

## Stepping up to the challenges of green recovery: Indonesia and the EU

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KAS-MDPD, the German Development Institute (DIE) and the Finnish Institute of International Affairs have launched a new publication series on the external dimension of the EU's Green Deal, with inputs by experts from the biggest (re-)emerging powers.

How is the Green Deal perceived by (re-)emerging powers across the world? And what does the Green Deal mean for the EU's global power ambitions? The publication series involves perspectives from eight countries/regions: Brazil, China, the EU, India, Indonesia, Mexico, Russia and South Africa.

# 1. Introduction

In its external dimension, the European Green Deal can connect to various developments in Indonesia ranging from its climate and disaster resilience programmes (as adaptation) to its ambitions to lower emissions (as mitigation), even if Indonesia's target to develop a zero-net carbon economy is less ambitious. Opportunities for the development of a joint green partnership lie in a convergence of Green Deal instruments and objectives with Indonesia's national development plan. In this context, the sustainable management and protection of peatland, marine and coastal zones, and forests, not least in view of Indonesia's palm oil production, are important areas of cooperation. The Green Deal is also set to constitute a new point of orientation in the development of the Indonesia-EU Comprehensive Economic Partnership Agreement. At the same time, the public in Indonesia does not show a clear understanding of the urgency regarding climate and the global sustainability agenda as COVID-19 and recovery from the pandemic dominate the public discourse. Against this background, the EU needs to take into account influences and alternative cooperation opportunities for Indonesia in the region, in particular with China.

## 2. Indonesia's perspective on "greening"

### A. Relevance of "green issues" in public discourse in Indonesia amid the COVID-19 pandemic

The COVID-19 pandemic is an unprecedented event that has prevented travel activities. The pandemic is a game changer in various aspects of economic and social life, but it is not yet clear whether it will have lasting effects on emissions reduction. Climate experts worry that COVID-19 is diverting attention away from climate change. Both challenges create shifting issues and a sense of urgency, but the impacts of COVID are limited in comparison with the devastating effects of climate change. According to the Intergovernmental Panel on Climate Change (IPCC) Report, between 2030 and 2052, global warming is likely to increase by 1.5 degrees, leading to severe consequences such as sea level rise, increased ocean acidity, and biodiversity and ecosystem endangerment, including species loss and extinction (1). The impacts of climate change would also increase further climate-related risk with implications for human livelihoods and economic growth. Despite the pandemic, greenhouse gas emissions have remained stubbornly high. Daily global carbon dioxide emissions fell by as much as 17% in early April. But as the world economy started to recover, emissions bounced back, according to the UN, with 2020 likely experiencing only a 4-7% decline in carbon dioxide relative to 2019 (2).

For Indonesia, the pandemic affected economic growth in the second quarter of 2020, falling to negative 5.3% (3), taking the country to the brink of a recession. Both COVID-19 and climate change require short-term and long-term investments. This is a challenging issue not only for the Indonesian government. Early investments in pandemic control and prevention would have paid off, which is a striking parallel to the difference between mitigation and adaptation strategies in climate change. Both present different choices for economies because limited resources force us to make difficult calculations, as seen in the following points.

Firstly, the narratives of climate change and COVID-19 are similar<sup>1</sup>. Both are related to events that require and cause changes in knowledge, attitudes, and threats in our daily life. The perception of the threats, however, is different in Indonesia. Climate change impacts are pictured as something that will happen in the future or near future, while COVID-19 is pictured as urgent and deadly. People greatly underestimate the implications of climate change impacts because the implied changes are massive and far-reaching. Beyond that, implications of a transformation to a climate-friendly economy are profound and long-lasting and, thus, less easily accepted.

Public attitudes to climate change and COVID-19 differ despite certain similar characteristics and consequences for the population. As with COVID-19, climate change impacts will take place without mercy, causing natural disasters, displacement, massive deaths, and even the loss of entire nations due to sea-level rise. This, however, is hard to visualise for most people (5). The media, in particular social media, plays an important role in Indonesia in advocating about both challenges. The accountable use of social media tools can help during a pandemic to quickly spread new important information, share diagnostic, treatment and follow-up protocols, and compare different approaches from other parts of the world to adapt them to the local setting and available resources. In Indonesia, social media has been used substantially to introduce and spread information about the virus, but at the same time it has also been spreading fake information and conspiracy theories.

1

The following line of argumentation builds on Sulistiawati and Linnan (4).

With a view to climate change, social media in Indonesia has been useful to introduce climate change as an environmental issue, but not yet utilised as an advocacy tool for climate change impacts.

Secondly, the pandemic and climate change share similarities with regard to the effects on the fossil fuel industry in Indonesia. The latter has an insurmountable problem if climate change is targeted via ambitious emission reduction objectives, which imply a rapid shift away from fossil fuel and towards renewables. During the COVID-19 pandemic, we have seen how oil prices plummeted all over the world, causing major economic disruptions and losses for oil-producing countries, including Indonesia. Prior to COVID-19, when faced with maturing fields, strict regulations and a growing national oil company as the dominant competitor (PT Pertamina), many international oil and gas companies exited Indonesia (6). COVID-19 and low oil prices may accelerate this. As a result, production targets for oil and gas are likely to be missed. The Indonesian Crude Price dropped as low as EUR 29.41 billion in April, compared with a national budget assumption of EUR 54.5 billion (6).<sup>2</sup> This development comes with far-reaching implications for the economic situation of Indonesia and the state budget.

In view of the climate protection goals, the planned Indonesian carbon tax (7) will initiate a low carbon development and increase state revenues at the same time. While exerting significant pressure on the national coal industry, the carbon tax is hoped to provide the capital to start renewable and clean energy development as well as green building. Therefore, the government plays an important role in encouraging this culture while creating an effective, efficient, and transparent tax collection method.

As noted by Ruiu et al. (8), we need to understand the reasons behind the recognition of the COVID-19 as a pandemic that requires global efforts, while efforts to tackle climate change still lack such urgency. There are lessons to be drawn in Indonesia from the pandemic for the issue of climate change. Ahmad Arif, for instance, argues that the pandemic should be able to awaken policymakers to be more environmentally friendly and reduce the rate of increasing global emissions (9). He links this argument to the fact that measures to reduce catastrophic climate change are also intertwined with efforts to prevent future pandemics. To illustrate, preventing deforestation and forest encroachment, which are important causes of climate change, also contributes to the protection of biodiversity. It can also slow down or stop animal migration and prevent wildlife capture, which increase the risk of spreading zoonoses, as was the case in the COVID-19 outbreak. The connection between climate change and COVID-19 was also established by other media (9). The argument here was that both threats have in common that the severe damage caused by them can be overcome if communities commit to taking decisive and early action.

<sup>2</sup>

Conversion rate of the European Central Bank: 1 USD = 0,86 EUR on 07.10.2021 (not adjusted to purchasing power).

## **B. Achievements of the National Midterm Development Plan (RPJMN) 2015-2019**

In President Joko Widodo's first term (2015-2019), Indonesia decided on a National Midterm Development Plan (RPJMN) that put the increase of climate and disaster resilience as well as the development of a low carbon economy on the agenda. The government succeeded in increasing the convergence of climate change adaptation and disaster risk reduction through integrated programmes. It also increased Indonesia's participation in international negotiation and cooperation, such as the completion of negotiations over the Regional Comprehensive Economic Partnership (RCEP) and acceleration of negotiations on the "Indo-Pacific" as an Indonesian cooperation initiative to be adopted by the group (10). As a result, Indonesia's Disaster Risk Index was successfully reduced by 23.97% between 2013 and 2018 (11).

Beyond that, in 2017, the Indonesian government recognised the domestic and international importance of its tropical landscape and the people in it by voluntarily committing to at least a 26% reduction in greenhouse gas emissions by 2020. Indonesia also developed a strategy for land use and forestry emissions and extended a moratorium on new clearing of primary forests and peat lands from two to four years (2013 - 2015); further, in 2019 the President announced a permanent ban on forest and peatland clearing in Indonesia and increasingly recognised the rights of forest communities and indigenous peoples. The Ministry of Environment and Forestry claims that in 2020, Indonesia managed to reduce the forest fire rates by 75%. The deforestation rate of 462,500 hectares in 2019 was reduced to 115,500 hectares in 2020 (12).

## **C. Current greening policies in Indonesia 2020-2024**

Continuing the previous RPJMN, the Indonesian government has developed a National Midterm Development Plan for 2020 to 2024 that includes a green agenda. The new plan specifically addresses environmental issues and the impact of climate change as the foundation for the implementation of a green growth and green recovery agenda. The policy direction for national priorities related to the environment and climate change consists of (1) improving environmental quality, (2) enhancing disaster and climate resilience, and (3) developing a low-carbon economy.

With regard to the improvement of environmental quality, the current development plan puts emphasis on the prevention of pollution and damage to natural resources on the basis of increased monitoring of fresh water, sea water, and air quality; the provision of (more accurate) information on weather, climate, biodiversity and ecosystem conservation; and the prevention of land and forest fires as well as the loss of biodiversity. At the same time, the plan includes activities to rehabilitate and restore degraded natural resources and environment, such as peatland, forests, previous mining areas, marine and coastal areas, as well as habitats of endangered species. Protection and rehabilitation plans are accompanied by an agenda to strengthen institutions and law enforcement for Natural Resources and the Environment (NRE).

The enhancement of disaster and climate resilience continues to play a key role in Indonesia's development plan, too. This area is of particular importance for Indonesia because Indonesia is an archipelagic country made up of around 17,000 islands and sits on the Pacific "Ring of Fire". Planned measures range from better data, information and disaster literacy, to the improvement of facilities for disaster management, spatial planning and disaster prevention, to strengthening national emergency response and recovery and reconstruction facilities. Of particular relevance is the improvement of climate resilience through the implementation of the climate change adaptation plan for priority sectors including in the marine and coastal areas, the water sector, the agricultural sector, and the health sector.

With a view to the reduction of greenhouse gas emissions, the National Development Plan focuses on the reduction of the deforestation rate and parallel reforestation, the expansion of renewable energy to replace fossil fuels, an increase of energy efficiency as well as higher agriculture productivity and efficiency. Large-scale plantation agriculture, in particular for palm oil, is an important driver of deforestation in Indonesia (13). Beyond that, waste management for both households and industries belongs to Indonesia's key policy areas.

Reflecting the highly decentralised political system of Indonesia, the central government, through the Minister of Finance, Sri Mulyani Indrawati, has called on the local governments to contribute to the financing of climate change management. On the end of the central government's state budget, the average expenditure of ministries and agencies related to climate change reached EUR 18.76 billion in 2018-2020, with 88.1% for green infrastructure (14). However, the central government is slowly decreasing the state budget for climate change management to push for local governments' support. The Ministry of Finance stated that the climate change management allocated budget was EUR 8.07 billion in 2018, EUR 5.95 billion in 2019, and EUR 4,7 billion in 2020 (14).

### 3. Key structural elements of the Indonesia-EU relationship: Ongoing cooperation with relevance for the EU Green Deal.

In view of potential fields of cooperation and convergence of policies between Indonesia and the EU, climate protection plays an important role. Indonesia plans to revamp its Nationally Determined Contribution (NDC) goals to the UN Framework Convention on Climate Change (UNFCCC) with 29% from business-as-usual (BAU) and up to 41% with international support. The EU and its member states are working together with Indonesia to achieve these climate change goals, in particular through funding instruments that support activities in the environmental sector. They include the EU's Forest Law Enforcement, Governance, and Trade (FLEGHT) Action Plan, the Forest Carbon Partnership Facility (FCPF), the UN Programme on Reducing Emissions from Deforestation and Forest Degradation (REDD), as well as studies by the Copernicus Remote Sensing for Peatlands (15). These negotiations include technical cooperation and policy dialogues on three of the main drivers of greenhouse gas emissions from deforestation and land degradation, namely forestry, palm oil production, and the draining of peatlands, which increases fire risks.

The EU has also been negotiating a Comprehensive Economic Partnership Agreement (CEPA) with Indonesia since 2016, with the objective to facilitate and create new market access, increase trade between the EU and Indonesia as well as expand direct investment. Indonesia is the sixth country in the ASEAN region to start negotiations for a bilateral free trade agreement (FTA) with the EU, after Singapore (2010), Malaysia (2010), Vietnam (2012), Thailand (2013) and the Philippines (2015). For Indonesia, this is an important dialogue to maintain trade relations and economic development partnering with the EU.

On the regional level, the EU has launched two initiatives through its cooperation with ASEAN that directly benefit Indonesia. These initiatives focus on the sustainable management of peatlands and combatting transboundary haze pollution as well as the conservation of biodiversity.

The EU is supporting ASEAN endeavours combatting transboundary haze pollution and peatland fires with the launch of the civil society component of the EUR 24 million programme to support Sustainable Use of Peatland and Haze Mitigation in ASEAN (SUPA). The overall programme is funded with EUR 20 million contributions from the EU and EUR 4 million from the German Government (16). This is implemented through collective actions and enhanced cooperation that improves sustainable peatland management, mitigates the impacts of climate change, manages the risk of wildfires and reduces transboundary regional haze. The initiative also supports and sustains local livelihoods while contributing to global environmental management (16).

The ASEAN Centre for Biodiversity in collaboration with the EU is implementing the project "Biodiversity Conservation and Management of Protected Areas in ASEAN (BCAMP)." The project contributes to global sustainability by ensuring ASEAN's rich biological diversity is conserved and sustainably managed toward enhancing social, economic, and environmental well-being. The EU supported the establishment of the Centre and provided funds through a financing agreement between the EU and ASEAN. The Centre is directly under the auspices of the ASEAN and governed by a board comprising senior representatives of each ASEAN member state and the ASEAN Secretariat (17).



## 4. Joint interests of Indonesia and the EU in relation to the Green Deal

Both Indonesia and the EU have common goals in terms of climate change and sustainability. They are parties to the Paris Agreement and committed to enhancing – and accelerating – their cooperation in the fields of environment, natural resources, forest legality, and circular economy. Indonesia and the EU acknowledge that connectivity can play a decisive role in the advancement of decarbonisation, environmental protection, digitalisation, fair competition, investment, promotion, and innovation (18). When it comes to advancing Indonesia's and the global climate protection agenda, the EU can play the following roles.

**Nurturing big alliances.** With China launching a net-zero goal for 2060 and Joe Biden winning the US presidency, the EU now has two partners who match the bloc's own long-term ambition to develop a carbon-neutral economy by 2050. Indonesia indicated during the Leaders' Summit on Climate (April 2021) that the NDC will not be upgraded and that the net-zero goal will not be achieved before 2070. With the support from EU, however, there is a big opportunity for Indonesia to shift to better and more ambitious goals.

**Commanding climate's top table.** From an Indonesian perspective, the EU's traditional place in climate diplomacy has been that of a big sister to a coalition of mostly small, developing countries that pledge to rapidly cut emissions. Even though the in-group/out-group strategy has a patchy record, it did prove effective when the US joined the club during the Paris climate talks in 2015 and last-minute concessions were gained from big emerging economies. This momentum would also be commendable if the EU could invite big developing country emitters such as Indonesia to be more ambitious in terms of NDC and NZE (net-zero emission).

**Putting the green in global finance.** The Green Deal focuses on a regulation that has been winding its way through the EU institutions since 2018. This sustainable finance taxonomy will allow the European Commission to define what financial activities can be classified as "green" (19). Recently a complaint has been launched to Dutch bank ING for financing controversial Indonesian coal plants (20). The EU can be more selective in financing environmentally risky projects, and more robust in financing green projects in Indonesia. This, in turn, would also inspire business partners to focus on green activities rather than the black and grey ones.

**Taxing carbon at the border.** The goal is to persuade top emitters like China and the US to adopt comparable climate measures to those of the EU. However, tackling these marginal imports wouldn't give the measure the teeth it needs to be a serious incentive for the world's largest economies to take the climate-friendly path the EU has promised to implement for itself (19). Instead of making the carbon taxing obligatory, the EU can frame it as an 'incentive' to allure developing countries (including Indonesia) in doing business with EU. The incentive can take the form of a reduced fee or tariff if the product has fewer carbon counts or if the product came from an environmentally sourced raw material.

# 5. Conclusion

Climate change and COVID-19 are both urgent, dangerous, and unprecedented challenges for the world. Developing countries, including Indonesia, are having a very hard time combating these challenges. Both need to be faced with urgency and calculated solutions, high ambitions for climate protection or swift containment of the virus.

Aside from the awareness and continuing efforts to combat the dire consequences of both climate change and COVID-19, Indonesia needs to realise that it can benefit from the strong support from its developing partners. This is where the EU with its green deal facilitation and support can play an important role. The joint partnership between Indonesia and the EU has been going well for years; inserting green deal initiatives, such as green finance, and carbon taxing at the border, could be done with relative ease given the existing strong foundation. Assisting Indonesia, a key player in ASEAN and Asia will in turn benefit the EU and increase its influence in the region.

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