

## Study On :

### CHALLENGES AND OPPORTUNITY OF COAL INDUSTRY IN INDONESIA

(Equipped with UU Minerba validated by DPR-RI, 16-12-2008)

March, 2009

The condition of oil price that was so high, has just sharply corrected, but it was not yet clear when it would turn back to the more achievable normal price. For certain, until now the coal price is still high even it has been slightly corrected. Even maybe it would be strengthened again, considering the demand of this mine product has exceeded its supply. During 2007, global deficit of coal supply was 156.5 million tons has triggered the boost of global coal price up to three times within the last two years, which was from US\$ 40 to US\$ 120 per ton (reference from several types of high calorie coal) in the middle of 2008. Even in the trading in New York Mercantile Exchange in July 2008, the coal contract price in Asian market has reached the new highest record of US\$ 137 per ton.

As the seventh largest coal producer in the world, the role of Indonesia would be improving, considering the existing deposit is waiting to be exploited. The recent national coal production during the last five years has grown very fast from 2004 of 132.1 million tons to 216.9 million tons in 2007, and in 2008, it was predicted to reach 226 million tons. Therefore, since 2006, Indonesia has become the second largest coal exporter in the world after Australia, with export volume of 183.9 million ton worth US\$ 6.08 billion, overpasses China and South Africa. While in 2007, it became about 190 million tons with a value about US\$ 6.53 billion. It means that the average export price was slightly increased.

In line with the export, the domestic coal consumption was also increasing from 2003 of 30.7 million tons to about 49 million tons in 2007, and in 2008 about 50 million tons. Most of them were absorbed by the electricity sector (PLTU), which in 2007 consumed about 35.3 million tons or about 71.8% from the total national coal consumption, among other by PLTU Suralaya 12.5 million tons and PLTU Paiton 12.6 million tons. The others were absorbed by cement industry up to 7 million tons, pulp and paper industry about 1.5 million tons, and some other industry sectors.

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Office : Jl. SMA XIV No.12A, Cawang-UKI, Jakarta Timur, Phone. **021-8093140, 021-809 6071**

Fax. **021-8096071** Mobile. **085217061945**

Branch : Jl. Pakis Tirtosari No.20, Surabaya, Phone.**031-567 4872**, Fax.**031-567 4872**

**Website : [www.mediadata.co.id](http://www.mediadata.co.id)**

As this mine product has become the global primary source of electric energy, it caused the boost of recent coal needs. Indonesia is also pacing in using coal as the main source of electric energy, replacing the role of oil fuel that is becoming more expensive (before the price was corrected recently). The effort is among other that the government is planning to build coal powered electric generator of 10,000 MW within the next three years. Surely, this would boost the domestic coal needs. Until the next 2010, when all the PLTU projects has operating, according to APBI (Association of Coal Company in Indonesia), domestic coal consumption would reach 90 million tons, or there would be an increase of 40 million tons compared to the present needs.

On the contrary, the present domestic coal supply condition tends to decrease, including the supply to PT Electric State Company (PLN), so it increased the load of national electricity crisis. In fact, the problem laid not on the domestic market obligation (DMO) or the obligation of the mine contractor to provide some mine product for the government purposes could not be fulfilled, but it was on the coal price agreement of the government. Beside, the supply problem that was only provided by some companies, and the weather condition that stagnate the transportation of coal by sea.

Therefore, to fulfill the domestic coal needs, the government is also pacing the national coal production growth. At least, the government has tried to conclude the regulation aspect by validating the UU Minerba by the Indonesian Parliament (DPR-RI) by the middle of December 2008. Still, in this case, there should be a description of the implementation that is more comprehensive and conducive concerning the influence of other involved sectors, such as oil and gas, taxation, royalty, national and regional political climate, capital market condition, geopolitics and technology. Among other the overlapping of central and regional regulation as the result of regional autonomy regulation, mafia in the existing Mining Authority (KP), taxation problem that was not consistence, which made some coal company officers were banned. All of these law uncertainties in Indonesia are considered one of the problems of the investor's entry into the mining sector.

Considering the large potency and business opportunity in the coal mining sector in Indonesia, PT Media Data Riset (Mediadata) has made a study in a 500 pages book. This

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Office : Jl. SMA XIV No.12A, Cawang-UKI, Jakarta Timur, Phone. **021-8093140, 021-809 6071**

Fax. **021-8096071** Mobile. **085217061945**

Branch : Jl. Pakis Tirtosari No.20, Surabaya, Phone.**031-567 4872**, Fax.**031-567 4872**

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book is very useful for the players, investors candidate, service industry involved, such as heavy equipment supplier, and other financing institution. This book is offered with the price of **Rp 5,000,000.00 (Five million rupiah)** per copy for the Indonesian version and **US\$ 750 (Seven hundred and fifty US dollar)** for the English version with negotiable exchange rate. For those who is interested, please do not hesitate to contact PT Media Data Riset through telephone number 021-8093140, mobile phone: 085217061945 or through e-mail: [info@mediadata.co.id](mailto:info@mediadata.co.id) / [mediadatariset@yahoo.com](mailto:mediadatariset@yahoo.com) .

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Thank you for your kind attention.

Jakarta, January 2009

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