

# Implementation of Carbon Trading in the Forestry Sector

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Indonesia has a unique carbon story: it absorbs a lot of carbon through its vast forests but also emits a significant amount due to human activities. This dual role showcases Indonesia's importance in the global climate landscape. The country aims to both achieve its own climate goals and contribute to the Paris Agreement's objectives.

To make this happen, Indonesia is using carbon trading in its forestry sector. On June 14, 2023, the Ministry of the Environment and Forestry (MOEF) introduced procedures for carbon trading, specifically in the forestry sector through Minister of the Environment and Forestry Regulation No. 7 of 2023 concerning Procedures for Carbon Trading in the Forestry Sector (“**MOEF Reg. 7/2023**”). This regulation highlights actions to mitigate climate change and trading activities related to carbon. Indonesia's commitment to a balanced global temperature is also evident in its FOLU (Forestry and Other Land Uses) Net Sink 2030 plan, aiming to reduce emissions from forests and land sectors while maintaining a higher absorption rate than emissions by 2030. This article will delve into the details of the relevant regulations issued by the MOEF, i.e., MOEF Reg. 7 of 2023 and Minister of the Environment and Forestry Regulation No. 21 of 2022 concerning Procedures for the Application of Carbon Economic Value.

## Climate Change Mitigation Actions in the Forestry Sector

Carbon trading is a market-based mechanism for reducing Greenhouse Gas (*Gas Rumah Kaca* – “GRK”) emissions by selling and purchasing carbon units. GRK emission itself means the release of GRK into the atmosphere in a certain area within a certain period. Climate Change Mitigation Actions (*Pelaksanaan Aksi Mitigasi Perubahan Iklim*) are activities that may reduce GRK emissions, increase carbon sequestration and/or storage/strengthen carbon stocks. The implementation of Climate Change Mitigation Actions in the forestry sector may be carried out through carbon trading, which includes reduction of GRK emission and storage and/or sequestration of forest carbon.

The implementations of Climate Change Mitigation Actions may be carried out through the following activities: (a) reduction of the rate of deforestation of mineral lands; (b) reduction of the rate of deforestation of peatlands and mangroves; (c) reduction of the rate of forest degradation of mineral lands; (d) reduction of the rate of forest degradation of peatlands and mangroves; (e) development of plantation forests; (f) sustainable forest management; (g) rehabilitation by rotation; (h) non-rotational rehabilitation; (i) peat restoration; (j) improvement of peat water systems; (k) mangrove rehabilitation; (l) afforestation in ex-mining areas; (m) construction of permanent nurseries; (n) rehabilitation of plants under 5 (five) years old; (o) conservation of biodiversity; (p) social forestry; (q) mentoring in customary forests; (r) introduction of ecosystem replication; (s) development of green open spaces; (t) eco-riparian activities; (u) supervision and law enforcement to support the protection and security of Forest Areas (*Kawasan Hutan*); and/or (v) other activities in accordance with the development of science and technology.

Further, carbon trading in the forestry sector must be carried out in the forestry sub-sector and peat and mangrove management sub-sector, which include the following sub-sub-sectors: (a) state Forest Areas that are not subject to any licensing, approval or right-to-manage; (b) working areas of licensing/approval units; (c) right-to-manage working areas; (d) customary Forest Areas; (e) private Forest Areas; and (f) state forests which are not Forest Areas.

## Implementation of Emission Trading and GRK Emission Offset in the Forestry Sector

### Emission Trading in the Forestry Sector

Carbon trading in the forestry sector is to be executed through emission trading and GRK emission offsets. This trading is directed towards the following areas:

- a. permanent production Forest Area, convertible production Forest Area and protected Forest Area utilization blocks which are subject to Forest Utilization Business Licensing (*Perizinan Berusaha Pemanfaatan Hutan – “PBPH”*), social forestry management approval (*persetujuan pengelolaan perhutanan sosial*), or right-to-manage;
- b. permanent production Forest Area, convertible production Forest Area and protected Forest Area utilization blocks which are not subject to PBPH, social forestry management approval, or right-to-manage;
- c. other protected Forest Area blocks;
- d. peat and mangrove areas located within Forest Areas;
- e. peat and mangrove areas located outside Forest Areas;
- f. conservation Forest Areas;
- g. customary forests;
- h. private forest areas; and
- i. state forests that are not within Forest Areas.

Actors participating in carbon trading must adhere to the following provisions:

- a. holders of PBPH, right-to-manage, and ownership right forest owners must have sustainable forest management certificates, forest product legality certificates, or forest product declarations in accordance with the provisions of laws and regulations;
- b. holders of social forestry management approvals (*Persetujuan Pengelolaan Perhutanan Sosial*) must obtain at least the silver classification in the organization of social forestry in accordance with the provisions of the laws and regulations; or
- c. customary law communities, holders of social forestry management approvals, and private forest owners who engage in GRK emission offset businesses and/or activities must obtain mentoring or partners who have experience or expertise in relation to carbon measurement, project planning and implementation, or accessing carbon markets.

It appears from the above terms of MOEF Reg. 7/2023 that the only entities in the forestry sector eligible for carbon trading are project businesses owning and holding rights to forest concessions or land rights, and parties involved in social forestry or customary community forestry.

Emission trading within the forestry sector encompasses the following steps:

- a. formulation and stipulation of a roadmap for carbon trading in the forestry sector;
- b. determination of the provision of emission reduction buffer;
- c. determination of Technical Approval for Emissions Ceiling (*Persetujuan Teknis Batas Atas Emisi – “PTBAE”*) for peat management in the peat and mangrove management sub-sector;
- d. determination of PTBAE for Business Actors (*“PTBAE-PU”*);
- e. determination of peat management quota in peat and mangrove management sub-sector;
- f. actual emission measurement;
- g. submission of PTBAE-PU reports;
- h. verification of PTBAE-PU reports;
- i. verification result report; and
- j. implementation of emission trading within the country and/or between PTBAE-PU owners; or storage, upon the remaining GRK emission ceiling and/or unused GRK emission quota.

### GRK Emission Offset in the Forestry Sector

GRK emission offset within forestry sector shall be carried out through:

- a. formulation and stipulation of a roadmap for carbon trading in the forestry sector;
- b. determination of the provision of emission reduction buffer;
- c. determination of GRK emission baseline in the forestry sector;
- d. determination of emission reduction targets in the forestry sector;
- e. preparation of the Climate Change Mitigation Actions Plan Document (*Dokumen Rancangan Aksi Mitigasi Perubahan Iklim – “DRAM”*);
- f. DRAM validation;
- g. DRAM validation result report;
- h. report on the implementation of Climate Change Mitigation Actions;
- i. verification of reports on the implementation of Climate Change Mitigation Actions;
- j. preparation of verification result report on the implementation of Climate Change Mitigation Actions;
- k. establishment and review by the MRV team; and
- l. issuance of GRK Emissions Reduction Certificate (*Sertifikat Pengurangan Emisi or “SPE GRK”*).

## **SRN PPI**

The National Registry System for Climate Change Control (*Sistem Registri Nasional Pengendalian Perubahan Iklim – “SRN PPI”*) is a web-based system for the management, provision of data and information on actions and resources for climate change mitigation, climate change adaptation, and carbon economic values in Indonesia. SRN PPI will be a forum for data and information management in climate change mitigation actions in Indonesia. This enables the standardization and integration of data and information to be realized, thereby reducing data problems that have often occurred, such as the challenge of data inconsistency. The recording of the execution of carbon economic values in the SRN PPI is conducted through the following stages:

- registration through MOEF’s online system (<https://srn.menlhk.go.id/>);
- validation of planning reports; and
- verification of implementation result reports.

## **SPE GRK**

Every issuance of SPE GRK will be recorded in SRN PPI in the form of a registration number and/or code upon the performance of any outstanding PTBAE-PU and GRK Emissions reduction.

The SPE GRK for the performance of the remaining PTBAE-PU will be issued in the following stages:

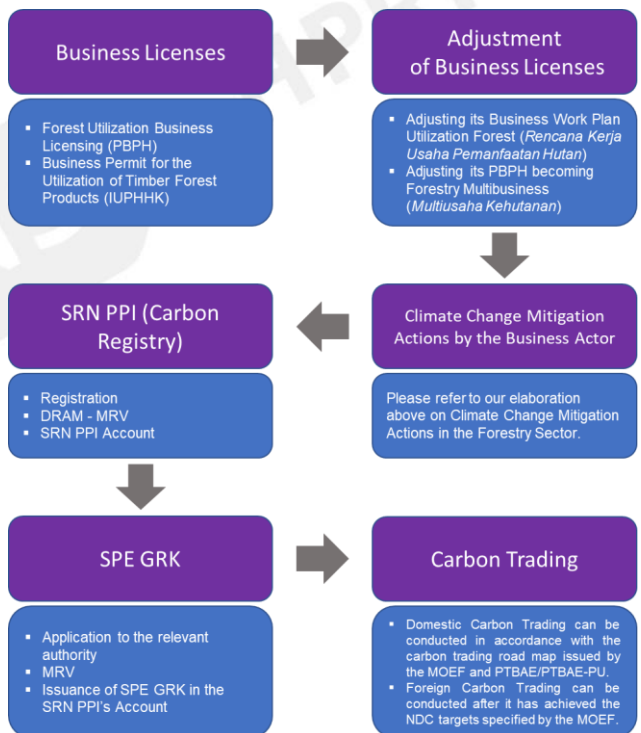
- registration in the SRN PPI;
- having a low-emissions activity plan and/or a Climate Change Mitigation Actions plan;
- reporting of the implementation of PTBAE-PU results by business actors;
- verification by verifiers;
- issuance of performance of the remaining PTBAE-PU in the form of an SPE GRK.

While the SPE GRK from GRK Emissions reduction performance will be issued in the following stages:

- registration in the SRN PPI;
- planning and preparation of the DRAM;
- DRAM validation by validators;
- implementation and monitoring of Climate Change Mitigation Actions;
- verification of the implementation of Climate Change Mitigation Actions by verifiers; and
- issuance of the SPE GRK and recording in the SRN PPI.

Business actors must submit applications for the issuance of SPE GRK to the Directorate General of Climate Change Control under the Ministry of Environment and Forestry through the SRN PPI enclosing the results of the verification. They must then prepare the DRAM before getting validation from the validator. Lastly, the validation result will become the basis for determining the feasibility of registering the action as a Climate Change Mitigation Action within the SRN PPI.

## **Flowchart of the Implementation of Carbon Trading in Forestry Sector**



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*The article above was prepared by Dentons HPRP's lawyers*

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