MADANI STRATEGIES

Connecting Growth to Community Impact

EUDR · TRADE COMPLIANCE

THE EU DEFORESTATION REGULATION AND INDONESIAN BUSINESS:

Compliance Realities,Structural Risks, and a Critical Assessment

a critical, evidence-based assessment of where Indonesia stands, what compliance gaps remain unresolved, and which dynamics are most likely to affect market access for Indonesian commodities in the medium term

MAGIES PERSPECTIVES

01

What EUDR actually demands from Indonesian businesses.

The EU Deforestation Regulation (EUDR) is often understood as an environmental standard. This is quite incomplete. EUDR is structured as a market access condition, where operators who cannot prove compliance cannot legally place relevant commodities on the EU market. The architecture is trade law dressed in green policy language.

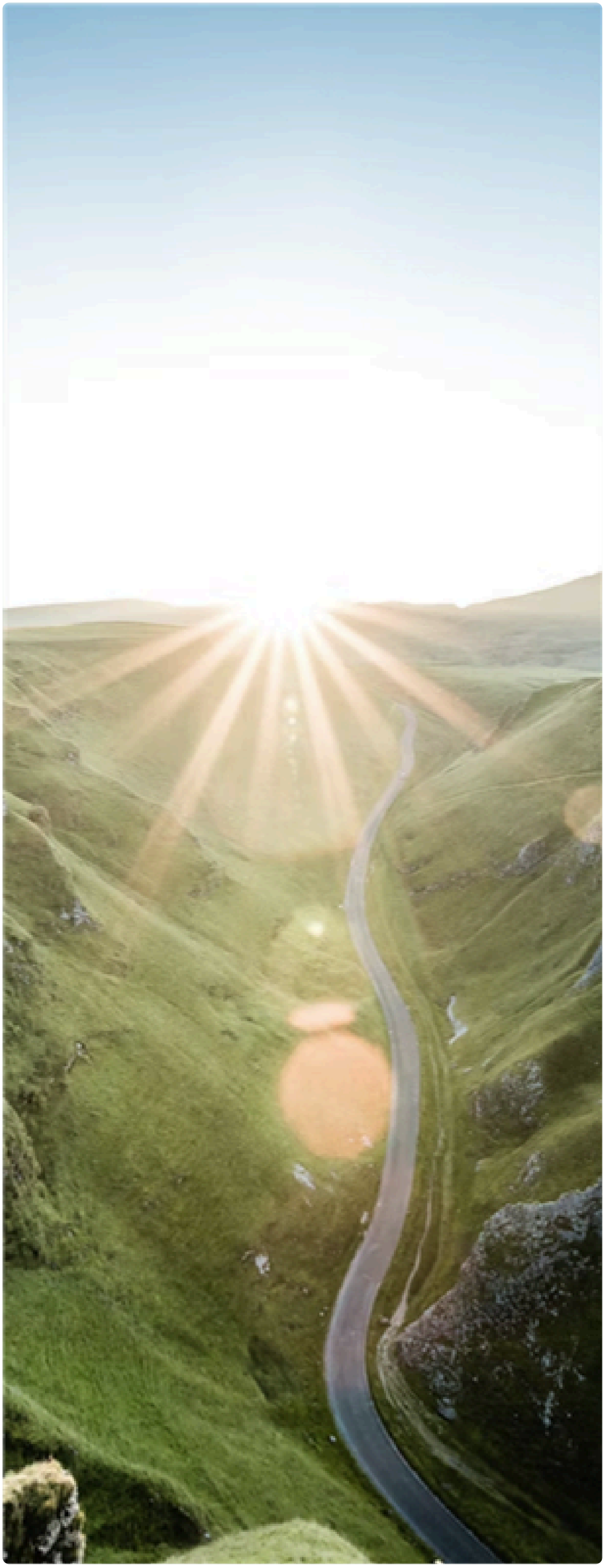
Indonesia's standard-risk classification is a diplomatic win, not a compliance clearance. The 2026 benchmarking review may move the country to high risk, tripling inspection rates. ISPO certification addresses some requirements but leaves three structural gaps unresolved. And the December 2026 deadline is a runway. The preparation work takes time that companies are not currently using.

This briefing is a simplified version of the full report, available at www.madanistrategies.com

Madani Strategies Analytical Desk

CONTENTS

MaGies Perspectives



SECTION ONE

Trade Architecture

EUDR as market access condition, not environmental aspiration

The EU Deforestation Regulation is often characterised in Indonesian public discourse as an environmental regulation. A set of sustainability standards imposed by a trading partner with strong green politics. This framing, while not inaccurate, is strategically incomplete in ways that matter for compliance planning.

The distinction matters strategically. As a market access condition, EUDR compliance is mandatory, not negotiable. Companies cannot plead special circumstances or seek exemptions based on local context. The regulation applies uniformly across all operators placing products on the EU market.

This architecture creates a direct link between compliance and market continuity. Failure to meet EUDR requirements doesn't result in fines alone—it means exclusion from the EU market entirely, with cascading effects across supply chains.

INDONESIA'S POSITION

The standard-risk classification: what it means, and what it does not.

Commission Implementing Regulation (EU) 2025/1093, published in May 2025, established the first formal country risk classification under EUDR. Indonesia was classified as standard-risk, a result welcomed by the Indonesian government as a diplomatic win.

The practical compliance implication is modest but real. Standard-risk means Indonesian exporters face full due diligence obligations but a somewhat lower probability of having any given shipment selected for customs inspection. It does not reduce the due diligence standard, the documentation burden, and the penalty exposure for non-compliance.

> The standard-risk classification does not reduce the due diligence standard, the documentation burden, and reduce penalty exposure for non- compliance.

The classification is contested and likely to be revisited. On 9 July 2025, the European Parliament voted 373 to 289 to adopt a motion objecting to the benchmarking regulation's methodology, arguing that countries with documented high deforestation rates had been under- classified. The Commission committed to reviewing the benchmarking list in 2026, drawing on updated FAO Forest Resources Assessment data expected in October 2025.

Indonesia's average deforestation rate of approximately 976,900 hectares per year over the 2011–2020 period is likely to feature prominently in that review. A reclassification to high risk would triple inspection rates and create immediate pressure on companies that have not built systems capable of withstanding closer scrutiny.

DEFORESTATION RATE

976K

Hectares per year - Indonesia's average deforestation rate, 2011–2020. Basis for the 2026 benchmarking review.

SUB-NATIONAL RISK

The standard-risk classification is a country-level aggregate. A company sourcing from West Kalimantan or Papua faces materially higher actual deforestation risk than the national average implies.

INSPECTION RATES

Standard risk: lower inspection probability. High risk: inspection rate triples. Non-negligible risk: intermediate rate.

WTO STRATEGY LIMIT

Indonesia's WTO strategy has limited applicability to EUDR. The regulation applies equally to EU domestic products and imports. WTO dispute timelines operate on multi-year horizons; the compliance deadline does not.

DATA GOVERNANCE TENSION

The Ministry of Agriculture's restrictions on sharing plantation polygon data with foreign entities create a structural barrier: EUDR requires precise geolocation data that Indonesian law restricts sharing.

SECTION THREE

Compliance Gaps

Structural gaps that certification alone cannot close

±9.2M

hectares of Indonesian plantation concessions operating under incomplete or transitional land rights arrangements - representing structural legality risk under EUDR's due diligence requirement.

ISPO is a foundation, not a finish line.

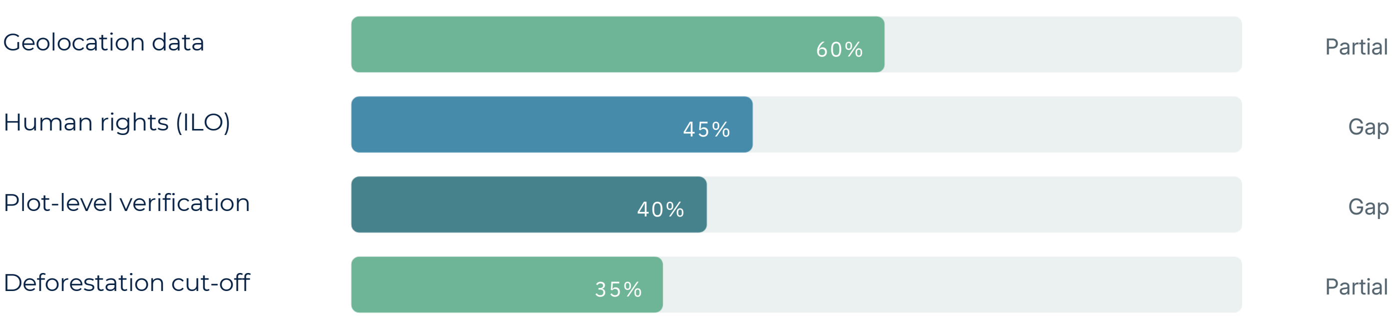
The Indonesian government's trade diplomatic strategy has been to argue for recognition of ISPO certification as an equivalent pathwayto EUDR compliance. ISPO covers approximately 8.5million hectares and is the world's largest palm oil certification scheme by area.The European Commission has not recognised this equivalence.

The reason for non-recognition is not merely diplomatic obstinacy. ISPO contains specific gaps relative to EUDR's evidentiary requirements. Three structural gaps cannot be bridged by political equivalence claims alone: the deforestation cut-off date (EUDR requires post-31 December 2020 verification; ISPO has no equivalent historical threshold), international human rights standards (EUDR references ILO Core Labour Standards; ISPO references Indonesian national labour law, which does not fully align), and geolocation data consistency for smallholder certification groups.

The land governance gap is more fundamental still. EUDR's legality requirement is, in practice, a land governance audit. As of 2022, approximately 9.8 million of 19 million hectares of plantation concessions had completed HGU certificates. The remaining approximately 9.2 million hectares operate under incomplete or transitional arrangements that carry inherent legality risk. Companies that have invested in ISPO as a primary compliance strategy should conduct a gap analysis to determine what additional documentation is required.

ISPO COVERAGE AGAINST EUDR EVIDENTIARY REQUIREMENTS

0% · 25% · 50% · 75% · 100%



Compliance gap analysis by requirement type

EUDR REQUIREMENT	ISPO COVERAGE	SVLK COVERAGE	RESIDUAL GAP
Deforestation-free (post 31 Dec 2020)	Partial	Partial	Plot-level verification required
Precise geolocation (GPS coordinates)	Inconsistent	Not applicable	Smallholder data gap
International human rights (ILO)	Indonesian law only	Not applicable	ILO alignment required
Full HGU / land title documentation	Not addressed	Legality dimension only	±9.2M ha at structural risk
Due Diligence Statement (EU IS)	No equivalent	Supports legality only	Operator-level obligation

Source: MaGies analysis of EUDR (Regulation EU 2023/1115), ISPO Regulation 38/2020, SVLK framework, and Commission FAQ 5th edition, May 2026.

KEY TAKEAWAY

ISPO and SVLK together reduce compliance risk. Neither is sufficient. Plot-level deforestation verification and EU Information System submission remain individual operator obligations regardless of certification status.

FORESTRY
18 sites

PALM OIL
11 sites

MINING-ADJ.
5 sites

Unresolved Dynamics

Three structural risks that compliance programmes must address before December 2026

Beyond the documentation gaps, three structural dynamics carry material risk for Indonesian commodity exporters. Each is independent of certification status. Each requires an operational response, not a diplomatic one.

01

SMALLHOLDER INTEGRATION

Ongoing · Palm oil, coffee, cocoa

Smallholder sourcing creates supply-chain-wide liability without operator-level compliance programmes.

GAPKI's November 2025 statement acknowledged explicitly that the unresolved challenge lies in independent smallholder integration. Large member companies have generally ceased opening new plantation areas after the 2020 cut-off date and their internal operations are relatively tractable. The unresolved problem is independent smallholders who supply roughly 40% of Indonesian palm oil production. Without a compliant due diligence statement covering the smallholder-sourced component, operators cannot legally place that volume on the EU market.

> ***Strategic question: Has the company conducted a plot-level mapping exercise for its independent smallholder sourcing base?***

02

BENCHMARKING REVIEW RISK

Scheduled 2026 · FAO FRA 2025 data

Indonesia's standard-risk classification may not survive the 2026 benchmarking review.

The European Parliament voted 373 to 289 on 9 July 2025 to adopt a motion objecting to the benchmarking regulation's methodology, arguing that countries with documented high deforestation rates had been under-classified. The Commission committed to reviewing the list in 2026 drawing on updated FAO Forest Resources Assessment data. Indonesia's average deforestation rate of approximately 976,900 hectares per year over the 2011-2020 period is likely to feature prominently in that review. A move to high risk triples the inspection rate.

> ***Strategic question: Does the compliance programme function at high-risk inspection levels, or only at standard-risk?***

03

SCOPE CREEP

Draft Delegated Act · Consultation closed 1 June 2026

Commission proposes extending EUDR product scope to palm oil derivatives and soluble coffee.

The Commission's draft Delegated Act released as part of the May 2026 package proposes extending EUDR scope to include soap and detergents made with palm oil, and soluble (instant) coffee. If adopted, these changes would bring new Indonesian export categories within scope: categories that currently face no EUDR obligation and for which supply chain traceability infrastructure is less developed. This should be read as a structural signal.

KEY JUDGEMENT

> "Do not treat the extension to December 2026 as a horizon rather than a runway. The geolocation mapping, legal documentation, and supplier engagement required for a compliant due diligence statement take significant operational time, particularly for supply chains with thousands of smallholder nodes.

MaGies Strategies analytical assessment, May 2026

KEY REFERENCES

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CHAIN REACTION RESEARCH

NDPE Coverage in Indonesian and Malaysian Palm Oil Refining

NGO research · EN · April 2020

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