



Government Policies and Their Impact on Palm Oil Agribusiness

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Abstract

This study aims to analyze government policies and their impacts on palm oil agribusiness in Indonesia. Palm oil is a strategic commodity that plays an important role in the country's economy, but it also faces various challenges related to environmental, social, and economic aspects. This study uses literature study methods, conceptual analysis, and documentation to explore government policies that affect this sector, as well as their impacts on the sustainability and competitiveness of palm oil agribusiness. The results of the study show that policies involving aspects of regulation, licensing, sustainability certification, and land management have significant impacts, both positive and negative. Policies that support the sustainability of palm oil production, such as the implementation of ISPO (Indonesian Sustainable Palm Oil) and a moratorium on land expansion, contribute to improving the image and competitiveness of the industry. However, inconsistent policy implementation and lack of supervision often hinder the achievement of sustainability goals and invite criticism from various parties, both domestic and international. In addition, policies related to taxes, trade, and economic incentives also affect market dynamics and profits for palm oil agribusiness actors. This study suggests the need for improvements to government policies that are more inclusive and based on sustainability principles to support the growth of a more environmentally friendly and sustainable palm oil agribusiness.

Keywords: Government policy, palm oil agribusiness, impact, sustainability, ISPO, literature study

1. INTRODUCTION

Palm oil (*Elaeis guineensis*) is one of the plantation commodities that has a great contribution to the Indonesian economy. As the world's largest palm oil producer, Indonesia plays a vital role in global palm oil production and trade. Based on data from the Indonesian Palm Oil Entrepreneurs Association (GAPKI), palm oil contributes more than 20 million tons of annual exports and provides millions of jobs, both directly and indirectly, for the people of Indonesia (GAPKI, [2022](#)). However, palm oil agribusiness faces serious challenges, especially related to sustainability issues, deforestation, and its impact on the environment and surrounding communities.

The palm oil agribusiness sector cannot be separated from government policies that play an important role in regulating and directing palm oil production and management

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practices. These policies, both in the form of national regulations and those implemented in international frameworks, cover various aspects such as sustainability certification, natural resource management, and land expansion licensing. Along with increasing global awareness of environmental issues, the Indonesian government is increasingly tightening regulations related to the sustainability of the palm oil industry. One of the important initiatives is implementation of ISPO (Indonesian Sustainable Palm Oil) certification, which aims to encourage environmentally friendly and socially responsible production practices (Ministry of Agriculture, [2020](#)).

However, government policies also have a mixed impact on the palm oil agribusiness sector. On the one hand, policies that support sustainability, such as a moratorium on land expansion and the implementation of certification standards, can improve the competitiveness of the palm oil industry in a global market that is increasingly concerned about sustainability. On the other hand, inconsistent or poorly coordinated policies can lead to an imbalance between economic and environmental interests, which ultimately negatively impacts the sustainability of the sector (Rist et al., [2010](#)). Therefore, it is important to conduct an in-depth study of the impact of government policies on palm oil agribusiness.

This study aims to analyze various government policies related to palm oil agribusiness and their impact on the sustainability and competitiveness of the industry. The methods used in this study are literature study, conceptual analysis, and documentation, which allow to identify the relationship between the policies implemented and the real conditions that occur in the field. In addition, this research will also explore the potential for policy improvements to support the continuity and sustainability of palm oil agribusiness in Indonesia.

2. METHOD

This study uses literature study methods, conceptual analysis, and documentation to analyze government policies and their impact on palm oil agribusiness in Indonesia. This method was chosen because it allows for the collection and analysis of relevant information from various existing written sources, as well as provides a deeper understanding of the policy dynamics affecting the palm oil sector.

1. Literature Studies

The literature study method is used to collect information from a variety of written sources, including scientific journals, books, policy reports, government documents, as well as publications from international organizations and non-governmental organizations. This literature study aims to explore and summarize various researches relevant to government policy topics related to palm oil agribusiness, as well as understanding the social, economic, and environmental contexts that accompany these policies. This process is carried out by looking for sources published in the last ten years to ensure the relevance and depth of the information obtained.

2. Conceptual Analysis

Conceptual analysis is used to understand theories and concepts related to government policies, palm oil agribusiness, and sustainability. In this case, conceptual analysis refers to the study of the relationship between government policies and the impact on the palm oil agribusiness sector. Some of the main concepts analyzed in this study include sustainability, policy efficiency, and the social and economic impact of policies implemented by the government.

This analysis also includes an understanding of the implementation of policies such as ISPO (Indonesian Sustainable Palm Oil) certification, land moratoriums, and trade and tax policies related to palm oil exports. Through a conceptual approach, researchers can explore whether existing policies are in accordance with sustainability principles and how these policies affect agribusiness actors, local communities, and the environment.

3. Documentation

The documentation method is used to obtain secondary data sourced from various official documents, such as laws and regulations, government policies, as well as reports and statistics related to palm oil published by government agencies and related organizations. This documentation is an important part of obtaining an overview of the policies implemented by the Indonesian government, including those related to natural resource management, sustainability certification, and palm oil industry regulations. In addition, documentation also includes reports on the implementation of policies that can provide insight into the effectiveness of the implementation of these policies in the field.

4. Data Collection Methods

The data collection process is carried out by searching and reviewing relevant literature from various scientific databases such as Google Scholar, JSTOR, and Scopus. In addition, policy documents issued by the Indonesian government, such as the Ministry of Agriculture, the Ministry of Environment and Forestry, and other supervisory agencies, are also analyzed in depth. Data from reports from international organizations such as UNDP and the World Bank were also used to enrich the analysis of the impact of government policies on palm oil agribusiness in Indonesia.

5. Data Analysis Methods

The data obtained from literature and documentation studies will be analyzed qualitatively with an analytical descriptive approach. The researcher will identify emerging patterns in government policies related to palm oil agribusiness and their impact on the sector. Furthermore, conceptual analysis is used to relate these policies to sustainability theories and market dynamics. The results of this analysis are expected to provide a clearer understanding of the relationship between government policies and their impact on the sustainability of palm oil agribusiness in Indonesia.

6. Research Limitations

This research has several limitations, including limited access to data and reports from the private sector or companies that may not be publicly published. In addition, despite using relatively recent literature, it is possible that recent policies have not been fully reflected in this study. Therefore, the findings produced in this study are expected to

provide an overview of the impact of government policies on palm oil agribusiness, although it cannot fully cover all existing aspects.

3. RESULTS AND DISCUSSION

Impact of Government Policy on Palm Oil Agribusiness in Indonesia

Indonesia, as the world's largest palm oil producing country, has quite complex policies in regulating the palm oil agribusiness sector. The policy covers various aspects, ranging from licensing, land management, sustainability certification, to international trade. Based on the literature and documentation studies conducted, Indonesian government policies can be divided into two main categories: policies that support the sustainability of the palm oil industry and policies that pose challenges to the sector.

a. Policies that Support the Sustainability of Palm Oil Agribusiness

Sustainability policies, such as the implementation of ISPO (Indonesian Sustainable Palm Oil) certification, are one of the government's efforts to improve the quality and competitiveness of Indonesian palm oil in the global market. ISPO certification is designed to ensure that palm oil production practices in Indonesia meet high social and environmental standards. Based on research conducted by Rist et al. ([2010](#)), the implementation of ISPO is expected to improve the image of Indonesia's palm oil industry, which is often criticized for its deforestation practices and human rights violations.

In addition, the moratorium on oil palm land expansion, which has been implemented since 2011, has also had a positive impact on reducing the conversion of forest land into oil palm plantations. This moratorium aims to halting new permits for land clearing in primary forest areas and peatlands, which are considered important steps to protect biodiversity and reduce greenhouse gas emissions. According to the Putri, this moratorium has proven to reduce the rate of deforestation in Indonesia, although challenges in implementation in the field still exist (Putri, [2022](#)).

Policies That Cause Challenges for Palm Oil Agribusiness However, government policies

One of the main issues is uncertainty in licensing and policy implementation that is inconsistent between the central and regional levels. For example, although a moratorium on land expansion has been implemented nationally, its implementation is often inconsistent at the local level, with some regions still granting permits for land conversion contrary to the policy (Putri, [2022](#)). This uncertainty creates an imbalance between industry players who need legal certainty and government efforts to protect the environment.

In addition, policies related to taxes and economic incentives also affect the competitiveness of the Indonesian palm oil industry in the global market. Many major palm oil consumers, such as the European Union, have introduced policies restricting palm oil imports on environmental sustainability grounds, including regulations requiring sustainability certification or the imposition of additional tariffs on products that do not meet certain environmental standards. This threatens the competitiveness of

Indonesian palm oil, most of which still do not fully meet the sustainability standards desired by the international market (Putri, [2022](#)).

The Impact of Policy on the Sustainability and Competitiveness of Palm Oil Agribusiness

The impact of government policies on the sustainability and competitiveness of Indonesia's palm oil agribusiness is highly dependent on how the policy is implemented and how effective the monitoring is. Based on conceptual analysis, the sustainability policies implemented, such as ISPO and land expansion moratorium, have the potential to increase the competitiveness of the industry in a global market that is increasingly paying attention to sustainability factors. However, the effectiveness of this policy is highly dependent on the government's commitment to ensuring that the policy is implemented consistently at all levels of government.

Based on the results of the documentation and data obtained, although there are policies that support sustainability, the implementation of these policies is often hampered by challenges in supervision and law enforcement. For example, although ISPO certification is mandatory for all oil palm plantation companies, many small companies have not been able to meet these requirements due to limited resources and knowledge. This causes gaps in policy implementation that can have an impact on the overall sustainability of the palm oil sector.

In contrast, policies that focus more on economic aspects, such as fiscal incentives and subsidies for exports, while boosting short-term competitiveness, often do not consider long-term environmental impacts. Without clear and integrated policies, Indonesia's palm oil sector could face the risk of natural resource degradation and loss of international markets. increasingly stringent on sustainability issues (Rist et al., [2010](#)).

The Government's Role in Directing the Palm Oil Sector Towards Sustainability

To drive the palm oil agribusiness sector towards better sustainability, the Indonesian government needs to improve and strengthen existing policies, as well as integrate sustainability aspects in economic and environmental policies holistically. First, the government needs to ensure that certification policies, such as ISPO, are better implemented, for both large and small companies. Counseling and technical support for small-scale oil palm farmers is essential so that they can meet sustainability standards.

Second, it is necessary to strengthen supervision of palm oil production practices, especially at the regional level, which is often a gap in policy implementation. The government can strengthen coordination between various government agencies, both at the central and regional levels, to ensure that policies are implemented uniformly and effectively.

4. CONCLUSIONS AND SUGGESTIONS

This study aims to analyze the Indonesian government's policies and their impact on palm oil agribusiness, with a focus on aspects of sustainability and industrial competitiveness. Based on the results of analysis from literature studies, conceptual analysis, and documentation, it can be concluded that Indonesian government policies

have a significant influence on the development of the palm oil sector, both in positive and negative aspects.

Based on the findings and analysis in this study, some suggestions that can be submitted for improving government policies in supporting the sustainability of Indonesia's palm oil agribusiness are as follows: a) The government needs to strengthen supervision of policy implementation, especially sustainability policies such as ISPO and land expansion moratorium. Stricter enforcement of laws against policy violations, as well as increased coordination between the central and local governments, will increase the effectiveness of existing policies. In addition, the government needs to provide technical support and training to companies and oil palm farmers, especially small ones, to comply with sustainability standards. b) One of the major challenges in the palm oil sector is the high number of smallholders who do not have adequate access to adopt sustainable practices. Therefore, the government needs to improve extension programs and provide incentives for smallholders to obtain ISPO certification. More comprehensive counseling can help them understand the importance of sustainability in improving competitiveness and international market access.

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