



Telayap river, diverted by PT Adei through canals to control the flooding of their plantations, Pelalawan District, Riau province, Indonesia (2014). Des Syafrizal / Oxfam

DEFORESTATION IN THE INDONESIAN PALM OIL SUPPLY CHAIN

In June 2013, burning Sumatran forests produced a haze that darkened South East Asian skies for hundreds of miles. The haze billowed and drifted from its origin point in Riau province, Indonesia, and made the air unbreathable in cities and towns of several countries, including Singapore, Brunei, Malaysia, and Thailand.

Indonesia is the largest producer of palm oil in the world.¹ Riau province, where the fire originated, produces most of the country's palm oil, accounting for 27 percent of total crude palm oil production.² Riau is the most deforested province in Indonesia, losing almost 3 million hectares of

its natural forests between 1990 and 2007, and an additional 880,000 hectares up until 2012. This has largely been driven by the pulp and paper industry and the palm oil sector.³

Riau province was severely affected as fires raged in the peatlands, smoldering from a depth of 4 meters below surface level in some areas. According to the Center for International Forestry Research (CIFOR), much of the damaged area was natural forest cover.

Palm and acacia plantations in the region often employ burning techniques to clear land of old growth,⁴ but the fires frequently get out of control. This is believed to have been the case in Riau. Indonesia's National Council on Climate Change and the Japan International Cooperation Agency's preliminary assessment report estimates that the June 2013 fires in Riau emitted between 36 million and 49 million tons of carbon dioxide equivalent (MtCO₂e).⁵ As for the ecological loss, Professor Bambang Heru Raharjo, forest fire expert at the Bogor Agricultural University, estimated that the loss amounts to 15.7 billion rupiahs (\$1.3 million).⁶

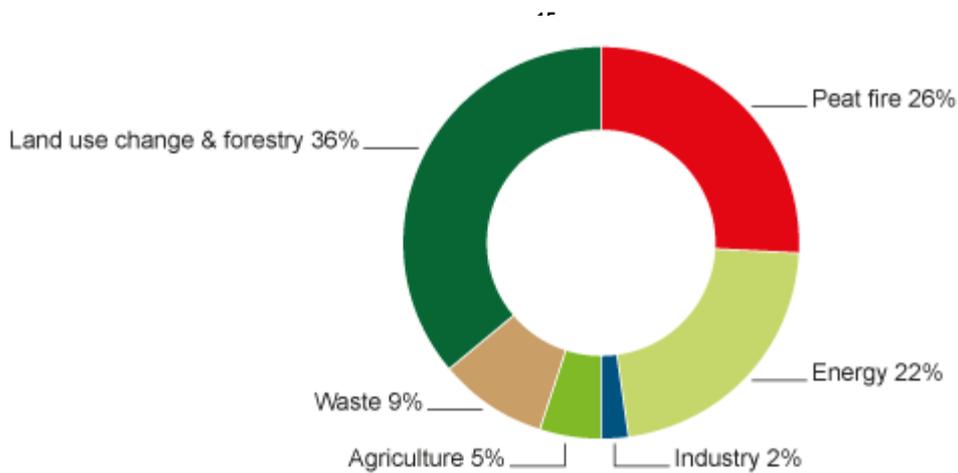
Indonesia has voluntarily committed to mitigating climate change by reducing its greenhouse gas (GHG) emissions by 26 percent by 2020 and 41 percent by 2050. More than half of this reduction was meant to come from the forestry/peatlands sector. Avoiding peat fires is therefore crucial if Indonesia is to meet its targets.⁷

Though the origins of the 2013 fire are unconfirmed, two high-ranking executives from the palm oil company PT Adei, were arrested and are currently standing trial at the Pelalawan district court for burning the land for commercial interests.⁸ The fire was suspected to have been started on 9 June 2013, on land intended for palm oil production in the Bengkalis regency.⁹ PT Adei is a subsidiary of the Malaysian multinational corporation Kuala Lumpur Kepong (KLK). In a response to Oxfam, KLK denies any wrong doing and refers to the outcomes of an investigation that the Roundtable on Sustainable Palm Oil conducted directly after the fire in July 2013 that cleared them of accusations of burning.¹⁰

In 2001, PT Adei's then general manager was found guilty, and ultimately sentenced to eight months in prison and a fine of 100 million rupiahs (\$1,664,720), for using fire to clear concession areas to grow palm oil.¹¹

KLK is a supplier to major international food and beverage companies, including Cargill, a commodities trader that is one of KLK's main customers. Since January 2012, Cargill has received 23 shipments from KLK with a total of 20,000 metric tons of palm oil.¹² On 25 March 2014, Cargill received 2,002 metric tons of palm kernel oil from PT Adei Plantation & Industry.¹³ Cargill in turn has supplied palm oil and its derivatives to various companies, including General Mills and Kellogg.¹⁴

The deforestation and land-use change practices that PT Adei is accused of are widespread across the country and contribute more than half of Indonesia's GHG emissions. These practices are key factors in making Indonesia one of the world's largest GHG emitters (Figure 1).



Source: Clean Investment Fund (2010)

In addition to PT Adei's contribution to climate change and dangerous air pollution, the company is also accused by local people and NGOs of striking a deal with the government to force local farmers from their land, with little compensation. These groups also charge PT Adei with destroying forests used by local communities to grow food, and polluting and destroying the local river. These were vital to the food security and income of communities in areas where the company operates.¹⁶

According to villagers, ever since PT Adei arrived in Batang Nilu Kecil and Telayap in 1991, life has become harder.¹⁷ They now live surrounded by PT Adei plantations covering around 14,000 hectares, equivalent to more than 26,000 American football fields. All roads into these villages pass through the company's plantations and security check-points.¹⁸

KLK, in its response to Oxfam, states that it has provided jobs to 5,307 people, who are paid above the minimum wage, that the smallholders linked to the plantation benefit from a continuous stream of good income and that they have provided medical amenities and schools.¹⁹

However, villagers told Oxfam that before the company arrived, people had enough food and income to live on. They used their land to grow crops like rice, corn, and cucumber, which they used to eat and sell. They also harvested rubber and gum from the forest and sold it, and obtained herbs for traditional medicines.²⁰

The company diverted the river through canals to control the flooding of their plantations, preventing villagers from using it to fish and bring crops to market. "The water was pristine before but now it's filthy," said Hermawan.²¹ "We used the water for drinking, cooking, for watering our crops, and for transport. We also got plenty of fish, which is very important to our diet, and had enough to sell. We need to buy it now and it's costly. The company has promised it'd clean up the river every year but still hasn't done anything."²²

A majority of villagers are now dependent on PT Adei for their income,

and need to buy everything.

“Before the company arrived to our village, I was much happier. I didn’t need to worry about getting food on the table for my husband and my children,” explained one woman. “I need to buy all our food now. Fish is very important to our diet, but it’s really expensive.”

According to one village elder, “PT Adei cut down the trees, and the monkeys now come to our village and damage our property. They steal our food. Even on the little land we have left, we can’t grow vegetables anymore because the monkeys will take it or damage it.”

Most villagers were offered work with the company as laborers, but many have quit because the company has not fulfilled its financial commitments. As they did not earn enough money to live on, they had to find work elsewhere, and even get their children to help support them. Some children have been forced to drop out of school because their parents could no longer afford the fees.

While working for PT Adei, one woman who declined to be identified said she had to spray fertilizers and pesticides on the plantations without a mask. “The company doctor said the use of fertilizers and pesticides had side effects,” she said. “The company never gave me a mask. I felt poorly, struggling to breath and feeling nauseous.”

Local climate conditions also seem to be changing, affecting people’s ability to feed their families. Villagers say that over the past 20 years, the weather has become increasingly unpredictable, and it is hotter and drier than it used to be.²³ There are now fewer trees, resulting in increased flooding in the rainy season, which has impacted crops, such as corn, wheat, chili, and pepper.²⁴

As the climate grows more unpredictable, food prices are also becoming increasingly volatile. “Chili is quite pricey at the moment because there is little supply since the dry season started earlier than usual,” explained one female villager.

The changing climate and land-use practices are also affecting access to water. Recent dry seasons, have seen increased instances of drought. As wells begin to dry out, villagers must dig as deep as 10 meters to find water, a worrying change from the past, where fresh water could be found just 1 meter below the surface.

ADDITIONAL INFORMATION

Kuala Lumpur Kepong

KLK is a Malaysian multinational headquartered in Ipoh, Malaysia.²⁵ At the end of September 2013, the company had a total area of 193,235 hectares of oil palms under cultivation, comprising 160,163 hectares of mature plantations.²⁶

In 2013, KLK generated revenues of 9,147 million Malaysian Ringgit (RM) (\$2,808 million) and operating profits of RM 1,267.2 million (\$389 million), resulting in a net income of RM 917.7 million (\$281.8 million). The total assets of the company amounted to RM 11,747.9 million (\$3,606.9 million).²⁷

PT Adei in Riau province

Palm oil company PT Adei is a subsidiary of KLK. In Indonesia, PT Adei's biggest plantations are in Riau, Belitung, and Central and East Kalimantan. In 2001, five plantation companies in Riau were brought to the court for using fire to clear their concession areas. PT Adei Plantation & Industry was found guilty under the Environmental Act No. 23/1997 (Article 41 and Article 46).²⁸ While Article 41 was used to punish the company for using fire that resulted in environmental damage, Article 46 was used to prosecute the general manager, who was sentenced to two years' imprisonment, while the company was fined 250 million rupiahs (\$21,600). However, the High Court reduced the sentence to eight months and the fine to 100 million rupiahs (\$8,600) on appeal.²⁹

NOTES

- 1 Index Mundi, 'Palm Oil Production by Country', <http://www.indexmundi.com/agriculture/?commodity=palm-oil&graph=production>
- 2 B. Rianto (2010) 'Overview of palm oil industry landscape in Indonesia', PricewaterhouseCoopers, <https://www.pwc.com/id/en/publications/assets/Palm-Oil-Plantation.pdf>
- 3 Eyes on the Forest database, <http://maps.eyesontheforest.or.id/>
- 4 This method of slash and burn is favored because it is considered cheap and fast. However, due to the country's vast peatland forest areas, slash-and-burn clearing often results in massive fires because peat fires spread easily and are very hard to put out. Riau province has Indonesia's largest peatland, at about 2 million hectares. F. E. Satriastanti (2014) 'Fires create a hazy future for Indonesia's carbon emissions targets', Thomson Reuters Foundation, <http://www.trust.org/item/20140209225919-vy5mk/>
- 5 National Council on Climate Change (Indonesia) (2013) 'Greenhouse Gases Assessment From Forest Fires: Indonesia Case Study Preliminary Assessment Report', http://redd-indonesia.org/images/events/20131119/CIFOR/3_Greenhouse_Gases_from_Forest_and_Land_Fires/GHG_Assessment_from_Forest_Fires_-_Indonesia_Case_Study.pdf
- 6 M. Ali (2014) 'Dinilai merusak hutan, Kementerian KLH gugat perusahaan penebangan 16 Trilyun', *Mongabay*, January 30, <http://www.mongabay.co.id/tag/hutan/page/2/> [Judged having damaged the forest, logging company is sued for 16 billion by Ministry of Environment]
- 7 G.B. Indrarto, et al (2012) 'The context of REDD+ in Indonesia: Drivers, agents and institutions', Working Paper 92, Center for International Forestry Research, <http://www.cifor.org/online-library/browse/view-publication/publication/3876.html>
- 8 R. Harahap (2014) 'Activists demand Malaysia apologizes for Riau fires', *The Jakarta Post*, 11February, <http://www.thejakartapost.com/news/2014/02/11/activists-demand-malaysia-apologizes-riau-fires.html>
- 9 S. Martin (2013) 'Indigenous Peoples in Indonesia Scapegoats for Forest Fires', First Peoples Worldwide, <http://firstpeoples.org/wp/tag/palm-oil/>
Allegations of illegal slash-and-burn clearing have also surfaced against local farmers and multinational corporations operating in the province.
- 10 KLK letter sent to Oxfam, 9 May 2014.
- 11 D. Simorangkir (2002) 'A Review of Legal, Regulatory and Institutional Aspects of Forest and Land Fires in Indonesia', Project FireFight South East Asia, http://cmsdata.iucn.org/downloads/ff_legal_indonesia.pdf
- 12 In a letter sent to Oxfam on 9 May 2014, KLK confirms selling palm oil to Cargill.
- 13 Panjiva, US imports database from 1 January 2012 to 9 April 2014 (www.panjiva.com/). Viewed on 9 April 2014. Import Genius, United States imports database from 7 April 2013 to 7 April 2014 (<http://www.importgenius.com/>). Viewed on 7 April 2014. PT Adei Plantation & Industry, KL-Kepong Plantation Holdings and KL-Kepong Edible Oils all belong to the plantation segment of KLK that is in charge of cultivation and processing of palm and rubber products and refining of palm products. Kuala Lumpur Kepong, 'Annual Report 2013', *Kuala Lumpur Kepong*, December 2013.
- 14 E.B. Skinner (2013) 'Indonesia's Palm Oil Industry Rife With Human-Rights Abuses', Bloomberg Businessweek, Global Economics, www.businessweek.com/articles/2013-07-18/indonesias-palm-oil-industry-rife-with-human-rights-abuses
- 15 Climate Investment Funds (2010) 'Clean Technology Fund Investment Plan for Indonesia', http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF_Indonesia_investment_plan_04_1210.pdf
- 16 Oxfam interviews from 25 March 2014 to 26 March 2014
- 17 *Ibid.*
- 18 *Ibid.*
- 19 Letter KLK sent to Oxfam 9 May 2014.
- 20 *Ibid.*
- 21 Hermawan is a pseudonym to protect the individual's identity for fear of retribution.
- 22 Letter KLK sent to Oxfam 9 May 2014.
- 23 *Ibid.*
- 24 *Ibid.*
- 25 Kuala Lumpur Kepong, 'Milestones 1960–2012', Kuala Lumpur Kepong, www.klk.com.my/corporate-information/milestones/2012-2010/
- 26 KLK (2013) 'Annual Report 2013', Kuala Lumpur Kepong, http://www.klk.com.my/ar/klk_ar2013.pdf, p. 18
- 27 *Ibid.*
- 28 D. Simorangkir (2002) *op. cit.*
- 29 *Ibid.*
- 30 KLK (2013) *op. cit.*, p. 145

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