# POST-FTA BRIEFING

## EU-Indonesia

Home to over 287 million citizens, Indonesia is the fourth most populous country in the world.

26% of EU imports from Indonesia are agricultural products, primarily palm and coconut oil, coffee and other food products.

Indonesia is the largest miner of nickel, supplying over 60% of global production.

## Basic trade figures

In 2025, the EU's share in Indonesia's total trade equalled 6%, making the EU Indonesia's fourth largest trading partner[1]. The most imported Indonesian goods include agricultural products and raw materials including palm and coconut oil, timber, coffee, meats and vegetables, manufactured goods and machinery and transport equipment[2].

Indonesia is the world's largest producer of palm oil fruit and nickel refiner, with a global production share of 60%[3] and 45%[4] respectively. It is also the largest economic member of the Association of Southeast Asian Nations (ASEAN). Indonesia has been one of the few ASEAN members benefitting from the EU's Generalised Scheme of Preferences (GSP), though the nation is set to graduate on 1 January 2027[5].

## Political context for negotiations

In July 2016, Indonesia and the EU launched negotiations for a trade agreement known as the Comprehensive Economic Partnership Agreement (IEU-CEPA). After nine years, the IEU-CEPA negotiations concluded on 23 September 2025[6]. IEEP's Pre-FTA briefing on the IEU-CEPA offers a more in-depth look at the background of the trade negotiations, main sustainability challenges in Indonesia, and recommendations for improving the sustainability credentials of the trade agreement.

## Summary of sustainability in Indonesia

Industrial expansion and export of palm oil, metals and minerals, and fish products are drivers for Indonesia's main sustainability challenges. Between 2001 and 2019, 14.6 million hectares of primary forest were lost, of which 28% were converted to palm oil plantations[7]. Despite efforts to combat deforestation, primary forest loss increased by 14% between 2024 and 2025 driven in part by agricultural expansion and mining activities, though it remained below the mid-2010 peaks[8]. In addition, mining activities are also responsible for water pollution and human rights abuses, including against Indigenous communities.

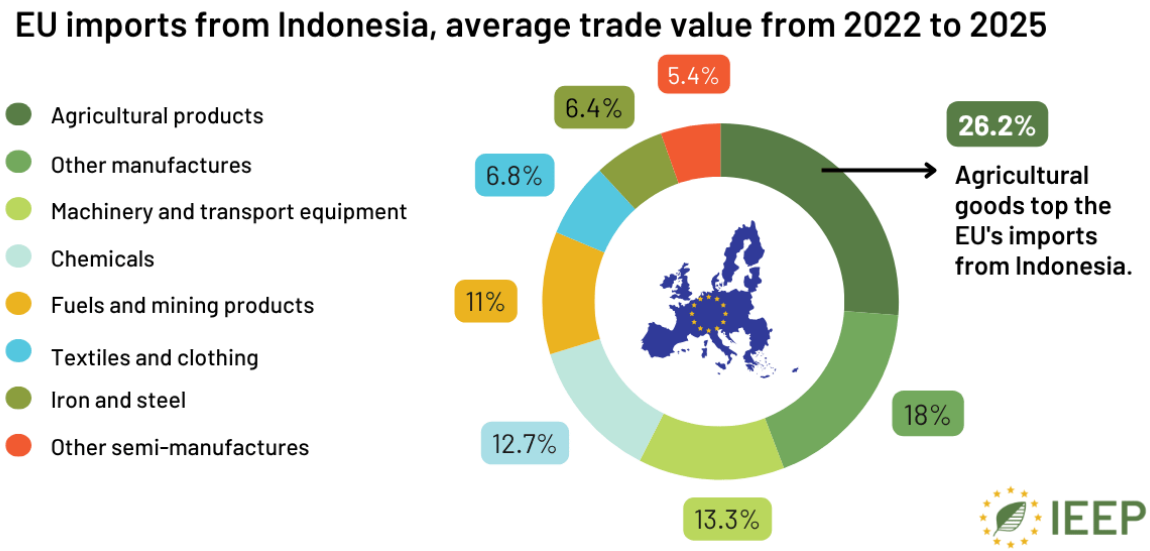
Indonesia's fisheries face significant pressure, with most capture-fishery resources fully exploited or overexploited in 2022[9]. Additionally, aquaculture expansion is driving mangrove destruction. Poor fisheries management and illegal, unreported, and unregulated (IUU) fishing worsen marine degradation. Together, these environmental challenges threaten biodiversity, fuel climate change, and harm local livelihoods.

## What are the next steps?

- Prioritise a joint, time-bound implementation roadmap for climate and environmental cooperation.
- Pursue a workstream on sustainable critical raw materials under a Strategic Partnership on CRMs.
- Concretise actions under the Palm Oil Protocol through a joint implementation roadmap.
- Operationalise the institutional and civil society mechanisms established under the CEPA.

## How well does the IEU-CEPA score on our progress bar?






Source: DG Trade, European Commission (2026)

## Political context of the negotiations

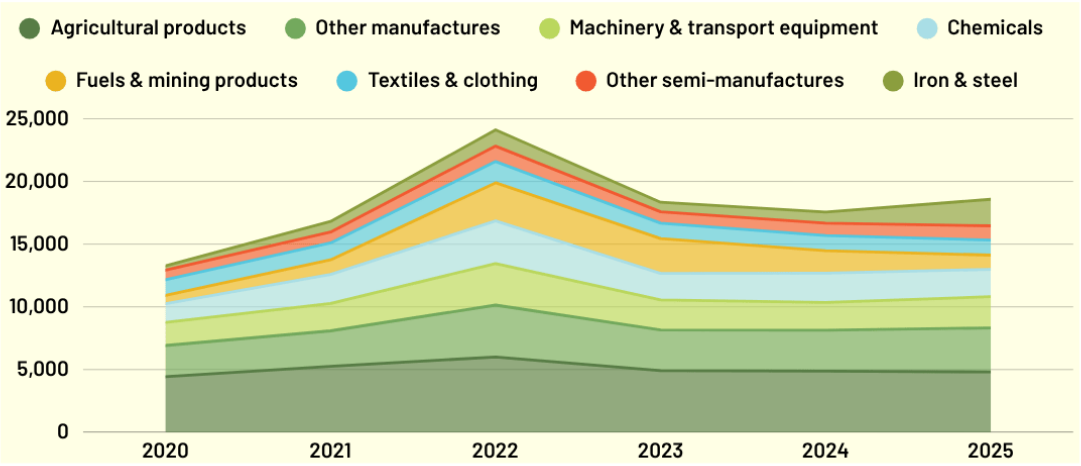
Following the suspension of region-to-region EU-ASEAN trade negotiations in 2009, the EU pursued bilateral agreements with individual ASEAN countries[10]. Negotiations with Indonesia, the bloc's largest economy[11] and a market of more than 287 million people[12], were launched in 2016 culminating in the conclusion of the Indonesia-EU Comprehensive Economic Partnership Agreement (IEU-CEPA) in September 2025[13]. Economic ties have continued to deepen in the intervening decade: in 2025, the EU recorded an €8.5 billion goods trade deficit with Indonesia, while maintaining surplus in services trade and substantially greater EU investment in Indonesia than vice versa[14]. Indonesia's role as both a major commodity producer and an increasingly significant industrial economy is reflected in the changing composition of EU-Indonesia trade.

Looking at the sectoral breakdown from 2020 to 2025, the year 2022 stands out as the high point, with import values jumping sharply across almost every category before falling back in 2023. This was not simply a general increase in trade volumes; the spike coincided with the post-pandemic commodity boom and the energy crisis following Russia's invasion of Ukraine. EU imports from Indonesia rose particularly strongly in fuels and mining products, which more than doubled from €1.17 billion in 2021 to €3 billion in 2022. The 2022 surge coincided with the European energy crisis following Russia's invasion of Ukraine, as the EU sought alternative suppliers following its ban on Russian coal imports[15]. EU coal imports from Indonesia soared from just €12 million in 2021 to €1.2 billion in 2022, while higher commodity prices and increased imports of palm oil derivatives, metals and other industrial goods also contributed to the surge[16].

The subsequent years show a rather different pattern. Agricultural products have remained Indonesia's largest and most stable import category, peaking at €6 billion in 2022 but remaining close to €4.85 billion thereafter. Machinery and transport equipment

and chemicals similarly experienced a pronounced 2022 spike before settling at lower levels. By contrast, iron and steel is the real late-period growth story: after fluctuating considerably between 2020 and 2024, imports surged to around €2.1 billion in 2025, making it one of the fastest-growing categories in the dataset. Meanwhile, fuels and mining products fell dramatically after their 2022 peak, illustrating how exceptional, and closely linked to the European energy crisis, that year's trade pattern was. Overall, the data suggest a shift away from the extraordinary commodity and energy shock of 2022 towards a more stable import structure dominated by agricultural products and manufactured goods, while metals appear to be gaining importance.

**Evolution of EU imports from Indonesia, 2020 to 2025, in million EUR**




Source: DG Trade, European Commission (2026)

Indonesia's position as a leading producer of palm oil and nickel places several environmentally sensitive commodities at the centre of EU-Indonesia trade relations. Palm oil remains closely linked to deforestation concerns and the EU Deforestation Regulation (EUDR), while nickel has brought tensions between EU demand for critical raw materials and Indonesia's strategy of restricting unprocessed exports to promote domestic value addition. More recently, the sharp rise in Indonesian iron and steel exports to the EU adds a further dimension to these sustainability considerations, particularly following the entry into force of the EU Carbon Border Adjustment Mechanism (CBAM) in 2026. Together, these sectors illustrate the challenge of reconciling greater trade and resource access with Indonesia's industrial development objectives and the environmental impacts of resource-intensive production.

## Assessment of sustainability-relevant aspects in the IEU-CEPA

The following section examines how sustainability is embedded in the IEU-CEPA, from the commitments and governance mechanisms established under the Trade and Sustainable Development (TSD) Chapter to their enforceability. As the Agreement has not yet entered into force, these mechanisms are not yet operational and the analysis therefore focuses on their design and potential implementation. It also takes a closer look

at two sectors where trade, environmental and industrial policy interests particularly intersect: raw materials and palm oil.

## Trade and Sustainable Development Chapter

The TSD Chapter begins with a preamble in which the Parties commit to strengthening trade and investment relations in a sustainable, inclusive and rules-based manner. They recognise the Agreement as an opportunity to address shared global challenges, including climate change, biodiversity loss, pollution, poverty and inequality, while promoting the green transition, decent work and inclusive economic growth. Acknowledging their different levels of development, they aim to ensure that trade supports social progress, environmental protection and resilient supply chains that benefit SMEs and smallholders.

The Parties also reaffirm their commitments under key international instruments, including the ILO Constitution and fundamental ILO Conventions, the Paris Agreement, the UNFCCC and the Convention on Biological Diversity (CBD), and commit to strengthening cooperation on sustainability across their trade and investment relations. Specifically concerning the Paris Agreement, the Parties aim to pursue and communicate increasingly ambitious climate actions over time.

***Trade and climate change***

Continuing in the EU's approach to "green" its trade agreements, the Parties commit to effectively implement the UNFCCC and Paris Agreement, including delivering on their NDCs and advancing climate policies. Yet, the approach to anchor the Paris Agreement into the agreement is new.

Specifically, provision 15.7(3) ensures that each Party shall remain a part in good faith to the Paris Agreement. This is a provision that is considered an essential element of the Agreement because it is subject to temporary remedies under the Agreement's dispute settlement mechanism. If a Party were to withdraw from or fail to uphold its membership in the Paris Agreement, it could trigger temporary trade remedies. In other words, this climate-relevant provision in the TSD Chapter carries enforceable consequences.

This Article also outlines how the Parties aim to promote alignment between trade and climate objectives to support the shift toward low-carbon, net-zero, and climate-resilient development, and strive for a more efficient and sustainable use of resources. The Parties agree to cooperate on trade and investment in goods and services that support these goals. Moreover, the Parties pledge to cooperate on trade and climate, including at multilateral fora such as the WTO, the Montreal Protocol, the International Maritime Organisation, the International Civil Aviation Organisation and the CBD.

### *Trade and biological diversity*

Provisions relating to the biodiversity conservation and to combatting illegal wildlife trade fall under this Article. Accordingly, the Parties commit to align their actions with international frameworks such as the Convention on Biological Diversity (CBD), explicitly including the Kunming-Montreal Global Biodiversity Framework (GBF), the Nagoya Protocol, and CITES.

Concerning the implementation the GBF, the Parties commit to implement measures consistent with the Target 19 of the GBF to safeguard biological diversity and ensure fair, equitable benefit-sharing from the use of genetic resources and traditional knowledge. Importantly, the Parties aim to work to increase financial and domestic resources to implement national biodiversity strategies, in line with the GBF.

On illegal wildlife trade, the Parties pledge to take effective actions to combat the practice and aims to conserve and sustainably use species listed under CITES, including to support updates to its Appendices to better reflect conservation needs and promote trade that contributes to biodiversity protection.

The Parties will also cooperate at bilateral, regional, and international levels, including under the CBD and CITES, focusing on promoting trade that supports the sustainable use of biological resources, sharing best practices and policy experiences, and enhancing awareness among consumers. The Parties also aim to advance the conservation and sustainable use of biodiversity through tools such as ecosystem valuation and natural capital accounting.

### *Trade in timber and timber products and sustainable forest management*

As in other TSD Forestry Articles, the Parties commit to cooperate on trade-related forest conservation and sustainable forest management, including measures to combat illegal logging. The text emphasises the need for the Parties' respective policies to be mutually supportive and to extend efforts to address illegal logging involving third countries as appropriate. It also underscores the importance of effectively implementing and monitoring the EU-Indonesia Forest Law Enforcement, Governance and Trade Voluntary Partnership Agreement (FLEGT VPA).

The EUDR is not explicitly mentioned here, though the Parties commit to exchanging knowledge and experiences to promote the consumption and trade of products from deforestation-free supply chains. Specific actions concerning palm oil production are addressed outside the trade agreement text in the Protocol on Palm Oil, more on this below.

***Trade and sustainable management of marine biological resources and aquaculture***

Marine resources and aquaculture are among the environmental areas most consistently addressed through dedicated provisions in EU FTA TSD Chapters.[17]. Considering previously identified sustainability challenges in Indonesia, where 75% of marine resources are fully exploited and aquaculture expansion has contributed to mangrove destruction[18], strong provisions on marine resource management and aquaculture could therefore deliver meaningful benefits.

While the IEU-CEPA includes substantive commitments on the sustainable management of marine resources, IUU fishing and responsible aquaculture, its provisions are less explicit than those in the EU-Chile agreement, which specifically addresses overfishing and overcapacity, bycatch, the recovery of overfished stocks, and science- and ecosystem-based fisheries management. The IEU-CEPA instead places greater emphasis on practical cooperation, including fisheries monitoring and inspection, electronic reporting, technical assistance and capacity building. This focus is particularly relevant given persistent governance and enforcement challenges in Indonesia's fisheries sector, including in tackling IUU fishing[19], and provides an area where international cooperation could translate into tangible improvements.

***Trade and investment favouring sustainable development***

Aiming to address forthcoming EU standards, certification systems, and labelling schemes such as the Ecodesign for Sustainable Products Regulation (ESPR), this Article highlights the Parties' recognition of the role that voluntary sustainability schemes, standards, and labels can play in complementing domestic regulations and advancing high levels of environmental protection, social progress, and sustainable economic growth.

To this end, the Parties strive to promote and facilitate trade and investment in environmental goods and services relevant to climate change mitigation and adaptation, goods that improve social conditions, and products certified under credible and transparent sustainability standards. They will also cooperate by sharing information, best practices, and outreach initiatives. This includes assessing how trade and investment rules interact with labour and environmental standards, promoting the uptake of reliable sustainability schemes, and exchanging experiences on green growth strategies, sustainable production and consumption, and environmentally sound technologies.

***Cooperation on trade-related sustainability regulatory requirements and other sustainability issues***

The IEU-CEPA's TSD Chapter includes a "Part B" which provides additional initiatives to focus on *how* sustainability rules are implemented in practice, recognising the need for capacity building, technology transfer, and financial support to make implementation workable. Building on this, the Agreement positions itself as a platform for promoting sustainable growth and expanding market access for sustainably produced goods, with particular attention to smallholders, cooperatives, and local communities. It also highlights the importance of supporting local actors and respecting collective land rights as part of inclusive sustainable development.

In practice, the Parties will work through the Specialised Committee on Trade and Sustainable Growth (see below) to identify concrete opportunities to facilitate trade in sustainable goods and services. This would include cooperation on credible sustainability certification and traceability systems, as well as support measures that help SMEs and producers participate in sustainable value chains. The Committee will also prioritise key sectors – such as agriculture, forestry, fisheries, renewable energy, and environmental services – and develop lists of goods and services that contribute to sustainability objectives. Within three years of entry into force, it is expected to explore possible incentives, including tariff preferences, investment conditions, and technical assistance, to further promote trade in these areas.

***Horizontal provisions and institutional arrangements***

"Part C" of the TSD Chapter covers horizontal provisions aimed at ensuring that sustainability-related trade measures are developed and implemented in a transparent, evidence-based, and proportionate manner, including through the application of the precautionary principle. The text emphasises ongoing monitoring of the Agreement's economic, environmental, and social impacts, supported by stakeholder input and structured cooperation.

At the centre of this framework is the Specialised Committee on Trade and Sustainable Growth (CTSG) (Article 15.19), which serves as the main institutional body for overseeing implementation of the TSD Chapter, the Protocol on Palm Oil, and the Chapters on Economic Cooperation and Capacity Building and Sustainable Food Systems. Other responsibilities of the CTSG include facilitating cooperation between the Parties, performing tasks related to dispute settlement, and contributing to work under the broader Trade Committee. It is also expected to play a coordinating role in data exchange, best practice sharing, and the development of improved methodologies for sustainability impact assessments.

Currently, the composition of the CTSG members is undefined, except for that the Committee would be co-chaired by representatives from the EU and Indonesia. The CTSG would meet annually or at the request of the Trade Committee and where relevant hold talks with the civil society forum (CSF) and the Domestic Advisory Groups (DAGs). Within

one month after the entry into force of the agreements, each Party must designate a contact point in its administration to facilitate communication and coordination concerning the TSD Chapter.

***Dispute settlement procedure for non-compliance with TSD provisions***

For disputes arising on TSD matters, the CTSG is the primary contact point for so-called "Pre-dispute resolution". Through joint dialogue, aided by the CTSG, the Parties will attempt to reach a mutual understanding within 30 days.

If no agreement is found, the matter may be escalated to the Agreement's formal dispute settlement system. The Trade Committee is responsible for pre-establishing a roster of 15 experts with labour or environmental law expertise to serve as potential panellists in TSD disputes, ensuring the system can operate efficiently once a case is initiated.

Once a panel is formed, it will assess compliance and issue an interim and final report within set deadlines, with limited scope for extension. Where a breach is found, the responding Party must take corrective action and notify both the other Party and relevant civil society bodies. Implementation of the corrective measures is monitored by the TCSG with opportunities for civil society input.

If immediate compliance is not possible, the Parties may agree on a reasonable timeframe for compliance or have the panel determine the timeframe. Continued disagreement over compliance measures can lead to a compliance review by the same panel. In cases of non-compliance, the system allows for temporary compensation or proportionate suspension of trade benefits. These remedies are strictly temporary and end once compliance is restored or a mutually agreed solution is reached.

While the Agreement's dispute settlement system allows for temporary remedies under Article 22.17 – such as compensation or suspension of trade benefits when a Party fails to comply with panel findings – these remedies are, in the context of Chapter 15 (Trade and Sustainable Development), limited to cases where the panel finds a breach of Article 15.4(4) or Article 15.7(3)[20], which concern specific labour and climate obligations."

Therefore, non-compliance with provisions, beyond Articles 15.4(4) or Article 15.7(3), do not give rise to the possibility of temporary suspension of trade benefits under Article 22.17. Instead, enforcement in these areas relies primarily on consultation, dialogue, and cooperative mechanisms. In practice, this reflects a more cooperative enforcement design for most TSD commitments, with temporary trade-related remedies reserved for specific labour and climate obligations.

## Concerning raw materials

Following the longstanding dispute over Indonesia's restrictions on unprocessed nickel, it seems the EU and Indonesia have negotiated a compromise on how to manage raw-material trade under the CEPA. This should be viewed against the background of the unresolved WTO dispute (DS592). The EU initiated the dispute in 2019, and in November 2022 the WTO Panel found Indonesia's nickel export ban and domestic processing requirement inconsistent with GATT Article XI. Indonesia appealed the ruling in December 2022, but with the WTO Appellate Body non-operational, the dispute remains unresolved[21]. In 2023, the EU also considered unilateral countermeasures under its Enforcement Regulation[22], while the European Parliament encouraged resolution through the IEU-CEPA negotiations.

The final CEPA does not explicitly incorporate or implement the WTO Panel ruling but establishes a bilateral framework governing export restrictions. Article 2.8 incorporates GATT Article XI, while the Trade in Goods and Energy and Raw Materials Chapters introduce additional disciplines on export restrictions, raw-material monopolies, dual pricing and transparency, subject to specific exceptions and existing measures. The CEPA can therefore be seen as providing a negotiated bilateral route for managing a trade dispute that could not be conclusively resolved through WTO dispute settlement, raising broader questions about the role of FTAs where multilateral enforcement mechanisms remain ineffective.

More broadly, Chapter 14 seeks to facilitate access to Indonesian raw materials and investment while recognising Indonesia's sovereignty over its natural resources and right to pursue legitimate public-policy objectives, including security of supply and environmental protection. Yet Indonesian stakeholders are concerned that growing EU demand for nickel and other critical raw materials for the clean transition could reinforce an extractive development model and externalise part of its environmental costs to Indonesia.

Indonesia's downstreaming policies have increased domestic processing and export value, but much of the resulting capacity is foreign-owned, with around 75% of refining capacity estimated to be Chinese-owned[23]. Stakeholders are therefore less concerned about EU companies displacing Chinese firms than about additional investment and demand increasing competition for Indonesia's finite mineral resources. Without greater domestic value addition, economic returns and stronger environmental safeguards, they fear this could further intensify the environmental pressures associated with mineral extraction and processing.

## Sustainable Palm Oil Protocol

The IEU-CEPA partners negotiated a supplemental Protocol on Palm Oil aimed at promoting trade in sustainable palm oil and establishing a platform for sectoral cooperation[24]. Rather than making market access conditional on production-method requirements, the Protocol focuses on sustainability assurance and traceability through

dialogue, technical assistance, information sharing, monitoring and verification, and strengthening the Indonesian Sustainable Palm Oil (ISPO) system. It also establishes strict rules of origin, requiring crude palm oil exported under the agreement to originate from Indonesian fruit or kernels.

However, many of the Protocol's sustainability provisions are cooperation-oriented and lack concrete actions, targets, deadlines or dedicated resources. While it envisages cooperation to support Indonesian operators in meeting sustainability requirements relevant to EU trade, it does not explicitly identify measures such as the EU Deforestation Regulation or Corporate Sustainability Due Diligence Directive. Its significance therefore lies primarily in creating a framework through which sustainability cooperation can be operationalised, rather than establishing new sustainability obligations[25].

This could be particularly relevant for smallholders, who account for a large share of Indonesia's palm oil farmers but face disproportionate barriers to compliance, including land-tenure documentation and the costs of traceability and certification[26]. Although the Protocol recognises smallholders, it provides no dedicated funding or measurable targets for addressing these barriers. Its envisaged joint initiatives, capacity building and implementation reviews nevertheless provide an opportunity to develop more concrete support.

The EFTA-Indonesia CEPA offers a useful contrast: since 2021, it has linked preferential tariffs for palm oil to compliance with specified sustainability requirements, providing a more direct and enforceable market-access incentive than the EU's cooperation-based approach[27]. However, such conditionality can also risk excluding smallholders where adequate technical and financial assistance is unavailable. The two approaches therefore illustrate a trade-off between stronger sustainability conditionality and an approach centred on capacity building and potentially broader participation. Whether the EU model can deliver such "levelling-up" will ultimately depend on how its currently broad cooperation commitments are implemented.

## Conclusion

Taken together, the IEU-CEPA represents an uneven advance in the integration of sustainability into EU trade policy. Its TSD Chapter remains heavily reliant on cooperation, dialogue and capacity building to advance climate and environmental objectives, despite calls from environmental stakeholders for stronger enforceability. Temporary remedies apply only to a narrow set of labour and climate commitments (Articles 15.4(4) and 15.7(3)), while the Agreement otherwise continues to rely primarily on dialogue, cooperation and dispute settlement to support implementation of its sustainability commitments.

Nevertheless, the Agreement introduces meaningful substantive and institutional advances. These include commitments linked to the Kunming-Montreal GBF and mobilisation of resources for biodiversity, cooperation on sustainability standards and schemes, and an extensive governance architecture centred on the Committee on Trade

and Sustainable Growth. The value of this architecture will depend on whether dialogue produces agreed actions, transparent follow-up and demonstrable progress.

Despite the limited use of binding provisions in the TSD Chapter, the Agreement also contains several meaningful substantive additions. These include a commitment to align actions with and implement the Kunming-Montreal GBF, including measures consistent with Target 19 and efforts to increase financial and domestic resources for implementing national biodiversity strategies. The Agreement also provides for cooperation on sustainability standards and schemes, an area likely to become increasingly important with the implementation of EU legislation such as the ESPR.

The treatment of environmentally sensitive sectors exposes this implementation challenge particularly clearly. On nickel, greater predictability and access for the EU must be balanced against the risk that additional demand and investment intensify extraction pressures without sufficient domestic value addition and environmental safeguards. On palm oil, the dedicated Protocol creates a potentially useful framework for sustainability, traceability and smallholder support, but lacks binding obligations, dedicated resources and concrete targets. Similarly, while the CEPA is less explicit on fisheries management than the EU-Chile agreement, its practical cooperation provisions could help address marine overexploitation if they translate into improved monitoring and enforcement.

Ultimately, the IEU-CEPA has created considerably more machinery for sustainability cooperation. The test now is what that machinery delivers. This is particularly important where the Agreement itself may stimulate trade and investment in environmentally sensitive and resource-intensive sectors. Implementation must therefore move quickly from dialogue and information exchange towards concrete, adequately resourced and measurable action. Without that follow-through, the breadth of the CEPA's sustainability framework risks exceeding its environmental impact.

***Recommendations***

- Prioritise a joint, time-bound implementation roadmap for climate and environmental cooperation. The roadmap implementation could also inform the Agreement's review mechanism by providing an assessment of the effectiveness of the TSD provisions, alongside the broader sustainability impacts of the CEPA.
- Pursue a dedicated workstream on sustainable critical raw materials under a Strategic Partnership on CRMs. This should promote the sustainable use of finite raw materials, increased circularity and environmentally sound processing, alongside technology transfer, capacity building and local value addition.
- Concretise actions under the Palm Oil Protocol through a joint implementation roadmap. This should include specific priority actions, time-bound objectives, clearly identified implementation and monitoring bodies,

and dedicated financial and technical assistance. Particular attention should be given to ensuring that smallholders are able to benefit from the Protocol.

- Operationalise the institutional and civil society mechanisms established under the CEPA. The Parties should establish the CTSG and its relevant configurations, alongside the DAGs and CSF, to enable effective monitoring of CEPA implementation and impacts and ensure the regular involvement of civil society. Sustainability-related meetings and dialogues should also record agreed actions and systematically follow up on their implementation to strengthen accountability and transparency.
- Translate cooperation on sustainable marine resources and aquaculture into action. The Parties should turn the CEPA's provisions on monitoring, inspection, technical assistance and capacity building into priority actions addressing marine overexploitation, IUU fishing and sustainable aquaculture, supported by clear objectives and follow-up to ensure measurable improvements in marine resource management.
- Establish a dedicated workstream on CBAM implementation and industrial decarbonisation. In light of growing Indonesian iron and steel exports to the EU, cooperation should support CBAM compliance while promoting longer-term decarbonisation through policy and knowledge exchange, greater circularity and increased use of secondary raw materials.

*The progress bar presented on the front page of this briefing indicates how well a given FTA scores at being a gold standard FTA for sustainability. The criteria for a gold standard FTA builds on previous IEEP research and recommendations, while the rating of the FTAs scoring of each criteria is conducted by the author. For more information, please reach out to the corresponding author at eblot@ieep.eu.*

**Authors**: Eline Blot

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