Updated October 2023

Indonesia Emissions Trading Scheme (ETS)

Years in Operation	Introduced in February 2023
Overall cap and trajectory	Under development
Target(s)	NDC Targets: 31.9% below BAU by 2030 (unconditional, incl LULUCF) 43.2% below BAU by 2030 (conditional on international support, incl LULUCF)[1] Net-zero by 2060.
Emissions reduced to date	Expected to reduce emissions by 500,000 tCO_2e in the first year, according to the Ministry of Energy and Mineral Resources.
Sectors covered	First phase (2023-2024): coal-fired power plants with an installed capacity over 100 MW. Coverage is expected to increase in the second (2025-27) and third (2028-30) phases to also include oil and gas-fired power plants.
Number of covered entities	Currently covering 99 coal-fired power plants with a total installed capacity of 33.6 GW, representing 81.4% of Indonesia's power generation capacity.
Trading rules	Trading was launched on the Indonesia Stock Exchange (IDX) in September 2023, under oversight of the Financial Services Authority of Indonesia (OJK). Carbon credits are classified as securities.[2] Only local seller and buyers participated in the inaugural trades on 26 September 2023.[3]
Use of offsets and linking	Carbon reduction units (SPE-GRK) from energy sector issued on the national registry are expected to be allowed for use to some extent by compliance entities within the energy sector to offset their ETS obligations. Further guidance is awaited.
Other features	The scheme is expected to transition into a hybrid "cap-and-tax" system, with an underlying carbon tax to be charged by non-complying entities. The concept of a carbon tax was introduced in 2022 but has since been postponed to 2025. The price is expected to be linked to the price of carbon certificates traded on the exchange.
Use of revenues	Not defined

[1] Enhanced NDC, September 2022
[2] Ashurst; see references
[3] https://www.idx.co.id/en/news/press-release/2016

Major Developments

The intensity-based ETS in Indonesia was launched in February 2023 after several years of planning, covering 99 coal-fired power plants connected to the state-owned electricity company PLN's grid.

The regulatory framework for the ETS has been developed over several years, starting with the introduction of *"Regulation No. 46 on Environmental Economic Instruments"* in 2017. This was followed by the *"Presidential Regulation No. 98 on the Instrument for the Economic Value of Carbon"* in 2021, which set out the overall framework for carbon pricing in Indonesia, including carbon taxation, emissions trading and provisions for international and voluntary carbon markets. The Regulation also formalised the role of the National Registry System (SRN PPI) in tracking emissions and carbon projects in line with Indonesia's NDC objectives. A voluntary, intensity-based ETS pilot was conducted in 2021, covering 32 entities in the power sector.[4]

The Ministry of Environment and Forestry (KLHK) then released the *"Guidelines for Carbon Economic Value Implementation"* through Regulation 21/2022, in October 2022. Finally, the Ministry of Energy and Mineral Resources (MEMR) issued the *"Guidelines for Carbon Economic Value Implementation for the Power Generation Sub-sector"* through Regulation 16/2022 in December, which provided the legal basis for launching the ETS.

[4] ICAP; see references

In the trial launched in February 2023, allowances (PTBAE-PU) were traded for US$2-18 per tCO_2e. On 26 September 2023, carbon trading was launched on the Indonesia Stock Exchange (IDX) under oversight of the Financial Services Authority of Indonesia (OJK). During the first day, 27 transactions were recorded, amounting to 459,953 tCO_2e, at a price of around 69,600 rupiah (US$4.36) per tonne and closing at 77,000 rupiah. Credits sold represented emission reductions arising from a geothermal project by state-owned energy company Pertamina in North Sulawesi. Buyers came from local financial institutions, power generation, mining sectors, and climate tech firms. At the launch event, President Joko Widodo outlined that Indonesia sees a potential economic gain of up to 3,000 trillion Rupiahfrom carbon credit revenues.[5]

In the first phase, two units will be traded on the exchange: emission allowances from units covered by the ETS, known as PTBAE-PU, as well as emission reduction certificates, known as SPE-GRK, from nature-based and tech-based carbon projects. Trading on the exchange is voluntary in the first phase, and demand is expected to mainly come from the coal-power entities covered by the compliance ETS. The ETS is then expected to transition to a hybrid "cap-and-tax" system in the coming years, putting in place a minimum price floor through a linked carbon tax. The sector coverage is also expected to increase over time as it moves into the second (2025-27) and

[5] Reuters; see references

third (2028-30) phase.[6] According to MEMR, the scheme is expected to reduce emissions by 500,000 tCO_2e in the first year, and by up to 36 $MtCO_2e$ by 2030.[7]

Further details on the cap, targets, allocation, and linkage to the carbon tax are expected in the coming year.

Useful Links

Indonesia | International Carbon Action Partnership (icapcarbonaction.com)
Regulation 46/2017 on Environmental Economic Instruments
Law 7/2021 Concerning Harmonization of Tax Regulations
Presidential Regulation 98/2021 on the Instrument for the Economic Value of Carbon for Achievement of the NDC and Control of Carbon Emissions in Development
MoEF Regulation 21/2022 on Guidelines for Carbon Economic Value Implementation
MEMR Regulation 16/2022 on Guidelines for Carbon Economic Value Implementation for the Power Generation Sub-sector

References

Indonesia launches emissions trading system for power generation sector | International Carbon Action Partnership (icapcarbonaction.com)
Indonesia launches carbon trading for power sector – Argus Media
Indonesia's president launches carbon emissions credit trading – Reuters
Carbon Trading in Indonesia: OJK Regulation on Carbon Exchange (ashurst.com)

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[6] ICAP

[7] Argus Media; see references