



MINISTRY OF ENERGY AND MINERAL RESOURCES OF THE REPUBLIC OF INDONESIA

RECENT DEVELOPMENTS IN INDONESIA'S MINING INDUSTRY SITUATION AND POLICY

Information to The International Energy Agency (IEA)

PARIS, FRANCE, 11 FEBRUARY 2008

INDONESIA MINING IN THE WORLD CONTEXT (1)

WORLD MARKET

- Within the global context, Indonesia is one of the major mineral producers and exports numerous commodities around the world, such as: tin, copper, nickel, bauxite, gold).
- Mining production growth is relatively high. At the last ten years the average growth production are coal 15%, copper 15%, gold 15%, nickel 9% and tin 7.5%.
- Export demand relatively higher than domestic demand. For instance, export demand to total production are coal 75%, tin 87.5%, gold 87.5%, silver 80%, tin 96.5% and nickel 100%.
- Within the year 2007-2015 domestic coal demand will increase significantly, mainly due to the crash program of coal power plant development.
- GOI has decided to reduce oil share in energy mix from 55% (2005) to 20% in 2025, and that coal share from 15.7% in 2005 to 33% in 2025.

INDONESIA MINING IN THE WORLD CONTEXT (2)

- ❑ The current situation of Indonesian mining resources are
 - Coal resources estimated around 61.3 billion tons with mine able reserve approximately 6.9 billion tons (15th rank of world coal reserve)
 - Gold resources estimated around 6,369 tons with mine able reserve approximately 3,254 tons (7th rank of world gold reserve)
 - Copper resources estimated around 68.11 million tons with mine able reserve approximately 31.85 million tons (7th rank of world copper reserve)
 - Tin resources estimated around 0.622 million tons with mine able reserve approximately 0.462 million tons (5th rank of world tin reserve)
 - Nickel ore resources estimated around 1,412 million tons with mine able reserve approximately 485.33 million tons (8th rank of world nickel reserve)
 - Compared with other countries of Asia from Kazakhstan to Philippines, Indonesia is still a leader in copper, gold, silver, nickel and coal resources and production.
- ❑ It is realized that mining sector is still the economic machine of development, while the resources is not unlimited. As a result a number of efforts have been developed by GOI, namely: increasing exploration, adding value, etc.

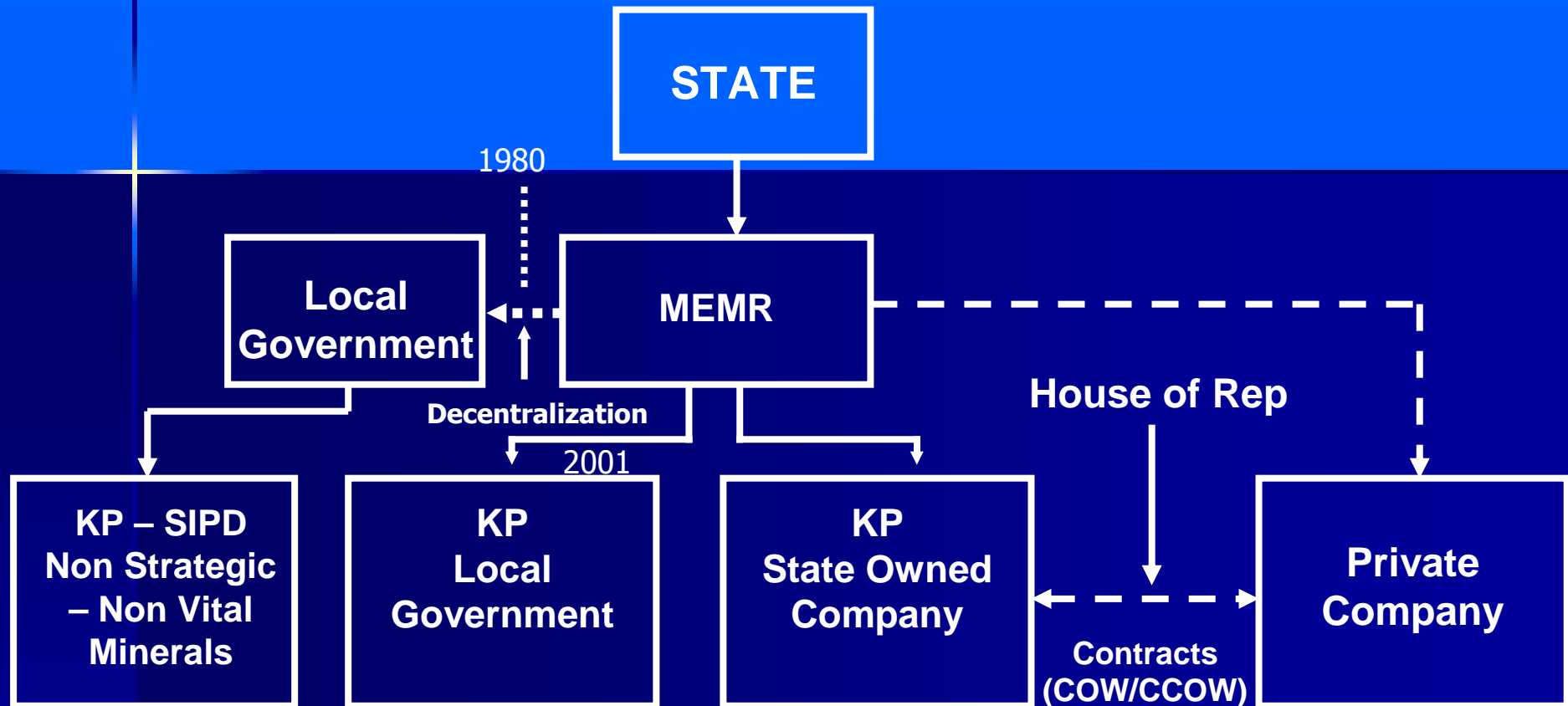
Mineral and Coal enterprises are grouped into (Law No. 11/1967)

- a. Mining Authorization Holder (KP);**
- b. Contract of Work (COW) and**
- c. Coal Contract of Work (CCoW)**

The grouping is made based on:

- a. Nature of resources**
- b. Time frame for operation of mining Activity**
- c. The area for mining operation.**
- d. Other technical regulations.**

MINING LICENSING IN THE LAW 11/1967



IMPLEMENTATION :

- COW (Contract Of Work) for foreign investor contract with government
- CCOW (Coal Contract Of Work) for foreign/domestic investor contract with State Owned Company (Perum Batubara). In 1997 was transferred from Perum Batubara/PTBA to Government.
- This indicated unequal treatment between foreign and national investors.

MINING PERMITS and THEIR ACTIVITIES

EXPLORATION PERMIT			OPERATION PRODUCTION PERMIT			
GENERAL SURVEY	EXPLORATION	FEASIBILITY STUDY	CONSTRUCTION	EXTRACTION	TRANSPORTATION	MARKETING
2 years	5 years	2 years	3 years	30 years		

Basic principles of the Mining Development in Indonesia

1. Mineral and coal resources is belong to the people, and authorized or mandated to the state to manage for the welfare of Indonesian People at Most
2. Mining right is held by both the government and local government
3. Mineral and Coal operation must benefit to the people, especially for the local people where the resources is located:
 - *National and Region Economic :*
 - Tax, State Non-Tax Revenue (Royalty and exploration fee)
 - Service company & national stock capital;
 - Optimising added value of mineral and coal;
 - *Social/community development & labor are more clarified ;*
 - *Environment protection is more clarified .*

➤ Mining Permit Holder's right:

1. Mining Permit Holder can operate in either some or all part of the mining area according to prevailed regulations;
2. Mining permit holder of exploration stage a priority right of getting production operation permit
3. Mining Permit and Mining traditional Permit Holders have the right of mineral and coal ownership and its by product that have been produced after paying royalty;
4. Mining Permit Holder of production operation has the first priority to process by product of mineral and coal;
5. Temporally suspension of the mining activity;
6. Using mining service company; exploration, feasibility study, construction, exploitation, purifying, transportation, marketing and mining environment management.

➤ **State Revenue:**

Mining Permit Holders have an obligation to pay:

1. Taxes:

- a. Corporate Tax;
- b. Import duty and other taxes levied for the import and custom;
- c. Local taxes and retribution.

2. Non Taxes Revenue :

- a. Land-rent;
- b. Royalty;
- c. Government Share (for Coal Business);

Rate of the production levy could varies, depend on ;
quality, mining and processing complexity and production

➤ Technical Responsibility

- Environment, reclamation & mining closure and safety, healthy of work, including payment of reclamation guaranty;
- Giving priority to use the local contents and local services company;
- Community Development;
- Use of the local labors;
- Partnership with small and medium scale companies;
- Improving of added value;
- Submitted to the Government of annualy work program and budget.

➤ Inspection and Supervision

Responsibility of supervision is held by:

- Minister, Governor, Regent/Mayor in accordance with their respective authority
- For the traditional mining, supervision is conducted by Regent/Mayor

The execution of inspection is conducted by mining inspector

➤ Termination of Mining Permit

- a. Returned back to the government from mining permit holder;
- b. Termination and/or revoked by the Government;
- c. Permit is expired.

➤ Investigation provision

Can be carried out by police or government officials (government investigators official unit)

MINERAL AND COAL BUSINESS

- **Law No. 11 year 1967**
and
- **Mineral and Coal Mining Bill**

COMPARISON BETWEEN LAW Nr. 67/1967 AND MINERAL AND COAL MINING BILL (MCMB)

Law Nr 11/1967	MCMB
<p><u>Title</u> General Mining</p>	<p><u>Title</u> Mineral and Coal Mining</p>
<p><u>Mining Right is administered by Government</u> (Central Government)</p>	<p><u>Mineral and Coal Right</u> Administered by the central and local government</p> <ul style="list-style-type: none"> ■ Mining enterprises for National interest is determined by the President; ■ Mineral and Coal Reserve; ■ Domestic need fulfillment; ■ Data and information belong to central government; ■ Management is implemented by the central and local government
<p><u>Management Authority</u></p> <ul style="list-style-type: none"> ■ National Policy and Management 	<p><u>Management Authority</u></p> <ul style="list-style-type: none"> ■ Central Government (National Policy & management) ■ Regency (Regional Policy & management) ■ City (local policy & management)

COMPARISON (2)

Law Nr 11/1967	MCMB
<p><u>Mineral Classification</u></p> <p>a. Strategic Minerals b. Vital minerals c. Those minerals not included in category a or b</p>	<p><u>Mining Enterprise Classification</u></p> <ul style="list-style-type: none"> ■ Radioactive minerals ■ Metal Minerals and coal ■ Non metal minerals and rocks
<p><u>Permission and Agreement</u></p> <ul style="list-style-type: none"> ■ Assignment; ■ Mining Authorization (MA); ■ Authorization for Local Mining (ALM); ■ People’s mining; ■ Contract of Work (CoW) or coal contract of work. (CCoW) 	<p><u>Permission</u></p> <ul style="list-style-type: none"> ■ Assignment ; ■ Mining Permit (MP); ■ Authorization for People’s mining (APM); ■ Contract of Work only with the state owned company or local government state owned as the mining permit holder.
<p><u>Permitting System</u></p> <p>Application</p>	<p><u>Permitting System</u></p> <ul style="list-style-type: none"> • Bidding (potential data is available) ■ Application for Reserve Area : <ul style="list-style-type: none"> – Metal minerals & Coal (potential data is not available and limited area) – Non metal minerals & Rocks

COMPARISON (3)

Law Nr 11/1967	MCMB
<p><u>Business Actor</u></p> <ul style="list-style-type: none"> ■ Domestic Investor (MA, ALM, CCoW) ■ Foreign Investor (CoW, CCoW) 	<p><u>Business Actor</u></p> <ul style="list-style-type: none"> ■ Government Agency (radioactive) ■ Legal Entity (Foreign, domestic company, cooperative) ■ individual.
<p><u>Term</u></p> <ul style="list-style-type: none"> ■ MA/CoW/CCoW General Survey (1+1 year) ■ MA/CoW/CCoW Exploration (3 years + 2 x 1 year) ■ CoW/CCoW Feasibility Studies (1 + 1 year) ■ CoW/CCoW Construction (3 years) ■ MA/CoW/CCoW production operation /Exploitation including processing and refining (30 years+ 2 x 10 years) 	<p><u>Term</u></p> <ul style="list-style-type: none"> ■ MP for Exploration (8 years) : <ul style="list-style-type: none"> – Reconnaissance & general survey (1 year); – General Exploration & Detailed exploration (5 years); – Feasibility Study (2 years); • MP for operation and production (23 years) : <ul style="list-style-type: none"> – Construction period (3 years); – Mining activities, processing and refining, transportation and sales (20 years).
<p><u>Community Development</u></p> <p>Not governed</p>	<p><u>Community Development</u></p> <ul style="list-style-type: none"> ■ Local Government duties ■ Mining Company Obligation (MP Holder)

COMPARISON (4)

Law Nr 11/1967	MCMB
<p><u>Business Actor Obligation</u></p> <ul style="list-style-type: none"> ■ Finance : <ul style="list-style-type: none"> - MA, pursuant to the prevailing Laws; - CoW/CCoW, pursuant to law applied at the time when the contract is signed • Environment • Partnership ■ Value Added ■ Report 	<p><u>Business Actor Obligation</u></p> <ul style="list-style-type: none"> ■ Pursuant to the prevailing Laws : Tax & non Tax. ■ Environment : <ul style="list-style-type: none"> - Permit Requirement - Reclamation/ mine closure ■ Partnership ■ Value Added ■ Report ■ Partnership and profit sharing
<p><u>Land Utilization for Mining</u></p> <p>Limited land use for mining</p>	<p><u>Land Utilization for Mining</u></p> <ul style="list-style-type: none"> ■ Limited land use for mining; ■ At Production stage, the area is declared as mining area.

COMPARISON (5)

Law Nr 11/1967	MCMB
<p><u>Guidance and Supervision</u> Central authority (specially MA, CoW and CCoW)</p>	<p><u>Guidance and Supervision</u></p> <ul style="list-style-type: none"> ■ MA (Minister, Governor, regent/major (pursuant to the respected authority) ■ APM (regent/majorr authority).
<p><u>Investigation</u> - not governed</p>	<p><u>Investigation</u></p> <ul style="list-style-type: none"> ■ Police Investigator ■ Civil Servant Investigator
<p><u>Penalty Provision</u></p> <ul style="list-style-type: none"> ■ Governed; ■ Lenient sentence. 	<p><u>Penalty Provision</u></p> <ul style="list-style-type: none"> ■ governed; ■ Strict sentence; ■ Additional criminal penalty for legal entity.

**OUTLOOK OF INDONESIAN DOMESTIC COAL
SUPPLY AND DEMAND TOWARD 2025**

Indonesian National Energy Policy

Vision :

Guaranteeing the sustainable energy supply to support national interest

Mission :

- ✚ To guarantee a domestic energy supply
- ✚ To increase the added values of energy sources
- ✚ To manage energy sources in an ethical and sustainable manner
- ✚ To provide an affordable energy for low income people and develop domestic capacities in the field of energy management

Measures :

- ✚ Energy Intensification
- ✚ Energy Diversification → Promoting Renewable Energy at least 5% in 2025 of the total power capacity
- ✚ Energy Conservation → Reducing energy intensity 1% per year

Indonesia Coal Program

- ❖ Utilization of Low Rank Coal :
 - ❖ Mine Mouth Coal Fired Power Plant
 - ❖ Coal Liquefaction and Coal Gasification
 - ❖ Upgrading Brown Coal (UBC)

- ❖ Convert the diesel-fired power plants, which have 7,753 megawatts (MW) capacity, into coal-fired power plants and build 10,000 MW-capacity new coal-fired plants in year 2009/2010

- ❖ Total demand of Low Rank Coal for development of power plants in 2010 is app. 72,3 Million ton, using lignite coal for 17.753 MW electricity. The total demand of coal for electricity, in the year 2015 and 2025 will be app. 96 million ton and 113 million ton respectively.

- ❖ Coal briquette is used for small industry and household industries

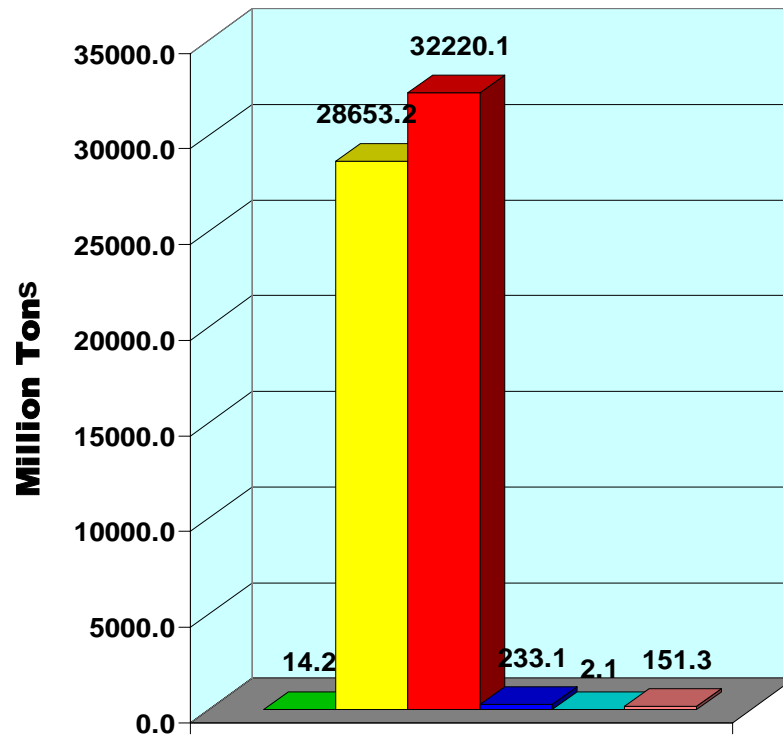
- ❖ Development of Integrated Coal Transportation System to link between coal mines and terminals, which are located in the southern part of Sumatra, and the whole area of Kalimantan.

INDONESIAN COAL RESOURCES AND RESERVES (2005)

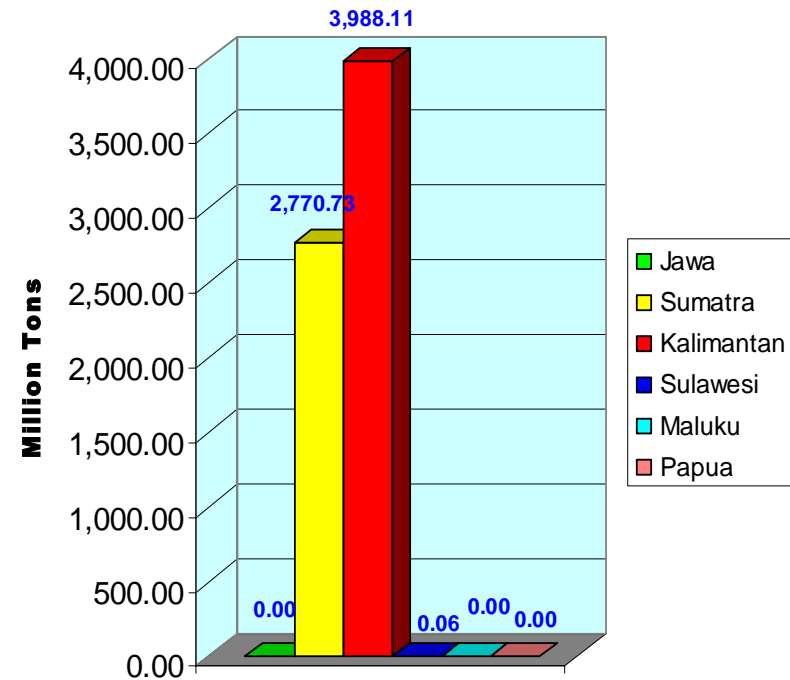
No	ISLAND	QUALITY		RESOURCES (Million Ton)	RESERVES (Million Tons)
		CRITERIA	CAL. VALUE		
1.	JAVA	Low – Medium	< 5100 - 6100	19,24	0,00
		High – Very High	6100 - >7100	2,97	0,00
2.	SUMATRA	Low - Medium	< 5100 - 6100	26.872,5	2.636,62
		High – Very High	6100 - 7100	1.780,66	134,11
3.	KALIMANTAN	Low - Medium	< 5100 - 6100	25.375,69	2.769,01
		High – Very High	6100 - 7100	6.844,44	1.219,1
4.	SULAWESI	Low – Medium	< 5100 - 6100	218,42	0,06
		High – Very High	6100 - 7100	14,68	0,00
5.	MALUKU	Low	< 5100	2,13	0,00
6.	PAPUA	Low – Medium	< 5100 - 6100	120,35	0,00
		High – Very High	6100 - 7100	30,91	0,00
TOTAL COAL RESOURCES (2005)				61.273,99	6.758,90

INDONESIA COAL RESOURCES AND RESERVES

Coal Resources

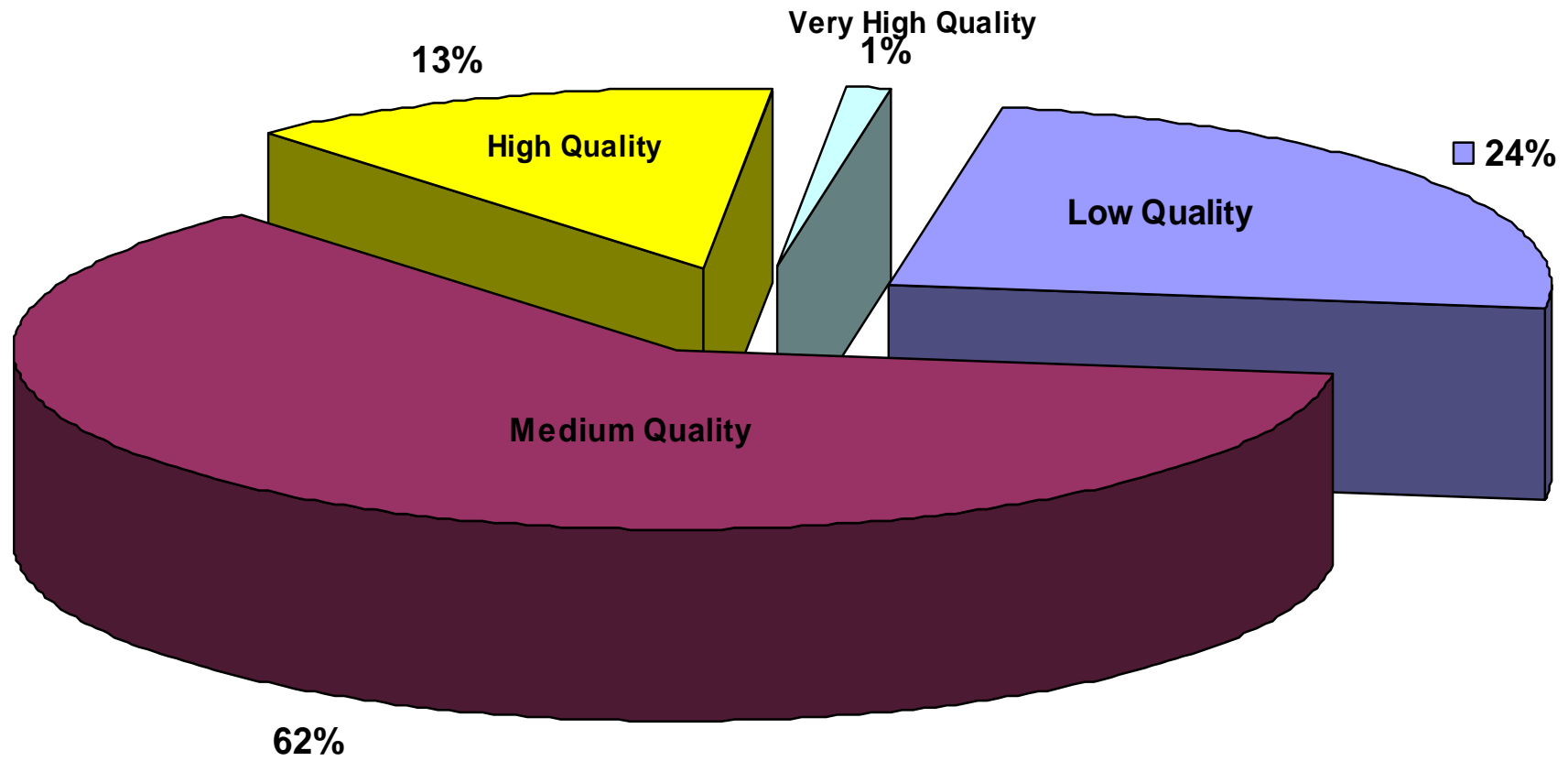


Coal Reserves



INDONESIAN COAL QUALITY

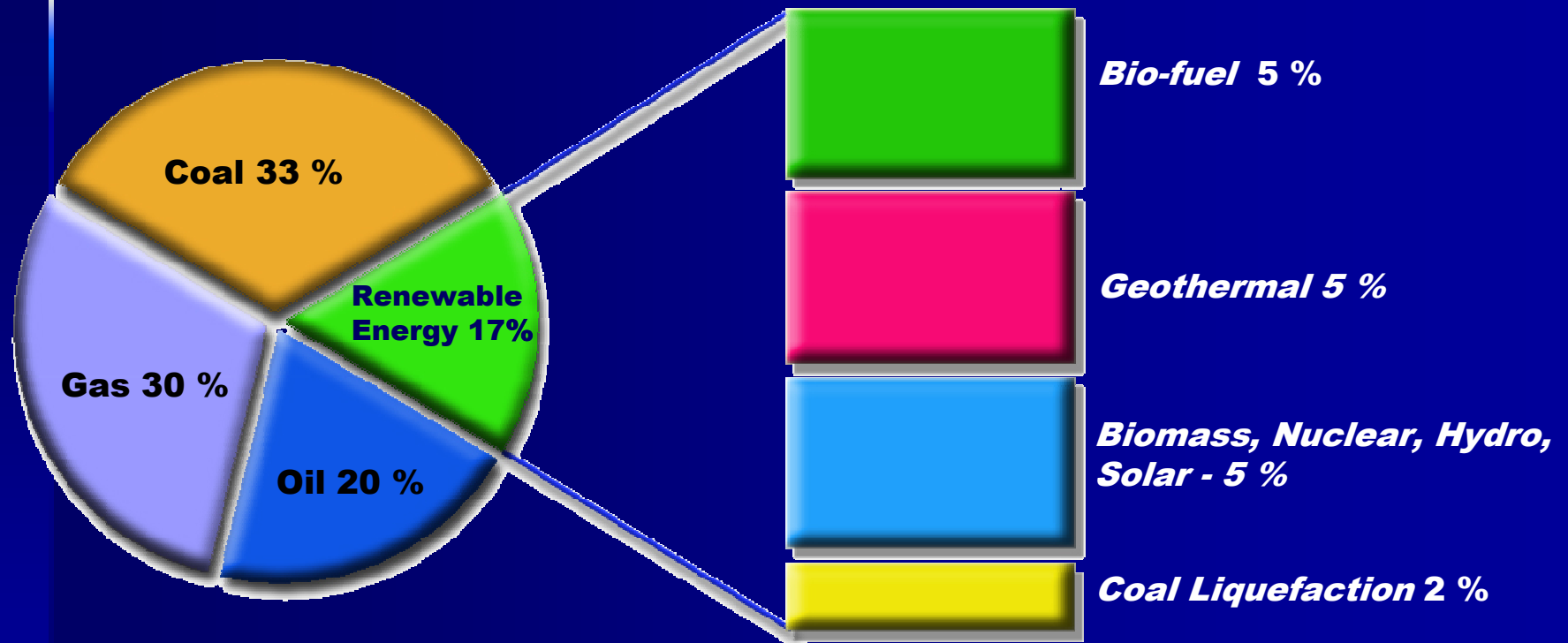
Based on the Specific Energy (kcal/kg)



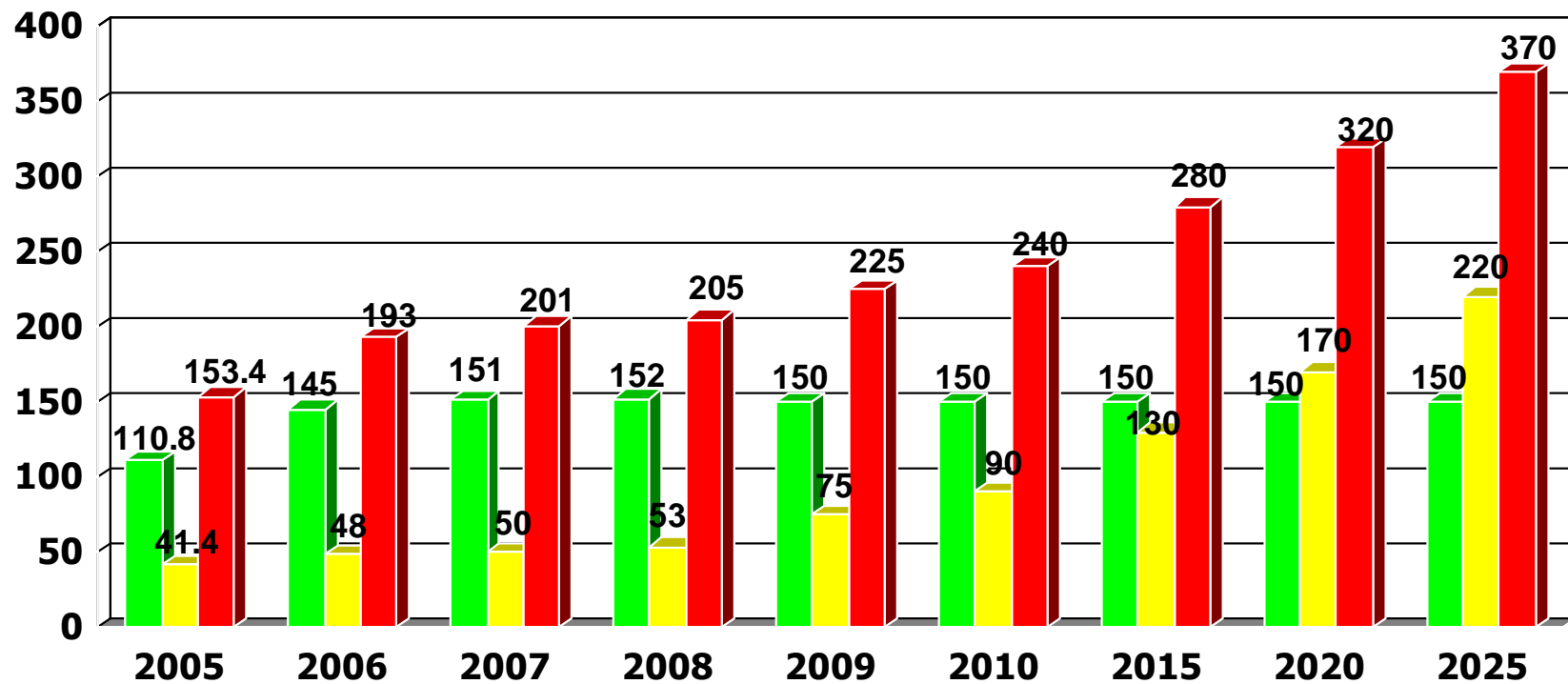
Indonesia “Energy Mix” Toward 2025

- Reduce oil share from 55% (2005) to 20% in 2025
- Increasing use of other energy sources in 2025 :
 - Coal from 15.7% in 2005 to 33%
 - Liquefied Coal to more than 2%
 - Natural gas from 20% to 30%
 - Other New and Renewable Energy to 15%
- Reduce energy consumption intensity by 1% annually
- Improve energy infrastructure condition

INDONESIAN ENERGI MIX YEAR 2025



REALIZATION AND ESTIMATION OF INDONESIAN COAL PRODUCTION, EXPORT AND DOMESTIC USED 2005 – 2025 (Million tons)



■ Export ■ Domestic ■ Production

ESTIMATION OF INDONESIAN DOMESTIC COAL CONSUMPTION 2005-2010 (Million Tons)

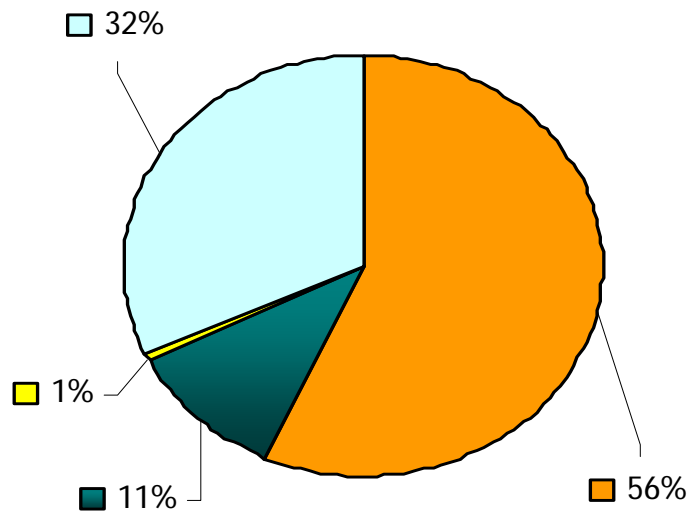
	2005	2006	2007	2008	2009	2010	Remarks
1. Electricity	25.7	33.7	36.5	40	61.7	72.3	
2. Cement Industry	5.2	5.9	6.6	6.9	7.6	8.4	Growth 10%/annum
3. Metalurgical Industry, Pulp, Textile and Briquette	1.6	2.2	2.5	2.7	3.3	4.0	Growth 20%/annum
4. UBC	-	-	-	-	-	1.0	UBC for export
5. Others	8.9	6.2	4.4	3.4	2.4	4.3	
Total	41.4	48	50	53	75	90	

ESTIMATION OF INDONESIAN DOMESTIC COAL CONSUMPTION 2006-2025 (Million Tons)

	2006	2010	2015	2020	2025	Remarks
1. Electricity	33.7	72.3	96.0	105.0	118.0	Electric Growth 7% per annum
2. Cement Industry	5.9	8.4	15.0	23.0	34.0	Coal used for Cement Industry will Grow up about 12% per annum after 2010
3. Metallurgical Industry, Pulp, Textile and Briquette	2.2	4.0	8.0	11.0	18.0	
4. UBC	-	1.0	6.0	20.0	30.0	
5. Others	6.2	4.3	5.0	11.0	20.0	
Total	48	90	130	170	220	

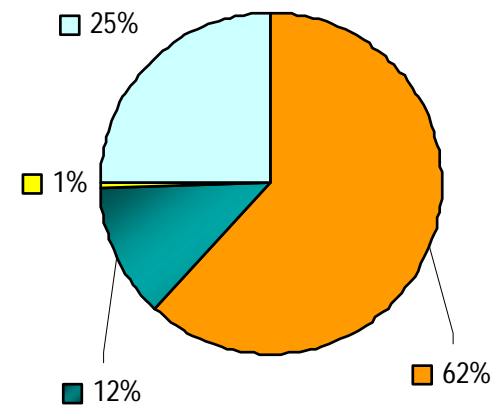
DOMESTIC COAL USER

2006



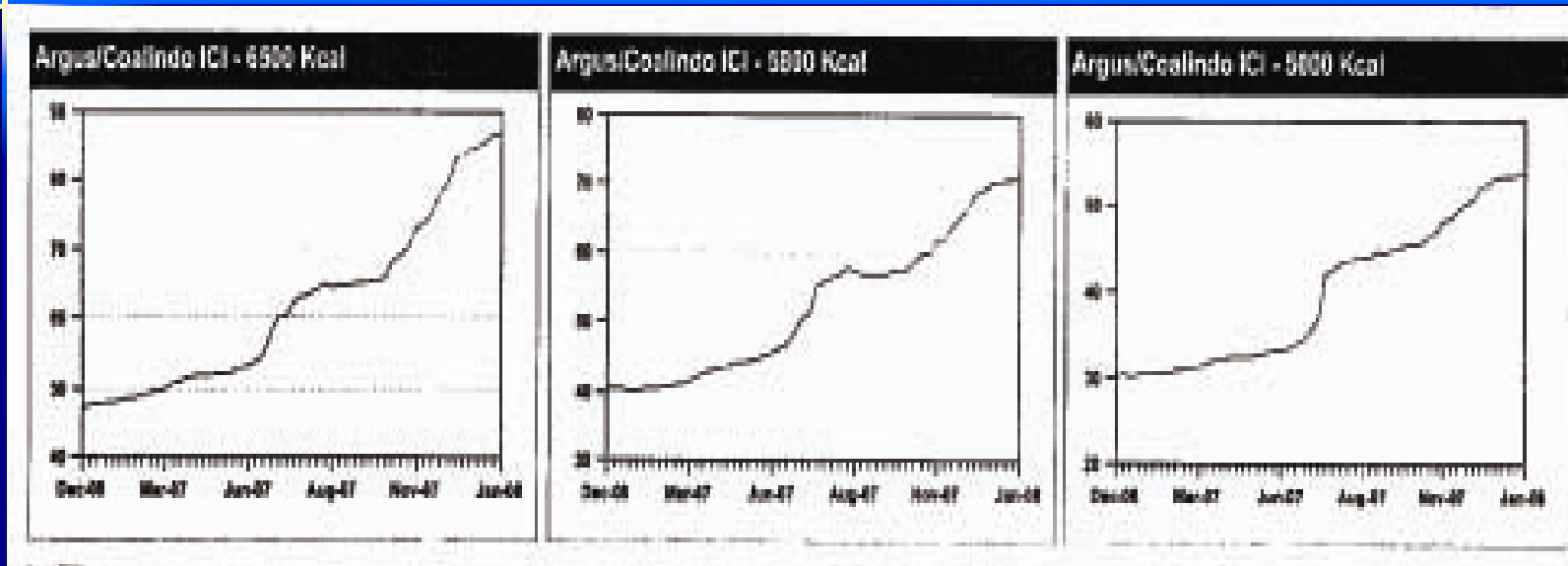
- Coal-Fired Power Plant
- Cement
- Metallurgy
- Briquette & Others

2005



INDONESIAN COAL PRICE

(as of 18 January 2008)



Specifications					FOB Kalimantan, per tonne	
Grade	Timing	Ash	TM	Basis	Size	
6,500 kcal	in 90 days	up to 12%	up to 12%	GAR	Panamax	
5,800 kcal	in 90 days	up to 10%	up to 18%	GAR	Panamax	
5,000 kcal	in 90 days	up to 8%	up to 30%	GAR	Panamax	

INDONESIAN COAL PRICE (as of 18 January 2008)

Indonesian Coal Indices incorporating		by Argus Media and PT Coalindo**	
Grade		Basis	Price(US\$/t)
Indonesian 6500 Kcal		GAR	86.95
Indonesian 5800 Kcal		GAR	70.90
Indonesian 5000 Kcal		GAR	53.64
Submissions to the Coalindo Panel - 18 Jan 2008			
Indonesian 6500 Kcal	Indonesian 5800 Kcal	Indonesian 5000 Kcal	
96.50	88.00	61.50	
96.01	88.00	61.50	
92.00	88.00	61.00	
89.00	74.25	58.00	
89.00	73.20	56.20	
87.00	73.00	53.00	
86.20	73.00	52.00	
84.50	73.00	51.87	
83.27	72.00	51.50	
82.00	71.00	51.00	
82.00	69.00	51.00	
79.00	67.50	51.00	
78.00	67.00	50.50	
78.00	66.00	47.80	
71.00	65.73	45.00	
	65.00		
	64.00		
Monthly ICI averages			
	Oct	Nov	Dec
Indonesian 6500 Kcal	68.52	76.03	84.08
Indonesian 5800 Kcal	58.88	63.68	69.31
Indonesian 5000 Kcal	46.07	49.41	52.84

Source: Argus/Coalindo – Indonesian Coal Index Report (Friday, 18 January 2008)

Closing Remarks

- Indonesian mining industry continues to be an important part of economic development and growth in Indonesia
- In addition to the substantial direct impact on economic development and growth, there is an even larger indirect flow of benefits
- The Government of Indonesia remains committed to the mining sector and encourages all private investment, both foreign and domestic, to continue their support of the Indonesian mining industry

NORTH PULAU LAUT COAL TERMINAL

PT. ARUTMIN INDONESIA, SOUTH KALIMANTAN



THANK YOU

