

Indonesia Regulates Implementation of Carbon Capture & Storage Activities

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Indonesia is now actively pursuing carbon capture and storage (“**CCS**”) as part of its strategy to address climate change and reduce carbon emissions. This advisory provides guidance on the framework for CCS activities under Presidential Regulation No. 14 of 2024 on the Implementation of Carbon Capture & Storage Activities (“**PR 14/2024**”), issued by the President of Indonesia on 30 January 2024.

Following are the key provisions and guidelines outlined in PR 14/2024:

1. Engaging in CCS Activities. CCS activities in Indonesian can be pursued through either:

- (a) Cooperation contracts for oil and gas exploration and exploitation activities (*Kontrak Kerjasama* – “**KKS**”), undertaken by Contractors to engage in mining exploration and exploitation activities (“**KKS-Based CCS Activities**”); or
- (b) Permits to engage in (i) Injection Target Zone (*Zona Target Injeksi* – “**ZTI**”) exploration activities in Carbon Storage Permit Areas (*Wilayah Izin Penyimpanan Karbon* – “**WIPK**”) (“**Exploration Permits**”); (ii) carbon transportation activities (“**Carbon Transportation Permits**”); or (iii) carbon injection and storage activities (“**Carbon Storage Permits**”). Exploration Permits, Carbon Transportation Permits, and Carbon Storage Permits are collectively referred to as “**Permit-Based CCS Activities**”.

2. KKS-Based CCS Activities. KKS activities may take the form of: (i) production-sharing contracts with operational cost reimbursement mechanisms; (ii) gross-split production sharing

contracts; or (iii) other forms of KKS agreements. KKS activities can be conducted within: (i) KKS Working Areas where exploration and exploitation activities occur; and/or (ii) KKS Working Areas that are part of oil operations.

3. Permit-Based CCS Activities. Businesses intending to engage in CCS activities in WIPK must obtain an Exploration Permit and Carbon Storage Permit. WIPK areas covered by Carbon Storage Permits may include: (i) open areas; (ii) mining business license/permit areas (*Wilayah Izin Usaha Pertambangan* – “**WIUP**”); and/or Working Areas. Eligible holders of Exploration Permits are Indonesian limited liability companies or foreign investment companies (PMA), while eligible holders of Storage Operation Permits are limited to Indonesian limited liability companies.

3.1 Preparation, Determination and Offering of a WIPK

A WIPK is determined either (i) independently by the Minister of Energy and Mineral Resources (“**MEMR**”) or (ii) by the MEMR in response to a proposal submitted by an interested business.

The MEMR will offer the WIPK through either (i) a limited selection process, where a proposing business will be given a ‘right to match’ during the tender process, or (ii) through a tender if the WIPK is prepared or determined by the MEMR independently. WIPKs consist of (i) open areas (geographic areas with no specific classification), (ii) mining business license/permit areas (WIUPs) and (iii) KKS Working Areas.

3.2 Exploration Permits

The winner of the WIPK tender must apply for an Exploration Permit which is valid for 6 years and can be extended once for another 4 years. Exploration Permits are not transferrable.

The MEMR grants an Exploration Permit after the winner of a limited selection or auction satisfies administrative, technical, environmental, and financial requirements.

The majority shareholder may transfer shares in an Exploration Permit holder only after the Exploration Permit holder has completed all exploration commitments and obtained prior approval from the MEMR.

3.3 Carbon Storage Permits

The MEMR grants a Carbon Storage Permit to an Exploration Permit holder after approving the Development & Operations Plans. Issuance of the Carbon Storage Permit is also contingent upon the Exploration Permit holder satisfying administrative, technical, environmental, and financial requirements. Financial requirements include providing proof of a

performance bond for implementing carbon storage operations, which will be reflected in the Carbon Storage Permit once issued.

A Carbon Storage Permit is valid for up to 30 years, with the possibility of multiple extensions for 20 years each. However, Carbon Storage Permits cannot be transferred.

The majority shareholder may transfer shares in a Carbon Storage Permit holder only after obtaining prior approval from the MEMR.

4. Commencing CCS Business Activities. Upon obtaining an Exploration Permit and Carbon Storage Permit, a business may engage in the following activities:

4.1 Carbon Capture Activities. Carbon Capture Activities consist of the following stages:

4.1.1 Preparation and construction stage: During this stage, activities include preparing environmental documents and approvals, as well as constructing and commissioning Carbon Storage facilities.

4.1.2 Carbon capture: This can be conducted through various methods, including: (a) carbon separation in oil and gas production facilities; (b) carbon capture from combustion; (c) pre-ignition capture; (d) oxyfuel combustion capture; (e) direct air capture; and (f) other mechanisms in accordance with scientific and technological developments.

However, captured carbon must be processed and purified before it can be (i) transported safely and (ii) injected safely.

4.2 Transporting Carbon. Carbon can be transported using (i) pipelines; (ii) trucks; (iii) ships; and (iv) other mediums in accordance with scientific and technological developments.

Businesses and holders of a Carbon Storage Permit may engage in Carbon Transport business activities after obtaining a Carbon Transport Permit from the MEMR (for transportation using pipelines) or the Minister of Transportation (for other means of transportation).

A Carbon Transportation Permit for pipelines is valid for 20 years and can be extended multiple times for 10 years per extension, while a Carbon Transportation Permit for other means of transportation is valid for 10 years and extendable multiple times for 10 years per extension.

4.3 Injection and sequestration. Owners of carbon storage facilities must allocate at least 70% of their total carbon storage capacity to domestic carbon storage providers. As a result, only up to 30% of their total carbon storage capacity may be used for storing carbon

originating from overseas. Domestic storage of carbon originating from overseas is permissible only if the carbon producer is investing or affiliated with an investor in Indonesia. Carbon Storage Permit holders may charge storage fees to their users. Currently, there are no regulations specifying minimum or maximum amounts for these storage fees.

4.4 Measurement, reporting and verification/validation. During the operation phase, the Carbon Storage Permit holder must conduct measurement, reporting and verification as part of climate change mitigation actions. Measurement is to be carried out at least once annually. Reporting must cover carbon capture from flue gas emission sources, carbon transport and carbon storage activities with requirements provided under the prevailing regulations. Validation and verification processes must be carried out by an independent validation and verification agency registered with the National Registry System for Climate Change Control (*Sistem Registri Nasional Pengendalian Perubahan Iklim – “SRN PPI”*). Measurement, reporting and verification results must be reported to the Minister of Environment and Forestry and to the SRN PPI.

The issuance of PR 14/2024 marks the government’s commitment to implementing CCS initiatives in Indonesia in due course. Following the issuance of PR 14/2024, we anticipate that relevant technical regulations and complementary frameworks will be promptly developed by the responsible ministries and authorities to establish a cohesive, transparent, and effective regulatory framework for CCS in Indonesia.

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