



# **Decentralizing Mineral Development Efforts; The Case of Indonesia**

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# Tabel 1a. Indonesian Mining Production, 1998 -2000

Minerals		1998	1999	2000												
				January	February	March	April	May	June	July	August	September	October	November	December	Totals
Coal	ton	60.320.951,7	64.602.051,1	5.288.028,0	5.383.989,6	5.687.880,8	5.583.427,5	7.176.058,1	5.956.909,4	6.205.844,4	6.317.509,0	7.447.445,6	7.412.013,2	7.578.242,8	6.752.837,4	76.790.185,7
Tin	ton	53.959,41	47.753,00	2.966,00	3.056,00	3.378,00	3.591,00	4.742,00	4.490,00	4.695,00	4.709,00	5.133,00	5.712,00	4.543,00	4.614,00	51.629,00
Bauxite	ton	1.055.647	1.116.323	96,509	104,936	110,991	96,647	96,27	99,997	88,571	102,249	88,792	89,809	86,838	89,167	1.150.776
Copper	Ton	2.640.040	2.645.180	240,46	230,639	259,431	232,798	235,094	250,95	251,27	284,18	285,717	—	—	—	2.270.538
Gold	kg	124.018,69	129.032,05	10.000,84	9.817,07	10.911,30	9.003,10	7.451,01	8.363,22	9.135,36	9.597,11	9.815,74	11.775,99	15.369,15	15.316,66	126.556,55
Silver	kg	348.973,83	292.331,02	16.956,77	24.323,27	25.659,49	20.469,71	21.768,95	25.165,86	26.828,31	27.987,34	27.099,25	20.739,90	36.311,23	32.336,27	305.646,35
Nickel Ore	ton	3.233.374	3.235.286	197,828	253,717	243,245	202,023	243,882	175,077	267,825	279,227	284,354	310,483	281,593	299,55	3.038.809
Ni in Nickel matte	ton	35.697,4	45.901,3	4.345,20	4.431,90	4.977,00	3.848,40	3.984,90	6.118,60	4.936,10	4.946,80	6.333,40	3.982,10	4.786,70	7.243,00	59.934,10
Ni in Ferronickel	ton	8.451,50	9.385,10	701,76	826,82	877,60	900,87	841,54	853,36	808,86	885,82	783,39	897,79	881,31	851,45	10.110,57
Ferronickel (Ingot)	ton	41.542,59	44.067,60	3.320,77	3.736,89	4.093,84	4.137,58	3.849,63	4.012,28	3.860,98	4.193,03	3.735,02	4.419,66	4.357,29	4031,13	47.748,10
Ironsand Concentrate	ton	560,524	562,312	39,153	43,274	44,979	42,167	43,575	42,372	43,397	43,153	41,687	41,219	35,985	28,171	489,132

Note: Gold production by PT. Aneka tambang. PT. Freeport (in Cu concentrate), PT. KEM, PT. Indo Muro Kencana, PT. Barisan Tropical Mining and PT. Newmont Minahasa Raya  
Silver production by PT. Aneka tambang. PT. Freeport (in Cu concentrate), PT. KEM, PT. Indo Muro Kencana, PT. Barisan Tropical Mining and PT. Newmont Minahasa Raya  
Coal production by PT. Bukit Asam and private companies  
Tin production by PT. Tambang Timah, PT. Koba Tin and Other companies  
Nickel ore production by PT. Aneka tambang Pomalaa, P. Gebe and P. Gee  
Nickel matte production by PT. INCO  
Source : Departement of Energy and Mineral Resources

**Tabel 1b. Indonesian Mining Production, 1998 - 2000**

Minerals		1998	1999	2000
Coal	ton	60.320.951,7	64.602.051,1	76.790.185,7
Tin	ton	53.959,41	47.753,00	51.629,00
Bauxite	ton	1.055.647	1.116.323	1.150.776
Copper	ton	2.640.040	2.645.180	2.270.538
Gold	kg	124.018,69	129.032,05	126.556,55
Silver	kg	348.973,83	292.331,02	305.646,35
Nickel Ore	ton	3.233.374	3.235.286	3.038.809
Ni in Nickel matte	ton	35.697,4	45.901,3	59.934,10
Ni in Ferronickel	ton	8.451,50	9.385,10	10.110,57
Ferronickel (Ingot)	ton	41.542,59	44.067,60	47.748,10
Ironsand Concentrate	ton	560,524	562,312	489,132

Note:

Gold production by PT. Aneka Tambang, PT. Freeport (in CU concentrate), PT. KEM, PT. Indo Muro Kencana, PT. Barisan Tropical Mining and PT. Newmont Minahasa Raya

Silver production by PT. Aneka Tambang, PT. Freeport (in CU concentrate), PT. KEM, PT. Indo Muro Kencana, PT. Barisan Tropical Mining and PT. Newmont Minahasa Raya

Coal production by PT. Bukit Asam and private companies

Tin production by PT. Tambang Timah, PT. Koba Tin and Other companies

Nickelore production by PT. Aneka Tambang Pomalaa, P. Gebe and P. Gee

Nickelmatte production by PT. INCO

Source: Department of Energy and Mineral Resources

**Tabel 2. Production and Export of Indonesian Cu concentrate, 1998 - 2000**

Year	Production		Value average		Export
	(tons)	Cu (%)	Au (gr/ton)	Ag (gr/ton)	(tons)
1998	2.640.040	30,61	33,56	60,84	2.638.938
1999	2.645.180	29,34	35,15	54,33	2.651.353
2000	2.270.538	60,38	39,28	101,26	2.191.451

Destination country in 1998: Japan, South Korea, Phillipines, Spain, Finland, India, Germany, Mexico and Bulgaria

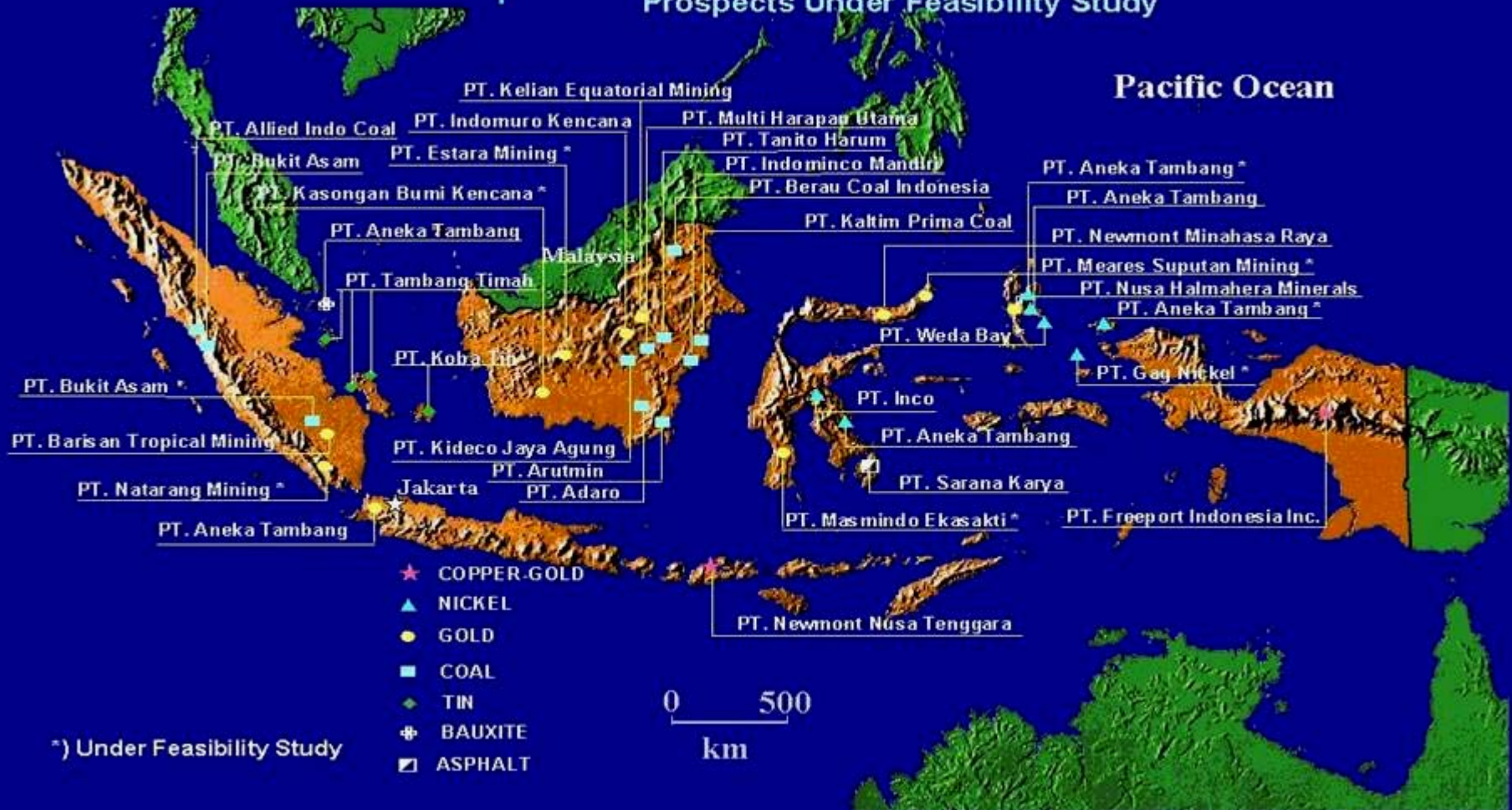
Source : Dep. Of Energy and Mineral Resources, in tons

# Operating Mines and Prospects Under Feasibility Study in Indonesia

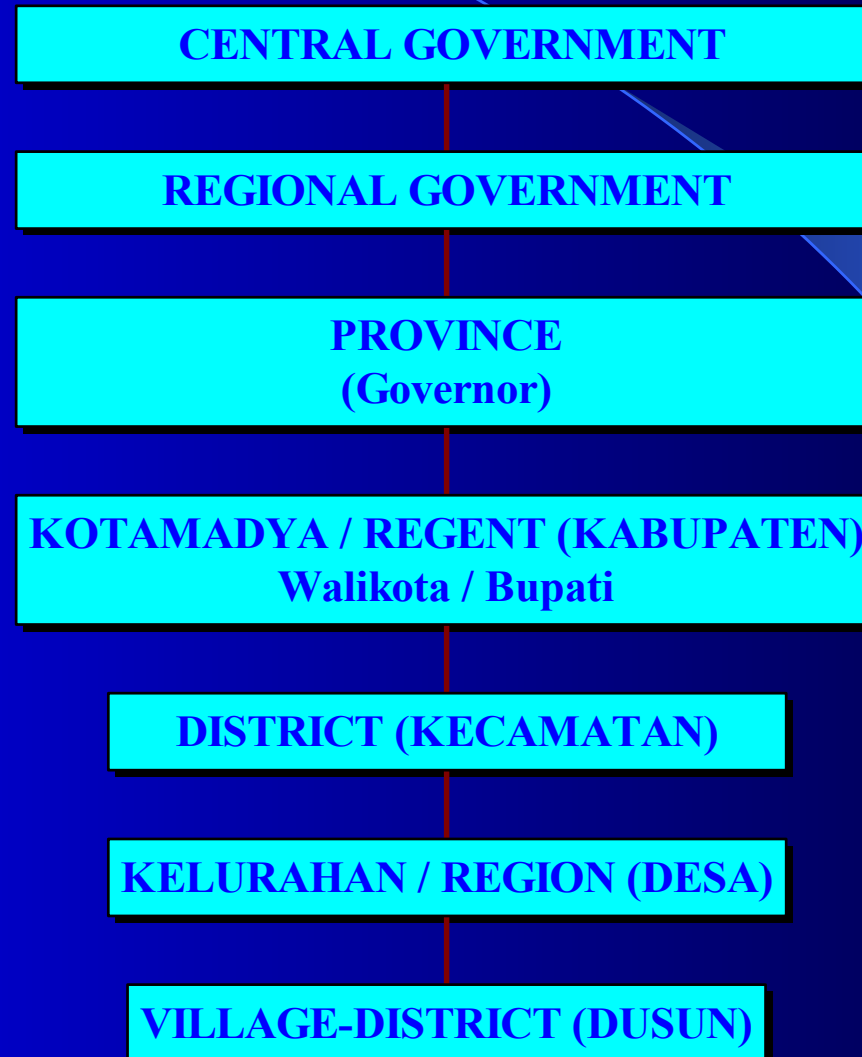
## INDONESIA

### Operating Mines and Prospects Under Feasibility Study

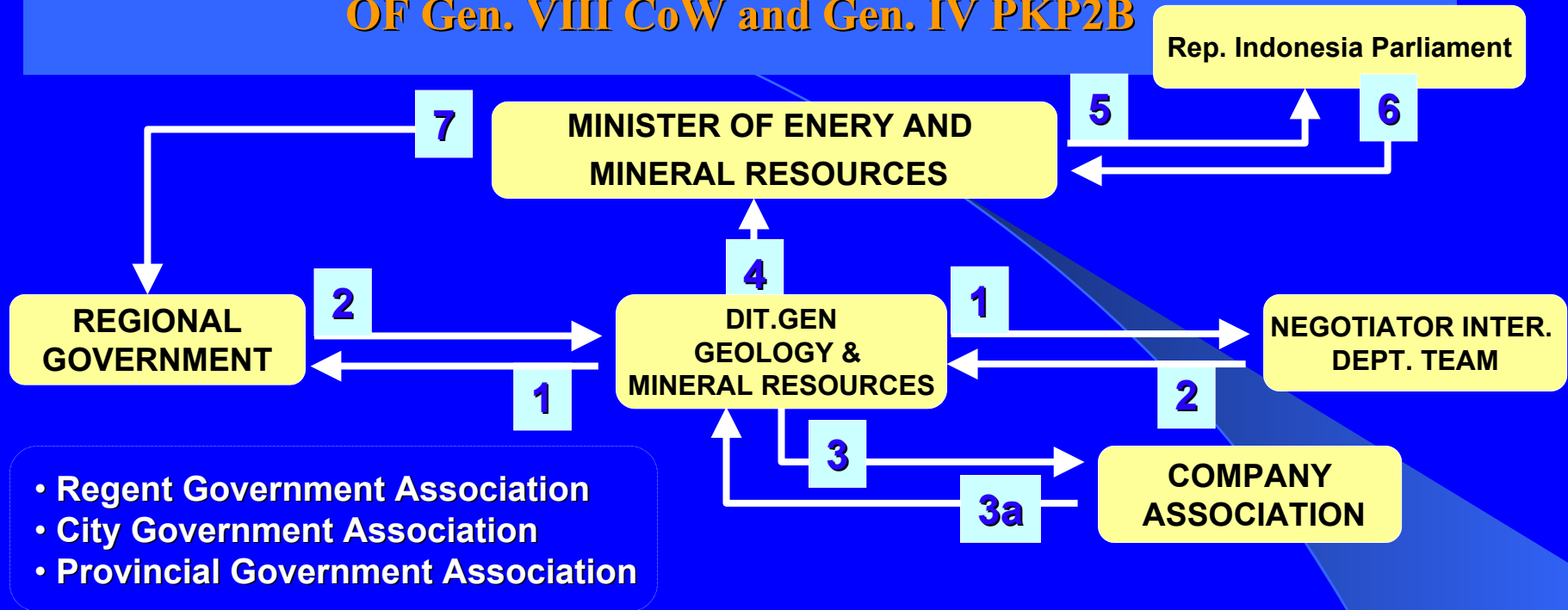
### Pacific Ocean



# Brief Government Bureaucracy in Indonesia



# THE PROCESS OF COMPOSITION STANDARD MANUSCRIPT OF Gen. VIII CoW and Gen. IV PKP2B

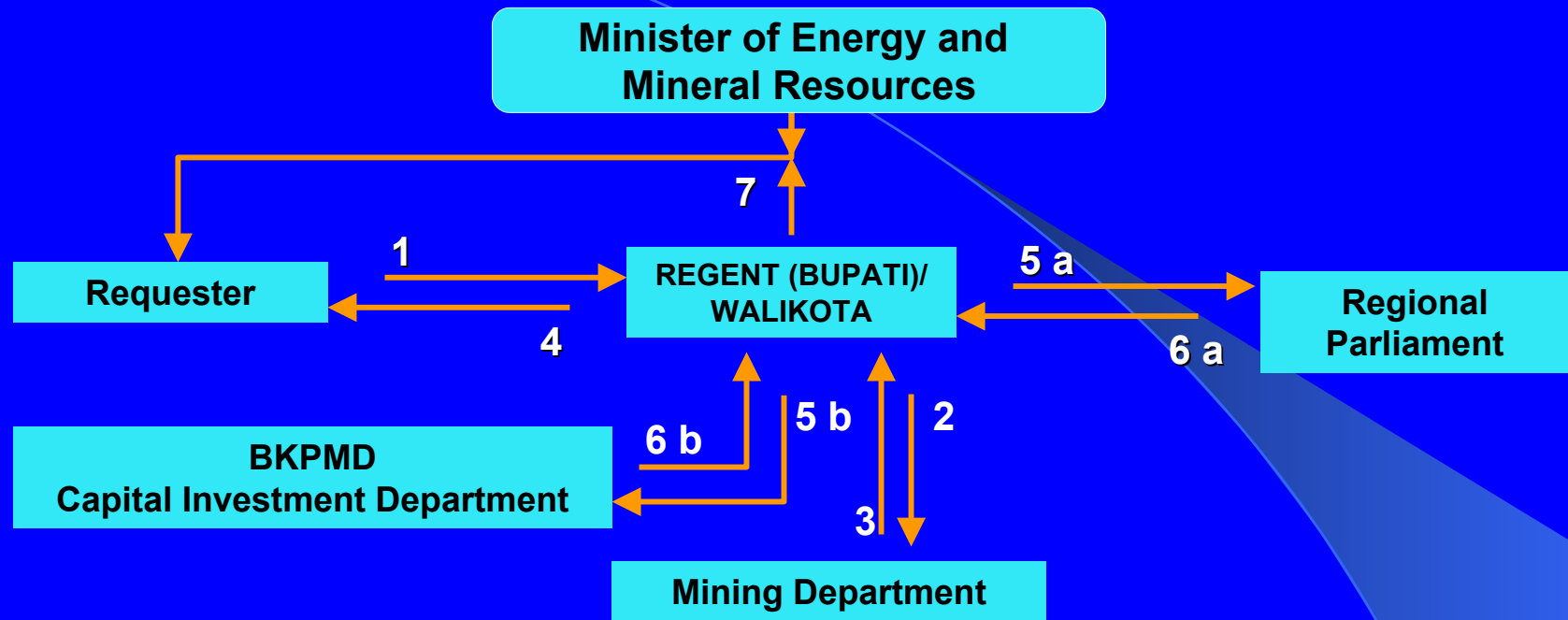


## Remarks:

1. Dir.Gen GMR preparing standard manuscript of CoW/PKP2B and then submitted to negotiator inter. dep. team and Regional Government Association
2. The conception of negotiator team and regional government regarding to standard manuscript of CoW/PKP2B submitted to Dir. Gen GMR.
3. Dir. Gen. GMR submitted the standard manuscript of CoW/PKP2B to company association to find a company conception.
- 3a. Company association submitted the conception.
4. Dir. Gen GMR submitted the standard manuscript of CoW/PKP2B to the Minister of Energy and Min. Resources.
5. Minister of EMR submitted the standard manuscript of CoW/PKP2B to Rep. Indonesia Parliament to find a recommendation/agreement/conception.
6. The recommendation/agreement/conception of Rep. Indonesia Parliament submitted to the Minister of EMR.
7. Standard manuscript of CoW/PKP2B submitted to the all provincial/kabupaten/city government for utilizable as a base of CoW/PKP2b agreement.



# MECHANISM OF CoW/PKP2B APPLICATION BASED ON CONTRACT STANDARD



## Remarks:

1. Propose CoW/PKP2B application to Regent (Bupati)/Walikota.
2. Bupati/Walikota contact the mining department for preparing the principal agreement draft and manuscript of CoW/PKP2B.
3. Mining department submitted the principal agreement draft and manuscript of CoW/PKP2B to Bupati/Walikota
4. The principal agreement submitted to the company.

Bupati/Walikota submitted the manuscript of CoW/PKP2B to:

- 5.a. Regional Parliament to find a recommendation.
- 5.b. BKPM/Capital Investment Department for processing/registered interlaced with capital investment.
- 6a. The recommendation of Regional parliament submitted to Bupati/Walikota.
- 6b. The recommendation of BKPM/Capital Investment Department submitted to Bupati/Walikota.
7. Bupati/Walikota and Minister of EMR sign the manuscript of CoW/PKP2B.

**Tabel 3. The Mining Sector's contribution to Indonesia's GDP**

<b>Rp. Billions</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Mining Industry Contribution to GDP	6,976.80	8,923.80	11,121.90	36,477.80	31,208.50
% of total GDP	1.5%	1.7%	1.8%	3.7%	2.8%
Mining Industry contribution growth rate	41.2%	15.6%	22.3%	228.0%	14.4%

*Source: Indonesian Mining Industry Survey 2000*

**Tabel 4. The Mining Industry's Contribution to the Indonesia Economy**

<b>Rp. billions</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Employee compensation (excl. expatriates)	212.64	247.93	290.97	546.98	844.23	964.95
Purchases from domestic suppliers	890.48	1,214.47	1,455.83	3,050.22	3,233.65	4,842.60
Government revenue	1,325.09	1,489.91	1,912.03	6,765.15	6,962.99	6,843.76
Dividens paid to Indonesian shareholders	100.82	140.90	177.94	203.32	297.86	657.58
Interest paid to Indonesian companies/banks	147.50	140.45	267.36	878.02	293.50	263.52
<b>Total contribution</b>	<b>2,676.53</b>	<b>3,233.66</b>	<b>4,104.13</b>	<b>11,443.69</b>	<b>11,632.22</b>	<b>13,572.40</b>
<b>(estimate in US\$ million)</b>	<b>1,301.18</b>	<b>1,516.73</b>	<b>1,434.51</b>	<b>1,124.47</b>	<b>1,480.11</b>	<b>1,614.28</b>

*Source: Indonesian Mining Industry Survey 2000*



## Current Issues Faced by Mining Companies Interlaced with Decentralization

- Law No. 22/1999 on The Regional Government (Law on Autonomy) and Law 25/1999 on The Fiscal Balance between Central Government and regional Government
- Law 41/1999 on Forestry
- AMDAL Problem (Environmental Impact Study)
- Traditional Land Law
- Illegal Mining problem
- Industrial Mineral Retribution (The issuance of new Tax, Finance and import regulations by central government and its interpretation by local government)
- Demand for more comprehensive Community Development programs funded by the companies
- Demand profit sharing from company
- Land use problems

## Implementation of Regional Autonomy

- Widespread criticism is continuing on the poor implementation of regional autonomy since Jan.1, 2001.
- Complicated problems arising in the implementation of Law No. 22/1999 are mainly caused by:
  - ambiguous/unclear formulation of some articles in the law which easily allows different interpretation by the regional administrations; many regencies/municipalities consider their areas as sovereign territories;
  - implementation of licensing authority in various sectors (including mining) by regencies / municipalities has given rise to practices contradictory to the principle of a unitary state as stipulated in the 1945 constitution of Indonesia.
- Incorrect implementation of regional autonomy caused frictions between central government and regional administrations, between provinces and regencies / municipalities, and regencies / municipalities themselves.
- Law No. 22/1999 does not provide clear mechanism to coordinate administrative policies among the more than 325 autonomous regencies and municipalities throughout Indonesia. Department of Home Affairs recorded some 3,000 regional regulations which are not mutually supportive.
- Governors have no more authority to oversee activities of the Bupatis (Regents) and Walikota (Mayors) in their respective jurisdictions, since Law No. 22/1999 does not contain any stipulation on the hierarchic and structural relationship between provincial and regency/municipality administrations.
- Poor understanding of the local elites in the regions regarding principle, intention and true meaning of regional autonomy led to serious misperceptions.
- Arrogance shown by resources rich regions and emergence of sentiments of provincialism, which led to regional egoism and exclusivism, are creating great public concern.
- Many regions, dissatisfied and displeased at the unfair distribution of resources, are demanding elevation of their administrative status (regencies demanding to become provinces, subdistricts (kecamatan) to become regencies, etc.).
- Most worrying to business are the aggressive efforts made by local administrations to increase regional income by creating and imposing new taxes and levies, thereby indiscriminately creating high cost economy in the country.

# REVIEW OF REGIONAL AUTONOMY LAW

- Government fully realized seriousness of problems arising from incorrect and poor implementation of regional autonomy policy;
- Review of Law No. 22/1999 on Regional Government Autonomy by interdepartmental team led by Minister of Home Affairs is expected to be completed soon.
- Revision of the law is mainly designed:
  - to reformulate certain articles which can easily cause ambiguities in interpretation;
  - to give governors (as representative of the central government) the authority to oversee the autonomous regency/municipality administrations;
  - to establish the proper administrative mechanism for the orderly implementation of regional autonomy within the corridor of a unitary state principle.
- Draft of revised Law on Regional Autonomy is scheduled to be submitted to Parliament this month for further deliberations.

## NEW LAWS ON ENERGY AND MINING

- Minister of EMR announced plans to complete five new laws on energy and mining during his term in current cabinet (2001 – 2004).
- Deliberations with Parliament on draft of new Oil & Gas Law have recently been completed.
- Draft of new Law on Electricity has been submitted to Parliament.
- Draft of new Mining Law has passed interdepartmental review and sent to Cabinet Secretariat for further submission to Parliament.
- Drafting of laws on Energy and Geothermal Resources is in process; Parliament is taking initiative to initiate the drafting of these bills.

# Conclusions

- ◆ Mining Companies require a conducive atmosphere through law certainty, guaranteed security, simplification of permit and community development.
- ◆ Important to improve communications with the Regional Government, to find out what their perceptions are of the role of the company; to anticipate new regulations and endeavor to influence public to the proper perception of a good corporate governance. To achieve this more transparency from the companies are required and change paradigm is required with a lot of flexibility.
- ◆ For regional/local government; realize reasonable income from existing mining companies, the local manpower potential including local contractor and infrastructure and minimalist of environmental damage.

