

THE CHALLENGE FOR INDONESIAN BIOFUEL GOVERNANCE: STUDY CASE OF STATE-BUSINESS RELATION BETWEEN KORINDO AND INDONESIAN GOVERNMENT ON CRUDE PALM OIL BUSINESS

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# Abstract

The Indonesian government has initiated a big-push strategy to make crude palm oil (CPO) the main commodity for its biofuel mandates. However, this strategy has resulted in many environmental and political concerns. One case worth noting is the alleged rainforest burning in Papua by Korea-Indonesia conglomerate company named Korindo at the end of 2020. This case raised public concern over the environmental preserving effort at one of the most extensive natural rainforests globally, which is essential for Indonesia’s biodiversity and climate actions. Moreover, Korindo has also allegedly correlated to human rights abuses, mainly in the form of land-grabbing and the utilization of police force in the plantation area. Using state-business relations as its framework, this paper argues that even Korindo does not comply with sustainability measures, it can still sell its CPO to Indonesia’s biofuel market due to increasing demand from biofuel mandates.

Keyword(s): CPO, Biofuel, Korindo, State-Business Relations

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# Introduction

* 1. Background

Among various forms of renewable energy, biodiesel has been one of the most supported commodities in Indonesia. In 2008, the Indonesian government had released a mandatory program to utilize biodiesel with a 2.5% mix of vegetable oil. This program has been increased gradually, as the government pledged more proportion of vegetable oil in its biodiesel mandate to reduce import dependency. By 2010, the government has set a target to use 7.5% of vegetable oil in biodiesel, followed by new regulations in 2011-2015 when the mandate has been increased from 10% to 15%. When Joko Widodo took his charge as the seventh president of Indonesia, this trend seemed to be continued. He created a new mandate called B30 to increase the proportion of vegetable oil by as much as 30% by 2019 (Humas EBTKE, 2019). The B30 mandate stipulated that biodiesel in Indonesia should contain at least 30% of crude palm oil (CPO)-based fatty acid methyl ester (FAME) (Hogue, 2021).

To fulfill the increasing demand for CPO both domestically and internationally, the Indonesian palm oil industry has intensified its production. In 2019, Indonesia produced 42 million metrics of CPO, equivalent to 60% of global CPO (Ministry of

Agriculture of Republic of Indonesia 2019). This automatically made Indonesia the biggest CPO producer globally, with the Indonesian Bureau of Statistics estimated that Indonesia has 14.3 million hectares of palm oil plantation area in 2019 (Sub-directorate of Estate Crops Statistics 2019). While the Indonesian government perceived this status as an accomplishment, many have stated their concern over the Indonesian palm oil industry. As the world moves toward the decarbonization era following the Paris Agreement in 2015, many countries have pledged to reduce greenhouse gas (GHG) emissions, particularly from the energy sector, which accounts for the biggest GHG producer. This is in line with the global attempt to deal with climate breakdown, focusing on sustainability values to preserve the environment. The challenge for energy governance then evolved from what it was only to secure the energy supply to make sure its affordable price and low-carbon measurement.

Because of this circumstance, some countries have started to question the low- carbon measures in biodiesel products that utilized palm oil as the ingredient. For example, the European Union (EU) had issued a resolution to phase out and eventually ban biofuels made from palm oil in its territory (European Parliament, 2017). It argued that palm oil generated much GHG emission, mainly caused by deforestation during its plantation process. The Indonesian government had denied this accusation on many occasions, claiming that the EU just tried to protect its vegetable oil commodities in the name of environmental concern.

On the other hand, many non-governmental organizations (NGOs) have criticized Indonesian palm oil governance and accuse that the palm oil industry has caused deforestation in many rainforest areas over a decade. A case that worth nothing includes a report from environmental NGOs accusing a South Korean company named Korindo Group to intentionally burn Papuan forest to expand CPO its plantation area (Amindoni and Henschke, 2020). Their report explained that Korindo Group has continuously burned Papuan forest to open its planting area for 2011-2016. Moreover, in their report, Tunas Sawa Erma (TSE) Corporation, a subsidiary of Korindo Group, has acquired forests that belong to *Tanah Adat* or customized indigenous people's land in Boven Digoel. Their method to acquire the forest is to recruit indigenous people from the area as their long arm to seduce local people to swap their land with money, education scholarship, electricity instruments, and even house in this unique natural environment. On the other hand, the Indonesian government has failed to impose necessary measures to prevent this problem.

The case of Korindo has raised public concerns over the environmental and political problems behind Indonesian biofuel governance. Since the government mandated that B30 has to be made from CPO, there is a possibility that Indonesia’s attempt to use biodiesel will not answer the challenges of energy governance, mainly refers to the problem of environmental breakdown within its palm oil industry. Therefore, research to further investigate the cause of this problem has to be developed.

* 1. Research Question

Based on the explanations above, this paper will raise a research question on “how do Indonesian biodiesel mandates caused environmental and political problems within Indonesia’s palm oil industry?”. This paper argues that even some companies do not comply with sustainability measures, they can still sell their product to Indonesia’s biofuel market due to increasing demand from biofuel mandates. This is exactly what Korindo does in its CPO business.

* 1. Research Methods

The research will be conducted through a State-Business Relations perspective using the qualitative research method to answer the research question. The qualitative research method is being taken by utilizing secondary sources, ranging from government reports and online news.

The State-Business Relations perspective is a general view to observe and analyze how the state or public and private or business, as usual, related to each other through its dynamic, power-play, and even its interest to one another. State-Business Relations, as Velde suggests, can be in the form of formal, regular, coordination, or informal ad hoc interactions (Sen, 2015). Furthermore, the range of its span includes the whole economy or target specific sectors, types of firms, or policy processes of a policy or other interests. Thus, this perspective is a comprehensive and multi-faceted analytical tool that explains the economic issues with a focus on the interaction between the government and private sector more comprehensively and distinctly.

State-Business Relations also could encompass active and passive role in an economic interaction between the government and private businesses (and including people). The active role is a situation whenever the government interacts or involve with certain transactions of a business in a particular sector or points where government interest or preference resides. While the passive role is more like when the government does not interact or involve actively regarding relation with private/business sectors but only dealing in setting rules or policy that engage the business sectors to some degree. Furthermore, the State-Business Relations perspective may provide the research with how to measure effective and efficient State-Business Relations. Haggard explained that factors that shaped an effective and efficient state-business relation are Transparency, Reciprocity, Credible Commitment, A Stable Policy Environment, Strong Checks and Balances, and Close Consultation, Coordination, and Reciprocity (Sen, 2015).

Transparency is a factor that establishes the exchange of correct and credible knowledge between companies and the government. Then, Reciprocity is a factor that underlines the power of government efforts to ensure better production in exchange for incentives or other types of financial assistance. Credible Commitment a factor that finds the consistent practices, agreements, or frameworks that can be guaranteed through institutional arrangements formally and informally. While A Stable Policy Environment is a factor that ensures protection for the business of the market. Then, Strong Check and Balances is a factor that monitors government actions, revenue, and spending to determine that tax policies and the distribution of public resources are acceptable and of a high standard. Finally, Close Consultation, Coordination, and Reciprocity is a factor that highlights all the elements mentioned above in a state- business relation. All these factors are building the variable structures of analysis and explaining an issue that is research from a State-Business Relations perspective.

The State-Business Relations perspective is vital because this perspective gives main highlights for economic growth and interaction of an economic structural framework of a country’s economy. Haussman argued that the State-Business Relations perspective is crucial in an economical-sphere of a country because of critical determinants of an economic synergism of state and private sector in a country’s economy (Sen, 2015). Further, the State-Business Relations perspective also gives insights into policies and practices of a country’s macroeconomics, trade, industrial development, taxation, public expenditure, infrastructure, competition, anti-corruption, transparency and accountability, and private sector development.

# Literature Review

* 1. Literature Review

This paper also conducted a literature review from several references or sources to deepen the analysis of this research. The literature review is conducted to gain a better scope to receive a more holistic analysis of how the rise of Indonesian CPO is in parallel with the rise of corruption and the environmental breakdown. This paper will then conclude the gap highlighted to differentiate this research from similar research.

From several pieces of works of literature that have been acquired for this research, this paper argues that writers such as, Anne Casson, Yohanes I Ketut Deddy Muliastra, Krystof Obidzinski, Adam Tyson, Helena Varkkey, Shofwan Al Banna Choiruzzad, Paul Gellert, Jamal Othman, Mohd. Fauzi Mohd. Jani, Mohammad Haji Alias, Alice Baudoin, Pierre-Marie Bosc, Cécile Bessou, and Patrice Levang emphasize the nature, government, and dynamics of the narration regarding the crude palm oil industry in Indonesia and Malaysia specifically addressed the power-play relation of crude palm oil sector between nature and the stakeholder.

Furthermore, Anne Casson, Yohanes I Ketut Deddy Muliastra, and Krystof Obidzinski emphasizes the land usage in Indonesia for large-scale plantations linking with bioenergy developments. While Tyson et al underlined about the developmental patrimonialism of Indonesia through context of state power through discourse and policy, including in CPO sectors. Then Gellert focused on Indonesia’s forest fire and its implications. Meanwhile Jamal Othman, Mohd. Fauzi Mohd. Jani, and Mohammad Haji Alias elaborate on how liberal economy could benefit CPO sectors, especially in Indonesia and Malaysia. Then, Alice Baudoin, Pierre-Marie Bosc, Cécile Bessou, and Patrice Levang explained about the diversity of CPO production in Indonesia from selected provinces.

However, it seems pretty unclear and unresolved about Korean conglomerate companies doing business in the crude palm oil sector in Papua, Indonesia. Hence, this particular and focused gap remained open for new analysis or research inputs to explain it more elaborately. Therefore, this research is trying to fill in the case of state-business relation in terms of CPO business in Indonesia.

# Results and Discussions

# The Development of CPO Industry in Indonesia

# Indonesia and CPO industry has had a long history. Dominantly, Sumatera and Kalimantan island become the primary basis for crude palm oil production in Indonesia. Baudoin et al explained that the palm oil itself originated from the Western and Central Region of Africa then brought to Indonesia by the Dutch (Baudoin et al 2017) at the beginning of the 19th century. Afterward, the palm oil plant was introduced and planted by the Dutch in Indonesia, first at Bogor Botanical Garden in 1848. In 1870, the Dutch Colonial Government began to adopt agrarian law that consisted of colonial plantation expansion, including the palm oil sector. The first colonial plantation that eventually gave birth to the Indonesian palm oil industry was built in Sumatera. Sumatera and Kalimantan also became primary destinations by the Dutch as Java was suffering from over-population and land overuse. This was promulgated by the transmigration plan or ‘kolonisatie’ program made by the Dutch Colonial Government in Indonesia that the Republic Government eventually adopted after Indonesia gained its independence. Even though the Japanese occupation halted it, the CPO industry in Indonesia continues to grow over the decades.

# During its early independence era, Indonesia was yet to develop a large-scale CPO industry. CPO industry then began to be developed under the New Order regime through several initiatives, such as a credit program called PBSN and a land-utilization mechanism program called Perkebunan Inti Rakyat Transmigrasi (PIR-Trans) (Supriono, 2018). The government also continued to expand Indonesia's CPO industry by giving palm oil plantation concessions. Between 2000 and 2014, the palm oil plantation area has increased from 4 million hectares to 10 million hectares (Sub- directorate of Estate Crops Statistics 2019). The expansion of the palm oil plantation area was resulting in massive CPO production, making Indonesia the biggest palm oil producer in the world by the mid of 2010s.

# Furthermore, this industry has expanded to almost all islands with huge areas of natural rainforest. Based on data from the Indonesian Commission for Business Competition (KPPU), it can be traced that the CPO industry in Papua started around the 1990s (Komisi Pengawas Persaingan Usaha Republik Indonesia, 2020). Since the year 2000, the growth of CPO planters in Papua experienced rapid growth exponentially. In the 1990s, Papua’s plantation areas for CPO were 10.091 HA. Then in the decade of 2000s, it grew to 44.522 HA. However, in 2005, it was reduced to 41.640 HA due to some reasons.

# Concerning specific areas, Mambor explained that most of the crude palm oil lands in Papua are located in Boven Digoel Regency (Mambor, 2019). For example, Menara Group gained concession 280.000 HA on forest and land in Boven Digoel Regency. This size is roughly the same as the area of Bali Island. Moreover, he also added that these lands are mostly Tanah Adat or customized indigenous people forest that, by Indonesian law, prohibited from being extracted and manufactured commercially by other people, including private companies (Mambor, 2019). For instance, the land converted into CPO land in Jair, Mandobo, Fofi, and Kia, between Digoel River and Mappi River, belongs to the Auyu Tribe of Boven Digoel. Thus, in most cases, Mambor marked some hidden businesses on how private companies can acquire Tanah Adat or customized indigenous people forest, including government (Mambor, 2019).

# Korindo and Its CPO Business in Papua

# Korindo is a private company that was established by a Korean businessman, Seung Eun-Ho in Indonesia in 1969, originally moved to work in the hardwood industry. In 1979, it started to invest and innovate to be involved within the plywood industry 1979. Followed by the paper industry 1984. Later in 1993, Korindo began to harvest wood plantations. Finally, Korindo entered the palm oil industry by 1995 (Korindo, 2021). Based on its business model, it can be concluded that Korindo has had essential experiences in dealing with Indonesian authorities, particularly in clearing lands for planting commodities and getting a business permit in a large-scale operation.

# In 1998, Korindo had begun to develop its palm oil business in Papua. While the company had repeatedly stated that it complies with every rule imposed by the Indonesian government and international palm oil regime, many findings found the opposite. A report from Chain Reaction Research stated that South Korean companies have an outsized impact on the palm oil leakage market (Drost et al, 2020). In this report, the leakage market refers to unsustainable palm oil trading, ranging from producers that are not compliant with the No Deforestation, No Peat, No Exploitation (NDPE) policies to buyers that are neglectful to sustainability values. Among the biggest South Korean companies involved in this leakage market, Korindo was the most problematic and influential company that was proven to have destroyed the environment, according to the evidence in the report.

# In the said report, Korindo has grown a huge palm oil plantation business through its three subsidiaries, namely PT. Papua Agro Lestari (PAL), PT. Dongin Prabawa, PT. Tunas Samaerwa 1B. In total, these companies hold a concession of 70.000 hectares across Papua and have been alleged for deforestation of more than 4.000-hectare plantation areas during 2016-2017 (Drost et al, 2020).

# Korindo was heavily linked to human rights abuses and the loss of High Conservation Value areas (HCVs) as well. In 2017, the Complaints Panel of Forest Stewardship Council (FSC) concluded that Korindo through PAL subsidiary violated FSC's standards by withholding information for local communities to decide their land (Drost et al 2020). In other words, Korindo has not only created deforestation, but also land-grabbing from local communities that live in their concession area.

# Because of this condition, Korindo has been suspended by the NDPE traders from selling their CPO production (Chain Reaction Research, 2019). NDPE traders mainly consist of Fast-Moving Consumer Goods (FMCG) companies, such as Nestle, Wilmar, etc. The sanction given by these companies forced Korindo to find a new market to sell its CPO. Given the increasing mandatory biofuel program pledged by the Indonesian government, Korindo assessed the possibility to penetrate Indonesia's biofuel market.

# In the mid of 2019, Korindo together with Sejong Technology, a Seoul-Based company, established a biofuel plant on Bintan Island, Riau Archipelago Province. The plant was aimed to use Korindo’s CPO products, targeting the production of approximately three million metric tonnes of biofuel by the end of the third phase (Ship and Bunker News Team, 2019). This is a clear sign that in the market where sustainability measures were applied, the state paradoxically provides a market for leakage products through its biodiesel mandates, leaving companies with possibilities to sell its unsustainable products.

# Figure 1. State-Business Relation in the case of Korindo’s CPO Business Source: Research Data Analysis

The Business

The State

Korindo CPO

Business

# Besides the market provided by Indonesian biofuel mandates, Korindo's CPO business also sustained because of sufficient financial backing, involving banks and financial institutions from multiple countries with strong government backing. According to a report from several NGOs, Korindo's financial structure was heavily backed by Hyosung Corporation, a South Korean "Chaebol", which operates in the chemical industry, industrial machinery, IT, trade, and construction. It also got investment from Bank Negara Indonesia (BNI), a major state-owned company (BUMN) bank that belongs to Indonesia’s government. Other financial institutions that support this company include Equiventure LTD from British Virgin Island and Oji Holdings from Japan (Rainforest Action Network et al, 2018). Even the states did not involve directly in the financial support for Korindo, they were practically giving substantial support through their subsidiaries. Not only the initial investment, a public-funded company usually involves high political support from the authority, as in the case of Chaebol in South Korea and BUMN in Indonesia.

# Moreover, political support to the business also came from local authorities. According to a report from The Gecko Project, Korindo’s business permit was issued through a scandal involving 22 million USD payments to an "unnamed expert" (The Gecko Project 2020). It shows that Indonesia's palm oil governance has systematic problems. While the central government gives required investment to begin Korindo's business operations, the regional government gives business permits through corrupt practices and bribery acts.

# Knowing this condition, grassroots movements from Indonesia and South Korea have urged the authority to stop public funding for the unsustainable business. For example, an environmental advocacy group Mighty Earth, in partnership with the Korean Federation for Environmental Movements (KFEM) have stated on several occasion that they urge South Korean government to stop spending public finance to palm oil companies, including Korindo and its subsidiaries in Papua (Lee, 2020). The advocacy has grown from 2016, but in the end, Korindo CPO's business has steadily continued, and it somehow can manage to get the required investments. Civil societies from both Indonesia and Korea are aware of this condition, but strong political support from the government maintained the business to keep running and expanding. This condition led Korindo's CPO business to operate and conduct new land-clearings, including the one that happened at the end of 2020.

# Environmental and Political Implication of Korindo’s CPO Business

# Korindo's CPO business had inevitably caused deforestation on the land where it holds the concession. But even worse, deforestation has gone in the worst possible scenario. According to Samaneh Moafy, a researcher from Forensic Architecture that undergone the study of Korindo’s deforestation process, the deforestation process has formed a sequential and patterned movement, indicating the deliberated forest burning by the company (CNN Indonesia, 2020). This method is the least favorable choice to do land clearing due to its destructive consequences as well as high emission generated from the process. Through its national law, Indonesia also prohibits land clearing through forest burning, but Korindo still somehow managed to do it without getting sanctioned by the government.

# During the period where Indonesia expanded its palm oil plantation area, emissions from forests and peat fires have been increased from 505.3 MtCO2e in 2000 to 979.4 MtCO2e in 2014 (Masripatin, 2017). Keeping the trend of forest burning to open new plantation areas, as Korindo did, will increase the CO2 emissions generated from forest fires. Consequentially, this trend will hinder Indonesia's climate action and effort to decarbonize its economy.

# Moreover, Papua is one of the biggest natural rainforests in the world. Burning down this area will significantly ruin global commons to preserve biodiversity and the source of the world's oxygen. In other words, the environmental implications of Korindo's CPO business have not only impacted Indonesia's national interest but also global interest to achieve sustainable development goals.

# Korindo CPO's business also has political implications, mainly in the form of agrarian conflicts between the company and local community, and police abuse to the local community. Regarding agrarian conflict, it was explained in the previous part that Korindo was found guilty by SFC to keep information from local communities and grabbed the land without consent from them. According to Elisabeth Ndiwaen, a woman who comes from the indigenous tribes of Malind in Merauke, the land deal that has been set up by Korindo has caused misunderstandings among local tribes in its concession area (Amindoni and Henschke, 2020). Aftermath, there were conflicts and killings among local tribes resulting from these misunderstandings. In other words, Korindo has intentionally played with local tribes to lower the compensation fee to open its plantation area, people to kill each other, and deaths in local communities.

# Furthermore, Korindo CPO’s business also presented police violence to the local community. As stated by The Chief of Boven Digoel Police Department, Syamsurizal, the company had asked the police to “secure object vital” from potential thread (Amindoni and Henschke, 2020). But according to local human rights activists, these measures have prevented the local community to get their basic needs, including crops and foods in the indigenous lands. A recent example was occurred to Marius Betera, a citizen of Boven Digoel, who died due to an illegal violation by Boven Digoel Police Officers. Batera’s wife has testified that her husband was beaten and tortured by the police just because he defended his trees, which according to the police “stand on the land of the company” (Amindoni and Hencshke, 2020). From this case, it can be concluded that Korindo's CPO business has created conflicts for local communities and the police, resulting in social tensions between the state apparatus and the citizen.

#  Conclusions and Recommendations

# Conclusions

# Based on the explanation above, through its business model and networks, Korindo's CPO business has caused friction between native inhabitants and the government, leading to social disputes between some of the ruling elite and the people. The link between Korindo and the Indonesian government has proven to be threatening indigenous people and customary forests in Indonesia. Through evidence and example of Korindo CPO’s business, it has purposefully clashed native populations by reducing the reimbursement cost for opening its cultivation field, causing people to murder one another.

# Therefore, Korindo and other business entities with similar motives in Indonesia have the potential to be a major challenge for Indonesia in establishing a sustainable biofuel governance. If this condition persisted, Indonesia would find obstacles to embody decarbonization initiatives and move forward with clean energy governance.

# Recommendations

Referring to the results of this paper, there are several recommendations that can be taken to improve Indonesia’s biofuel governance. Firstly, it is important for the Indonesian government to demand transparent management from CPO business actors that operate throughout Indonesia’s territory. Any company that is willing to enter biofuel market needs to publish a public statement on how the company operation taking place, and whether it adopts sustainability measures such as NDPE policies or not. Thus, both public and authority will get the capacity to judge the performance of the company, allowing Indonesia to create a cleaner energy governance.

Secondly, the Indonesian government needs to improve its biofuel mandates by establishing minimum standard of compliance from CPO business entities. As biofuel mandates created market for CPO producing companies, the government has to build a set of prerequisites, such as palm oil plantation report and community development around their concession area. This way, the government can make sure CPO products that supply its mandates are coming from sustainable company.

Lastly, it is crucial for the Indonesian authority to commit political will and eradicate sectoral egos. A green and clean Indonesia cannot be achieved as long as the practice of breaking the rules for self-prosperity still existed. For example, while biofuel mandates are issued by the Ministry of Energy and Mineral Resources, it should also consider community development policies, which are highly related to other government bodies. A humanized CPO industry are proven to be mandatory for everyone involved in this business, considering Indonesia will keep increasing its biofuel mandates. Profit is a usual term in business, yet Indonesia has a limited natural environment and indigenous people that are living from nature entirely. They cannot defend themselves from the profit-seeking companies, and the government should count this possibility in formulating future biofuel governance.

 That way, those who implement policies made by policymakers have clear and non- overlapping work mechanisms. This will also impact officers who carry out investigations so that there will be sanctions that will have a deterrent effect and the actions taken against forest and land fire actors have a clear legal basis.

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