

**PARTNERSHIP FOR MARKET READINESS (PMR)  
Sixth Meeting of the Partnership Assembly (PA6)  
Barcelona, Spain; May 27-28, 2013**

**Feedback on draft Market Readiness Proposals (MRPs): Indonesia  
Summary Compiled by the PMR Secretariat**

**Background**

Indonesia submitted a draft Market Readiness Proposal (MRP) to the PMR Secretariat in March 2013 and presented it for consideration to the Partnership Assembly (PA) at PA6 in May 2013 in Barcelona, Spain.

Resolution PA2/2011-3 endorsed a process for providing feedback on MRPs. It consists of two parts: (i) feedback from PMR Experts; and (ii) feedback from PMR Participants.

A PMR Expert Group that included Ms. Dian Phylipsen (the Netherlands), Mr. Kazuhisa Koakutsu (Japan), and Mr. Michael Lazarus (United States) provided feedback on Indonesia's draft MRP, as did the PMR Secretariat and the World Bank, acting as the Delivery Partner. A compilation of this feedback was provided to Indonesia April 2013. This document was used as a foundation for discussion during an expert in-country visit with Indonesia's PMR Focal Point, the National Council on Climate Change (DNPI), which took place April 15-16, 2013.

Indonesia incorporated the feedback on its draft MRP and submitted a revised version on May 10, 2013, which was circulated to all PMR Participants. Mr. Dicky Edwin Hindarto presented the draft MRP at PA6 in order to seek feedback from Participants and to allow them to view a complete proposal prior to the submission of the final version. Subsequently, Participants were invited to submit written feedback on the draft MRP.

This note contains two parts: Part A includes a summary of the feedback and comments made during Indonesia's MRP presentation at PA6 and Part B includes written comments on the MRP that were submitted by Participants following PA6. Comments in Part B are recorded as they were submitted, without further summarization. The secretariat received written feedback on Indonesia's MRP from Denmark, the European Commission, Germany, Sweden, and the United Kingdom.

**Action**

Indonesia is invited to take into account the feedback included in this summary as it finalizes its MRP. It is important to note that while some of the feedback is applicable for finalizing the MRP, other issues may be more relevant to the Implementation Phase.

A final MRP should be submitted to the PMR Secretariat three weeks prior to the PA meeting during which the Implementing Country Participant seeks a PA decision on the allocation of Implementation Funding.

**Key Objectives from Indonesia's MRP:**

In the long term, Indonesia aims to establish new market mechanisms or market-based instruments to scale-up mitigation actions based on country-specific conditions and international carbon market situations.

Through its MRP – to further this long-term objective – Indonesia aims to determine the type and scope of appropriate market-based instruments in order to achieve its GHG mitigation objectives; to prepare supporting draft regulation as needed; to design and establish market infrastructures; and to build required capacity of participating institutions and individuals.

Specifically, Indonesia will build core technical and institutional readiness components within the power and cement sectors, including:

- Emission profiles and baseline setting;
- MRV system and piloting;

With regard to planning for a market-based Instrument, Indonesia plans to carry out

- Technical assessment and policy consultations on market instrument(s).

**PART A – Feedback and clarifications made during PA6**
**General Feedback**

- The Partnership Assembly (PA) congratulated Indonesia for producing a clear draft MRP that addresses key issues in establishing market based instruments and presents a comprehensive picture of how Indonesia is positioned to further pursue market-based mechanisms to achieve its GHG mitigation objectives. Participants were encouraged by Indonesia's potential to move beyond project-based emissions reductions to sectoral initiatives.
- Participants felt that many areas of the MRP presentation presented more detail than are contained in the draft MRP document, suggesting that Indonesia has progressed even in the time between the draft submission and its presentation to the PA. The PA welcomed this added detail and encouraged Indonesia to incorporate it into the final MRP document. Two examples of helpful analysis in the presentation that Indonesia is encouraged to include in the final MRP include the project management chart (slide 40) and the discussion on the institutional structure. Furthermore, the presentation includes details on the Nusantara Carbon Scheme (NCS) that should be incorporated into the final MRP.
- With regard to the timeframe for the delivery of the MRP activities, Indonesia is encouraged to elaborate on any time pressures it is under in order to better mitigate time-related challenges.

**Specific feedback**
*Selection of a market instrument(s)*

- Participants fully understand that Indonesia is exploring various market-based approaches to achieve GHG mitigation and that part of this exploration and analysis will continue during implementation of the MRP. Still, Indonesia is encouraged to elaborate as much as possible the direction it expects go in terms of emissions trading, crediting, a combination of the two or something new entirely.
- As far as a development of a domestic market, Indonesia is encouraged to include a discussion on demand and how it expects demand to develop. Further, it would be helpful to have more details on the bilateral relationship with Japan.

#### *MRV and Data Issues*

- Participants welcome the importance placed on establishing an installation-level MRV system within Indonesia. Still, it would be helpful to clearly define MRV within the document as sometimes it is not clear (e.g., for reductions, at project level, at NAMA level etc.).
- It would be helpful to have clarity on the work currently underway for MRV for NAMAs. For example, an update on the work by *Bapenas* or work done by other ministries.
- With regard to existing data, it would be helpful for Indonesia to clarify if it already collects emissions data from industry and how mitigation potential (by sector) is determined.
- In designing a data collection approach, it was recommended that it is important for reporting entities to understand the end use of the data. Quality in reporting can be improved when entities are aware of the purpose of data collection.

#### *Choice in sectors to explore in MRP*

- Participants welcomed Indonesia's choice to focus its MRP work on the electricity and cement sectors. Indonesia is encouraged to discuss in more detail how it arrived at this choice in sectors, e.g., how it narrowed the list from the other 11 sectors identified.

#### *Baselines*

- Figure 12 of the draft MRP includes a projection of total emissions. Indonesia is also doing bottom-up work on GHG emissions within provinces; it would be helpful to know how far along this work has gone and if it will fit with top-down emissions analysis.
- Participants welcome more information on the planned cap. What kind of cap is it? Will it cover individual emissions? Is there incentive to reduce emissions with existing regulation?

#### *Collaboration with other initiatives*

- It was noted that there are a number of initiatives other than the PMR at work in Indonesia on related activities, in particular, REDD+. While REDD+ is not something supported under the PMR, it would be helpful to know if there are any lessons or synergies from Indonesia's REDD+ work that inform or contribute to the success of its PMR activities.

**PART B – Written feedback on Indonesia’s draft Market Readiness Proposal submitted by PMR Participants**

Participant	Feedback on Turkey’s draft Market Readiness Proposal
<p><b>Denmark</b></p>	<p>We welcome the Draft MRP from Indonesia and the answers provided to the questions made during PA6. In addition to what was mentioned during the meeting, we have a query concerning Table 3. The table shows the emission reduction targets of different sectors, and for the industry sector this seems very low, only 1-5 MtCO<sub>2</sub>e (depending on support or not). How does this compare to the cost-effective abatement potential of just one industry sector, namely the cement sector, in figure 22 – here it is estimated that 10 MtCO<sub>2</sub>e can be reduced annually at negative abatement costs? Please explain.</p> <p>Furthermore, Figure 13 includes liquid coal as renewable energy which must be a mistake. And finally, as was also mentioned in PA6, it would be useful to mention in the MRP the work <i>Bappenas</i> is currently doing on baseline setting using the bottom-up approach and how this compares to the top-down approach presented in Figure 12.</p>
<p><b>European Commission</b></p>	<p>We welcome the good work that has gone into preparing the draft MRP by the team from Indonesia.</p> <p>We welcome the focus on the energy production and energy intensive industry- and in particular cement- as large emissions intensive sectors are generally considered good candidates for sectoral crediting and emissions trading and offer big wins in terms of cost-effective GHG emissions reductions. We welcome the focus on developing the building blocks necessary for the development of a market based instrument in one of these sectors. We especially welcome the emphasis on installation-level MRV. Robust/reliable installation-level data will be necessary for an effective domestic carbon market and even more so if looking for international crediting or links. A good structured approach is set out to developing MRV and work to pilot MRV in selected sectors.</p> <p>MRV is not the end goal- it allows the establishment of a robust market-based instrument, the ultimate goal of the market readiness work under the PMR. The draft sets out a series of actions under the Market Based Instruments study proposed, culminating in the piloting of a market-based instrument. We very much welcome the focus on piloting a yet to be decided market-based instrument under the proposed MRP. It would be useful, however, to have more details on the activities listed on the current draft to understand the extent of the work and to be clearer about its focus. It will be important to understand how this related to other initiatives or funded activity to ensure additionality. A breakdown of effort or budget by task will also be useful in this respect.</p> <p>Indonesia is a fast growing developing country. The MRP provides numerous examples of where Indonesia has taken a proactive role in international context. While we understand the uncertainties about the development of carbon market instruments in the international context, it would have been good to see Indonesia looking to move ahead faster to pilot new ideas to support international development, for example for sectoral crediting. It is not clear from your proposal how you see the role of the NCS. Our expectation is that work under the PMR should focus on a sectoral or multi-sectoral level, not project level. There are significant carbon market developments in the Asia Pacific Region and it would be great to see Indonesia contributing and benefiting from this.</p>

<p><b>Germany</b></p>	<p>Germany would like to commend Indonesia on its comprehensive draft Market Readiness Proposal and the concise presentation at PA6. For developing its final MRP, Germany recommends to consider the following aspects:</p> <p>As to the overall picture, it will be important for planning in Indonesia to create as much clarity as possible on the type of market instrument Indonesia intends to choose, or at least to outline the realistic options lying on the table (i.e. national trading system, sectoral crediting, others) and the factors affecting this decision. Germany notes the fact that Indonesia wants to start with foundations (i.e. Measurement, Reporting, Verification/ MRV), but feels the MRP could benefit from more clarity at this point, as a MRV system and other building blocks are likely to differ considerably for a sectoral crediting vs. domestic emissions trading.</p> <p>As to the existing cooperation with Japan on a Bilateral Offset Crediting Mechanism/ Joint Crediting Mechanism, we invite Indonesia to elaborate on potential covered sectors under BOCM/JCM vs. the activities under PMR and to highlight potential synergies or overlaps. In any case, we feel the linkage between both instruments would need to be assessed.</p> <p>The national offsetting mechanism Nusantara Carbon Scheme (NCS) will likely play an important role in any future Indonesian market mechanism. We therefore recommend explaining in more detail the system and its potential linkage to activities and instruments developed under PMR. Also, we believe it is worth elaborating on the prospective demand that Indonesia is anticipating for credits from this (voluntary) scheme. As there is currently internationally a lack of demand for credits within the CDM (e.g. in the EU-ETS), supply of Indonesian credits (including under NCS) are likely to be significant. Hence, there must be sufficient domestic demand for NCS credits in order for the system to function. In case of a lack of demand, the transaction costs (i.e. institutions) of setting up a new offset mechanism might be prohibitive. Similar to the Costa Rican case, we also believe that the independence of a governing board and other oversight institutions for the NCS will be crucial for the success, environmental integrity and eventual international fungibility of the system.</p> <p>Indonesia is active in many parts of mitigation policies, inter alia on unilateral and supported (i.e. non-market) Nationally Appropriate Mitigation Actions (NAMA) and their MRV. Synergies between these activities and the PMR activities seem very important. Also, the work on REDD+ building blocks (e.g. baselines/ reference emissions levels, MRV structures &amp; processes) could certainly be helpful for informing Indonesia’s market readiness activities under PMR - while it is also clear that the forestry sector should not be the focus of work under PMR, as there are other fora, such as the Forest Carbon Partnership Facility (FCPF).</p> <p>We appreciate the Indonesian clarifications on inter-ministerial cooperation (i.e. particularly between DNPI as the PMR counterpart and BAPPENAS, KLH, DepHut) and would like again to highlight that we believe this very inter-ministerial cooperation as a key success factor for policy implementation in Indonesia. Synergies to the NAMA and REDD+ work of other ministries seem sensible to look for also in order to avoid the duplication of work for example in working groups. We would therefore invite Indonesia to elaborate how these synergies could best be used for PMR implementation.</p>
<p><b>Sweden</b></p>	<p>We recognise the need, and appreciate Indonesia’s ambition, to make a comprehensive study of different market-based instruments before choosing the most appropriate approach. However, we believe that the assessment would benefit from being more specific to the extent possible. As mentioned in the draft MRP, and during Indonesia’s presentation at the Partnership Assembly meeting, there already exist a number of climate initiatives that could be built upon. We think the MRP should briefly describe other initiatives, such as the multilateral programs, bilateral programs and the new domestic Nusantara Carbon Scheme</p>

	<p>and how PMR activities can interact with these and form a basis and readiness for new market mechanisms including NAMAs. We also would encourage exploring possible synergies with on-going work on REDD+. We support the focus on establishing MRV that can be broadly applied and that pilots are shaped so that experiences can be applied to other sectors. The cement sector has a maturity for the carbon market, but represent a rather small share of emissions and it is important that experiences from the pilot can be applied in other sector e.g. the building sector that was mentioned in the presentation. We therefore encourage Indonesia to short-list the market based instruments as early as possible in the implementation process of the MRP so that the assessment can focus on those areas.</p>
<p><b>United Kingdom</b></p>	<p>The UK congratulates Indonesia on a well-written MRP. We also greatly appreciated the further details provided in the presentation at PA6 and look forward to seeing that material transfer into the final MRP. While unprepared to select a specific market mechanism for development, the UK believes it is very valuable that Indonesia had a clear pathway to piloting and that they had made this a firm goal.</p> <p>The UK agrees with the verbal feedback provided at PA6 to Indonesia on the need for Indonesia’s final MRP to detail more information on their wider climate aims and ongoing policy work. For example, further details on the status of Indonesia’s sector specific activities, as depicted in Table 3 on the draft MRP, would help Participants understand how climate policy and mitigation activities are progressing in Indonesia so far. By drawing this link Indonesia will better show Participants how their readiness building undertaken in conjunction with the PMR will fit with their wider goals. Providing this detail may also assist Indonesia in narrowing down their focus to a specific market mechanism for development.</p> <p>Indonesia’s final MRP would also benefit from further information about their sustainability reporting system for industries and businesses. Details on how many companies engage in voluntary reporting and which sectors are most involved in this would help Indonesia understand where to target their outreach activities to build understanding of climate policy. This ties into a larger need for Indonesia to provide further details on their voluntary Nusantara Carbon Scheme (NCS) as this develops further. Work on this scheme will directly impact future work in Indonesia to establish any other market mechanism so it will be important to be clear on how NCS operates and ensure its design links to future mechanisms.</p>