

## Indonesian Carbon Exchange to Trade Carbon Units

The Financial Services Authority (OJK) established a new regulation regarding carbon exchanges in OJK Regulation No. 14 Year 2023 on Carbon Trading through Carbon Exchanges (Carbon Exchange POJK). With the Carbon Exchange POJK, Indonesia has become one of the countries that already has its own carbon exchange. The launch of the first carbon exchange in Indonesia was held on September 26<sup>th</sup>, 2023, namely the Indonesia Carbon Exchange (IDXCarbon) under the Indonesian Stock Exchange (BEI). On the same date, the first trade was also done which recorded a transaction amounting to IDR 29.2 billion.

### Definition and Purpose of Carbon Exchange

Basically, carbon exchange is a market devoted to carbon trading transactions in the form of carbon credit, emission permits, or offsets. A common practice is where the seller acts as business actor who has obtained emission permit to certain emission cap, but managed to reduce its emission under such cap. Such business actors may sell their excess emissions to other business actors whose emissions exceed the cap. Thus, each business benefits from the existence of the carbon exchange.

The purpose of carbon exchange is to reduce greenhouse gas emission, reduce the impact of climate change, as well as encourage the development of more environmentally friendly and sustainable technology. This is due to the existence of an 'economic incentive' given to business actors who sell carbon. Hence, the existence of carbon exchange is expected to encourage these business actors in reducing their carbon emission by using more efficient and environmentally friendly technology and production methods. These purposes are also in line with one of the visions Indonesia wishes to achieve i.e. Net Zero Emission.

### Carbon Exchange Regulation in Indonesia

Carbon exchange in the regulation was initially found in the Third Part of Law No. 4 Year 2023 on Financial Sector Development and Strengthening (P2SK Law). This provision, which is only arranged in 4 articles (Article 23-26), became the basis for OJK to make a regulation on carbon exchanges. The embodiment of the mandate from P2SK Law appears in the Carbon Exchange POJK.

In the Carbon Exchange POJK, it is stipulated that the carbon trade in Indonesia is conducted in the form of Carbon Units. Carbon Units that are also considered as 'stock' consist of Greenhouse Gas

## LEGAL UPDATES



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Emission Reduction Certificate (“SPE-GRK”) and Emission Cap Technical Approval for Business Actors (“PTBAE-PU”). The Carbon Units that are to be traded in the carbon exchange must firstly be recorded in Climate Change Control National Registry System (SRN PPI) and in the Carbon Exchange Organizer.

If compared to the practices in other countries, SPE-GRK is principally similar to carbon offset. Carbon offset itself is a condition where a business actor succeeds in reducing emission, for example by planting trees, and it obtains carbon offset certificate that can be traded. The way that the carbon offset trading works is the buyer can reduce their ‘carbon footprint’ by buying the carbon offset from the seller. Then, the proceeds from the sales carbon offset will be used as funding to support the emission reducing practice that is condoned by the seller.

On the other side, PTBAE-PU has similarity to emission cap trading that basically trades emission cap from a company that did not reach the emission cap to a company whose emission exceeds the cap. Emission cap trading is more commonly known form of carbon trading. However, because it is mainly based on the emission cap, the PTBAE-PU scheme will be harder to implement if there is not yet a clear regulation regarding the emission cap for every sectors. Without the existence of an emission cap, then there will be no form of coercion for the business actor to follow the PTBAE-PU scheme.

As a solution to encourage the PTBAE-PU scheme, there must be a comprehensive regulation on emission cap for every sector existing in Indonesia. For the time being, the emission cap only exists for the electrical sector which is stipulated in the Ministry of Energy and Mineral Resources Regulation No. 16 Year 2022. The alternative solution, Indonesia is currently preparing Carbon Tax scheme effective in 2026 to penalize business actors whose carbon emission exceeds the cap. With the perfection of these two solutions, then the carbon exchange practice shall be more encouraged and the Net Zero Emission ideals will be closer to being achieved, as targeted in 2060.

### Requirements for Carbon Exchange Organizers and Carbon Exchange Service Users

Carbon Exchange POJK also regulates the requirements for Carbon Exchange Organizers. Furthermore, the requirements and procedures for organizing carbon exchanges are regulated in OJK Circular Letter No. 12/SEOJK.04/2023 on Procedures for Implementing Carbon Trade through Carbon Exchanges. The requirements that need to be considered by Carbon Exchange Organizers are:

**C**arbon Unit Trading certainly support stakeholders to reduce air emissions through Greenhouse Gas Emission Reduction Certificates (SPE-GRK) and Technical Approval of Upper Emission Limits for Business Actors (PTBAE-PU) which are registered, organized and supervised by IDXCarbon and OJK.

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1. Use electronic system;
2. Must provide trade system that facilitates the meeting of Carbon Units offer to trade of Carbon Units transaction;
3. Prohibited from being a transaction party;
4. A Company with minimum capital of IDR 100 billion;
5. Foreign shareholders with maximum 20% ownership;
6. Must have at least 2 Director members and 2 Board of Commissioner members that meets fit and proper standards;
7. Fulfill operational requirement, one of which is to make Carbon Exchange Organizer regulation on the service users, the Carbon Units, trade, and the supervisions;
8. The supervision on Carbon Exchange will be conducted by OJK;
9. Permit requirements and procedures that Carbon Exchange Organizers must fulfill; and
10. The obligation to deliver the work plan and annual budget for OJK's approval.

As the only Carbon Exchange Organizers for now, BEI has fulfilled one of its obligations to make a Carbon Exchange Organizers regulation which can be seen in SK Direksi PT BEI No. Kep-00297/BEI/09-2023. In this regulation, BEI stipulates about several things, including the market types and the requirements for Carbon Exchange Service Users.

Market in the Indonesia Carbon Exchange consist of Regular Market, Negotiation Market, Auction Market and Non-Regular Market. Carbon Exchange Services Users must be Indonesian legal entities or foreign legal entities. Carbon Exchange Services Users consist of:

1. Emission Trader Business Actors (can sell and purchase PTBAE-PU and SPE-GRK).
2. Non-Emissions Trader Business Actors (can sell and purchase SPE-GRK).
3. Project Owners (can sell SPE-GRK only in the Auction Market and Non-Regular Market).

The documents that need to be prepared by business actors who want to trade in the Indonesian Carbon Exchange as a Service Users are:

1. The certificate of training on Carbon Exchange that is conducted by the Carbon Exchange Organizers;
2. Application fee payment proof (IDR 5 million) as Service Users;
3. Financial report for at least the last 1 year;
4. LLC AoA, Tax ID Number, and Business Number (for Indonesian legal entities) or legal entity identifier and application proof in Regulatory Oversight Committee (for foreign legal entities).

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