

## THE STRATEGY OF PALM OIL PLANTATION EXPANSION BUSINESS IN RELATION TO ENVIRONMENTAL SUSTAINABILITY ISSUES: OVERCOMING THE CHALLENGES

Handoko Limaho, Sugiarto, Rudy Pramono, Rio Christiawan  
Faculty of Economics and Business, Universitas Pelita Harapan, Indonesia  
Email: limaho.handoko@gmail.com

### ABSTRACT

*The qualitative study aims to find out the strategy to overcome challenges of palm oil plantation expansion business in relation to environmental sustainability issues. The contribution of palm oil plantation related business has been an essential part in developing the Indonesian economy for decades. With its contribution to Indonesia's Gross Domestic Product (GDP) surmounting to more than 15 billion USD in terms of export on the year 2020 (GAPKI, 2020), and with more than 40 billion USD in terms of foreign exchange revenue to Indonesia on the year 2021 (Astra, 2021), it is no doubt the importance of Crude Palm Oil (CPO) which is the by-product of palm oil tree (*Elaeis guineensis*) has the utmost significant contribution to the Indonesian economy. The palm oil plantation has also significant contribution to the livelihood of the Indonesian citizen by providing jobs for more than 16 million people (CNN, 2021) especially when the pandemic Covid-19 era is happening throughout the world, and the industry also increases the social welfare of its farmers by programs that enrich the farmers with its nucleus-plasma program which fosters a partnership between the palm oil plantation companies and its local communities in a profit sharing mechanism that contributes to a minimum of 20% of total land cultivated for palm oil plantation.*

**KEYWORDS** *Palm oil plantation; environmental sustainability; business*



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## INTRODUCTION

The contribution of palm oil plantation related business has been an essential part in developing the Indonesian economy for decades. With its contribution to Indonesia's Gross Domestic Product (GDP) surmounting to more than 15 billion USD in terms of export on the year 2020 (GAPKI, 2020), and with more than 40 billion USD in terms of foreign exchange revenue to Indonesia on the year 2021 (Astra, 2021), it is no doubt the importance of Crude Palm Oil (CPO) which is the by-product of palm oil tree (*Elaeis guineensis*) has the utmost significant contribution to the Indonesian economy. The palm oil plantation has also significant contribution to the livelihood of the Indonesian citizen by providing jobs for more than 16 million people (CNN, 2021) especially when the pandemic Covid-19 era is happening throughout the world, and the industry also increases the social welfare of its farmers by programs that enrich the farmers with its nucleus-plasma program which fosters a partnership between the palm oil plantation companies and its local communities in a profit sharing mechanism that contributes to a minimum of 20% of total land cultivated for palm oil plantation (Zen et al., 2005).

CPO is a highly versatile commodities that can be used in many in many products ranging from biodiesel, toiletries, cooking oil, pharmaceutical usage, food products, and many other important products, and due to its significance, it is also the most widely traded vegetable oil compared to other sources which accounts for almost 60% of all global oil seed (Carter et al., 2007). In regards to its competitiveness in terms of pricing in comparison with other vegetable oil products like rapeseed, soyabean, sunflower or ground nut, CPO prices are always the lowest one, this is due to the fact that the productivity of this particular vegetable oil per hectare area is significantly higher than its competitor, and therefore this particular commodity is being used right now as an alternative to conventional fuel (Beyer et al., 2020).

The production of CPO has grown exponentially in past 30 years, and by the year 2006 Indonesia has dominated the production of CPO surpassing Malaysia as the largest producer of CPO in the world. Currently the world's CPO production is dominated by Indonesia which accounts for more than 60% of the world's production at around 47-50 million tonnes per year at the end of 2021, and followed by Malaysia around 19-20 million tonnes per year at the year of 2021 (CPOC, 2022). According to the CPOC (2022), the demands of CPO for next year globally would increase significantly because of new openings in hotels, restaurant, and café (HORECA) sectors amid nationwide large-scale COVID-19 vaccinations, which will also boost demands in food and non-food (biofuels, oleochemicals, stearin) industries.

Along with the growth of the industry there are also new challenges that comes with it. Environment has become a very clear and adamant issue in today's business environment, palm oil plantation included. The deforestation rate of Indonesia has grown alarmingly from 2001-2019 to 16.24 million hectares (Gaveau et al., 2022), and by 2013 alone, the palm oil plantation in Indonesia was planted on deforestation areas by more than 53% of its forest area compared to 1989 which has a dire impact on the loss of biodiversity as well (Vijay et al., 2016).

However, in the same sense that the world especially the European Union sees palm oil as a controversial object from the usage of biodiesel and food source as one of the major deforestation agent (Oosterveer, 2020), other research has also shown that in comparison with other vegetable oils such as soybean, rapeseed, sunflower and groundnut, Beyer et al., (2020) has come to the conclusion that the palm oil has the least carbon loss and biodiversity loss compared to these other vegetable oils. Nevertheless, the undeniable facts are Indonesia experienced an average annual increase of deforestation of 47,600 ha of primary forest loss from 2010 to 2012 alone which hits the record compared to other countries including Brazil and the total primary forest loss has totalled to 0.84 million ha in 2012 (Margono et al., 2014). With now more than 14.6 million hectares of land being cultivated as palm oil plantation by the year 2020 (Statista, 2021) surely the challenges concerning environmental sustainability is inevitable.

It is then because of this environmental issue; the palm oil industry is under scrutiny and new challenges are rising concerning the image that it has been presented as a deforestation agent. Many of the palm oil companies in Indonesia has committed to certain sustainability standards like the Roundtable Sustainable Palm Oil (RSPO) which is a voluntary certification body from Europe created by World Wildlife Fund (WWF) and Unilever in 2004 to ensure the sustainability factors of palm oil plantation companies (Ernah & Waibel, 2016), and also the Indonesian Sustainable Palm Oil (ISPO) which is mandated by the government under the Minister of Agriculture Regulation Number 11/Permentan/OT.140/3/2015 to ensure the sustainability factors and also the legalities for palm oil plantation companies in Indonesia (Christiawan & Limaho, 2020; Hutabarat, 2017).

However, regardless of the sustainability certifications that the palm oil plantation companies hold, and also the immense economic growth that the industry has provided to Indonesia, and also the many industries that desperately need this particular commodity to produce other goods for the entire world, the industry is still under immense attack from Non-Governmental Organizations (NGO) and many European nations under the guise of sustainability. In 2018 strong advocates from Greenpeace has protested many palm oil plantation companies such as Wilmar, GAMA, Fangiono Plantation, Djarum Group by climbing on board the gigantic palm oil tanker Stolt Tenacity en-route to supply palm oil for a global major player in the snack food industry Mondelez, which has produced many famous worldwide snack brands such as Oreo, Cadbury, Ritz, and among others (Greenpeace, 2018).

On that same year, Greenpeace has also orchestrated a demonstration by occupying Wilmar's palm oil refinery in Bitung, North Sulawesi by using the help of various international citizens and also a famous Indonesian rock band called 'Boomerang' to put banners on the palm oil silo which depicts the words 'dirty palm oil' (Tehusjarana, 2018). Not long after this incident, Iceland Food's (a supermarket retail chain) Christmas advert which clearly depicts the destruction of rainforest made by Greenpeace came to air. Even though it was banned by the local United Kingdom broadcast committee, the ad itself has made over 65 million views.

There has been many instances of these similar acts happening around the world instigated by the NGOs in varieties of ways such as , but the facts are, because of these aggressive campaign launch by the NGOs many business interruptions has happened from; the withdrawal of one of the biggest financial institution HSBC in funding palm oil related operations due to the negative image that they have gotten from the aggressive marketing campaign by Greenpeace (Kapoor, 2017), the momentarily halt of purchasing CPO conducted by one of the biggest fast moving consumer group and food group like Nestle and Unilever from Indonesian palm oil companies (Chaudari, 2011), and the negative image that is blatantly given to palm oil companies and the companies that buys the palm oil from them (Sron, 2018).

The negative image that is portrayed by the NGOs does not only target the palm oil companies, or the EU, but the government of Indonesia has also fallen under immense pressure amidst these allegations. One of the defining moments is the decree of *Presidential Instruction No.8 of 2018* agreeing to a moratorium of palm oil licenses which halt progress and growth and creates a big uncertainty factor for new investments and also previous holder of concessions to expand and grow (Christiawan, 2019; Limaho et al., 2022). Especially with the National Determined Contribution (NDC) commitment by Indonesia to decrease carbon output by 2030 to 29%, and the Sustainable Development Goals (SDG) that Indonesia has signed on 2015 with 192 other countries (Limaho et al., 2022), the eyes of the world are at Indonesia to see how the government will tackle these issues concerning palm oil plantation companies allegedly accused of agents of deforestation.

However, the final blow would be the effort of European Union (EU) under the newly revised Renewable Energy Directive (RED) called RED2 which will phase out the use of palm oil from 2023 to completely stop using the commodity by 2030 (Andrianto, 2020). Even with the reality that the EU desperately need the CPO which was shown clearly that from the year 2011-2016 the Indonesia average CPO export were around 60% of the total consumption for the EU, by using environmental as a weapon fuelled from the statement from Report on Palm Oil and Deforestation on Rainforests presented to the EU, the resolution that is taken by the EU is to ban palm oil on the basis that the industry is responsible for deforestation and habitat destruction (Andrianto, 2020; Rifin et al., 2020). The utter discrimination continues when the EU published a draft regulation called 'Proposal for a regulation on deforestation-free products' which is hailed by NGOs such as ClientEarth but are deemed discriminatory and hypocritic from producers' countries such as Indonesia and Malaysia who promised to lodge this issue at the World Trade Organization (WTO) on the basis of protectionism and the fact that it burdens the poorer farmers (Barahamin, 2022).

As we can see, throughout the decade, the palm oil industries have flourished because of its Resource Based Competitiveness mindset and their sustained competitive advantage in terms of pricing, productivity, and resources. However, with the new threat that is arising, which is environmental sustainability issues, the industry has been crippled and the consumers are waning away. Even with the sustainability certifications that these palm oil companies has achieved, the attacks keep on coming and even more dire than ever. Many research has predicted that the challenges will keep on coming and the palm oil industry cannot be complacent in

order to survive and grow in this new world (Limaho et al., 2022; Sron, 2018). As we can see here, there is a gap, if sustainability is the main issue, why does all the effort from the certification bodies and the effort for these palm oil companies to be certified is not enough? The knowledge gap that exists here is the business expansion strategy amidst the environmental issues arising and there is a need for more research pertaining the actions of these companies and to discover the underlying issue of more than just sustainability certificates, but to a deeper understanding of an evolving business strategy that has garnered competitive advantage for decades for this particular industry.

The discrimination against palm oil does not only come against Indonesia but also to the neighbouring country, Malaysia. Even though the industry in Malaysia is more mature in terms of production and experience compared to Indonesia, the attacks from the EU and the NGOs are still using the same environmental concerns ranging from, environmental degradation, deforestation, loss of biodiversity, carbon footprint, and peatland conversion (Austin et al., 2017; Meijaard et al., 2020)

In the Renewable Energy Directive (RED) II which the EU parliament has agreed to phase out palm oil for biodiesel use from 2021 and outright banned by 2030 because of deforestation factors, the Malaysian government has also filed its complaint to the WTO because of this unfair practices, and the government has realized that this can jeopardize the market share of Malaysian palm oil in the European oils and fats sector (Kannan et al., 2021; Oosterveer, 2020).

The attacks from the EU against Indonesia and Malaysia does not stop on the policy sectors but also to the buyers that has purchased palm oil products to include certification labels, detailed product labels, or the pressure for other companies to use palm oil free labels, even until campaigns to educate the market about the difference between vegetable oils and palm oils in a bias note (Hinkes, 2019).

The strange thing is that the Malaysian palm oil producers has mostly followed the RSPO principles and criteria, and in the year 2015 the Malaysian Government has also develop a mandatory national standard like the Indonesian ISPO which is called the Malaysian Sustainable Palm Oil (MSPO) that also focuses on responsible practices from environmental, social, safety, and legal basis with many involvement from multi-stakeholder agencies to help with the sustainability issues until policy formulation (Majid et al., 2021).

Similar to the Indonesian government, the Malaysian government has also gives initiatives to the local palm oil players to form Palm Oil Mill Effluent (POME) capture that can reduce GHG emission by 30% through methane capture and achieving zero-waste standard (Harsono et al., 2014).

The Malaysian Palm Oil industry is also very regulated even with more than 15 laws in place that the industry must adhere ranging from Land Conservation Act 1960; Environmental Quality Act 1974, Protection of Wildlife Act 1972, Hazards and Critical Control Points (HACCP), Environmental Impact Assessment (EIA), until MSPO code of practices to ensure sustainability throughout the whole chain process of the palm oil supply chain (Naidu & Moorthy, 2021).

The real incentives from the Malaysian Government that really distinguishes itself from Indonesia concerning environmental sustainability is perhaps the establishment of Malaysian Palm Oil Wildlife Conservation Fund (MPOWCF) that

specifically funds wildlife conservation through many activities including studies, marketing, that includes academicians, NGOs, and other government officials.

However, despite having all these efforts that has been done by the Malaysian Government, the reality is palm oil, especially coming in from the two largest producing countries, in the eyes of EU is still deemed unsustainable even with many countersuits are being complained by Indonesia and Malaysia in the WTO under the guise of trade protectionism.

This has proven that the conventional ways of doing things is no longer working, and the impact this will have affect both the market share of Indonesia and Malaysia in the world which inevitably will create an economic ripple until the farmers. Issues on palm oil sustainability has been addressed through comprehensive strategies and policies and it is still argued not enough, even until Indonesian government has declared moratorium on palm oil plantation expansion on 2018 and yet the discrimination still happens on 2020 from EU.

This dissertation will try to identify the necessary steps and strategies that is needed to be implemented by palm oil plantation companies in Indonesia from the CEO/ Owner's or Sustainability Directors' perspectives. The target of this dissertation is to be able to present a formula or guidelines from the grand strategy that can be immersed into different direct implementation, and to understand the point of view from the CEOs or owners or Sustainability Directors of several palm oil plantation companies on what are the real challenges in the coming years and what should be done as a company to persevere through by any means, directly, indirectly, philosophically, strategically, conventional and or unconventional, deliberately, or reactively.

The hope is that this research will be able to the development of business strategy theories and implementation by providing new addition to existing models or perhaps creating a new theory specific to the implementation part of the environmental strategy. Therefore, the industry can grow further and decrease the risk of business interruption. Moreover, the study aims to find out the strategy to overcome challenges of palm oil plantation expansion business in relation to environmental sustainability issues.

## **RESEARCH METHOD**

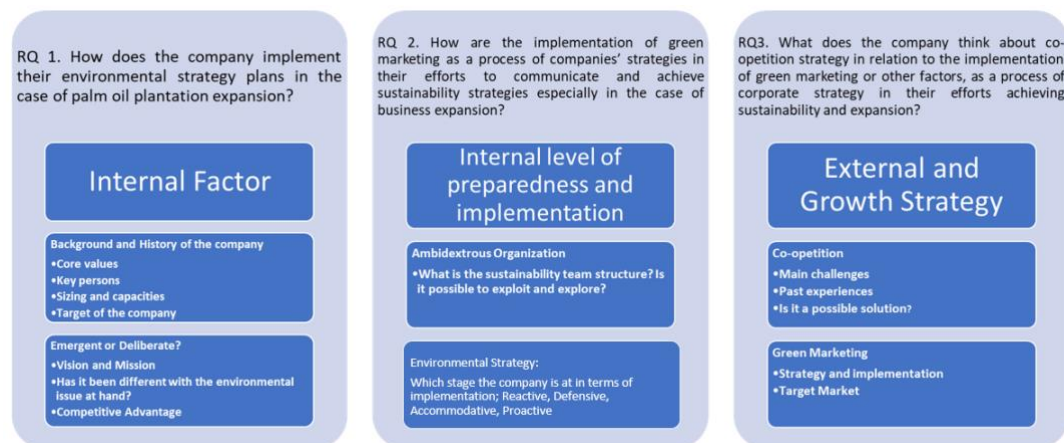
Based on these objectives, the research strategy of this study will use a qualitative approach. Qualitative research is an approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem. The process of research involves emerging questions and procedures, data typically collected in the participant's setting, data analysis inductively building from particulars to general themes, and the researcher making interpretations of the meaning of the data (Creswell, 2014). It is possible for researchers to provide interpretations of the phenomena that become the research theme without depending on numerical measurements (Sugiarto, 2022).

The main data of this research is sourced from primary data which will be obtained through interview techniques. Interviews is an interactive process (face to face) where a person asks questions, between researchers and participants, to seek

particular information. Interviews were conducted as attempts to understand the world from the subject's point of view, to unfold the meaning of peoples' experiences, to uncover their lived world before scientific explanations (Adhabi & Anozie, 2017). Related to this research, interview technique is used as an effort to explore the expansive strategy carried out by Palm oil companies in Indonesia with the external challenges and obstacles faced by the company.

## RESULT AND DISCUSSION

Since the purpose of the research is to assess the potential threat to the industry and not just a single company, the answers and respond from the participants will be from the basis on their own personal experience and to observe the limitations and challenges from their own experience as a company and to forecast and perhaps contemplate the challenges with future co-opetition, and to fulfil the knowledge gap of the research. This research should be able to find the answers from the research questions. How does the company implement their environmental strategy plans in the case of palm oil plantation expansion. How are the implementation of green marketing as a process of companies' strategies in their efforts to communicate and achieve sustainability strategies especially in the case of business expansion. What does the company think about co-opetition strategy in relation to the implementation of green marketing or other factors, as a process of corporate strategy in their efforts achieving sustainability and expansion.



**Figure 1. The relationship between the Research Questions with relevant theories and key points for interviewing informants**

From this table, the informants will be able to tell us specific topics that will relate to specific theories which we can observe from the inception stage to the implementation stage and to further move towards the growth strategy. The concept and determination of which Environmental Strategy each company partake, combined with collaboration in a co-opetition setting, and to produce new strategy and perhaps new business model is part of the Sustainability Market Transformation

theory which combines internal aspects of the company with external strategy of sustainability growth of the company and the industry.

### **Internal**

From the Internal side of the company, we can see that in order for the company to survive and grow in the challenges in sustainability area, one must be deliberate in determining their strategy instead of just using emergent strategy which is not rooted in the vision mission and core strategies in the company. This is apparent from DAG that still sticks to its current strategy that focuses on growth and has trouble growing despite their extensive landbank, and also we can see the initiative taken from the informant AI which change the strategy of the company to suspend growth first and then revamp the company including putting it into its sustainable policy of the company and not just the vision and mission statement of the company.

In order to implement deliberate strategy, the company must also outline specific goals and targets like TAG has done its in company's target such as being carbon neutral by 2036, or like SG and KPN which has a concession for forest restoration purposes, but one thing that needs to be noted is all these companies are growing in their environmental strategy not to be just compliant but to be proactive. Their strategy internally is to be more than just certified holders of their CPO, but to also be responsible corporate citizen to their stakeholders such as the community involve and to also take care of the environment. The way to do this, these companies realize that an ambidextrous organization is needed for the sustainability team to be able to explore and exploit at the same time. Instead of looking at sustainability as a cost centre, SG was able to utilize the sustainability team to actually create a new business plan of selling renewable electricity and selling empty fruit bunch to be used as coal replacements. TAG was able to market its 600 ha of forest restoration projects as a company marketing promotion tools, and KPN was able to explore working together with a few NGOs and different Government bodies to maintain to observe and restore forest areas.

The formation of an ambidextrous organization structure in terms of sustainability can provide a key tool in changing the environmental strategy of a company from a defensive one to a proactive one, and the results can be more than just 'exploiting' the current situation, but to also 'explore' other opportunities in the sustainability sectors.

### **External**

Realizing as well that this issue of sustainability especially coming from the EU and NGOs does not impact specific companies but to the industry as a whole which is apparent in SG's case, the whole informant from exploratory group and explanatory group agrees that co-opetition is the key in order to achieve industry competitive advantage so that the industry would not face the same issue in the future. The informants has also agreed that in order for the co-opetition to be successful and flourish in whatever its going to achieve; fairness, trustworthy, structured, communication, has to be decided and deliberated upfront before the co-



opetition is formed which is in accordance with Brandenburger and Nalebuff (1995) theory of co-opetition.

However, the only literature gap is defining and choosing the complementors in the selection process. The understanding of complementors must follow specific steps in especially determining the nature of the business, which in this case is the NGOs in question. Even with the same mission and vision statement of the NGO in saving the environment, but if the nature of the business which is more specific to the funds gathering process and the KPI of the respected NGOs are different, than the wrong complementor selection may lead to awful consequences in the co-opetition. Therefore, it has been described previously what complementor selection process must be undertaken. In the past all the literature are only focused on partner selection, and competitor selection who are in the same business fields, and complementors are only explained briefly by Brandenburger and Nalebuff (1996) as a party that is opposite from competitors and makes the products more valuable. In the case of the palm oil industry, understanding and choosing the right complementors is paramount to the success of the co-opetition, and methodologies that should be used to determine it ranges from partner selection strategy (Khalifa and Peterson, 1999), and Business Canvas Model (Osterwalder and Pigneur, 2010) to determine the nature of the complementor's business model.

### **Goal Setting**

When the coalition is formed, the green marketing technique shall be executed but with a focus on new market development and existing market penetration. The whole informant has agreed that the industry may not need to focus on the EU market which is comparably small to the rest of the world, and the demand of CPO will grow significantly especially with the local domestic consumptions that will be increased by the government's B20 policy and the growing population and demand of the world. The focus of the green marketing should put more emphasis on lobbying including experiential marketing to the respected country's representatives, and to promote the sustainability of the companies involved including the support of the government especially the ISPO standard that is set out by the government of Indonesia. The purpose of doing this is to have a proactive strategy that will diminish possible EU influence and possible false marketing and implications concerning the unsustainability of the palm oil industry especially coming from Indonesia.

Analysing the strategy blueprint of the industry ranging from the internal side, external side, and the co-opetition targets, it can be seen that the possibilities of co-opetition coalition to overcome the challenges in sustainability issues can be tackled systematically. However, more research should be shown in determining the complementor selection process, and more specific research concerning lobbying and green marketing in different potential respected countries of the co-opetition target should be undertaken.

## CONCLUSION

Internal side, from the Internal side of the company, we can see that in order for the company to survive and grow in the challenges in sustainability area, one must be deliberate in determining their strategy instead of just using emergent strategy which is not rooted in the vision mission and core strategies in the company

External side, the informants has also agreed that in order for the co-opetition to be successful and flourish in whatever its going to achieve; fairness, trustworthy, structured, communication, has to be decided and deliberated upfront before the co-opetition is formed which is in accordance

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