

Policy Analysis of European Union Deforestation Regulation (EUDR) on Indonesian Palm Oil Exports

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Abstract

This study aims to analyze EUDR policy towards Indonesian palm oil exports. Indonesia is ranked number one as a producer country and as the largest consumer of palm oil in the world. This makes palm oil the largest foreign exchange contributor from palm oil exports and its derivatives. However, EUDR policy states that Indonesian palm oil causes environmental damage or deforestation. Where, the policy focuses on reducing deforestation rates without considering economic aspects including palm oil exports. Of course, this is a challenge for Indonesia because it has an impact on palm oil imports from the European Union. This research uses qualitative research methods using analytical methods and secondary data sourced from written literature, by investigating scientific publications, books, artiker, etc. Using a literature review to analyze existing findings and identify gaps in knowledge that require further research. The results of this study will answer the sustainability of the conditions and impacts of Indonesia's palm oil exports after the EUDR policy. In addition, the results of this study will make an important contribution to better understanding and managing Indonesia's palm oil exports in the future. The recommendation to the next researcher is to be able to follow up this research on a wider scale.

Keywords: eudr policy; deforestation; exports; palm oil

1. Introduction

Oil palm is a plantation commodity that produces crude palm oil products or CPO (Crude Palm Oil) which is a mainstay export commodity in Indonesia. Palm oil production has prospects for development, due to an increase in the amount of production caused by increased consumer demand. (Yulianto, 2019). 90% of the world's palm oil output is produced from Indonesia and Malaysia (Pratama, 2019).

Based on data released by the Central Bureau of Statistics (BPS) (2023) According to the report, the European Union (EU) is a strategic and potential market share. This is proven by the fact that the EU occupies the fourth position based on data on the value of palm oil exports amounting to 2,204 million US dollars in the period January - October 2022. The oil and gas needs of EU countries must be met through imports. The EU imports palm oil from Indonesia and Malaysia (Ramadhani, 2022). High demand for bioenergy in the European Union has led to dependence on imports of palm oil from Indonesia (Natashya, 2020).

The EU is aware that CPO is an important commodity and as one of the main trade commodities (Muhammad Aditya Pradhan, 2020). This was demonstrated in the adoption of the Amsterdam Declaration in 2015 with the statement "global demand for vegetable oils has increased by more than 5% per year and is expected to persist for the next 10 years. The most produced and traded product is CPO as an oil and accounts for 40% of all vegetable oils produced and traded globally". (AmsterdamDeclaration, 2015).

However, on April 4, 2017, Indonesia's palm oil production commodity was shocked by the issuance of the European Union (EU) Parliament Resolution on Palm Oil and Deforestation of Rainforest (EuropeanParliament, 2017). Thereafter, the EUDR Policy takes effect from June 29, 2023(EUDR&FSC, 2023), The EUDR requires seven specific commodities and products to be "deforestation-free" in order to be sold on the EU market or exported from it (Forwood et al., 2023) . The aim of the EUDR policy is that Europeans do not want to consume products that cause deforestation and forest degradation in the EU and international regions, to reduce carbon emissions and lower greenhouse gas emissions, and to conserve biodiversity (Fauzi, 2023), and reduce greenhouse gases by 55% by 2030 and make the European economy carbon neutral by 2050 (Capuzzi, 2023). This EUDR policy applies to commodities in Indonesia such as cattle, coffee, palm oil, soybeans, cocoa, rubber, and timber (Kothke, 2023)

The EU thinks that the palm oil industry causes deforestation of tropical forests, which is not in line with the main biofuel feedstock used by Europe. Because the problem factor is that the palm oil industry causes deforestation, carbon emissions. These reasons lead to the disqualification and discrimination of palm oil from the biofuel feedstock used by Europe (Pratama, 2019).

Based on research conducted by Fauzi (2023), the EUDR policy applies to palm oil commodities and Indonesia is among the countries experiencing deforestation. This policy only focuses on suppressing the rate of deforestation without considering global economic aspects including palm oil export activities. This condition will worsen social conditions in terms of cooperation between countries caused by exports. The solution is to expand Indonesia's export markets beyond the previous priority countries.

When viewed from the theory of comparative advantage, the emphasis of comparative advantage is greater on the supply side, where it affects the economy, and the occurrence of

international trade friction due to geography, institutions, transformation, etc (Seitz et al., 2009). And Indonesia has a comparative advantage because it has a good palm oil industry, making it the largest palm oil export in the world.

The policy is a challenge for Indonesia in palm oil commodities entering the EU market. The policy cannot be avoided yet. The policy causes losses to exporting countries, especially Indonesia, and will also have an impact on the Indonesian economy as a whole. So, the problem formulation in this study is what is the impact of the European Union Deforestation Regulation (EUDR) policy on Indonesian palm oil exports and the Indonesian economy. The objectives of this research are as follows:

- 1) Knowing what impact the EUDR policy has on palm oil exports
- 2) Knowing what the impacts of the EUDR policy are on the Indonesian economy
- 3) Knowing Indonesia's response after the EU policy

2. Literature Review

2.1 European Union Deforestation

The European Union adopted a new regulation to emphasize the impact of international deforestation and forest degradation on the EU market, in addition to protecting the rights of European citizens. The EUDR policy mandates thorough due diligence on the value chain of trade with seven specific products such as livestock, coffee, cocoa, rubber, palm oil, timber, and soy (Forwood et al., 2023). In 2019, the European Commission announced the Green Deal to reduce the carbon footprint of greenhouse gas emissions by 2050. The European Union Deforestation Regulation proposes to stop the import of deforestation-related product (Capuzzi, 2023).

Deforestation is the deliberate clearing of forest land for agriculture and grazing, timber manufacturing, and construction (Stanley, 2023). Deforestation as a major factor in greenhouse gas emissions, national and regional environmental impacts, habitat loss and species extinction (Pendrill et al., 2019). Despite efforts to conserve, sustainably utilize, and restore forests, environmental issues related to degradation and deforestation continue (FAO&UNEP, 2020).

Agricultural expansion is a driver of global deforestation, accounting for 90%-99% of tropical deforestation (Pendrill et al., 2019). EU is the second largest importer friend after China (WWF, 2021) in agricultural products linked to deforestation (Pendrill et al., 2019). These products include soy, beef, coffee, palm oil, timber, cocoa and rubber, as well as their derivatives and by-products. The EU deforestation regulation provides requirements for exporting countries, which are free from deforestation including European countries, and there must be consideration under WTO agreements (Capuzzi, 2023)

2.2 Exports

Export is a trade activity to sell domestic goods and services abroad (Tiara et al., 2023). Exports are included in international trade (Amadeo, 2021). The most common international trade barriers are restrictions, preventing, or hindering the export and import of goods and services, in addition to protecting domestic products from imported products. Exports also stimulate the domestic economy by creating domestic industries to produce certain commodities, thus creating jobs (Segal, 2023)

2.3 Palm Oil

Palm oil is an edible oil from the oil palm tree. Palm oil is widely produced in the world for various products such as food, cosmetics, and biofuels (Browne, 2020). Palm oil production plays an important role in the environment and economy. In addition, palm oil is a source of cooking oil and biodiesel. So its demand continues to increase (Afriyanti et al., 2016).

3. Material and Method

This research uses qualitative methods (Apriantoro et al., 2023), by using secondary data analysis method (B et al., 2023). Secondary data sourced from written literature (Gaol, 2018). This research uses descriptive data that describes the factual situation related to the subject being studied, but is not used to draw broader conclusions (Gaol, 2018). This study describes the impact of the EUDR policy in Indonesia on palm oil export commodities.

3.1 Design Study

This research literature study is to search for data from relevant research (Beach, D., & Pedersen, 2019) and in-depth about the subject under study (Mehfooz, 2019) on the identification of palm oil development in Indonesia and the associated effects of the palm oil policy (B et al., 2023).

3.2 Data Analysis

This research model is an outline of various theories or literature used by researchers. literature used by researchers. Based on what has been explained above, what will be studied are analyze palm oil production, palm oil land area, EUDR policy, and Indonesian palm oil exports to the European Union. So, the model in the study can be described in Figure 3.2 below

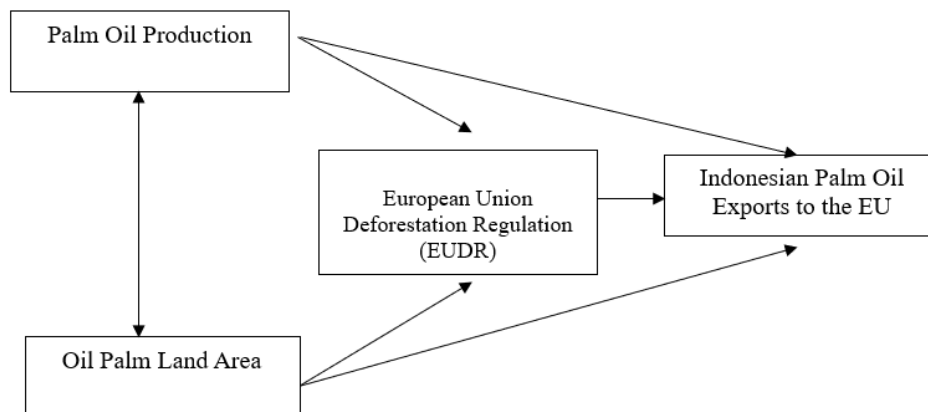


Figure 3.2. Research Model

4. Result

Palm Oil as a Contribution to Indonesia's Economy

Indonesia is a producer and exporter of crop products including palm oil products and their derivatives (Fauzi, 2023). One of Indonesia's target markets is the European Union. Palm oil is one of the main plantation commodities being focused on in Indonesia (Hasna et al., 2021). CPO contributes significantly to Indonesia's economic growth (GAPKI, 2021) (Hasna

et al., 2021) Therefore, barriers in the palm oil sector will have an impact on other sectors (Rifin et al., 2020). First, CPO is a labor-intensive industry from upstream to downstream that absorbs direct labor of 4.2 million people and indirect labor of 12 million people. Second, every year CPO contributes to GDP by 3.5%. Third, the contribution to non-oil and gas exports is national with an average of 13.5% per year and a projection for national income of IDR 2.47 trillion (GAPKI, 2021). The palm oil sector also eradicates poverty, as it has uplifted 2.6 million rural Indonesians (Edwards, 2019).

Palm oil exports to Europe contribute to Indonesia's trade balance of USD \$6.5 billion by 2022 (Fauzi, 2023). Because the palm oil industry continues to grow rapidly in production volume due to the large number of consumer demands (Ewaldo, 2017). Thus, palm oil exports to the EU continue to increase and benefit from investment, especially in manufacturing and agribusiness (Hasna et al., 2021).

Deforestation and EUDR Policy

Based on the Regulation of the Minister of Forestry of the Republic of Indonesia No. 30 of 2009 concerning Procedures for Reducing Emissions from Deforestation and Forest Degradation (REDD), states that deforestation is the permanent change of forest areas to non-forested areas caused by human activities. Deforestation has impacts on natural disasters, extinction of flora and fauna, global warming, climate change, and disruption of the water cycle. If none of these occur, then the area is declared deforestation-free (Fauzi, 2023). Every year the cause of climate change, which is released due to the destruction of forests and peatlands, comes from greenhouse emissions of 1.8 billion tons (Hooijer, 2006).

Tabel 4.1 Indonesia's Deforestation Rate 2015-2020 (Thousand Hectares)

No	Years	Value/ Thousand Hectares
1	2015 – 2016	629,2
2	2016 – 2017	480
3	2017 – 2018	439, 4
4	2018 – 2019	462, 5
5	2019 - 2020	115, 5

From the data above, Indonesia's deforestation rate fluctuates. According to data from the Ministry of Environment and Forestry (KLHK), Indonesia's deforestation rate in 2019-2020 decreased by 75% or 115.5 thousand hectares, compared to 2018-2019 of 462.5 thousand hectares. This figure increased compared to the previous year 2017-2018 of 439, 4 thousand hectares. And the highest deforestation rate was in 2015 - 2016 amounting to 629.2 thousand hectares. Indonesia's total deforestation rate within 6 years reached 2.1 million hectares.

The EU alleges that Indonesian oil palm plantations are the source of forest fires due to the clearing of new plantations. Thus, the EU committee stated that forest burning does not contribute to carbon gas emissions that damage the environment and biodiversity (Saragih & Rahayu, 2022). The EUDR policy on deforestation has an ecological aspect on suppressing deforestation rates. However, on the economic side, it is considered to hinder economic growth

The Impact of EU Deforestation Policy on Indonesia's Economy

The reason the EU uses palm oil is to reduce its dependence on fossil fuels, and is developing renewable energy in the transportation sector to produce biofuels as a form of concern for environmental issues. And to fulfill biofuel production, the EU imports palm oil from Indonesia. However, Indonesia's palm oil products have been found to have deforestation problems. Therefore, the EU's policy of limiting Indonesia's exports is due to these speculations (Hasna et al., 2021). Reinforced in *Repot on Palm Oil and Deforestation on Rainforest* which states palm oil has problems related to these issues including health, environment, and triggering deforestation and habitat destruction (Konecna, 2017). So that problem stopped palm oil imports from Indonesia in 2021 (Rifin et al., 2020).

Based on research conducted by Rifin et al. (2020), the cessation of palm oil exports to the EU has a very small impact on real GDP, welfare level, trade balance, and export and import values. Judging from the impact of real GDP of less than 1%, it is suspected that the EU did not fully replace the supply of Indonesian palm oil to other producing countries. Because the condition of other countries is not better than Indonesia, and there is a good relationship between the palm oil processing industry in Europe and palm oil producers in Indonesia. Another indicator is that the cessation of palm oil exports has a greater effect on the welfare of the Indonesian people than other producing countries. Many Indonesian workers make their living as oil palm farmers. Discrimination against palm oil has resulted in palm oil farmers losing their jobs (Pratama, 2019)

Meanwhile, according to GAPKI, Indonesia's palm oil exports to the EU are predicted to decline. Usually exports to the EU are 5 million kilos to 4 million kilos. The decline in exports is not only from biofuels but also food and industry. So, the Indonesian palm oil industry needs to diversify with export destination countries.

Indonesia's Response After the EU Policy

Since 2021, the EUDR policy has been opposed by Indonesia and Malaysia (Fauzi, 2023). Indonesia has tried to overcome the European criticism by focusing on developing a sustainable palm oil system, in accordance with national laws and the Sustainable Development Goals (SDGs) (Rifin et al., 2020).

The Indonesian government seeks to increase the promotion of the SDGs, as well as receive input from all environmentalists and consistently oppose the EU's discriminatory measures through the WTO. It is hoped that the WTO can provide fair treatment. Indonesia also continues to cooperate with CPOPC palm oil producing countries, as well as cooperation with ASEAN countries (Saragih & Rahayu, 2022).

Indonesia and Malaysia have agreed to fight the EU which makes it difficult to export palm oil to the European region. This has been agreed by the Coordinating Minister for Economic Affairs and the Minister of Agriculture and Commodities of Malaysia. This cooperation agreed to carry out a joint mission to the EU to communicate and prevent unwanted things from EU policies in the palm oil sector. CPOPC member countries aim to engage with the EU to achieve favorable outcomes for producer and consumer countries.

Meanwhile, smallholders and large plantations are experiencing a decline in demand and prices in the short term. However, in the long term, the palm oil industry will adjust by seeking new markets outside the EU or by strengthening existing markets such as India and

China, as well as utilizing the unoptimized domestic market for palm oil products and their derivatives (Rifin et al., 2020).

5. Discussion

The EUDR policy states that Indonesian palm oil causes deforestation, which considers that Indonesian palm oil causes environmental damage and has exploited forests for palm oil land. The EUDR policy has an influence on the Indonesian economy. Indonesia's economy is largely dependent on the export sector, especially in the palm oil commodity. The EUDR policy also has other impacts besides the environment, but also impacts on labor, economy, and country relations. Indonesia continues to strive to develop a sustainable palm oil industry and has worked together with palm oil producing countries to carry out its mission and oppose discrimination by the European Union.

6. Conclusion, Implication, and Recommendation

Indonesia, as a major producer and exporter of palm oil, faces significant challenges due to the European Union's (EU) Deforestation Regulation (EUDR) policy. The palm oil sector plays a crucial role in Indonesia's economy, contributing significantly to employment, GDP, and exports. The EUDR policy, fueled by concerns about deforestation, environmental impact, and health issues, has led to restrictions on palm oil exports from Indonesia to the EU.

Indonesia has responded by focusing on developing a sustainable palm oil system aligned with national laws and Sustainable Development Goals (SDGs). The government actively promotes SDGs and seeks support from environmentalists, opposing EU measures through the World Trade Organization (WTO). Collaborative efforts with palm oil-producing countries and ASEAN nations aim to engage with the EU for favorable outcomes.

Despite challenges, the palm oil industry is adapting to the situation. In the short term, there is a decline in demand and prices, affecting smallholders and large plantations. However, for long-term sustainability, the industry is exploring new markets outside the EU, strengthening existing markets in India and China, and optimizing the domestic market for palm oil products.

The EUDR policy's impact extends beyond environmental concerns, affecting labor, the economy, and international relations. Indonesia remains committed to sustainable practices and actively opposes discriminatory measures imposed by the EU. In navigating these challenges, the palm oil industry seeks resilience and adaptability to secure its role in Indonesia's economic landscape.

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