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Fakultas Hukum Universitas Airlangga, Jalan Dharmawangsa Dalam Selatan Surabaya, 60286 Indonesia, +6231-5023151/5023252

Fax +6231-5020454, E-mail: [yuridika@fh.unair.ac.id](mailto:yuridika@fh.unair.ac.id)

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## Oil and Gas Management and Corporate Social Responsibility Model Based on Existing Laws

Nurdin MH<sup>1</sup>, Adwani<sup>2</sup>, Sanusi<sup>3</sup> and Azhari<sup>4</sup>

[nurdinhusin@usk.ac.id](mailto:nurdinhusin@usk.ac.id)

<sup>1 2 3 4</sup> Universitas Syiah Kuala, Indonesia

### Abstract

In the past, the Central Government managed oil and natural gas in a centralized manner without involving the Government of Aceh. However, currently, Aceh has its authority in managing the upstream oil and gas sector. This authority is regulated in Government Regulation Number 23 of 2015 concerning the Joint Management of Oil and Gas in Aceh. Based on special autonomy, the Government of Aceh can regulate CSR based on local wisdom whose programs are compiled by the community around the company itself so that it can increase the economic growth of the community around the company in a sustainable manner. Using normative legal methods, this research examines the current practice of CSR at PT Medco E&P Malaka and proposes for its improvement. The research approach used is statutory approach. The research results show that the existence of PT Medco E&P Malaka CSR is unable significantly contribute to Local Own Revenue and create sustainable economic growth for the people are living around the company. This is because the implementation of CSR so far is top-down and only partially based on programs created by the community based on the community's actual needs. A CSR Forum is needed as a new CSR model responsible for designing and implementing various CSR based on a real need assessment of the local community.

**Keywords:** Authority; Upstream Oil and Natural Gas; Corporate Social Responsibility.

### Introduction

Indonesia is one of the countries that has a large number natural resources (oil and natural gas). Therefore, it is not surprising that Indonesia's oil and natural gas sector is one of the targets for foreign investment through multinational companies.<sup>1</sup> Alternatively, Multinational Cooperation (MNC) originates from various countries.

<sup>1</sup> Iza RS Rumesten, [*et., al.*], 'Community Participation Arrangements to Prevent Illegal Drilling' (2018) 4 Hasanuddin Law Review.[348].

On the one hand, natural resources are a blessing to create prosperity for all Indonesian. On the other hand, they can become a disaster if not managed properly. Empirical data proves that 70% of conflicts in the world began with the struggle over oil and gas or energy resources.<sup>2</sup> The conflict between the Free Aceh Movement and the Government of the Republic of Indonesia was also triggered by Aceh's centralized management of oil and gas.<sup>3</sup>

It is undeniable that oil and natural gas significantly contribute to developing this country. The oil and gas sector has been the primary source of Indonesia's national income in the past few decades. In fact, for the foreseeable future, oil and gas will remain one of the providers of world energy sources and, simultaneously, a source of national income for this country.<sup>4</sup> Aceh is one of Indonesia's provinces with relatively large amounts of oil and gas natural resources. The history of petroleum in Aceh was marked by the discovery of an oil and gas field in the Arun field in 1971. Oil and gas management in Aceh has gone through a long history of being centralized by the Government without involving the Aceh Government.

The centralized Government policy in the upstream oil and gas sector was rejected on a large scale, leading to an armed conflict between the Government and the Free Aceh Movement. The conflict ended through an agreement in Helsinki which was outlined in a Memorandum of Understanding (MoU), known as the Helsinki MoU, signed on August 15, 2005, in which the MoU agreed that the Government would control the distribution of hydrocarbons in the Aceh region to the Government. Aceh, together with the Government, as stipulated in Article 160 of Law Number 11 of 2006 concerning the Governance of Aceh has authority to manage oil and gas upstream.

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<sup>2</sup> Panglima Tentara Nasional Indonesia, 'Peta Konflik Dunia Tahun 2013' (2016) <<http://www.conflictmap.org/map> dan <http://migasreview.com/>>.

<sup>3</sup> Azhari Yahya and Nurdin MH, 'Management Authority of Oil and Gas Resources in Aceh Territory After Signing The Government Regulation Number 23 Year 2015' (2018) 3 *Journal on Leadership and Policy*. [4-5].

<sup>4</sup> Benny Lubiantara, *Ekonomi Migas Tinjauan Aspek Komersial Kontrak Migas* (Gramedia 2012).

In order to carry out joint management as referred to in the provisions mentioned above, the Government stipulates Government Regulation Number 23 of 2015 concerning Joint Management of Natural Oil and Gas Resources in Aceh. Since the stipulation of Government Regulation Number 23 of 2015, there are 9 Oil and Gas Working Areas spread along the North coast of Aceh, which are managed by Cooperation Contract Contractors (KKKS), namely: Pertamina Hulu Energi (currently transferred to PT PEMA), PT Medco EP Malacca, Triangle Pasa Inc, Zaratex NV, KRX Energy Pte Ltd, Talisman, Renco, Repsol and Pertamina EP.<sup>5</sup>

Oil and gas management requires significant funds, talented human resources, high technology and unavoidable geological risks. Therefore, to share the matters mentioned above, the Government of Aceh invites national and foreign investors to carry out oil and gas management in the Aceh region.

Oil and gas management activities in Aceh are currently carried out between Aceh Government Business Entities and Cooperation Contract Contractors (KKKS) as outlined in the contract, namely, oil and gas Production Sharing Contracts (PSC). The contract regulates various rights and obligations between the parties, including regulating issues related to Corporate Social Responsibility (CSR) funds intended for developing communities domiciled around the company.

Aceh has natural oil and gas resources in relatively large quantities, and even in the seventies to two thousand and ten, Aceh was the largest oil and gas producer in Indonesia, even in the world. This was marked by the discovery of oil and gas reserves in Arun Village, North Aceh District, Aceh Province, known as the Arun oil and gas field or Arun Field, managed by a giant company owned by the United States, ExxonMobil. Since 2015 the Government of Aceh, based on the laws and regulations stipulated in Article 160 of Law Number 11 of 2006 and Government Regulation Number 23 of 2015, has the authority to carry out oil and gas management both onshore and offshore (on land and at sea). The main objective of oil and gas management is to increase people's prosperity.

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<sup>5</sup> 'Faisal, Head of Aceh Oil and Gas Management Agency, Interview, 22 Mei 2022'.

However, the people of Aceh, as an oil and gas producing area, are still in poor condition. The poverty rate in Aceh exceeds the national poverty rate.<sup>6</sup> As of September 2021, Aceh is the province with the highest percentage of poor people on the island of Sumatra. Based on the Central Bureau of Statistics (BPS) report, the percentage of poor people in this province is 15.53%.<sup>7</sup> Furthermore 2022, Aceh's poverty rate will drop to 14.75%.<sup>8</sup> The poverty rate can be significantly reduced with the authority to manage oil and gas.

The Government of the Republic of Indonesia requires every company to conduct CSR programs. This aligns with today's global developments, which require every company to implement CSR. The issue of community development through CSR funds is a new thing in Indonesia. This is as mentioned by Purwanti, S, that: The implementation of CSR in Indonesia started with the existence of development issues in the global environment and increasingly many companies that have implemented in various forms as effort concern to the impact from activity effort that.<sup>9</sup>

In line with the implementation of CSR, Endro Probo states that the policy implementation of CSR through community development program in upstream oil and gas industry did not have Standard Operating Procedure (SOP) yet that can be used as guidance by PSC in carrying out social responsibility program in their operational area, even though it has strong legal basis in the form of Oil and Gas Law Number 22 of 2001. The implementation of CSR program based on community need assessment referring on concept of triple bottom line around the operation area. Thus, local community acceptance of the program is relatively acceptable.<sup>10</sup> In contrast, the implementation of CSR at PT Medco E&P Malaka is not based on a

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<sup>6</sup> M Sabri and Abd. Majid, 'Analisis Tingkat Pendidikan Dan Kemiskinan Di Aceh' (2014) 8 Jurnal Pencerahan.

<sup>7</sup> Katadata, 'Persentase Penduduk-Miskin' (*Katadata*) <<https://databooks.katadata.co.id/tags/persentase-penduduk-miskin>> accessed 26 April 2023.

<sup>8</sup> 'Teuku Ahmad Dadek, Kepala Bappeda Aceh, Wawancara 20 Maret 2023'.

<sup>9</sup> S Purwanti, 'Efektiveness of Corporate Social Responsibility Performance in Oil and Gas Companies in North Kalimantan' (2021) 6 International Journal of Health Sciences, [47461- 47471], <<https://doi.org/10.53730/ijhs.v6nS7.13257>>.

<sup>10</sup> Endro Probo, 'Implimentasi Kebijakan Tanggungjawab Sosial Pada Industri Hulu Minyak Dan Gas Bumi' (Universitas Airlangga 2017) <[repository.unair.ac.id/id/eprint/68309](https://repository.unair.ac.id/id/eprint/68309)>.

real assessment of local community. Therefore, it is necessary to have a new model of CSR that accommodate a basic need of local community. Local community must be involved from early stage of discussing CSR program until the implementation of the program.

The research method used in this paper is normative juridical by using secondary data as the main data and supported by field data. This study uses a philosophical approach, comparisons, legislation, and cases. Sources of legal materials are obtained from primary, secondary, and tertiary legal materials. Field data collection techniques using interview techniques with resource persons. Data analysis was carried out qualitatively.

### **Legal Basis for Oil and Gas Management in Aceh**

Oil and gas management in Aceh has gone through a long history. Previously, the central Government carried out oil and gas management in Aceh, and the results would be shared equally, including non-oil and gas-producing regions. The existence of oil and gas in Aceh then could not create prosperity for the people of Aceh themselves. In addition, the Government of Aceh is also not involved in oil and gas management. Such a situation has prompted a group of people in Aceh, namely the Free Aceh Movement (GAM), to ask the Government to actively involve the Government of Aceh in oil and gas management. This request was not positively welcomed by the Government, which finally led to GAM fighting against the Government. After the armed conflict between the military and GAM, the Government finally agreed to negotiate and discuss several matters, including oil and natural gas.<sup>11</sup>

After these negotiations, a Memorandum of Understanding (MoU) was signed in Helsinki, which in point 1.3.4, states that Aceh has the right to control 70% of all current and future hydrocarbon reserves and other natural resources in the region: Aceh and the territorial sea around Aceh.<sup>12</sup>

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<sup>11</sup> Yahya (n 2).

<sup>12</sup> Anonimus, *Memorandum of Understanding Between The Government of The Republic Indonesia and The Free Aceh Movement* (Helsinki 2005).

Based on the MoU, oil and gas management is carried out jointly between the Government of Indonesia and Aceh. This is stated in Article 160, paragraph (1) and paragraph (2) of Law Number 11 of 2006 concerning the Government of Aceh, often referred to as the Aceh Government Law (UUPA), which states that in order to carry out joint management, the Government and the Government of Aceh appoint or form a joint implementing agency. Article 160 is the basis for enacting Government Regulation Number 23 of 2015 concerning the Joint Management of Natural Oil and Gas Resources in Aceh. Government Regulation Number 23 of 2015 explains that the joint management of oil and gas in Aceh is carried out by an agency, namely the Aceh Oil and Gas Management Agency (BPMA). BPMA was formed to encourage the Aceh Government's participation in the oil and gas sector to improve the welfare of the people of Aceh.

The duties of BPMA as stipulated in Article 13 that "BPMA has the task of implementing, controlling and supervising cooperation contracts for upstream business activities so that the extraction of state-owned Oil and Gas natural resources located on land and sea in the territory of Aceh can provide benefits and maximum revenue for the state for the greatest prosperity of the people". In addition, BPMA also carries out negotiations, makes cooperation agreements, and signs cooperation contracts with Cooperation Contract Contractors (KKKS). Thus, BPMA acts as a Contracting Party with the KKKS in this case.

BPMA was formed on April 11 2016, and until now, there have been several PSC. Contractors, both of which are carrying out exploration and exploitation activities, namely Pertamina Hulu Energi (PHE) managing Block B, which has currently been handed over to PT PEMA, PT Medco E&P Malaka manage Block A, Triangle Pase Inc manages the Pase Block (PMA), Zaratec VN manages the Lhokseumawe Block, KRX Energy (SBA) Pte. Ltd (PMA) manages South Block A. Talisman Andaman BVBV, manages Block Andaman III.<sup>13</sup>

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<sup>13</sup> Faisal, 'Kilas Balik Dan Peran BPMA Dalam Penyusunan Dan Negosiasi Kontrak Bagi Hasil Migas Di Aceh' Kertas Kerja, Disampaikan Di Hadapan Mahasiswa Praktik Perancangan Kontrak Fakultas Hukum Unsyiah' (2019).

It cannot be denied that oil and gas management is an investment that requires significant funds, sophisticated technology and human resources who are experts in this field. Therefore, and based on the above considerations, the Government invites investors to invest in Indonesia's upstream oil and gas sector. All investment costs required for exploration activities and risks are borne by the Cooperation Contract Contractors (KKKS), and these costs will be returned by the Government at the production stage (cost recovery).<sup>14</sup> However, if a risk occurs, it remains the responsibility of the KKKS.

### **Legal Basis and Basic Concepts of CSR**

Although the issue of Corporate Social Responsibility has long been known at the international level, in Indonesia, this is a relatively new issue and has recently become the concern of various stakeholders working in the upstream oil and gas sector.

At the national level, CSR arrangements in the upstream oil and gas sector can be found in various related regulations, namely:

1. Law Number 22 of 2001 concerning Oil and Gas;
2. Law Number 19 of 2003 concerning State-Owned Enterprises and Regulation of the Minister of State-Owned Enterprises Number Per-05/MBU/2007 concerning the Partnership Program for State-Owned Enterprises with Small Businesses and Community Development Programs;
3. Law Number 40 of 2007 concerning Limited Liability Companies and Government Regulation Number 47 of 2012 concerning the Social and Environmental Responsibility of Limited Liability Companies;
4. Law Number 25 of 2007 concerning Investment;
5. Law Number 32 of 2009 concerning Protection and Environmental Management;
6. Law Number 21 of 2014 concerning Geothermal;
7. Government Regulation Number 35 of 2004 concerning Oil and Gas Upstream Business Activity.

At the Aceh Provincial level, CSR arrangements are regulated in some regulations, including:

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<sup>14</sup> Maulana Arba' Satryyadin, 'Penerapan Asas Proporsionalitas Dalam Production Sharing Contract Pada Kegiatan Usaha Pertambangan Hulu Minyak Dan Gas Bumi' (2016) 5 Law Review. [15].

1. Law Number 11 of 2006 concerning the Government of Aceh;
2. Government Regulation Number 23 of 2015 concerning Joint Management of Natural Oil and Gas Resources in Aceh;
3. East Aceh District Qanun Number 12 of 2016 concerning Corporate Social and Environmental Responsibility;
4. Governor of Aceh Regulation Number 65 of 2016 concerning Guidelines for the Implementation of Corporate Social and Environmental Responsibility in Aceh; And
5. Decree of the East Aceh District Head Number 050/949/2018 concerning establishing the East Aceh District CSR Forum.

In addition to the arrangements in the various regulations mentioned above, in particular, PT Medco EP Malaka, as a Cooperation Contract Contractor (KKKS) for oil and gas management in Block A, places CSR issues in various documents, namely:

1. Production Sharing Contract (PSC);
2. Community Development Program Management Guidelines signed on April 28 2020;
3. Decree of SKK Migas regarding Work Procedure Guidelines (PTK) Number: PTK-017/SKKO0000/2018/S0 concerning Public Relations, November 13 2018;
4. PT Medco's Internal Policy on Community Development Policy was signed on April 4, 2020.<sup>15</sup>

From the description above, it is clear that Corporate Social Responsibility (CSR) is mandatory for every investor in the upstream oil and gas sector. CSR is applied to companies operating in the context of the global economy by Multi-National Cooperation (MNC), national companies, and local companies. In general, it can be said that the company's CSR activities, in principle, refer to two main things, namely:<sup>16</sup>

- a. Good corporate governance or Good Corporate Governance, business ethics, human resource management, social security for employees, and occupational health and safety;
- b. Good Corporate Responsibility, environmental preservation, community development, protection of human rights, consumer protection, relations with suppliers and respect for the rights of other stakeholders.

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<sup>15</sup> Universitas Syiah Kuala, *Laporan Pusat Penelitian Lingkungan Hidup-Sumber Daya Alam* (2022).[3].

<sup>16</sup> Edi Suharto, *CSR & Comdev Investasi Kreatif Perusahaan Di Era Globalisasi* (Alfabeta 2010).



CSR is an ongoing commitment by the business world to act ethically and contribute to the economic development of the local community or society at large, along with improving the standard of living of workers and their families.<sup>17</sup> In other words, CSR is a corporate strategy phenomenon that accommodates the needs and interests of its stakeholders. This shows that the company must be responsible both to the community and the environment where the company is located. This is the core of the basic concept of CSR that business people and local communities must understand.<sup>18</sup>

In this case, Welford emphasized that CSR is a business operation committed to increasing the company's economic profit and participating in building sustainable overall socio-economic development.<sup>19</sup> In line with Welford's opinion, Christine A Hemingway & Patrick W Maclagan said that "CSR requires "any's recognition that must be announced openly, not only for its financial performance but also for its social and environmental performance. In fact, in this context, CSR must be able to promote human rights issues, improve people's conditions, democracy, and sustainable development goals throughout the world".<sup>20</sup>

The opinion of Christine A Hemingway & Patrick W Maclagan above illustrates that businesses should not solely seek profits for the company's benefit but must also share with the surrounding community. The orientation of business activities carried out by various companies, especially in developed countries today, is not only pursuing the company's economic profits but also contributing to the economic growth of society and, at the same time, maintaining environmental sustainability.<sup>21</sup> The paradigm towards CSR has undergone such changes. Initially,

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<sup>17</sup> Isa Wahyudi and Azheri, Busyra, *Corporate Social Responsibility: Prinsip, Pengaturan Dan Implementasi* (Selemba Empat 2008).

<sup>18</sup> Sidharta Utama, *Evaluasi Infrastruktur Pendukung Pelaporan Tanggungjawab Sosial Dan Lingkungan Di Indonesia* (2010).

<sup>19</sup> Richard Welford, 'Corporate Social Responsibility in Europe, North America and Asia' (2005) 1 *Journal of Corporate Citizenship*. [35].

<sup>20</sup> Christine A Hemingway, 'Managers Personal Values As Drivers of Corporate Social Responsibility' (2004) 50 *Journal of Business Ethics*. [35].

<sup>21</sup> Bryan W Husted, 'Governance Choices for Corporate Social Responsibility: To Contribute, Collaborate or Internalize?' (2003) 36 *Long Range Planning*. [481- 498].

the allocation of CSR funds was a burden on the company. However, now CSR is used as a company instrument to foster relationships with various other stakeholders so that the existence of a company is felt by various parties and, in the end, all parties have a sense of belonging to the company. The concept of thinking and acting like that is a corporate strategy to gain sympathy from various interested parties and, at the same time, is a long-term investment that is mutually beneficial.<sup>22</sup> CSR will positively impact the community more if it is packaged as a program that includes the community as the subject of implementing the program, not as an object.

As quoted by Widjaja,<sup>23</sup> one of the well-known theories in implementing the CSR concept is the Triple Bottom Line theory put forward by John Elkington in 1997. Elkington describes this concept in terms of economic poverty, environmental quality, and social justice. Profit in the form of material gain is one of the company's main goals. The profits obtained by the company are used for the growth of the company itself. The growth and development of the company require material that is large enough so that the company can continue to run its business. With material gains obtained by the company, it does not leave the company's obligation to pay taxes or other obligations.

This other company's obligation is environmental maintenance, which aims to keep the environment beautiful, clean and protected from various impacts. In addition to being beneficial to the community, it is also beneficial to the company. Companies must also focus on people who are employees and the community. Community welfare also needs to be carried out by the company, such as holding training for the community around the company.

According to Marnelly, the company management's decision to carry out CSR programs in a sustainable manner is a rational decision. Because the implementation of the CSR program will create a golden circle effect that will be enjoyed by the

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<sup>22</sup> Fox and Tom, 'Corporate Social Responsibility and Development: In Quest of An Agenda' (2004) 47 Development.

<sup>23</sup> Gunawan Widjaja and Yeremia Pratama, *Resiko Hukum Dan Bisnis Perusahaan Tanpa CSR* (Percetakan Penebar Swadaya 2008).[4].

company and all of its stakeholders,<sup>24</sup> through CSR, economic prosperity will be easier to be implemented and by doing so the people those are residing around the company will have sense of belonging to the company.

Corporate responsibility towards the public interest can be realized by implementing sustainable CSR programs that directly touch aspects of people's lives.<sup>25</sup> Thus, realizing the CSR program is the company's contribution indirectly to strengthening social capital. Unlike the case with financial capital, whose quantitative value can be calculated, social capital cannot be calculated with certainty. However, it can be emphasized that spending on CSR programs is a company investment to foster social capital.<sup>26</sup>

This CSR program must be managed by involving the community and prioritizing community independence to take care of the program's sustainability. The role taken by the company, in this case, the division in charge of CSR programs, should act as a companion for the community, bridging communication between the company and the community and vice versa.<sup>27</sup> However, what needs to be considered in managing this community-based CSR program is to distinguish CSR programs from other programs from companies to boost sales and increase profits.

In other words, it will be wiser. It will be very beneficial for the company when the community or community that is the target of the CSR program will later become Public Relations for the products and policies issued by the company.<sup>28</sup> Thus, the company will significantly benefit from having human resources and resources that grow and develop from the community, which is part of the target marketing of the company's products.

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<sup>24</sup> T Romi Marnelly, 'Corporate Social Responsibility (CSR): Tinjauan Teori dan Praktek di Indonesia' (2012) 2 Jurnal Aplikasi Bisnis.[29].

<sup>25</sup> Wendy Chapple and Jeremy Moon, 'Corporate Social Responsibility (CSR) in Asia A Seven-Country Study of CSR Web Site Reporting' (2005) 44 Journal of Business & society.[419].

<sup>26</sup> Elisabet Garriga and Domènec Mele, 'Corporate Social Responsibility Theories: Mapping the Territory' (2004) 53 Journal of business ethics.[55].

<sup>27</sup> Jim Ife and Frank Tesoriero, *Community Development: Alternatif Pengembangan Masyarakat Di Era Golobalisasi Edisi Ketiga* (Pustaka Pelajar 2006).

<sup>28</sup> Yusuf Wibisono, *Membedah Konsep Dan Aplikasi CSR. Gresik* (Fascho Publishing 2007). [98].; Rahmatullah, *Panduan Praktis Pengelolaan Corporate Social Responsibility* (Samudra Biru 2011).[98].

### **Implementation of CSR Upstream Oil and Gas Sector by PT Medco E&P Malaka**

PT Medco E&P Malaka is a national private company engaged in the oil and gas sector, currently managing gas in Block A, East Aceh District, Aceh Province. As mentioned above, allocating funds for developing communities that are domiciled in the company circle is a company obligation regulated by various relevant laws and regulations.

From the description above, it is clear that CSR is mandatory for every business actor in the natural resources sector. Given the importance and strategic position of CSR in creating economic self-sufficiency in the company's circle of communities and, at the same time, preserving the environment, it is for this reason that the Government of Aceh has exceptional attention to issues related to CSR.

For this purpose, the Government of Aceh has established Regulation of the Governor of Aceh Number 65 of 2016 concerning Guidelines for Implementing Corporate Social and Environmental Responsibility in Aceh. However, the Government of Aceh still needs to enact an Aceh Qanun regarding CSR in the Oil and Gas Natural Resources Sector. However, in several City Regencies, there have been qanuns in question.

The main objectives of the Governor Regulation Number 65 of 2018, as stated in Article 3, are:

- a. Provide clear boundaries regarding CSR and the parties involved;
- b. Guarantee the implementation of the coordinating function in the implementation of TJSLP following laws and regulations;
- c. Reducing the negative impact of the company's existence and optimizing the positive impact of the company's existence;
- d. Protecting the preservation of natural resources and environmental functions in Aceh, and
- e. It is the basis for the Aceh government to appreciate companies that carry out CSR reasonably and sustainably.

This Governor Regulation (Pergub) is the entry point for companies to be entirely accepted by the community. Companies can carry out positive imagery or branding by carrying out CSR activities. However, if the company does not carry out CSR, it can be subject to sanctions. This is as stipulated in Article 25

that: Companies that do not implement the provisions in this Pergub may be given administrative sanctions in the form of written warnings, permit suspension and license revocation.

The following will describe the Implementation of Corporate Social Responsibility (CSR) by PT Medco. PT Medco E&P Malaka's CSR program is managed and implemented under the Field Relations Division and Public Affairs Department.<sup>29</sup> This shows that PT Medco has profound attention to the development of the community around the company. This means that in these companies, the design and implementation of CSR are structured by human resources (staff) who are trained and specifically responsible for CSR. Nevertheless, PT Medco's basic mistake in preparing the CSR program needed to involve the community around the company thoroughly. The nature and objectives of CSR include, at least: providing good employment opportunities for workers by referring to the applicable laws and regulations. In addition, they are ethically and morally responsible in that business activities take place correctly and fairly and do not cause environmental damage.

One Company required to carry out this CSR program is PT Medco, an oil and gas management company in East Aceh District. As a business entity, PT Medco should always be in the midst of the community and grow and develop with the community. Therefore, to maintain its survival, it is necessary to carry out social activities related to the life of the local community. These activities must also follow the local community's culture and wisdom. The intended social activities are packaged in a social packaging concept called Corporate Social Responsibility (TJSLP).

Medco itself designs most CSR programs based on proposals submitted by the community. Ideally, the CSR/TJLSP program implemented by Medco can answer the local community's short-term and long-term needs after the operation of the oil and gas management. The CSR programs are jointly designed between the Medco company and the local community and are ideally carried out based on a need assessment of the local community.

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<sup>29</sup> *Interview with Tim CSR Medco, at 01 Juni 2021.*

The preparation of PT Medco E&P Malaka's CSR program is only sometimes carried out based on the results of discussions with community members who live in the Company's circle and related agencies in East Aceh District, but rather on a top-down basis from the Company.

In carrying out the CSR Program, the Company should always coordinate, consult and discuss with stakeholders, including village officials (*Keuchik*, *Sekdes*, Youth Leader, *Tuha Peut*), Muspika Forum, Mukim, religious leaders, community leaders, media and NGOs. This process is carried out partially with stakeholders in formal and informal meetings.

Preparing a CSR program based on the community's real needs is one of the keys to success in implementing CSR. With community involvement, it is hoped that they will have skills in compiling CSR programs. This is necessary to maintain the continuity of the surrounding community's lives after the PT Medco E&P Malaka operation. This means that the CSR programs being carried out are not out of generosity and philanthropy on the part of the Company but because of the needs of the community around the Company while maintaining the local wisdom values of the surrounding community. This means that people who live in Medco's oil and gas management circle can directly benefit from the CSR program. This will cause the community to feel a sense of belonging to Medco and for Medco itself, simultaneously as positive branding, enhancing its image in oil and gas management.

The recent mistake has been the need for more attention from the Oil and Gas Production Sharing Contractors (KKKS) operating in Aceh to develop the communities around the Company. Such a mistake became a precious lesson for PT Medco E&P Malaka not to repeat it. Therefore, PT Medco E&P Malaka's obligations stipulated in various laws and regulations related to Corporate Social Responsibility (CSR) and Environmental and Corporate Social Responsibility (TJSLP) must be implemented. Communities and other stakeholders need to be asked for input in preparing CSR programs based on the community's actual needs. Moreover, in order to streamline and meet the real needs of the use of CSR funds so that it meets the needs of the community, it is deemed necessary to establish a CSR

Forum on the Use of PT Medco's CSR Assistance whose membership consists of representatives from Medco, representatives of community leaders in the company circle, and Bappeda.

The following is a section on CSR programs and activities for villages within PT Medco's operational area.

**Table 1.** PT MEDCO's 2020 CSR Realization Report, East Aceh District

No	Name of Activity	Execution Village	Subdistrict
1	Children Play Facilities at DPMP2T Office	Idi Rayeuk	Idi Rayeuk
2	SRI Organic Rice Cultivation (System of Rice Intensification)	Alue Ie Itam	Indra Makmur
3	Clean Water Facilities at the Miftahus Sa'adah	Blang Panjou	Nurussalam
4	Study Center Learning Program and Technical Assistance for Cassava Cultivation	Blang Nisam	Indra Makmur
5	Training on air conditioner	Kota	Aceh Timur

**Source:** Personal, processed, 2024

The CSR programs above, such as the training program for air conditioner technicians or air conditioners, are outside the need assessment or the real needs of the community around the company. Besides that, the realization of the assistance is also off target, namely, not intended for the community around Medco's oil and gas management projects, such as Shopping and Children's Play Assistance at the DMPMP2T office in Idi. The program does not address the community's basic needs around the company.

The data above also shows that Medco considers CSR a legal obligation for the company, not as assistance from generosity and philanthropy. For this reason, the preparation of CSR programs needs to involve the community maximally to impact the success of the CSR program itself. The ideal CSR program begins with collaborative program design and development based on the community's needs. For this need, Medco has initiated a CSR Forum comprising the corporate community, East Aceh District government representatives, company representatives and non-governmental organizations (NGOs). However, this still needs to be entirely done.

The implementation of CSR in the agricultural sector, namely planting SRI Organic rice (System of Rice Intensification) in partnership with the people of Alue Ie Itam Blang Jambée Village, Indra Makmur Idi Rayeu District, East Aceh Regency, is one of PT Medco's flagship CSR programs which can be said to be less successful.<sup>30</sup>

In the context of the failure of CSR programs in the planting sector at SRI, it teaches companies how important it is to prepare CSR programs carried out by the community itself and avoid compiling top-down CSR programs by companies. In order to realize the implementation of CSR effectively (effectively and efficiently), it is necessary to pay attention to the actual needs (need assessment) of the community around the company. For this, it must be based on the local wisdom of the local community.

The concept of CSR based on local wisdom means that CSR is adapted to the local community's culture, customs and habits. This concept is intended to create meaningful social values for society and companies so that companies can operate and the community can be helped. Implementation of CSR through this concept is expected to create reciprocal relationships that help each other and benefit both parties. The implementation of an assessment-based CSR model is being implemented and continuously improving.

### **The Ideal Concept of CSR in the Upstream Oil and Gas Sector**

Ideally, the implementation of the CSR concept based on local wisdom at Medco companies is not only carried out because of a law order as stated in Article 15 of Law Number 25 of 2007 concerning Investment and Article 76 of Law No. 40 of 2007 concerning Limited Liability Companies, but because of a moral call to provide compensation for losses arising from the operation of the Medco company.

If it is related to the theory of corporate social responsibility, then social responsibility based on local wisdom places more emphasis on the company's concern for the surrounding community. In other words, social responsibility based

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<sup>30</sup> Interview with H Tarmizi, Ketua Fraksi Nasdem DPRKab Aceh Timur, at 10 Mei 2021.



on local wisdom emphasizes corporate responsibility for their actions and business activities that impact society and the environment where companies carry out their business activities. The primary point is that the company is responsible for the negative impacts caused by the operation of the company in that place so that people's welfare can increase.<sup>31</sup>

Conceptually, CSR based on local wisdom is aimed at aspects of the interests of the surrounding community and the interests of all stakeholders, including consumers, employees, shareholders, communities and the environment. Because of that, the 3P approach, namely people, planet, and profit, is appropriate to be applied in this context. In this case, people are the people and human resources within the company's environment; the planet is the potential for the environment and natural resources that the company works on, and profit results from the profits that are obtained and enjoyed by the company.

In this context, CSR based on local wisdom becomes a link between the business and social worlds. When talking about business, business people often forget that they are pursuing economic profit and have to bring social values into their business. In addition, business people also often need to remember that their success is supported by high trust from the public who use their business services.

Ideally, the preparation of the CSR program is carried out by a forum. From the discussions with community members, almost all agreed to establish a CSR forum. The forum members consist of company representatives, community representatives (community leaders) around the company, government representatives (Regency Bappeda), academics, and non-governmental organizations. The task of this CSR forum is to help develop CSR programs based on the community's real needs, monitor and evaluate their implementation, and resolve various CSR-related issues. Therefore, PT Medco E&P Malaka can consider establishing this forum.

The members of the TJSLP Forum are all stakeholder representatives consisting of government elements, company elements, community elements,

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<sup>31</sup> Richard Welford, 'Corporate Social Responsibility in Europe, North America and Asia' (2005) 1 *Journal of Corporate Citizenship* 2005.[40].

NGO elements, and Higher Education elements. All these elements are essential for sharing information and making programs for using Corporate Social Responsibility (CSR) funds. There is a government element to ensure that CSR programs do not overlap with government programs.

### **Obstacles to PT Medco E&P Malaka's CSR Implementation**

Obstacles in implementing the CSR program by PT Medco E&P Malaka originate from the company and the company's community. The following are some of the obstacles that occur in the implementation of CSR:

a. Lack of understanding of the concept of CSR comprehensively

A very worrying condition occurs in society, where people still do not understand the meaning of CSR comprehensively. In the view of the community, CSR is only understood as limited to the provision of social assistance by the company PT Medco E&P Malaka to the community according to their requests, both in small and large amounts. The results of observations in the field found that it is optional for the community to understand the meaning of CSR. For them, it is important how PT Medco E&P Malaka can meet the needs needed for social development.

b. Lack of commitment to carry out CSR programs in a sustainable manner.

Research conducted at several oil and gas companies in Aceh shows that not all oil and gas companies are committed to implementing CSR programs consistently and sustainably. Most of the CSR programs are carried out based on proposals received from the community. If many proposals come that year, many activities will be carried out. Vice versa, if the proposals received are fewer, the CSR activities that are carried out will also be less. Ideally, these CSR activities are carried out continuously and on a scheduled basis, even though the number of incoming proposals fluctuates. Incoming proposals should not be used as a benchmark for implementing or not implementing CSR programs. These proposals should only be used as input or raw material to be processed, analyzed and designed as a CSR program. PT Medco E&P Malaka is highly committed to

sustainably implementing CSR programs. The obstacle is the unpreparedness of the community to prepare proposals for channeling CSR funds.

c. Limited funds available for the implementation of CSR programs.

The fundamental problem that is often found in the field in the implementation of CSR programs is a matter of cost. The shortage of funds occurred because they needed to be allocated for CSR from the start due to many companies' needs for other interests that had to be met to run the company itself. Sometimes the CSR funds that have been allocated suddenly have to be used partly for other purposes because there is an urgent need so that the quantity and quality of CSR programs that have been announced before is reduced.

d. Limited availability of human resources

Another obstacle in implementing the CSR program is the limited human resources available for it. Human resources (HR) in Public Relations managing CSR programs are relatively adequate. However, exceptional staff are needed and focused on managing CSR programs and given capacity-building training through training and field studies.<sup>32</sup>

e. Lack of enthusiasm of community members in fighting for CSR programs.

At the time of the assessment, it was found that several villages in the vicinity of the Medco E&P Malaka company were less enthusiastic about receiving the CSR program, and some were even apathetic. This is due to the inability to prepare a proposal as the company requires. The solution to this problem is that the community's ability to formulate long-term empowerment program ideas and put them into CSR proposals needs to be improved so that the community can and is willing to plan and run CSR programs properly.

## Conclusion

The Government of Aceh has obtained authority in the oil and gas management sector as stipulated in Law Number 11 of 2006 and Government Regulation Number

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<sup>32</sup> *ibid.*

23 of 2015. However, this authority has yet to be able to increase Local Own Revenue through the oil and gas sector. As a Cooperation Contractor which manages Block A in East Aceh Regency, PT Medco has yet to be able to fully use CSR funds to increase the economic growth of the community around the company. This means that the regulation of CSR in the Block A upstream oil and gas sector needs to provide a sense of justice for the people who live in the company's circle. This is because CSR regulation is only partially based on local wisdom, and the preparation of CSR programs still needs to be top-down. A further impact of this policy is that the community feels they do not own the company. Besides, CSR funds cannot sustainably increase the community's economic growth. It is suggested that new model of CSR based on need assessment of local community must be implemented.

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