

Regulating the Emergence of Battery Electric Vehicles in Indonesia

On 8 August 2019, the same day that Jakarta, Indonesia's capital city, was reported by Jakarta Post, a local newspaper, as the city with the worst air pollution in the world, President Joko Widodo (commonly known as President Jokowi) promulgated the unprecedented Presidential Regulation No. 55 of 2019 concerning the Acceleration of Battery Electric Vehicle ("BEV") Programs for Road Transportation ("Presidential Regulation No. 55/2019" or "Regulation"). The Regulation was enacted and became effective 4 (four) days later on 12 August 2019.



Photo from pixabay

Objectives of Presidential Regulation No. 55

The Regulation was issued with the objective of increasing energy efficiency, energy security and energy conservation in the transportation sector and to realize clean energy, clean air quality, and environmental friendliness.

These objectives should be seen in light of Indonesia's commitment to reduce greenhouse gas emissions, and to enable Indonesia to become a producer and exporter of BEVs in the transportation industry.

How will the BEV Programs be Implemented?

1. Acceleration of Domestic BEV Manufacturing Industries

To accelerate development of the local Indonesian BEV industry, BEV or BEV component manufacturers are required to establish an Indonesian entity, build a domestic BEV manufacturing facility in Indonesia, possess the relevant industrial business license to manufacture BEV or BEV components, operate in Indonesia and a percentage of the BEV itself must be made of local Indonesian components.

The percentage of the local Indonesian components made for a vehicle will depend on the type of vehicle itself, whether it is a vehicle with (a) two/three wheels; or (b) four or more wheels.

In order to accelerate the growth of domestic manufacturing of BEVs in Indonesia, if BEV manufacturers and BEV component manufacturers are not able to produce the main components and/or the supporting components of BEVs, the Regulation provides the possibility of importing BEV components in the form of Incompletely Knocked Down ("IKD") units or Completely Knocked Down ("CKD") units, subject to certain conditions provided under the Regulation.

2. Government Incentives

Fiscal and non-fiscal incentives may be provided by the Central and Local Government.

Fiscal incentives may be in the form of, among others, import duty incentives for IDK and CKD components, tax incentives for sales of luxury goods, and export financing incentives.

Non-fiscal incentives may be in the form of, among others, exemption from restrictions on the use of certain roads and rights to technology related to BEV with patent licenses held by the Central Government or Regional Government.

3. Charging Infrastructure and Electricity Tariffs For BEV

The charging infrastructures for BEV includes:

- a) charging facilities, which consist of at least:
 - i. Electric Power Supply equipment;
 - ii. current, voltage and communication control systems;
 - iii. protection and security systems; and/or
- b) Battery exchange facilities.

This infrastructure can be set up by state owned enterprises and/or other business entities. However, the first electricity charging infrastructure must be carried out through an assignment to the State Electricity Company (*Perusahaan Listrik Negara* or “PLN”), with the possibility of a joint venture between PLN and state owned enterprises and/or other business entities.

It is important to note that the sale of electricity at the electric stations is to be implemented by electricity supplier business license holders of the relevant jurisdiction and/or a joint venture with the business license holders and state owned enterprises and/or other business entities.

A business entity who sets the infrastructure and possesses the electricity supplier business license in more than 1 (one) province can apply for a business license to supply electricity at the relevant business areas.

However, the Regulation has yet to mention a timeframe when such infrastructure should be implemented.

Electricity tariffs will be further regulated by the Minister of Energy and Mineral Resources.

4. Compliance with BEV Technical Provisions

Every imported, manufactured or domestically-assembled BEV to be operated on the road must be registered with its type and must meet technical and roadworthiness requirements.

It is important to note that BEVs and BEV component manufacturers are obliged to provide warranties and after sales service to their customers.

5. Environmental Protections

Handling battery waste from BEV must be conducted by recycling or waste management. Waste management will be implemented by parties who have obtained a license to manage battery waste.

Possible Restriction on the Use of Fossil Fuels

Presidential Regulation No. 55/2019 provides the possibility for the Central Government to restrict, in stages, the use of fossil fuel vehicles for the purpose of accelerating the use of BEVs.

Restrictions of fossil fuel vehicles will be implemented based on the road map of the development of the national automotive industry.

Possible Restrictions on Receiving Government Incentives

There may be a possibility that if manufacturers of BEV do not meet the local Indonesian component percentages criteria described above pursuant to Presidential Regulation No. 55, then the relevant parties may not receive government incentives.

Conclusion

In light of Presidential Regulation No. 55, the manufacturing of BEV and BEV components will be significantly supported in Indonesia and we view that there may be further implementing regulations by the government and/or various relevant ministries, such as the Ministry of Energy and Mineral Resources, to support the use, production and manufacturing of BEV and BEV components through BEV programs.

-o0o-

*The article above was prepared **Hendra Ong (Partner)** and **Timothy Arif Aditya Chow (Associate)**.*

This publication is not intended to be a comprehensive review of all developments in the law and practice, or to cover all aspects of those referred to. Readers should take legal advice before applying the information contained in this publication to specific issues or transactions or matters. For more information, please contact us at dentons.hrp@dentons.com.

No part of this publication may be reproduced by any process whatsoever without prior written permission from Hanafiah Pongawa & Partners (Dentons HPRP).