CHRISTIAN TEO & PARTNERS

NEW PRODUCTION ROYALTY RATES – MIXED OUTCOMES AND SOME CONFUSION

INTRODUCTION

A new rate scale, for the production royalty payable in respect of the first sale of a wide range of mineral products, came into effect in April. There have been big rate increases for some metal mineral products in particular, while other metal mineral products and coal products have been largely spared.

The new production royalty rate scale was strenuously opposed by many mining companies and their industry organizations which emphasized that the current uncertainty over US-imposed tariffs on imports, as well as the difficult economic conditions already facing many Indonesian mining companies, made this very much the wrong time to be increasing production royalty rates. These representations were largely ignored by the Government.

Following the issuance of the new production royalty rate scale, it became clear that many industry observers have an imperfect understanding of how production royalties are applied and collected by the Government in the case of so-called “non-integrated” processing & refining operations as opposed to in the case of so-called “integrated” mining and processing & refining operations. This has led to some confusion, in various quarters, as to which companies will be most affected by the new production royalty rate scale.

In this article, the writer will outline how some of Indonesia’s most important mineral products have fared under the new production royalty rate scale before turning to the issue of why companies carrying on “non-integrated” processing & refining operations are not impacted by the recent increases in production royalty rates.

BACKGROUND

Indonesia collects so-called “non-tax state revenue” (**PNBP**) in connection with various activities, including mining related activities. More particularly, mining activity-related PNBP is in the form of revenue collected by the Government from (i) the “utilization” of natural resources, including the sale of mineral products, (ii) the provision of services in the mineral resources sector, (iii) the use of mining-related facilities and infrastructure, (iv) the imposition of administrative fines in respect of non-compliant mining industry activity and (v) the mandatory placement/provision of guarantees in connection with certain mining and post-mining activities.

PNBP is a hugely important source of revenue for the Government. In 2024, the Government collected a total of IDR269.5 trillion (or the equivalent of about US$15.8 billion) in PNBP. The mining industry contributed IDR140.5 trillion or 52% of the Government’s 2024 PNBP collections.

The PNBP, levied by the Government in respect of the sale of mineral products, is colloquially referred to as the **Production Royalty**. Although supposedly not a “tax” as such, the Production

Royalty is financially equivalent to a tax and is certainly viewed as being so by mining industry participants.

The Production Royalty is payable in respect of (i) coal, (ii) metal minerals, (iii) diamonds/precious stones and (iv) some types of sea sand only.

The Production Royalty is levied on the higher of the Coal Reference Price (**HBA**)/relevant Metal Mineral Reference Price (**HMA**) and the actual selling price of the relevant mineral product.

The Production Royalty rate scale was previously set out in Government Regulation No. 26 of 2022 re Types and Rates of PNBP Applicable to the Ministry of Energy & Mineral Resources (**GR 26/2022**).

As an implementing regulation of GR 26/2022, the Minister of Energy & Mineral Resources (**MoEMR**) subsequently issued Regulation No. 9 of 2025 re Procedures for Imposition, Calculation and Payment and/or Deposit of PNBP at the Directorate General of Minerals & Coal (**MoEMR Regulation 9/2025**).

Following an 8 March 2025 virtual public consultation, Government Regulation No. 19 of 2025 re Types and Rates of PNBP Applicable to the Ministry of Energy & Mineral Resources (**GR 19/2025**) was issued on 11 April 2025. GR 19/2025 revokes GR 26/2022.

An attachment to GR 19/2025 sets out the new PNBP rate scale (including the new Production Royalty rates) applicable to the mining industry, which new rates became effective on 26 April 2025.

Although (i) GR 19/2025 has revoked GR 26/2022 and (ii) MoEMR Regulation 9/2025 was issued pursuant to GR 19/2025, MoEMR Regulation 9/2025 has **not** been revoked by GR 19/2025. Accordingly, MoEMR Regulation 9/2025 continues to apply so long as it is not inconsistent with GR 19/2025.

While most of the focus to date has been on GR 19/2025 and the new Production Royalty rates set out in the attachment to GR 19/2025, GR 19/2025 provides no real guidance on the applicable administrative procedures for the collection and payment of the Production Royalty. These administrative procedures are to be found in MoEMR Regulation 9/2025. As such, MoEMR Regulation 9/2025 is indispensable to understanding the practical implications of the new Production Royalty rates. Most importantly, this includes which party is actually responsible for the payment of the Production Royalty in the case of each of "integrated" mining and processing & refining operations and "non-integrated" processing & refining operations.

ANALYSIS AND DISCUSSION

1. New Production Royalty Rates

1.1 **Overview of Production Royalty Rate Changes:** The following table sets out, for **some** only of the coal and metal mineral products covered by GR 19/2025, (i) the old PNBP Rate and (ii) the new PNBP Rate and (iii) an explanation of the change if any:

	COAL & CERTAIN METAL MINERAL PRODUCTS	OLD PNBP RATE	NEW PNBP RATE	EXPLANATION OF CHANGE IF ANY
A.	**COAL (OPEN PIT)**			
1)	Calorific value of ≤ 4.200 Kcal/Kg			Existing progressive PNBP Rate approach has been maintained but with some increases in the applicable PNBP Rates
	(i) HBA < USD70	5%	5%	No change
	(ii) HBA ≥ USD70 < USD90	6%	6%	No change
	(iii) HBA ≥ USD90	8%	9%	Increase
2)	Calorific value > 4.200 – 5.200 Kcal/Kg			
	(i) HBA < USD70	7%	7%	No change
	(ii) HBA ≥ USD70 < USD90	8.5%	8.5%	No change
	(iii) HBA ≥ USD90	10.5%	11.5%	Increase
3)	Calorific value > 5.200 Kcal/Kg			
	(i) HBA < USD70	9.5%	9.5%	No change
	(ii) HBA ≥ USD70 < USD90	11.5%	11.5%	No change
	(iii) HBA ≥ USD90	13.5%	13.5%	No change
B.	**COAL (UNDERGROUND)**			
1)	Calorific value of ≤ 4.200 Kcal/Kg			Existing progressive PNBP Rate approach has been maintained without any changes in the applicable PNBP Rates
	(i) HBA < USD70	4%	4%	No change
	(ii) HBA ≥ USD70 < USD90	5%	5%	No change
	(iii) HBA ≥ USD90	7%	7%	No change
2)	Calorific value > 4.200 – 5.200 Kcal/Kg			
	(i) HBA < USD70	6%	6%	No change
	(ii) HBA ≥ USD70 < USD90	7.5%	7.5%	No change
	(iii) HBA ≥ USD90	9.5%	9.5%	No change
3)	Calorific value > 5.200 Kcal/Kg			
	(i) HBA < USD70	8.5%	8.5%	No change
	(ii) HBA ≥ USD70 < USD90	10.5%	10.5%	No change
	(iii) HBA ≥ USD90	12.5%	12.5%	No change.
C.	**NICKEL**			
1)	**Nickel Ore**	10.00%		Former flat PNBP Rate approach has been replaced by a progressive PNBP Rate approach
	(i) HMA < USD18,000		14.00%	Increase
	(ii) HMA ≥ USD18,000 <		15.00%	Increase

	COAL & CERTAIN METAL MINERAL PRODUCTS	OLD PNBP RATE	NEW PNBP RATE	EXPLANATION OF CHANGE IF ANY
	USD21,000			
	(iii)HMA ≥ USD21,000 < USD24,000		16.00%	Increase
	(iv)HMA ≥ USD24,000 < USD31,000		18.00%	Increase
	(v) HMA ≥ USD31,000		19.00%	Increase
2)	**Nickel Ore with Ni Content ≤ 1.5% as raw material for domestic battery-based electric motor vehicle industry**	2.00%	2.00%	Existing flat PNBP Rate approach has been maintained without any change in the applicable PNBP Rate
D.	**REFINED NICKEL PRODUCTS**			
1)	**Nickel Pig Iron (NPI)**	5.00%		Former flat PNBP Rate approach has been replaced with a progressive PNBP Rate approach
	(i) HMA < USD18,000		5.00%	No change
	(ii) HMA ≥ USD18,000 < USD21,000		5.50%	Increase
	(iii)HMA ≥ USD21,000 < USD24,000		6.00%	Increase
	(iv)HMA ≥ USD24,000 < USD31,000		6.50%	Increase
	(v) HMA ≥ USD31,000		7.00%	Increase
2)	**Nickel Matte**	2.00%		Former flat PNBP Rate approach has been replaced with a progressive PNBP Rate approach
	(i) HMA < USD18,000		3.50%	Increase
	(ii) HMA ≥ USD18,000 < USD21,000		4.00%	Increase
	(iii) HMA ≥ USD21,000 < USD24,000		4.50%	Increase
	(iv) HMA ≥ USD24,000 < USD31,000		5.00%	Increase
	(v) HMA ≥ USD31,000		5.50%	Increase
3)	**Ferro Nickel (FeNi)**	2.00%		Former flat PNBP Rate approach has been replaced with a progressive PNBP Rate approach
	(i) HMA < USD18,000		4.00%	Increase
	(ii) HMA ≥ USD18,000 <		4.50%	Increase

	COAL & CERTAIN METAL MINERAL PRODUCTS	OLD PNBP RATE	NEW PNBP RATE	EXPLANATION OF CHANGE IF ANY
	USD21,000			
	(iii) HMA ≥ USD21,000 < USD24,000		5.00%	Increase
	(iv) HMA ≥ USD24,000 < USD31,000		5.50%	Increase
	(v) HMA ≥ USD31,000		6.00%	Increase
4)	**Nickel Oxide/Nickel Hydroxide/Nickel MHP/Nickel HNC/Nickel Sulfide/Cobalt Oxide/Cobalt Hydroxide/Cobalt Sulfide/Chromium Oxide/Chromium Metal/Manganese Oxide/Magnesium Oxide/Magnesium Sulfate**	2.00%	2.00%	Existing flat PNBP Rate approach has been maintained without any change in the applicable PNBP Rate
5)	**Nickel Metal**	1.50%	1.50%	Existing flat PNBP Rate approach has been maintained without any change in the applicable PNBP Rate
E.	**COPPER**			
1)	**Copper Ore**			
	(a) **Copper**	5.00%		Former flat PNBP Rate approach has been replaced with a progressive PNBP Rate approach
	(i) HMA < USD7,000		10.00%	Increase
	(ii) HMA ≥ USD7,000 < USD8,500		13.00%	Increase
	(iii) HMA ≥ USD8,500 < USD10,000		15.00%	Increase
	(iv) HMA ≥ USD 10,000		17.00%	Increase
	(b) **Gold (as associated or "follow" mineral)**			
	(i) Price ≤ USD1,300	3.75%		Existing progressive PNBP Rate approach has been maintained but with increases in the applicable PNBP Rates
	(ii) Price > USD1,300 ≤ USD1,400	4.00%		
	(iii) Price > USD1,400 ≤ USD1,500	4.25%		
	(iv) Price > USD1,500 ≤ USD1,600	4.50%		
	(v) Price > USD1,600 ≤ USD1,700	4.75%		
	(vi) Price > USD1,700 ≤	5.00%		

	COAL & CERTAIN METAL MINERAL PRODUCTS	OLD PNBP RATE	NEW PNBP RATE	EXPLANATION OF CHANGE IF ANY
	USD1,800			
	(vii) Price > USD1,800 ≤ USD1,900	6.00%		
	(viii) Price > USD1,900 ≤ USD2,000	8.00%		
	(ix) Price > USD2,000	10.00%		
	(x) HMA < USD1,800		7.00%	Increase
	(xi) HMA ≥ USD1,800 < USD2,000		10.00%	Increase
	(xii) HMA ≥ USD2,000 < USD2,200		11.00%	Increase
	(xiii) HMA ≥ USD2,200 < USD2,500		12.00%	Increase
	(xiv) HMA ≥ USD2,500 < USD2,700		14.00%	Increase
	(xv) HMA ≥ USD2,700 < USD3,000		15.00%	Increase
	(xvi) HMA ≥ USD3,000		16.00%	Increase
	(c) **Silver (as associated or "follow" mineral)**	5.00%	5.00%	No change
2)	**Copper Concentrate**			
	(a) **Copper**	4.00%		Former flat PNBP Rate approach has been replaced by a progressive PNBP Rate approach
	(i) HMA < USD7,000		7.00%	Increase
	(ii) HMA ≥ USD7,000 < USD8,500		7.50%	Increase
	(iii) HMA ≥ USD8,500 < USD10,000		8.00%	Increase
	(iv) HMA ≥ USD10,000		10.00%	Increase
	(b) **Gold (as associated or "follow" mineral)**			
	(i) Price ≤ USD1,300	3.75%		Existing progressive PNBP Rate approach has been maintained but with increases in the applicable PNBP Rates
	(ii) Price > USD1,300 ≤ USD1,400	4.00%		
	(iii) Price > USD1,400 ≤ USD1,500	4.25%		
	(iv) Price > USD1,500 ≤ USD1,600	4.50%		
	(v) Price > USD1,600 ≤ USD1,700	4.75%		
	(vi) Price > USD1,700 ≤ USD1,800	5.00%		

	COAL & CERTAIN METAL MINERAL PRODUCTS	OLD PNBP RATE	NEW PNBP RATE	EXPLANATION OF CHANGE IF ANY
	(vii) Price > USD1,800 ≤ USD1,900	6.00%		
	(viii) Price > USD1,900 ≤ USD2,000	8.00%		
	(ix) Price > USD2,000	10.00%		
	(x) HMA < USD1,800		7.00%	Increase
	(xi) HMA ≥ USD1,800 < USD2,000		10.00%	Increase
	(xii) HMA ≥ USD2,000 < USD2,200		11.00%	Increase
	(xiii) HMA ≥ USD2,200 < USD2,500		12.00%	Increase
	(xiv) HMA ≥ USD2,500 < USD2,700		14.00%	Increase
	(xv) HMA ≥ USD2,700 < USD3,000		15.00%	Increase
	(xvi) HMA ≥ USD3,000		16.00%	Increase
	(c) **Silver (as associated or "follow" mineral)**	4.00%	5.00%	Increase
3)	**Copper Cathode**	2.00%		Former flat PNBP Rate approach has been replaced with a progressive PNBP Rate approach
	(i) HMA < USD7,000		4.00%	Increase
	(ii) HMA ≥ USD7,000 < USD8,500		5.00%	Increase
	(iii) HMA ≥ USD8,500 < USD10,000		6.00%	Increase
	(iv) HMA ≥ USD10,000		7.00%	Increase
4)	**Anode Mud**			
	(a) **Gold (as associated or "follow" mineral)**			
	(i) Price ≤ USD1,300	3.75%		Existing progressive PNBP rate approach has been maintained but with increases in the applicable PNBP Rates
	(ii) Price > USD1,300 ≤ USD1,400	4.00%		
	(iii) Price > USD1,400 ≤ USD1,500	4.25%		
	(iv) Price > USD1,500 ≤ USD1,600	4.50%		
	(v) Price > USD1,600 ≤ USD1,700	4.75%		
	(vi) Price > USD1,700 ≤ USD1,800	5.00%		
	(vii) Price > USD1,800 ≤	6.00%		

	COAL & CERTAIN METAL MINERAL PRODUCTS	OLD PNBP RATE	NEW PNBP RATE	EXPLANATION OF CHANGE IF ANY
	USD1,900			
	(viii) Price > USD1,900 ≤ USD2,000	8.00%		
	(ix) Price > USD2,000	10.00%		
	(x) HMA < USD1,800		7.00%	Increase
	(xi) HMA ≥ USD1,800 < USD2,000		10.00%	Increase
	(xii) HMA ≥ USD2,000 < USD2,200		11.00%	Increase
	(xiii) HMA ≥ USD2,200 < USD2,500		12.00%	Increase
	(xiv) HMA ≥ USD2,500 < USD2,700		14.00%	Increase
	(xv) HMA ≥ USD2,700 < USD3,000		15.00%	Increase
	(xvi) HMA ≥ USD3,000		16.00%	Increase
	(b) **Silver (as associated or "follow" mineral)**	3.25%	5.00%	Existing flat PNBP Rate approach has been maintained but with an increase in the applicable PNBP Rate
	(c) **Platina (as associated or "follow" mineral)**	2.00% per tonne	3.75% per troy ounce	Existing flat PNBP Rate approach has been maintained but with an increase in the applicable PNBP Rate
	(d) **Paladium/Telluride/ Selenium/Ruthenium/ Iridium/Rhodium (as associated or "follow" minerals)**	2.00%	2.00%	Existing flat PNBP Rate approach has been maintained without any change in the applicable PNBP Rate
F.	**GOLD (AS PRIMARY MINERAL)**			
	(i) Price ≤ USD1,300	3.75%		Existing progressive PNBP rate approach has been maintained but with increases in the applicable PNBP Rates
	(ii) Price > USD1,300 ≤ USD1,400	4.00%		
	(iii) Price > USD1,400 ≤ USD1,500	4.25%		
	(iv) Price > USD1,500 ≤ USD1,600	4.50%		
	(v) Price > USD1,600 ≤ USD1,700	4.75%		
	(vi) Price > USD1,700 ≤ USD1,800	5.00%		

	COAL & CERTAIN METAL MINERAL PRODUCTS	OLD PNBP RATE	NEW PNBP RATE	EXPLANATION OF CHANGE IF ANY
	(vii) Price > USD1,800 ≤ USD1,900	6.00%		
	(viii) Price > USD1,900 ≤ USD2,000	8.00%		
	(ix) Price > USD2,000	10.00%		
	(x) HMA < USD1,800		7.00%	Increase
	(xi) HMA ≥ USD1,800 < USD2,000		10.00%	Increase
	(xii) HMA ≥ USD2,000 < USD2,200		11.00%	Increase
	(xiii) HMA ≥ USD2,200 < USD2,500		12.00%	Increase
	(xiv) HMA ≥ USD2,500 < USD2,700		14.00%	Increase
	(xv) HMA ≥ USD2,700 < USD3,000		15.00%	Increase
	(xvi) HMA ≥ USD3,000		16.00%	Increase
G.	**BAUXITE**			
1)	**Bauxite**	7.00%	7.00%	Existing flat PNBP Rate approach has been maintained without any change in the applicable PNBP Rate
2)	**Refined Bauxite Products**			Existing flat PNBP Rate approach has been maintained without any change in the applicable PNBP Rates
	(a) **Chemical Grade Alumina/Smelter Grade Alumina**	3.00%	3.00%	No change
	(b) **Aluminium Metal / Iron Oxide (Hematite) / Magnesium Oxide**	2.00%	2.00%	No change
	(c) **Galium Oxide**	1.00%	1.00%	No change

1.2 **Assessment of New Production Royalty Rates:** The new Production Royalty rates are expected to raise additional PNBP for the Government of about US$1.2 billion per year.

The replacement of former flat PNBP rates for nickel ore, copper ore and their respective refined products with progressive PNBP rates, tracking movements in the HMA, **could** be seen as just a well-overdue, "housekeeping" change intended to belatedly bring the payment and collection of Production Royalties on the sale of these metal mineral products "into line" with the treatment of coal products in respect of which progressive PNBP rates have long applied. Using progressive PNBP rates, to calculate the Production Royalties payable in respect of the sale of metal mineral products, **could** also be seen as a not unreasonable way to ensure that, as producers of metal mineral products achieve higher selling prices for their products (**i.e.**, producers derive greater financial benefit from the exploitation of Indonesia's finite metal mineral resources), the Government collects a correspondingly higher Production Royalty percentage than it does when lower selling prices are achieved by producers (**<u>i.e.</u>**, producers derive less financial benefit from the exploitation of Indonesia's finite metal mineral resources). This is certainly the argument that MoEMR seemed to be making when he was quoted, in April 2024, as saying that the new PNBP rates are intended to "*balance profitability and fairness*" and:

> "*It's time for the State to claim a more appropriate share*".

The argument that the new PNBP rates are merely intended to "*balance profitability and fairness*" is, however, overly simplistic as it fails to take into account the myriad other tax and non-tax contributions that mining companies make to Indonesia. This argument also fails to take into account the likely negative impact of higher Production Royalties on the perceived attractiveness of the Indonesian metal mineral industry as a destination for future investment – whether investment in metal mineral exploration or investment in existing or new metal mineral production and processing & refining. Indonesia now "enjoys" the dubious distinction of having some of the highest royalty rates in the word for metal minerals and refined metal mineral products. Even if many large mining companies are capable of absorbing the higher PNBP rates, these higher PNBP rates inevitably reduce the **<u>relative</u>** attractiveness of Indonesia as a mining investment destination compared with other countries which have materially lower royalty rates.

The writer would suggest that, regardless of what MoEMR may say about the need to "*balance profitability and fairness*", a much more likely reason for the big increases in PNBP rates, for nickel ore, copper ore and their respective refined products, is the increasingly difficult fiscal position the Government is facing as it tries to "roll-out" its hugely ambitious social welfare programs including, most notably, the universal and free school lunches program which is projected to cost as much as a quite extraordinary (and scarcely believable) US$28 billion over 5 years when it is fully implemented. With (i) a growing budget deficit (projected to reach 2.53% of GDP in 2025 which is below the legal limit for budget deficits of 3% of GDP but still higher than the 2024 budget deficit of 2.29% of GDP), (ii) declining tax revenues (tax collections fell 30% in the first two months of 2025 compared to the same period in 2024) and (iii) little political "room" to reduce costly Government subsidies for basic goods and services (projected to be a huge US$19 billion in 2025) or increase the tax burden of the average Indonesian (who is clearly already suffering from the ongoing cost of living crisis), it might reasonably be surmised that the Government considers it imperative to find additional revenue streams. The Director General of Minerals & Coal seemed to admit as much when he was quoted, in mid-March 2025, as having said:

> "*We don't mean to place a burden on anyone or the [mining] industry and we are still hoping that **<u>the mining industry can sustain and participate more in the welfare and glory of the nation</u>***."

Avoiding any additional financial burden on consumers while, at the same time, enabling the Government to fund its social welfare programs, as well as maintain existing subsidies for basic goods and services, also seemed to be very much what the Minister of Finance had in mind when she was quoted as saying:

> "*We must fund our people's needs without burdening consumers*."

2. Integrated vs Non-integrated Mining and Processing & Refining Operations

2.1 **Incentives for Integrated Mining and Processing & Refining Operations:** For some years now, the Government has sought to encourage "down-streaming" of metal minerals and coal by offering companies, which carry on both mining business activities and processing & refining business activities (or coal development & utilization business activities) in respect of the metal minerals (or coal) they produce (**Integrated Mining Companies**), special incentives. Most notably, Integrated Mining Companies, holding (i) production operation mining business licenses or special production operation mining business licenses (**POIUPs/POIUPKs**) or (ii) special mining business licenses issued as a continuation of contracts of work (**CoWs**) or coal contracts of work (**PKP2Bs** or **CCoWs**) (**Continuation IUPKs**) are entitled to receive, subject to certain conditions, **unlimited** and successive 10-year extensions of their POIUPs/POIUPKs/Continuation IUPKs during the commercial life of their mines. This is to be compared with a maximum of two 10-year extensions of their POIUPs/POIUPKs/Continuation IUPKs that are typically allowed for companies which do **not** carry on both mining business activities and processing & refining business activities (or coal development & utilization business activities) but, rather, only carry on mining business activities (**Non-integrated Mining Companies**). Because of the prospect of unlimited 10-year POIUP/POIUPK/Continuation IUPK extensions, Integrated Mining Companies have, quite understandably, become increasingly common.

Notwithstanding the growing prevalence of Integrated Mining Companies, there continue to be many (i) Non-integrated Mining Companies and (ii) **non-integrated** or standalone **processing & refining companies** which **only** carry out metal mineral processing & refining business activities, typically in reliance upon industrial business permits for processing & refining (**IUIs**) (**Non-integrated Processing & Refining Companies**).

2.2 **Requirements for Integrated Mining Company:** In order to make integrated mining and processing & refining operations (or coal development & utilization operations) more attractive for mining companies, it is **not** necessary for the mining company itself to also be the legal entity which actually carries out the processing & refining business activities (or the coal development & utilization business activities). It is sufficient for a company to qualify as an Integrated Mining Company if the processing & refining business activities (or the coal development & utilization business activities) are carried out by another company in the same corporate group of which the POIUP/POIUPK/Continuation IUPK holder is a part. Where two different companies in the same corporate group respectively carry out mining business activities and processing & refining business activities (or coal development & utilization business activities), the principal requirement is that either (i) the POIUP/POIUPK/ Continuation IUPK holder directly owns at least 30% of the issued shares of the processing & refining company or (ii) the POIUP/POIUPK/Continuation IUPK holder and the processing & refining company have a common beneficial owner which owns at least 30% of the issued shares of each of the POIUP/POIUPK/Continuation IUPK holder and the processing & refining company.

2.3 **Arrangement of Integrated Mining Operations:** In an **integrated** mining operation, the POIUP/POIUPK/Continuation IUPK holder (a) carries out the mineral production and then either (i) carries out its own processing & refining activities or (ii) delivers the resulting mineral ore to another company in the same corporate group which carries out the processing & refining business activities.

Either way, in an **integrated** mining operation there is typically **no** sale of the mineral ore but, rather, the first sale only occurs at the time of the sale of the resulting refined mineral product to third parties.

2.4 **Arrangement of Non-integrated Mining Operations:** In a **non-integrated** or standalone mining operation, the POIUP/POIUPK/Continuation IUPK holder (i) carries out the mineral production and (ii) sells the resulting mineral ore to third parties.

In a **non-integrated** mining operation, the first sale occurs at the time the POIUP/POIUPK/Continuation IUPK holder sells its mineral ore to third parties.

2.5 **Arrangement of Non-integrated Processing & Refining Operations:** In a **non-integrated** or standalone processing & refining operation, the IUI holder (i) buys its required mineral ore input from POIUP/POIUPK/Continuation IUPK holders, (ii) caries out the processing & refining and (iii) sells the resulting refined mineral product to third parties.

In a **non-integrated** processing & refining operation, the first sale occurs at the time the POIUP/POIUPK/Continuation IUPK holder sells its mineral ore to the IUI holder.

2.6 **Production Royalty Implications:** The Production Royalty is payable **once only and at the time of the first sale** of the relevant mineral product. The Production Royalty is **not** payable multiple times and at each sale point in the value chain from initial production of the relevant mineral ore to delivery of the resulting fully processed & refined mineral product.

The issuance of GR 19/2025, with its new PNBP rate scale for Production Royalties, has given rise to considerable confusion, on the part of some mining industry observers, as to whether or not the much-increased PNBP rates, in respect of refined nickel products and refined copper products in particular, apply to IUI holders in the case of **non-integrated** or standalone processing & refining operations.

MoEMR Regulation 9/2025 provides extremely useful guidance as to which party pays the Production Royalty and when in the case of both integrated and non-integrated mining and processing & refining operations.

The Production Royalty is payable by the following license holders in respect of, among other things, metal minerals:

(a) POIUP/POIUPK holders;

(b) Continuation IUPK holders; and

(c) CoW holders (Article 6 of MoEMR Regulation 9/2025).

MoEMR Regulation 9/2025 makes clear that, in the event of a sale of metal minerals, the Production Royalty is imposed on:

(a) **sales of metal minerals in the form of ore**, if the holders of POIUPs/POIUPKs/Continuation IUPKs/CoWs do **not** carry out their own processing & refining operations (**i.e.**, the Production Royalty is payable by **Non-integrated Mining Companies**);

(b) **sales of metal minerals in the form of processed & refined products**, if the holders of POIUPs/POIUPKs/Continuation IUPKs/CoWs do carry out their own processing & refining operations (**i.e.**, the Production Royalty is payable by **Integrated Mining Companies**); or

(c) sales of tin metal products in the form of ingots that are traded on a domestic commodity exchange (Article 7 of MoEMR Regulation 9/2025).

Given the above, **Non-integrated Processing & Refining Companies** which (i) produce various processed & refined metal products in reliance upon IUIs and (ii) do **not** hold any mining licenses (**i.e.**, POIUPs/POIUPKs/Continuation IUPKs/CoWs), are **not** subject to Production Royalty payment obligations at this time.

SUMMARY & CONCLUSIONS

The recent Production Royalty rate increases have been controversial.

The Government may have had little choice but to substantially increase Production Royalty rates in order to help fund its hugely ambitious social welfare programs and given the dearth of other politically acceptable alternatives. However, the Production Royalty rate increases come at a particularly bad time for at least some mining companies. It also suggests a degree of desperation on the part of the Government in deciding that the "best course of action" is to seek to increase revenue collections from an industry already facing serious financial problems. Striking the "right balance" between industry "profitability" on the one hand and national "fairness" on the other hand is an inherently difficult calculation to make. Many industry observers will surely question whether or not the Government has been successful in achieving that "right balance" in the instant case.

It is impossible not to view the Production Royalty rate increases as creating yet another materially negative incentive for new investment in the Indonesian mining industry.

The Production Royalty is only payable by CoW/POIUP/POIUPK/Continuation IUPK holders operating as Integrated Mining Companies or as Non-integrated Mining Companies. The Production Royalty is **not** payable by IUI holders operating as Non-integrated Processing & Refining Companies. Accordingly, Non-integrated Processing & Refining Companies are **not** impacted by the recent increases in Production Royalty rates introduced pursuant to GR19/2025.

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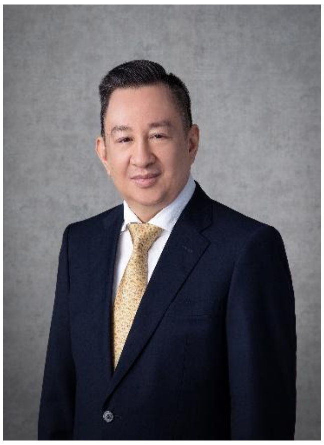
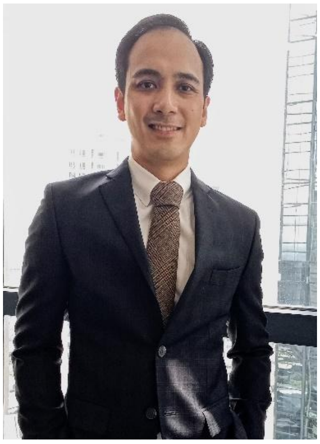
Get in touch





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