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INDONESIA'S COAL DOMESTIC MARKET OBLIGATION IN 2018



Highlights

In 2018, due to the rise of Indonesian Coal Reference Price (*Harga Batubara Acuan* (“HBA”), MEMR promulgated MEMR Decree No. 1395K/30/MEM/2018, which determines a coal sale price ceiling, specifically for the supply of electricity for the public interest at USD 70 (*for further details, please see HPRP’s article concerning Capping of Coal Sale Price <https://bit.ly/2wagZsV>*).

The promulgation of such decree may affect the sale of coal in the domestic market, especially to PT PLN (Persero) (“PLN”), a state-owned company engaged in electricity power sector and its related sector. The local coal suppliers may prefer to export their coal in order to gain more profit, which may lead to the coal being in shorter supply in Indonesia. Therefore, to avoid such negative occurrence, a determining of the DMO and clear and strict regulations for the fulfillment of the DMO are deemed necessary.

In line with the above, On 5 January 2018, MEMR determined the DMO which prevails for 2018 by promulgating MEMR Decree No. 23 K/30/MEM/2018 concerning the Determining of the Minimum Percentage of Coal Sales for the Domestic Interest in 2018 (“DMO Decree”).

The coal domestic market obligation is a minimum percentage of domestic produced coal that has to be allocated for the domestic interest (“DMO”). In each year, the Minister of Energy and Mineral Resources (“MEMR”) issues a decree providing the DMO percentage that must be fulfilled by the local coal suppliers. The determining of DMO is a way to protect and ensure the sustainability of the coal supply for the domestic interest, especially for the supply of electricity, as it is well known that most of the electricity supply in Indonesia is generated through coal-fired power plants.

MEMR also recently issued MEMR Letter No. 2783/32/MEM.B/2018 on 19 April 2018 concerning the Fulfillment of the Coal DMO in 2018 (“DMO Letter”), more detailed guidance for fulfillment of the DMO, especially for PLN in relation to the supply of electricity.

DMO in 2018

The DMO Decree and DMO Letter mainly provide as follows:

- The DMO Decree states that the DMO for coal in 2018 is 25% of the coal production capacity plan in 2018 (“DMO 2018”), such percentage cover the sale of coal for every purpose;
- In line with the above, the local coal supplier is only permitted to export a maximum of 75% of the coal production capacity plan. The local coal supplier can file an application to export the coal only after the fulfillment of DMO 2018;
- Furthermore, the DMO Decrees provides a sanction for local coal suppliers who do not fulfill DMO 2018. MEMR will reduce the production capacity of such supplier in the Company’s Working and Budget Plan (*Rencana Kerja dan Anggaran Perusahaan* (“RKAB”)) 2019 and also reduce the export quota for such supplier in an amount equivalent to the percentage of the unfulfilled DMO 2018;

- The DMO Letter, more specifically, provides for the fulfillment of DMO 2018 especially for the supply of electricity. In the letter, MEMR states that 80% of the DMO 2018 is allocated for the supply of electricity;
- Moreover, the DMO Letter states that local coal suppliers are obliged to sell and supply the produced coal to PLN, every month in the amount of 1:12 of 80% of the DMO, or pursuant to the monthly nomination agreement requested by PLN;
- The local coal suppliers are obliged to deliver the supply of coal to PLN pursuant to the supply agreement with PLN or with the direct sale scheme. In the event that a local coal supplier fails to fulfill such obligation, the Government will evaluate the production capacity of such supplier for the upcoming month pursuant to the RKAB 2018 and also the coal export activity;
- The DMO Letter also states that the abovementioned obligation to sell and supply 80% of the DMO 2018 to PLN for the supply of electricity also applies to local coal suppliers which do not have any supply contract with PLN. Therefore, such suppliers can fulfill the obligation by transferring their DMO 2018 quota to other local coal suppliers by a mutual agreement (quota transfer scheme).

The DMO Decree has been in force since 1 January 2018 and will expire at the end of 2018; meanwhile, the DMO Letter has to be implemented as from April 2018.

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