

NEWSLETTER

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INDONESIA'S INTERNATIONAL CARBON TRADING UNVEILED

An Overview

Indonesia's carbon market is poised to achieve a new milestone with the inauguration of its first international carbon trading on January 20, 2025, through the Indonesia's Carbon Exchange (**IDXCarbon**). Since the issuance of PR 98/2021 as the main umbrella law for carbon trading, there has been ongoing debate about whether international carbon trading would be allowed immediately or require the achievement of Indonesia's NDC target first. The upcoming launch of international carbon trading by **IDXCarbon** signals Indonesia's readiness to embrace the global carbon market.

Approximately 2.48 million carbon units will be traded internationally during this landmark event, which are derived from five strategic energy projects. This development is expected to strengthen the Indonesian carbon market, enhance international investor engagement, and spur the growth of emission reduction projects nationwide.

Background

According to Presidential Regulation No. 98 of 2021 on Carbon Pricing for Achieving NDC Target and Controlling GHG Emission in National Development (**PR 98/2021**), carbon trading may be conducted both domestically and internationally. Such trading may occur directly between business entities or through the Indonesian carbon exchange operated by **IDX Carbon**.

Specifically for international carbon trading, Minister of Environment and Forestry Regulation No. 21 of 2022 on the Procedures for Carbon Pricing Implementation (**MOEF Reg 21/2022**) as the implementing



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regulation of PR 98/2021 sets forth three cumulative conditions for the conduct of international carbon trading:

- (a) sectoral ministries have established and submitted a plan and strategy for achieving NDC for the respective sectors and subsectors to the Minister of Environment (MoE);
- (b) the relevant subsectors or sub-subsectors have achieved the NDC target; and
- (c) prior authorization from the MoE.

Despite the regulation's objective to promote carbon trading, international carbon trading has yet to materialize. The main roadblock is the requirement for subsectors or sub-subsectors to first achieve their NDC targets before engaging in international carbon trading. However, in 2023, MoE (then Minister of Environment and Forestry) attempted to break the notion that international carbon trading is barred by issuing a position paper. The position paper essentially states that international carbon trading is not prohibited but will be regulated systematically. This has generated anticipation within Indonesia's carbon market for such international carbon trading regulation.

On 20 January 2025, Indonesia is set to launch its inaugural international carbon trading via IDXCarbon. It is also reported that the long-awaited regulation on international carbon trading will be issued soon.

How do foreign buyers purchase carbon credits in IDXCarbon?

Be Registered as Carbon Exchange Service Users

Decree of IDX's Board of Directors No. KEP-00148/BEI/09-2024 on Carbon Exchange Service Users (**IDX Regulation No. 148/2024**) and Decree of IDX's Board of Directors No. KEP-00296/BEI/09-2023 on Carbon Unit Trading through Carbon Exchange (**IDX Regulation No. 296/2023**) opens an opportunity for foreign legal entities to engage in carbon trading through IDXCarbon, provided they meet the requirements to become Carbon Exchange Service Users (**Carbon User**).

To qualify as a Carbon User, a foreign legal entity must submit a registration application with the following procedures:

- (a) the prospective Carbon User delivers a registration form and required document through <https://bit.ly/DaftarIDXCarbon>, as follows:
 - (i) duly signed and stamped statement letter of the prospective Carbon User;
 - (ii) company deed of establishment;
 - (iii) business registration number;
 - (iv) Legal Entity Identification Number;
 - (v) Proof of registration with the Regulatory Oversight Committee (a group or body tasked with overseeing and ensuring compliance with regulatory requirements, standards and practices);
 - (vi) financial reports for the last one year of financial reporting; and
 - (vii) copy of bank account details used for fund withdrawal or equivalent documents.
- (b) IDXCarbon peruses the document and gives approval and/or rejection of its application no longer than five exchange days after the submission of documents above.

Furthermore, the prospective Carbon User must also have at least two users representing the Carbon User, who must be an employee and hold a training certificate related to carbon exchange organized by IDXCarbon. The user registration procedure is carried out simultaneously with the application for registration as a Carbon User. The registration process is currently free of charge but will be subject to a fee starting from 25 September 2025.

Once approved as a Carbon User, foreign legal entities will be classified as Non-Emission Trading Business Actors, business entities engaged in

certain sectors that have not been allocated emission limits set by the regulator.

Alternatively, foreign legal entities can choose to collaborate with an existing Carbon User registered on IDXCarbon to purchase carbon units if they decide not to register themselves as a Carbon User. However, there remains uncertainty about the transfer process of the carbon units from such Carbon User to the foreign legal entity, particularly in ensuring regulatory oversight, accountability and transparency in such transactions.

Buy Carbon Units through IDXCarbon

After the foreign legal entity becomes a Carbon User listed as a Non-Emission Trading Business Actor, it may purchase carbon units through four market types in IDXCarbon, namely:

- (a) **Auction (*Pasar Lelang*)**: The relevant ministry or project owners auction Certificate of GHG Emissions Reduction ("*Sertifikat Pengurangan Emisi Gas Rumah Kaca*" or "*SPE-GRK*") to buyers at a minimum price of IDR 1.00 per unit. The deal is final once the price and winning buyer are determined.
- (b) **Negotiated Trading (*Pasar Negosiasi*)**: Carbon Users negotiate agreements for SPE-GRK with a minimum price of IDR 1.00 per unit. The transaction is confirmed when both parties agree.
- (c) **Regular Trading (*Pasar Reguler*)**: Carbon Users submit buy or sell offers, and the exchange matches them at a minimum price of IDR 200.00 per unit. The trade is final when offers are matched.
- (d) **Marketplace (*Pasar Non-Reguler*)**: project owners offer SPE-GRK for sale, and Carbon Users confirm the purchase or negotiate the price, with a minimum price of IDR 1.00 per unit. The deal becomes final when the seller approves the purchase.

For the inauguration of international carbon trading, according to IDXCarbon, the available markets are Negotiated Trading (*Pasar Negosiasi*), Regular Trading (*Pasar Reguler*), and Marketplace (*Pasar Non-Reguler*).

The determination of market type for the foreign legal entity to purchase the SPE-GRK depends on factors, including but not limited to:

- (a) **Project Preference:** The foreign legal entity's preference for specific underlying projects, the owner of its projects, and the market types available for those projects.
- (b) **Price Preference:** The desired price range of the foreign legal entity. Both the Auction Market and Non-Regular Market allow the foreign legal entity as a buyer to propose their preferred price, either higher or lower than the seller's determined price.

It is estimated that approximately 2.48 million tCO₂e will be traded on 20 January 2025. Those carbon units are generated from the following projects:

- (a) Operation of New Power Plant of Natural Gas of Combined Cycle Power Plant (PLTGU) Priok Block 4;
- (b) Conversion From Single Cycle to Combined Cycle on Power Plant of PLTGU Grati Block 2;
- (c) Operation of Gunung Wugul Mini-Hydropower Plant;
- (d) Construction of New Power Plant of Natural Gas of PLTGU PJB Muara Karang Block 3; and
- (e) Conversion of Single Cycle to Combined Cycle on Power Plant of PLN NP UP Muara Tawar Block 3.

It is noted that the above-mentioned carbon units are from the power plant sub-sector (technology-based solution) and none is available from nature-based solution projects.

In relation to the price, it is anticipated that the carbon unit price will be more premium than the current price in IDXCarbon which closes at IDR58,000/ tCO₂e (±USD4) on 15 January 2025.

After purchasing the carbon units, buyers have the option to either: (i) resell the carbon units in the Regular or Negotiation Market to receive capital gain; (ii) retire the carbon units for themselves; or (iii) retire the carbon units on behalf of other stakeholders.

What are the requirements for international carbon trading?

Financial Services Authority (OJK) Regulation No. 14 of 2023 on Carbon Trading via Carbon Exchange (**OJK Reg 14/2023**) requires carbon units traded in IDXCarbon to first be registered in the Indonesian integrated carbon-related website, namely Climate Change Control National Registry System (**SRN PPI**) (with several exemptions).

Additionally, there are several key requirements specifically for international carbon trading as outlined below.

Prior Approval and Authorization from MoE

MoE grants its approval for the international cooperation for carbon trading, while authorization is given for the transfer of carbon units abroad.

According to information from IDX Carbon, carbon units that will be sold internationally on 20 January will have been authorized by MoE.

Buffer

MOEF Reg 21/2022 introduces a buffer mechanism to manage risks in achieving the NDC target. Under the regulation, a portion of carbon units for international GHG emission offset must be set aside, ranging from 10%-20% of the Indonesian emission reduction certificate (SPE-GRK). The exact buffer percentage will be established by MoE after coordinating with the related ministries.

For the inaugural carbon trading, there is no clear information regarding whether the carbon units sold internationally have accounted for this buffer requirement. This uncertainty is particularly pronounced since no specific buffer percentage has been established for the power plant subsector to date.

Corresponding Adjustment

To prevent double counting of emissions reductions, corresponding adjustment must be conducted for the first international transfer of SPE-GRK, as regulated by MOEF Reg 21/2022. The regulation does not

provide detailed procedures for conducting such corresponding adjustments, and there is no further information regarding how corresponding adjustments will be implemented for the inaugural international carbon trading. However, IDXCarbon claims that the carbon units intended for international sale have been excluded from the calculation of Indonesia's NDC target and may be accounted for towards the buyer's NDC target achievement.

Closing

The launch of Indonesia's first international carbon trading sale on 20 January 2025 presents significant opportunities for foreign entities to participate in Indonesia's carbon market through IDXCarbon. Such inauguration carbon trading, coupled with the anticipated issuance of the international carbon trading regulation, signifies Indonesia's readiness to welcome international carbon credit buyers. This development holds the potential to significantly bolster the Indonesian carbon market and pave way for the initiation of more emission reduction projects in the future. However, there remains uncertainty about the transfer process of the carbon units from such Carbon User to the foreign legal entity. This includes ensuring regulatory oversight, accountability, and transparency in such transactions. Thus, clarity from IDX on the mechanism for transferring carbon unit rights is awaited to address these concerns and provide greater confidence for foreign participation.

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