

## **STATEMENT NOTABLE OF ENERGY DEVELOPMENT REPUBLIC OF INDONESIA, SINCE EWG 35**

### **BIOFUEL**

Indonesia as an agricultural country has a big challenge to develop biofuel as fossil fuel substitute. Biofuel development is effective not only to reduce dependency on fossil fuel but also to improve local economy as well as to create considerable employment opportunities (pro poor, pro growth, and pro job) particularly in rural areas. Biofuel can be produced from many raw materials. Bioethanol, bio-oil and biodiesel are kind of biofuel which have been developed widely. Bioethanol used as petroleum substitute is produced from cassava and sugar; bio-oil used as kerosene and fuel oil substitute is produced from pure plantation oil, while biodiesel used as diesel oil substitute is produced from palm oil, jatropha, rapeseed etc. Currently, in Indonesia biofuel is utilized mostly for transportation sector, while in the future it also will be developed to replace diesel fuel for power generation.

Since few years ago the Government of Indonesia has shown its eagerness to promote biofuel, notably biodiesel, bio-ethanol and bio-oil. In addition to Presidential Instruction No.1/2006 concerning Biofuel Development, just recently, the Government of Indonesia issued Ministerial Regulation No. 32/2008 concerning Supply, Utilization and Marketing of Biofuel as an Alternative Energy. Presidential Instruction No. 1/2006 aims at accelerating biofuel utilization for fossil substitute, particularly oil

The integrated strategy for implementation of the biofuel program has been developed through efforts made on multiple governmental levels and through an approach that was made following the onset of the national Team for Biofuel Development (TIMNAS BBN). Presidential Decree No. 10/2006 with the mandate of creating a blueprint for a biofuel development program.

The successful execution of this challenge has major positive implications for the future of Indonesia on a number of fronts, including job creation, poverty alleviation and the generation of energy from renewable sources.

Biofuel is a labor intensive process and demands collaboration between all levels of the government; from the state level to the provincial and village, to the agricultural and private sector. The TIMNAS BBN blueprint supports and coordinates the seamless communication between the government, public sector and other involved parties with a multifaceted policy that marks a new stage in Indonesia's push towards the utilization of biofuel.

The blueprint has set in place production and consumption targets to be achieved through policy measures and mechanism supporting, and further developing the concept of self-sufficient energy village, the simplification of licensing issues related to the production of biofuels, the creation of policies ensuring the domestic consumption of biofuels as well as measures to ensure competitive pricing of biofuels.

The Special Biofuel Zone (SBZ) is another fact of Indonesia's biofuel development program. Certain areas throughout the archipelago, which are sized at least 10.000 ha in Java or 100.000 outside Java, have been designated SBZs based on evaluations to gauge the area's potential for development as well as the area's observance of a set criteria. The

criteria ensure that zones have met necessary standards for infrastructure including transportation and labor requirements needed for effective biofuel production. The SBZ also adhere to strict conservation guidelines with clearly zoned marked for industry, for cultivation as well as non-cultivation conservation zone. The SBZ further streamlines the process of investing in biofuel by acting as one for issuing of licensing and permits for investors.

Ministerial Regulation No. 32/2008 regulates development stage for biodiesel, bioethanol and bio-oil from 2008 to 2025. This regulation formulates the mandatory of biofuel utilization in various sectors namely transportation, industrial and commercial as well as power generation sector. Biodiesel is more developed and directed to be utilized in transportation, industrial and commercial sectors as well as power generation. Based on this regulation, the minimal obligation stage of biodiesel utilization in transportation, industrial and commercial sectors as well as power generation is set around 20% respectively in 2025, however, in 2008, the utilization of biodiesel in transportation sector is approximately only 1%, in industrial and commercial sector is about 2,5 % and in power generation is around 0.1%.

For bioethanol, currently it is only utilized in transportation sector. However, it is expected that bioethanol also will be utilized in industrial and commercial as well as power generation sector in the future. The minimal obligation stage of bio-ethanol utilization in 2025 in transportation and industrial and commercial is about 15% respectively, meanwhile in 2008 the utilization of bioethanol in transportation sector is only around 3%.

Furthermore, at present bio-oil has not been yet utilized commercially. The minimal obligation stage of bio-oil utilization in 2025 in transportation, industrial and power generation sector is set around 10% respectively. The utilization of bio-oil in power generation is expected will be initiated in 2009, while in the other sectors it will be introduced in 2010.

In addition, the minimal obligation stage of biofuel utilization in household sector has not been yet determined in this regulation, however, the Government also encourages the utilization of biofuel in household sector.

With the issuance of the Presidential Instruction (Inpres) No. 1/2006 on the provision and utilization of biofuel as an alternative energy source, the Indonesian government made a firm commitment to the development of the potential of biofuel in the country.

The Indonesian Government is Providing special incentives to investors :

- Nominal stamp duty
- Agreements with 50 countries on the avoidance of double taxation.
- Relief from import duties.
- Investment Tax Allowance in the form of taxable income reduction up to 30% of the realized investment spread over 6 (six) years.
- Accelerated depreciation and amortization.
- Loss carried forward facility for a period of no more than 10 (ten) years.

- 10% income tax on dividends, possibly lower if stipulated in the provisions of an existing applicable tax treaty.
- Selected Strategic Goods exempt from Value-Added Tax.

A Foreign Direct Investment (FDI) Company may be established with foreign and Indonesian partners or with 100% foreign ownership for a period of up to 15 years, after which 5% ownership must be divested to Indonesian indirectly to the domestic stock exchange.

### **CONVERSION PROGRAM OF KEROSENE TO LPG IN URBAN HOUSEHOLDS.**

In order to reducing the dependency on fuel oil especially kerosene, the Government has implemented Conversion Program of Kerosene to LPG. Through this program, the Government distributed free of charge of LPG stoves and small LPG's cylinder (3kg) to the urban households who used kerosene stoves, particularly whom live surrounding the Capital City (Jakarta, Bogor, Depok, Tangerang dan Bekasi). The Government set the target that all urban household throughout Indonesia will free from using kerosene stoves in year 2009. For the time being, all household in capital city, Jakarta and surrounding area has used LPG cook stoves and will be followed by other households in other cities in Indonesia.

### **ENERGY EFFICIENCY AND CONSERVATION**

- In May 2008, The Government has issued a new Presidential Instruction No. 2/2008 on Energy and Water Efficiency. This regulation replaces previous regulation on energy efficiency namely Presidential Instruction No. 10 /2005. The new instruction is directed to encourage not only the implementation of energy efficiency but also water efficiency. Presidential Instruction No. 2/2008 instructs all the Government Institutions to promote and implement energy and water efficiency efforts. This regulation also initiates the establishment of the National Committee for energy and water efficiency. Furthermore, the National Committee on Energy and Water Efficiency is supported by Implementing Committee which the members come from related institutions. This Implementing Committee is responsible for, among others, inventing policies related to energy and water efficiency and evaluating the implementation of those policies; formulate policy, strategy and program; monitoring; conducting cooperation with stakeholders to create public awareness; organizing assessment and formulating financial support for implementing energy and water. In addition, some activities have been launched by Implementing Committee to accelerate the implementation of energy and water efficiency, among others are as follows:
  - Designating the capital city of Jakarta as a pilot project for energy and water efficiency program which should be a best practice for other cities in Indonesia.
  - Organizing dissemination of task force and standard operating procedure of energy and water efficiency, 25 June 2008

- Launching Energy and Water Efficiency Movement by Minister for Energy and Mineral Resources, 5 August 2008
- Launching National Movement on Energy and Water Efficiency by President, 10 August 2008
- National Roll Out, October 2008