

## Collaboration between Government and Palm Oil Industry to Achieve Sustainability Development Goals in Indonesia

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### ABSTRACT

Palm oil plantation businesses have always been the subject of heavy scrutiny and are accused of causing the most environmental and social mishaps in Indonesia. Such condemnation comes from within the country and outside as well. Even though the palm oil industry is one of Indonesia's biggest GDP contributors, the opposition in the past decade outweighs the support, and many attempts at reasoning fall on deaf ears. This article will argue that the need for transformation of the industry in order to support the nations' sustainability development goals is an effort that involves all constituents. The relationship that is built upon the palm oil companies and its stakeholders must be met with certain legalities and support from the government in order to foster a green growth relationship that will sustain the economy and the environment, which will ultimately support Indonesia's sustainable development goals.

**Keywords:** Palm Oil Plantation; Sustainability; Green Growth; SDG; Collaboration; CPO; CSR.

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### INTRODUCTION

The palm oil industry, especially in Indonesia, has been the centre of debate for the past decade. In the year of 2021 this industry accounted for more than 40 billion United States Dollar ("USD") in foreign exchange revenue to Indonesia, hitting an all-time record high and proving that it is one of the most important engines in driving the Indonesian economy.<sup>1</sup> Crude palm oil ("CPO") is the by-product of palm oil tree (*Elaeis guineensis*), and this important commodity has contributed to many important economic and social developmental growth in Indonesia in terms of providing employment opportunities, rural developments in remote areas, and especially in the nucleus-plasma program which has transformed 500,000 farmers in terms of

<sup>1</sup> Astra Agro Lestari. (2021, November 8). *Paspi: Sawit Sumbang Devisa US\$ 40 M Tahun Ini*. Retrieved from <https://www.astra-agro.co.id/2021/11/08/paspi-sawit-sumbang-devisa-us-40-m-tahun-ini/> on 1 February 2022.

livelihood, job security, and future income for their families.<sup>2</sup> CPO can be found in many products ranging from biodiesel, toiletries, cooking oil, medicines, food, and many more. Due to its significance, it is also the most widely traded vegetable oil compared to other sources, accounting for almost 60% of all global oil seed.<sup>3</sup> CPO is also being considered to become an alternative to conventional fuel because of its competitiveness in comparison to other vegetable oil products like soyabean, rapeseed, sunflower, or ground nut,<sup>4</sup> and its high productivity rate per hectare which accounts for a lower cost yield per tonne.

However, despite the irrevocable evidence on how the palm oil industry has helped millions of Indonesian, many environmental non-governmental organisations (“**NGO**”) have expressed their disdain vehemently through various actions, such as organizing a demonstration to block the Wilmar International CPO delivery vessel – which was on its way to Mondelez, the holding company of Oreo, Cadbury, and Ritz;<sup>5</sup> blocking the passageway for IOI Group’s vessel at Rotterdam;<sup>6</sup> organizing siege of Sinarmas building in Jakarta as one of the biggest suppliers to Nestle and Unilever,<sup>7</sup> and many other actions. Furthermore, European countries under European Union (EU) issued a policy called Renewable Energy Directive (“**RED**”), which restricts the use of fossil fuels and oils derived from environmental degradation such as CPO in order to mitigate the global warming crisis.<sup>8</sup> These trade barriers under the guise of environmental issues have been brought up in the World Trade Organisations (“**WTO**”) by Indonesia and Malaysia on the basis of protectionism and unfair business practices.<sup>9</sup> These disruption will put almost 5 million tonnes of CPO exported to these countries in jeopardy, trigger buyers to suspend their CPO purchase from Indonesia, alter the pricing system, and tarnish the image of the palm oil plantation business.

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<sup>2</sup> Zen, Z., Barlow, C., & Gondowarsito, R. (2005). Oil palm in Indonesian socioeconomic improvement: A review of options. The Australian National University, Arndt-Corden Department of Economics Working Paper.

<sup>3</sup> Carter, C., Finley, W., Fry, J., Jackson, D., Willis, L. (2007). Palm oil markets and future supply. *European Journal of Lipid Science and Technology*, 4(109), 307-314.

<sup>4</sup> Beyer, R., Durán, A., Rademacher, T., Martin, *et al.* (2020). The environmental impacts of palm oil and its alternatives. *bioRxiv*, 1, 1-18.

<sup>5</sup> Greenpeace Indonesia. (2018, December 2018). *Terobosan baru Wilmar Agar Para Perusak Hutan Tidak Dapat Bersembunyi*. Retrieved from <https://www.greenpeace.org/indonesia/siaran-pers/1127/terobosan-baru-wilmar-agar-para-perusak-hutan-tidak-dapat-bersembunyi/> on 1 February 2022.

<sup>6</sup> Sitepu, Mehulika. (2016, October 1). *Greenpeace tuntutan IOI putus kontrak perusahaan sawit 'pembakar hutan'*. Retrieved from [https://www.bbc.com/indonesia/berita\\_indonesia/2016/10/160927\\_indonesia\\_greenpeace\\_laporan](https://www.bbc.com/indonesia/berita_indonesia/2016/10/160927_indonesia_greenpeace_laporan) on 1 February 2022.

<sup>7</sup> DetikNews. (2009, March 19). *Spanduk Greenpeace Dicotot Paksa dari Plaza BII*. Retrieved from <https://news.detik.com/berita/d-1101753/spanduk-greenpeace-dicotot-paksa-dari-plaza-bii> on 1 February 2022.

<sup>8</sup> Arief, R., Cangara, A., Badu, M., Baharuddin, A. and Apriliani, A. (2020). The impact of the European Union (EU) renewable energy directive policy on the management of Indonesian palm oil industry. *IOP Conference Series: Earth and Environmental Science*, 575(1), 1-6.

<sup>9</sup> Oosterveer, P. (2020). Sustainability of Palm Oil and Its Acceptance in the EU. *Journal of Oil Palm Research*. 32(3), 365-376.

The basis of these attacks is formed on the opinion that palm oil plantation is one of the major environmental degradations, and one of the biggest contributors to greenhouse gas emission. As a matter of fact, it is true that the deforestation rate in Indonesia is increasing alarmingly quickly, with a rise of 16.24 million hectares of deforestation in 18 years.<sup>10</sup> In 2013 alone, the palm oil plantation in Indonesia was planted on deforested area by more than 53% of its forest area compared to 1989, which had a dire impact on the loss of biodiversity as well.<sup>11</sup> In a report by Greenpeace and The Tree Map (2021), it is stated that there are at least 600 companies and 90,200 hectares of palm oil plantation are operating in forest conservation areas. Even worse, more than 100 companies which are the members of the Roundtable of Sustainable Palm Oil (“**RSPO**”), a Europe-based organisation co-founded by WWF which advocates for transparency and a harsh, stringent but voluntary mechanism to promote sustainable palm oil, were found to have carried out palm oil plantation businesses in protected or conserved forest areas.<sup>12</sup>

The Indonesian government have established several laws and procedures in order to satisfy the growing concern of sustainability issues.

Palm oil plantation falls under Law No. 39/2014 on Plantation, which was lastly amended by Law No. 11 of 2020 on Job Creation. It mandates that the earth, water, and its natural resources are utilized to promote the growth and wealth of the people for their benefits. Law No. 39/2014 sets out the basic stipulations of agriculture plantation – ranging from the planning of plantations, data and information system, investment, and community participation in the industry. Article 57 of Law 39/2014 also regulates the partnership between plantation companies and the local community, stating that such scheme must be beneficial, respectful, and accountable to all parties involved. This partnership can come into many forms, such as the provision of production facilities, investment, processing and marketing, and other means of collaboration.

Concerning the Operating Business License of CPO processing, Regulation of Ministry of Agriculture (“**Permentan**”) No. 98/PERMENTAN/OT.140/9/2013 which was lastly amended by Permentan No. 21/PERMENTAN/KB.410/6/2017 (“**Licensing Permentan**”) has decreed that all plantation must have Plantation Permit License or *Izin Usaha Perkebunan* for either the cultivation of plantation (*IUP-B*) or the processing of its harvest (*IUP-P*). For smaller capacity plantations, the license is in the form of Plantation Harvest Processing Industry Registration Certificate (*Surat Tanda Daftar Usaha Industri Pengolahan Hasil Perkebunan*, or *STD-P*) issued by the Regent or Mayor of that specific town or regency. The Licensing Permentan also mandated that all partnership agreements must be made in writing and stipulate the responsibilities of each party,

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<sup>10</sup> Gaveau, D., Locatelli, B., Salim, M., et al. (2021). Slowing deforestation in Indonesia follows declining oil palm expansion and lower oil prices. *Research Square*, 1, 1-17.

<sup>11</sup> Vijay, V., Pimm, S., Jenkins, C. and Smith, S. (2016). The Impacts of Oil Palm on Recent Deforestation and Biodiversity Loss. *PLOS ONE*, 11(7), 1-19.

<sup>12</sup> Greenpeace Indonesia. (2021, October 21). *Kegagalan Penyelesaian Sawit Dalam Kawasan Hutan, Bahayakan Keselamatan Manusia dan Planet Bumi*. Retrieved from <https://www.greenpeace.org/indonesia/siaran-pers/45448/kegagalan-penyelesaian-sawit-dalam-kawasan-hutan-bahayakan-keselamatan-manusia-dan-planet-bumi/> on 2 February 2022.

the funding mechanism, and conflict resolution, with a format shown in Appendix IV of the regulation. According to the provided format, the agreement must be in effect for at least 10 (ten) years.

The pricing of fresh fruit bunch from palm oil trees is also regulated by Permentan No. 01/PERMENTAN/KB.120/1/2018, which aims is to protect small plantation holders from unlawful pricing and avoid unhealthy competition between plantation companies. Such control mechanism is in line with the spirits of Law No.5 of 1999 on Prohibition of Monopolistic Practices and Unfair Business Competition.

Concerning the environmental issues, Permentan No. 38 of 2020 on the Certification of Indonesian Sustainable Palm Oil has decreed that all plantation company must adhere to the Indonesian Sustainable Palm Oil (“ISPO”) guidelines, even though in reality only around 35 percent of Indonesian palm oil plantation company has got their ISPO certification by the year 2020 despite it being mandatory from 2011.<sup>13</sup> The purpose of ISPO according to the Minister of Agriculture Suswono on its inauguration speech, is to promote a sustainable palm oil industry in Indonesia, however the reality is there is no incentive for companies to follow this, hence the low participatory rate.<sup>14</sup>

The spirit of ISPO is also promoted through corporate social responsibility under Article 74 of Law No. 40 of 2007 on Limited Liability Company as lastly amended by the Job Creation Law. This law aspires to ensure the continuity of business with the mindset of ‘social license to operate’ – even though until now the continuity and the regulations defining the law has not been set.<sup>15</sup>

In a surprising move, the President of Indonesia through the Decree of the Minister of Forestry and Environment No. SK.01/MENLHK/SETJEN/KUM.1/1/2022 has revoked 2,078 licenses for mining, 192 licenses for forestry, and 36 licenses for plantation which encompasses an area of more than 3 million hectares.<sup>16</sup> This action has been criticized because certain due processes had not been properly vetted and many companies have already invested their capital and resources to these ventures.

The government perhaps wishes to show their firm decision to act upon its Sustainable Development Goals (“SDG”) targets by the year 2030. The SDG that was agreed upon by Indonesia on 25 September 2015 at the United Nation headquarter with 192 other countries is a set of seventeen targets that aim to end poverty, protect the

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<sup>13</sup> Rabbi, Cahaya Puteri Abdi. (2021, September 22). *760 Perkebunan Sawit Telah Bersertifikat ISPO, Baru 35% dari Target*. Retrieved from [<sup>14</sup> Christiawan, R. \(2020\). Implementasi Green Growth Economic Pada Industri Kelapa Sawit Melalui Sertifikasi ISPO. \*Mulawarman Law Review\*, 5\(1\), 47-60.](https://katadata.co.id/maesaroh/berita/614af62638b35/760-perkebunan-sawit-telah-bersertifikat-ispo-baru-35-dari-target#:~:text=Lahan%20sawit%20yang%20mendapatkan%20sertifikasi%20melalui%20Indonesia%20Sustainable%20Palm%20Oil,Unit%20Desa%20(KUD)%20plasma on 2 February 2022.</a></p></div><div data-bbox=)

<sup>15</sup> Christiawan, R., Limaho, H. (2020). The Importance of Co-opetition of Corporate Social Responsibility in the Palm Oil Industry in Indonesia. *Corporate and Trade Law Review*, 1(1), 68-79.

<sup>16</sup> VOI Indonesia Editorial Team. (2022, January 10). *4 Days Ago Jokowi Speaks Firmly Removing Forestry Permits, But Now Central Kalimantan Forestry Office Has Not Received Decree Revocation Of Concession*. Retrieved from [4](https://voi.id/en/news/122690/4-hari-lalu-jokowi-berbicara-tegas-cabut-izin-kehutanan-tapi-kini-dishut-kalteng-belum-terima-sk-pencabutan-konses on 3 February 2022.</a></p></div><div data-bbox=)

environment, and increase economic growth for the people. Those seventeen integrated SDGs are: No Poverty, Zero Hunger, Good Health and Well-being, Quality Education, Gender Equality, Clean Water and Sanitation, Affordable and Clean Energy, Decent Work and Economic Growth, Industry Innovation and Infrastructure, Reduce Inequality, Sustainable Cities and Communities, Responsible Consumption and Production, Climate Action, Life Below Water, Life on Land, Peace and Justice Strong Institutions, and Partnerships.<sup>17</sup> Starting in 2017, Indonesia has also implemented a green growth economy and low carbon system into its national development strategy.<sup>18</sup> The Presidential Regulation on National Mid-Term Development Plan of 2020-2024 (“RPJMN”) includes a total of 22.8% of greenhouse gas emission reduction in 2015 to 2019 as an indicator of development. The RPJMN, which was conceived by the National Development Planning Agency, focuses on increasing the capacity and character of the nation’s human resources, promoting sustainable economic growth, developing remote area to ensure equal growth, developing the fulfilment of basic needs and economic infrastructure, ensuring stability of law enforcement judicial system, transforming public services, protecting the environment, and mitigating climate risks.<sup>19</sup>

The explanation in the previous paragraphs shows that there is a certain dilemma arising from the business of palm oil, environmental issues, and the efforts made by the government trying to bridge the gap between sustainability and economic growth. The gap exists when the demand for sustainability and economic growth hangs on a balance. There is the need to examine the role of government to analyse the missing piece from the regulations and how the next regulation should mitigate all the issues arising in the palm oil industry.

Furthermore, during the G20 session, Indonesia conveyed how G20 must provide a concrete example in cooperation against climate change and in sustainable environmental management. G20 must be the catalyst of green recovery and ensuring no one is left behind. The fight against climate change is just as important as other global challenges such as the alleviation of poverty and achieving SDGs target.

The Climate Change Agenda will move from Rome to Indonesia, reflecting on Indonesia’s strategic position in dealing against climate change as the owner of one of the largest tropical forests in the world. Based on the data from the Ministry of Environment and Forestry by 2020, deforestation in Indonesia can be reduced to its lowest point in the last 20 years. Indonesia had rehabilitated three million hectares of critical land from 2010-2020.

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<sup>17</sup> *Sustainable Development Goals Indonesia*. Retrieved from <https://www.sdg2030indonesia.org/> on 3 February 2022.

<sup>18</sup> World Resources Institute. (2020, April 13). *Indonesia Adopts Its First-Ever Sustainable Development Plan*. Retrieved from <https://www.wri.org/outcomes/indonesia-adopts-its-first-ever-sustainable-development-plan> on 3 February 2022.

<sup>19</sup> Antara News. (2019, May 9). *RPJMN 2020-2024 targetkan Indonesia berpenghasilan menengah-tinggi*. Retrieved from <https://www.antaranews.com/berita/862448/rpjm-2020-2024-targetkan-indonesia-berpenghasilan-menengah-tinggi> on 3 February 2022.

## **METHOD**

This qualitative review employed a multidisciplinary approach through observation of the current situation, and analysis using available theories of sustainability, firm management, and sociology to determine whether a better alternative for the collaboration between various stakeholders that still have a positive impact on the environment is possible. This article will argue that there is a need for a transformative law that is not just creating barriers, but to also open doors in investment.

## **DISCUSSION**

### **Evolution of Firms**

We need to understand the evolution of firms/companies, and the reason behind every decision that a firm makes. The theory of the firm from a neo-classical point of view has always been focused on entirely profit making,<sup>20</sup> and the theory of the firm which was popularized by Jensen and Meckel (1976) has conceived that the way a firm behaves from resource allocation, production techniques, pricing, and many other factors is solely for-profit maximization. The idea that is brought up concerning the lack of synchronization between shareholders and the managers relationship, especially concerning performance compensation, is linked closely to shareholders' return, and therefore the true motivation behind these 'agents' are only to get the highest compensation by maximizing profit for shareholders.<sup>21</sup> However, in the late 1950s, Mason (1939, 1949) and Bain (1951, 1956, 1959), which are mostly attributed in the development of Structure Conduct Performance ("SCP") paradigm, have realized that market structure is the main factor would determine the firm's conduct,<sup>22</sup> and Lipczynski (2005) has eloquently added to the framework of SCP the importance of policies that will affect the paradigm of the firm.<sup>23</sup>

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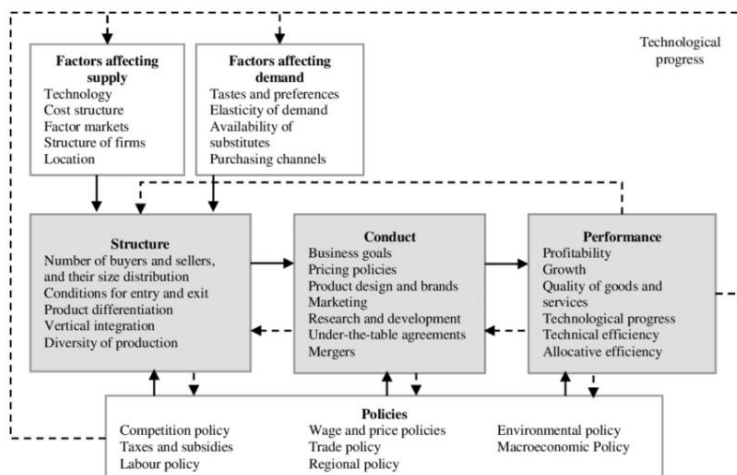
<sup>20</sup> Coase, R.H. (1937) The Nature of the Firm. *Economica*, 4, 386-405.

<sup>21</sup> Jensen, M. C., and Meckling, W. (1976). Theory of the firm: Managerial behavior, agency cost and ownership structure. *Journal of Finance and Economics*, 3, 305-360.

<sup>22</sup> Bain, J. (1956). *Barriers to New Competition*. Cambridge, United States: Harvard University Press.

<sup>23</sup> Lipczynski, J.G., Wilson, J.O.S. (2005). *Industrial Organization: Competition, Strategy, Policy*, 2<sup>nd</sup> Edition. Essex, United Kingdom: Financial Times.

**Figure 1.** The Framework of the Structure-Conduct-Performance Paradigm



Source: Lipczynski, et al., 2015.

Based on the SCP paradigm, we can see that a shift of focus happens due to internal resources and external factors. The competitive strategy that palms oil plantations have right now is extremely different from two or three decades ago. In the past, combining Porter’s (1985) competitive advantage in cost and differentiation focus<sup>24</sup> with Barney’s (1991) resource-based view of the firm using the Valuable, Rare, imperfectly imitable, and Non-substitutable (“VRIN”)<sup>25</sup> criteria is enough for the palm oil business. However, in today’s modern era, the companies have turned to the stakeholder theory approach because of the demands from the market and the policy makers.

The stakeholder theory was popularized – and some may even say conceptualized – by Freeman (1984) in his book “*Strategic Management: A Stakeholder Approach*” which had, in a way, replaced Friedman’s (1970) Shareholder Theory. Freeman stated that the company does not only owe responsibility to its shareholders, but in order to achieve long term success, the company must also observe other groups such as its consumers, employees, NGOs, political factions groups, local communities, the media, financial institutions, environmental groups, government regulators, and many more. The company’s long-term survival depends on the ability to see and utilize its value for the stakeholders, its surroundings, and itself.<sup>26</sup>

From all these evolutions of a business, a conclusion may be drawn that;

1. The purpose of a business, whether it is a short-term or a long-term goal, has always been to make profit, and so does the internal decision between shareholders and managers.

<sup>24</sup> Porter, M. (1980). *Competitive Strategies: Techniques for Analyzing Industries and Competitors*. New York, United States: Free Press .

<sup>25</sup> Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99–120.

<sup>26</sup> Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Boston, United States: Pitman.

2. The changes in external factors such as the policy and market sentiments will definitely impact the firm's actions, but the firm will still be responsible to the shareholders.
3. The perspective that internal factors (management and shareholders) alone are decisive enough is obsolete; now it is necessary to look at direct external factors such as competitors and the market, realizing that other stakeholders do have value and that the way a company behaves affects its longevity and long-term strategy.

### **The Transformation of Business and the Role of Government Policy**

By analysing the Indonesia law on palm oil plantation, it can be concluded that the the government mainly uses stick and carrot model— namely, imposing sanctions and punishments. The government should realize that firms naturally strive to make profit. Restrictions and market structure will shape the operation and conduct of the firm, but without clear benefits and only restrictions, companies will react in a creative way to fulfil its ultimate goal which is making profit.

Stubbs and Cocklin (2008) have explained that there is the need to create a whole new business model that brings sustainability in the business process. Typically, businesses carry out environmental reforms due to pressure from the government, environmental stakeholders, or perhaps in order to get their 'social license to operate'.<sup>27,28</sup> However, in reality the growth of the business in the world is still founded upon the principles of neo-liberalism of constant growth, self-interest, limited government, and free trade, aiming at profit without considering the ecological impacts.<sup>29</sup> The fundamental issue for a real and in-depth business transformation lies in the governance system— without real policies and incentives, and a change of expectations from the market, business transformation is unlikely to happen.<sup>30</sup>

The role of governmental policy on sustainability is paramount to the continued sustainability of the business. It has to foster the process of a circular economy that promotes growth and renewability while in the same sense limit and to an extent, punish wrongdoings that is not in accordance with the sustainability standards set by the policy makers. The challenge lies in the balance of implementing these policies. Policies that tend to allow the ease of doing business may create tensions from NGOs and other factions that believe the government is being too lenient on environmental

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<sup>27</sup> Stubbs, W., Cocklin, C. (2008). Conceptualizing a 'sustainability business model'. *Organization & Environment Journal*, 21(2), 103–127.

<sup>28</sup> Wilburn, K. M., Wilburn, R. (2011). Achieving Social License to Operate Using Stakeholder Theory. *Journal of International Business Ethics*, 4(2), 3-16.

<sup>29</sup> Waddock, S. (2016). Foundational memes for a new narrative about the role of business in society. *Humanistic Management Journal*, 1, 91–105.

<sup>30</sup> Evans, S., Vladimirova, D., Holgado, M., et al. (2017). *Business model innovation for sustainability: towards a unified perspective for creation of sustainable business models*. *Business Strategy and the Environment*, 26(5), 597–608.

and human rights issues – such as when the Job Creation Law was enacted<sup>31</sup> which led to 36 global investor, worth around 4 trillion USD, to write an open letter urging the Indonesian government to side with peat restoration and forest conservation in post Covid-19 pandemic era.<sup>32</sup> On the other hand, policies that are too hard to follow and too harsh in punishment will delay the investment necessary for economic growth. For example, the Presidential Instruction No. 8 of 2018 on the Implementation of Mineral and Coal Business Activities stipulates the suspension and re-evaluation of palm oil permits, creating an uncertainty factor for the investors and affecting their trust in doing business in Indonesia due to the lack of ease of doing business.<sup>33</sup> One of the defining examples is how the government-mandated ISPO regulation is hindered by many difficult procedures and prerequisites that fosters a system of corruption and bureaucracy inefficiency.<sup>34</sup> Indonesian government has a reputation of being somewhat corrupt and rife with power inequities that have been cited by many scholars as one of the reasons to why policies are not properly implemented, and some even goes to say that ISPO is just a way for the Indonesian government to exert more control and reduce foreign influence around auditing, monitoring, and evaluation of the industry.<sup>35 36</sup>

What the Indonesian government needs to do is creating a policy that gives rewards (positive incentives) and balancing it with sanctions (negative incentives) in a synergistic single policy that can promote growth and environmental responsibility. In the case of palm oil plantation, it has been suggested that the government should implement a system that foster rewards like a price premium rather than pursue punishment like the RSPO, because the RSPO system itself has its flaws especially due to the vested interest from its stakeholders.<sup>37</sup>

Historically speaking, the government has established certain rewards and punishment policies for environmental issues. For example, Government Regulations No. 73 of 2019 on Taxable Luxury Goods in the Form of Motor Vehicles Subject to Sales Tax on Luxury Goods, as lastly amended by Government Regulation No. 74 of 2021, stipulates

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<sup>31</sup> Jong, Hans Nicholas. (2020, August 24). *Indonesia bill weakening environmental safeguards to pass in October*. Retrieved from <https://news.mongabay.com/2020/08/indonesia-omnibus-deregulation-bill-pass-october/> on 3 February 2022.

<sup>32</sup> Green Century Funds. (2020). *Open letter to Omnibus Bill on Job Creation*. The statement is endorsed by 36 investors representing approximately USD4.1 trillion in AUM. Retrieved from <https://www.greencentury.com/wp-content/uploads/2020/10/Indonesian-Omnibus-Investor-Letter.pdf> on 3 February 2022.

<sup>33</sup> Christiawan, R. (2020). Evaluasi Kebijakan Moratorium Penundaan Penerbitan Izin pada Perkebunan Kelapa Sawit. *Veritas et Justitia*, 6(1), 1-22.

<sup>34</sup> Christiawan, R. (2019). Conservation and Development Balance of the Palm Oil Industry Through Sustainability Regulation. *Advances in Social Science, Education and Humanities Research*, 358, 24-29.

<sup>35</sup> Dauvergne, P. (2017). Is the Power of Brand-Focused Activism Rising? The Case of Tropical Deforestation. *Journal of Environment and Development*, 22(4), 391–410.

<sup>36</sup> Wijaya, A., Glasbergen, P. (2016). Toward a New Scenario in Agricultural Sustainability Certification? The Response of the Indonesian National Government to Private Certification. *Journal of Environment and Development*, 25(2), 219–246.

<sup>37</sup> Kadarusman, Y., Herabadi, A. (2018). Improving Sustainable Development within Indonesian Palm Oil: The Importance of the Reward System. *Sustainable Development*, 26(4), 422-434.

that the tariff of purchasing an electric car is 0%, but the tariff for cars that still use conventional fuel is being renewed with an increase of tariff ranging from 10%-40% depending on the engine capacity and the type of vehicle.<sup>38</sup>

It is to be understood that there are some critiques that find sanctions and punishments as a better tool in enforcing environmental policies. When the legislators have certain system of reward, the assumption is that the leading companies that have an edge of the environmental policies going will likely to pursue such reward aggressively, while the rest will not aggressively pursue the rewards but rather lobby certain government agents via industry associations to delay or alter the regulations, or perhaps make a case for special exemptions, data fixing, and perhaps even bribery.<sup>39</sup> However, this pessimistic point of view – even though it has a valid point – tends to look at law from a rigid standpoint. Laws can be changed and altered, certain conditions can be made. As society progresses, the laws may become obsolete and therefore can be amended. Such was the case with the Job Creation Law that used omnibus law framework to alter, amend, and revoke certain rules and regulations that have been enacted before.<sup>40</sup> Other researches have shown that rewards are essential to initiate cooperation, especially when the risk factors are low and punishments are the key in maintaining the cooperation. Therefore, there needs to be a synergy between those two sides of a policy.<sup>41</sup>

Recently the government has just enacted Presidential Regulation No. 98 of 2021 on Carbon Tax Law, which stipulates that the starting price of carbon tax is Rp30 for each kilogram of carbon. This incentive gives certain limitations to companies that produce carbon, but also allows ‘greener’ companies who produce less carbons than their allocated amount to be commercially active and sell their carbon credits.<sup>42</sup> Even though the enforcement is still in the preliminary stage, starting with the state-owned coal powered electric company, this proves that the Indonesian government can have a certain measure and policies to ensure the legal rewards and punishment system, and create a circular economy cycle. Therefore, this type of legislation mentality and background should also be implemented in the of palm oil industry.

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<sup>38</sup> CNN Indonesia. (2021, October 18). *Aturan Baru Sri Mulyani, Pajak Mobil kini Mengacu Emisi*. Retrieved from: <https://www.cnnindonesia.com/ekonomi/20211018133758-532-709187/aturan-baru-sri-mulyani-pajak-mobil-kini-mengacu-emisi> on 5 February 2022.

<sup>39</sup> Braithwaite, J., 2002. Rewards and Regulation. *Journal of Law and Society*, 29(1), 12-26.

<sup>40</sup> Antara News. (2021, March 3). *Landasan hukum pencabutan Lampiran III Perpres Nomor 10/2021*. Retrieved from: <https://www.antaraneews.com/berita/2024340/landasan-hukum-pencabutan-lampiran-iii-perpres-nomor-10-2021> on 5 February 2022.

<sup>41</sup> Góis, A., Santos, F., Pacheco, J., Santos, F. (2019). *Reward and punishment in climate change dilemmas*. *Scientific Reports*, 9(1), 1-9.

<sup>42</sup> The Indonesian Ministry of Finance. (2021, November 19). *Pajak Karbon dalam UU HPP Bentuk Komitmen Indonesia Atasi Perubahan Iklim*. Retrieved from: <https://www.kemenkeu.go.id/publikasi/berita/pajak-karbon-dalam-uu-hpp-bentuk-komitmen-indonesia-atasi-perubahan-iklim/> on 5 February 2022.

## Possible Rewards for Environmentally Responsible Palm Oil Companies and Policy Creation

There are many types of incentives that the government can implement in the palm oil industry, such as:

1. Tax incentives: certain tax incentives can be put in place for companies that have adhered to the ISPO standards to attract more companies to certify themselves. Certain help and support should be given to smaller companies.
2. Financial incentives: the government should persuade financial institutions, especially the state owned ones, to give certain discounts and preference treatment in terms of interest, tenor, and other perks for law-abiding companies. In the past, the plasma nucleus program has got special interest from state owned banks. Certain incentive packages can also be created for environmentally responsible palm oil plantation companies.
3. Public Recognition: a publicized commendation or recognition should be given to companies that have met certain requirements for its contribution to the SDG and environment. Companies may view this as an ongoing support from the government, and the resulting image can create a sense of pride for both the public and the company's internal management. This recognition also promotes the willingness to pursue sustainability as a transforming business culture.
4. Tax Rebates: certain monetary value can be offered to palm oil plantation companies that have invested in environmentally responsible technologies or practices that decrease greenhouse gas emission, such as installing methane trapper in palm oil mills. This rebate should encourage the companies to take actions.

There are many other possible methods to help the Indonesian government in achieving environmental sustainability target without sacrificing possible economic growth.

The most important thing when developing these types of policy is understanding that different institutions will have different values. In the discussion between various stakeholders and institutions, it is important to use real contingent valuation and cost benefit analysis to see how policy will be beneficial for all involved.<sup>43</sup> The hardest part perhaps is defining value, especially in environmental terms and maybe cultural values.<sup>44</sup> The understanding that environmental issues is an ethical issue and not as a corporate value is hard to perceive, especially for palm oil companies who from the basis of their organisation are build upon neo-classical economist, and their competitive advantage comes from exploitation of natural resources in the most efficient way. If the government regulators cannot see and comprehend the nature of an organisation and expect change to come in a very provocative way by imposing regulations, sanctions, and punishments, then change would come in a slow manner— which, in turn, will affect the economy.

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<sup>43</sup> Vatn, A. (2005). Rationality, institutions and environmental policy. *Ecological Economics*, 55(2), 203-217.

<sup>44</sup> Clark, J., Burgess, J., Harrison, C.M. (2000). "I struggled with this money business": respondents' perspectives on contingent valuation. *Ecological Economics*, 33(1), 45– 62.

Nevertheless, by developing policies that can balance both the rewards and punishment, the acceptance and the participation rate will greatly increase. It is also important to note that policies should be an evolving one, not just a confirmation or rejection status. Appreciation and certain incentives can be given to develop a policy that ensures growth at every stage. Levels of achievement in sustainability ranging from transparency, certain certification, accounting practices, to timely management of the entire business system, conduct, and performance. The nature of neo-classical economist is trying to maximize profit in a short time, so it is up to the government and the market to structure and shape the companies in a positive way. The policy makers should also involve many relevant institutions, including ministerial departments from the relevant sectors such as agronomy, forestry, finance, law, and others. The Job Creation Law is a good starting point because this new legislation tries to streamline the long bureaucratic process and eliminate a culture that promotes corruption and procrastination.

The SDGs in Indonesia mention the importance of involving the private sector in reporting various forms of support for sustainable development. Currently, the Financial Services Authority (OJK) is designing a green taxonomy for the private sector in hopes that sustainable development will become mainstream. The environmental development pillar consists of 6 SDGs goals, and several targets related to the forestry sector are contained in the 15th goal of the SDGs: life on land. Low-carbon development is the cornerstone in achieving zero net emissions through collaboration between government and non-government sectors. Currently, the government is also preparing a green fiscal stimulus and other low-carbon fiscal instruments.

The implementation of the new forestry business ecosystem after the Job Creation Law for the achievement of SDGs stated that the incorporation of SDGs in the vision and mission to encourage the achievement of the Ministry of Environment and Forestry's 2020-2024 goals are in the form of 4 pillars, namely environmental, economic, social, and good governance pillar. Reconfiguration of forest management as a single ecosystem (landscape management) consists of environmental management, social management, and economic management. Landscape management/sustainable forest management can be achieved through multiple forestry businesses and strengthening the community's legal access. In sustainable forest management, it is necessary to emphasize the components in sustainable forest management, namely area certainty, business guarantee, productivity, product diversity, and competitiveness. At the end, the integration of policies between sectors is important to encourage economic transformation towards a developed and resilient Indonesia led by the Ministry of Forestry.

## **CONCLUSION**

There is a big discrepancy that needs to be fulfilled by the Indonesian government to mitigate the risks and rewards among one of the biggest GDP contributors; the demand of the market; and the pledge that the country has made to the world concerning SDG. However, these matters, if handled without the involvement of relevant value articulation institutions, may result in long bureaucratic process and

policies being made without the understanding of balancing the nature of a company and the harsh haste demands of environmental agencies.

These issues can be solved by creating sustainable policies and promotes rewards and benefit system in conjunction with sanctions and punishment. Sustainable policies with monetary and other various benefits can foster a system that change the SCP of the company and help catalyse an internal revolution of sustainability from within to answer the demands of the external factors, and thus fulfilling the needs of Indonesia's environmental SDG and environmental targets.

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