

# GLOBALIZATION AND DOMESTIC POLICY CHANGE: THE CASE OF MANDATORY PALM OIL CERTIFICATION POLICY IN INDONESIA

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## ABSTRACT

Indonesia has gained its reputation as the one of the largest oil palm producer. The sustainability of Indonesian palm oil, however, being argued since the expansion often created various impacts. For instance, the draining and burning peatland for palm oil plantation were sent huge amount and carbon emissions which responsible for climate change and global warming. These climate change and global warming, however, deeply linked with the globalization process, which in the end influencing the domestic policy making. This paper aims to improve the understanding on how various transnational actors, institutions, and norms influence domestic policy change. As a case study, we examine the influence of globalization on the initiation of the Indonesian Palm Oil Standard (ISPO) standards policy, which was published by the Indonesian Ministry of Agriculture in 2011. As the theoretical framework, the four paths of globalization and domestic policy change proposed by Bernstein and Cashore (2000) are applied. Our case study suggests that economic globalization, which produces high palm oil demand, is the primary catalyst for this policy change. Secondly, we note the influence of transnational actors, who exert market pressure, on the extant Indonesian palm oil industry policy. The other notable influence triggering ISPO initiation was from international institutions and norms. Our case study, did not, however, find support for transnational actor direct access to the policy process. Nevertheless, following to the ISPO official publication, the four pathways started to evolve again through various constellations.

**Keywords:** Domestic policy change, globalization, palm oil transnational actors

## INTRODUCTION

Globalization has a major influence on domestic and regional systems. The globalization process, with its “*race to bottom*” effect, triggers response and adaptation from national authorities. Government has to adjust policy to cope with effects of the globalization process (Gourevitch, 1978), but are increasingly constrained in their ability to make independent policy choices (Bernstein & Cashore, 2000).

Globalization is closely identified with economic structural adjustments imposed by powerful states or transnational financial organizations (Skogstad, 2000a). However, economic globalization is not alone in influencing domestic politics. Actors, ideas, and institutions from beyond state borders are internalized and interact with the global structural economic forces (Bernstein & Cashore, 2000). Differentiation of globalization and internalization is necessary to clarify the role of various nondomestic pressures, and to show the value of focusing on transnational actors and institutions as sources of policy change.

In this paper, we analyze the palm oil sector in Indonesia as a case study. Palm oil sector is a major commodity in global markets as an important raw material for a myriad of industries, such as agriculture, food, cosmetics, and more recently, biofuels. Indonesia is currently the biggest palm oil producer, and so has to cope with globalization phenomenon determined by international market demand, international rules and discourses, and diverse interests of consumers or other transnational actors. Palm oil also revealed as an alternative renewable source to the fossil fuels, aiming to reduce the greenhouse gas emissions that produced from fossil fuels combustion. However, the contribution of palm oil for CO<sub>2</sub> reduction is still on debate. The expansion of palm oil plantation which often created by draining and burning peatland is sent huge amounts of carbon emissions into the atmosphere, resulting global warming and climate change effect.

The Indonesian government then published the Indonesian Palm Oil Standard (ISPO) standards policy in 2011. This policy was published to improve the competitiveness of the Indonesian palm oil on the global market and contribute to the objective set by Indonesian President to reduce greenhouse gasses emissions. This paper aims to improve the understanding of how globalization and internalization influence domestic policy change by examining the influence of transnational actors on the decision making process.

The theoretical frameworks used for analyzing the globalization and domestic policy change discourse are discussed in Section 2. The third section describes the methodology used in this paper. The fourth section discusses the Indonesian palm oil industry and policy changes. The fifth section presents the analysis of internalization on publication of the ISPO policy. The final section presents the discussion followed by concluding remarks.

How globalization influences the public policy has been interpreted in two ways. First, it is argued that the actions of transnational actors have narrowed the ability of public authorities to act. The transnational actors included are those who regularly engage in interactions across national boundaries and do not operate on behalf of a national government or intergovernmental organization (e.g. corporations and business associations, activist groups, scientific associations and individuals) (Bernstein & Cashore, 2000). International institutions, on the other hand, are relatively enduring and connected sets of rules and norms that define and prescribe standards of behavior and structure patterns of activity among states, or that cross borders (Bernstein & Cashore, 2000).

Transnational actors and international institutions influence policies by bringing norms generated or promoted in the international sphere into domestic political arena. These transnational actors and international institutions are the main focus which act as sources of change. Globalization transformations have led to loss of national sovereignty, and a decline in authority of the nation state. Howlett and Ramesh (2002) argue that internalization is, initially at least, a vital catalyst promoting processes inducing change and undermining those maintaining stability. This understanding helps to explain why, in its first

<sup>2</sup> The “*race to bottom*” is an analogy that describes corporations competing globally to exploit the lowest cost human and environmental inputs (Murray, 2007), sacrificing them on the altar of commerce (Drezner, 2001; McKenzie & Lee, 1991).

phase, internalization can lead to dramatic “paradigm shifts” in policy by introducing new actors and ideas into policy regimes, thereby undermining the stabilizing aspects of policy monopolies and path dependencies, leading to consideration and implementation of new policy goals and instrument types.

Second, increasing economic competitiveness between countries has led the state to expand into new activities (Skogstad, 2000b). In general, the influence of internationalization on public policy giving rise to policy change through the interpenetration of domestic and international policy processes (Howlett & Ramesh, 2002). Cortell & Davis (1996) revealed that international rules and norms affect national policy choices by operating through domestic political process. In particular, they hypothesized that domestic actors (state or societal) can adjust international norms and rules to expand their interests in the domestic political arena (Cortell & Davis, 1996).

#### *The framework: four pathways of internalization on domestic policy change*

In influencing domestic policy change, transnational actors can act as independent agents of change through direct contact with domestic actors, or as agents of change through being embodied in international rules or norms. Differentiation of globalization and internalization is necessary to reveal independent effects and interaction of these two processes. This distinction shows the logic and degree of influence that various nondomestic forces exhibit.

Bernstein and Cashore (2002) in their hypothesis, proposed four paths of globalization on domestic policy change. These focus on transnational actors and institutions as sources of change and emphasized the importance of differentiating between globalization and internalization.

The first pathway, *market dependence*, encompasses processes or tactics that attempt to manipulate, work with or leverage markets to create domestic policy change. The markets pathway includes attempts to influence domestic policy change e.g. boycott campaigns that target foreign export markets to put pressure on exporters. This is a direct action when transnational actors utilize market pressure to change domestic behavior. Another way includes certification schemes that attempt to regulate or socially and environmentally embed markets indirectly without state mediation. Certification systems with pre-established standards act as an indirect action that uses ‘carrots’, such as the provision of market access, firm recognition and price premiums, as well as ‘sticks’, such as the conferring of negative attention on non-joiners, to influence government behavior (Bernstein & Cashore, 2000).

The second pathway is through *international rule.s*. There are several international rule pathways that influence domestic policy change, for example issue-specific treaties, such as the Convention on International Trade in Endangered Species of Wild Fauna and Flora — CITES). This path also includes policy prescriptions of powerful international organizations (e.g. the World Bank), and trade agreements (e.g. the World Trade Organization agreements), whether perceived as resting on consent or coercion. Bernstein and Cashore (2000) considered this pathway as rules that bind and create a “pull toward compliance” because they came into being by generally accepted rules of ‘correct’ process, regardless of whether they are enforced (domestic factors and politics can influence implementation and compliance, but the obligation exists regardless).

The *International norms and discourse* pathway, which is the third path, can both define and regulate appropriate behaviour. Particular norms embodied in institutions or informed by broader practices of global governance can affect domestic policies or lead to policy change. The aim of identifying international norms and discourse in policy change is to identify, assess and analyse how and under what conditions discourses around appropriate behaviour and particular norms become institutionalised domestically or lead to policy change

(Bernstein, Cashore, Atiy, Maryudi, & McGinley, 2010). Keck and Sikkink (1998) outline a series of strategies that transnational actors can undertake to encourage states to follow norms — the politics of information, symbolism, leverage and accountability.

The fourth path is the *direct access to domestic policy process*. This pathway influences the domestic policy change through direct funding, education, training, assistance and capacity building. Moreover, the attempt could operationalize through co-governance or partnerships between domestic and international public and private actors and authorities. Any attempts at influence along this pathway must navigate concerns about sovereignty and risk being viewed as foreign or international interference. To be successful, non-domestic actors must avoid the perception that they challenge state autonomy by focusing on altering the balance of power among existing domestic organized interests and their participation in policy networks. Transnational actors may accomplish their mission by sharing resources, ideas, knowledge and expertise with existing groups, or by facilitating the creation of new groups or coalitions (Bernstein & Cashore, 2000).

## METHODS

To improve understanding of how globalization influences domestic policy change, this study assesses the four pathways of internalization on domestic policy change from Bernstein and Cashore (2002) using an explanatory single case study approach based on Yin (2009). The case of ISPO published by the Indonesian Ministry of Agriculture has been chosen.

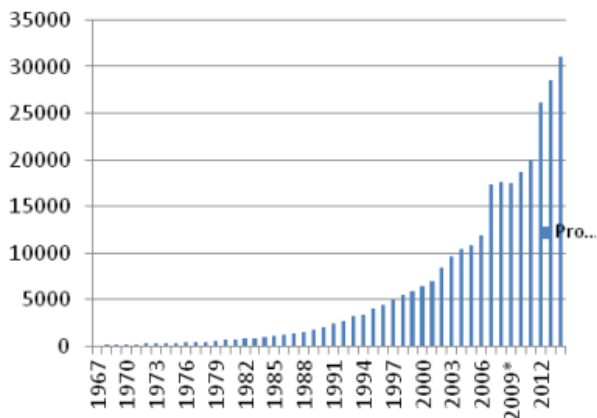
Data sources include primary and secondary data. Most of the data was collected through secondary sources. The primary data was collected through interviews, which consisted of direct face to face, semi-structured interviews method with open-ended questions. The general framework used as guidance covered issues related to palm oil, the ISPO publication process and factors that have triggered the publication. However, broader issues related to the palm oil sector were also discussed. The respondents were selected by virtue of their direct and indirect relationship with the ISPO publication process. The respondents including ISPO committees, Ministry of Agriculture staff who had been involved in the ISPO construction process, and RSPO representatives. The researcher also had the opportunity to attend and observe the palm oil roundtable meeting held on 12 September 2013 in Den Haag, The Netherlands. This meeting aimed to ward off ongoing negative pressure on palm oil and promote Indonesian Sustainable Palm Oil (ISPO) to international stakeholders. Observation methods including listened to the key speaker's presentation, observing the discussion session, and questioning speakers in the forum. Some speakers and stakeholders, including Indonesian Palm Oil board personnel, and Indonesian Palm Oil Association personnel were also interviewed.

Secondary data sources included policy documents related to palm oil and ISPO; data from the central bureau of statistics; publications from international palm oil certification schemes (e.g. RSPO, ISCC); and news from international and national media. An open coding strategy was used to obtain a general overview, followed by pattern matching analytical techniques.

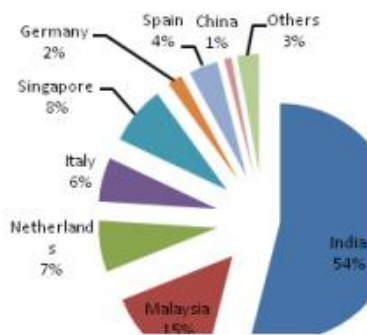
## INDONESIAN PALM OIL INDUSTRY AND POLICY CHANGE

### *The Indonesian Palm Oil Sector and globalization*

Indonesia's palm oil production reached 31,000 MT in 2013 (Figure 1) and the current total Indonesian palm oil plantation cover 9,150 million hectares (Directorate General of Estate, 2013). In 2015, it is projected to reach 10,200 million hectares, and in 2020 12,825 million hectares (PwC Indonesia, 2011). Development of palm oil plantation in Indonesia has increased rapidly since the 1990s as demand for edible oils in Europe and other countries continues to rise.



**Figure 1.** Indonesian Palm Oil Production by Year  
(Directorate General of Estate and Index Mundi Compilation Data, 2013)



**Figure 2.** Export Destination of Indonesian Crude Palm Oil (CPO) 2012 (%) (Central Bureau of Statistics, 2013)

Economic globalization in the Indonesian palm oil sector is indicated by increase of its export value. The average export rate volume for palm oil between 2007 until 2012 is 12,19% per year, with the average rate of increase 22,4% per year (Table 1). In January until July 2013, the export volume reached 11,340 million tonnes. This export volume are consists of 33% of CPO (Crude Palm Oil) and 67% of processed CPO (Hasan, 2013). The export value of CPO and its products contribute significantly to national export earnings by up to US \$ 20 billion (about 10% of total export earnings), the second largest contributor after oil and gas.

**Table 1.** Indonesian Palm Oil Export Volume and Value (2008-2012)

Year	CPO		Processed CPO		Total	
	Volume (Million Tons)	Value (Million US\$)	Volume (Million Tons)	Value (Million US\$)	Volume (Million Tons)	Value (Million US\$)
2008	7.904	6.561	6.387	5.814	14.291	12.376
2009	11.120	6.710	5.709	3.658	16.829	10.368
2010	11.158	9.085	5.134	4.384	16.292	13.469
2011	10.428	10.961	6.008	6.300	16.436	17.261
2012	7.253	6.677	11.593	10.926	18.845	18.602

Source : Central Bureau of Statistics (2013)

Palm oil in Indonesia is considered an important national asset since it has produced a lot of benefits for the Indonesian economy. High return on land and labor has increased importance of palm oil as a valuable asset to the Indonesian economy, as well as improving the incomes

<sup>3</sup> M. Fadhil Hasan (2013) on the presentation regarding "Current Status of Palm Oil Development in Indonesia", in the palm oil roundtable meeting, Den Haag, The Netherlands, 12 September 2013.

and livelihoods of smallholders. In terms of contribution to national growth, the Indonesian palm oil industry has created about 4 million employment opportunities, consisting of farmers, plantation and industry workers. The palm oil industry also supports regional development and

poverty alleviation, especially in rural areas of outside of Java, and the majority of oil palm plantations are claimed to be planted on left-over forest areas/former HPH (*Hak Pengusahaan Hutan* or Forest Concessions) (Hasan, 2013)<sup>3</sup>.

Although it makes a positive contribution to Indonesian economic growth, the high demand for palm oil is associated with many sustainability issues. The forests conversion into oil palm plantations is causing concern for the ecological implication and monoculture planting which can lead to the fragmentation of high conservation value of the forests. A number of iconic endangered species (and subspecies), such as Orangutan, Sumatran elephant (*Elephas Maxim RS Sumatrensis*) and Sumatran tiger, are especially threatened by oil palm expansion and are often captured or killed when vegetation is cleared to make way for new plantations (Susanto and Ardiansyah, 2003).

Social issues of palm oil plantation center on questions of land use, land ownership and tenure and how rights are transferred. An analysis of the forest and land conflicts recorded in Indonesia by the Consortium on Agrarian Reform in 2001 showed that plantation-related conflicts accounted for 32% or 261 cases of the total cases documented. It was also reported that around 570 conflicts in oil palm plantations have been recorded and monitored, many of which date back to the Suharto era when land rights of communities were not duly recognized (Teoh, 2010). These sustainability issues have triggered increasing dissatisfaction of consumers over oil palm production practices in Indonesia and elsewhere, and have urged several non-state organizations such as World Wide Fund for Nature (WWF) and Rainforest Alliance to initiate palm oil certification programs (Grundmann, 2010).

#### *The Policy Change. The Mandatory Palm Oil Certification Policy*

Initially, responding to the negative issues on palm oil production, in 2004, the RSPO (Roundtable on Sustainable Palm Oil) as a non-state palm oil certification system was established (Schouten & Glasbergen, 2011). The RSPO was initiated by WWF in late 1990s when they included palm oil in their activities. WWF explored possibilities of private sector partnerships for setting standards for sustainable palm oil. RSPO memberships united stakeholders from the seven sectors of the palm oil industry (oil growers, processors and traders of oil palm, consumer goods manufacturers, retailers, banks and investors, environmental NGOs and social NGOs) internationally (RSPO, 2013). In 2007, the RSPO Certification System was adopted and launched (RSPO, 2013). In addition to the RSPO, other non-specific palm oil standard also emerging. The standards include the Sustainable Agriculture Network (SAN) and the Roundtable on Sustainable Biofuels (RSB). Moreover, Global GAP (Good Agricultural Practice), Fairtrade, and Organic are all commonly used for agricultural commodities and focus their efforts on key topics, such as labour rights and the use of chemicals in agriculture (ZSL, 2013).

On the other hand, considering Indonesia position in the global palm oil industry constellation, Indonesian Government is urged to have their own sustainable palm oil scheme<sup>4</sup>, for the better implementation of Indonesian rule and regulations, and ensuring sustainable palm oil production (Suharto, 2013). After a long discussion with palm oil stakeholders in Indonesia, ISPO team established by Minister of Agriculture agreed to develop Indonesian Sustainable Palm Oil (ISPO) Standard, which was extracted from Indonesian rules and regulations related to the production of palm oil. Some ministries were involved among others are Ministry of Forestry, Ministry of Environment, Ministry of Domestic Affairs, and Land Agency Authorities. Finally, on March 2011, The Indonesian Sustainable Palm Oil (ISPO) certification system was published through Ministry of Agriculture decree No. 19/Permentan/OT.140/3/2011.

<sup>4</sup> Personal interview, with one of ISPO commission staff (February, 2013).

ISPO policy's objective is to oblige the oil palm planters (including smallholders) to implement Indonesian rules and regulations related to sustainable palm oil production. Moreover, this standard is aiming to support to the objective set by the President of the Republic of Indonesia in reducing greenhouse gasses emissions and draw attention to environmental issues<sup>5</sup> and overall to increase competitiveness of Indonesian Sustainable Palm Oil in the world market (ISPO, 2013<sup>6</sup>; Suharto, 2013).

The ISPO certification system has started since May 2012 with a deadline for completion of the process involving all of the Indonesian oil palm growers by the end of 2014 (ISPO, 2013<sup>7</sup>). ISPO committee divided the certification process into three types which is certification for grower, supply chain certification and holding certification (on the basis of supply chain certification). ISPO certificate is valid for 5 years and the assessment of compliance will be done every one year. Furthermore, the discussion for registered and legalized ISPO to become National Indonesian Standard is ongoing. Hence, when it is legalized, the responsibility will directly move to Indonesian Accreditation Committee (KAN)<sup>8</sup>.

## ANALYSIS OF INTERNALIZATION ON ISPO POLICY PUBLICATION

### *Path One. Markets*

The publication of ISPO standard, however, has been influenced by several non-economic and non-domestic factors, especially coming from transnational actors and institutions. The market pathway, in this case has marked by the boycotts and campaigns of environmental NGO over the unsustainable production of palm oil, and targeted the producers and consumers of palm oil from Indonesia. In March 2010, Greenpeace has published a report which exposes how Nestlé is sourcing palm oil from suppliers which continue to expand into the rainforest and carbon-rich peat lands, as well as into critical orang-utan habitat. The suppliers are including Sinar Mas, which is Indonesia's largest producer of palm oil (Greenpeace, 2010).

After ISPO officially published, the US EPA (Environmental Protection Agency) issued the Notice of Data

Availability (NODA) to release its lifecycle greenhouse gas

(GHG) analysis of palm oil used as a feedstock to produce biodiesel and Renewable Fuel Standard (RFS) program. EPA's analysis reported that biodiesel and renewable diesel produced from palm oil do not meet the minimum 20% lifecycle GHG reduction threshold needed to qualify as renewable fuel under the RFS program (United States Environmental Protection Agency, 2011). Although this policy has shocked the palm oil growers who aim to export the palm oil or CPO to US, this policy is not banning crude palm oil imports to the United States (Kovacevic, 2012). Responding to this issue, Indonesian government considers that the findings in the NODA were incomprehensive and inconclusive; they do not reflect accurate data based on updated records, comprehensive methodology and objective modelling. The study was based on data collection up to 2009, while a number of major changes in the fields have happened ever since. They urged that inaccurate findings will negatively impact the palm oil sector in Indonesia, and would lead to a trade distortion that discriminates biofuel from palm oil feedstock (Embassy of Indonesia Press Release, 2012).

In October 2013, Greenpeace also published that household brands that source palm oil through Singapore-based palm oil trader, Wilmar International, are making consumers unwitting accomplices in the destruction of Indonesia's forests, and pushing critically endangered species like the Sumatran tiger to the edge of extinction.

<sup>5</sup> President Yudhoyono committed to reducing Indonesia's carbon dioxide emissions by 26% or up to 41% from a business-as-usual baseline by 2020 during a 2009 G20 meeting in Pittsburgh, PA. (Mongabay, 2011).

The companies are including P&G, Reckitt Benckiser and Mondelez which are the makers of Oreo biscuits, Gillette shaving products and Clearasil products. The report documents illegal oil palm plantations within Tesso Nilo National Park --Riau Province, Sumatra-- harvests from which have previously been tracked to Wilmar's own mills and that continue to feed into Indonesia's palm oil supply chain. Palm oil plantations are driving the destruction of Tesso Nilo National Park, of which only a quarter now remains, according to Greenpeace's mapping analysis (Greenpeace International, 2013).

### *Path Two. International Rules*

The establishment of ISPO has been influenced by the international rules pathway in several ways. First, it was triggered by the commitment set by the President of the Republic of Indonesia in reducing greenhouse gasses emissions and draw attention to environmental issues. The root of this commitment established when Indonesian President, Susilo Bambang Yudhoyono was in 2009 G20 meeting in Pittsburgh. The President has committed to reducing Indonesia's greenhouse gasses (GHG) emissions by 26% on its own and by 41% if it receive international aid, by the year of 2020 from the condition without any action (business as usual/BAU) (RAN- GRK Secretariat, 2014). This is also a follow-up to the Bali Action Plan agreement during the 13th Conference of Parties United Nations Climate Change Convention (COP-UNFCCC) in Bali, December 2007, as well as an agreement of Copenhagen Accord from COP- 15 in Copenhagen and COP-16 in Cancun. To implement the commitment, the National Action Plan for GHG Emissions Reduction (RAN-GRK) has been published through Presidential Regulation of The Republic Indonesia No. 61 Year 2011. The agreement between the Indonesian president and international community act as an international rules which has to be committed. The policy on ISPO standard therefore established to support this commitment.

The policy change also triggered by the international rules pathway through the letter of intent between Norway and Indonesia on Cooperation on reducing GHG emission from deforestation and forest degradation (REDD<sup>9</sup>) (ISPO Commission, 2012). On 26 May 2010, Norway and Indonesia have entered into a partnership to support Indonesia's efforts to reduce greenhouse gas emissions from deforestation and degradation of forests and peat lands (REDD-monitor, 2010). Norway will support these efforts with up to 1 billion US dollars based on Indonesia's performance, over the course of the next 7- 8 years. The partnership has three phases. In the first phase, funds will be devoted to finalizing Indonesia's climate and forest strategy and putting in place enabling policies and institutional reforms. In phase two, the objective is to make Indonesia ready for the contributions for verified emissions reductions while at the same time initiate larger scale mitigation actions through a province-wide pilot project. In the third phase, starting in 2014, the contributions for verified emissions reductions mechanism will be implemented nationally. The program is expected to bring significant reductions in Indonesia's greenhouse gas emissions as well as improvements in forest governance and law enforcement (Norwegian Embassy, 2010).

Norway acts as transnational actors who provide and support the Indonesian commitment in reducing GHG. However, the letter of intent on reducing GHG emission from deforestation and forest degradation act as an institution which has triggered the establishment of ISPO scheme. ISPO establishment emerged as a commitment for Indonesian palm oil industry, especially on reducing GHG emission (ISPO Commission, 2012).

Other international rules path which influences the publication of ISPO is the International Standards Organization (ISO) rules. The government of Indonesia is a member of WTO. Consequently, the national standard is based on ISO and IEC, Codex or WTO. Those are standard issued and internationally approved by WTO and other multilateral organization. The Indonesian Standard Agency (BSN) and

Indonesian Accreditation Committee (KAN) ensure that the implementation of these standards was approved internationally. To oblige with these international rules, ISPO certification system adopted ISO standards including:

1. ISO/IEC 17021-2006 Conformity Assessment- Requirement for bodies providing audit and certification of management system.
2. ISO 19011-2002 Guidance on auditing management system.
3. ISO 9000-2008 Quality Management System.
4. ISO 14000-2004 Environmental Management System.
5. ISO Guide 65-1996 General requirement for bodies operating product certification system.
6. ISO/IEC Guide 66-1996 General Requirement for bodies operating assessment and certification/registration of environmental management.

Besides those paths, the other international rules path which influences the domestic policy makers is the emerging of international certification schemes concerning the sustainability issues of palm oil production. The emerging private international certification scheme -- initiated by transnational actors-- however encouraged Indonesian Government to strengthen their regulation, through ISPO policy publication<sup>6</sup>.

Moreover, there is a problem considering the existing international certifications. For instance, the RSPO implementation in Indonesia has been hindered by some obstacles. There are emerging disappointments from industry representatives over the inability of RSPO to convince the international market about Indonesia's commitment to sustainability (Paoli et al. 2010). RSPO stung by increasing criticism of several major oil palm producers by international environmental NGOs. Moreover, the cost to be RSPO certified is too expensive for smallholders and small- and medium-size companies (Jakarta Post, 2010). The issue with RSPO existence in Indonesia headed its culmination point when The Indonesian Palm Oil Producers Association (GAPKI) has officially withdrawn from RSPO to fully support the ISPO scheme. The chairman of GAPKI described that they have a positive outlook about the issuance of the ISPO, as it creates an alternative framework for palm oil standards and certification in the industry. The variation in certification and organizations will encourage healthy competition in producing sustainable palm oil assurance (The Jakarta Post, 2011).

Moreover, as the biofuel market increased, the palm oil demand as one of the source also increased. Some countries such as Europe and China encourage the use of biofuel are the key drivers in this area. The European Union has declared that by 2020, 10% of its fuels sold will come from agricultural biofuels whereas China sets the same target at 15%. However, issues on biofuel production also being concerned. The country such European Union published the Renewable Energy Directive and EU Directive 2009/28/EC (the 'second Renewables Directive') then established an overall 'binding' target for the EU of sourcing 20% of its energy from renewable sources by 2020, based on individual member state targets. EU Directive has set several principles and criteria that have to be fulfilled by the importer countries. The Indonesian palm oil companies who seek to this opportunity have to make sure that their palm oil product can meet EU requirement to enter the European biofuel market (ZSL, 2013). This international rule also encouraged Indonesian government to initiate ISPO as a national scheme which has an international standard, thus the palm oil company with their sustainable palm oil production could easily enter the international market.

#### Path Three. International Normative Discourse

One of international normative discourse which is centered in the palm oil case in Indonesia is sustainability norm. The norm of *sustainability* can be traced to the United Nation's Brundtland Commissions Report of 1987, where determined *sustainable*

*development* as a development that meets the needs of the present without compromising the ability of future generations to meet their own needs (UN, 1987). On the other hand, the sustainable palm oil concept was first initiated by RSPO who started and discuss the definition of "sustainable palm oil" in 1<sup>st</sup> ever meeting of key stakeholders in the palm oil supply chain in 2003 (RSPO, 2013). Furthermore, the concepts were breakdown into 8 principles including (1) commitment to transparency; (2) compliance with applicable laws and regulations; (3) commitment to long term economic and financial viability; (4) Use of appropriate best practices by growers and millers; (5) environmental responsibility and conservation of natural resources and biodiversity; (6) responsible to employees and communities; (7) responsible on development of new plantations; and (8) commitment to continuous improvement in key areas of activity (RSPO, 2013).

In practice, the norm of responsible production of palm oil in Indonesia actually has been initiated since 1980s, when the World Bank provides the funding for Nucleus Estate Smallholder (NES) program. The principle of good management palm oil plantation has been applied due to the requirement to get the World Bank's funding. Since then, the principle of sustainability has been established along the development of NES scheme (Badrun, 2010). The echo of sustainability norm in the world has greatly affected the domestic policy making. The issuance of ISPO also has grounded on the sustainability norm and the discourse on sustainable palm oil, which especially emphasizing the negative environmental and social issues.

The norm related to corruption also has been spread widely. The Indonesian Government aware of their bad reputation since the corruption issue has been known internationally. Obviously, almost every day the news about corruption cases implicating state officials has been published both in national and international media. This has affected the instrument used by Indonesian Government in policy making in order to provide best solution to improve their reputations, and gaining trust from international community. The ISPO case, however, was showing how Indonesian Government is working towards serious movement to enhance sustainable palm oil production in their country. The reason of ISPO has published in 'certification' form is to gain more trust especially from international consumer. By gather third party certification agency, it is noticed that the ISPO certification process is audited by neutral parties, not by government officer who perhaps seen as having bad image at this moment<sup>7</sup>.

Along the development of ISPO, The Indonesian Corruption Eradication Commission (in *Indonesia Komisi Pemberantasan Korupsi KPK*) also is in charge in the procedural process for permit liaison. It was triggered because many conflict are emerged due to permit process which not has been gained procedurally (including skipping the discussion with local people process). Therefore, it is necessary for KPK to help local government to control the process for permit liaisons process<sup>8</sup>. This effort, however, has been influenced by the anti-corruption norm, and in the end it will enhance the better image of palm oil produced from Indonesia.

#### Path Four. Infiltration of Domestic Policy Making Process

During the policy-making process for the ISPO policy, this path was not detected and found, because it is likely that the policy making process were exclusively for the government and the representatives of palm oil producer in Indonesia. However, after the ISPO published, the ISPO commission received support from UNDP, for instance in auditor training, or training for farmer organization so they can prepare themselves to get the ISPO certificate<sup>9</sup>.

<sup>6</sup>Personal interview with Ministry of Agriculture's staff, March 2013

<sup>7</sup>Personal interview with Ministry of Agriculture's staff, March 2013

<sup>8</sup>Ibid



The efforts also travelled when RSPO realizing that oil palm growers in Indonesia which has certified or will be certified by RSPO also have to be ISPO-certified. RSPO then commence an independent study to understand the similarities and differences between the ISPO P&C and those of RSPO P&C. This study including the focus on similarities between the requirements of protected areas and HCVs. ISPO Secretariat supported by Sustainable Palm Oil Project agree to undertake a joint study; hence this study is a joint independent study of ISPO and RSPO (ISPO, 2013). The formalization of this agreement on joint study was held in October 2013, RSPO and ISPO finally announced their cooperation towards promoting sustainable palm oil in Indonesia. The RSPO-ISPO joint study was initiated as part of the Sustainable Palm Oil (SPO) Initiative launched by the Indonesian Ministry of Agriculture, UN DP and members of the private sector. One of the key components of the SPO Initiative is the establishment of a multi-stakeholder platform, where stakeholders such as RSPO and ISPO can convene and discuss how to best work together to achieve sustainable palm oil in Indonesia. This is the first such co-operation between an international organization and a national body promoting sustainable production of palm oil (ISPO, 2013).

This effort is not occurred prior to ISPO policy making process. However, it is likely that the ongoing joint study by two parties will produce new mechanism or system for joint certification. As the joint certification aiming to identify the synergies between the two certification schemes, it will ease the certification process for palm oil growers and producers. The synergies attempt to remove barriers and challenges amongst Indonesian oil palm growers due to the existence of two standards, while maintaining the robustness and rigor of the audit process<sup>10</sup>.

## DISCUSSION

Based on the analysis, the economic globalization has interacted with the internalization path influencing the policy change process, i.e. the publication of ISPO. As demonstrated by the analysis, the increasing demands of palm oil indicating the economic globalization in this sector. The internationalization has influenced the publication of ISPO through the four pathways, which are markets, international rules, international norms and normative discourse and infiltration of domestic policy making process. However, since the new ISPO policy contained the rules on mandatory certification system for all palm oil planters in Indonesia, the international rules pathway, especially the emergence of various international certification systems performed as the major influence of this change. The international rules has obviously influence state behavior by pointing to the correlations between the existence of rules and the apparent rule-guided state actions (Keohane, 2005; Krasner, 1981; Martin, 1992).

Market pathway which influences the publication of ISPO is indicated by boycott campaigns which are the most common strategy, where there is a threat for one of the largest Indonesian palm oil company to change their unsustainable palm oil production. The campaign does not target the Indonesian government directly, but the unsustainable production in Indonesian country is the responsibility of Indonesian government related to the implementation of their regulation and monitoring system. This market path require globalization to the degree that the government or company must be relatively dependent on the external market (Bernstein & Cashore, 2000). The Indonesian palm oil sector has proven to be quite dependent on the external market refer to its export value of each year.

In the international rules path, commitment from Indonesian the letter of intent between. Norway and Indonesia on REDD+ has successfully trigger the publication of ISPO. Success of international rules pathway notified when rules and regulations commit signatory countries to change their domestic regulations (Bernstein & Cashore, 2000). However, the emerging international non-state certification schemes are considered as the international rules pathway since some systems are seeking recognition for their standards with a status equal to other international standards recognized under international trade law. Second, several certification system might be emerging to cope with the market demand from palm oil consumer. It may also be based on the perception that certification system themselves are a legitimate authority through which to develop appropriate standards (Bernstein et al., 2010).

The international norms have played a role in mobilising certain domestic interests over others and shaping problem definition and agenda setting (Keck and Sikkink, 1998). The echo on global norms on sustainable palm oil production has shape the regulatory practices in Indonesia through the publication of ISPO standards. This norm has been penetrating in Indonesian government's agenda since palm oil start to develop, therefore, this norm has underlain in the ISPO policy publication. The international norms will be successfully influence the domestic policy change when there is a resonance with domestic ideology culture and broader policy goals, not targeting particular actors or domestic policy networks (Bernstein & Cashore, 2000).

This study has not found any infiltration on ISPO policy making process. However, after official publication the infiltration existed. This path required the balance of power among existing domestic organized interest and their role in policy networks. The RSPO-ISPO joint study which mediated by UNDP has successfully create the balance of power between three actors, the private sectors, the government and the NGO. The openness of Indonesian government has a great influence for RSPO and UNDP to initiate the cooperation.

## CONCLUSION

As globalization travelled and influences the domestic politics, the policy maker has to adjust their policy to cope with the triggering factors. The economic globalization has proven to be interacted with actors, ideas, and institutions from beyond state border (i.e. internalization). The differentiation of globalization and internalization has encountered role of various nondomestic pressures from transnational actors and instimtions as sources of a policy change.

In this paper, the study on how globalization and internalization influence the domestic policy change is examined in the context of Indonesian palm oil sector, i.e. the publication of ISPO policy. Based on the case study, the globalization and internalization has influenced the policy change through various paths. The paths included the market pressure; the international rules; the international normative discourse, and the infiltration to domestic policy process. The economic globalization has found being interacted with internalization in influencing the policy change and has stood as a catalyst for other path, which is the market pressure path and the international rules path. The first three paths have travelled in influencing the domestic policy change. According to the results, the fourth path (i.e. the infiltration to domestic policy process) has not been found prior to the policy change. However, after the policy changed, the four pathways start to evolve again through various constellations.

The globalization process, e.g. the economic expansion is closely linked with the environmental impact that has been resulted, such as global warming and climate change. However the results of the study shown that the transnational actors via the international rules, market pressure, international normative discourse, and direct infiltration positively influencing the domestic policy maker to adjust their policy towards the same goal, i.e. to reduce the impact which will result on global warming and climate change.

<sup>9</sup>Personal interview with Ministry Agriculture's staff, March 2013

<sup>10</sup>RSPO Secretary General statement in ISPO Publication, 2013

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