
THE WALL STREET JOURNAL

HD World News: Indonesia Has Lots of Coal -- and Blackouts in Capital --- Low Electric Rates Drive Producers To Export Market

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WC 798 words
PD 29 July 2008
SN The Wall Street Journal
SC J
NGC The Wall Street Journal - Print and Online
GC CTGWSJ
PG A11
LA English
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LP JAKARTA -- Indonesia is the world's largest producer of thermal coal, which is used to generate one-third of the nation's electricity. So why are factories, businesses and ordinary citizens around this sprawling capital city facing chronic blackouts?

The answer: Indonesian coal producers would rather export at a higher price than sell locally to PLN, the state-owned electricity **utility**. That has left PLN with a coal deficit in recent months, forcing it to turn the power off in sections of Jakarta for hours each day.

TD In a desperate move to reduce power usage, the government is forcing factories in industrial zones around Jakarta to shut for two days between Monday and Friday and move those working days to the weekend. And it is trying through television advertising campaigns to persuade consumers to switch off lights and minimize power consumption.

The troubles are one example of how attempts by governments in many parts of the developing world to control prices for consumers can lead to problems. In Indonesia, the government sets low rates for electricity that don't reflect its real cost. That has contributed to years of underinvestment in power infrastructure. As the international market price for commodities like coal rises, Indonesian producers can often get a better price by exporting than by selling to their home market.

The power issue is hurting Indonesia's attractiveness as an investment site. More than 400 Japanese companies -- making everything from food to textiles -- jointly issued a formal complaint to the government this month about the frequent cuts to power supply and threatened to pull out unless the problems are resolved quickly.

The power shortages are "sending negative signals and discouraging investment," said Adam Sack, Indonesia head of the International Finance Corporation, the corporate investment arm of the World Bank.

Other Asian countries are also facing electricity shortages caused by rising coal prices, which have more than doubled in the past year. China is rationing electricity during the peak-usage summer season. High coal prices have already forced many small power producers there out of business, exacerbating supply shortages.

The coal squeeze reflects competition among Asia's still-expanding economies for resources to meet their power needs. In India, Tata Power Co. is investing \$4 billion to develop one of the world's largest coal-fired power plants by 2012. To ensure coal supplies for the plant, Tata last year agreed to pay \$1.1 billion for a 30% stake in two large Indonesian coal mines, further draining supply for domestic Indonesian users.

Indonesia, Southeast Asia's largest **economy**, has abundant resources of commodities including natural **gas**, palm oil and nickel. Balancing exports of these commodities to hungry consumers in China and India with Indonesia's domestic needs has proved tricky. The **economy** is forecast to expand 6% this year, largely because of the commodity exports. Yet the power shortages may hurt growth.

Indonesia suffers from years of slow investment in new power plants and power transmission lines.

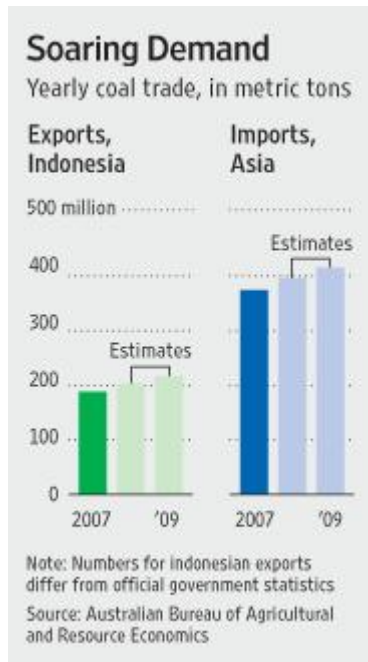
Since the 1997-98 Asian financial crises -- which led to the collapse of a number of joint-venture independent power projects -- foreign investors have shunned Indonesia's electricity-generating sector. One problem is that investors can't be sure the government will set the conditions enabling them to make a return.

"Indonesian decision making is so slow and unclear," said Hongjoo Hahm, a specialist on infrastructure with the World Bank in Jakarta.

With the country's main Java-Bali grid heavily overloaded, Jakarta introduced a plan in 2006 to quickly build coal-fired plants with a capacity of 10,000 megawatts. It lined up Chinese state-owned companies to participate. These projects were supposed to come on line by 2010, but construction has been delayed because of uncertainties over Indonesian government guarantees that PLN will buy the electricity generated.

Officials hoped that coal would be a cheaper source of fuel for Indonesia's power plants than oil and diesel. But international thermal coal prices have risen by about 160% in the past year to \$180 per metric ton. With coal shortages globally, many big Indonesian miners say they can get higher prices selling to Indian or Chinese customers. Meanwhile, cash-strapped PLN, which relies heavily on government subsidies, is unable to match global prices.

"It's a free market and one can not blame coal producers," said Supriatna Suhala, director of the Indonesian Coal Miner Association. Indian buyers, he said, are willing to pay about a third more than PLN per tons of coal. "Not to mention that payment [from PLN] is often delayed up to five months," Mr. Suhala added.



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