

Indonesian Palm Oil Association (IPOA)
Gabungan Pengusaha Kelapa Sawit Indonesia(GAPKI)

Summary

- **Indonesia has reduced its deforestation rate thanks to legislative and private sector initiatives;**
- **Palm oil is not a major contributor to Indonesian deforestation;**
- **Palm oil plays a significant role in the Indonesian economy and is a key part of Indonesia's trade relationship with the EU;**
- **Indonesia and the EU have successfully cooperated on illegal logging, and a similar approach could be extended to palm oil;**
- **The EU should recognise ISPO in any due diligence regulation it is proposing;**
- **GAPKI underlines that any regulatory measure should:**
 - **Not discriminate against Indonesia;**
 - **Not discriminate against palm oil;**
 - **Provide a level playing field for certification;**
 - **Preference legality rather than sustainability;**
 - **Uphold principles of mutual recognition of standards; and**
 - **Uphold Indonesian sovereignty.**

Deforestation in Indonesia

Indonesia, like all developed and developing countries, has cleared forest areas for food production. Indonesia's forest areas remain high in comparison to many countries in the European Union. According to the Ministry of Environment and Forestry, Indonesia has over 43% of its forests territory which are protected (25%) and for conservation (18%), numbers which are unmatched by any EU Member States.

Indonesia has the largest forest area in Southeast Asia; total forest area covers nearly half its land mass, at approximately 92million ha.¹ This covers just under half of Indonesia's land mass.

Indonesia's land reserved as forest area is relatively high compared with other countries, according to the official FAO statistics:²

- Netherlands: 11.17 per cent
- France: 31.23 per cent
- Germany: 32.69 per cent
- Indonesia: 49.86 per cent

¹ [Global Forest Resources Assessment \(FRA\) 2020 Indonesia - Report \(fao.org\)](#)

² [FRA platform \(fao.org\)](#)

Similarly, the total protection and conservation forest area is also high, reaching 51.8 million ha. This represents 27 per cent of the country's land area.³

Despite the relatively high levels of deforestation that have accompanied economic and population growth over the past two decades, Indonesia has made significant progress reducing its deforestation levels over the past few years.

Official deforestation statistics indicate that the rate of forest loss has been slowing. In 2018 there was a 40 per cent decrease in deforestation compared with the period from 2002 to 2016.⁴

The reduction in deforestation rates can be attributed to legislative initiatives, such as: illegal logging programmes that have been implemented with the support of the European Union;⁵ and the deforestation moratorium that has been introduced and renewed by successive Indonesian presidents.⁶ It can also be attributed to major plantation companies, many of which have introduced zero deforestation commitments for their operations.

Deforestation and Palm Oil

Although deforestation in Indonesia has and remains a concern for Indonesia and the international community, oil palm cultivation is not the majority driver of deforestation in the country. According to new statistics oil palm plantations only contribute around 15 per cent of Indonesia's deforestation.⁷ This is significantly below other drivers such as small-scale agriculture, other tree plantations, conversion to grassland and even logging roads and other uses. The contribution of palm oil to deforestation in Indonesia has been steadily declining since 2008-2009, when it was at its highest.

The overall deforestation footprint of oil palm is low when compared with other commodities. This has been underlined in seminal research commissioned by the European Commission.⁸ This has been further underlined in reports by the New York Declaration on Forests,⁹ and other studies.¹⁰ It is generally understood that forest loss from beef and livestock is nearly ten times higher than that of palm oil; soybean deforestation is almost double; and maize deforestation is also higher than palm oil.

³ [Global Forest Resources Assessment \(FRA\) 2020 Indonesia - Report \(fao.org\)](#)

⁴ [40 percent decrease in deforestation in Indonesia's primary forests in 2018, compared to the average annual rate of loss from 2002-2016 \(wri.org\)](#)

⁵ [Indonesia | FLEGT \(efi.int\)](#)

⁶ E.g. Peraturan presiden Republik Indonesia nomor 61 tahun 2011; https://www.bappenas.go.id/files/1114/1214/1681/Peraturan_Presiden_Republik_Indonesia_No.61_tahun_2012_tenang_Rencana_Aksi_Nasional_Penurunan_Emisi_Gas_Rumah_Kacaindonesia.pdf

⁷ <https://iopscience.iop.org/article/10.1088/1748-9326/aaf6db#:~:text=Oil%20palm%2C%20timber%20and%20other,attributable%20to%20grassland%2Fshrubland%20expansion.>

⁸ [Consumption Impact Study - Forests - Environment - European Commission \(europa.eu\)](#)

⁹ [2016-NYDF-Goal-2-Assessment-Report.pdf \(climatefocus.com\)](#)

¹⁰ Henders, S., Persson, M., & Kastner T. Trading forests: land-use change and carbon emissions embodied in production and exports of forest-risk commodities. *Environmental Research Letters*. 2015. Vol 10.

This has been further recognised by international civil society groups including UCS¹¹ and WWF, which has stated in no unclear terms: “Globally, beef and soy are the leading drivers of tropical deforestation and conversion of other habitats.”¹²

Despite this, there is a disproportionate focus on palm oil among European stakeholders when considering drivers of global deforestation.

Significance of Palm Oil to Indonesian Economy

Palm oil is Indonesia’s largest agricultural product and its largest agricultural export. It plays a significant role in Indonesia’s economy and Indonesia’s social development.

Agriculture is a significant part of Indonesia’s gross domestic product (GDP). Agriculture’s share of Indonesian GDP currently sits at approximately 13 per cent.¹³

Oil palm is Indonesia’s largest agricultural commodity. Current estimates of the contribution of oil palm cultivation and harvesting are around 3.5 per cent. However, these estimates vary. Researchers at Wageningen in the Netherlands place the estimate closer to 9 per cent.¹⁴

The Indonesian Ministry of Agriculture estimates that the palm oil sub-sector’s contribution to GDP in terms of gross value added is approximately 17 per cent.¹⁵

PASPI data estimated that the number of direct employees in palm oil and related sectors was around 8 million people in 2016, representing around 3.5 per cent of the country’s total employees.¹⁶ However, this does not include the total number of livelihoods dependent on the sector. Again, estimates vary significantly, with some estimates as high as 16 million people.¹⁷

These total numbers underline the significance of oil palm cultivation to rural employment across Indonesia, particularly in Sumatra and in Kalimantan. In provinces such as Riau, the share of direct employment in the oil palm industry is estimated to be around 17 per cent, with regencies such as Siak recording a share of around 38 per cent.¹⁸

Palm oil contributes significantly to poverty reduction across Indonesia precisely because of its presence in rural areas. The presence of palm oil in these areas makes contributions to both farming and non-farming households.

Dartmouth and ANU researchers have found that growth in palm oil sector lifted up to 2.6 million rural Indonesians from poverty this century. The median expansion led to 2.7 percentage points faster poverty reduction and 4 percent faster consumption growth.¹⁹

¹¹ [What's Driving Deforestation? | Union of Concerned Scientists \(ucsusa.org\)](http://www.ucsusa.org)

¹² [What are the biggest drivers of tropical deforestation? | Magazine Articles | WWF \(worldwildlife.org\)](http://www.worldwildlife.org)

¹³ KEIN data

¹⁴ <https://www.wur.nl/en/blogpost/An-independent-look-at-palm-oil-in-Indonesia.htm>

¹⁵ [http://perpustakaan.bappenas.go.id/lontar/file?file=digital/163156-\[_Konten_\]Konten%20D1291.pdf](http://perpustakaan.bappenas.go.id/lontar/file?file=digital/163156-[_Konten_]Konten%20D1291.pdf)

¹⁶ <https://www.oeko.de/fileadmin/oekodoc/BioMacht-palm-oil-report.pdf>

¹⁷ <https://www.thejakartapost.com/academia/2018/04/20/insight-fair-trade-for-palm-oil-please.html>

¹⁸

<https://www.researchgate.net/publication/321670297> THE EMPLOYMENT ASPECT OF PALM OIL PLANTATION IN INDONESIA Challenges and Prospects

¹⁹ Export agriculture and rural poverty: evidence from Indonesian palm oil Ryan B. Edwards*

For farming households, the benefits are particularly striking. A CIFOR study in 2010 indicated that financial returns to land for palm oil were ten times higher than other crops such as rice, and returns to labour were around 20 times higher.²⁰

LPEM FEUI research results show that a 10% increase in the amount of land from oil palm plantations produces a 0.05% reduction in poverty levels, a 0.02% unemployment rate reduction, a 0.03% increase in the number of school graduates middle to upper, a 0.12% increase in non-food consumption, and a 0.21% increase in access to clean water.²¹

Indonesia-EU Palm Oil Trade

European nations import approximately 18 per cent of Indonesia's palm oil exports; this represents around USD3 billion in export revenue for Indonesia. European countries import approximately USD1.3 billion of palm oil from other countries, notably Malaysia.

The largest EU member markets are Spain, Italy and the Netherlands.

The EU market is therefore a significant market for palm oil exports; any regulations impacting palm oil exports has an impact on export revenue and the country's current account deficit.

Despite the decline in EU aggregate demand, the position of the European Union has not been replaced by other destinations. Palm oil products are still the highest imported products of all types of vegetable oils. Palm oil products in the European Union are used as input for the production of various types of industrial products, including the food industry, oleochemicals, pharmaceuticals, cosmetics to energy products such as biodiesel.

The size of the European market has prompted a number of European companies – notably Unilever – to undertake significant investments in the Indonesian plantation sector. This is surprising given the EU's relatively low levels of investment when compared with countries such as China, Japan and Singapore, and because investments in Indonesia generally gravitate towards other sectors, such as mining and tourism rather than agriculture. Firms such as Unilever are seeking to invest in Indonesia as a means of tapping into global value chains for food and other manufactured consumer goods.

Trade relations between Indonesia and the European Union can generally be described as positive. These relations will be solidified via the Indonesia European Union Comprehensive Economic Partnership Agreement (I-EU CEPA).

Although it is understood that there are concerns by some European stakeholders regarding the presence of palm oil in the agreement, it should be understood that:

- Palm oil cannot be excluded from the agreement;
- The agreement should not be used as a tool for seeking environmental outcomes; and
- Any measures that seek to curb deforestation should take place via other means.

²⁰ https://www.cifor.org/publications/pdf_files/articles/AFeintrenie1002.pdf

²¹ <https://www.agrofarm.co.id/2018/11/9824/>

Indonesia-EU Cooperation on Illegal Logging

Indonesia and the European Union have cooperated extensively before via the European Union's Forest Law Enforcement, Governance and Trade facility (FLEGT).

The signing of the Voluntary Partnership Agreement (VPA) between Indonesia and its associated implementation was successful in that the implementation generated:

- A legality standard for Indonesian timber and forest product exports;
- A licensing and verification system for those exports; and
- Assurance for EU customers that those products are legal, subsequently providing assurance for the European Union Timber Regulation (EUTR).

The agreement has arguably been the most successful bilateral environmental agreement to date. The development of the standard was in part necessitated because Indonesia did not at the time have a national standard for legality assurance (such as one endorsed by the Programme for the Endorsement of Forest Certification Systems).

Indonesia Sustainable Palm Oil Certification and Due Diligence

It is understood that the EU is considering introducing a due diligence measure for the import of commodities associated with deforestation, including palm oil.

The European Union has the option of introducing due diligence for legality (similar to the FLEGT arrangement) or attempting to introduce sustainability requirements for those imports.

It is GAPKI's view that introducing sustainability criteria will disrupt trade between the EU and Indonesia, and may consequently expose any European Union regulation to challenges under the WTO Agreements in a similar fashion to the current dispute regarding criteria for the EU Renewable Energy Directive.²²

Indonesia has developed its own sustainability certification, which is mandatory for all growers across Indonesia – Indonesia Sustainable Palm Oil (ISPO).

The ISPO standards were developed through an extensive consultation process between NGOs, the palm oil community, academia, government and other important local and international stakeholders.

The Indonesian Government and palm oil industry are committed to producing 100% sustainable palm oil under the ISPO initiative, which will be the world's largest-ever sustainability scheme. ISPO includes requirements on social responsibility, health, safety and employment conditions, as well as protections in place for the environment, natural resources, biodiversity, and protected species.

²² [WTO | dispute settlement - the disputes - DS593: European Union - Certain measures concerning palm oil and oil palm crop-based biofuels](#)

It is GAPKI's view that Indonesia's legality and sustainability certification system (ISPO) can and should serve as a form of legality assurance for any European Union due diligence requirements going forward.

The Commission would be aware that the ISPO system has recently undergone a major revision process, which commenced in 2016. The revision process has included:

- Revision of principles and expansion of criteria;
- Establishment of greater independence for accreditation aligned with ISO principles;
- Extensive stakeholder consultation during the standard development process;
- The expansion of scope, so that it will cover all operators in the palm oil supply chain in Indonesia; and
- All legality requirements, including prohibitions on forest clearance in line with existing laws, rules on fires, as well as labour requirements.

It is GAPKI's view that – as a standard developed in line with ISO principles in a free and democratic society – ISPO can and should satisfy both legality and sustainability requirements under any due diligence regulation.

Moreover, it is GAPKI's view that any due diligence regulation should provide an adequate regulatory pathway for national sustainability and legality systems that have been developed for the EU's so-called forest risk commodities.

It should be underlined to European Union policymakers that even if palm oil deforestation stopped tomorrow, it would not stop deforestation in Indonesia. Deforestation from other smallholder agricultural operations, urbanisation and other events would continue regardless.

The next best thing under these circumstances would be for the European Union to work with Indonesia's palm oil stakeholders using the tools that have been developed by Indonesians for local and national circumstances. This is the best sustainable approach.

As GAPKI has stated before, cooperation between Indonesia and the EU should maintain the following principles:

1. Non-Discrimination Against Indonesia. Indonesia should be given the same treatment within the Due Diligence regulation alongside other exporters.
2. Non-Discrimination Against Palm Oil. There should not be discrimination targeted at palm oil when compared with 'like' products such as soy, rapeseed, sunflower and others.
3. Level Playing Field for Certification. Due Diligence measures should not arbitrarily 'pick winners' among existing or new certification schemes. All existing and recognized standards (including ISPO) should be included without prejudice.
4. Legality-based standard. The best approach for the EU to follow would be a legality-based measure. A legality-based standard would provide a firm foundation for joint Indonesia-EU cooperation on future sustainability issues.

5. Uphold Indonesian Sovereignty. There should be no imposition on Indonesia's sovereign right to regulate its domestic palm oil industry, including the future development and evolution of ISPO