Indonesia Carbon Market Development and Joint Crediting Mechanism Status

Carbon Trade Mechanism Division
National Council on Climate Change of Indonesia
1. Indonesia strategy on emission reduction
2. Current status of Indonesia carbon market
3. Joint Crediting Mechanism, a Japan proposal to Indonesia
4. The way forward
Indonesia GHG emission tend to hike

Economic and GHG emissions growth are still coupled.

- 2011 GDP: USD846 billion with income per capita of USD3,500
- Average economic growth: 6%
- Energy elasticity: >1

Source: WRI
Indonesia policy framework on climate change

- Indonesia is committed to reduce its GHG emissions by 26% under BAU level in 2020 (up to 41% with international support).
- Emission reduction is not compromising growth (26/7 vision).
- Indicative list of activities are now available.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Unilateral</th>
<th>Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forestry and Peat</td>
<td>0.672</td>
<td>1.039</td>
</tr>
<tr>
<td>Waste</td>
<td>0.048</td>
<td>0.078</td>
</tr>
<tr>
<td>Energy and Transport</td>
<td>0.038</td>
<td>0.056</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0.008</td>
<td>0.011</td>
</tr>
<tr>
<td>Industry</td>
<td>0.001</td>
<td>0.005</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.767</strong></td>
<td><strong>1.189</strong></td>
</tr>
</tbody>
</table>

Source: SNC, 2010

Source: PD#61/2011
Market instruments, e.g. CDM, proved to be effective to spur emissions reduction by industries.

**Clean Development Mechanism**

- Total 212 CDM projects approved by Indonesia DNA,
- 128 projects registered, mostly of methane avoidance projects, and
- 28 CDM projects issued their CERs worth 7.9 million ton CO$_2$, mostly of geothermal.

**Increasing opportunity from voluntary carbon market**

- 11 VCS projects have been developed, including 1 REDD+ project in Central Kalimantan,
- Six of them have already produced 2.2 million ton VER.
Indonesia highly considers further utilization of market instruments.

**Multilateral carbon market**
- Depends on UNFCCC negotiation outcomes
- Need balance between robust and flexible methodology
- Indonesia join the Partnership for Market Readiness as an implementing country

**Bilateral and regional carbon market**
- Between Indonesia and developing countries, e.g. JCM with Japan
- Could be an international carbon offset scheme

**Domestic carbon market**
- Start from facilitating voluntary offset (the NCS)
- Developed and traded in Indonesia
- Simple yet robust
- Could be linked to wider mechanisms
Indonesia’s market readiness development for multilateral carbon market

- Indonesia proposed a comprehensive study of the Market Based Initiative (MBI) Study that can be used as a base for carbon market development and policies.
- Two pilot projects were proposed, the MRV development for cement industries and Java-Madura-Bali power generation system.

Vision of Market Instrument Development

**Building readiness**
- Map policies and actors
- Develop market elements
- Develop market infrastructure

**Establishing instruments**
- Options identification, assessment and review
- Policy consultation
- Test instruments
- Establish regulatory framework

**Implementation**
- Start with domestic instrument
- Continuous review and improvement
- Seek international linkage
Indonesia’s domestic carbon market development still at the very early stage

- The Nusantara Carbon Scheme (NCS) is an example of market element now under development.
- NCS is a domestic voluntary GHG reduction certification and registration scheme based on SNI ISO 14064/14065.

Current works on NCS:
- Website is online, http://skn.dnpi.go.id
- Second draft of the general rules & requirement and SD guidelines online for public comments
- Six methodologies on RE, EE, A/R, Waste, are now under review
- Guidelines for V/V and LULUCF projects under drafting
- Pilot project is planned this year

Envisioned role of NCS:
- Provide GHG offset to interested parties
- Raise market awareness
- Encourage local capacity improvement in carbon management
- When linked to wider policy, e.g. sector-wide, will serve as “damper” as well as bridging with ER activities outside the sector
Bilateral and regional carbon market, huge and interesting opportunities to be implemented

Due to uncertainties in UNFCCC-led market mechanism(s), discussions and works on **market mechanisms at bilateral and regional levels** becoming more important to scale-up mitigation actions in developing countries.

**Joint Crediting Mechanism (JCM) Indonesia - Japan**
- A new proposal from Japan to Indonesia and other developing countries.
- A mechanism to support emission reduction targets in both countries and strengthen bilateral investment cooperation.
- In the UNFCCC negotiation, the JCM is categorized under the Framework on Various Approaches scheme.

**Asia – Pacific Carbon Market Roundtable**
- An initiative led by New Zealand
- Provide a discussion forum for possible market cooperation among Asia Pacific countries
Joint Crediting Mechanism, a proposal from Japan to Indonesia

The bilateral agreement is almost done!

Some negotiation milestones:
- The discussion started from the first informal meeting with Japan representative in October 2010.
- The first formal negotiation was held in July 2011.
- Indonesia established a formal negotiation team in May 2012 based on Ministry of Economic Affairs decree.
- Japan has finished 57 FS during 2010-2013.
- The category of FS’s are varied from the RE, EE, CCS, REDD+, transportation, to the LULUCF.

The JCM discussion and negotiation between countries started in 2010. For more than 2.5 years Indonesia and Japan have been discussing various topics related to the establishment of bilateral carbon trading. The bilateral discussion emphasized in the possibilities of emission reduction trading and investments development at the same time. Indonesia and Japan also seek the possibilities of the JCM implementation under UNFCCC.

The discussion documents are:
- Low Carbon Growth Partnership – as an umbrella agreement document; and
- Rules of Implementation – that contain of basic rules and regulation for the JCM implementation.
The way forward of JCM development

Both countries will establish “Joint Commitee” soon after the signing of the bilateral agreement, which involve of representatives from Indonesia and Japan. The role of the Joint Commitee will be similar to roles of the CDM-Executive Board in the CDM system.

And what’s next?

• Methodologies and guidelines development for the JCM implementation.
• Sustainable development and environmental integrity criterias that meet with both countries requirements.
• Pilot projects to examine the whole process of the JCM cycles.

What we hope from JCM implementation

• Low carbon development implementation projects in Indonesia.
• Green investment as well as technology transfer and capacity building.
• Catalyst to the new carbon market mechanism.
Terima kasih!
Thank you!