



Department of
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GOVERNMENT OF
WESTERN AUSTRALIA

The opportunity for Western Australian METS companies in Indonesia

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Introduction

Indonesia has been an important market for Australian Mining, Equipment, Technology and Services (METS) companies since the industry first developed as one of Australia's international success stories.

With its abundant mineral deposits and status as a globally important producer and exporter of resources, Indonesia continues to be a market of high interest with a diverse range of Australian METS companies active in, or actively exploring, opportunities.

This guide aims to increase Australian METS companies' understanding of the Indonesian market, distilling the wide range of information and resources about the Indonesian mining sector.

It provides a contemporary snapshot of the issues and information most relevant to Western Australian METS companies, including some challenges of the market as well as emerging areas of opportunity.

It has been compiled based on the experiences of a wide range of Australian METS and professional services companies working in Indonesia.

This guide is timely given the entry into force in July 2020, of the Indonesia Australia – Comprehensive Economic Partnership Agreement (IA-CEPA), which allows for improved market access for Australian companies in the Indonesian METS sector.

The guide includes:

- » a profile of the Indonesian mining sector
- » key trends in Indonesian mining
- » opportunities for Western Australian METS
- » key players and commodities

The guide also provides a Market Entry Roadmap and Getting Started list for companies considering doing business in Indonesia for the first time. This sets out some of the issues that Western Australian METS companies should consider when working in the market.

Cover image: MineArc Systems MineSAFE Refuge Chamber as used in mines across Indonesia.

Profile of the Indonesian mining sector

Indonesia is one of the world's largest exporters of thermal coal, and a significant producer of copper, gold, nickel, tin and bauxite.

It is the location of the largest gold mine, second largest copper mine, and two of the five largest coal mines in the world, measured by annual production.

While Indonesia's large-scale coal industry differs from Western Australia's global leadership in iron ore, in practice there is strong alignment between Western Australia's METS capability and the requirements of the Indonesian mining sector.

The mining industry is significant to Indonesia's economy overall, with an economic contribution of between 4-6% of GDP and a long-term status as one of Indonesia's most consistent sources of inbound foreign investment and export revenue over the past two decades.

It has also served as a critical driver of economic activity in parts of the country

with low overall levels of economic development.

The performance of Indonesian mining has fluctuated over time, with policy and regulatory changes contributing to a relatively high risk business environment. However, Indonesia has also improved its ranking in the World Bank's ease of doing business index in recent years, from 123rd to 73rd between 2013 and 2019.

Over that period, Indonesia has been a challenging market for foreign investors into mining, and for those seeking to undertake exploration. However, it has remained a profitable and growing market for a wide range of operators, and for the ecosystem of METS providers.

Within the market, the Grasberg copper/gold mine has a unique status, as the largest mine in the country, a significant underground operation in a market dominated by open pit mining. In 2018, it was one of the first foreign owned and operated mines to transition to majority Indonesian ownership.



Copper mining in Indonesia.

Key commodities in Indonesia

Thermal coal **T**

Top operations
» Sangatta (Thiess*)

Production comment/ trends
Despite global climate change concerns regarding coal use, this commodity continues to play a key role in the country's energy mix and export revenue. Indonesia is the world's top thermal coal exporter and has 2.2% of proven global coal reserves.

- Top locations**
1. South Sumatera
 2. South Kalimantan
 3. East Kalimantan

Bauxite **B**

Top operations
» Bintan Island

Production comment/ trends
Indonesia is the 11th largest bauxite producer, with production centred on Bintan Island.
Overall Indonesia is ranked 8th in terms of reserves at 15.88 million tons.

- Top locations**
1. Riau
 2. North Sumatera
 3. Bangka Belitung
 4. West Kalimantan

Nickel **N**

Top operations
» Sorowako

Production comment/ trends
Indonesia is the world's 4th biggest producer, representing 8.6% of global production.
Vale Indonesia's Sorowako operation is one of the world's largest integrated lateritic nickel production and processing facilities, accounting for 3% of global production.

- Top locations**
1. Sulawesi
 2. Sumatera
 3. West Java

Gold **G** Copper **C**

Top operations
» Grasberg
» Tujuh Bukit
» Batu Hijau (Macmahon*)

Production comment / trends
Indonesia is the world's 6th ranked gold producer, with 4% of global gold production, half of which comes from the Grasberg operation. Indonesia is also the 2nd largest copper producer globally, accounting for around 10% of global production.

- Top locations: Gold**
1. Papua
 2. Sumbawa
 3. East Kalimantan
 4. Central Kalimantan
- Top locations: Copper**
1. West Java
 2. Papua
 3. South Sulawesi
 4. Central Java



* Australia connection by operation or ownership

Trends in Indonesian mining

Beyond commodity price movements, there are a number of trends that have been transforming Indonesian mining over recent years.

The push for domestic downstream processing

Indonesia's authorities have implemented a number of policies aimed at increasing the downstream processing of commodities in Indonesia. This has included scheduled bans on exports of some unprocessed commodities, including nickel and bauxite. While there have been inconsistent approaches to implementing the policy, there has nevertheless been large-scale investment in smelters and related downstream infrastructure.

Quality still counts, but competition has increased

METS companies previously in the "high quality" market competing against international peers, now face a more competitive environment. The most successful and profitable METS companies established in the market have restructured their operations to maintain their equipment and services at these lower price points.

The market for relatively undifferentiated equipment and services is now heavily commodified and is supplied intensively from both domestic and low cost providers from across Asia.

There is a growing niche for highly differentiated and innovative METS companies, working with the most sophisticated customers in the market.

Increasing standards, increasing innovation – but only for some operators

There are two key drivers behind an increased focus on safety, improved operations management, training and environmental performance in Indonesian mining.

The first is that those operating to an international standard are improving their Indonesian operations to align with their increased internally-driven performance objectives. This is driving significant improvement projects at a number of large operations across key commodities.

The second is the rise in Indonesia's own domestic standards and those of its leading players. This gradual improvement is supported by stronger safety and environmental regulation and enforcement, competition for talent and recognition of the positive impact on operations and profitability.

When combined, these account for only a minority of Indonesian mining projects. However, they represent a sufficient and growing market for Western Australian METS companies.

The role of state-owned enterprises

State-owned enterprises (SOEs) play a significant role across every sector of the Indonesian economy, and account for some of the largest companies in each part of the mining sector.

MIND ID (formerly the Inalum Group) has emerged as the lead SOE for Indonesian mining generally, with a clear role as

Indonesia's national champion mining company. This enterprise is seeking a strong position across the breadth of Indonesia's key commodities, with strong ambitions across downstream processing, research and development and the adoption of best practice for mining safety, operations and environmental performance.

MIND ID's portfolio now includes the Grasberg mine, coal producer Bukit Asam, diversified metals miner Aneka Tambang (ANTAM), tin producer Timah, bauxite producer Inalum and mining R&D institute MMI. It will also soon include a stake in nickel producer Vale Indonesia. MIND ID's forward program includes the development of a range of downstream processing assets.

As a result, it will be increasingly important for Western Australian METS companies to be equipped to work with SOE mining entities as well as private sector operators.

Divestiture and the decline of the Contract of Work regime

The 2009 Mining Law saw Indonesia move away from its long-established Contract of Work (CoW) and Coal Contract of Work (CCoW) regime, under which terms were set, including taxation, for the full duration of the project – typically 30 years.

In recent years, a wide range of foreign-owned mines have transitioned from CoW to Special Mining Business Licences (IUPKs), which include a requirement to divest 51% of equity to Indonesian ownership. This has triggered changes in the ownership of significant mines and the partial or total exit of a number of foreign miners, including several from Australia.

Community engagement and development

Since 2009, all mining companies have legal obligations for community development and empowerment as part of their licence to operate. Some of these programs, such as those operated by Freeport Indonesia or Vale Indonesia are significant in scale, supporting the development of whole communities across health, education, infrastructure, environmental management and economic and social development.

Effective and outcomes-oriented community engagement and development remains a strong area of interest for the wide range of companies with these obligations.

Exploration activity

Mining exploration in Indonesia has historically been funded mostly by foreign capital. However, a range of regulatory and market issues have led to a decline in exploration from its peak of US\$450 million in 1995 to less than US\$100 million annually today.

As exploration activity continues to decline, there is a growing need for a policy response that better supports exploration. However, the recent revision to the 2009 Mining Law includes a firmer obligation on mining companies to conduct (and provide a budget for) increased exploration activities each year.

This may provide further opportunities for METS companies servicing exploration activity.

Reform and standardisation of regulatory approvals

In 2018, the Indonesian Government launched its Online Single Submission (OSS) service, after several years of development.

This service integrates the issuance of permits from all levels of government, through a single online registration process. Importantly, this includes many of the permits required for business establishment, operation and imports.

These initiatives are a work in progress. A range of permits and licences in the mining sector remain in parallel approval processes through the Indonesian Investment Coordinating Board (BKPM).

In practice, Australian METS companies continue to face regulatory uncertainty

in obtaining permits and business licences, particularly local and regional supporting licenses. However, the OSS does demonstrate a genuine commitment to streamlining and improving transparency in this area.

This trend has continued through the latest changes to the 2009 Mining Law in which all mining licensing authority has been transferred to the central government and out of the hands of the relevant Governors.

Use of expatriate employees

Over the past 5 years, it has become more difficult for Australian METS companies to employ expatriates in Indonesia.

In addition to the formal rules outlining the specific position titles available to expatriate employees, ratios of local to expatriate staff and knowledge transfer requirements, the time and compliance cost in this area for foreign companies has increased substantially.

It is increasingly common for relatively large Australian METS companies to have only a few or no expatriate staff in Indonesia, given the compliance requirements and the delays in obtaining local work permits (KITAS), or in finalising business establishments with large numbers of foreign employees.

As a result, Indonesia now has among the lowest level of expatriate employees in the region, reported by the Indonesian Government to be less than 0.1% of the population, compared to Thailand (~5%) or Malaysia (~14%). However, there is still a relatively clear and simple process to seek and obtain work permits for expatriates who are appointed as directors (rather than employees).

Opportunities for Western Australian METS companies

Western Australia's business engagement with Indonesia in the METS sector has been shaped by Indonesia's long-term advantages and challenges in the mining sector.

Western Australia's expertise in areas like safety and mining software, artificial intelligence and robotics are strongly aligned to opportunities in the Indonesian METS sector.

Under IA-CEPA, Australian companies are allowed ownership of up to 67% of mining services entities established in Indonesia – creating an improved investment climate for WA METS companies.

There is significant interest on the part of Indonesian industry, but limited in-market capability – presenting opportunities for WA METS companies in the following areas:

Development of downstream processing assets

A range of policy interventions have triggered a wave of smelter developments.

According to the Indonesian Ministry of Energy and Mineral Resources, 36 smelters are in development and expected to become operational by 2021, with a capacity of over 70 million tonnes per annum (MTPA). These are predominantly in nickel, with additional smelters in bauxite, copper, iron, lead and zinc.

The broader policy agenda to increase downstream processing will continue to drive new investment over the coming decade, across feasibility, design, construction and operation.

Safety-related training, systems and technology

Safety performance in Indonesian mining is highly variable, but safety regulations are now more strictly enforced, and the range of operators with a strong commitment to safety is increasing.

In 2018, the Ministry of Energy and Mineral Resources enacted new regulations for



Market advantages

- » Leading producer of coal and minerals (bauxite, nickel, tin, copper, and gold)
- » Rich mineral reserves (for example, the giant Tujuh Bukit copper prospect)
- » Low labour costs relative to developed mining countries (Australia, US, and Canada)
- » Geographically close proximity to key commodity demand markets (China and India)

Market challenges

- » One of Asia's more complex markets in which to invest or do business following a period of significant policy and regulatory changes
- » Minimal exploration activity
- » Challenging geography, poor infrastructure in remote locations and shortages of suitably qualified staff
- » Challenging and changeable regulatory framework regarding labour, imports of industrial equipment and intermediate goods, local content rules for inputs, domestic processing requirements for outputs, and foreign ownership limits.

Workplace Health and Safety, and has been actively seeking to promote a shift from a compliance-focused safety culture, to proactive risk management.

As the number of companies serious about safety grows, the market for safety improvement solutions, training, and related services will continue to expand.

Environmental management and waste solutions

Environmental and energy efficiency issues are of increasing importance in mine management across Indonesia. These include waste management, air pollution, water conservation, deforestation and habitat loss, energy efficiency and biodiversity loss. These issues are being actively managed in relation to large local communities as well as the mining operations themselves.

Indonesia has longstanding regulation in this area through the implementation of the Environmental Impact Analysis program (AMDAL), regulation of hazardous and toxic (B3) waste, and an environmental performance rating system (PROPER).

In recent times, this regulatory framework has been more strictly enforced. This takes place against a context where a small number of companies operate to a high standard, but many have not yet developed basic policies to understand and document their environmental impact, or prepare for environmental rehabilitation at end of mine life.

Optimising operations

As with many markets, the need in Indonesia for operational improvement is a key driver of new capital expenditure and investment in new services and technologies. This is an active source of opportunity in Indonesia, with significant

established operations committed to business improvement projects alongside the development of new operations.

For example, Vale Indonesia has announced a doubling of its planned annual capital expenditure to US\$165 million for operational improvement as well as capacity expansion. Merdeka Copper Gold has also budgeted US\$160 million for operational and exploration optimisation at Tujuh Bukit, Wetar Island and Pani.

The drive to increase operational efficiency and productivity presents an opportunity for WA capability in areas such as artificial intelligence and robotics.

Exploration

Exploration has been in decline in recent years, but there is growing pressure to further reform policy and regulatory settings to encourage this to rebound. When exploration picks up, there will be substantial need for improved exploration technologies across analysis and modelling, advanced geophysical tools and methods, and low footprint and mobile drilling.

Workforce development

The increase in sophistication and standards across Indonesian mining creates a need for more highly skilled workers. This creates opportunities linked to the professional and technical workforce, and also for upskilling workers onsite from non-professional backgrounds.

The Indonesian mining sector recognises the depth and relevance of Australia's university and vocational training capabilities and its links to Australia's resources industry. This has created scope for new partnerships between Australian and Indonesian institutions to address areas where long-term workforce development needs are growing.

Key players in the Indonesian mining sector

For METS companies, it is useful to profile the large number of mining developers/operators into 3 distinct groups:

1. Companies operating relatively informally. These can be large or small and private or state-owned, but generally working independently with few western suppliers.
2. Private sector companies operating to international standards due to their management, ownership, borrowings or other commercial links.
3. SOEs operating to international standards.

It is rare for Australian METS companies to have a competitive offering in the first category.

The opportunity for Western Australian METS companies can generally be found across groups 2 and 3.

This is where the private sector and SOEs work to higher operating standards, and have management processes that allow

for expenditure on more sophisticated, higher quality and more innovative METS services and inputs.

These companies:

- » represent a relatively small number of the mine developers and operators in Indonesia
- » have larger scale and more formalised capex planning
- » have greater focus on monitoring and improving operational efficiency
- » have greater adherence to energy and environmental performance, workplace safety and similar responsibilities
- » are more likely to have a formalised approach to training, workforce development, and community benefit

Across key commodities in Indonesia, examples of such companies are set out in the table below:

From within these companies, Australian mining operators active in Indonesia include Agincourt Resources and COKAL. Western Australia companies include Nusantara Resources and Kingsrose Mining.

Key commodity	Operator	Contractor
Coal	Bumi Resources, Kaltim Prima Coal (KPC), Adaro Energy, Delta Dunia Makmur, Medco Energy, Indika Energy, Bukit Asam, COKAL, Bayan Resources, Berau Coal	BUMA, Pama Persada, Thiess, Petrosea
Copper/Gold	Freeport, AMMAN Mineral (formerly Newmont NTT), Merdeka Copper Gold, Agincourt, Nusantara Resources, Kingsrose Mining	Darma Henwa, Pamapersada Nusantara, (PT United Tractors), Macmahon
Nickel	Vale Indonesia, ANTAM	

Australian METS companies operating in Indonesia

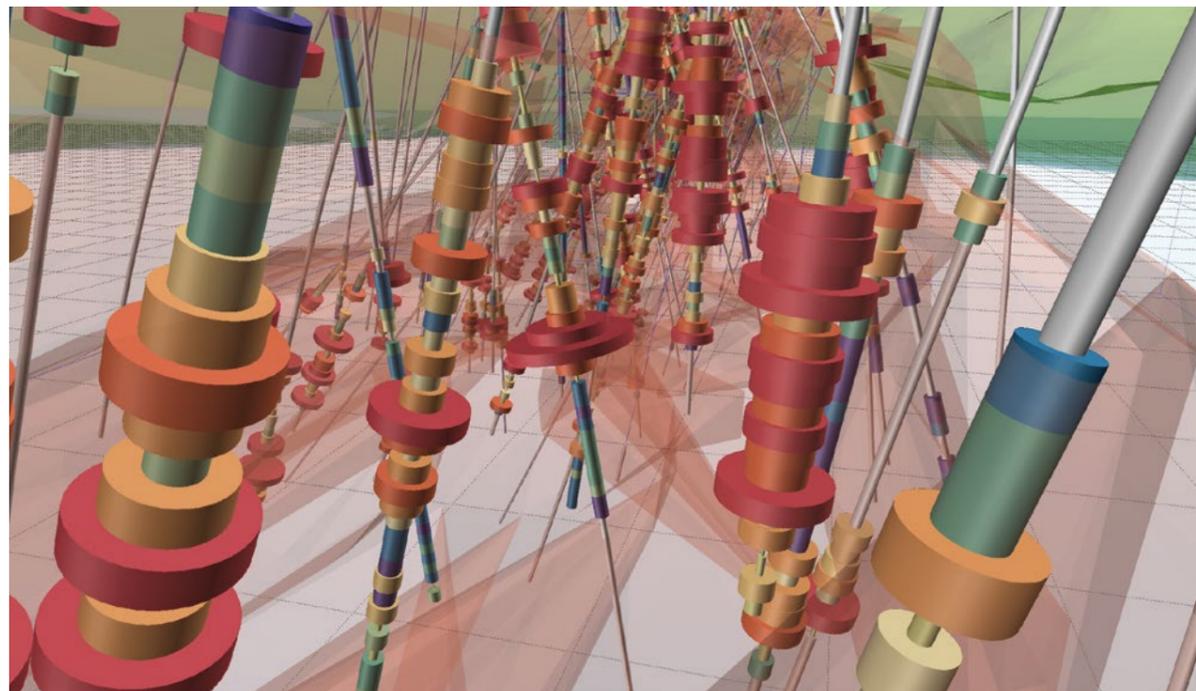
Indonesia has a highly developed ecosystem of domestic and foreign METS providers. At a commodity level, there are suppliers for almost all standard supplies, equipment and services.

Australia has a strong position across the industry, including in its two largest segments by revenue:

» Coal contract mining – BUMA, Pama Persada, Thiess

» Copper/gold contract mining – Darma Henwa, Pamapersada Nusantara (PT United Tractors), Macmahon

There are approximately 70 Australian METS companies currently operating in Indonesia, including Thiess, Orica, and from Western Australia, companies including Macmahon, Micromine, MineARC Systems and BIS Industries.



Micromine, Drill hole cylinders. Micromine modular solutions allow exploring mining companies to capture, image and interpret mining exploration data. © Micromine

Key Indonesian associations/regulators

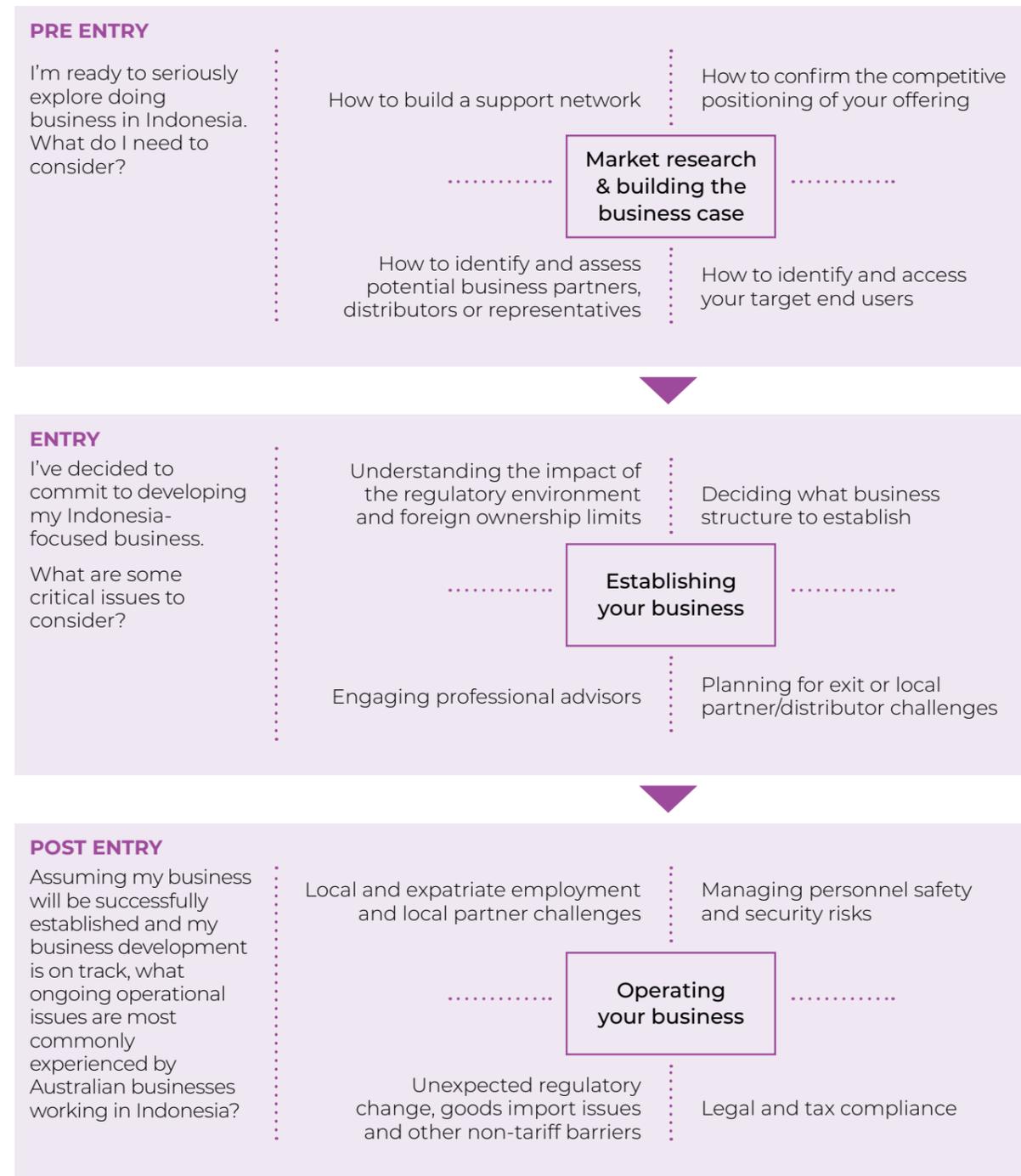
Who are the Key Indonesian Associations?

- » Australian Mining, Infrastructure, Energy & Resources Chambers (Ausmincham)
- » Djakarta Mining Club & Coal Club Indonesia (DMC/CCI)
- » Association of Exploration and Mining Development Indonesia (EMD Indonesia)
- » Indonesia Mining Services Association (ASPINDO)
- » Indonesian Mining Association (IMA-API) Indonesian Coal Mining Association (ICMA-APBI)
- » Indonesia-Australia Business Council (IABC)

Who regulates what

Policymaker and supervisor of mining activity, issuance of mining-related operational licenses	Ministry of Energy and Mineral Resources (Kementerian ESDM)
Policymaker and supervisor for environmental issues, approving body of Environmental Impact Analysis (AMDAL)	Ministry of Environment and Forestry (Kementerian Lingkungan Hidup dan Kehutanan)
Policymaker and supervisor for downstream activity (mineral processing)	Ministry of Industry
Trade, export and import policymaker, determines import quotas and restrictions for certain commodities	Ministry of Trade
Formulates labor policies and approves work permits for expatriates	Manpower Ministry and Law and Human Rights Ministry (Directorate General of Immigration)
Primary contact point regarding land use rights and engagement with local communities	Regional governments
Formulates foreign investment policies, oversees application of overall regulatory procedures for investors	Investment Coordinating Board (BKPM)
Taxation authority	Ministry of Finance and Directorate General of Taxation
Central bank and the authority responsible for regulating foreign currency transactions and remittances	Bank Indonesia

Market entry roadmap – Key considerations



Getting started

Find your initial contact points and market information

1. Australian, state and territory representatives with offices in Indonesia:

- Government of Western Australia Office (jtsi@jtsi.wa.gov.au) - www.jtsi.wa.gov.au
- Austrade (Indonesia@austrade.gov.au) - www.austrade.gov.au

2. Mining associations and chambers:

- Australian Mining, Infrastructure, Energy & Resources Chamber (Ausmincham) - www.ausmincham.or.id
- Djakarta Mining Club & Coal Club Indonesia (DMC/CCI) - www.djakarta-miningclub.com
- Association of Exploration and Mining Development Indonesia (EMD Indonesia) - www.emdindonesia.com
- Indonesia-Australia Business Council (IABC) - www.iabc.or.id

3. Work through these contacts or your broader network to:

- get introductions to executives with companies already in Indonesia
- review the latest reports and publications on Indonesian mining and METS sector
- get introduced to experienced professional advisors specialising in the sector
- understand your options for structuring your market entry, and working through local partnerships

Understand the primary touch-points for foreign business with the Indonesian Government

1. Business establishment

- Businesses should contact the Indonesia Investment Promotion Center (IIPC) in Sydney – invest@iipcsydney.com
The IIPC is the overseas branch of the Indonesian Investment Coordinating Board (BKPM), serving as the first contact point for foreign investors
- The Indonesian Government has recently implemented a one-stop online company establishment and licensing system for investors, called the Online Single Submission (OSS) (www.oss.go.id/oss)
- Classification of businesses in Indonesia is conducted using a 5 digit number that corresponds to a specific business activity in the Indonesian Business Classification List (KBLI). This classification will also determine levels of ownership you may possess under Indonesia's Negative Investment List (www.oss.go.id/oss/#Home/portal/1stKbli)
- All business set-up should be conducted in conjunction with qualified in-country professionals familiar with your business focus.

2. Employing expatriates and obtaining working visas

To understand what is required for foreign work permits, it is advisable to refer to the Indonesian Immigration Directorate guide on KITAS/KITAP application process (www.imigrasi.go.id)

3. Taxation

To understand your taxation responsibilities in Indonesia, it is advisable to work closely with a qualified tax advisor in Indonesia. Areas to consider include:

- Registering with the appropriate taxation office for your location
- Ensuring that your Tax Identity Number (NPWP) and Electronic Filing Identity (EFIN) for online tax reporting are current
- Ensuring that all tax compliance for company registration has been undertaken
- Understanding your liability related to individual (employee) income tax, various withholding taxes, land and building tax and value added tax
- Tax payment and reporting period - taxes need to be paid and reported, and depending on the type of taxes, it may be paid and reported monthly or annually.

Support for Western Australia METS companies in Indonesia

The Western Australian Government and Austrade have a direct, on the ground presence in Indonesia, and work together to support Western Australian METS companies. We would like to acknowledge Austrade's significant role in developing content for this guide.

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