When the State Brings Itself Back into GVC: The Case of the Indonesian Palm Oil Pledge

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Abstract

During the last decades the role of the state in governance of Global Value Chains (GVC) for sustainability has been largely ignored. This paper contributes to the re-centering the state in GVC analysis. We provide an analysis of the rise and fall of the Indonesian Palm Oil Pledge (IPOP). IPOP is a commitment of some biggest palm oil companies towards zero-deforestation in Indonesia, but was dissolved after serious critique from the Government of Indonesia (GoI). Our question is: why and how did the GoI decide to put an end to the IPOP? We show that the GoI orchestrated the IPOP's demise by framing it as a danger to smallholder development, as not acknowledging public standards, and as an illegal cartel. The GoI's counter-framing re-asserts its sovereignty over producers, rule-making and economic organization. We argue that when a state *perceives* that when non-state-driven GVC governance threatens its sovereignty over producers, rule-making and economic organization, it will engage in discursive power struggle with non-state actors. More specifically, *collective* action of non-state actors can particularly trigger a state to engage in discursive power struggle with non-state actors.

During the last two decades a myriad of global non-state institutions has arisen to address environmental problems and to develop transnational rules for sustainable production and trade of global commodities. Though scholars have differently labeled these institutions to refer to global value chain (GVC) governance, non-state market driven (NSMD) systems or global private governance, their common explanation for the proliferation of these non-state institutions has been the limited capacity and/or unwillingness of the state to create and enforce stringent environmental regulations (Cashore, 2002; Eberlein et al., 2014; Gulbrandsen, 2008; Schouten and Glasbergen, 2011; Smith and Fischlein, 2010). One of the results of the growing attention to governance of global environmental problems was that the earlier focus in GVC analysis (see Hopkins and Wallerstein, 1977, 1986) on the role of the state in shaping global production disappeared. GVC scholars shifted their focus from the state to inter-firm relationships and the role of lead firms in governing value chains (Gereffi et al., 2005; Sobel-Read, 2014). The role of the state was simply ignored or considered to be passive and outside the realm of global value chains (Brun and Lee, 2016).

In recent years, the call to bring back the state in GVC analysis can be increasingly heard from scholars investigating the implementation of transnational or global private standards for sustainability at the national level or in domestic arenas. Adolf et al. (2016) show how the state recaptures governance in transboundary fisheries and challenges lead-firm control in GVCs. Pramudya et al. (2018) show that the course of development of different non-state initiatives aimed at promoting sustainable palm oil in Indonesia prompted different and changing reactions of the Indonesian state. Looking at the implementation of transnational rules for forest certification and labor rights in China and Indonesia, Bartley (2018, 34) observes that, 'domestic governance is far from an empty space' and he states that, 'The hope of transcending domestic governance and bypassing the state is illusory', calling for a 're-centering of the state' for improving transnational governance of land and labor.

We want to contribute to the re-centering of the state in GVC analysis, both empirically and conceptually. This is not about focusing on the state but developing an 'institutionalist perspective' (as coined by Eckhardt and Poletti, 2018), paying attention to the 'dynamics of causation' that – in our contribution – go from the state to GVCs. For this purpose, we provide an in-depth analysis of the rise and fall of a private initiative to serve a public interest: the joint pledge of the biggest palm oil companies to zero-deforestation in Indonesia. The pledge was launched as the Indonesian Palm Oil Pledge (IPOP) during the United Nations (UN) Climate Summit at New York on 24 September 2014. To analyze this

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case, we conceptualize power struggles between state and non-state actors over governance in the upstream part of GVCs in terms of competing claims to authority over producers, rule-making and economic organisation in the domestic arena. We particularly explore to what extent the notion of sovereignty can be helpful to understand when and how the state engages in power struggles with non-state actors over GVC governance.

The IPOP was launched during the United Nations (UN) Climate Summit at New York in September 24, 2014. That day, four of the world's biggest palm oil producing companies (Asian Agri, Cargill, Golden Agri-Resources and Wilmar International) committed themselves to zero-deforestation by signing the IPOP. Few months later two other big palm oil producing companies (Musim Mas and Astra Agro Lestari) joined the IPOP group. All six companies can be characterized as large multinational companies, with a complex ownership structure and with palm oil production as a core business.

The IPOP is a remarkable initiative in many respects. To start with, the IPOP is not the only and certainly not the first initiative to govern the sustainability of the oil palm sector of Indonesia. The oil palm sector in Indonesia is characterized by a multitude of governance initiatives of state and non-state actors to promote sustainable production of palm oil in Indonesia (Dermawan and Hospes, 2018; Pacheco et al., 2018). The leading non-state global initiative is the Roundtable on Sustainable Palm Oil (RSPO). The RSPO was established in 2004 by European food industry and environmental non-governmental organizations (NGOs), which together developed a certification system and global standard for sustainable palm oil (Schouten and Glasbergen, 2011). Indonesia contributes significantly to the mission of the RSPO to make the whole palm oil sector sustainable: Indonesia produces 55 per cent of the total RSPO-certified palm oil, that is, 6.5 million tons (RSPO, 2017). The Government of Indonesia (GoI) was actively involved in the discussion on a global standard in the earlier years of the RSPO but gradually distanced itself from the RSPO when this non-state initiative started to implement its global standard in Indonesia. In 2011 the GoI launched its own national standard: Indonesian Sustainable Palm Oil (ISPO). It is nearly a copy of the standard of the RSPO but under government regulation and control (Hospes, 2014; Pramudya et al., 2018). While all companies – except Astra Agro Lestari – are members of the RSPO and all face the obligation the get ISPO certified, they somehow saw added value in starting a new governance arrangement. The pledge to zero-deforestation suggests that the companies seemed eager to put the bar higher than both ISPO and RSPO. Interestingly, with the pledge the six companies seemed committed to put aside their interests to clear forested areas in their concessions and to serve a widely felt public interest as private actors.

Possibly even more remarkable than the rise of the IPOP was its demise in less than 2 years after its start. On 30 June 2016, the IPOP was officially dissolved, following critical comments and threats from the GoI. The reaction of the GoI was interesting for two reasons. First, the GoI has often manifested itself as an advocate or partner of the palm oil industry the debates on sustainable palm oil in Indonesia. Second, the GoI is strongly committed to developing a palm oil industry that is both globally competitive and sustainable.

The main question of this article is: why and how did the GoI decide to put an end to the IPOP? To answer this question, we collected data about companies' sustainability policies prior to the establishment of the IPOP, the document of the IPOP declaration, and IPOP progress reports. We retrieved news articles from the national media, compared the IPOP components with the RSPO and ISPO standard, and reviewed official documents and press releases. Last but not least, we organized interviews with key informants. We experienced that both government officials and business actors in Indonesia felt embarrassed about the IPOP. As a result, it was not easy to organize interviews. Under these circumstances, we succeeded in conducting interviews with six key informants: staff from the IPOP management office, RSPO Indonesian office, INOBU (Inovasi Bumi – Earth Innovation Institute), World Wildlife Fund (WWF) Indonesia, the Ministry of Economic Affairs, and one of the six companies.

Our paper is structured as follows. We start with a conceptualization of power dynamics between state and non-state actors over GVC governance at the upstream part, also discussing the concept of sovereignty. Then we picture the IPOP by presenting its' aim, components and planned phases. The next section provides an in-depth analysis of the rise and demise of the IPOP. We end with a conclusion and some arguments to be reviewed in future research.

Conceptualizing power dynamics of state and non-state actors over GVC governance

To conceptualize power dynamics between state and non-state actors over GVC governance in the domestic arena or the upstream part of GVCs, we first introduce a broad notion of GVCs. Traditionally, GVC analysis is focused on commodity flows and the way in which power struggles between firms affect such flows. We hold that GVCs are not only about transboundary flows but involve territories and producers as well. This implies that any claim to authority over commodity flows is also a claim to authority over territory and producers.

At this point, the state has to be brought back into GVC analysis. In claiming authority over commodities (and thus over territory and producers), non-state actors – sooner or later – will have to cope with the state and its claims to authority over territory and producers, and then over commodity flows. We posit that tensions and conflicts resulting from claims to authority of non-state actors over GVCs can prompt the state to re-assert power and control in the face of new non-state governance initiatives.

To understand when and how the state re-asserts power and control over GVC governance, we think that the concept of sovereignty as a political tool or argument of the state in power struggles with non-state actors can be very useful. Scholars on sovereignty show that it is not so interesting to

define what sovereignty is but rather to study how states use sovereignty in a more or less opportunistic way to minimize external interference by other states in their economy or political system (Krasner, 1999). This notion of sovereignty as a political tool can be easily extended to studying when and how the state reacts to a GVC initiative as a kind of external intervention into their economy and territory.

Interestingly, Gammeltoft-Hansen and Adler-Nissen (2008. p. 7) argue that, 'It is exactly in the struggle over differing claims to authority that sovereignty comes most to the fore. [. . .] The performative moments of sovereignty are strongest in times of crisis, when the State appears to lose the ability to ensure internal rule or freedom from external interference'. For our purpose, this means that tensions between state and non-state actors over control of GVCs can be a performative moment of sovereignty, that is, a moment for the state to use sovereignty as political tool or argument to challenge the claim to authority of non-state actors.

When and how the state uses sovereignty as an argument to react against a GVC initiative, is an empirical question. Generally speaking, this depends on how interactions between state and non-state actors evolve over time. Eberlein et al. (2014) distinguish four types of governance interactions: coordination, competition, cooptation and chaos. They emphasize that governance interactions between the same set of actors may shift from one type to another. We expect that the moment and extent to which the state *perceives* a GVC initiative as a threat to its domestic and territorial sovereignty is crucial in shaping power dynamics with non-state actors over the control of GVCs, its territorial base and producers.

The components and planned phases of the IPOP

The goal of the IPOP was 'to find solutions for sustainable palm oil that is deforestation free, respects human and community rights and delivers shareholder value' (IPOP, 2014). The pledge had four components. These components do not offer specific rules, measurable goals or concrete criteria but a kind of agenda with general intentions and steps to be taken. The first component was to improve environmental stewardship. Under this component, these companies would adopt and promote sustainable oil palm production practices. The second component was to collaborate with other stakeholders and to engage with the GoI to encourage the development of policies, legal and regulatory frameworks that promote the implementation of the pledge. The third component was to expand social benefits. These include the improvement of smallholder productivity by providing technical assistance and improvement of extension services to plasma smallholders. The fourth component was to increase the competitiveness of palm oil business. Key activities include encouraging other palm oil companies to align with the pledge.

Each of the four components of the pledge is quite like one of the RSPO or ISPO principles (Table 1). This suggests that the initiators of the IPOP have used the earlier established RSPO and ISPO standards as examples to formulate their intentions.[1] At the same time, it is important to mention that before the companies signed the IPOP, each company had formulated its own sustainability policy. Together, these individual policies have been used to formulate the IPOP, particularly the first and the third component.

In August 2015, the companies launched the IPOP management office in Jakarta. This office was set up to assist IPOP members with the implementation of the commitment and the engagement of the IPOP members with the Indonesian Chamber of Commerce (ICC) and other actors, including the GoI. The management office mapped three phases towards achieving the pledge. For the first phase (until December 2016) the following activities were planned:

Table 1. Comparison of principles of RSPO, ISPO and IPOP

	RSPO principles	ISPO principles	IPOP components
1.	Commitment to transparency		
2.	Compliance with applicable laws and regulations	Business legality	Strengthen government policy and regulations
3.	Commitment to long term economic and financial viability		Improve competitiveness of Indonesian palm oil
4.	Use of appropriate best practices by growers and millers	Estate management; Protection on the utilization of primary natural forest and peatland	
5.	Environmental responsibility and conservation of natural resources and biodiversity	Environmental management and monitoring	Improve environmental stewardship
6.	Responsible consideration of employees, and of individuals and communities affected by growers and mills	Responsibility to the workers; Social responsibility and community economic empowerment	Expand social benefits
7.	Responsible development of new plantings		
8.	Commitment to continuous improvement in key areas of activity	Continuous business improvement	

Note: The ISPO principles are for integrated palm oil companies with an estate plus mill.
Sources: RSPO (2013); The Ministry of Agriculture Regulation 11/Permentan/OT.140/3/2015; IPOP (2014).

developing strategic partnerships, initiating a process of policy reform, streamlining the IPOP pledge into the GoI planning, and implementing pilot programs. The second phase (from January 2017 until December 2018) was aimed to upscale the pilot program. During the third phase (from 2019 onwards) all four components of the pledge had to be fully implemented (Darus, 2015). In the following two sections we provide an in-depth analysis of the rise and fall of the IPOP.

The rise of the IPOP

The rise of the IPOP was triggered by three different dynamics, all of them at the international level. The first dynamic was related to interactions between international environmental NGOs and multinational manufacturers, leading to the call for deforestation-free palm oil. The second dynamic was about interactions within the RSPO and the minority position of palm oil producers in the governance of this global roundtable. The third dynamic was related to the climate change agenda of the GoI and its ambition to show the world that it is serious about curbing deforestation.

IPOP as a trickle-down effect of naming and shaming by NGOs

Interactions between international environmental NGOs and multinational manufacturers as buyers of palm oil have prompted the establishment of the IPOP. One could say that the IPOP is a trickle-down effect of the successful lobbying of environmental NGOs with multinational manufacturers to commit themselves to environmentally sustainable palm oil production. NGOs like Greenpeace 'named and shamed' multinational manufacturers in their campaigns on 'dirty' palm oil (Greenpeace International, 2007, 2012, 2013). Others like WWF invited them for multi-stakeholder consultations on sustainability principles as part of RSPO meetings (interview with WWF staff, 2016). As a result, the buyers started to change their purchasing policies on palm oil (Pacheco and Komarudin, 2017; Pirard et al., 2015). They not only joined the RSPO but also groups such as Consumer Goods Forum, which committed toward achieving zero net deforestation by 2020. The new purchasing decisions of the international buyers of palm oil trickled down to the palm oil companies in Indonesia that started to change their production and marketing policies (IBCSD, 2014).

Although not all palm companies reportedly caused negative environmental impact, poor records of some individual companies in the media resulted in a bad reputation for the whole palm oil industry in Indonesia. Dealing with reputation commons incentivized companies to join forces. Although the large palm oil companies in Indonesia are competitors, they share reputational risk at industry level (Gnych et al., 2015). They are often operating in the same area. One way to address this shared risk was to jointly commit to zero deforestation by establishing the IPOP (interview with IPOP management office, 2016).

From minority and scapegoat to front runner

Given the similarities between RSPO, ISPO and IPOP in terms of principles, the obvious question is why the large palm oil companies launched the IPOP. We distinguish two reasons:

First, palm oil companies have never been able to dominate the decision-making process in the RSPO as a non-state organization with global membership. They form a minority (as 'producers') in the Board and General Assembly (Hospes and Kentin, 2014). The producers were the ones to adapt their production policies and to pay for the adjustment, without seeing a direct translation into increased market absorption of the certified sustainable palm oil in the European markets (Pichler, 2013). Even worse, they remained scapegoated for palm oil expansion, forest fires and deforestation. Not at ease with their minority position in the RSPO and annoyed by what they considered as unfair criticism, they decided to jointly manifest themselves as front-runners in stopping de-forestation.

Second, as palm oil companies with a strong international orientation, Wilmar and Cargill saw ISPO only as a minimum sustainable palm oil standard that buyers could consider (IBCSD, 2014). As a representative of Sinar Mas put it:

> Much work remains to be done to make ISPO an internationally accepted standard amongst palm oil customers. There is a lack of understanding and knowledge about ISPO and it needs to be better promoted amongst customers in the international palm oil market (Suling, 2016).

Seeing a lack of interest and acceptance of buyers of the ISPO (Kusumaningtyas, 2018), the large palm oil companies decided to get their act together in the international arena, launching the IPOP.

Following the green ambitions of the GoI at the world stage

The pledge cannot be seen in isolation from the increasing attention of the international community to mitigating or adapting to climate change. This has led to many programs and initiatives in the field of Reducing Emissions from Deforestation and Forest Degradation (REDD+) and Green Growth. The former President of Indonesia Susilo Bambang Yudhoyono called on the ICC to orchestrate a discussion with the private sector on how to organize deforestation-free supply chains. The ICC formulated a position paper on REDD+ and low carbon use, and actively communicated with the Coordinating Ministry of Economic Affairs (CMEA) in drafting a concept of the IPOP (Perkumpulan Sawit Lestari, 2016).

Mr. Yudhoyono was recognized as being 'at the forefront of a transition to a new world order – in which politicians who champion good environmental stewardship to economic prosperity, will become the norm' (UN Environment, 2014). He witnessed the launch the IPOP. The IPOP perfectly matched with the ambition of the president to show the

international community that Indonesia is serious about curbing deforestation. Participation in the Climate Summit and witnessing the signing the IPOP was one of the Mr. Yudhoyono's last act as the President of Indonesia.

The demise of the IPOP

The demise of the IPOP began when this pledge literally touched ground in Indonesia. Soon after the IPOP management office was established in Jakarta in August 2015, Indonesian politicians and government agencies began to openly criticize the IPOP. In this section we describe different arguments of Indonesian state agencies that led to the demise of the IPOP in 2016. The first argument was that the implementation of the IPOP would undermine smallholder development. The second was the belief that the IPOP was driven by foreign interests and ignored the government priority to strengthen the ISPO. The third was that the IPOP group would become too powerful as a business conglomerate consisting of the biggest palm oil companies of Indonesia.

IPOP is threatening smallholder development

Several high-level government officials and members of parliament tried to dismiss the IPOP by highlighting the impact of the IPOP on the millions of independent oil palm smallholders. The CMEA stated that the IPOP as a business-to-business initiative could put independent smallholders at risk. Once the companies would implement their pledge, they could refuse to buy fresh fruit bunches (FFB) from independent smallholders who allegedly had cleared forest to cultivate oil palm (Saturi, 2015; Surbakti, 2015). The CMEA instructed the Ministry of Environment and Forestry (MoEF) to review all clauses of the IPOP programs in terms of possible restrictions and threats for Indonesian smallholders.

Interestingly, two large smallholder associations had contrasting views about the IPOP. The Union of Oil Palm Farmers (SPKS) was positive about the IPOP group and appreciated the plans of the IPOP to collaborate with them on the implementation of the pledge, particularly because they felt that the government did too little to empower them (Vebri, 2015). However, another oil palm smallholder association, Apkasindo (Asosiasi Petani Kelapa Sawit Indonesia – Association of Indonesian Oil Palm Smallholders), became critical when they heard that the IPOP group could refuse to buy FFB from smallholders (Aziliya, 2015).

Driven by foreign interests and ignoring government priorities

Members of parliament and government officials suspected that the IPOP was driven by foreign interests (Said, 2015; Sihombing, 2015). They questioned why the signing took place in New York. They also wondered why the US ambassador had been stimulating the big palm oil companies to make their pledge (Pramudya et al., 2018; interview with staff of an IPOP company, 2018). The launch abroad and involvement of a foreign country touched a nerve of the Indonesian state actors, perceiving the IPOP as an external intervention in their palm oil sector.

Several government agencies went a step further, complaining that the IPOP ignored or bypassed their rules and rule making authority. The MoEF stated that the IPOP group had overstepped the authority of the government in terms of restricting land clearing for oil palm on areas that are permitted for clearing under the existing regulations (Jong, 2015; Saturi, 2015). A distinctive feature of the IPOP is the use of the High Carbon Stock (HCS) approach to define and implement zero deforestation. In this approach forest area is defined as having a carbon stock of more than 35 tons of carbon per hectare (Poynton, 2014). However, the use of this threshold could become problematic as it is at odds with Law 39 of 2014 on Plantations that would require companies to clear the technically plantable areas. In addition, the commitment of IPOP not to clear peatland was in contrast with a regulation (14/Permentan/PL.110/2/2009) of the Ministry of Agriculture (MoA) which allows planting on peatland with a depth of 3 meters or less.

The GoI did not appreciate the offer of the IPOP business group to strengthen and adjust government policy. This offer denied that the government was behind the steering wheel in regulating the palm oil sector. The CMEA and the MoA reiterated that the ISPO was the mandatory sustainability standard for oil palm in Indonesia, clearly suggesting that the IPOP is redundant (Saturi, 2015).

In February 2016 the government announced its plan to speed up the implementation of the ISPO. The CMEA formally established a team in June 2016 to strengthen the ISPO, with the overall aim to increase palm oil competitiveness and market acceptance (personal communication with CMEA staff, 2016). With these moves, the GoI gave a clear signal: the state is the authority to decide on the policy and instruments for promoting sustainable palm oil in Indonesia; the ISPO is the terms of reference, not a pledge of business.

Being too powerful

After the opening of the IPOP management office in Indonesia, the Commission for the Supervision of Business Competition (CSBC) began to investigate whether IPOP could form a cartel. For this purpose, the CSBC began to organize consultations with the IPOP management office and several ministries. During the investigations, the head of the CSBC stated that each of the IPOP companies would receive IDR 125 billion (about US$8.4 million) of penalties if they were proven to violate antimonopoly Law 5 of 1999 (Jati, 2016).

The conclusion of the CSBC was not made public until April 2016 as a press release on the CSBC website (CSBC, 2016). The CSBC raised the point that IPOP could become a barrier to entry for other companies. The GoI believed that this could be used as the basis to disband IPOP (Laoli,

2016). In fact, the CSBC sent a letter to the President and other relevant government agencies recommending that IPOP should be disbanded (Jati, 2016). On 29 June 29 2016, the IPOP management office met with officials of the CMEA. The next day, IPOP was officially dissolved (IPOP, 2016).

Interestingly, the GoI had not disputed the individual zero deforestation policies of the companies that were developed before the launch of IPOP. However, the GoI did perceive the collective action of the large companies as too powerful a claim to authority over the palm oil sector. Although the total plantation area that the IPOP companies have under their direct control is only about 11 per cent of the total oil palm areas in Indonesia, these companies process about 90 per cent of the fresh fruit bunches (Bisnis, 2016).

Conclusions

The IPOP was launched in New York as a private initiative to defend a kind of global public interest, namely: stopping deforestation. The pledge was triggered by actors and dynamics at the international level. One of the major triggers was pressure from international NGOs and multinational buyers to clear the palm oil supply chain from deforestation. With the declaration of the IPOP in New York, the palm oil companies could show the world that they wanted to lead in stopping deforestation and could support the green ambitions of the GoI at the world stage. The GoI did not stop or prevent the launch of the IPOP that was directed at a foreign audience, and was in line with the government's ambition to show the world leadership in environmental governance.

When the large palm oil companies wanted to implement the IPOP back home, many Indonesian state actors began to criticize the IPOP. Whereas the IPOP was presented at the international level as a private initiative to stop deforestation, Indonesian state actors reframed the initiative in three different ways: as a danger to smallholder development; as not acknowledging government rules and priorities; and as an illegal cartel.

We consider this counter framing as performative moments of sovereignty. Sovereignty is not used as an explicit political argument but manifests itself in the different frames used by the state to challenge the course and claim to authority of non-state actors. By framing the IPOP as a threat to smallholder development, the Indonesian state re-asserted its sovereignty over the millions of smallholders in the country. By clearly stating that public standards and national priorities are to guide the promotion of the palm oil sector and its sustainability, the state re-asserted its domestic sovereignty over policy-making. By framing the IPOP initiative as an illegal cartel, the state re-asserted its sovereignty over the economic organisation of the palm oil sector.

Based on our in-depth analysis of the rise and fall of the IPOP, we provide the following arguments to be reviewed in future research: when a state *perceives* that firm-driven governance of GVCs threatens its sovereignty over producers, rule-making and economic organization within its territory, it will engage itself in discursive power struggle with non-state actors. More specifically, we argue that *collective* action of non-state actors can particularly trigger a state to engage in discursive power struggle with non-state actors with a view to re-assert its sovereignty over producers, rule-making and economic organization.

Given the different ways in which the IPOP was presented and framed internationally and domestically, we also recommend future research on how government officials from one state frame the same non-state governance initiative in domestic and international arenas. Possibly even more interesting would be to bring *states* back into GVC analysis and compare how governments at different ends of the same GVC frame non-state governance initiatives in their own domestic arena and in international arena's. As many West European governments have sympathized great deal with non-state global governance for sustainable agriculture but governments from the South, like those of Indonesia, may be increasingly engaging in power dynamics with non-state actors over GVCs, this could be a very exciting avenue for research.

Notes

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1. The RSPO principles and criteria were adopted at the RSPO General Assembly in 2005 whereas the ISPO standard was launched in 2011 (Hospes and Kentin, 2014).

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