Client Alert
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Charging up Indonesia's regime on battery electric vehicles

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Between 1950 and 1970, the global vehicle population doubled roughly every 10 years. Estimates anticipate that the world's fleet will reach 2 billion motor vehicles by 2020 (up from 1 billion in 2010), with cars representing at least 50% of all vehicles. In 2018, the global electric car fleet exceeded 5.1 million, up 2 million from the previous year. While this figure is relatively low, various scenarios quoted by the International Energy Agency anticipate that by 2030, electric vehicle (**EV**) sales will range between 23 million to 43 million per annum, with the stock ranging from 130 million vehicles to more than 250 million. In Indonesia, Toyota has announced plans to invest up to USD$2 billion to develop EVs over the next four years, focusing initially on hybrid vehicles, with a view to transitioning to developing full EVs.

New regulation - what does it do?

Against this background of anticipated rising demand, the President of the Republic of Indonesia has signed the long-awaited presidential regulation on Battery Electric Vehicles (**BEV**) - Presidential Regulation No. 55 of 2019 on Acceleration of Battery Electric Vehicles Program for Road Transportation (**PR 55/2019**). This came into effect on 12 August. The aim of this regulation is to accelerate the BEV program for road transportation by granting fiscal and non-fiscal incentives to industry players.

Another key driver for the regulation is to make Indonesia a base for production and export of BEV, given that it is an important source of Nickel Laterite.

PR 55/2019 also creates new opportunities for business actors engaging in the electricity sector (through cooperation with PLN), by regulating the provision of BEV infrastructure, including charging facilities infrastructure. PR 55/2019 specifically provides that sales of electricity through Public Electricity Charging Stations (*Stasiun Pengisian Kendaraan Listrik Umum* or **SPKLU**) can be conducted by holders of electricity supply business licenses (*Izin Usaha Penyediaan Tenaga Listrik* or **IUPTL**) for the relevant business area (*wilayah usaha*).

Key provisions

Acceleration program

PR 55/2019 seeks to accelerate the domestic BEV industry by insisting on the construction of domestic BEV manufacturing infrastructure.

Such manufacturing activities may be carried out by companies assembling and manufacturing BEVs and/or BEV component manufacturers, provided that they:

- construct BEV manufacturing facilities in Indonesia
- obtain an industrial business license for assembling or producing BEV or an industrial business license for assembling or producing primary / supporting components of BEV

Import of primary / supporting BEV components in the form of either IKD (Incompletely Knock Down / IKD) or CKD (Completely Knock Down) components is allowed so long as no BEV component manufacturing companies in Indonesia currently producing them.

BEV manufacturing companies that are constructing manufacturing facilities are still allowed to import BEV in the form of CBU (Completely Built Up) units, but only up to certain amounts and for a certain period (to be further specified in implementing regulations).

Significantly, the Central Government has the express right to regulate the use of motor vehicles running on petroleum or diesel[1]. In turn, car manufacturers must expressly support the domestic BEV industry.

Local content requirement

Companies that engage in BEV manufacturing and BEV components manufacturing are subject to stringent local content requirements, as follows:

- for two or three wheel BEVs:

Year	Minimum local content
2019 – 2023	40%
2024 – 2025	60%
≥ 2026	80%

- for four or more wheel BEVs:

Year	Minimum local content
2019 – 2021	35%
2022 – 2023	40%
2024 – 2029	60%
≥ 2030	80%

Incentives

Certain fiscal and non-non fiscal incentives can also be granted by the central and regional governments to business actors that are involved in the acceleration program, including BEV manufacturing companies and BEV

[1] Significantly, the GOI has indicated that it will gradually seek to reduce the fuel subsidy.

component manufacturing companies, public transport companies, companies renting out batteries (battery swap) for electric motor bikes and individuals who use BEV.

These incentives include:

- import duty incentives for any imports of BEV and main components of BEV
- sales tax incentives on luxury goods
- incentives for production of equipment for SPKLU
- incentives for export financing
- financing support for construction of SPKLUs

Further incentives will be given to locally owned companies developing national branded BEV, i.e., BEV that uses signs, pictures, logos, names and words that have Indonesian characteristics.

Implementing regulations

The transitional provision under PR 55/2019 mandates the issuance of implementing regulations at the latest one year after the promulgation date of PR 55/2019.

New opportunities for electricity sector

PR 55/2019 introduces two types of infrastructure for charging of BEV: (i) charging facilities (which can be in the form of private electricity installation and/or SPKLUs) and (ii) battery exchange facilities. The charging facilities infrastructure can be provided by a state-owned company (**SOE**) that engages in the energy sector and/or other business entities. Initially, PR 55/2019 assigns the installation of the charging facilities infrastructure to PT PLN which, in turn, can cooperate with other SOEs or other business entities in accordance with the prevailing laws and regulations.

Specifically with respect to SPKLU, PR 55/2019 allows sales of electricity through SPKLU to be conducted by IUPTL holders that have their own business area, either by themselves or through cooperation with SOEs engaging in the energy sector or other business entities.

The regulation anticipates that SPKLU will be sited at petrol stations (SPBU and SPBG), central and regional government offices, malls, and roadside public parking lots.

Electricity tariffs for charging BEV will be determined by the Minister of Energy and Mineral Resources. It remains to be seen whether these will be linked to 'standard' consumer electricity prices, or to some other benchmark.

PR 55/2019 seems to give new opportunities for IUPTL holders to engage in the provision of charging facilities infrastructure through cooperation with PLN, or if the IUPTL holders have their own business area, by selling electricity to BEV users through SPKLU. However, it is still unclear how IUPTL holders will cooperate with PLN on the provision of charging facilities, and whether a specific license will be needed. This will be subject to the further implementing regulations.

Testing

BEV must meet technical and road safety specifications, through BEV type tests (covering physical, design and engineering tests) as part of the vehicle registration process. Further periodic tests will also need to be taken once the BEV has been operated.

Conclusions

The successful implementation of PR 55/2019 is reliant on a wide range of ministries issuing implementing regulations. This, the possibility of regulatory overlap / conflict, together with domestic manufacturing requirements and the supply monopoly that will, in the first instance, sit with PLN, may act as potential drags on the rapid uptake of BEVs. However, we remain optimistic that any such issues can be resolved, and that Indonesia will become a major player in this space.

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