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INDONESIA REGIONAL POLICY BRIEFING #3: KEY RECENT DEVELOPMENTS AND COP OUTCOMES

Policy brief prepared by Access Partnership for the Tropical Forest Alliance

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About this briefing

TFA has identified the need to build awareness of relevant policy developments **in Indonesia** among corporate stakeholders related to **deforestation and the forest positive agenda**. In service of this objective, TFA commissioned Access Partnership to develop regular regional policy briefings for Indonesia, with the aim of providing comprehensive and impartial information on the policy and geopolitical context related to deforestation and the forest-positive agenda in Indonesia to help stakeholders engage with policymakers. Aspects covered by these briefs include policy developments and updates from current events related to forest protection, sustainable land use, agricultural production and trade, green finance, climate, and land rights. This is the third of the six briefings, which **summarises key developments from the last quarter of 2022, with additional focus on major multilateral events in the last quarter of 2022 such as UNFCCC COP27, UNCBD COP15, and the G20 Summit**. It has been organised in the form of a short section on key developments outside of the multilateral events, and four short sections with key outcomes from multilateral events. Subsequent briefs will cover new policy developments, current events, and issues on related agendas.

Summary of insights

1. **2022 ended with a flurry of policy and industry developments relevant to deforestation in Indonesia.** A recent EU regulation, which requires traders and operators to conduct due diligence to ensure imported commodities are deforestation free, has drawn mixed reactions in Indonesia, with the Indonesian Palm Oil Association (GAKPI) citing compliance challenges for smallholders. The RSPO meeting in December 2022 celebrated further expansion of the certification scheme, particularly among smallholders, though overall coverage remains low. China committed to purchasing CSPO or ISPO-certified palm oil. Indonesia's carbon exchange may be launched in 2024 or 2025. Finally, the EU's Carbon Border Adjustment Mechanism (CBAM) may impose high carbon import tariffs on deforestation-linked commodities in the future.
2. **Multilateral events facilitated partnerships for Indonesia to advance efforts against deforestation.** COP27, COP15, and G20 have facilitated the formation of various international partnerships to increase financing to advance efforts against deforestation. These include the trilateral rainforest alliance by Brazil, Indonesia, and the Democratic Republic of Congo (DRC) to finance forest conservation – a promising South-South cooperation agreement, the Forest and Climate Leaders' Partnership (FCLP) – for which Indonesia is considering membership and to serve on the steering committee, and the Mangrove Alliance for Climate (MAC) – which is led by Indonesia and the UAE.
3. **Loss and damage fund agreed at COP27 signals greater climate financing support for Indonesia.** COP27 ended with a landmark agreement where developed countries committed to providing financing to countries vulnerable to climate-related disasters through a "loss and damage" fund. Crucial details about the fund's management and distribution of finance, however, remain to be determined at COP28 in the UAE in November 2023. The fund complements other global financing programs including the Emissions Reduction Payment Agreement (ERPA), under which Indonesia recently received payment for reducing emissions from deforestation and forest degradation in East Kalimantan.
4. **G20 leaders strengthen climate commitments.** This official G20 communiqué pledged to limit global warming to 1.5 degrees, while also supporting the loss and damage fund being discussed at COP27. The G20 also witnessed the launch of the Just Energy Transition Partnership (JETP) to support Indonesia's energy transition away from coal and the Ocean20 (O20) joint initiative by Indonesia and the World Economic Forum to promote a sustainable ocean economy.
5. **Kunming-Montreal Global Diversity Framework (GBF) agreed at UNCBD's COP15 will boost forest conservation efforts.** In a landmark, "Paris-like" moment for biodiversity and nature, 196 countries pledged to halt and reverse biodiversity loss by 2030, supported by 23 ambitious targets. These include eliminating biodiversity loss in areas of ecological importance, restoring 30% of degraded lands, bringing 30% of all ecosystems under conservation laws, and mandating transnational business to disclose their biodiversity impact. Indonesian Civil Society Organisations (CSOs) supported these "30 by 30" targets and the focus on indigenous people and local communities. The Indonesian government called for developed countries to contribute their fair share to the implementation of the GBF, given that goals are shared but Indonesia accounts for a disproportionate share of global biodiversity stock.

I. 2022 ended with a flurry of policy and industry developments relevant to deforestation in Indonesia

- **Mixed reactions in Indonesia to new EU regulation on deforestation-free trade:** New EU regulation imposes mandatory due diligence rules for companies that wish to trade in commodities that are linked to tropical deforestation.¹ The burden will be placed on buyers and traders to prove that products are legally produced and deforestation-free (i.e., produced on land not deforested after 31 December 2020). The announcement precipitated a wave of activity from stakeholders to map their production to farm-level and improve their traceability systems.² The EU's ambassador to Indonesia stated that most palm oil companies in Indonesia could meet these requirements, including smallholders,³ but the Indonesian Palm Oil Association (GAPKI) disputes this and has recommended that the regulation's traceability requirements exempt

smallholders.^{4,5} Instead, GAKPI advocates the use of national and voluntary certification schemes as a form of compliance.

- **RSPO 2022 meeting struck celebratory tone:** In November 2022, RSPO held its annual meeting in Kuala Lumpur – its first in-person such session since 2019. During the meeting, it was revealed that RSPO certifications are increasing, especially among smallholders.⁶ New studies also revealed that certified plantations were associated with even lower emissions than before, creating strong momentum for lower deforestation associated with smallholder-produced palm oil. Following the meeting, on December 1, 2022, RSPO proposed the prioritization of jurisdictional approaches to transform palm oil standards and to include independent smallholders and local communities in such approaches.⁷ However, palm oil production coverage by RSPO remains low – only 20% of global production, while consumption remains lower still – only 3% of palm oil in India and 8% in China.
- **China commits to purchasing certified palm oil from Indonesia:** At the China-Indonesia Palm Oil Dialogue in December 2022, China committed to purchasing CSPO and ISPO-certified palm oil.⁸ WWF Indonesia showed support for palm oil exports from Indonesia to China, while highlighting key issues surrounding Indonesian palm oil production and encouraging palm oil exporters to obtain either RSPO or ISPO certification.⁹ WWF Indonesia also noted the need to align norms, standards, procedures and criteria for palm oil trade between the two countries.
- **Indonesia's carbon exchange could be launched in 2024 or 2025:** The Financial Services Authority (OJK) is likely to be given regulatory and supervisory authority under the auspices of the Nilai Ekonomi Karbon policy (Carbon Economic Value policy) to design and launch the carbon exchange in the near future.¹⁰ Authorities have stressed that carbon trading schemes must expressly detail various aspects including benefit sharing, verification and certification processes, as well as supervision in their implementation and local involvement.¹¹
- **EU's Carbon Border Adjustment Mechanism (CBAM) may affect agricultural commodities in the future:** The EU's CBAM regulation, agreed in December 2022 and pending implementation in October 2023, essentially imposes a tariff on carbon-intensive products, initially covering iron, steel, cement, aluminium, fertilizers, hydrogen, electricity, as well as some manufactured products.¹² Upon its proposal in 2021, Indonesian policymakers' perception of the CBAM suggested that many government officials see it as a potential trade barrier, although they were less concerned as palm oil was not under the scope of the policy.¹³ However, this stance may change as more products are expected to be included in future, with deforestation-linked commodities such as palm oil likely to be affected.

II. Multilateral events facilitated partnerships for Indonesia to advance efforts against deforestation

Various multilateral events in recent months have facilitated the formation of partnerships for Indonesia, allowing greater international coordination in delivering critical finance, creating new channels for public and private sector investment especially in sustainable commodity supply chains and nature-based restoration and conservation. Major partnerships for Indonesia include:

- **Brazil-Indonesia-Congo trilateral rainforest alliance to finance conservation of tropical forests:** On November 7, Brazil, Indonesia, and the Democratic Republic of Congo (DRC) culminated a decade of talks when they formally launched a partnership on tropical forest preservation ahead of the G20 Summit and COP27. The agreement calls for greater finance from the international community to reduce tropical deforestation in these three countries, which together cover over half of the world's primary tropical forests. While details are still pending, the agreement is expected to touch on common issues including access to finance and the cost of carbon credits.¹⁴ The alliance reflects concerns that the current scale of funding to developing countries to tackle deforestation is insufficient, with a large proportion coming in as loans that increases their debt burden.¹⁵ However, the agreement did not detail concrete implementation plans. Climate advocacy groups have also emphasized the importance of consulting local communities and indigenous peoples to ensure that their rights are protected when implementing new programs¹⁶, and on setting up robust accounting mechanisms to measure the impact of carbon offsetting.¹⁷ Similarly, academics

in Indonesia have pointed out that implementation of such programs tend to lack consistency and proper evaluation, and that indigenous peoples tend to be the ones disadvantaged in the process.¹⁸

- **Forest and Climate Leaders' Partnership (FCLP):** Launched at COP27 by 26 countries and the European Union (EU) on November 8, the FCLP follows up from COP26 commitments to halt and reverse forest loss and land degradation by 2030. Indonesia is considering joining the FCLP and to serve on the Steering Committee. This would build on recently signed bilateral climate agreements between Indonesia and Norway, the US and UK to support Indonesia's FoLU Net Sink 2030.^{19,20}
- **Mangrove Alliance for Climate (MAC):** The MAC, led by Indonesia and the United Arab Emirates (UAE), was launched on November 8, with the purpose of scaling up and accelerating conservation and restoration of mangrove ecosystems worldwide.^{21,22} India, Australia, Japan, Spain, and Sri Lanka were among the first countries to join the alliance. Aligned with the MAC, Indonesia and UAE have announced plans to embark on a joint mangrove rehabilitation pilot project featuring a 10,000 hectare mangrove park in Indonesia.²³

III. Loss and damage fund agreed at COP27 signals greater climate financing support for Indonesia

The UNFCCC's COP27 was held in Sharm El-Sheikh, Egypt over November 6 to 18, 2022. Indonesia had a positive presence at COP27, being cited as a global example of progress for meeting deforestation elimination targets. In particular, praise was given to Indonesia from the global community at the event for having registered a record 25% annual decrease in deforestation in 2021, and for the FoLU Net Sink 2030 plan.²⁴

The closure of COP27 was marked by a breakthrough agreement for a "loss and damage" fund, under which developed countries are to provide adaptation and mitigation funding to support countries that are vulnerable to climate-related disasters. European nations have pledged more than US\$300 million thus far, with a roadmap laid out for future decision-making, although crucial decisions including sources on funding (i.e., contributions) and who would benefit has been pushed to the COP28 summit next year.²⁵ There have thus far been two key reactions from Indonesia to this fund:

- **Welcome idea, but follow-through is key to success:** The Environment and Forestry Ministry of Indonesia acknowledges that the fund is expected to reduce potential loss and damage costs associated with climate change.²⁶ Similarly, environmental researchers in Indonesia generally have a positive reaction to the fund, although they have cautioned that implementation of the fund is just as important and that monitoring accountability of projects under the fund will be critical to its success.²⁷
- **Important complement to existing programs:** Experts believe the loss and damage fund will complement other global climate financing programs, such as the Emissions Reduction Payment Agreement (ERPA), that are designed to create more sustainable supply chains. In November, Indonesia became the first country in the East Pacific region to receive a payment of US\$20.9 million under the ERPA for reducing emissions from deforestation and forest degradation (REDD+) in East Kalimantan. This is the first tranche out of a total US\$110 million promised under the agreement to support Indonesia's efforts in reducing deforestation and forest degradation.²⁸

IV. G20 leaders strengthen climate commitments

The G20 Summit was held in Bali over November 15 and 16, 2022. While the summit did not bear specific outcomes relating to deforestation or forest conservation, it was witness to a number of important developments for climate action in Indonesia more broadly, including:

- **Pledging for 1.5°C:** G20 leaders strengthened earlier commitments made in the Paris Agreement by pledging to limit global warming to 1.5°C in their official communiqué, sending a strong signal of their steadfast commitment to tackle climate change. This was in contrast to negotiations occurring in parallel at COP27, where there was heated debate on the likelihood of keeping warming limited to 1.5 degrees.²⁹
- **Establishing the Just Energy Transition Partnership (JETP):** The communiqué committed to establishing the JETP to provide €20 billion to support Indonesia's phase out from coal, distributed over the next

three to five years.³⁰ This is the first time that G20 leaders have explicitly supported an exit from coal dependency.

- **Launching Ocean 20 (O20):** Together with the World Economic Forum (WEF), Indonesia launched the O20, a new public-private initiative to promote long-term sustainability of the ocean economy.³¹
- **Supporting COP27 loss and damage fund:** G20 leaders encouraged COP27 negotiators to “make progress on loss and damage”, unsurprising given Indonesia’s presidency of G20 and disproportionate exposure to extreme weather events from climate change. Leaders further urged developed countries to fulfil commitments to deliver on the goal of jointly mobilising USD100 billion per year by 2020 and up to 2025.³²

V. Kunming-Montreal Global Biodiversity Framework (GBF) agreed at UNCBD’s COP15 will boost forest conservation efforts

The UN Convention on Biological Diversity’s (CBD) 15th Conference of the Parties (COP15) took place in Montreal, Canada over December 7 to 20, 2022, and was chaired by China. The event marked the passing of a landmark agreement to halt and reverse biodiversity loss by 2030 signed by 196 countries in a “Paris moment” for nature and biodiversity, akin to the 1.5°C warming goal agreed for the climate in 2015.

The deal was formalised through the Kunming-Montreal Global Biodiversity Framework (GBF), which has several important targets that are expected to boost forest conservation efforts in Indonesia and around the world, including Target 2, which aims to restore 30% of degraded terrestrial, inland waters, coastal, and marine ecosystems by 2030. It also includes Target 3, which aims to conserve 30% of world’s lands, inland waters, coastal, and marine ecosystems by 2030. To date, Indonesia has protected 21.3% of its terrestrial lands³³ (including 54% of forests) and 8.7% of marine areas,³⁴ indicating further progress needs to be made.

The deal has thus far drawn cautious optimism in Indonesia:

- **Indonesian civil society organizations (CSOs) support targets:** Many local CSOs, including BRWA, WFII, Greenpeace Indonesia, and WALHI, penned an open letter to policymakers prior to the conclusion of COP15 in support of the “30 by 30” targets as a minimum target, while highlighting that many Indonesian regions such as Papua will require “greater protection and swifter action”.³⁵ Local and global CSOs also advocated for focus on indigenous peoples and local communities, with the World Resources Institute (WRI) citing the inclusion of explicit text on their legal recognition and right to finance as a “pivotal shift”. Forests managed by indigenous peoples often store more carbon and have lower deforestation rates. CSOs also emphasized that establishing strong national and international legislation that codifies these targets, setting robust monitoring systems, and bridging the financing gap will be critical to the success of the GBF.³⁶
- **Indonesian government calls on developed countries to share responsibility:** The Indonesian government, which supported the deal, has called on developed countries to implement the GBF while upholding the common but differentiated responsibility (CBDR) principle that is fundamental to international environmental law.³⁷ Indonesia’s Deputy Environment and Forestry Minister Alue Dohong, who headed the delegation to COP15, cited CBDR as they key reason for Indonesia to agree to the GBF, while pointing out that its implementation would place disproportionate burdens on Indonesia. Studies reportedly estimate that nearly US\$700 billion would be needed to implement the GBF, while global biodiversity is largely concentrated in a few developing countries in the Global South, such as Indonesia, Brazil, and DRC.

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