OPINION

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# MINING PRODUCTION QUOTAS 2026:
## MARKET DISCIPLINE AND THE TEST OF REGULATORY CERTAINTY

*"This opinion is intended as a policy analysis, rather than a review of technical regulations."*

The determination of mining production quotas for 2026 through the approval of the Work Plan and Budget (RKAB) marks an important phase in Indonesia's natural resources governance. With coal production targeted at approximately 600 million tons, down significantly from the nearly 790 million tons realized in 2025, alongside nickel ore production capped at around 260–270 million tons, the government has clearly signaled its intention to correct oversupply conditions and support global price stability. Market responses indicate that this policy goes beyond a technical adjustment and carries broader structural implications for the sustainability of the mining industry.

As one of the world's largest coal producers and exporters, Indonesia occupies a complex position. On the one hand, unchecked production growth

risks exerting downward pressure on global prices and eroding the long-term economic value of mineral resources. On the other hand, coal mining remains a key pillar of state revenue, employment, and regional fiscal resilience. Consequently, production quotas should be viewed not merely as a market control mechanism, but as a governance instrument with direct implications for business stability and regional economic continuity.

## Business Planning Certainty amid Production Adjustments

Concerns raised by industry associations reflect tangible challenges in medium- to long-term business planning. Many mining companies have aligned operational strategies, offtake contracts, and financing structures based on multi-year RKAB approvals. When quota adjustments are introduced mid-cycle, companies face increasingly limited room to adapt.

The coal industry is characterized by a high proportion of fixed costs. Reclamation and post-mining obligations, mining services contracts, heavy equipment financing, and debt servicing do not decline proportionally with reduced production volumes. In certain cases, quota reductions can push unit costs to uneconomic levels, thereby testing overall business viability.

For companies bound by long-term export contracts, misalignment between approved quotas and contractual obligations introduces legal and commercial risks. Potential defaults and force majeure claims are no longer theoretical considerations, but operational risks that must be actively managed within corporate risk and compliance frameworks.

## Implications for Investment and Regional Economies

Reduced production quotas also have broader implications for the investment climate and regional economies. Coal has long served as a fiscal backbone for many producing regions in Kalimantan and Sumatra, through tax revenues, non-tax state revenues, and multiplier effects on local economic activity. Production uncertainty may affect employment absorption, regional income flows, and investor confidence in the stability of mining sector policies.

In this context, industry concerns regarding workforce reductions and business continuity should be interpreted as signals for the need for a measured transition approach. Effective quota policies are not defined solely by numerical targets, but by how adjustments are implemented without creating excessive operational or socio-economic disruptions.

## Fiscal Dimensions and Corporate Cash Flow

From a fiscal perspective, production constraints generate layered implications. While the government aims to preserve commodity prices and optimize revenue per unit, reduced volumes may influence aggregate tax and non-tax revenues. For mining companies, quota adjustments have a direct impact on cash flow projections and their ability to meet fiscal obligations.

The prospect of increasing the Domestic Market Obligation (DMO) to above 30 percent of total coal production adds further financial complexity. Given that domestic coal prices are generally lower than export prices, a higher DMO ratio may compress margins and shift liquidity risks onto producers. The impact extends beyond financial statements to encompass tax compliance strategies and overall risk management.

Beyond altering sales composition and export volumes, the policy has direct implications for corporate cash flow and financial resilience. Sudden regulatory changes may weaken business predictability, especially for companies whose investment plans, offtake contracts and compliance strategies were developed under previous policy frameworks.

## Government Position and Implementation Challenges

The government maintains that production controls are necessary to correct oversupply and stabilize global prices following periods of market weakness in coal and nickel. Energy and Mineral Resources Minister Bahlil Lahadalia have emphasized that Indonesia's dominant role in global commodity markets means that uncontrolled production could distort prices. In the coal sector, the government has indicated that quota adjustments should domestically demand, particularly from the state-owned electricity utility PLN, increase, while simultaneously considering tighter DMO requirements.

From a public policy standpoint, this approach reflects an effort to balance global market considerations with domestic energy needs. The key challenge lies in implementation. Policy changes introduced during ongoing business planning cycles demand greater transparency and consistent communication to enable companies to adjust without jeopardizing operational stability.

## Regulatory Certainty as a Governance Pillar

In the broader discourse on sustainability and ESG implementation, regulatory certainty remains a fundamental prerequisite for sound governance. Mining companies are expected to meet increasingly stringent environmental, social, and governance standards, while operating within a policy framework that continues to evolve. In the absence of adequate certainty, significant resources are diverted toward compliance adjustments rather than operational efficiency and medium-term fiscal contribution.

Structured dialogue among government authorities, industry players, financial institutions, and regional governments is therefore essential. Quota policies supported by clear criteria, inclusive processes, and realistic transition periods are more likely to strike a balance between market discipline and long-term business sustainability.

## Conclusion

The 2026 mining production quotas reflect the government's effort to strengthen governance in the extractive sector. Their effectiveness, however, will depend heavily on regulatory certainty and consistency in implementation. For the coal industry, the challenge lies in adapting without eroding business resilience. For policymakers, the task is to ensure that macro-level objectives translate into policies that remain implementable at the operational level.

Ultimately, regulatory certainty is not merely an industry concern, but a cornerstone of sound governance, investment stability, and sustainable fiscal contributions to the national economy.