



**BEWARE THE COMMODIFICATION OF
ENERGY TRANSITION**

KEY POINTS

Given the importance of the energy transition framework in Indonesia, this position paper provides analysis for stakeholders to oversee the choice of energy transition mechanisms. WALHI emphasizes several key points that must be thoroughly considered in making the right decisions about the energy transition mechanism and framework in Indonesia. The energy transition mechanism and framework should be based on the fair, just, and sustainability principles, rather than turning the energy transition into a medium for oligarchs to seek profit under the guise of addressing the climate crisis.

1. The Paradigm That Drives Energy to Become a Commodity

The fundamental principle of universal energy access is crucial for human dignity and sustainability. Energy generation is a natural resource that should not be exploited by corporate interests. The energy system should focus on meeting societal needs rather than capital accumulation. Energy is a "common good" that transcends monetary value and drives most societal aspirations. Access to energy must be balanced with safeguarding rights and respecting individual dignity. This includes reducing wasteful or excessive energy consumption patterns through efficiency and conservation and limiting excessive consumption by corporations and elites.

The goal is not to replace dirty energy with sustainable ones that serve the same profit-seeking interests, as such solutions will perpetuate exploitation and financialization of nature.

2. The Deception of the Finance Institution

We should question the main intent of finance institutions in their efforts to drive energy transition and realize that financial instruments have been involved in the operation of the energy sector from the beginning. Just as businesses and banks raise funds for fossil industry exploration, exploit natural resources, and exacerbate poverty among vulnerable groups. Finance institutions are part of the problem that has trapped us in the current climate crisis. Financing from Export Credit Agencies, state-owned and private banks to Multi Development Banks, for fossil projects in Indonesia alone has exceeded USD 40 billion. An amount that is twice as large as the commitment of the Just Energy Transition Partnership (JETP) which is also driven by financial institutions. Accepting a transition funding scheme filled with debt schemes will end up becoming a layered burden for the government and their people, where they are first forced to accept investments with a large burden to build fossil energy infrastructure, then offered an energy transition scheme full of new debt. By allowing the same finance institutions to profoundly influence the energy transition scheme, rather than this being an effort to finance the energy sector, it is actually an effort to energize the finance sector.

3. No Legal Basis, Difficult to Hold Accountable.

Legal certainty about the position of the Secretariat and the JETP work agenda becomes a big question in the principle of good governance. This question will refer to the extent to which the JETP Secretariat can be held accountable in terms of its contribution and influence on the regulation of the needs of many people. The unclear position on the legal basis becomes problematic, especially in terms of governance and accountability. Deviant planning and implementation, and violations of laws and regulations, have serious impacts on the people and the nation itself.



INTRODUCTION ■

The Indonesian government has implemented various energy transition schemes and mechanisms to address the climate crisis such as Climate Investment Funds (CIF), Energy Transition Mechanism (ETM), Coal Retirement Mechanism (CRM), Indonesia Energy Mechanism Country Platform (EMCP), Just Energy Transition Partnership (JETP). However, these schemes rely on funding from finance institutions and mostly come from debt, which does not change the pattern of energy provision from extractive and centralistic to regenerative and democratic. The current energy transition should benefit the community and environment, not add to the economic burden of people, including debt repayment.

WALHI believes that the energy transition in Indonesia must be fair, just, and sustainable, using renewable energy sources managed based on fair and just principles such as gender justice, democratic, transparent, accountable, integrity/anti-corruption, preservation of environmental functions, respecting local customs/traditions/culture, and increasing community livelihood resilience.

The Just Energy Transition Partnership (JETP) was launched by the Indonesian government and the International Partners Group (IPG) during the G20 Summit in Bali, Indonesia. The partnership promises an initial commitment of \$20 billion, consisting of IPG funding of \$10 billion and private financing from a banking coalition incorporated in the Glasgow Financial Alliance for Net Zero (GFANZ) worth \$10 billion.

Currently, JETP-Indonesia is developing a Comprehensive Investment and Policy Plan (CIPP), led by the JETP Secretariat. However, the process tends to favor market interests in proposing policy priorities, providing little meaningful participatory space, and being non-transparent.

POSITION AND DEMANDS ■

This position paper outlines WALHI's stance and position on the mechanisms and platforms of energy transition in Indonesia and provides an analysis from the aspect of Indonesian legislation. Broadly speaking, until now there has been no legal basis in Indonesia that legitimizes the mechanisms and platforms of energy transition being carried out in Indonesia, including the JETP Secretariat. The lack of clarity from the legislative aspect makes the implementation of the energy transition in Indonesia still covered with many questions. In the end, the energy scheme being proposed still cannot answer how to stop the use of fossil energy, how to fund the transition that does not come from debt, and how to place the principles of fair, just, and sustainable in the mechanisms and platforms being built.

For this reason, WALHI takes a stance and position to REJECT the mechanisms and platforms of energy transition in Indonesia today, including the scheme from the JETP Secretariat, for the following reasons:

1. The process being built is not democratic, because it does not involve all stakeholders, including the people affected by this mechanism, among them labor groups, women, indigenous peoples, and other vulnerable groups.
2. Still prolonging the use of fossil fuel.
3. Funding comes from debt, thus adding to the burden of the people who are currently experiencing layers of crisis.
4. The mechanisms and platforms of energy transition being carried out in Indonesia, including the JETP institution, still do not have a strong legal basis.
5. The mechanisms and platforms of energy transition that have been and are being developed, including in the JETP mechanism, do not place the values and principles of fair, just, and sustainable energy transition, including the principle of gender justice.

Therefore, WALHI demands the Indonesian government to develop mechanisms and platforms for energy transition that:

1. Democratic, sovereign, transparent, accountable, have integrity/anti-corruption, prioritizing the preservation of environmental functions for humans and non-humans, respecting local customs/traditions/culture and increasing the resilience of community livelihoods, preventing inequality and gender injustice, and supporting efforts to overcome the climate crisis
2. Have a legal basis for legislation that contains the principles of fair, just, and sustainable energy transition, including the principle of gender justice.
3. Do not use funding schemes that come from debt that will add to the burden of the people.





ENERGY IS A RIGHT, NOT A COMMODITY¹ ■

The right to universal energy access is a fundamental principle that promotes sustainability and human dignity. Energy is a common resource that transcends monetary value and should not be colonized by corporate interests. Access to energy should be a basic right, enabling food production, decent housing, essential services like health and education, and connectivity. However, about 760 million people still lack access to electricity, and many others have inconsistent or low-quality access². Energy poverty can trigger other poverty problems such as inadequate healthcare, limited educational opportunities, and minimal job opportunities.

To achieve alignment between the right to energy and sustainability, access to energy must be carried out by protecting the rights and respecting the dignity of all individuals. This includes efforts to end wasteful or excessive energy consumption patterns through efficiency, savings and limit excessive consumption by corporations and elites. The UN Sustainable Development Goal on energy targets affordable, reliable, and modern universal access by 2030, but it is crucial to consider the environmental and social costs of energy generation.

¹ These principles are based on the People Power Manifesto by Friends Of The Earth International. URL <https://www.foei.org/wp-content/uploads/2020/12/14-FoEI-PPN-manifesto-ENG-lr.pdf>

² IEA (2023), SDG7: Data and Projections, <https://www.iea.org/reports/sdg7-data-and-projections>, Retrieved November 12, 2023

Currently, government elites, corporations, and oligarchs are riding the energy transition, offering nuclear energy, large-scale dams, geothermal, and industrial bioenergy as part of renewable energy. Some models of transition to renewable energy must consider negative impacts such as deforestation, landscape degradation, and air, soil, or water pollution that can arise from large-scale projects.

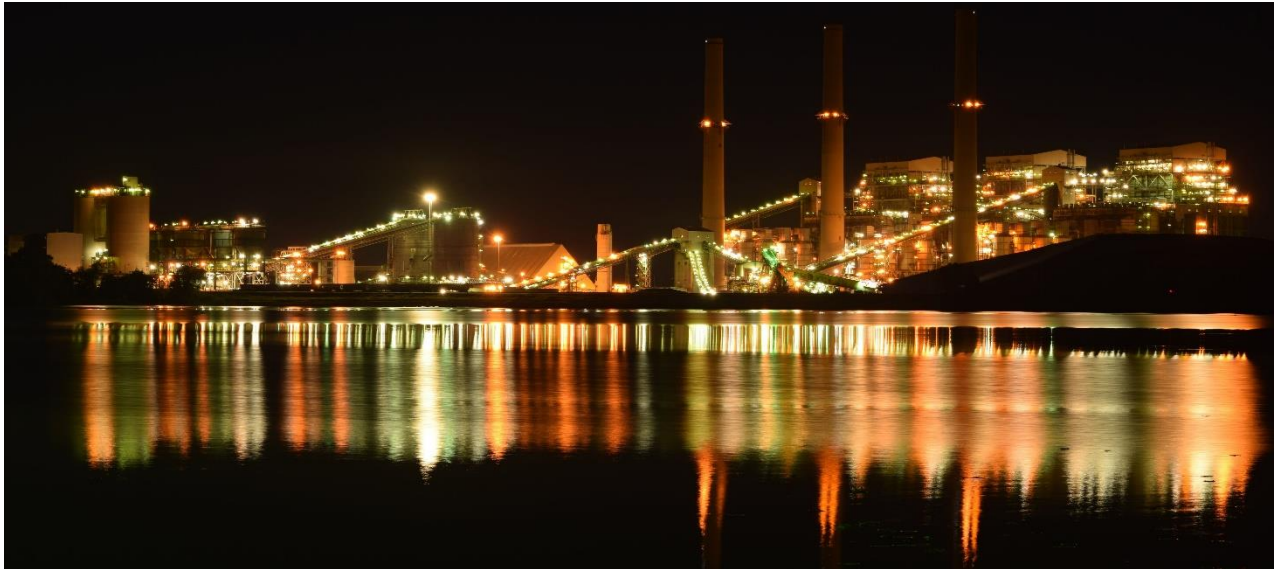
The concept of 100% universal renewable energy demands adequate energy access for all, which has a positive impact on public health and environmental cleanliness. However, this demand should be accompanied by a fair transition, sufficient energy needs, energy sovereignty, and energy democracy. To meet this demand, efforts must consider equity and access to energy generation resources and technologies.

Building renewable energy on a local, decentralized scale is the best choice for building renewable energy. Community members should be at the forefront of energy management, as access to the technology, knowledge, and skills needed in its management must be obtained by them. The development of small-scale renewable energy power plants will have a significant impact on ensuring universal access to energy.

Currently, the majority of energy is generated through large-scale centralized power plants and distributed through the national electricity network. This approach has several problems, including being wasteful, rarely providing significant benefits to the surrounding community, and potentially causing deforestation, disrupting local ecosystems, polluting the environment, and seizing people's management areas.

Therefore, efficient technology is needed that can meet needs, which is democratically controlled by the community, and governments in smaller units. Small-scale energy generation and locally relevant technology are pursued primarily by considering systems that have modularity that allows for gradual capacity increases along with the increased ability of communities to add energy based on the adequacy of energy they need.





FINANCE THE ENERGY SECTOR OR ENERGIZE THE FINANCE SECTOR? ■

Historically, developed countries in the Global North have been responsible for the climate crisis, as they have exploited the natural resources of Global South countries like Indonesia. This has led to increased energy consumption and greenhouse gas emissions, on the other hand, the Global South countries face limited resources and are heavily reliant on developed countries for adaptation and mitigation efforts.

The funding allocated by developed countries to support adaptation and mitigation efforts in developing countries is still very limited. As of April 2023, the funds successfully collected through the United Nations agency specifically formed to handle this issue only reached USD 12 billion, which is only about 1.5% of the USD 800 billion international contribution that the United States of America should have paid as part of the financing for mitigation, adaptation, and for loss and damage caused by irreversible climate change³.

Developed countries need to provide larger funding support, which is not in the form of debt, for efforts to adapt to the climate crisis. This funding must also cover income inequality issues, budget deficits for healthcare, education, social, and public services, as well as gender inequality issues. The energy transition financing mechanism currently run by global finance institutions such as the Asian Development Bank (ADB), the World Bank, and the Glasgow Financial Alliance for Net Zero (GFANZ) is still dominated by debt, which will be a double burden for developing countries, considering that these countries previously had large debts for the development of fossil-based energy infrastructure such as coal-fired power plants.

Energy corporations have partnered with banks and other finance sectors to create financing deals to support their dirty energy operations and hide losses. Project financing, the main form of debt financing, first appeared in the 1930s when a Dallas bank provided a nonrecourse loan to an oil and gas company. The first commodity index fund was designed in the early 1990s by Goldman Sachs, involving oil and gas

³ Reyes et al (2021) United States of America Fair Shares Nationally Determined Contribution. https://foe.org/wp-content/uploads/2021/04/USA_Fair_Shares_NDC.pdf. Retrieved November 12, 2023.

commodities to provide predictable oil prices. Credit default swaps, insurance instruments that caused the collapse of AIG in 2008, were first engineered in 1994 to allow JP Morgan to lend \$4.8 billion to Exxon to cover potential liabilities due to the Exxon Valdez oil spill. Energy companies also played a role in the first weather derivatives trade, which was transacted in 1996 between Aquila Energy and Consolidated Edison. Weather trading is now a billion-dollar industry, with 70% of its end users being energy sector corporations⁴.

In Indonesia, the funding for previous fossil projects has surpassed USD 40 billion, coming from various sources such as the Export Credit Agency, state-owned and private banks, and the Multi Development Bank. The stated amount is twice the size of the commitment made by the Just Energy Transition Partnership (JETP), which is also funded by the same institutions. The JETP commitment is valued at USD 20 billion, with 99% of it being in the form of debt.

Embracing a transition financing scheme that relies heavily on debt will ultimately impose a complex burden on both the Indonesian government and its people. Initially, they are compelled to accept substantial investments to construct fossil fuel infrastructure, such as coal-fired power plants, and now subsequently, they are presented with a new energy transition scheme that is also laden with debt. By allowing the same finance institutions to profoundly influence the energy transition scheme, rather than this being an effort to finance the energy sector, it is actually an effort to energize the finance sector.

When developed countries provide funding to developing countries to overcome the climate crisis, this is not aid but part of their responsibility and obligation. This funding should come from a stable and predictable public source, not go through offset mechanisms or other false solutions that allow them to continue to emit as long as they buy carbon value from other hemispheres. The diversion of military funds or the implementation of Financial Transaction Taxes, especially higher taxes for elites and conglomerates, coupled with the termination of tax havens to mobilize wealth that is currently unethically hoarded, can be done to ensure the protection of public funds. Analysis from Friends of the Earth International shows that government revenue lost through tax havens can empower half the world with 100 percent renewable energy by 2030⁵.

Developing countries need to immediately abandon dirty energy and build clean, sovereign energy. This means that energy is built with the proposal and approval of the people, including women and other vulnerable groups, Electricity that is generated from and for the people. Controlled and managed in a democratic, participatory, transparent, and accountable manner. The community, especially those affected by the process of electricity generation, must feel the benefits of electricity and other social benefits. If this can be fulfilled, it will not only encourage the collection of funds for mitigation and adaptation to the climate crisis but will also contribute to rebalancing the global power dynamics that have been unfair and unequal.

⁴ Lohmann, L. and N. Hildyard (2014), *Energy, Work And Finance*, <http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/EnergyWorkFinance%20%282.57MB%29.pdf>, Retrieved November 12, 2023

⁵ Friends of the Earth International (2016), *An Energy Revolution is Possible: Tax Havens and Financing Climate Action*, <https://www.foei.org/publication/an-energy-revolution-is-possible-tax-havens-and-financing-climate-action>, Retrieved November 12, 2023

UNREGULATED, BLANK SPACE FOR RESPONSIBILITY ■

The Just Energy Transition Partnership (JETP) is an energy transition program in Indonesia that aims to disburse billions of dollars for the country. However, the program lacks a clear legal basis, which could lead to future problems if there is no basis for its implementation. Currently, the JETP partnership program is based on Presidential Regulation number 112 of 2022 concerning the Acceleration of Renewable Energy Development for Electricity Supply, which contradicts Law No. 12 of 2011.

As a rule-of-law country, government policies should have a clear legal basis, especially related to legal certainty. This principle prioritizes the basis of statutory regulations, propriety, decency, and justice in every policy of government administration. The principle of legality is considered the most important foundation of the rule of law and means that the government can only take action based on the authority given and limited by law⁶.

The existence of regulation as a legal basis related to energy transition can provide legal certainty to apply the principle of justice in the planning and implementation of Just Energy Transition in Indonesia. This application is carried out by accommodating the needs of the state to guarantee energy access for vulnerable and less capable communities. The application of the principle of expediency in the planning and implementation of state programs ensures that this cooperation truly provides the greatest possible benefits for the wider community.

The implementation of Energy Transition must ensure the application of principles related to the fulfillment of human rights, including the right to a healthy environment, improving an equitable standard of living, guaranteeing protection and legal certainty, and access to employment, especially relevant to the effort of transitioning workers towards just energy. It is also important to ensure that achieving a just energy transition requires the establishment and implementation of programs that comply with non-economic principles, such as environmental protection, sustainable natural resources, utilization, fair efficiency, and energy sovereignty.

The absence of a legal basis can result in uncertainty about the energy transition mechanism to be chosen. When this program involves state-owned enterprises as the implementers of this program, the regulation becomes unclear. PT PLN, as one of the state-owned enterprises that focus on electricity, for example, also had its own decarbonization roadmap through the Zero Carbon 2060 scenario⁷. This PT PLN scenario even has its own scheme related to the retirement of thermal power plants where the first phase will be carried out in 2030 with the retirement of 1 GW of thermal power plants that fall into the subcritical category, then, the second phase will be carried out in 2035 with the retirement of 9GW of thermal power plants that also

⁶ Bagir Manan and Kuntana Magnar (1987), *Peranan Peraturan Perundang-undangan dalam Pembinaan Hukum Nasional*, Armico, Bandung, page. 45

⁷ Institute for Energy Economics and Financial Analysis (IEEFA), *Putting PLN's Net Zero Ambition Into Context*, <https://ieefa.org/resources/putting-plns-net-zero-ambition-context>, Retrieved November 12, 2023

fall into the subcritical category. The absence of clear legal regulation will make various initiatives for the implementation of energy transition overlap, even contradict each other.

Legal certainty about the position of the Secretariat and the JETP work agenda is a big question in the principle of good governance. This question will refer to the extent to which the JETP Secretariat can be held accountable for its contribution and influence on the regulation of the fate of many people. The lack of clarity of position on the legal basis becomes problematic in terms of governance and accountability. Especially if in the future it encounters fundamental problems in planning and implementation that are wrong, violate laws and regulations, and have serious impacts.

