. However, if the well does not produce oil and gas, the contractor suffers significant losses. Oil and gas production costs are estimated to range between US$3.24 and US$16.46 per barrel of oil equivalent (BOE). In Papua, the lowest production cost is US$3.24 BOE, while the highest production cost is on Natuna Island, reaching US$16.46 per BOE. If production continues to decline, it will be very difficult for the contractor to fulfill its contractual obligations, such as the Firm Commitment. While the parties must comply with the Pacta Sunt Servanda principle, on the other hand, financial capacity may not allow for the fulfillment of contractual obligations.

The Contractor bears all costs (signature bonus, firm commitment, and operational costs) in its operational area. All risks are borne by the contractor. If the oil and gas wells produce significantly, the Contractor will benefit from the Oil Split for the Gross Split PSC. The state, as the other party, bears no risk because everything has been transferred to the contractor. It can be argued that the principles of contract law, such as balance and fairness, cannot be applied to PSC. This is because the state only provides oil and gas production in accordance with the terms of the contract.

Charging all costs to the contractor and releasing all risks to the state violates the principle of justice, which requires:

a. Proportional distribution of rights and obligations
b. No disadvantage to either party.
c. Reflecting propriety and fairness; and
d. An element of fairness in both the process and content of the contract.

This sense of fairness must be inherent in the contract and cannot be eliminated by government power. Contracts entered into by the parties are binding and must be complied with in a good faith manner. The State is imposing its strong position on a very weak Contractor, leaving no room for negotiations.

Another weakness is that the contractor, when submitting a proposal to manage the oil and gas field, is not transparent about its financial and technological capabilities. Most importantly, how the submitted proposal can outperform other contractors' proposals and ultimately win the contract, despite the contractor's lack of capital and technology. This situation will significantly impact oil and gas operations once the PSC is signed. Consequently, the Firm Commitment program cannot be implemented as stated in the PSC because of a lack of financial capital and technology, ultimately resulting in the failure to achieve the promised production targets. The Government's superior position over the Contractor in the PSC must not be allowed to continue without a thorough evaluation.

5. Conclusion

5.1 Conclusion

Based on the calculations, the financial management effectiveness of RSUD Mimika during the 2021–2023 period reached only 23%, which is far below the ideal target. This figure indicates that the revenue realized by the hospital was only able to meet approximately a quarter of the revenue target set in the work plan and budget. Therefore, it can be concluded that revenue management at RSUD Mimika is ineffective. Based on the ratio between financial output and input, RSUD Mimika showed an efficiency level of 90.88%. Referring to the efficiency classification, this value falls into the "Less Efficient" category (between 90% and <100%). This indicates that, although the budget has been sufficiently utilized to generate output, there is still a waste margin of 9.12%, suggesting that fund allocation is not optimal and has not yet yielded maximum results in improving service quality. The satisfaction levels of medical staff and patients indicate that medical staff do not feel fully supported in terms of work facilities, incentive systems, or involvement in internal policy management. This dissatisfaction may directly affect their motivation and the quality of care they provide to patients. The patient satisfaction level shows that, although core medical services are performing adequately, the supporting services (non-medical and administrative) are still unsatisfactory and may influence patients' overall perception of the hospital's service quality

This study concludes that the implementation of Gross Split Production Sharing Contracts (PSCs) in Indonesia's upstream oil and gas sector places a substantial operational, financial, and technological burden on contractors. Under the Gross Split PSC regime, contractors are required to bear all costs associated with exploration and exploitation activities, including signature bonuses, firm commitments, and operating costs, without access to cost recovery mechanisms. Meanwhile, the state remains largely insulated from financial and operational risks despite retaining a dominant share of production revenues. This contractual structure demonstrates a clear imbalance in the allocation of rights and obligations between contracting parties.

From a legal perspective, the current Gross Split PSC framework does not fully reflect the principles of balance and fairness that should govern contractual relationships. The concentration of risks and obligations on contractors, combined with limited flexibility to adjust to economic or technical challenges, undermines the principle of proportionality and weakens the foundation of good faith in contract performance. As a result, contractors may face significant difficulties in fulfilling firm commitments and achieving agreed-upon production targets, potentially leading to non-performance and contractual disputes. These findings indicate that the Gross Split PSC regime, in its current form, risks compromising both contractual justice and the sustainability of upstream oil and gas operations.

5.2 Suggestions

Based on these findings, several recommendations can be proposed. First, policymakers should reconsider the design of the Gross Split PSC regime by incorporating mechanisms that promote a more balanced distribution of risks and obligations. This may include providing conditional incentives, limited cost-sharing arrangements, or adaptive fiscal adjustments for high-risk, mature, and marginal fields. Second, greater contractual flexibility should be introduced to allow adjustments to firm commitments in response to economic conditions, technological limitations or unforeseen operational challenges. Such flexibility would reduce the risk of default while maintaining the integrity of the contractual obligations.

Third, transparency and proportionality in determining signature bonuses and firm commitments should be enhanced to ensure that these obligations accurately reflect contractors' financial and technological capacity. Finally, the integration of contract law principles—particularly balance, fairness, and good faith—should be explicitly emphasized in the regulatory frameworks governing PSCs, ensuring that contractual justice remains a central consideration in upstream oil and gas governance.

5.3 Limitations

This study had several limitations. First, the analysis is based solely on normative and doctrinal legal research and does not incorporate empirical data from contractors, government institutions or industry stakeholders. Second, this study focuses exclusively on the Indonesian Gross Split PSC framework and does not conduct a comparative analysis with PSC regimes in other jurisdictions. Future research should address these limitations by employing empirical or comparative approaches to provide a more comprehensive understanding of contractual balance and risk allocation in petroleum contracts.

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