



G20
INDONESIA
2022



BENEFITS, OPPORTUNITIES, AND CHALLENGES FOR CARBON PRICING (CAP-TRADE-TAX) IMPLEMENTATION IN INDONESIA FOR BUSINESSES

**Deputy of Coordinating of Environment and Forestry
Affairs**

March 14th 2022

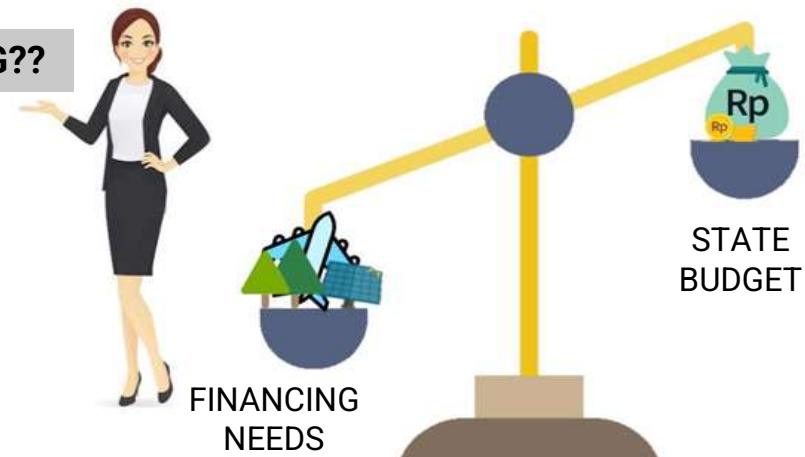
WHY WE NEED CARBON PRICING??



1 LIMITED THE NATIONAL BUDGET

- a. Indonesia needs about IDR 3,307.2 trillion (USD 228.1 billion) for implementing climate action in 2018 to 2030, or about IDR 254.4 trillion (USD 17.55 billion) annually (Source: the 2nd BUR Indonesia, 2018)
- b. Indonesia needs to develop other potential policy scheme(s) to accelerate emission reduction in achieving NDC Target through Carbon Pricing Regulation

CARBON PRICING??



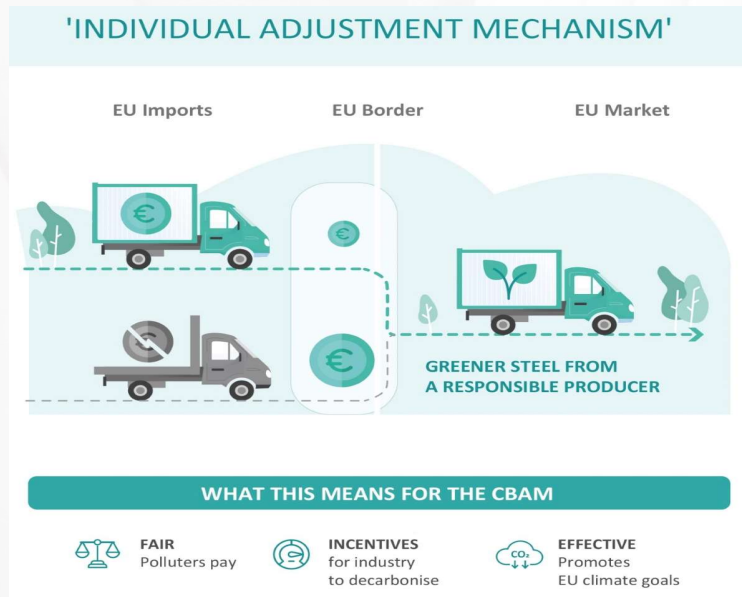
WHY WE NEED CARBON PRICING?



2

CBAM Implementation in EU

- a. European Union will put a carbon price on imports of a targeted selection of products in Europe
- b. The CBAM system will work as follows: EU importers will buy carbon certificates corresponding to the carbon price that would have been paid, had the goods been produced under the EU's carbon pricing rules. Conversely, once a non-EU producer can show that they have already paid a price for the carbon used in the production of the imported goods in a third country, the corresponding cost can be fully deducted for the EU importer.
- c. The carbon pricing implementation in Indonesia help to reduce the polluter payment (carbon certificate) make Indonesian product will more economic than without carbon pricing implementation



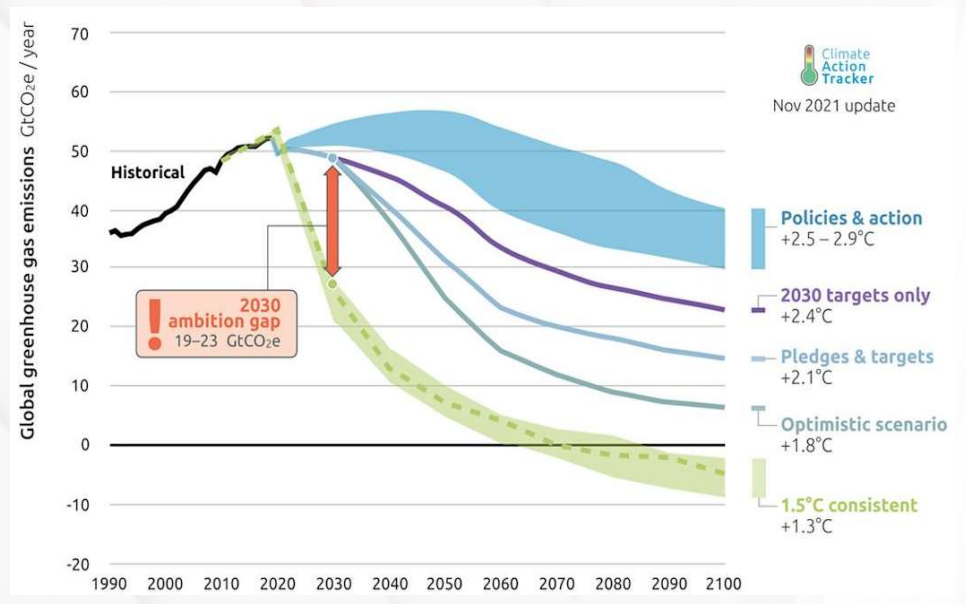
WHY WE NEED CARBON PRICING?



3

COP26 Glasgow Decision

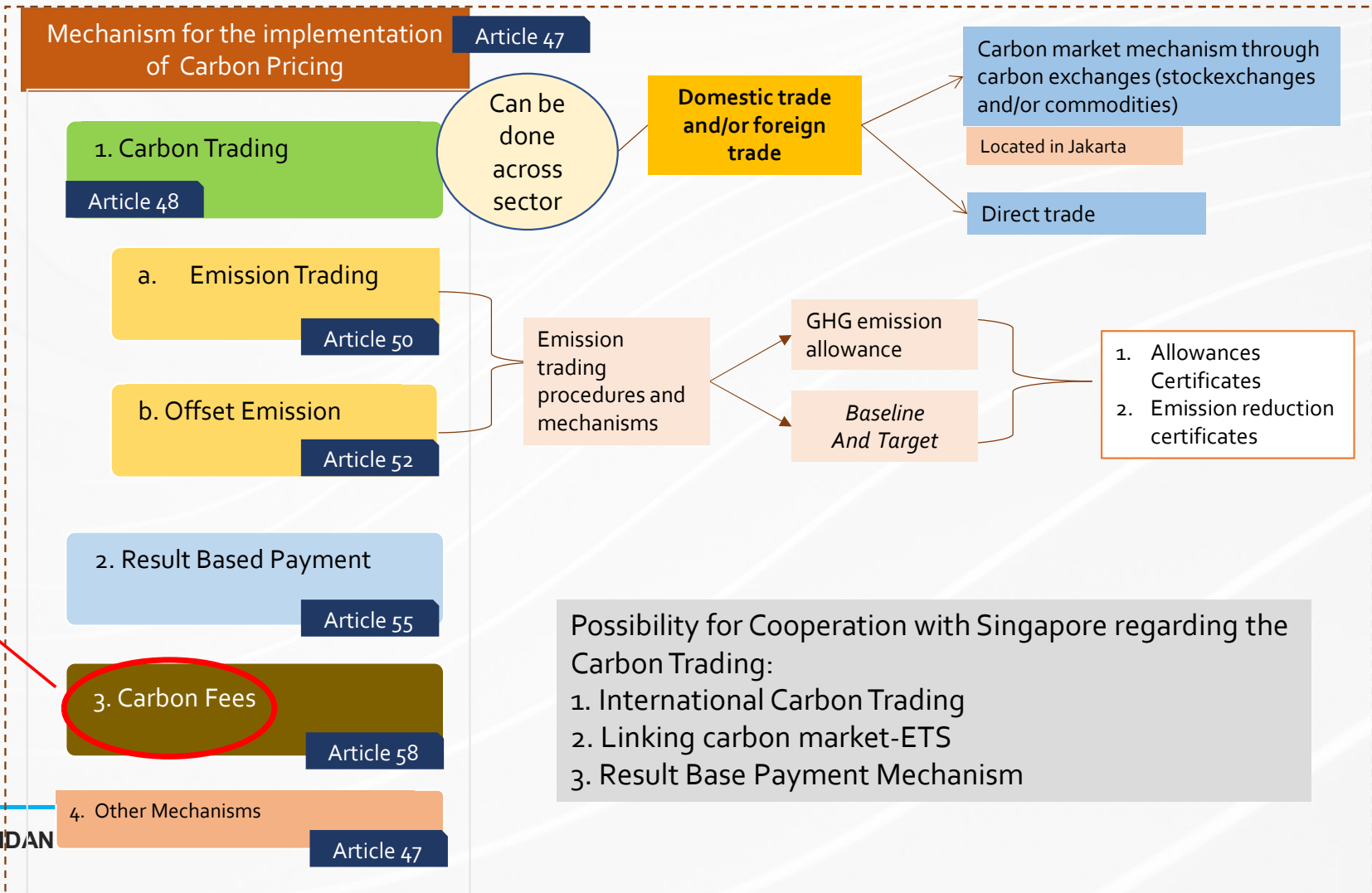
- a. There was the New Decision of COP26 UNFCCC Glasgow such as the commitments to keep global temperature rise of 1.5 oC and Phase down of Coal Power and Phase out of Fossil Subsidies
- b. this New Decision of COP26 UNFCCC Glasgow is the follow up the 1.5 Special Report of IPCC in 2018 and August 2021 which recommends to act more ambitious of net zero emission in 2050



- The commitments to keep global temperature rise of 1.5 °C
- Phase down of Coal Power and Phase out of Fossil Subsidies
- Double Climate Finance of Adaptation
- New Pledge of Climate Actions

THE SCHEME OF CARBON PRICING IMPLEMENTATION

(President Regulation No. 98 Year 2021)



Possibility for Cooperation with Singapore regarding the Carbon Trading:

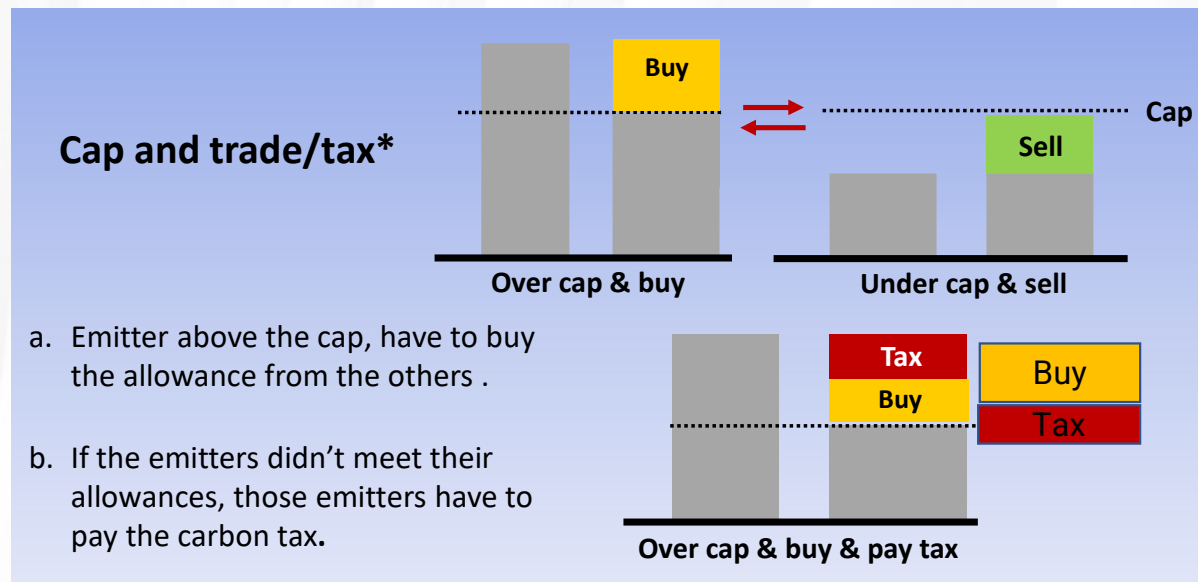
1. International Carbon Trading
2. Linking carbon market-ETS
3. Result Base Payment Mechanism

“Pungutan Karbon” includes **the Carbon Tax**

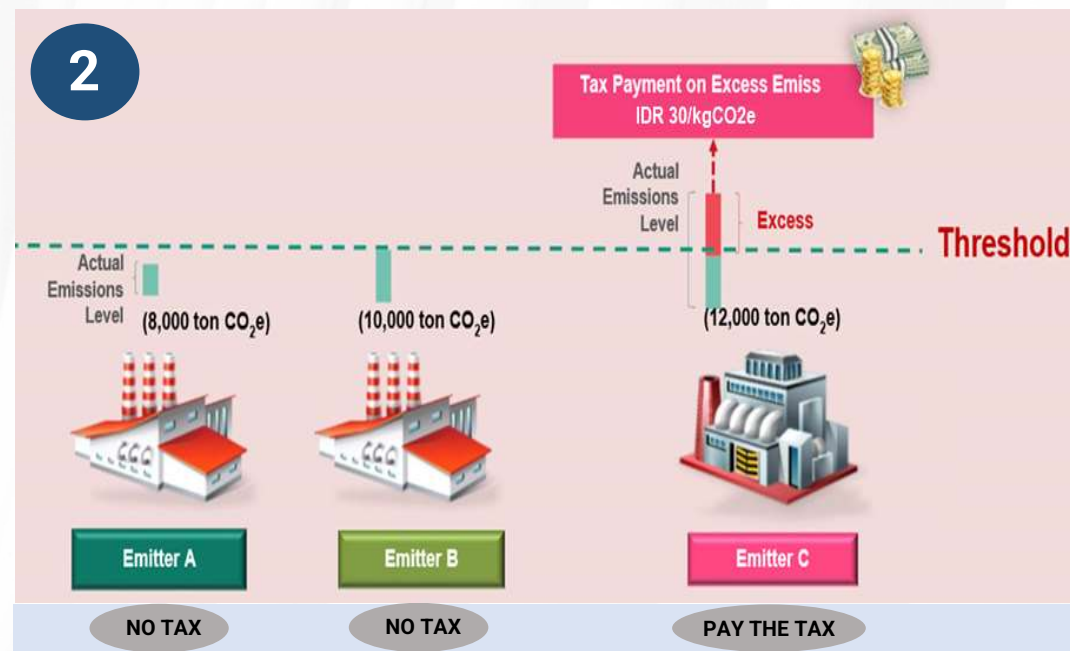
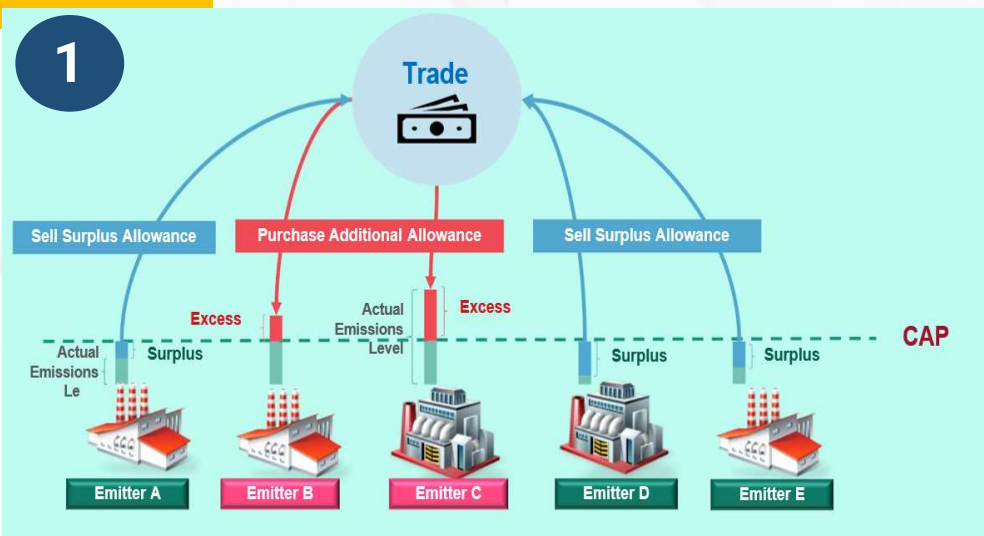
THE INTEGRATED OF CARBON MARKET AND CARBON TAX (CAP-TRADE-TAX)



1. The carbon market will be expected running well, Indonesia plan to make the Roadmap of Carbon Market and the Roadmap of Carbon tax will be aligned each others and integrated well
2. The Roadmap of Carbon Market and the roadmap of Carbon tax will be integrated which is required by the Law No. 7 Year 2021 Concern Tax Regulation Harmonization
3. In the roadmap of carbon market, there is allowances trading (cap and trade) in Power generation as a pilot. In the same time, there is carbon tax implementation in Power Generation as a pilot too



The Illustration of Cap, Trade and Tax Mechanism



1. A limit or 'cap' applied to installations, with the ability for trading excess allowances
2. Emitter above the cap, have to buy the allowance from the others

1. A set of price on carbon by defining an tax rate on GHG emissions (IDR 30/kgCO₂e based on Law No. 7 Year 2021)
2. After doing carbon trading and If the emitters meet their allowances (for example **the Emitter B in above**), those emitters no obligation to pay the tax
3. After doing carbon trading and If the emitters still didn't meet their allowances (for example **the Emitter C in above**), those emitters have to pay the carbon tax

The Success Story of Emission Trading System (ETS) Trial in Power Generation



Carbon Transfer

42.455,42 ton CO₂

The average of Carbon Price is USD 2 /ton CO₂
From 28 transactions among CFPP

The Cost of ETS Trial

IDR 1.54 Billions

IDR 1.227 Billions for among CFPP and IDR 236 millions for Renewable Energy Offset



International Credit Carbon

4.500 ton CO₂

From cancellation of VCS project with the Carbon Price 3 EUR/ton

CO₂
Voluntary Carbon Standard (VCS) Projects from Hydropower Plant Renun, Sipansihaporas and Musi.

Indonesian

21.131,8 ton CO₂

The Average of Carbon Price is IDR 4,000/tonCO₂

From many renewable projects such as PLTS Cirata, PLTMH Ndungga, PLTA Orya, PLTMH Balla 2, PLTM Kalukku 1, PLTM Kalukku 2, PLTM Mikuasi, PLTM Sabilambo dan PJUHE Paiton.

THE BENEFITS



01 ● THERE IS A SUCCESS STORY IN EMISSIONS TRADING SYSTEM (ETS) TRIAL IN POWER GENERATIONS, INCREASE THE MITIGATION ACTIONS AND EFFICIENCY (ECONOMIC ASPECT)

02 ● TRANSFORM THE FOSSIL ENERGY (ENERGY TRANSITIONS) TO RENEWABLE ENERGY, THE **RENEWABLE ENERGY WILL BE CHEAPER THAN THE FOSSIL ENERGY** BECAUSE THE CARBON PRICING IMPLEMENTATION (WHICH CAPTURES THE EXTERNAL COSTS OF GHG EMISSIONS)

03 ● NATIONAL BUDGET WILL INCREASE DUE THE CARBON TAX AS NATIONAL REVENUE

THE CHALLENGES



01 ● CARBON TAX IMPLEMENTATION HAS TO FOLLOW THE PARIS AGREEMENT RULES SUCH AS
● “COMMON BUT DIFFERENTIATED RESPONSIBILITIES AND RESPECTIVE CAPABILITIES”
(CBDRRC)

02 ● CARBON TAX IMPLEMENTATION CAPTURES THE EXTERNAL COSTS OF TAX PAYMENTS INTO
● THE BUSINESS ACTIVITIES (BUSSINESS OPERATIONAL)

03 ● REQUIRE THE ACCURATION OF ECONOMIC IMPACT CALCULATION OF THE CARBON TAX
● IMPLEMENTATION

THANK YOU

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