

CHAPTER I

INTRODUCTION

A. Background of Research

Palm oil is an important commodity for Indonesia, contributing to foreign exchange and employment. Indonesia is expected to become the global leader in the production and export of palm oil, contributing 2.3% to Gross Domestic Product (GDP) and 14.5 million jobs (Badan Pusat Statistik Indonesia, 2023). However, the expansion of oil palm plantations is often associated with deforestation, forest degradation, and greenhouse gas emissions, causing global unrest.

Table 1.1 List on Top 5 Largest Palm Oil Producing Country in 2023

No.	Country	Total Global Production (%)	Total Global Production (Tons)
1.	Indonesia	59%	45.4 million tons
2.	Malaysia	24%	19.8 million tons
3.	Thailand	4,4%	3.45 million tons
4.	Colombia	2,3%	1.8 million tons
5.	Nigeria	1,8%	1,4 million tons

Source: *Foreign Agricultural Service 2023*

In response, the European Union passed an anti-deforestation regulation known as the European Union Deforestation Regulation (EUDR) in 2023. The regulation is enforced to ensure that commodities entering the European Union are not associated with deforestation activities. The EUDR policy was published

in the European Union (EU) Official Journal on June 9, 2023 and became binding on June 29, 2023.¹ Enforcement for business actors (operators/traders) is given a grace period of 18 months, with all operators/traders required to comply with the regulation by December 29, 2024. Meanwhile, Smallholder Enterprises (SMEs) are given a transition period with a longer period of 24 months or SMEs must comply with the regulation starting June 29, 2025.²

One of the challenges is the different concepts of forest area used in the EUDR and Indonesia. In the EUDR, the definition used is that of the Food and Agriculture Organization (FAO), while Indonesia uses the concept of forest from the Ministry of Forestry and Environment (MoEF), which has various categories of forest types.

The implementation of the EUDR also creates several new risks and uncertainties for the palm oil industry as a whole.³ The EUDR approach that covers the global palm oil supply chain (upstream-downstream), traceability, and landscape/geolocation creates unprecedented uncertainties and risks. The implementation and fulfilment process of EUDR demands is considered to be highly complex, time-consuming, costly, and potentially disruptive to the global palm oil supply chain.

¹ Not-for-profit sustainability strategy organisation and Melissa, 2023, *The EU Deforestation Regulation Is Entering Into Force: The Final Outlook*, <https://aidenvironment.org/upon-the-entering-into-force-of-the-regulation-all-countries-will-be-assigned-a-standard-level-of-risk/>, (Accessed on July 21, 2024 at 09:51 WIB).

² Ellisa Agri Elfadina, 2024, *Bagaimana Implikasi & Langkah Antisipasi Terhadap Penerapan EUDR di Indonesia?*, <https://topcore.wartaekonomi.co.id/read40006/bagaimana-implikasi-langkah-antisipasi-terhadap-penerapan-eudr-di-indonesia>, (Accessed on March 26, 2024, at 17:29 WIB).

³ Redaksi, 2024, *Tungkot Sipayung: Jika EUDR Diberlakukan, Hampir Tidak Ada Produsen Sawit Yang Bisa Lolos, Kantor Berita Sawit* (blog), <https://sawitindonesia.com/tungkot-sipayung-jika-eudr-diberlakukan-hampir-tidak-ada-produsen-sawit-yang-bisa-lolos/>, (Accessed on July 21, 2024, at 13:18 WIB).

Riau Province is one of the provinces with the largest oil palm plantations in Indonesia. By 2023, the area of oil palm plantations in Riau will reach 3.4 million hectares (Riau Province Plantation Office, 2023).⁴ As one of Indonesia's largest agricultural export commodities, and Riau is the largest palm oil plantation province in Indonesia, oil palm has contributed to the economy and welfare of the Riau people. Palm oil plays an important role as a major source of foreign exchange and tax revenue to the national economy in supporting rural livelihoods, and growing local economies and access to basic needs.⁵

This importance of oil palm has led to an increase in the area of oil palm plantations from year to year. Farmers prefer oil palm because the income of oil palm farmers is higher than other plantation crops.⁶ So the interest of the community individually, farmer groups and cooperatives to participate in contributing to the development of oil palm plantations has caused clashes with other sectors. The clash is in the form of land expansion that is difficult to avoid, land conversion due to social jealousy due to past land tenure until the conversion is considered a threat to an area.⁷

⁴ Hero Marhaento, Eka Tarwaca Susila Putra, et. al., 2024, *Supporting Indonesia's Biodiesel Policy: Do We Need to Expand the Oil Palm Plantation*, Jakarta, Yayasan WWF Indonesia, p. 13

⁵ Almasdi Syahza et al., "What's Wrong with Palm Oil, Why Is It Accused of Damaging the Environment?," *Journal of Physics: Conference Series*, Vol. 1655, No. 1 (October 1, 2020), p. 012134.

⁶ Almasdi Syahza and Brilliant Asmit, "Development of Palm Oil Sector and Future Challenge in Riau Province, Indonesia," *Journal of Science and Technology Policy Management*, Vol. 11, No. 2 (January 1, 2020), p. 168.

⁷ K.G. Austin et al., "Shifting Patterns of Oil Palm Driven Deforestation in Indonesia and Implications for Zero-Deforestation Commitments," *Land Use Policy*, Vol. 69, No. 1, (December 2017), p. 45.

Data on the BPS of Riau Province based on business fields at current prices during the period 2020 - 2022, shows that the amount of production of the plantation sector of Riau Province has increased every year. It can be seen in table below:

Table 1.2 List on the Amount of Production of the Plantation Sector of Riau Province in 2020-2022

No	Sector	2020	2021	2022
1	Palm Oil	3,669,732 (Tons)	7,846,071 (Tons)	4,090,825 (Tons)
2	Coconut	377,807 (Tons)	392,433 (Tons)	393,732 (Tons)
3	Rubber	421,445 (Tons)	409,918 (Tons)	327,537 (Tons)
4	Coffee	2,423 (Tons)	2,417 (Tons)	2,401 (Tons)

Source: *Badan Pusat Statistik Provinsi Riau 2020-2022*

Table 1.2 shows that plantations in Riau Province have a role in improving the regional economy. The leading commodity in the plantation sector in Riau Province is Palm Oil. This can be seen from the development of the oil palm plantation area which has increased dramatically over the past decade and has the largest land area compared to other commodities. Riau Province has the largest oil palm plantation in Indonesia. The area of oil palm plantations in Riau in 2021 reached 3.387 million hectares (20.68%) of Indonesia's land area (BPS Riau, 2021).⁸ 57.6 percent of oil palm plantations in Riau are smallholder plantations (PR), 38.5 percent are large private oil palm plantations (PBS), and 3.8 percent are state-managed oil palm plantations (PBN). Most (85.8 percent) of the oil palm plantations in Riau are in the Mature Planting (TM) condition, with FFB production of 7,466,259 tons.

The plantation subsector business, especially the oil palm commodity, provides welfare opportunities for small-scale farmers, but on the other hand, these farmers are too ignorant of environmental impacts.⁹ However, oil palm plantations in Riau are also faced with various challenges, such as High deforestation and forest degradation, Land conflicts between companies and indigenous communities, and Unsustainable plantation management practices. Although palm oil plantations have an impact on the environment, there are

⁸Badan Pusat Statistik Provinsi Riau, 2021, *Statistik Kelapa Sawit Provinsi Riau 2021*, <https://riau.bps.go.id/publication/2023/01/20/76dd48cf80e9cc6fcd4de7/statistik-kelapa-sawit-provinsi-riau-2021.html>, (Accessed March 26, 2024, at 16:18 WIB).

⁹ Almasdi Syahza et al., "Restorasi Ekologi Lahan Gambut Berbasis Kelompok Masyarakat Mandiri Melalui Revegetasi Di Desa Tanjung Leban Kabupaten Bengkalis, Riau," *Riau Journal of Empowerment*, Vol. 4, No. 2 (August 31, 2021), p. 79.

positive impacts of palm oil plantations on the achievement of sustainable development goals (SDGs).

Oil palm plantations have built-in multifunctionality, namely economic, social, and environmental functions that other sectors outside agriculture do not have. With this multifunctionality, palm oil plantations contribute, both economically, socially, and environmentally, to the achievement of the SDGs (Sustainable Development Goals). Empirically, the contribution of the palm oil industry to the economy includes encouraging economic growth (national and regional), foreign exchange sources, and state revenues, while in social aspects, among others, in rural development and poverty reduction. The ecological role of palm oil plantations includes preserving carbon dioxide and oxygen cycles, land restoration, soil and water conservation, increasing biomass and land carbon stocks, and reducing greenhouse gas emissions/peatland restoration. With such a comprehensive paradigm, Indonesia's palm oil industry continues to grow within a sustainable perspective.¹⁰

The implementation of the EUDR harms Indonesia's vital plantation and forestry commodities, such as cocoa, coffee, rubber, wood products, and palm oil. In addition, the policy also denies the various efforts Indonesia has made regarding climate change issues to the protection of biodiversity as in multilateral conventions, such as the 2015 Paris Agreement. CPOPC (Council of Palm Oil Producing Countries) member countries have strictly implemented various

¹⁰ Andreas Budi Rahutomo, Mahawan Karuniasa, and Evi Frimawaty, "Peningkatan Produktivitas Lahan Pekebun Melalui Sertifikasi Kelapa Sawit Berkelanjutan Di Indonesia," *Analisis Kebijakan Pertanian*, Vol. 21, No. 1 (July 11, 2023), p. 50.

policies in the field of forest conservation. In fact, the level of deforestation in Indonesia fell by 75 percent in the 2019-2020 period. Indonesia also successfully reduced the area affected by forest fires to 91.84 percent.¹¹

This drives the urgency of regulating sustainable and environmentally sound palm oil plantations to meet the EUDR requirements and ensure market access for Indonesian palm oil products in the EU, Reduce the negative impacts of palm oil plantations on the environment and communities, and increase the competitiveness of Indonesian palm oil products in the global market, especially in Riau Province.

Based on the results of the author's pre-research, there is no comprehensive study that discusses the urgency and challenges of regulating sustainable and environmentally oil palm plantations in response to EUDR, especially in Riau Province. In the author's opinion, this topic is very urgent in determining the sustainability of sound palm oil production that meets EUDR criteria and The implementation of the EUDR does not harms Indonesia's vital plantation and forestry commodities any more.

Therefore, the researcher's focus in this undergraduate thesis defense is to identify the urgency and challenges of regulating sustainable and environmentally oil palm plantations in response to EUDR. From the description of the background of the problems described above, the researcher is interested in preparing a thesis with the title "**Urgency and Challenges of Regulating**

¹¹ Kompas, 2024, *Uni Eropa Coba Tekan Indonesia Lewat EUDR*, <https://www.kompas.id/baca/ekonomi/2023/06/01/siasat-uni-eropa-di-balik-eudr>, (Accessed on March 26, 2024 at 20:45 WIB).

Sustainable and Environmentally Palm Oil Plantations in Response to European Union Deforestation Regulation (EUDR): Study Case in Riau Province".

B. Problems Formulation

The author addressed two questions that needed to be answered in accordance with the study background details mentioned above:

1. Why is there an urgency to regulate sustainable and environmentally palm oil plantations in response to the EUDR?
2. How are the challenges in regulating sustainable and environmentally oil palm plantations in Riau Province?

C. Objectives of Research

In light of the research issue that was outlined earlier, the following are the objectives of this research:

1. Examine the urgency of regulating sustainable and environmentally sound palm oil plantations in response to the EUDR.
2. Identify and assess the challenges in regulating sustainable and environmentally sound palm oil plantations in Riau Province.

D. Benefits of Research

Given the objective of the research described above, there are some benefits of this research, namely:

1. Theoretical Aspects

The advancement of scientific knowledge, particularly in the field of law, the practical benefits involve the application of research findings to create more effective policies and strategies for managing sustainable and environmentally responsible palm oil plantation

2. Practical Aspect

The community recognizes the significance of overseeing sustainable and ecologically responsible palm oil plants.