INDONESIA IS THE LARGEST PRODUCER OF CERTIFIED SUSTAINABLE PALM OIL IN THE WORLD

By

PASPI-Monitor

RESUME

Indonesia is the largest producer of palm oil and most of it is consumed by the global community. Therefore, the principles of sustainability that have become the demands of the global community need to be fulfilled in the palm oil production process in Indonesia. Indonesia’s commitment is reflected in the sustainability certification system for oil palm plantations (ISPO and RSPO). The plantation area and production volume of Indonesian palm oil that has been certified by ISPO and RSPO also increase every year.

At the global level, the Indonesia is also the largest producer of RSPO certified palm oil with a share of around 56 percent. Not only Indonesia, total volume of palm oil production with sustainability certification in the world also shows an increasing trend from year to year. This shows the strong commitment of global business actors to producing palm oil that meets sustainable principles.

Since the RSPO certification was carried out, every year there has been an oversupply where sales of certified sustainable palm oil are far below production. It is estimated that the RSPO sustainability certification has not been able to convey a message and convince global consumers about the fulfillment of sustainability aspects in the palm oil production process. On the other hand, this condition has the potential to harm palm oil producers because they have to bear the relatively high cost of RSPO certification.
INTRODUCTION

Sustainability is a new norm and value for the life of the global community. Every activity of production, trade, and consumption of goods/services anywhere in the world, should meet the feasibility of sustainability both economically (profit), socially (people), and ecologically (planet).

The palm oil industry, which consists of the production, trade, and consumption of palm oil and its derivative products, involves almost the entire global community. Indonesia as the largest producer of palm oil in the world, has shown its commitment and responsibility to improving the governance of the sustainable palm oil industry. Indonesia also realizes that most palm oil is consumed by the global community (feeding the world), so it must be ensured that palm oil produced in Indonesia complies with the principles of sustainability.

Indonesia’s commitment to being part of the global sustainability solution, including oil palm plantations, is contained in the Law on the Environment No. 23/1997. Then the mandate for sustainable plantations was also contained in the Plantation Law No. 18/2004 which was later changed to the Plantation Law No. 39/2014. As a follow-up to the Act, the Minister of Agriculture Regulation No. 19/2011 stipulated that sustainable palm oil plantations (Indonesia Sustainable Palm Oil, ISPO) are mandatory for every oil palm plantation actor. Sustainability standards in oil palm plantations are set through the ISPO certification system as stipulated in the Minister of Agriculture Regulation No. 11/2015. The Indonesian government made readjustments to the ISPO, which was then regulated by Presidential Regulation No. 44/2020 and Minister of Agriculture Regulation No. 38/2020.

In addition to the mandatory ISPO certification, European palm oil certification or RSPO (Roundtable Sustainable Palm Oil) has also been adopted voluntarily by oil palm plantation actors in Indonesia since 2008.

This article will discuss the development of ISPO and RSPO certification after 10 years of implementation. In addition, it is also interesting to discuss why there is an oversupply of palm oil with sustainability certification (Certified Sustainable Palm Oil, CSPO), while the issue of sustainability is being discussed globally.

THE LARGEST CSPO PRODUSER

Indonesia has been the largest palm oil producer in the world since 2006 (Sipayung, 2012). With its position, Indonesia is also an important part of feeding the world (PASPI Monitor, 2021a) and bio-fueling the world (PASPI Monitor, 2021b). Therefore, the principles of sustainability that have become the demands of the global community need to be fulfilled in the palm oil production process in Indonesia.

Two sustainable certifications adopted by Indonesian oil palm plantations are Indonesian Sustainable Palm Oil (ISPO) and Roundtable Sustainable Palm Oil (RSPO). ISPO is a sustainability certification from the supply-side, which is mandatory and only applies to Indonesian oil palm plantation actors. Meanwhile, RSPO is a sustainability certification from the demand-side, which is voluntary and applies internationally. Although both are sustainability certifications, there are some differences in terms of legality and differences in focus and criteria (Harsono et al., 2012, Daemeter, 2014).

Since ISPO certification was implemented in 2011, the production volume of ISPO certified palm oil has increased from 4.7 million tons in 2015 to around 13 million tons in 2020 (Figure 1).
Indonesia is the Largest Producer of Certified Sustainable Palm Oil in the World

In the last 5 years, the production volume of palm oil that has been certified by ISPO has increased by about 2.7 times. Meanwhile, ISPO-certified oil palm plantations also increased from 1.16 million hectares to 5.45 million hectares in the same period. This means that of 16.4 million hectares of national oil palm plantations, 33 percent of oil palm plantations have been certified by ISPO. Meanwhile, of the 45 million tons of Indonesian palm oil production in 2020, only 28 percent of the palm oil produced has been ISPO certified.

The area of Indonesian palm oil plantations that have been certified by the RSPO also increased to around 1.6 million hectares in 2019 (Figure 2). Meanwhile, the production volume of palm oil (CPO + PKO) which has been certified by the RSPO (CSPO + CSPK) has reached 10.3 million tons.

The area of plantations and production of Indonesian palm oil that has been certified by ISPO and RSPO is not something separate. Most of the oil palm plantations that have obtained ISPO certificates have also obtained RSPO certification. It seems that oil palm plantation actors have taken the "safe" path by carrying out ISPO certification because it is mandatory and also carrying out RSPO certification in anticipation to fulfilling the needs and demands of the export market.

In addition to the plantation areas and production of palm oil in Indonesia, RSPO certification is also carried out in plantations of other palm oil producing countries such as Malaysia, Papua New Guinea, and countries in Africa and South America. The area of RSPO certified palm oil and palm oil plantations (CSPO and CPK) is increasing every year (Figure 3).

Figure 1. Development of Oil Palm Plantation Area and Volume of ISPO Certified Palm Oil in 2015-2020 (Source: ISPO)

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Figure 2. Development of RSPO Certification in Indonesian both in Plantation Area and Palm Oil Production (Source: RSPO)

Note: *until June 2018
In total, the area of global palm oil plantations that have been certified by the RSPO has increased from less than 0.5 million hectares in 2008 to around 3.2 million hectares in 2021. Meanwhile, the volume of palm oil certified by the RSPO has also increased relatively significantly, from 0.7 million tons to around 22.3 million tons in the same period.

Of the total palm oil that has been certified by the RSPO, around 56 percent is palm oil produced and originated in Indonesia. Then followed by Malaysia (30 percent), Papua New Guinea (3 percent), and the rest of African and South American countries.

The RSPO certification distribution data shows that Indonesia is the largest producer of palm oil and also the largest producer of certified sustainable palm oil. RSPO certification (excluding ISPO certification) has shown that Indonesia's strong commitment to producing palm oil that meets sustainable principles is not just a term or campaign.

**CSPO OVERSUPPLY**

The progress of Indonesia and other palm oil producing countries in producing RSPO certified palm oil (CSPO and CSPK) does not appear to be commensurate with the market absorption. The aim of RSPO certification is ensuring the absorption of sustainable palm oil by global consumers, is questionable.

Based on RSPO data, of the volume of CSPO and CSPK supplied by the palm oil producing countries, only about 45-50 percent is absorbed by the market. This data indicates an oversupply of CSPO and CSPK (Figure 4).
Oversupply condition is very detrimental to the palm oil producers. Because they bear the relatively high cost of RSPO certification, and they may feel economically exploited with this certification.

The occurrence of oversupply in CSPO and CSPK may be related to consumer response to certified palm oil. The European Union community, which is the target consumer of certified palm oil, apparently prefers the “Palm Oil Free” label than the sustainable certified label (Annunzita et al., 2019; Hinkes and Christoph-Schulz, 2019).

This consumer behavior occurs because consumers do not believe in certified palm oil. The study of Noor et al., (2017) also reveals that RSPO certification has not been able to provide the expected environmental and social benefits from palm oil producers to consumers. Even Morgan et al. (2018) revealed that there are no social, economic, and ecological differences between oil sustainability certification compared to no sustainability certification.

The explanation of this study shows that palm oil sustainability certifications, such as RSPO and ISPO, need to be evaluated and improved. Palm oil certification (RSPO and ISPO) is also considered unable to convince consumers about the fulfillment of the sustainability aspects of palm oil production.

CONCLUSION

Indonesia is the largest producer of palm oil, as well as the largest producer of certified sustainable palm oil in the world, with around 56 percent of Indonesian palm oil being RSPO certified. The volume of palm oil production with sustainability certification (RSPO and ISPO) has also increased from year to year. This shows the high commitment of business actors to producing palm oil that meets sustainable principles.

Since the RSPO certification was carried out, every year there has been an oversupply where sales of certified sustainable palm oil are far below production. It is estimated that the RSPO sustainability certification has not been able to convey a message and convince global consumers about the fulfillment of sustainability aspects in the palm oil production process.

REFERENCES


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