

CHAPTER III

FACTS AND CAUSES OF EU DECISION TO STOP PALM OIL IMPORT

This chapter describes some facts about the accusations and issues circulating about palm oil that are not true. The black campaign called by various parties from European countries is a form of discrimination by hiding the truth. This chapter is also a proof of the hypothesis raised by the author regarding the protectionism of the local industry by imposing several regulations that harm palm oil producers.

A. Facts of Palm Oil Issue

Addressing the issues brought by the European Union in restricting palm oil, Indonesia issued a claim to refute the issue. Following are some of Indonesia's government claims to deny the black campaign carried out by the European Union:

- The biggest globally GHG (Green House Gas) emission is carbon dioxide gas which reaches 92% of total global GHG in 2011.
- The most significant sector in CO₂ emitters is global energy/fossil fuel consumption, this sector contributes 56% of the total, while land development is 12.2%.
- The biggest BBF emitters in the world are China, the United States, India, Russia, Germany, Canada, Japan, Britain, South Korea, and Iran. 4)
- The biggest GHG emitters from global agriculture are China, Brazil, India, the United States, the European Union, and Argentina.

- Deforestation of forests occurs in countries that have non-tropical forests, while for countries that have tropical forests tend to experience reforestation (Gabungan Pengusaha Kelapa Sawit Indonesia, 2013).

Several studies were conducted by the Indonesian government, in collaboration with the epistemic community to counter the promotion of the European Union in banning the use of oil palm. Even the Indonesian ambassador to the European Union, Arif Havas, at a seminar on the European Union always stressed the importance for Indonesian people to conduct research and promote Indonesian palm oil to the global arena. It is the culmination of Indonesia's dissatisfaction with the black campaign that has become widespread even as an ad on European television. Some foods even include palm oil-free logos on their packaging labels.

Furthermore, Riaz J. P. Saehu, an officer at the Indonesian Embassy in Brussels (Afrianti & Dewi, 2014) consider protectionism carried out by the European Union as an act of jealousy over oil palm plants which are difficult to grow on mainland Europe while in Indonesia palm trees can thrive. For this reason, he supports an animated film that advertises support for palm oil. In the film, the fact is that to be able to make vegetable oil, and oil palm requires an area of 9 million hectares. This area is less than the location of sunflower planting which requires 12 million hectares of land. Even though Europe has always relied on sunflower oil as a bio-oil (Afrianti & Dewi, 2014), then even though they are monoculture plants, oil palm can absorb more CO₂ from sunflowers. In addition to responding to accusations about palm oil which created the greenhouse effect, it explained that in reality, Indonesia's per capita emissions were 1.8 metric tons,

while the European Union had 7.5 metric tons. This can prove that the number of emissions that occur in Europe is more than what happened in Indonesia, which was initially alleged to contribute large-scale gas emissions due to the use of palm oil.

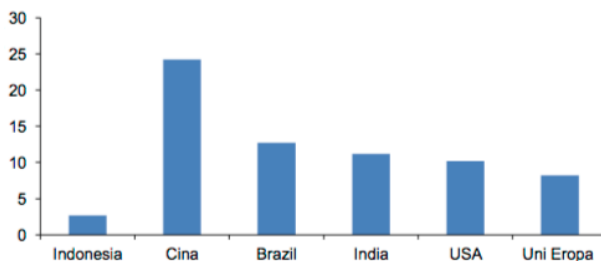
Amid its significant role in the economy and improving the welfare of the Indonesian people, the palm oil industry continues to face increasing challenges, especially regarding environmental issues. Carbon emissions and ecosystem damage from peatlands are the latest issues exhaled by various national and international NGOs. Therefore, the European Union gives considerable attention to this environmental issue and associated with the existence of global infrastructure. Oil palm plantations are not only developed on mineral soils but also peatlands, such as in Riau, Jambi, West Kalimantan, and Central Kalimantan. Although some peatlands are suitable for oil palm, the development of sawait coconut receives a variety of criticisms, mainly due to carbon emissions, both because of land burning during land clearing and peat decomposition. Indonesia is claimed to be the third largest emitter of CO₂ in the world, and the most significant contributor of emissions from agriculture, forestry, and peatland uses for other uses (GAPKI, 2017). Based on this, it is essential to understand that not all peatlands are suitable for oil palm. Land suitability evaluation must be done to select peatlands so that oil palm companies can be sustainable. The following are some facts about oil palm related to the issue of high carbon emissions produced by oil palm, deforestation and other environmental issues.

1. Carbon Emmision

Many environmental practitioners express their views on global warmong, such as Western environmental experts, in this case, Europe, have

often published that the primary cause of global warming is increasing carbon emissions (the main greenhouse gas). So that the most significant carbon emitting countries should be held accountable. According to the International Energy Agency (IEA, 2016) report, the most significant contributor to carbon emissions is from the consumption of fossil fuels (petroleum, coal and natural gas). About 70 percent of the world's total carbon emissions come from the consumption of fossil fuels. According to the IEA report, Europe (E-28) produces carbon emissions from fossil fuels consumed at 3160 million tons of carbon dioxide or 3.1 gigatons. If calculated carbon emissions per person of the European population is equivalent to 6.22 tons of carbon dioxide. While at the same time, the IEA report noted that Indonesia produces emissions from fossil fuels of only 436 million tons of carbon dioxide or 0.4 gigatons of carbon dioxide or for every Indonesian population to produce emissions equivalent to 1.7 tons of carbon dioxide.

Figure 5.3 Greenhouse Gas Emissions (%)



Source: (FAO, 2013)

Based on the data compiled by the IEA, it can be seen that European emissions are around

eight times greater than Indonesia. Then, what about European agricultural emissions compared to Indonesia? According to the United Nations Agriculture and Food Agency (FAO, 2014) report that European agricultural emissions are 8 percent of the world's total agricultural emissions or the world's most massive emitter sequence after China, India, Brazil and the United States. Indonesia's agricultural emissions are only 3 percent of the world's total agricultural emissions. Again, emissions are far higher than in Indonesia.

The area of Indonesia's oil palm plantations is only about 8.5% of the total forest in Indonesia (129 million ha), of which around 15% is in peatland. The area of oil palm plantations on peatland is around 11% of the total 14.9 million ha of peatland in Indonesia. Based on the percentage of oil palm plantations on relatively small peatlands it seems very excessive if it is accused of contributing much to global warming.

In the ecophysiological aspect, oil palm plantations are net absorbers of carbon dioxide (CO₂) gas, with the absorption of 64.5 tons CO₂/ha/year. This uptake is even higher than rain forest which is only 42.2 tons/ha/ year. The net data of CO₂ absorption is relatively the same as the results of the research of Harahap et al. (2008). Each agricultural development will cause a reduction in above ground biomass, both in oil palm, soybeans, rapeseeds, and other oil-producing plants. However, planting oil palm can replace above ground biomass faster and bigger than soybeans or rapeseeds, even the potential for oil palm biomass production is greater than tropical forests.

2. Deforestation

Deforestation occurs throughout the world to meet the needs of land for development, including in the European Union and North America. Study Mathew (1983) revealed that in the period 1600-1983, the area of deforestation in the subtropics, especially in Europe and North America reached 653 million hectares. Deforestation on the planet has occurred since time immemorial, as long as a human civilization on planet Earth. Study Elaine Matthews (1983) entitled: *Global Vegetation and Land Use: New High-Resolution Data Bases for Climate Studies* published in the *Journal of Climate and Applied Meteorology Volume 22: 474-487* reveals how deforestation occurs on planet Earth.

According to the study since the pre-agricultural period until 1980. Planet Earth has experienced deforestation throughout the ecosystem. Sub-tropical forests have experienced deforestation of 653 million hectares and tropical forests of 48 million hectares. Deforestation of sub-tropical forests mainly occurs in the European and North American regions (the United States and Canada). Besides deforestation or function changes also occur in other forest areas such as 213 million hectares of woodland.

Likewise, Scrubland has an area of 87 million hectares and grassland grasslands covering 647 million hectares. European regions are thought to have been earlier (even before the ice age) experiencing deforestation (Kaplan et al. 2009). Forests in the United States experienced massive deforestation during the period 1620-1920 In 1600, forests in the United States were estimated at around 400 million hectares and deforested until

early 1900. In 2010, the United States' forest area was around 300 million hectares, and 67% was forest secondary. FAO (2005) Citing the United States as the fifth largest country in the world that had lost its original forest before entering the 20th century. When President F. Roosevelt ruled the United States forest, only around 18 million hectares remained, especially in Alaska. So that Europe and the United States have long lost virgin forest along with the biodiversity of its inhabitants. If currently there are forests (as published by FAO) in the European and North American regions, they are artificial forests, namely former abandoned agricultural areas (due to urbanization) and left or re-planted into forest areas (Soemarwoto, 1992).

This phenomenon is easy to understand because the European and North American economies are no longer based on rural agriculture and the population working in the rural-agricultural sector is very little. It is therefore not surprising that FAO forestry statistics publish annually that forests in Europe and North America have increased due to reforestation. Including reforestation for protected forests and conservation, better known as High Conservation Value (HCV). For European and North American countries, deforestation in the past while now and in the future is the period of reforestation.

The EU commission has conducted a study of the link between consumption of commodities imported by EU and deforestation (embodied deforestation) or in economic terminology called harmful consumption (consumption diseconomies). In the study report of the European Commission (2013): *The Impact of EU Consumption on Deforestation*, in the period

1990-2008 the total world deforestation reached 239 million hectares spread in South America (33%), Africa (31%), Asia Southeast (19%), and other countries (17%). The causes of deforestation are for agricultural land (55%), natural disasters and fires (17%), infrastructure needs (4%), and others (24%).

The exciting thing about the European Commission study is that deforestation for the expansion of the most significant agricultural land is intended for food crops (crop production) which reaches 69 million hectares or 31% of total deforestation for agriculture 1990-2008 — then followed by the development of beef production (beef production) of 58 million hectares (24%), log products (logging) and others.

The study also revealed that in the 1990-2008 period for the food needs of the EU community (feeding the EU) it was met from the results of deforestation covering 10 million hectares in various countries. The details of the 10 million hectares include 41 percent (4.14 million hectares) of soybeans from Brazil, Argentina, Paraguay and 13 percent (1.3 million hectares) in the form of beef cattle ranches from South America while palm oil is only 0.8 percent (0.8 million Ha), namely from Indonesia and Malaysia. If specified per commodity / sector, the biggest drivers of deforestation for global agriculture in the 1990-2008 period were cattle farms (58 million hectares), expansion of soybean gardens (13.4 million hectares), expansion of corn (7.5 million hectares), especially in South America (Brazil, Argentina, Paraguay and surrounding areas). As for the expansion of global oil palm plantations which have been heralded by western countries

and NGOs, it turns out that only around 5.5 million hectares have been in that period. It is only about 10 percent of the total deforestation for beef cattle (ranch) (GAPKI, 2017).

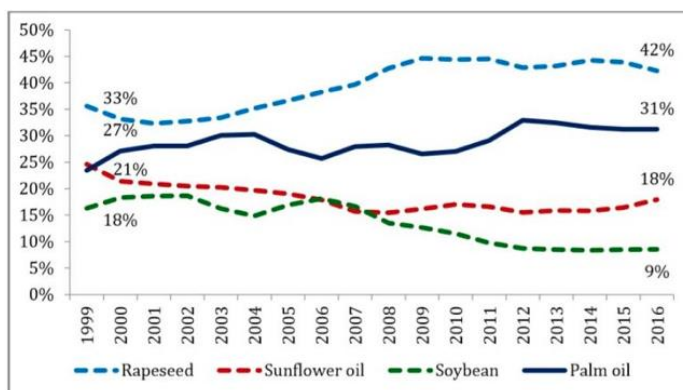
The European Commission study clearly shows that the accusations that oil palm expansion is the primary driver of global deforestation is a big lie. With the results of the European Commission study, it is evident that the most significant deforestation that supplies Europe is soybeans and beef. If the EU defines deforestation as a negative externality and uses a negative externality tax as a way of internalizing negative externalities, then it should also apply to soybean and beef imports from South America. The two EU import commodities reached 54 percent embodied EU deforestation. While palm oil from Indonesia and Malaysia contributes very little, which is only less than one percent.

B. EU Needs on Palm Oil

From the demand side, it can be seen the consumption patterns of CPO in the European Union. However, this commodity does not stand alone, because it has a connection with the consumption of other vegetable oils. The primary consumption of European Union vegetable oil is rapeseed oil (RSO). About a third of EU vegetable consumption in 2000 was rapeseed, and in the second position was palm oil (CPO) with a share of 27% and third place was soybean oil (21%), and SFO ranked lowest with 18% share. Until 2009, RSO consumption tended to increase by 599 thousand tons per year or an increase of 10% per year, but from 2009 to 2016, the average declined by 0.03% per year or classified as constant. Unlike the case with CPO, despite experiencing fluctuations, it appears that

consumption of CPO in the European Union tends to increase rapidly in the 1999-2009 period, by 9% per year or an average increase of 333 thousand tons per year, while in 2009-2016, it increases more slowly. Up 190,000 tons per year, up 3.23% per year (GAPKI, 2018).

Graphic 2.3 Patter of Vegatale Oil in EU (1999-2016)



Source: United States Department of Agriculture processed- (GAPKI, 2017)

However, unlike the case with SBO, wherein the period 1999-2009, consumption rose 6% per year or an average increase of 105 thousand tons per year, while in 2009-2016, it decreased 115,000 tons per year, or negative trend 4.26% per year. SFO consumption tends to be constant during the period 1999-2016, with an average consumption of 2.4 million tons per year. During the period 1999-2016, the consumption pattern of rapeseed oil rose from 27% to 42%, followed by palm oil (CPO) which rose from 27% to 31%, sunflower oil fell from 21% and soybean oil fell from 18% to 9%. When compared with the domestic capacity to meet vegetable oils, the fact is that the average growth of EU vegetable oil domestic products is 2.8%

per year, while the consumption growth rate is far higher, which is 4.8%. This situation creates a widening gap condition or widening gap between production and consumption. To meet domestic needs, because the amount is quite large, there is no choice but to import policy.

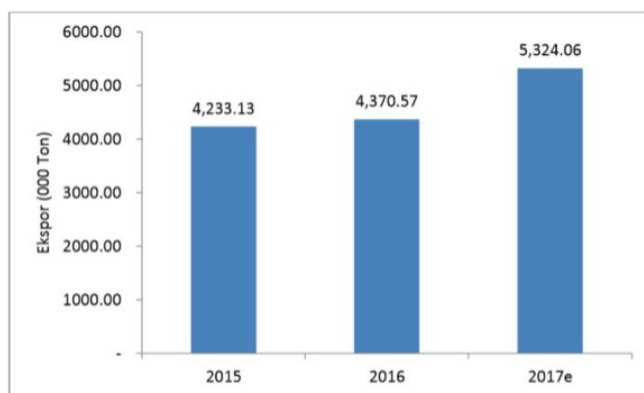
About two-thirds of domestic consumption can be met by domestic production, and about one third, the European Union is very dependent on imports. Sunflower oil, soybean oil and rapeseed oil, including commodities that are thin markets in the world vegetable market, because the volume that can be traded is relatively small (PASPI Vol 3 No 15/2017). In 2016, total CPO imports reached 7.2 million tons, followed by SFO 1.3 million tons, RSO 300 million tons and SBO 250 million tons. This gives an unmistakable message that CPO has a very high contribution in meeting the European Union's vegetable consumption. CPO contribution reaches 80% of total vegetable imports, while SFO is 14%, SBO 3%, and RSO 3%. From 2011 to 2016, the average Indonesian CPO exports to the European Union is around 60% per year and the rest by Malaysia. This data gives a strong message that Indonesia has a very high role in meeting the European Union's vegetable consumption.

While on the import side, the volume of EU CPO imports from Indonesia tends to fluctuate between months. From March 2015 to June 2016, CPO imports have a negative trend. This reflects the success of market pressure through the Palm Oil Free policy that affects end consumers. However, EU CPO imports have strengthened again, due to high demand to meet domestic industry needs, and this peaked until March 2017 and coincided with the European Parliament Resolution in April 2017. Indonesia has a high speed of response in response to these policies, including the lobby carried out and received a visit from the EU

delegation to Indonesia to see the conditions on the ground on the allegations in the resolution.

Based on the consumption pattern from October to December, projections can be carried out until December 2017 where Indonesia's CPO export trend will increase. The development of EU CPO imports from Indonesia can be briefly presented in the following figure.

Figure 6.3 Export Volume of Indonesian CPO to EU



Source: PASPI processed- (GAPKI, 2017)

The data above shows Indonesia's CPO exports to the EU tend to be flat in 2015-2018, which is an increase of 3.24%, while the growth of Indonesia's CPO exports to the European Union looks very significant, namely an increase of 21.82% compared to the previous year. Empirically, this fact shows that the pressure to slow down or stop Indonesian CPO exports in the global market is not easy to do. One explanation that affects the balance of supply-demand in the global market is the price elasticity factor, which is how much the response to changes in EU CPO imports every 1 percent price change.

The average monthly price elasticity of EU CPO imports from Indonesia shows that EU CPO import demand is elastic in the short term. In 2015, the average monthly elasticity was 20.37, meaning that if CPO prices fell 1 percent, then the volume of EU CPO imports would increase by 20.37%. Likewise with the elasticity of 2016, where a 1 percent price change succeeded in increasing EU CO import demand by 1.03%. This shows that during 2015-2016 prices have an important role and have an impact on changes in CPO imports in the European Union. However, in 2017, the elasticity coefficient has a positive sign. This shows, even though CPO prices rose, EU CPO import demand continued to rise, which amounted to 3.69% for every 1 percent increase in CPO prices. This shows that the dominant factor is the need for high vegetable oil because it is not able to be fulfilled by European Union domestic production. If analyzed further by comparing CPO prices with soybean oil prices (SBO), prices of rapeseed oil (RSO) and prices of sunflower oil (SFO) it will be seen that CPO prices are consistently lower compared to the three other vegetable oil sources.

In 2015, the price of soybean oil had approached CPO prices, namely 1.19 and in 2017 it decreased to 1.09 (closer to 1), meaning that the prices of SBO and CPO were not much different. However, when compared with the price of rapeseed oil, in 2015, the RSO / CPO price ratio was 1.39. This means, for example with the same money, the EU can import 1000 tons of rapeseed oil, equivalent to 1390 tons of CPO, and the European Union benefits as much as 390 tons of CPO. Likewise, the RSO / CPO ratio in 2017 is still relatively large at 1.28. By buying CPO, the EU benefited as much as 28 percent compared to buying RSO. The price ratio of relative sunflower oil is much higher, but the proportion of EU consumption as sunflower oil is relatively small (9%), while consumption of rapeseed oil is quite high and reaches a

share of 42 percent of the total consumption of plantations in the European Union.

From the market side, the price factor has a considerable influence on the decisions of EU CPO imports. The position of CPO in the European Union can be seen as a substitute, and CPO has a relatively lower price so that CPO flows rapidly to the European Union. Where in 2015, the CPO / RSO price ratio was 0.67. Where the price to buy 2 tons of RSO can get 3 tons of CPO. The European Union benefits as much as 1 ton, with the same amount of money. The second factor (besides price) that affects the demand for EU CPO imports is that the EU's level of vegetable consumption is relatively high and is related to European Union domestic industries. When the price ratio between CPO and RSO and with SFO approaches one, it turns out that the demand for CPO is still high, so this shows that CPO is also complementary to meet the demand for vegetable crops in the European Union. The third factor in terms of supply; CPO is not easily replaced by rapeseed because rapeseed oil includes thin markets in the global market. , and only a few can be traded into the global market. Although global demand is high, availability is low, and this includes influencing RSO prices relatively much higher than CPO. The fourth factor that succeeded in creating a positive trend in CPO exports to the European Union was the success of the government, both in the international lobbying of the European Union and the support of sustainability policies both ISPO and RSPO according to the demands of the European Union market.

C. Development of Renewable Industry in EU

There is an EU effort to encourage the growth of domestic vegetable oil, especially rapeseed, sunflower oil, and soybean oil. The European

Parliament also faces intense pressure from Farmers Rapeseed Oil (RSO) and Sunflower Oil (SFO) in the European Union to restore the position of these two commodities to become the dominant commodity in vegetable oil sources in Europe.

This then became the concern of European farmers and became an input for the European Parliament to protect its domestic interests. The EU Parliamentary Policy seeks to shift the supply curve to the right (by encouraging the world to plant and develop RSO and SFO), and on the other hand, shift CPO demand to the left, in an unfair way of business as a resolution to stop CPO consumption in the European Union. This policy has systematically begun with the policy of labeling "Palm Oil Free" and other similar policies (Kusumaningtyas). This supply-side policy is one of the insistence of vegetable oil farmers in the European Union and one of the factors that gave birth to the palm resolution issued by the European Parliament, on April 4, 2017, and endorsed the "Report on Palm Oil and Deforestation of Rainforests" at Strasbourg. (PASPI, Vol 3/16, 2017; Purba, 2017). The impact of this policy changes the estimated projection of CPO imports to the European Union. Consumption of Eroa Union vegetable oil is expected to have negative trends in the short term, especially the decline in CPO.

The European Union is one of the regions where many countries consume vegetable oils, both for food and non-food needs. However, in the European Union, palm oil is one of four other vegetable oils, namely soybean oil, rapeseed oil, and sunflower oil. Palm oil consumed in the EU is all imported from palm oil producing countries especially Indonesia and Malaysia. Whereas soybean oil, rapeseed and

sunflower oil, besides being imported, are mostly produced in the European region.

France is an EU member country that has the most development in its efforts to develop and produce sunflower seeds as vegetable oil. France began production for the first time in the 1960s. At the beginning until the end of the 70s was the early era of French success in the sunflower oil industry because it could produce as many as 11,600 tons of sunflower oil and developed rapidly in the late 1970s France could produce as many as 70,000 tons. The rapid development of sunflower oil production in France supported by the performance of the French government which decided to first open 100,000 hectares of sunflower plantations in 1975 with the aim of further developing the benefits of sunflowers. Then the number was extended to 850,000 hectares until 1986.

Next is Hungary. Hungary is one of the EU member countries whose development of the sunflower oil industry is entirely reasonable to date. In Hungary, the variation in change at the beginning of the '80s had influenced the increase in yields. Favorable changes in the variation in production structure and technology in developing sunflowers have led to an increase in sunflower areas. In 1974, the area of Hungarian sunflowers was 113,000 ha while in 1984 it was 317,000 ha. With a large area of sunflower farming, Hungary can develop its production system.

In the 1990s there was agricultural reform in the European Union and extreme climatic conditions at that time caused the market for sunflower oil to be unstable. This led to a decline in Hungarian sunflower oil production in 1991, which initially in 1990 Hungary was able to produce sunflower oil as much as 297,512

tons slumped the following year to 246,156 tons. Until 2013, Hungarian sunflower oil production had fluctuated the amount of production. This is because along with the changing years, the technology used by Hungary in developing seeds or processing of sunflowers has sufficient quality compared to other major producing countries. Agricultural reform, which is regularly carried out by the EU, is one of the factors that helped improve Hungarian agriculture. Agricultural reform by the EU is by providing agricultural subsidies (Pabst, 2013). About 40% of the EU's total budget used in agriculture. This budget is sufficiently utilized by Hungary to improve its industry and its sunflower farming.

D. Internal Condition in EU

The presence of commodities with larger production quantities and offering lower prices pose a severe threat to industrial players in Europe, especially for soybean, palm oil, and sunflower farmers, as well as European domestic companies that do not remain silent to see this phenomenon happen. The black campaign which spreads almost all of Europe and also strong protests from European farmers by conducting demonstrations and blockades demanding the EU to protect the sustainability of their agriculture.

One of organization initiated in 2010, European Renewable Ethanol (ePURE) supported by several European domestic agricultural production companies and ethanol producers in the EU has ambitions to create jobs and investment opportunities for the sustainability of the EU economy by exploiting the local potential in ethanol. ePure always gives a significant influence on decision making on EU institutions, especially in the field of renewable ethanol (Michalopoulos, 2016).

Based on the agricultural budget issued by the EU, farmers in the EU get a substantial subsidy, which is 59 billion euros or if it is estimated to be almost equivalent to IDR 1,000 trillion. Catherine Bearder, a member of the EU Parliament from the Liberal Democrats, revealed data that of the 45 members of the EU Parliament's agricultural committee, 25 of them were farmers, ex-farmers, or owned agriculture-related businesses (Stam, 2018). So, it is not surprising if the lobby conducted in smoothing the way for the soybean oil, palm oil and sunflower always provides a positive influence to support local agriculture or industry.

Local media reported that some EU Parliament members received funds of up to 5,000 pounds, equivalent to IDR 93 million per month from the agricultural business. Greenpeace itself acknowledges that farmers lobby input in EU decision-making processes is stinging actively. While the EU vegetable oil industry has a strong lobby position, of which there is the European agricultural giant Avril Group. According to EU Transparency Register data, Avril has a budget of 4.8 million euros or around IDR 78 billion per year with 76 professional lobbyists to lobby the interests of the vegetable oil industry in the EU. One of the massive lobbies used by farmers and the vegetable oil industry in the EU is the weakening of palm oil by raising non-trade issues such as health, environment, labor, et cetera. This aims to shift even to stop using palm oil as vegetable oil on the EU market.