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Achieving Indonesian palm oil farm-to-table traceability through ISPO-RSPO harmonization

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Policy Paper No. 56

Achieving Indonesian Palm Oil Farm-to-Table Traceability through ISPO-RSPO Harmonization

by Samuel Pablo Pareira

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**Achieving Indonesian Palm Oil Farm-to-Table
Traceability through ISPO-RSPO Harmonization**

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GLOSSARY

BPDPKS:

Badan Pengelola Dana Perkebunan Kelapa Sawit (Palm Oil Fund Management Agency)

FAO:

Food and Agricultural Organization

FPIC:

Free, Prior, and Informed Consent

GAPKI/IPOA:

Gabungan Pengusaha Kelapa Sawit Indonesia (Indonesian Palm Oil Association)

ISO:

International Standards Organization

ISPO:

Indonesian Sustainable Palm Oil

MOA:

Ministry of Agriculture

MSP0:

Malaysia Sustainable Palm Oil

RaCP:

Remediation and Compensation Procedure

RSPO:

Roundtable on Sustainable Palm Oil

SPPL:

Surat Pernyataan Pengelolaan Lingkungan (Letter of Environmental Management and Monitoring)

STDB:

Surat Tanda Daftar Budidaya (Cultivation Registration Certificate)

SVLK:

Sistem Verifikasi Legalitas Kayu

WWF:

World Wide Fund for Nature

EXECUTIVE SUMMARY

This paper highlights the overlap between private sector and the state in regulating the sustainability of palm oil industry in Indonesia through the presence of two different certification schemes: the voluntary, global market-driven Roundtable on Sustainable Palm Oil (RSPO) and the mandatory, state-driven Indonesian Sustainable Palm Oil (ISPO). Increasing demand from global consumers for proof of sustainability in the industry requires comprehensive supply chain traceability. Since product tracing in each certification scheme covers different phases of the long palm oil supply chains, there is an opportunity to improve traceability and cover the entire supply chain by harmonizing the certifications to better accommodate both Indonesian regulations and the global norms that regulate palm oil sustainability. Comprehensive traceability would benefit all industry stakeholders (government, companies, smallholders, and NGOs) in ensuring the sustainability of Indonesian palm oil products in the global market.

There are two key hurdles in making Indonesian palm oil industry more sustainable: land ownership status and legality, and transforming smallholders practice – and RSPO and ISPO have different ways of addressing these problems through their standards (or “Principles and Criteria”). The existence of several different sets of official data, plantation practices in the country inherited from Dutch colonial culture, nationwide recognition of *tanah adat/ulayat* (indigenous land rights), and politicization and corruption in land acquisition are among the challenges facing land ownership recognition. Smallholders, who own or operate almost half of oil palm cultivated land in the archipelago, must also play an important role if the industry is to be transformed through certification. Although ISPO and RSPO have similar approaches to incorporating more smallholders in their certification schemes, their implementation on the field differs due to the ambiguous interpretations of each scheme’s standards.

This paper proposes several policy recommendations to the Ministry of Agriculture (MOA), primarily alterations to MOA Regulation No. 38/2020 on ISPO Certification to accommodate more independent smallholders, increase certification uptake, and make the standards more adaptable both to the local context of each palm oil producing region and to the global RSPO standards. Other recommendations include updating the ISPO-RSPO Joint Study; studying the feasibility of facilitating open access to data on oil palm concessions through public-private partnership with RSPO and third-party land monitoring systems; and reforming the way Palm Oil Fund Management Agency (BPDPKS) manages funds collected from the crude palm oil export levy, in order to financially support programs to improve the sustainable practices of independent smallholders, as mandated by President Joko Widodo.

INTRODUCTION

This policy paper seeks to investigate the feasibility of harmonizing the domestic Indonesian Sustainable Palm Oil (ISPO) and the global Roundtable on Sustainable Palm Oil (RSPO) certification schemes in order to achieve full supply chain traceability of the entire palm oil industry in Indonesia: from oil palm fresh fruit bunches harvested at the plantation or farm to a package of cookies, margarine, or cooking oil that retail consumers find at the supermarket.

Palm oil is the most important agricultural commodity in Indonesia. It plays a pivotal role in supporting Indonesia's economic growth and development. It was the country's top non-oil and gas export commodity in 2020 (WITS, 2022) and it is a source of livelihood for an estimated 16–25 million people across the archipelago (Anggraeni 2018, Rival & Levang 2014).

Palm oil is the most important agricultural commodity in Indonesia. It plays a pivotal role in supporting Indonesia's economic growth and development.

Indonesia is the world's top producer of palm oil, controlling almost 60% of global palm oil production in the 2021/22 season (USDA 2022). The country produced about 51 million tonnes (Mt) of palm oil in 2021, consisting of 47 Mt of crude palm oil and 4 Mt of palm kernel oil (GAPKI 2022). Private plantations dominate palm oil production in Indonesia with 60.22% of total production in 2020¹, followed by 34.62% of smallholders, and 5.16% by state-owned plantations (BPS 2021).

On the other hand, the environmental impacts of palm oil production make it one of the most controversial commodities in the world. Tropical lands suitable for oil palm plantation tend to overlap with the world's most biodiverse and carbon-rich tropical rainforests (Pirker & Mosnier 2015). Industrial plantations displace wild species due to the tendency of monoculture cultivation for commercial purposes (Meijaard et al. 2018), and usually host 65% less biodiversity than natural tropical rainforests. Conversion of peatlands (swamp forest and shrubland) into plantations in Malaysia, Indonesia, and Papua New Guinea releases around 400 t/ha of carbon dioxide into the atmosphere. This is more than twice as much carbon as is released by the conversion of tropical rainforests into plantations (150 t/ha) (Agus et al. 2013). Oil palm plantation also contributes to forest fragmentation by creating an ecological barrier for species trying to move between more diverse natural habitats (Fitzherbert et al. 2008).

¹ Globally, a handful of corporate groups control palm oil trade: Wilmar, Musim Mas, Golden-Agri Resources, Cargill, and Asian Agri in Indonesia; Sime Darby and Felda in Malaysia. Together, these seven companies control almost 90% market share in global palm oil processing and trade (Pacheco et al. 2018).

“Between 2005 and 2015, industrial oil palm plantations became the primary driver of deforestation in the Indonesian part of Borneo.”

In Indonesia, tropical deforestation rates linked with expansion of the palm oil industry have been particularly marked since 2005, the year identified as the beginning of Indonesia's palm oil boom. Between 2005 and 2015, industrial oil palm plantations became the primary driver of deforestation in the Indonesian part of Borneo, accounting for 50% or 2.1 million hectares (Mha) of its old-growth forest area loss (4.2 Mha) (Meijaard *et al.* 2018). Much of this land was part of past logging concessions², while other areas are smallholder plantations that encroach on primary forest. As of 2021, there are about 700 thousand hectares of smallholder plantations trespassing on forest area out of a total 3.37 Mha, or about 21% of palm oil plantations (Pareira 2021, Media Perkebunan 2021).

Global consumers are increasingly aware of the environmental issues of palm oil and demand sustainable products. The Indonesian palm oil industry has come under intense global public scrutiny in the past two decades, especially as awareness around climate change and deforestation has grown among Global North costumers. Because global demand and prominent consumer goods manufacturers have fueled the expansion of the palm oil industry in the past, Indonesian palm oil has become an easy target for consumer and civil society green activism (Pacheco *et al.* 2018). In the long value chain of the global palm oil industry, which is still shaped by supply and demand mechanisms, the global consumer makes the final verdict on a product. Consequently, market reputation regarding sustainability is important for the longevity of the industry.

² Through which the government grants permission for logging over a certain period of time.

PRIVATE SECTOR VS STATE OVERLAP IN REGULATING SUSTAINABILITY: THE ROUNDTABLE ON SUSTAINABLE PALM OIL (RSPO) AND INDONESIAN SUSTAINABLE PALM OIL (ISPO) AS TWO CERTIFICATION SCHEMES

The Roundtable on Sustainable Palm Oil (RSPO) was established in April 2004 as the only private sustainable certification for the global palm oil industry. It is an institution of global private governance, created by World Wide Fund for Nature (WWF), Unilever, Migros³, AarhusKarlshamn (AAK)⁴, and the Malaysian Palm Oil Association (MPOA) (RSPO 2022a). It unites stakeholders from seven different sectors of the industry: producers, processors or traders, consumer goods manufacturers, retailers, banks/investors, and environmental and social NGOs (Ruysschaert & Salles 2016).

RSPO aims to promote the growth and use of sustainable palm oil through cooperation within the supply chain and open dialogue with its stakeholders (RSPO 2004). It works through third-party compliance monitoring of adherence to RSPO standards, which primarily address land and environment performance issues.

Unfortunately, despite being the only global sustainable certification scheme for palm oil, RSPO has a weak presence in Indonesia. As of August 2022, the RSPO has only managed to certify 2.42 Mha out of the total 14.59 Mha of oil palm plantation land, just 16.6% of oil palm plantations in the country (RSPO 2022b).

One of the reasons behind the weak uptake of RSPO certification in the country is the emergence of a 'competitor' certification scheme: Indonesian Sustainable Palm Oil (ISPO) (Pareira 2021). ISPO was launched in March 2011 by the government, with strong support from the Indonesian Palm Oil Association (GAPKI/IPOA), which withdrew its membership from the RSPO a few months later. In practice, ISPO bundles government legislation and regulation of palm oil production, requiring full compliance with the law for certification.

While RSPO participation is voluntary, ISPO certification is mandatory for all palm oil producers in Indonesia, including smallholders (see Table 1). Mandatory participation in ISPO hinders the uptake of RSPO, since certification costs are high and participation in any scheme increases transaction costs for both companies and smallholders. These costs are especially hard to bear for independent smallholders. One way to improve outcomes would be to harmonize the standards between the two schemes.

Mandatory participation in ISPO hinders the uptake of RSPO, since certification costs are high and participation in any scheme increases transaction costs for both companies and smallholders.

³ Switzerland's largest retail company.

⁴ One of the world's largest producers of vegetable oils and fats.

Harmonizing ISPO and RSPO certifications could also reduce corporate transaction costs, reduce information costs for smallholders, and increase the access and competitiveness for Indonesian palm oil producers to the global market. To this end, this paper recommends several policy changes that are needed for the harmonization to happen.

One harmonization effort between ISPO and RSPO is underway at the smallholder level. A joint pilot project between RSPO and the provincial government of Jambi aims to assist independent smallholders in the region in qualifying for both ISPO and RSPO certification. Initiated in 2019 with the support of MOA and Yayasan SETARA, this pilot project targets a joint audit for 1,100 smallholders to be ISPO and RSPO-certified within three years. RSPO is assisting the provincial government in capacity-building training in three regencies: Tanjung Jabung Barat, Tebo, and Sarolangun (Interview 1) in order to achieve ISPO certification. Based on RSPO Independent Smallholder Standard 2019, once these smallholders are ISPO-certified, they will also be eligible for entry level RSPO certification and up to 40% of their fruit crops can be sold as RSPO Smallholder Credits, which will allow these smallholders to benefit from a premium price (RSPO 2019).

For this paper, secondary data were collected through a literature review of published academic articles and media reports, including previous works by the author. Primary data were collected through a combination of stakeholder interviews⁵ and research of government regulations, association reports, RSPO official documents, and other materials received from private companies, NGOs, and smallholder unions.

⁵ To collect primary data, two interviews with industry stakeholders were undertaken through semi-structured interviews. Details of the interview are provided at the end of the paper.

Table 1.
Key differences between RSPO and ISPO

Key aspects	Roundtable on Sustainable Palm Oil (RSPO)	Indonesian Sustainable Palm Oil (ISPO)
Driving force	Market mechanism, private sector	State, government regulations
Nature of the scheme	Global, voluntary	National, mandatory (2020 for companies, 2025 for smallholders)
Key actors behind the scheme	Global consumer goods manufacturers, traders/processors, environmental NGOs	Producer association (GAPKI), Indonesian government
Operating principles	Traceability (PalmTrace), High Conservation Values (HCV), Free Prior and Informed Consent (FPIC) from local/indigenous people, NDPE (no deforestation, peatland, exploitation) prohibiting clearing/use of primary forests and peatland and labor exploitations	Compliance with government laws and regulations: AMDAL (Environmental Impact Assessment) document for companies, Cultivation Registration Certificate (STDB) and Letter of Environmental Management and Monitoring (SPPL) documents for smallholders, structural improvement of the industry through public service
Benefits to members	Improve company portfolio and market reputation globally, premium price as incentive for smallholders	More efficient government bureaucracy by bundling all legislations into one, assistance for smallholders
Sector-wide approval	Worldwide	National market, unclear globally
Scope of supply chain traceability	Online tracing from crude palm oil (CPO) mill (upstream) to refinery/processor/trader (midstream) through PalmTrace platform, tracing down to derivative retail products (downstream) and to plantations (upstream) could be done manually	Plantation to CPO mill (both upstream) in 2025

Source: based on Pereira 2021, multiple interviews with industry experts, environmental NGO and smallholder union

SUPPLY CHAIN TRACEABILITY THROUGH CERTIFICATION AS KEY TO SOLVE PALM OIL SUSTAINABILITY ISSUES IN INDONESIA

The International Standards Organization (ISO) defines traceability as “the ability to trace the history, application, or location of that which is under consideration”. When considering products, this can include the origin of materials, the processing history and the distribution and location of the product after delivery (ISO, 2011). Similarly, the UN Food and Agricultural Organization (FAO) in International Food Standards (Codex Alimentarius) defines traceability as “the ability to follow the movement of a food through specified stage(s) of production, processing, and distribution” (FAO, 2006).

The increasing demand from consumers for proof of sustainability in agricultural and food products makes supply chain traceability a fundamental aspect of sustainable certification schemes in the agri-food sector, including palm oil. Traceability can verify sustainability claims made by companies or certification schemes. This helps to ensure good agricultural practices and respect for people and the environment along the supply chain (BSR, 2014).

As with the *Sistem Verifikasi Legalitas Kayu* (SVLK)⁶, a mandatory national certification scheme for the timber and logging industry, ISPO emphasizes strict compliance of palm oil producers with government regulations in Indonesia. But while SVLK is globally recognized and harmonized with the Forest Stewardship Council⁷, ISPO, and RSPO are disjointed.

One of the main reasons behind the lack of harmonization between ISPO and RSPO despite the harmonization in timber certification is that palm oil has a longer and more complicated supply chain than timber and forest products do. Figure 1 illustrates that palm oil supply chains start from the fresh fruit bunches crop at oil palm plantations and end at a pack of cooking oil or cookies in the hands of retail consumers (Pareira 2021).

While commodity standards schemes for logging and for palm oil both emphasize traceability, a Forest Stewardship Council-certified paper bag or wooden chair can be automatically traced back to its logging area. The same cannot be said for a RSPO-certified margarine or soap.

⁶ The Timber Legality Verification System (*Sistem Verifikasi Legalitas Kayu* or SVLK) is a traceability certification system to ensure the legality and sustainability of timber products sourced, distributed, and traded in Indonesia. It was created by the Ministry of Environment and Forestry in 2009 to respond to increasing demands for legality certificates from export markets and to harmonize with global certification schemes in the sector, such as the Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC).

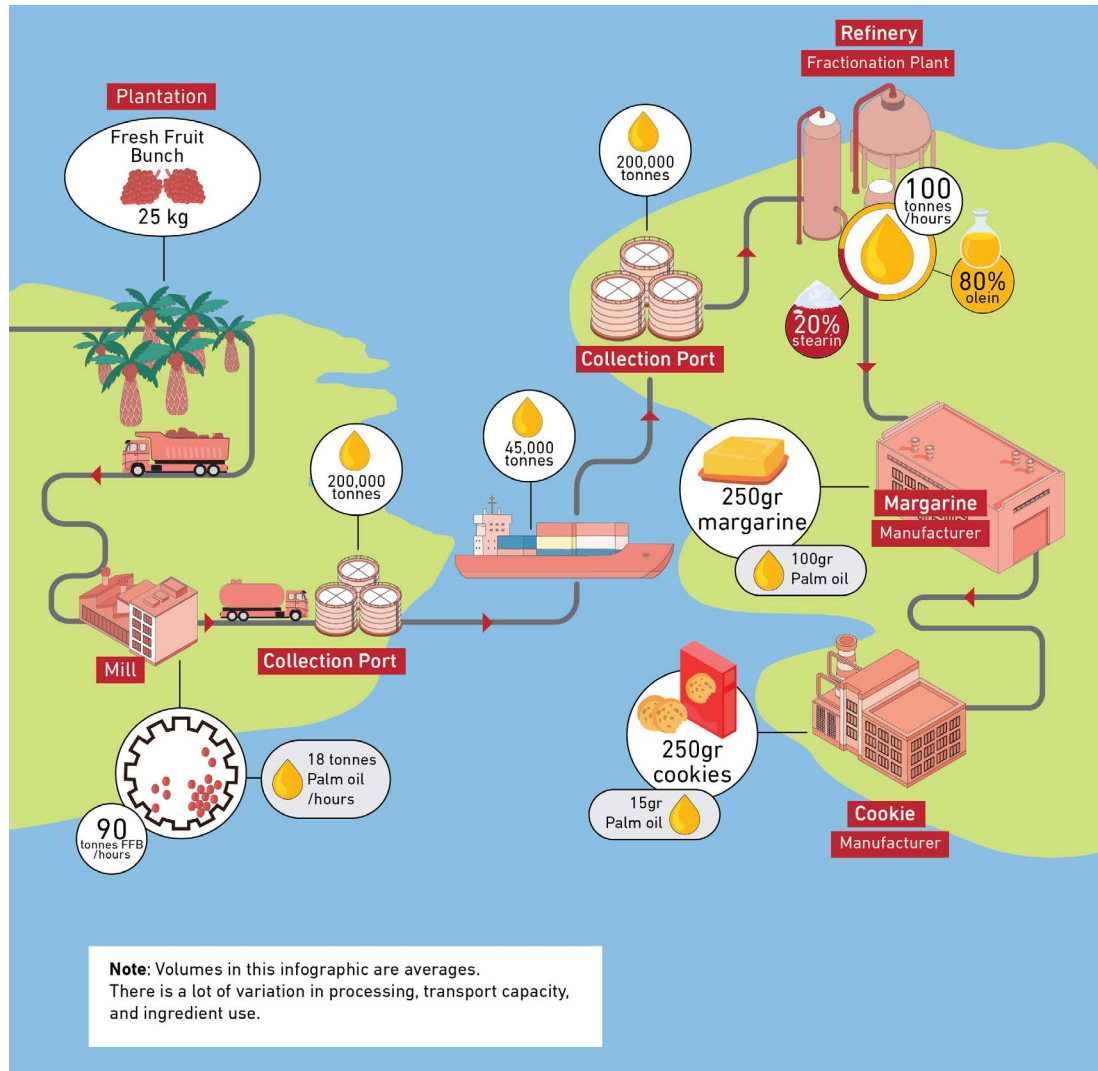
⁷ Established in 1993, Forest Stewardship Council is among the first global private sustainable certification schemes for natural resources. It focuses on timber and other forest products. It has inspired similar initiatives in other sectors, e.g. fisheries, soybeans, and RSPO in palm oil.

RSPO's PalmTrace online platform can trace back a certified sustainable palm oil (CSPO) product from the refinery/processor/trader (midstream) back to its crude palm oil mill origin, but not all the way to its plantation area (Pareira 2021). RSPO is also able to trace retail products (downstream) manually. Meanwhile, ISPO is planning to trace the source of fresh fruit bunches crops from plantation/farm to the mill (upstream) in 2025 (Minister of Agriculture 2020).

Harmonizing the RSPO and ISPO certification schemes would provide comprehensive and powerful supply chain traceability for palm oil. This enhanced traceability would be beneficial to all industry stakeholders (government, companies, smallholders, and NGOs) in ensuring the sustainability of Indonesian palm oil products, as well as answering negative campaigns targeting palm oil in export markets—especially Global North markets. To move toward this goal, both schemes have to better accommodate and reflect both Indonesian regulations and globally recognized norms and principles regulating the sustainability of palm oil.

“Harmonizing the RSPO and ISPO certification schemes would provide comprehensive and powerful supply chain traceability for palm oil. This enhanced traceability would be beneficial to all industry stakeholders in ensuring the sustainability of Indonesian palm oil products.”

Figure 1.
Palm oil supply chain flow



Source: Pareira (2021), adapted from flowchart by RSPO

Comprehensive traceability through the supply chains is fundamental to providing consumers with more information on products that contain Indonesian palm oil. Making this information easily accessible will help consumers and civil society to provide greater scrutiny regarding where palm oil comes from, hopefully shifting market demand to more sustainable products. This has the potential to transform the palm oil industry in the long-term. Harmonizing the standards of certification schemes for palm oil in Indonesia can ensure this traceability.

COMPARISON BETWEEN RSPO AND ISPO: PRINCIPLES, TRACEABILITY IMPLEMENTATION, AND SMALLHOLDER CERTIFICATION

GAPKI, RSPO, and ISPO: A Political-Economic Background

The creation of the ISPO scheme by the government, with strong support from the Indonesian palm oil industry association, GAPKI⁸, in 2011 and its mandated use in Indonesia is one of the reasons for the weak uptake of RSPO certification in Indonesia (Pareira 2021). Between 2008 and 2011, there was growing criticism among palm oil producing countries that RSPO is a “Western community-driven force” trying to regulate global palm oil supply chains (Pareira 2021) and that it was too much in favor of environmental NGOs (Reuters 2011).

RSPO has admitted that one of the major challenges of engagement with producer countries at that time was the strong narrative of state sovereignty over the importance of the global market, particularly from Indonesia. Meanwhile, GAPKI blamed the inequity within the RSPO membership structure and voting mechanism for unfavorable decisions made by RSPO, and that it was “a losing battle as all other members always wanted to weaken our position as producers” (Pareira 2021). GAPKI withdrew its membership from RSPO in October 2011 and focused on developing the ISPO (Reuters 2011).

GAPKI blamed the inequity within the RSPO membership structure and voting mechanism for unfavorable decisions made by RSPO.

At the time that GAPKI withdrew from RSPO, Indonesian palm oil companies were infamous for land banking⁹ (Bell 2020) and for conflicts arising from overlapping land ownership between indigenous people and smallholders (Pareira 2021). Between 1997 and 2009, the Indonesian palm oil boom resulted in over 3,500 agrarian conflicts with local communities (Jiwan 2013). With this reality on the ground, GAPKI knew that its members could not comply with the RSPO Principles and Criteria (commonly known as “standards”), because industry members in Indonesia lacked the sustainability awareness they would need to do so (Pareira 2021).

GAPKI members are not against the goals pursued by RSPO standards. In the years following GAPKI withdrawal, RSPO assisted six major palm oil companies in Indonesia¹⁰ in uniting as a decision-making group within the RSPO, the Indonesian Growers Caucus (RSPO 2017). Through the caucus, those companies still facilitate RSPO communication with the Indonesian government (Pareira 2021).

⁸ *Gabungan Pengusaha Kelapa Sawit Indonesia* (GAPKI), the Indonesian palm oil industry association, is one of the most powerful industry lobbies in the country. With more than 700 company and smallholder cooperative members, GAPKI has had the government's ear since its foundation during Suharto's New Order era. GAPKI plays a key role in advancing sustainable certification in the palm oil industry.

⁹ Land banking in the palm oil industry refers to a practice in which large corporations stockpile huge tracts of land concessions that they have no intent to immediately put to use, threatening local and indigenous efforts to secure rights to their customary forests (*tanah/hutan adat*)

¹⁰ First Resources, Sampoerna Agro, Bumitama Agri, Cargill, Golden Agri-Resources, and Inti Indosawit Subur.

Land Ownership, Data Accuracy, and Agrarian Conflict in Indonesian Palm Oil Sector

Chief among the issues that must be addressed in the industry is land ownership status and legality, which is firmly related to data accuracy, transparency, and agrarian conflict with indigenous/local communities.

In 2020, from a total oil palm plantation area of 14.59 Mha, private plantations control 7.98 Mha or 54.69%, followed by 6.04 Mha of smallholders plantation (41.44%) and only 0.57 Mha (3.87%) controlled by state-owned plantations (BPS 2021). The Ministry of Agriculture (MOA) estimates that in 2019 there were 16.38 Mha of oil palm plantations in Indonesia (Minister of Agriculture 2019). Other parties have contested these figures, claiming they are rough estimations based on satellite imagery that captures oil palm tree covers, but not the actual land concession given by the government to oil palm companies, which may exceed 26 Mha (Pareira, 2021).

Disputes over land status, especially on plantations bordering with forests, are a common phenomenon while the government struggles to integrate data on land tenure and ownership from various government agencies into one universally recognized database. Unclear and overlapping land maps make it more difficult for the government to determine whether a plantation is encroaching on tropical rainforest or peatland. Having one set of official data that is accurate, transparent, accountable, and acceptable to all stakeholders is a precondition for a strong sustainability claim.

“Almost all extractive and agri-food industries in Indonesia have overlapping land ownership issues and agrarian conflict with indigenous people and local communities.”

The existence of two official data sets concerning land use—one from BPS (Statistics Indonesia) and another from the Ministry of Agriculture—is quite normal in Indonesia. Almost all extractive and agri-food industries in Indonesia have overlapping land ownership issues and agrarian conflict with indigenous people and local communities, mainly because of the mismatch between plantation practices imported by Dutch colonial culture and customary land rights (Interview 1).

Plantation practices in Indonesia inherit Dutch colonial culture, such as the process of obtaining government permits for land concessions, including for oil palm plantations. Oil palm plantations were introduced to Sumatra at the end of 19th century by the Dutch¹¹, with land-grabbing, slash and burn, and forced labor practiced by Dutch state-owned plantation companies were then followed by Indonesian state-owned and private companies alike until the end of 1990s (Interview 1). There was no standard or government regulation on environmental sustainability, and somehow overlapping land ownership became the ‘acceptable norm’ for doing agribusiness in the country. The first global sustainable certification that came to regulate the agroforestry sector in Indonesia was FSC in early 2000s, when pressure was growing to curb illegal logging (Pareira 2021). Later, RSPO was established replicating the same path used to establish FSC (Auld et al. 2018, Pareira 2021).

¹¹ The first oil palms to arrive in Southeast Asia were four plants from Guinea, West Africa introduced into the Bogor Botanical Gardens in 1848. In 1905, it was noted that the descendants of these first plants grew better and produced fruit with smaller kernels and higher oil content than oil palms in West Africa. Their superiority was due to more favorable ecological conditions in Sumatra (fertile soil, regular rainfall, and high levels of sunshine), and the absence of pests and diseases (Rival & Levang 2014).

Meanwhile, many provinces in Indonesia still recognize tanah *adat/ulayat* (indigenous/customary land rights)¹², including Aceh, West Sumatra, Riau, across Kalimantan, and Papua (Interviews 1 and 2). Another complication is the fact that land acquisition in Indonesia is heavily politicized and prone to corruption, collusion, and nepotism, especially at the regional level (provinces and regencies). Many palm oil companies stockpile concession land granted by local regents, before land compensation for indigenous people or local communities have been cleared. In comparison, Malaysia has better land management policies, concession regulations, and integrated and centralized maps, which contribute to fewer agrarian conflicts in its palm oil industry (Box 1).

Many palm oil companies stockpile concession land granted by local regents, before land compensation for indigenous people or local communities have been cleared.

Box 1. **Malaysia Sustainable Palm Oil (MSPO)**

The MSPO standard, a certification initiative developed by the government of Malaysia with input from key players in the palm oil industry, was introduced in November 2013 and implemented in January 2015. MSPO was updated in 2022 and now has five main principles: (1) Management commitment and responsibility, (2) Transparency, (3) Compliance with legal and other requirements, (4) Responsibility to social, health, safety and employment condition, and (5) Environment, natural resources, biodiversity and ecosystem services.

Land use rights are governed by principle 1 and principle 2. For instance, a company must have legal perimeter boundary markers which should be clearly demarcated and visibly maintained on the ground where practicable. The MSPO also requires a well-documented free prior informed consent process when there is a land dispute for securing legal proof of land acquisition.

The national law on land ownership acknowledgement in Malaysia causes problems in East Malaysia, especially for smallholders. Indigenous communities, in particular, have land tenure challenges, since indigenous ancestral lands are not always recognized by state governments, despite the fact that tribes have lived, worked, and died on them for generations (Rahman 2020).

In addition to being more inclusive on land acknowledgment compared to national law, MSPO Principles and Criteria also have higher standards compared to ISPO in Indonesia, especially in terms of transparency and land ownership. MSPO acknowledges customary land. MSPO requires no new plantings on recognized customary land without the owners' free, prior, and informed consent, which is handled through a documented framework that allows indigenous peoples, local communities, and other stakeholders to express their opinions through their own representative institutions. In contrast, the ISPO approach to land ownership is still based on formal law (Article 5).

¹² Tanah *adat/ulayat* (indigenous/customary land rights) is a communal land which belongs to the indigenous people (*masyarakat adat*) who live on it. The ownership right on indigenous land (known as *hak ulayat*) is recognized by The Law No. 05/1960 on Basic Agrarian Principles. As indigenous forest is recognized as a separate legal entity from state forest, many oil palm concessions have overlapping land ownership, leading to agrarian conflict with indigenous people.

For transparency, MSPO requires documented proof of legal ownership or lease, history of land tenure, and the actual use of the land. Further, the MSPO prioritizes the free, prior, informed consent process over the legal basis for land rights and ownership, while ISPO requires less transparent land ownership disclosure for certification compliance.

RSPO acknowledges that agrarian conflict in Indonesia will always exist (Interview 1). To mitigate the effects of this situation, RSPO requires its members to avoid these conflicts, but when such conflicts exist within their concession, to address them through free, prior, and informed consent (FPIC) and remediation and compensation procedure (RaCP) mechanisms prior to tree planting in order to be eligible for certification. With these mechanisms, indigenous/local communities inhabiting the potential plantation land should be able to decide their ownership status without coercion/intervention from other parties. These communities also have the right to be constantly informed of any update throughout the process.

In Indonesian law, on the other hand, while the concept of free, prior, and informed consent is not explicit, it exists in many regulations on land acquisition, for example in Law No. 05/1960 on Basic Agrarian Principles and Government Regulation No. 19/2021 on Implementation of Land Acquisition on Development for Public Interest. For example, the government will only issue a land title (*Sertifikat Hak Milik* or SHM) or a Cultivation Right (*Hak Guna Usaha* or HGU) when all land rights disputes have been cleared or solved. Unfortunately, implementation in the field is hampered by the corruption, collusion, and nepotism common in the country.

ISPO bases its scheme on Indonesian government regulations (Table 1). As long as a business complies with the regulations governing land acquisition, its products are automatically cleared as sustainable. A company will face administrative sanctions or fines according to the related law if it is not compliant, but despite these sanctions its certification process can continue. This means that RSPO has stricter implementation than ISPO through its explicit FPIC and RaCP mechanisms, as well as stricter consequences (revocation of certification) with more immediate effects on reputation and sustainability image, especially in the global market.

Deforestation and Biodiversity Protection

When it comes to deforestation and biodiversity protection, RSPO Principles and Criteria (RSPO standards) have strict enforcement through the “NDPE” principle (no deforestation, peatland, exploitation), which prohibits clearing/use of primary forest and area with high conservation value such as peatland. Research has demonstrated that conversion of peatlands (swamp forest and swamp shrubland) into oil palm plantations in Malaysia, Indonesia, and Papua New Guinea releases around 400 t/ha of carbon dioxide into the atmosphere. This is more than twice as much carbon as is released by the conversion of tropical rainforests into oil palm plantations (150 t/ha) (Agus et al. 2013). The critical role of peatlands as carbon sinks is the reason for the strict prohibition by the RSPO of peatland conversion into plantation.

ISPO standards also prohibit the conversion of land into oil palm plantations within protected areas (*kawasan lindung*), protected forests (*hutan lindung*), or river banks, but do not explicitly mention peatland. ISPO’s criteria for oil palm cultivation on peatland (Principles and Criteria 2.2.4 for companies, 2.3.4. for smallholders) refers to MOA Regulation No. 14/2009 on Guidelines

for Utilizing Peatland for Oil Palm Cultivation. This regulation allows oil palm cultivation on peatlands that are less than three meters deep. This provides a legal loophole within ISPO for both companies and smallholders to clear peatland for oil palm cultivation, not considered an environmentally sustainable practice.

Traceability

RSPO has a full traceability system from the crude palm oil mill in the upstream supply chain to the refinery/processor level (e.g. oleochemical facility) in the midstream through a real-time, online platform PalmTrace (Interview 1). Every RSPO-certified member has to be registered with the platform in order to sell certified sustainable palm oil products. In PalmTrace, RSPO members can register or search for the purchase of a specific product, whether it comes from a single identifiable certified supplier (Identity Preserved), multiple certified sources (Segregated), or certified suppliers that is mixed with ordinary/non-certified palm oil (Mass Balance) (Interview 1, RSPO 2022c).

RSPO certifies crude palm oil rather than certifying the fresh fruit¹³ crops, as PalmTrace is unable to trace a product back to its plantation — though the source of the fruit crops could be traced manually from the mill. Nor does PalmTrace extend all the way to retail products (such as cookies or margarine), but again tracing could be done manually. For example, a package of certified-sustainable cooking oil by SMART (Sinar Mas) could be traced back to its crude palm oil mill by manually checking the registration number of RSPO label in its container/packaging (Interview 1).

Since its creation in 2011, ISPO has been trying to update its own standards, in part by adapting standards from RSPO. Recently it has taken a cue from RSPO on traceability. In a 2020 update to its standards (MOA Regulation No. 38/2020 on ISPO Certification), ISPO created a clause on “traceable supply chain system” (*ISPO Principles and Criteria 6.6: Memiliki Sistem Rantai Pasok yang Mampu Telusur*), which will come into effect in 2025¹⁴. Though it doesn’t support identity preserved tracing, these models clearly refer to those used in RSPO tracing (Interview 1).

“Since its creation in 2011, ISPO has been trying to update its own standards, in part by adapting standards from RSPO.”

ISPO has not yet created an online, integrated tracing platform similar to RSPO’s PalmTrace through which member companies can trace the movement of their crude palm oil and palm kernel oil transactions. However, even if ISPO were to create a similar platform, they would not be able to guarantee foreign crude palm oil buyers would record their purchases in its platform, since the platform and its database will be controlled by the Indonesian government (Interview 1).

¹³ In the palm oil industry, it is known as Fresh Fruit Bunches (FFB)

¹⁴ ISPO will allow companies to choose whether their products qualify as falling into a segregated or mass balance supply chain model (Articles 28–30).

The Dilemma of Smallholders and Certification Standards

The second issue surrounding sustainable certification in the Indonesian palm oil sector is how to transform smallholder practices. Smallholders own or operate almost half of oil palm cultivation land throughout the archipelago. The Indonesian palm oil industry cannot become sustainable without bringing along smallholders. These individual farmers have different characteristics and face different challenges in pursuing sustainable practices than their corporate counterparts.

“ Smallholders own or operate almost half of oil palm cultivation land throughout the archipelago. The Indonesian palm oil industry cannot become sustainable without bringing along smallholders. ”

There are two types of oil palm smallholder:

- Scheme smallholders (*petani plasma*¹⁵) are farmers and landowners who do not have enforceable decision-making power on the operation of the land and production practices. They may not have freedom to choose how they organize their lands, the type of crops they plant, and/or how they manage and finance the land. They may be bound to a company mill through contracts, agreements, or planning (RSPO 2019).
- Independent smallholders (*petani swadaya*¹⁶) are all smallholder farmers that are not considered to be scheme smallholders. Some are members of indigenous communities in particular regions. They usually have low literacy, do not receive assistance from the government, and do not interact with the local plantation office (Interview 2).

Research by Serikat Petani Kelapa Sawit (SPKS) in 2016–2017¹⁷ showed that 88% of independent smallholders own just two to four hectares of oil palm farms. Their land usually consists of a mix of former natural forest, former rice field or other agricultural land, and shrubland or bush. They tend to control a larger size of cultivated area, yet their productivity level remains 11–48% lower compared to scheme smallholders. A survey of independent smallholders in Riau, West Kalimantan, and Southeast Sulawesi with more than 600 respondents found that about 73% of independent smallholders do not hold a land title (*Sertifikat Hak Milik* or SHM). Moreover, none of them possess Cultivation Registration Certificate (*Surat Tanda Daftar Budidaya* or STDB), or Letter of Environmental Management and Monitoring (*Surat Pengelolaan dan Pemantauan Lingkungan Hidup* or SPPL)¹⁸ (SPKS *et al.* 2017). Without these legal documents they are ineligible for ISPO certification.

¹⁵ Most scheme smallholders are farmers who took part in the Suharto-era transmigration program in 1987, known as Perkebunan Inti Rakyat or PIR-trans. They were relocated from populated Java into rural areas in Sumatra, Kalimantan and other islands. The government gave them 2 hectares of land to grow oil palm trees and an additional 0.5 hectare for their house and other crops. They were partnered with a local palm oil company that provided technical and financial assistance. In the partnership scheme, after four years these farmers agreed to sell their fresh fruit crops to the company with the price set by the government (Asian Agri 2023).

¹⁶ These farmers are usually not part of the Suharto-era transmigration program, but have instead migrated from nearby towns or provinces to find better livelihood.

¹⁷ The research was conducted in five districts (Siak, Bengkalis, Kubu Raya, Ketapang & North Konawe) across three provinces (Riau, West Kalimantan & Southeast Sulawesi) in Indonesia, with the first four districts host the largest smallholder plantation in Sumatra and Kalimantan.

¹⁸ A Cultivation Registration Certificate (*Surat Tanda Daftar Budidaya* or STDB) records and registers plantations with an area of less than 25 hectares. It applies to 137 plantation commodities, including oil palm. Meanwhile, through the Letter of Environmental Management and Monitoring (*Surat Pengelolaan dan Pemantauan Lingkungan Hidup* or SPPL), a plantation owner or operator pledges to manage and monitor the environmental impact of their plantation.

Smallholders across the country are generally not familiar with ISPO due to lack of promotion and training from local government officers. Some smallholders are more familiar with the RSPO, mainly because it has been around for longer and sometimes due to their RSPO-certified partner company mills (Interview 2).

“Smallholders across the country are generally not familiar with ISPO due to lack of promotion and training from local government officers.”

In the palm oil producing regions in Sumatra and Kalimantan, many independent smallholders with less than four hectares of land are skeptical about certification, especially regarding its economic benefits. Most of their knowledge, skills, and capital to start growing oil palm trees are from their own hard work, and the role the government plays or should play in their business is not obvious to them. This perspective helps to explain why they are reluctant to certify their businesses even when the government mandates it (Interview 2). Continuous training about the importance and benefits of sustainable certification and labeling is important to secure buy-in from these smallholders.

Unfortunately, many officers in local Plantation Offices (*Dinas Perkebunan*) also do not have complete and/or accurate knowledge about ISPO certification and its importance (Interview 2). This is because the best trained officers are regularly transferred to other regions. Many of local officers also believe the ISPO is merely a project designed to secure more funding for them from the MOA and the Palm Oil Fund Management Agency (*Badan Pengelola Dana Perkebunan Kelapa Sawit* or BPDPKS)¹⁹.

“Unfortunately, many officers in local Plantation Offices (*Dinas Perkebunan*) also do not have complete and/or accurate knowledge about ISPO certification and its importance.”

Another fundamental challenge is corruption. The plantation office in some provinces demands payment from smallholders trying to obtain their Cultivation Registration Certificate (STDB), which is supposed to be free. For example, officers in Rokan Hulu, Riau charge smallholders around IDR 50,000–100,000 per farmer and require them to pay their property tax before officers will process the document (Interview 2). These practices became common in the main oil palm producing regions that supply palm oil companies, but make obtaining legal documents particularly difficult for independent smallholders, who have far fewer resources. Local Plantation Offices are key to boosting ISPO certification among smallholders, including by reviewing and issuing the necessary legal documents. MOA must address problems with corruption in these offices to improve ISPO uptake.

Despite the fact that ISPO was implemented in part because the industry considered RSPO to be a poor fit for the Indonesian context, many advisers/instructors from local NGOs and unions who assist smallholders consider RSPO standards to be more flexible and accommodating to local independent smallholders compared to ISPO (Interview 2). For example, when establishing land legality, RSPO acknowledges an affidavit/sworn letter from village chief as a proof for land ownership, acknowledging that a smallholder may not keep a land title on hand, for example because it is kept by bank as collateral for a loan, but ISPO does not allow this (Interview 2).

¹⁹ The Palm Oil Fund Management Agency (BPDPKS) manages and disburses the Oil Palm Plantation Fund, which is funded by export levies paid by the exporters of crude palm oil, its derivatives, and several other oil palm-related products. The Fund is intended to foster development and sustainability of the oil palm sector through disbursement for several programs, such as biodiesel and replanting for smallholder farmers.

RSPO will also accept a letter from the local plantation office stating that required documents are in process during the audit, and smallholders are encouraged to have these documents later after certification, for annual surveillance/monitoring. In contrast, ISPO makes the possession of required documents a prerequisite for certification eligibility (Interview 2).

Another problem is different interpretations of standards by auditors/surveyors during document reviews which undermine certification efforts among smallholders. Some examples of inconsistent interpretations of ISPO standards²⁰ include:

- *Principles and Criteria 1.1: smallholder's legality and management.* Many auditors require smallholders to provide a land title as proof for land ownership. In fact, both ISPO and RSPO standards acknowledge all kinds of land ownership documents, such as a sale and purchase deed (AJB), letter of beneficiary (*surat ahli waris*), certificate of compensation (SKGR), or tax registration (SKT or *girik*), which smallholders are more likely to have.
- *Principles and Criteria 2.3.2: the use of oil palm seed.* Smallholders are required to use seeds bought from producers acknowledged by the MOA in order to be ISPO-certified, unlike companies that are obliged to use only certified, superior quality seeds (Attachment I, Principles and Criteria 2.2). Many independent smallholders in rural areas started planting oil palm trees in the 1990s and early 2000s with unqualified seeds, colloquially known as Mariles seed²¹. In this case, during an ISPO certification audit they are only required to provide a letter from the local Plantation Office, company, or the nearest PPKS (Oil Palm Research Center) facility stating that they use Mariles seed. They will be required to use certified seeds later for replanting. However, auditors often misinterpret this clause, requiring independent smallholders to use certified seeds to be eligible for certification, failing to acknowledge that they are not subject to the same requirements as scheme smallholders or company plantations (Interview 2).
- *Principles and Criteria 3.1: fire prevention and control.* Many RSPO-certified smallholders are equipped with portable fire extinguishers. Some auditors require more sophisticated tools for ISPO certification, such as a fire engine truck. Scheme smallholders may be provided with a fire truck by their partner company mill, but they are not realistic equipment for independent smallholders. In fact, there is no requirement for specific fire control tools in the ISPO standards.
- *Principles and Criteria 4.1: Fresh fruit bunches price agreement and sales* requires smallholders to have a signed letter of uptake agreement between the smallholder, the partner company, and the head of the local plantation office in order to trace the product from the smallholder's farm to the company's mill. Some auditors require smallholders to provide this agreement for the first certification audit. There are technical obstacles (e.g., distance, poor infrastructure between the farm and the mill) that make requiring this document at the time of the first audit a major barrier to certification. Although the local Plantation Office is required by

²⁰ ISPO Principles and Criteria, MOA Regulation 38/2020 on ISPO Certification, Attachment II.

²¹ Mariles (Marihat Leles) is a colloquial idiom among oil palm smallholders (mainly independent) to describe unqualified, untraceable oil palm seed. This seed falls from random oil palm, grows, and is later planted by smallholders in their farm. Smallholders use this seed because they cannot afford to buy certified quality palm oil seed (TuK Indonesia 2017).

ISPO standards to facilitate these agreements, their exact role is unclear. As this uptake agreement aims to abolish the middlemen (*tengkulak*) in the long run, another issue is the dependency and imbalance in power dynamics between independent smallholders and their middlemen in certain main producing regions. Strong resistance from the middlemen could undermine the whole certification process and its uptake among the smallholders (Interview 2).

Cost Comparison and Financial Assistance Schemes in RSPo and ISPO

Both ISPO and RSPo certification processes are expensive for smallholders. ISPO certification requires two audits by surveyors: one for verification of legal documents and of compliance with ISPO standards, and a field audit of the plantation (MOA Regulation 38/2020 subsection two: Audit). The first audit for ISPO usually costs between IDR 100–130 million, not including the cost of smallholder training, a separate high conservation value assessment audit (which costs IDR 20–30 million), and other mentoring/facilitations. RSPo certification requires only one audit but is similarly expensive. This means that to be certified, independent smallholders require approximately IDR 250 million (Interview 2). Certified smallholders are also charged for the annual surveillance/monitoring and recertification cost after five years.

To be certified, independent smallholders require approximately IDR 250 million. Certified smallholders are also charged for the annual surveillance/monitoring and recertification cost after five years.

Both certifications have their own financial assistance and incentive schemes to increase certification uptake among smallholders. The RSPo provides funding through RSPo Smallholder Support Fund (RSSF). Smallholder cooperatives can submit a proposal for a RSSF grant to cover their certification audit and its related costs (RSPo 2023, Interview 2). RSPo also aims to increase market access for certified smallholders by offering a premium price for fresh fruit sales through RSPo Smallholder Credits (Interview 1).

To support smallholder certification under ISPO, the government allocates funds through the Palm Oil Fund Management Agency's *dana bantuan proses* (processing allowance). Funding for ISPO certification audits is prioritized for smallholder cooperatives or groups with 500–1,000 hectares of land. Potential recipients can apply for this support prior to the certification process for the audits, although other costs have to be covered by themselves first (Interview 2).

Under MOA Regulation 38/2020 on ISPO Certification²², smallholders acting in cooperatives or groups may apply for financial assistance to cover the cost of the ISPO certification process, with funds from the state budget, provincial/regional budget, or other legal sources, including the Palm Oil Fund Management Agency. This funding could take the form of training, mentoring for ISPO standards compliance, and/or certification audits. Unfortunately, the bureaucratic process to access these funds stipulated in MOA Regulation 38/2020 takes a long time, and many independent smallholder cooperatives experience long waits for disbursement (Interview 2).

²² Article 53.

Table 2.
Summary of differences between ISPO Principles & Criteria and RSPO

Principles & Criteria	ISPO	RSPO
Peatland protection	Allows peatland conversion into oil palm plantation as long as the peat is less than 3 meters deep.	Strict prohibition of land conversion based on NDPE (no deforestation, peatland, exploitation) principle.
Land rights dispute/ agrarian conflict with indigenous/local people	Land title (SHM) or right to cultivate title (HGU) issued only after all land rights disputes are cleared/solved.	Solve all land disputes through FPIC (free, prior, and informed consent) and RaCP (remediation and compensation procedure) mechanisms prior to tree planting.
Traceability	Traceability supply chain system from farm/plantation to crude palm oil (CPO) mill by two options: segregated and mass balance (comes into effect in 2025).	PalmTrace online traceability platform from CPO mill to refinery/processor/ by three options: identity preserved, segregated, or mass balance. Traceability could be extended up to plantation or down to retail products manually.
Document requirements for smallholders' certification audits	Requires Cultivation Registration Certificate (STDB) and Letter of Environmental Management and Monitoring (SPPL) documents as prerequisites to be certified.	Does not requires STDB and SPPL.
Costs for smallholders' certification audits	Requires two audits: verification of legal documents and field audit. Total cost approximately IDR 250 million.	Requires one audit. Total cost approximately IDR 250 million.
Financial assistance for smallholders	Application for <i>dana bantuan proses</i> (processing allowance) from the Palm Oil Fund Management Agency (BPDPKS) for certification audits, has to be completed prior to audits. Funding prioritized for cooperatives/groups with 500–1,000 hectares of land.	Funding through RSPO Smallholder Support Fund (RSSF), post-certification incentive through RSPO Smallholder Credits premium price on fresh fruit bunches sales.

Source: Interviews and MOA Regulation 38/2020 on ISPO Certification.

POLICY RECOMMENDATIONS: CHANGES TO ISPO PRINCIPLES AND CRITERIA AS A FIRST STEP TOWARDS HARMONIZING ISPO AND RSPO

The Ministry of Agriculture could make several alterations to MOA Regulation 38/2020 in order to accommodate more independent smallholders, increase their uptake into ISPO certification, and make the standards more adaptable to the local context of each palm oil producing region. Once in place, these changes to ISPO would facilitate further harmonization with the globally recognized RSPO standards.

Land legality, management and compliance to regulations (corresponding to Principles and Criteria 1.1–1.5, for smallholders)

ISPO should embrace the flexibility of RSPO standards, recognizing an affidavit/sworn letter from a village chief as a temporary proof of land ownership if a smallholder does not have their original land title during certification audit. Smallholders should also be allowed to use a letter from the local plantation office during the audit if their Cultivation Registration Certificate and Letter of Environmental Management and Monitoring (STDB and SPPL) documents are still being processed. These exceptions should be reiterated clearly in the ISPO Principles and Criteria to avoid misinterpretation by auditors in the field.

Smallholder membership in groups and cooperatives

ISPO Article 11 Section 2 stipulates that a smallholder can apply for ISPO certification individually or in groups (Gapoktan, cooperative, etc.). But Principle 2, on the implementation of good agricultural practice, requires that smallholders show membership of or that they have established a cooperative or other smallholder group for certification (Principles and Criteria 2.1). These requirements should be made consistent.

Use of oil palm seed (Principles and Criteria 2.3.2 for smallholders)

Explicitly specify that the use of unqualified (Mariles) seeds does not disqualify smallholders from certification if they can provide a letter from the local Plantation Office, company, or the nearest PPKS (Oil Palm Research Center) facility stating that they are using unqualified seed. This criterion could be inserted into indicator (1) verifier (5). Allowing the use of Mariles seed is particularly important as it is a common practice among independent smallholders in rural areas who started planting oil palm trees in the 1990s and early 2000s. This change will help the government to incorporate as many smallholders as possible into ISPO, and then assist them in the long run with certified seeds through a replanting program coordinated through the MOA and the Palm Oil Fund Management Agency (BPDPKS) (Interview 2).

Oil palm cultivation on peatland (ISPO Principles and Criteria 2.2.4 and 3.9 for companies, 2.3.4. for smallholders)

ISPO should follow the example of RSPO and completely prohibit the use of peatland for oil palm plantations due to the importance of peatlands as natural carbon sinks. A possible phase-out with a clear timeline should be implemented for smallholders who have already planted their oil palm trees on peatland, with ISPO guaranteeing relocation of their farm to a lower-impact area.

ISPO should follow the example of RSPO and completely prohibit the use of peatland for oil palm plantations due to the importance of peatlands as natural carbon sinks.

Fresh fruit bunches (FFB) price agreement and sales (Principles and Criteria 6.3 for companies and 4.1 for smallholders)

Requiring cooperatives of independent smallholders to sign an uptake partnership with a company mill for their fruit crops constitutes a significant barrier for smallholders, but the uptake agreement offers not only the benefits of better and direct market access for farmers, but also helps improve the efficiency of the supply chain by abolishing middlemen in the long run. Rather than requiring cooperatives and independent smallholders to sign an uptake partnership with a company mill, the government should provide incentives for companies who partner with

independent smallholders. The MOA and Palm Oil Fund Management Agency (BPDPKS) should implement this incentive mechanism financed by the Palm Oil Fund for companies who are willing to partner with independent smallholders by referring to the provincial price setting (*Harga Penetapan Provinsi* or HPP).

The MOA and Palm Oil Fund Management Agency (BPDPKS) should implement incentive mechanism financed by the Palm Oil Fund for companies who are willing to partner with independent smallholders by referring to the provincial price setting (*Harga Penetapan Provinsi* or HPP).

As regulated under the MOA Regulation No. 01/2018 on the Guideline for Purchase Price Setting of Palm Oil Fresh Fruit Bunches Produced by Smallholders, each provincial governor should set the fresh fruit bunches purchase price by referring to the recommendation from a committee representing the province/district government, plantation, and smallholders. However, this arrangement is mostly followed by companies engaging in uptake partnerships with scheme smallholders, not independent smallholders.

The proposed incentive should encourage companies to extend the uptake agreements to independent smallholders and implement favorable pricing by referring to the provincial price setting. The margin between the fresh fruit bunches sold at this price (collected by the smallholders cooperative) and the purchase price at the farmer's level may serve as an incentive fund for the cooperative to pay for the ISPO certification audit, as well as their annual monitoring/surveillance audits (Interview 2). For example, if a company's crude palm oil mill purchases fresh fruit bunches from a cooperative based on the provincial price of Rp3,200/kg, and the cooperative purchases from its smallholder member at Rp3,000/kg, the Rp200 margin could be

collected and used by the cooperative to pay for monitoring audits to comply with work safety or labor standards mandated in ISPO standards, for example, by procuring personal protective equipment for farmers or paying farmers' BPJS-TK social security contributions.

Traceability mechanism (ISPO Principles and Criteria 6.1 for companies)

ISPO's traceability mechanism focuses on the supply chain between the plantation source of the fruit crop and the crude palm oil mill, while the RSPO PalmTrace system begins its tracing at the crude palm oil mill. Since ISPO traceability will not come into effect until 2025, there is time to harmonize these tracing schemes. The biggest challenge is that the RSPO PalmTrace online platform was developed by an independent third party and it will not be easy to integrate it with the ISPO traceability system, as the government may create its own online tracing platform in the future.

Certification processes

Harmonizing the RSPO and ISPO certification processes is feasible because ISPO has only slightly more rigid requirements. ISPO has updated its standards and is open to incorporating some principle elements that already exist in RSPO standards into the latest MOA Regulation 38/2020 on ISPO Certification, such as the principle of high conservation value and supply chain traceability, which did not exist in the previous ISPO standards.

The MOA should undertake an ISPO-RSPO Joint Study to further harmonize both standards to update a study on the topic conducted in 2015 with the support of the United Nations Development Programme (UNDP).

Beyond harmonizing the standards, the government should invest in the long-term success of the industry by pursuing the facilitation of open access to data on oil palm concessions to ensure better monitoring of land-use change and conversion from tropical rainforest or peatland to oil palm plantations or farms. A public-private partnership between MOA, RSPO, and third-party land monitoring systems, such as Global Forest Watch, should be pursued to create and manage this database.

Finally, the Palm Oil Fund Management Agency (BPDPKS) should reform how it manages funds collected from the crude palm oil export levy, especially in allocating budgets for subsidizing the palm oil companies in the mandatory biofuel program and to financially support programs to improve the sustainable practices of independent smallholders, such as the replanting program (*Peremajaan Sawit Rakyat*) launched by President Joko Widodo in 2017, which has so far shown an underwhelming progress.

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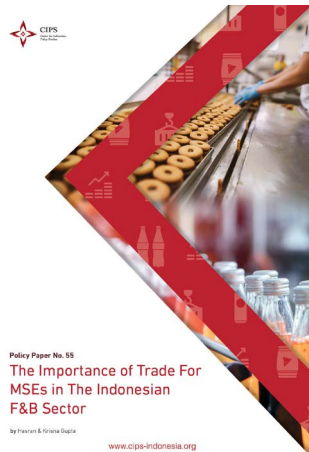
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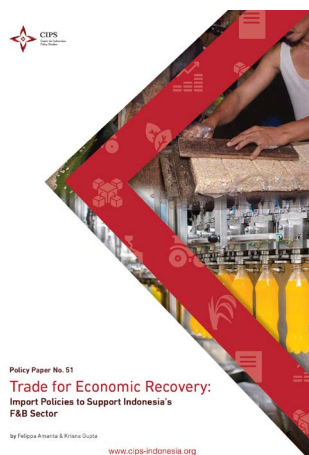
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