# Resources and Energy Services SectorIn Brief

## OVERVIEW

Indonesia is Australia’s second largest Mining Equipment, Technology and Services (METS) market, with exports to Indonesia totalling $1.7billion annually.

* Indonesia is one of the most promising METS markets, alongside Chile and Canada.

Indonesia’s growing middle-class population, coupled with government plans to expand the manufacturing base and provide universal energy access, is driving efforts to secure its resources and energy future.

* This involves Indonesia moving beyond traditional mining, working towards renewable energy targets and realising its electrical vehicle (EV) ambitions.

Australia’s resources and energy services sectors have long had a good reputation in Indonesia for best practice. IA-CEPA provides greater legal certainty and a more favourable regulatory environment for Australian businesses to explore opportunities in:

* contract mining;
* engineering services, environment, social and governance (ESG) cooperation; and
* investment funds, energy consulting services and the energy services market.

## OPPORTUNITIES

Indonesia is moving away from basic production, focusing on new investment in resources and energy infrastructure, efficiency and processing. This will allow Indonesia to modernise, insulate against fluctuating commodity prices, meet environmental targets and drive more exploration of greenfield sites. As part of this process, the government is seeking to recentralise power over mining licences to improve the business environment for foreign investors. The country has also initiated policies on energy efficiency to meet renewable and carbon reduction targets. However, meeting these targets is proving challenging.

## WHERE TO FOCUS

* Contract mining and METS: Australian companies have an excellent reputation providing these services in Indonesia. New government policies on downstream processing, as well as lower commodity prices will drive demand for a wider range of services to boost productivity, improve safety, and facilitate processing.
* Environment, social and governance: Indonesian mining companies are facing pressure to improve ESG standards to increase access to capital. Australian companies and institutions are well placed to help by sharing experience and standards.
* Cooperative investment: Improved or harmonised ESG standards will increase the prospect of bilateral investment cooperation, potentially involving Australian superannuation funds.
* Energy efficiency: Indonesia is developing policy to implement its energy efficiency rule. Innovative finance mechanisms are of increasing interest, for example energy services companies funding efficiency measures via savings.

##  WHAT IA-CEPA OFFERS

IA-CEPA offers Australian investors greater legal certainty and a more favourable regulatory environment in which to do business. This includes:

* Enhanced safeguards and new Investor-State Dispute Settlement (ISDS) procedures;
* Commitment to METS investors to retain a controlling stake in their investments;
* Permits ownership of up to 67% of contract mining and mine site preparation;
	+ Ownership limits range from 51 to 95% in the energy sector; and
* Providing access to priority economic cooperation sectors e.g., electric vehicles and batteries.

## CHALLENGES

Australian companies should take a long-term approach to Indonesia’s resources sector as the country deals with decoupling economic growth from carbon emissions.

* Australian companies have the option of working with state-owned enterprises (SOE) for stable growth in the longer term or private companies in the short/medium term.
* Securing suitably skilled staff is a difficult task when the booming information technology sector is often seen as a more attractive destination for new graduates.
* Decentralisation of government is a challenge for resources companies operating from Jakarta as regional regulatory frameworks may not be in place.

## HOW TO ENTER THE SECTOR

The shift towards a more sophisticated resources and energy sector means Australian companies may wish to build long term relationships beyond their commercial partners, e.g., with universities.

* Australian companies that provide accreditation and training systems recognised by Indonesian employers will also benefit.

## CASE STUDY

### EMR Capital

EMR Capital is a specialist resources private equity manager which has made Indonesia one of its target markets partly due to the exceptional geology.

The fund acquired the Martabe gold mine in North Sumatra in 2016 and successfully exited two years later. They increased their earnings from US$240 million to US$375 million, boosting the local economy by sourcing three-quarters of the 2,500 staff from nearby communities.

EMR Co-Founder Jason Chang says the fund’s success reflects deep market understanding and long-term commitment. Chang notes, “there are no short-cuts for investing in Indonesia. Funds need to invest in their Indonesia expertise and start building connections in the market.”