

Indonesia Client Update

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BANKING, FINANCE & PROJECT

Indonesia Sets New Carbon Framework Under Presidential Regulation 110/2025



Indonesia's carbon market has long struggled to attract robust participation, partly because the earlier framework under Presidential Regulation No. 98 of 2021 ("**Previous Regulation**") left many practical questions unanswered. To resolve these challenges, the government issued Presidential Regulation No. 110 of 2025 on the Implementation of the Instrument of Carbon Economic Value and the Control of National Greenhouse Gas Emission ("**New Regulation**") on 10 October 2025.

What's the Urgency?

The New Regulation replaces the earlier framework, and introduces a clearer, more integrated system for carbon governance. It sets out how carbon pricing instruments will work in practice, strengthens oversight, and aligns Indonesia's carbon market with its Paris Agreement's commitments.

For businesses, the urgency comes from several structural shifts: defined carbon allocation rules, earlier access to international trading, recognition of voluntary and international standards, and the rollout of a new national carbon registry. These changes will require stronger internal monitoring, reporting, and engagement with sectoral ministries.

What's New?

1. Express provisions on Carbon Allocation

One of the most significant changes under the New Regulation is the establishment of a dedicated legal framework for Carbon Allocation (*Alokasi Karbon*). Previously, carbon allocation matters were only implied through sectoral greenhouse gas baselines (*Baseline Emisi GRK*), which were derived largely from historical emissions data and greenhouse gas inventories. Because ministries were not required to set sector-specific emission ceilings, businesses had no clear limits. As a result, demand for carbon credits remained limited.

Under the new framework, Carbon Allocation must be developed in line with Indonesia's national low-carbon development and green economy policies, and anchored to the National Long-Term and Medium-Term Development Plans (*Rencana Pembangunan Jangka Panjang Nasional* and *Rencana Pembangunan Jangka Menengah Nasional*). The New Regulation also introduces the concept of Carbon Reserve (*Karbon Cadangan*) to support long-term emissions management.

To ensure consistent implementation, the New Regulation introduces stronger governance mechanisms, including:

- A cross-ministerial Steering Committee (*Komite Pengarah*), which brings together key ministries and agencies across forestry, environment, energy, industry, agriculture, finance, and national development planning.
- A joint ministerial decision (*keputusan bersama*) mechanism for determining and amending Carbon Allocation, with defined triggers for adjustments to account for policy changes, new activity data, revised emission factors, or methodology changes that materially affect greenhouse gas calculations.

Importantly, Carbon Allocation is now expressly designated as the foundation for planning and determining Indonesia's nationally determined contribution ("**NDC**"), thereby elevating its role in the country's overall climate governance system.

2. International carbon trading may commence prior to NDC fulfilment

Article 58 of the New Regulation allows carbon trading, both domestic and international, to proceed even if Indonesia has not yet met its NDC targets. This marks a major shift from the Previous Regulation, which created uncertainty for project proponents regarding when international transactions could legally begin.

In addition, restrictions under the Previous Regulation's implementing rule (Minister of Environment and Forestry Regulation No. 21 of 2022), have now been removed. Previously, NDC targets at the relevant sectoral level (down to sub-sectors) had to be achieved before international carbon trading could occur. This requirement no longer applies.

By decoupling international carbon trading from NDC fulfilment, the New Regulation allows carbon projects proponents to sell Indonesia-generated carbon credits internationally at a much earlier stage. This shift provides greater legal certainty and improves pricing prospects, strengthening the overall investment environment for carbon projects and supporting the broader climate change mitigation efforts in Indonesia.

3. Recognition of international standards

Departing from the Previous Regulation, the New Regulation expressly recognises and permits the use of international standards in carbon trading. Under Articles 67 and 68(3), carbon units traded domestically and internationally may be issued based on national standards, UNFCCC (United Nations Framework Convention on Climate Change) standard, or other international standards.

Previously, all Indonesia-generated carbon reduction activities had to be registered in the national registry (SRN PPI or *Sistem Registri Nasional Pengendalian Perubahan Iklim*). As a result, project proponents were generally limited to government-issued carbon credits, which historically carried lower value and lower international acceptance than credits certified under standards such as Verra or Gold Standard.

The New Regulation also allows Indonesia to recognise credits issued under UNFCCC or other international standards, provided the responsible minister approves them. Importantly, the New Regulation removes the earlier requirement for a mutual recognition arrangement between the national registry and international certification bodies, which was necessary to convert local credits into internationally recognised ones.

Issuance processes now differ depending on the type of credit:

- Government-issued carbon credits are issued by the Minister of Environment after receiving a recommendation from the relevant sectoral minister.
- Internationally standardised carbon credits require approval from the relevant sectoral minister before issuance by the international standard body.

Despite procedural differences, both types require similar underlying submissions, namely a climate change mitigation action plan (DRAM) for government-issued carbon credits or a project planning document (DPP) for internationally standardised carbon credits.

4. Recognition of voluntary carbon markets

The New Regulation provides a clearer framework for both domestic and international trading, including expressly recognising voluntary carbon markets. This is a vital clarification that was absent under the previous framework.

- **Domestic carbon trading**

Domestic carbon trading now covers two main activities: (i) trading of greenhouse gas emission quotas, and (ii) trading of carbon credits for offsetting purposes.

Certain business entities are subject to mandatory greenhouse gas emission limits, set by their respective sectoral minister for each compliance period. To comply, these entities must implement climate change mitigation actions, purchase greenhouse gas emissions quotas from other entities, and/or purchase carbon credits for offsetting purposes. Entities that exceed their emissions limit are subject to a carbon tax.

At the same time, entities not subject to mandatory emission limits may sell their carbon credits through greenhouse gas emission offset trading. These credits can be sold to entities subject to mandatory emission limits, businesses undertaking voluntary emission offsetting, and the general public. Through this allowance, we see that the New Regulation recognises the voluntary carbon market as part of Indonesia's carbon trading framework.

- **International carbon trading**

International carbon trading is now divided into two categories: (i) trading of carbon units that require authorisation and corresponding adjustment ("**CA Units**"), and (ii) trading of carbon units that do not require corresponding adjustment ("**Non-CA Units**"). A corresponding adjustment is an adjustment to a country's NDC accounting to prevent double counting when carbon units are transferred internationally.

Trading activities of CA Units cover:

- Internationally linked greenhouse gas emissions trading;
- Transactions under Articles 6.2 and 6.4 of the Paris Agreement; and
- Voluntary greenhouse gas emissions offset trading undertaken to meet other international obligations.

CA Units are transferred to, and credited towards, the NDC of the acquiring country, which is why additional government authorisation is required.

Conversely, trading activities of Non-CA Units cover greenhouse gas emissions offset transactions that are not applied toward any country's NDC, meaning the reductions remain counted toward the selling country's own NDC.

This distinction provides clearer rules for market participants and resolves one of the biggest uncertainties under the Previous Regulation, namely, whether Indonesia-generated credits could be exported and transferred to international buyers. The New Regulation now confirms that both CA and Non-CA trading routes are available, depending on the intended use.

5. New carbon registry system

The New Regulation introduces a dedicated national registry for carbon units named *Sistem Registri Unit Karbon* or the Carbon Unit Registry System ("SRUK"). Replacing SRN PPI, SRUK will be the primary system for recording and managing data relating to carbon units under Indonesia's carbon economic value framework.

Project proponents must submit both general and technical data about their carbon economic value activities to SRUK. This information will form the basis for verification by an independent verification body. Once verified, the results are reported to the relevant sectoral minister and then formally recorded in SRUK.

All carbon trading transactions must be recorded in SRUK. This includes the registration of both carbon units, namely government-issued carbon units previously recorded in SRN PPI and carbon units issued under international standards. Further, the New Regulation provides that SRUK will operate on a decentralised network system, enabling data to be transparent, traceable, permanent, recorded in real time, and interoperable with other registry systems.

For clarity, project proponents must still submit their climate change mitigation action reports through SRN PPI, which will now function as the national climate action central database. Publicly available information indicates that the government aims to launch SRUK in March 2026. This dual registry architecture separates NDC-level data (stored in SRN PPI), from carbon unit data (stored in SRUK), allowing for more granular tracking and enhanced market integrity.

6. More robust MRV mechanism

The New Regulation significantly strengthens Indonesia's Measurement, Reporting, and Verification (*Pengukuran, Pelaporan, dan Verifikasi* or "MRV") framework. Under the Previous Regulation, transparency relied on three core pillars: MRV, SRN PPI, and Greenhouse Gas Emission Reduction Certification (*Sertifikasi Pengurangan Emisi GRK*). The New Regulation expands this framework by adding SRUK management and by formally recognising carbon units issued under international carbon standards. This creates a more integrated monitoring and reporting system across domestic and international carbon activities.

The New Regulation also raises the bar for institutional oversight and verification standards. Independent Validation and Verification Bodies (*Lembaga Validasi dan Verifikasi Independen*) must now be incorporated legal entities and accredited either by the National Accreditation Committee (*Komite Akreditasi Nasional*) or by internationally recognised accreditation bodies.

Critically, the newly established Steering Committee, as further discussed below, will coordinate the development of MRV guidelines for carbon economic value instruments and oversee national-level transparency and monitoring. This additional governance layer was not present under the previous regime and is intended to ensure consistency across sectors and alignment with Indonesia's broader climate objectives.

7. Establishment of a Steering Committee

The New Regulation establishes a Steering Committee with broad authority to set policy direction, coordinate cross-sectoral implementation, and supervise the operation of carbon economic value instruments and national greenhouse gas emissions control measures. The Committee is mandated to lead inter-ministerial and inter-agency coordination to ensure the effective implementation of carbon economic value instruments that support Indonesia's NDC targets and broader emissions-reduction goals. It must report its supervisory and evaluative findings to the President at least once each year.

The Steering Committee is chaired by the Coordinating Minister for Food Affairs, with the Coordinating Minister for Economic Affairs and the Coordinating Minister for Infrastructure and Regional Development serving as vice chairs. Its membership spans a wide range of ministries and agencies, including those responsible for environment, finance, energy, investment, industry, national planning, foreign affairs, and financial services regulation. This composition reflects a whole-of-government approach to carbon economic value and greenhouse gas governance.

Implications for Businesses and Local Governments

Businesses and local governments will face more structured compliance expectations under the new framework. Key implications include:

- Entities must conduct regular emissions inventories and report them through prescribed channels.
- Entities subject to emission caps must maintain compliance by implementing mitigation, trading quotas, or using offsets, considering that the failure to do so may expose them to carbon tax.
- Businesses should update mitigation and adaptation plans to reflect new allocation, MRV, and registry requirements. They should also assess opportunities for fiscal incentives and performance-based financing.
- Internal systems will need to connect with both SRN PPI (for climate action reporting) and SRUK (for carbon unit registration).
- Early and proactive coordination with sectoral ministries and the Steering Committee will be essential for navigating compliance obligations and leveraging market opportunities.

Key Takeaways

The New Regulation represents a significant modernisation of Indonesia's carbon market architecture. It introduces clearer rules and greater legal certainty for project proponents seeking to access the international and voluntary carbon markets. At the same time, the framework also strengthens market integrity through enhanced MRV and registry systems, while placing sharper compliance expectations on covered sectors.

By removing key barriers under the previous regime, particularly around international trading and the use of international standards, the New Regulation is expected to boost market confidence and enable earlier participation by project developers, buyers, and investors.

Market participants should closely monitor forthcoming implementing regulations and the rollout of SRUK, as these will shape how the regime operates in practice. Early alignment will help businesses manage compliance risks, access incentives and finances, and position themselves credibly within domestic and cross-border carbon markets.

Contacts

BANKING, FINANCE & PROJECT



Harun Wailan Ngantung

PARTNER

D +62 21 2555 7875
harun.ngantung@ahp.id

Contribution Note

This Legal Update is contributed by the Contact Partners listed above, with the assistance of **Sheliah Sylvania Patty** (Associate, Assegaf Hamzah & Partners).

Please feel free to also contact Knowledge Management at RTApublications@rajahtann.com.

Regional Contacts

Cambodia

Rajah & Tann Sok & Heng Law Office

T +855 23 963 112 | +855 23 963 113

kh.rajahtannasia.com

China

Rajah & Tann Singapore LLP

Representative Offices

Shanghai Representative Office

T +86 21 6120 8818

F +86 21 6120 8820

Shenzhen Representative Office

T +86 755 8898 0230

cn.rajahtannasia.com

Indonesia

Assegaf Hamzah & Partners

Jakarta Office

T +62 21 2555 7800

F +62 21 2555 7899

Surabaya Office

T +62 31 5116 4550

F +62 31 5116 4560

www.ahp.co.id

Lao PDR

Rajah & Tann (Laos) Co., Ltd.

T +856 21 454 239

F +856 21 285 261

la.rajahtannasia.com

Malaysia

Christopher & Lee Ong

T +603 2273 1919

F +603 2273 8310

www.christopherleeong.com

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Myanmar

Rajah & Tann Myanmar Company Limited

T +951 9253750

mm.rajahtannasia.com

Philippines

Gatmaytan Yap Patacsil Gutierrez & Protacio
(C&G Law)

T +632 8248 5250

www.cagatlaw.com

Singapore

Rajah & Tann Singapore LLP

T +65 6535 3600

sg.rajahtannasia.com

Thailand

Rajah & Tann (Thailand) Limited

T +66 2656 1991

F +66 2656 0833

th.rajahtannasia.com

Vietnam

Rajah & Tann LCT Lawyers

Ho Chi Minh City Office

T +84 28 3821 2382

F +84 28 3520 8206

Hanoi Office

T +84 24 3267 6127 | +84 24 3267 6128

vn.rajahtannasia.com

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