



INDONESIA'S COAL POLICY

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**DIRECTORATE GENERAL OF MINERAL, COAL AND GEOTHERMAL
MINISTRY OF ENERGY AND MINERAL RESOURCES REPUBLIC OF INDONESIA**

❑ **CURRENT CONDITION**

- ❖ Production and Export
- ❖ Some Basic Laws
- ❖ Coal Resources and Reserves

❑ **LAW NO. 4/2009 ABOUT MINERAL AND COAL MINING**

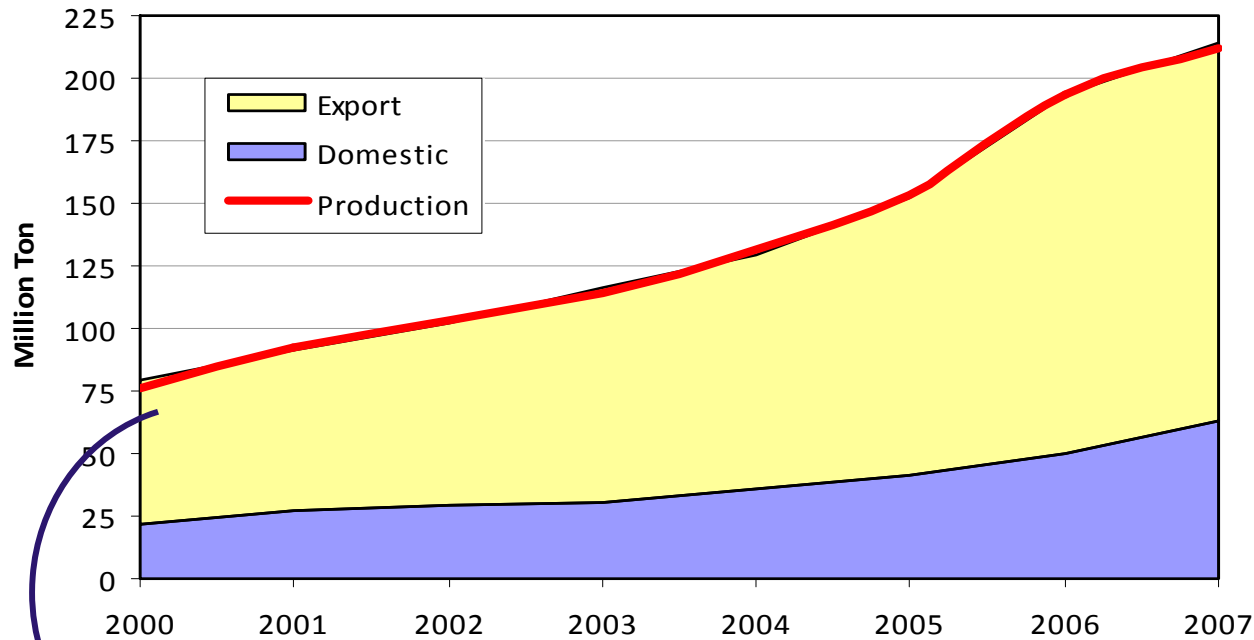
- ❖ Main Principles
- ❖ Several Important Issues
- ❖ Transition Period

❑ **SUPPLY-DEMAND POLICY**

- ❖ Principles
- ❖ DMO Obligation
- ❖ Determination of Minimum Percentage of Domestic Coal Sales (MPDCS)
- ❖ Coal Price Mechanism

CURRENT CONDITION

Production and Export



➡ Domestic coal supply should be guaranteed

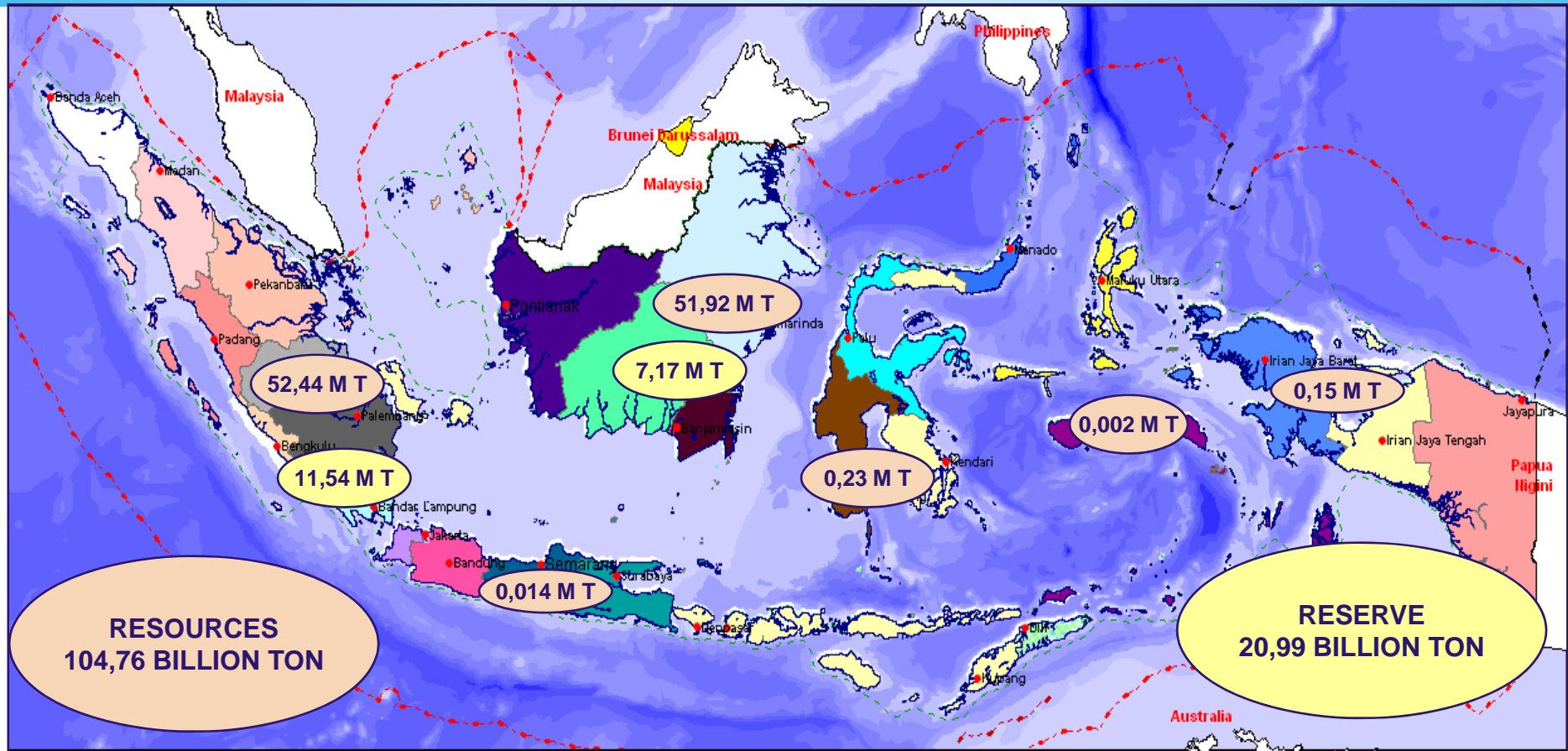
➡ Optimizing national income

- Indonesia is one of the largest coal exporter
- 70% of coal production is exported
- But, Indonesia experience coal scarcity

Some Basic Laws

- ❖ Presidential Decree No5/2006 (National Energy Policy):
in 2025 coal contributed 35% of energy mix
- ❖ Law No 3/2007 (Energy):
to guarantee the availability of energy supply, including coal supply
- ❖ Law No 4/2009 (Mineral and Coal Mining):
to develop DMO policy

Coal Resources and Reserves



DESCRIPTION	REALIZATION			PLAN
	2006	2007	2008	2009
Coal (Million ton)	193	217	229	230

Source : Geological Agency, December 2008

LAW NO 4/2009 ABOUT MINERAL AND COAL MINING

Main Principles of Law No 4/2009

- ▶ **Replaced Law No. 11/1967 (Centralistic)**
 - ▶ Consistent with The 1945 Constitution, article 33
 - ▶ Respect the present contracts (contract of work and coal contract of work)
 - ▶ Provide the certainty of law to all mining players
 - ▶ Create conducive climate of investment
- ▶ **The Law requests to optimize the state revenue and the area to be exploited in the existing mining contract**
- ▶ **Permit scheme for new players:**
 - ▶ Mining Business License (Izin Usaha Pertambangan/IUP)
IUP exploration and IUP production-operation
 - ▶ Mining Traditional License (Izin Pertambangan Rakyat)
 - ▶ Special Mining Business License (IUPK) for the area of ex State Reserves Zone
 - ▶ IUP and IUPK are open for domestic and foreign investor through the bidding scheme

SEVERAL IMPORTANT ISSUES (1)

Preparation and establishment of Regulations :

❑ Government Regulations :

- ▶ Preparation and Establishment of Mining zone
- ▶ Mineral and coal enterprises activity
- ▶ Supervising and controlling mining activity
- ▶ Reclamation and post mining

❑ Minister Decree:

- Mining Service

SEVERAL IMPORTANT ISSUES (2)

- ❖ Establishment of Mining Business Zone (*Wilayah Usaha Pertambangan-WUP*), Small Scale Reserve Zone (*Wilayah Pertambangan Rakyat-WPR*) and State Reserve Zone (*Wilayah Pencadangan Negara-WPN*)
- ❖ Simplification of licensing Permit: *IUP exploration* and *IUP Opration*. Besides, there are also Mining Traditional License (*Izin Pertambangan Rakyat-IPR*) and Special Mining Business License (*IUP Khusus-IUPK*)
- ❖ Determination of mining areas through bidding. *IUPK* can be issued by Minister in the area of ex *WPN* (*WUPK*)
- ❖ Clarification of Central Government, Provincial and District Authority;
- ❖ Processing and refinery producing metal must be establish in Indonesia;
- ❖ Community development is focused for local people welfare.
- ❖ For the sake of national interest, the GOI can determine Domestic Market Obligation (*DMO*) of mineral and coal.
- ❖ The mining company with *IUPK* scheme has an obligation to share its net profit after production: 4% to government and 6% to local government
- ❖ There is a punishment mechanism for any infringe to the Law.

Transition Period (before the issuance of related GR)

□ Circular Letter of MEMR No. 03.E/31/DJB/2009, 31 January 2009 about mineral and coal mining licenses before the issuance of the related government regulations (GR) to all existing KP. Some important points are:

- The existing KP will be valid until the end of the period and must be adjusted into IUP
- Temporary hold the new IUP licenses until related GR issued
- Coordinate with DGMCG about all application of upgraded stage activities of existing KP to be processed according to Law no 4/2009
- Submit all data/information of all KP application existed before Law 4/2009 for evaluation and verification to prepare WIUP

□ Circular Letter of MEMR to all existing contract/agreement No. 02.E/31/DJB/2009, 30 January 2009. The important point is: that all mining contract/agreement (KK/PPK2B) has to submit the activity planning on entire region of contract / agreement within 6 months after the issuance of Law No 4/2009.

SUPPLY-DEMAND POLICY ON COAL

PRINCIPLES

- ❖ Main principle is that coal domestic needs as a priority, with the following determinations:
 - determination about amount of the domestic coal demand (DMO coal) for the short term, medium term and long term
 - determination of yearly coal production and export control
- ❖ Mechanism:
 - Minister set up policy on coal DMO , and to coordinate with the governor/regent/mayor
 - Minister consults with the House of Representatives in determining coal DMO

**) Substance of the Government Regulation on Mineral and coal enterprises activity*

DMO OBLIGATION FOR COAL MINING

- Coal mining companies have to support domestic security of coal supply.
- Coal mining companies can export their coal production, when domestic coal demand have been fulfilled.

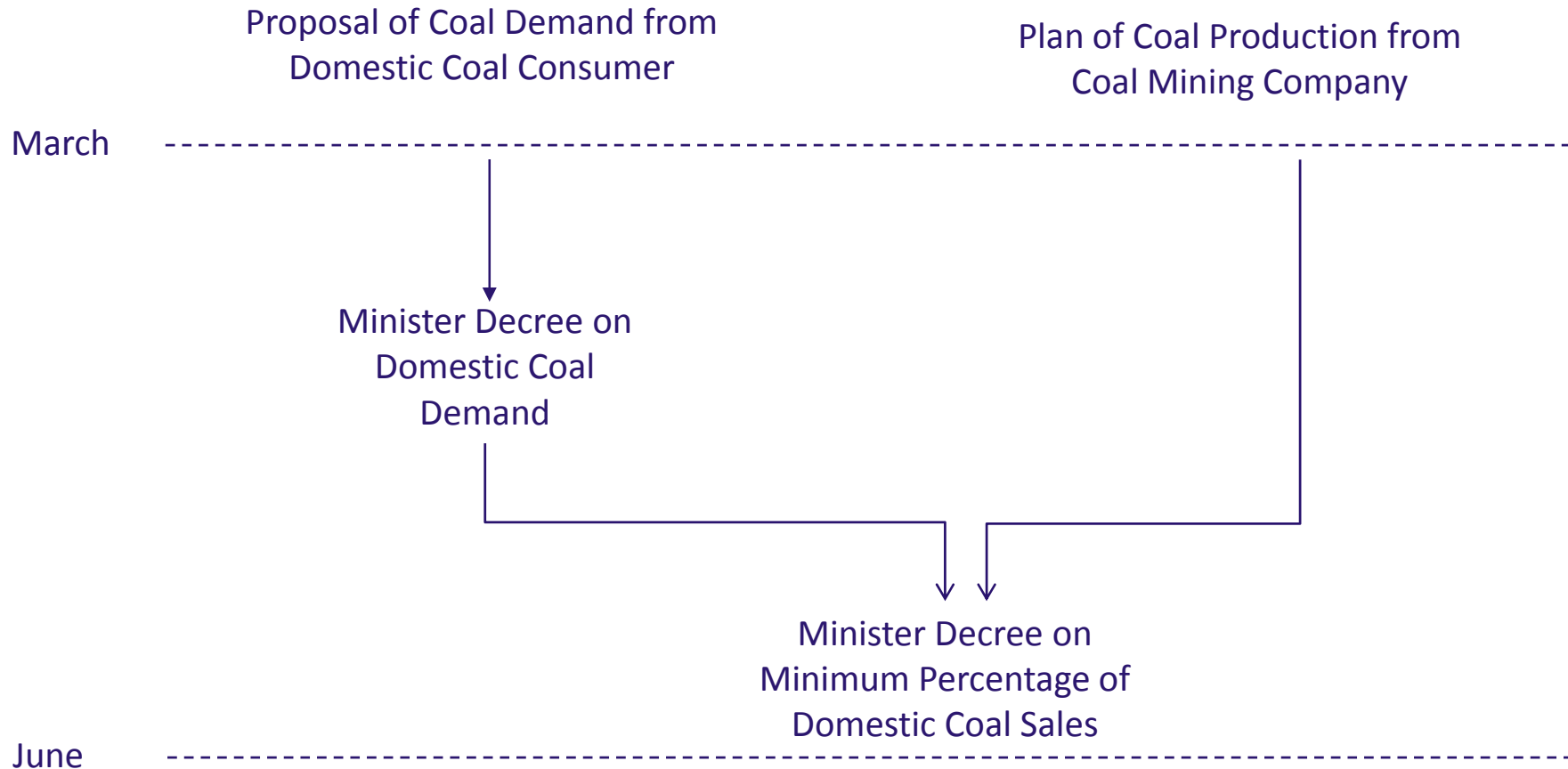
Consequences of the above are:

- It must be set the amount of domestic coal demand, and
- It should be firstly determined a minimum percentage of domestic coal sales of coal (MPDCS/PMPBDN) from coal mining production

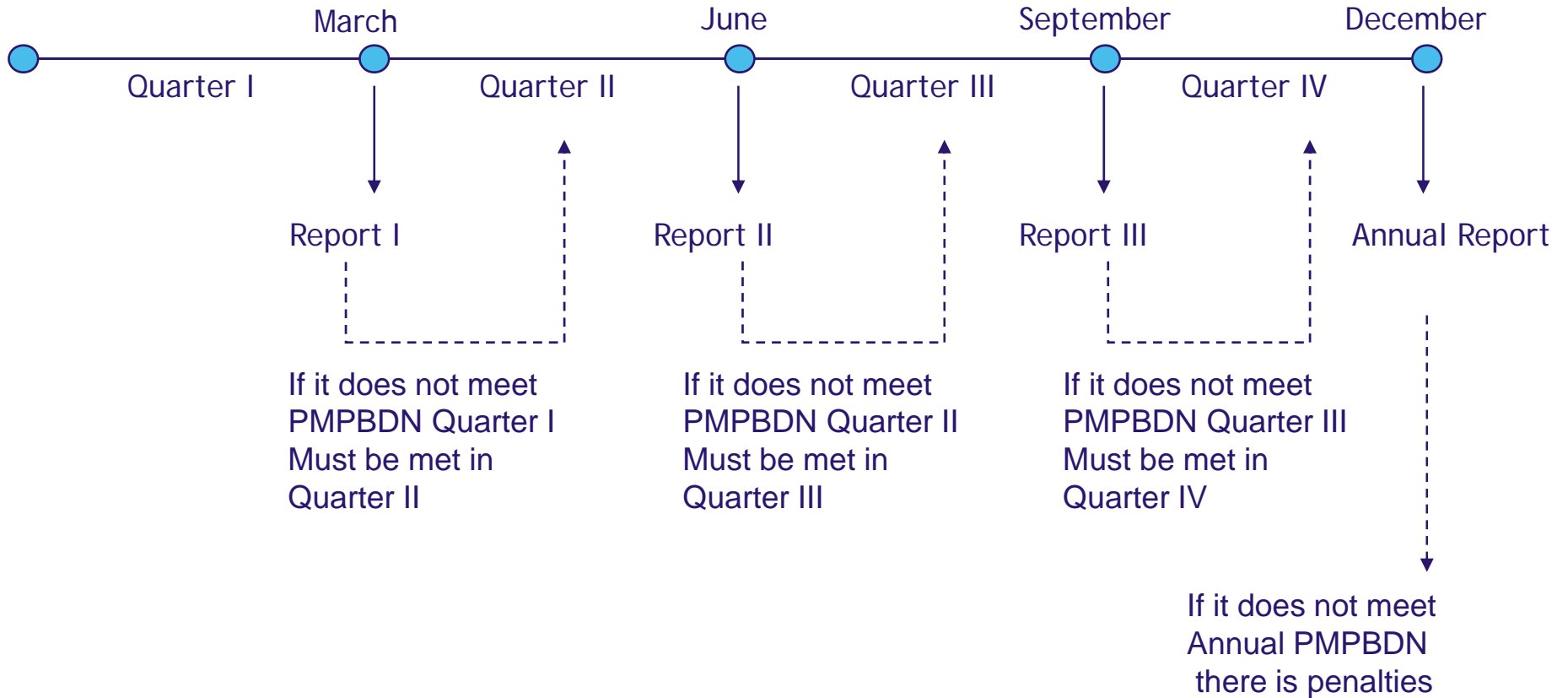
For example in 2009 :

- Coal DMO is 68 million tons (an average of 17,020 million tons / quarter) which is determined on the basis of coal user projection (coal electricity, cement, etc.).
- The DMO is then distributed proportionally to the coal companies through the mechanism of Work Budget and Program (CCoW RKAB) approval.

Determination of Minimum Percentage of Domestic Coal Sales (MPDCS)



SUPERVISION AND REPORTING



COAL PRICE MECHANISM

ON PROPOSAL:*)

- The government needs to set an Indonesian Coal Price Reference (ICPR/HPB), to:
 - optimize on state revenues from coal.
 - be a reference for producer and consumers, mainly domestic consumers.
 - support domestic coal security of supply.
- ICPR will cause the coal prices relatively "uniform" (related to the quality), so that domestic coal supply and export is similarly attractive.
- ICPR refers to several international publications of coal price, including the Indonesian Coal Index (ICI)
- The Government may determine coal price for specific domestic needs.

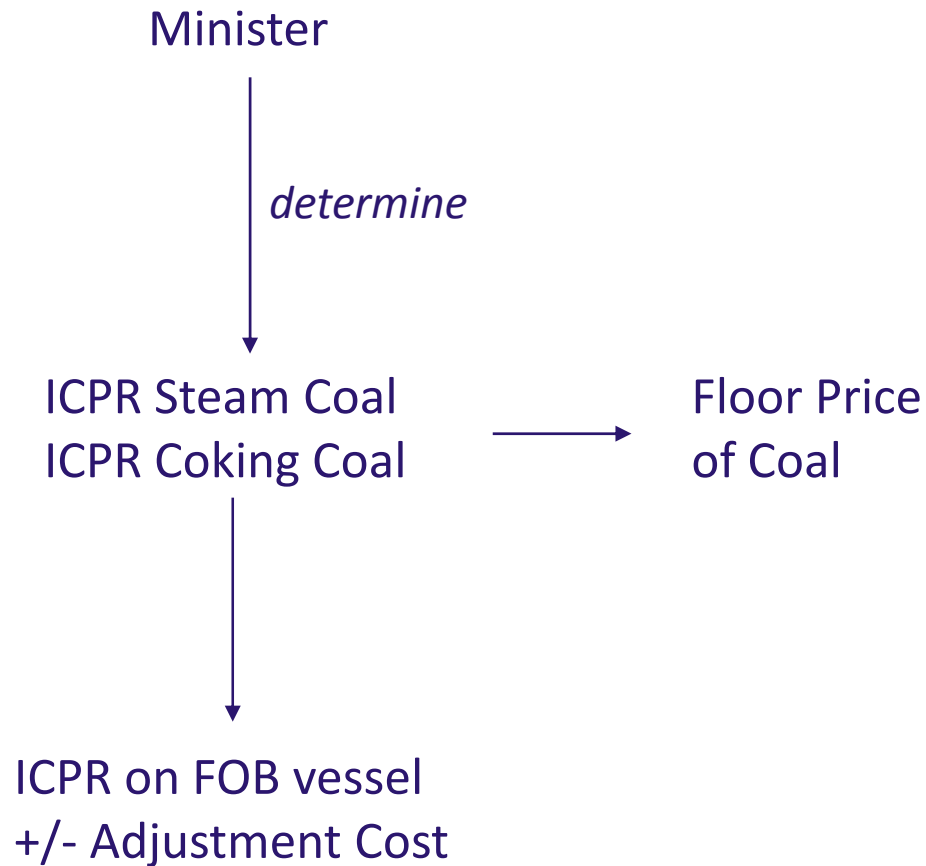
ON TRANSITION:

Government issues a monthly average coal price, and circulated to all local governments as a reference for KP holders. For PKP2B, the coal price is controlled through Work and Budget approval and monthly report.

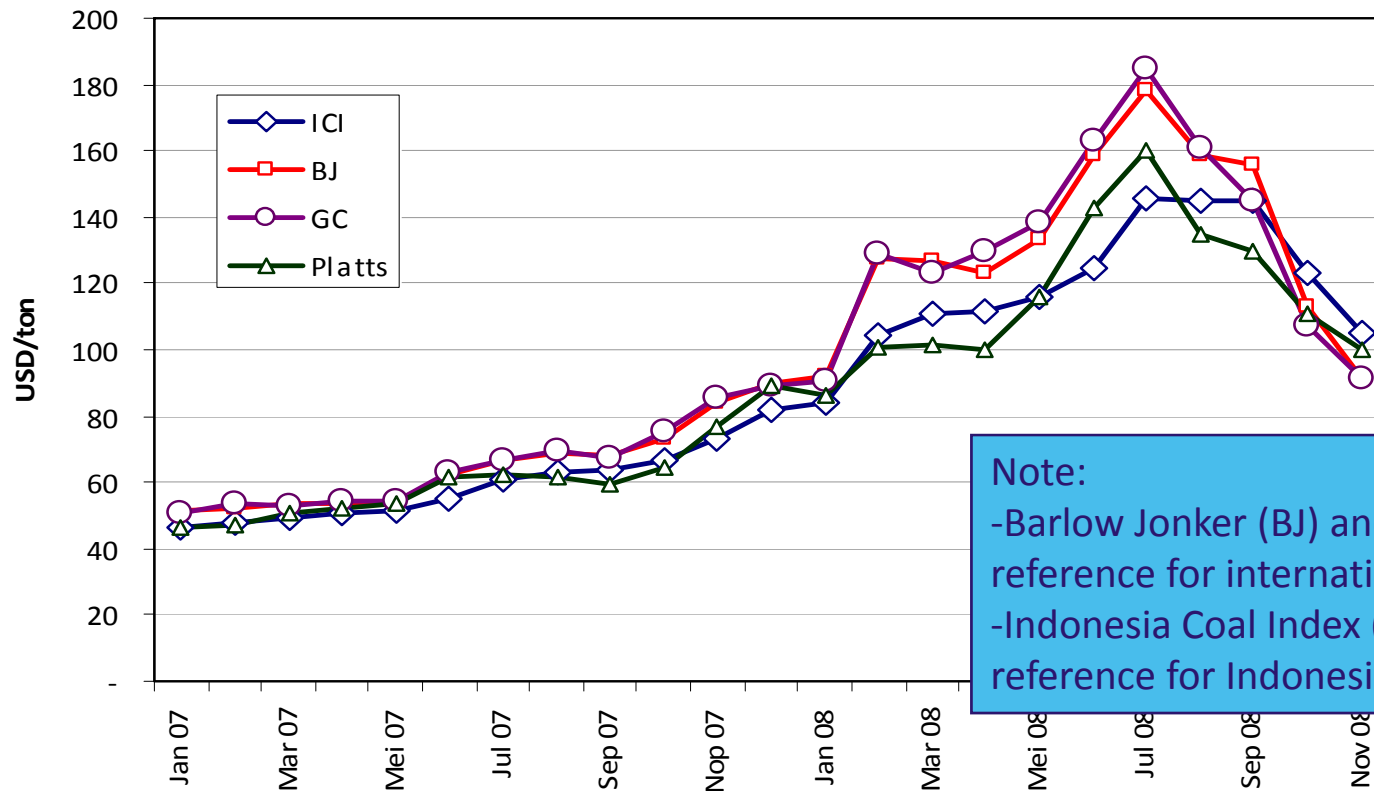
*) GR about Mineral and Coal Activity and Minister Regulation about Coal Price

INDONESIA COAL PRICE REFERENCE (ICPR)

”to meet domestic coal supply and to achieve optimum country income”



Reference Index for ICPR



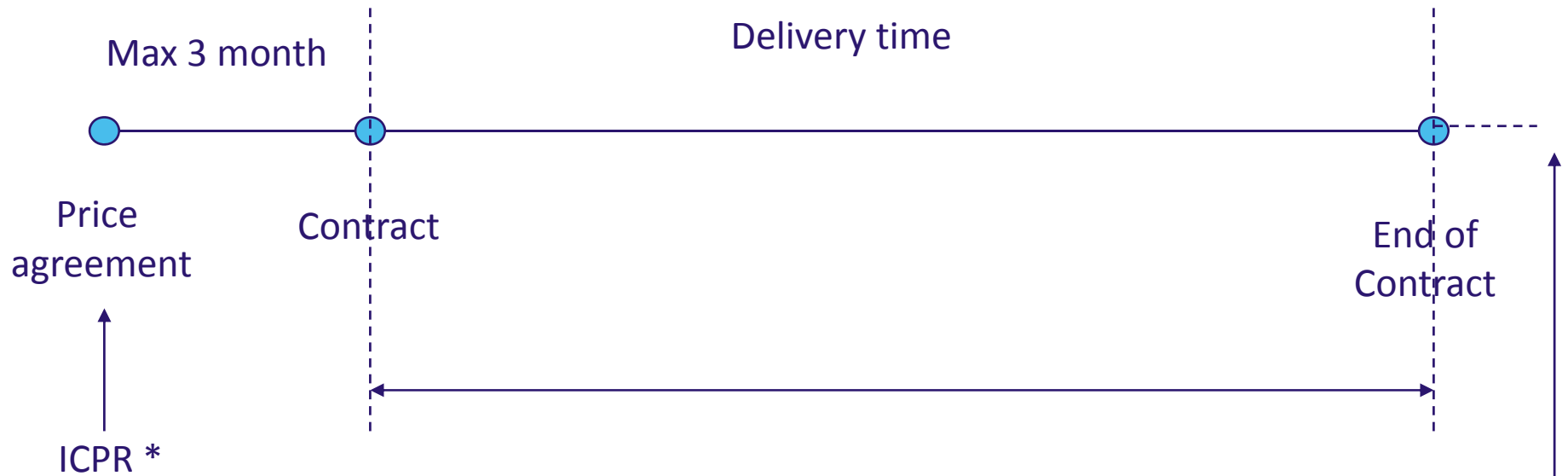
Note:

- Barlow Jonker (BJ) and Global Coal (GC) are reference for international coal price
- Indonesia Coal Index (ICI) dan Platts are reference for Indonesian coal price

Note: calculated in 6322 kkal/kg GAR

ICPR as Reference

“reference of domestic coal trading both spot and term”



If the delivery out of contract time, price should be adjusted to on going ICPR

* Effective time of ICPR – one year

CONCLUDING REMARKS

- Law No. 4 / 2009 as replacement of Law No. 11/1967 has set many new things, including changes in licensing mechanism, and there is no longer such agreement/ contract. However, the existing contract / agreement is still respected until it ends.
- For the Coal Supply - Demand arrangement in principle be based on the domestic needs prior to export.



Thank You

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