

# Strengthening Indonesia- China Palm Oil Trade with Sustainable Practices

BRIEFING PAPER  
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# Executive summary

Trade is a vital pillar in the strategic and economic partnership between two of Asia's most dynamic economies, China and Indonesia. In 2023, bilateral trade reached a record \$139.41 billion, with China remaining Indonesia's largest trading partner, accounting for 20% of total trade. Palm oil is essential to this relationship. In 2023, Indonesia exported over 4.29 million metric tons (MMT) of palm oil to China, valued at \$3.88 billion. Together, Indonesia and Malaysia supply over 83% of the world's palm oil, while China, as the second-largest global importer, is increasingly shaping demand patterns and sustainability expectations.

This briefing paper highlights the growing urgency – and opportunity – of aligning palm oil trade with global sustainability imperatives. As frameworks such as the EU Deforestation Regulation (EUDR), environmental, social and governance (ESG)-driven investment mandates, and Scope 3 emissions disclosures gain traction, both producer and consumer countries must adapt. Indonesia and Malaysia are accelerating reforms in traceability, certification and smallholder inclusion, while China is signaling a shift towards

green sourcing through platforms such as the Taskforce on Green Value Chains.

Despite positive momentum, critical challenges remain. On the supply side, traceability is often undermined by “mini-mills” and unregistered producers, while certification systems remain fragmented and inaccessible for many smallholders. On the demand side, market sensitivity about costs, low consumer awareness and limited price premiums and regulatory incentives to promote the use of certified palm oil are key constraints. Bridging this gap is essential for ensuring that sustainability transitions are both inclusive and commercially viable.

Ultimately, Indonesia and China are uniquely positioned to co-create a resilient, inclusive and deforestation-free palm oil value chain. This brief presents a roadmap of actionable steps – from mutual certification recognition and blended finance to sub-national collaboration and commercial innovation – that can serve as a blueprint for sustainable commodity trade and Global South leadership on sustainable development in the 21st century.



# Context and rationale

## Strategic role of palm oil

In 2025, China and Indonesia celebrate the 75th anniversary of their diplomatic relations and the 70th anniversary of the Bandung Conference,<sup>1</sup> marking renewed commitment to cooperation in trade, investment and sustainable development. In 2023, bilateral trade reached a record \$139.41 billion, with China remaining Indonesia’s largest trading partner, accounting for 20% of total trade.<sup>2</sup> This trade is supported by frameworks such as the ASEAN-China Free Trade Agreement (ACFTA) and the Belt and Road Initiative (BRI).<sup>3</sup>

Palm oil is essential to this relationship. In 2023, Indonesia exported over 4.29 million metric tonnes (MMT) of palm oil to China, valued at \$3.88 billion – its third-largest export to China after coal and metals, and making up roughly 20% of Indonesia’s total exports to China.<sup>4</sup>

For Indonesia, palm oil is more than a commodity – it is a major contributor to the national economy, constituting 3.5% of the gross domestic product (GDP; \$38 billion annually) and supporting over 4.2 million jobs, especially in rural areas. It is crucial

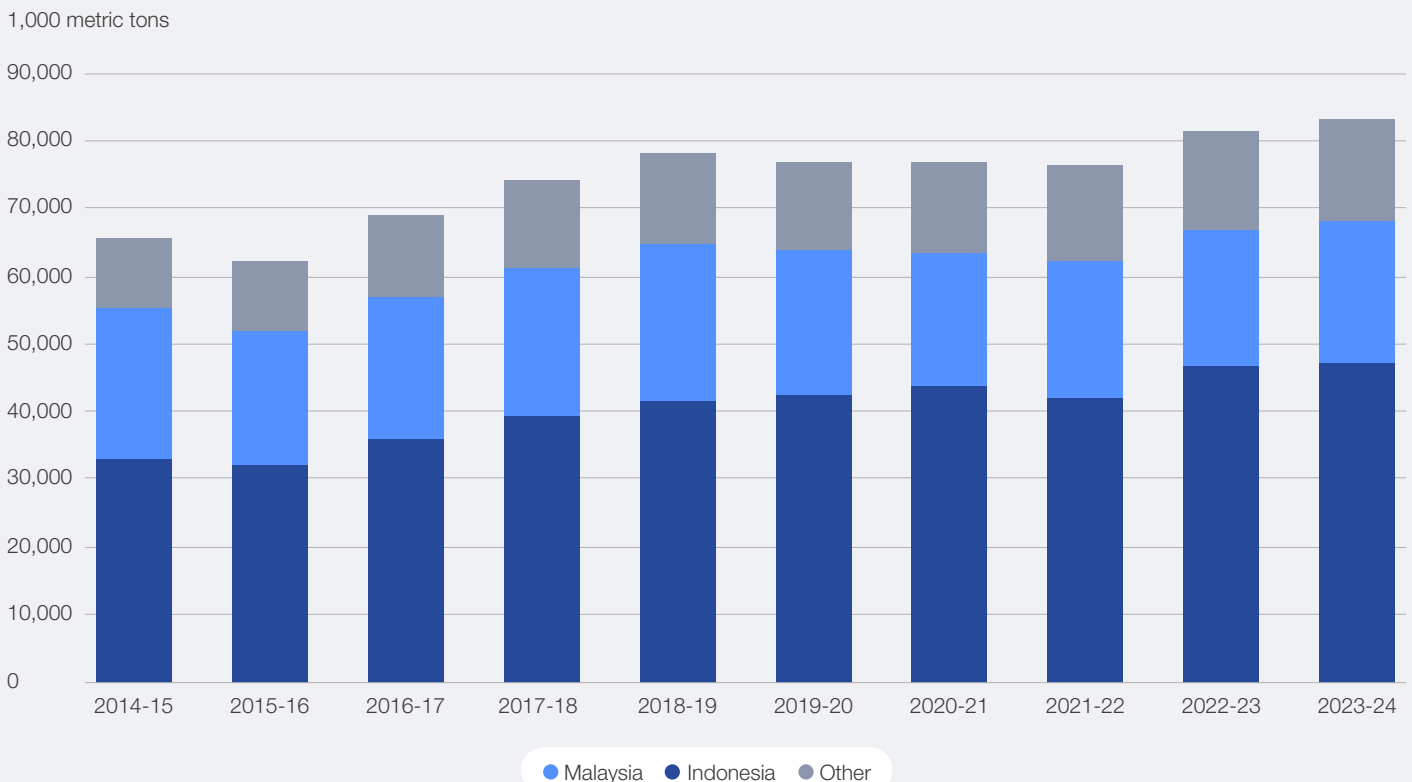
for rural development and poverty reduction in key provinces like Sumatra and Kalimantan.

As the world’s largest palm oil producer, Indonesia contributes to over 50% of global production, followed by Malaysia as the second largest, which contributes about 25% (Figure 1).

For China, palm oil is essential for the food processing (65% of use), biofuels (20%) and consumer goods (15%) sectors. As the second-largest importer, it sources 94% of its palm oil from imports – primarily from Indonesia (76%) and Malaysia (24%). This dominant trade flow places Indonesia and Malaysia at the centre of sustainability discussions, with China as a pivotal actor in sustainable procurement. The central role of Indonesia and Malaysia in the global palm oil supply chain highlights continued leadership and capacity to meet rising global demand.

Such economic interdependence provides an important opportunity to shape a shared future among people in China and Indonesia, especially under increasing sustainability expectations and international climate commitments.

FIGURE 1 Global palm oil production



## Palm oil development plan

A comparative analysis of palm oil trade and consumption patterns in Indonesia and Malaysia from 2014-2015 to 2023-2024 reveals two distinct national trajectories shaped by policy, market orientation and industrial priorities. Indonesia's domestic consumption has grown by nearly 150% in the past decade, narrowing the gap with exports, whereas Malaysia consistently exports about twice as much as it consumes domestically.<sup>5</sup>

In Indonesia (see Figure 2), domestic palm oil consumption has nearly tripled over the past decade – from around 8 MMT in 2014-2015 to over 23 MMT in 2023-2024. This rise is driven by biodiesel mandates (B20 to B40), downstream industry growth and increased demand for food and oleochemicals.

Although exports remain high (24-31 MMT annually), they have grown more slowly than domestic use, narrowing the gap between the two.

This is driven by a strategic shift towards self-sufficiency, value addition and energy diversification. Rising domestic demand has also driven further palm plantation expansion.

In contrast (see Figure 3), Malaysia remains export-oriented. Export volumes have held steady at 16-20 MMT annually, while domestic consumption remains modest at 3-5 MMT. This reflects Malaysia's continued focus on global markets, backed by strong infrastructure, quality standards and integration with international markets.

These trends highlight how Indonesia and Malaysia are responding differently to global and domestic pressures. Indonesia is moving towards a balanced trade and consumption model, driven by rising domestic demand and downstream industry growth, while Malaysia maintains a strong export-oriented strategy. Both countries are adapting to sustainability requirements and traceability expectations, especially as demand for deforestation-free, certified palm oil increases from major importers.

FIGURE 2 | Palm oil export and domestic consumption in Indonesia

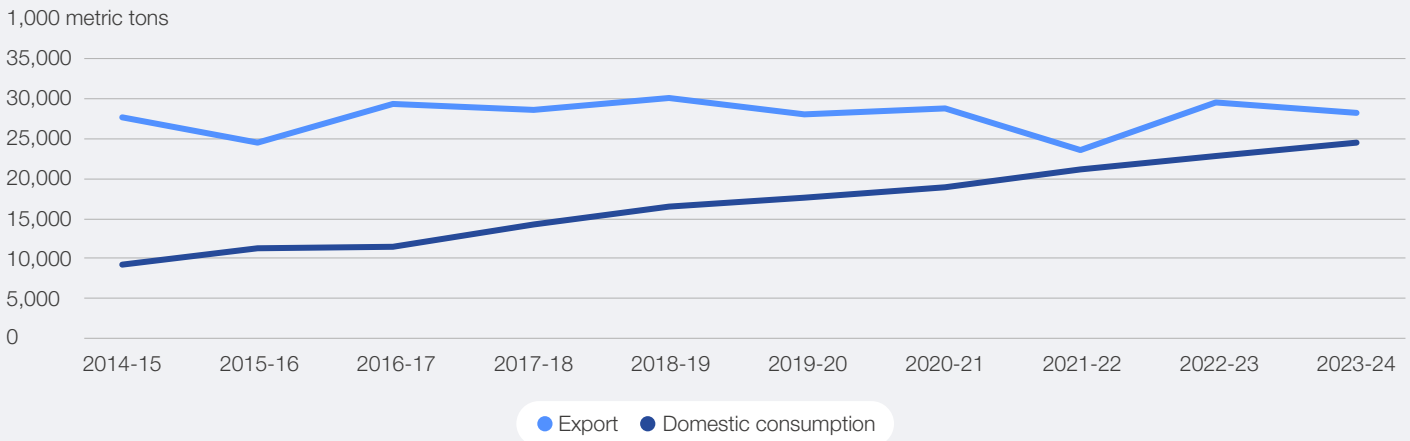
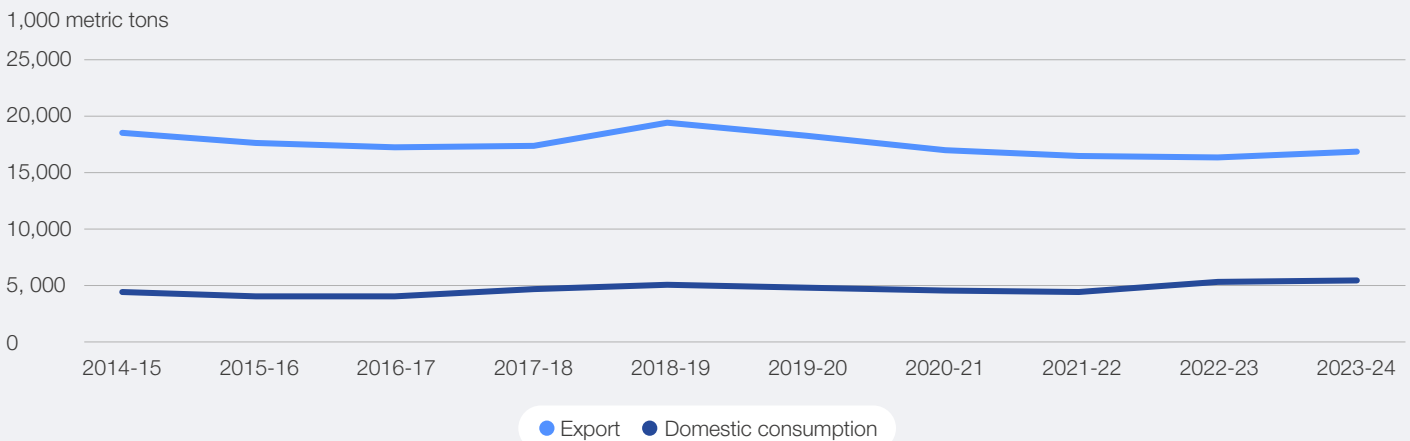


FIGURE 3 | Palm oil export and domestic consumption in Malaysia



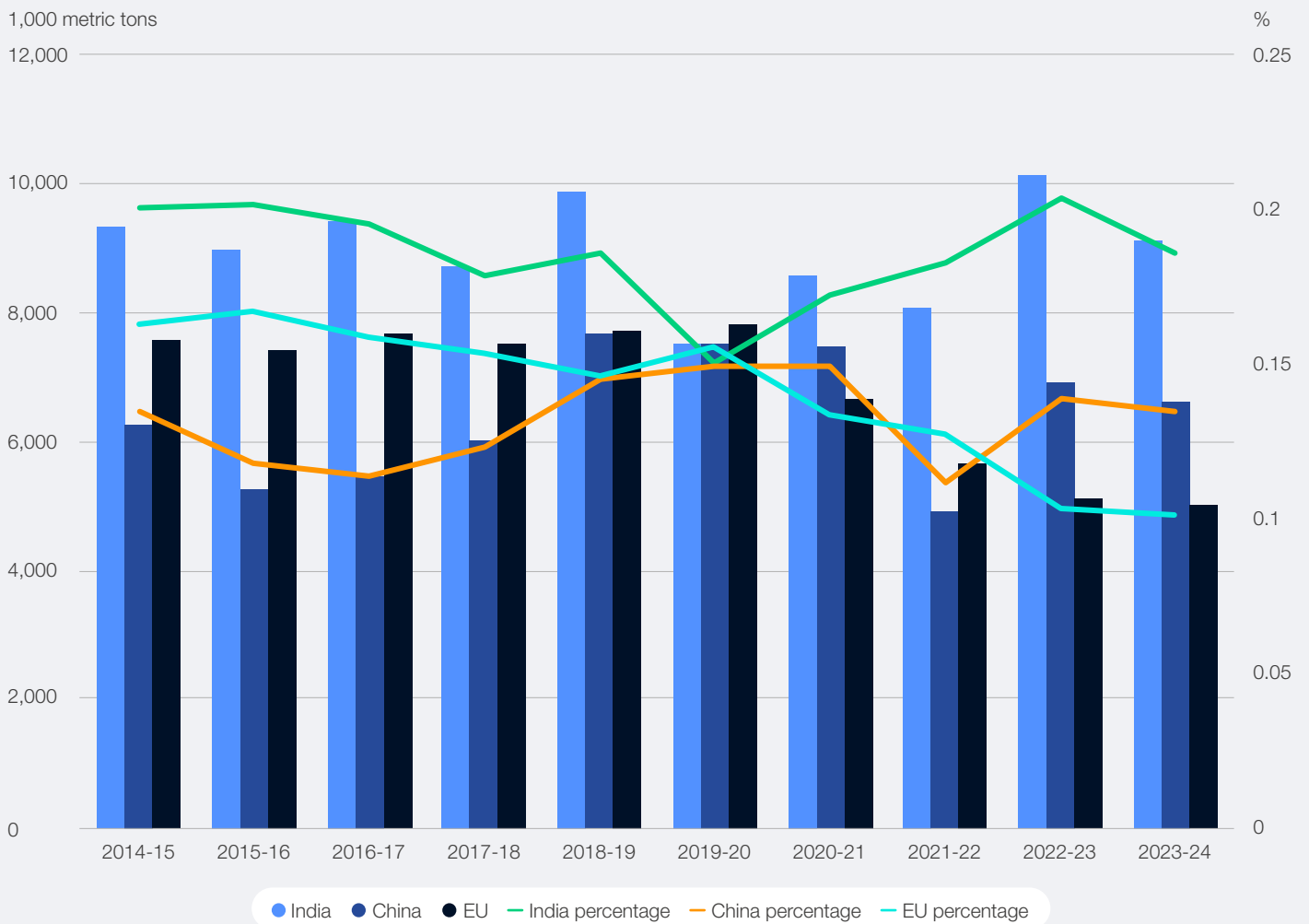
## China's role in the future of sustainable palm oil

Building on the strong supply-side leadership of Indonesia and Malaysia, the import trends shown in Figure 4 underscore the strategic importance of key consuming markets – particularly India, China and the European Union (EU) – in shaping global palm oil demand. Over the past decade, India has consistently been the largest importer, with annual imports fluctuating around 8-10 MMT.

However, China's role has steadily expanded. In 2018-19, China's palm oil imports reached the level of the EU's and have surpassed it since 2020-2021 (except in 2021-2022) – overtaking the EU and closely tracking India, both in volume and as a share of global imports.

Meanwhile, EU imports and their global share have declined, especially after 2018-19, possibly influenced by stronger regulatory pressures and sustainability criteria.

FIGURE 4 Global Palm oil imports



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# Key challenges

The challenges are multidimensional. On the supply side, both Indonesia and Malaysia face significant constraints in building inclusive, traceable and verifiable supply chains. In Indonesia, around 41% of palm oil plantations are smallholder-owned, but fewer than 3% of these smallholders are formally registered or certified, making them vulnerable to exclusion under emerging global regulations.<sup>6</sup> Traceability remains weak, especially due to unregulated “mini-mills” and disconnected data systems between local and national levels.<sup>7</sup>

The certification ecosystem is also fragmented. While Indonesian Sustainable Palm Oil (ISPO) and Malaysian Sustainable Palm Oil (MSPO) are national standards, they lack universal recognition in global markets, forcing producers to navigate multiple parallel systems such as the Roundtable on Sustainable Palm Oil (RSPO) – at high financial and administrative cost.<sup>8</sup>

From the demand side, China’s shift towards green trade is exemplified by the Taskforce on Green Value Chains (TGVC), signaling its ambition to integrate sustainability into commodity imports. China has made demonstrable progress in achieving its commitment towards deforestation- and conversion-free palm oil (see Annex 1). This creates a dual challenge and opportunity: how to scale verified sustainable imports from Indonesia and Malaysia while supporting producer countries in strengthening traceability systems.<sup>9</sup>

Despite growing political will and private sector momentum towards sustainability, Indonesia-China trade in agricultural commodities, particularly palm oil, continues to face entrenched structural and systemic challenges. These barriers manifest across both the supply and demand sides of the value chain, impacting environmental integrity, traceability and market access. Addressing these challenges is critical to realizing a deforestation-free, inclusive trade ecosystem.

TABLE 1 Challenges in palm oil trade

Category	Supply side	Demand side
<b>Traceability</b>	Mini-mills sourcing from unregistered farmers	No import traceability requirement in China
<b>Certification</b>	Low RSPO/ISPO uptake among smallholders	<ul style="list-style-type: none"> <li>– Lack of strong market demand signal for RSPO/ISPO-certified palm oil</li> <li>– Lack of market premium or differentiation</li> </ul>
<b>Finance and compliance</b>	High cost of farmer registration and infrastructure gaps	Absence of demand-side incentives for certified products
<b>Market access</b>	Exclusion due to legality and land tenure issues	Prioritization of price over sustainability
<b>Consumer awareness</b>	Limited support systems for farmer compliance	Low consumer awareness and ESG demand in retail sector

**Sources:** Discussions between IDH (Institut Dagang Hijau, the Sustainable Trade Initiative), RSPO (Roundtable on Sustainable Palm Oil), Astra Agro and LTKL (Lingkar Temu Kabupaten Lestari) at Indonesia stakeholder meetings (March 2025); “Sustainable Procurement for Greener Future – Palm Oil” briefing paper; Indonesia National dashboard data and estimates on smallholder and land registration progress.<sup>10</sup>

## Supply-side challenges

- **Smallholder inclusion and legal recognition**  
Smallholders manage 41% of Indonesia's palm oil plantations, but only 3% are registered in traceability systems. Lacking land tenure, digital literacy and financial resources, most are excluded from certification schemes like ISPO and RSPO – undermining efforts to build an inclusive, traceable supply chain.<sup>11</sup>
- **Traceability and illicit sourcing**  
Unregulated “mini-mills,” often in remote areas, source from smallholders outside legal frameworks, creating major traceability gaps. In regions like West Kalimantan and North Sumatra, they account for a significant share of fresh fruit bunch volume (volume of palm oil fruit, which grows in dense bunches), weakening legality verification and market compliance.<sup>12</sup>
- **Fragmented certification ecosystem**  
ISPO remains poorly recognized internationally, with only 60% of producers certified. RSPO covers less than 10% of Indonesia's mills. The coexistence of over 25 global standards creates confusion and adds costs – especially for smallholders, for whom RSPO certification can cost up to \$15,000 per group annually.<sup>13</sup>
- **Compliance costs and infrastructure gaps**  
Complying with regulations like the EUDR is costly – Indonesia needs around \$600 million to register farmers and land. Currently, only 30% of plantation land and 3% of smallholders are listed in the Indonesia National Dashboard. Poor internet access in rural areas further limits digital traceability.<sup>14</sup>

## Demand-side challenges

- **Price sensitivity and certification ambivalence in key markets**  
China, sourcing over 94% of its palm oil via imports – 76% of this from Indonesia – remains highly price-sensitive. Sustainability is not a major procurement factor; processors often switch to palm oil during soybean shortages, prioritizing cost over certification.<sup>15</sup>
- **Lack of premium for sustainable products**  
Certified palm oil (RSPO/ISPO) rarely commands a price premium in Asian markets. In China, it competes directly with conventional oil, discouraging investment in sustainable practices due to unclear returns.<sup>16</sup>
- **Low awareness and consumer demand for certified palm oil**  
Sustainability awareness in China is limited. Interviews with RSPO and Wilmar note its absence from trade fairs and retail campaigns. Unlike in the EU or the United States (US), ESG-driven procurement remains in early development.<sup>17</sup>
- **Trade policy and tariff barriers**  
China lacks green import guidelines for soft commodities. India and Pakistan impose high tariffs to protect local industries, pushing Indonesian exporters towards markets with fewer sustainability demands – weakening incentives for voluntary certification.<sup>18</sup>

Addressing these challenges through public-private collaboration can help both countries build a fairer, more sustainable palm oil trade aligned with shared development and environmental goals.



# Strategic opportunities

Despite existing challenges, the Indonesia-China trade in agricultural commodities holds strong potential to pioneer sustainable, inclusive and deforestation-free trade around the world. This can be achieved by aligning national priorities, mobilizing corporate innovation, fostering jurisdictional partnerships and advancing green finance. Broader dynamics – South-South cooperation, solidarity among the Brazil, Russia, India, China and South Africa (BRICS) grouping (which includes six new members, including Indonesia), and evolving green leadership – further enhance their strategic position.

## 1. Policy-level cooperation and bilateral alignment

Indonesia and China can formalize sustainability commitments through bilateral recognition, policy harmonization on legality and traceability, and co-governance of digital systems. Platforms like the Indonesia National Dashboard and China’s TGVC offer areas for joint action. Indonesia and China can shape sustainability standards that reflect developing-country priorities while demonstrating leadership in the Global South.

## 2. Private sector innovation and market transformation

Indonesia’s NDPE-aligned<sup>19</sup> producers and China’s vast processing and retail sectors can drive transformation via joint procurement, long-term sourcing and traceability tools that reward sustainability and smallholder inclusion.

## 3. Sustainable finance and market-based incentives

Financial actors can co-develop blended finance, green bonds and credit guarantees to support smallholder compliance. China’s growing green finance sector and ESG-aligned capital can accelerate sustainability transitions.

## 4. Jurisdictional collaboration and local partnerships

Direct links between producing regions (e.g. Riau and Kalimantan) and import hubs (e.g. Tianjin and Shanghai) can support jurisdictional collaboration on deforestation-free sourcing, shared data, green port certification and infrastructure.

## 5. Technical and technological collaboration

China and Indonesia can explore close technical and technological collaboration on sustainable palm oil production by promoting and supporting regenerative agriculture, digitalization and monitoring technologies, thereby empowering the farmers who are vital to the process.

## 6. Other corporate practices

More comprehensive approaches to assess whether palm oil is deforestation-free include assessment on the ground and from the sky. The former includes certification and verification (e.g. when Nestlé partners with Earthworm Foundation for verification). The latter is through satellite monitoring of production sites (e.g. farms, mills and supply areas).<sup>20</sup> If harnessed strategically, these opportunities can redefine Indonesia-China trade as a cornerstone of green and equitable transformation across the Global South.

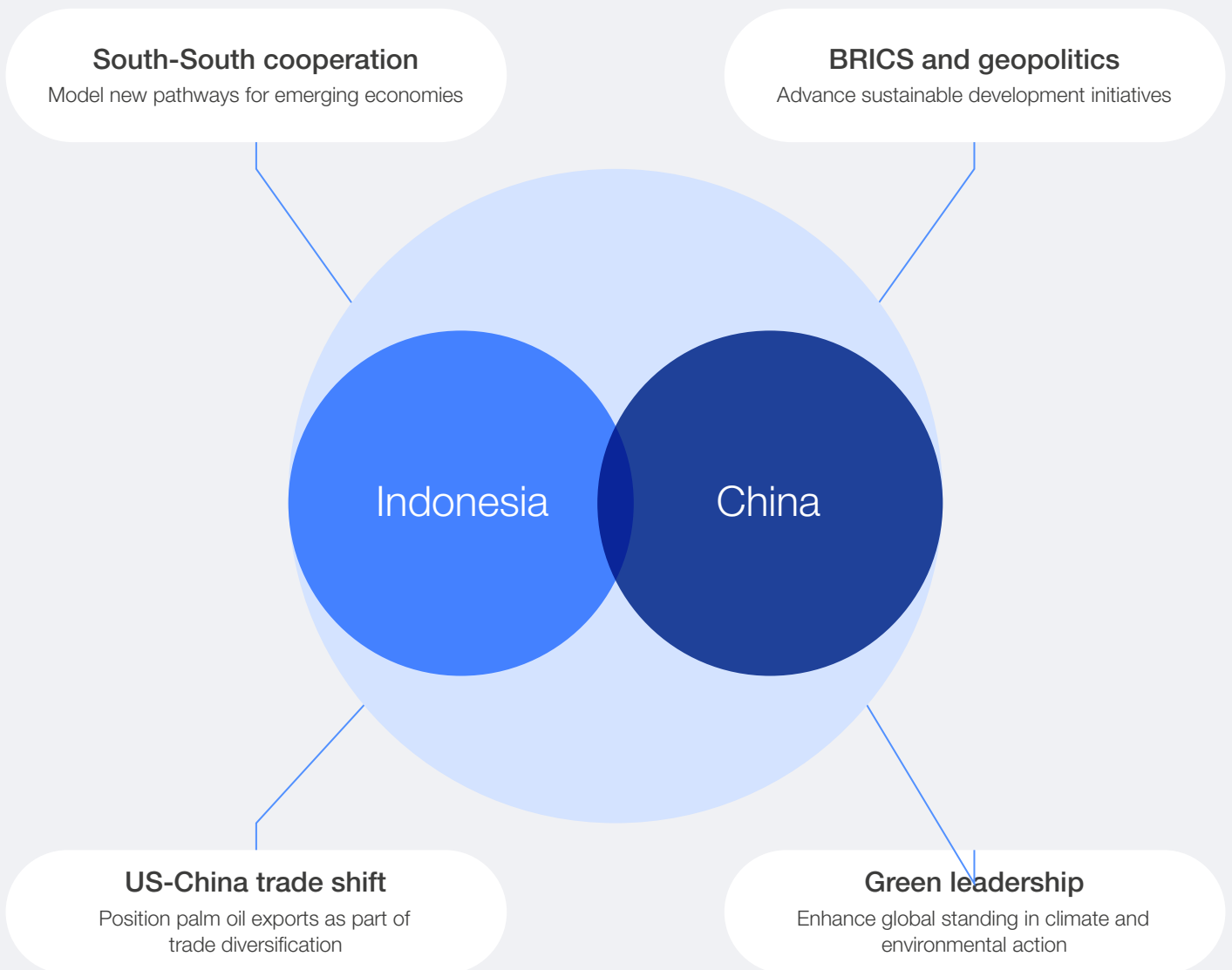
FIGURE 5 Approaches for assessing whether palm oil is deforestation-free



Figure 6 illustrates four strategic opportunity areas for strengthening Indonesia-China collaboration in sustainable palm oil trade. Acting on these

positions, both countries can emerge as leaders in shaping a greener, more equitable global trade landscape.

FIGURE 6 Opportunities for Indonesia and China



# Next steps

Moving forward, the Taskforce on Green Value Chains will provide a platform for key stakeholders in the main palm oil producing and consuming countries, through an enhanced collaboration on sustainable palm oil trade, financial incentives

and transparency on progress. The following three strategic steps provide a clear framework to operationalize a deforestation-free, inclusive and commercially viable trade model.



## 1. Facilitating sustainable palm oil in bilateral trade

Bilateral cooperation should prioritize enabling mechanisms that legitimize and streamline the flow of sustainably sourced palm oil between Indonesia and China. This includes advancing mutual recognition of national sustainability standards (such as ISPO and MSPO), establishing data interoperability between Indonesia's National Dashboard and China's traceability systems, and piloting verified shipments. A Green Commodity Working Group can serve as the platform to align certification protocols, coordinate stakeholder engagement, and support the adoption of sustainability-based labeling in Chinese retail markets.



## 2. Mobilizing financial incentives for an inclusive transition

Achieving scale in sustainable palm oil trade requires accessible and innovative financing for smallholders and supply chain actors. Indonesia and China should work together to develop blended finance instruments – including green bonds, concessional loans and sustainability-linked credit – that support compliance, traceability and replanting. Retail and consumer-facing incentives in China (such as vouchers or tax credits for certified products) can also help shift demand towards sustainable options. Financial mechanisms must be structured to ensure smallholder inclusion and reward verified sustainability performance across the value chain.



## 3. Launching jurisdictional pilots to facilitate resilient supply

Jurisdictional approaches offer a credible and scalable pathway to delivering traceable, deforestation-free palm oil. Indonesia and China can pair palm oil-producing regions (e.g. Riau and West Kalimantan) with key Chinese import hubs (e.g. Tianjin and Shanghai) to co-develop sister jurisdiction pilots. These pilots should focus on shared data infrastructure, integrated monitoring and community-level inclusion. By embedding sustainability criteria in regional development strategies and aligning them with corporate sourcing practices, jurisdictional pilots can serve as a model for replicable, system-wide transformation.

# Appendix 1:

## Progress tracking for Taskforce on Green Value Chains members

Company	Deforestation- and conversion-free (DCF) progress (2024, by sector)				Commitment
	Soy	Beef	Palm oil	Paper and pulp	
<b>Bunge<sup>21</sup></b>	99.24% from Brazil and 97.69% from Matopida verified DCF	N/A	78.3% verified deforestation-free	N/A	In 2015, Bunge promised to achieve zero deforestation and native vegetation conversion in its value chains by 2025
<b>Cargill<sup>22</sup></b>	99.8% from Argentina, 96.3% from Bolivia, 99.3% from Brazil, 99.8% from Paraguay and 100% from Uruguay estimated to be DCF based on a reference date of 2020	N/A	100% products from North America and 100% from Indonesia are RSPO-certified	N/A	In 2019, Cargill committed to making its agricultural supply chains free of deforestation by 2030
<b>Louis Dreyfus<sup>23</sup></b>	93% from Brazil, 98% from Argentina and 38% from Paraguay has achieved DCF	N/A	90% of global palm volumes have achieved highest category of No Deforestation, No Peatlands, No Exploitation Implementation Reporting Framework (NDPE IRF) <sup>24</sup>	N/A	In 2022, Louis Dreyfus committed to eliminating deforestation and conversion of native vegetation of high conservation value for agricultural purposes from all supply chains by the end of 2025

Company	Deforestation- and conversion-free (DCF) progress (2024, by sector)				Commitment
	Soy	Beef	Palm oil	Paper and pulp	
<b>Nestle</b> <sup>25</sup>	96.1% of soy in primary supply chains assessed as deforestation-free	100% of meat in primary supply chains assessed as deforestation-free	96.3% of palm oil in primary supply chains assessed as deforestation-free	99% of pulp and paper in primary supply chains assessed as deforestation-free	By 2025, Nestlé aims to achieve and maintain 100% assessed deforestation-free primary supply chains in meat, palm oil, pulp and paper, soy, sugar, cocoa and coffee
<b>L'Oréal</b> <sup>26</sup>	Soy oil purchased in Latin America is from certified sources (IP Proterra, Round Table for Responsible Soy (RTRS) <sup>27</sup> , BIO, Fair for Life)	N/A	In 2024, 100% of palm oil and 99.9% of palm oil-derivatives purchased were RSPO-certified	For packaging, use of materials certified by Forest Stewardship Council (FSC) <sup>28</sup> or Programme for the Endorsement of Forest Certification (PEFC), <sup>29</sup> guaranteeing sustainable forest management and transparency on country of origin	In 2020, L'Oréal committed that 100% of the bio-based ingredients in its formulas and bio-based materials for packaging would not be linked to deforestation by 2030
<b>COFCO International</b> <sup>30</sup>	99% of soy purchased in Brazil was DCF	N/A	In 2023, 67% of volumes sourced were in "delivering" category of IRF for deforestation- and peatlands-free	N/A	In 2024, COFCO International raised ambitions by committing to sourcing soy and corn free from deforestation globally and from native vegetation conversion in South America by 2025.

Company	Deforestation- and conversion-free (DCF) progress (2024, by sector)				Commitment
	Soy	Beef	Palm oil	Paper and pulp	
<b>McDonald's China</b> <sup>31</sup>	100% of soy for chicken feed meets RTRS standard	98.8% beef meets DCF standard	100% to be covered by RSPO certification	98.5% of fibre-based primary guest packaging is sourced from FSC-certified supply chain or PEFC for deforestation	To eliminate deforestation from global supply chains by 2030
<b>Mengniu</b> <sup>32</sup>	100% of soybeans purchased come from countries and regions without deforestation and land conversion risk	N/A	In 2023, procured 200 tonnes of RSPO-certified palm oil, achieving expected progress for this phase	In 2023, 89.1% of virgin paper for inner packaging had obtained Forest Stewardship Council (FSC) certification, and the ratio of recyclable packaging materials to the total weight of packaging materials reached 98.53%	In 2023, Mengniu committed to eliminating the risk of deforestation in its supply chains by 2030
<b>Yili</b> <sup>33</sup>	100% of soybeans required to be deforestation-free	N/A	100% of palm oil suppliers are RSPO-certified	By 2024, 65% of inner packaging paper will be FSC-certified, all low-temperature yogurt packaging materials will achieve FSC/PEFC certification, and 100% of outer cartons will use recycled paper	In 2024, Yili pledged to realize palm oil, paper and pulp, and soy supply without deforestation
<b>Yihai Kerry</b> <sup>34</sup>	100% of imported soybean can be traced back to ports of origin, ensuring raw material origin transparency	N/A	100% of palm oil suppliers not involved in deforestation activities and RSPO-certified	N/A	Yihai Kerry ensured that business and supply chain do not involve deforestation, peatlands and exploitation, and committed to achieving 100% RSPO certification for its palm oil processing factory.

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