

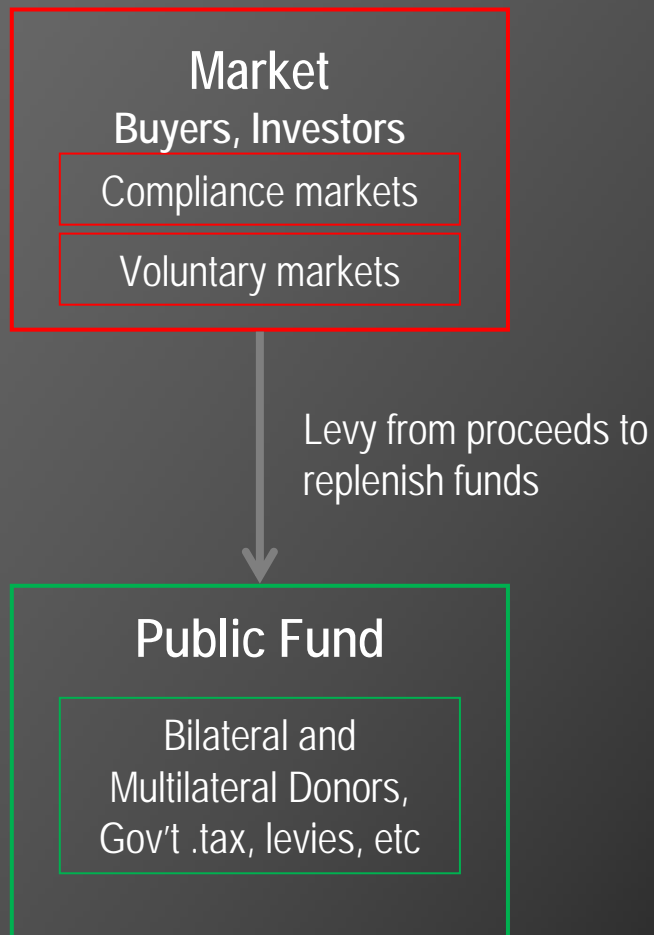
MAKING (FOREST) CARBON MARKET WORKS IN DEVELOPING COUNTRIES: THE CASE OF INDONESIA

Ismid Hadad

National Council on Climate Change
Republic of Indonesia

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International Institutional Arrangement for Carbon Market



Option 1: Market

- ▶ Compliance market still inexistent, possibly after 2012
- ▶ Voluntary market emerges due to CSR and compliance

Option 2: Public fund

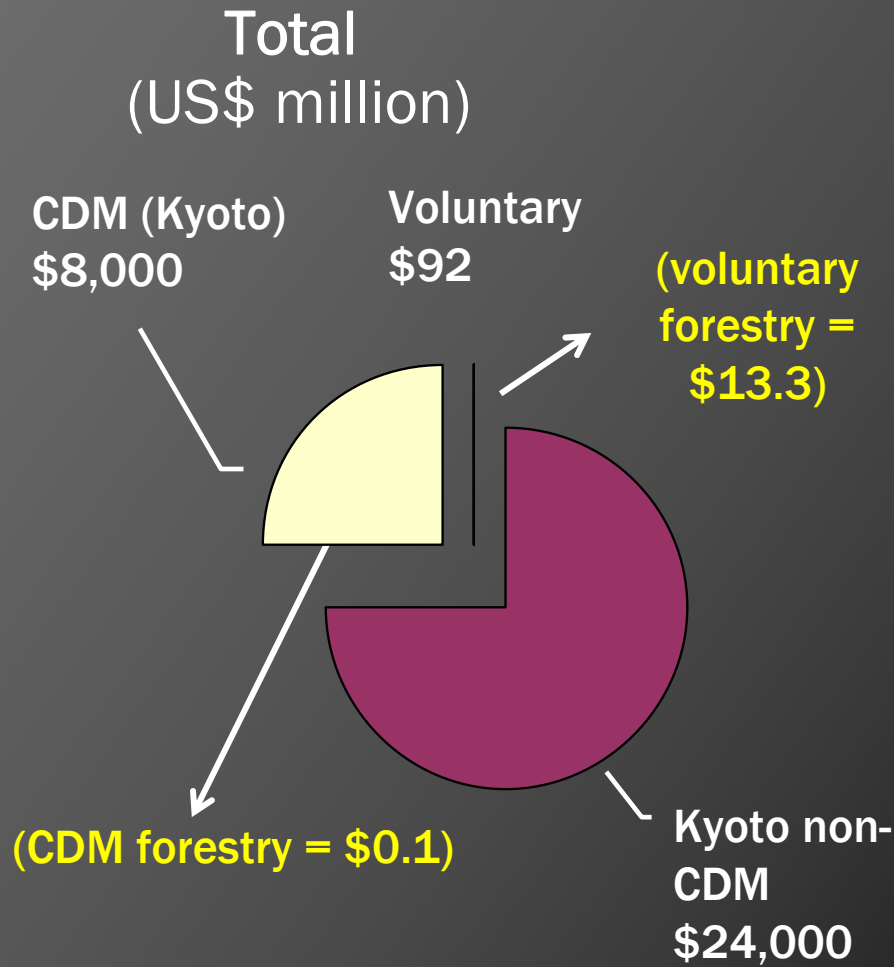
- ▶ Raise funds mostly from public investors, international donors

Option 3: Combination

- ▶ Market and funds can coexist
- ▶ Fund can also be replenished by levy applied to the proceeds from the markets

How Big is the Market?

Compliance market overwhelms, voluntary market is only a sliver



Mechanism	Price (US\$/tCO ₂ e)
CDM	4 (tCER)
NSW GGAS (Australia)	6
Chicago Climate Exchange (CCX)	2.5
A/R voluntary	0.5 – 45
Avoided deforestation, voluntary	10 – 18

Note: 2007 figures, 2008 is expected to be about 2 – 3 times.

Lessons from CDM

The good ones

- Market is still growing, more dynamic. More than 200 million CERs issued, out of the 1.4 billion potential from registered projects. 1.2 billion more from those seeking registration.
- Players are maturing, smarter.
- Institutions are established and working.

To be improved

- ◎ Large economies dominate the market. China, India, Brazil, and Mexico control $\frac{3}{4}$ of the market.
- ◎ Regulatory climate very unstable, decisions are not accountable, erratic methodological changes, and long development period.

Current Market Status of CDM, Indonesia and Globally

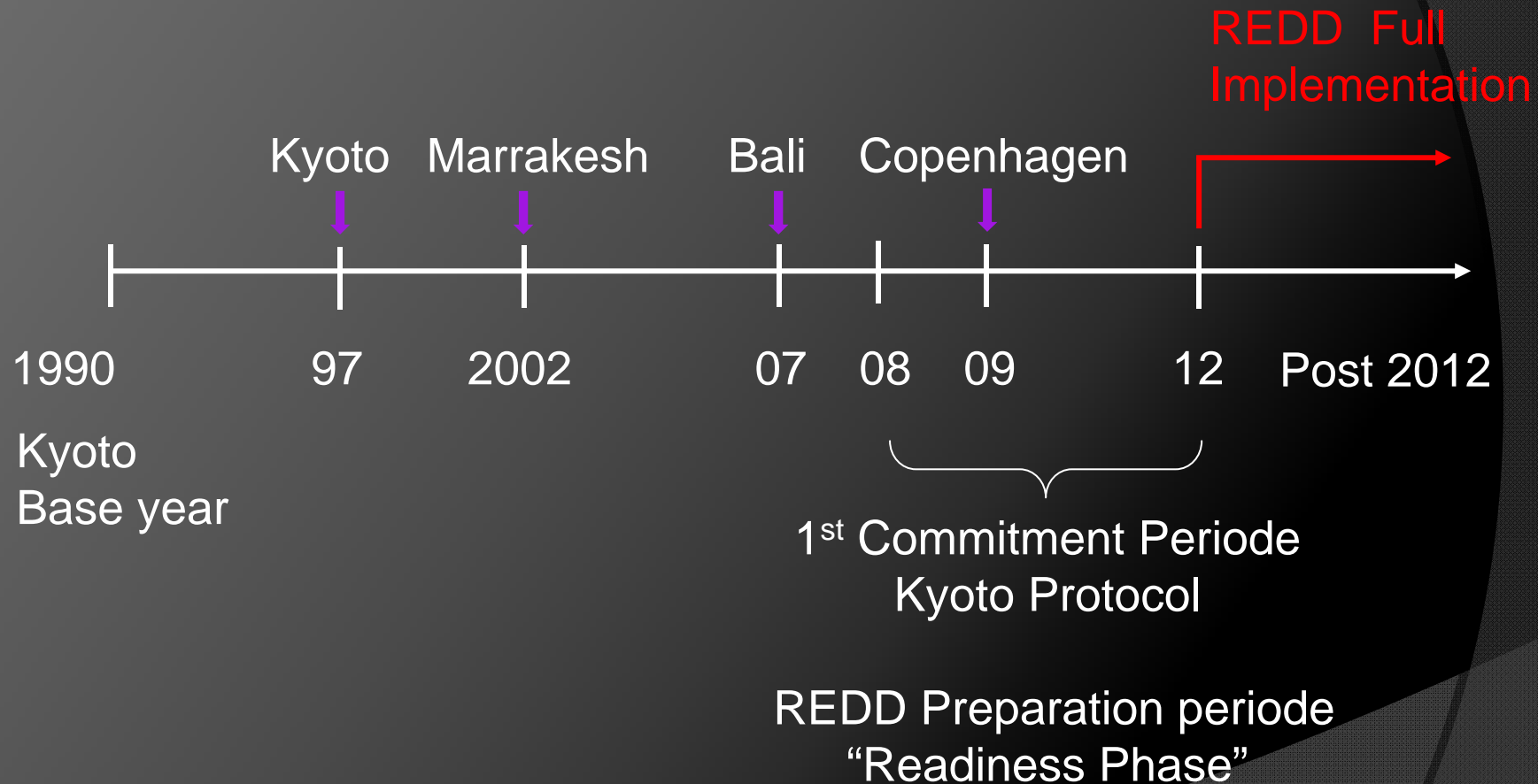
	World	Indonesia	%
Projects having issued CERs	428	3	0.7
CERs issued	225 m	194,000	< 1
Project registered	1,243	17	1.3
Potential CERs until 2012 from registered projects	1,382 m	15.2 m	1
Project seeking registration	315	4	0.12
Potential CERs until 2012 from projects seeking registration	260 m	2.6 m	1
Projects under validation	2694	75	2.7
Potential CERs until 2012 from projects under validation	1,222.7	23.8	< 2
Total projects in the pipeline	4,252	96	
Total CER potential until 2012 in the pipeline	2,865.2	41.8 m	< 1.5

Reducing Emissions from Deforestation & Forest Degradation (REDD)

● CHALLENGES & IMPLEMENTATION ISSUES

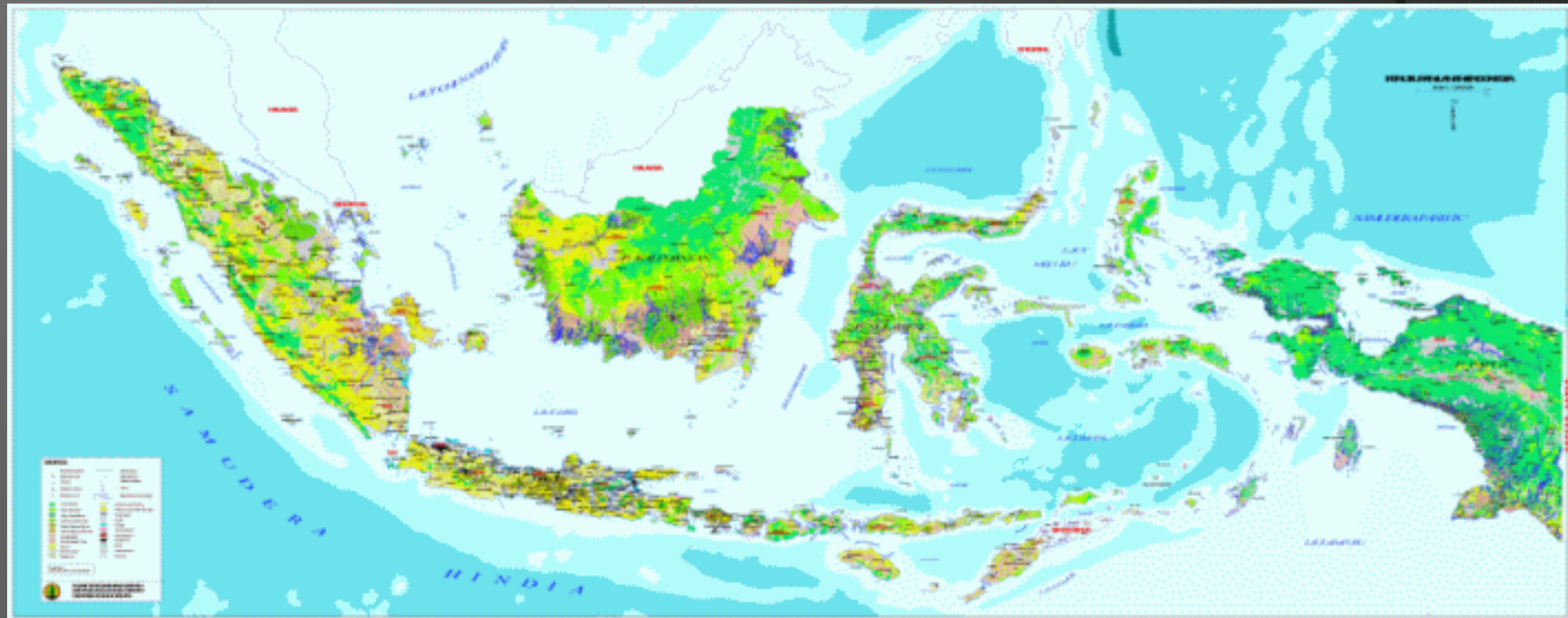
- > Forest Governance
- > Baseline, Methodology & Technical aspects
- > Implementation scale & Inter-sectoral coordination issues
- > Awareness & Capacity of Stakeholders
- > Forest Degradation & Non-Climate Policy Instruments
- > Land tennorial issues
- > Leakage & Non-permanence risks
- > Benefit sharing/Revenues Distribution
- > Social forestry & Community empowerment
- > Financing & Payment scheme

Time frame in the UNFCCC Process



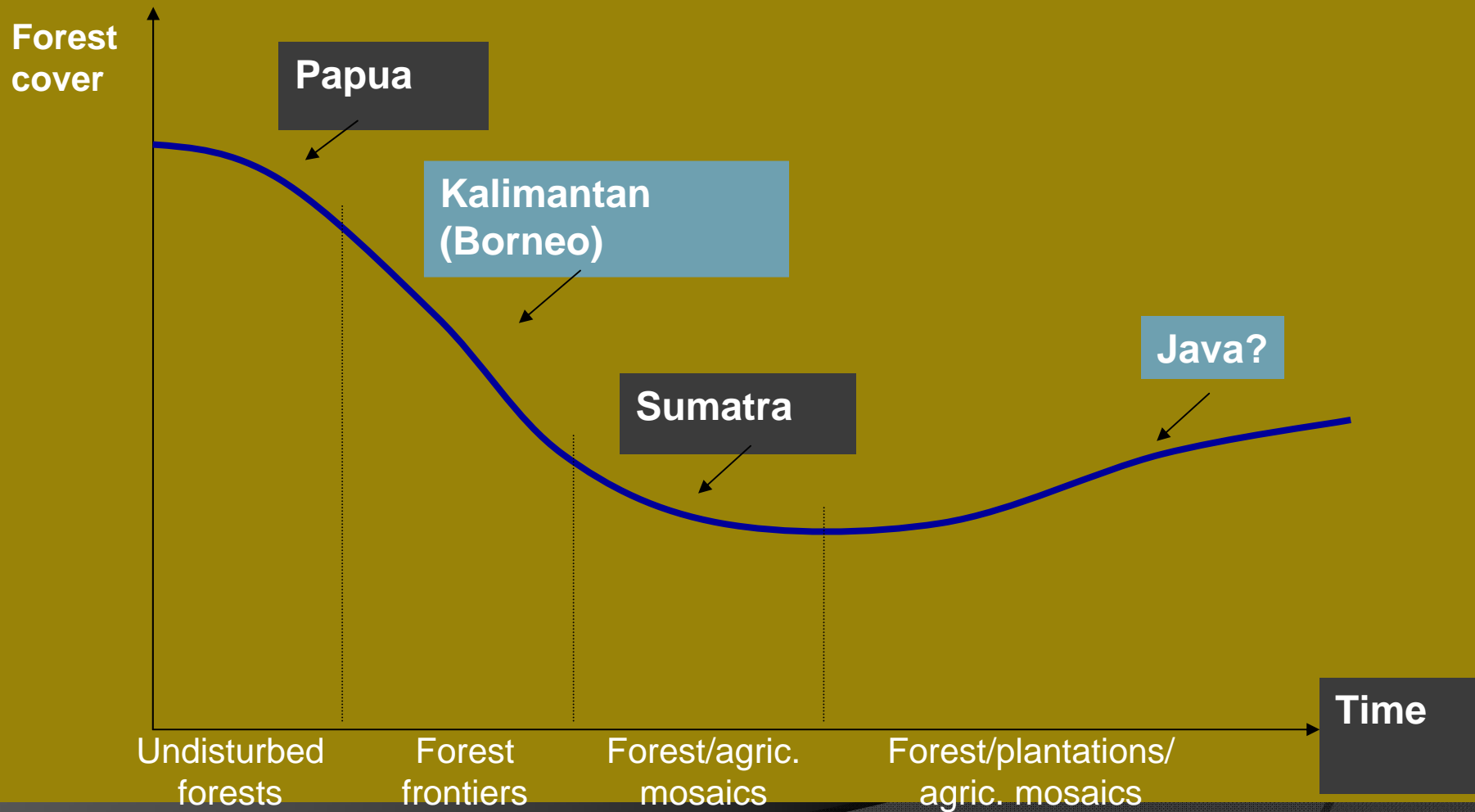
Acknowledgment: Murdiyarto, 2009

INDONESIA : REDD relevance



1. Country land area : app. 187 millions ha, population : app. 225 millions
2. 7 major islands and 33 provinces, autonomous governance system
3. $\pm 70\%$ of the country area are forest land/state forest ($\pm 37\%$ of them are degraded at various levels, forest lost 2000-2005 ± 1.18 million ha/year)
4. Forest transition from the east (Papua : low historical DD) to the west (Sumatera : high historical DD, Java : forest cover increases)

Forest transition in Indonesia



INDONESIA's Efforts to Reduce GHG Emissions

● GOVERNANCE and POLICIES

- > National Action Plan on Climate Change (2007)
- > Inclusion of climate change programs in the National Development Planning & Budgeting system (2008)
- > Establish a National Council on Climate Change as a center for climate change policy coordination (June 2008)
- > Reduced fuel subsidies, increasing incentives to conserve fuels & reduce GHG emissions (2008)
- > Developed tax break system & soft loans to encourage the adoption of pollution control technology
- > Government Regulation on fiscal policy & incentives for the development of Geothermal as climate friendly energy source
- > Drafting sectoral climate change mitigation road-map and a national trust-fund mechanism for climate change

Development of Forest Carbon Market in Indonesia

- ◉ National Forestry Council
- ◉ Indonesian Forest Climate Alliance (IFCA) Study
- ◉ Forest Resource Information System
- ◉ National Carbon Accounting System (w/Australia support)
- ◉ Provincial & District level “Working Groups” on REDD
- ◉ 20 Pilot Forest Carbon Project initiatives by Private, NGOs & Local Gov’t in selected areas → voluntary carbon trading
- ◉ Ministerial Guidelines on REDD Demonstration Activities
- ◉ 2 Pilot REDD Demonstration projects (w/Australia & Germany)
- ◉ REDD Commission and Working Group on financial aspects led by Ministry of Finance

Making (REDD) Forest Carbon Work

- Deeper emissions cuts by the industrialized countries (-25 to -40% by 2020), creating demand for longterm & stable carbon market
- Make REDD/forest carbon as a compliance carbon. Develop an efficient & market friendly regulatory framework and predictable price paths for CERs in the long run.
- Treat (forest) carbon as a commodity and an asset class in the domestic regulation.
- Climate regulators need the cooperation and support of financial regulatory agencies and the banking sector to make the carbon market work

Making Forest Carbon Market Work

- ⦿ Serious efforts to reduce carbon transaction time and costs so that private sector have increased incentives to invest
- ⦿ Good governance is an important enabling condition to good business, but it takes time, resources and a lot of collaborative works to make the carbon markets up and running especially in the developing countries

Thank You

