Global demand on palm oil is growing as populations increase and standards of living improve, world consumption on vegetable oil is 145.1 million tons (Janurianto, 2010), concurrently, there is a growing awareness toward environmental stewardship and sustainable development, hence demand to obtain sustainable products are increasing. Indonesia’s palm oil industry faced many issues related to this global sustainability challenge; from never-ending allegations by Non Governmental Organizations (NGOs), strict demands from the Roundtable on Sustainable Palm Oil (RSPO) to conditions imposed by the European Union (EU) through the EU Renewable Energy Directive (EU RED) 2001/77/EC and 2003/30/EC which has set criteria on the use of palm oil as feedstock for bio-fuel production (Suharto, 2010) wherein palm oil did not meet the required standards.

One effort set by the government to gain and to ensure sustainability of Indonesian palm oil industry is through a sustainability standardization called the Indonesian Sustainable Palm Oil (ISPO) which is expected to attend those allegations and shows government commitment towards sustainable palm oil development. The primary focus of ISPO is to ensure legal compliance according to the Indonesian laws and regulations which serve as the baseline of sustainability standards. A sustainability effort for palm oil was started by RSPO through its sustainable certification. However, several companies found RSPO is complicated, hard to implement, and kept on changing (IPOC, 2010). The cost is high, especially for small holders, auditing process is lengthy and it will take some time for widespread participation in Indonesia (Suharto, 2010). GAPKI (Indonesian Palm Oil Association) fully supports the government plan on ISPO, however some discourage notions stated by environmentalist NGOs; such as, ISPO is duplication to RSPO, RSPO is acknowledged internationally, ISPO with Indonesian laws baseline is not enough to ensure sustainability and ISPO establishment is meaningful only with stakeholders participation. (Mongabay.com, 2010a). In addition, the success of a certification schemes is depend in part on the ability to gain a price premium to off-set the costs.

Gaining and sustaining the sustainability standards for palm oil is the only ticket for the industry to be accepted by international market consumers, to eliminate strong public / consumer negative opinions on environment issues and to meet most of processors requirements of sustainable palm oil starting from 2015. ISPO is expected to build international market confidence over Indonesian palm oil industry to meet sustainable development standards. The government has targeted by 2014 all auditing and certification process of ISPO for more than 2,000 palm oil companies, (with only 467 are member of GAPKI and only 74 are members of RSPO), would be completed. For this big project, to meet every stake holders’ expectation and international market demand at the same time, definitely a strategic and thorough master plan on implementation, communication, evaluation and transparent criteria of ISPO are needed.

The research objectives are to identify fundamental situations of Indonesian palm oil industry, to identify the success factors of ISPO to be able to enhance Indonesian palm oil competitive advantage in the global market and to formulate strategic actions for
ISPO implementation. Specific potential contribution of the research is to add value to the implementation planning of ISPO, and in general, to contribute to policy formulation/design for sustainable development which involving complex multi-stakeholders.

This is a descriptive case study using qualitative method including field and literature research. Purposive sampling with attention to both quota and research judgment is used. In depth interview, both, individually or in groups, is the primary data collection technique. Most of the research to 20 respondents was conducted in Jakarta and Bogor, with several interviews done by telephone and emails due to the diverse of geographical locations; to Riau, Kalimantan, to Rotterdam, Netherland. The period of the research was from November 2010 to beginning of April 2011. Data triangulation, by conducting online questioner with 5 Likert scale addressed to experts cum actors within the expanded value chain was developed based from data/findings gathered from the in-depth interview. The online questioner had 17 respondents and the result shows that all of the Standard Deviation is below 1 on the identified success factors.

Indonesian palm oil industry has some long standing problems such as land tenure, social conflict, and small holders and farmers are the weakest actors within the value chain who need strong support from the government and other actors. On the sustainability, it was admitted that ISPO is needed for industrial standards and sustainability certification for Indonesia to meet the international demand on sustainable palm oil starting from 2015.

There are 9 identified Success Factors; a) Inclusivity and Transparency, b) Affordable Certification Cost, c) Quality of ISPO Principles & Criteria, d) Acceptance and Support from All Stakeholders, e) Law Enforcement f) Transition and Adjustment Period, g) Acknowledgement on ISPO Certification, h) Guarantee on Sustainability and i) Premium Price, which reviewed from the phase of standard setting and its importance. While on necessary conditions for ISPO implementation are institutional readiness (complete system for certification, preparation, credible certification body) and business infrastructure readiness. Obstacles which might hinder the application of ISPO are technical barrier – local terminologies, longstanding problem- land tenure and social conflict, preparation to be eligible for certification, troubled partnership (plantation companies and plasma farmer), involvement of farmer/small holders, effect of top down approach and perceptive as not inclusive and non transparent, possibly open up corruption opportunity, green washing channel.

Based on the identified current palm oil industry situation, success factors for ISPO, necessary conditions and obstacles on ISPO implementation, using SWOT Matrix, the following are 8 recommended strategies to be applied for ISPO implementation which aimed to enhance Indonesian competitive advantages: 1) gaining international acknowledgement, 2) strong approach and promotion to possible new market and investor, 3) develop strong cross sector partnerships; public, private and society, 4) solving and managing technical problems, 5) collaborate with Malaysia on campaign for sustainable palm oil, 6) introduce ISPO as complement to RSPO, then as Independent Certification, 7) ISPO is elevated to higher authority level, 8) Evaluation and review on ISPO impact through R&D for improvement.

ISPO applies to upstream industry (plantations and mills) only, hence recommendations and managerial Implications for Indonesian palm oil industry is a strong conclusion that development of a Grand Master Plan for Indonesian Palm Oil Industry is needed; to develop integrated policies complementing ISPO aiming for sustainability 2)-grow and develop downstream industry; to add value to CPO product.
3. Upstream industry to be developed by farmers and cooperatives; big investors to develop mills and downstream industry

Keywords: Palm Oil, ISPO, Sustainable Certification, Success Factor, Competitive Advantage, Qualitative, SWOT, Case Study