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Report

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Climate change: A global concern

Mr. Gita Wirjawan Head of Indonesia's Investment Coordinating Board



It is a pleasure and an honour for me to have the opportunity to address you at this 'LSE IDEAS Climate Change Workshop'.

Climate change is indeed a global concern. We have seen over the years an intensive discourse on this subject. There have been discussions among global leaders at the APEC summit in Sydney, the UN Conference on climate change in Bali, the ASEM summit in Beijing, the G-8 outreach in Japan, the recent G-20 Summits in Washington DC and London, the UN High level summit in New York, and of course the recent meeting in Copenhagen.

These discussions highlight the need to work together as global citizens, since what we do in our respective countries has a bearing on the rest of the world. The talks also highlight the importance of continuing to move forward on this agenda even in the midst of the global financial crisis.

Southeast Asia is vulnerable to the impact of climate change. We have seen recently the impact of climate change in the region, such as the rising frequency of typhoons and natural disasters in the region. The world is becoming dangerously warmer. As neighbours, it is important for us to better understand the impact of climate change in our region, and try to find regional solutions to them. As a group, we have a better chance of addressing climate change collectively rather than individually. Together, we can more easily share technology, working together as a regional block to overcome challenges of global warming.

I am not an environmental specialist or an expert in climate change. I am a businessman and a banker. Some even call me a musician and a golfer. So I will leave the technical details on climate change for all of you to discuss.

Instead, I would like to talk today more generally about Indonesia's aspirations and approach to climate change. I would also like to talk to you about another type of climate issue that I know better – investment climate, and how a good investment climate could support climate change efforts.

1. Indonesia's approach to climate change

During the UN Climate Change Conference held in Bali in 2007, 187 nations acknowledged the indisputable evidence of global warming and risks of severe climate change impacts. The conference produced the Bali Road Map, which became a significant milestone in global efforts to address the impact of climate change.

The ramifications of global warming included an increase in tropical cyclone intensity, salinity of the sea, changes in wind patterns, change in the reproductive period of animals and plants, and epidemics. Climate change is also expected to influence various ecosystems in high latitude including the Arctic and Antarctic, as well as coastal ecosystems. Some of these effects will only be felt in the long-run, some

in the not-too-long-run and some, such as the rise in the frequency and intensity of extreme weather with all of its consequences, are already evident now, as manifested recently in the Philippines, Vietnam, Cambodia and Laos.

Predominantly coastal Southeast Asia has been particularly vulnerable to the impact of climate change. In Indonesia, for example, the majority of the population lives within 100 km of the coast. Around 14 percent of Indonesia's GDP is generated from agriculture, and 15 percent from coastal and fisheries activities – both combined representing over 40 percent of Indonesia's labour force. Over three percent of Indonesia's GDP comes from tourism.

The Indonesian government has made clear repeatedly in many international forums that it is committed to taking its part in this global effort. Indonesia sees itself as the voice of the developing nations.

Developing countries such as Indonesia still face many challenges in their national development. Indonesia is currently doing relatively well. In the midst of a global financial crisis, Indonesia continues to grow positively at over 4.5 percent, one of the highest growth rates in the world. Indonesia's political condition also remains remarkably stable. Indonesia recently carried out, for the third time in a row, a peaceful and successful election, with President Yudhoyono obtaining a strong mandate from the Indonesian people to lead for the next five years. Various reform efforts including improving good governance, continue to be on track.

However, we are still a long way off from the degree of prosperity that we see in developed countries. Many of our people are still in poverty and/or unemployed. We are still working on providing adequate infrastructure, health care and education to our citizens. Given these challenges, many of us from the developing and underdeveloped countries ask how we can spend the limited resources that we have

on climate change, rather than on these development priorities. This question becomes even more important when the world is in the midst of a global financial crisis. Moreover, several developing nations hold the view that climate change we experience today is caused by the pollution generated by industrial countries from decades ago. In other words, they should bear the responsibility.

It is therefore important to find an approach that reconciles the development objectives of developing countries with climate change prerogatives. In his speech on climate change at the recent G-20 forum, President Yudhoyono called this a principle of "common but differentiated responsibilities and respective capabilities". This means that developed, developing and underdeveloped countries should do more and not continue with a "business as usual" attitude. This means that developed countries must take the lead on the effort, but developing countries must also seriously do their part. In addressing climate change, it is also important to bear in mind that developing countries lack sufficient technology, human capacity and funds to contribute optimally to a solution. In many instances, they also face unfavourable climatic trends.

As such, developing countries need support in terms of financing, technology, research, among others, from the developed world. We are pleased to see mechanisms such as the carbon market and Clean Development Mechanism (CDM) and Reduced Emissions from Deforestation and Degradation (REDD), although a lot more still needs to be done for them to be optimally utilised.

It is our hope that the principles based on "common but differentiated responsibilities and respective capabilities" be emulated by other countries as we move forward in this global agenda.

2. Climate change and investment climate: a win-win solution.

As I mentioned earlier, developing countries like Indonesia have their development aspirations and goals, and at the same time are committed to taking part in the global efforts to addressing climate change. Often these two objectives are viewed as in conflict with one another. However, this is not necessarily always the case. In fact, there are ways to achieve our development objectives without polluting our planet. As Indonesia straddles both ends of the global warming debate, it is well-positioned to take a win-win solution.

Let me give you several illustration, using the two main sources of emissions in Indonesia: land use and energy.

The national council on climate change reported that Indonesia emits around 2.3 billion tons of CO² per year, or 8 percent of the global emission. It is the world's third largest emitter after United States and China. Out of this number, around 80 percent comes from land use, especially peat lands and forests. Worldwide, forests and peat lands act as biological carbon sinks slowly lowering the amount of greenhouse gases in atmosphere by storing atmospheric carbon in biomass. These carbon sinks are threatened by deforestation and drainage, which leads to greenhouse gas emission, either slowly due to degradation and decomposition, or quickly through fires. Imagine if Indonesia can attract billions of dollars from reducing these emissions. Indonesia could offer a new approach for a global deal to mitigate climate change against a backdrop of international efforts to deal with the problem.

If we take Indonesia's emission from land-use, which is around 1.8 billion tons of CO², and multiply it with the current price of carbon traded in the market, which is around €14 per ton of CO², Indonesia could potentially attract over €25 billion per year, equivalent to over US\$33 billion per year, a significant amount which can then be invested in communities, new technologies, and other investments that improve livelihoods. This could be a solution where actions

to mitigate and reduction emission are in line with our development objectives. It will not be an easy task to realise them, but it is also not impossible to achieve. The land use sector is gaining momentum in climate change negotiations, and initial steps in the right direction are in place. Allow me to give you another illustration. Indonesia's greenhouse gas emission from energy is relatively small compared to deforestation. However with the projected rapid increase of energy demand (estimated at around 7-9 percent per year), it is projected that greenhouse gas emissions from energy sources will also grow rapidly, and will surpass that of deforestation in the not so distant future.

At the same time, Indonesia is rich in renewable energy resources and could benefit from increasing its use of renewable energy sources, including geothermal, hydro, biomass, and solar power. This would not only contribute to meeting rising demand and enhancing energy security, but also help constitute sustainable development that is in-line with climate change mitigation efforts.

Indonesia has nearly 40 percent of the world's potential geothermal resources which could be a viable addition or alternatives for base load power generation. Geothermal generation can be developed at a scale that would be economically feasible, especially if coal prices keep rising. Biomass and hydro-electric resources are abundantly available in most of the outer islands and can be an attractive option for switching away from the largely diesel-based generation in many of these locations.

To use these resources, Indonesia has started developing an energy mix policy and has begun to address the technical, policy and commercial barrier that hinder progress. Indonesia is also exploring the use of a spectrum of fiscal and other policy instruments to promote energy efficiency, reduce the energy-intensity of industry and promote investment in renewable resources.

As Indonesia is working towards improving its policies, institutional arrangements and programs towards a healthier investment climate in green energy, access to global support and instruments are also needed. Financial and investment flows required for these new investments are beyond the financial capacity of Indonesia. Therefore, attracting new investments in renewable energy is the other side of the coin where significant support would be needed.

Sustainable development often requires quick technology turn around, allowing new greener technology to enter the market. It requires large investments to enter the country. Being a dynamic and modern country, Indonesia could reconcile its development goals and climate change targets. Indonesia is committed to making this happen by improving its investment climate.

Although still relatively modest, Indonesia's ease-of-doing-business ranking has been improving every year, showing progress in the right direction, moving from 129 in 2008 to 122 in 2009. We are on the right track to improve good governance. Given the cross-cutting nature of investment climate, the government has given a stronger mandate to the Investment Coordination Board to coordinate the different parties involved. This includes the one-stop-shop program, which would allow investors to process its business licensing at the investment board, rather than having to go to individual ministries or departments. We are also working towards making business licensing to be available on-line, to make it more accessible to investors.

All these efforts, combined with a focus in infrastructure and continued good management of macroeconomic condition, would help Indonesia play a bigger role. ■