DOMESTIC MARKET OBLIGATION OF COAL POLICY IN INDONESIA

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DIRECTORATE OF COAL BUSINESS ENTERPRISE
DIRECTORATE GENERAL OF MINERAL AND COAL ENERGY AND MINERAL RESOURCES DEPARTEMEN
JAKARTA, 2011
Indonesian Coal Reserves 0.6 from the World Reserve

Source: Indonesian Coal Mining Association, BP Statistics
WORLD COAL PRODUCER AND EXPORTER

Lowest cost, highest quality coal producers dominate seaborne trade

<table>
<thead>
<tr>
<th>Major Coal Producers</th>
<th>Major Seaborne Exporters</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country</strong></td>
<td><strong>Production - Mt</strong></td>
</tr>
<tr>
<td>China</td>
<td>3,050</td>
</tr>
<tr>
<td>USA</td>
<td>973</td>
</tr>
<tr>
<td>India</td>
<td>521</td>
</tr>
<tr>
<td>Australia</td>
<td>409</td>
</tr>
<tr>
<td>Russia</td>
<td>298</td>
</tr>
<tr>
<td>Indonesia</td>
<td>333</td>
</tr>
<tr>
<td>South Africa</td>
<td>330</td>
</tr>
<tr>
<td>Germany</td>
<td>184</td>
</tr>
<tr>
<td>Poland</td>
<td>135</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>102</td>
</tr>
<tr>
<td>Colombia</td>
<td>72</td>
</tr>
<tr>
<td>Canada</td>
<td>63</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td>6,941</td>
</tr>
</tbody>
</table>

6^TH LARGE PRODUCER

2^ND LARGE EXPORTER
RATIO COAL PRODUCTION AND EXPORT IN CERTAIN COAL PRODUCTION COUNTRY

Source: Wood Mackenzie Coal Supply Service, ANZ
COAL RESERVE: 21.1 Billion Ton:
Calorific value < 5.700 : 18.6 Billion Ton  (88 %)
Calorific value > 5.700 : 2.5 Billion Ton  (12 %)

Source: Geology Agency- MEMR, 2010
<table>
<thead>
<tr>
<th>GRADE (KCAL/KG (ADB))</th>
<th>RESOURCES (Bn tonnes)</th>
<th>RESERVE (Bn tonnes)</th>
<th>PRODUCTIONS (Mn tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2011</td>
</tr>
<tr>
<td>Very High</td>
<td>&gt; 7100</td>
<td>2 %</td>
<td>1.6</td>
</tr>
<tr>
<td>High</td>
<td>6100 - 7100</td>
<td>13 %</td>
<td>13.1</td>
</tr>
<tr>
<td>Medium</td>
<td>5100 - 6100</td>
<td>66 %</td>
<td>69.2</td>
</tr>
<tr>
<td>Low</td>
<td>&lt; 5100</td>
<td>20 %</td>
<td>21.0</td>
</tr>
</tbody>
</table>

|                       | 104.8                 | 21.1                | 327  | 332  | 337  | 342  |
ISSUES FOR ADDING VALUE FROM COAL

1. Power Plant Purposes, to fulfill the industrial demand for energy and/or electricity (Smelting Plants for copper, nickel, and bauxite/allumina);
2. Coal to Gas/Coal Gasification Plant, to supply Chemical and Fertilizer Industries, and city gas within the Region;
3. Coal Blending Facility provider
4. Upgrading and/or drying coal plants to supply mine mouth power plants.
The Majority of coal resources in Indonesia has calorific value (cv) in medium rank (5100-6100 kkal/kg, ADB). It is fit with the needs of PLN demands which is about 4000-5200 kkal/kg (GAR) or equal to (5100-6100 kkal/kg, ADB).
### INDONESIA ELECTRIFICATION RATIO AT 2010

#### REALIZATION (Year) vs. PLANNING (Year)

<table>
<thead>
<tr>
<th>Year</th>
<th>Realization (Year)</th>
<th>Planning (Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>62%</td>
<td>70.4%</td>
</tr>
<tr>
<td>2006</td>
<td>63%</td>
<td>73.6%</td>
</tr>
<tr>
<td>2007</td>
<td>64.3%</td>
<td>76.8%</td>
</tr>
<tr>
<td>2008</td>
<td>65.1%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>65.8%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>67.2%</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>70.4%</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>73.6%</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>76.8%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>80.0%</td>
<td></td>
</tr>
</tbody>
</table>

#### National Electrification Ratio

- **2005**: 62%
- **2006**: 63%
- **2007**: 64.3%
- **2008**: 65.1%
- **2009**: 65.8%
- **2010**: 67.2%
- **2011**: 70.4%
- **2012**: 73.6%
- **2013**: 76.8%
- **2014**: 80.0%

**Category:***
- **> 60%**
- **41 - 60%**
- **20 - 40%**
*) Planing for coal consumption for Coal Power Plant in Year 2011-2020 by PT PLN (Persero), 31 Oktober 2011
ISSUE FACED BY COAL USERS IN INDONESIA

- In a global context, Indonesian coal supply tightens, price increase significantly, local high grade resources are depleted and security supply lessens.
- The major users of coal face economic and operational issues
- The lack of suitable available coals within designed specifications, that are inconsistent, and/or contain increased pollutant (improvement impurities such as SOx/NOx)----Supercritical Power Plant
- Result in :Poor general combustion performance
  - Loss in efficiency (for example a power station boiler designed rating and output capacity)
  - Increase emissions, both from lower efficiency and higher level of pollutant, and/or
  - Increased costs in containing emissions
  - Reduced supply security
- Consistency and design quality coal supply to power plants, steel manufacturers assists in optimizing process efficiency-yielding improved thermal efficiency, in the case of cement, this also contributes significantly to an improved and more economic product-by reducing statistical varience and therefore reducing target strengths to meet standars.
COAL REGULATION IN INDONESIA

- Law No. 4 Year 2009 regarding Mineral and Coal Mining
- Government Regulation No. 22 Year 2010 regarding Mining Zone
- Government Regulation No. 23 Year 2010 regarding Mining Business
- Government Regulation No. 55 Year 2010 regarding Supervision and Controlling
- Government Regulation No. 78 Year 2010 regarding Reclamation and Post Mining
- Ministry of Energy and Mineral Resources Regulation No. 34 Year 2009 regarding Domestic Market Obligation
- Ministry of Energy and Mineral Resources Regulation No. 17 Year 2010 regarding Price Benchmark
- Director General Regulation No. 515.K/32/DJB/2011 regarding Coal Price Benchmark Formula
- Director General Regulation No. 999.K/30/DJB/2011 regarding Adjustment Cost on Coal Price Benchmark
LEGAL BASIS REGARDING THE DOMESTIC COAL MARKET OBLIGATION

- Mining Law No. 4 Year 2009:
  - Article 5(1) “In the national interest, the Government upon consultation with the House Of Representatives of the Republic of Indonesia may adopt a policy on preference for domestic mineral and/or coal needs”.
  - Article 5(2) “National interest as intended by section (1) may be realized by making supervision of production and export”.
- Mining Regulation No 23 Year 2010:
  - Article 84 (1) “Production Operating Permit Holder and Production Operation Special Mining Permit holders must give preference to the domestic needs of minerals and/or coal”.
- Coal Contract Of Work (PKP2B):
  - Gen I ---- Article 12.4
  - Gen II ---Article 13.5
  - Gen III ---Article 12.1
- Ministry Degree No 34 Year 2009 “
  - Article 5 “The mining companies which is production mineral and coal could be exported if fullfill the domestic market obligation (dmo)”
  - Article 20 (3 Ministry Degree No. 34 tahun 2009 regarding warnings and sanctions
  - If not fulfilling the dmo:
    1. The administrative sanction in the form of the written warning
    2. The reduction of productions of coal and mineral maximum 50 % (fifty percent) from productions in the next year periode.
    3. The letter of Director General No.5055/30/DJB/2010, regarding technical implementation on transfer of quota DMO
LEGAL BASIS REGARDING THE DOMESTIC COAL MARKET OBLIGATION (2)

- Ministerial Decree Number. 2360.K/30/MEM/2010 About Determination Requirements and Minimum Percentage of Sales for the Benefit of the Domestic Coal Year 2011 Date August 31, 2010
- Director General Letter Number: 5055/30/DJB/2010 of the Technical Implementation of Compliance Coal Sales For Minimum Percentage Interest of the Domestic Market Obligation (Transfer Quota)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PROD (Mn Tonnes)</td>
<td>USER (Mn Tonnes)</td>
<td>%</td>
</tr>
<tr>
<td>262.48</td>
<td>64.96</td>
<td>24.75</td>
</tr>
</tbody>
</table>
The proposal consists of:
1. The Production Plan for 5 years
2. The Attachment of SPA (Sales of Purchasing Agreement)

Director General proposes:
1. The minimum amount of coal sale in domestic
2. The needs of domestic users of coal
   • List of Coal User Domestic
   • Volume
   • Quality of user's need

Ministry shall stipulate:
1. The minimum amount of coal sale in domestic
2. The needs of domestic users of coal
   • List of Coal User Domestic
   • Volume
   • Quality of user's need

The predicting of yearly coal production in domestic
### Mechanism Of DMO

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>January-March</td>
<td>1. Domestic Needs Inventory</td>
</tr>
<tr>
<td>March-April</td>
<td>1. Meeting with end user</td>
</tr>
<tr>
<td>June</td>
<td>1. Ministerial Decree on determination of need and a minimum percentage of sales domestic coal (attached: list of users, volume and quality of coal)</td>
</tr>
<tr>
<td></td>
<td>1. Coal Mining Enterprises looking for and make an agreement with coal users of the interior in order to fulfill minimum percentage of domestic coal sales</td>
</tr>
<tr>
<td></td>
<td>1. Submitting Entity Coal Mining Work Plan and Budget which contains, among others, the fulfillment of Minimum Percentage of Domestic Coal Sales</td>
</tr>
<tr>
<td>November</td>
<td>1. Revised Decision of the Minister if there are significant changes on domestic demand</td>
</tr>
</tbody>
</table>
Implementation Monitoring and Reporting Mechanism DMO Coal

If it does not meet the DMO targets first quarter must be met in quarter II
If it does not meet the DMO targets quarter II must be met in quarter III
If it does not meet the DMO targets quarter III must be met in quarter IV
If it does not meet the DMO's annual target then subject to sanctions production cuts up to 50%
Administrative sanction is given by:

Ministers, governors or regents / mayors in accordance with its authority to Coal Mining Enterprises for violations in the fulfillment of the DMO, such as:

1. A written warning at most 3 (three) times in each time period longer than 1 (one) month
2. Mineral or coal production cuts at most 50% (fifty percent) of production in the next year if a written warning is not heeded.
<table>
<thead>
<tr>
<th>Companies</th>
<th>Companies Revision</th>
<th>2011 Production Planning (Ton)</th>
<th>Rev RKAB</th>
<th>2011 DMO (Ton)</th>
<th>Plan 0</th>
<th>Plan Rev (Nov)</th>
<th>Realization</th>
</tr>
</thead>
<tbody>
<tr>
<td>53</td>
<td>(59) Pkp2b 43 Iup 16</td>
<td>326.651.974</td>
<td>295.619.118 (8.066.000)</td>
<td>78.967.248</td>
<td>60.150.000</td>
<td>65.488.773 (8.066.000)</td>
<td></td>
</tr>
</tbody>
</table>

**2011 DMO REALIZATION ON 2011**

- Plan 0: 78,967,248 Ton
- Plan Rev: 60,150,000 Ton
- Realization: 65,488,773 Ton

24.17% 18.41% 5,338,773
The Problems of regarding DMO 2011 (1)

- Plan DMO in years 2011 is about 78,97 million tonnes respectively; The users from (PLN + IPP) is about 64,79 juta tonnes, and is about 14,18 million tonnes other end user domestic (such as cement industry, chemical industry etc.,..)

- Base on data from (PLN + IPP) in the mid term, the needs of coal decreased until 49,26 million tonnes and in the Budget Plan Revision in 2011 (RAPBN-P 2011) the needs of (PLN + IPP) decrease only 37,2 million tonnes. It cause the result in the reschedulling of the project 10.000 MW.

- The domestic needs base on our supervision is (37,2 +14,18)= 51,38 million tonnes respectively

- Base on Ministry Decree No.34 Article 19 (3) ; Base on supervision as referred to in paragraph (1) Ministry shall stipulated the revision of the minimal percentages of DMO for mining companies. It has already propose to the Ministry form 24.17 % to 18.41 %. It has been revised base on the meeting with PLN and base on the letter from PLN No.03615/12/DIV BAT/2011 , November 14th 2011 regarding coal pricing and coal supplyer of PLN to the Directorate General Coal and Mineral:
  - The DMO from PKP2B 9 companies (KPC, Arutmin Ind, Adaro Ind, Kideco Jaya Agung, Berau Coal, Indominco Mandiri, Lanna Harita, Jorong Barutama Greston) and PT Batubara Bukit Asam the total is 47,2 Millions Tonnes and
  - The DMO from the others (not obligation DMO) 6 supplyer of PLN is about 8 million tonnes

- The proposal for a revision of dmo plan from 78,96 millions tonnes to 60,15 millions tonnes. It also has change a percentage of dmo 2011 from 24.17 % to 18,41 %. For that revision it is clearly understand that the quaota of DMO was over supplay to 5,33 Millions tonnes.

- The other problem with dmo is about the system of transportation using CIF with prefer to the mining companies more like FOB Price (adjustment cost cause of conversion ADB to GAR is almost 20 $/tonnes), tend to dispute between saler and user in term of poor quality through both inconsistent supply and through inconsistencies in sampling and testing. For example in certain case if contract with buyer in CV 3000 gar and takes 3200 gar from coal miners for guarantee supplay to avoid dispute and penalties (discount).
• For 10,000 MW the quality of coal needs with Sulfur 0.25% (ar) dan Total Moisture maks 35% could be a major problem with supplayer.

• Loading and unloading facilities at the port of unfavourable domestic and queueing often occurs demurrage. For Examples; loading and unloading facilities at the plant where the process of unloading delayed (queued vessels) resulting in demurrage and subject to penalty.

• Inconsistency of end user domestic buying coal from the source which has been stipulated on DMO from Ministry Degree. In fact on the reality PLN + IPP prefer to buy from other (IUP) which hasn’t obligated on the DMO Stipulation’s.

• The significant differences regarding of royalties tariff which is IUP 5-7% and CCoW is 13,5% respectively; with the seller to domestic users the Ccow can take VAT about 10 %.

• The difficulties to give a sanction with companies who didn’t fulfill the dmo quata’s base on the domestic needs has been already over supply. Because the sanctions will be a cutting of max 50% production in the next year. It is a dilemma for government to run a Directorate General letter number 5055/2010 concerning the transfer of quota’s.
The imposition of sanctions pursuant to DMO should be implemented by cuts in production next year for a maximum of 50% of the production plan (sanction proportional to the ratio of the achievement of realization of the DMO).

The difficultiest to give a sanction with companies who didn’t fulfill the dmo quota’s base on the domestic needs has been already over supply. Because the sanctions will be a cutting of max 50% production in the next year. It is a dilemma for government to run a Directorate General letter number 5055/2010 concerning the transfer of quota’s. The main reasons is the quota’s of DMO has already over supply, but in term of legal aspect its should be implementation.

Ministry Degree No 34 in 2009 need to be assesss, specifically to accommodate the companies whose quality can not get to meet domestic needs (coking coal) such as Asmin Koalindo Tuhup, Marunda Graha etc

Needs to be reviewed for revision of the Director General Letter number 5055/2010 concerning the transfer of quotas:
- Obligation to pay a certain compensation because It prefer to pay compensation compare transfer quota
- Buy a transfer quota directly from commodity stock exchange
- APBI give a proposal with a Appreciation Budget who is managed by APBI

The government should built a Blending Facility and increasing of infrastructure to fulfill a demand for domestic users with a slide before in 2017 the coal for domestic users is about 101,44 millions tonnes and increase about 125,74 million tonnes in Years 2020.

Improvement the regulations of Added Value from coal, especially increasing a domestic demand for coal power plant in line with the national energy policy for energy security.

Production Control from Coal with improvement of supervision on productions control from each provinces and also a productions quota’s for each provinces

Export band for coal calorie < 5700 Kkal (ADB), with several supporting policies such as UBC, compensations for companies who is export a calorie < 5700 Kkal (ADB) shall give profit for R&D in Added Value from Coal utilisation.

Improvement the regulations regarding pricing policy

Implementation of Clean Coal Technology for Coal Power Plant (Supercritical etc., Blending Facility and Coal Infrastructure (Port, Rail Transportation).
Thank You

www.djmbp.esdm.go.id
- For domestic buyer exp (kkal/kg):
  - PLN needs:
    - GAR 5000 ----- Suralaya, Paiton
    - GAR 4200 ----- 10000 MW
    - GAR 5800 ----- Tjg Jati B
  - If convert to ADB Basis
    - ADB 5600/5800 -------GAR 4700
    - ADB 5900/6100-------- GAR 4800-4950
    - ADB 6200 -------------GAR 5000

There are disparity of price about US$ 20/tonnes, when convert from ADB to GAR cause of calorific value.