

# Indonesia's challenge: How to push biofuel without aiding deforestation



The mounting demand for palm oil can be read as a warning sign that haze might again be on the horizon, say the writers. ST PHOTO: ARIFFIN JAMAR

Can incoming president Prabowo ramp up production of palm oil without clearing more land and raising the risk of fires and haze?

**Simon Tay and Aaron Choo**

Many are watching the upcoming leadership transition in Indonesia with the hope of stability, growth and political continuity between President Joko Widodo and his successor Prabowo Subianto, who will take office in October.

In economic policy, Mr Prabowo has set an ambitious target for 8 per cent growth in gross domestic product (GDP) within the first three years of his presidency, up from the current five per cent.

This will have implications for the country's resource sectors and sustainability. Under Mr Widodo, there were reforms on land use for the palm oil industry and other plantation sectors. Mr Widodo or Jokowi, as he is popularly known, instituted measures to address the recurrent hazard of fires and haze.

Will these reforms continue and be strengthened under the new administration? Can Indonesia's growth be "greened", or will sustainability efforts take second place? In many ways, the recurrent problem of land and forest fires and haze, and the broader issue of deforestation, serve as litmus tests for how Indonesia will fare.

#### NEAR TERM AND FURTHER AHEAD

In the near term, there is little danger of the haze returning, according to our 2024 Haze Outlook. The weather in the latter half of 2024 is expected to be wetter than average while fire management efforts by government agencies and plantation companies should be up to the task of preventing outbreaks or bringing them under control.

This builds on the foundation laid by reforms. In 2011, Indonesia

introduced a moratorium on granting new permits for businesses to clear forests and peatland for plantations, recognising the need to protect the country's natural ecosystems. The ban was renewed periodically until it was made permanent by Mr Widodo in 2019.

Further ahead, there are concerns. Climate change will bring hotter and more frequent drought periods. The wet weather will not last and, based on the present interval between El Nino events, another patch of severe dry weather is likely to hit around 2027.

And that will run into the new government's ambitious GDP growth plans. Agriculture and related sectors make up around 12 per cent of Indonesia's economy, and over a third of that share is from the palm oil industry alone. This sector will be expected to contribute, and even drive, growth to meet the target of 8 per cent GDP growth within the first three years of the Prabowo presidency.

But can this be achieved without any adverse impact on existing commitments on land use expansion and fires?

#### EXPANSION AND PRODUCTIVITY

One key driver for growth will be the boost in production of biofuels. These have a plus side of potentially reducing reliance on fossil fuels, which are part of Indonesia's emission reduction commitments under the Paris Agreement.

But they will also mean a considerable increase in the production of palm oil. Indonesia currently uses a blend of conventional diesel with 35 per cent biodiesel made from palm oil, referred to as B35. The goal is to reach B50 by 2029. In that same year, the Prabowo administration also aims for Indonesia to start producing bioethanol.

These mandates will require a considerable increase in palm oil production. Potentially, the increased domestic demand will be more than Indonesia's current volume of exports.

There are ways to meeting this surge in palm oil demand.

One way is to reduce exports. But global demand for palm oil remains strong – it is the most used vegetable oil in the world – and prices have risen in the

wake of the Covid-19 pandemic and the Russian invasion of Ukraine.

Moreover, future demand is expected to remain strong. The global consumption of biofuels is increasing, especially with airlines adopting sustainable aviation fuel in line with the aviation industry needing to cut emissions.

Another way is to clear more land for palm oil. This would run up against the legacy of land use reform by the current administration, and the inevitable ensuing large-scale land clearing would increase the risk of fires and haze.

Ideally, there can be increases in palm oil output from greater productivity. This means boosting output from existing plantations rather than using up more land. But this is not so simple.

Over the past decade, the palm oil industry has struggled with the issue of productivity, given problems such as trees falling victim to disease and bad weather. Labour issues have also affected harvests.

Some analysts are in fact concerned that output might shrink, not grow, unless efforts are redoubled.

#### ENSURING GREEN GROWTH

To be clear, there is no plan at present to convert more forests and peatland into plantations. But pressure can grow if productivity does not deliver an increase in palm oil production, and unless officially repudiated, current controls may be loosened.

Note that the fine print on the current moratorium does not prevent businesses from clearing land on concessions granted before 2011. It also does not prevent errant companies and small farmers from illegally encroaching into forest areas.

Hence, the mounting demand for palm oil can also be read as a warning sign that haze might again be on the horizon, unless an equilibrium between increasing production and conservation can be found.

Producers of palm oil and other agricultural commodities must be enabled to grow more with less land. There is no viable alternative. Efforts are needed to train farmers and plantation workers to strengthen their skills and productivity. This should be combined with continued investments to create more resilient varieties of crops and deploy labour-saving solutions, alongside initiatives to get these innovations into the hands of producers in the field.

National and local governments need to work with the private sector to ensure that all growers are part of sustainability standards, such as the industry-led Roundtable on Sustainable Palm Oil (RSPO) and the national Indonesia Sustainable Palm Oil (ISPO) certifications. ISPO is already mandatory for all palm oil companies in Indonesia, but smallholder farmers have until 2025 to comply.

At the Asean level, cooperation on haze action likewise needs to be strengthened. This is important for all agricultural producing economies in the region. Not only Indonesia, but the northern area of Asean has also experienced haze over this past year. A permanent Asean Coordinating Centre for Transboundary Haze Pollution Control was soft-launched in September 2023, based in Jakarta; all members should cooperate to ensure the centre is resourced and staffed in the months ahead.

Asean has set the goal of ensuring that the region is haze-free in 2030 and more needs to be done to achieve this. While we expect blue skies to persist across the region in the next few months, the region cannot be complacent and must use this respite to strengthen green reforms. Indonesia, and indeed the region as a whole, aims for economic growth. But this will require a synergy and balance between sustainability and climate concerns. As the new Prabowo administration takes office, we will do well not only to observe what happens in and around Jakarta, but also look at the forests in the country, the risk of fires and likelihood of haze recurring.

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