



## Narrative Analysis Of European Union Deforestation Regulations On Indonesian And Malaysian Palm Oil Commodities

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### ARTICLE INFO

#### Article History:

Received: Aug-03-2023

Revised: Jan-10-2024

Accepted: May-03-2024



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### ABSTRACT

The implementation of the EU Regulation on Deforestation-Free Products is the current problem point, so the study refers to implementing deforestation regulation for certain trade goods or commodities. This study provides a brief overview of the EU Regulation on Deforestation-Free Products. The study also aims to examine the development of ASEAN's trade pattern, especially Indonesia and Malaysia, with the European Union, which will be reviewed below. In order to facilitate the analysis of the European Union's green economic policies, particularly the impact of the EU Regulation on deforestation-free products, the study needs to develop a research question. How does the EU Regulation on Deforestation-Free Products hinder trade in Indonesian and Malaysian palm oil derivatives and products? Moreover, how about a fair recommendation for solving this problem? Case studies and research on the issue of trade in palm oil commodities in the European Union have been carried out a lot. However, the discussed study tries to provide an argumentative explanation using a narrative analysis approach.

**Keywords:** European Union deforestation, Palm oil commodities, EU regulations, Legislations, Innovation, Change management

### INTRODUCTION

The polemic on trade in palm oil commodities and derivative products from palm oil production in Indonesia and Malaysia is under pressure from the European market. The enactment of the European Union's Regulation on deforestation-free products blocks their commodities and palm oil derivative products (Lusiana et al., 2023). The enactment of these regulations refers to the European Union's goal of accelerating the implementation of a green economy in the economic life of the European Community (Sicurelli, 2023). Consequently, these regulations impede trade between Indonesia, Malaysia, and the European Union and violate free-trade norms (Tyson & Meganingtyas, 2022).

Indonesia and Malaysia are two countries in Southeast Asia. Both are producers of palm oil commodities. In the context of the palm oil issue, they are not only friends with the same fate because of the polemic over similar problems they face. However, they are also competing with each other for the same market in several countries as suppliers of palm oil and its derivatives.

#### **EU Regulation on Deforestation-Free Products Hamper Palm Oil Commodity Trade**

The palm oil trade dispute between Indonesia and the European Union has been going on for a long time. Before the EU Regulation on defor-

estation-free products was implemented, disputes over trade in palm oil commodities between Indonesia and the European Union arose because of the European Union's policy of imposing anti-dumping import duties on Indonesian palm oil commodities. Indonesia filed an objection to the WTO over the EU's unilateral policy. In 2018, the WTO won Indonesia's lawsuit over the European Union's anti-dumping import duty policy. The WTO decision on Indonesia's lawsuit abolished the European Union's anti-dumping import duty policy, and the European Union's anti-dumping import duty policy was finally removed on March 16, 2018 (Sicurelli, 2023). Abolishing the anti-dumping import duty policy for Indonesian palm oil is not the end of trade disputes between Indonesia and the European Union. The dispute persisted until the European Union banned the entry of palm oil commodities from Indonesia into the European Union market (Tyson & Meganingtyas, 2022). The ban on importing Indonesian palm oil commodities into the European Union uses the Delegated Regulation Supplementing Directive of The EU Renewable Energy Directive II (RED II) policy. This renewable energy policy aligns with the European Union's renewable energy development program, which uses palm oil derivative products. The ban on the export of Indonesian palm oil commodities has significantly impacted the value and quantity of commodity exports. Even though Indonesia is trying to reach non-traditional market shares, Europe is still Indonesia's trading partner, which benefits both parties (Sicurelli, 2023). Commodities and palm oil derivative products have become a concern for the European Union to be immediately replaced with other commodities and products. Bioenergy that uses elements of palm oil commodities is a goal for the European Union to no longer use palm oil commodities as a support for renewable energy needs and basic needs (Tyson & Meganingtyas, 2022). The context of the ban on imports of palm oil commodities was then developed again so that the European Union linked the ban policy to support green economy development programs in the European region. The issuance of regulations on deforestation and support for products that are free from the causes of deforestation are why the trade in palm oil commodities is challenging to ac-

cess in the markets of European Union countries. The proposal for EU Regulation on deforestation-free products was submitted to the European Union Commission on November 17, 2021. Then, on December 6, 2022, the European Union Council and Parliament agreed politically on the draft regulation proposal. 2023 will be a transitional year from the plan to implement deforestation regulations that are fully enforced in 2025. The rules that were in effect before the deforestation regulations were issued remain a reference for the European Union to implement them strictly as their support for forest restoration in all regions of the world. Automatically implementing the Deforestation Regulation supports the goal of restoring natural ecosystems that have caused drastic climate change, including preventing widespread biodiversity loss. The EU also hopes that the Deforestation-Free Products Regulation can solve the polemic problem in the palm oil trade, where palm oil is a commodity opposed to the Deforestation Act (Sicurelli, 2023). Apart from palm oil commodities, regulations also include cattle, cocoa, coffee, soya, and wood as commodities, which cause the decreasing quantity of forests in the world. Chocolate, leather, and furniture are also included in the products considered by the EU to damage the quality of forests as the lungs of the world. Indonesia and Malaysia, as the largest palm oil producers, feel the impact of the EU Regulation policy on deforestation-free products because, as the largest producer of commodities, the policies and views of the EU put pressure on the mechanism of Indonesian and Malaysian palm oil production, which is the only cause of the destruction of tropical forest ecosystems in the Asian region. Indonesia, as a country with the largest tropical forest area in the Southeast Asian region, is a significant concern for the EU. Because the ownership and management of forest land are considered imperfect by the EU, Indonesia is often considered to be the cause of the destruction of tropical forests in the world (Gáspár-Szilágyi, 2022). Indonesia's forest area, based on worldometers.info data, is wider than the forest area in Malaysia. Worldometers.info data states that Indonesia's forests cover approximately 89.64 million hectares. Meanwhile, Malaysia's forest area is only 22.22 million hectares. However, the area

of forest land in Indonesia and Malaysia is still much smaller than the area of forest land in Russia. Russia is the country with the largest forest area, which is approximately 814.848 million hectares. Brazil, Canada, the United States, China, DR Congo, and Australia also have larger land areas than Indonesia and Malaysia. They have an average land area of over 100 million hectares. Meanwhile, the Indonesian Ministry of Environment and Forestry data shows that Indonesia's total forest area reaches 125.76 million hectares. Indonesia's total forest land covers as much as 62.97% of Indonesia's land area. The land area, according to the records of the Indonesian Ministry of Environment and Forestry, makes Indonesia the holder of a land area of more than 100 million hectares. Indonesia is still in eighth place, and Russia is still the country with the world's most significant forest land ownership (Gáspár-Szilágyi, 2022). Russian forests contribute to the Russian economy because the products and commodities Russia trades are obtained from processing land in forest areas. Russia is also a trading partner for the European Union with various trade products and commodities. Some of Russia's trade products are products of the extraction of forest land use, such as lumber and plywood (Partzsch, Müller, & Sacherer, 2023). On the other hand, the EU exports several commodities, such as coffee and cocoa, including trees and plants, to Russia. The EU export commodities to Russia are commodities which, according to the EU Regulation on deforestation-free products, are withheld from trade circulation within the European Union. Russia's trade with the EU faces challenges after the EU imposed sanctions on Russia due to the conflict between Russia and Ukraine (2022). However, trade transactions between the two sides appear to be still ongoing. European Union statistical data for the first quarter of 2023 show that several Russian products and commodities exported to the European Union are still quite large despite a decline. The sanctions and implications of the EU Regulation on Deforestation-Free Products do not affect the pace of trade in commodity trade Russia-EU, especially trade in commodities that should be prohibited in the EU Regulation on Deforestation-Free Products (De Hoop & Van der Vleuten, 2022). As both owners of forest land, Russia and Euro-

pean Union member countries must apply equal treatment in carrying out trade policies with their partner countries. In other words, unequal treatment of Indonesian and Malaysian palm oil commodities should be applied equally to the trade of deforestation-free products in products and commodities traded by the European Union and other European countries. The implications of the Deforestation-Free Products Regulation certainly have a discriminatory effect on commodity trade in Indonesia and Malaysia. The Minister of Foreign Affairs of Indonesia, Retno Marsudi, stated that Indonesia's palm oil commodity experienced discrimination. His statement was made via the YouTube social media channel in February 2022 (De Hoop & Van der Vleuten, 2022). To achieve the goal of re-functioning forests and restoring environmental and climatic conditions, the European Union does not only prohibit products and commodities that are still contaminated by efforts to reduce forest land. However, the European Union is also trying to maintain good relations with its trading partners to achieve the goal of restoring forest functions in line with goal number 15 on sustainable development goals (SDGs) (De Hoop & Van der Vleuten, 2022). Therefore, the EU implements five priorities to smooth the implementation of the EU Regulations on Deforestation-Free Products. Priority, the EU tries to reduce the consumption footprint on the land and encourages the consumption of products from deforestation-free supply chains. The second priority is that the EU works in partnership with producing countries to reduce pressures on forests and to 'deforest-proof' EU development cooperation (De Hoop & Van der Vleuten, 2022). The third priority, the EU, also strengthens international cooperation to halt deforestation and forest degradation and encourage forest restoration. Fourth priority, the EU tries to collect redirect finance to support more sustainable land-use practices. Furthermore, the fifth priority, the EU, supports the availability of, quality of, and access to information on forests and commodity supply chains, including support for research and innovation (Partzsch, Müller, & Sacherer, 2023).

### **Palm Oil Production and Its Relation to Deforestation**

From the explanation in the subchapter above,

the EU Regulation on Deforestation-Free Products directly affects trade in palm oil commodities. Deforestation for expanding land for oil palm cultivation in Southeast Asia is why the EU needs to stem commodities and products derived from palm oil. Accumulated world palm oil production has indeed experienced a very significant increase since 1961. Data from Ritchie and Roser (2021) through OurWorldinData.org states that palm oil production in 1961 only reached 1.48 million tons. Whereas in 2019, palm oil production increased to 79.07 million tonnes. The statistical data shows a very sharp increase in palm oil production even though the total production of palm oil in 2020 decreased slightly, reaching only 75.88 million tons. The cultivation of oil palm plants does use forest land. As the most prominent producers, Indonesia and Malaysia use tropical forest land cleared specifically for planting oil palm trees. Ritchie and Roser also recorded land use for cultivating all horticultural crops. Their data states that in 2021, the most extensive land will be used to cultivate soybeans. The land used to cultivate soybeans reaches 129.52 million hectares or 39% of the total land area of 331.63 million hectares used to cultivate all horticultural crops (De Hoop & Van der Vleuten, 2022). Meanwhile, land use for oil palm nurseries is only 8.72% or around 28.91 million hectares. Indonesia has the largest oil palm nursery area of all land used for the same purpose in various countries, approximately 15 million ha. In comparison, Malaysia is in second place with a land area of approximately 5 million hectares. The dominant position of production and use of land for oil palm cultivation allows Indonesia and Malaysia to be accused of causing deforestation (Li, 2024). However, as data from Ritchie and Roser (2021) revealed, land use has been used up for cultivating soybeans. Ritchie and Roser (2021) also stated that the biggest driver of deforestation is land use for oil palm cultivation. Data shows that the highest peak of deforestation for oil palm land use occurred in 2009. Land use for oil palm cultivation has eroded forest land by more than 37% (Schouten et al., 2023). However, since 2009, the trigger for deforestation caused by the use of land for oil palm cultivation has decreased. In 2016, palm oil production land, which was the cause of deforestation, only

reached 47,920 ha or 4.7% of the total land area of 1.02 million ha, which triggered deforestation. In the same year, grassland became the most significant cause of deforestation, including peatland fires that destroyed tropical forest ecosystems. Palm plantations in the Southeast Asian region are categorized as sources of deforestation. In 1989, land use for palm plantations in Indonesian forest areas reached 54%. While Malaysia's forests are used for palm plantations, palm plantations have caused deforestation of up to 40%. The Indonesian government has tried reducing the land used for oil palm cultivation. The land for constructing the Archipelago Capital (Indonesian new capital) located on the island of Borneo promotes green development by paying attention to the composition of buildings and proportional green spaces. Efforts to repair forests and reforest barren areas have become Indonesia's land forest policy to address the projected extinction of Indonesia's forests, which is expected to occur in 2067. The European Commission describes the projection data through the report Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions. The report also obtained information on forest degradation projections in India, Myanmar, and Vietnam. Their forests are projected to experience severe deforestation from 2034 to 2040. Meanwhile, in Malaysia, the projected rate of deforestation will be even more significant in 2055. The projection of deforestation in Indonesia's forest areas means that Indonesia is still much better than Malaysia, even though the two countries are trying to restore the function of forests following ASEAN's goals in the green economy program. The Indonesian government is trying to re-fertilize deforested forest land due to deforestation through reforestation and forestry programs. The German government even assisted the Indonesian government via a grant of EUR 23 million for the revitalization and biodiversity conservation of tropical forests through the framework of the national REED+ approach. The German Development Bank provides grants as part of the financing recorded in the State Budget (Waters et al., 2024). Likewise, with Malaysia. The Malaysian government has succeeded in restoring forest functions, including developing forest-based industries. For-

est rejuvenation stems from Malaysia's ability to develop sustainable forest management (SFM) to provide environmental and ecological services for human survival (Woon & Norini, 2002).

### **Current Situation on Relations between Indonesia, Malaysia, and EU**

The polemic on trade in palm oil commodities does not limit the relations and communication between Indonesia and Malaysia with the European Union. However, the influence of the polemic on the trade in palm oil commodities still affects how each party behaves. They also have their arguments for maintaining trade competition, which is considered unfair in international trade governance (Papilo et al., 2022). The ban on exports of nickel in the form of raw materials imposed by the Indonesian government became one of the triggers for the escalation of the polemic between Indonesia and the European Union. However, this situation was handled well because each side tried to be optimistic about building good trade and investment relations. The Indonesia-EU CEPA cooperation has even entered the 15th negotiating stage, which will take place in Yogyakarta in July 2023. Since being negotiated for the first time on 18 July 2016, the Indonesia-EU CEPA is expected to be agreed upon and enforced at the end of 2023 (Waters et al., 2024). Indonesia has benefited from its trade with the European Union. In 2022, Indonesia recorded that its export value to the European Union reached USD 21.5 billion. Meanwhile, the Indonesian trade balance was recorded at USD 11.7 billion for imports from the European Union. That way, Indonesia will still benefit from a trade surplus of USD 9.8 billion (Papilo et al., 2022).

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