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Policy Brief

NAVIGATING THE EUROPEAN UNION DEFORESTATION REGULATION (EUDR):

Challenges and Opportunities for Indonesia's Trade

Table of Contents

Table of Contents	1
Executive Summary.....	2
Key Messages	4
Trade Policy Advisory Group 2026 Team	5
Introduction.....	6
The EUDR: Regulatory Framework, Updates, and Challenges	9
Bridging the Gap: Increasing Financial and Technical Support Mechanisms	12
Leveraging Trade Diplomacy to Strengthen Indonesia's Position	14
Summary & Policy Recommendations	17

Executive Summary

The European Union Deforestation Regulation (EUDR) is fundamentally reshaping global trade by mandating that production of key commodities, including palm oil, coffee, cocoa, rubber, and timber, be verified as deforestation-free. For Indonesia, the stakes are significant, with 25.4% of Indonesia's total trade value consists of EUDR regulated commodities. While large firms must comply by December 2026, the regulation presents a systemic challenge for Indonesia's 2.6 million smallholders. These smallholders face risks, including market exclusion due to high compliance costs estimated at IDR 44 million (\$2,600) per farmer, which could increase palm oil prices by up to 9% and raise rural poverty by as much as 17%.

Technical and regulatory gaps further complicate the transition, particularly the conflicting understanding of forest and deforestation definition between the EU and Indonesia, including in relation to agroforestry practices that are widely implemented by Indonesian communities across affected commodities. Without clearer alignment, some agroforestry systems risk being interpreted as deforestation under the EUDR despite their role in sustainable land management and rural livelihoods. Furthermore, highly technical requirements, such as six-decimal geolocation precision and polygon mapping, are deemed strenuous and difficult for smallholders to implement. Governance fragmentation also persists, as Indonesia currently lacks an integrated umbrella policy, leading to overlapping mandates across ministries and regulatory uncertainty for businesses. In the longer term, Indonesia may also consider developing a technical regulatory framework under existing laws to define deforestation criteria for international trade purposes, helping bridge definitional differences without requiring revisions to the national forestry legal framework.

Indonesia faces a systemic compliance gap where fewer than 1% of independent smallholders currently meet EUDR traceability and legality requirements. There is a mismatch between the scale of existing project-based support from EU consumers and the system-wide transformation required for compliance. To address this, the government should prioritize scaling financial support through blended financing schemes and targeted fiscal support to cover upfront costs like mapping, certification, and digital traceability. Furthermore, establishing transitional adjustment mechanisms, such as subsidized compliance programs and concessional financing, is necessary to cushion vulnerable smallholders and small medium enterprises (SMEs) from market exclusion and potential income losses.

Indonesia's diplomatic strategy focuses on transitioning from a defensive compliance posture toward proactive engagement to ensure fair implementation of the EUDR. The government aims to lead a coalition of developing nations to advocate for Common but Differentiated Responsibilities (CBDR), arguing that standards should account for the structural constraints of producer countries.¹ Central to this effort is leveraging platforms like the WTO and IEU-CEPA to secure formal recognition of national certification systems, such as ISPO and SVLK, as compliant pathways. Additionally, Indonesia seeks to negotiate for more flexible geolocation methodologies, extended transition periods, and technical assistance to mitigate the disproportionate burden on smallholder-based supply chains.

To address the implementation of the EUDR, Indonesia's strategic response is categorized into immediate short-term actions and structural long-term reforms.

In the short term, the government should focus on scaling financial and technical support for smallholders and SMEs to meet complex traceability, certification, and due diligence requirements, thereby reducing the risk of market exclusion. Diplomatically, Indonesia should leverage multilateral and bilateral platforms, such as the WTO and IEU-CEPA, to advocate for a fair and proportionate implementation of the regulation. Additionally, the government should pursue a dual-track market and supply chain diversification strategy to strengthen trade resilience by expanding into high-potential markets like India, China, and the United States.

Beyond the immediate implications of the EUDR, **Indonesia should also view the regulation as part of a broader shift toward sustainability-driven trade governance**, including emerging measures such as the EU Carbon Border Adjustment Mechanism (CBAM), which increasingly link market access and competitiveness with environmental performance. In this context, strengthening coordination within ASEAN and integrating sustainability considerations into trade and industrial strategies will be important to reduce regulatory fragmentation, support business adaptation, and strengthen Indonesia's long-term position in global value chains.

In the long term, strengthening national coordination is essential, suggesting that the Coordinating Ministry for Economic Affairs to establish an integrated policy that synchronizes fragmented ministerial efforts and provides centralized leadership for EUDR alignment. This should be supported by the development of an integrated national

¹ For example, the Russian Federation, Paraguay, India, and Panama expressed concerns alongside Indonesia during the WTO Council for Trade in Goods formal meeting on 20 May 2026 regarding the European Union's implementation of the EUDR.
<https://tradeconcerns.wto.org/en/stcs/details?imsId=203&domainId=CTG&searchTerm=biodiversity>

traceability system that consolidates geolocation, legality, and supply chain data into a coherent and interoperable framework. Furthermore, Indonesia must focus on strengthening and aligning national certification systems, such as ISPO and SVLK, with international standards to position them as credible inputs for EUDR risk assessments and reduce redundant compliance efforts.

Key Messages

The EUDR, along with emerging measures such as the EU CBAM, is fundamentally reshaping green trade and signals a broader transition toward sustainability-driven trade governance. Indonesia faces governance and implementation challenges related to the EUDR, including disagreements on definitions and high financial and technical burden on smallholders. To resolve these issues, Indonesia should implement a dual-track strategy that combines financial and technical support for smallholders with long-term structural reforms, such as establishing a national integrated policy under the Coordinating Ministry for Economic Affairs to synchronize fragmented ministerial efforts and establishing integrated national traceability systems. At the international level, Indonesia should strengthen proactive diplomacy through the WTO, IEU-CEPA, and ASEAN mechanisms to advocate for the recognition of certification standards, including ISPO and SVLK, while ensuring a fair transition that maintains its global competitiveness.



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Introduction

Commodity-driven deforestation, linked to cattle, oil palm, soy, cocoa, and wood fiber production, has been a dominant force behind global forest loss, accounting for an estimated 57% of tree cover loss between 2001 and 2015 (WRI, 2024). This pressure is compounded by widespread illegal forest clearing, with illegal logging alone valued at USD 50–157 billion annually, representing roughly 8–27% of global forest product exports in 2022 (OECD & FAO, 2023; World Bank, 2019). Beyond production, global trade and consumption patterns play a critical role. Approximately 25% of forest loss in tropical regions is driven by international demand for agricultural and forest commodities (Pendrill et al., 2019; Ritchie, 2021). Notably, around 26% of global deforestation between 2005 and 2013 was linked to international demand, with 87% of this embedded in exports to Europe and Asia, a dynamic that partly explains forest recovery trends in these regions (Pendrill et al., 2019).

As a policy response, the EU developed a deforestation-free products regulation or EUDR (formally Regulation EU 2023/1115) as a legislative effort in mitigating global deforestation. This regulation is driven by scrutinizing the trade of specific commodities sourced from deforested land. The EUDR introduces mandatory compliance requirements to demonstrate these risks, excluding smallholders if compliance costs and technical requirements are not adequately addressedⁱ.

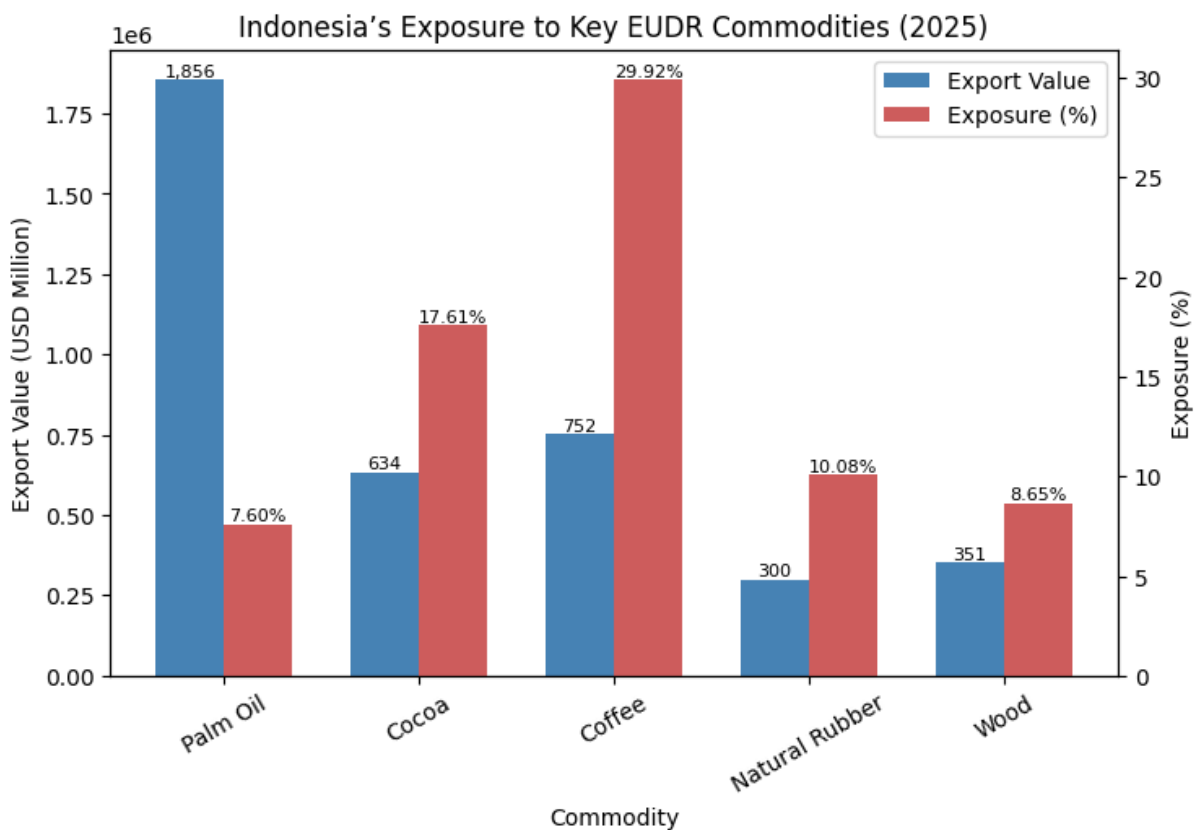
The EUDR regulated commodities encompass soy, palm oil, cattle, coffee, cocoa, rubber, wood, and their derivatives, with the possibility of expansion in the future. The regulation also reflects a broader transition toward sustainability-driven trade governance, where environmental compliance is no longer optional but a prerequisite for participation in global value chains. The regulation will be put into effect by December 2026 for larger firms and enterprises, while small medium enterprises (SMEs) will start facing the obligations in June 2027. Similar measures, including the EU CBAM, indicate that environmental and climate-related standards are becoming increasingly embedded in global trade governance, with implications extending beyond the EU market. This trend also raises the importance of regional coordination within ASEAN to strengthen competitiveness, reduce regulatory fragmentation, and support developing-country adaptation to emerging sustainability standards.

The EUDR is significantly impacting Indonesia's trade and economic landscape. In 2025, Indonesia's total trade value reached USD 19.4 billionⁱⁱ, and commodities regulated by the EUDR accounted for 25.4% of them. Out of this approximate quarter of Indonesia's trade value, 6.7% (around USD 4.9 billion) was imported from the EU. Aside from that, the EU is one of Indonesia's growing key trading partners, reflected in Indonesia's recent export

growth of 12.1% year-on-year in 2025. Complying with the EUDR is especially important to protect this market share from exposure to EUDR risks.

Commodity-wise, Indonesia's coffee, cocoa, rubber, and timber are highly exposed to the EU market. While palm oil represents a massive export volume, its relative exposure to the EU market is 7.6%; conversely, commodities like coffee and cocoa are more vulnerable to EUDR mandates, with 29.92% and 17.61% of their respective export shares destined for the EU (Figure 1). Failure to comply risks trade restrictions, potentially harming the country's export revenues and affecting the livelihoods of approximately 10.1 million smallholders involved in the production of EUDR-related commoditiesⁱⁱⁱ.

Figure 1



Source: World Integrated Trade Solution (2026)

The EUDR also poses significant challenges for Indonesia, including complexity of diversified supply chain standards, data collection, governance and verification hurdles, and potential negative economic impacts on smallholder farmers and foresters. A substantial share of commodity output is driven by smallholder farmers, many of whom face constraints in meeting EUDR requirements, especially in relation to geolocation, traceability, and formal documentation. This challenge is further complicated by

differences in how forest and deforestation are interpreted between Indonesia and the EU, particularly in relation to agroforestry and mixed-use landscapes that are widely practiced by Indonesian communities across EUDR-affected commodities. Without clearer technical alignment, some agroforestry systems risk being interpreted as deforestation under the EUDR despite their role in sustainable land management and rural livelihoods. In the longer term, Indonesia may also need to consider developing technical regulations under existing legal frameworks to establish clearer deforestation criteria for international trade purposes, helping bridge differences in definitions without requiring fundamental revisions to national forestry law. A study shows around 2.6 million smallholders manage 40–45% of Indonesia's palm oil land^{iv}. Currently, less than 1% of Indonesia's independent smallholders meet EUDR traceability and legality standards^v. The key barrier lies not only in achieving compliance, but in demonstrating it through robust data and verification systems, which entail significant costs and capacity demands across the supply chain. This raises risks of market exclusion, particularly for smallholders and SMEs.

On the other hand, the EUDR presents an opportunity for Indonesia to reform its agricultural and forestry sectors through strengthening traceability systems, improving land governance, and enhancing sustainability certification frameworks. These measures can increase transparency, reduce illegal practices, and improve the credibility of Indonesian exports. Implementing robust monitoring and compliance mechanisms, such as expanding Indonesian Sustainable Palm Oil (ISPO) and Timber Legality Verification System (Sistem Verifikasi Legalitas Kayu/SVLK), will enhance the credibility of Indonesian products. Learning from other countries that have successfully navigated similar trade regulations, such as Brazil's Soy Moratorium and Malaysia's MSPO certification, can help Indonesia develop an effective strategy for sustainable trade.

Moreover, broader global decarbonization trends are reshaping value chains and creating new opportunities for countries to position themselves in emerging green industries. For example, a meta-analysis finds that more sustainable products can command a "green premium," with consumers willing to pay approximately 34% more on average^{vi}. This suggests that sustainability is not only a regulatory requirement but also a strategic pathway for Indonesia to upgrade its export profile and leverage sustainable products as a driver of long-term value based economic growth.

The TradePAG 2026, hosted by Economic Research Institute for ASEAN and East Asia (ERIA), the Trade Policy Agency, Ministry of Trade, Republic of Indonesia and the Decarbonization for Development (DfD) Lab, Centre for Strategic and International Studies Indonesia, discusses the opportunities, challenges, and way forward for Indonesia in responding to the EUDR. Building on these discussions, this policy brief aims

to provide practical policy recommendations structured into three interrelated parts. The first examines the implementation of the EUDR by identifying key gaps and highlighting unresolved technical challenges, particularly in traceability, geolocation, and verification systems. The second focuses on the financial and technical mechanisms needed to bridge these capacity gaps, including mobilizing international support, strengthening domestic institutions, and ensuring the inclusion of smallholders in compliance efforts. The third outlines a forward-looking diplomatic strategy for Indonesia, emphasizing how the country can leverage both multilateral and bilateral platforms to strengthen its negotiating position and help shape emerging sustainability standards. Finally, the policy brief concludes with a set of targeted policy recommendations that synthesize insights from all three sections and offer actionable short- and medium-term policy directions for Indonesian policymakers and relevant stakeholders.

The EUDR: Regulatory Framework, Updates, and Challenges

The Indonesian private sector is preparing itself to face the EUDR. Businesses must fulfill three conditions stated in the EUDR: 1) goods must be fully deforestation-free, 2) goods must be produced in accordance with relevant legislation, and 3) firms must conduct comprehensive due diligence. Due diligence itself consists of data collection (traceability), risk assessment, and risk mitigation; it must be established and renewed annually and submitted to the EUDR due diligence system.

Even after two postponements, the regulation is still not completely agreed upon by every member state within the EU because of several technical and standard issues. For example, Germany has questioned the degree of stringency, while other trading partners like the US are considering forgoing soy trade with the EU altogether. The recent EUDR simplification measures in May 2026 reduce administrative duplication and clarify responsibilities across supply chain actors, but it does not reduce the compliance requirements. Greater clarity in due diligence responsibilities and streamlined reporting procedures can reduce uncertainty and limit duplication of data requests across supply chains. However, as Indonesia considered a standard-risk country, this means that the fundamental compliance of generating traceability, geolocation, and legality data remains unchanged.

These changes create opportunities for improved interoperability between EU and national systems, enabling Indonesia to better align existing initiatives, including traceability platforms and certification schemes (e.g., ISPO). On the other hand, clearer

allocation of responsibilities increases reliance on upstream data, potentially increasing compliance pressure on producer countries.

In addition, as palm oil is the most exposed commodity to the EUDR, the inclusion of additional palm oil derivatives extends compliance requirements further downstream, increasing the range of affected products and actors across the value chain. Overall, while the recent simplification improves within the EU, structural constraints in producer countries remain unaddressed, highlighting the need for scaled financial and technical support.

Despite the simplification effort, the EUDR implementation remains challenging for Indonesia. Based on the workshop findings, there are five technical challenges that should be addressed and requires a combination of trade diplomacy, domestic facilitation, and international cooperation, positioning the Ministry of Trade as a central actor in ensuring that Indonesia's exporters remain competitive in sustainability-driven markets.

First, the lack of clarity on the definition of forests between the EU and Indonesia also remains a problem. The EUDR follows the FAO definition (land larger than 0.5 hectares with trees taller than 5 meters and a canopy cover of at least 10%)^{vii}. Businesses are hesitant to follow this definition due to different definitions of forests in Indonesia, especially since agroforestry (sustainably practiced in local communities) is not included in the EUDR definition^{viii}. Furthermore, the definition of forests in Law No. 41/1999 does not mention tree coverage.

This poses the risk that what Indonesia considers non-deforestation products may differ from EUDR's definition, and ultimately, influencing Indonesia's status as a "standard risk" country. The EU should be more open to dialogue on this issue, as external regulators may lack understanding of local field conditions.

In accordance with the EUDR, trading countries are required to adhere domestic regulations regarding anti-deforestation. Indonesia has already set standards for palm oil (ISPO) and traceability systems for timber (SVLK), but they are not currently recognized by the EU. Interoperability and harmonization between existing standards and systems could streamline the EUDR adherence by not having to reinvent the wheel. Indonesia could utilize this as a basis for negotiating the EUDR terms.

Second, traceability itself is another challenging requirement. While geolocation data collection seems feasible to the EU, it is hard to ensure that all smallholders have the capacity to use geolocation applications, stay connected to the internet, or at the very

least, own a smartphone. Polygon mapping requirements for areas exceeding four hectares would require sufficient technical skills that smallholders are not currently equipped to do. Among other factors, smallholders' association estimates that the cost to get one smallholder compliant could be around IDR 44 million (or USD 2,600) per farmer^{ix}.

Third, the required six decimal coordinate precision (approximately 10 – 11 centimeters of precision) is also deemed strenuous^{x,xi}. There is debate amongst relevant commodity associations in Indonesia about why such precision is necessary, with suggestions to reduce location checks to the sub-district (*Kecamatan*) level. Data sharing concerns regarding the ethics of sharing such accurate plot data also persist.

Fourth, non-compliance can result in significant legal and financial consequences, as penalties are structured to be rigorous. Entities may face fines proportionate to environmental damage, the confiscation of revenues, or temporary prohibitions from accessing the EU market. Rather than a one-size-fits-all penalty, the EUDR mandates fines of at least 4% of a company's total annual Union-wide turnover. However, the lack of specific information regarding the exact fine thresholds is also a pain point for exporting markets.

While some argue that smallholders' due diligence is not as difficult as originally expected, this view ignores the fact that compliance costs will inevitably fall on smallholders. The demand for reporting will rise because producers must pass data down the chain to satisfy the needs of distant buyers. Smallholders will be expected to cover the expenses for land tenure, mapping, data collection, and auditing themselves. While this is an opportunity to align with global standards, smallholders will bear the financial and administrative brunt of these requirements due to limited digital tools and connectivity.

There is some flexibility provided for smallholders in preparing to face the regulation. SMEs currently benefit from a delayed start date of June 2027 and are exempt from certain reporting and redundant due diligence requirements. Specifically, SMEs are not required to publish their own reports and do not need to submit due diligence that has already been provided higher up in the supply chain.

Bridging the Gap: Increasing Financial and Technical Support Mechanisms

While compliance obligations formally sit with EU-based operators, the practical burden of data collection, verification, and system-building is burdening upstream to producers. Approximately 2.6 million smallholders manage around 40-45% of Indonesia's palm oil area, yet fewer than 1% of independent smallholders currently meet EUDR traceability and legality requirements^{xii}. In this context, the compliance gap is systemic. As a result, even producers who may already be operating sustainably face a high risk of exclusion from EU markets, because they lack the capacity to generate and provide the required documentation. EUDR compliance therefore represents not merely a regulatory adjustment, but a system-wide transformation of production, traceability, and governance systems.

Without adequate support mechanisms, this transition risks generating significant socio-economic consequences. Non-compliance could increase palm oil prices by around 1-9% and raise rural poverty by up to 17%, underscoring the potential distributional impacts. While these figures should be interpreted cautiously, it highlights the broader risk that smallholders, despite contributing substantially to production, may bear disproportionate costs^{xiii}.

Malaysia provides a useful comparative case, demonstrating both the potential and limitations of national-level preparedness. Through investments in traceability systems, mandatory certification (e.g. MSPO), and stronger coordination, Malaysia has achieved relatively higher levels of certification coverage and traceability, around 90% already MSPO certified^{xiv}. Malaysia's relatively higher readiness is because a combination of regulatory and institutional design. Malaysia has implemented mandatory certification through MSPO, which incorporates deforestation-free requirements and stronger traceability provisions which aligned with EUDR standards. This is supported by the development of centralized, national-level traceability systems. Malaysia also benefits from a smaller and more organised smallholder sector, making mapping and certification efforts more manageable compared to Indonesia case.

However, this does not equate to full EUDR readiness, particularly in achieving complete plot-level geolocation and ensuring smallholder inclusion. In Indonesia, 94% smallholders palm oil farmers are not aware of EUDR since they have difficulties to monitor international requirements which require massive socialization program^{xv}. This underscores that national efforts alone are insufficient, and that international support mechanisms must be scaled accordingly to support the transition.

Case Study: Insights from Kalimantan and Implications for EUDR Compliance

Kalimantan accounting for nearly 45% of Indonesia's palm oil production, which illustrates the structural challenges of EUDR compliance at scale. Spatial analysis shows that palm oil expansion is the dominant driver of deforestation, contributing to over 50% of forest loss and more than 60% of associated carbon emissions^{xvi}. Despite relatively limited post-2020 deforestation detected at the concession level, risk remains highly concentrated, where 94% of flagged concessions fall into high-risk categories, indicating that compliance exposure is not widespread but deeply clustered^{xvii}. At the same time, governance gaps are significant, with around 65% of concessions lacking verified legal titles and 87% of ownership not linked to identifiable entities, complicating traceability and due diligence requirements^{xviii}.

The case also highlights critical supply chain constraints. Around 80% of palm oil mills remain uncertified that hinder traceability to plot level^{xix}. Importantly, spatial modelling shows that large areas fall into "moderate risk" categories, where intervention is still cost-effective, suggesting that targeted, location-specific policies could significantly improve compliance outcomes. These findings underline that EUDR readiness in Indonesia is also constrained by gaps in governance, traceability systems, and coordinated institutional response.

Addressing these challenges requires a more integrated approach combining financial and technical support. This includes scaling innovative finance for traceability infrastructure, certification, and supply chain transformation, as well as linking compliance to access to trade and supply chain finance. In this context, technical assistance should prioritise system-building, including the development of geospatial infrastructure, interoperability between national and EU systems, and strengthening institutional capacity at subnational, national and regional levels.

Indonesia's ongoing initiatives, such as the development of SIPOL and the expansion of ISPO, provide an important foundation for compliance. However, certification alone is insufficient, as the EUDR requires operators to undertake independent due diligence. Indonesia therefore should advocate for the recognition and utilization of national certification systems, particularly ISPO, as credible inputs within EUDR risk assessment frameworks, including the potential for reduced risk classification or simplified procedures. Certification should be positioned as part of a broader "smart mix" approach, combining regulatory alignment, financial support, and technical cooperation.

Existing international support initiatives, including EU technical assistance facilities and the Team Europe Initiative on deforestation-free value chains, represent important steps towards facilitating compliance. However, there remains a significant mismatch between the small scale of support provided and the large scale of transformation required. Current support is largely project-based and fragmented, whereas EUDR compliance requires comprehensive, system-wide transformation, such as enhance interoperability with EU systems, accelerate smallholder registration and mapping, and address persistent administrative bottlenecks. EUDR presents both risks and opportunities for Indonesia. Without adequate support, it risks excluding smallholders, fragmenting markets, and widening inequality. However, with appropriate financial and technical support, it could strengthen competitiveness and enhance market access.

Leveraging Trade Diplomacy to Strengthen Indonesia's Position

Diplomacy should be positioned as a central pillar of Indonesia's strategic response, with a clear shift from a predominantly defensive compliance posture toward proactive norm-shaping. A key immediate priority is to ensure that the implementation of the EUDR does not result in de facto discrimination against developing-country exporters. To this end, Indonesia should sustain consistent, evidence-based engagement in multilateral forums such as the World Trade Organization, particularly through the Technical Barriers to Trade (TBT) Committee and the Committee on Trade and Environment. These interventions should focus on demonstrating how core elements of the EUDR's due diligence architecture, especially geolocation requirements and operator liability frameworks, impose disproportionate burdens on smallholder-based supply chains, which often lack the administrative and technical capacity of large-scale producers.

On parallel, the EUDR may also encourage Indonesia to accelerate export market diversification for key commodities covered under the regulation. Existing trade data suggest that several Indonesian commodities still possess significant unrealized export potential in non-EU markets. For cocoa beans and cocoa products, the greatest opportunities lie in the United States, Malaysia, and India, with the United States alone offering an additional export potential of around USD 149 million, equivalent to 15% of unrealized export potential. In the coffee sector, promising alternative destinations include the United States and Japan, alongside other growing Asian markets. Indonesia's wood exports also show strong diversification prospects in the United States, Japan, and China, where the United States represents an additional export opportunity of USD 301 million. Meanwhile, natural latex and rubber demonstrate particularly large diversification potential in China, India, and the United States, with China alone

accounting for approximately USD 1.1 billion in unrealized exports, representing 52% of total untapped potential. Similarly, crude palm oil exports could further expand into India and Kenya, with India offering an estimated additional export opportunity of USD 1.2 billion, or 59% of unrealized export potential.

Indonesia's position must be underpinned by robust, quantified evidence, including the number of smallholders affected, per-hectare compliance costs, and the interaction between traceability requirements and existing land tenure systems. Grounding diplomatic efforts in credible domestic research will significantly strengthen Indonesia's ability to challenge regulatory asymmetries and advocate for more equitable implementation of measures such as the EUDR. At the same time, the likely proliferation of similar measures, such as EU CBAM, raises broader systemic concerns. In this context, the multilateral trading system, should play a stronger role in mitigating the mounting burden on businesses required to navigate multiple and potentially overlapping standards, as well as rising compliance costs across jurisdictions.

Coalition building is a must since no single country can reshape the normative architecture of green trade conditionalities alone. Indonesia's most durable strategic investment is the consolidation of a broad, disciplined coalition of developing-country WTO members, including Malaysia, India, Brazil, Ghana, Côte d'Ivoire, and others, to present a unified position on EUDR and its precedent-setting implications. The shared argument is not opposition to environmental objectives, but insistence on Common but Differentiated Responsibilities (CBDR) within the trade-environment nexus: that countries bearing the historical burden of global commodity production cannot be held to compliance standards designed without their participation, on timelines that ignore their structural constraints.

Alongside norm-level advocacy, Indonesia must secure practical operational space. This means pushing for extended transition periods calibrated to smallholder capacity realities, dedicated technical assistance windows funded through the WTO's Aid for Trade mechanisms, and explicit anti-circumvention safeguards that prevent EUDR from being weaponised as a disguised trade restriction as protectionist pressures intensify globally.

More specifically, Indonesia can leverage the Indonesia–EU Comprehensive Economic Partnership Agreement (IEU-CEPA), as a strategic instrument to strengthen its bargaining position in negotiating less stringent EU regulations on Indonesian exports. Rather than treating the (EUDR) purely as external constraints, Indonesia can use CEPA to demonstrate credible alignment with global sustainability standards, thereby shifting negotiations from compliance pressure to partnership.

First, ISPO and SVLK represent Indonesia's most concrete negotiating asset in EUDR diplomacy^{xx}. Both systems have undergone significant credibility-building and previously accepted with the EU over the past decade. Indonesia's strategy must be to elevate their international recognition from a bilateral ask to a multilateral principle: that nationally developed, government-backed sustainability certification systems operating under equivalent environmental standards should be formally accepted as compliant pathways under EUDR. This way Indonesia should negotiate ISPO as outcome-based equivalences proved by an effective anti-deforestation measure, which would simultaneously strengthen WTO compatibility and reduce red tape^{xxi}. This requires Indonesia to invest in third-party equivalence assessments, engage EU technical bodies directly, and use CEPA negotiations with the EU as a vehicle to codify mutual recognition provisions moving the argument from Geneva's dispute corridor into binding bilateral treaty text.

Second, CEPA's institutional mechanisms provide formal and informal avenues to influence regulatory implementation. One of the key experts in the workshop mentioned that platforms such as the SPS/TBT Committee under IEU-CEPA can be used to raise concerns over EUDR implementation and advocate for context-sensitive approaches. In addition, Indonesia-EU CEPA also proposed institutional bodies such as Domestic Advisory Groups (DAGs) and Civil Society Forums allow Indonesian stakeholders, including government, business, and civil society, to engage directly with EU counterparts. These platforms can be used to highlight domestic constraints, propose context-sensitive benchmarks, and advocate for phased or differentiated compliance timelines. By actively participating in these forums, Indonesia can shape how EU regulations are applied in practice, potentially softening their impact on Indonesian exports.

Lastly, regulatory cooperation under CEPA can help reduce compliance costs and improve competitiveness. Through technical assistance, knowledge-sharing, and investment in green sectors, Indonesia can accelerate reforms in traceability, sustainable production, and carbon accounting. As Indonesian industries demonstrate higher levels of compliance, the rationale for stringent unilateral EU measures weakens, opening space for mutual recognition or transitional arrangements.

Summary & Policy Recommendations

The implementation of the EUDR presents a range of regulatory, technical, institutional, and economic challenges for Indonesia, particularly given the country's role as a major exporter of commodities covered under the regulation. These challenges extend beyond compliance alone and involve broader concerns related to legal harmonization, recognition of domestic sustainability standards, digital readiness, data governance, and financial exposure for exporters and smallholders. Addressing these issues will require a coordinated and forward-looking approach that combines domestic institutional reforms, technical engagement with the European Union, stronger support for smallholders, and enhanced international cooperation. The table 1. below outlines several key implementation challenges, their potential implications for Indonesia, and corresponding strategic steps that could support a more effective and inclusive national response to the EUDR.

Table 1. Challenges & Strategic Priorities

Challenges	Description	Potential Implication	Strategic Priorities
Disagreement over forest definition	The EUDR uses the FAO definition (0.5ha, 5m height, 10% canopy); conflicts with Indonesia's definition in Law No. 41 1999	Risk of legal disputes and exclusion of Indonesian products that are legally compliant domestically but fail EU criteria	Focus on technical negotiation and scientific justification, by establishing a joint technical working group with the EU (involving forestry, agriculture, and trade experts) to reconcile definitional differences. The objective is to secure recognition of Indonesia's agroforestry as "low-risk" or equivalent land use within EUDR classification , supported by scientific evidence and pilot case submissions. This is primarily a technical-regulatory alignment issue, not a certification issue.
Domestic standards and traceability systems not recognized	EUDR requires production to meet local laws, yet the EU does not currently recognize existing	Duplication of compliance efforts and costs; devalues national certification systems already	Lead efforts to negotiate mutual recognition or benchmarking mechanisms for recognition of Indonesia's agroforestry practices such as for ISPO and SVLK . This should be followed by submission to the EU for partial or modular recognition, while simultaneously

Challenges	Description	Potential Implication	Strategic Priorities
	Indonesian standards like ISPO or SVLK	in place	promoting these systems in international markets. In parallel, the Ministry should facilitate domestic upgrading of ISPO/SVLK where gaps exist, making them “EUDR-compatible,” rather than relying solely on external acceptance. It should also coordinate ASEAN-level alignment to strengthen collective bargaining power.
Digitalization and capacity gaps	Smallholders need to be able to operate mobile phones and use software to acquire 6 digits of geolocation; polygon mapping (area >4 ha)	Risk of excluding smallholders due to lack of capacity and digital infrastructure in conducting due diligence; will bear disproportionate costs	<p>Establish a national export traceability support program targeting smallholders, including training, partnerships with digital platforms, and facilitation of private sector participation. It should also mobilize international technical assistance and financing (e.g. EU cooperation schemes) to scale digital compliance tools.</p> <p>Initiate conversation with Badan Informasi Geospasial (BIG) regarding the sensitivity of 6-decimal geolocation data and how to manage against EU transparency requirements.</p> <p>Research and design protocols to ensure that polygon mapping data cannot be misused for purposes other than EUDR compliance.</p>
Data sharing	Concerns regarding the ethics of sharing high-precision plot data with external foreign entities	Potential resistance from commodity associations regarding sovereign land data	Develop a trade-oriented data governance framework that defines protocols for data sharing , protection, and access in line with EUDR requirements, while safeguarding national sovereignty. It should also act as an intermediary to standardize data submission for exporters to reduce risks and resistance.

Challenges	Description	Potential Implication	Strategic Priorities
Financial Penalties	Rigorous penalties including fines of at least 4% of annual Union-wide turnover and confiscation of revenues; no exact threshold of fines	Severe financial instability for non-compliant firms; lack of clarity on fine thresholds creates high business uncertainty	Provide compliance guidance and early warning systems for exporters, including advisory services on EUDR requirements and risk exposure . It should also advocate in negotiations for proportional enforcement, transitional flexibility, and clarity on penalties, while facilitating access to sustainability-linked financing to help firms manage compliance costs.

Source: Authors' Compilation based on TradePAG 16 April 2026 Discussion

Based on the analysis and discussion that have been presented, several short-term and long-term policy recommendations are proposed in this part. Short-term recommendations are considered immediate actions, while long-term recommendations generally require system development and structural changes, therefore requiring more preparatory steps ahead of implementation. However, it is worth noting that they also require early action to ensure readiness ahead of EUDR enforcement timelines.

Short-term

Scale financial and technical support for smallholders

A central challenge in responding to the EUDR lies in the disproportionate burden placed on smallholders and SMEs, which account for a significant share of Indonesia's production in affected commodities but often lack the financial, technical, and institutional capacity to meet increasingly complex traceability, certification, and due diligence requirements. Compliance with EUDR obligations—including geolocation mapping, digital traceability systems, certification upgrades, and reporting procedures—will generate substantial upfront costs and adjustment pressures, particularly for smaller producers and exporters. Without targeted intervention, these costs risk exacerbating existing inequalities across supply chains, as larger firms are generally better positioned to adapt while smallholders and SMEs face potential exclusion from EU markets and short-term income losses.

Lessons learned from the Australia's or EU's CBAM approach demonstrate that the largest burden of sustainability-related trade measures often stems not from tariffs themselves, but from the upfront costs of measurement, verification, and reporting. For Indonesia, this underscores the importance of financing mechanisms, shared traceability infrastructure, and SME-targeted transition support to ensure that compliance with the EUDR does not disproportionately exclude smaller producers from global markets.

Rather than relying solely on direct subsidies, Indonesia should develop innovative compliance financing mechanisms including blended finance, export compliance facilities, levy recycling, digital compliance infrastructure such as mapping, certification, auditing, and digital traceability systems. In the palm oil sector, for example, the government could explore utilizing revenue-sharing mechanisms and existing funds managed by BPD PKS (Palm Oil Plantation Fund Management Agency) as an alternative financing source to support smallholder EUDR readiness amid fiscal constraints. Sustainability compliance should also be linked with access to credit, export facilitation, and government support programs. Technical assistance should focus on strengthening capacities in geolocation, data management, digital literacy, and compliance reporting, while also supporting collective approaches through cooperatives, producer associations, and agricultural extension services to reduce costs and improve efficiency.

Ensuring that these support systems are accessible, scalable, and well-coordinated across ministries and commodity sectors will be critical to maintaining market access, strengthening export competitiveness, and supporting inclusive development outcomes. Given that legal due diligence obligations under the EUDR primarily fall on EU importers, Indonesia should promote a public-private partnership model that distributes compliance costs across governments, EU buyers, exporters, and development finance institutions. This would ensure that the burden of traceability and verification does not fall disproportionately on Indonesian SMEs and smallholders while preserving long-term access to European markets.

In the short term, the government should also establish transitional adjustment mechanisms to cushion vulnerable actors facing immediate compliance-related disruptions. These may include temporary financial assistance, concessional financing, subsidized compliance programs, and targeted transition support for producers and SMEs at risk of losing market access during the adaptation period. At the same time, Indonesia should actively pursue expanded technical and financial cooperation with the European Union and development partners to help share the costs of compliance transformation. In the end, sustainability-related trade measures are more politically and economically sustainable when accompanied by burden-sharing arrangements, capacity-building support, and transitional financing for affected developing-country partners.

Leverage multilateral, regional and bilateral platforms for strategic trade diplomacy

Indonesia's response to the EUDR should be complemented by proactive and targeted trade diplomacy to ensure that its implementation is fair, proportionate, and feasible especially for smallholders. While the regulation's environmental objectives are broadly aligned with Indonesia's commitments, several of its core elements—particularly geolocation requirements, country-level risk classification, and the definition of forest and deforestation—present significant practical and structural challenges. Without strategic engagement, these elements risk creating disproportionate compliance burdens and acting as de facto barriers to trade.

To address this, Indonesia should prioritize engagement not only through multilateral platforms such as the WTO and bilateral channels including the IEU-CEPA negotiations, but also through regional ASEAN mechanisms. This includes utilizing platforms such as the ASEAN Economic Ministers Meeting, ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME), and relevant working groups under the ASEAN Economic Community (AEC) framework to develop a coordinated regional response to emerging sustainability-related trade measures. This aligns directly with the AEC Strategic Plan 2026-2030's Sustainable Community pillar, which emphasizes mainstreaming climate-responsive policies across trade, investment, MSME development, and regional competitiveness.

On geolocation requirements, rather than seeking changes to the core obligation, Indonesia should push for recognition of flexible and scalable methodologies, including satellite-derived mapping, as well as group-based compliance models through cooperatives or supply chain aggregators. At the regional level, ASEAN could explore the development of interoperable traceability standards or shared digital infrastructure to reduce duplication costs across member states exporting similar commodities such as palm oil, rubber, cocoa, coffee, and timber. These approaches can significantly reduce compliance costs while maintaining traceability integrity.

In parallel, Indonesia should advocate for a more granular application of EUDR's risk-based framework. This includes promoting subnational (jurisdiction-level) risk classification to allow regions with verified low deforestation risk to benefit from simplified due diligence, reduced verification intensity, and lower frequency of compliance checks. Such an approach would better reflect Indonesia's diverse land-use conditions and align regulatory burden with actual risk levels. At the regional level, ASEAN member states could collectively advocate for more transparent and science-based

methodologies in country risk assessments to avoid broad-brush classifications that disadvantage developing economies.

Furthermore, Indonesia should advocate for periodic reassessment of country risk classification while encouraging ASEAN to establish a regional knowledge-sharing platform on sustainable commodity governance, enabling member states to exchange best practices on traceability systems, certification alignment, satellite monitoring, and SME compliance readiness.

Indonesia should also seek a more context-sensitive interpretation of deforestation under the EUDR, particularly in relation to agroforestry and mixed-use landscapes, where tree cover does not necessarily correspond to deforestation risk. While changes to the EU's forest definition are unlikely, Indonesia can pursue technical-regulatory alignment by establishing a joint working group with the EU that brings together forestry, agriculture, and trade experts to reconcile definitional differences and develop agreed methodologies. In the longer term, Indonesia may also consider exploring the development of technical regulations under existing legal frameworks to establish clearer deforestation criteria for international trade purposes, helping bridge definitional differences without requiring fundamental revisions to national forestry law. ASEAN could strengthen this effort by supporting a broader regional technical coalition among major commodity producers such as Indonesia, Malaysia, Thailand, and Vietnam, particularly for commodities with shared exposure to EUDR requirements. The objective should be to secure recognition of Indonesia's agroforestry systems as "low-risk" or equivalent land use within the EUDR framework, supported by scientific evidence, spatial analysis, and pilot case submissions demonstrating no net deforestation. Framing this as a technical and evidence-based process, rather than a political negotiation, can help facilitate more flexible and context-appropriate implementation while maintaining the regulation's environmental integrity.

Finally, Indonesia should advocate for stronger data governance safeguards in the implementation of EUDR, particularly regarding the handling of high-precision geolocation data. This includes ensuring that such data is used solely for compliance purposes, subject to strict access and confidentiality limitations, and supported by interoperable systems that minimize the need for full cross-border data transfer.

By combining evidence-based advocacy, coalition-building with other producer countries, stronger regional coordination through ASEAN, and targeted engagement through formal negotiation platforms, Indonesia can help shape a more balanced and implementable regulatory framework that supports both environmental integrity and inclusive trade. In parallel, the government should strengthen compliance guidance and

early warning systems for exporters, including advisory services on EUDR requirements, risk exposure, and potential financial penalties. Indonesia should also advocate for proportional enforcement, transitional flexibility, and greater clarity on penalty mechanisms, while facilitating access to sustainability-linked financing to help firms manage compliance costs during the transition period.

Pursue strategic market and supply chain diversification

Given the uncertainty surrounding EUDR compliance and the risk of uneven readiness across supply chains, Indonesia should pursue a more strategic approach to market and supply chain diversification. To mitigate these risks, Indonesia should adopt a dual-track diversification strategy. In the short term, efforts should focus on strengthening exports to existing high-volume and high-potential markets, particularly in Asia and North America, to absorb potential supply shocks and maintain export volumes. For instance, palm oil exports could further expand into India and Kenya, while natural rubber and latex products show significant unrealized export potential in China, India, and the United States. In the medium to long term, Indonesia should deepen its presence in emerging and mid-sized markets across Asia, the Middle East, and Africa to reduce structural dependence on a limited number of destinations and capture future demand growth.

This diversification strategy should also be tailored across commodities. Cocoa products have strong export potential in the United States, Malaysia, and India, while coffee exports could further expand into the United States, Japan, and other growing Asian markets. Indonesia's wood products similarly show strong diversification prospects in the United States, Japan, and China. Meanwhile, crude palm oil exports continue to possess substantial untapped potential in large developing markets, particularly India. These trends suggest that while compliance with the EUDR remains essential for maintaining access to the European market, Indonesia should simultaneously leverage alternative export destinations to strengthen trade resilience and reduce overdependence on a single regulatory market.

In parallel, supply chains should be adapted to accommodate differentiated market requirements, including the segregation of EUDR-compliant and non-compliant products where feasible. Strengthening engagement with international buyers will also be important to align expectations, facilitate compliance, and support the development of differentiated market channels. By combining market diversification with supply chain segmentation, Indonesia can enhance resilience, reduce exposure to regulatory shocks, and maintain flexibility as global sustainability standards continue to evolve.

Long-term

Strengthening national coordination for compliance and competitiveness

Indonesia still lacks a comprehensive national framework to coordinate and streamline EUDR-related policies and procedures. At present, there is no overarching umbrella policy that clearly establishes institutional responsibilities, resulting in fragmented implementation and overlapping approaches across ministries and agencies. The absence of a definitive mandate designating which government entities are responsible for EUDR alignment also creates regulatory uncertainty for businesses and smallholders attempting to comply with evolving sustainability and traceability requirements. Given the cross-cutting nature of the EUDR, which spans trade, agriculture, forestry, environment, customs, and digital traceability systems, a more integrated and coordinated national response is increasingly necessary. To provide stronger legal standing and centralized leadership, the Coordinating Ministry for Economic Affairs should establish an umbrella policy on EUDR alignment that synchronizes government efforts and clearly specifies the mandates of all relevant ministries and institutions. Such a framework would help ensure policy coherence, reduce implementation gaps, facilitate engagement with international partners, and create a more predictable ecosystem for businesses and smallholders navigating the transition toward sustainable trade.

Beyond addressing compliance risks, a comprehensive approach is also essential for Indonesia to capture the broader economic and strategic opportunities arising from the EUDR transition. Improved traceability systems, stronger sustainability standards, and better inter-agency coordination could enhance Indonesia's competitiveness in global markets, strengthen investor confidence, and support the country's broader green industrialization agenda. In this regard, Indonesia can draw important lessons from the evolving approaches of Australia and other countries in responding to climate-related trade measures such as CBAM and carbon leakage risks.

Australia's experience highlights that climate policy, industrial strategy, and trade policy should not be treated separately, but rather integrated into a cohesive national framework that supports competitiveness, low-emission industrial development, and compliance with emerging global standards. Rather than viewing the EUDR solely as a compliance burden, Indonesia should leverage it as a catalyst to strengthen sustainable commodity governance, improve market access, and position itself within future sustainability-oriented global value chains. At the same time, Indonesia should strengthen domestic governance and traceability systems to reduce the risk of "green trade leakage," whereby exports shift toward markets with weaker sustainability standards while undermining long-term competitiveness in premium markets.

Develop integrated national traceability system

A critical requirement of the EUDR is the ability to ensure full traceability of commodities, including plot-level geolocation and verifiable supply chain data. However, Indonesia's current traceability landscape remains fragmented, with gaps in smallholder registration, land tenure documentation, and interoperability across systems. These constraints not only increase compliance costs but also create risks of supply chain exclusion, particularly for smallholders who lack access to digital tools and formal documentation.

To address this, Indonesia should prioritize the development of an integrated national traceability system that consolidates geolocation, legality, and supply chain data into a coherent and interoperable framework. This includes accelerating smallholder registration and polygon mapping, improving coordination across existing platforms such as SIPOL, ISPO, and SVLK, and ensuring alignment with EUDR data requirements. Strengthening data governance, particularly in relation to data ownership, privacy, and cross-border sharing, will also be essential to build trust among stakeholders.

Given the scale of transformation required, implementation should follow a phased approach, focusing initially on high-risk regions and export-oriented supply chains while gradually expanding coverage. By establishing a robust and integrated traceability system, Indonesia can reduce compliance costs, enhance transparency, and strengthen the credibility of its exports in an increasingly sustainability-driven global market.

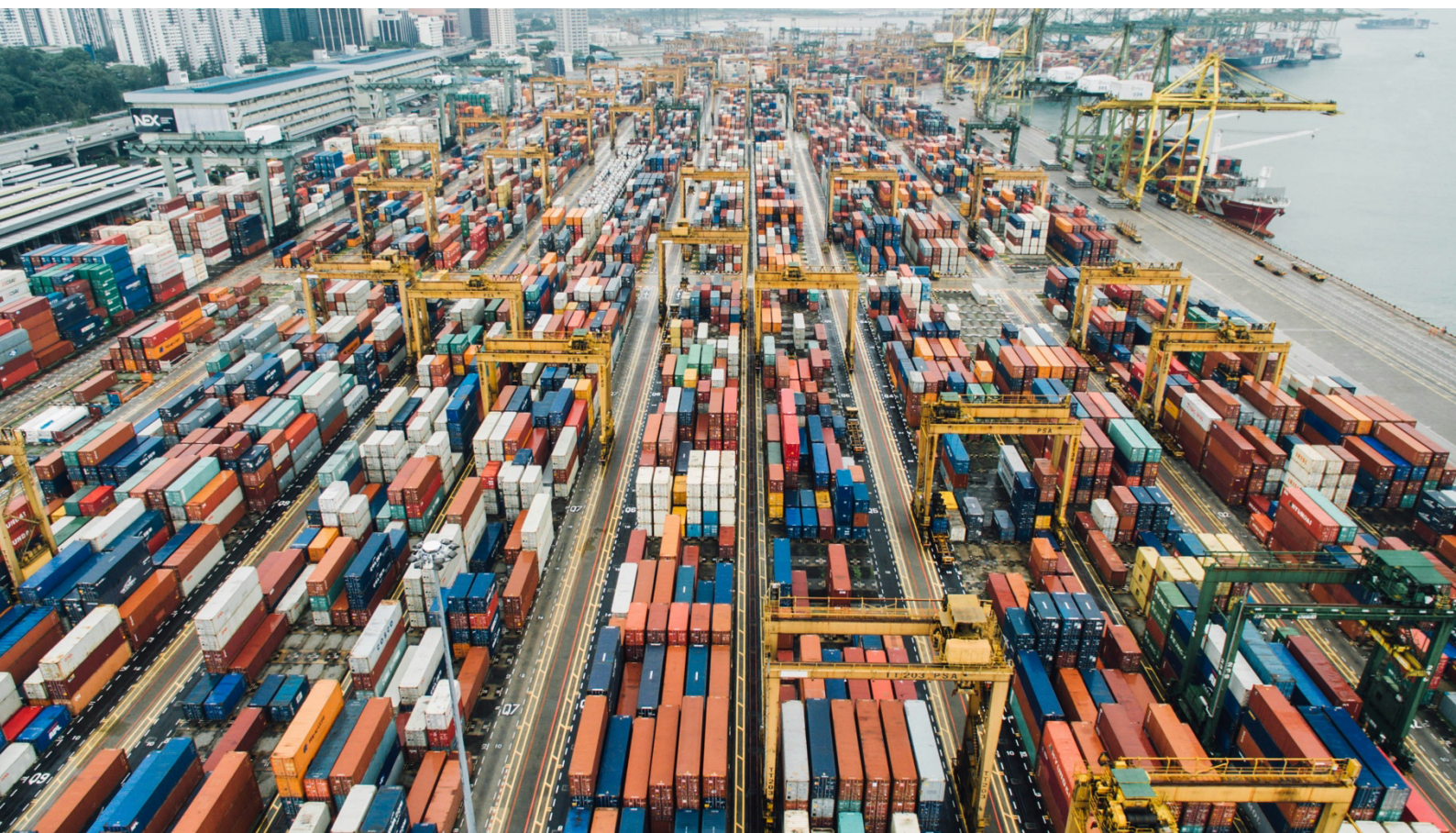


Strengthen and align national certification system with international standards

Indonesia's national certification systems, particularly ISPO and SVLK, provide an important foundation for advancing sustainable production and improving supply chain governance. However, under the EUDR framework, certification alone is not sufficient to demonstrate compliance, as operators are still required to conduct independent due diligence. This limitation reflects the EU's position that third-party certification does not constitute automatic compliance, creating risks of duplication and increased costs for producers.

To address this, Indonesia should focus on strengthening and aligning its certification systems with international standards, while positioning them as credible inputs into EUDR compliance processes. This includes enhancing transparency, enforcement, and data quality, as well as ensuring that certification outputs can support traceability and risk assessment requirements. At the same time, Indonesia should actively pursue recognition or equivalence arrangements with the EU, advocating for ISPO and SVLK to be considered in risk classification or simplified due diligence procedures.

Integrating certification systems with national traceability frameworks will be key to maximizing their value and avoiding redundant compliance efforts. By combining certification, traceability, and regulatory alignment, Indonesia can reduce compliance burdens, strengthen its negotiating position, and enhance the credibility of its exports in global markets.



APPENDIX

Summary table of Policy Recommendations

Timeframe	Recommendation	Short Description
Short-term	Scale financial and technical support for smallholders	Provide targeted financing and capacity-building support to enable smallholders to meet EUDR traceability, certification, and due diligence requirements through innovative public-private financing partnerships involving government agencies, EU importers, Indonesian exporters, and development partners to share compliance costs for mapping, traceability systems, certification, and smallholder onboarding, thereby reducing the risk of exclusion from EU markets
Short-term	Leverage multilateral, regional and bilateral platforms for strategic trade diplomacy	Engage proactively in platforms such as the WTO and IEU-CEPA to advocate for flexible and proportionate EUDR implementation, including regional ASEAN mechanism under the AEC Strategic Plan 2026-2030 to advocate for flexible and proportionate EUDR implementation on geolocation methodologies, risk classification, deforestation definitions and cooperation on traceability and SME compliance support.
Short-term	Pursue strategic market and supply chain diversification	Adopt a dual-track strategy by strengthening exports to existing high-volume markets in the short term while expanding into emerging markets over time, alongside developing differentiated supply chains for EUDR-compliant and non-compliant products
Long-term	Enhancing national coordination for compliance and competitiveness	Indonesia needs comprehensive national integrated policy on EUDR alignment to strengthen inter-agency coordination, reduce regulatory fragmentation, improve sustainability and traceability governance, and position the country to better capture emerging opportunities in sustainable global value chains
Long-term	Develop integrated national traceability system	Build an interoperable national system for geolocation, legality, and supply chain data to support compliance, improve transparency, and strengthen global market credibility

Timeframe	Recommendation	Short Description
Long-term	Strengthen and align national certification system with international standards	Enhance the credibility and alignment of certifications like ISPO and SVLK with global sustainability standards to support risk assessment and reduce duplication in EUDR compliance processes

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