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Switching Off Local Content Requirements for Electricity Infrastructure

In response to rising demand for cleaner energy sources, Indonesia is easing local content requirements for electricity infrastructure projects, hoping the move will attract more foreign investment in renewable energy.

The Ministry of Industry, together with the Coordinating Ministry for Maritime and Investment Affairs, has determined that relaxing mandatory local content levels (*Tingkat Komponen Dalam Negeri* – “TKDN”) is necessary to increase foreign investment. This decision is supported by the Ministry of Energy and Mineral Resources, as reported in several news outlets.

The relaxation of local content levels is evident through the issuance of Ministry of industry Letter Number S/31/M-IND/HK/V/2024 dated 13 May 2024 (“**MOI Letter**”), which revokes Minister of Industry Regulation No. 54/M-IND/PER/3/2012 on Guidelines for the Utilization of Domestic Products for Electricity Infrastructure Development (“**MOI 54/2012**”). MOI 54/2012 had specified the percentage of mandatory local content required for developing electricity infrastructure projects serving the public interest. The MOI Letter states the revocation is based on the following reasons:

1. The substance of MOI 54/2012 concerns the development of electricity infrastructure, which falls under the authority of the ministry responsible for energy, rather than the Ministry of Industry.
2. Not all types of power plants that can be developed in Indonesia are subject to regulation under MOI 54/2012. Power plants using wind energy, wave energy, hydrogen, biomass (waste), nuclear, and others are exempt from this regulation.
3. The Minister of Industry supports the development of electricity infrastructure projects by promoting increased use of domestic products through the establishment of minimum local content levels in certain industries, as stipulated under Law Number 3 of 2014 on Industry,

Government Regulation Number 29 of 2018 on Industrial Empowerment, and other technical regulations.

4. The revocation of MOI 54/2012 is necessary to prevent potential regulatory conflicts regarding the obligation to use domestic products, arising from higher-level laws and regulations that were established after the enactment of MOI 54/2012. This action is recommended by the State Audit Agency and the Corruption Eradication Commission.

The Ministry of Industry emphasizes in the letter that electricity infrastructure financed through foreign loans or grants (*hibah*) can still proceed in accordance with the provisions of laws and regulations governing foreign loans or grants.

Although the MOI Letter states that the use of domestic products in development projects will continue to adhere to the provisions of existing laws and regulations, the revocation of MOI 54/2012 means there is now no specific law outlining the exact percentage of the local content requirement for electricity infrastructure.

It is worth noting that power supply businesses serving the public interest must still adhere to and satisfy local content requirements under Minister of Energy of Mineral and Resources Regulation No. 11 of 2021 on the Implementation of Electricity Businesses, which remains in effect. This raises questions over the future implementation of such provisions and whether this regulation will also be revoked. We will continue to monitor how this easing of local content requirements unfolds in practice.

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