

Policy Paper

Strategy to Respond Global Palm Oil Trade Issues

1. The government seeks to encourage the development of sustainable agriculture, especially for national strategic commodities, such as palm oil;
2. The development of a global trade protectionism regime, becomes a challenge for the government to improve the governance of the sustainable palm oil industry making it more competitive;
3. Two strategies are needed, namely strengthening palm oil trade diplomacy and improving governance of the domestic palm oil industry.

The government realizes that the agricultural sector is the main foundation for the sustainability of national development. Not only is it a major sector absorbing labor, but also the largest contributor to exports, such as palm oil (BPS, 2020). Various leading commodities in the agricultural sector have emerged, such as coffee, rubber, cocoa, corn, soybeans and so on.

The development of these agricultural commodities has been able to encourage development in rural areas. Many poor people in rural areas have moved out of poverty (Kadir & Rizki, 2016). This sector also contributes to the provision of adequate food for the community. Thus, contributing to the reduction of hunger and improvement of community nutrition, especially for vulnerable economic groups (Timmer, 2004).

To improve the competitiveness of these agricultural commodities, the government has formulated a market development strategy, both domestic and global. Effort that continues to be made are encouraging the application of a sustainable agriculture system and the development of a certification system for sustainable agricultural commodities. One of them is Indonesian Sustainable Palm Oil (ISPO), which was established to stimulate better market acceptance of Indonesian agricultural commodities. However, there are still many government policies that are not properly implemented in the field.

Competition in the global market is not an easy matter to deal with. In an era of increasingly fierce competition, a market protectionist regime develops. Countries that cannot compete in terms of product quality and quantity have implemented protection policies, either through tariff barriers or non-tariff barriers. In this case, Indonesian palm oil is among the ones that face the most trade barriers.

By hindering agricultural development in developing countries, this global protectionist regime has distanced itself from a shared passion and commitment in poverty reduction programs, reducing inequality, opening rural jobs, overcoming nutritional problems and creating sustainable development. Therefore, the Indonesian government must be able to conceive that these unhealthy global trade practices have a negative impact on the government's efforts to address development problems in developing countries. This should be in parallel with the effort in increasing the implementation of sustainable agricultural policies, especially in the oil palm plantation sector.

► National Commitment to Sustainable Palm Oil Governance

Although the economic contribution of palm oil plays a significant role, we must also be aware that there are still many problems in its governance. Referring to economic data, Indonesia's palm oil exports in 2018 reached USD 18.23 billion, with a total export volume of 29.67 million tonnes (BPS, 2018). This sector absorbs around 16.2 million workers, most of them in rural areas (Coordinating Ministry for the Economy, 2019).

One of the challenges is that the expansion of oil palm plantations is often associated with ecological problems (Purnomo et al., 2020). Land use change that causes deforestation is often associated with the expansion of oil palm plantations. Various facts were revealed, the Ministry of Environment and Forestry (KLHK) in 2019 said that around 3.1 million hectares of oil palm plantations in Indonesia were still in forest areas.

On the other hand, the productivity level of Indonesian oil palm plantations is also low. This also causes land conversion to increase, due to the tendency of business actors to encourage extensification. In fact, the best solution to restrain the expansion of oil palm plantations is to adopt sustainable intensification practices and overcome technological, social and economic barriers (Sharma et al., 2019).

To overcome this issue, the Government of Indonesia has carried out a series of improvements in the management of oil palm plantations. One of the policies to improve sustainable palm oil governance. To support this, the government has issued Presidential Instruction No. 8/2018 on Postponement and Evaluation of Oil Palm Plantation Licensing and Increasing Productivity of Oil Palm Plantations.

Furthermore, as a roadmap for sustainable palm oil development, Presidential Instruction Number 6 of 2019 concerning the National Action Plan for Sustainable Palm Oil for 2019-2024 has been issued. One of the pillars is the existence of a national database of oil palm plantations. This has been answered by the process national oil palm cover data reconciliation. The results have been formalized by Decree of the Minister of Agriculture Number 833 of 2019. The area of oil palm cover reaches 16.38 million hectares.

Furthermore, the government will strengthen the implementation of Indonesian Sustainable Palm Oil (ISPO). After approximately 10 years running, this ISPO system needs to be improved so that its implementation is better and the level of market acceptance is higher. The government issued Presidential Regulation Number 44 of 2020 concerning the Indonesian Sustainable Palm Oil Plantation Certification System.

The government's strong commitment is shown by improving the management of primary natural forests and peatlands. In 2019, the government issued Presidential Instruction Number 5 of 2019 concerning Termination of Granting New Permits and Improving Management of Primary Natural Forests and Peatlands, as a follow-up to and refinement of Presidential Instruction Number 6 of 2017.

This Presidential Instruction mandates all relevant Ministries and Agencies to stop issuing new permits for primary natural forest and peatland located in conservation forest, protected forest, production forest which includes limited production forest, regular or permanent production forest, and convertible production forest, as well as other use areas as stated in the Indicative Map for the Termination of the Issuance of New Permits (PIPIB), with some exceptions for designations such as the implementation of vital national development and ecosystem restoration.

In the development issue, the Government of Indonesia, which has mainstreamed Sustainable Development, has issued a series of regulations that strengthen the government's commitment to achieve the Sustainable Development Goals for 2016-2030. In achieving these Sustainable Development Goals, the President has issued Presidential Regulation Number 59 of 2017 concerning Implementation to Achieve the Sustainable Development Goals. Sustainable Development which aims to maintain the improvement of the people's economic welfare in a sustainable manner, maintain the sustainability of the social life of the community, maintain the quality of the environment as well as inclusive development and implement governance that is able to maintain the improvement of the quality of life from one generation to the next.

Policies that prioritize development are further strengthened by Presidential Regulation Number 18 of 2020 concerning the National Medium-Term Development Plan (RPJMN) for 2020-2024 which targets an increase in farmer income, an average of 5 percent per year and an average fisherman income of 10 percent per year and an increase 5 percent of commodity productivity per year through the Strengthening Business Security program and 350 Farmer and Fishermen Corporations. Furthermore, through the Palm Oil-Based Green Fuel Renewable Energy Development program, the Government of Indonesia has targeted an increase in palm oil productivity by 10 percent per year through Acceleration, Replanting, Good Agricultural Practices (Good Agricultural Practice), and Smallholder Palm Oil Processing and accelerating sustainable palm oil certification.



► Policy with Minimum Implementation

Some of these policies reinforce the government's commitment to improve sustainable palm oil governance. However, many of these policies are only good at the conceptual level, but not optimal at the level of implementation.

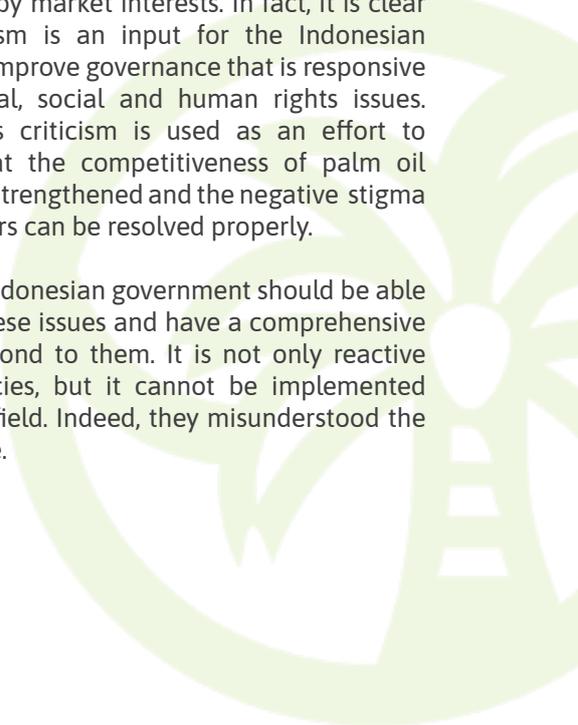
In fact, let's look at the moratorium on oil palm plantation permits. It has been two years since this policy has been implemented, namely since 2018, there has been no progress from this policy. In fact, this policy is very good as an effort to improve palm oil governance to respond to global issues that continue to press Indonesian palm oil commodities. Likewise, the opening of oil palm plantations in primary forest and peat areas continues. In fact, they have intensified, resulting in large scale forest and land fires in Indonesia. Of course this is a bad precedent for the competitiveness of palm oil in the global market.

We are also responding to various global issues in a wrong manner. Because our analytical skills in responding to various issues are very weak. In fact, in several aspects, business actors are left to fight against this issue alone. Its main weakness is the inability to distinguish between competitive trade pressures and environmental, social and human rights issues, which have been criticized by the global civil society movement.

The government is more reactive in responding to criticism of the global civil society movement than in facing the issue of a trade war.

The response is very exaggerated and gives a stigma that it is driven by market interests. In fact, it is clear that this criticism is an input for the Indonesian government to improve governance that is responsive to environmental, social and human rights issues. Supposedly, this criticism is used as an effort to improve, so that the competitiveness of palm oil continues to be strengthened and the negative stigma and trade barriers can be resolved properly.

Therefore, the Indonesian government should be able to map all of these issues and have a comprehensive strategy to respond to them. It is not only reactive in making policies, but it cannot be implemented properly in the field. Indeed, they misunderstood the developing issue.



International Trade Barriers

At a time when efforts to improve domestic palm oil governance are still slow. Various trade barriers also came from various parties abroad. These barriers, of course, must be treated wisely. As long as it disrupts national interests, the Indonesian government will continue to fight trade barriers that discredit palm oil commodities in the global market. Moreover, this obstacle is clearly detrimental to the interests of national strategic commodity exports by implementing unfair trade practices, such as the imposition of illogical import duties on Indonesian palm oil or other non-tariff barriers (GAPKI, 2017).

However, an excessive reaction in responding to this global issue requires careful and strategic reconsideration. The government must be able to distinguish which ones are trade war and which are sustainable issues. Because these two aspects have very different principles and responses (Saputra, 2020).

The trade war is clearly an act that can discriminate against the competitiveness of palm oil commodities. For example, the European Union (EU) and the United States (US) have implemented anti-dumping duties on biodiesel from Indonesian palm oil. This clearly needs to be fought because the policy is full of protective nuances that violate the provisions of the global free trade policy (Saputra, 2018a).

In terms of non-tariff barriers, the government needs a special strategy to deal with them. There are non-tariff barriers designed to discriminate against palm oil, but there are also non-tariff barriers that provide input for improving the governance of the national palm oil industry (Saputra, 2020, Saputra, 2018b). For example, palm oil resolution of the European Union was followed by several other policies, such as the Indirect Land Use Change (ILUC) policy, Renewable Energy Directive (RED) II, and the Green Deal.

Moreover, what the EU is exercising can be seen from two sides. First, from the trade aspect, the policy is a form of non-tariff trade barriers. Apart from requiring various environmental and social issues, limiting distribution and including palm oil as a high-risk commodity for land use change and climate change, this EU policy is also followed by providing subsidies for commodities other than palm oil. The subsidies are given to palm oil substitutes that they produce themselves. This is certainly not fair in the free trade system (GAPKI, 2018).

Second, from the aspect of governance, the EU policy clearly helps the Indonesian government improve the governance of the palm oil industry, so that it is sustainable - responsive to the environment, social and human rights (HAM). Thus, some of the pressures contained in this policy were responded to as Indonesia's strategy to increase the competitiveness of palm oil. Therefore, input from the EU and global civil society organizations must be placed as positive input, not overreacted. In fact, the governance of the domestic palm oil industry still has many problems (Saputra, 2018c; Bakhtiar et al, 2019).

In terms of trade performance, the trade war directly impacts Indonesian palm oil export performance. For example, the policy of increasing import duties in India, which was implemented in 2018, suppressed Indonesia's palm oil exports to India. The impact is significant, Indonesia's exports were corrected by 37.5% during the 2017-2019 period. In fact, India is the largest export market for Indonesian palm oil.

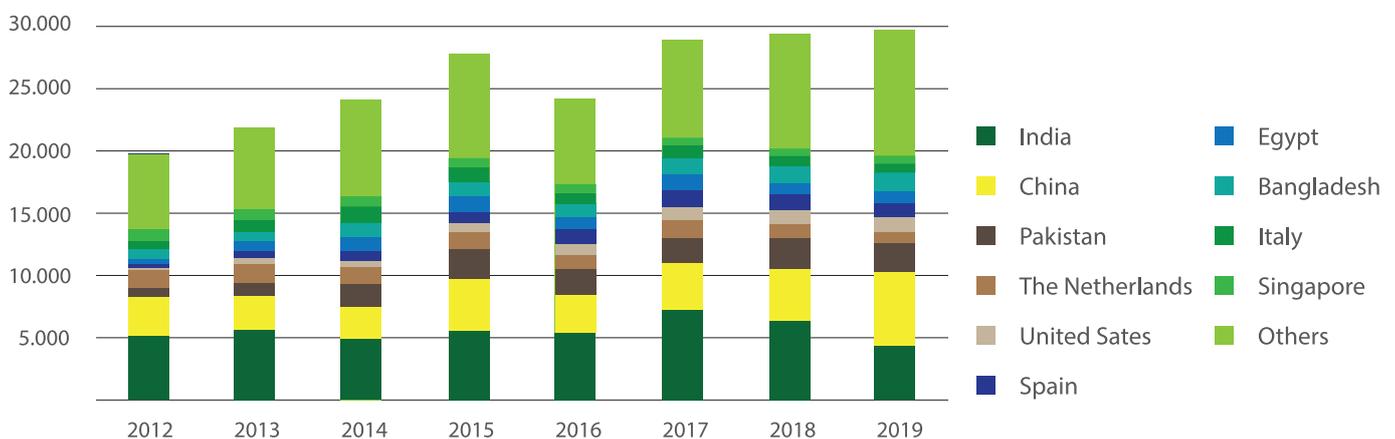


Figure 1. Development of Indonesian Palm Oil Exports by Export Destination Countries, 2012-2019 (Thousand MT)

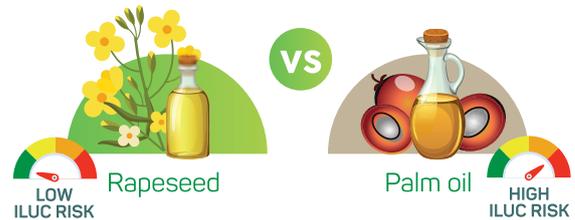
(Source: BPS 2012-2019)

RED II

Renewable Energy Directive II

Unlike the performance of exports to India, exports to the EU and the US rose, despite their trade barriers, which is interesting to analyze. The growing demand in these two regions shows that Indonesian palm oil commodity is very competitive. During the 2012-2019 period, the US market grew by 196% while the EU market, such as Spain grew by 293%, Italy grew by 14.9%, although in the Netherlands it fell by 37.2%. Perhaps, this is what caused the US and EU to tighten the circulation of palm oil because the expansion is fast and it is disrupting their vegetable oil market (Saputra, 2020).

Based on this analysis, we need to see that the drums of trade wars with various policy instruments are largely the response of competing countries to the rapid development of the palm oil market. They are disturbed by the acceleration. However, at the same time, environmental, social and human rights issues still occur in the management of the palm oil industry in Indonesia. They take this opportunity to strengthen protectionist policies by combining tariff policies and non-tariff policies to hinder the acceleration of palm oil in the global market.



Entered Into Force in
December 2018



PROPOSAL OF A NEW EUROPEAN CLIMATE LAW TO BE A CLIMATE NEUTRAL REGION IN 2050

Action Plan to Boost the efficient use of resources by moving to a clean, circular economy and restore biodiversity and cut pollution

Addressing Sustainable Issues as Improving Governance Wisely

In dealing with non-tariff barriers, the government must see the positive side. It is important to address the criticism of the EU, Switzerland and several other countries regarding the issue of sustainability to improve the governance of the industry. In fact, land use practices carried out for oil palm plantations still produce a lot of emissions, such as uncontrolled deforestation and forest and land fires (Bakhtiar et al, 2019; (Gaveau et al, 2016; Vijay et al, 2016; Patrenko et al, 2016) Although, the same thing happened to other vegetable oils, including rapeseed oil and sunflower oil, this is far from a global commitment to reducing greenhouse gas emissions or global warming.

The pressure on sustainability issues continues to be echoed, especially entering the post-2020 commitment era in two Multilateral Environmental Agreements, the United Nations Framework Convention on Climate Change (UNFCCC) and the United Nations Convention on Biological Diversity (UNCBD). The reason is that they want to achieve the ambition of emission reduction targets.

The European Union launched the first challenges and barriers for palm oil products in June 2018, namely the Renewable Energy Directive II (RED II) in the form of the Delegated Act, which came into full effect in December 2018.

UK's DUE DILIGENCE ON FOREST RISK COMMODITIES



SWISS REFERENDUM TO STOP PALM OIL IMPORT



This policy was followed by the introduction of the EU Green Deal on 11 December 2019. The EU Green Deal is promoted as a progressive European Union initiative that will bring the EU community to be climate neutral by 2050, through the formation of the EU Climate Law.

The climate law that will be drafted by the European Union will holistically regulate the life of the European Union community by mainstreaming climate into development policies. The policy areas to be regulated are biodiversity, sustainable food systems, sustainable agriculture, clean energy, sustainable industry, sustainable building, sustainable mobility, pollution and action to mitigate the impacts of climate change. Currently, the European Union Government is developing work programs and strategies for each sector to adapt to this ambitious commitment.

This European Union policy was then followed by various policies and dynamics introduced by neighboring countries, such as United Kingdom. In the midst of the COVID-19 pandemic, the United Kingdom introduced and requested input from the world through public consultation, a new policy called Due Diligence on Forest Risk Commodities.

In its proposal, the UK Government intends to enact new legislation to ensure that land-based commodities are produced legally and sustainably. This legislation will regulate the use of land-based commodities that are not produced in accordance with applicable laws in producing countries, in whatever form and process, in the supply chains of large business actors.

This legislation will also regulate the standards of what will be categorized as large business actors, taking into account the scale of their business. Furthermore, through this legislation, the British Government will impose penalties in the form of taxes and sanctions on large business actors who still use illegal raw materials. The introduction of due diligence activity will determine whether the business actor uses illegal or legal raw materials. This result needs to be reported periodically to the public by business actors.

Not only in the UK, non-tariff barrier policies in the form of sustainability issues were also carried out by Switzerland. The campaign to stop imports of palm oil was raised in Switzerland in early 2020. In fact, this campaign was brought to propose a referendum by Swiss community to respond to the agreement between the Indonesian Free Trade Area - the European Free Trade Association known as the Comprehensive Economic Partnership Agreement (CEPA) between the European Free Trade Association (EFTA) States and Indonesia (IE-CEPA).

The European Free Trade Association consists of four countries that have chosen not to enter the European Union, namely, Iceland, Liechtenstein, Norway and Switzerland. Although not directly regulated in the agreement, palm oil is one of the commodities included in the agreement under the article of "Sustainable Management of the Vegetable Oils Sector and Associated Trade".

Responding to the agreement agreed on December 16, 2018 in Jakarta, the campaign chaired by Uniterre, a Swiss-based farmer organization of rapeseed oil growers, formed a petition to hold a referendum, which was then sent to the Swiss Parliament.

Currently, the petition that has been signed by more than 61,000 civil society is in the process of being reviewed by the Swiss Federal Chancellor. The referendum which was originally planned for November 2020, is scheduled to be held in March 2021, taking into account the conditions of the COVID-19 pandemic.

Of the various issues above, the Government of Indonesia needs to address this sustainability issue wisely. Some of these issues actually provide input on improving sustainable palm oil governance in Indonesia. Indonesia should take advantage of this to improve sustainable palm oil governance.

These improvements have also increased the competitiveness of Indonesian palm oil in the global market. Because the global vegetable oil market is increasing every year and the consumer's need for sustainable vegetable oils is high. This is a market opportunity that businesses in the palm oil industry in Indonesia need to take.



Rekomendasi

The challenges and barriers to palm oil trade are apparent. The Indonesian government should have reacted carefully. This challenge may be an “alarm” for the government to further strengthen its governance. The following are some recommendations that need to be made by the Government of Indonesia to face competition in the global market:

- 1.** The government needs to fight for “mutual recognition” from consumer countries for national standards that prove sustainable practices of Indonesia’s strategic commodity farmers. Not only palm oil, but also several other commodities, such as coffee, cocoa, rubber, and others. Consumer countries need to increase their commitment to tackling the inequality and poverty that exists in producing countries. With an understanding of the situation in Indonesia, the consumer country should be able to provide “acceptance” of sustainable practices in Indonesia.
- 2.** The government needs to develop a national strategy to support the development of small farmers who are affected by free trade and market protectionism systems, including policies that guarantee prices at the farm level, farmer income, and farmer business institutions. This is important as an effort to encourage rural development and reduce poverty and inequality. This is in line with the Sustainable Development Goals that have been agreed upon by the Nations through the document of Transforming Our World: The 2030 Agenda for Sustainable Development at the United Nations Summit for the Adoption of the Post-2015 Development Agenda. During the meeting, the First Goal agreed by the Parties is Zero Poverty, which is intended to eradicate all forms of poverty worldwide.
- 3.** The government needs to intensify soft diplomacy in dealing with discriminatory trade practices against palm oil, through constructive dialogues. For this reason, the government needs to equip itself with data, information and scientific arguments that can be proven scientifically and based on field data (evidence base).
- 4.** The government needs to strengthen and improve sustainable palm oil governance, including by ensuring the full implementation of ISPO. Strengthening ISPO is also encouraged as an instrument of trade diplomacy and assurance in the market for palm oil products that are hygienic, environmentally friendly and responsive to social and human rights issues.
- 5.** The government continues to be committed to implementing policies that support the oil palm moratorium program. This policy actually received a positive response from the global market. However, the implementation is not optimal. Two years of this policy, there has not been much good progress towards policy objectives, namely delaying oil palm plantation permits, reviewing issued permits and increasing productivity. These three goals are far from being achieved. The remaining one year of this policy must be optimized by the government. In order to run more optimally, the government needs to extend the palm oil moratorium policy for the period 2022-2024.

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