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Headline: Vale Indonesia to Boost Nickel Output, Undeterred by New Law

Vale Indonesia to Boost Nickel Output, Undeterred by New Law

By Fitri Wulandari and Yoga Rusmana - Mar 12, 2012 5:21 PM GMT+0800

PT Vale Indonesia (INCO), a unit of the world's second-biggest nickel producer, said it plans to boost output by 64 percent in eight years and won't be deterred by a new law that may reduce its hold over domestic mines.

The unit of Brazil's Vale SA (VALE3) will increase nickel-in-matte production to 120,000 metric tons in 2020 from 73,000 tons currently, Vice President Director Bernardus Irmanto said in an interview at the Clariden Global Indonesia Mining 2012 conference in Bali today. All its Indonesian output is shipped to Japan under a long-term contract, according to its website.

President Susilo Bambang Yudhoyono signed a decree last month that limits foreign ownership in local mining companies to 49 percent within 10 years of starting output, potentially curbing investment in the world's largest thermal-coal and tin exporter. The regulation applies to producers with a mining business license, which Vale is required to seek after its mining permit expires in 2025, Irmanto said.

The new rule "is putting our investment at risk," Irmanto said. "With all the regulations, it's very hard to evaluate our business. But we're still interested to invest in Indonesia."

Companies that currently operate with contracts issued under the 1967 mining law, including Freeport-McMoRan Copper & Gold Inc. (FCX), Newmont Mining Corp. (NEM) and Vale Indonesia, will need to change to mining business licenses when they seek to extend their contracts, according to a regulation published on the Energy and Mineral Resources Ministry's website last week.

Vale Indonesia was unchanged at 3,475 rupiah in Jakarta trading as of 3:52 p.m. local time. The stock has gained about 8.6 percent this year, compared with a 4.4 percent increase in the benchmark Jakarta Composite index.

Output Decline

The company’s nickel-in-matte production may decline about 25 percent in the first quarter because it’s rebuilding a furnace and it will try to make up in future quarters, Irmanto said, without providing figures.

Vale Canada, a unit of the Brazilian company, has a 58.7 percent stake in Vale Indonesia, Sumitomo Metal Mining Co. holds 20.1 percent and the public owns 21.2 percent, the company said on its website.

Vale Indonesia was issued a mining permit in 1968 and started commercial production in 1978, according to its website.

The foreign ownership regulation issued last month was an extension of a mining law passed in 2009. The government also said in February that it will start banning exports of metal ore by companies holding mining business licenses from May.

2009 Law

The 2009 law, which replaced previous legislation passed in 1967, has substituted so-called Contracts of Work with mining business licenses. Regional governments are allowed to grant, and revoke, such licenses, while Contracts of Work under the old mining law were only issued by the central government.

The law may need to be reviewed if it risks driving away investors and reducing state revenue, Syahrir Abubakar, executive director of the Indonesia Mining Association, told reporters in Bali. The group has embarked on a study of the impact of the legislation, he said.

The association groups mining companies including units of Freeport and Newmont, as well as PT Adaro Indonesia and PT Berau Coal, according to its website.

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Headline: Adani to Continue Investing in Indonesia, Honor Shareholding Law

Adani to Continue Investing in Indonesia, Honor Shareholding Law

By Fitri Wulandari and Yoga Rusmana - Mar 13, 2012 3:31 PM GMT+0800

The Adani Group, owner of India's biggest coal importer, said it will continue to invest in Indonesia even after the Southeast Asian nation imposed rules requiring foreign mining companies to reduce their local stakes.

The group, controlled by billionaire Gautam Adani, will"honor" Indonesia's regulations and adjust its businesses in the nation accordingly, Ganeshan Varadarajan, president director of local unit PT Adani Global, said in Bali today. The Jakarta-based company has mines in South Sumatra, East Kalimantan and Central Kalimantan provinces, according to Varadarajan.

President Susilo Bambang Yudhoyono signed a decree last month limiting foreign ownership in local mines to 49 percent within 10 years of starting production, potentially curbing investment in the world's largest exporter of power-station coal. In India, shortages of the fuel have spurred companies including Adani to acquire mining rights in Indonesia andAustralia to help supply the world's second-fastest growing major economy.

Adani's coal imports from Indonesia may rise as much as 10 percent to 33 million metric tons in the year ending March, Varadarajan said in an interview at the Clariden Global Indonesia Mining 2012 Conference on the resort island. He didn't provide a forecast for the year ending March 2013.

India is set to pass China as the largest thermal-coal importer as Prime Minister Manhoman Singh seeks supplies for power producers, including Adani Power Ltd. (ADANI), that have halted plans for $36 billion of new plants because of fuel shortfalls. Shipments may exceed 118 million tons this year, compared with China's 102 million tons, according to Daniel Hynes, a director of commodity research at Citigroup Inc. in Sydney.

Adani Enterprises (ADE), India's largest coal importer, will invest $4 billion to boost output at Australia's Galilee mine to 60 million tons by 2019 after production starts in 2014.

Coal-Fired Plants

The Adani Group plans to spend $6 billion by 2015 to develop its resources, energy and logistics businesses globally, founder Gautam Adani said on Feb. 23.

Adani Global is carrying out a pre-feasibility study on possible development of a 2,000-megawatt coal-fired power plant in Central Java that may need "roughly" $2.5 billion in investment, Varadarajan said.

"We want to build coal-fired power plants in Indonesia that can use low-rank coal with gross heating value of 3,500 kilocalories per kilogram," Varadarajan said. "We would like to participate in this sector instead of just competing in shipping coal to India."

The project is part of deals worth about $15 billion signed in January last year between Indonesian and Indian companies to construct steel plants, a railway line and a port in the Southeast Asian nation.

Coal Projects

Adani is inviting Indonesian state coal miner PT Tambang Batubara Bukit Asam (PTBA) to invest in a coal infrastructure project in South Sumatra, Varadarajan said. Bukit Asam previously agreed to only supply coal to be transported on Adani's railway in the province, he said.

Adani Global, Bukit Asam and South Sumatra's government agreed to build a 270-kilometer (167-mile) railway and a coal terminal with an annual handling capacity of 50 million tons, the Investment Coordinating Board said Aug. 25, 2010.

The foreign ownership regulation signed by President Yudhoyono in February applies only to holders of mining business licenses, and is an extension of a mining law passed in 2009 stipulating that local investors own at least 20 percent of joint ventures by the sixth year of production.

The 2009 law, which replaced previous legislation passed in 1967, has substituted so-called Contracts of Work with mining business licenses. Regional governments are allowed to grant and revoke such licenses, while Contracts of Work under the old mining law were only issued by the central government.

Adani Global operates in Indonesia with mining business licenses, while companies including the units of Vale SA,Freeport-McMoRan Copper & Gold Inc. (FCX) and Newmont Mining Corp. (NEM)currently hold Contracts of Work.

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Headline: Vale, Newmont Retain Appetite for Indonesia Mines Amid Stake Cut

Vale, Newmont Retain Appetite for Indonesia Mines Amid Stake Cut

By Yoga Rusmana and Fitri Wulandari - Mar 16, 2012 1:01 AM GMT+0800

Global companies led by Vale SA (VALE3) andNewmont Mining Corp. (NEM) plan to invest in Indonesia's mines, undeterred by a new rule cutting foreign ownership, as they hunt for resources in the world's biggest exporter of tin and thermal coal.

PT Vale Indonesia, a unit of the world's second-biggest nickel producer, the Adani Group, controlled by Indian billionaire Gautam Adani, Hong Kong-based G-Resources Group Ltd. (1051)and Canadian explorer East Asia Minerals Corp. (EAS) said this week they will boost output at their Indonesian operations even as they need to cut their holdings in local ventures.

An aerial view shows an open pit at the Batu Hijau copper and gold mine operated by PT Newmont Nusa Tenggara in Sumbawa, West Nusa Tenggara province, Indonesia. Photographer: Dadang Tri/Bloomberg

The companies are awaiting rules on how to reduce their stakes to 49 percent after President Susilo Bambang Yudhoyono's decree last month, aimed at increasing the participation of local investors in mining. South Africa and Mongolia are also weighing additional measures to gain a greater share of mining profits.

"Indonesia is, without a doubt, one of the top three places for current investment in mineral projects," Edward Rochette, chairman of Vancouver-based East Asia Minerals, said at a conference in Bali on March 13. There's a little concern about what's happening, he said, adding that companies can't dismiss the opportunity for mineralization in the country.

Southeast Asia's biggest economy, also rich in minerals including nickel, copper and bauxite, relied on mining for about 12 percent of its gross domestic product last year, according to data from the statistics bureau.

South Africa, Mongolia

South Africa, the world's biggest producer of platinum, chrome and manganese, is considering proposals from the rulingAfrican National Congress party to increase mining tax and take over gold and platinum mines to boost employment.

Mongolia's plan to develop part of the Tavan Tolgoi deposit, one of the world's largest sources of coal, has stalled as a political debate over who should develop the project intensifies ahead of the June parliamentary elections.

"When you look at what's happening globally, the resources sectors are being raped in some places or pushed into paying a fair proportion of the wealth that's been generated back into the country," said David Lennox, an analyst at Fat Prophets in Sydney. "This rule change won't make a company go away from Indonesia, but it will obviously mean they will look over their shoulders if an opportunity pops out somewhere else."

The Indonesian regulation, signed in February and announced this month, requires overseas companies to reduce their stakes in local ventures to 49 percent within 10 years of starting production. It extends a 2009 law mandating local ownership of at least 20 percent in joint ventures by the sixth year of production.

Local Processing

Ores should be processed locally to boost state revenue, according to a separate decree by the Energy and Mineral Resources Ministry last month.

The new law applies to companies with mining business licenses. Miners, including Vale, Freeport-McMoRan Copper & Gold Inc. (FCX) and Newmont, currently operate under contracts of work and need to apply for mining business licenses when their permits expire, according to the rule.

PT Vale Indonesia plans to boost output by 64 percent to 120,000 metric tons in eight years, Vice President Director Bernardus Irmanto said at the Clariden Global Indonesia Mining 2012 conference on March 12.

Spending Plans

The Adani Group will maintain its investment in Indonesia and adjust its business accordingly with the new rule, Ganeshan Varadarajan, president director of local unit PT Adani Global, said March 13.

East Asia Minerals is developing two gold mines in Indonesia's Aceh and North Sulawesi provinces under a mining business license and a contract-of-work permit, Rochette told the conference. It has uranium and phosphate assets in Mongolia.

G-Resources spent $464 million of a planned $576 million to develop the Martabe gold project in North Sumatra by the end of 2011, Chief Executive Officer Peter Albert told the conference.

"G-Resources is not really impacted as we are licensed under an existing contract of work," Vice Chairman Owen Hegarty said in an e-mail. "We won't be changing our business plan or our overall strategy of getting into production as soon as we can and looking to grow our business."

Freeport will cooperate with the Indonesian government in reviewing its contract as it seeks extension beyond 2021, the Phoenix-based company said in February.

Freeport operates the Grasberg mine in Papua province, which accounted for 19 percent of the company's revenue last year and contains the world's largest recoverable copper reserves, according to the company.

Newmont and its foreign partners, including Sumitomo Corp. (8053), own a 56 percent stake in PT Newmont Nusa Tenggara and are selling 7 percent to the government. Newmont runs the Batu Hijau copper mine in West Nusa Tenggara province.

'Pinch of Salt'

The investment trend will persist, especially for smelting and processing, which will now be done locally, Alberto Migliucci, head of mining, energy, oil and gas, Southeast Asia at Credit Suisse Group AG, told the Bali conference.

Still, the ownership regulation may deter new investors, especially Indian companies, which can invest in Australia, South Africa and the U.S., said Gurpreet Singh Chugh, head of natural resources at Crisil Risk & Infrastructure Solutions Ltd., a unit of Crisil Ltd., a Standard & Poor's company. He didn't identify the companies.

"We'll have to take it with a pinch of salt as there are a lot of questions that need to be answered," including whether the rule applies to new or existing investments, Chugh said.

Foreign and local investment in Indonesia rose 21 percent last year to 251.3 trillion rupiah ($27.3 billion), exceeding the target of 240 trillion rupiah, as the mining, metals and telecommunication industries expanded, the Investment Coordinating Board said in January.

"You go to where the commodity is," Lennox of Fat Prophets said. "That's why globally we're seeing governments taking a far greater proportion of interest in the mining industry because they know that mining companies will go to where the resource is, otherwise where else do you go?"

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