



Indonesia's carbon market outlook: still overcast

By **Nadine Freischlad** in *Strait Up*: Indonesia's carbon market project is delayed, again, published on 10 Feb, 23

Two weeks ago in *Strait Up*, in one of our news briefs, we highlighted a [Reuters article](#) that said Indonesia was ready to set emissions quotas for coal power plants by the end of January.

This would have been a key step towards implementing the country's plans for a mandatory carbon market for its energy sector. (Other sectors, like forestry and mining, are to follow suit.) But January has turned into February, and the quotas are yet to be announced—another delay in an endeavour that's been dragging its feet since early 2022.

"The plans were supposed to be implemented in early 2022, then got delayed to April, then to May, and then delayed again indefinitely, until now," says Fikri Muhammad, a senior analyst at Climateworks Centre, a think tank in the energy sector.

An overarching regulatory framework exists, Fikri says, but the delays stem from harmonising regulations between different ministries. Indonesia's Nationally Determined Contributions (NDCs) are tied to the Ministry for Environment and Forestry. But the operational aspects of running a carbon market for the energy sector is the concern of the Ministry of Energy and Mineral Resources.

The energy ministry is still divided over how to calculate adequate carbon emission benchmarks for coal power plants, according to Fikri. "This is a critique I have, the process is opaque. We don't have insight into the considerations that go into the methodology."

But let's rewind a little. What are these benchmarks—or quotas—that are so difficult to calculate? And why are they important?

A limit to emissions, but not really

The mechanism Indonesia is eying for its carbon market is modelled after a system China has already implemented in some regions—dubbed the "cap-and-tax" model.

Basically, emitters (like say a coal power plant) are given allowances for CO₂ emissions. If they remain within these limits, they can sell carbon credits to emitters who need to offset excess emissions. On the other hand, emitters who exceed their allowances can also choose to pay a tax instead of purchasing offset credits. The tax rate is intended to be set higher, Fikri says, in order to incentivise buying offsets.

But the cap in this model is not an absolute cap. Because Indonesia, like China, prefers intensity-based caps. In the context of coal power plants, this means there's no hard limit on the amount of CO₂ each can emit—it just needs to stay within a pre-specified rate relative to its size. That means a facility can still emit more CO₂ if it is burning more coal and producing higher output.

If you think that sounds a bit detrimental to the goal of reducing carbon emissions, it kinda is. "Intensity based caps are designed to make power plants more efficient," Fikri says. "This mechanism is said to be more relevant to developing countries, with growing economies."

And while the energy ministry is still tweaking the calculations, there've been other developments too. "Just last month, a new omnibus law on the financial sector designated that carbon trading falls under the regime of the Indonesian Financial Services Authority (OJK)," said Luky Walalangi, managing partner at WPLaw, an Indonesian law practice. "At least now, we know who is in charge."

According to Rendi Prahara Septiawedi, an associate at the firm, it will be OJK that issues licences to carbon exchanges and then oversees them. That's yet another moving part in Indonesia's emission management project.

As to whether the system as it's currently planned will actually contribute to *reducing* emissions—that answer is still up in Jakarta's smoggy air.

Link: ([here](#))

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