

“To what extent have government policies been effective in overcoming market failures in the palm oil industry in Indonesia?”

Table of contents

Introduction.....	4
Methodology.....	4
Theory	
• Market failure.....	5
• Government intervention.....	10
Analysis	
• Certification schemes.....	12
• Moratoriums	15
• Recommendations.....	16
Conclusions.....	17
Work cited.....	18

Introduction

Indonesia is the world's largest producer of palm oil. In 2016, it produced 32 million tons of crude palm oil, providing half of the commodity worldwide. Palm oil plantations in the country have expanded to the islands of Sumatra, Borneo, Sulawesi and Papua over the past decade, covering an area of approximately 11.8 million hectares ("Palm oil", n.p.). Palm oil is found in many products, such as "food, cosmetics, detergents, plastics, industrial chemicals and biofuels" (Petrenko et. al). Due to the "high yield, low cost of production and stability of palm oil", the government continues to promote the expansion of palm oil plantations (Petrenko et. al). The "industry directly employs 7.5 million" Indonesians (Sung). Population growth has also heightened global production of this vegetable oil.

Given the limited land area for agriculture, palm oil plantations can pose a serious threat to the environment over time by expanding to "cropland, secondary forests already logged for timber, and native tropical forests" (Petrenko et. al). This creates problems such as deforestation, air pollution, loss of endangered species, and climate change, which has negative effects on human health and welfare. In response to the negative externalities, the Indonesian government has intervened and introduced policies such as the palm oil certification schemes and moratoriums.

By evaluating the impact of Indonesia's palm oil policies on the negative externalities like pollution and deforestation, solutions to control palm oil production could possibly be derived. Furthermore, sustainable palm oil production is becoming more important because of the world's increasingly scarce resources. Since palm oil production mostly occurs in the world's most biodiverse regions, such as Indonesia and other Southeast Asian countries, it is crucial for the government to tackle the environmental and social impacts of the palm oil industry. This makes the investigation of Indonesia's existing policies on palm oil production a worthwhile endeavour and leads to the research question that will be explored in this extended essay, **"To what extent have government policies been effective in overcoming market failures in the palm oil industry in Indonesia?"**

The research question will be answered using the economic theories of market failure and negative externalities of production. This will help determine the effectiveness of the policies

and will also help evaluate whether these policies reduced the external costs related with the palm oil production in Indonesia.

Methodology

In order to assess the extent to which government intervention has addressed the externalities related to palm oil production, policies implemented were researched in depth. The external costs associated with palm oil production prior and following the implementation of the policies were examined and compared to evaluate the effectiveness of the policies in achieving the government's objectives.

The secondary data used for this research includes official reports on the policies, newspaper articles and academic journals concerning the palm oil production externalities in Indonesia, and economic textbooks which discusses the theories associated with this research question. In addition, concepts and terminologies in the IB syllabus regarding market failure and government intervention will be referred throughout the essay.