

Adding value to resources

INTERVIEW WITH JERO WACIK

MINISTER FOR ENERGY AND MINERAL RESOURCES, REPUBLIC OF INDONESIA



JERO WACIK graduated with a degree in mechanical engineering from the Bandung Institute of Technology in 1974 and the University of Indonesia in 1983. He started his career in United Tractor, a subsidiary of PT Astra International, and has also run property and tourism businesses. Prior to being appointed Minister of Energy and Mineral Resources in October 2011, he served as Minister of Culture and Tourism since October, 2004 and became the Vice General Secretary of the Democrat Party.

What is the main remit of the Ministry?

The Ministry represents the interests of local communities, the state, and investors. This means managing and using mineral resources based on the principles of promoting the national interest, transparency and accountability, and sustainability, while supporting and enhancing the national capability so as to be better able to compete at the national, regional, and international level. In the process we aim to increase income streams from mining for local communities and to create job opportunities. We are also responsible for providing legal guarantees for investors in the mining sector.

We have established a four-track strategy to achieve these aims: pro-growth, which focuses on increasing investment, added value, and improving tax and non-tax income; pro-jobs, which focuses on creating employment opportunities and increasing local involvement in mining operations through the provision of goods and services; pro-poor, to ensure a fair distribution of the benefits from mining operations between the company, local government, and society; and pro-environment to encourage the implementation of good mining practices, land reclamation and post-mining activities to ensure sustainable development.

The Ministry has developed several important policy goals regarding guaranteeing domestic mineral and coal supplies, prices, and added value. Mining companies are now required to carry out processing domestically to add value. Exporting raw materials has been prohibited as of May 6th, 2012. Existing mining permit holders have to present plans to build smelters for processing and refining. There is also a divesture obligation as follows; after the fifth year of production, a process must begin that results in 51 per cent of the shares being owned by domestic parties by the tenth year of production.

Energy security is now top of many governments' policy-making agenda. How do you see this in the context of electricity generation and distribution in Indonesia?

The development of our electricity sector is aimed at guaranteeing reliable and affordable electricity supplies able to support sustainable development. There are opportunities to supply electricity for state-owned enterprises, regional government owned enterprises,

and the private sector.

The government has the authority to set electricity and distribution pricing. But electricity prices for the public must be agreed by the government in conjunction with the House of Representatives. Cross-border electricity trading is possible, conditional on a special licence issued by the government

Indonesia is no longer a net oil exporter. What is the current outlook for further development of Indonesia's hydrocarbons sector?

Faced with declining output, Indonesia now provides incentives to raise production to our goal of 1.1 million barrels a day by 2014. These include regulatory reviews, exploration to find new resources, and optimisation of existing fields. We are also developing non-conventional hydrocarbon resources such as coal bed methane and shale gas, which we have in abundance. These efforts are an integral part of our national energy policy that also involves developing new and renewable energy, as well as managing energy from the supply and demand side. Indonesia has started to reduce oil consumption by promoting the use of natural gas, coal, and renewable energy in power plants, industries, transport, and for household use. We have projects to develop natural gas distribution pipelines for housing and gas stations. We also have projects to convert public transport from gasoline to compressed natural gas or liquid gas for vehicles. These efforts are aimed at making sure that industry has sufficient supplies. We are working to secure energy supplies amid increasing prices and demand for energy globally. This policy should be attractive to the international investment community.

How would you describe your policy and plans for other sustainable and renewable energy resources such as geothermal, solar, and wind power plants?

The Government of Indonesia places sustainable and renewable energy development at the centre of national energy policy. This involves energy diversification and conservation aimed at increasing the share of renewable energy into the national energy mix. The government has been providing subsidies to develop bio-fuels since 2009. Our use of renewables is growing faster than that of fossil energy. In some cases, it requires massive investment. Last year, the share of

renewable energy in the overall mix was around 5 per cent, with the rest coming from conventional fossil fuels. Our renewables target for 2025 is 17 per cent. We introduced new legislation in 2007 to promote the use of renewable energy and energy conservation. The law mandates the central government, as well as local governments, to provide incentives to accelerate the use of renewable energy. To implement this, incentives have been issued such as feed-in tariffs and the mandatory use of biofuels. Our renewable energy targets have been set bearing mind that Indonesia has abundant renewable energy resources, which are currently not being optimally utilised. For instance: our geothermal potential is estimated at 40 per cent of total world potential. Indonesia also has considerable potential to develop hydropower, as well as potential in bio-energy, wind, and solar energy. We also offer incentives for sustainable renewable energy development in the form of Feed-in Tariffs (FIT). FIT has already been introduced for geothermal and bio-energy and the Ministry is finalising FIT for the solar and hydro sectors. We have also been shifting to the mandatory use of bio-fuels since 2009. Bio-fuels have been replacing bio-diesel and bio-ethanol in the transport sector. This process is being expanded to include industry and mining. At present, 7.5 per cent of biodiesel is blended with diesel fuel and is commercially available in Java, Bali, and part of Sumatra. The state-owned electricity company PLN is now required to purchase electricity generated from renewable energy. At the same time we are also simplifying investment procedures. There is no need for tariff negotiations between developers and PLN. We also offer tax incentives. The Ministry of Finance has issued new regulations regarding tax and customs facilities for activities to generate renewable energy resources. Subsidies for bio-fuels are also available.

What is Indonesia doing to encourage more foreign direct investment in the mining and mineral resources sector?

There has been a steady increase in mining investment since 2009, led by China and India, which are still both interested in further investment here. The 2009 mining law is aimed at making the mining sector more attractive and establishing Indonesia as a secure investment destination. The government provides the same opportunities for all investors, whether foreign or domestic. Our mining legislation aims to encourage broad investor participation in the sector, regardless of whether they are foreign or domestic, guided by fair and consistent rules and regulations. Mining permits are issued on the basis of bidding. Foreign investors can work with a domestic investor to carry out mining exploration. The government wants to

attract companies looking to implement good mining practices. The advantages of investing in Indonesia's mining sector are clear: Indonesia offers a huge market, and a growing economy. The country is also politically stable. We are encouraging investors to look at opportunities in processing and refining. We have a highly skilled workforce and a great strategic location. Among the challenges are the need for investment in exploration and feasibility studies. As mentioned above, foreign companies have an obligation to divest their shares to domestic parties after the fifth year of production. This can be done gradually until the tenth year of production. After that, a domestic investor must own 51 per cent of a company. But we do not want the requirement for divestiture to put foreign investors off Indonesia. Domestic participation will make it easier for foreign companies by providing a link to local communities, for example. Then there is the question of requirements for value added processing. At present, there is a huge shortfall in mineral processing and refining. Indonesia has just two processing and refinery facilities: PT Inco and PT Antam). There is also a need to build new facilities to process bauxite, iron, copper, and other metals. At the same time, the government is promoting processing and refinery development through cooperation with Japan, Korea, China, Australia, the United States, and Russia. It is also coordinating with local governments to facilitate development of the sector, while offering tax incentives and developing infrastructure.

Environmental protection and social responsibility are key subjects in the energy and mineral resources sector. How is Indonesia currently addressing these issues nationally and regionally?

Our 2009 legislation covering the mining sector amply covers the implementation of good mining practices in accordance with the main international agreements of the last decade. An environmental impact assessment is required as a part of the feasibility study for mineral and coal mining activities. At the production operation stage companies must submit a reclamation and mine closure plan. Furthermore, mine operators must present a CSR programme to empower people communities living in the area around the mine. **E**

Energy and mining strategy

- Pro-growth – increasing investment
- Pro-jobs – creating employment
- Pro-poor – fair distribution of benefits
- Pro-environment – good operating practices

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