Legal Protection of Long Term Investments in the Field of Palm Oil Plantation Management in Indonesia

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Abstract

The development of plantation businesses in Indonesia continues to proliferate; the oil palm agriculture sector strongly influences society's economic conditions. However, along the way, investment in palm oil plantations is still faced with regulatory and legal issues. This research aims to analyze the legal protection of long-term investment in the management of oil palm plantations. This research uses qualitative analysis with a literature study approach. Research data uses literature reviews and official government documents such as laws and policies. This research found that regulations influence long-term palm oil investment, providing confidence for investors. Ambiguous regulations regarding palm oil investment will reduce the amount of investment in the palm oil plantation sector. In conclusion, long-term investment regulations and policies in palm oil management in Indonesia still need improvement. Synchronization across institutions with an interest in the plantation sector is critical. Making investment easier while still maintaining environmental sustainability is very necessary. This research contributes to the urgency of comprehensive policies and regulations for legal protection in long-term palm oil investment management in Indonesia.

Keywords; Palm oil plantations, investment, law, policy, agrarian

Introduction

The palm oil industry is a critical sector in Indonesia's economy, contributing significantly to the country's GDP and providing employment to millions of people. The palm oil sector significantly bolsters Indonesia's economy through export revenues. In 2017 and 2018, palm oil exports were valued at USD 23 billion and USD 21 billion, respectively (H. Purnomo et al., 2020). Palm oil development has been crucial for economic growth, particularly in regions like Riau Province, which became Indonesia's largest palm oil producer (Apresian et al., 2020). However, the industry faces numerous challenges, including environmental concerns The expansion of oil palm plantations has been a major driver of deforestation, resulting in significant loss of biodiversity and disruption of ecosystem services (Meyer III, 2017), land disputes The expansion of oil palm plantations of companies and local communities. These disputes are primarily due to the lack of clear land rights, inadequate compensation, and the displacement of local populations (Obidzinski et al., 2021), and regulatory complexities The regulatory framework governing the palm oil industry in Indonesia is complex and often ineffective. There are overlapping regulations and weak enforcement mechanisms, which hinder the implementation of sustainability standards (Putri et al., 2022).

Ensuring legal protection for long-term investments in palm oil plantation management is essential to foster sustainable growth and stability in this sector. Indonesia has enacted laws such as the Law Number 39 of 2014 concerning Plantations and the Law Number 32 of 2009 concerning Environmental Protection and Management to regulate the oil palm sector. These laws aim to balance economic benefits with environmental sustainability, although enforcement remains a challenge (SINAULAN et al., 2018). The ratification of Law Number 11 of 2020 (Omnibus Law) brought significant changes to previous regulations, aiming to streamline investment processes. However, inconsistencies between the Omnibus Law and existing plantation laws have caused legal uncertainty, necessitating harmonization for effective implementation (Wahyudi et al., 2020). Ensuring consistency and harmonization of various policies and regulations related to palm oil plantation management is necessary to provide a stable legal environment for

investors. This includes aligning local, national, and international regulations to reduce legal uncertainties (Yasminingrum, 2020).

Despite the economic importance of palm oil plantations, investors often encounter legal uncertainties and risks that can hinder long-term commitments. Investors face significant challenges due to unclear land tenure and ownership rights, which are often complicated by overlapping claims and inadequate enforcement of property laws (Firdaus & Hendra, 2020). Issues such as unclear land ownership The transformation of land ownership often involves moving from community property to ownership by local elites and companies, which leads to disputes and social tensions. Unfair land distribution and the use of fire for land clearing by smallholders exacerbate these issues (E. P. Purnomo et al., 2019), inconsistent regulatory frameworks Efforts like the Presidential Instruction Number 8 of 2018 aim to address deforestation and land management issues. However, the moratorium's effectiveness is limited by its non-binding nature and the need for synchronization with other existing regulations (Maskun et al., 2020), and conflicts with local communities pose significant barriers to investment. This research seeks to address these legal challenges and propose solutions to enhance the protection of long-term investments in palm oil plantation management in Indonesia.

The primary objectives of this research are to: Analyze the current legal framework governing palm oil plantations in Indonesia. Identify the key legal challenges faced by long-term investors in this sector. Evaluate the effectiveness of existing legal protections and their enforcement. Legal proposals and policy recommendations to improve investment security and sustainability in the palm oil industry. This research is important for several reasons: This contributes to an understanding of the legal issues affecting the palm oil sector, which is important for policy makers, investors and other stakeholders. These findings can help improve the legal environment, making it more conducive to long-term investment. By overcoming legal uncertainty, this research aims to encourage sustainable and responsible investment practices in the management of oil palm plantations.

Literatur Review

Legal Framework

Securing land rights and tenure is crucial for fostering long-term investments in plantation lands. When stakeholders have secure long-term land rights, such as those allowing bequest and sale, it significantly boosts investment and the adoption of cash crops, particularly when women's land rights are protected and supported by local institutions (Deininger et al., 2021). In China, secure tenure arrangements positively influence farmers' investment decisions, while perceived tenure insecurity due to frequent land redistributions discourages long-term investments (Qin & Xu, 2013). Additionally, in Xinjiang, China, land tenure security positively impacts the adoption of crop-tree intercropping among households with contract land, whereas those with both contract land and wasteland perceive higher tenure security in wasteland, affecting their investment decisions (Rao et al., 2016). In Tamil Nadu, India, secure property rights linked to inheritance and purchase lead to significant short and long-term investments in agriculture, while insecure rental arrangements deter long-term investments (Adigun, 2021). Moreover, in Ghana, individuals with secure tenure rights, often linked to their positions in local political hierarchies, invest more in land fertility, resulting in higher agricultural output (Goldstein & Udry, 2008). Overall, secure land rights and tenure are essential for promoting long-term investments in plantation lands, as they provide the necessary stability and confidence for stakeholders to invest in land improvements, thereby enhancing productivity and sustainability.

Challenges in Legal Protection

Land tenure and ownership disputes significantly impact land use, tenure security, and socioeconomic stability. These disputes often arise due to the complex interplay between traditional land management systems, legal frameworks, and socio-economic changes. In Ghana, traditional authorities control over 80% of all lands, and urbanization has eroded the traditional values that mitigated disputes. The ambiguity in identifying legitimate custodians of customary lands and the increasing economic value of land contribute to frequent disputes. Establishing Customary Lands Secretariats could improve land management and reduce conflicts (Paaga, 2013). In Ethiopia, both peri-urban and rural areas frequently experience land disputes, including boundary trespassing, landholding disputes, and rental disagreements. These disputes are addressed through formal court litigations and informal alternative dispute resolution mechanisms like negotiation, mediation, and arbitration (Agegnehu et al., 2021). The rapid urbanization and expansion of cities into peri-urban areas create conflicts due to compulsory land acquisition for urban development, driven by competing interests, power struggles, and legal ambiguities. A comprehensive understanding of these conflicts is essential for sustainable land tenure policies (Dadashpoor & Ahani, 2019). In Zimbabwe, land disputes in customary tenure areas are managed by traditional courts, which are increasingly influenced by the state. The distribution of government subsidies through traditional authorities ties land tenure to political dynamics, impacting residents' autonomy in making political choices (Murisa, 2023). A comparative study of Bolivia and Norway reveals common strategies in land tenure and dispute resolution despite differing socio-economic contexts. Both countries demonstrate that effective land management and clear property boundaries are essential for reducing disputes and ensuring stable land tenure systems (Goodale & Sky, 2001).

Mechanisms for Legal Protection

Legal mechanisms for protecting land tenure are essential to ensure the rights and security of landholders, prevent disputes, and promote sustainable land use. Various approaches and frameworks have been developed and implemented globally to address these challenges. Legal aspects of land tenure are governed by property laws, which may be found in constitutional provisions, statutes, court decisions, common law, or local custom. These laws distribute rights and responsibilities in land, adapting to the socioeconomic needs of the time and resolving disputes through adjustments in the legal system (Harris, 1941). In Mexico, state-led land reform, including titling programs, has provided a greater sense of tenure security among landholders. However, these reforms have also led to the emergence of informal land markets, creating tenure insecurity for buyers due to inconsistent policy implementation and lack of acknowledgment of local institutions (Bouquet, 2009). Recognizing customary tenure involves balancing legal intervention with traditional practices. Effective legal recognition should consider the nature and causes of tenure insecurity and support customary groups in negotiating better tenure security. This approach has been applied in various regions, including Africa and the South Pacific (Fitzpatrick, 2005). Granting indigenous people legal land titles as part of decentralized forest management can help protect their rights. However, without supporting institutions to enforce these rights, tenure reforms may fail to prevent land expropriation and degradation. Successful tenure security requires alignment with other interventions, such as environmental licensing and local activism (Gebara, 2018). In post-conflict settings, reconstituting land tenure systems is crucial for sustainable development. New laws should address tenure issues in the context of existing informal smallholder tenure constructs, moving from the fluidity of post-conflict situations to a more solidified legal environment (Unruh, 2008). In Colombia, the legal regime protects collective land tenure through the principle of the social rule of law, granting special protection to ethnic communities. These communal territories are inalienable and require community agreement for natural resource exploitation, ensuring the protection of cultural, social, and economic integrity (Ruiz, 2018). Effective legal protection of land tenure involves a combination of statutory laws, recognition of customary practices, decentralized management, and post-conflict reconstitution of tenure systems. These mechanisms help secure land rights, prevent disputes, and promote sustainable land use.

Method

The research method entitled "Legal Protection of Long-Term Investments in the Field of Palm Oil Plantation Management in Indonesia" employs a qualitative analysis approach. This method involves an indepth examination of regulatory documents and literature reviews to understand the legal framework and protection mechanisms for long-term investments in the palm oil sector. By analyzing legal texts, policies, and scholarly articles, the study aims to identify the strengths and weaknesses of current legal protections, assess their effectiveness, and suggest improvements. This qualitative approach allows for a comprehensive understanding of the legal environment surrounding palm oil plantation management, providing valuable insights for policymakers, investors, and stakeholders in the industry.

Result And Discussion

Overview of Palm Oil Plantation Industry in Indonesia



The provided graph illustrates the trend in the area and the 5-year average growth rate of palm oil plantation land in Indonesia from 1970 to 2022. The area under cultivation (represented by yellow bars) has seen consistent expansion, especially from the mid-1990s onward, reaching about 15 million hectares by 2022. Meanwhile, the growth rate (shown by the green line) has fluctuated, with peaks in the early 1980s and mid-1990s, followed by a general decline after 2000, indicating industry maturation and regulatory impacts. This data underscores the evolving dynamics of Indonesia's palm oil industry.

The graph illustrating the trend in the area and the 5-year average growth rate of palm oil plantation land in Indonesia from 1970 to 2022 provides several qualitative insights. The consistent and substantial growth in plantation area, particularly since the mid-1990s, reflects increased investment and development in the sector, driven by high domestic and international demand. However, the growth rate has fluctuated, with rapid increases in the 1980s and 1990s followed by declines post-2000. These declines suggest regulatory changes, environmental scrutiny, and industry maturation. Regulatory interventions and global environmental campaigns have likely contributed to these trends, highlighting a shift towards sustainability. Public awareness campaigns have led to increased consumer demand for sustainable products, encouraging companies to adopt more environmentally friendly practices (Kotler, 2011). The decreasing growth rates indicate a maturing industry, focusing more on improving yields and productivity on existing plantations rather than expanding land area. in the palm oil industry, improvements in agronomic practices, pest and disease management, and the use of high-yielding varieties have been prioritized over land expansion (Basiron, 2007). The expansion of palm oil plantations has significant economic implications for Indonesia, contributing to employment, rural development, and export revenues. Smallholder participation in palm oil cultivation has also provided substantial employment opportunities, leading to better incomes and improved livelihoods for rural communities (Nugroho & Dayanti, 2023). Balancing economic benefits with environmental sustainability and social responsibility remains a critical challenge for policymakers and industry stakeholders. oil palm expansion contributes to tropical deforestation and associated environmental issues such as soil erosion and water pollution (Qaim et al., 2020).

Pengaturan dan kebijakan Terhadap Investasi Perkebunan Kelapa Sawit Di Indonesia

Regulations and policies regarding investment in palm oil plantations in Indonesia are multifaceted, reflecting the sector's significance to the national economy and its environmental and social impacts. The legal framework includes Law No. 39 of 2014 on Plantations, which governs all plantation activities and mandates sustainable practices, and Law No. 25 of 2007 on Capital Investment, ensuring equal treatment and providing incentives for investors. The Presidential Instruction No. 8 of 2018 imposes a moratorium on new palm oil plantations to address deforestation and land conflicts.

Environmental regulations are crucial, with Government Regulation No. 24 of 2018 simplifying the licensing process through the Online Single Submission (OSS) system, integrating environmental impact assessments. The Minister of Environment and Forestry Regulation no.

P.83/MENLHK/SETJEN/KUM.1/10/2016 promotes community involvement in forestry management to ensure sustainable practices. Sustainability is further enforced through the Indonesian Sustainable Palm Oil (ISPO) certification, a mandatory scheme for sustainable production, and the voluntary Roundtable on

Sustainable Palm Oil (RSPO) certification, meeting international market demands with stringent criteria for environmental conservation, social responsibility, and fair labor practices.

Social and land use policies are designed to promote equitable development. Social and land use policies are designed to promote equitable development Policy support for these groups can further enhance equitable development (Pretty et al., 2020). Agrarian reform policies aim at land redistribution to address tenure issues and conflicts, granting land rights to local communities and smallholders. Successful agrarian reform can also promote social equity by reducing disparities in land ownership and fostering inclusive rural development (Borras, 2016). The principle of Free, Prior, and Informed Consent (FPIC) ensures that local communities and indigenous peoples are consulted before any investment on their land. FPIC helps prevent land grabs and exploitation by requiring investors to obtain the consent of local communities, thereby safeguarding their autonomy and control over their land (Colchester, 2007). To attract investment, the government provides tax incentives, such as tax holidays and import duty exemptions, and support through the Investment Coordinating Board (BKPM), which facilitates investment by providing information, guidance, and streamlining regulatory processes.

Despite comprehensive regulations and policies, challenges such as deforestation, land conflicts and labor issues still persist in the palm oil sector. The government continues to refine its policies to balance economic growth with environmental sustainability and social justice. This approach can help mitigate conflicts between economic, environmental, and social goals (Liao et al., 2019). Initiatives to improve governance, increase transparency and encourage sustainable practices are critical to the future development of the palm oil industry in Indonesia. Greater control by the government, collaboration with NGOs, and investment in education and technology are essential for further improvements (Ivancic & Koh, 2016). Ultimately, Indonesia's regulatory and policy framework for investment in palm oil plantations covers legal, environmental, social and economic aspects, with ongoing efforts to address implementation challenges and promote sustainable and equitable development to ensure the long-term viability and competitiveness of the sector.

Challenges in Legal Protection

Indonesia, as one of the world's largest producers of palm oil, relies heavily on this sector for economic growth. The palm oil industry significantly contributes to Indonesia's economy, with exports valued at USD 23 billion in 2017 and USD 21 billion in 2018 (H. Purnomo et al., 2020). However, the legal framework governing long-term investment in palm oil plantation management is riddled with inconsistencies and ambiguities. These legal uncertainties pose significant challenges to investors, environmental sustainability, and the local communities dependent on palm oil production. Management permits granted by the government do not guarantee land control, leading to agrarian conflicts and hindering investment stability (Firdaus & Hendra, 2020). These legal issues deter long-term investment and increase the risk profile of palm oil projects, reducing attractiveness for potential investors and leading to higher costs for those willing to invest under uncertain conditions (Pirard et al., 2017).

The development of Indonesia's palm oil industry has been shaped by various regulations and policies aimed at promoting growth, attracting foreign investment, and ensuring sustainable practices. However, the rapid expansion of this sector has often outpaced the evolution of its regulatory framework, leading to a patchwork of overlapping and sometimes contradictory laws. The ratification of the Omnibus Law has led to contradictions with the Plantation Law, causing legal uncertainty and challenges in the palm oil sector's regulatory landscape (Sugiyono & Haryanto, 2021). One of the most significant areas of inconsistency is in land tenure and use rights. The Basic Agrarian Law of 1960 and the Forestry Law of 1999 often conflict regarding land classification and use. For instance, areas classified as forest land under the Forestry Law may simultaneously be designated for agricultural use under the Agrarian Law, creating confusion over rightful land use. creates legal ambiguity and conflicts between the Ministry of Forestry and the National Land Agency over land classification and use (Riggs et al., 2016).

Environmental regulations are another area fraught with inconsistencies. The Environmental Protection and Management Law No. 32 of 2009 mandates stringent environmental impact assessments (EIAs) for plantation projects. However, the implementation of these assessments varies significantly across regions, leading to a lack of standardized enforcement (Sutrisno et al., 2019; Manthovani, 2022). Moreover, overlapping jurisdictions between the Ministry of Environment and Forestry and local governments exacerbate these inconsistencies. Investment policies often lack clarity, particularly concerning foreign

ownership and participation (RAMDANI & HINO, 2013; Gellert & Andiko, 2015). The Negative Investment List, which outlines sectors restricted or closed to foreign investment, has seen frequent changes, causing uncertainty among potential investors (Siegfried et al., 2023). Additionally, inconsistencies between national and regional investment regulations further complicate the investment landscape.

Overlapping regulations create ambiguity in the legal framework. for example, plantation companies often face conflicting requirements from the Ministry of Agriculture and the Ministry of Environment and Forestry regarding land use and environmental conservation (Sahide & Giessen, 2015; Setiawan et al., 2016)

Forestry regarding land use and environmental conservation (Sahide & Glessen, 2015; Setiawan et al., 2016) . This overlap causes delays in obtaining necessary permits and approvals, thereby hindering long-term investment planning (Molfetas & Wille, 2018; Ye et al., 2023). Ambiguity in the interpretation of the law also poses challenges. Different interpretations of the same regulations by various government agencies and local governments can result in inconsistent application (Edgar & Stack, 2019). For example, the interpretation of requirements for obtaining land permits and implementing AMDAL varies, creating uncertainty for investors. Legal standards governing oil palm plantations continue to evolve, adding to the ambiguity. New regulations aimed at encouraging sustainability, such as the Indonesian Sustainable Palm Oil (ISPO) certification, often lack clear implementation guidelines. This has resulted in confusion among plantation managers regarding compliance requirements.

The inconsistencies and ambiguities in the legal framework have several detrimental effects. Legal uncertainties deter potential investors who seek stable and predictable regulatory environments. Investors rank regulatory environments as one of the top factors influencing their decisions (Hebous et al., 2020). The frequent changes in regulations and the lack of clear guidelines increase the perceived risk, leading to reduced foreign and domestic investment in the palm oil sector (Bittlingmayer, 2000). confusing regulatory standards and enforcement practices negatively impact both basic and proactive environmental practices, highlighting the need for clear and consistent regulatory frameworks (Liu et al., 2018). Inconsistent enforcement of environmental laws allows for unsustainable practices, contributing to deforestation, loss of biodiversity, and greenhouse gas emissions. Ambiguities in land tenure laws often lead to disputes between plantation companies and local communities. These conflicts arise from unclear land rights, inadequate compensation for land acquisition, and the displacement of indigenous peoples, leading to social unrest and instability.

To address these issues, the following reforms are recommended: There is a need for harmonizing conflicting laws, particularly between the Basic Agrarian Law and the Forestry Law. Effective mediation and the incorporation of socio-cultural and historical contexts into legal frameworks can mitigate conflicts between agrarian and forestry laws. A unified land classification system would provide clarity on land use rights and reduce legal conflicts (Zhang et al., 2023). Standardizing the implementation and enforcement of environmental regulations across regions is crucial (Gupta et al., 2019). Clear guidelines for conducting EIAs and consistent enforcement would enhance environmental protection and promote sustainable practices. Providing clear and stable investment policies, particularly regarding foreign ownership, would reduce uncertainty. High policy uncertainty significantly reduces FDI inflows due to the high fixed costs associated with investments (Choi et al., 2021; Avom et al., 2020). Simplifying the regulatory framework and ensuring consistent application across national and regional levels would attract long-term investment (Patunru & Surianta, 2020). Enhancing the capacity of government officials and stakeholders through training and legal education would improve the interpretation and application of laws (Young, 2023). This would reduce ambiguities and ensure a more predictable regulatory environment.

Legal Reform and Policy Recommendations for Long-Term Investment in Palm Oil Plantation Management

Palm oil is one of the most significant agricultural commodities globally, contributing substantially to the economies of producing countries, particularly in Southeast Asia. However, the sector faces numerous challenges, including environmental degradation, social conflicts, and regulatory deficiencies (Fitzherbert et al., 2008; Koh & Wilcove, 2008). Addressing these challenges requires comprehensive legal reform and strategic policy recommendations to ensure sustainable and long-term investment in palm oil plantation management.

A critical aspect of palm oil plantation management is securing land tenure and property rights. Legal reforms should aim to clarify land ownership by establishing clear, transparent, and enforceable land tenure systems that recognize the rights of indigenous communities and smallholders (Assembe-Mvondo et al., 2014; Gebara, 2018). Comprehensive land use planning is also essential to ensure that palm oil plantations do not encroach on protected areas, forests, or lands critical for biodiversity conservation (Edwards et al., 2014; Tulloch et al., 2016). Sustainable palm oil production necessitates stringent environmental regulations to mitigate negative impacts (Pacheco et al., 2017). Key legal reforms should include mandating rigorous Environmental Impact Assessments (EIAs) before the establishment or expansion of plantations, ensuring that all potential environmental impacts are thoroughly evaluated and mitigated. the effectiveness of EIAs depends on the rigor of the assessment and the enforcement of recommendations (Leknes, 2001). Strengthening public engagement can enhance the effectiveness of EIAs (Saeed et al., 2012). Additionally, enforcing laws that prohibit deforestation and the conversion of peatlands while promoting the use of degraded lands for new plantations is crucial (Koh et al., 2009; Noojipady et al., 2017).

Long-term investment in palm oil plantation management requires capacity building and education (Kresnanda et al., 2022). Developing training programs for smallholders and plantation workers on sustainable farming techniques, financial management, and compliance with environmental and social standards is essential (Kansanga et al., 2021; Castillo et al., 2022; Nurliza et al., 2022). Strengthening agricultural extension services to provide ongoing support and advice to palm oil producers can further enhance their capabilities (Thom & Jonas, 2014;Kansanga et al., 2021). Enhancing market access and establishing favorable trade policies can promote sustainable palm oil. Encouraging or mandating the use of sustainability certifications and labeling enables consumers to make informed choices and rewards producers who adhere to sustainable practices (Gassler & Spiller, 2018; Richartz & Abdulai, 2022). Negotiating trade agreements that prioritize sustainably produced palm oil can provide access to premium markets and ensure a level playing field (Richardson, 2015).

Effective monitoring and enforcement mechanisms are crucial for ensuring compliance with legal and policy frameworks (Hanbali et al., 2023). Conducting regular, independent audits of plantations to ensure compliance with environmental and social standards and implementing and enforcing penalties for non-compliance, including fines, suspension of operations, and revocation of licenses, are necessary steps (Susilawati & Kanowski, 2020). The palm oil sector holds immense potential for economic development and poverty alleviation (Santika et al., 2019). However, realizing this potential sustainably requires comprehensive legal reform and strategic policy recommendations. By addressing land tenure issues, enforcing environmental regulations, protecting labor rights, incentivizing sustainable practices, building capacity, enhancing market access, and ensuring robust monitoring and enforcement, stakeholders can foster long-term investment in palm oil plantation management. These measures will not only improve the sustainability of the sector but also contribute to broader social and environmental goals, benefiting current and future generations.

Conclusion

The regulations governing long-term investment in palm oil plantation management in Indonesia have shown changes for the better. Changes in environmental monitoring elements due to regulatory intervention and global environmental socialization have contributed significantly. Indonesian regulations and policies in the palm oil plantation investment sector cover the social, environmental and economic fields by considering sustainability efforts. Existing policies and regulations also encourage environmental sustainability and justice in the long term. However, the current legal framework still needs to be revised for implementation in different conditions. Several Indonesian government institutions have almost the same authority, which has the potential for overlapping authority. Requirements for land use and environmental conservation are less linear between the Ministry of Agriculture and Environment. This research contributes to studying investment policy and law and oil palm plantation management, which requires more comprehensive and strategic legal reform. This research provides practical recommendations that require policy improvements to balance economic growth with environmental sustainability and social justice.

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