

The changing role of the Indonesian State Tin Mining Corporation

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The Republic of Indonesia's State Mining Companies were established by Article 33 of the nation's 1945 Constitution, which stated:

"That land and water and the natural wealth contained therein shall be controlled by the state and used for the maximum prosperity of the people."

In the 1950's, the Indonesian government established three State Mining Companies from nationalized Dutch firms, each designated for development of a specific mineral -- tin, coal and other metal minerals. (an additional state coal mining firm has been recently established to develop the South Sumatra Coal Project).

PT Timah, the State Tin Mining Company, controls the single metal that has been historically produced in Indonesia without interruption.

The tin industry has been a source of foreign exchange since its beginning, more than 150 years ago.

The role of Indonesia's tin industry has changed throughout its history. During colonial days, it was merely a source of foreign exchange, although one of powerful authority. The industry again played an important social and economic role from 1950 through 1965. In the decade from 1970 through 1980, when petrodollars flooded the country, the tin industry's economic role was diminished, although it retained its historical social importance.

The international tin crisis in 1985 resulted in the industry's having to struggle for its survival. Recovery cannot depend on government subsidies, as the Indonesian economy was hard hit by the concurrent worldwide drop in oil prices. Consequently, tin producers are under great pressure to institute structural changes in the industry.

The need for structural change

Mining industries characteristically use

extensive amounts of undeveloped land in remote parts of a country. Therefore, it is impossible to insulate them from national social and political realities.

While under Dutch control, the Indonesian tin industry was merely an economic tool for colonial exploitation. While ownership has changed, structurally, the industry is substantially the same as it was before independence.

Dutch colonial management had invested only minimally in facilities and equipment. From 1965 through 1975, extensive rehabilitation programs upgraded equipment and facilities. However, few structural changes were imposed on the industry. Pressure for those changes came with the beginning of tin price instability in 1979.

PT Timah's success in restructuring will depend on its ability to introduce productive solutions that will accommodate both the economic requirements of the industry and the role of a State Mining Corporation. The Corporation has devised the following strategies for entering a new and different tin market of the future:

Off-shore orientation

The 1985 tin crisis, it is believed, is the beginning of a new era for tin, in which market forces will be more decisive than artificial price support mechanisms. Tin producers will be able to survive only if they can lower their production costs per ton. The tin producer who depends on on-land deposits mined by hydraulic systems will not be able to implement significant cost-reduction measures; development efforts now have shifted to off-shore deposits that offer lower costs and bigger yardage capacity.

From 1965 through 1975, PT Timah launched large off-shore exploration campaigns. The most significant result of that effort was the discovery of extensive tin deposits around the islands of Bangka and Kundur. The success of off-shore exploration confirmed to PT

Timah management that the future of the Indonesian tin industry was in the sea, and the company invested in larger sea dredges with deeper digging capabilities.

The present land-based Indonesian tin industry should be systematically converted into an off-shore oriented mining industry. This policy will bring about the structural change required for its survival, and will have significant social and employment consequences.

Employment policy

Before the 1985 crisis, PT Timah employed 29 000 persons. Production capacity was 30 kt/year, with a market price of 12.5 kUSD/t. Where the current price is less than half that (6 kUSD/t), rationally, the company should have instituted layoffs,

Shifting operations off-shore will require higher-skilled personnel, more sophisticated technology, and fewer on-land activities and facilities. The number of employees required for at-sea tin extraction will be fewer; unemployment is a certain consequence.

The fall of oil prices has been detrimental to Indonesian economic growth. The projected goal of 9.3 million workers to be employed by industries during the Fourth National Five Year Plan (1983-1988) will be difficult to achieve. Employment, therefore, has become a top priority in discussions of national economic and social policy.

PT Timah's management, recognizing both its function as a State Mining Company and its current position, has concluded that, although there are strong demands for streamlining, a redundancy program will not solve its central problems.

Tin mining operations are located on the small islands of Bangka, Belitung, Singkep and several others. The closed communities on those islands have been, directly or indirectly, the Company's dependants for 150 years, and unemployment would pose serious problems of so-

cial and political instability. Yet, a non-redundancy policy will impose "social employment" on PT Timah, which it would not be able to afford over a long period.

The company has offered a voluntary early pension program as a short-term solution to over-staffing. The program has proved popular among the workers, and has saved some personnel costs. A longer-term solution will be required, however.

"The segregation program"

PT Timah is an integrated mining company. Its scope includes the vertical activities of exploration, mining, mineral treatment, tin smelting, and the sale of tin metal. All these activities are carried out under a single management.

Horizontally, PT Timah is a self-sufficient company running its own service facilities, including dredge dockyards, power stations, oxygen plants, workshops, sea and land transports, a telecommunication network, foundries, saw mills and a rubber mill. The company also runs hospitals, mess halls and schools for its personnel, and is the public supply of electricity and clean water. These operations preceded well developed government and private industry resources in Indonesia that would be capable of providing for public needs; they now are recognized to be an unnecessary burden on the company.

Management is streamlining the company by implementing what is known as the "Segregation Program," in which service activities will be separated from PT Timah's main vertical activities. Mining of on-land deposits may be appropriately part of this effort.

To implement the Program, PT Timah invited private sector and state-owned industries as well as co-operative movements to participate in the tin industry. It is hoped that their participation will lead to improved overall efficiency.

Although the Segregation Program is

meant to streamline operations, PT Timah is still held responsible for avoiding unemployment from its implementation. Therefore, it is required that the Program open alternative sources of employment for PT Timah personnel. It is expected that participating parties to the Program will not object to this requirement, as PT Timah personnel are well qualified and highly skilled.

The diversification programs

Diversification programs, initiated by PT Timah long before the tin crisis, are now being given higher priority. These programs are designed to develop tin-related mineral resources, as well as downstream tin industries such as tin plate and tin chemicals. Diversification programs have several objectives:

- creating alternative employment
- pioneering development of natural resource industries within the scope of PT Timah's expertise (such as mining, mineral processing and metallurgy)
- attaining economic gains.

These programs, as well as the Segregation Program, are open for possible private sector participation.

Financial position

State-owned companies in Indonesia fall into the following three categories:

- Perjan, a Government Agency, whose function is public service through, for instance, a railway company. Its activities are financed through the state budget.
- Perum, a Public Corporation, is a profit-making public service entity. Examples in this category are telecommunication and electricity companies.

- Persero, a state-owned public company, is profit-oriented, with all shares owned by the state. A Persero is designed to be financially self-sufficient. As a Persero, PT Timah has three financial obligations to the state:
- payment of taxes and duties, as private companies must
- payment of shareholder dividends on profits
- payment of royalties

In addition, company expenses for social purposes (such as for hospitals, schools, electricity, water and roads) are inevitable; the public utilizes these services at PT Timah's expense.

These financial obligations never have posed a problem for PT Timah. However, during a time of crisis, would a Persero like PT Timah receive government financial assistance that a private company would not? With all its social and employment obligations, how would a mining Persero survive? No answer to these questions is forthcoming.

The tin crisis has not put PT Timah in such a poor economic condition that it would require relief from its financial obligations to the state. However, the government has permitted the firm to pay taxes and royalties by installment, as is allowed for private companies in similar circumstances.

Short-term cost reduction programs implemented as part of the financial rescue operation have yielded the greatest result. Production costs have been reduced as much as 30% through cost avoidance measures during the last part of 1985 through 1986. Employees have not objected to the austerity-based reduction in several personnel programs, primarily because PT Timah's benefits have historically been the best of all Indonesia's state-owned companies. In addition, since it was nationalized in

1958, the company has guaranteed lifetime employment to its workers.

Although short-term cost reduction programs have improved PT Timah's financial condition during the tin crisis, its future will depend on the success of the restructuring effort.

International market fluctuations have changed the position of the Indonesian solid mineral industry; yet, the economic importance of state mining corporations in mineral resource development is not expected to diminish. These corporations have been intimately involved in all aspects of national industrial development; the future of the state mining industry will depend on the ability of corporate management to restructure without disrupting those interactions. The state of the Indonesian mineral industry requires managers with a deep understanding not only of the future minerals market, but also of the goals of the national development effort.