Indonesian coal DMO model is becoming harder to sustain as global markets shift

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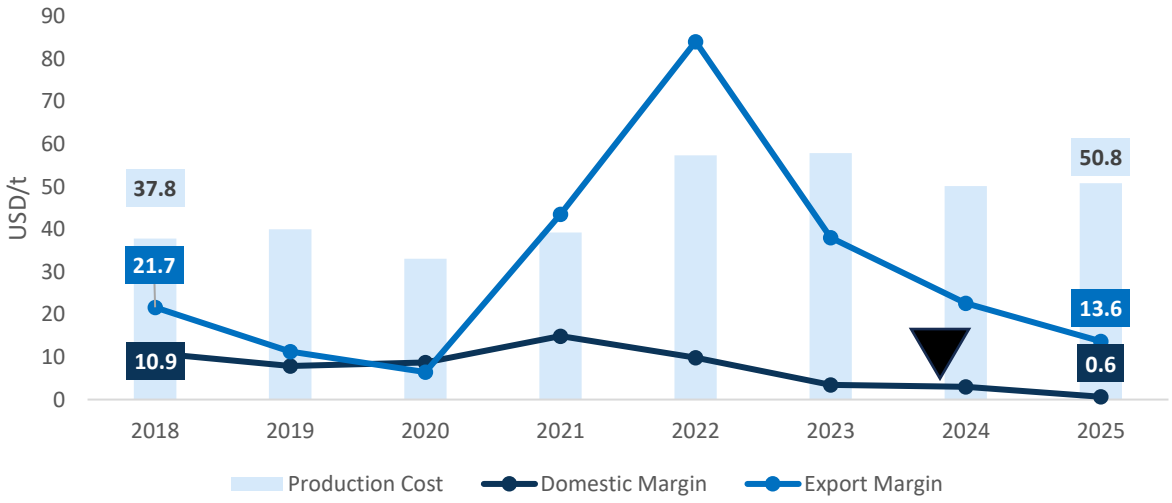
Key Takeaways

- **Indonesian coal mining firms face growing pressure on profitability as domestic margins fall to USD0.6 per tonne.** Across 11 selected firms, the median domestic margin fell from USD10.9/t in 2018 to just USD0.6/t in 2025. Elevated production costs are squeezing the profitability of domestic sales, where a USD70/t price cap on electricity generation has remained unchanged since 2018.
- **The country can no longer rely on export profits to sustain cheap domestic coal domestically.** The median export margin across the same 11 firms declined from USD21.7/t in 2018 to USD13.6/t in 2025. Slowing coal imports from key buyers, particularly China and India, could further weaken export profitability, eroding the financial buffer that has historically supported lower-margin domestic coal sales.
- **Raising coal price would shift the financial burden, not solve the underlying problem.** A higher DMO price cap could improve mining firms' margins but would also increase coal procurement costs for state utility PLN, potentially adding to the government's subsidy and compensation burden.
- **Indonesia's DMO pricing model is becoming unsustainable and needs more than a coal price hike.** A broader reassessment of the regulatory framework is needed to address growing financial pressures on coal mining firms, PLN and the government while ensuring reliable domestic supply.

Coal industry's call to raise DMO price cap

Indonesian coal power was never as cheap as it looked. It was made affordable through a regulatory pricing model that is becoming increasingly difficult to sustain amid a changing global market. The Domestic Market Obligation (DMO) framework has helped support coal power expansion and domestic supply security. However, weakening export profitability and elevated production costs are exposing growing tensions between maintaining affordable electricity and ensuring a commercially viable coal supply.

Figure 1. Median Production Costs, Domestic and Export Margins of 11 Coal Producers (USD/t)



Sources: Company presentations; annual reports; financial statements; ESI analysis
Note: Export/domestic margin = realised export/domestic average selling price (ASP) – production cost. Figure 2 presents details of 11 selected coal mining companies.

The DMO requires coal mining firms to allocate at least a quarter of their output to the domestic market. It subjects these firms to a price cap of USD70 per tonne of coal when selling to electricity providers and USD90/t for designated industries, exempting metal mineral processing and refining. For state-owned electricity utility PT Perusahaan Listrik Negara (Persero) (PLN), the cap is an estimated USD44-USD58/t.

Eight years after the introduction of DMO pricing, Indonesian coal mining associations in June 2026 called on the government to raise the DMO coal price cap for electricity generation from USD70 to USD80-USD90. The Energy Shift Institute assesses the sustainability of the DMO framework from the perspective of a coal producer's profitability by examining a sample of 11 coal mining firms.

In its analysis, Energy Shift finds that rising production costs and unchanged DMO price caps are squeezing coal mining firms' domestic margins. Across the 11 companies, median production costs rose from USD37.8/t in 2018 to USD50.8/t in 2025, while median domestic margins plunged from USD10.9/t to just USD0.6/t. Despite average international coal prices hovering at USD107/t in both years, export margins also narrowed from USD21.7/t to USD13.6/t (Figure 1).

The industry's June 2026 proposal to raise the USD70/t price cap highlights tension within the DMO pricing framework, as regulated coal prices help keep electricity affordable but increasingly constrain coal producers' profitability amid changing market conditions.

Two developments contribute to this pressure:

- **Higher production costs are squeezing domestic margins.** For as long as the domestic coal prices do not budge under regulation, higher production costs will place immediate pressure on producers' profitability.
- **Weaker export profitability threatens the DMO in the longer term.** Structural changes in Indonesia's major export markets could further erode the financial buffer that has historically supported lower returns from domestic sales.

These developments highlight a growing mismatch between the DMO pricing framework and the evolving economics of Indonesia's coal industry.

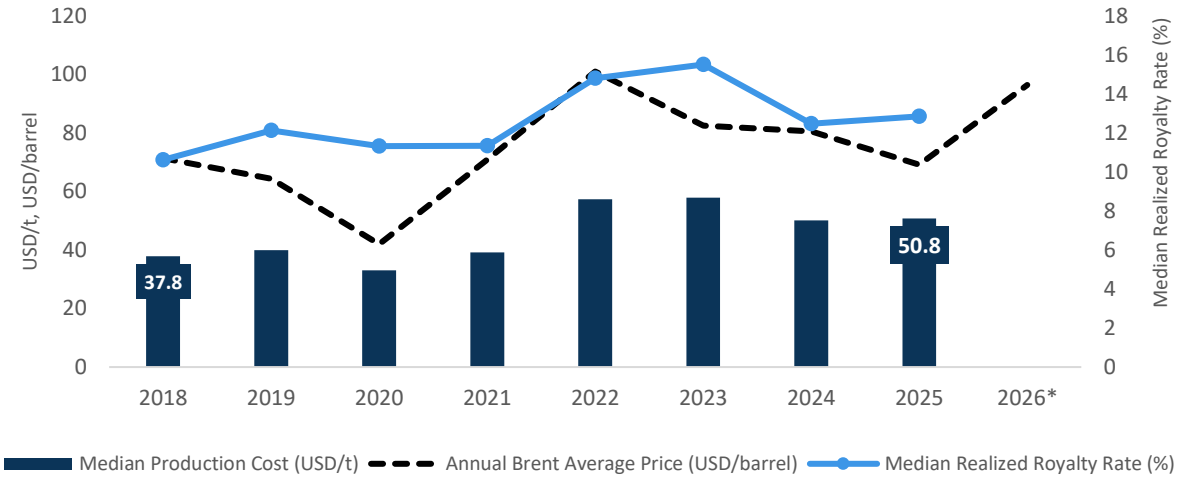
Elevated production costs are squeezing domestic margins

Across the 11 selected Indonesian coal mining companies, median production costs increased from USD37.8/t in 2018 to USD50.8/t in 2025 (Figure 2). Contributing factors included higher fuel prices and changes to the country's coal royalty regime.

Over this period, production costs declined in 2020 amid lower fuel prices during the pandemic, then rose sharply through 2022 and remained elevated in 2023, coinciding with higher fuel prices and coal royalty changes introduced in 2022. Although costs later moderated, they stayed above pre-pandemic levels in 2025, when the government introduced more royalty adjustments.

Herein lies a structural limitation of the DMO pricing framework. Unlike export prices, regulated domestic coal prices do not adjust automatically to changes in production costs. What adjusts is the profit margin, which becomes narrower and narrower.

Figure 2. Median Production Cost (USD/t) and Royalty Rate (%) of 11 Coal Producers and Brent Annual Average Price (USD/barrel)



Sources: Companies' financial statements; Macrotrends
*Note: Realised royalty rate = royalty cost/average selling price. The 11 firms are PT Adaro Andalan Indonesia Tbk, PT Bayan Resources Tbk, PT Bukit Asam (Persero) Tbk, PT Indo Tambangraya Megah Tbk, PT Indika Energy Tbk, PT Harum Energy Tbk, PT Baramulti Suksessarana Tbk, PT Golden Energy Mines Tbk, PT Prima Andalan Tbk, PT Golden Eagle Energy Tbk and PT Mitrabara Adiperdana Tbk. These companies covered 42% of Indonesia's total coal production in FY2025. *2026 figure for the annual brent average price is as of 11 November 2026.*

The financial impact of elevated production costs also varies considerably across producers depending on their cost structures. Generally, mining firms with higher stripping ratios, longer hauling distances, greater fuel usage or less integrated logistics infrastructure pay more operating costs. These differences mean that producers can earn substantially different margins even when selling coal under the same regulated pricing mechanism.

The DMO pricing framework does not fully accommodate these differences in production costs. While DMO price caps are adjusted for coal quality, they do not directly reflect variations in production or delivery costs. A regulated selling price that remains commercially viable for a lower-cost producer may therefore offer little or no margin to a higher-cost producer.

This growing mismatch between regulated domestic coal prices and production costs helps explain the coal industry's call in June 2026 for a higher DMO price cap.

However, rising production costs are only part of the challenge.

Weaker export profitability threatens DMO sustainability in the longer term

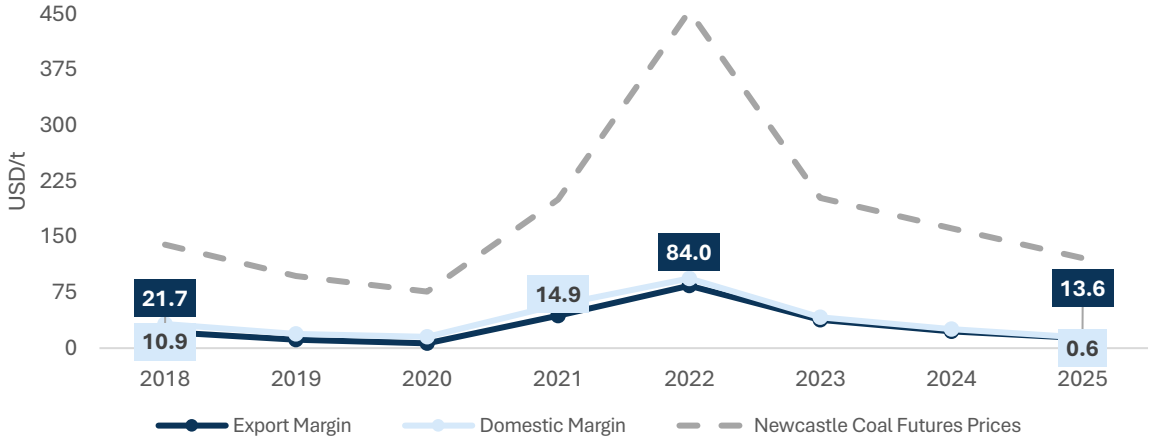
Indonesia's DMO depends on profitable coal exports to remain commercially viable for producers. Higher margins from export sales help coal producers offset lower returns from regulated domestic supply, allowing them to fulfil DMO obligations while still being profitable overall.

Indonesia's DMO depends on profitable coal exports to remain commercially viable for producers

For the government, this framework enables PLN to procure coal at regulated prices, protecting electricity consumers and the state budget from higher fuel costs. While domestic electricity remains affordable, the government can benefit from substantial royalty and tax revenues through the export earnings.

However, the financial conditions supporting this arrangement have weakened since the global coal-price boom in 2022.

Figure 3. Median of Export and Domestic Margins (USD/t) from 11 Coal Producers and Newcastle Coal Future Prices (USD/t)



Sources: Company presentations; annual reports; financial statements; investing.com; ESI analysis
Note: Export/domestic margin = realised average selling price (ASP) – production cost. The realised domestic ASP is a composite of regulated and non-regulated prices.

The financial buffer provided by higher export margins has eroded since 2022, giving producers considerably less financial flexibility to absorb lower returns from DMO sales

Across the 11 selected producers, median export margins increased from USD21.7/t in 2018 to a peak of USD84.0/t in 2022, then dropped sharply to USD13.6/t in 2025. Meanwhile, median domestic margins fell from a peak of USD14.9/t in 2021 to just USD0.6/t in 2025, below the USD10.9/t recorded in 2018 (Figure 3).

The coal price movements generally reflect the historical trend of export margins exceeding domestic margins, except in 2020 when the COVID-19 pandemic weakened international coal markets.

However, the financial buffer provided by higher export margins has been eroding since 2022, as international coal prices declined from their crisis-driven peaks amid ample supply and softer import demand, particularly from China. Indonesian regulators' export proceeds retention requirements (DHE SDA) could further constrain liquidity and working capital flexibility, adding pressure on mining operations.

With domestic margins also narrowing to almost zero in 2025, producers have considerably less room to absorb lower returns from DMO sales.

Changes in key export markets add risk

China and India, the two major coal export destinations of Indonesia, are reducing their reliance on imported coal through higher domestic output, inventory management, fuel switching and renewable energy expansion. Both countries are also becoming more selective. Their preference for coal imports of better quality is affecting demand for Indonesian coal.

These developments suggest that weaker export demand may not be merely a temporary consequence of cyclical coal-price movements. Rather, they reflect longer-term changes in the markets on which Indonesia's coal industry has traditionally depended.

The concern is not only about domestic coal production becoming more expensive, but also that export earnings, which have historically helped sustain the DMO framework, may become less reliable

If these trends persist, Indonesian producers could face sustained pressure on export volumes, prices and profitability. They would be less able to absorb the lower margins from regulated domestic coal sales even if production costs stabilise.

The concern is therefore not only about domestic coal production becoming more expensive, but also that export earnings, which have historically helped sustain the DMO framework, may become less reliable.

This exposes a broader structural vulnerability. The DMO pricing mechanism relies on stronger export earnings to support lower-priced domestic sales. It becomes increasingly difficult for producers to sustain when export profitability weakens and production costs remain elevated.

A framework that relies on stronger export earnings to support lower-priced domestic sales is difficult to sustain when export profitability weakens amid elevated production costs

Changes on the coal import side are market forces beyond Indonesia's control. They strengthen the economic case for reviewing the DMO coal price cap. Higher regulated domestic prices could improve producers' margins and give them incentives to maintain domestic supply, particularly where their costs are higher.

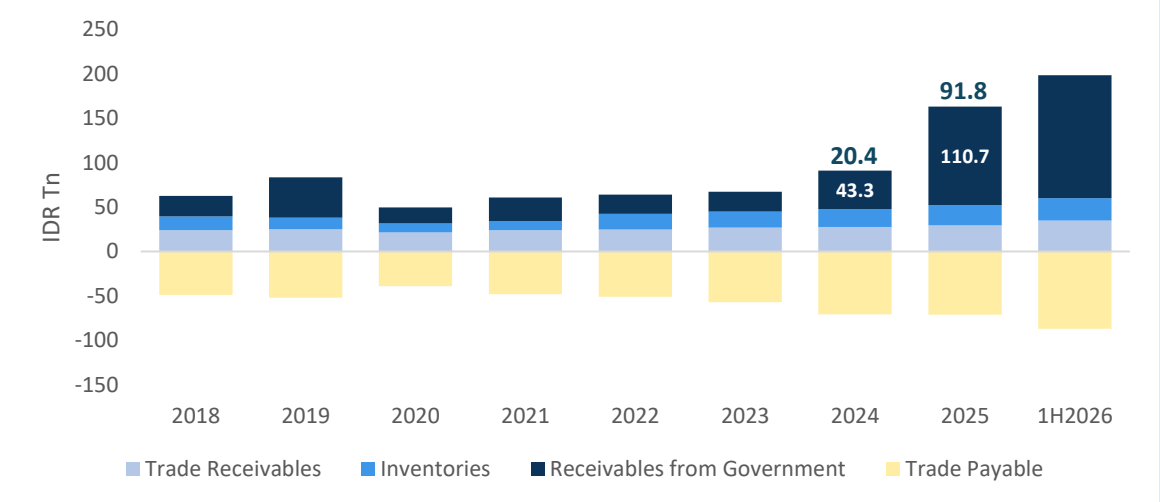
Downside: Financial pressure shifts to PLN and government

Raising DMO coal price would intensify PLN's working capital pressures

The narrowing profitability of domestic coal sales may be checked by raising the regulated price cap of USD70/t to USD80-USD90/t, as coal mining associations have said.

However, a higher DMO coal price would not eliminate the underlying financial burden. It would largely redistribute that burden from coal producers to PLN, electricity consumers or the government through PLN's higher coal procurement costs and, consequently, its cost of electricity. The question is whether Indonesia's electricity sector and public finances can accommodate higher domestic coal prices.

Figure 4. PLN Working Capital Requirement (IDR Tn)



Sources: PLN financial statements; ESI analysis
Note: Working capital requirement is calculated using this formula: (trade receivables + inventories + receivables from government) – trade payable.

If tariffs remain unchanged, a higher DMO coal price would directly increase PLN's operating expenditure and funding requirements. Liquidity pressures at the state utility are already high: Its working capital requirement rose sharply from IDR20.4 trillion in 2024 to IDR91.8 trillion in 2025 (Figure 4), raising its reliance on timely government support or additional financing.

The increase in working capital requirements was driven primarily by a sharp rise in receivables from the government, from about IDR43.3 trillion in 2024 to IDR110.7 trillion in 2025.

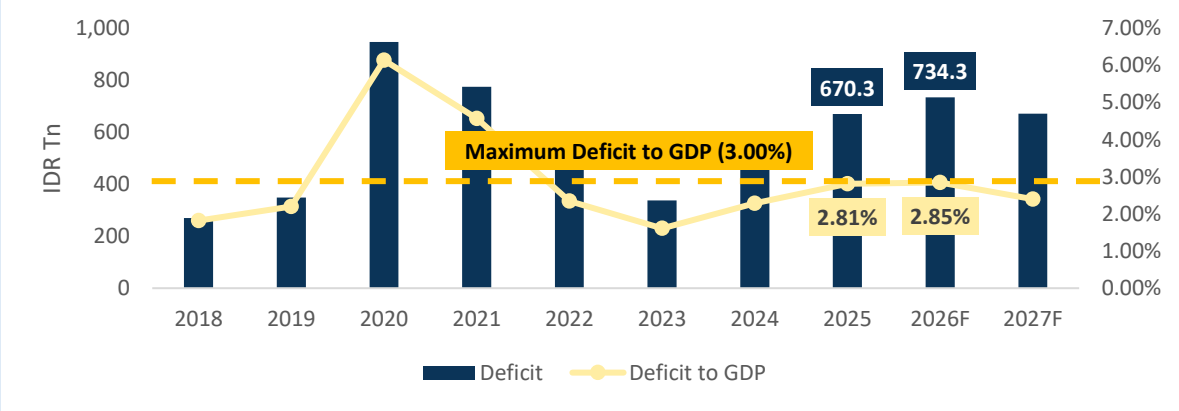
This primarily reflects delays in government compensation payments, alongside higher subsidy receivables and outstanding payments related to an electricity discount programme. As government compensation can be paid in stages, PLN may need to fall back on trade payables or short-term borrowings to bridge the funding gaps, which increases financing costs and further strains its financial position.

Limited fiscal headroom could constrain government's ability to absorb higher coal costs

The more pressure PLN faces on its financial position, the greater the pressure on the government's fiscal position eventually. Already, the government's fiscal position is increasingly constraining its ability to subsidise or compensate PLN.

The budget deficit widened to IDR670.3 trillion, equivalent to 2.81% of GDP, in 2025 and is projected to reach IDR734.3 trillion, or 2.85% of GDP, in 2026 (Figure 5).

Figure 5. Indonesian Budget Deficit (IDR Tn) and Deficit-to-GDP Ratio (%)



Sources: Indonesia's Ministry of Finance, Law of the Republic of Indonesia 17/2003 on State Finance; ESI analysis

Although these deficit levels remain within Indonesia's statutory ceiling of 3% of GDP, **their proximity to the limit leaves the government with less fiscal flexibility to accommodate more expenditure without reallocating spending, increasing revenue or making other adjustments.**

Given the limited budgetary headroom, raising the DMO price cap could increase fiscal pressure if electricity tariffs remain unchanged and require more government subsidies or compensation. If this support is not forthcoming, PLN would have to absorb the higher costs, further weakening its financial position. The alternative is to pass these costs to consumers, making electricity less affordable.

The government therefore faces a difficult trade-off between improving coal producers' profitability, maintaining affordable electricity and containing fiscal expenditure.

Therefore, a higher DMO price cap could relieve financial pressure on coal producers, but at the same time shift part of that burden to PLN and the government, both of which are under increasing financial constraints.

Why raising DMO coal price may not be enough

Beyond raising prices, the debate extends to whether the current pricing system reflects differences in coal producers' operating conditions.

Industry stakeholders have proposed a more flexible pricing mechanism that considers mine size, coal quality and transport distance, alongside allowing smaller producers to fulfil DMO obligations by cash when direct deliveries are unviable economically.

The industry's proposal reflects differences in producers' operating costs and ability to offset lower domestic margins with export earnings

This proposal reflects differences in producers' operating costs and ability to offset lower domestic margins with export earnings. PT Bukit Asam (Persero) Tbk and PT Bayan Resources Tbk illustrate how these differences translate into varying financial pressures.

Between 2018 and 2025, Bukit Asam drew an average 57% of its total sales volume from domestic coal sales, compared with just 19% for Bayan. Bukit Asam therefore had significantly greater exposure to regulated domestic prices, while Bayan relied more on export markets.

Their production costs also followed different trajectories. Bukit Asam's costs increased from USD37/t in 2018 to USD51/t in 2025, while Bayan maintained relatively stable costs of around USD33/t. These differences could be partly attributed to mine characteristics, stripping ratios, logistics and operational efficiency (Table 1).

Table 1. Comparison of Bukit Asam and Bayan, 2018-2025

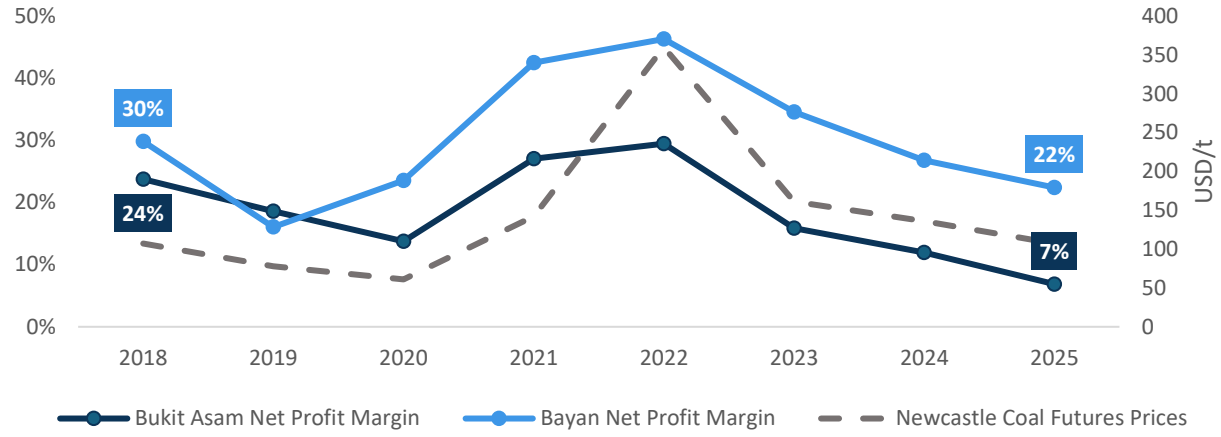
Parameters	Bukit Asam	Bayan Resources
Average domestic sales share (2018–2025)	57%	19%
Production Cost		
2018 (USD/t)	37	33
2025 (USD/t)	51	33
Net Profit Margin		
2018 (%)	24%	30%
2025 (%)	7%	22%

Sources: Company presentations; annual reports; financial statements; ESI analysis

Declining coal prices following the 2022 boom eroded profitability at both companies. However, Bukit Asam was more affected than Bayan. **Bukit Asam's rising production costs and greater exposure to regulated domestic prices limited its financial flexibility, while Bayan's relatively stable production costs helped cushion the impact of weakening export prices.**

Between 2018 and 2025, Bukti Asam's net profit margin fell from 24% to 7%, a bigger drop than Bayan's slide from 30% to 22%, despite the coal price benchmark being broadly similar at around USD107/t in both 2018 and 2025 (Figure 6). This comparison illustrates how producers' financial resilience under the same DMO framework depends on their cost competitiveness and exposure to regulated domestic sales.

Figure 6. Bukit Asam and Bayan Net Profit Margin (%) and Newcastle Coal Futures Prices (USD/t)



Sources: Company presentations; annual reports; financial statements; investing.com; ESI analysis

The policy challenge therefore goes beyond raising the USD70/t DMO price cap. A higher cap could improve mining firms' margins but increase PLN's procurement costs without resolving differences in their operating conditions.

If the mechanism were made more flexible, it could better account for production costs and logistics while balancing producers' financial viability with PLN's need for affordable and reliable coal supply.

Conclusion: The DMO challenge extends beyond raising coal price

By seeking a higher DMO price cap, the Indonesian coal industry is drawing attention to its financial strain. Persistently elevated production costs have squeezed margins on regulated domestic sales, while declining export profitability has reduced the buffer that used to help producers absorb lower domestic returns.

These pressures could become more pronounced as China and India, Indonesia's major coal export markets, pursue measures to reduce their reliance on imported coal. If export demand and profitability continue to weaken, producers could find it even more difficult to sustain a commercially viable domestic coal supply, particularly those with higher production costs.

However, raising the DMO price cap tackles only part of the problem. While higher regulated prices could improve producers' margins, they would also increase PLN's coal procurement costs, potentially affecting electricity tariffs, government subsidies and compensation.

The DMO debate should no longer be framed solely as a question of whether to raise the coal price cap. The larger issue is whether Indonesia can continue relying on regulated coal prices to maintain electricity affordability while ensuring a commercially viable domestic supply and containing financial risks to PLN and the government

This trade-off is becoming more difficult to manage. PLN's rising working capital requirements indicate growing liquidity pressures, while Indonesia's constrained fiscal position limits the government's flexibility to absorb additional electricity costs.

The DMO debate should therefore no longer be framed solely as a question of whether or not to raise the coal price cap. The larger issue is whether Indonesia can continue relying on regulated coal prices to maintain electricity affordability while ensuring a commercially viable domestic supply and containing financial risks to PLN and the government.

The debate needs to consider how to balance these competing goals, particularly as production costs remain elevated and the outlook for coal export earnings becomes increasingly uncertain. A more comprehensive review of the DMO pricing framework is necessary.

Ultimately, raising the domestic coal price cap may provide short-term relief to coal producers, but it merely shifts the burden from one party to another. The wider financial dependencies within the electricity system, and the underlying vulnerability of Indonesia's DMO framework, remain unresolved.

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