# CLIMATE CAPITALISM AND STATE-OWNED ENTERPRISES (SOES): CASE STUDIES OF FELDA AND FGV PALM OIL SECTOR

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INSTITUTE FOR ADVANCED STUDIES UNIVERSITY OF MALAYA KUALA LUMPUR

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# DISSERTATION SUBMITTED IN FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF PHILOSOPHY

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# CLIMATE CAPITALISM AND STATE-OWNED ENTERPRISES (SOES): CASE STUDIES OF FELDA AND FGV PALM OIL SECTOR

#### ABSTRACT

Neoliberalism is often seen as incompatible with sustainability objectives, as profit-seeking firms are expected to overlook climate and environmental concerns in their pursuit to generate revenue. However, the climate capitalism model argues that profit and sustainability goals are not necessarily incompatible. It posits that, under favourable market and governance conditions, private firms can be empowered to shift to more sustainable practises while profiting from this change. Many policymakers have embraced this model as a way to address environmental problems within the context of maintaining existing power structures and for continued economic growth. However, the climate capitalism model has overlooked an important point: a large segment of firms involved in climate-intensive sectors are not private firms. In many natural resource-rich countries, state-owned enterprises (SOEs) control these resources. Hence, this thesis questions the applicability of the climate capitalism model within the context of SOEs. There are many types of SOEs, with different ownership and control structures, which translates to a different emphasis on profit. Therefore, this thesis asks the question: do ownership and control structures of different types of SOEs influence their decision-making processes on the environment? To illustrate this, the thesis uses a case study approach comparing two types of SOEs within the climate intensive palm oil sector: the people-oriented FELDA and the profit-oriented FGV. Despite similar market and governance conditions, the decisions taken by these SOEs resulted in opposite outcomes for the environment. FGV, with an ownership and control structure dominated by state and private investors, tended to take advantage of this structure to overlook environmental objectives in the pursuit of profits. On the other hand, FELDA, which is owned and controlled by the state and settler cooperatives, achieved both capital

accumulation and environmental protection through environmentally- and sociallyconscious decision making. Hence, even when market and governance conditions are favourable, as in the case of both FELDA and FGV, the ownership and control structures of a firm can influence decision-making to either be positive or negative for the environment. Therefore, this thesis highlights the limitations of the climate capitalism model in predicting the environmental outcomes of neoliberal-type (profitoriented) SOEs. While its principles may be applicable for most private firms, climate capitalism overlooks the fact that the market is made up of many different types of firms with a variety of ownership and control structures, which can affect firms' decisionmaking processes. In a world where SOEs control a significant proportion of climateintensive sectors, there is an urgent need for this influential model to be reconceptualized to accommodate SOEs and other types of firms, to better offer solutions for environmental problems to be addressed within the context of existing institutions, power structures, and continued economic growth.

Keywords: climate capitalism; state-owned enterprises; FELDA; FGV; palm oil

# CLIMATE CAPITALISM AND STATE-OWNED ENTERPRISES (SOES): CASE STUDIES OF FELDA AND FGV PALM OIL SECTOR

#### ABSTRAK

Neoliberalisme sering dilihat tidak sesuai dengan objektif kelestarian, kerana syarikat mencari keuntungan diharapkan dapat mengabaikan masalah iklim dan persekitaran dalam usaha mereka menjana pendapatan. Walau bagaimanapun, model climate capitalism berpendapat bahawa tujuan keuntungan dan kelestarian tidak semestinya tidak sesuai. Ia berpendapat bahawa, di bawah kondisi pasaran dan tadbir urus yang menguntungkan, syarikat swasta dapat diberi kekuatan untuk beralih ke praktik yang lebih lestari sambal memperoleh keuntungan dari perubahan ini. Banyak pembuat dasar telah menggunakan model ini sebagai cara untuk mengatasi masalah persekitaran dalam konteks mengekalkan struktur kuasa yang sedia ada dan untuk pertumbuhan ekonomi yang berterusan. Walau bagaimanapun, model climate capitalism telah mengabaikan titik penting iaitu segmen besar syarikat yang terlibat dalam sektor intensif iklim adalah bukan syarikat swasta. Di kebanyakan negara yang kaya dengan sumber semula jadi, perbadanan awam yang mengawal sumber-sumber tersebut. Oleh itu, tesis ini mempersoalkan penerapan model climate capitalism dalam konteks perbadanan awam. Terdapat banyak jenis perbadanan awam, dengan struktur pemilikan dan kawalan yang berbeza, ia juga mempunyai penekanan yang berbeza terhadap pencapaian keuntungan. Oleh itu, tesis ini mengemukakan soalan: adakah struktur pemilikan dan kawalan dari pelbagai jenis perbadanan awam mempengaruhi proses pengambilan keputusan mereka terhadap alam sekitar? Untuk menggambarkannya, tesis menggunakan pendekatan kajian kes yang membandingkan dua jenis perbadanan awam dalam sektor kelapa sawit yang intensif iklim: FELDA yang berorientasikan orang yang mengenali tanah dan FGV yang berorientasikan keuntungan. Walaupun terdapat keadaan pasaran dan tadbir urus yang serupa, keputusan yang diambil oleh perbadanan awam ini memberi kesan yang

berbeza antara satu sama lain. FGV, dengan struktur pemilikan dan kawalan yang dikuasai oleh kerajaan dan pelabur swasta, cenderung memanfaatkan struktur ini untuk mengabaikan objektif persekitaran dalam mengejar keuntungan. Sebaliknya, FELDA yang dimilki dan dikawal oleh kerajaan dan koperasi peneroka mencapai pengumpulan model dan perlindungan alam sekitar melalui pengambilan keputusan yang bersifat positif terhadap alam sekitar dan sosial. Oleh itu, walaupun keadaan pasaran dan tadbir urus menguntungkan, seperti dalam kes FELDA dan FGV, struktur pemilikan dan kawalan boleh mempengaruhi pengambilan keputusan sama ada positif atau negatif terhadap alam sekitar. Oleh itu, tesis ini menonjolkan batasan model climate capitalism dalam meramalkan kesan terhadap alam sekitar oleh jenis perbadanan awam yang berorientasikan keuntungan. Walaupun prinsipnya mungkin berlaku untuk sebahagian besar perusahaan swasta, climate capitalism mengabaikan kenyataan bahawa pasaran tersendiri pelbagai jenis perusahaan dengan berbagai struktur pemilikan dan kawalan yang dapat mempengaruhi proses pengambilan keputusan sesebuah firma. Dalam dunia di mana perbadanan awam mengawal sebahagian besar sektor intensif iklim, terdapat keperluan mendesak untuk model berpengaruh ini diselaraskan semula untuk menampung perbadanan awam dan jenis firma lain, untuk menawarkan penyelesaiaan yang lebih baik untuk masalah alam sekitar yang akan ditangani dalam konteks institusi yang sedia ada iaitu dalam struktur kuasa, dan pertumbuhan ekonomi yang berterusan.

Kata kunci: climate capitalism; perbadanan awam; FELDA; FGV; kelapa sawit

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# LIST OF ABBREVIATIONS

BA	:	British Airways
CEO	:	Chief Executive Officer
CDM	:	Clean Development Mechanism
CER	:	Certified Emissions Reduction
CEO	:	Chief Executive Officer
CSR	:	Corporate Social Responsibility
CO <sub>2</sub>	:	Carbon Dioxide
СРО	:	Crude Palm Oil
ETS	:	Emissions Trading Scheme
EU	:	European Union
FELDA	:	Federal Land Development Authority
FGV	:	FGV Holdings Berhad
FGVH	:	FELDA Global Venture Holdings Berhad
FELCRA	:	Land Consolidation and Rehabilitation Agency
GHG	:	Greenhouse Gas
GSB	÷	Global Strategic Blueprint
GLCs	÷	Government-Linked Companies
GDP	:	Gross Domestic Product
GAP	:	Good Agriculture Practices
GEMPAK	:	Gabungan Peneroka Generasi Wawasan FELDA Kebangsaan
GAP	:	Good Agriculture Practices
HCV	:	High Conservation Value
HCS	:	High Carbon Stock
ISCC	:	International Sustainability and Carbon Certification Scheme

- IPCC : Intergovernmental Panel on Climate Change
- KPF : Koperasi Permodalan FELDA/ FELDA Settlers Cooperative
- LLA : Land Leasing Agreement
- MSPO : Malaysian Sustainable Palm Oil
- MPOB : Malaysian Palm Oil Board
- MNC : Multinational Company
- NAP : National Agriculture Policy
- RSPO : Roundtable Sustainable Palm Oil
- SOEs : State-Owned Enterprises
- SEE : State Economic Enterprises (SEE)
- WTO : World Trade Organisation

#### **CHAPTER 1: INTRODUCTION**

#### 1.1 Introduction

Climate change has been altering the planet and causing irreversible shifts in how the world functions. The complexity of climate change has impacted business, society and ecosystems, and the government finding ways to mitigate it with its regulations. Under these circumstances, corporate actors have often been the major actors driving climate change. For example, based on Riley (2017), 100 companies are responsible for 71 percent of global carbon emissions. This is why theorizing about carbon emissions have mainly focused on corporate actors.

One important theory related to the role of corporate actors and the climate is climate capitalism. Climate capitalism is a theory that is defined as "an ideological fit with neoliberal logic and ecological modernisation theory, which posits environmental problems within the context of existing institutions and power structures and continued economic growth" (Manzo & Padfield, 2016). In accordance with that, this model links to two core issues, i.e. how private businesses function and the growing concern with climate change (Manzo & Padfield, 2016).

The climate capitalism model is a one-size-fits-all approach to climate change, which comprises the element of registering profits while mitigating climate change. In doing so, climate capitalism theory adopts a neoliberal approach. With that, this theory argues that private actors can govern themselves when seeking the best opportunities to profit from climate change mitigations through clean technology and projects. Thus, climate capitalism is a model that capitalises the carbon reduction as a way for businesses to be empowered to resolve climate change (Newell & Paterson, 2010). The idea of capitalising on carbon reduction derives from the adoption of the neoliberal approach in the climate capitalism theory.

This theory also argues that climate change is a "new complex problem" which generally requires organisations that emphasise on " 'problem-solving, 'puzzling through' or 'learning by doing' than the rule setting that is the focus of more traditional organisations (Newell & Paterson, 2010, p. 23). Therefore, climate capitalism theory that justifies the neoliberal approach in mitigating climate change focuses on the voluntary action of businesses with minimal government regulation possible.

By doing so, companies' voluntary action towards mitigating climate change is done without much regulation from the government, which is often seen as a threat to businesses (Newell & Paterson, 2010). For instance, based on Vandenbergh & Gilligan (2017), "private climate governance is not a sideshow but one way to bypass government gridlock and achieve major emissions reductions over the next decade". Thus, the climate capitalism model justifies the minimization of the role of government as the best way of functioning in the market for profit-seeking companies to mitigate climate change (Sapinski, 2015; Wittneben, Okereke, Banerjee, & Levy, 2012).

#### **1.2 Problem Statement**

Climate capitalism focuses on how private businesses can continue to seek a profit while mitigating climate change with minimal government regulations. However, in considering the reality, the business world does not only consists of private actors. There are also many government institutions, such as state-owned enterprises (SOEs), controlled by governments equally seeking profits (Peng, Bruton, Stan, & Huang, 2016).

SOEs are found in every economic sector and usually control natural resources in a country (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014). For instance, in Myanmar, there are twelve areas, including in agriculture development and preservation of forest plantation, that are reserved by law for State Economic Enterprises (SEE) (widely known as SOEs) to venture into (Rieffel, 2015). Thus, state-owned enterprises

(SOEs) "are firms that are wholly or partially owned and controlled by the state (government)" (Peng et al., 2016).

Apart from that, some types of SOEs often cause major environmental issues in many carbon-intensive sectors. Based on Benoit (2020), profit-seeking SOEs have been analysed to "emit over 6.2 gigatons of carbon dioxide-equivalent in every greenhouse gas sector". Profit-seeking SOEs are largely the leading players in the emerging economies of Brazil, China, Indonesia, Mexico or South Africa or poorer economies or even in some advanced economies like France. From emissions to low carbon alternatives, from heavy enterprise to transport, from financing to resilience, profit-seeking SOEs are crucial actors in climate change mitigation (Benoit, 2020).

Therefore, the theorizing about the role of firms in environmental protection under climate capitalism theory has overwhelmingly focused on private firms. There has not been much thinking about the many different types of SOEs and their relationship to climate change issues. Therefore, the puzzle that this thesis seeks to assess is how do SOEs, with their unique relationship to the government, comfortably fit into this climate capitalism context.

#### **1.3 Thesis Statement**

Climate capitalism theory that justifies the neoliberal approach in mitigating climate change argues that private firms can function better in mitigating climate problems without or with minimal government regulations while making a profit. Such regulations apply to issues involving climate change as private firms know how to self-regulate. In regards to that, profit-seeking becomes the primary objective of a company regardless of who owns it. With that, this study seeks to analyse how different SOEs that have unique relationships with the government comfortably fit into this climate capitalism context.

There are many different types of SOEs with different types of government involvement in their ownership and control structure, such as Government-Linked Companies (GLCs), Government-Linked Investment Companies (GLICs), Statutory Bodies, Foundations or *Yayasan*, Special Purpose Vehicles (SPVs) and Development Financial Institutions (DFIs). To examine how different SOEs comfortably fit into the climate capitalism context, this thesis aims to compare two different types of SOEs in a similar sector.

In doing that, this research has chosen Federal Land Development Authority (FELDA) and FGV Holdings SDN BHD (FGV). Both are SOEs. FELDA is categorised as a statutory body SOE which is defined as an "institution established by various laws at the federal and state levels" (Gomez, Fisal, Padmanabhan, & Tajuddin, 2018). FGV was established as a GLC defined as "a company, listed or unlisted, in which one government institution is the largest shareholder" (Gomez et al., 2018). They are both involved in climate intensive sectors, particularly palm oil plantations, making them a good choice for this study.

The key difference between SOEs that function as a statutory body such as FELDA or as a profit-seeking SOE such as FGV is the element of the government in their ownership and control structure. Since climate capitalism theory proposes minimal regulations from the government, it is important to consider how this would affect different SOEs, depending on whether they are tightly regulated statutory bodies or profit-seeking SOEs not as subjected to strict government regulations.

Therefore, the thesis statement of this study is that SOEs may have different environmental outcomes based on their different ownership and control structures. With that, it can be analysed whether SOEs are motivated to make environmentally positive decisions within the context of climate capitalism that justifies the neoliberal approach to solving environmental issues.

#### **1.4 Methodology**

This research chooses to adopt the case study method, which is ideal for answering this study's "how" research questions. This is so because, based on Yin, "such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence" (1994). Therefore, the case study is used as the methodology of this research.

A case study is defined as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 1994). The case study method helps "to investigate cases in depth and to employ multiple sources of evidence makes them a useful tool for descriptive research studies where the focus is on a specific situation" (Spinks & Canhoto, 2015). The case study is also used to examine contemporary events while focusing on historical events with various types of evidence such as documents, artefacts, interviews, etc. (Yin, 1994).

In the case study methodology, two types of case designs can be adopted in a study. The first is a single case design used when "events are limited to a single occurrence" (Zainal, 2007). The second type of case design is multiple case design which is used when "theory to be better grounded in more varied evidence, with the particular advantage that they allow for cross-case comparison" (Spinks & Canhoto, 2015).

In answering the problems statement on how SOEs, with their unique relationship to the government, comfortably fit into this climate capitalism context, this will be done by comparing a profit-seeking SOE, FGV Holdings Sdn Bhd (FGV), with a social-oriented SOE, Federal Land Development Authority (FELDA). From here, this study can determine whether different types of SOEs are inclined to make environmentally positive decisions within a climate capitalism context that justifies the neoliberal approach in mitigating climate change. First of all, the research has chosen to study SOEs because climate capitalism theory has overlooked the existence of different types of SOEs that are largely involved in high carbon-intensive sectors. Thus, this study aims to close the gap of this theory and literature that left out SOEs in the climate capitalism conversations. Thus, by using these SOEs, this study can determine how the climate capitalism model works in the context of different types of SOEs.

By choosing SOEs, this study has specifically chosen FELDA and FGV. Both are SOEs that share a common history. However, they began to function differently when FGV was divested from FELDA and incorporated with a different ownership and control structure. FGV works as a profit-seeking SOE with the government acting as one of the shareholders, with minimal government regulation. This is because FGV is an SOE or GLC established under the Companies Act 1965 (Felda Global Ventures Holdings Berhad, 2012).

On the other hand, FELDA works as a social-oriented SOE with high government regulation. The government is the regulator, and the settlers' participate in the ownership and control structure. This is so because FELDA is a statutory body established under the Land Development Ordinance 1956 (Dissanayake, n.d.).

Thus, it can be analysed that FGV is an entity that has minimal regulation, just like how it is portrayed in the climate capitalism model, which can be used to determine whether it can achieve both profit-making and environmental protection. Contrary to what is advocated in the climate capitalism model, FELDA is an entity that has high government regulations and settlers' participation. Therefore, FELDA functions as a social-oriented SOE, while FGV functions as a profit-seeking SOE in the palm oil plantation sector.

Apart from that, both SOEs are involved in the same climate intensive sector, the palm oil plantation sector. The reason behind choosing SOEs from the same sector is that both SOEs will face the same environmental problems in developing the sector. In comparing these two SOEs, this study can analyse how they differ in the decisionmaking process in the palm oil plantation sector and their impact on environmental outcomes.

In comparing FELDA and FGV's decision-making process in developing the sector and its environmental protection management, this study uses a business history approach. This approach is important because it is important to track the decisionmaking processes that the entities have made from the formation until today based on the ownership and control structure consisting of different government roles and settlers' participation. This must be done by reviewing the entities' historical nuances.

Thus, business history is a crucial method to trace a company's evolution. The emphasis of this approach is to discover the evolution of a business system, one that can vary significantly among businesses and countries (Cole, 1962). The business history approach also encourages the need to develop various questions such as "what made for change, why did it come when it did, and in the way it did?" (Jones, 2017).

In the literature on business history, Chandler's methodology was the most influential among business historians (Jones, 2017). His method was seen as an inductive style of reasoning to determine the transformation of a business. Five major pillars were identified in Chandler's methodology from most of his famous works [e.g. *Strategy and Structure (1962), The Visible Hand (1977), The Dynamics of Industrial Capitalism (1990)*]. Firstly, focus on identifying the changes over time from a historical perspective in the business organisations. Secondly, the construction of convincing research questions from the identified changes. Thirdly, undertaking a comparative analysis to answer why a certain change happened. Fourthly, the empirical study's historical narratives would be drawn out in chronological sequences on how a company evolved.

Lastly, Chandler uses inter-disciplinary perspectives to conceptualise historical narratives in the history of a business.

Using the first and fourth pillars of Chandler's methodology, this study will identify the changes in the ownership and control structures of FELDA and FGV while looking into the decision-making processes in chronological sequence. In adopting the second pillar, this research has structured research questions from the changes that have been identified. Further in using the third and fifth pillars, this study has done a comparative analysis of the different environmental outcomes of FELDA and FGV and why that is the case. Thus, this approach supports this study to analyse which type of SOEs ownership and control structure are more likely to produce outcomes that simultaneously support profit-making and environmental mitigations or protection. This study can thus determine whether the climate capitalism model that incorporates the neoliberal approach works for SOE with a profit-seeking company in making a profit while protecting the environment.

There are two data collection methods used in this research: primary and secondary data collection. The primary data collection is carried out by compiling official documents and reports online or from institutions. The official documents that were used in this research were mainly FGV and FELDA company yearly reports. In collecting data, this research also conducted casual interviews with FGV personnel to built the grounds for this study. Besides that, this research also used the secondary data collection method due to limited access to some of the official documents of FELDA and FGV. Thus, this study used various types of books, journal articles, and newspaper reports as its secondary data to overcome the limitations.

#### **1.4 Research Question**

- a. How do profit-seeking SOE, FGV Holdings SDN BHD (FGV) and socialoriented SOE, Federal Land Development Authority (FELDA) comfortably fit into the context of climate change theory that justifies neoliberal approach?
- b. How does climate capitalism theory predict the environmental outcomes of profit-seeking SOE, FGV Holdings SDN BHD (FGV) and social-oriented SOE, Federal Land Development Authority (FELDA)?

#### **1.6 Research Objective**

- a. To analyse how profit-seeking SOE, FGV Holdings SDN BHD (FGV) and social-oriented SOE, Federal Land Development Authority (FELDA) comfortably fit into the climate capitalism theory that the justifies neoliberal approach.
- b. To study the climate capitalism theory in predicting the environmental outcomes of profit-seeking SOE, FGV Holdings SDN BHD (FGV) and social-oriented SOE, Federal Land Development Authority (FELDA).

#### 1.7 Significance of the Study

This study's first significance highlights SOEs that have not been considered in the current climate capitalism literature. SOEs are important actors as they have control over climate-intensive sectors. In addition, they also have unique relationships with the government. Therefore, it is significant to study SOEs to understand if and how the climate capitalism model that justifies the neoliberal approach works for different types of SOEs.

This study focuses on elements of ownership and control structure as key variables and how different government roles within these structures can affect outcomes. This is significant because it is problematizing an essential part of climate capitalism theory: government deregulation. This thesis significantly addresses how government involvement in aspects of firms ownership and control works in the context of a deregulated market structure (which has never been done before).

The third significance of this research is that the palm oil sector is a carbon-intensive sector. This study focuses on the above-soil palm oil plantation sector. It is a very controversial sector that is often said to contribute to major carbon release into the atmosphere due to mismanagement on the ground. Thus, by analysing FELDA and FGV in this sector, this study analyses how SOEs with different government roles and people's involvement in the ownership and control structure can result in different environmental outcomes.

#### **1.8** Scope of the Study

This study focuses on the empirical case study of FELDA and FGV as one core scope of this research. Thus, this study will mainly focus on the timeline from 1956 to 2020 from the creation of FELDA, then later the creation of FGV up to the current scenario. By analysing FELDA and FGV from the formation of the SOEs, this study can study how the ownership and control structure has been shaped from the beginning and its influence on the decision making processes.

This study also emphasises the above-soil palm oil operations of FELDA and FGV locally and internationally. This is because the land-based palm oil sector is an important sector that contributes to climate change issues due to mismanagement. Therefore, by analysing different types of SOE from this sector, this study can show how they manage the palm oil plantations sector through their decision making processes by making a profit while protecting the environment.

#### **1.9** Limitations of the Study

Limitations are commonly found in all research, the same for this study. The reliability of the information is the limitation faced in the data collection process of this

research. As the official documents available to the public is limited, most of the data collected were from secondary sources. Thus, the reliability of the gained information is doubtful.

In resolving that limitation, this study used the triangulation method to overcome the constraints faced by this research. Triangulation is a method that can be used to analyse the data by using different forms of data collection. Based on this, there are three main purposes of using this method: "to enhance validity, to create a more in-depth picture of a research problem, and to interrogate different ways of understanding a research problem" (Nightingale, 2020). This study, therefore, uses multiple sources of data, such as casual interviews and archival documents. By using that, this study was able to validate the information collected from various secondary sources.

Apart from that, this study also faced limitations in terms of the sensitivity of this topic to SOEs often thought to be causing environmental issues in the palm oil sector. Therefore, securing interviews with FGV personals was very difficult. Fortunately, this study still managed a few interviews to help build this study's grounds without causing any controversial arguments that can be very sensitive.

#### 1.10 Structure of the Thesis

This dissertation consists of five chapters, including the introduction and conclusion chapters. In the second chapter, the researcher will be highlighting the theoretical framework and literature review of this research. Here, the study will focus on the insights of the climate capitalism theory. By the end of this chapter, the study will determine the theoretical gaps of the climate capitalism theory in building this theoretical framework.

In the third chapter, this research will study the empirical case studies of FELDA and FGV. As mentioned earlier, this chapter will use the first method from Chandler's methodology to find the changes that take place over time within the businesses. Thus,

the first part of the chapter will identify the significant historical nuances of FELDA and FGV in ownership and control structures by using the business history approach. This chapter will be presented to highlights the differences between a social-oriented statutory body SOE, FELDA, and profit-oriented SOE, FGV. The second part of the chapter will further determine how differences in the ownership and control structure can influence the firm's priority in their decision-making process, resulting in different environmental outcomes in the palm oil plantation sector.

In the fourth chapter, the study will analyse whether these different SOEs with different ownership and control structures comfortably fit into the context of climate capitalism theory that justifies the neoliberal approach in mitigating climate change while making a profit. Finally, this chapter will highlight why and how the reconceptualisation should occur in climate capitalism theory to be applicable for all the actors from various sectors. In the concluding chapter, the researcher will be summarising the findings of this research, followed by suggestions for future studies on climate capitalism theory.

#### **CHAPTER 2**

#### THEORETICAL FRAMEWORK AND LITERATURE REVIEW

#### 2.1 Introduction

As this research is very much theoretical, this chapter will begin with analysing the two primary focuses of this theory: the neoliberal approach and the role of governments as subsections. After that, this chapter highlights the literature on climate capitalism theory and the empirical study. Then the critiques of climate capitalism theory will be highlighted. After analysing the approach from the point of the theory's critiques, the study will be looking further into studying climate capitalism in the context of SOEs. Therefore this section will be divided into state-owned enterprises covered in the first part and the palm oil and climate change in the second. By the end of this chapter, the study would have built a concrete theoretical framework.

#### 2.2 Climate Capitalism

Climate capitalism is a theory that justifies the neoliberal approach in creating carbon markets for private firms to make a profit while protecting the environment. This theory was introduced by Newell & Paterson (2010) in their book entitled *Climate Capitalism: Global Warming and the Transformation of the Global Economy*. The scholars generally argued that climate capitalism is a compatible model accomodating profitmaking and environmental protection without each other's expense.

Many scholars have developed this theory in various ways. This study chooses the definition given by Manzo and Padfield as it is best suited for this study. In this study, climate capitalism is defined as an "ideological fit with neoliberal logic and with ecological modernisation theory, which posits *environmental problems are solvable within the context of existing institutions and power structures and continued economic growth*" (Manzo & Padfield, 2016).

Theorization of climate capitalism theory about the role of firms in environmental protection has overwhelmingly focused on private firms. Under the climate capitalism model, private firms are categorised as the problem-makers and, therefore, they are considered the most sustainable solutions for the environment. Climate capitalism theory also primary focuses on the voluntary action of private businesses in climate action mitigation which is done with minimal government regulations. With that, this study will highlight two main principles from the climate capitalism theory: the neoliberal approach and the role of government.

#### 2.2.1 Neoliberal Approach

Climate capitalism theory adopts the neoliberal approach in justifying the use of carbon markets for private firms to profit while protecting the environment. Thus, the theory was developed with four significant characteristics of the neoliberal approach, which are "the ideological fixation with *markets*, the dominance of *finance*, widening global economic *inequalities*, and the focus on *networks* as a means of organising" (Newell & Paterson, 2010, p. 23-24).

Sapinski (2016) argued that climate capitalism is a theory with a core idea of making carbon reduction profitable for private firms. By adopting the neoliberal approach, climate capitalism theory justifies shifting corporate actors' perspectives on climate change mitigation as profitable rather than a threat. Consequently, climate capitalism believes that without business support, it is impossible to transform the entire economy into a low carbon economy (Newell & Paterson, 2010).

According to Lovins (2010), "if all you are is a profit-maximising capitalist, you will do the same thing you would do if you were scared to death about climate change because we know how to solve this problem at a profit". Under these circumstances, carbon markets such as offset schemes, emission trading schemes, etc., seems to act as a platform for profit-seeking firms to profit while protecting the environment (Sapinski, 2015).

Climate capitalism argues that perhaps this is why many companies, including financial institutions, are investing in the renewable energy, energy efficiency, and conservation sectors. For instance, in 1997, British Petroleum and Shell decided to support investing in renewable energy projects. The projects gained momentum after the Kyoto Protocol agreement with the creation of carbon trading markets (Sapinski, 2016). Therefore, the neoliberal approach justifies the private firms and financial institutions to generate profit in renewable energy through carbon markets while reducing the dependency on the fossil fuel sector, which can cause high carbon release (Newell & Paterson, 2010).

Thus, by adopting the neoliberal approach, climate capitalism theory justifies the usage of "markets for emissions, of *new or expanding* markets for renewable energy technologies and of new *investment* opportunities" (Newell & Paterson, 2010, pg.33). For instance, carbon markets like the EU's Emission Trading Scheme (ETS) and Clean Development Mechanism (CDM) are formed to decarbonise the global economy (Kirby & O'Mahony, 2018; Newell & Paterson, 2010).

ETS and CDM are carbon markets widely used as a decarbonising tool for profitoriented firms like private firms largely involved in carbon-intensive sectors. For instance, this is done through investments in "renewable energy, energy efficiency and conservation, carbon capture and storage, advanced public transport, and urban infrastructure reform" (Newell & Paterson, 2010). By doing so, the private firms offset their carbon emission by funding certified emissions reduction (CER) projects (Newell & Paterson, 2011). The projects involved can be in various forms, "from wind or solar energy to energy efficiency, to landfill gas capture (of methane, a GHG), to destruction of powerful GHGs like hydrofluorocarbon" (Newell & Paterson, 2010, p. 83). As a result, private firms profit from the carbon reduction projects while reducing the carbon released into the atmosphere that can cause climate change.

ETS is a mechanism that involves "the buying and selling of pollution entitlements" (Newell & Paterson, 2010, p. 96). As a result of the creation of ETS systems, there was a huge rise in the investment rate in the renewable energy sector, from \$62 billion in 2004 to \$329 billion in 2015 (Kirby & O'Mahony, 2018). Thus, this shows the shifting of investments of large financial institutions in renewable energy, energy efficiency, and conservation sectors. Thus, by promoting these carbon markets, climate capitalism justifies shifting investments away from fossil fuel-based sectors raising ecologically modernised production and reducing GHG in the atmosphere (Sapinski, 2015).

Overall, climate capitalism theory justifies that adopting the neoliberal approach can effectively influence the firms to involve in the climate change mitigations through carbon markets, which helps them make a profit. Therefore, the neoliberal approach to mitigating climate change has justified carbon reduction as profitable while being environmentally concern under the climate capitalism theory. This is done through carbon markets that allow firms to trade their carbon to other firms.

#### 2.2.2 The Role of Government

By using the neoliberal approach, climate capitalism theory focuses on limiting the role of government as a regulator in the process of private firms mitigating climate change. Climate capitalism theory justifies that by stating that the "governments can no longer effectively pursue their goals through simple bureaucratic fiat", such as building partnerships with private enterprises (Newell & Paterson, 2010, p. 23).

Despite the limited role of government, climate capitalism theory argues that the government still plays a leadership role in setting voluntary environmental taxation and carbon emission ratings for the private firms (Lovins, 2010; Newell & Paterson, 2010). For instance, the government can "create and distribute lucrative property rights in the

earth's carbon cycling capacity and set up extensive measurement agencies to ensure that the ensuing property transactions proceed smoothly" (Lohmann, 2011). Thus, the role of government is limited to setting "minimal global standardised regulations, substantial financial incentives, and very importantly, the bureaucratic infrastructure required to administer carbon markets" (Sapinski, 2015).

However, the rest of the work is then left to the private companies to execute their action towards protecting the environment without any further regulatory enforcement from the government. Doing so reduces the burden of regulatory load and raises the private sectors' responsibilities to take initiatives towards protecting the environment (Newell & Paterson, 2010). Thus, climate capitalism theory argues that voluntary business actions in climate change mitigation are important. This is so because the role of government is seen to be threatening to businesses, especially when private companies are pushed to protect the environment (Newell & Paterson, 2010). Therefore, climate capitalism argues that the government functions best at its minimal role (Sapinski, 2015; Wittneben et al., 2012).

However, in reality, the government plays various crucial roles through government institutions like Government-Linked companies (GLCs) or profit-seeking SOEs which is "a company, listed or unlisted, in which one government institution is the largest shareholder" (Gomez et al., 2018, p. 12). Apart from that, Government-Linked Investment Companies (GLICs) is also one of the government institutions, and seven entities are referred to as GLICs by the Treasury. On the other hand, Statutory Bodies are "institutions established by various laws at the federal and state level" (Gomez et al., 2018, p. 12). Apart from that, Foundations or *Yayasan* is also one of the government institutional literary, scientific, charitable or social welfare activities under the Trustees (Incorporation)) Act 1952 or Companies Act 1965" (Gomez et al., 2018, p. 12). Besides that, Special

Purpose Vehicles (SPVs) is also one of the government "corporations formed to execute specific projects and functions, primarily to implement government policies" (Gomez et al., 2018, p. 12). Development Financial Institutions (DFIs) is a government "financial institution with a specific mandate to develop key sectors considered strategic for the development of the economy" (Gomez et al., 2018, p. 12).

In considering the reality, these different types of firms have unique relationships with the government. For instance, under a statutory body, the government plays the role of regulator. However, in profit-seeking SOEs, the government plays a shareholder role with minimal regulations. Thus, this study will determine how SOEs like statutory bodies and profit-seeking SOEs comfortably fit into this climate capitalism context with their unique relationship to the government.

#### 2.3 Literature Review

This section of the chapter analyses the literature on climate capitalism theory, stateowned enterprises, and FELDA. Thus, this section has three parts: the literature on climate capitalism theory, state-owned enterprises, and FELDA.

#### 2.3.1 The literature on climate capitalism theory

A huge storehouse of the literature shows perfect examples of climate capitalism principles successfully in mitigating climate change issues in various private business sectors. Although some scholars reviewed the incompatibility of this theory [e.g., Lo (2015)], some studies that highlight the success of the climate capitalism model in mitigating climate change in various sectors [e.g., Lovins (2010); Manzo & Padfield (2016); Newell & Paterson (2010)].

In the study of *Climate Capitalism: The Business Case for Climate Protection*, Lovins (2010) emphasised Walmart, an American multinational retail corporation, as a successful example of the climate capitalism model. The scholar argued that Walmart could save up to \$7 million a year by replacing the incandescent bulbs with compact energy saving fluorescent bulbs in its 3,230 stores. Besides, based on the scholar's findings, in two years of conducting Walmart's waste reduction program, Walmart reduced about 5 per cent of its unnecessary packing and saved up to \$11 billion. In the long run, Walmart's effort towards protecting the climate "would be equal to removing 213,000 trucks from the road, saving about 324,000 tons of coal and 77 million gallons of diesel fuel per year" (Lovins, 2010).

Apart from that, Lovins (2010) identified DuPont as a chemical-based company that used energy-saving measures with minimum cost to replace fossil fuel. By shifting away from fossil fuel energy, DuPont saved up to \$2.2 billion per year (Lovins, 2010). By putting forward the examples as evidence, Lovins (2010) believes that private businesses can resolve climate change while making a profit. Not only that, but the scholar also emphasised that it is the best sustainable solution for the environment and the growth of the business.

Apart from that, British Airways (BA) is a good example of the climate capitalism model from the aviation industry highlighted by Newell & Paterson (2010) in *Climate Capitalism: Global Warming and the Transformation of the Global Economy*. Based on the research, the government's regulation is one of the companies' risks, and BA was one of the companies. This was evident when BA highlighted on their website that

"studies have shown that green taxes have very little effect when compared with carbon trading. In order to receive the same emissions reduction as trading, taxes would have to be at least 23 times more costly than trading" (Newell & Paterson, 2010, p.48).

Based on the study, BA's engagement in emission trading minimised its financial costs of regulation. Therefore, climate capitalism theory argues that with minimal government regulations, private firms voluntarily engage with carbon markets (e.g.,

ETS, CDM. Etc.), which allows them to profit while protecting the environment (Newell & Paterson, 2010).

Other than that, companies from oil and gas industries such as British Petroleum and Shell were highlighted by Newell and Paterson as examples of the climate capitalism model (Newell & Paterson, 2010). For instance, Shell and BP collaborated with the Global Climate Coalition to promote renewable energy and manage climate as a risk management factor rather than a threat to businesses.

These companies' actions followed their acknowledgement of climate change's importance as part of their rising Corporate Social Responsibility (CSR). Besides, Exxon Mobil, British Petroleum, and Shell also took this as a good business strategy to create the company's good image among the public (Newell & Paterson, 2010). Thus, climate capitalism theory justifies a win-win situation for businesses to profit while mitigating climate change issues.

Other than that, Kate Manzo and Rory Padfield used climate capitalism as their research framework in their paper titled *Palm oil, not polar bears: climate change and development in Malaysian media*. This paper analyses the Malaysian media's narratives on climate change and palm oil development under the framework of climate capitalism. From their findings, the scholars showed that the media coverage on climate change transformed from narrating it to be a threat to an opportunity to do more development (Manzo & Padfield, 2016). Therefore, based on the research, it can be identified that climate capitalism theory has been used to justify the shifting of climate change narrations from a threat to a more positive view.

By analysing the literature of climate capitalism theory, it can be analysed that the private actors are the focus of the climate capitalism theory. One segment of the literature focuses on the theory as a framework to emphasise the shifting of perspective on climate change. However, by analysing the literature in climate capitalism theory, it has been identified that the literature is not aware of the presence of different types of SOEs that has a unique relationship with government. Thus, it can be determined that SOEs have been a blind spot of this theory, and this study will be focusing on that.

#### 2.3.2 State-Owned Enterprises

Since there is no literature in climate capitalism that deals with SOEs, therefore, in this section, the study reviews another body of literature, SOEs. In this SOE literature, scholars do talk about the role of SOEs in relation to climate change issues from various sectors [e.g., Bergsager & Korppoo (2013); Benoit Mayer & Rajavuori (2016); Williams (2014); Eaton & Kostka (2017)]. In doing that, this subsection will focus on literature related to different types of SOEs, including profit-seeking SOEs and their implications on climate change issues in various sectors worldwide, including Malaysia.

Benoit Mayer & Rajavuori (2016) argue that SOEs are the most relevant actors to mitigate climate change issues apart from private actors from an optimistic perspective. Scholars argue that SOEs are the significant actors in fossil fuel and power production, which are environmentally controversial. For instance, more than twenty per cent of GHG emissions are from the fossil fuel-based sectors, and most of the companies involved in those sectors are profit-seeking SOEs. Under this circumstance, the scholars stated that profit-seeking SOEs could be a great tool for the government to shift towards a carbon-neutral economy by providing them with aids and assistance to trade carbon.

Other than that, in the empirical study of Bergsager & Korppoo (2013), China profitseeking SOEs are the significant players in mitigating climate change, specifically in two major sectors; the steel and power sectors. Based on their study, in the steel sector, the State Council had increased the production share of the top ten profit-seeking SOEs from 40 percent in 2010 to 60 percent in 2015. It was achieved by introducing advanced and efficient technologies in the steel sector to mitigate climate change while making a profit. Therefore, sometimes, there can be environmentally positive outcomes.
On the other hand, two-thirds of China's power capacity is generated through coal burning in the power sector. It largely involves five SOEs under the provincial administrations. Thus, the scholars argued that profit-seeking SOEs could play an important role in addressing climate change issues with a better power grid. Apart from that, many profit-seeking SOEs in China cause major environmental problems due to their huge dam projects. As evidence, based on Urban & Nordensvard (2014), China's profit-seeking SOEs lead the hydropower sector in terms of the number of dams built despite their vulnerability towards climate change.

Hence, it can be analysed that profit-seeking SOEs damage the environment while some other SOEs show positive environmental outcomes. Therefore, this study argues that whether positive or negative environmental outcomes, it boils down to the ownership and control structure of SOEs that determines the unique role of the government within them.

In addition, based on Williams's (2014) empirical study on China, profit-seeking SOEs are also largely involved in the energy sector and thought to be the largest emitters in China. The study also found that these types of SOEs largely influenced policies in China. As a result, profit-seeking SOEs were often criticised when it came to climate change issues. Thus, these again show how significant the role of SOEs is in the climate change problem.

As for Malaysian SOEs, there is hardly a sector that SOEs are not involved in (Menon, 2017). Seventeen out of the top fifty publicly-listed companies in 2017 were SOEs (Gomez et al., 2018). Therefore, they play a crucial role in building the economy of the country. For instance, Petronas is a state-owned oil and gas company ranked 184<sup>th</sup> in the Fortune Global 500 List, having revenue of nearly a quarter of GDP in 2017 (Menon, 2017). Thus, this indicates the significance of profit-seeking SOEs in the Malaysian economy.

In the literature of Malaysian SOEs, the studies mainly analysed ownership and control structure [eg. Mohd Nasir (2017); Gomez et al. (2018); Menon (2017); OECD (2017); Rieffel (2015)]. For instance, in the comparative study by Mohd Nasir (2017) on SOEs in the United Kingdom, Japan, and Malaysia, the scholar highlighted the differences in SOEs' regulations and management according to different countries. In Malaysia, profit-seeking SOEs are formed as "a company-type entity, governed by the Companies Act" (Mohd Nasir, 2017). However, the government control this type of SOEs with their large share held through statutory bodies or other government institutions. However, this study merely emphasises the ownership and control structure without further analysing the environmental outcomes of different types of SOEs.

Also, the study conduct by Menon (2017) on Malaysian SOEs also highlighted how significant are SOEs/GLCs to the Malaysian economy. Therefore, this study presents how Malaysian GLCs or profit-seeking SOEs are primarily focused on making huge profits. Thus, it can be analysed that profit-seeking SOEs are formed under the Companies Act to generate profit for the Malaysian economy. However, not all government institutions are created to make profits like profit-seeking SOEs.

Based on the study conducted by Gomez et al. (2018), there are many types of SOEs. However, all SOEs have their own goals to achieve. For instance, as a statutory body SOE, FELDA mainly focuses on social issues without making its returns the main priority. On the other hand, FGV was formed as a profit-seeking SOE under the Companies Act 1965 to function like any private company. Therefore, the ownership and control structures play a very important part in determining their decision making processes on certain issues.

Even though Malaysian SOEs are great economic contributors to the country, many profit-seeking SOEs violate the environment badly to achieve their profit-making goals. Some scholar argues that "the government strives for economic growth, progress and development; this is why it tolerates the destruction of tropical forests by foreign and national corporations" like profit-seeking SOEs (Nordensvärd & Urban, 2011, p. 17). Environmental violations occur in various sectors, particularly in the fossil fuel, power production, and plantation sectors. These are largely highlighted in the studies of scholars such as Begum & Pereira (2011), Nordensvärd & Urban (2011), Varkkey (2013).

In the study of Begum and Pereira (2011), the analysis showed that corporate firms, including profit-seeking SOEs, play a crucial role in climate change mitigation. Therefore, they are largely involved in the activities of reducing carbon emissions. Consequently, these firms have increased opportunities to engage in renewable and clean energy businesses. This study also argues that governments should play a crucial role in implementing environmental policies as a regulator to protect the environment. This would then "allow corporate sector players to strengthen their capacity by reducing their vulnerability to climate change and seek business opportunities beyond the borders of their internal organisations and supply chains" (Begum & Pereira, 2011). However, this study did not highlight the different roles of government in profit-seeking SOEs and merely assumed that government only plays a regulator role.

In the comparative study of GLCs/SOEs from China, Malaysia, and the United States, Nordensvärd & Urban (2011) highlighted that they are the major contributors of carbon emission since they are highly concentrated in the fossil fuels based sectors. Therefore, this shows that profit-seeking SOEs are significant players in developing the industries and causing environmental issues. This study also highlighted that the Malaysian profit-seeking SOEs involved in the palm oil sector often cause major deforestation, causing the release of a high amount of GHG into the atmosphere. However, the study did not highlight the different types of SOEs that may result in different environmental outcomes in developing a sector.

Looking specifically at the plantation sector, the Malaysian government intervenes in three forms: statutory bodies, GLCs/SOEs, and substantial shareholdings (Gomez et al., 2018). There are three significant statutory bodies in the Malaysian plantation sector: FELDA, Rubber Industry Smallholders' Development Authority (RISDA), and the Federal Land Consolidation and Rehabilitation Authority (FELCRA). These statutory bodies are "institutions established by various laws at the federal and state levels" (Gomez et al., 2018).

Meanwhile, a GLC is "a company, listed or unlisted, in which one government institution is the largest shareholder" (Gomez et al., 2018). For instance, FGV Holdings and Sime Darby are formed like GLCs/SOEs and functions like any other corporate company (Menon, 2017). Apart from that, the government intervenes through substantial shareholdings with investments, such as the case of IOI Corporation, a family firm controlled by Lee Shin Cheng (Menon, 2017).

Despite these profit-seeking SOEs being the main economic powerhouses of Malaysia, they are largely responsible for environmental problems. For instance, FGV is the largest state-owned palm oil agency in the world. It is estimated to develop more than half the primary and secondary forests into oil palm plantations from 1991 to 2005 (Århem, 2011). The deforestation activities caused about 163 tonnes of carbon to be released into the atmosphere (Danielsen et al., 2008). Thus, it is evident that publicly-listed multinational SOEs like FGV contribute significantly to climate change issues, just like any other private firm.

Based on the study conducted by Varkkey (2013), the Malaysian palm oil SOEs were criticised for causing transboundary haze in Indonesia. These palm oil SOEs were largely involved in clearing peatland areas which caused major forest fires to break out. This study also argues that profit-seeking SOEs are often motivated by profit-making with little concern for the environment. Thus, this shows that profit-seeking SOEs function just like any private company. However, the study could not look deeper into the ownership and control structures of the different types of SOEs and their environmental outcomes while making a profit.

Based on the literature on SOEs from around the world and Malaysia, it can be determined that profit-seeking SOEs are largely involved in the high carbon-intensive sectors. By analysing the literature, this study discovered that the literature largely was not concern about the different types of SOEs such as statutory bodies, profit-seeking SOEs and so on. Therefore, this study will examine the importance of different ownership and control structures of SOEs in analysing the environmental outcome.

#### 2.3.3 FELDA and FGV

By choosing FELDA and FGV as the case studies of this research, this section of the chapter will analyse the past literature on FELDA and FGV to understand the significant gaps that can be filled in through this study. This study also realised that many studies have been done on FELDA from independence until today. Thus, many scholars have studied FELDA between two main aspects are on the socio-economic aspect (Abdul Hamid, 2000; Aziz, Hassan, & Saud, 2013; Bahrin & Thong, 1988; Drury, 2004; Fold, 2000; Mamat, Ng, Azizan, & Chang, 2016; Mehmet, 1982; Simeh & Tengku Ahmad, 2001; Sutton & Buang, 1995; Thong & Bahrin, 2006; Wikkramatileke, 1965, 1972) and sustainable aspect (Khor, Saravanamuttu, & Augustin, 2015).

By looking at the studies related to the socio-economic aspect, in Aziz et al. (2013), the scholars highlighted the evolution of FELDA into the commercial agriculture sector and its influence on the settlers' livelihood. This study has analysed that as a statutory body, FELDA has uplifted FELDA settlers' livelihood by developing monoculture crops such as palm oil. Therefore, this shows that FELDA does not focus primarily on profit as its return but instead on achieving its social and economic obligations. However, this study merely focuses on the relationship of the agriculture sector to the livelihood of settlers.

Besides that, in the study carried out by Wikkramatileke (1965) (1972), the scholar highlighted the initial legislation and other problems that had to be addressed during FELDA's formation. Therefore, both the studies entirely focused on the development of FELDA and the schemes that improved settlers' lives through rural development projects.

Under the socio-economic aspect, in the study conducted by Fold (2000), the scholar highlighted the restructuring of FELDA, which began in the 1990s. In doing that, the scholar emphasised the steps FELDA needed to take to comply with the new international trade regulations of the World Trade Organisation (WTO) while also struggling to achieve its socio-economic goals. Other than that, the ownership and regulations of FELDA were also studied in a comparative research with Darul Arqam Settlement Regimes in the study conducted by Abdul Hamid (2000). In this study, the researcher showed the expanding role of FELDA from being a primary commodities producer to a manufacturer. Based on the previous studies on the aspects of ownership and regulations of FELDA, it can be analysed that the studies merely focused on the changes that happened within FELDA and the influence of political issues in each era.

A comparative study by Mehmet (1982) that studied the socio-economic aspects of land development schemes showed that FELDA was the more successful poverty eradication program compare to the Land Consolidation and Rehabilitation Agency (FELCRA). Drury (2004) and Simeh & Tengku Ahmad (2001) also supported the findings. In addition, the research done by Simeh & Tengku Ahmad (2001) had established that FELDA had raised the income rate of FELDA settlers in a shorter period than other agencies through palm oil production. Therefore, these studies highlighted that as a statutory body, FELDA had a huge role in achieving the nation's socio-economic goals.

Apart from that, some studies have been carried out chronologically in highlighting the socio-economic aspects of FELDA. For instance, in the studies carried out by Bahrin & Thong (1988) and Sutton & Buang (1995), the scholars emphasised the transformation of FELDA from being a land settlement agency to a plantation company. In doing that, the ownership and control structure of FELDA was highlighted to determine the expansion of FELDA's role. However, the past literature merely focuses on the contribution of FELDA to the settler's social and economic status.

By looking into the sustainable aspect related studies, in the study of Khor et al. (2015), the scholar highlighted FELDA as a smallholder settlement scheme that manages sustainability compared to FGV, which was selected as an RSPO mass balance supply chain. FGV therefore "deemed a lower effort and therefore lower value of ecocertification" (Khor et al., 2015, pg.52). However, this study did not highlight the ownership and control structure of FELDA and FGV that highlights the different roles of government in climate change mitigation.

From the previous studies, it can be analysed that there was much research carried out on FELDA from the socio-economic aspect and sustainable aspect. In the literature of FGV, many scholars look into FGV from two aspects: the political and the business aspects. In the study on the FELDA Quarrel and its National Raminifications, Yu Leng (2017) highlighted the political events during the listing of FGV due to the settlers' dissatisfaction before the coming general election in 2013. However, this study mainly focused on the political crisis FELDA and FGV during that period.

In the business aspect, a study carried out by Fathih & Abdul Hadi (2021) highlights the significance of the capital structure of FGV among Malaysian listed companies at Bursa Malaysia. In this study, the scholar focuses mainly on the debt-equity ratio of FGV "to understand how tangibility and profitability may directly influence the company's share price in both short run and the long run" (Fathih & Abdul Hadi, 2021). Therefore, it can be analysed that this study merely focuses on the business aspect of FGV in a making profit without giving much importance to other aspects such as the environment.

Apart from that, studies highlight the relationship between FGV and its employees (Abd Aziz, 2015; Junaidi, 2014). In the study conducted by Abd Aziz (2015), the scholars highlighted the variables that influence the over-indebtedness among FGV employees and closely related it to financially literacy, debt load and financial experience. Apart from that, in the study by Junaidi (2014), the scholar highlights the factors that influence job satisfaction among the employees working in FGV. Therefore, it can be analysed that these studies mainly focus on the relationship between FGV and staff within the company.

Overall, it can be determined that literature on FGV are mainly focused on either politics or business. Therefore, no literature was found to identify FELDA and FGV as different SOEs with unique relationships with the government. Apart from that, no studies bridging socio-economic or business aspects to climate change while acknowledging their unique relationship with the government. In determining that, this research will highlight the differences of FELDA and FGV as SOEs through ownership and control structure to show the unique relationship of government and its environmental outcome in developing the palm oil plantation sector.

#### 2.4 Critiques of Climate Capitalism Theory

Acknowledging the imperfection of climate capitalism theory, like any other theory, this study highlights literature that critiques this theory. Climate capitalism is criticised for carbon markets, based on the neoliberal approach, allowing firms to create more revenue than protect the environment. Therefore, climate capitalism is analysed to be creating a new set of problems in mitigating climate change. Moreover, private firms merely use the climate capitalism model to increase profit rather than shift their perspective in mitigating climate change issues (Berg, 2016).

This was then further criticised by Lohmann (2011) in the aspects of the significant role of financers. Based on Lohmann (2011), the flexibility of their role in modifying the carbon market can result in causing more investments in fossil fuel-based sectors, raising carbon emission rates. Based on the statistics of September 2010, only 97 out of 5,443 offset projects were approved by the Gold Standard in the Kyoto Protocol. It shows how inefficient carbon markets are in attracting private companies to mitigate climate change (Lohmann, 2011). Even if they do, private companies are more interested in reducing fossil fuel energy dependency than focusing primarily on reducing GHG emissions (Böhm, Misoczky, & Moog, 2012).

Also, carbon markets are criticised for subsidising ecological activities that are environmentally destructive such as building dams (Böhm et al., 2012). Böhm et al. (2012) also stated that these carbon markets resemble "an extension of power by capital" over ecological values' transmissions. Thus, it is criticised for being the economic generator through massive investments in renewable and energy efficiency projects.

According to Lo (2015), the carbon trading market justified by the climate capitalism model has failed based on the study of "National development and carbon trading: the symbolism of Chinese climate capitalism". Thus, the scholar criticised that the carbon market is structured so that it overlooked the authoritarian state like China, which also largely contributes to the CO<sub>2</sub> emission. For instance, in China, the central authorities are the actors who structure economic policies together with predominant state interventions. In this case, the ruling party has the major power in driving the carbon trading program in anticipation of financial returns (Lo, 2015).

Thus, the function of the carbon market was not compatible with China's climate change policy due to its authoritarian regime. The scholar also argued that the neoliberal approach in creating a carbon market could be the main cause of the incompatibility of the climate capitalism model to be used widely.

From the previous studies, it can be analysed that the carbon market has both good and bad stories when it comes to mitigating climate change. Overall, some literature states that carbon markets are merely an excuse to utilise nature for profit. Some literature states that many companies have shifted to renewable energy due to its participation in the carbon trading or carbon market, which cause the reduction of GHG released to the atmosphere. With all this literature highlighting the good and bad sides of carbon markets, this study will analyse how this affects SOEs with unique relationships with the government. Will it cause a positive or negative impact on the environment while making a profit?

# 2.5 Climate capitalism in the context of SOE

From getting to know what climate capitalism is and its critiques from various literature, it can be analysed that the theory has both failures and successes in each circumstance, just like any other theory would have. After analysing the past studies on climate capitalism theory, this research has identified the main theoretical gap of this theory: SOEs. Therefore, in this part of the chapter, the study will analyse the gaps thoroughly to show why these gaps are significant and need to be filled in.

#### 2.5.1 State-Owned Enterprises

As acknowledged, climate capitalism focuses on private firms to resolve climate change issues as the theory assumes that they are the significant actors in causing environmental problems. In focusing on private firms, climate capitalism theory justifies the neoliberal approach in creating carbon reduction profitable for the firms to profit while protecting the environment. This is done through minimal government regulations to accelerate the voluntary action of private firms in climate change mitigation.

However, in reality, many SOEs damage the environment, just like many private companies. For instance, many SOEs in China engaged in the energy sectors are causing major environmental disruptions (Nordensvärd & Urban, 2011; Williams, 2014). In Malaysia, many profit-seeking SOEs are considered the major contributors to climate change (Varkkey, 2013).

By looking deeper into SOEs, it can be determined that there are many different SOEs, such as profit-seeking SOEs, statutory body SOEs, etc. In Malaysia, these different types of SOEs were created "to support the government policy" (Mohd Nasir, 2017). In addition, these different types of SOEs have a unique relationship with the government. For instance, for profit-seeking SOEs, the government plays a role as one of the shareholders within the company while playing a minimal role as a regulator. On the other hand, in the case of statutory body SOEs, the government acts as a regulator with high regulations.

In considering the unique position of different types of SOEs and the lack of climate capitalism theory in acknowledging the existence of SOEs, this study will use FELDA and FGV as empirical case studies to fill in the gap. By selecting FELDA and FGV, this study will focus on the ownership and control structure to highlight the government's unique relationship and role. How does that reflect the decision-making process regarding profit-making and environmental protection in the palm oil sector? By determining that, this study can highlight the environmental outcomes of both firms. Thus, this study can also answer how different types of SOEs like profit-seeking SOEs

and statutory body SOE fit into the climate capitalism context of profit while protecting the environment in developing the palm oil sector.

### 2.5.2 Oil Palm Plantation Sector and Climate Change

As mentioned earlier, by using the empirical case studies from palm oil sectors, this study can determine the applicability of climate capitalism to the above soil sectors, which largely contributes to high carbon release to the atmosphere. Thus, this section will explain the oil palm plantation sector's effect on the environment. This shows that the mismanagement of palm oil plantations could be no different from fossil fuel-based sectors when it comes to violating the environment.

Palm oil is one of the most demanding vegetable oils in the world. Therefore, the growth of palm oil monoculture plantations expanded drastically (Guillaume et al., 2018). As a result, large tropical forests were cleared to establish oil palm plantations (IUCN, 2018). This led to major carbon release from primary and secondary forest areas, leading to major global warming issues (Asian Scientist Newsroom, 2018; Union of Concerned Scientists, 2013).

At the same time, it is a crop that produces a high yield per hectare compared to other crops. Also, this crop works best in tropical land areas which are rich in biodiversity. Therefore, oil palm developments often cause the decimation of tropical forests. The expansion of oil palm plantations damages the environment due to deforestation activities which causes a huge amount of greenhouse gas release into the atmosphere (IUCN, 2018).

Based on Guillaume et al. (2018), one hectare of converted rainforest land to oil palm plantation can release about 174 Mg of carbon per unit of yield. This amount of carbon release "is roughly equivalent to the amount of carbon produced by 530 people flying from Geneva to New York in economy class" (Guillaume et al., 2018).

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In addition, oil palm is largely developed in peatlands. Since peatland contains 18 to 28 times more carbon than normal forested areas, converting peatlands into oil palm plantations damages the environment (Page, Rieley, & Banks, 2011). Clearance of peat swamp forests causes a high rate of carbon released into the atmosphere compared to clearing tropical forests. Furthermore, the drainage process of cleared peat swamp forest makes the areas very vulnerable to fire. Thus, these cause major fire breakouts to happen, which concurrently raise the total amount of GHGs. Thus, it can be determined that the palm oil plantation sector is one significant sector that causes major releases of carbon into the atmosphere, just like any fossil fuel-based sector argued in the climate capitalism theory.

# 2.6 Conclusion

Climate capitalism is an influential theory among policymakers that brings both capitalism and environmental protection into contact without compromising either (Hope, 2015). The climate capitalism theory justifies the neoliberal approach to make carbon reduction profitable to achieve a low carbon future within the existing power structure. However, just like any other theory, there are many critiques of climate capitalism theory.

However, the literature on climate capitalism theory does not give attention to different types of SOEs. In filling the gap, this study will look into FELDA and FGV as its empirical case study. Thus, in the upcoming chapter, this study will highlight the ownership and control structures of FELDA and FGV that consist of different roles played by the government. The study also focuses on different decision-making processes when it comes to making a profit and protecting the environment in developing the palm oil plantation sector.

# CHAPTER 3: OWNERSHIP AND CONTROL OF FELDA AND FGV AND THEIR DECISION-MAKING PROCESSES

## 3.1 Introduction

After an in-depth understanding of climate capitalism theory in the previous chapter, this chapter will focus on the empirical study. Therefore, this chapter is divided into two parts. The first part of this chapter will highlight the ownership and control of FELDA, as a statutory body (social-oriented SOE) and FGV, as an SOE (profit-oriented SOE). The second part of this chapter will analyse the social-oriented enterprises' and the profit-oriented enterprises' decision-making process in considering environmental issues in developing oil palm plantations.

# **3.2 FELDA as a Social-Oriented SOE**

FELDA was established and on the 1<sup>st</sup> of July under the Land Development Ordinance 1956. Therefore, FELDA was formed as a statutory body, bound by government legislation. This also means that the government has tight regulations over FELDA. Even though it was formed in 1956, the initial idea to create FELDA started way early in 1955 was from Tun Dr Ismail bin Datuk Abdul Rahman, the Minister for Natural Resources. At that time, the government was very interested in land development policies to uplift rural people's economic status (Dissanayake, n.d.).

Thus, the government accepted the proposal made by Tun Dr Ismail to establish FELDA as a large-scale planned land development. However, before doing that, the government decided to create a Working Party to study the land development plan's rationalisation and feasibility. Based on the Working Party's findings, "there is a very real need for the planned and coordinated development of land to ensure that economic development goes hand in hand with social development" (as cited in (Bahrin & Thong, 1988). Thus, the Working Party proposed creating FELDA to help the federal government promote land development and settlement schemes (Dissanayake, n.d.).

The government utilised FELDA, which was created as a statutory body to channel federal funds from the government to local bodies for settlement purposes (Bahrin & Thong, 1988; Dissanayake, n.d.). From then onwards, the government has a relationship with FELDA as a regulator. On the other hand, FELDA has a relationship with the government as an entity to be regulated.

In 1958, after several amendments in the Land Development Ordinance, the government expanded the role of FELDA. With that, it was required to carry out "the promotion and assistance of investigation, formulation, and implementation of projects for land development and settlement in the Federation of Malaya" (Bahrin & Thong, 1988). In addition, the government regulated FELDA to take responsibility "to assist, guide, advise, manage, administer and coordinate economic, social, residential, agricultural, industrial and commercial activities" (Commissioner of Law Revision Malaysia, 2006). Therefore, FELDA was obligated to abide by the government's law to carry out its responsibilities that could vary from time to time based on its regulations. Therefore, this shows that the government seems to have a tight regulation type of a relationship with FELDA to direct the firm to achieve the nation's goals.

After the Malayan Emergency<sup>1</sup> in 1961, the Malaysian government prioritised rural development and developed new policies to reorganise land development policies. Thus, Tun Abdul Razak, the Deputy Prime Minister and Minister of National and Rural Development, appointed a Special Committee to see the need for transformation within FELDA (Bahrin & Thong, 1988; Dissanayake, n.d.). The Committee found the structure of FELDA was insufficient and ineffective to meet the demands of the National Rural Development Programme (Thong & Bahrin, 2006). As a result, a major restructuring occurred both within and outside the statutory body (the Ministry and other government agencies) after the Malayan Emergency.

<sup>&</sup>lt;sup>1</sup> Malayan Emergency was a guerrilla war carried out by the Malayan Races' Liberation Army (MRLA) under the leadership of Chin Peng for the independence of Malaya (known as Malaysia now) to form a socialist economy (Mcdonough, 2018).

Accordingly, two main reforms were implemented. Firstly, the government regulate FELDA to have a significant role in land development projects. Secondly, the autonomous power of FELDA to make policies was taken away by the government (Thong & Bahrin, 2006). This shows that as a regulator, the government has the ultimate decision-making power to lead FELDA to function in certain ways. This was considered the first government action towards tightening its grip on FELDA as a regulator of statutory body SOE. As a result, Tun Abdul Razak, the Minister of National and Rural Development, urged FELDA to emphasise regional development (Dissanayake, n.d.). It resulted in FELDA conducting the first comprehensive regional program in the Jengka Triangle, Pahang, followed by many more in other places (Mehmet, 1982). Thus, by the end of the First Malaysia Plan (1970), FELDA was a successful land developer in Malaysia (Mehmet, 1982; Thong & Bahrin, 2006).

With the continued land development objective in the Second Malaysia Plan (1971-1975), FELDA also ambitioned to eradicate poverty in the country (Dissanayake, n.d.). To achieve the eradication of poverty in rural areas, the government regulated FELDA "to accelerate the expansion and modernisation of the agriculture sector to increase employment opportunities" (pg. 25) (Thong & Bahrin, 2006). This also means that the government's decisions to increase job opportunities have to be implemented by FELDA since the government is the regulator.

Thus, as a result, the Minister urged FELDA to increase its land development target rate. Consequently, the government invested a large amount of capital in FELDA to ensure balanced development in rural areas (Mehmet, 1982). Thus, by the end of 1975, several corporations were formed under FELDA to create more employment opportunities (Bahrin & Thong, 1988). This shows how the relationship of government with FELDA functions in achieving the nation's socio-economic goals.

With the good result from the Second Malaysia Plan, the Third Malaysia Plan (1976-1980) focused more on expanding the land development. The land development targets for FELDA was raised to 202,347 ha by the government. In achieving that, by the end of 1976, the number of employees had risen to 4,814 people (Bahrin & Thong, 1988).

In 1980, the government regulated FELDA to establish Koperasi Permodalan FELDA (KPF), also known as FELDA Settlers Cooperative, consisting of a few FELDA settlers with the ambition of uplifting the social well-being of the settlers. It is a cooperation that functions as an intermediate channel for the settlers to communicate with FELDA. Besides, KPF was also created as a channel for the settlers to invest and benefit from the commercial activities of FELDA. Therefore, this shows that the government that acts as a regulator for FELDA focuses on investments for the settlers to generate income for their well-being.

However, in the Fifth Malaysia Plan (1986-1990), the government decided to reduce the land development targets of FELDA due to financial issues (Dissanayake, n.d.). During this period, as a regulator, the government influenced FELDA to play an important role in diversifying exports by cultivating oil palm to raise its exports. From then onwards, FELDA was a successful rural developer and recognised as a leading investor in the development of the plantation sector (Thong & Bahrin, 2006).

Over time FELDA was regulated by the government to venture into downstream activities. This interest was initiated through the National Agriculture Policy (NAP)<sup>2</sup> introduced in 1984. The NAP focused mainly on producing high value-added products (Abdullah, Ramli, & Sood, 2013; Dardak, 2018). As a result, FELDA launched two FELDA owned-corporations, FELDA Refinery Corporation and FELDA Marketing Corporation (Thong & Bahrin, 2006). Thus, this can be considered as early involvement

<sup>&</sup>lt;sup>2</sup> The first National Agriculture Policy in 1984 focused on maximizing the income from various agriculture sectors by utilizing domestic resources. By this time, the policy was not only concerned to palm oil related issues but as well as food security matters. Hence, the policy also focused on increasing the production of agro-food products for local consumptions (Abdullah et al., 2013; Dardak, 2018).

of FELDA in commercial activities through corporations. However, these corporations were established under Section 42 of the Land Development Act 1956, not the Companies Act. As it was formed under an Land Development Act 1956, the corporations function according to the regulations of the government.

By the end of the 1980s, FELDA faced many problems, and one of them was a shortage of land for developing the palm oil sector. Apart from that, FELDA also faced financial issues due to high resettlement costs (Abdul Hamid, 2000). Therefore, the government decided not to take any more settlers from 1990 in the Cabinet (Thong & Bahrin, 2006). With all these circumstances, the government regulated FELDA to prioritise diversifying downstream activities than before (Abdul Hamid, 2000).

Simultaneously, the government under Prime Minister Mahathir Mohamad was interested in endorsing neoliberal policies through privatisation. Therefore, in the Sixth Malaysia Plan (1991-1995), the government shifted towards privatisation. Thus, the privatisation policy mainly focused on reducing "the financial and administrative burden of government, improve efficiency and productivity, and facilitate economic growth" (Dholakia & Dholakia, 1994).

During this time, the government regulated FELDA to focus on diversifying activities to support the government's privatisation policy (Sutton & Buang, 1995). As a result, FELDA formed FELDA Holding Sdn Bhd, but it was formed under the Companies Act 1965. This was to function like any private company in managing its diversification activities through corporations and companies.

The formation of FELDA Holdings Sdn Bhd under the Companies Act 1965 was criticised by many worldwide. For instance, the World Bank study (1985, p.30 and p.42) criticised that even though FELDA is successful as a land development organisation, FELDA Holdings Sdn Bhd without the settlers' participation in the decision-making processes seems to be a weakness. Apart from that, based on Uhlig, it

was anticipated that "the schemes' settlers were in was in danger of becoming a part of the "western" mechanised, uniform production system…leaving little room for personal development inside the new village community" (Sutton & Buang, 1995).

Despite all these criticisms, the government regulated FELDA to create FELDA Holdings Sdn Bhd to increase value-added products from the oil palm plantations of FELDA settlers. Since FELDA Holding Sdn Bhd was formed under the Companies Act 1965, it functioned as the commercial arm of FELDA. It was soon integrated with the plantation company to manage FELDA's plantations and downstream activities (Thong & Bahrin, 2006). Therefore, the government's relationship with FELDA Holdings Sdn Bhd seems to work differently compared to the relationship that the government has with FELDA.

At this point, FELDA, as a government-regulated statutory body, encouraged the settlers to use KPF or FELDA Investment Cooperative as a platform to invest and gain income from the corporations under FELDA Holdings Sdn Bhd (Mustaza, 2015). Thus, this took place with the assurance of providing better economic returns for the settlers (Thong & Bahrin, 2006).

At this juncture, the settlers' relationship with FELDA Holding Sdn Bhd was far more different than with FELDA. In FELDA Holdings Sdn Bhd, the settlers were the majority shareholder with 51 per cent shares compared to being 'lessors' to FELDA (lessee). The rest of the shares were controlled by the government as a shareholder (Barau & Said, 2016; Thong & Bahrin, 2006). By the settlers acting as one of the shareholders, they could carry out development activities in their settlement areas (Van Gelder, Wakker, & Kuepper, 2012). Therefore, it can be analysed that the government's relationship with the profit-seeking SOE has more like a shareholder than a regulator. The government functions like any typical shareholder under FELDA Holdings Sdn Bhd, which merely focuses on making a profit. In 2007, FELDA Holdings Sdn Bhd further expanded its commercial activities by forming FELDA Global Venture Holdings (FGVH) "as the holding company for the government's 49% stake in FELDA Holdings" (Van Gelder et al., 2012). FGVH was formed "to operate as a commercial arm for FELDA's overseas investments in the upstream and downstream palm oil business as well as other agribusinesses" (FGV Holdings, n.d.). This was so due to the interest of the shareholder, which is the government in this case. As a result, FGVH focused on venturing into soybean and canola in North America. FGVH further expanded its upstream plantation activities to other countries like Indonesia, apart from developing it locally. Besides that, FGVH also ventured into sugar and palm oil refining making FGVH the leading refined sugar producer in Malaysia (Van Gelder et al., 2012). Therefore, it can be analysed that the government's relationship with FGVH seems to be more profit-oriented than social-oriented without much regulation in any sort of development.

Eventually, as a profit-seeking SOE that works for the interest of the government shareholder, FGVH was interested in getting listed on the Malaysian stock exchange. However, FGVH needed to own all FELDA Holdings shares, which was then partially held by KPF. Under these circumstances, at the beginning of 2012, FELDA signed an agreement called "99-year Land Lease Agreement" to shift the plantation lands under FELDA Holdings' control to FGVH.

However, these drew major criticisms among the settlers, who believed that the future generations would inherit the settlers' shares under FELDA Holdings Sdn Bhd will be inherited to the future generations. Firstly, it was criticised that this business deal has "undermined the hopes of the underemployed second and third generations of the settlers to obtain their own pieces of land" (Van Gelder et al., 2012). Secondly, it was criticised for transferring about 24.5 per cent of Native Customary Rights and Malay Reserved Lands to a private company, FGVH (Van Gelder et al., 2012).

This resulted in mushrooming dissatisfaction among the settlers. Adding to the dissatisfaction, the listing of FGVH was announced to be carried out without the participation of KPF (Van Gelder et al., 2012). This also means that the settlers will not have any say in decision-making or any form of financial commitment with FGVH. At this point, the relationship of FELDA settlers and the profit-seeking SOE, FGVH, seemed less than cordial. This can be analysed that as one of the shareholders, the government under FGVH appears only to make decisions that focus on profit rather than social aspects. Thus, FGVH decided not to include KPF in its listing journey.

As a response to the announcement, the settlers started to protest for their rights through an external group named Gabungan Peneroka Generasi Wawasan FELDA Kebangsaan (GEMPAK), which was formed by combining the National Settlers Consultative Committee and the FELDA Generation Vision Alliance (Mustaza, 2015; The Edge, 2011, December). The group argued that "it had formed an evaluation committee to analyse the listing of FGVH and would come up with a recommendation to present to the Prime Minister" (The Edge, 2011, December). As a response to that, the president and chief executive of FGVH, Datuk Sabri Ahmad, said that:

"While we are open to ideas that can improve the listing process or optimise valuations, the board of FGVH is resolute in its mission to get the company listed by April next year. There is no wavering on our part, and we are very clear as to how this listing will bring benefits and create a win-win situation for all" (The Edge, 2011, December).

By analysing the business history of FELDA, it can be determined that as a socialoriented statutory body SOE, FELDA is a firm that the government tightly regulates. Therefore, the relationship of government and FELDA seems to be tight when it comes to regulations, and it is also very much social-oriented with its developments. On the other hand, FGVH is a firm that was formed under the Companies Act 1965 to function as a profit-seeking SOE with little regard to government regulations or the settlers' social well-being. Therefore, the government's relationship with FGVH seems much like a shareholder type of relationship that is profit-oriented with minimal regulations in its developments.

### 3.2.1 Ownership and Control Structure of FELDA

This section of the chapter will highlight the ownership and control structure of FELDA from the beginning of its formation until today. Using an explanatory diagram, this study will show how the government functions as a regulator in the ownership and control structure of FELDA.

After the policy change that took place in the 1960s, the Minister-in-charge of FELDA was given extensive powers to regulate FELDA in accomplishing its duties and functions in line with the interests of the government (Bahrin, Perera, & Kow, 1979; Commissioner of Law Revision Malaysia, 2006: Section 4, Number 1). For instance, FELDA was required to provide the Minister-in-charge with "returns, accounts, and other information with respect to its property and activities" anytime he requires (Section 4, Number 2). Thus, from then onwards, FELDA as a statutory body had restrictions in carrying out activities, and all activities require the Minister's approval. This was clearly stated in the Land Development Ordinance 1956:

"the Authority shall not promote, carry out, assist or participate in any such project or activity as is referred to in this section in any State or Settlement or with any Department of the Federal Government as appear to the Minister to be appropriate have been taken" (Commissioner of Law Revision Malaysia, 2006)

Thus, this clearly shows how the government regulates FELDA due to its formation as a statutory body compared to profit-seeking SOEs (highlighted in the upcoming sections). Besides, the Minister has autonomous power to appoint the Chairman and the board members of FELDA, which must not be more than twelve or less than six.

Regarding the role of Chairman, based on the Land Development Act 1956, the Chairman of FELDA is required to supervise and control the officers and servants in terms of FELDA's executive administration, accounts, and records. The Chairman can consult with the General Manager regarding their duties for FELDA [Section 21(2) & Section 22] (Commissioner of Law Revision Malaysia, 2006). Thus, by the end of the 1960s, the ownership and control of FELDA was structured, as shown in Figure 3.1, which is structured based on FELDA's annual reports.



Figure 3.1 Ownership Structure of FELDA at the end of 1960s

With the government's focus on eradicating poverty in the Second and Third Malaysia Plans, FELDA developed corporations under the Land Development Act 1956 to increase the employment rate. It is important to note that all these commercial activities aimed to raise the settlers' social well-being rather than merely to make a profit. As a result of that motive, the government influenced FELDA to created KPF as a platform for the settlers to invest in FELDA Corporations. As a result, settlers were able to raise their well-being and overcome poverty. Besides, the creation of corporations also gave the settler more job opportunities and brought profit to them.

KPF is an organisation that consists of twelve board members, including six representatives of FELDA settlers, three representatives appointed by FELDA, and other three members from FELDA officials (Rokiah pg 118,119). By the end of the 1980s, the ownership structure of FELDA was structured as shown in Figure 3.2, which is structured based on the FELDA's annual reports.



Figure 3.2 Ownership Structure of FELDA at the end of 1980s

After the major policy change to focus on privatisation by the government in 1990, the government created companies and shifted corporations' management to companies under the Companies Act 1965. The corporations were created so that the companies would function like private companies to make a profit. As a result, the government regulated FELDA to establish FELDA Holdings Berhad as its commercial arm. All FELDA's corporations were changed to companies under the Companies Act 1965 and placed under FELDA Holdings Berhad. With the creation of FELDA Holdings Berhad under FELDA, the settlers were still given the opportunity to be the major shareholder in the FELDA Holdings Berhad through KPF with fifty-one per cent of shares to raise their well-being. The rest of the shares were held by the government. Thus, by the end of the 1990s, FELDA's ownership and control structure was restructured, as shown in figure 3.3, which was created based on the FELDA's annual reports.



Figure 3.3 Ownership Structure of FELDA at the end of 1990s

However, in the 2000s, with the deep interest of the government to privatise, the government insisted on forming FGVH as a profit-seeking SOE. By forming that, FGVH owned 49 percent of shares under FELDA Holdings Berhad. In the interest of being listed in the Malaysian stock exchange, FGVH was interested in acquiring the rest of the shares held by the settlers under the FELDA Holdings Berhad. Therefore, FELDA settlers from the commercial arm of FELDA were left with no stake in FGVH. As a profit-oriented SOE, FGVH decided to leave out KPF from its listing journey.

However, FELDA remains a social-oriented firm regulated tightly by the government due to its formation as a statutory body SOE. With that, the current ownership structure of FELDA is shaped with the Minister being in the highest position and then followed by government servants like the Chairman, Board Members, general manager, staff and then lastly settlers as shown in Figure 3.4, which is structured based on the annual reports of FELDA.



Figure 3.4 Current Ownership Structure of FELDA

From the transforming ownership and control structures of FELDA over the years, it can be analysed that the government has highly regulated FELDA from the beginning until today. Apart from that, it can also be analysed that the transformations that it undergoes due to the government regulation have always been for the betterment of the well-being of the settlers. Therefore, this shows how unique the role of government is under the ownership and control structure of FELDA as a statutory body SOE.

# 3.3 FGV as a Profit-Seeking SOE

As a continuation of the history, FGVH (known as FGV now) carried out its listing despite the settlers' protest to express their dissatisfaction with the listing. The Land Leasing Agreement carried out between FELDA and FGVH before the listing has created a business-like relationship with FELDA as it is the largest shareholder in the company. Thus, it can be analysed that from the formation of FGVH under the Companies Act 1965 as a profit-seeking SOE<sup>3</sup>, the government decided to act as a major shareholder through FELDA.

Upon the listing in 2012, FGVH was established as a fully integrated publicly listed multinational oil palm firm that develops upstream and downstream activities in its palm oil sector. These activities were done through its 49 subsidiaries, joint-venture

<sup>&</sup>lt;sup>3</sup> Government-Linked Companies (GLC) or State-Owned Enterprise (SOE) is "a company, listed or unlisted, in which one government institution is the largest shareholder" (Gomez et al., 2018).

companies and associate companies in ten different countries such as the United States of America, China, Canada, Turkey, South Africa and Australia (Felda Global Ventures Holdings Berhad, 2012).

From 2012, the commercial estates of FGVH were used as the key cash-generating asset for FGVH's overseas investments (Khor et al., 2015). Therefore, FGVH decided to raise its overseas investments to gain more profits. However, the overseas investments of FGVH, such as purchasing Grand Plaza Serviced Apartments and Kensington Hotel in London, Merdeka Palace in Kuching, etc., have failed to generate profit. This was due to corruption in the investment (The Centre to Combat Corruption and Cronyism, n.d.).

As a result of that, by the end of 2014, the major shareholder of FGVH who is the government, approved to utilise its commercial plantation estates and downstream activities as its core strategy in achieving its ambition of becoming one of the top ten agri-business entities in the world by 2020 (FELDA Global Ventures Holdings Berhad, 2014). As FGVH functions as a profit-seeking SOE, the firm is responsible for showing progression in their financial status to the government due to the role as the largest shareholder who merely focuses on making a profit. The statement of YB Tan Sri Haji Mohd Isa, the Chairman of FGVH, to his fellow shareholders in its 2013 annual report was clear about their policy:

"...Despite a challenging operating environment, FGV posted a profit after tax (PAT) of RM1.1 billion, a 30.2 per cent increase from the previous financial year. Consistent with the FGV's dividend policy, we delivered a total dividend pay-out of 16sen per share or RM583 million..." (FELDA Global Ventures Holdings Berhad, 2013) (pg11).

Therefore, it was evident that FGVH was very responsible towards its shareholders in achieving its financial progress than FELDA, which was responsible for the settlers' well-being in achieving the socio-economic goals. Thus, this shows the different government roles under FGVH and FELDA to emphasise achieving different goals. This was possible for the government due to the different formations of FELDA and FGVH as different types of SOEs.

With the financial commitment of FGVH to the shareholder who is the government, FGVH aimed to be in the top ten list of agribusinesses in the world to make more profit. This was evident when the Chairman of FGVH also stated that FGVH would "pursue every opportunity for future profitable growth in both the upstream and downstream segments of our business" (FELDA Global Ventures Holdings Berhad, 2013, p. 24). In tracing back, the history, a statement was given by the Chairman in 2013 (the year of the listing), which firmly shows the importance of profit-making that the firm will go to every extent to achieve that.

In achieving its ambition to be the leading global agri-business player, FGVH introduced the Global Strategic Blueprint (GSB) in 2014. Under GSB, there were three fundamental measures that the firm set to achieve, which are; the diversification of businesses to survive the market forces; the enhancement of systems and processes to raise capital, operational and cost excellence; and the empowering management team to build FGVH towards success (FELDA Global Ventures Holdings Berhad, 2014).

The structuring of GSB resembles the motive of FGVH, which focuses on financial progression and the ability to survive in the competitive market. This varies from FELDA who measures the growth based on the well-being of the settlers. Thus, this shows how different SOEs can function due to their different formation with their different ownership and control structures.

Apart from that, the strategies of FGVH are structured based on the interest of shareholders, which is the government, as it holds the largest share in the firm. The major interest of shareholders was indicated to be in the economic sector. Therefore, the strategies of FGVH was structured in the economic sector to make a profit in any developments that it intended to carry out rather than for social aspects like in FELDA

(FELDA Global Ventures Holdings Berhad, 2016). Overall, any initiative taken by FGVH was ultimately aimed to increase profit.

In developing FGVH's agricultural commodities business, FGVH faced many challenges such as "global economic condition, resource scarcity and climate change, geopolitical uncertainty, and demographic and social change" (FELDA Global Ventures Holdings Berhad, 2015). Despite the external challenges faced by the firm, FGVH structured a business model under the basis of sustaining shareholders' core value with a steady growth of earnings and dividends. For instance, in 2014, FGV invested in the M2 Biodiesel plant in Kuantan, FGVH Cambridge NanoSystems Ltd in Cambridge, United Kingdom, and Asian Plantations Ltd (FELDA Global Ventures Holdings Berhad, 2015).

Thus, this shows that despite all the external challenges or pressure such as climate change, resource scarcity, etc., FGVH, as a profit-seeking SOE consisting of the government as one of the shareholders, merely focuses on making a profit in all aspects, extents, and possibilities. Therefore, it can be analysed that the government gives less priority to the role of a regulator than a shareholder. Thus, with minimal regulations from the government as a regulator, FGV tends to voluntarily take decisions at its will without being questioned for it.

## 3.3.1 Ownership and Power Structure of FGV

In this section, the research will focus on the ownership and power structure of FGV after the Land Leasing Agreement with FELDA in 2012. Ever since FGV was listed on the Malaysia stock exchange, FGV retained its ownership and control structure until this date. This section uses explanatory diagrams to give a clearer understanding of the differences between the ownership structures of FGV as a profit-oriented SOE compared to FELDA, a social-oriented statutory body. Figure 3.5 on the ownership and control constructed by analysing a few annual reports of FGV.



Figure 3.5 Ownership Structure of FGV

By looking at the ownership structure of FGV in figure 3.5, it can be determined that the position of shareholders and stakeholders is placed at the top of the organisation. The ownership structure affirms the significant position of shareholders and stakeholders in the decision-making processes. Thus, this shows that the government, as one of the shareholders, has the power to approve decisions made by the Board of Directors within the profit-seeking SOE, FGV. As a shareholder, the vision and mission of the firm are structured to serve the interest of the shareholder, and that is to make more profit, as discussed earlier.

The Board of Directors is situated right after the shareholders and stakeholders. The Board of Directors are consist of the Chairman and the Board Committee (Independent Non-Executive Directors and Executive Directors). The Board of Directors functions to manage and guide FGV based on "the creation of long term shareholder value, whilst taking into account the interests of other stakeholders" (FGV Holdings Berhad, 2018). In addition, the Board of Directors is responsible for managing the remuneration matters, annual budgets of FGV and discussing the risk faced by FGV. (FGV Holdings Berhad, 2018). Apart from that, the Board of Directors can appoint or remove any members from the Board.

The board members were limited to twelve, with the majority being Independent Non-Executive Directors, including the Chairman. There were eight standing Board Committees: audit, nomination, remuneration, governance, risk management, investment, tender, and special committees. All the Directors were appointed through appointment letters issued by the Chairman of the Board (FGV Holdings Berhad, 2018).

The position of Chairman had to be a Non-Executive Director. The Chairman's role was divided into two aspects: within the boardroom and outside the boardroom. In the Boardroom, the Chairman must create a plan for the Board to deal with crucial issues. Outside of the Boardroom, the Chairman must carry out public relations activities with the Chief Executive Officer (CEO) of FGV. Despite the powers vested in the Chairman, all decisions had to be taken collectively with all the directors on board (FGV Holdings Berhad, 2018). However, it is important to note that the Board made decisions based on the interests of shareholders.

Despite the power given to the Board of Directors, the shareholders have the final say in every matter of FGV. For instance, on the 29<sup>th</sup> of June 2018, the shareholders of FGVH approved the proposal of the Board of Directors to change the company's name to FGV Holdings Berhad (FGV) (FGV Holdings, n.d.). Thus, this shows how significant the governments' role in FGV is as a shareholder in making decisions for FGV. Therefore, as a profit-seeking SOE, FGV, the government acts as a minimal regulator and a typical shareholder in a private company. Under the ownership and control structure, the government's priority is more towards being a shareholder than a regulator.

Next in line after the Board of Directors is FGV Group Chief Executive Officer. Thus, the role of Group CEO is to be "responsible for implementing the program to achieve the Company's and Group's goals and vision for the future, in accordance with the strategies, risk appetite, policies, programs, and performance requirements approved by the Board" (FELDA Global Ventures Holdings Berhad, 2018). Overall, FGV's CEO oversees aspects of FGV regarding management and development. For instance, the CEO was required to prepare a strategic plan for FGV in line with the board of directors' vision and mission (FGV Holdings Berhad, 2018). Thus, from the CEO, the decision will be discussed among the Board of Directors and approved by the shareholders.

Overall, it can be analysed that FGV has a typical ownership and control structure like any private company, which prioritises the shareholders and stakeholders and is managed by professional managers. Under a profit-seeking SOE, the ownership and control structure consist of the government as one of the shareholders, which differs from any private company. It can be analysed that the government that acts as one of the shareholders typically functions like one as well. Therefore, as a profit-seeking SOE, FGV focuses on making a profit in every opportunity it gets with minimal regulation from the government.

# 3.4 Decision-Making Processes of FELDA and FGV in the Palm Oil Sector

As analysed, the ownership and control structure differ according to different types of SOEs due to its way of establishment as a statutory body SOE and as a profit-seeking SOE. From that, it was evident that the government acts differently within different types of ownership and control structures of SOEs. Under a statutory body SOE, FELDA, the government acts as a regulator with tight regulations. Compared to profitseeking SOE, FGV, the government acts as one of the shareholders while also wearing a hat as a minimal regulator. With these, this section will highlight how both SOEs take decisions when developing the palm oil sector while looking into the mitigation of environmental issues.

#### **3.4.1 FELDA**

Even though oil palm was first planted in 1917, it was only after the Malayan Emergency that the oil palm sector was developed significantly. This was due to the government's interest to diversify its crops to reduce its dependence on rubber. As a result of the Minister of National and Rural Development's emphasis on regional development, FELDA incorporated oil palm cultivation into its development programs (Dissanayake, n.d.). Thus, the first oil palm project was established at the Taib Andak Complex with a land area of 88,100 ha. By the end of 1970, oil palm was the major crop in the schemes developed by FELDA (Bahrin & Thong, 1988). This represents the tight regulation of government within the ownership and control structure of FELDA to drive palm oil production as the major development program under FELDA.

Apart from that, FELDA ventured into the palm oil sector because, as a regulator, the government within the ownership and controls structure of FELDA, FELDA was regulated by the government to uplift the social well-being of the settlers. During this period, the government aims to eradicate poverty through expansion and modernisation of the agriculture sector (Thong & Bahrin, 2006). The palm oil crop was chosen because it can produce a high yield per hectare compared to other crops. As a result of the cultivation, FELDA settlers could raise their income levels in a shorter time. Moreover, oil palm is a crop that has fewer problems and risks due to its broader range of weedicides. Concurrently, the palm oil plantation development increased the revenue of FELDA, that it was able to pay the expenditure on land development sooner than usual (Bahrin & Thong, 1988).

As a regulator, the government decided to allocate more land for oil palm plantations for FELDA to venture into and categorised it as FELDA's annual development program. As an outcome of that, a large expansion of oil palm plantations took place "from 55,000ha in 1960 to 647,000ha in 1975 and 1.56 million hectares in 1987" (Bahrin & Thong, 1988). This has concurrently increased the employment rate that the government targeted in the Third Malaysia Plan (1976-1980).

In the beginning stage of oil palm development, there were three main problems: oil quality, field discipline, and fruit supply reliability to the mills. In regulating FELDA, the Minister in charge, who represents the government and is situated in the highest ownership and control structure position, decided to resolve these issues by establishing a nucleus estate concept. This is to make it convenient for the settlers to transport their fruits to the mills. For instance, FELDA Jerangau, with 485ha of land, was the first to implement the nuclear estate concept for the settlers. Thus, this can be analysed that as a regulator, the government within the ownership and control structure of FELDA functions for the betterment of the settlers in developing the sector.

Apart from that, by being the government representative, the Minister in charge was concerned about three major features in developing the palm oil sectors, which is "reliability of water supply, good soil and a central location with reference to field planting" (Thong & Bahrin, 2006). This is so that plating would occur without causing much damage to the environment and to avoid unnecessary loss, which would instantly impact the settlers' income rate. As a result, the Minister in charge considered the nursery site selection as one of the important factors in developing the sector to avoid flood-prone areas, which can cause major loss to FELDA. In addition, the government also regulated FELDA through the Minister in charge to adopt the "interrow" oil palm cultivation method with leguminous cover crops. Leguminous cover crops are among the best cover crops that provide many environmentally sustainable benefits, such as restoring organic matter to the soil, instantly reducing fertiliser usage. Thus, using this method, many investments in purchasing fertilizer for the settlers were reduced dramatically (Thong & Bahrin, 2006). Thus, it can be analysed that the government regulates the social-oriented SOE, FELDA, to be environmentally sustainable while profiting the settlers and the firm in developing the palm oil plantation sector.

In developing the palm oil plantations, the settlers faced issues in controlling pests and diseases. This Minister in charge identified this through FELDA Settlers Cooperative (KPF) in the ownership and control structure. With that, the Minister in charge regulates FELDA to focus on implementing good agronomical practices to resolve this problem for the settlers. The agronomical practices are adopted to manage diseases and pests sustainably without causing much damage to the environment. For instance, FELDA settlers faced huge mammalian pest problems in 1987 that destroyed about 10 million oil palm trees. As a result, FELDA built electric fences along the perimeters of oil palm plantations to overcome the mammalian pest's problem. Since the electric fences were designed with a low current supply, they did not threaten animals' lives. Therefore, it can be analysed that the government regulation and settlers' involvement under FELDA in the decision-making process seems to be socially fair and economically beneficial while being environmentally friendly.

After the Cabinet has decided not to take any new settlers due to high expenditure and focus on developing palm oil plantations, the Minister in charge regulated FELDA to not take settlers from 1990 and onwards and instead focus on expanding the plantation sector. Thus, by the end of 1995, FELDA was the only large oil palm plantation agent in the Malaysian palm oil industry. As a result of the expansion, in 1998, the settlers received income as high as RM 1800 per month in developing oil palm plantations.

However, the crop production rate varied each year. For instance:

"the average yield per hectares in 1993 was 23.32 tons, but it slid all the way down to 15.3 tons in 1998 and then up again in 2000 and 2001 to achieve the threshold yield of above 20.0 tons per hectare" (Thong & Bahrin, 2006, p.108)

To reduce the unstable production rate in the oil palm plantations, in 2004, the government regulated FELDA to work closely with agronomic practices in developing

the palm oil plantation sector. As a result, FELDA decided to emphasise the reduction of fertiliser usage. Therefore, FELDA utilised waste products from the plantations as organic fertilisers for the settlers (Federal Land Development Authority, 2004). By doing that, the government regulations the settlers management within the ownership and control structure of FELDA can make more profit for the settlers while being environmentally concern in developing the palm oil plantation sector.

In regulating FELDA, the government envisions raising the production of palm oil plantations with an effective agriculture management system. This is also to avoid unnecessary loss of revenue due to environmental factors (Federal Land Development Authority, 2004). Apart from that, during this period, the government also formed FGVH as the commercial arm of FELDA to generate some income for settlers from the shares the settlers hold through KPF. In addition, as many countries were concern about palm oil production in the aspects of "environmental protection, conservation and sustainable development", Malaysia has committed to practice sustainable development in its development at world summits (Federal Land Development Authority, 2005). As a result, the Minister in charge, who is the government's representative, regulates FELDA to emphasise the sustainable agriculture management system where the development of palm oil plantations takes place without causing much damage to the environment.

As a result, FELDA joined the non-profit organisation called the Roundtable on Sustainable Palm Oil (RSPO) on 18<sup>th</sup> October 2004. This shows that the government is committed to its pledge in the World Summit through statutory body SOE like FELDA in developing the palm oil sector sustainably. Thus, by joining RSPO, FELDA was assisted by RSPO in implementing the global standards to produce sustainable palm oil (Roundtable Sustainable Palm Oil, 2019). RSPO is a certification body for palm oil production which consists of eight principles which were "plantation management
quality, social impact from operational activities, plantation biodiversity as well as other environmental criteria" (Federal Land Development Authority, 2010).

By complying with all the criteria set by the RSPO certification scheme, FELDA was the first smallholders' agency to receive RSPO certification globally for producing sustainable palm oil due to their sustainable management of the plantation sector. By getting certified, FELDA could sell palm oil at a premium price to other countries. Thus, by gaining the certification, the settlers indirectly profit from being environmentally concerned (Federal Land Development Authority, 2010).

Thus, the certification scheme in the palm oil sector functions like carbon markets for the fossil fuel-related sector. The difference is that under the carbon market, the companies sell off their carbon offsets. In the above soil sector, like palm oil, the certification functions like a pass for the companies to sell their sustainable palm oil for a premium price. By doing so, the certified companies can make more profit while being environmentally concerned in developing the palm oil sector.

Participation in the certification scheme has increased the knowledge of FELDA and the settlers on developing good agricultural practices in cultivating oil palm. For instance, the settlers could effectively reduce chemical products' usage in their oil palm plantations using the Integrated Pest Management system. Adopting the approach saved costs due to the reduced spending on purchasing chemical products and reduced the damage to the environment (Federal Land Development Authority, 2005). Therefore, the urge of the government to participate in the RSPO certification have benefit FELDA and the settlers economically while being environmentally concern. Thus, it can be determined that the role of the government as a regulator seems to positively impact the environment and economy through its decision-making processes when it comes to developing the palm oil sector. By the end of 2010, the settlers' active participation in RSPO resulted in FELDA receiving RSPO certification for about eleven oil palm plantation schemes that incorporated 22,268 ha of areas. This raised the total yield produced in the settler's estates to 2,261,206 tons in 2010 compared to 1,835,427 tons in 2009.

However, on the other hand, the oil palm plantations under FELDA Holdings Sdn Bhd incorporated with FGVH in 2007 showed a decline in its total yield production rate to 4,823,441 tons in 2010 as compared to 5,350,830 tons in 2009 (Federal Land Development Authority, 2010). Therefore, this clearly shows that certified firms that comply with the certification scheme have higher production in the palm oil sector. In comparison to the firm that did not get certified or, in other words, did not give much concern towards environmental issues in developing the palm oil sector.

After listing FGVH in 2012, FELDA as a social-oriented SOE only focuses on the settlers' well-being. With that, the government regulated FELDA to raise its palm oil production levels through innovative agricultural practices to reduce palm oil production costs while making a profit for the settlers.

Various approaches were used due to the government's regulation through the Minister in charge, such as Good Agriculture Practices (GAP), Good Management Practices, etc. (Federal Land Development Authority, 2013). For instance, FELDA's GAP approach "is based on safe and sustainable development principles and management, which complied with local safety standards, laws and regulations" (Federal Land Development Authority, 2005). By carrying out this approach, FELDA raised the production levels and, consequently, the settlers' income levels to between RM2500 and RM3500 per hectare in 2013 (Federal Land Development Authority, 2013).

Apart from RSPO, the Minister in charge also regulated FELDA to participated in the Malaysian Sustainable Palm Oil (MSPO) Certification Scheme. This is because MSPO is "the national scheme in Malaysia for oil palm plantations, independent and organised smallholdings, and palm oil processing facilities to be certified against the requirements of the MSPO Standards" (Malaysian Palm Oil Certification Council, 2020a). Since it is a national scheme, the Minister in charge regulated FELDA to support the government's initiative in producing sustainable palm oil (Malaysian Palm Oil Certification Council, 2020a).

As a result, in 2017, 286 oil palm plantation schemes of FELDA received MSPO certifications. Besides, the Minister in charge also regulated FELDA to collaborate with the Malaysian Palm Oil Board (MPOB) to create awareness among settlers to produce sustainable palm oil under the MSPO certification scheme. Soon after, eleven more oil palm plantation schemes received MSPO certifications (Federal Land Development Authority, 2017).

By receiving certifications from MSPO and RSPO, settlers sell their sustainable palm oil to various companies that demand sustainability certification, such as Unilever, Sainsbury, etc. (Federal Land Development Authority, 2015). By doing so, the settlers get higher returns while at the same time reducing open burning practices in the land preparation and waste removal in the plantation (Malaysian Palm Oil Certification Council, 2020b).

Overall, it can be analysed that the ownership and control structure of FELDA consists of the government that acts as a regulator. The firm seems to have a positive impact both economically and environmentally. This is because due to the regulation of government through the Minister in charge in deciding to focus on good agricultural practices, the firm and the settlers were able to make more profit from the certification and from the rising production level, which is all resulted from being environmentally concern in developing the palm oil sector.

#### 3.4.2 FGV

With the government regulations in the decision-making process of FELDA, it was determined that FELDA could make a profit while protecting the environment, which contradicts the contention of climate capitalism theory which opposes tight government regulations in climate change mitigations (which will be discussed in the upcoming chapter). On the other hand, FGV is a profit-seeking SOE that consists of the government as a shareholder who functions exactly like any shareholder in private companies in its ownership and control structure and has minimal government regulations as a regulator. This section will determine whether SOEs like FGV are inclined to make environmentally positive decisions under these circumstances.

After the Land Leasing Agreement (LLA), FGV was on track to becoming the largest oil palm plantation owner and the largest Crude Palm Oil (CPO) producer in the world. As a profit-seeking SOE, FGV consists of the Board of FGV, CEO, Chief Executive and other staff who are primarily motivated only to profit for its shareholders, in this case, the government who sought high returns. This was resembled by FGV when it stated that the firm aimed "to grow strategically towards becoming a leading, globally diversified, integrated agri-business by increasing our land bank, participating in mergers and acquisitions and capitalising on downstream opportunities" (Felda Global Ventures Holdings Berhad, 2012). Therefore, it can be analysed that it differs from FELDA, which merely aims to raise the settlers' social well-being.

After the listing of FGV, based on the Board of FGV, who analyses the remuneration matters, annual budgets and risk faced by FGV, it was determined that major revenue of FGV was coming from the plantation sector as compared to downstream activities in developing the palm oil sector. With that analysis from the Board of Directors, the Board of Directors decided to expand its plantation sector, and the shareholders, including the government, have approved this. As a result, by the end of 2012, FGV had

developed about 135 estates covering approximately 343,521 hectares of oil palm plantations (Felda Global Ventures Holdings Berhad, 2012).

As a reflection of that, the government, as a major shareholder, approved the Global Strategic Blueprint that focuses on "improving operating efficiency, optimising earnings from their existing land bank" (Felda Global Ventures Holdings Berhad, 2012, p.3). This is so because, with this blueprint, FGV can execute the strategies approved by the shareholder to raise the profit and be the top ten agribusinesses in the world. This is then executed by the Board of Directors and other professional CEOs and managers to serve the interest of the shareholders situated in the highest position in the ownership and control structure of FGV.

One of the strategies is to explore more possible brownfield estates in Southeast Asian countries. With that strategy, FGV developed about 150,000 hectares of oil palm plantations in 2013 (FELDA Global Ventures Holdings Berhad, 2013). Besides that, FGV also developed about 40,000 hectares of land in the East and Central Kalimantan and another 14,385 hectares of oil palm plantations in West Kalimantan. As a result of the government's strategy as one of the shareholders in FGV, FGV became the world's third-largest oil palm plantation operator with 450,000 hectares in Malaysia and Kalimantan Indonesia in 2014 (FELDA Global Ventures Holdings Berhad, 2014, 2015).

During this era, the palm oil sector was challenged by environmental activists who were largely concerned about environmental protection, conservation, and sustainable development in developing oil palm plantations (Federal Land Development Authority, 2005). As this risk was identified by the Board of Directors of FGV, the major shareholder, the government, approved to overcome this risk by committing to three main sustainability principles; profit, planet, and people in developing the palm oil sector, which was a suggestion by the Board of Directors. By looking specifically into adopting planet as one of its sustainable principles, the shareholders decided to focus on "the preservation and protection of waterways, enhancement of riparian buffer zones, reducing water footprint" in developing the palm oil plantation sector (FELDA Global Ventures Holdings Berhad, 2013). This is then further instructed by the Board of Directors to other professionals to work according to the sustainability principles agreed by the shareholders.

As a result of the environmental activism, the government, as a major shareholder, further agreed to participate in palm oil certification schemes like RSPO, MPOB, and other certification agencies such as the International Sustainability and Carbon Certification Scheme (ISCC), which the Board of Directors suggested. This shows that FGV, as a profit-seeking SOE, is keen on producing palm oil sustainably. As a result of that, FGV commitment to "not to acquire land containing a significant amount of peat or areas of high conservation values" (FELDA Global Ventures Holdings Berhad, 2013, p. 55). Besides that, in 2013, FGV also pledged to develop new lands based on the RSPO Principles and Criteria on New Planting Procedures (FELDA Global Ventures Holdings Berhad, 2013). As a result, by the end of 2014, FGV received RSPO certification for 89 oil palm estates.

Besides that, FGV also was certified for 35 oil palm estates under the Code of Practice of the Malaysian Palm Oil Board (MPOB). Apart from that, FGV got certified under ISCC, an international certification for 53 of its oil palm estates (FELDA Global Ventures Holdings Berhad, 2014). Thus, this shows the shareholder's interest, the government, in getting certified to maintain a good reputation as one of the largest palm oil companies in the world. Thus, by involving the certification schemes that function like carbon markets for the palm oil sector, firms like FGV can export their sustainable palm oil to international companies such as Unilever who demand sustainable palm oil.

Thus, it can be analysed that as one of the shareholders, the government managed FGV so that FGV can profit while being environmentally concerned. However, the

environmental protection efforts of FGV appeared inspiring until there were several cases filed against FGV for violating the environment on the ground for oil palm development purposes. For instance, in 2013, as one of the shareholders, the government under FGV approved purchasing the Pontian land bank areas in Sabah from Asiatic Development. The areas regularly affected by floods were considered underproductive (Levicharova, Paul, & Wakker, 2016). Thus, this shows that when the government functions as a major shareholder, it seems to make inefficient decisions with the Board of Directors, CEO, Chief Executive, and other staff. Compared to FELDA, the government functions as a regulator through the Minister in charge and settlers in the ownership and control structure.

Apart from that, another case involved FGV's subsidiary in Ladang Tawai, Perak, where violation of the environment occurred when open burning was carried out for replantation purposes. Based on Simorangkir (2006), FGV practised open burning to clear the land quickly and cheaply. Besides that, FGV also cleared about 5,600 ha of forests without HCS assessment through its subsidiary, Asian Plantation in Sarawak. It is important to note that this occurred after FGV's commitment to RSPO New Planting Procedures for its new planting areas (Levicharova et al., 2016).

Thus, the decision has violated the Malaysian Environmental Quality Act 127,1974 and its commitment to RSPO and MSPO in developing the palm oil sector sustainably (Levicharova et al., 2016). Therefore, it can be analysed that the decision taken by FGV, while the government was a major shareholder, with the execution of the Board of Directors and other staff, seems to bring negative impact to FGV when it comes to environmental aspect in developing the palm oil plantation sector.

Besides that, in 2016, FGV's majority-owned subsidiaries in West Kalimantan were accused of clearing about 16,498 ha of identified High Conservation Value (HCV) peatlands (refer to Table 3.1). The HCV areas were cleared after FGV subsidiary PT Temila Agro Abadi carried out an HCV study in 2013. The assessment identified the site as consisting of "conservation values 1-4 in a 650 ha deep (>3m) peat forest" (Levicharova et al., 2016). In clearing the HCV areas, PT TAA built a 30 kilometres network of drainage canals in the area (Greenpeace International, 2017; Levicharova et al., 2016). This resulted in the lowering of the water table of the peat soil. Thus, the ground became vulnerable to fires. As a result, on the 23<sup>rd</sup> of August 2017, there was an outbreak of fires in those areas (F. Chan, 2017).

FGV subsidiary	Total Land	Peatland (ha)	Total cleared land
	Bank (ha)		2010-2015 (ha)
PT Citra Niaga	14,385	11,006	8,797
Perkasa			
PT Temila Agro	8,193	5,492	5,266
Abadi			
Total	22,578	16,498	14,063

**Table 3.1: Peatland Conversion PT CNP and PT TAA** 

(Adopted from (Levicharova et al., 2016)

Based on this, it can be analysed that the decision taken by FGV, while the government being the major shareholder, seems to only focus on expanding its landbanks to make more profit without considering what it will cause to the environment. Therefore, the execution of the decision by the Board of Directors, CEO, Chief Executive Officer, and other staff also seems to bring negative environmental outcomes for FGV in developing the palm oil sector.

Besides that, the professionals like the Board of Director members, FGV Group CEO, Chief Executive, Operating Officers and staff work to register a huge profit so that a huge dividend could be declared to serve the interest of the shareholders. Apart from that, it can be analysed that the government under the ownership and control structure of FGV influence FGV to take profitable decisions without considering environmental issues just like any shareholders would have. Such decisions resulted in major peatland clearances. In 2019, Mighty Earth reported that FGV had again carried out deforestation activities in PT Citra Niaga Perkasa's concession areas. It was accused of clearing about 4 hectares of forests from May 2019 until August 2019 (Mighty Earth, 2019). However, in response to that report, on 27<sup>th</sup> January 2020, the Chairman of FGV from the FGV's Board of Directors claimed the clearing was by the local community for paddy plantation.

Besides, FGV indicated that they had stopped work on PT Citra Niaga Perkasa's and PT Termila Agro Abadi's areas since May 2017 (FELDA Global Ventures Holdings Berhad, 2020). However, the firm did not provide proper evidence to support its accusation that the local community had committed that activity. This shows that as the major shareholder, the government and other staff below the shareholders are merely motivated to make a profit at any cost and did not take responsibility for its action towards the environment.

Even with the certification schemes that functions like carbon markets in the palm oil sector, profit-seeking SOE like FGV seems to make decisions that violate the environment due to the ownership and control structure of FGV that consists of the government as the major shareholder, including others like Board of Directors, CEO, Chief Executive Officer and other staffs who execute the decision taken. In comparison to FELDA, as a regulator, the government under the ownership and control structure of FELDA is very concerned about the well-being of the settler and the environmental issues in developing the palm oil plantation sector.

# 3.5 Conclusion

As a social-oriented statutory body SOE, the ownership and control structure of FELDA consists of the government as a regulator with tight regulations to raise the settlers' well-being. Therefore, the decisions that taken by FELDA while the

government acts as a regulator seems to bring positive outcome in making a profit for the settlers while also being an environmental concern in developing the palm oil sector.

On the other hand, in the profit-seeking SOE, FGV, the government functions as a major shareholder with minimal government regulations as a regulator. Therefore, the government's decisions as one of the shareholders seem to negatively impact the environment in making a profit through the development of the palm oil plantation sector. This is due to the lack of government regulations. The unique relationship with the government as one of the shareholders seems to give more privilege to FGV to violate the environment without being accused of it.

Overall, this shows that the profit-seeking SOE, FGV has a lesser concern for the environment in developing the oil palm plantations than the social-oriented SOE, FELDA. This can be attributed to FGV's ownership and control structure that consists of the shareholder. In this case, it is the government, which is primarily interested in maximising profit. This will then prove that the ownership and control structure works better with high government regulation and settler's involvement through cooperatives to protect the environment in developing the sector.

# CHAPTER 4: THEORETICAL ANALYSIS OF CLIMATE CAPITALISM THEORY: SOEs IN THE PLANTATION SECTOR

## 4.1 Introduction

From the empirical case study, the government under FGV seems to prioritise the role of a shareholder rather than a regulator under the profit-seeking SOE, FGV; therefore, it acts as a major shareholder with minimal regulations. Therefore, the decisions made by profit-seeking SOEs while the government acts as the major shareholder tend to be less concerned about the environment and merely focusing on making a profit at the expense of nature. This is different from FELDA's decision, while the government acts as a regulator under the ownership and control structure of a social-oriented FELDA. Therefore, as a regulator, the government seems to influence FELDA to make economically beneficial decisions while accommodating the environmental concerns of the settlers.

Thus, this chapter will highlight the theoretical analysis of climate capitalism based on empirical evidence. In analysing the theory with the empirical case studies, this chapter is divided into several parts. All well-received theories have their own strengths. Therefore, the first part of the chapter will highlight the strengths of climate capitalism theory. That will be followed by the theoretical gap of climate capitalism theory when involving SOEs. Lastly, this study will highlight the areas for a reconceptualization of climate capitalism theory to make this theory relevant to SOEs.

# 4.2 Climate Capitalism Theory, FELDA and FGV

Climate capitalism theory is a very influential theory among policy-makers. This study reviews the contention that climate capitalism theory is a useful theory in understanding the "tectonic shift in how global businesses view the issue of sustainability" (Lovins & Cohen, 2011). Climate capitalism theory is undoubtedly created to give a better understanding of the role of private firms in climate mitigation

issues. Besides that, the climate capitalism theory brings the most contentious ideas together: capital accumulation and environmental protection, which makes it a very significant theory. In regard to that, this theory argues that profit-making and environmental protection can be achieved simultaneously with minimal government regulations.

Therefore, this study was keen to analyse how different types of SOEs with a unique relationship with the government comfortably fit into the context of climate capitalism theory. In doing that, this study chooses to analyse FGV as a profit-seeking SOE compared to FELDA, a statutory body SOE. With the ownership and control structure of FGV that consist of the government as the major shareholder with minimal regulations, the decisions taken are largely towards making a profit at all expense.

As one of the shareholders, the government has the autonomy to approve or reject the developmental ideas from the Board of Directors, CEO and other staff within the ownership and control structure of FGV. Therefore, when FGV degrades peatland areas, HGV areas, to expand its landbank, it shows that FGV has the privilege of developing the palm oil sector to make a profit due to the government's position as the major shareholder. However, FGV has always been accused by many activists worldwide for its action towards the environment.

Therefore, based on the empirical case study, under the profit-seeking SOE like FGV, the interest of profit-making did not encourage the firm to voluntarily produce sustainable palm oil for them to sell it for a premium price like how it was portrayed in the climate capitalism theory. Instead, as one of the shareholders, the government influences FGV to make profit-oriented decisions without considering the environmental impacts that it can create. This contradicts the environmental outcomes that the climate capitalism theory predicts, which justifies the neoliberal approach predicted for a profit-seeking firm with minimal government regulations.

In comparing FELDA, the ownership and control structure of FELDA consists of the government as a regulator. As a statutory body SOE, FELDA has always been tightly regulated by the government for the firm to raise the well-being of the settlers. Therefore, as a tight regulator, the government has guided FELDA in their decision-making, which is economically beneficial for the settlers while also showing concern towards the environment. Therefore, as a statutory body SOE, FELDA has decided to achieve economically and environmentally positive action under the government's guidance.

Thus, this contradicts what climate capitalism theory has portrayed: the government works the best at its minimal role in regulating the firms in mitigating climate change. However, in the case of FELDA, FELDA seems to make a profit while being environmentally concerned due to the high involvement of the government in regulating the firm. In comparison, under FGV, the government seems to hide behind the role of a shareholder to make profitable decisions that can cause negative impacts to the environment. Besides that, the role of the shareholder allows such decisions to be taken as compared to the role of a regulator. Even though both SOEs are motivated to make a profit for different reasons, the government's role in both firms' ownership and control structure seems to influence the environmental outcomes in developing the palm oil sector.

Therefore, the contention of climate capitalism theory in "doing business in ways that are better for people and the planet is more profitable" did not encourage profitseeking SOE like FGV to be environmentally concern in making profit through their palm oil developments (Lovins & Cohen, 2011). The shareholder's decision who is the government has only encouraged to make profit in the midst of environmental problems rather than mitigating it (Berg, 2016). For instance, the shortage of land problem in the expansion of FGV's oil palm plantations has only caused the firm to increase peatland clearance in West Kalimantan (Levicharova et al., 2016). Thus, "the "solution" to problem X, in turn, exacerbates problem Y or creates an entirely new problem Z" (Berg, 2016).

The adoption of the neoliberal approach in climate capitalism theory has structured the theory's argument to revive the power of business. Thus, minimising the government's role is crucial for profit-seeking firms to mitigate climate change issues while making a profit. In justifying the neoliberal approach, the theory argues that "selfregulation is often a convenient way for governments to lighten their regulatory load and outsource responsibilities" to profit-seeking firms (Newell & Paterson, 2010, p. 23).

As a profit-seeking SOE, FGV was formed under the Companies Act to function as a private firm with minimal government regulation. With the unique relationship with the government as the major shareholder in the ownership and control structure of FGV, FGV did not seem to be "self-regulating" itself well without the government's regulations like how it was portrayed under climate capitalism theory. Instead, as one of the shareholders, the government keeps doing what is best to achieve its profit-making motive at the expense of the environment. On the other hand, as a highly regulated statutory body SOE, FELDA seems to be more environmentally and economically positive in its decisions to develop the palm oil plantation sector.

Therefore, based on the empirical case study, it is justified that different types of SOEs have different environmental outcomes based on their ownership and control structures. Using these SOEs, this study can show the importance of a firm's ownership and control structure in mitigating environmental problems while making a profit. Within the context of the climate capitalism theory, the profit-seeking SOE, FGV, seems to make decisions that violate the environment while making a profit compared to the social-oriented SOE, FELDA. In adopting the neoliberal approach, the contention of climate capitalism theory to minimize the government's role as a regulator for the

firms to achieve profit-making and environmental protection seems to not comfortably fit in the context of SOEs like FELDA and FGV.

# 4.3 The Gap of Climate Capitalism Theory

This section of the thesis will highlight the gap of climate capitalism theory that justifies the neoliberal approach in mitigating climate change. In highlighting the gap of this theory, this study will focus on state-owned enterprises while showing examples from the empirical case studies in this section.

#### 4.3.1 State-Owned Enterprises

Climate capitalism theory focuses on the role of private firms in mitigating climate change while assuming they are the main actors contributing to climate change. Private firms are "defined as those entities of the economy that are owned by the private sector" and "geared to making profits" (Lienert, 2009). With that, the theory emphasised how profit-seeking firms like private firms can be encouraged to voluntarily protect the environment while making a profit in their development.

While focusing on private firms as the main contributor to climate change, the climate capitalism theory has overlooked different types of firms equally contributing to climate change. For instance, based on Hsu, Liang, & Matos (2018), the total carbon dioxide emissions per region or country are concentrated mainly in sectors flooded with profit-seeking SOEs. For instance, as a profit-seeking SOE, FGV is often involved in degrading peatland areas and HCV areas to develop palm oil plantations. This resulted in causing a major release of carbon dioxide to the atmosphere due to the drainage process of peatland and deforestation.

Apart from that, due to commercial plantations' rapid growth in China, many natural forests are being destroyed by China SOEs' (Greenpeace East Asia, 2011). China's state-owned companies are also largely involved in cultivating soy plantations in countries like Brazil at the cost of destroying the largest tropical rainforests in the

Amazon (M. Chan & Araújo, 2020). The study conducted by Wang & Jin (2002) shows that China's state-owned enterprises have the worst environmental performances than domestic private enterprises.

In Indonesia, major environmental destruction occurs due to the expansion of Indonesian SOEs' oil palm plantations. For instance, PT Perkebunan Nusantara, one of Indonesia's largest state-owned palm oil companies (Clay, 2004, pg.206), is largely involved in deforestation activities in Papua New Guinea (Christopoulou, Steinweg, & Piotrowski, 2018). Besides, the Indonesian state-owned enterprises are involved in large land clearance outside Land Use Permit boundaries within Indonesia. For instance, in 2004, the state-owned oil palm company PT Perkebunan Nusantara II cleared about 19,000 hectares of land for plantations outside of their permit areas (Marti, Tarigan, & Griffiths, 2008).

Apart from that, in Vietnam, "the state-owned enterprises are among the worst polluters" in the country (Ortmann, 2017, p. 239). One of the most significant environmental violations done by Vietnamese state-owned enterprises is building dams along the Mekong River (Boar, Hirsch, Johns, Saul, & Scurrah, 2015; Brown, 2019). Because of these dams, the Mekong "region has experienced cataclysmic drought followed by record flooding" (Brown, 2019). Many China state-owned companies also have been playing a huge role in the damming of the Mekong River (Brown, 2019). All these environmental violations carried out by profit-seeking SOEs shows FGV is not unique in this case.

However, most of the time, profit-seeking SOEs like FGV are often overlooked as private firms since they function very similarly. For instance, based on the empirical case study, FGV is a profit-seeking SOE created under the Companies Act 1956 to focus on making a profit with minimal government regulations. The difference that FGV has as a profit-seeking SOE compared to private firms is the ownership and control structure of FGV, which consists of the government as the major shareholder. Therefore, it is possible to get overlooked.

In identifying the existence of SOEs, it is important to recognise the different types of SOEs involved in the carbon-intensive sectors. This is because different types of SOEs have different environmental outcomes in developing the sector based on their different ownership and control structures. This also means that not all SOEs are profitseeking SOEs that can be classified as causing environmental problems in developing the sector. For instance, as a statutory body SOE, FELDA was created under the legislation of the government. Therefore, it is tightly regulated by the government for the well-being of the settlers. With the tight regulation, FELDA can achieve economically and environmentally positive outcomes in developing the palm oil sector.

Therefore, the contention of climate capitalism theory that justifies the neoliberal approach in minimizing government regulation for the firms able to mitigate climate change voluntarily does not seem to comfortably fit in the context of FELDA. As a social-oriented SOE, FELDA is formed to be tightly regulated by the government for the settlers. With the tight regulation, FELDA seems to achieve both capital accumulation and environmental protection compared to the profit-seeking SOE, FGV, with minimal government regulation in developing the palm oil sector.

In comparison, FGV, as a profit-seeking SOE, did not seem motivated to voluntarily produce sustainable palm oil even at a premium price. Therefore, as a profit-seeking SOE consisting of the government as the shareholder, FGV merely focuses on profit. As a result, it continued to degrade the environment to develop palm oil plantations (Tscharntke et al., 2012). For instance, the rapid expansion of the palm oil plantation sector by FGV caused major deforestation to occur in various tropical forest areas (Mighty Earth, 2019). In 2013, FGV cleared the Pontian land bank areas that could have been conserved, ostensibly because they were prone to floods. Besides that, in 2014,

FGV also carried out open burning practices for replantation purposes. This act of FGV was identified as "a violation of the Malaysian Environmental Quality Act 127, 1974, and FGV's sustainability policy" (Levicharova et al., 2016).

Thus, the government's unique relationship with FGV as a shareholder seems advantageous for profit-seeking firms like FGV. This is because the ownership and control structure with the government as the shareholder allows the firm to continue to degrade the environment for a profit with minimal regulatory backlash. For instance, FGV's ambition to expand its palm oil plantations resulted in the clearing of about 14,063 hectares of HCV lands, including 5,266 hectares of peatland areas in West Kalimantan. In clearing peatlands, FGV also built drainage canals that drained the water from those areas and caused an outbreak of fires (F. Chan, 2017; Greenpeace International, 2017; Levicharova et al., 2016).

Thus, within FGV, the government seems to prioritise its role as a shareholder over its role as a regulator. As a result, as a major shareholder, the government seems to focus more on making a profit, which influences FGV to make decisions that can cause environmental issues. Therefore, based on the contention of climate capitalism theory, within the power structure of a profit-seeking firm and minimal government regulation, the firm able to mitigate environmental issues while making a profit does not seem to comfortably fit into the context of FGV. This is because the ownership and control structure of FGV that consists of the government as the major shareholder seems to approve strategies or developments to expand palm oil plantations taken by FGV that can cause major environmental destruction.

The government's priority to the role of a shareholder compared to the role of the regulator under FGV, a profit-seeking SOE, seems to be the main cause of the firm for being environmentally not concern towards its development. As a result, as a profit-seeking SOE, FGV does not produce a positive environmental outcome in developing

the palm oil plantation sector. Therefore, these empirical case studies show how both types of SOEs do not meet the climate capitalism theory's expected environmental outcomes.

Thus, the climate capitalism theory is inadequate for understanding how different types of SOEs are, apart from private firms, think of profits and the environment. This is due to the assumption of the climate capitalism theory that private firms are the major players in degrading the environment. Therefore, there is little recognition for profitseeking SOEs.

In analysing the empirical case studies, overall, both SOEs, either the statutory body SOE, FELDA, or profit-seeking SOE, FGV, do not seem to comfortably fit into the context of climate capitalism theory due to its unique relationship with the government. As a statutory body SOE, the tight regulation of the government seems to influence environmentally and economically sustainable decisions for the settlers in developing the palm oil sector. This empirical analysis contradicts what climate capitalism theory argues about the role of government despite the social-oriented firm being able to achieve both profit-making and environmental concerns.

As a profit-seeking SOE, FGV seems to make decisions that result in causing environmentally negative outcomes in developing the palm oil plantations to make a profit due to the government being the major shareholder. This also contradicts the contention of climate capitalism theory, that a profit-seeking firm can achieve profitmaking and environmental concerns in developing a sector. Thus, the ownership and control structure of different SOEs influences the decisions taken by the SOEs, resulting in different environmental outcomes.

# 4.4 Reconceptualization of Climate Capitalism

Even though climate capitalism theory is an influence theory, it seems to overlook the existence and uniqueness of different types of SOEs when it comes to thinking about profit-making and environmental protection. Although the theory comfortably fits in the context of private firms, this theory still can widen its literature into the different types of SOEs.

By widening its literature into different types of SOEs, climate capitalism theory can use various approaches to theorise its contention about climate mitigation and profitmaking. This is so because the climate capitalism theory that justifies the neoliberal approach does not comfortably fit into the context of different types of SOEs due to its unique relationship with the government. Therefore, by adopting these varied approaches, the climate capitalism theory can be a theory that is compatible with all different kinds of firms.

Besides that, SOEs have become the major players in world businesses day today. Therefore, they are also largely contributing to significant climate change issues that happen all around the world. With climate capitalism theory widening its literature into different types of SOEs, the theory will be more relevant to many parties in achieving both profit-making and environmental protection within the existing institution and power structure.

Therefore, the reconceptualization of climate capitalism theory is required to remain relevant and influential among policymakers worldwide. In doing that, the theory must consider using different approaches for different types of firms. This is so that it would be a theory that is just more than a one-size-fits-all kind of theory.

### 4.5 Conclusion

Overall, different types of SOEs with different ownership and control structures can result in different environmental outcomes. This is due to the unique relationship of the government that different types of SOEs has in developing the sector. Therefore, the ownership and control structure is one of the significant elements in firms having positive or negative environmental outcomes. For instance, as a statutory body SOE, the ownership and control structure of FELDA that consist of the government as the regulator seems to take environmentally and economically beneficial decisions. Compared to a profit-seeking SOE, the ownership and control structure of FGV that consists of the government as a major shareholder seems to take advantage of the environment in making profits.

Therefore, the contention of climate capitalism theory does not seem to comfortably fit in the context of different types of SOEs. This is due to the unique relationship that it has with the government. In understanding the significant role of SOEs in mitigating climate change and profit-making, this theory can consider reconceptualisation. By doing so, this theory can use various approaches relevant to all types of firms, including firms like SOEs, in achieving profit-making and environmental mitigation. With that, this theory can remain relevant in the contention of profit-making and environmental mitigation.

## **CHAPTER 5: CONCLUSION**

#### 5.1 Introduction

Climate capitalism is a dominant theory in building policies to achieve both capital accumulation and environmental protection goals. While an influential theory, climate capitalism overlooks the important role of the various types of SOEs in climateintensive sectors. Based on this study's empirical case studies, it is determined that different types of SOEs with different ownership and control structures result in different environmental outcomes. This is due to the different types of relationships and roles the government plays within these SOEs. Therefore, climate capitalism theory requires reconceptualization to be relevant for all types of firms when it comes to profit-making and environmental mitigation.

This chapter is divided into several parts. The first part of the chapter will summarise the insights into the two research objectives in answering the research questions of this study. The second part of this chapter will be on policy recommendations based on this study's overall analysis. Last but not least, this study will conclude by giving suggestions on the direction for future research.

# 5.2 Summary of Analysis on Research Questions

This section of the chapter will be divided into two parts based on the two research questions of this study. The first part will summarise the finding on the different types of SOEs. The second part of this section will summarise the link between climate capitalism theory and SOEs. In the last parts of the section, this study will highlight the contribution of this study to the climate capitalism literature and recommendation for future studies.

#### 5.2.1 State-owned Enterprises

In many developing countries, the government intervenes by creating various types of government institutions in the market. For instance, in Malaysia, the government intervenes through institutions like SOEs/GLCs, government-linked investment companies, statutory bodies, foundations, special purpose vehicles, and development financial institutions (Gomez et al., 2018). Even though they are all government institutions, they all have unique relationships with the government due to their different ownership and control structures.

In the case of a statutory body, the firm must be established by law at the federal or state level (Gomez et al., 2018). For instance, in regard to FELDA, it was formed under the Land Development Ordinance 1957. Therefore, FELDA was created to function as a social-oriented SOE to uplift the settlers' well-being by developing the palm oil plantation sector. As a statutory body, FELDA is also tightly regulated by the government to achieve its socio-economic goals. This also means that FELDA's decision-making is entirely based on the government's regulations. Therefore, the tight regulation of the government seems to make FELDA more economically and environmentally positive for the settlers in developing the palm oil sector.

On the other hand, a profit-seeking SOE is a company that has a government institution as its major shareholder (Gomez et al., 2018). In the case of FGV, the government is the largest shareholder through FELDA. FGV was formed under the Companies Act to function as a private company with the ambition of making a profit. The ownership and control structure of FGV consists of the government as the major shareholder, with professional managers below in the hierarchy. This also means that as a major shareholder, the government has the final say in all the decisions of FGV.

Therefore, it can be determined that as a shareholder under the FGV structure, the government seems to make decisions centred on profit-making while leaving

environmental concerns aside. As a result, FGV has engaged in environmentally destructive activities. Furthermore, these actions usually receive little to no punishment due to their advantageous position with the government. Thus, as a profit-seeking SOE, FGV shows a negative environmental outcome in developing the palm oil sector compared to the social-oriented SOE, FELDA. Therefore, profit-seeking SOEs like FGV are unlikely to be overly concerned about the environment in their quest to make a profit.

This result should be no different from any profit-seeking SOE in the world. Many profit-seeking SOEs play significant roles in the natural resource-based sectors while also being recognised as large contributors to global warming worldwide (Hsu et al., 2018; Varkkey, 2013). Therefore, the rising carbon emission rate seems to be concentrated in the emerging economies that are flooded with profit-seeking SOEs (Hsu et al., 2018).

Based on the empirical case study, it can be analysed that both FELDA and FGV are SOEs. However, their different structure has created the different relationships with the government. Even though the government plays a crucial role in the decision-making process under both SOEs, they arrive at different types of decisions. This is due to the different roles of the government under both SOEs. Therefore, the ownership and control structure does matter in determining the decision making of firms like SOEs. With the different ownership and control structures of SOEs, both SOEs' environmental outcomes contradict each other.

#### 5.2.2 Climate Capitalism Theory and SOEs

This section will summarise the connection between climate capitalism theory that justifies the neoliberal approach and the different types of SOEs. Climate capitalism theory is a theory that focuses mainly on private actors as the major contributor of climate change to mitigate environmental issues while generating profit in their development. Therefore, the theory contends that environmental problems are solvable within existing institutions, power structures, and continued economic growth. By adopting the neoliberal approach, climate capitalism argues that the government works best in a minimal regulatory role. With minimal government regulations, profit-seeking firms like private firms can voluntarily execute their actions in mitigating climate change. With that, it reduces the regulatory burden and raises private firms' responsibility in taking initiatives to mitigate environmental problems while also making a profit in their developments.

By focusing mainly on private firms, the climate capitalism theory has overlooked different types of firms like SOEs, which are equally involved in the carbon-intensive sectors. SOEs are firms that have unique relationships with the government. Under a statutory body SOE, the government functions as a regulator. On the other hand, under a profit-seeking SOE, the government functions more prominently as a major shareholder. With that, this study was keen on analysing how different types of SOEs comfortably fit into the context of climate capitalism theory.

With tight government regulation, as social-oriented statutory body SOE, FELDA makes decisions beneficial for the settlers in terms of profit-making and environmental concerns in developing the palm oil plantation sector. This contradicts what is contested under the climate capitalism theory regarding the government's role in mitigating climate change. Under statutory body SOE, the tight government regulation seems to be one of the crucial factors for the firm to make economically and environmentally sustainable decisions. Therefore, statutory body SOEs do not comfortably fit into the context of climate capitalism theory that justifies the neoliberal approach in mitigating climate change while making a profit.

On the other hand, the profit-oriented SOE, FGV, makes decisions based on its shareholders; in this case, the major shareholder is the government. With this ownership

and control structure, the government has the final say in all decision-making as the major shareholder. Thus, the government seems to take economically beneficial decisions, but often they are not environmentally beneficial in developing the palm oil sector. Therefore, with minimal government regulation, FGV as a profit-seeking SOE that consists of the government as the major shareholder did not achieve capital accumulation alongside environmental protection, which contradicts the predictions of the climate capitalism theory. Thus, as a profit-seeking SOE, FGV does not comfortably fit into the context of climate capitalism theory that justifies the neoliberal approach in mitigating climate change while making a profit.

Overall, different types of SOEs have unique relationships with the government, which has been highlighted through their different ownership and control structures. With different ownership and control structures, each type of SOE has its own way of decision-making regarding making a profit and protecting the environment. Therefore, based on the empirical case study, although both are SOEs in the palm oil plantation sector, their environmental outcomes tend to differ.

This study determines that different types of SOEs do not fit comfortably into the context of climate capitalism that justifies the neoliberal approach due to the unique role the government holds in their ownership and control structures. In being an influential theory among the policymakers, the theory should be reconceptualised to broaden its relevance to firms like SOEs apart from private firms in mitigating climate change while making a profit.

## 5.3 Contribution to the Literature

This section of the chapter will highlight the contribution of this study to the climate change literature. Since climate capitalism theory merely looks into private firms due to its assumption that they are the main contributors of climate change, this study can contribute by showing that firms like profit-seeking SOE are also equally involved in violating the environment. By doing that, this study can emphasise the importance of different types of SOEs, which can bring different environmental outcomes in developing a sector.

This study shows that the climate capitalism theory that justifies the neoliberal approach does not fit comfortably in the context of different types of SOEs. In doing that, this study can highlight the necessity of climate capitalism to be reconceptualised to be relevant for all types of firms when it comes to achieving profit-making alongside environmental protection.

This study also contributes to the climate capitalism theory by highlighting the importance of ownership and control structures when making decisions on profitmaking and environmental mitigation. By analysing different types of SOEs in mitigating climate change while making a profit, this study shows how SOE's ownership and control structures affect decision making that result in different environmental outcomes. This also justifies why the climate capitalism theory requires reconceptualization for added relevance.

# 5.4 Recommendation for Future Studies

There is another significant theoretical gap within the climate capitalism literature, which is the above-soil sector. The climate capitalism theory mainly focuses on the below-soil sectors like the fossil fuel-based sectors as the main cause of carbon released into the atmosphere. However, in reality, many above-soil industries contribute to a significant rate of carbon emission. Therefore, this is one of the areas that future studies can look into for further research to fill in the theoretical gap of climate capitalism theory.

Future studies can also look into exactly how the reconceptualization can take place in the climate capitalism theory. Since this is a master's dissertation, a comprehensive new study on the reconceptualization of climate capitalism theory would be beyond the scope of this research. Therefore, it is highly recommended that in-depth future research be undertaken specifically to reconceptualise the climate capitalism theory. Such a project would then be a great contribution to the theory.

# 5.5 Conclusion

Capital accumulation and environmental protection are two significant and controversial elements that must be balanced in every sector. It is crucial to ensure ecological protection is never taken for granted for development purposes to make more profit. Climate capitalism is a theory that justifies the neoliberal approach in accommodating capital accumulation and environmental protection together for the firms to engage in mitigating climate change while making a profit.

With the empirical case studies, this study shows that different types of SOEs like profit-seeking SOE and social-oriented SOE can not comfortably fit into the context of climate capitalism theory that justifies the neoliberal approach in mitigating climate change while making a profit. This is so because SOEs have a unique relationship with the government, which is analysed from the ownership and control structures of different types of SOEs. With that, the SOEs tend to make decisions that have different environmental outcomes in developing the palm oil sector. Finally, this study has recommended future studies to review various gaps of this theory that need to be filled in for continued relevance and applicability of climate capitalism theory in the environmental governance and business literature.

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