Asia Investor Group on Climate Change (AIGCC)

Submission: Indonesia Sustainable Taxonomy Consultative Paper

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AIGCC
ASIA INVESTOR GROUP
ON CLIMATE CHANGE

FEEDBACK ON THE INDONESIA SUSTAINABLE TAXONOMY

The Asia Investor Group on Climate Change (AIGCC) welcomes the opportunity to comment on the Indonesia Sustainable Taxonomy (TBI) public consultation draft published by the Otoritas Jasa Keuangan (OJK) in November 2023.

AIGCC members include over 70 Asian and international institutional investors active in 11 markets with over USD 33 trillion in assets under management. AIGCC is also a network partner of the Investor Agenda, a coalition of seven investor groups - AIGCC, Ceres, Institutional Investors Group on Climate Change (IIGCC), Investor Group on Climate Change (IGCC), CDP, Principles for Responsible Investment (PRI) and UNEP Finance Initiative, working collaboratively on accelerating investor action towards a net zero emissions economy, as well as the Asia network partner supporting the Paris Aligned Asset Owners Initiative and the Net Zero Asset Managers Initiative.

The TBI presents a potential opportunity for companies to align with the Paris climate goals within their business models and strategies and accelerate the changes needed to achieve Indonesia's Enhanced NDC and net zero goals. The TBI can help to protect institutional investors and asset managers from greenwashing and encourage the shift of investment into sustainable activities in Indonesia that will support the achievement of Indonesia's climate goals.

AIGCC strongly supports the work of OJK, and the collaboration with various ministries of the Government of Indonesia (GoI) in the development of the TBI to help ensure the facilitation of Indonesia's just and orderly transition. We support the TBI alignment with the ASEAN Taxonomy for Sustainable Finance (ATSF) and encourage further continuity with international standards like the EU Taxonomy to promote interoperability among various taxonomies in the region.
With this overview in mind, we have the following high-level comments on the TBI public consultation draft published by OJK in November 2023:

Firstly, we welcome the inclusion of the transition classification, especially for Indonesia, which is currently economically reliant on carbon-intensive activities and seeks to transition to a low-carbon economy. The IEA's report on the Roadmap to Net Zero Emission in Indonesia highlighted that the total investment for Indonesia's energy sector transition needs to ramp up from the current average of USD 20 billion to around USD 55 billion by 2030 to achieve Indonesia's target of net zero by 2060. The same report highlighted that public finance can only cover a fraction of the required investment, and will require domestic and global financiers to finance Indonesia's transition. Transition finance is needed for activities that increase the flow of capital to what is needed to support the net zero transition. These transition activities should be labeled as green or transition to best direct those capital flows appropriately.

Therefore, it is crucial to ensure that the TBI references existing frameworks or tools used by investors in their transition planning to increase the flow of capital to support the transition. These frameworks include the Investor Climate Action Plan (ICAP), Transition Plan Taskforce (TPT) Disclosure Framework, Net Zero Investment Framework (NZIF), ISSB, and TCFD frameworks, which are complementary to each other. The definition of transition planning should demonstrate increased ambition over time and should also emphasize the entity's overall strategy on its climate transition plan, not only at the project or activity level. This includes the entity's target, action, or resources to transition to a low-carbon economy that aligns with the IFRS ISSB S2 definition of transition planning.

Furthermore, it is increasingly clear from the IPCC report that the damage of going beyond the temperature rise of 1.5 °C above the pre-industrial level will be catastrophic for natural and human systems. It will jeopardize the stability and resilience of social, financial, and environmental systems on which the investment relies, and thus, national and economic strategies that are aligned to 1.5 °C will deliver the best long-term returns for investors. The existing net zero frameworks for investors are also defining their climate transition plans by referring to the 1.5 °C target instead of the well below 2 °C goal. Therefore, alignment with 1.5 °C in developing the criteria for the green classification will help to unlock capital from global investors for activities that are aligned with their climate commitments. It will also incentivize companies to further reduce their emission and improve their performance to align with Indonesia's climate goals.

The emphasis on interoperability and alignment with other regional and national taxonomies is a welcomed feature. While the green and transition categorization slightly differs from the ASEAN Taxonomy Version 2, the tiered approach would serve to inform investors which activities are aligned with climate goals and which are "transition" activities. However, it is worth noting that only those activities that do not cause significant harm to environmental objectives at the time of assessment under the ASEAN taxonomy may be labeled as green while the TBI may allow for activities that do cause harm but carry out the Remedial Measure to Transition (RMT) to achieve green classification. Similarly, the EU Taxonomy restricts activities from being labeled as environmentally sustainable if they cause more harm than benefit to the environment. Although the RMT included in the TBI allows for alignment with the ASEAN taxonomy, it is recommended that the green categorization better align with other international standards like the EU Taxonomy.

Continuing on the categorization, we recommend that the TBI explain the rationale behind the removal of the red classification from the taxonomy. The presence of a red category can be used to provide clarity on activities that are incompatible with Indonesia's climate goals or those activities that have significant harm. This would help investors to better understand activities that can be further improved to align with Indonesia's climate goals, while other incompatible activities will be required to be phased out. This would allow investors to shift capital towards activities that are supporting Indonesia's transition and incentivize companies in their transition to align with Indonesia's climate goals.

The TBI has highlighted that activities classified in the transition category are expected to address their significant harm through the RMT. We recommend that the TBI provide clarity on the consequences of not completing the RMT within the specified timeframe, where in the ASEAN taxonomy, the activity will be re-classified as red. This would assure investors that the company conducting the activities in the transition category would be fully committed to addressing its impact as planned on the RMT.

As Indonesia progressively moves towards achieving its net zero goal, more activities are expected to be in line with the green classification, while the Technical Screening Criteria (TSC) for the transition category are expected to be more stringent. We believe that it would also be necessary for the TBI to emphasize how it is planning to address the tightening of the TSC and the sunsetting of the TSC.

As transition finance is a key element of the managed coal phaseout, we welcome guidelines released by organizations like GFANZ on transition finance and financing the managed phaseout of coal-fired power plants. Although such finance is essential for the energy transition, it is concerning that the TBI allows electric generation from coal power plants to be labeled as green rather than as transition activity if it meets certain phaseout criteria, especially as the IEA has deemed that "immediate reductions and a global decline in unabated coal-fired generation" are needed.[1] It is more appropriate that these activities only be permitted to receive transition labeling if the listed criteria are met. Green classification should be reserved for those activities that are in line with the commitment to keep global temperature to 1.5 °C and do no significant harm to environmental objectives. The managed coal phaseout is necessary, but green labeling may be inconsistent with international standards.

Furthermore, it is vital to halt the addition of coal-fired power capacity. As the TBI allows for new coal-fired power plants to be labeled as transition activity if certain criteria are met, this conflicts with Indonesia's commitment to stop building coal-fired power plants after 2023 and is not aligned with science-based pathways to reach net zero. No new coal-fired power generation capacity should be permitted to qualify for green or transition labeling.

Alongside the consideration of climate change mitigation, we welcome climate change adaptation as another component of the environmental objectives included in the TBI. While large gaps remain in both mitigation and adaptation finance, adaptation to physical climate risks and the promotion of adaptation financing for related projects are crucial. Ecosystem and biodiversity health are also meaningful inclusions as this theme has become a mainstream concern for global investors.

Lastly, as a forum for investors to consider the financial opportunities and risks presented by climate change, we would like to highlight the social aspects most ingrained in economic growth as investors seek returns on their investments. As transition finance will be necessary to enable countries to switch from a carbon-intensive to low-carbon economy, the importance of a just transition must also be emphasized. We note that the TBI has included job creation as part of the social aspect, however, as part of supporting communities and workers during the energy transition, there should be a larger emphasis on job creation. It is encouraging to see that coal-fired power plants are required to have just transition plans to qualify for favorable classification within the taxonomy. Job creation as part of the just transition has been a main concern throughout ongoing Just Energy Transition Partnership (JETP) discussions in alleviating the uncertainty for the coal sector workers on their livelihood.

In conclusion, AIGCC warmly welcomes the Indonesia Sustainable Taxonomy (TBI) as a tool to increase global and regional sustainable investment that can support the achievement of Indonesia's climate goals. However, we urge revision around the labeling of coal-fired power generation. Transition finance is vital for Indonesia and the wider region, and it is crucial that the taxonomy promotes the managed coal phaseout consistent with international standards and science-based pathways to Paris targets.

Please do reach out to us for any further clarification or assistance that we can provide. We look forward to continued engagement in the development of the taxonomy.

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About AIGCC

ABOUT AIGCC

The Asia Investor Group on Climate Change (AIGCC) is an initiative to create awareness and encourage action among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing. AIGCC provides capacity and a trusted forum for investors active in Asia to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy related to climate change.

With a strong international profile, the AIGCC network also engages with government pension and sovereign wealth funds, family offices, and endowments, AIGCC represents the Asian investor perspective in the evolving global discussions on climate change and the transition to a net zero emissions economy.