

ECONOMIC IMPACTS OF THE EU'S ANTI DEFORESTATION LAW ON INDONESIA

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Abstract

The EU is Indonesia's third largest trading partner after the Southeast Asia region (ASEAN) and the People's Republic of China. Even in the conditions of the Covid-19 pandemic, the value of Indonesia's exports to the European Union increased by 26 percent in 2021 to 16.5 billion euros. This growth was partly influenced by rising prices of raw materials such as palm oil. Exports of palm oil to EU countries increased by 9 percent. On 28 June 2022, the Council of the European Union issued a press release on Council approval of new regulations to reduce deforestation and forest degradation worldwide. The Council of the European Union has announced that it will finalize its negotiating position (general approach) on a proposal to limit the consumption of products that affect deforestation or forest degradation. This research is a literature review and the result of researchers' thinking. The type of data used is secondary data with a qualitative approach. EU deforestation laws could cost the Indonesian government \$5.15 billion in lost revenue.

INTRODUCTION

Indonesian forests are forests that are commonly known as one of the world's lungs which provide oxygen for living things that can absorb carbon dioxide, especially harmful carbon, and produce oxygen needed for human life (Shafitri, Prasetyo, & Haniah, 2018). Forests are natural resources that play an important role in economic, social, cultural and environmental life (Widodo & Sidik, 2020). The reduction in forest area will inevitably lead to the extinction of many species and cause many different impacts, especially due to the greenhouse gas effect (Novalia, 2017). The palm oil industry plays a role as the largest foreign exchange earner in Indonesia, able to attract a large number of workers, so that the planted area of oil palm continues to increase significantly. (Purba & Sipayung, 2017).

It is estimated that 57% of deforestation in Indonesia is mainly due to land use conversion for oil palm plantations and another 20% comes from pulp and paper (Ariana, 2017). Almost every year Indonesia faces forest fires, in 2015 it was recorded that 1.7 million hectares were burned and caused a haze disaster which had a serious impact on education, air transportation, health, the economy and of course environmental damage (Adiputra & Barus, 2018). Develop From an economic perspective, sustainable development needs to be considered, of course by considering various social, economic and environmental aspects (Novalia, 2017).

Before going into the details of EU regulatory actions, it should be noted that the EU, which consists of 27 countries with a total population of 517 million people, has a strategic position in marketing products from Indonesia. According to data published by Statistics Finland in early 2019, the EU is Indonesia's third largest trading partner after the Southeast Asia region (ASEAN) and the People's Republic of China. Even in the conditions of the Covid-19 pandemic, the value of Indonesia's exports to the European Union increased by 26 percent in 2021 to 16.5 billion euros. This growth was partly influenced by rising prices of raw materials such as palm oil. Exports of palm oil to EU countries increased by 9 percent.

According to the Ministry of Trade of the Republic of Indonesia, Indonesia ranks 22nd in the world as a food supplier with an export market share of 1.05% or US\$6.48 billion. Products or food from Indonesia that are in great demand in the global market include tobacco products (cigarettes), tuna products, shrimp, coffee products, ready-to-eat food, crabs, snacks (wafers and waffles), noodles, sweet biscuits and others. processed seaweed and other algae.

Meanwhile, in the European Union market itself, most Indonesian food is sold in the Netherlands (\$34.84 million), Italy (\$26.74 million), Germany (\$26.32 million), Belgium (\$24.92 million USD) and the United States. United Kingdom (\$21.11 million), Russian Federation (\$17.98 million), Spain (\$11.95 million), France (\$6.60 million), Turkey (\$5.91 million) and Portugal (\$5.86 million USD).

The EU Commission published the draft regulation on 17 November 2021. This proposal argues that the main cause of global deforestation and forest degradation is the expansion of agricultural land linked to food production. As a major consumer of these goods, the EU can reduce its impact on global deforestation and forest degradation by adopting new rules to regulate EU market access and the export of these goods in such a

way that products and supply chains are deforestation-free.

On 28 June 2022, the Council of the European Union issued a press release on Council approval of new regulations to reduce deforestation and forest degradation worldwide. The Council of the European Union has announced that it will finalize its negotiating position (general approach) on a proposal to limit the consumption of products that affect deforestation or forest degradation.

The Council ensures that the products they consume at home do not contribute to the depletion of the planet's forest resources. The innovative text they adopted made the fight against deforestation possible not only within the European Union but also outside the European Union. The Council stated that this is important progress, which also reflects climate and biodiversity goals. Against this background, this paper tries to find out the economic impact of the EU anti-deforestation law on Indonesia and what efforts the government has made to respond to the EU anti-deforestation law.

RESEARCH METHOD

This research is a literature review and the result of researchers' thinking about a particular problem topic. The type of data used is secondary data taken from several journals, the internet, books, and various other sources of information. The data analysis method used is a qualitative approach to collect data from various sources of facts and thoughts of the author.

RESULT AND DISCUSSION

The economic impact of the EU Anti-Deforestation Law

The European Union Commission approves the Deforestation Free Act, which bans six land-based goods related to deforestation. Goods banned from entering Europe if they cause deforestation include coffee, beef, soybeans, chocolate, rubber and some palm oil derivatives. The European Union's Freedom of Deforestation Act requires exporters to submit a declaration of due diligence certifying that the supply chain of raw materials is not affected by deforestation. If the law goes into effect, manufacturers and retailers have 18 months to comply. Smaller companies have a longer time of 24 months to adapt.

If the company does not comply with these rules, the maximum fine is 4% of the company's turnover in European Union member countries. According to the European Commission, the law protects at least 71,920 hectares of forest or 100,000 football

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fields every year. The World Bank also estimates that this law could reduce global carbon emissions by 31.9 million tonnes annually, or the equivalent of Denmark's carbon emissions by 2021.

There are a number of EU regulatory actions that could affect import or Indonesia's deforestation as a producer, among others :

- Renewable energy/environmental legislation, such as Renewable Energy Directive II, which phases out land use intensive biofuels (such as palm oil) by 2030.
- Mandatory Due Diligence. For example, France's Precautions Act remains the only code of practice covering logging risks due to due diligence for forest products under its broad mandate.
- Reporting and Disclosure Obligations. For example, article 29 would oblige French financial institutions to disclose biodiversity risks;

There are also non-regulatory measures, including voluntary approaches such as:

- Reporting and Disclosure. For example the Nature Data Working Group - a market-based initiative that develops frameworks for funding agencies and companies to report on natural risks.
- standards and labels. For example Donau Soja and European Soybean Labels; Acceptance of a voluntary certification scheme that meets the criteria (e.g. biofuel labeling, EU Renewable Energy Directive).
- Transparency. For example, an EU-wide (European Single Point of Access) platform that offers investors seamless access to company information related to financing and sustainability under the EU Capital Markets Action Plan.
- Stakeholder dialogue, for example the Amsterdam Declaration Partnership (ADP); COP 26 Dialogue on Forestry, Agriculture and Commodity Trade (FAK).
- Trade agreements For example, as part of the free trade agreement between Indonesia and EFTA, Switzerland provides reduced tariffs on palm oil import quotas if they meet sustainability criteria (guaranteed by certification, if necessary).

At the country level threatened by fragmentation, this scope requires special attention because there are no concrete environmental laws at the EU level. They appear to have learned from the fact that companies and governments have so far failed to meet their voluntary deforestation commitments, fueling EU over-ambition. Even the European Coalition for Corporate Justice (ECCJ) found that only the UK's environmental bill focused specifically on assets at risk of being lost in forests, with most focusing on human rights and/or environmental damage as a whole.

The Mandiri Institute estimates that EU deforestation laws could cost the Indonesian government \$5.15 billion in lost revenue. The export commodities most affected by the regulation are crude palm oil (CPO) and its derivatives, as well as other vegetable oils. In relation to 2022 alone, the total exports of CPO and its derivatives and other vegetable oils to the European Union will reach 3.15 billion dollars. Apart from that, several other products that could be subject to the anti-deforestation law, namely coffee, tea, wood and its derivatives, as well as pulp and paper.

Government Efforts in Responding to the European Union's Anti-Deforestation Law

The Indonesian government must at least take corrective action so that it can continue to export to the EU, especially for palm oil and timber. First, the Indonesian government must immediately fix the messy management of palm oil and timber, starting with permits. In-depth review of the company's oil palm plantation, logging and plantation (HTI) permits. This is very important because illegal palm oil is rampant in forest areas controlled by companies. According to the Ministry of Environment and Forestry (KLHK), there are 3.3 million hectares of oil palm plantations in forests. According to the Ministry of Environment and Forestry (KLHK), there are 3.3 million hectares of oil palm plantations in forests.

It is therefore important that these companies be sanctioned for the revocation of their licenses. Until now, 45% of the raw material for the pulp and paper industry comes from natural forests. Much of the logs produced also come from outside the company's licensing rights. It is necessary to divide the land area with a separate agreement for the field of human management in conflict with the company, even further to revoke the company's permit.

Second, the implementation of the permit moratorium policy in forest areas must be strengthened. Even the Indonesian government should take steps to stop permitting oil palm plantations. If the permits for oil palm plantations remain, deforestation will increase. third is law enforcement.

Another issue decided by the EU Parliament and which the Indonesian government should pay attention to is certification. The European Parliament has also stated that companies cannot use certification as a substitute for due diligence. Until now, there are many cases where certified companies such as SVLK and ISPO

Indonesia continue to commit deforestation and human rights violations. Therefore,

the issuance, monitoring and evaluation of SVLK and ISPO certificates must be carried out seriously, thoroughly and thoroughly so that all parties can verify them.

For the implementation of this anti-deforestation law to benefit the protection of forests and Indonesian people (independent smallholders, indigenous peoples, local communities), the European Union Parliament should strengthen cooperation with the Indonesian government and encourage the Indonesian government to improve governance, forest protection policies and rights. human rights as well as the expansion of the recognition of the rights of the Indonesian people in its administrative area. This anti-deforestation law is certainly not expected to have a negative impact on independent small farmers in Indonesia. In order for Indonesian farmers to fulfill their mandatory duties, the EU Parliament must pay special attention to and establish cooperation with farmers.

CONCLUSIONS AND RECOMMENDATIONS

EU deforestation laws could cost the Indonesian government \$5.15 billion in lost revenue. The export goods most affected by the regulation are crude palm oil (CPO) and its derivatives, as well as other vegetable oils. Compared to 2022 alone, the total exports of CPO and its derivatives and other vegetable oils to the European Union will reach USD 3.15 billion. In addition, several other products that may be subject to anti-deforestation laws, namely coffee, tea, wood and their derivatives, as well as pulp and paper.

The Indonesian government should at least take corrective steps to continue exporting to the EU, especially for palm oil and timber. First, the Indonesian government must immediately clean up the messy management of palm oil and timber, starting with permits. Second, the implementation of the permit moratorium policy in forest areas must be strengthened. Even the Indonesian government has to take steps to stop oil palm cultivation. If oil palm plantation permits are maintained, deforestation will increase. the third is law enforcement.

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