

IEU CEPA: Ensuring Sustainable and Equitable Free Trade

The Indonesia-European Union Comprehensive Economic Partnership Agreement (IEU-CEPA) aims to strengthen economic relations, increase trade and investment, and promote sustainable shared prosperity between Indonesia and the European Union. While expanding access to the European market is a key objective, a number of issues must be addressed to ensure a fair and sustainable agreement.

IEU-CEPA can boost investment and trade, increasing productivity and competitiveness of Indonesian products in the EU market. However, this must be achieved through a fair and sustainable framework. Indonesia must prioritise aspects of sustainability, protection, and alignment with affected groups such as independent farmers, indigenous peoples, women, disabilities, and children. Indonesia also needs to improve the quality of human resources, harmonisation of standards, market access, and socio-economic empowerment of communities to be competitive in the European market.

The Trade and Sustainable Development (TSD) chapter of the IEU-CEPA is the cornerstone for sustainability and is still under negotiation. This chapter should:

1. **Affirm environmental and labour standards:** Affirm the commitment of both parties to ensure high environmental and labour standards, preventing compromises for the sake of trade benefits.
2. **Promote sustainable practices:** Provide a platform to strengthen sustainable practices and governance for key commodities. This includes aligning with international conventions on labour and environment, addressing climate change, ensuring civil society participation, and promoting responsible natural resource management.
3. **Establish mutually agreed standards:** The chapter should seek mutually agreed standards that reflect best practices from both regions.

The IEU-CEPA should also maintain and enhance the progress made and address a number of challenges, including:

1. **Learning from the FLEGT VPA:** The success of Indonesia's Forest Law Enforcement, Governance and Trade Voluntary Partnership Agreement (FLEGT VPA) and Timber Legality Verification System (SVLK) demonstrates Indonesia's commitment to sustainable timber trade. The IEU-CEPA should build on this foundation.

Indonesia and the EU signed the Voluntary Partnership Agreement (VPA) in Brussels on 30 September 2013. The VPA was ratified on 13 March 2014 through Presidential

Regulation No. 21/2014 on the Ratification of the Voluntary Partnership Agreement Between the Republic of Indonesia and the European Union on Forest Law Enforcement, Governance and Trade in Timber Products into the European Union. Indonesia is currently a leading country in the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. As a result Indonesia has developed and implemented a timber legality licensing scheme (SVLK) that requires all forest management units, and processing industries to obtain legality certificates demonstrating that their operations are conducted legally and are able to fulfil the European market¹.

2. Integrating Palm Oil: Given the EU's position as a major importer of Indonesian palm oil ², the agreement should include provisions for sustainable palm oil trade. Indonesia's Indonesian Sustainable Palm Oil (ISPO) certification scheme is a cornerstone for ensuring sustainability. The EU should utilise the IEU-CEPA to support this effort.

Based on available data, exports of palm oil and its derivatives, leather and its derivatives, rubber, coffee and cocoa to the EU will add USD \$6.5 billion to Indonesia's trade balance in 2022. US\$3 billion of Indonesia's US\$21 billion export revenue to the EU comes from selling palm oil and its derivative products³.

3. Taking into account the EU Deforestation Regulation (EUDR): While the IEU-CEPA cannot intervene in the EUDR as an EU regulation, it does provide opportunities for dialogue and collaboration. Indonesia should utilise IEU-CEPA to:
 - a. Address issues related to the EUDR rating system (benchmarking), ensuring a fair and accurate assessment of Indonesian commodity production.
 - b. Encourage mechanisms that support smallholders and small businesses in meeting EUDR requirements, ensuring sustainable market access for Indonesian products.

To maximise the benefits of IEU-CEPA and mitigate potential risks, Kaoem Telapak propose:

1. Accelerate the Finalisation of the TSD Chapter: Prioritise the completion of negotiations on the TSD chapter in 2024.
2. Utilise IEU-CEPA to strengthen preparation for EUDR implementation: Utilise IEU-CEPA to strengthen Indonesia's position in navigating the EUDR, ensuring fair treatment, and support for Indonesian producers.

¹ Kaoem Telapak taken from the document Analysis-Regulation-New-SVLK-2024.pdf (kaoemtelapak.org)

² Indonesia.GO.ID, accessed from Indonesia.go.id - National Palm Oil Industry Empowered in Europe

³ Kompas, EU Bans Indonesian Products if They Don't Pass Deforestation Due Diligence, accessed from <https://www.kompas.id/baca/internasional/2023/05/17/uni-eropa-resmi-larang-produk-andalan-indonesia>

3. Implement Mechanisms for Rights Protection and Environmental Sustainability: Include strong mechanisms in IEU-CEPA to protect the rights of indigenous peoples, local communities, and smallholders, while ensuring environmental sustainability.
4. Establish Enforcement and Accountability Measures: Include clear sanctions for violations of the principles of the agreement.
5. Ensure Stakeholder Access to Remedies: Ensure an easily accessible grievance mechanism for stakeholders (farmers, labour unions, civil society) affected by the agreement.
6. Strengthen Existing Sustainability Frameworks: Continue to improve Indonesia's trade governance, strengthen SVLK and ISPO implementation to ensure deforestation-free commodity production.

By addressing these important aspects, the IEU-CEPA can become a model for a fair and sustainable trade partnership, benefiting both Indonesia and the EU.