

THE DEVELOPMENT OF CARBON EXCHANGE IN INDONESIA

Overview

Presidential Regulation No. 98 of 2021 on Carbon Pricing for Achieving Nationally Determined Contribution (NDC) Target and Controlling GHG Emission in National Development (PR 98/2021) and Minister of Environment and Forestry Regulation No. 21 of 2022 on the Procedures for Carbon Pricing Implementation (MOEF Reg 21/2022) are steps taken by Indonesia as a form of commitment in achieving its NDC target related to climate change issues.

On 12 January 2023, the Indonesian Government finally issued Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (Law 4/2023) as further initial steps of carbon exchange implementation in Indonesia.

In its development, the Government of Indonesia then enacted a number of significant regulations relating to carbon trading to support decarbonization efforts, which are:

- (i) the issuance of emission ceiling for coal-fired power plants connected to PLN's grid which signifies that carbon trading for those coal-fired power plants may commence soon; and
- (ii) further details on carbon exchange development which will be under the authority of the Financial Services Authority (Otoritas Jasa Keuangan/OJK).

Carbon Exchange

The second point is contained in regulations related to carbon exchanges, namely Law 4/2023. PR 98/2021 only distinguishes between carbon trading carried out through carbon exchange and direct trading. Meanwhile, MOEF Reg 21/2022 defines carbon exchange as a stock exchange or trading organizer that has obtained a business license from the authority that organizes an integrated regulation and supervision system for all activities in the financial services sector regarding carbon trading and/or carbon unit ownership registration. The carbon exchange center will be located in Indonesia.



Law 4/2023 echoes Omnibus law's goal to encourage the financial sector's contribution to inclusive, sustainable, and equitable economic growth in order to improve people's lives, reduce economic inequality, and realize a prosperous, advanced, and dignified Indonesia. It is the first law to specifically address carbon exchange in detail. Law 4/2023 is an endeavor by the Government of Indonesia and the House of Representatives to promote the public welfare by reforming Indonesia's financial sector.

Specifically, carbon exchanges are regulated in Article 23. Law 4/2023 solidifies the future carbon market as an important trading sector and provides further clarity on the development of carbon exchanges. It specifically states that carbon units are securities (efek) under Law 4/2023. Furthermore, the title change from the Chief Executive of the Capital Market Supervisor to the Chief Executive of the Capital Market, Derivative Finance, and Carbon Exchange Supervisor, signifies that the carbon market is seen as equivalent to the stock exchange.

In detail, Law 4/2023 states that carbon trading through carbon exchanges is carried out in 3 ways, which the law mandates OJK to be involved in: the establishment of carbon trade infrastructure, administration procedures, and the regulation of government income related to the carbon trade market. Law 4/2023 places the carbon market under OJK's supervision. In other words, carbon exchanges can only be carried out by market organizers that have obtained a business license from OJK. Such market organizers can develop carbon unit-based activities or products.

Carbon trading via carbon exchanges must also meet the requirements and be licensed by the OJK. OJK's authority includes licensing for companies conducting trading activities on carbon exchanges and supervision, including governance, such as environmentally friendly commitments. However, emission permits still fall under the authority of the Ministry of Environment and Forestry (MOEF).



The Future of Carbon Exchange

The carbon exchange is scheduled to be activated in 2024. There are two options for the carbon exchange model, namely, first, the carbon exchange is attached to the Indonesia Stock Exchange (IDX), and second, a special exchange for buying and selling carbon-based securities is formed. However, the carbon exchange model has yet to be determined by the OJK. In terms of the inclusion of an authorized institution to conduct the carbon exchange, either assigning the IDX to trade carbon or establishing a new market dedicated to carbon (Financial Services Authority Regulation/Peraturan Otoritas Jasa Keuangan/POJK), is still in the discussion stage and no final decision has been made.

Currently, OJK is still discussing the technical details for regulating the carbon trading mechanism in the carbon exchange after consultation with the House of Representatives. If the POJK has been issued, IDX will immediately follow up on the POJK by making IDX regulations and system readiness. In addition, the carbon exchange operations will be carried out when the carbon tax regulations and mechanisms have been issued by the government.

Closing

In conclusion, the Indonesian government has enacted a number of legal developments to support decarbonization efforts, including the regulation of carbon exchanges. Law 4/2023 mandates the OJK to regulate carbon trading through carbon exchanges, requiring market organizers to obtain a business license issued by OJK.



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