

ENSURING BALANCE IN COAL'S DMO POLICY FOR NATIONAL ELECTRICITY

SINGGIH WIDAGDO - Chairman of Indonesia Mining & Energy Forum (IMEF)

Jakarta, 11 October 2019





MILESTONES OF COAL DMO POLICY

ARTICLE 12-13 OF COAL CONTRACTS OF WORKS

If there is a growth in coal demand in Indonesia that could not be satisfied by the government, coal contractors are obligated to prioritise domestic coal needs by selling some or all of their coal in Indonesia in accordance to the demands based on the terms and requirements agreed, with the conditions that the contractor may do so without blocking the contractors' other existing mandatory obligations.

The coal selling price to meet domestic needs is matched with the global market price of coal.

There is a company appointment scheme by the Ministry of Energy and Mineral Resources (KESDM) for companies with the same coal quality or specifications for domestic needs (transfer quota):

Coal Transfer Quota Policy :

- Legal basis of DMO Policy is Law Number 4 of 2019 on Mineral and Coal Mining
- Government Regulation Number 23 of 2010 on Implementation of Coal and Mineral Mining Business Activities.
- Minister of Energy and Mineral Resources Regulation Number 34 of 2009 on Prioritisation of Coal and Mineral Supply for Domestic Interests.

The selling price of domestic coal follows the global market price of coal.

All coal companies are obligated to meet 25% of its coal production to satisfy domestic interests.

Coal DMO Policy :

- Government Regulation Number 8 of 2018
- Minister of Energy and Mineral Resources Regulation Number 25 of 2018
- Minister of Energy and Mineral Resources Decree Number 1924 K/30/MEM/2018
- Minister of Energy and Mineral Resources Decree Number 1395 K/30/MEM/2018

Coal selling price of domestic market is capped at USD 70 per ton

CCoW (1989 - 1995)

DMO POLICY (2008 - 2017)

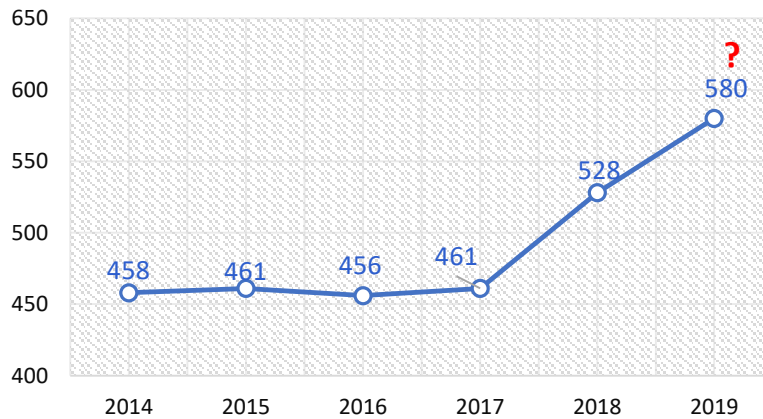
DMO POLICY (2018 – 2019)



INDONESIAN COAL PRODUCTION vs DOMESTIC COAL DEMAND

Coal Production

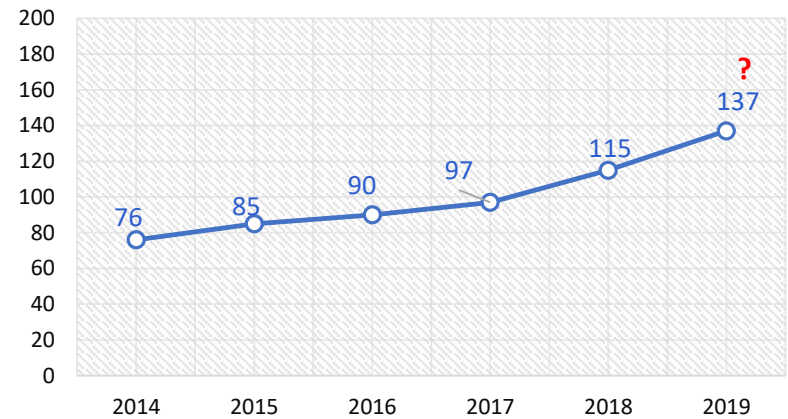
In Million Ton



Source : ESDM 2019

Domestic Coal Demand

In Million Ton

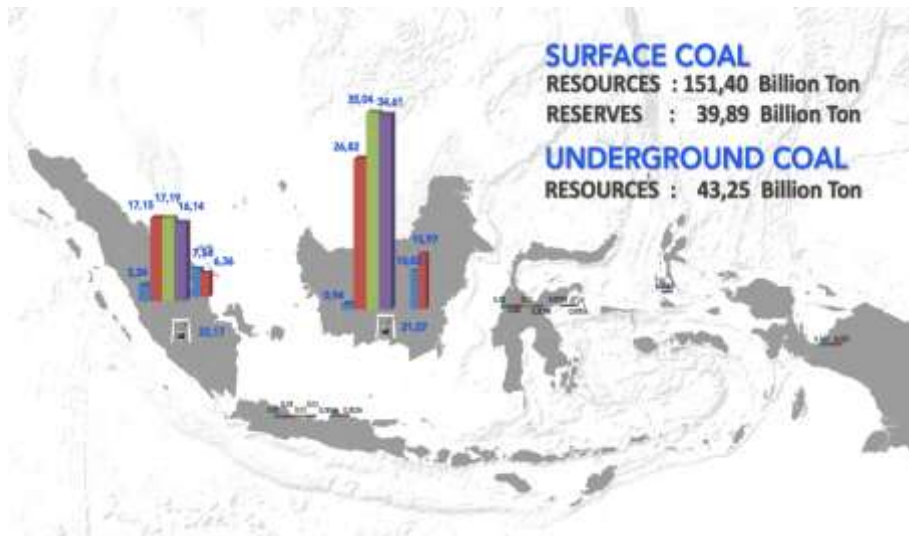


- The total national coal production in 2019 is four times more than the total coal needed in 2019.
- There is an estimated growth of 14% of national coal production per year.
- There is an estimated growth of 10% of domestic coal consumption per year.



INDONESIAN COAL RESOURCES vs DOMESTIC COAL DEMAND

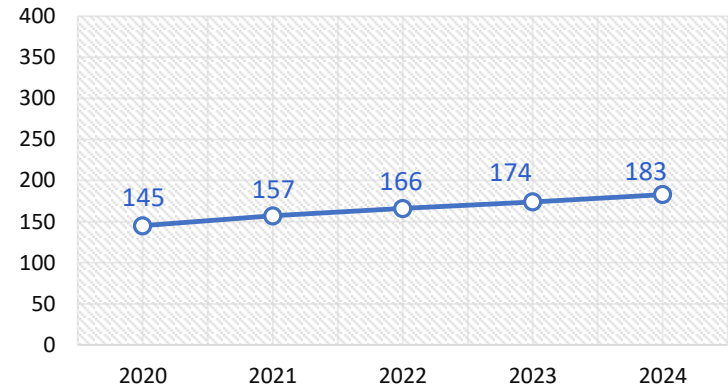
Indonesian Coal Resources



Source : ESDM 2019

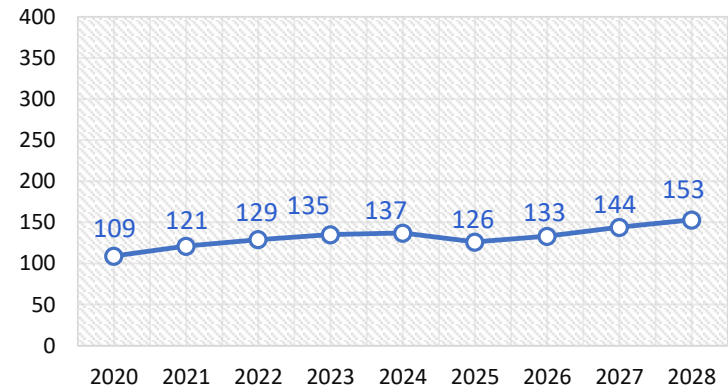
Domestic Coal Demand

In Million Ton



Coal Consumption of PLN

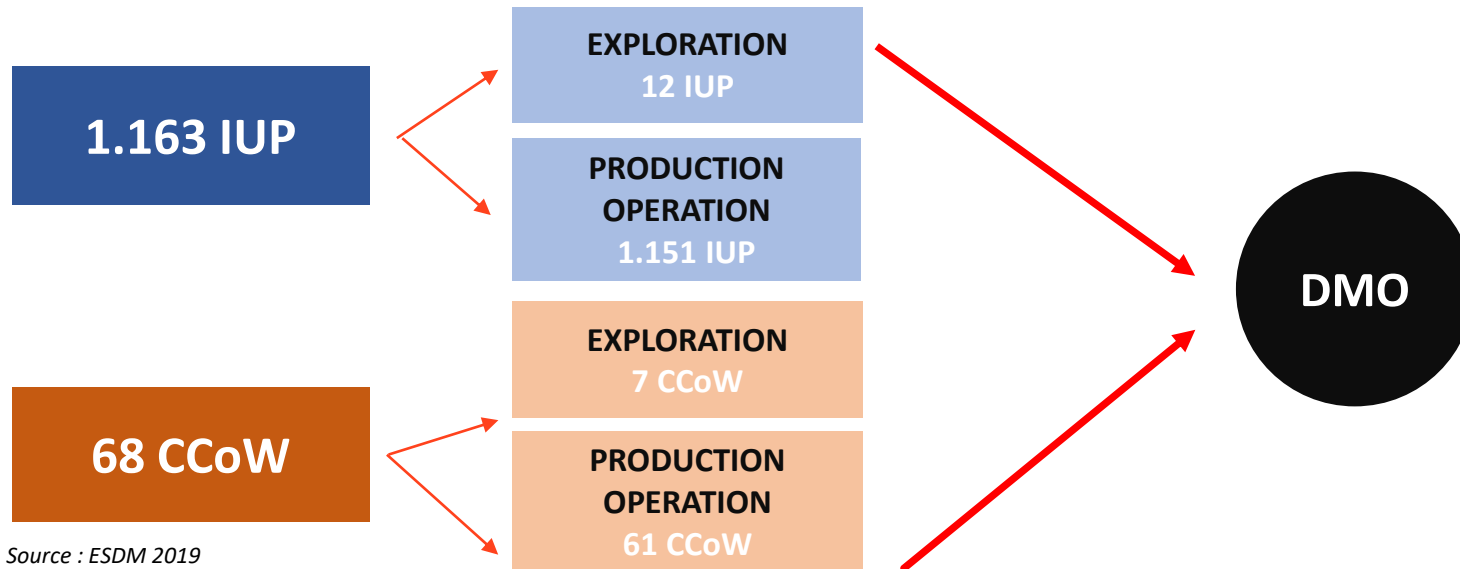
In Million Ton



- The issues with Coal DMO are caused by logistic chain problems, rather than coal reserve and production issues.



INDONESIAN COAL PRODUCERS



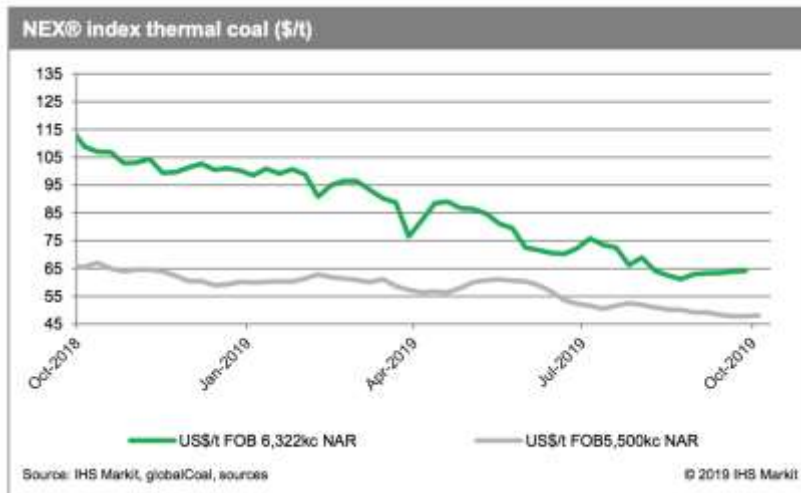
Source : ESDM 2019

1. There is a vast amount of Mining Business Permits for Production Operation (IUP OP), thus a national consolidation to monitor national production is difficult to achieve.
2. There have been difficulties in maintaining proper communication and achieving consensus on production limits between the central government and the provincial governments.
2. In managing the country's coal resources, the government must start taking actions to control coal production in the long term, whether in the interests of satisfying Domestic Market Obligation (DMO) and achieving state revenue or in maintaining a proper working communication between the central government and the provincial governments.



DMO PRICE MECHANISM

Coal prices are capped at USD 70 per MT



The price for DMO should not be determined and set at a fixed price (e.g. the current price of USD 70); rather, there should be a formulation of discounts on a variety of price index levels, with a possibility to end the discount when the coal price index is at a low rate.



KEY POINTS OF DMO IMPLEMENTATION

2. TENDERING PROCESS

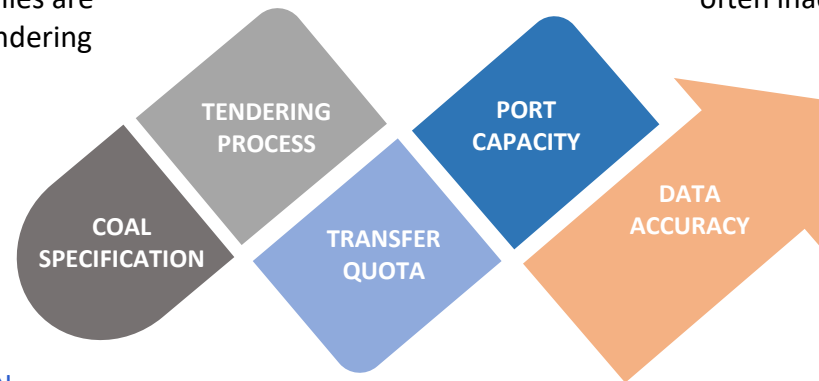
Some supplier companies are unsuccessful in the tendering process

4. PORT CAPACITY

Loading Port capacity does not match the Unloading Port capacity, thus limiting DMO satisfaction

5. DATA ACCURACY

Data of Users and Suppliers is often inaccurate



1. COAL SPECIFICATION

Some coal mining specifications do not often match with coal needed in the domestic market (could either be higher or lower specifications)

3. TRANSFER QUOTA

Transfer values are too high, especially for companies with low quality coal



CONCLUSIONS

1. Coal DMO is not an open scheme for suppliers, considering the PLN/IPP already has several long term contracts in place.
2. Upon considering the location of mines, mining capacity, quality of coal, and coal infrastructure, the government should allow royalties to be paid either on cash or in-kind.
3. On top of transfer quota, the KESDM should consider alternative schemes such as sanctions or penalties.
4. In managing the country's coal resources, the government must start taking actions to control coal production in the long term, whether in the interests of satisfying Domestic Market Obligation (DMO) and achieving state revenue or in maintaining a proper working communication between the central government and the provincial governments.
5. The government should prepare additional infrastructure, especially the temporary/blending coal stockpiles at key strategic locations within the domestic coal market.



THANK YOU