

Trade Competitiveness and Sustainability Policies of Malaysian Palm Oil in the European Union: Strategic Responses by Stakeholders Agencies

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Abstract

The Malaysian palm oil industry is a significant contributor towards national development and economic growth. However, the industry has been facing rising tension to ensure sustainable development, as global demand for palm oil continue to grow in the coming years. The necessity for producing and trading sustainably produced palm oil is amplified with the European Union's stringent requirement for importing responsibly sourced commodities into its market, with the aim to achieve climate-neutral by 2050. The palm oil industry is also inundated with anti-palm oil campaigns and agendas, which emphasize allegations of unsustainable agricultural practices as large-scale plantations damage the natural ecosystem in producing countries. Collectively, these challenges could pose a formidable impact on the trade of palm oil between Malaysia and the European Union. Therefore, the article seeks to examine the strategic responses undertaken by Malaysian stakeholder agencies to address the regulations pertaining to sustainable production of palm oil. Using a qualitative approach, a total of ten sessions of in-depth interviews were held with expert informants in stakeholder agencies, both in Malaysia and the European Union. Among the key findings were the formulation and implementation of the National Agricommodity Policy, deployment of various missions to the European Union, implementation of Malaysian Sustainable Palm Oil (MSPO) certification as the national sustainability scheme, dissemination of accurate information on sustainable and certified palm oil, and continuous engagement through bilateral and multilateral platforms. Based on the findings, this study suggests that inclusive and transparent engagement must be conducted continuously. Constantly held dialogue sessions will help to promote better understanding and fruitful collaboration among stakeholder agencies in Malaysia and the European Union to balance environmental concerns with trade interests.

Keywords: Environment; European Union; Malaysian Palm Oil; Sustainability; Trade

Introduction

Palm oil is the most widely consumed vegetable oil globally. The three most important contributors to palm oil's leading position in the vegetable oils and fats market are the crop's high efficiency, competitive price, and versatile nature. With an average oil yield of 3.6 million tonnes annually per hectare, palm oil is approximately six times more productive than soya bean oil¹. The crop is planted on an estimated 0.5 percent of the world's agricultural land, and yet produces 35 percent of total oils and fats output². The high yield and lower cost base resulted in palm oil being the cheapest vegetable oil. Moreover, proximity to key consuming markets such as China and India are a structural advantage for palm oil producing countries, which are geographically located in the Global South.

The oil's various properties and functions has rendered it suitable for applications in food and non-food industries, as well as biofuel sector^{3,4,5,6}

However, industrial oil palm cultivation around the world has led to numerous socio-economic impacts which adversely affected the natural ecosystems and indigenous community. This negative manifestation has propelled more mature markets such as the European Union (EU) to formulate regulatory frameworks for a sustainable and responsible global supply chain, in particularly for the importation of commodity-driven deforestation. It is against this background that the article investigates the strategic measures implemented by Malaysian stakeholder agencies in responding to the environmental policies in the EU.

Literature Review

As global demand for palm oil continues to grow, large-scale plantations began to expand rapidly in tropical countries such as Malaysia. As the second-largest exporter of palm oil, the oil palm plantation area in Malaysia has reached 5.67 million hectares, supplied 18.45 million tonnes of crude palm oil and constituted 8.4 percent of the global oils and fats industry in 2022^{7,8}. Factors such as the country's comparative advantage, political stability and trade liberalization have flourished the international trade of the commodity with other countries, particularly the EU.

The European market is an important export destination as the bloc imported 1.47 million tonnes or 9.4 percent of the country's palm oil exports in 2022, ranking behind India and China⁹. However, this export volume is a decrease of 10.1 percent from the 1.64 million tonnes recorded in 2021^{8,10}. This reduction, although not significant, can be attributed to the emergence of new forms of global governance in regulating sustainable production and trade of commodities. The mechanism to ensure responsible production and development of the palm oil industry is viewed as necessary since oil palm cultivation is often associated with environmental damage such as clearance of tropical rainforest, peatland draining and burning, biodiversity extinction, accumulation of greenhouse gas retention in the atmosphere, increase in carbon footprint, and loss of flood regulators^{11,12,13,14,15,16,17}. Hence, these detrimental impacts to the environment have placed palm oil in bad light.

In order to prioritise climatic and environmental considerations across the market, the EU formally adopted the Deforestation-free Product Regulation (EUDR) in May 2023, and on 29 June 2023 the regulation entered into force^{18,19}. The goal of the regulation is to minimize the regional bloc's contribution to deforestation and forest degradation worldwide, and to encourage the consumption and trade of products sourced from deforestation-free supply chains²⁰. This new EU initiative is intended to be applied together with the existing Renewable Energy Directive II to gradually eliminate crop-based biofuel by 2030. Imposing these regulations further limits EU palm oil imports, and therefore, support the overarching European Green Deal and Farm to Fork Strategy, with the aim to make Europe the first climate-neutral continent by 2050^{21,22}

Although these regulatory frameworks were initiated based on sustainable and inclusive growth, it does not take into account the progress made by palm oil producing countries towards responsible agricultural practices. Increasing environmental consciousness among buyers and consumers in the EU has compelled Malaysia to include sustainability regulations and governance mechanism when exporting palm oil to the European market. Some of the strategic measures taken by the Malaysian agencies in demonstrating commitment in developing the palm oil industry sustainably are through the formulation and implementation of the National Agricommodity Policy, deployment of various missions, implementation of Malaysian Sustainable Palm Oil (MSPO) certification as the national sustainability standard, dissemination of accurate information on sustainable and certified palm oil, and continuous engagement through bilateral and multilateral platforms. The lack of

acknowledgement of these measures has inevitably led to an overall sense of discontent, especially as the EU is a significant standard setter in the global vegetable oils and fats market.²³

Therefore, it is crucial for Malaysia to assert influence in the process of rule-setting to strengthen its role in the rules-based international order spearheaded by the EU. The consequences of not doing so may be unfavorable in the long-term trade of palm oil to the regional bloc. In view of the intricacies in international sustainability governance, this article deploys the theory of institutionalism to uncover the strategic measures implemented by Malaysian stakeholders. The institutionalist theory asserts that states have rational interest to advance cooperation through institutions to achieve common goals and joint benefits²⁴. Engaging in international cooperation increases chances of growth and stability given that the level of uncertainties reduces in an integrated economic ecosystem. By using the theory of institutionalism, this article scrutinized how sustainability policies implemented by Malaysian stakeholder agencies strategically navigates the EU's regulatory framework on sustainable palm oil production.

Methods and Materials

This research employed a qualitative method of inquiry to gather data. In-depth interviews were conducted with officials from stakeholder agencies, in Malaysia and the EU to uncover the actions and measures executed in responding to the EU's regulatory mechanism. Table 1 shows the profile of the interviewees.

Table 1 : Profile of The Interviewees

| Code | Interviewees | Country | Field of Expertise | Mode of Interview |
|------|---|-----------------|---|-------------------|
| EI-1 | Malaysian Palm Oil Board | Malaysia | Trade of Malaysian palm oil in Europe | Physical |
| EI-2 | Malaysian Palm Oil Board | Malaysia | Internationalization of Malaysian palm oil | Physical |
| EI-3 | Malaysian Palm Oil Council | Malaysia | Science, environment and sustainability of palm oil | Physical |
| EI-4 | Malaysian Palm Oil Council | Belgium | Represent Malaysian palm oil interest in Europe | Physical |
| EI-5 | Malaysian Palm Oil Certification Council | Malaysia | In-charge of Malaysian Sustainable Palm Oil (MSPO) certification | Online |
| EI-6 | Ministry of Plantation and Commodities | Malaysia | Collaboration with international bodies | Physical |
| EI-7 | Ministry of Plantation and Commodities | Malaysia | Coordinating with respective agencies on policies pertaining to palm oil | Physical |
| EI-8 | Malaysia External Trade Development Corporation | The Netherlands | Promote and facilitate export trade in Europe | Online |
| EI-9 | Ministry Of Agriculture and Food Security | The Netherlands | Broaden market access and eliminate barriers for the agri-business sector in Europe | Online |

| | | | | |
|-------|--|----------|--|--------|
| EI-10 | Malaysian Palm Oil Green Conservation Fund | Malaysia | Coordinate and manage biodiversity conservation efforts in the palm oil industry | Online |
|-------|--|----------|--|--------|

Sources: Interviewee details (August 2022-July 2023).

A total of ten experts' informants were identified and interviewed in a semi-structured manner. Six of the interviews were conducted physically while the remaining four interviews were held virtually. The main reasons for carrying out the interview using online platform is due to geographic distance between the researcher and informant, and specific preference by the informant. The interviews were conducted over a period of one year starting August 2022 until July 2023. On average, the interview sessions lasted between 1 to 2 hours.

The identification and selection of the expert informants was made based on their work experience and specialized knowledge on the topic being researched. The areas that were explored during the interview included the evolution of Malaysian palm oil industry in Europe, internationalization of palm oil issues, and policy interventions undertaken by their agencies. The selection criteria for interview informants are as follows: (a) currently holding a senior position in an organization involved directly or indirectly in the development of the palm oil industry; and (b) within Malaysia or the European Union region.

A total of ten pseudonyms were used in this research to protect the confidentiality and respect the privacy of the interview informants. The audio recordings were transcribed using the transcribe function in Microsoft Word 365 for physical interviews, and using transcript feature in Microsoft Teams for virtual interview sessions. Although the automated transcribing process is less time consuming, researchers had to still perform some data cleaning to ensure that the information was written precisely. The nuance and subtle meanings captured in the recording were also given necessary emphasis to enable accurate analysis and prevent missing crucial bits of information and details which would enhance the research²⁵. The transcripts were then read several times for familiarization and compared with the recording. By reflecting on the transcribed interview scripts, researchers identified coding maps and derived themes that are integral to the research phenomenon.²⁶

Results

The thematic analysis approach was adopted to analyze the collected data²⁷. This data analysis technique was chosen given the simplicity of the method to effectively recognize and analyze patterns within qualitative data for novice researchers. Table 2 summarizes the main themes and its empirical evidence.

Table 2 : Main Themes And Its Empirical Evidence

| Themes | Empirical Evidence |
|---|--|
| Formulation and implementation of the National Agricommodity Policy | Cap total oil palm cultivated area to 6.5 million hectares. (EI-1, EI-2, EI-3) |
| Deployment of various missions | No more planting of oil palm in peatland areas and to further strengthen regulations with regard to existing oil palm cultivation on peat (EI-1, EI-2, EI-3) |
| | Ban conversion of forest reserve areas for oil palm plantation (EI-1, EI-2, EI-3) |
| | Make available oil palm plantation maps for public access (EI-3) |
| Implementation of Malaysian Sustainable Palm Oil (MSPO) certification | Technical, promotion and economic missions are held to represent, protect and expand Malaysian palm oil in the European region (EI-6, EI-8) |
| | Mandatory requirement for oil palm plantations in Malaysia (EI-5) |
| Dissemination of accurate information on sustainable and certified palm oil | Lack of recognition of MSPO from European buyers, as compared to RSPO (EI-4, EI-5, EI-10) |
| | Using diversified approaches to dispel the misinformation on Malaysian palm oil (EI-3, EI-9, EI-10) |
| | Series of physical seminars and virtual webinars were conducted (EI-1, EI-3) |
| Continuous engagement through bilateral and multilateral platforms | Outreach programs serves as an opportunity to connect with the other vested parties and to share the latest development made in the industry (EI-8) |
| | Bilateral engagement with the EU to enhance negotiation to facilitate trade of palm oil (EI-4) |
| | Engagement through other multilateral platforms such as Council of Palm Oil Producing Countries (CPOPC) (EI-8) |

Sources: Interview data (August 2022-July 2023)

Throughout the data analysis phase, the expert informant's narrative, opinion, insight and experience were internalized and interpreted. Understanding of new patterns and trends of meaning within the data emerged. The emergence of trends and patterns in the interview data induced a total of five themes. The themes are (a) formulation and implementation of the National Agricommodity Policy; (b) deployment of various missions; (c) implementation of Malaysian Sustainable Palm Oil (MSPO) certification as the national sustainability standard; (d) dissemination of accurate information

on sustainable and certified palm oil; and (e) continuous engagement through bilateral and multilateral platforms. Each of the theme was supported by empirical evidence from between one to three expert informants.

Discussion

This research examines the strategic measures undertaken by stakeholder agencies involved in representing the Malaysian palm oil industry interest in the European Union. The roles that the agencies play is critical as extra-territorial regulations, such as the EUDR could pose serious consequences to the market access and share of Malaysian palm oil. This discussion session is divided into five sub-session which are (i) formulation and implementation of the National Agricommodity Policy; (ii) deployment of various missions; (iii) implementation of Malaysian Sustainable Palm Oil (MSPO) certification as the national sustainability standard; (iv) dissemination of accurate information on sustainable and certified palm oil; and (v) continuous engagement through bilateral and multilateral platforms.

Formulation and implementation of the National Agricommodity Policy

Based on the empirical evidence collected from the informants, it is clear that concrete and clear regulations have been formulated and implemented under the National Agricommodity Policy (2021-2030). The government's commitment to limit expansion of oil palm plantations aligns with the pledge made at Rio Earth Summit 1992 to retain at least 50 percent of the nation's land mass under forest and tree cover²⁸. Four policies were devised and implemented under the National Agricommodity Policy towards improving the sustainability practices of the palm oil industry, as elucidated by Expert Informant 1 (EI-1), Expert Informant 2 (EI-2) and Expert Informant 3 (EI-3). There are restricting oil palm planted area to a maximum 6.5 million hectares nationwide, no new plantations allowed on peat soil, no conversion of permanent protected forests for oil palm plantations, or for any other agricultural activity and making publicly accessible official maps showing oil palm planted area²⁹. These policies were endorsed by the Cabinet of Malaysia on 22 March 2019 towards a more sustainable oil palm cultivation.³⁰

Although these regulations were intended to protect the natural resources, conflict in land law often occurs as State Government has jurisdiction over forest and land matters in the federal system. The difference in authority over land matters is corroborated by Expert Informant 7 (EI-7) who said:

“But then at the same time, we also have to deal with the fact that land use and the regulation regarding land is all controlled by state government. So there's only so much that we as a federal agency can do in terms of telling people, telling the industry or telling smallholders that they are not allowed to clear forest for planting and stuff”

Another contention that has risen in the EU is the setting of a specific number as limitation for total hectareage of oil palm planted area. Although the restriction of 6.5 million hectares is set as cap based on the annual area growth rate and estimated output in the future, it is perceived as a target to be achieve by the regional bloc as elucidated by EI-7 below:

“That's the argument that the EU had with the WTO. There's some critics say that it's a limit that we are trying to reach. And we have been saying 'No, it's not. We're not

trying to reach 6.5. The goal is to stay under that. We're not targeting 6.5" ... "That's taking it in bad faith that's what we're trying to do. It's not like a target that we are trying to achieve. It's just so that we remain below the target"

The jurisdictional difference concerning land authority and the misinterpretation of regulations has positioned the industry disparagingly, especially among consumers and business community in Europe. The adverse portrayal of palm oil is further exacerbated by anti-palm oil campaigns organized by Non-Governmental Organizations (NGO) as explained by Expert Informant 1 (EI-1) below:

"The existence of numerous NGOs in the EU which advocates that the palm oil from Malaysia is as a result of deforestation and at the expense of *orang utan*, flora and fauna. The negative narrative by these NGO influences the buyers and business community involved in the vegetable oil sector. When we highlight this issue to the government at G2G level, the EU does not have any particular regulation on the labelling of palm oil such as "no palm oil", instead the labelling must not mislead the buyer and must not discriminate at all any vegetable oil. But this does not happen at the ground."

While the formulation of the National Agricommodity Policy takes into account the domestic context of palm oil landscape, limitations in the implementation and interpretation of the measures posed formidable challenges. These drawbacks impair the national policy strategic alignment with the EU agenda on sustainable palm oil development. Hence, this article posits that more strategic partnerships between regulatory bodies in Malaysia and the EU is required to address the policy incongruity.

Deployment of various missions

In addition to the regulatory approach, these agencies, in particularly MPOB and MPOC have also established and engaged in technical, promotion and economic missions to represent, protect and expand Malaysian palm oil in the European region. Expert-Informant 6 (EI-6) shared his views as below:

"These regional office serves to support our representative in other countries, the representative such as ambassador, the mission in terms of technical because the regulatory agencies are the technical expertise. They do the research, and have all the technical knowledge since these researchers belong to the closed service scheme. They also advise our WTO representative in Geneva. Since the officers are government officials, they are allowed to enter the governmental meetings"

These missions create awareness of existing initiatives and advancements taken by Malaysian industry players, and to facilitate trade in the palm oil related sectors in overseas markets as disclosed by Expert Informant 8 (EI-8) below:

"As the national export promotion agency for Malaysia, we undertake many export promotion programmes. MATRADE organised participation of Malaysian companies in trade missions, international trade fairs, export acceleration missions, business meetings and so on. We promote all Malaysian products and services, including

promotion of palm oil products. Our role is more on the promotion, opening market access, disseminate market intelligence, and connecting buyers to the Malaysian companies”.

Their insights on the tasks undertaken by the numerous missions underscores the significance of the Malaysian stakeholder agencies in the European region. With the presence of these regional offices, coordination and sharing of information can be expedited with the main headquarters in Malaysia. Information sharing on strategic technical and trade opportunities is imperative as it enhances the competitive edge of Malaysian palm oil. This advantage is reflected through the expansion of palm oil share in the European vegetable oils and fats market.

Implementation of Malaysian Sustainable Palm Oil (MSPO) certification

As a national sustainability certification scheme, MSPO was made mandatory for implementation in oil palm plantations in 2020³¹. As of July 2023, 5.45 million hectares out of 5.67 million hectares of total oil palm planted area is MSPO certified³². Therefore, the high percentage of about 96 percent indicates that compliance to MSPO as a national sustainability certification scheme is compulsory for oil palm plantations in Malaysia. As a national representation of sustainability governance, the principles and criteria of the MSPO standard provide a more domestic interpretation of sustainability, as opposed to the international requirement for responsible practices. Expert Informant 5 (EI-5) shared his opinion on MSPO as below:

“Because we have the national accreditation body, we follow the international standards framework but we nationalize how we operate things...because MSPO is mandatory for you to have your MPOB license...MPOB license required MSPO... But within our control, then we have those policies and MSPO to act as an instrument to provide assurance to the buyer that our product are sustainable”

However, there exists a lack of recognition and acceptance of MSPO certified palm oil from European buyers, as compared to Roundtable of Sustainable Palm Oil (RSPO). Interestingly, Expert Informant 5 (EI-5) further contends that the variation in the acceptance of MSPO and RSPO is a business case rather than regulated by the European Union as stated below:

“Acceptance varies. If you see the latest EU regulation, they never mention they recognize RSPO for example. What they say is that certification scheme can be part of due diligence. This is the due diligence regulation on the environment. But somebody, some buyer, some financial institutions, some retailers will declare that they only recognize RSPO because they’re member of RSPO. The regulation don’t dictate which certification scheme. But it doesn’t mean MSPO is not sellable to companies. Some company they agreed to buy because of the smallholders, they support the smallholders, especially those come from Netherlands, and also those NGO like Solidaridad who are helping smallholders. So, the final decision is a business decision but if the business want to enjoy the benefit of the FTA for example, then the business will follow whatever requirement put up by the country. Maybe people will call it non-technical trade barrier, but like it or not, this is how we or the organization would like to show their commitment towards ESG or sustainability”

EI-5 view on acceptance of RSPO among industry players in the EU is supported by Expert Informant 10 (EI-10) opinion as below:

“I don’t think they even want RSPO. To be to be honest, in Europe they say even RSPO itself is not up to the standard. Because they said the RSPO itself, initially it was started by the industry, so it should cater to the industry. So to them RSPO itself is not up to the standard”

When asked on the reasons of MSPO not being considered to be recognized as a certification scheme in the EU, Expert Informant 4 (EI-4) provided his explanation as below:

“As I said, the goalposts keep on changing. Last time, they had a few criteria which we have fulfilled. But now, suddenly, labor criteria are coming in. So what happened? Now we need to review the criteria in MSPO and upgrade ourselves. For that to happen, we need some time. These are standards, and we cannot do it overnight, you see? Now next, we don’t know what they’re going to do. Because of the recent MSPO review, the standard was revised to consider the ILO indicators. Now its MSPO 2.0”

Although the MSPO standards has been recently revised to incorporate more sustainable practices, it will take some time before industry members begin to implement them. Once the revised MSPO is fully applicable, industry members will be better positioned to show the outcome of sustainability compliance to other markets. Until then, the limitations in MSPO, which can be perceived as technical and political constraint, would continue to exist in the EU. Hence, this article asserts that while Malaysia continues to show its commitment to sustainability compliance, other international sustainability scheme persists to shape global environmental governance and trade regulations in Europe.

Dissemination of accurate information on sustainable and certified palm oil

Communication is an essential tool to convey unbiased information on sustainable and certified palm oil. Sharing information on sustainable certification standards can build trust and authenticity among actors in the palm oil supply chain to address issues on sustainability. One such approach is to engage in varied platforms to dispel the misinformation on Malaysian palm oil as clarified by Expert Informant 3 (EI-3) below:

“That’s why if we look at the our engagement approach that we are adopting, of late, is to engage ourselves with big events such as the Olympics, World Cup so that we can use that as our stepping stone for international recognition. We also encourage collaboration between MSPO and ISCC, for example. We have specific projects with specific lobbyist in Europe, so that when we produce results it is much more accepted by the international community. Its not easy but can be done”

The researchers and academics are also involved in dispersing scientific and evidence-based data pertaining to sustainable palm oil. Insights from Expert Informant 10 (EI-10) elaborated how his agency collaborates with international scientists to augment that

Malaysian palm oil is sustainable, as below:

“But in recent years, the scientists, the biologists, they are becoming more open towards Malaysian sustainable palm oil production because previously even the research itself, there’s not much available, there’s not much information available. But now young scientists started to coming in, to do research in Malaysia, even local researcher in our local university I think you included... I guess for the time being we are targeting those scientists, those biologist to spread this kind of information because these people, they are more open to open to data, scientific data. We are bringing with us all these data to share with them, and I think slowly once these scientists are more acceptable, they can accept Malaysian palm oil is sustainable, then we can go to the public.”

In spite of the potential benefits derived from using different avenues to promote responsibly produced palm oil, these diversified approaches can also result in unfavourable outcome and hence, be counter-productive as described by Expert Informant 9 (EI-9) below:

“And let’s see if, I do a promotional program and I call in social influences to talk about cooking oil. I mean, I can get a Malaysian chef to come and do a cooking demonstration, and ask people to eat. Now, you cannot tell the (social media) influencers to not write anything not good about my product. Again, if the influencer chooses to write something which he feels, in his own mind, he should write it then, and its not good for us, we will be in hot soup”

In addition to expanding information on sustainable palm oil at international events and with academicians, outreach programs were also held to connect with the other vested parties to share the latest development with industry players in Europe. Expert Informant 8 (EI-8) shared how her agency engages with MVO (the Netherlands Chain Organisations for Oils and Fats Industry) to address the misconceptions on palm oil, as below:

“In the Netherlands, the Embassy of Malaysia, The Hague is having regular engagements with the MVO. MVO represents 95 percent of the Dutch industry players in the sectors. MVO is considered ‘friends of Malaysia’, and very active in promoting sustainable palm oil and educating the general public about palm oil and other related ongoing issues. MVO has strong connections with the Dutch government, and universities”

These inclusive mode of sharing information on certified and sustainable palm oil is also supported by physical seminars are discussed by Expert Informant 1 (EI-1) below:

“We can educate the industry, do trade seminar. Like MPOC does POTS seminar in various countries. POTS is Palm Oil Trade Seminar and the latest POTS was conducted in Manila, and the aim of POTS is to educate oils and fats community in importing countries on the goodness of palm oil through seminars and presentation of paper as well as exhibition. That’s how you explain the goodness of palm oil and about our industry”

In order to reach a much wider group of actors in the palm oil supply chain across the globe, Expert Informant 3 (EI-3) stated that his agency has consistently conducted webinars to spread awareness on the latest development in the Malaysian palm oil sector as below:

“MPOC on the promotion of palm oil through engagement, internationally and locally, with the industry and the public. We have been active in doing that. Even during the MCO, we were busy organizing webinar and online talks. I would say that when it comes to promotion and publicity, MPOC is the biggest contributor.”

This article posits that these program, when conducted consistently over a pro-longed period of time, may be able to create more clarity in the existing mindsets of European buyers and consumers. A more balanced representation of palm oil among European audience may be able to alter the existing negative perception. By sharing the positive change and impact of sustainable palm oil production, European buyers and consumers could be influenced to form a more favourable opinion on palm oil. The conveying of accurate information on sustainable practices and outcomes is crucial in repositioning Malaysian palm oil industry as an environmentally responsible vegetable oil.

Continuous Engagement Through Bilateral And Multilateral Platforms

Continuous engagements and dialogues were also held through bilateral and multilateral platforms. In view of the increasingly ambitious EU policies on sustainability and their impact on Malaysian palm oil, a bilateral trade agreement would be the most appropriate instrument to find negotiated solutions to the trade and sustainability issues affecting exports of palm oil to the EU. Expert Informant 4 (EI-4) stressed the importance of relaunching the negotiation for an EU-Malaysia Free Trade Agreement (FTA) as below:

“But you see, Indonesia, in this case, they have an advantage because they have CEPA – the Compressive Economy Partnership Agreement. The discussion is ongoing. Where else for Malaysia, Malaysia-EU FTA we still put on hold. I don’t know whether you remember that during 2018, the Tun Mahathir administration they put that on hold. So we are left out as we don’t have a platform to discuss, negotiate, and all that. I was made to understand from MITI that they will resume the Malaysia-EU FTA first quarter of next year, depending on the new cabinet. And that may have some surprises that we don’t know yet regarding cabinet policy.”

Malaysia has also engaged with the EU through multilateral platforms such as the Council of Palm Oil Producing Countries (CPOPC) for a more balanced, inclusive, and sustainable multilateral trading environment. Following the joint mission to the EU by Indonesia and Malaysia, conducted with the support of CPOPC in May 2023³³, a joint task force has been set up to strengthen the cooperation on the implementation of the EUDR. Consultative dialogue sessions with all parties are imperative to enhance inclusiveness in legislative initiative as explained by Expert Informant 8 (EI-8) below:

“During the recent Deputy Prime Minister (DPM) Mission to the European Union, together with the Government of Indonesia – both leaders explained to the EU regulatory authorities on the actions taken by both governments to ensure the sustainable developments of the palm industry. Our DPM also emphasized that we want the EU to recognise all the efforts taken, and ensured that the Malaysian

government is committed to key policies related to sustainable palm oil. It is important for the EU to understand that any mechanism or regulations imposed by the EU, should involve the producing countries, industry players, related NGOs, small holders so that it will not marginalise any party in the value chain. If the EU does not take the steps suggested by both Malaysia and Indonesia, the EU will be seen as imposing the regulations as protectionist policies”

Therefore, this research posits that the negotiation for an EU-Malaysia FTA is the natural next action given that the EU and Malaysia signed the EU-Malaysia Partnership and Cooperations Agreement last December 2022³⁴. The nation should not be left behind when it comes to preferential market access to the EU, attained either through bilateral or multilateral arrangements. The comparative advantage gained through trade agreements will strategically position Malaysian palm oil in the EU market. By leveraging the lower entry cost against other palm oil producing countries, Malaysian palm oil industry stands to advance its strategic interest in the regional bloc.

Conclusion

As climate crisis looms ahead of humankind, sustainable production and trade of palm oil is the way forward to feed the growing global population. The country has taken the necessary measures to develop the palm oil industry responsibly and sustainably, with the intention to protect the environment while achieving its developmental goals. However, the complexity of sustainable development of the Malaysian palm oil industry requires awareness and contextualization of environmental policies and trade regulations. This contextualization often necessitates considering national laws and regulations.

A complete familiarization on the dynamics of the sustainable production and trade of palm oil is necessary to address the intensified concerns on its impacts towards the natural ecosystem. The lack of understanding may manifest in further exacerbation of prevalent misconceptions on the unsustainable practices of palm oil production. This situation may hamper the implementation of existing strategic measures formulated by the stakeholder agencies.

Therefore, continuous collaboration, engagement and communication based on an inclusive, balanced and sustainable perspective is required with relevant stakeholders in Malaysia and in the EU to create a more holistic view of the palm oil industry. The inter-state trade cooperation maximizes benefits and reduces uncertainties in achieving economic growth. The adoption of multi-prong strategic approach is critical for the Malaysia palm oil industry to navigate through emerging regulatory initiatives on sustainable governance of commodities in the European region. A more transparent and responsible palm oil economy is the way forward in an integrated world which is increasingly facing environmental damage.

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Notes

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