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TURKISH-GERMAN UNIVERSITY
INSTITUTE OF SOCIAL SCIENCES
EUROPEAN AND INTERNATIONAL AFFAIRS DEPARTMENT

ECONOMIC DIPLOMACY STRATEGY ON PALM OIL BY INDONESIA IN THE EUROPEAN UNION

MASTER'S THESIS

Muhammad Jave ZULKARNAEN

İSTANBUL, November 2019

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(1681011106)

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Thesis Advisor	**: Asst. Prof. Dr. Ebru TURHAN**	……
Other Jury Member	**: Prof. Dr. Birgül DEMİRTAŞ**	……
	Asst. Prof. Dr. Damla CİHANGIR TETİK	……

İSTANBUL, November 2019

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Praises and thanks to Allah for the gifts and ways. So, this thesis has successfully completed. The thesis is entitled "Economic Diplomacy Strategy on Palm Oil by Indonesia in the European Union ".

I do thank to my parents, Tondo Wasito and Umi Rahmah; my brother, Asadul Islam Alfaroq; my best partner, Arina Ulil Fahmi; and all my friends who always give me support as well as Asst. Prof. Dr. Ebru Turhan who has dedicated to supervising the thesis and gave a lot of her time to discuss and asked for advice.

Hopefully, this thesis will be useful for the sake of academics.

İstanbul, November 2019

Muhammad Jave ZULKARNAEN

TABLE OF CONTENTS

TURKISH ABSTRACT

ENDONEZYA'NIN AVRUPA BİRLİĞİ'NDE PALM YAGIYLA İLGİLİ EKONOMİK DİPLOMASİ STRATEJİSİ

Palm yağı; gıda, kozmetik, ulaşım yakıtları ve enerji gibi birçok endüstride hammadde olarak kullanılır. Palm yağı Endonezya ekonomisine ana katkıda bulunanlardan biridir. Endüstri milyonlarca istihdam yaratır ve küçük çiftçilerin geçim kaynaklarını iyileştirir. Endonezya, Avrupa Birliği (AB) ülkelerine palm yağı ihraç ediyor ve pazar talebi giderek arttı.

Bununla birlikte, palm yağı plantasyonunun genişletilmesi, çeşitli uluslararası sivil toplum kuruluşlarından (STK'lar) ve birkaç Avrupa ülkesinden çevresel ve sosyal konularla ilgili çok sayıda eleştiriyi almıştır. Daha sonra, AB tüm yenilenebilir kaynakların politikalarını düzenlemek için Yenilenebilir Enerji Direktifini (RED) oluşturur ve standardizasyonu sağlamayan palm yağına dayalı biyoyakıt kullanımını sınırlar. RED, hurma yağı ihracatının hacmini büyük oranda etkileyen Tarife Dışı bir politika olarak kabul edilir. Bu sorunun üstesinden gelmek için Endonezya, AB Tarife Dışı politikalarıyla başa çıkmak için ekonomik bir diplomasi stratejisi uygular.

Bu araştırma, literatür kaynaklarından ve çeşitli görüşmelerden veri üreten nitel yöntemler kullanılarak gerçekleştirilmiştir. Bu nedenle, bu tez, Tarife Dışı politikasını ve Endonezya tarafından ekonomik diplomasi stratejisinin uygulanmasının AB'deki hurma yağı üzerindeki etkinliğini incelemektedir.

Key Words: Palm yağı, Endonezya, Avrupa Birliği, Biyodizel, Yenilenebilir Enerji Politikasında, Ekonomik Diplomasi Stratejisi, Tarife Dışı Engelleri.

Date : 1 Kasım 2019

ENGLISH ABSTRACT

ECONOMIC DIPLOMACY STRATEGY ON PALM OIL BY INDONESIA IN THE EUROPEAN UNION

Palm oil is used as a raw material in many industries such as foods, cosmetics, transportation fuels, and energy. Palm oil is one of the main contributors to the Indonesian economy. The industry creates millions of employments and improves the livelihoods of smallholder farmers. Indonesia exports palm oil to the European Union (EU)'s countries and market demand has increased steadily.

However, the expansion of the palm oil plantation has received numerous criticisms of environmental and social issues from various international non-governmental organizations (NGOs) and several European countries. Subsequently, the EU establishes the Renewable Energy Directive (RED) to regulate the policies of all renewable resources and limits the utilization of biofuel based on palm oil that does not provide standardization. The RED is considered a Non-Tariff policy has influenced strongly to the volume of palm oil export. To overcome this matter, Indonesia implements economic diplomacy strategy to deal with Non-Tariff policy by the EU.

This research was conducted by applying qualitative methods that generate data from literature sources and several interviews. Therefore, this thesis examines the Non-Tariff policy and the effectiveness of the implementation of the economic diplomacy strategy by Indonesia on palm oil in the EU.

Key Words: Palm oil, Indonesia, European Union, Biodiesel, Renewable Energy Directive, Economic Diplomacy Strategy, Non-Tariff Barriers.

Date **:** November 1st, 2019

LIST OF ABBREVATIONS

APL	*Areal Penggunaan Lain* (Other Utilized Areas)
APROBI	*Asosiasi Produsen Biofuel Indonesia* (Association of Indonesian Biofuel Producers)
BBM	*Bahan Bakar Minyak* (Oil Fuel)
BPPK	*Badan Pendidikan dan Pelatihan Keuangan* (Financial Education and Training Agency)
BPS	*Badan Pusat Statistik* (Statistic Central Agency)
BUMN	*Badan Usaha Milik Negara* (State-Owned Enterprises)
CALC	Community Affairs Legislation Committee
CAP	Common Agricultural Policy
CNMC	*Comision Nacional de los Mercados de la Competencia* (Regulatory Agency for Business Competition)
CPO	Crude Palm Oil
CSPO	Certified Sustainable Palm Oil
DASPO	Dutch Alliance on Sustainable Palm Oil
DEN	*Dewan Energi Nasional* (National Energy Council)
EBB	European Biodiesel Board
EBT	*Energi Baru Terbarukan* (New and Renewable Energy)
ESDM	*Energi dan Sumber Daya Mineral* (Energy and Mineral Resources)
EU	European Union
FAO	Food and Agriculture Organization
FCI	Forest Conversion Initiative
FWI	Forest Watch Indonesia
GAPKI	*Gabungan Pengusaha Kelapa Sawit Indonesia* (Indonesian Palm Oil Business Association)
GHGE	Greenhouse Gas Emission

HGU	*Hak Guna Usaha* (Certificate of Right to Use)
HTI	*Hutan Taman Industri* (Industrial Timber Estates)
HVO	Hydro-treated Vegetable Oil
IEA	International Energy Agency
IPCC	International Panel on Climate Change
ISCC	International Standard for Carbon Certification
ISO	International Organization of Standardization
ISPO	Indonesian Sustainable Palm Oil
JPIK	*Jaringan Pemantau Independen Kehutanan* (Independent Forest Monitoring Network)
KEN	*Komisi Energi Nasional* (National Energy Commission)
KLHK	*Kementrian Lingkungan Hidup dan Kehutanan* (Ministry of Environment and Forestry)
KOMNAS HAM	*Komisi Nasional Hak Asasi Manusia* (National Human Rights Commission)
MMT	Million Metric Tons
NES	Nucleus Estate and Smallholder
NGO	Non-Governmental Organization
NODA	Notice of Data Availability
OECD	Organization for Economic Cooperation and Development
P&C	Principles & Criteria
PASPI	Palm Oil Agribusiness Strategic Policy Institute
PBSN	*Perkebunan Besar Swasta Nasional* (National Private Large Plantation)
PIR	*Perkebunan Inti Rakyat* (Nucleus Estate and Smallholder Plantation)
PKS	*Perusahaan Kelapa Sawit* (Palm Oil Company)
REACH	Registration, Evaluation, and Authorization Chemicals
RED	Renewable Energy Directive
REDD	Reducing Emission from Deforestation and Forest Degradation
REN	*Rencana Energi Nasional* (National Energy Plan)
RFS	Renewable Fuel Standard

RSPO	Roundtable on Sustainable Palm Oil
RUEN	*Rencana Umum Energi Nasional* (National Energy General Plan)
SAN	Sustainable Agricultural Network
SNI	*Standart Nasional Indonesia* (Indonesian National Standard)
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
USA	United States of America
WHO	World Health Organization
WTO	World Trade Organization
WWF	World Wildlife Fund

LIST OF TABLES

LIST OF GRAPHICS

LIST OF PICTURE

CHAPTER I
INTRODUCTION

1.1. BACKGROUND

The palm oil commodity has an essential role in the agricultural sector in Indonesia. Palm oil is one of the main contributors to the Indonesian economy. The industry creates millions of employments and improves the livelihood of small farmers. Indonesia leads global palm oil production. Indonesia exports palm oil to several countries in the EU. The lowest cost and the highest productivity of palm oil affect trading activities both local and global markets. The expansion of palm oil plantations has increased significantly due to demand from many industries such as foods, cosmetics, transportation fuels and energy throughout the world (Prabowo 2014). Since 2004, the utilization of palm oil has settled the top position of the world's vegetable oil market. Palm oil has extended around 30 million tons with a normal rise of 8% every year which has beaten soybean oil about 25 million tons with a normal rise of 3.8% every year (Ministry of Industry 2012).

The EU utilizes palm oil for the raw material of biofuel. The EU produces biofuel as renewable energy to reduce the impact of global climate change. Renewable energy aims to overcome energy scarcity and to reduce the utilization of fossil fuel. The EU's countries such as the Netherlands, Italy, and Spain import palm oil from Indonesia. Therefore, palm oil export increased rapidly in the European Union. However, the massive expansion of palm oil plantations by converting forests and peatlands receives numerous criticisms from International Non-Government Organizations (NGOs) such as WWF and Greenpeace and several European Union considering environmental damages and social matters. According to Greenpeace, palm oil has a significant impact on the several damages on the tropical forest, deforestation, an expulsion of residents or inadequate compensation for living residents, and working

conditions on plantations that do not follow international or local legal standards (Greenpeace 2015).

Nevertheless, a new challenge has emerged as non-tariff barriers trough specify standards. The standards consider goods and service standards, health, public safety, and environmental protection. Therefore, the supply of goods and services must obtain support from the international quality system to seize open market opportunities in the EU. In April 2009, the EU adopts the Renewable Energy Directive (RED) which regulates the policy of all renewable sources in the European Union. The RED aims to control the EU targets to reducing greenhouse gas emissions and expanding the utilization of renewable energy by 20% for energy consumption in 2020. The EU commits to increase targets the reductions of emissions by up to 30%. The RED also highlights biofuel as renewable energy in the transportation sector. European Union guarantees the target of utilizing renewable energy at least 10% for transportation fuels in 2020. This policy sets the sustainability standard for all biofuel which is produced or consumed in the EU to ensure providing sustainable and environmental friendly (EC 2016).

Then in 2018, the EU adopted new regulations trough RED II. The new directive promotes the development of renewable energy by increasing the target of renewable energy at least 32% by 2030 to all European Union members. RED II strengthens the sustainability of the European Union for bioenergy to ensure emissions savings and minimizes environmental impacts. The directive introduced specifically a new approach to dealing with emissions from indirect land use (ILUC) related to the production of biofuel, bioliquid, and biomass. RED II aims to reduce the impact of ILUC related to conventional biofuels, bioliquid, and biomass fuels (EC 2019).

Generally, the RED limits the utilization of biofuel based palm oil. Biofuel based palm oil considered as raw material with a high-risk ILUC that used significant expansion to land with high carbon stocks. The limitation of biofuel based palm oil has affected the export value on the EU market. Sustainability criteria affected negatively on palm oil international trade. The RED considered a non-tariff barrier by raising environmental standardization.

This policy restricts the entry of palm oil which does not fulfill standardization. Thus, the non-tariff policy influenced strongly on the export volume of palm oil with a justification of the deforestation, land preservation, human rights, labor rights, and exploitation. These issues affect the unstable demand and cost of palm oil in global trade (Syaukat 2010, Widodo et al., 2010).

According to international palm traders, RED is one of the EU's strategies to protect local vegetables and reduces import dependence. The EU restricts the palm oil export activity which creates specify standards on import of goods including health, safety, environmental, licenses, labeling, and others. It would be a dangerous impact on free trade if trend protectionism applied to other countries (GAPKI 2019).

In dealing with the issues, the Indonesian government and stakeholders implement an economic diplomacy strategy to deal with the non-tariff policy by the EU such as promoting, advocating and campaigning the sustainability of the palm oil to the EU market. Various certification policies applied on palm oil to reach sustainability standard which is starting from the Roundtable on Sustainable of Palm Oil (RSPO), the International Standard for Carbon Certification (ISCC), and the Sustainable Agriculture Network (SAN).

In 2011, the Indonesian Ministry of Agriculture established the Indonesian Sustainability of Palm Oil (ISPO) to strengthen law enforcement in the framework of palm oil regulations. ISPO improves the standards of Indonesian palm oil and participates in reducing environmental matters. The policy regulated to the entire Indonesian palm oil companies to obey provisions starting from upstream (garden) to downstream (yield processing) (ISPO 2017).

Furthermore, Indonesia needs to strengthen economic relations with the European Union member countries through the negotiations for Indonesia - the EU Comprehensive Economic Partnership Agreement (IE-CEPA) will enable the increase and diversification of two-way trade and investment. IE-CEPA aims to extensive liberalization and deregulation, in particular concerning trade and investment in services as well as provide wider market access for the two economies. Therefore, the comprehensive economic agreements between Indonesia and the EU member countries will give a significant impact on

Indonesian's policy space and may restrict its effort to regulate in the public interest, respect and promote human rights, and protect the environment as well as opportunity for palm oil enters to the European Union market.

In this case, economic diplomacy regarded as an essential instrument to deal with conflict in the international system. Economic diplomacy emphasizes the negotiation process rather than influencing the structure or content of the policy. Indonesia needs to ensure the effectiveness of implementing the economic diplomacy strategy to reduce the influence of the non-tariff barrier by the European Union. Indonesia also needs to strengthen relations with the European Union through CEPA to achieve its objectives in the trade of palm oil in the European Union.

This thesis is entitled "Economic Diplomacy Strategy on Palm Oil by Indonesia in the European Union" considering the longstanding export problem of palm oil commodity to the EU. The thesis also tends to find the best solutions related to environmental issues which regarded as a reason for the EU applying non-tariffs policy on palm oil. This thesis examines more deeply the non-tariffs policy trough RED by the EU on palm oil and analyzes the effectiveness of the implementation of economic diplomacy strategy on palm oil by Indonesia to deal with the non-tariffs policy on the EU market.

1.2. RESEARCH QUESTION

Indonesia implements an economic diplomacy strategy to reduce the impact of non-tariff barriers on palm oil in the EU. Non-tariff policy trough Renewable Energy Directives is an obstacle to palm oil exports to the EU.

The main question as follows: Does the implementation of economic diplomacy strategy on palm oil by Indonesia reduce the impact of non-tariff policy in the EU?

1.3. THEORETICAL FRAMEWORK

According to Sir Ernest (1922), diplomacy is an approach of intelligence and tactics to establish a formal connection among sovereign governments to expand relationships with their colonies. Diplomacy is communicate, bargain, influence each other, adjust the differences, avoid conflict escalation, and achieve national interest whilst preserve international order whether using formal diplomacy or soft diplomacy (Griffiths, O'Callaghan, & Roach 2008).

Soft diplomacy is a way or step that is used by a country to reach national interest by using a social and cultural approach through policy without coercive violence (Joseph 2012). The success of diplomacy is assessed from the original purpose. Diplomat conducts diplomacy to pursue their national interests by exchanging information continuously with other countries or people in other countries.

Economic diplomacy is the appropriate theory to analyze the case of the non-tariff barrier on the palm oil by the EU. The economic diplomacy theory focuses on controlling trade regulations or policy (Narray in Van Bergeijk et al. 2011, 122-123). The regulation or policy is supposed to be adjusted to the condition of both market demands and producer supply's process.

1.3.1. Economic Diplomacy Theory

In general, economic diplomacy is a part of diplomacy practice (Killian 2012). Economic diplomacy has assumptions and applies the same strategy as diplomatic practice. However, several things distinguish economic diplomacy theory into independent study. The main characters of economic diplomacy are

very sensitive and responsive to market alterations and developments (Bayne and Woolcock 2007).

Therefore in some cases, economic diplomacy can fail if the market provides more attractive preferences (Odell 2000). In other words, the practice of diplomacy is a type of diplomacy that is confronted directly with one to another force (market forces). Furthermore, economic diplomacy has an essential role in the private sector in the negotiations process and policy formulations (Rashid 2005).

Economic diplomacy is a process of formulating and negotiating policies related to production activities, production trade, services, labor, and investment in another country (Rashid 2005). Economic diplomacy includes several elements such as the existence of policies related to the exchange of money and information, including foreign or official development aid (Odell 2000). Moreover, economic diplomacy is an essential element for the state in managing its economic relations with another country because international economic relations not only rely on market forces as assumed by neoclassical economists (Van Bergeijk and Moons 2007).

In the global economy, the practice of economic diplomacy will overcome the inequality between more capacities country with less capacity country which manifested as developed and developing countries. Economic diplomacy emphasizes the negotiation rather than influencing policy content and capacity or competence in the institution (Bayne and Woolcock 2007). Developing countries have various alternatives and typologies based on multiple factors such as coordination, trade management, and investment policies and promotions. Typology of economic diplomacy divides into four such as traditional, niche-focused, evolving, and innovative. The typology is used to classify and identify the types of the economy run by the state (Killian 2012). The typology of diplomacy is used as a concept and identified the types of economic diplomacy by the Indonesian government.

Table 1.1

The Typology of Economic Diplomacy

Factor/ Typologies	Traditional	Niche-Focused	Evolving	Innovative
Management of External Economic	Enforced by the trade and economic ministry; low involvement of foreign ministry	Promotion focused on the identified niche	Several relations among trade and foreign ministry; contestation also likely	Participate and other cooperative arrangements
Management of Policy	Limited role of MFA, frequent turf battles	Good internal coordination	Inter-ministry or cabinet-level coordination; tending towards improvements	Institutionalized management, strong teamwork
Role of Non-State Actors	Episodic, depends on personality	Variable	New procedures, strong networking	Harmonization with all stakeholders
Economic Assist: Recipient	Enforced by economic agency, infrequently coordinated with foreign ministry	Limited coordination	Networking between the aid management agency and foreign ministry	Graduated out of aid receipt or close to that stage
Economic Aid: Donor	Unlikely to be an aid donor	Unlikely to be an aid donor	Modest program, usually	Expanding program, run by the

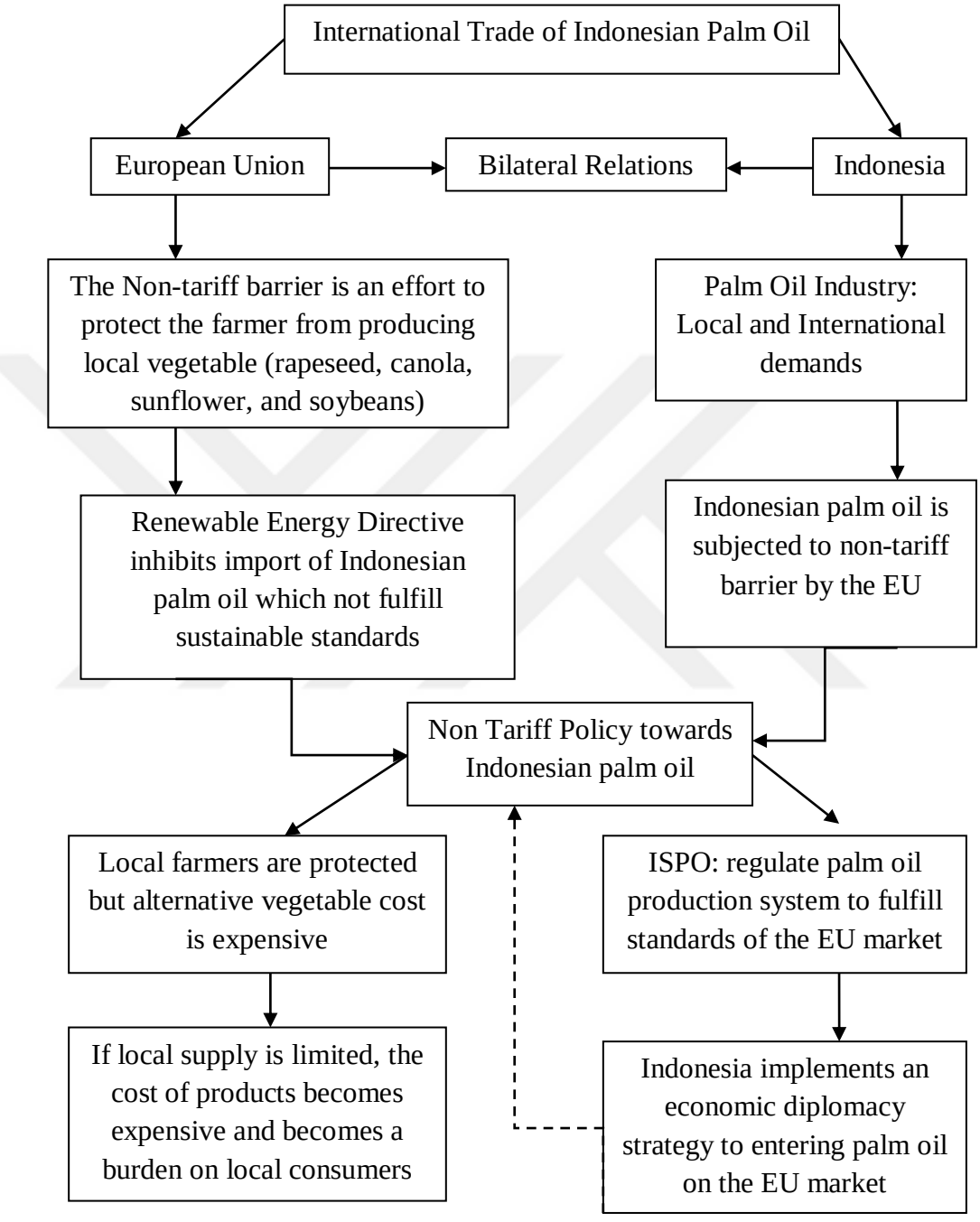
			covering technical cooperation	foreign ministry in harmony with the trade promotion agency
The Promotion of Trade	Frequently Enforced by a commercial cadre, without control of foreign ministry	Limited focus on the commercial promotion, outside the niche area	Cooperative arrangements, frequently integration of political and economic work	Activities coordinated well, a role model in the range of activities
The Promotion of Investment	Enforced by domestic agency, limited role of the diplomatic system	Active use of embassy network	Foreign ministry and embassies work actively with the local agency, frequently at individual initiative	Strong team effort, based on institutional arrangements
Regional Diplomacy Role	Mostly reactive	Focused on preferred niche area	Active	Innovative, developing potential

Source: Rana 2007

1.3.2. Framework of Thinking

Picture 1.1

The Framework of Thinking Scheme



*Notes: ---------- = Action Requiring Stimulus

1.4. HYPOTHESIS

The Indonesian economic diplomacy strategy is likely to be more effective, if Indonesia strengthens coordination between agencies and tightens economic relations between Indonesia and the European Union to counter the non-tariff barrier to palm oil.

1.5. METHODOLOGY AND RESEARCH DESIGN

This study used a qualitative method which collected from written source and interviews. Primary sources obtained from statements and interviews of a government official, the archive of the Indonesian Foreign Ministry and an annual report from the Association of Indonesian Palm Oil. Secondary sources obtained from relevant media coverage, book, and journals. The facts related to the non-tariff policy to Indonesian palm oil by the EU collected through interviews with experts. This thesis used the economic diplomacy theory as a tool of analysis.

1.5.1. Research Approach

The research used qualitative methods by the analytical framework which then applied to research design (Cresswell 2003). This approach used as a point of view to analyze during the research. Economic diplomacy used to analyze the implementation of non-tariff policy to the palm oil by the EU. The case study approach used as a strategy to provide an overview of resistance to the EU protectionism manifested through negative issues and its governmental policy on the palm oil.

Case study defined as an approach to exploring programs in depth, events, activities, processes, or relating to one or more people. Time and events can limit the case. This research used detail information in various ways or procedures for data collection during the period determined by the unit of analysis. Indonesian palm oil described as an object of non-tariff policy by the EU and also effort implementing economy diplomacy strategy by Indonesia as response to the case (Stake in Creswell 2003).

1.5.2. Research Data

Primary data obtained through direct interviews with face-to-face or through telecommunication channels to get information related to research. In this study, informants interviewed both from the palm oil industry strategic organizations and alliances in Indonesia, the government and stakeholders, experts, and researchers as well as members of the palm oil monitoring network.

Secondary data obtained from several sources such as research results and various publications such as newspapers, newsletters, and others. So far, the most recent data and documents from monitoring network institutions accessed from strategic organizations and experts by research institutes. The data collection period started from 5 January to March 2019. Data obtained from interactions and approaches from related institutions.

1.5.3. Data Collection Procedure

The research used data collection techniques to study the documents and literature with sources such as books, journals, the internet, and other literary sources. In addition, the research also used written sources such as internet facilities and services to get the data that documented in writing. Research design qualitatively used cases as contexts to look at social processes and facts in their social context, and to see interpretation or meaning in specific situations, which aimed to understand social life from various perspectives and to explain how society constructs its identity (Newman 2003, 146).

The procedures for collecting data in this study obtained from the documentation of the researcher's experience or observation, interviews, and review of documents. The researcher documented and obtained information and data from informants to analyze through library research and interviews. In addition, documents obtained showing evidence of non-tariff barriers in the form of policies and regulations as well as negative issues through the informants. Indonesian government tried to diplomatic efforts in response to these problems.

1.5.4. Data Analysis Procedures

In general, the different perspective from key informants provides data and information that will construct the phenomenon under research. Construction formed through the same cases from different informants. Data and

information obtained from informants is a reality that has been constructed by the actors which then became the results and findings. The resulting data and information was empirical material obtained from research (Flick 2005).

The validity of data and information required checking and testing using triangulation data collection techniques. In addition, researchers also checked the internal documents of the network to test the validity of the information. The difficult information obtained through strategic alliances and experts who have conducted structured research aimed to validate the information and data collected.

1.6. PLACE AND TIME RESEARCH

The research conducted around Bogor and Jakarta in Indonesia from Januarys to March. The documents and Interviews collected more than three months following the time agreed by the interview of informants. Interviews obtained from semi-structured either through face-to-face or telecommunications for informants who live far from the researcher's place. Informants selected based on their involvement in groups that negotiated and interacted between the community as well as the corporation and assisted by interest groups in the issues of palm oil.

1.7. DESIRED OUTPUT

The thesis aims to present, explain, and explore about non-tariff policy trough RED to the palm oil by the EU. In addition, it also aims to understand palm oil industrial conditions and international trade in Indonesia. Previous research related to the thesis is the analysis of the impact of the black campaign towards the volume of import demand.

Furthermore, the thesis also explores the effectiveness of implementing the economic diplomacy strategy on palm oil in the EU to deal with non-tariff policy. The effectiveness of implementing the economic diplomacy strategy will give a significant impact on palm oil trade activities on the EU market.

1.8. OUTLINE

The thesis divided into four chapters:

CHAPTER I

This chapter contains the explanation of the problem, identification of the problem, research question, hypotheses, research methods, data collection techniques, the location of research, research schedule, and systematic writing.

CHAPTER II

This chapter contains information on the palm oil industry in Indonesia, trade palm oil in the European Union, and the non-tariff policy to palm oil in the EU market.

CHAPTER III

This chapter discusses issues export activities of palm oil in the EU includes an analysis of the implementation of the economic diplomacy strategy in the EU market as well as to prove the hypothesis.

CHAPTER IV

This chapter contains the conclusions of the fact data from the result of research.

CHAPTER II
GLOBAL TRADE OF PALM OIL

2.1. GLOBAL TRADE OF INDONESIAN PALM OIL

Palm oil is one of the main contributors to the Indonesian economy. The industry creates millions of employments and improves the livelihood of smallholder farmers. In recent years, the Indonesian palm oil becomes trend issues of the word vegetable community because of the rapid development which has changed the global vegetable oil competition map along with the negative issues such as social and environmental issues from various Non-Governmental Organizations (NGOs) and several European Union countries.

2.1.1. The History of The Indonesian Palm Oil Industry

In 1911, palm trees were planted for the first time on a huge scale in West Africa. However, the plantation has failed which then moved to Congo. In 1848, palm trees entered in Indonesia as an ornamental plant in Bogor Botanical Garden. Palm trees planted as commercial in 1912 and first exported as crude palm oil (CPO) in 1919. In 2007, Indonesian led the palm oil export globally (Malau 2014).

Indonesian palm oil has a long history since the colonial era. In 1848, four palm seeds brought by Dr. D. T. Pryce from Amsterdam which used as a collection plant in the Bogor botanical gardens. Then, palm seeds distributed as ornamental plants in Java, Sulawesi, Kalimantan, Nusa Tenggara, Maluku, and Sumatra (PASPI 2016).

In 1878, the experiment cultivation on 0.4 hectares of palm trees in Deli North Sumatra resulted in better plantations rather than in West Africa. Thus, the Belgian company opened the first commercial business of palm oil plantations in 1911. A German company also opened the plantation business of palm oil in Tanah Itam Ulu followed by investors from the Netherlands and the United Kingdom. The first company of palm oil (*Perusahaan Kelapa Sawit*;

PKS) in Indonesia established on Sungai Liput in 1918 and Tanah Itam Ulu in 1922. Palm oil plantation increased significantly from 19 hectares in 1916 to 34 hectares in 1920. Therefore, in 1911 regarded as the starting period of Indonesian palm oil plantations (PASPI 2016).

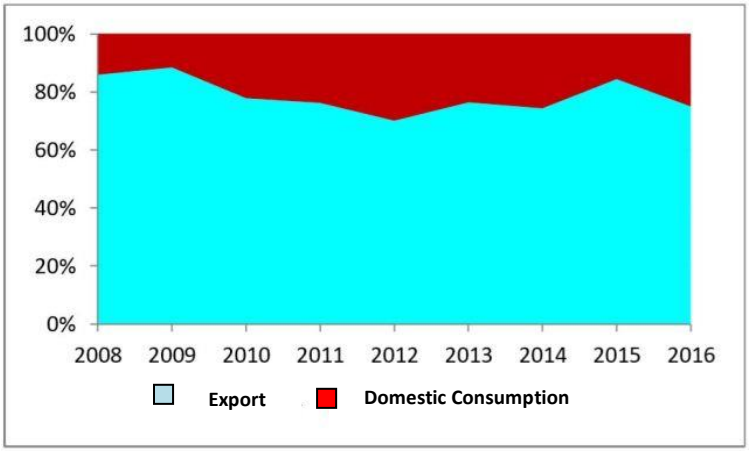
The Indonesian palm oil has succeeded in strengthening the National Private Large Plantation (*Perkebunan Besar Swasta Nasional*; PBSN) and applying model by cooperating with farmers as Nucleus Estate and Smallholders Plantation (*Perkebunan Inti Rakyat*; PIR). The PIR is developed into various models such as Special PIR and Local PIR designed to increase the economy and PIR Transmigration developed to open new territories. Palm oil plantation is developed through PIR patterns from Aceh, North Sumatra, Riau, Kalimantan, and other regions in Indonesia (PASPI 2016).

2.1.2. Indonesian Palm Oil Industry

Since 1970, palm oil became an essential commodity in Indonesia. The palm oil used as an alternative amid a scarcity of energy sources with low cost, highest productivity, and used for various industries such as foods, cooking oil, cosmetics, and hygiene product, especially utilized as biofuel and biodiesel. The utilization of palm oil for the food industry reached 80 percent, the cosmetic industry 19 percent, and 1 percent used for the biodiesel industry to fulfill renewable energy (*Energi Baru Terbarukan*; EBT).

Graph 2.1

Indonesian palm oil for Exports and Domestic Consumption

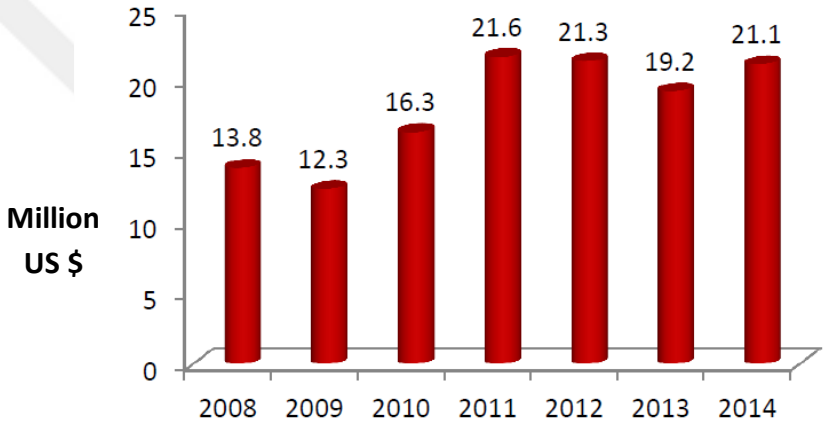


Source: PASPI 2016

Since 2011, Indonesia encouraged the downstream of domestic palm oil through three downstream lines such as downstream of the oleo-food industry, downstream of the oleo-chemical industry, and downstream of the biofuel that aimed to increase value and to reduced dependence on fossil fuels. The downstream biofuel line linked to the mandatory policy of biodiesel from B-5 in 2010, B-10 in 2012, B-15 in 2014, and B-20 in 2016. The line aimed to reduce dependence on fossil fuels import and to reduce emissions from fossil fuels. The production of biodiesel based on palm oil needs to improve both fulfilling domestic and export demand to realize this policy (PASPI 2016).

Graph 2.2

Indonesia Palm Oil Export Value (2008-2014)

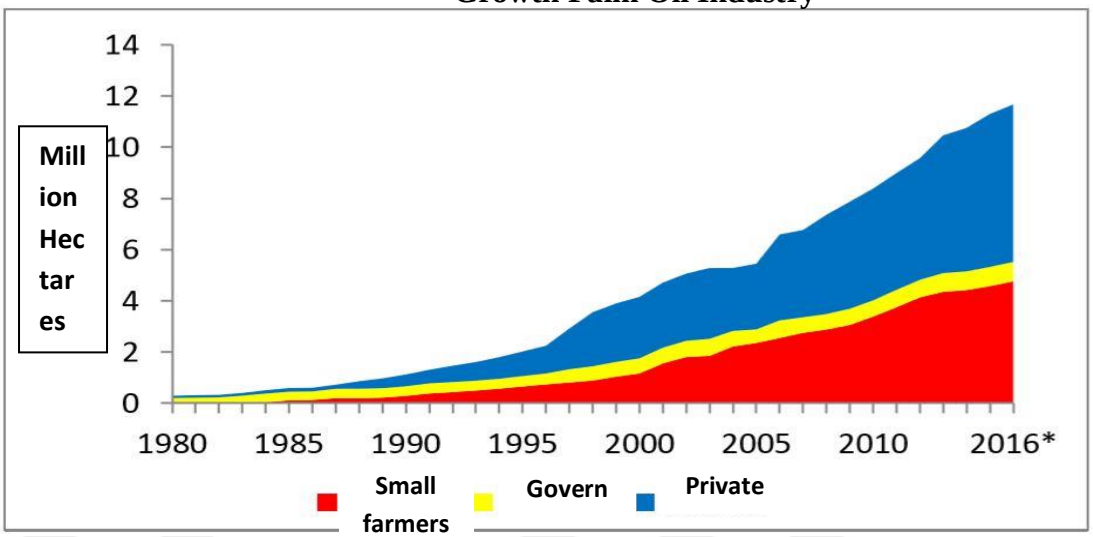


Source: PASPI, 2016

The increase in export volume has changed the composition of the export product. In 2014, the downstream policy has succeeded in enhancing the structure of Indonesian palm oil export which reached 53 percent of crude palm oil and has changed to 73 percent to cultivated palm oil. The export of palm oil has raised foreign exchange of the national economy. The palm oil export has contributed significantly to the trade balance in the economy sector (PASPI 2016).

Graph 2.3

Growth Palm Oil Industry



Source: PASPI, 2016

The Ministry of State-Owned Enterprises of Indonesia (*Badan Usaha Milik Rakyat*; BUMN) has a little role in the palm oil industry. Meanwhile, the large private company dominates for almost half of total production in the palm oil industry. The small farmer produces around 40 percent and the rest played by the BUMN. However, the decreasing cost of palm oil affects the production of the small farmer (Montratama et al., 2018).

2.1.3. Consumption of palm oil in the Energy Sector in Indonesia

Human civilization requires the energy for lighting, telecommunications, transportation, cooking, working with assistive devices such as computers, factory machines. The quality of the human lifestyle will decline dramatically without energy which makes the fulfillment of energy is the main national interests of a country.

National energy policy is based on various parameters such as economic growth, population development rate, and production capacity of a country. The government also examines energy demand trends which continue to increase every year as a result of various activities enforced by the community both in the industry and the economy in recent years. Indonesian energy consumption still relies on fossil energy which reached 54.4 percent (Montratama et al., 2018).

It has resulted in a serious threat because fossil fuel reserves continue to dwindle. The value of fossil fuel consumption in Indonesia has been higher than its production. Furthermore, the pollution of greenhouse gas emission (GHG) increases each year due to the utilization of fossil fuels (Indartono 2008).

In accordance with Montratama (2018), it is necessary to shift from fossil fuel to renewable energy resources to reduce this impact of GHG. In this case, utilization biofuel has several advantages such as being renewable, can be decomposed naturally, has environmentally friendly, reduce the impact of the greenhouse effect, and its material has a guaranteed sustainable. Biofuel renewed through the cultivation of biofuel producing plants and the development of livestock.

Biofuel has advantages as an energy source that replaces fossil fuels directly without converted into electricity. The development of biofuel as renewable energy is one of the national priorities. Biodiesel is an alternative fuel made from biological resources in the form of animal fat vegetable oil (Pinto 2005). Biodiesel as part of biofuel has advantages as both additional raw materials and pure raw materials including derived from renewable sources used in many diesel engines without modification, environmentally friendly, non-toxic, efficient, low exhaust emissions, sulfur content and low aromatics.

2.1.4. Global Economy of Palm Oil

The total production of palm oil reaches more than 45 million tons. Indonesia leads the production and export of palm oil globally. The main importing countries of palm oil are India, China, and several EU countries. The palm oil industry increased rapidly in recent decades. Palm oil also becomes an essential contributor to the world vegetable oil market. The global demand for palm oil continues to increase due to the developed countries shift from utilizing trans-fat to healthier alternatives. The palm oil is used as an alternative for trans-fat because of semi-solid at room temperature very saturated vegetable fat, and inexpensive cost. The word production of palm oil is reached 80 percent which is used for food such as cooking oil, margarine, noodles, and baked foods. In addition, palm oil also is used as an ingredient of non-food products such as the

production of biofuel, soaps, detergent, surfactants, cosmetics, medicines, and various other household and industrial products (FAPRI 2010).

Palm oil grows significantly for food and non-food product. In 2020, the consumption of palm oil is estimated to reach 60 million tons in the world. The world demand for palm oil also increases due to developing countries switch from trans-fat to healthier alternatives. At present, developed countries recognize the health risk posed by trans-fats. Several countries have banned the utilization of trans-fats in restaurants and fast food franchises. The other countries implement the policy that aims to minimize the utilization of trans-fats, including the obligation on food labels.

The global demand for palm oil is increased to replace trans-fat to the healthy source, unsaturated fats, odorless, and tasteless. All benefits of palm oil become a strong competitor for other vegetable oils such as soybeans and canola. This condition triggers other demands in the biofuel industry. The demand for biofuel based palm oil is relatively low around 5 percent in the world of biodiesel production. Furthermore, the energy consumption of fossil fuels is around 95 percent and is expected to rise by 50 percent in 2030. Numerous countries set the target to reduce dependence on fossil fuels by utilizing renewable energy. Biofuel is one of the renewable energy sources which increased significantly over the past decade (Sheil et al., 2009).

Biodiesel utilizes palm oil as a raw material production due to cheaper cost than other vegetable oil. Several countries adopt a policy to encourage the utilization of biofuel. Indonesia needs to fulfill the demand of the European Union by enlarging an additional 4 million hectares of palm oil plantations and another million hectares to fulfill Chinese demand (Sheil et al., 2009).

The palm oil production increased significantly due to global demand. Indonesian palm oil production is improved continuously to fulfill global demand. The palm oil is used as a raw material of foods, oleo-chemical, and biodiesel. However, palm oil export is hampered by the existence of standard regulation by the European Union. Therefore, Indonesia needs to implement the strategy to deal with the specific standard by the EU.

However, the development of biofuel based palm oil faces many obstacles in the European Union. For example, non-tariffs policy inhibits palm oil export in the EU with specific standards. In 2008, the EU limited the utilization of biofuel based palm oil considering environmental and social issues. The policy impacted directly on palm oil trade activities in the EU.

2.1.5. The Development Vegetable Oil in the European Union

The European Union consumes its local vegetable oil such as soybean oil, rapeseed oil, and sunflower oil. Meanwhile, the EU imports palm oil from Indonesia and Malaysia (Kusumaningtyas 2017). Sunflower seed oil is a non volatile oil that is produced from compressed sunflower seed which is used for cooking oil and cosmetic raw materials. The sunflower oil has been an industrial commodity since 1835 in the Tsardom of Russia. Russia is the largest producer of sunflowers, followed by Argentina and the US (Berglund 2007).

In the EU context, France is a country that has proper development of the palm oil industry among other EU member states followed by Hungary, Spain, Romania, and the Netherlands. Meanwhile, sunflower oil produced and used in most EU member states start from 1961. At that time, the source of sunflower seeds was obtained utilizing imports from the Latin American region because European Union member countries still did not have much sunflower fields. Sunflower oil has been produced in most of the EU member states since 1961 (Kusumaningtyas 2017).

France is an EU member country that has the most development and produces sunflower seeds as vegetable oil. France began production for the first time in the 1960s. At that time, France could only produce 2000 tons of sunflower oil because France did not have sunflower land and sunflower oil sources that exclusively rely on imports from Latin American countries. However, at the beginning to the end of the 70s was the early era of French that success in the sunflower oil industry because it could produce as many as 11,600 tons of sunflower oil and developed rapidly at the end of 1979 France could produce as much as 70,000 tons (Vear 2003).

The sunflower oil production developed rapidly in France supported by the performance of the French government which decided to first open 100,000

hectares of sunflower plantations in 1975 to develop further benefits of sunflowers. Then the number production was expanded to 850,000 hectares until 1986 (Laverhne and Merry 1987).

Additionally, vegetable oil which is mostly used by the European Union is rapeseed. Rapeseed oil is oil derived from canola plant seeds where plants are native to Western Canada with yellow flowers. Rapeseed grew in Europe in the early 13th century where oil used for cooking and fuel oil lamps. The utilization of rapeseed oil has limited the industrial sector to the development of steam engines. At that time, it found that rapeseed oil had excellent capabilities as lubricating oil for steam engines. The popularity of rapeseed oil as a lubricant has increased during World War II. The rapeseed oil utilized to improve the performance of ships as a lubricant for steam engines (Zentkova and Cvengrosova 2014).

Picture 2.1

Rapeseed Oil Production in the World

Source: Faostat 2012

Rapeseed production in the European Union has increased significantly by 68% from 2000 to 2010. In 2009, rapeseed oil production had exceeded 21 million tons in the European Union. However, after that rapeseed oil decreased in production. A mild climate area is the best natural conditions suitable for rapeseed growth (Carrel and Pouzet 2014).

However, the development of rapeseed oil production in the European Union is still low compared to other producing countries of rapeseed oil. Canada is the largest producer of rapeseed oil with 15.4 million tons. In Canada, rapeseed oil is one of the essential plants for Canadian citizens. In addition, the second and third places are China and India followed by France and Germany (Faostat 2012). The European Union through a common agricultural policy (CAP) policy allows providing subsidies to the rapeseed oil industry in the European Union.

2.1.6. Export of Indonesian Biodiesel to the European Union

Biodiesel can be used as fuel for the vehicle by mixing with diesel oil between 47 cetanes for biodiesel and 50 cetanes for diesel oil. The comparison can damage the vehicle if biodiesel used too much. The specifications of biodiesel production depend on vegetable oil which used as raw material. In 2010, palm oil plantation in Indonesia reached 10 million hectares with a total production of 15 million tons of palm oil. The abundance of palm oil will disturb the stability cost of palm oil. Therefore, the utilization of palm oil on biodiesel production is expected to stabilize the cost of palm oil globally (Martini 2005).

Export market share reached 48 percent compared to the three major countries such as America, Japan, and Canada. The European Union is a great potential for Indonesia to export its biodiesel based palm oil. Biodiesel based palm oil is an essential product in several countries in the EU. The utilization of renewable energy increased significantly from 5.75 percent to 8 percent in 2010 in the transportation sector (Asnur 2009).

European Union is prospective for Indonesian palm oil both in terms of value and volume of export. The palm oil export increased by 18 percent in 2011. Indonesia exports palm oil in the EU market which aims to support the development of biodiesel. European Union considers palm oil as the best raw material of biodiesel to achieve the target of reducing greenhouse gas emissions (GHG). In 2012, the European Union led the market of Indonesian biodiesel. The export of biodiesel reached 1.5 million kiloliters or around 80 percent of total export (Sindonews 2014).

In 2010, the EU set a target in the utilization of biodiesel around 5.75 percent of the total consumption for transportation. European Biodiesel Board (EBB) data explained that the EU biodiesel production increased 64.7 percent from 1.93 million tons in 2004 to 3.18 million tons in 2005. Biodiesel production developed rapidly due to high productivity in several countries such as Germany, France, and Italy. In addition, biodiesel producer countries increased from 11 countries in 2004 to 21 countries in 2006.

2.2. EUROPEAN UNION PALM OIL MARKET

The data obtained from the Directorate General of Agriculture Ministries (2015) explained that the Netherlands, Italy, and Spain are the three largest markets in the EU of Indonesian palm oil. The Netherlands imports palm oil around US$ 600,801,722, Italy around US$ 340,948,425, and Spain around US$ 338,527,185. The following is a brief profile of the three traditional markets for Indonesian palm oil.

2.2.1. Netherlands

The Netherlands provides energy flexibility and security around the EU by investing in oil and gas storage, import terminals for coal and gas, and efficient power plants. The Netherland plays a significant role in Europe as a center of global energy trade. However, the second largest natural gas market in Europe is very challenging amid a decline in production and uncertain prospects for non-conventional gas. The Netherlands stimulates energy efficiency and innovation in energy-intensive industries along the supply chain, especially in the refining, petrochemical and agricultural sectors. Despite succeeding in controlling greenhouse gas emissions from economic growth between 1990 and 2012, the Netherlands remains one of the countries that use the most fossil fuels and produces CO2 among member countries of the International Energy Agency (IEA).

In September 2013, the Netherlands approved the Energy Agreement with key stakeholders to support sustainable economic growth until 2020. The utilization of biofuel in the form of liquid or gas is used for transportation to provide a significant contribution to the reduction of greenhouse gas emissions.

The EU directive on Renewable Energy sets a target to stimulate the utilization of biofuel that provides sustainably and has been implemented in national laws by the Dutch Parliament.

The Netherlands will gradually implement the EU Directive to increase the proportion of energy from renewable sources such as Biofuel, Biogas, and electricity for land transportation which aims to build confidence that Biofuel is a viable source of energy and has increased target 10 percent by 2020 in the transportation sector. The country has implemented policies to meet the EU's target of increasing the proportion of renewable energy to 4.25 percent in 2011, to 4.5 percent in 2012, to 5 percent in 2013 and 5.5 percent in 2014. In the Netherlands, the utilization of renewable energy is targeted to reach 7,75 percent in 2017 which 72 percent comes from biofuel (Werther, 2017).

2.2.2. Spain

Spain is one of the top three largest countries producer and consumer of biodiesel and Hydro-treated Vegetable Oil (HVO). In Europe, diesel is the primary fuel of transportation. Spanish biodiesel production faces various challenges on the import of palm oil as the main raw materials, especially from Indonesia and Argentina. The expensive cost of palm oil is due to strict regulation which has disturbed the biodiesel production. The biodiesel production in Spain depends on imported raw materials because of domestic vegetable oils is more widely utilized in the numerous food industries. Nevertheless, palm oil still dominates as raw materials on the production of biodiesel in Spain. In 2016, the Spanish government eliminated the specific target on biodiesel and HVO mixing mandates. However, the strict standardization of sustainable material inhibits palm oil which does not have the certificate of sustainable to Spain. The decline of biodiesel production is estimated just temporary because Spain is committed to reducing the utilization of fossil fuel to biodiesel.

2.2.3. Italy

Italian National Energy Strategy focuses on the medium and long term goals of the energy sector by government and stakeholders. The strategy aims to reduce energy costs, fulfill environmental targets, strengthening the energy

supply, and promoting sustainable economic development. However, the implementation of the strategy is the first step to reach government goals. The renewable energy sector has increased impressively and has been successfully integrated into large volumes. Market liberalization and infrastructure developed significantly, especially the improvement in electricity transmission in northern and southern Italy.

2.3. IMPACT TRADE BARRIERS ON PALM OIL

Palm oil has been successful in the vegetable oil world. However, palm oil faces various impediments such as Non-Tariffs barriers by the EU. The non-tariff barriers inhibit the entry of palm oil into the EU market by considering various issues such as unhealthy products and unsafe for the environment.

2.3.1. Renewable Energy Directive (RED)

In 2008, the EU adopted the Renewable Energy Directives (RED). The RED aims to regulate the utilization of sustainable energy to all the EU member countries. RED has a standard in particular sustainability for raw material of renewable energy that has to fulfill before entering the EU market (EC 2009). The European Union adopted RED to reduce carbon emissions globally as a commitment to the Kyoto Protocol. In addition, the determination of the target for the utilize biofuels for EU member countries aims to reduce dependence on consumption and import of fossil fuels with the requirement the sustainability criteria as stipulated in Directive 2009/28/EC.

On the one hand, RED is intended to maintain environmental sustainability and to reduce global emissions. But on the other hand, it also considered a new form of barrier from the EU to protect its products from other countries. The European Union is a major producer of biodiesel. Implementation of RED considered a form of green protectionism through the sustainability criteria.

The import of oil and gas has filled the domestic energy needs in the European Union. The energy imports will increase to 65% of the total EU energy consumption in 2030 (Paul Belkin 2007). The European Union is the second largest oil consumer in the world. Oil consumption in the EU reaches 20

percent of total world oil consumption which around 80 percent of total consumption is fulfilled through imports from Russia, the Middle East, Africa and Norway (Susanne Nies 2008: 24).

The European Union is not only dependent on oil imports but is also very dependent on gas supplies from Russia, Norway, Algeria and several countries from the Middle East region. Domestic gas reserves of EU member countries (EU-25) are only able to supply a maximum of 41 percent of the total domestic gas demand and the rest is fulfilled through imports (EU Green Paper 2006).

Therefore, the European Union concerns on energy issues. Energy has become a vital factor in driving economic growth in EU member countries. The Security guarantee on energy supply for EU member countries is a major concern of the European Union by issuing a Solidarity Action Plan to medium and long-term actions to secure the domestic energy supply (Council of European Union: 2009; Strategic Energy Review: 2008). The European Union will diversify its supply of non-fossil fuels and develop infrastructure in the energy sector. Renewable energy has a vital role in the EU. Globally, the European Union is one of the leading producers of renewable energy in the field of development technology. This condition is expected to reduce its dependence on imported fossil fuels from abroad (European Commission, 2007).

The European Union Commission establishes a set of policies that support renewable energy policies to stimulate an increase in biodiesel production in EU member states, including: [1] Directive 2009/28 which regulates renewable energy; [2] EU Climate and Energy Package; [3] Directive 2003/96 regarding tax reductions and granting incentives for biofuel production; and [4] Common Agricultural Policy (CAP) regulates the provision of subsidies for farmers who plant biofuel raw materials (Amezaga, et al, 2010).

The renewable energy policy aims to reduce dependence on energy imports and secure the domestic energy supply of EU member states. On the one hand, the implementation of the Renewable Energy Directive is regarded as an opportunity for exporting countries to create new markets for vegetable oil products (biofuels). But on the other hand, it also triggers new problems for vegetable oils that do not fulfill the sustainability standards that has adopted by

the EU. Thus, it will become a new trade barrier in vegetable oil in the EU market.

Renewable Energy Directive Biofuel policy was introduced firstly in the European Union through the Directive on the promotion of the utilization of biofuels for transport (2003/30/EC). The establishment of RED aims to mitigate the impact of energy use from fossil fuels that affect global climate change. This policy targets the utilization of biofuels by 2% in 2005 and 5.75% in 2010 in the transportation sector. This policy is non-binding for EU member states. However, the utilization of biofuels in the European Union has doubled between 2003 and 2005. In 2005, the EU could not reach the target of 2% of the utilization of biofuel which only able to reach 1.4% of the total (Amezaga, et al, 2010).

In 2006, the European Union issued an EU strategy for Biofuels (COM (2006) 34 finals) based on the final Biomass Action Plan (COM (2005) 628). The strategy includes six strategies for developing biofuels in the European Union. In this strategy, the European Union emphasizes the importance of fulfilling national targets for utilizing biofuels and biofuels production with sustainable raw materials.

To fulfill the purpose, the European Union reviews the policies that have been issued with more emphasis on the importance of sustainability in energy use in the European region that stated in Green Paper. The policy focuses on achieving three aspects such as the first is sustainability which aims to reduce the impact of climate change by promoting the utilization of renewable energy and utilization of energy efficient; Secondly, competitiveness which aims to increase efficiency and increase competitiveness through the EU's competitive internal energy market; Third, security guarantee of supply by establishing better coordination among member states of the European Union for the fulfillment of energy supplies in the European region (Timo Kaphengst, et al, 2007: 3).

This energy policy formulation was followed up with the release of the renewable energy roadmap in 2007. This roadmap has changed the targets set in the 2003/30 directive and targets 20% use of renewable energy for 2020 with a minimum of 10% biofuel for the transportation sector. This rule has also

changed from being voluntary to binding and mandatory for EU member states. Some of the targets issued by the European Union are related to the use of renewable energy in the context of reducing global gas emissions, including: [1] 20% reduction in energy consumption in 2020 through efficiency; [2] 20% use of renewable energy for total consumption in 2020; and [3] 10% of biofuels for the transportation sector in 2020 (Amezaga, et al, 2010).

In January 2008, the European Union Commission submitted a legislative package for implementing the targets that had been submitted in March 2007. The binding rules were approved by the leaders and the European Parliament in December 2008 which was later called the "Climate and Energy Package" which subsequently entered into force in April 2009, known as the "20-20-20 targets". This policy package was not only for fulfilling the target of renewable energy use in the European region but also intended to fulfill the obligations of the European Union in the Kyoto Protocol and for the next stage of global negotiations (Amezaga, et al, 2010).

After the revision of the 2001/77 and 2003/30 renewable energy policies into 2009/28 directives, this policy regulates the biofuel industry to be developed by the European Union such as second generation biofuels. Second generation biofuel is derived from reserves and residual agricultural products so they will not interfere with food or forest stability. The directive regulates several things, including a target of 10% use of biofuels for transportation, a threshold for reducing the greenhouse gas effect estimated by 2017, reduce the greenhouse gas effect by 35% and regulate sustainability criteria (Pieter Pous, 2009: 4-6).

The sustainability criteria then also have an impact on the development of biodiesel based on palm oil and other plants. These criteria explain that biofuel products must be produced from environmentally friendly and sustainable production activities. The European Union will prevent biofuel which is derived from plants grown in areas with high diversity such as primary forests, protected forests or areas that will damage ecosystems and soils containing carbon dioxide high enough after January 2008. The sustainability criteria set out in article 17 states that biofuels production must be able to reduce

at least 35% of greenhouse gas emissions when compared to the use of fossil fuels. The article also regulates technically the biofuel is used as starting from raw materials, the manufacturing process and how much biodiesel can be produced to reduce the effects of greenhouse gases (Directive 2009: 28).

2.3.2. The Revised Renewable Energy Directive (II)

Revised Renewable Energy Directive (RED II) entered into force on 24 December 2018 (Directive 2018). This new directive promotes the development of renewable energy through the target increase of at least 32% by 2030 in all European Union Member States (EC 2019). This target approved by the European Parliament and European Union Member States in June 2018 through the adoption of the Renewable Energy Directive (RED II). RED II promotes the further utilization of renewable energy in the electricity, heating and cooling and transportation sectors which aims to contribute to reducing greenhouse gas (GHG) emissions, increasing energy security, strengthening European leadership in renewable energy technologies and industries, and creating employment growth.

RED II strengthens the sustainability of the European Union for bioenergy to ensure emissions savings (GHG) and minimizes environmental impacts. The directive specifically introduces a new approach to dealing with emissions from indirect land use (ILUC) related to the production of biofuel, bioliquid, and biomass. The utilization of biofuel produced from food crops with expansion in areas with high carbon stocks and high risk of ILUC will be stopped at the latest by 2030. However, this directive has exceptions for biofuels, bioliquid and biomass fuels that are certified as low ILUC risk (EC 2018).

In this context, the directive requires the Commission to adopt delegated act that set criteria both for (i) determining high ILUC risk raw materials where a significant expansion of the production area into soils with high carbon stocks is observed and (ii) certifying biofuel, bioliquid fuels, and low-risk ILUC biomass. The delegated act will include reports on the status of the expansion of relevant food and feed crop production worldwide. This report provides information related to the criteria set out in the delegated act to identify high

ILUC risk fuels from food or feed plants with significant expansion into land with high carbon stocks and low-risk ILUC fuels.

The report also explains the development of EU policies to address the impacts of ILUC and reviews the latest data on the status of the expansion of relevant food and feed crop production worldwide. In addition, this report also describes the approach to determine high-risk ILUC fuels from food or feed crops with significant expansion into land with high carbon stocks and for certification of low-risk ILUC fuels (EEAS 2019).

ILUC occurs when crop cultivation for biofuels replaces the traditional production of plants for food and feed. This additional demand increases pressure on land and can lead to the expansion of agricultural land to sensitive areas such as forests or peatlands, causing massive greenhouse gas emissions eliminating direct emissions savings from plant-based biofuels (EEAS 2019).

RED II aims to reduce the impact of ILUC associated with conventional biofuels, bioliquid, and biomass fuels. ILUC emissions cannot be measured with the level of accuracy needed to be included in the EU GHG emission calculation methodology. The emissions can be determined within the limits of the amount of conventional biofuel, bioliquid, and biomass fuel consumed in transportation that can be taken into account when calculating the overall national and sectoral share in transportation from renewable energy.

However, it stated in the form of a national boundary that corresponds to the fuel levels that exist in each Member State in 2020. Some flexibility is allowed because these national boundaries can be increased further by one percentage point. However, the overall maximum is maintained so that they cannot exceed 7% of energy consumption by the end of 2020 in road and rail transportation.

Furthermore, Member States can set lower limits for biofuels, bioliquid, and biomass associated with a high-risk of ILUC, such as fuels produced from oil crops. In parallel, the promotion of advanced biofuels and biogas is strengthened through specific binding targets with a minimum share of 3.5% for 2030, with two intermediate milestones (0.2% in 2022 and 1% in 2025).

RED II identifies the sustainability of biofuels eligible for public support towards the EU's renewable energy national targets. Therefore, the Renewable Energy Directive (European Union legal form) also determines a new approach to ensure that plants used for biofuel production do not originate from deforested areas or peatlands wherever produced and planted do not simply move other production to a place that is high in carbon and other high natural value. RED II mentions that from January 2024 there will be a gradual reduction in the number of biofuels of certain types in fulfilling the renewable energy target.

For the implementation of this directive, the European Commission has adopted the delegated act on the 13 March at the request of the European Parliament and the Council of the European Union. The delegated act and its attached report are based on the best available scientific data (2008-2015). The reference period is started in 2008 because this was the deadline stated in the EU sustainability criteria for biofuels. The year of 2015 is the most recent availability of consistent data. The European Commission will review the data and methodology in 2021 and will revise the Delegated Act in 2023. However, currently the criteria require BBBF to comply with GHG sustainability and savings criteria; evidence is properly collected and documented, and; BBBF has been produced from additional raw materials, namely from new steps that have become financially attractive thanks to REDII, from abandoned or heavily degraded land, or from certain small farmers (EEAS 2019).

2.3.3. Expansion of Palm Oil to Forest and Peatlands

According to the Geographic Information System (GIS) assessment, it shows that a big difference between raw materials relevant to biofuels related to the extent of their expansion related to deforestation. Between 2008 until 2015, data showed that the production area of sunflowers, beets, and turnips had expanded slowly, and only a small portion of the expansion had occurred in soils with high carbon stocks. In the case of corn, wheat, sugar cane, and soybeans, the total expansion is more pronounced, but the share of extension into the forest is less than 5% for each raw material. In contrast, the analysis showed that palm oil is the highest overall speed of land expansion and the highest share of expansion to forest land (70%). Palm oil is also the only crop where most of the

expansion takes place on peatlands (18%). The results of the GIS assessment are reported in the scientific literature that palm oil expansion into forests is at the highest position in the range of 40-50 (Malins 2018).

Under RED II, all areas that constitute forest in January 2008 are considered deforested if used for the production of biofuel raw materials, regardless of the date they were planted. This provision is taken into account in the GIS assessment, while most regional studies consider a shorter time delay between deforestation and palm oil tree planting (Miettinen et al. 2016). Therefore, a more conservative estimate of 45% as the world average of palm oil expansion into forest land and 23% of the expansion of production areas on peatlands can be considered the best scientific evidence available (Curtis et al. 2018).

Growing global demand for food and food crops requires the agricultural sector to continue to increase production achieved both by increasing yields and by expanding agricultural areas. This process can have a negative ILUC impact if the latter occurs in soils with high carbon stocks or highly biodiverse habitats. Therefore, RED II limits the contribution of conventional biofuels, bioliquid and biomass fuels consumed in transportation towards the Union 2030 renewable energy target. In addition, the contribution of high-risk biofuels, bioliquid, and biomass fuels will be limited to 2019 levels starting from 2020, and then gradually reduced to zero between 2023 and 2030 at the latest (EEAS 2019).

According to the best scientific evidence presented in this report on agricultural expansion since 2008, palm oil is currently the only raw material in which the expansion of production areas into land with high carbon stocks. Thus, GHG emissions resulting from land-use changes eliminate all the savings in GHG emissions from fuel produced from this raw material compared to the use of fossil fuels. Therefore palm oil qualifies as a high-risk ILUC raw material which is a significant expansion to land with high carbon stocks. However, not all palm oil raw materials used for biofuel production have an adverse ILUC impact in the sense set out in Article 26 RED II. Some products can be considered a low ILUC risk.

There are two types of steps available to identify production by increasing productivity on existing land and cultivation of raw materials on land that is not used such as abandoned land or heavily degraded land. These steps are keys to preventing biofuels, bioliquid and biomass fuel production from entering into competition with the need to meet increasing food and feed demand. The directives do not include all fuel that has low-risk ILUC certified from stopping gradually. The criteria for certifying ILUC low-risk fuels can effectively reduce displacement effects related to the demand for these fuels if only additional raw materials used for the production of biofuel, bioliquid and biomass fuels are taken into account (EC 2019).

The Commission will continue to assess developments in the agricultural sector including the status of agricultural expansion based on new scientific evidence and gather experience in certifying low-risk ILUC fuels when preparing a review of this report to be carried out on 30 June 2021. After that, the Commission will review the data in considering the developing circumstances and the latest available scientific evidence. The report only reflects the current situation based on current trends. Future assessments may arrive at different conclusions where raw materials are classified as high-risk ILUC depending on the future development of the global agricultural sector (EC 2019).

2.3.4. Impacts of the Implementation of RED by the EU

There are several forms of rules and policies within the European Union. The rules can be in the form of regulations, directives, provisions, recommendations, and opinions. In accordance with Article 249 of the EC Treaty, directives can be binding or voluntary depending on the decisions made in the directive. The directive is outlined in national policy in the form and method desired by each member country (Athina Zervoyianni, et al, 2006: 26-29).

In accordance with the issuance of the renewable energy policy (RED II) by the European Union which was approved in December 2018, each member country has an obligation to increase the use of renewable energy by at least 32% by 2030 (EEAS 2019). The application of RED has good implications for

both member states and non-EU members. This policy is no longer voluntary but it is binding on all EU member states. Each country must fulfill the target for the use of renewable energy as specified. The RED does not only affect member countries but also affects other countries, especially trading partners of vegetable oils and biodiesel. Biodiesel is a very important biofuel for the European Union. However, the EU does not have enough land for the fulfillment of biodiesel raw materials to reach the target. This condition opens up opportunities for vegetable oil producing countries to fulfill the growing demand for vegetable oils. Indonesia is a major exporter of palm oil in the European region.

Economically, policy energy will create new markets for Indonesia. However, the implementation of RED by the EU will also create new problems for vegetable oil exporting countries, especially Indonesia when it cannot fulfill the standards adopted by the EU related to sustainability. With this policy, European consumers tend to ask for palm oil produced from environmentally friendly activities.

According to the policy, palm oil can enter the European Union through several biofuel certification processes such as in the International Sustainability and Carbon Certification (ISCC) scheme. This situation makes several exporting countries for palm oil and other vegetable oils synergize their policies with renewable energy policies implemented by the European Union. Thus, their product is allowed into European Union member countries. To overcome this, Indonesia and Malaysia have participated in the Roundtable Sustainable of Palm Oil (RSPO) to obtain certificates for palm products produced from activities that do not damage the environment and endanger the ecosystem (RSPO 2019).

The RSPO is a non-profit organization that consists of six sectors related to the palm oil industry such as palm oil producers, palm oil traders, consumers, retailers, banks, and investors, and NGOs. Furthermore, the RSPO is an organization that can certify sustainable palm oil and establishes sustainable criteria (Kusumaningtyas 2017). The RSPO establish the criteria which the palm oil enters the EU market must free of human right violations and criticism on palm oil plantation massively from the international activist. Principle and Criteria (P&C) formed to fulfill a request from the working group regarding the

standard of sustainable palm oil. Palm oil required committing with operational certification regarding the RSPO standard. The consumer of palm oil expected to commit buying and using certified palm oil. Furthermore, Indonesian palm oil inhibited to enter the EU market which affected the export activities in Indonesia (Kathrin and Hutz 2017).

2.3.5. RED as Non-Tariff Trade Barrier

Non-tariff trade barriers are all kinds of policies other than tariffs which have an impact on trade flows. There are three categories of non-tariff trade barriers. First, the import category includes import quotas, import restrictions, customs procedures, and import licenses. Second, the export category includes export taxes, export quotas, export bans. The last category is related to the domestic economy of the country such as the rules applied in a country's domestic legislation, whether related to health standards, labor, the environment, or domestic subsidies.

The implementation of RED requires the EU member countries to utilize biofuels that fulfill sustainability standards or criteria influence the trade in biofuel raw materials such as palm oil as biodiesel raw material, sugar cane for bioethanol. The criteria must be fulfilled by exporting countries such as Indonesia. The business group considers that the standard is one of the European Union's strategies to limit palm oil as a biodiesel raw material because it will hurt their investment (Gapki 2016).

Globally, the EU is a producer of renewable energy that is quite advanced in its development technology. At present, the European Union is the largest biodiesel producer in the world as Germany is the main producer of biodiesel which accounts for almost half of the total biodiesel production produced by the EU. Compared to biodiesel, bioethanol is not in a position as important as biodiesel. Bioethanol only fulfills 20% of the total biofuel production in the EU. EU member countries that are the main producers of bioethanol are Germany and France (TimoKaphengst, et al, 2007: 4).

Therefore, some exporting countries of raw materials for biofuels such as Indonesia consider that the application of RED by the European Union as a form of trade barriers by the European Union. Thus, the biofuel market (biodiesel or

bioethanol) is considered uncompetitive. The application of RED I and II by the European Union inhibit the entry of Indonesian palm oil products into the European Union because the palm oil produced is not "green" palm oil.

Based on reports from Greenpeace, palm oil development pattern implemented in Indonesia has been seen as one of the highest causes of deforestation. There are three causes of deforestation such as land clearing for plantations including palm oil plantations, logging and industrial timber forest (HTI). Initially, the pulp and paper industry was the main cause of deforestation. However, in the early 1990s, there was massive land clearing for palm oil. Since then, palm oil has been seen as one of the main causes of deforestation (Greenpeace, 2010).

The palm oil industry in Indonesia has also subjected by the campaigns by Greenpeace International and Greenpeace Indonesia. This was proven when Greenpeace made an advertisement about Nestle Kit Kat products that illustrated that products produced by Nestle using palm oil that is produced from forest destruction, killing of the Orang Utan population in Indonesia. Greenpeace illustrates that every buyer eats the product, then that person will eat the fingers of the Orang Utan. This ad resulted in a decrease in sales of these Nestle products. Greenpeace asks the companies to stop buying palm oil from Indonesia. This action proved effective when several large companies from Europe such as Kraft, Nestle, and Unilever stop purchase contracts with several palm oil producing companies from Indonesia (Greenpeace, 2010).

This condition inhibits palm oil from entering the European Union which requires the sustainability criteria. In addition, the process of land acquisition for the development of large-scale palm oil plantations can damage the livelihoods of communities including small farmers and indigenous tribes. The government and companies rarely consult with local residents which resulted in conflicts (Marcus Colchester, et al, 2006: 15). Social criteria are not rigidly regulated in RED by the European Union. However, social problems due to land use are considered by the European Commission.

The global association of palm oil traders assumes that the regulation is a European Union trade strategy to protect biofuel produced by EU member states

such as soybean, sunflower seeds, and canola oil from palm oil products which is more efficient than vegetable oils (Unilever. 2010). Furthermore, palm oil is the most imported vegetable oil around 60% by European Union countries which from Indonesia and Malaysia. Meanwhile, sunflower is imported from Ukraine and soybeans from Brazil.

EU's efforts to protect local vegetable oil is called "green protectionist". Green Protectionist is not only related to environmental policies but also various policies that are not related to the environment, resulting in discrimination and trade bans. This form of green protectionism is seen as technical barrier trade/ TBT (part of the non-tariff barrier/ NTB) as well as sanitary and phytosanitary measure (SPS) (Erixon, Fredrik, 2009: 2).

NTB and SPS are used by both European countries and the United States for some agricultural products and food industries. For example, the United States sent an official rejection letter on palm oil exports from Indonesia in January 2012. The US states that palm oil products from Indonesia do not qualify as sustainable products because there is an assumption that oil products originating from Indonesia cause forest destruction that results in deforestation (GAPKI 2012).

The form of regulations or standards that apply by the European Union is related to environmental protection. However, this regulation becomes a technical barrier of trade for palm oil exporting countries. The RED regulates rigidly about sustainability standards or criteria that must be fulfilled by the exporting countries of biofuel and biofuel raw materials. However, exporting countries is faced some difficulties because each member country of the European Union does not necessarily impose and recognize existing forms of certification. Some countries have each model of certification through voluntary schemes with different standards (Gapki 2018).

This certification scheme determines a biofuel product is appropriate to sustainable criteria or not. Currently, Indonesia has a certification scheme through Indonesian Sustainable Palm Oil (ISPO). However, it is not necessarily in accordance with the rules applied to RED by the European Union. However, according to the EU Ambassador to Indonesia and Brunei, Vincent Guérend, the

European market has never given restrictions on palm oil products from Indonesia. So there is a misunderstanding if the growing share of the palm oil market in Indonesia is rejected by the European Union (EEAS 2019). However, the Indonesian palm oil industry faces non-tariff barriers on palm oil products.

2.4. The European Union Protectionism

In accordance with Dominick Salvatore (1989) in his book entitled 'A Model of Dumping and Protectionism in the United States' explains protectionism is an economic policy which limits trading activity between countries through trade system imposing import duty tariffs (tariff protection), quota restrictions (non-tariff protection), increasing tariffs and import ban policy. There is a new form of protectionism by using non-trade issues are health standards, religion, labor, and environmental protection (Aisbet and Pearson 2012).

Protectionism has two main ideas which are national interests and the infant industry. But in this case, in accordance with Patrick Lamers in his article entitled "International Biodiesel Markets Developments in Production and Trade," the European Union developed vegetable oils in the form of biofuel. In the European Union, biodiesel type biofuel promoted in the 1980s. However, biofuel developed extensively in the mid-1990s. (Levi and Faur 1997).

Protectionism aims to minimize barriers to domestic products from the invasion of imported goods. There are three categories of non-tariff trade barriers are the first category related to imports, including import quotas, import restrictions, customs procedures, and import permits; second category related to exports includes export taxes, export quotas, export bans; and last category is related to the domestic economy such as the rules applied in domestic legislation in a country, both related to health standards, labor, environment, and domestic subsidies (Dewi 2013).

Based on the official release of the European Union Ambassador to Indonesia Vincent Guérend (2018) through the European External Action Service in April 2018, he is stated that there is no trade barrier or discriminatory legislation towards palm oil. "PO-free" campaigns by companies in the

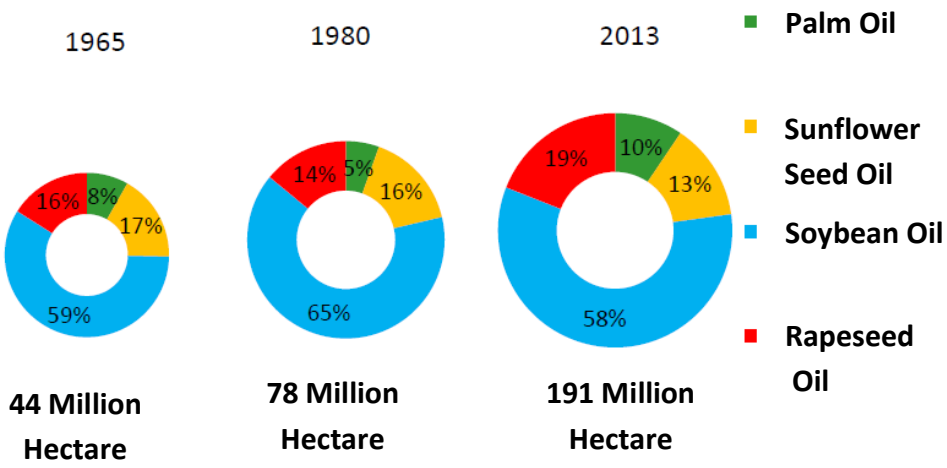
European Union or by certain trademarks are their initiatives for marketing purposes. European citizens emphasize that the products they consume apply the principle of sustainability. In fact, the EU parliament adopted the Renewable Energy Directive (RED) policy to mitigate climate change since 2008 (EEAS 2018).

On the one hand, the implementation of RED is an opportunity to create a new market of biofuel products for exporting countries. But on the other hand, the applying of the new RED rules could create new problems for vegetable oil producing countries which unable to fulfill sustainability standards which are applied by the European Union. So, it will become a new obstacle for the trade of vegetable oils to EU member states.

The application of RED by the European Union directly becomes a non-tariff trade barrier for palm oil. Protectionism has two primary ideas on the interests of the European Union as supranational organizations manifest the interests of its member countries and the infant industry by prioritizing the vegetable oil industry produced by local farmers. The palm oil has seized to the global vegetable oil market share.

Graph 2.4

Change in Share of Area in 4 Global Main Vegetable Oils



Source: Oil World, 2015.

Based on PASPI data released in 2016, the total area of 4 world's major vegetable oil producing plants such as palm oil, soybean, sunflower, and rapeseed in 2013 around 191 million hectares, with 58 percent around 110 million hectares are soybean plantation areas and 10 percent palm oil plantation. In terms of production, area of 110 million Ha soybeans only produces 47 million tons oil or only 31 percent of the production of 4 of the world's main vegetable oils. In contrast, palm oil with an area of 19 million hectares can produce 62 million tons of oil or 41 percent of the production of 4 of the world's main vegetable oils. A large volume of palm oil production is due to the high productivity (8-10 times) than the productivity of other vegetable oils. Thus, palm oil with less land can produce more significant vegetable oils. The vegetable oil productivity data also revealed that palm oil plantations are the most efficient crops to harvest solar energy into vegetable oil (PASPI 2016).

Table 2.1

Comparison of Productivity from Various Vegetable Oil

Plant Type	Oil Productivity (Ton/ Ha/ Year)
Palm	4.27
Rapeseed	0.69
Sunflower	0.52
Peanuts	0.45
Soybean	0.45
Coconut	0.34
Cotton	0.19

Source: The Oil World Static ISTA Mielke GmBh Hamburg, 2008

The legislative effort by the EU parliament on palm oil commodities is only part of the interest in protecting local farmers. It is very logical if the productivity of vegetable oils from palm oil plants much higher compared with the productivity of vegetable oils from other plants. In accordance with OECD (2007), if the EU applies the RED policy to reducing only 10 percent of fossil fuel replaced to biofuel, the agricultural land must convert 70 percent into vegetable oil plants. Meanwhile, if substitute 10 percent of diesel with biodiesel

based soybean, the USA must convert 30 percent of its agricultural land to soybean plantations.

RED directly becomes a stimulus of policy for the utilization of biofuel which more environmentally friendly. In accordance with the Ministry of Foreign Affairs for Financial Education and Training Agency (*Badan Pendidikan dan Pelatihan Keuangan*; BPPK) with Pertamina University in 2018, the European Union encourages the growth of domestic commodities such as rapeseed, sunflower, and soybean. The European Union Parliament is also trying to make rapeseed and sunflower oil the dominant commodity in the European Union. The EU Parliament uses several policies as an effort to reduce the entry of palm oil from Indonesia.

Subsequently, the European Union issued an EU strategy for Biofuel based on the Biomass Action Plan. The European Union Commission emphasizes the importance of fulfilling national targets for biofuel use and biofuel production by using sustainable raw material usage. The European Union conducts a review of policies issued with more emphasis on the importance of sustainability in energy use in the European region to fulfill these objectives.

The new EU energy policy focuses on achieving three aspects are; the first is sustainability which encouraging the utilization of renewable energy and energy efficiency to reduce the impact of climate change; second is competitiveness which aims to improve efficiency and increase competitiveness through the EU's competitive internal energy market; third is supply security guarantees that aim to establish better coordination between EU countries to fulfill energy supplies in the European region (Timo Kaphengst et al. 2007, 3).

The policy followed up with the issuance of a renewable energy roadmap in 2007. This roadmap changes the target set out in the Renewable Energy Directive which targets 20% of renewable energy use for 2020 with a minimum of 10% use of biofuel for the transportation sector. This rule also changes from being voluntary to being binding and mandatory for EU member states. As for several targets issued by the European Union related to energy use to reduce global emissions, among others; [1] 20% reduction in energy consumption by

2020 through efficiency; [2] 20% of the use of renewable energy for total consumption in 2020; and [3] 10% of biofuel in the transportation sector in 2020 (Amezaga et al. 2010).

In January 2008, the European Union Commission submitted a legislative package for the implementation of targets that submitted in March 2007. The binding regulation received approval from the European Union's leaders and parliament in December 2008 called the "Climate and Energy Package" that subsequently enforced in April 2009. The legislative policy package aimed at fulfilling the target of using renewable energy in the European region but at the same time fulfilling the obligations of the EU in the Kyoto Protocol and for the next stage of global negotiations (Amezaga et al., 2010).

EU Renewable Energy Directive regulates the biofuel industry which will be developed by the European Union 'second generation biofuel', that biofuel derived from reserves and residual agricultural products so that it will not disturb food or forest stability. Renewable Energy Directive regulates several things, including; a 10% target for biofuel use for transportation which estimated the threshold for reducing greenhouse gas emissions by 2017, reducing greenhouse gas effects by up to 35% and regulating sustainable criteria (Pous 2009, 4-6).

The sustainability criteria have an influence on the development of biodiesel from all vegetable oil. The criteria explain biofuel products must be produced from environmentally friendly and sustainable production activities. The European Union will not consider biofuel which is originating from plants that grow in high diversity areas such as primary forests, protected forests or areas that will damage ecosystems and high carbon dioxide-containing land after January 2008.

In accordance with the criteria in article 17, states that the biofuel must reduce at least 35% of emissions from GHG compared to the use of fossil fuels. The criteria also regulate technically about biofuel used from the raw material, manufacturing process, to biodiesel produced, how much can reduce the effect of greenhouse gas (Directive, 2009: 28). The policy directly impacts palm oil exporting countries such as Indonesia.

The RED policy requires the utilization of biofuel that fulfills standards or sustainability criteria. The policy affects the trade in biofuel raw materials for biodiesel and sugar cane for bioethanol. Globally, the EU is one of the most advanced producers of renewable energy in its development technology. The European Union leads biodiesel producers in the world. Biodiesel production increased extremely more than 20 times between 1994 and 2005. Germany has almost half of the total production of biodiesel produced by the European Union which produces biodiesel of 2.5 million tons. France is also a large producer of biodiesel in the French EU producing 2 million tons of biodiesel that year (Kaphengst, et al. 2007, 4).

Biodiesel is very important for the European Union. Currently, the EU consumes 80% of biodiesel and the rest is bioethanol. According to a report from the European Biodiesel Board (EBB), EU biodiesel production increased 16.8% to 5.7 million tons in 2007 compared to the previous year which was only 4.9 million tons (Wahid et al. 2008, 3). Therefore, some exporters of raw materials of biofuel consider the RED policy is a form of trade barriers created by the European Union. The RED inhibits the entry of palm oil products on the EU market. The RED considers that palm oil produced from Indonesia is not "green" palm oil. In accordance with Greenpeace, Indonesian palm oil is the biggest contributor to deforestation.

There are three causes of deforestation are land clearing for palm oil plantation, logging plantations and industrial timber estates (*Hutan Tanaman Industri*; HTI). Initially, the pulp and paper industry became a major cause of deforestation. However, in the early 1990s, there was sufficiently massive land clearing for palm oil which the leading cause of deforestation (Greenpeace 2010). The negative campaigns enforced by Greenpeace affected on the Indonesian palm oil. Palm oil needs to fulfill the sustainability criteria to enter the EU market such as palm oil which not planted on high biodiversity land, not planted on the area that holds enough carbon, and not planted on peatlands. The RED policy inhibits the utilization of palm oil because of deforestation (Colchester et al. 2006. 15).

2.4.1. Deforestation

Deforestation is the transfer of forest to become a land that is used for certain purposes. This forest diversion is generally used for agriculture, livestock, and even urban areas. In accordance with Professor of the Faculty of Forestry, Bogor Agricultural Institute, Yanto Santosa, in his research in 2016 explained that the land of palm oil plantations managed by a large company is not from a forest area. It has a business permit issued for palm oil plantations and a certificate of right to use (*Hak Guna Usaha*; HGU). Based on observation samples obtained from the company's area of 46,372.38 hectares (ha), 68.02 percent of them are converted from conversion production forest / other utilized areas (*Areal Penggunaan Lain*; APL).

Furthermore, another 30.01 percent came from limited production forests, and 1.97 percent came from production forests. Meanwhile, the status of land in smallholder palm oil plantations covering 47.5 ha, as many as 91.76 percent is not a forest area when the area made into palm oil plantations and only 8.24 percent with the status of forest areas or forestry designation areas. According to the history of land usage in eight locations before the operation of palm oil plantations where around 49.96 percent used for plantations with the use rights status of other companies, 35.99 percent were former Forest Concessions, and 14.04 percent owned by the community local and former of transmigrants (Santosa 2016).

Previously, the land was around 49.96 percent in the form of rubber plantations, 35.99 percent in the form of secondary forest, 10.7 percent in the form of open land, 3.03 percent in the form of shrubs, and 0.84 percent in the form of dry land mixed with shrubs. So, based on these data, Indonesia does not do deforestation (Jati 2017). The claim from a voting member of the European Parliament is totally wrong that palm oil cause of deforestation in Indonesia.

2.4.2. Global Deforestation

Deforestation is a normal part of the development process in each country. All urban, residential and agricultural areas in each country come from deforestation. Therefore, Indonesia is not the world's biggest deforestation actor. As the results of Matthew (1983) study that at the beginning of development in

subtropical countries such as Europe and North America which deforested 653 million hectares before 1980 (PASPI 2016).

Picture 2.2

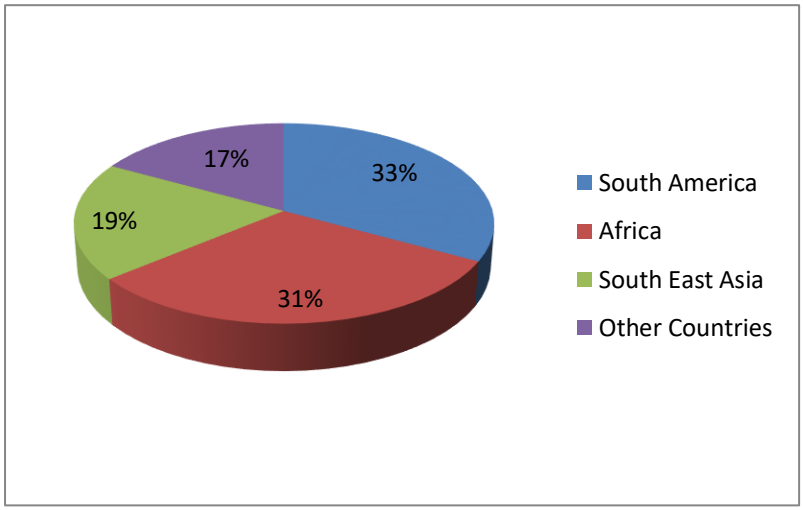
The Wave of Deforestation in the United States 1620-1920 (green = forest)

Source: www.globalchange.umich.edu

Meanwhile, countries in the tropical region in the same period are only deforested 48 million hectares because of development and the population relatively low. However, since the 1980s tropical countries and other countries were carrying out development and facing population growth which resulted in increased deforestation.

Graph 2.4

Global Deforestation 1990-2008



Source: European Commission, 2008

In the period 1990-2008, the European Commission (2013) recorded global deforestation reaching 239 million hectares. 33 percent of deforestation occurs in South America and 31 percent in Africa. Whereas, Indonesia in Southeast Asia just around 19 percent. According to global deforestation data, deforestation is part of the normal development process in many countries, especially developing countries. Globally, deforestation in Indonesia is not the biggest compared to what developed countries did, even though it is a normal development process. Before 1980, the extent of deforestation in the North American region, Europe and South American countries such as Brazil and Argentina was still far more significant than deforestation in Indonesia.

2.4.3. Inter Paradigm: Local Institution vs. International Institution

The European Union supports and welcomes Indonesian commitment to reduce emissions from deforestation to 70-90% under the business as usual level up to 2030. Based on the attachment of data reported by the World Resources Institute, 55% of tree cover loss occurred in legal concessions in Indonesian primary forests from 2000 to 2015 or more than 4.5 million hectares where the area more significant than the Netherlands such as forest conversion to palm oil plantations, pulp, and paper industries which contribute around 1.5 million hectares. 45% of tree cover loss occurs outside the concession area and has destroyed about 3.6 million hectares, most of which enforced by concessionaires (using land more than permitted), unsustainable harvest rates, or networks of small plantations palm oil that operates outside legal concessions but is likely to put their products in the same supply chain (World Resources Institute 2018).

The definition of deforestation in Indonesia became a long-standing debate that caused differences in calculations between local institutions and international institutions. The difference such as in looking at the lost tree stands for industrial plantations (timber plantations). Global deforestation calculates the loss of natural forests for industrial planting forests (*Hutan Tanam Industry*; HTI). In accordance with the Minister of Forestry regulation concerns the procedure of reducing emissions from deforestation and forest degradation. Deforestation is a permanent transformation from forested areas to non-forested due to human activities. The national definition of forests is a monoculture

plantations consider part of the national forest domain while not for palm oil plantations even though they are monoculture plantations. Palm oil is not considered a tree in government vocabulary. The absence of universal definitions also found in formulating deforestation in Indonesia (PASPI 2016).

This understanding causes differences in the calculation of deforestation rates according to Indonesia and other parties. Global deforestation calculates the loss of land caused by conversion to Industrial Plantation Forests while the estimates of the Ministry of Environment and Forestry do not include this. In accordance with the Executive Director of Forest Watch Indonesia (FWI), Soelthon Gussetya believes that the definition of the Minister of Forestry Regulation is inappropriate because it reduces the meaning of the forest itself. FWI considers that the forest data approach with the description of reducing forests is not just the dominance of trees. The deforestation in Indonesia decreased to 133,630 hectares in the period 2016 - 2017 compared to the previous period. North Maluku and East Kalimantan are provinces that have the highest rates of deforestation in 2016 with 52 thousand hectares and 157 thousand hectares. The area is a land clearing process for HTI areas recognized through FWI publication articles (PASPI 2016).

2.4.4. Impact of Non-Tariff Policy on the Indonesian Traditional Markets

There are several forms of rules and policies in the European Union which in the form of regulations, directives, provisions, recommendations, and opinions. The highest standard is regulation which is appropriate with Article 249 in the European Community Treaty that regulation is binding and generally applies to all EU member states. This rule must be implemented directly and outlined in the domestic legal rules of EU member states without changing any of the contents of the regulation. The second rule is the directives. Different from regulation, the directive does not generally apply to member countries. This directive can be binding or voluntary depending on the decisions stipulated in the directive and national policies with the forms and methods desired by each member country. Recommendations and opinions do not have a direct impact on member countries. These two rules do not have the binding power of member

countries. This rule only serves to review the rules that have been set and are binding on all member countries (Zervoyianni et al. 2006, 26-29).

The EU's renewable energy directive policy (RED) approved in December 2008 that each member country should increase the use of renewable energy between 8.5% and 20% by 2020. The change in rules which is previously non-binding became binding on all members. The target of using 10% of biofuel for transportation also includes goals that must be met by each of its members (EurActiv 2008).

Member countries are free to achieve these targets including importing raw materials from other countries because this EU policy is in the form of the directive. In addition, member countries also have a responsibility to pay attention to the sustainability criteria for biofuel products used because biofuel derived from production activities must have sustainable criteria.

Several member countries have applied the directive which is issued by the European Union parliament into their national policies. Germany has issued a regulation relating to biofuel products that will enter the country must go through a certification process in the International Sustainability and Carbon Certification scheme. The directive policy affects the Indonesian traditional market such as the Netherlands, Spain, and Italy. Although, the volume and value of Indonesian palm oil can fulfill the target energy needs in the EU. However, it does not fulfill the aspect of sustainability. Therefore it does not include efforts to comply with the directives of the European Commission.

2.4.5. The Traditional Market Responds towards Non-Tariff Policy

The European Union leads the import of palm oil from Indonesia after India. The energy directive policy is very detrimental to Indonesia because the EU is a part of the traditional market. The traditional market is trading partner countries of Indonesia which considered to have a strong economic cooperation relationship for a long time and became the export destination countries of Indonesia such as the USA, Japan, and Western European countries. Meanwhile, the Non-Traditional market is a market destination country that potential economically and prospectively for Indonesia such as Africa, Asia, and Eastern European countries.

There are the biggest three traditional markets in the European Union market such as Netherland, Spain, and Italy. The traditional market has a significant performance in the export activity in Indonesia and refuses the Non-Tariff policy which prohibits the import palm oil from Indonesia and Malaysia. The analysis of the trade structure of the palm oil commodity is essential as a basis in formulating the economic diplomacy strategy to find out the impact of non-tariff policies on the EU market.

2.4.5.1. Netherlands

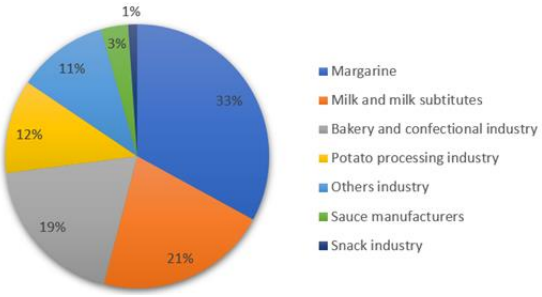
The Government of the Netherlands through the Minister of Foreign Trade and Development Cooperation, H.E. Sigrid Kraad, considered that the energy directive policy that led to the purposed avoids on palm oil imports and various negative campaigns "Palm Oil Free" was measurable discrimination. The Dutch authorities have submitted a review of EU legislation's purpose related to avoids on palm oil imports to the EU market and suggested the need for dialogue to overcome these banning problems (Montratama et al. 2018).

In accordance with the Observatory of Economic Complexity, the Netherlands has imported palm oil commodities worth US $ 1.58 billion and exported US $ 1.25 billion in 2016. The import quota itself met from the results of trade transactions with Indonesia (33 percent), Malaysia (29 percent), Honduras (8.4 percent), Papua New Guinea (8 percent), and others (21.6 percent). Meanwhile, the export destination countries for this commodity are Germany (35 percent), Belgium and Luxembourg (21 percent), France (11 percent), Russia (4.8 percent), and others (28.2 percent).

The data obtained from the Task Force on Sustainable Palm Oil on the utilization of palm oil in the Netherlands in 2015 with a total volume of 270 thousand tons divides into several applications including; (1) margarine (89 thousand tons), (2) milk and milk substitution (57 thousand tons), (3) bakery and confection industries (51 thousand tons), (4) potato processing industry (31 thousand tons), (5) other industries (thirty thousand tons), (6) sauce manufacturers (9 thousand tons), and snack industries (three thousand tons).

Graph 2.5

Dutch Domestic Palm Oil Consumption 2015



Source: Task Force of Sustainable Palm Oil 2016

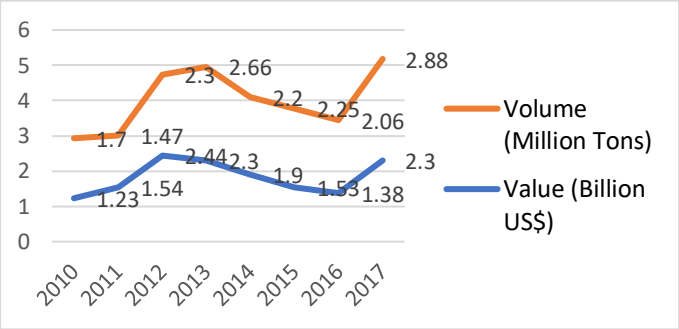
The Netherland is the leading exports of palm oil in the European Union. Port Rotterdam's existence which has four special storage and handling facilities for vegetable oil commodities with a size of 1.2 million cubic meters is the result of the Dutch Government's investment in the form of an expansion project for storage and upgrading of the port infrastructure that enables more large tankers to dock at this port. In addition, the port supported by transportation modes for accommodate shipping by lands such as terminals for tanker trucks and cargo stations for trains to ensure that palm oil commodities reach consumers. The existence of the Rotterdam port also is a derivative market that made the Netherlands as the largest exporter and a strategic position as a determinant of palm oil cost (Dodiek 2018).

In the Netherlands, Greenpeace is a player from non-government organizations (NGOs) who engaged in environmental issues which hold certification and campaigns for the utilization of sustainable palm oil industry. Meanwhile, representative of the government handled by the Foreign Trade Ministry considers the majority of these commodities fulfilled through import quota mechanisms from certain exporting countries.

Palm oil tends to increase for the needs of the Dutch domestic market marked by an increase in import quota of 22 percent in 2017. The import demand fulfilled from Indonesia and Malaysia. However, the percentage of import supply increased from countries in Latin America (Statistics Netherland 2018). In addition, the RSPO encourages the utilization of sustainable palm oil certification through a national commitment signed by representatives from the industrial sector and the government.

The majority increased demand in the Netherlands from the food industry. In 2017, volume increased by 0.8 million tons and trade value margin raised by 0.69 million US$. In addition, import value increased by 172 million US$ recorded by palm oil commodities originating from Indonesia. Therefore, Indonesia as the largest exporter in the Netherlands needs to maintain a market share by guaranteeing the availability of supply for consumers from the Netherlands.

Graph 2.6
Import Value and Volume of Dutch Palm Oil



Source: World Bank 2017 and Netherland Statistic 2018

The graph shows that the volume and value of Dutch palm oil increased significantly from 1.7 million tons and 1.23 billion US in 2010 to 2.88 million tons and 2.3 billion US in 2017. Thus, the trade of palm oil in the Netherland is quite good.

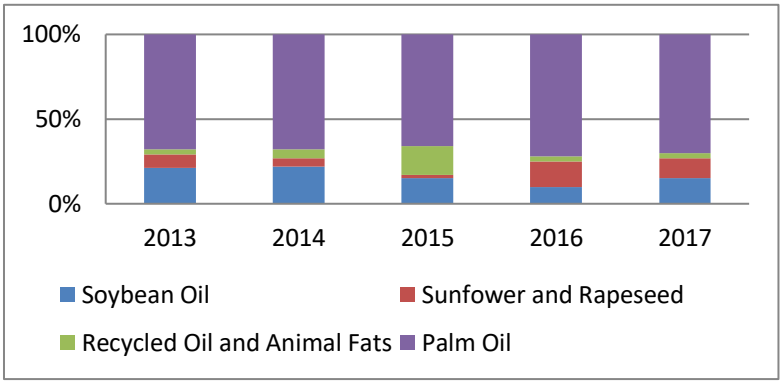
2.4.5.2.Spain

Spain is the traditional market partner of Indonesian palm oil exports with high value because of the use of large enough biodiesel as a renewable energy source with a composition of biodiesel for the primary fuel of 3: 1 for public transportation. The demand for palm oil supply is very high especially for biodiesel raw material of more than 65 percent which is higher than all other sources.

Renewable energy invested heavily by several companies in Spain. Spain is a significant producer of wind energy and became the first solar energy in Europe. Furthermore, several energies also utilized in Spain such as nuclear, gas, coal, and oil. In 2009, fossil fuels contributed to electricity in Spain by 58 percent, Nuclear contributed 19 percent, and water, 12 percent.

Graph 2.7

Spanish Biodiesel Raw Materials



Source: Foreign Agricultural Service, 2018.

The opportunities and potentials for the growth of the utilization of biodiesel are quite good. In the past five years, the consumption of biodiesel increased by 600 MT in the transportation sector. Even though, it had dropped in 2013 due to changes in the mandate regarding biodiesel. The Spanish Government's mandate influenced significantly on the utilization of palm oil, especially for biodiesel.

Table 2.2
Biodiesel Consumption in Spanish Transportation

Year	Biodiesel Consumption **(MT)**
2013	700
2014	679
2015	762
2016	932
2017	1.080

Source: Foreign Agricultural Service, 2018

In 2015, the total Spanish palm oil import from Indonesia was quite fluctuating with the highest record of imports. The market share recorded Indonesian palm oil exports of more than 50 percent, except in 2017. However, data from the past two years showed an increased level in the Spanish imports to the world which is inversely proportional to the export rate of Indonesian palm oil to Spain.

Table 2.3
Spanish Palm Oil Imports

Year (Ton)	Spanish imports from Indonesia	Spanish imports from the world
2013	481.564	672.973
2014	330.927	548.266
2015	570.981	895.074
2016	257.003	543.295
2017	242.528	617.795

Source: WITS 2018

The major problem of Indonesian palm oil export in Spain is the negative stigma that damages the environment. Indonesia needs to be more intensive in lobbying the Spanish government and understanding the characteristics of the situation of palm oil imports in Spain.

2.4.5.3. Italy

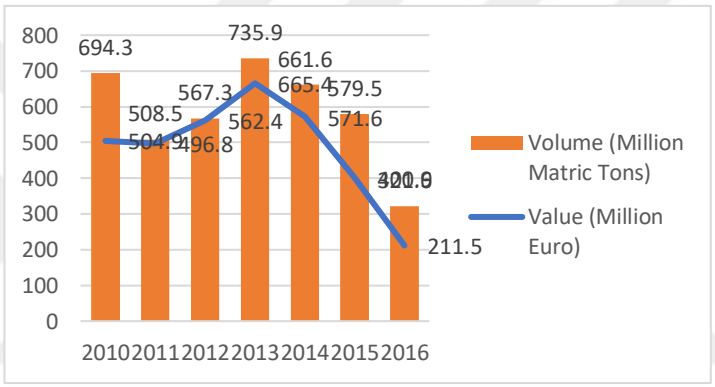
Italy is also the partner of the traditional market of Indonesia and even rejects the policy of discriminating towards Indonesian palm oil on European Union biofuel products. In 2017, Italy recorded transactions worth 1.03 billion Euros for palm oil commodities. In terms of exporters, Italy is in the third most significant position in the European Union with a transaction value of 120 million Euros, which is mostly dominated by palm oil fractions with HS Code 15132910 (CBS 2018). Italy is the party that rejects the policy of discriminating towards Indonesian palm oil on European Union biofuel products.

In accordance with the Indonesian Ambassador to Italy H.E., Esti Andayani in the Republika daily (2018), stated that the Italian Government would assist Indonesia in dealing with the non-tariff policy by the EU. Italy needs palm oil in various domestic industrial sectors, especially in the food and cosmetics sectors. In addition, a meeting of the Indonesian Ambassador to Italy with Ferrero Rocher as president director of Nuttela assessed that Indonesian palm oil is a safe and suitable product with food health standards set in the European Union.

In accordance with the Observatory of Economic Complexity in 2016, Italy has imported the US $ 590 million of palm oil from Indonesia which

covers 61 percent of the share of the domestic market, Malaysia in second place with a value of US $ 301 million and the Netherlands with a value of the US $ 50.9 million. In Italy, the use of palm oil divided into several categories including (1) soap, detergent, cosmetics, (2) Biodiesel, (3) food industry, and (4) electricity generation. The palm oil is used in the food industry as a raw material because palm oil has a neutral taste, contains high saturated fat but does not smell that has a characteristic that gives a unique taste for food products that use it as well as there are no other plant commodities that have similar characteristics (Nestle 2017).

Graph 2.8
Indonesian Palm Oil Exports to Italy



Source: Tridge, 2017

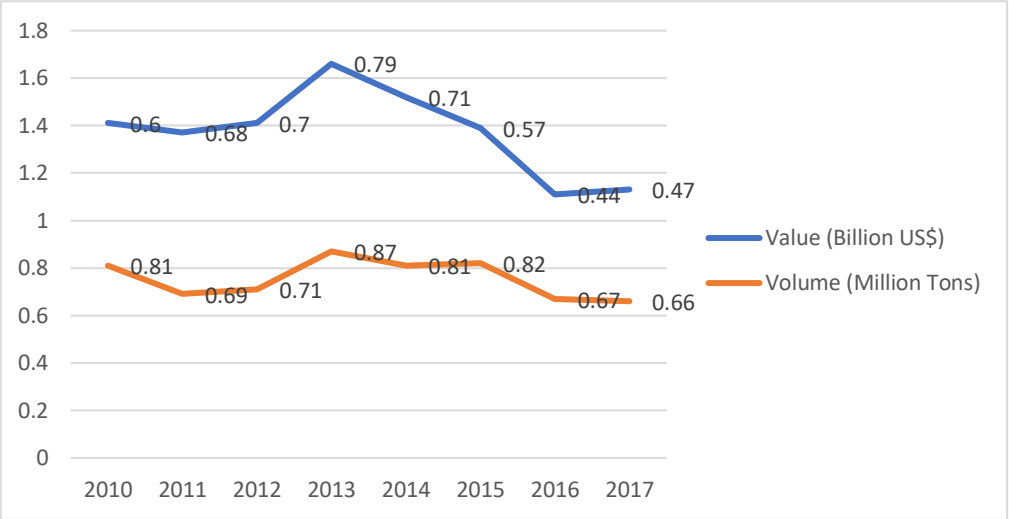
Italy's domestic import performance decreased due to the weakening of the country's domestic economy which affected consumer purchasing power. Since 2016, Italian palm oil imports have declined. The latest data summarized from Tridge shows a decline in value and volume of imports worth US $ 148.2 million and 676 million metric tons in the 2015-2016 periods. But in 2017, the development of Italy's economy has a great influence on palm oil trade. Crude palm oil processed products to biodiesel from Indonesia used as fuel for electricity generation from processed crude palm oil products in Italy because of competitive costs compared to other exporting countries such as Malaysia and the Netherlands.

On the other hand, In the Netherlands, negative issues alleged by environmental activists argued that palm oil commodities were the actors in the destruction of rainforest ecosystems in their production areas. In Italy, a negative campaign claims palm oil in the food industry cause of cancer or generally

endangers the health of consumers. The negative campaign has an impact on the demand for palm oil commodities. Therefore, this negative campaign needs to be a focus by the Indonesian government to solve the problem with a specific strategy.

Graph 2.10

Import of Italian Palm Oil



Source: World Bank, 2018

In 2013, the Publication of the National Energy Strategy proposed a strong warning to main players regarding the medium and long-term goals of the Italian government for the energy sector. The Italian government aims to decrease energy costs, fulfill environmental goals, increase the security of energy stock and encourage sustainable economic development.

Nevertheless, the Italian government has experienced great development in the renewable energy sector and has succeeded in integrating large volumes of the renewable energy mix. The application of energy strategy is only the first step towards achieving the ambitions of the Italian government. The policy must focus on the development budget to become an international benchmark.

Market liberalization and infrastructure growth in Italy have progressed significantly, especially in the enhancement electricity market for transmission among the north and south and the separation of markets has resulted in cost convergence across the nation. Since 2014, energy use in Italy has increased which consumed 148.9 MMToe (million metric tons of oil equivalent), then rose

to 149.9 MMToe in 2015 and 151.3 MMToe in 2016. In 2016, the energy mix used as much as 58.1 MMToe for petroleum and gas respectively, 15 MMToe for renewable energy and 11 MMToe for coal (Montratama et al. 2018).

In 2014, Italy's biodiesel capacity achieved around 2.5 MMT. Two categories of Italian biodiesel operators are the producer of biodiesel and oil processing which produce pure vegetable oil for the biofuel and food industry. In Italy, biodiesel mainly produced from 40 percent rapeseed oil, 30 percent soybeans oil, and 25 percent palm oil. Rapeseed oil and Soybean oil is imported from the domestic commodity of the EU. Palm oil mainly imported from Indonesia and Malaysia. Biodiesel utilized in mixtures with traditional diesel for transportation and to the diesel heaters (Bertini 2016).

In accordance with Montratama (2018), the movement of the export-import balance in both transaction value and quantity is so dynamic between Indonesia and Italy. Both countries recorded transaction values of US $ 3.24 billion (2015), US $ 3 billion (2016), and US $ 3.5 billion (2017). Indonesian export value is a surplus of US $ 504 million (2015), US $ 184 million (2016), and the US $ 362 million (2017) which is the Indonesian trade balance higher than in Italy. The surplus of export activity obtained from non-oil and gas commodities. Main export commodities include palm oil (the US $ 642 million), footwear (the US $ 60 million) and coffee (the US $ 38 million). Meanwhile, potential commodities such as fish and fishery products (the US $ 51.2 million), then leather and processed leather products (the US $ 3.4 million) (Montratama et al. 2018: 87).

Italy is the fourth largest import of palm oil commodities in the world. Since 1997, the Italian palm oil market increased with the majority coming from imported products. However, palm oil decreased quite sharply in 2016. The data import value of palm oil in Italy is at US $ 438.7 million in 2016. Indonesia has a portion of 48 percent in one sequence from Malaysia which has a portion of 51 percent. The import value recorded by Indonesia is US $ 211.5 million with a quantity of 321.2 million metric tons. The palm oil utilized as the raw material of food, especially in some types of chocolate Ferrero Rocher and Nutella also used as a cosmetic raw material (Montratama et al. 2018).

CHAPTER III
ECONOMIC DIPLOMACY STRATEGY

3.1. INDONESIA- EUROPEAN UNION COMPREHENSIVE PARTNERSHIP AGREEMENT

The relation between Indonesia and EU member states has always marked by close economic ties. The EU is the third largest destination of Indonesian exports. Several EU member countries are also the main sources of foreign investment in Indonesia. Basically, the two economies are at different stages of economic development and technological capacity. Therefore, their relationship tends to be complementary rather than competing with each other.

3.1.1. Comprehensive Economic Partnership Agreement

The relation between the European countries and Indonesia has developed since 1949. The European Union (EU) - Indonesia relations were led by the EU-ASEAN partnership in 1972 when the European Economic Community (EEC) became ASEAN's first formal dialogue partner (Lim 2012). The closer relationship between the two regions has been expanded progressively on the economic, political and cultural fronts. The dialogue has been enhanced with numerous technical level meetings and biannual Ministerial meetings.

Therefore, the European Union-Southeast Asia relationship has focused on Southeast Asian development, the focus of cooperation has transformed to an emphasis on diplomacy, where the two sides discussed regional and international problems, and finally to a new emphasis on non-traditional risks and regional integration support (Lim 2012).

ASEAN helps to maintain regional security and peaceful environment in Southeast Asia and lowered barriers to travel and trade, supporting the region’s

economies in taking off (Acharya 1995). That growth has lifted millions of people out of poverty and has allowed many more to achieve their dreams.

Today, interdependence is global, complex, and broad based, comprising not only trade but also finance and production networks. Furthermore, interdependence today is not just an economic phenomenon. The several of global issue such as climate change, refugee flows, pandemics, and human rights abuses are precisely what add scope, depth, and complexity to the nature of global interdependence (Acharya 2016).

At least there are 4 (four) advantages for Indonesia trade liberalization, such as tremendous natural resources; a burgeoning domestic consumer class; strong democratic political leadership; and a stable financial system. Domestically, the national risks are also real, such as a partially reformed legal and regulatory economics environment, improving national infrastructure, rigidities of the systemic labor market, and rampant bureaucracy corruption.

EU and ASEAN have been interacting with each other on the economic, trade and political levels (Haas 2004). Bilateral cooperation was continuously expanded and eventually, the EU Delegation to Indonesia was opened in 1988. Economic and political dialogue between Indonesia and the EU takes the form of regular Senior Officials Meetings. In 2000 relations were further reinforced with the release of the European Commission's communication "Developing Closer Relations between Indonesia and the EU" (Lim 2012).

In the Southeast Asia region, Indonesia is best suited to become a strategic pivot. With a population of 265 million (BPS 2018), Indonesia is 3rd world democratic state after the US and India. Indonesia’s foreign policy must be based on the down to earth diplomacy and strengthening public diplomacy which can be implemented on Indonesian interests. Southeast Asia is one of the fastest-growing, most dynamic regions in the world.

For almost twenty five years, the European Community Cooperation Agreement with the Association of Southeast Asian Nations (ASEAN) is formalized in 1980. On this basis, economic and political discussions have been held regularly. Bilateral dialogues between the EU and Indonesia have included

periodic reviews of political, economic and cooperation issues in Senior Official Meetings (Severino 2005).

A Framework Agreement on Comprehensive Partnership and Co-operation was signed on 9 November 2009 and entered into force on 1 May 2014 (Indonesia Ministry of Trade 2016). The Agreement provides the basis for holding regular political dialogue and sector cooperation and takes bilateral relations to a higher level. The Agreement provides the legal framework to engage and cooperate across a wide spectrum of policy fields, including human rights, political dialogue, and trade. A Free Trade Agreement develops a key aspect of the overall bilateral relationship between the EU and Indonesia (the EU Delegation to Indonesia & Brunei Darussalam 2016).

Indonesia has benefits from trade preferences granted by the EU Generalized Scheme of Preferences (GSP) which about 30 percent of total imports from Indonesia enjoyed lower duties (Indonesia Ministry of Trade 2016). The EU Generalized Scheme of Preferences (EU-GSP) since 1971 has assisted developing countries in their efforts to reduce poverty, promote good governance and sustainable development. By providing preferential access to the EU market, the GSP helps developing countries in generating additional revenue through international trade. Regulation Number 978/2012 of the European Parliament and the Council of 25 October 2012 on applying a scheme of generalized tariff preferences or the GSP Regulation is the legal framework for the GSP. The scheme is in line with WTO law, having been introduced under the so-called "Enabling Clause", which allows an exception to the WTO "Most Favored Nation (MFN)" principle (EU Commission 2016).

In April 2016, negotiations for an EU-Indonesia free trade agreement were launched on 18 July 2016 (the EU Delegation to Indonesia & Brunei Darussalam 2016). Indonesia needs to conclude a free trade agreement that able to facilitate trade and investments and covers a broad range of issues, including tariffs, non-tariff barriers to trade, trade in services and investment, trade aspects of public procurement, competition rules, intellectual property rights as well as sustainable development (EC 2016).

A Free Trade Agreement develops a key aspect of the overall relationship between the EU and Indonesia which is framed by the Partnership and Cooperation Agreement which entered into force on 1 May 2014 (the EU Delegation to Indonesia & Brunei Darussalam 2016). In Brussels, on 18 July 2016, EU Trade Commissioner Cecilia Malmström and Indonesian Minister of Trade Thomas Lembong agreed to officially launch the negotiations for a Comprehensive Economic Partnership Agreement (CEPA) between the EU and Indonesia to deepen and strengthen a key aspect of the bilateral relationship.

The announcement follows the decision by the EU Council to give the green light to the European Commission to open negotiations for Indonesia based on intense preparatory work (the EU Delegation to Indonesia & Brunei Darussalam 2016). Thus, both sides agreed to negotiate an ambitious agreement that facilitates trade and investments and covers a broad range of issues, including customs duties and other barriers to trade, services, and investment, access to public procurement markets, as well as competition rules and protection of intellectual property rights. The agreement also includes a comprehensive chapter aiming to ensure that closer economic relations between the EU and Indonesia go hand in hand with environmental protection and social development (the EU Delegation to Indonesia & Brunei Darussalam 2016).

Strengthening economic relations between Indonesia and the European Union member countries through the Indonesia-EU Comprehensive Economic Partnership Agreement (IE-CEPA) will enable the increase and diversification of two-way trade and investment. Negotiations on the Comprehensive Economic Partnership Agreement (CEPA) between the European Union and Indonesia officially began on 18 July 2016 and the eighth round of negotiations took place in June 2019. The Indonesian side expressed an intention to complete negotiations under the current President's administration. The European Union has no deadline because it is concerned with content rather than time limits (IE-CEPA 2019).

Increasing trade and investment will open up new opportunities for businesses, workers, and consumers which will have an impact on improving welfare in Indonesia and the EU member countries. Both large companies and

Small and Medium Enterprises (SMEs) will get wider and special access to markets that have so far not been touched. Lower tariff levels and easier administrative processes will increase trade. Stable and predictable investment conditions will encourage innovation and strengthen competitiveness. An open economy will encourage job creation and improve people's living standards.

The complementarities between the Indonesian economy and the EU can be used more effectively through Indonesia-the EU Comprehensive Economic Partnership Agreement (IE-CEPA). Improving economic relations opens up opportunities and further growth in sectors of mutual concern and in line with the priorities of Indonesia, such as land and maritime infrastructure, electronics, energy, textiles, and marine products. The establishment of IE-CEPA will further open the flow of foreign investment from the EU member countries which will drive the economy of the EU and Indonesia through technology transfer and job creation and increase Indonesia's competitiveness in ASEAN (IE-CEPA 2019).

The special preferential tariff agreed in IE-CEPA will allow Indonesian exporters to gain strong access to European markets outside the Generalized System of Preferences (GSP). The EU as a hub for companies operating in the European market, Indonesia will truly benefit from the opportunities arising from the EU's large trade flows with the European Union and also from the EU's trade flows with other free trade partners throughout the world.

IE-CEPA will also provide a framework for cooperation and exchange of knowledge in various fields that can benefit all parties. For Indonesia, technical cooperation in fields controlled by the EU member countries such as manufacturing, maritime transportation, and power generation (such as geothermal) can help improve business competitiveness.

3.1.2. Impact of IE-CEPA on Economic Relations

Indonesia and EU member countries are natural trading partners. The two economies are at different stages of economic development and different stages of technological mastery. The trade relationship between the two has not yet reached its full potential. Trade statistics show that even though trade relations have developed in terms of absolute value. However, the relative

importance of the two economies is weakening one another. Indonesia's share of exports in the EU market has gradually declined. Meanwhile, the penetration of Indonesian products is stagnant.

Market access is the most important problem for Indonesian products. The problem is related to the implementation of various measures on the export of Indonesian products to the EU. Many Indonesian producers have difficulties to fulfill various regulations, including sanitary standards and technical requirements specifically related to the Non-Tariff Barrier. However, the problem of market access will also arise from the reduction of preference tariffs related to Indonesia's potential "graduation" from the GSP scheme, as well as from the diversion of EU import trade to its partners in the FTA.

The problem shows the importance of new trade agreements between Indonesia and the EU. IE-CEPA will provide a better of sharing and exchanging information in trade regulations and procedures in addition to reducing tariffs on imports of Indonesian products. However, this advantage is more than just having wider export market access from increased trade relations with European Union countries.

The composition of products imported by Indonesia is both semi-finished goods and capital goods used for further production. With the increase in international production networks, imported input is a necessity for creating industries that can compete for both domestic consumption and exports. The European Union is known for having efficient and high quality capital goods parts and component producers. IE-CEPA will open up opportunities for Indonesian producers to improve their performance and strengthen industrial development. Therefore, one way to create better trade relations is to enter into trade agreements that provide wider market access for the two economies. In this case, trade agreements between Indonesia and the EU will be an important part of the Comprehensive Economic Partnership Agreement.

Indonesia and the EU in the trade liberalization and foreign direct investment through a comprehensive economic partnership agreement (CEPA) will bring benefits for regional economic development. It challenges Indonesia authorities and all stakeholders to concern for the improvement of national

infrastructure and logistics networks which aim to upgrade Indonesian economic growth through closer trade relations and attracting more incoming foreign investment from the EU countries.

However, the proposed CEPA has raised several concerns among Indonesian stakeholders. First, the public is concerned that by providing preferential access to EU products, Indonesian producers in various sectors will risk losing their domestic market share due to increased competition. Second, producers still have limited capacity to fully take advantage of these opportunities, although CEPA will provide wider access to the European market for Indonesian products. Third, the scope and modalities of trade liberalization have not been well determined which raises questions about the scope and liberalization. Thus, products that would be considered sensitive for the ACP area were not included in liberalization.

3.2. ANALYSIS OF THE IMPLEMENTATION OF ECONOMIC DIPLOMACY STRATEGY ON PALM OIL IN THE EUROPEAN UNION

Currently, economic diplomacy has become the focus of the interests of most countries in the world as an effort to develop the economy in the future. Indonesia is one of the 20 largest economies in the world that is incorporated in the Group of 20 (G-20). Indonesia's economic diplomacy is focused on encouraging exports and increase trade, tourism, and investment (TTI). Indonesia's economic diplomacy is also directed to strengthen the system of bilateral and regional economic cooperation including intensifying the discussion of the Comprehensive Economic Partnership Agreement (CEPA) with several countries and regions.

Basically, economic diplomacy is an official diplomatic activity that is focused on the goals of a country's economic interests at an international level which includes efforts to increase exports, attract foreign investment, and work participation in various international economic organizations. Similar to traditional diplomacy, economic diplomacy aims to influence external economic policy in order to achieve national interests. According to Kishan S. Rana,

"economic diplomacy is a process in which the state deals with the outside world to maximize its objectives in all forms of activity such as trade, investment and other forms of economic interaction" (Rana 2007).

Factors that influence the development of the role and function of economic diplomacy include: 1) the process of internationalization and strengthening the dependencies of the world economic system; 2) expansion of the market economy, liberalization of the national economy, increased state interaction through international trade and investment as well as an increase in global economic actors; 3) economic globalization (a combination of the process of internationalization and an increase in the role of multinational companies) which has an impact on increasing the role of economic diplomacy. In this case, economic diplomacy plays a role in encouraging the development of internationalization in the country. On the other hand, it also holds back the power of the state or other actors who are trying to monopolize the benefits of globalization; 4) adaptation to progressive management methods, energy efficiency and new technologies; and 5) the development of the country's economic innovation towards external economic openness (Baranay 2009).

Economic diplomacy is inseparable from a country's political factors and related to each other between prosperity or ‘business end’ and political stability or 'power-play end'. The driver of economic diplomacy activities is the strategic objectives of a government and mature calculations related to costs and benefits based on political logic. Therefore, economic diplomacy is defined as the use of international political tools to achieve economic goals through various collaborations such as development (including health, education, and agriculture), energy, environment, finance, and food.

The state is the main actor in economic diplomacy. However, non-state actors are also economic diplomacy actors. Thus, economic diplomacy is also performed by business actors between two countries (B-to-B). In economic diplomacy, the emergence of various actors other than traditional actors is not a new thing in international economic relations. Besides the technical ministries, other actors such as the business community, nongovernmental organizations and other institutions increasingly play a role in economic diplomacy especially

with the increasingly sophisticated information and communication technology. The success of economic diplomacy is marked by the harmony of external and internal economies such as the integration of trade and investment promotion as well as domestic policies on trade and foreign aid. This policy has been adopted by many Scandinavian countries such as Denmark, Finland, Norway, Sweden, Iceland and other countries such as Australia, Brunei, Canada, South Korea, New Zealand and several countries in the Caribbean.

Thus, economic diplomacy is understood as a political tool to leverage in international negotiations to improve the welfare of the national economy and the use of economic leverage to enhance a country's political stability (Okano-Heijmans 2013). Various types of economic diplomacy aim to achieve prosperity and political stability such as commercial diplomacy, trade diplomacy, financial diplomacy, and sanctions.

Economic diplomacy also covers various dimensions. First, the bilateral dimension is in the form of economic activities between two countries, such as a trade agreement or free trade agreement (FTA) between two countries. Second, the regional dimension is in the form of economic agreements by countries in the region such as the Regional Economic Comprehensive Partnership (RCEP) or the Asia Pacific Economic Cooperation (APEC). Third, the multilateral dimension is in the form of trade negotiations in the World Trade Organization (WTO).

The diplomacy of Indonesia aims to support independence in the field of food and energy especially renewable energy and sustain national economic independence. The current global and future geo-economic conditions will present many challenges for the Indonesian economy. These challenges such as the increasing non-tariff barriers in export destination countries which are one of the consequences of the global crisis that occurred a few years ago where each country tends to protect its domestic market through efforts to apply trade barriers in the form of non-tariff measures (NTMs) and non-tariff barriers (NTBs). In 2015, the number of NTMs in the world increased very rapidly, such as Sanitary-and-Phytosanitary and export taxes/restrictions. Meanwhile, when

viewed from a geographical perspective, NTMs are widely applied by the European Union, India, Russia, and Latin America.

In case of non-tariff barriers (NTBs) toward palm oil trough RED, Indonesia continues to approach comprehensively through several ministries to respond to the EU's non-tariff policy on palm oil commodity from developing countries. Indonesia strives to apply economic diplomacy strategy by involving associations and diplomats to continue to collect the information and determine the right steps. The EU resolution on the inhibition of palm oil is very discriminate because it ignores the effort of Indonesia to implement the management of the sustainable plantation. Indonesia creates the Agency of Peat Restoration (*Badan Restorasi Gambut*; BRG), Presidential Instruction on the moratorium on enlargement land of palm oil, and implementation of the Indonesian Sustainability of Palm Oil (ISPO) (Hassan 2017).

Generally, the understanding of economic diplomacy in the practical order is still limited, including in Indonesia. The Indonesian Ministry of Foreign Affairs only provides one indicator for the success of Indonesian economic diplomacy is an increase in Indonesian trade volume with its trading partners. There are at least eight indicators of economic diplomacy typology that can be derived to assess economic diplomacy activities. The types of economic diplomacy can be a good starting point to become a benchmark for the future development of Indonesian economic diplomacy (Rana 2007).

The Indonesian Ministry of Foreign Affairs has a little role as the front guard of economic diplomacy actors regarded as one of the partners of the Indonesian Ministry of Coordinator Economic Affairs. The Ministry of Coordinator Economic Affairs noted that nineteen related ministries except the Ministry of Foreign Affairs. The Ministry of Foreign Affairs has a minimal role in the formulation and implementation of economic policies, both internal and external in Indonesia.

The Indonesian Ministry of Foreign Affairs has a limited function in managing economic policy in Indonesia, both external and internal policy. Several main economic external activities enforced by other ministries such as global trade activities by the Ministry of Commerce, monetary and financial

activities by the Investment Coordinating Agency (*Badan Koordinasi Penanaman Modal*; BKPM). However, the role of the Ministry of Foreign Affairs has eliminated as one of the main actors of Indonesian economic diplomacy.

Differently, in developed countries enforce the external economic activity by combined function between the Ministry of Foreign Affairs and related agencies. For example, the Australian Department of Foreign Affairs and Trade (DFAT) combines the function in charge of development aid such as the trade department, the foreign ministry, and the agencies. DFAT coordinated to ensuring the bilateral relations, regional, and global interest (DFAT 2012). DFAT is an important player in the practice of economic diplomacy (Killian 2012).

The coordination of economic policy emphasizes the importance of the involvement of the non-state players in economic diplomacy. However, the non-state player has still a poor role in the case of a ban on imports of Indonesian palm oil in the EU market (Rana 2007). GAPKI as one of the associations driving the national oil industry is often not involved in the negotiation process. The weak coordination between economic diplomacy in Indonesia can be seen from the practice of Indonesian diplomacy known as 'Sangkuriang' which is a process of discussion and strategy that was formulated just before the negotiation process (Yusuf 2011).

The Ministry of Foreign Affairs has a very little capacity in managing foreign aid for the restoration of peatland related to economic diplomacy. The decisions and implementation regarding foreign aid for peatland restoration enforced by the Agency of National Development Planning (*Badan Perencanaan Pembangunan Nasional*; BAPPENAS), the Ministry of Environment, and the Ministry of Forestry. Indonesia as a developing country seeks a lot of external funding to restore peatlands. Indonesia receives a large amount of foreign aid for peatland restoration from Norway, the US, and Australia (Info Sawit 2016). The number of Indonesian foreign aid for peatland restoration is still quite high (KLHK 2016).

The other components of economic diplomacy are trade and investment promotion activities. The Ministry of Trade has an active function in the process of economic diplomacy. Since 2011, the Ministry of Foreign Affairs becomes a player but still limited role. In accordance with the Annual Press Statement of the Indonesian Ministry of Foreign Affairs in 2011 was an essential year for Indonesian diplomacy due to a shift from traditional diplomacy to the high politics issue towards economic diplomacy.

Foreign Minister explains that economic diplomacy will become the backbone of Indonesian diplomacy in the coming years. However, the trade activities and investment promotion in the palm oil to the European Union are still not sufficient. There are various negative issues from several countries in the EU the Indonesian palm oil products. The trade activities and investment promotions of palm oil on the EU are based on the role of the Netherlands as the leading reseller of Indonesian palm oil to the EU market (Dodiek 2018). The cost of palm oil influences in the global market by demand in the Rotterdam derivatives market.

The Indonesian Ministry of Foreign Affairs instructs all of the representatives to active on encourage foreign investment. In addition, the Ministry of Foreign Affairs also noted several efforts that enforced regarding the Indonesian palm oil economic diplomacy strategy such as holding an exhibition of Indonesian palm oil product, bringing Indonesian palm oil business to friendly countries, and promoting the establishment of business forums between palm oil entrepreneurs in friendly countries (Minister of Foreign Affairs 2012). Nevertheless, this promotional activity focused on 3-5 priority fields which are the main economic cooperation targets from Indonesia. In this case, a slight shift from the traditional functions to high politics become more modern by including issues of low politics such as economic issues.

The last element of economic diplomacy is about the role of a country in regional diplomacy. In this case, Indonesia has a significant role, both in Southeast and East Asia. Regionally, Indonesia has considerable power in ASEAN as Chair of ASEAN. Indonesia produced several important ASEAN

programs including the Blueprint ASEAN Connectivity which became an essential element of ASEAN integration.

Also, Indonesia also hosted the East Asian Summit (EAS), which marked a vital momentum, namely the presence of the United States (US) and Russia for the first time at this meeting. Indonesia is also the only ASEAN country incorporated in the 'exclusive' G-20 group which is considered by some as a 'regulator' of the global economy. It raises the Indonesian bargaining position compared to other ASEAN countries, making Indonesia an active player in the region.

In 2011, the Congressional Research Service report issued by the US Congress, Indonesia was declared a key player in the Southeast Asia region due to its location, population, and political leadership. In addition, the Indonesian position is also increasingly profitable because ASEAN itself is currently seeking strategic positions in global economic and political architecture, especially in the Asian region (Congressional Research Service 2011). From this discussion, it concluded that the Indonesian role is quite significant in regional diplomacy, both for traditional diplomacy which only covers the issue of high politics and in economic diplomacy that is more specific.

However, the strategic position in the region has not been able to explore the more profound potential related to palm oil trading activities. Indonesian palm oil exports to the three ASEAN countries recorded a decline in the period January-October 2018.

In accordance with the Agency of Central Statistical Agency (*Badan Pusat Statistic*; BPS), the export of palm oil in several countries in the ASEAN such as Thailand, Singapore, and the Philippines has decreased (Katadata 2019). Meanwhile, palm oil exports to Malaysia recorded a growth of 22.12% to 878 thousand tons from the previous period. Likewise, palm oil exports to Myanmar grew by 9.18% to 605 thousand tons, and Vietnam jumped 123.68% to 321 thousand tons. In total, the export volume of Indonesian palm oil to ASEAN countries in the first 10 months of last year grew 5.75% to 2.54 million tons from before, while the export value of palm oil fell 5.63% to the US $ 1.63

billion. The fall in global palm oil costs is the trigger for shrinking foreign exchange exports of palm oil to Southeast Asian countries.

In general, the implementation of the eight elements of economic diplomacy in the international trade activities of palm oil enforced by Indonesia described in the table below. There are variations in the implementation of economic diplomacy strategy on the Indonesian palm oil. The policy outputs applied are still not precise and consistent. The eight elements of economic diplomacy strategy above are five Indonesian palm oil economic diplomacy activities categorized as traditional types, two other activities as niche-focused and one activity as evolving type. The existence of segmentation and differences in these activities shows the Indonesian economic diplomacy model which tends to be immature and still looking for the best forms and strategies for achieving external economic goals.

Table 3.1

Limitation on the Practice of Indonesian Economic Diplomacy

Activities / Elements of Economic Diplomacy	**Implementation in Indonesia**	**Typology of Economic Diplomacy**
External Economic Management	The Ministry of Foreign Affairs has a limited role in the economic management of Indonesian palm oil in international trade including Europe; run by another Ministry independently and sectorally.	Traditional
Policy Management	The Ministry of Foreign Affairs has a poor role regarding the making and formulation of policies related to palm oil export activities as a strategic export; coordination only enforced by 19 sectors of ministries under the Ministry for Coordinator Economic Affairs without involving the Indonesian Ministry of Foreign Affairs.	Traditional

Role of Non-State Actors	The government and private sector has little coordination including the national palm oil industry association (GAPKI) has an essential role in the development of national palm oil production.	Traditional
Economic Assist: Recipient	Managed by Bappenas and the Environment and Forestry Ministry. Foreign Affairs Ministry manages external assistance related to peatland restoration is very limited; Indonesia still receives LN assistance in quite a large amount.	Traditional
Economic Assist: Donor	Bappenas and the Ministry of Foreign Affairs have a limited role; only provide small assistance, usually in the form of humanitarian assistance.	Traditional
Trade Promotion	Foreign Affairs Ministry has a limited role in promoting trade in Indonesian palm oil; the foreign ministry was only tasked with assisting trade activities through the role of consular and representative offices or Indonesian chambers of commerce which were largely managed by the trade ministry.	Niche-Focused
Investment Promotion	The Indonesian Ministry of Foreign Affairs also plays a role by activating a network of overseas representative offices primarily to facilitate investment activities in palm oil trade abroad.	Niche-Focused
Regional Diplomacy Role	The Ministry of Foreign Affairs has an active and strategic role in the sector, but it has not been able to use its power in the sector to explore the trade potential of palm oil.	Evolving

3.2.1. Shifting the Traditional Paradigm of Economic Diplomacy in Indonesian Palm Oil

According to Kishan S. Rana (2007), there are several categorizations of economic diplomacy strategy to Indonesian palm oil. Most elements of the diplomatic strategy categorized as traditional types or the purest forms. In the case of Indonesia, the most visible problem is the inherent traditional diplomatic paradigm in the overall practice of Indonesian palm oil economic diplomacy.

The Indonesian Ministry of Foreign Affairs has an essential role in the practice of diplomacy. Unfortunately, the role is focused on diplomacy concerning high politics issues such as security. In 2011, the Ministry of Foreign Affairs received criticism regarding diplomacy performance in issues of non-political issues categorized as low politics. The criticism considered to increase activities towards negative issues on Indonesian palm oil commodities by the European Union (Media Indonesia 2011).

The Ministry of Foreign Affairs has a very limited role in coordinating activities and economic policy that is difficult to provide optimal results in trading activities of palm oil. Negotiators and diplomats in the bilateral and multilateral global economic forum was performed by the Ministry of Trade. For example, the Minister of Trade acts as the leading team leader and negotiator in the free trade negotiation of the Indonesia European Union Comprehensive Economic Partnership Agreement (IE-CEPA). A similar phenomenon saw in other economic or regional multilateral events such as ASEAN or WTO (Killian 2012).

The Ministry of Foreign Affairs has a limited role, function, and authority on the economic diplomacy activity to the Indonesian palm oil. There are large gaps between the expected results and the authority as the front guard including in the implementation economic diplomacy strategy to the Indonesian palm oil. The weak coordination between agencies is the main problem in economic diplomacy to Indonesian palm oil. For a long time, The Indonesian Ministry of Foreign Affairs has the main role of the high politics diplomacy issues regarded with politics and security such as border issues, traditional security, and transnational crime. The low politics issue enforced by other

ministries such as the Indonesian Ministry of Tourism and Creative Economy in cultural diplomacy and the Ministry Trade manages economic diplomacy.

Five economic diplomacy activities in the Indonesian palm oil are the management of external economic, management of the policy, non-state actors and an economic assist including donors and recipients. Strengthening coordination between agencies, including eliminating sectoral egos can be an entry point to produce comprehensive and inclusive economic diplomacy practices to counter negative issues to Indonesian palm oil.

Meanwhile, eliminating the general perception of traditional and only high politics diplomacy will strengthen the roles of other diplomats in the practice of economic diplomacy towards the negative issues on Indonesian palm oil. The coordination and cooperation between agencies in the economic field give a more significant role and the portion of the Ministry of Foreign Affairs in the economic diplomacy process by making it one of the partners in the formulation of economic policies, especially outward-oriented or external policies that have internal implications.

CHAPTER IV
CONCLUSION

4.1. Conclusion

Palm oil is one of the Indonesian commodities which have an essential role in the agricultural sector. Palm oil is used in many industries such as food, cosmetics, transportation fuel, and energy. Palm oil is one of vegetable oil that can be processed as an alternative fuel (biofuel). Indonesia is the biggest producer of palm oil in the world. The palm oil industry creates around 16 million employments and enhances the Indonesian economy. Indonesia develops palm oil industries due to a lot of local and international demands.

Indonesia has a bilateral relationship with the EU. Indonesia exports palm oil products to the EU. European Union uses palm oil in many industries especially for the raw material of biodiesel. Biodiesel is one of the alternative renewable energy which is mostly produced in the EU. The EU commits to utilizing renewable energy to reduce the utilization of fossil fuel considers global climate change. The EU establishes the direction which regulates the target of utilization the renewable energy to all member countries. Several of the EU's countries import palm oil from Indonesia. The demand for palm oil increased significantly due to the cheapest price and highest productivity rather than other local vegetable oil. Therefore, the export of palm oil increased rapidly every year in the EU.

Due to the increase of demands, Indonesia needs to enlarge the plantation of palm oil. However, the massive plantation of palm oil receives a lot of criticism from international non-governmental organizations such as Greenpeace and WWF. According to the International NGOs, palm oil is the biggest contributor to deforestation and destroys biodiversity. In 2009, the EU establishes the policy standards of renewable energy trough RED (Renewable Energy Directives) which regulate all raw material of renewable energy should fulfill sustainability standards such as environmentally friendly. Thus, palm oil needs to fulfill the sustainability standard which is recognized by the EU to enter the EU markets.

In 2018, the EU adopted new regulations trough RED II. The new directive promotes the development of renewable energy through increase the target of renewable energy at least 32% by 2030 in all European Union members. RED II strengthens the sustainability of the European Union for bioenergy to ensure emissions savings (GHG) and minimizes environmental impacts. The directive introduced specifically a new approach to dealing with emissions from indirect land use (ILUC) related to the production of biofuel, bioliquid, and biomass. RED II aims to reduce the impact of ILUC associated with conventional biofuels, bioliquid, and biomass fuels.

Generally, the RED limits the utilization of biofuel based palm oil. Biofuel based palm oil considered a high-risk ILUC raw material that used significant expansion to land with high carbon stocks. The limitation of biofuel based palm oil has affected the export value on the EU market. According to the GAPKI (Association Palm Oil Traders), the policy is called green protectionism that uses environmentally issue to protect the local products and inhibits the product from outside of the EU with certain standards. The RED considered a non-tariff barrier which raises environmental standardization. The Non-tariff barrier is used to protect the local vegetables and reducing import dependence.

Indonesian government (the ministries) and stakeholders (non-state actors) implement the economic diplomacy strategy to deal with the non-tariff barrier by the EU. In 2014, Indonesia establishes ISPO (Indonesian Sustainability of Palm Oil) to improve the standards of Indonesian palm oil and participates in reducing environmental matters. The policy regulated to the entire Indonesian palm oil companies to obey provisions starting from upstream (garden) to downstream (yield processing). Indonesia also joins in the RSPO (Roundtable Sustainability of Palm Oil) which is created by initiative WWF to regulate the standard of palm oil. Furthermore, Indonesia and the EU establish a comprehensive economic partnership agreement (IE-CEPA) to discuss related economic issues. This agreement can be the way to discuss deeply related non-tariff barrier to palm oil and creates the best result of palm oil reenter to the EU market.

According to the economic diplomacy theory, the implementation of economic diplomacy in Indonesia is not effective (very minimal) due to the lack of coordination between the related ministry and non-state actors. It can be seen that the trade of palm oil in the EU tend to decrease in the view years. The Foreign Ministry as the front guard of economic diplomacy actors has a minimal role to formulate and implement economic policies, both internal and external in Indonesia. The Foreign Ministry only focuses on the high politics rather than the economic field which as a low politics. Therefore, eliminating the general perception of traditional diplomacy will strengthen the roles of diplomats in the practice of economic diplomacy towards the negative issues on palm oil.

The implementation of the economic diplomacy strategy could be more effective if Indonesia more strengthens coordination between agencies which can be an entry point to produce comprehensive and inclusive economic diplomacy practices to counter negative issues on palm oil. Indonesia also needs to tighten relations with the EU trough IE-CEPA (Indonesia-EU comprehensive economic partnership agreement) to reach the goals on the palm oil trade in the EU market.

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CURRICULUM VITAE

The researcher was born in the small village in Bojonegoro Indonesia on June 29th, 1992, as the youngest child of the couple Mr. Tondo Wasito and Mrs. Umi Rahmah. The researcher completed his undergraduate at the State Islamic University of Sunan Ampel Surabaya Indonesia and graduated in 2014. In 2016, he got the opportunity to continue to a postgraduate program in the study of European and International Affairs at Turkish German University in Istanbul Turkey. During the postgraduate program, the researcher participated in Indonesian organizations such as Nahdatul Ulama Special Branch in Turkey. The researcher was also active in the management of Indonesian student organizations in Turkey.