

CONFIDENTIAL – NOT FOR DISTRIBUTION

INDONESIA REGIONAL POLICY BRIEFING #4: NEW YEAR, NEW DEVELOPMENTS

Policy brief prepared by Access Partnership for the Tropical Forest Alliance

March 2023

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 fourth of the six briefings, which **summarises key developments from the first two months of 2023, focusing on a flurry of government action, civil society wins, reactions to new EU laws, and news from the broader commodity production landscape**. It has been organised in the form of short sections on each of these areas. Subsequent briefs will cover new policy developments, current events, and issues on related agendas.

Summary of insights

1. **Government action to tackle deforestation kept pace in early 2023.** Indonesian government ministries were extremely active earlier in the year: BAPPENAS launched the Sustainable Jurisdiction Indicators to support progress measurement in landscape programs. The Ministry of Environment and Forestry convened a national working meeting and held regional socialization plans for the FOLU Net Sink 2030 plan. The Coordinating Ministry of Economic Affairs reasserted the need for palm oil yield improvements to meet 2025 replanting targets, while providing reassurance on stockpiles to avoid export bans as in 2022. Finally, in February, the Ministry of Energy and Mineral Resources launched Indonesia's first mandatory carbon trading subsector plan under the Nilai Ekonomi Karbon (NEK) policy, covering the power generation subsector in a cap-and-trade-style system.
2. **Civil society registers major wins.** Civil society groups began the year with a few major breakthroughs including the conviction of oil tycoon Surya Darmadi in a decades-long corruption scam for palm oil deforestation in Riau, and Korindo dropping its libel case against Mighty Earth in German courts in a boost for rainforest protection in Papua. Positive coverage on palm oil was also noted in the international press, including from Vox and the Wall Street Journal, with plaudits given to civil society actors in working with government and industry to reduce deforestation. Groups also raised concerns on the environmental and health impact of the new capital, Nusantara, that is sited among ancient rainforests in East Kalimantan.
3. **Indonesia and Malaysia voice concerns on European Union (EU) deforestation laws, but willing to work together.** The two governments expressed concern that the new EU Deforestation Regulation will increase costs of palm oil production without supporting local communities, will disproportionately affect smallholders, and would favour EU produced rapeseed oil at the expense of palm oil. Both countries, however, are hopeful for an amicable resolution, mediated via the World Trade Organization (WTO). Both have also sent trade envoys to the EU to meaningfully work with lawmakers and represent their arguments. EU-based importers, financiers, and users of palm oil are now presented with an important window to influence potential changes to the law that could strengthen multistakeholder efforts.
4. **Updates from the broader commodity ecosystem.** We conclude by rounding up news from non-palm commodities. Coffee deforestation has proven a challenge for decades, but the social forestry licensing regime with support from industry, civil society, and academia is showing excellent progress in reversing deforestation, with the Rainforest Alliance's Lampung program a good example. Pulp and paper deforestation accelerated in 2022, following a five-year trend, although far lower overall than deforestation peaks in the 2000s and early 2010s. Coal- and nickel-related deforestation continue to cause concern amid rising demand both at home and overseas. Finally, Indonesia launches a new national strategy on agricultural digitalization, with the aim of establishing an integrated public database on farmland and farmers to improve transparency and intervention quality.

I. Government action to tackle deforestation kept pace in early 2023

January and February 2023 were host to a flurry of developments on deforestation from Indonesian government ministries, similar to the last quarter of 2022.

- **BAPPENAS launches Sustainable Jurisdiction Indicators to measure commitments and progress on landscape programs¹:** The move by Indonesia's National Development Agency (BAPPENAS) will support the [push for commodity-producing districts to incorporate sustainable and inclusive land use practices](#). The indicators are based on the UN Sustainable Development Goals (SDGs) and were developed by partnering organizations including Indonesia's Sustainable Districts Association Lingkar Temu Kabupaten Lestari (LTKL) and the European Forest Institute's KAMI project. It is expected that using these indicators on landscape programs can significantly help investee and associated companies track progress and supply chain risk.
- **Ministry of Environment and Forestry (MoEF) convened a meeting on climate change adaptation and mitigation²:** The national technical working meeting took place in Jakarta from March 1-2, 2023. The meeting

covered ways to strengthen the implementation of climate change mitigation and adaptation actions, including the role of deforestation, to meet its enhanced nationally determined contributions (NDCs).

- **MoEF holds socialization events for FOLU Net Sink plan in West Sulawesi³:** MoEF has begun socializing sub-national plans for FOLU Net Sink 2030, and recently held a socialization for its Operational Plan for West Sulawesi in Samuju. The province's Regional Secretary urged all stakeholders to view their deforestation reduction contributions considering the national and subnational plans' targets. He drew attention to the over 800,000 hectares of land (nearly 50%) that is forested and needs protection. Expansion of palm plantations and illegal logging continue to be major drivers of deforestation in West Sulawesi.⁴
- **Coordinating Ministry of Economic Affairs (CMEA) highlights the need to meet yield improvements in palm oil sector⁵:** In a February meeting with government officials and palm oil producers, a senior CMEA official highlighted that palm oil yields of 2.5 tonnes per hectare must be upped to 6-8 tonnes per hectare by 2025 to reach the national goal of replanting 2.4 million hectares of palm oil by 2025 without impacting supply. The plan, which was launched in 2017, now requires replanting over 180,000 hectares per year to meet its goals. Yield improvement is a key aspect of palm certification programs like ISPO and RSPO.
- **Chief economic minister confident on palm oil stockpiles⁶:** Last month, Indonesia's chief economic minister Airlangga Hartato assured no disruptions to palm oil supply and prices for both domestic and export demand ahead of the festive period in Q1 and Q2, 2023. This assurance was partially meant to calm fears of another export ban to secure domestic supply, as in 2022, which introduced significant volatility in global vegetable oil markets. It was primarily meant to ensure confidence in diverting existing stocks towards B35 biodiesel.
- **Carbon trading announced for power generation subsector:** The Nilai Ekonomi Karbon Policy (Carbon Economic Value) or NEK, and the Ministerial Decree for Carbon Trade in October 2022, set out plans to enable a national carbon exchange with steps for Indonesia to move from a voluntary to mandatory carbon market by stipulating several critical sectors, including energy, agriculture and forestry as required to participate.⁷ On February 22, 2023, Indonesia's Ministry of Energy and Mineral Resources launched the first phase of mandatory carbon trading in energy generation, in the power generation subsector.⁸ The plan will enable at least 42 companies and 99 plants owned by state utility company Perusahaan Listrik Negara (PLN) to carry out carbon trading, where plants that emitted more carbon than their quota can buy credits from plants with below-quota emissions or from renewable power plants. Coal currently accounts for over half of Indonesia's power generation⁹, and there are reportedly over half a million tonnes of carbon equivalent ready to be traded. Ministry officials cited a market mechanism to set the price, which could range between US\$2-18 per tonne, and could reduce carbon emissions by 36 million tonnes by 2030. There are delays to plans that would tax remaining emissions not offset by available carbon credits.¹⁰

II. Civil society registers major wins

Civil society advocacy was host to positive developments in partnership with government and industry, which bodes well for healthy multistakeholder efforts to reducing deforestation:

- **Refreshed momentum to end palm corruption and exploitation:** In a landmark win for civil society and state prosecution, Indonesian oil tycoon Surya Darmadi was issued a 15-year prison sentence and ordered to repay the state US\$2.6 billion for his role in a corruption, money laundering, and tax evasion scheme resulting in the deforestation of thousands of hectares of protected land in Riau province.¹¹ Separately, an investigation by Mongabay, The Gecko Project, and BBC News on mismanagement by companies of land given by Indonesian villages (i.e., "plasma" plots) is receiving significant attention.¹² Calls to increase transparency on plasma data on areas, contracts, revenues, and costs; investigations where needed and court action; and market pressure as part of NDPE policies have been well-received by all stakeholders.
- **Korindo's long-running case intended to silence Mighty Earth dropped¹³:** In 2017, the CSO Mighty Earth submitted a complaint to FSC related to over 30,000 hectares of illegal deforestation in Papua caused by the palm oil operations of a subsidiary of the Korindo Group, following which it was subject to intimidation tactics from Korindo including a libel lawsuit in German courts. Earlier this year, a judge in Germany indicated the pending dismissal of this lawsuit, noting that it was clearly intended to silence Mighty Earth's valid

campaign. With support from local sponsors and NGOs, civil society allies were able to agree a favourable settlement with Korindo, in a major win for civil society action against deforestation.

- **Positive coverage on palm oil noted in the international press:** The American media has recently promoted a more hopeful palm oil narrative. In February, Vox released an opinion piece highlighting the progress that the palm oil industry has made in reducing deforestation in the past decade, in both Indonesia and Malaysia¹⁴. The piece lauded the efforts of advocacy groups like Greenpeace, Friends of the Earth, and Mighty Earth in convincing large companies such as Wilmar to avoid new conversion. A piece in the Wall Street Journal similarly lauded progress in reducing palm deforestation in Indonesia, citing government action, consumer-product-company boycotts, and civil activism as key reasons.¹⁵ This also indicates that sustainable producers and importers could gain public credibility and greater acceptance, driving further action.

III. Indonesia and Malaysia voice concerns on EU palm import laws, but willing to work together

A major talking point in early 2023 has been the new EU Deforestation Regulation (EUDR) that bans the trade of deforestation-linked commodities by 2030, including palm oil. The governments of Indonesia and Malaysia have voiced concerns over the current policy design as it:

- **Increases costs of production for palm oil without support to address deforestation¹⁶:** Although the intent of the regulation – address link to deforestation in commodity supply chains – is good, the regulation in its current form does not provide any support to palm communities for the transition to sustainable production, with whom the cost of compliance with the regulation sits directly. This is an important consideration given that palm oil expansion in Indonesia has been driven by increasing demand from places like the EU. Indonesia President Joko Widodo echoed similar sentiments at the EU-ASEAN summit in Brussels in December, voicing that “partnerships based on equality” and “there must be no coercion”, critiquing the law’s inflexible approach to considering Indonesia’s development and exports.
- **Disproportionately affects smallholders¹⁷:** RSPO CEO Joseph D’cruz highlighted that the law risks sidelining small RSPO farmers who will be unable to meet compliance burdens from global palm oil markets, unlike large RSPO-certified members that could already meet these standards.
- **Favours EU produced rapeseed oil with knock-on effects in Southeast Asia:** If palm production and import costs rise, Indonesia and Malaysia argue that EU produced rapeseed oil will become comparatively cheaper, driving down demand for palm oil and creating a supply glut that could gravely determine the palm oil industry’s competitiveness on the global stage. This potentially contradicts World Trade Organization (WTO) regulations.

The good news is that both countries are aiming for an amicable solution, building a joint plan of action through platforms such as the Council of Palm Oil Producing Countries (CPOPC):

- **Indonesia and Malaysia issue send trade envoys to the EU¹⁸:** Indonesia and Malaysia have sent a joint trade mission to the EU to present their views on the new regulations¹⁹, affirming their commitment to environmental conservation while appealing to the EU to consult its trading partners meaningfully. Minister Hartato also assured that an export boycott to the EU is not on the table as a pressure mechanism, unlike in Malaysia.²⁰
- **WTO establishes two panels to oversee Indonesia and Malaysia cases:** Two cases were brought against EU before the WTO in this matter, *EU – Palm Oil (Indonesia) (DS593)*²¹, and *EU and certain Member States – Palm Oil (Malaysia) (DS600)*²². The panels convened by the WTO’s Dispute Settlement Body (DSB) should produce final reports on each case during or after Q3, 2023, covering whether EUDR is valid under WTO rules and recommendations to resolve the dispute and/or implement the law. The Indonesian government’s plan is supported by the Indonesian Oil Palm Farmers Association (Apkasindo).
- **Both countries confident of amicable solution but preparing alternative plans²³:** Although Minister Hartato and his Malaysian counterpart YAB Dato’ Sri Haji Fadillah bin Haji Yusof expressed a desire for an amicable agreement with the EU via the WTO, both also acknowledged palm oil opportunities in other markets that their countries could pursue. Indonesia’s Director General of Plantations also shared that the Indonesian government is preparing big data analytics on palm oil plantations to support deforestation-

free exports to comply with EUDR should it be upheld, as well as alternative plans to diversify to other export markets to account for potential revenue losses, particularly in Asia Pacific.

IV. Updates from the broader commodity ecosystem

And finally, we cover interesting developments in non-palm sectors with mixed deforestation trends:

- **Coffee deforestation reduces in Lampung with social forestry²⁴:** Through a combination of civil society efforts and social forestry licenses, coffee deforestation is reversing in Indonesia. The Rainforest Alliance, for instance, helps smallholders obtain social forestry licenses from MoEF in places such as the buffer surrounding Bukit Barisan Selatan National Park in Lampung. These licenses enable communities to continue farming for at least 35 years, and Rainforest Alliance works with farmers to plant trees on the borders of national parks and pursue approaches like shade cropping, a form of agroforestry. It also partners with the University of Lampung to conduct a biodiversity assessment of the park's buffer zone, with the aim of publishing a study on the success of social forestry licenses to support both coffee farmers' livelihoods and biodiversity conservation.
- **Pulp and paper deforestation accelerated in 2022, major companies at risk²⁵:** In contrast to the trend of reduced palm-oil linked deforestation over the past decade, pulp- and paper-driven deforestation has recently increased. Satellite image analysis by TheTreeMap found that, although deforestation caused by pulp production in Indonesia has remained far lower than its peak in 2011, such deforestation has continued to increase year-on-year since 2017 and through 2022. Almost all of this occurred in Indonesian Borneo, with just two companies – Mayawana Persada (Alas Kusuma) and Industrial Forest Plantation (Nusantara Fiber) – responsible for over 70% of total pulp-driven deforestation in 2022. Despite having FSC certification, Alas Kusuma is accused of destroying orangutan habitat and draining peatlands in West Kalimantan; prominent buyers include the Itochu Corporation. Nusantara Fiber, on the other hand, operates out of Central Kalimantan and claims connections to Royal Golden Eagle (RGE), which the latter have denied.
- **Deforestation from coal extraction falling, but remains a concern:** In previous briefs, we have covered how Indonesia has registered the highest coal mining related deforestation of any country over 2000-19, according to a study by the Vienna University of Economics and Business. Expansion in East Kalimantan was the main culprit. Although this figure dropped significantly in the final year of data in this study, pressure for new coal and resources is expected to increase both domestically and in key overseas markets like India and China, highlighting the need for sustainable land management to strengthen and also for net-zero plans to explicitly phase out coal in the near future.
- **Nickel mining a growing concern for deforestation:** Nickel is a critical component of modern batteries – critical for the renewable energy transition for storing energy. Indonesia is the world's second-largest nickel producer – a share that is growing. While most is "class-2 nickel" used in China for stainless steel, rising demand and cost advantages in Indonesia place make it well-placed to serve global demand for class-1 nickel used in batteries.²⁶ However, nickel mining is associated with rising deforestation, corruption and lack of transparency, particularly in the provinces of Central and Southeast Sulawesi.²⁷ While the good news is that investigative journalism by organizations like Rainforest Investigations Network (RIN) has resulted in revocation of licenses for nickel mining companies flouting anti-deforestation laws, rising demand places renewed threats on Indonesian rainforests.
- **Indonesia launches new national strategy on agricultural digitalization²⁸:** In positive news for the agricultural sector's long-term productivity and sustainability, the UN Food and Agricultural Organization (FAO) in partnership with Pusdatin, the Indonesian Ministry of Agriculture's Data and IT Centre, launched the E-agriculture National Strategy in February 2023. The strategy describes needs and plans for better data on areas of land cultivated, productivity, supply chain traceability, crop diversification, food safety, and developing early warning systems (EWS) for climate mitigation. The goal is for the government to establish an integrated database for farmland and farmers to be publicly accessible to improve interventions and transparency through better evidence.
- **EUDR may also impact other commodities:** Finally, a quick note that the Indonesian and Malaysian governments have also highlighted that the social costs of excluding smaller and marginal producers could not just impact palm oil producers but also timber, cocoa, coffee, beef, soy, and rubber, and not just in Indonesia, but across Asia, Africa, and Latin America.

Sources

- ¹ BAPPENAS (2023), *Sustainable Jurisdictions Indicators*. Available at: <https://iaresourcehub.org/publications/sustainable-jurisdictions-indicators/>
- ² Antara News (2023), "The Ministry of Environment and Forestry holds a working meeting on climate change control" Available at: <https://www.antaranews.com/berita/3416727/klhk-gelar-rapat-kerja-pengendalian-perubahan-iklim>
- ³ Ministry of Environment and Forestry (2023), "Indonesia's FOLU Net Sink 2030: Real Steps to Indonesia's Seriousness in Reducing Emissions" Available at: https://www.menlhk.go.id/site/single_post/5277/indonesia-s-folu-net-sink-2030-langkah-nyata-keseriusan-indonesia-turunkan-emisi
- ⁴ Forests and Finance (2022), "Report: Major Indonesian Palm Oil Supplier Linked To Illegal Deforestation, Land Rights Violations" Available at: <https://forestsandfinance.org/news/report-major-indonesian-palm-oil-supplier-linked-to-illegal-deforestation-land-rights-violations/>
- ⁵ Reuters (2023), "Indonesia must achieve palm oil replanting target -senior official" Available at: <https://www.reuters.com/article/indonesia-palmoil/indonesia-must-achieve-palm-oil-replanting-target-senior-official-idUSKBN2V10E1>
- ⁶ Reuters (2023), "Indonesia assures B35 biodiesel won't squeeze cooking oil supply" Available at: <https://www.reuters.com/markets/commodities/indonesia-estimates-2-bltn-needed-biodiesel-subsidies-2023-2023-01-31/>
- ⁷ Mondaq (2022), "The Implementatoin of Carbon Economic Value in Indonesia: Key Points of Presidential Regulation No. 98 of 2021" Available at: <https://www.mondaq.com/waste-management/1200576/the-implementation-of-carbon-economic-value-in-indonesia-key-points-of-presidential-regulation-no-98-of-2021>
- ⁸ Ministry of Energy and Mineral Resources (2023), "The Minister of Energy and Mineral Resources Launches Carbon Trading in the Power Generation Subsector" Available at: <https://www.esdm.go.id/id/media-center/arsip-berita/menteri-esdm-luncurkan-perdagangan-karbon-subsektor-pembangkit-listrik>
- ⁹ Reuters (2023), "Indonesia launches carbon trading mechanism for coal power plants" Available at: <https://www.reuters.com/business/energy/indonesia-launches-carbon-trading-mechanism-coal-power-plants-2023-02-22/>
- ¹⁰ South China Morning Post (2022), "COP27: How Indonesia can use G20, Asean platforms to take lead in tackling climate change" Available at: <https://www.scmp.com/week-asia/opinion/article/3198502/cop27-how-indonesia-can-use-g20-asean-platforms-take-lead-tackling-climate-change>
- ¹¹ Al Jazeera (2023), "Indonesia's palm oil tycoon Darmadi gets 15 years for corruption" Available at: <https://www.aljazeera.com/economy/2023/2/24/indonesias-palm-oil-tycoon-darmadi-gets-15-years-for-corruption>
- ¹² Mongabay (2023), "Six steps to tackle exploitation in Indonesia's palm oil smallholder scheme (commentary)" Available at: <https://news.mongabay.com/2023/02/six-steps-to-tackle-exploitation-in-indonesias-palm-oil-smallholder-scheme-commentary/>
- ¹³ Mighty Earth (2023), "Korindo backs down" Available at: <https://www.mightyearth.org/korindo-backs-down>
- ¹⁴ Vox (2023), "Palm oil is actually not that bad (anymore)" Available at: <https://www.vox.com/science-and-health/2023/2/2/23568192/palm-oil-deforestation-sustainable>
- ¹⁵ The Wall Street Journal (2023), "Indonesia Shows It's Possible to Tame Rainforest Destruction" Available at: <https://www.wsj.com/articles/indonesia-shows-its-possible-to-tame-rainforest-destruction-f6261f1>
- ¹⁶ Mongabay (2023), "Indonesia and Malaysia assail new EU ban on 'dirty commodities' trade" Available at: <https://news.mongabay.com/2023/01/indonesia-and-malaysia-assail-new-eu-ban-on-dirty-commodities-trade/>
- ¹⁷ Reuters (2023), "EU deforestation law risks sidelining small farmers, says palm oil watchdog" Available at: <https://www.reuters.com/business/environment/eu-deforestation-law-risks-sidelining-small-farmers-says-palm-oil-watchdog-2023-02-07/>
- ¹⁸ Council of Palm Oil Producing Countries (2023), "Joint Statement on the Bilateral Ministerial Meeting Between CMEA and MPC" Available At: <https://www.cpopc.org/joint-statement-on-the-ministerial-bilateral-meeting-between-cmea-and-mpc/> ; and Food Ingredients (2023), "Indonesia and Malaysia move to secure palm oil exports amid talks of EU deforestation ban" Available at: <https://www.foodingredientsfirst.com/news/palm-oil-moves-indonesia-and-malaysia-send-trade-mission-to-eu-export-restrictions-gain-focus.html>
- ¹⁹ Reuters (2023), "Indonesia, Malaysia to send palm oil envoys to EU over deforestation law" Available at: <https://www.reuters.com/business/energy/indonesia-malaysia-send-palm-oil-envoys-eu-over-deforestation-law-2023-02-09/>
- ²⁰ Reuters (2023), "Malaysia says it could stop palm oil exports to EU after new curbs" Available at: <https://www.reuters.com/markets/commodities/malaysian-urges-palm-oil-producers-boost-cooperation-after-eu-rules-2023-01-12/>
- ²¹ WTO (2023), Cases – DS 593. Available at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds593_e.htm
- ²² WTO (2023), Cases – DS 600. Available at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds600_e.htm
- ²³ Tempo (2023), "Agriculture Ministry Preps Big Data on Oil Palm Plantations, Readies to Sue EU" Available at: <https://en.tempo.co/read/1696494/agriculture-ministry-preps-big-data-on-oil-palm-plantations-readies-to-sue-eu>
- ²⁴ Rainforest Alliance (2022), "Indonesian Coffee Farmers Help Conserve Biodiversity in Iconic National Park" Available at: <https://www.rainforest-alliance.org/in-the-field/sustainable-coffee-helps-protect-iconic-national-park-in-sumatra-indonesia/>
- ²⁵ Nusantara Atlas (2023), "Pulp-and-paper Driven deforestation in Indonesia accelerates in 2022" Available at: <https://nusantara-atlas.org/pulp-and-paper-driven-deforestation-in-indonesia-accelerates-in-2022/>
- ²⁶ Norton Rose Fulbright (2023), "International support crucial to decarbonization of the Indonesian nickel supply chain" Available at: <https://www.nortonrosefulbright.com/en-id/knowledge/publications/19ccd372/international-support-crucial-to-decarbonization-of-the-indonesian-nickel-supply-chain>
- ²⁷ Pulitzer Centre (2022), "Investigating Rainforest Destruction: The Nickel Mines Clearing Indonesian Forests" Available at: <https://pulitzercenter.org/stories/investigating-rainforest-destruction-nickel-mines-clearing-indonesian-forests>
- ²⁸ Tempo (2023), "Indonesia Launches National Strategy on Agriculture Digitalization" Available at: <https://en.tempo.co/read/1696981/indonesia-launches-national-strategy-on-agriculture-digitalization>