Indonesia’s Economic Diplomacy in Facing Red (Renewable Energy Directive) and European Union Palm Oil Policy

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Abstract

This study aims to examine Indonesia’s economic diplomacy efforts in dealing with the Renewable Energy Directive (RED) and palm oil policies in the European Union. This economic diplomacy effort is a step to deal with the impact caused by policies implemented by the European Union. The method used is descriptive qualitative with data collection techniques in the form of literature review related to the problem under study. This literature includes books, journals, written reports, articles, news collections on the internet, and documents related to the object of research. Furthermore, the data analysis technique used is qualitative. The results found that in dealing with the policy, Indonesia used commercial diplomacy by cooperating with stakeholders to form FokSBI, as well as making ISPO policies and suing the European Union regarding its claims.

Keywords: Economy Diplomacy, Renewable EnergyDirective, ISPO, Palm Oil Exports
INTRODUCTION

In European Union countries, there is an increase in the consumption of biofuel renewable fuels. Based on data compiled by Eurostat, the amount of increase in biofuel by the 28 EU member states in the period 2011 to 2018 reached 1,198.78 tons at the highest value and 1,003.45 tons at the lowest value (Eurostat, 2020). This is directly proportional to the efforts of producer countries to increase oil palm production such as Indonesia. One of the efforts made by Indonesia is to expand its oil palm land. Palm oil is an environmentally friendly vegetable oil, as palm oil trees require much less land to produce the same plant productivity as other oils (Indrapraja, 2018). Palm oil is extracted from the fruit of the oil palm tree, palm oil requires a lot of sunlight, hot temperatures, and high rainfall, so it can only grow in tropical regions or countries. Indonesia is one of the main producers of palm oil, accounting for nearly 85% of the world’s palm oil production. The positive prospect of palm oil in the world vegetable oil trade encourages the Indonesian government to encourage the development of oil palm plantation areas (Risal, 2018).

In Indonesia, oil palm has been a proud plantation product since 1970 because it contributes the highest non-oil and gas foreign exchange to the state budget post of 300 trillion rupiah (GAPKI, 2018). The strategic value of Indonesia’s palm oil production is directly proportional to the palm oil expansion policy. In 2013 the land area was 10.47 million hectares and in 2018 it was 14.03 million hectares. This large land area is divided into three lands owned by the people, the private sector, and the
state (Badan Pusat Statistik, 2018). This increase in land area has boosted Indonesia’s economic growth, created jobs, increased farmers' income, and created added value for the palm oil management industry. With the large amount of oil palm plantation expansion in Indonesia, conflicts between corporations and communities as well as environmental impacts and events have also occurred in the region. This condition is also accompanied by criticism from stakeholders such as NGOs from both affected countries and the European Union itself.

In general, criticisms from NGOs are divided into three points (World Rainforest Movement, 2014). The first is the conflict over land that occurs between corporations and local communities. With the existence of legal loopholes and weak field enforcement, oil palm producing corporations often make claims to indigenous territories. Second, oil palm plantations are considered to require large amounts of water availability and pollute water sources, especially rivers and lakes used by the community for daily needs. Land clearing of forest areas for oil palm plantations is considered to jeopardize food security for people who depend on food sources and livelihoods on the land. Third, oil palm plantations are one of the contributors to greenhouse gas emissions through direct and indirect land use change impacts.

In 2014, India's palm oil exports in the EU market reached 33.85 percent which is the second largest export destination country after India (49.96 percent) (UN Comtrade, 2016). This shows that the EU is a potential market although it still has a market share below India. In order to stabilize and even increase furniture exports in the EU market,
appropriate policies are needed in relation to the crude palm oil market in the EU. One of the negative side effects of palm oil production (apart from its impact on public health due to high levels of saturated fat) is that the palm oil business is a major driver of deforestation in countries such as Indonesia and Malaysia. Indonesia is the largest emitter of greenhouse gases after China and the United States (Indonesia Investment, 2015). This has led to various black campaigns about Indonesian crude palm oil in Europe that Indonesian crude palm oil is not environmentally friendly.

In the process of land use change for oil palm plantations, deforestation, destruction of peatlands with high carbon content, and forest burning occur. Therefore, biofuels derived from palm oil are considered to fail in their goal of reducing greenhouse gases, but instead exacerbate climate change. Indonesia's palm oil production practices that are not environmentally friendly have caused several countries to respond to the issue (Saragih & Rahayu, 2022). The largest responses were made by the United States and the European Union, the most persistent response being from the European Union because it is the region with the lowest levels of carbon dioxide emissions. The response is in line with the EU’s renewable energy policy known as the Renewable Energy Directive (RED). RED is a policy issued by the European Parliament to mitigate the impact of the use of non-renewable energy (fossil fuels) which has an impact on global warming or greenhouse gas contribution (Suwarno, 2019).

The RED policy limits the use of palm oil-based biofuels because
the carbon savings from CPO-based biofuels are considered to have failed to meet the target set by the European Union of 35 percent. This restriction on the use of CPO-based biofuels could reduce the value of Indonesia’s palm oil exports to the EU. Making a distinction between biofuels based on these criteria is not in accordance with the disciplines set by the WTO because the closure of biofuels can affect international trade. Indonesia’s palm oil exports are dominated by the markets of India, the European Union, Singapore, Malaysia, and Kenya.

(Chohan, 2021) explained that in economic diplomacy, the government reconciles three forms of tension, namely (1) tension between politics and economics; (2) tension between domestic and international pressures; and (3) tension between the government and other actors, including private business actors and non-governmental organizations. Looking at the first form, the palm oil issue is not only perceived as an economic issue but more importantly a political issue. In this case, it is the influences that are raised through EU policies towards palm oil producing countries. Economic diplomacy is closely related to economic problems faced by a country with other countries or other entities related to the economy or politics of a country (Iwf, 2021). Economic diplomacy cannot be separated from a country’s domestic problems that are influenced by various business circles or business actors. Based on the explanation above, the purpose of this research is the implementation of economic diplomacy carried out, to see efforts to deal with the Renewable Energy Directive (RED) and the European.
LITERATURE REVIEW

Renewable Energy Directive (RED)

Renewable Energy Directives (RED) is a policy that regulates the recommended use of renewable energy for countries in the European Union. One of the discussion points is to limit the consumption of palm oil as a renewable energy source. This restriction policy has drawn a lot of criticism from palm oil producing countries, especially Indonesia, because the European Union is considered to discredit palm oil products for economic interests. In this chapter the author argues that the RED policy did not come in a short time. The RED policy was born through a series of policies based on environmental goals (Arief et al., 2020).

The RED policy is part of an accumulation of renewable energy policy measures in the European Union. Renewable energy is at the core of the Energy Union’s 5 dimensions of energy security, energy efficiency, competitiveness, emissions reduction and global leadership through innovation. As such, the EU-wide renewable energy targets for 2030 set by the European Council in October 2004, based on the Commission’s proposals and supporting analysis presented in the 2030 Framework for Climate and Energy and the Energy Union Framework Strategy are key to achieving the Energy Union priorities.

The RED II policy defines several sustainability and Greenhouse Gas (GHG) emissions criteria that liquid biofuels and biofuels that can be used for transportation must comply with in order to be counted towards the overall Renewable Energy Resources target and be eligible for support from public authorities. Some of the criteria provided by RED II are inherited from the

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previous RED policy, while others are newly re-programmed. In particular, RED II introduces several sustainable and GHG criteria for solid and gaseous biomass fuels used for power generation, heating and cooling, as well as for transporting biofuels.

Renewable Energy Directive II (RED II) bans the use of palm oil and closes the opportunity for Indonesia and Malaysia to export their palm oil production. The EU still uses other biofuels such as sunflower oil that they produce themselves. The reason for the ban is that the EU claims palm oil production causes a lot of deforestation in Indonesia and Malaysia. Leaving the Indonesian palm oil market causes smallholders to suffer as Indonesia is the largest exporter to EU countries. Almost 85% of palm oil in EU countries comes from Indonesia.

**RESEARCH METHOD**

The type of research used by the author is descriptive qualitative. This method explains the impact of the European Union's Renewable Energy Directive (RED) policy on the management of Indonesia's palm oil industry. This study describes Indonesia's policy in response to the European Union's environmental policy. This study uses descriptions based on empirical facts accompanied by supporting arguments, then the description will be analyzed to draw analytical conclusions. The data collection technique used in this research is through the literature study method or literature review, as a way of collecting data by examining various literature sources related to the problem under study. Including books, journals, written reports, articles, news collections on the internet, and documents related to the object of research.
Furthermore, the data analysis technique used is qualitative. In qualitative analysis techniques, problems are described and explained based on data and the relationship of existing facts to each other so that conclusions can be drawn.

RESULTS AND DISCUSSION

Indonesia's Palm Oil Export Policy in the European Union

In the era of globalization, countries are competing to show their existence in the international world. This is no longer through war (hard power) but through cooperation (soft power). One form of mutually beneficial cooperation is international trade. This is what Indonesia is doing with the European Union countries. This relationship has great potential to be improved, especially in terms of exports and imports. Crude Palm Oil or CPO is one of the most important commodities in international trade because CPO is a substitute for some non-renewable resources (Dewani, 2023).

CPO is an exclusive commodity because it is mostly grown in tropical countries and a few sub-tropical countries. With a limited growing area, CPO has a growing demand in the international market. Thus, as the world’s first largest CPO producer, Indonesia is also faced with several problems.

Indonesia’s bargaining position is still relatively low due to environmental issues that cannot be separated from CPO. In addition to environmental issues, there are also policies that are considered to hinder palm oil exports. This policy is a policy made by the European Union. On April 4, 2017, the European Union Parliament issued a resolution on palm oil and rainforest deforestation. The resolution titled Palm Oil and Deforestation of the Rainforests was proposed based on allegations that the development of the

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palm oil industry is the main cause of deforestation and climate change. The end goal is to ban the import of palm oil that is incompatible with sustainable development and its derivative products by 2020 into the EU (European Parliament, 2017). This resolution or policy was pushed because the EU claims that palm oil production causes a lot of deforestation in Indonesia and suggests investing palm oil commodities into other commodities such as sunflower or canola. This is because the EU still uses other biofuels from sunflower oil that they produce themselves (Suwarno, 2019).

This was done by the European Union in an effort to maintain its role in fighting climate change, making the shift to green energy, limiting global warming, achieving balanced resources, minimizing greenhouse gases, developing sustainability, and eradicating poverty. Some of the criteria for biofuels in RED II are similar to RED I. Meanwhile, several new policies or regulations have been formulated. In particular, RED II introduces sustainability criteria for forest raw materials as well as GHG (greenhouse gas) for solid and gaseous biomass. The use of biofuels derived from "high risk of indirect land use change" or better known as ILUC is not permitted. Likewise, forest sustainability and greenhouse gas emission levels are a major concern (Moenardy et al., 2021).

The resolution highlights a number of issues that have plagued Indonesia’s palm oil industry and have become the main focus of western countries in recent years. In addition, the resolution also urges that palm oil not be included as a feedstock in the EU’s 2020 biodiesel program.

The Renewable Energy Directive (RED) regulates the use of renewable energy in the European Union, with CPO or palm oil removed as a biofuel
source due to its high emission levels, although it has not yet been finalized. On the other hand, data from palm oil exports to the EU shows that the need and demand for Indonesian palm oil continues to grow over the years (Rifin et al., 2020).

Impact on Indonesia's Palm Oil Exports

As explained, the Renewable Energy Directive II (RED II) banned the use of palm oil and closed the opportunity for Indonesia and Malaysia to export their palm oil production. The EU still uses other biofuels such as sunflower oil that they produce themselves. The reason for the ban is that the EU claims palm oil production causes a lot of deforestation in Indonesia and Malaysia. This of course has an impact on the export of Indonesian and Malaysian palm oil to the EU market.

Based on existing data (2008-2015) claims that the European Union shows that there is a link between palm oil and the highest levels of deforestation with 45% of palm oil expansion occurring in areas with the highest carbon stocks (European Union, 2016). With this data, palm oil cannot be included in the RED II sustainability criteria. Meanwhile, according to GAPKI, the biggest EU import commodities related to deforestation are soybean and beef which account for 54% of palm oil. This of course contradicts the EU’s claims.

"The Indonesian government must prepare for the RED II regulation because this regulation will have a negative impact on the palm oil industry in Indonesia. It is important for us to further explore Indonesia’s preparation and legal position in facing the implementation phase of the EU-RED II," Sondang said.

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This RED II regulation has several negative impacts on Indonesian palm oil. As in the case of palm oil exports to European countries could decline. This was revealed by Sondang in a press release. He argued that, "The impact of RED II and DR policies on Indonesian palm oil is the decline in palm oil exports to European countries. If so, Indonesia will lose an important market for palm oil commodities and there will be a decrease in demand which results in lower commodity prices, so that there will be a 'snowball effect' on the EU policy."

In addition, Indonesia is still considered slow in adjusting to this new policy. This can be seen from the volume of Indonesian palm oil exports which began to stabilize eight months after the RED policy. Thus, steps or efforts are needed so that Indonesia can immediately respond when it gets a surprise like this in the future (Nasution & Wulansari, 2019).

Due to the creation of the RED policy, Indonesia has filed a lawsuit against the European Union for restrictions on palm oil. Here are some of the Indonesian government's claims that refute the EU's smear campaign: first, The world’s largest emitter of carbon dioxide is greenhouse gases, which in 2011 accounted for 92% of the world’s greenhouse gas emissions; second, The largest CO2 sector is global energy consumption/fossil fuels, which accounts for 56% of the total, whereas land expansion only accounts for 12.2%. Third, the countries with the highest BBF emissions in the world are China, Russia, the United States, Japan, India, Canada, Iran, Germany, South Africa and the United Kingdom; fourth, the most agricultural emitters in the world are India, Brazil, China, Argentina, the United States, the European Union; and fifth, deforestation tends to occur in countries that have non-tropical forests,
whereas in countries that have tropical forests there is a tendency to regenerate forests (reforestation) (Andrianto, 2020).

Seeing this serious impact, there is a need for efforts or steps that can be taken by the government in dealing with RED.

**Indonesia's Economic Diplomacy Efforts in Response to RED**

The Indonesian government responded to the European Union's Renewable Energy Directive (RED) policy by making efforts through commercial diplomacy which is part of economic diplomacy. Commercial diplomacy is part of economic diplomacy with a focus on 4 main activities, namely trade promotion, making trade agreements, discussing multilateral trade issues and promoting foreign direct investment (Setiawan, 2020).

Diplomacy according to (Immara Nuur Alfianisa, 2021) is the application of intelligence and wisdom of activities or official relations established by the inter-government of a country with other sovereign countries, sometimes it can also be done by sovereign countries with vassal countries. A vassal state is a sovereign state that is subject to another state that is its parent state (Bendix, 2017). In other words, diplomacy is done by influencing a decision or view of another party through negotiation or other means by avoiding acts of violence to achieve goals. (Arystankulova, 2018) assumes that economic diplomacy is related to how a country makes and takes decisions with the use of economic instruments to realize economic interests through spreading the impact on situational and economic policies that exist in other countries and certain international organizations.

Meanwhile, according to (Meilina & Oktavian, 2022), economic diplomacy is a set of activities (both related to methods and processes for
making international decisions) related to cross-border activities (exports, imports, investments, loans, aid, and migration) demanded by local and non-local actors in the real world. Based on the definition mentioned, economic diplomacy is an important element for a country to manage economic relations with the outside world because international economic decisions do not occur in a vacuum that only depends on market forces as assumed by neoclassical economists. In this understanding, economic diplomacy then becomes an important weapon for states to cooperate or conflict in the international system.

The main objective of commercial diplomacy is to represent the country in promoting its trade products in the international market (Lorensia et al., 2022). Actors involved in commercial diplomacy include government officials, including ministries connected to trade activities, as well as diplomats/ambassadors and outside the government there are business actors. With commercial diplomacy, diplomacy activities are said to be more targeted because they are carried out directly by interested actors, and are more powerful because they are informal, so that conversations can be built more intensely when exchanging information and can reduce tension during negotiations. In commercial diplomacy, the state is the main actor, although it is the main actor, the state is not the sole actor but there is the role of the private sector, business people, individuals, the international trading system (Hadiwinata, 2017).

In President Joko Widodo’s statement (2020) that the Ambassador of Indonesian representatives abroad has a new task, namely conducting economic diplomacy, with an emphasis on focusing 70%-80% of diplomacy activities directed towards economic diplomacy. Indonesia’s foreign policy...
priorities in 2021 concentrate on 5 things, strengthening economic diplomacy, protection diplomacy, sovereignty and nationality diplomacy, increasing Indonesia's contribution and leadership in the region and the world, and strengthening diplomatic infrastructure. Addressing discrimination in Indonesia's palm oil industry is part of the focus of economic diplomacy.

Commercial diplomacy activities are divided into two:

1. Activities related to trade policy-making activities. Such as making trade cooperation policies, attending or conducting an official international meeting to conduct negotiation process, trade consultation, or trade barrier settlement.

2. Business support activities, such as carrying out trade promotion activities through involvement in trade fairs, seminars and the creation of promotional campaigns as an effort to build a positive image of the country as well as conducting official visits to support business activities.

Various efforts made by the Indonesian government in dealing with CPO export restrictions in the RED II policy are described using two forms of commercial diplomacy activities that are expected to influence the European Union government to review the RED II policy.

According to (Chairunisa & Haryanto, 2020), which analyzed the interaction between RED and ISPO found that the RED policy causes trade barriers. In addition, the interaction of these two policies is a related policy because given that the ISPO was formed in response to the RED so as to prove that palm oil is in accordance with the principle of environmental protection.

The EU is very concerned about sustainable energy as stated in the 2009 European Union Renewable Energy Directive (EU RED) on sustainable palm oil. In response, the Indonesian government also issued a regulation known as
the Indonesian Sustainable Palm Oil (ISPO).

The implementation of ISPO with criteria that can indirectly fulfill the Renewable Energy Directive policy both in the issue of saving greenhouse gas emissions and land use criteria is thought to be able to provide certainty to the market in the European Union that palm oil production in an environmentally friendly way and the land used meets the standards, besides that it can save existing greenhouse gas emissions. The existence of ISPO can not only convince the European Union that Indonesian palm oil that has an ISPO certificate has met the Renewable Energy Directive criteria, but can also increase the productivity of Indonesian palm oil so that it can increase the value of Indonesian palm oil exports (Khairunisa & Novianti, 2018).

In addition, in the face of international regulations related to restrictions on palm oil production, the Government of Indonesia together with relevant stakeholders formed FoKSBI (Indonesian Sustainable Palm Oil Forum) to strengthen cooperation between various parties. Sondang explained that FoKSBI aims to accelerate the development of sustainable palm oil in Indonesia through increased multi-stakeholder cooperation, namely the government, business actors (entrepreneurs and planters), associations, and social community organizations (Kementerian Perdagangan, 2019).

CONCLUSION

Palm oil is Indonesia’s highest export commodity. Indonesia, as the world’s largest palm oil producer, is able to establish good relations with the European Union. However, the European Union issued a resolution or policy that made palm oil a major concern.
The RED was implemented by the European Union based on an effort to maintain its role in maintaining climate change. They consider that palm oil production has the potential to cause deforestation. Instead, they suggested that the production be shifted to the production of sunflower and canoli oil, which are considered more friendly. However, this contradicts the available data, which says that palm oil only accounts for about 45% while soybean and beef production account for 59%.

The policy eventually impacted Indonesia's palm oil exports and even Malaysia's as well. For Indonesia itself, the government is ready to face this RED with various efforts. Such as commercial diplomacy which is part of economic diplomacy, formulating ISPO policies, and also the Government of Indonesia together with relevant stakeholders forming FoKSBI (Indonesian Sustainable Palm Oil Forum) to strengthen the cooperation of various parties. In addition, Indonesia also sued the European Union regarding palm oil restrictions and black campaigns.

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