“SURFING AND CRASHING IN THE INDONESIAN OIL PALM BOOM”

John McCarthy

As boom towns flicker to life across rural Indonesia, the relentless pursuit of oil palm wealth poses social and environmental problems for Indonesian policy makers.

In India the rural poor ration every last drop of cooking oil. In Malaysia and Northern Australia factories built to convert vegetable oil to biofuel sit idle. Food riots have erupted in Guinea, Mexico and Uzbekistan, all linked to the price of vegetable oil and other basic foodstuffs. But it is perhaps in Indonesia where the commodity boom in vegetable oils is affecting rural communities most of all.

In the islands of Sumatra and Kalimantan, farmers, entrepreneurs, teachers, doctors, government officials and plantation companies are racing to convert every available corner of the lowlands into oil palm. Along village roads, trees sit stacked up next to the road, and patches of burnt-over land lay exposed to the air as people chop down rubber gardens and remaining forest areas for new plots. From airplane windows a traveler can see large areas of brown earth. Here oil palm companies are carving out large spaces between neat rectangular blocks of existing oil palm plantations.

With a new policy allocating 6.5 million hectares of land to investors interested in planting new crops to boast bio-fuel production, according to one estimate Indonesia is expecting to triple the area under oil palm to 20 million hectares. The reason is obvious: the price of crude palm oil has increased 88 percent from 570US$ per metric ton at the beginning of 2007 to over 1440US$ per metric ton in early March 2008.

Oil palm fever in its various permutations is endemic to Sumatra and Kalimantan. The logic is clear. A two hectare smallholding of oil palm, once it reaches maturity, and if carefully managed, can produce fresh fruit bunches now worth 5 million rupiah per harvest. As the oil palm tree is harvested every two weeks, this is around 10 million rupiah a month. "This is net", a farmer says, “unlike rubber, you don’t need to share the profits with a sharecropper”. Some small time farmers earn this income – considerably more than the salary of a university professor.

During the 1990s Suharto’s government brought in poor migrants from Java, granting them small plots of oil palm in the forested frontiers of Kalimantan and Sumatra. Many of these migrants are now surfing the boom, earning enough to purchase a car, a motorbike, buy up new areas to grow oil palm, or make the pilgrimage to Mecca.

In the West Sumatran village of Koto Salak, Afrizal stands in front of his house, showing off the superior oil palm seedlings he just bought. They are from the oil palm research station in North Sumatra, now a honey pot for aspiring oil palm farmers.
When Afrizal acquired his first plot of oil palm ten years ago, a large plantation company was cutting deals with local leaders as it expanded across West Sumatra. At this time policy makers had recognized that oil palm is really a rich farmer’s crop, requiring large investments in quality seedlings, large quantities of fertilizer, and careful husbandry. Under state supported development schemes plantations obtained forest land within village boundaries in exchange for developing small plots for villagers who joined a farmer’s cooperative.

Afrizal used his first plot to trade upwards, selling it for a large profit, and then buying a second and a third plot, which he then sold on. Building up his capital along the way, eventually he opened his own acreage. Now he has 300 hectares under various stages of cultivation.

But not all farmers shifted upwards. When the plantations moved into the villages of eastern Jambi, Aris had never planted this crop. He witnessed village ancestral lands being converted into oil palm with very little compensation. While some refused to take up plots of land in the new developments, Aris found that the area of oil palm he was granted had been badly cultivated was unproductive, and that he had a large debt. When land speculators moved in, Aris sold on his plot for a low price. As in many other palm oil districts in Indonesia, during the Suharto period conflict surrounded oil palm developments. Demonstrations and land occupations became common during the chaotic political era after the fall of Suharto as villagers attempted to reclaim many areas of land.

Now, with the surge in oil palm prices, villagers are enthusiastic about oil palm. But many have just a few hectares of rubber garden, and lacking the land certificate or a business to use to guarantee a loan, or a partnership with a large plantation, they find themselves locked out of the boom. Now with spiraling land prices and large sums of money on offer, poor villagers can be induced to sell off their ancestral land. A family crisis can push a village family into a downward spiral: after they sell their land, they are forced into poorly-paid piece work on other people’s oil palm land.

Meanwhile Dr Siregar, a doctor working in a district town on the East Coast of Sumatra, recently described how he had bought a hundred hectares to grow oil palm. “The village head helped me buy the land from villagers four ago”, he said. As the oil palm trees come into production, Dr Siregar plans to send his children overseas for their education. In this way the oil palm is generating a new rich - and a new poor.

In the face of this oil palm boom, plantation expansion continues apace. With many villagers hoping to gain a foothold in the booming oil palm economy, oil palm companies readily find village partners willing to grant areas of customary land in exchange for productive oil palm smallholdings. But in the absence of a clear regulatory framework, disputes erupt as villagers are often unhappy about levels of compensation, unmet promises and unequal arrangements with the “step parent” plantation.
In West Sumatra, Afrizal expects poor farmers to fall behind. He tells me that he now employs scores of people in his 300 hectare plantation, including members of his extensive clan. “Do you help them to open their own plots?” I ask him. “If they are trustworthy types”, he says, “I take them to the bank and guarantee a loan”. Then he deducts the interest payments each month from their money paid for work in his plantation.

From the largesse generated from his large holding he has accumulated enough funds and a following to support a campaign for public office. He now sits in the Regional Parliament. As a member of the assembly's economic commission, he travels to Jakarta to discuss agricultural policy with the ministry. Our conversation then turns to the underside of the oil palm boom.

While Afrizal and his friends describe how, once a farmer gets a 2 hectare smallholding productive, he can then access credit from the bank to buy further plots. Afrizal maps out on paper how entrepreneurs can expand their plantation from a small capital base. “The critical point for expansion”, he says, “is when you can buy a car. You are now free from the fees involved in paying to transport the fresh fruit bunches to the factory”. This is what economists might call "take off".

Meanwhile the boom towns across Sumatra and Kalimantan flicker to life. The city of Jambi has a new five star hotel, flashy shopping malls and travel agencies. Sungai Rumbai, just a few years ago a sleepy village on the border of West Sumatra, boasts several mobile phone and car dealers and a new supermarket. The houses of the new oil palm kings dominate the village, two story monoliths with giant satellite dishes.

Oil palm is indeed a tree wrapped up in contradictions. On the one hand, who can begrudge the industrious farmers of Sumatra the chance to earn real money - to school their children, buy a new car, renovate their house or even take the hajj to Mecca. Yet the environmental and social consequences of the boom give space for pause. The lure of oil palm profits has many implications.

An official in a provincial forestry office in East Sumatra confides that many district forestry officials now have 100 hectares of oil palm. He works in the provincial office and is worried about missing the boom. “I want to get transferred to a district”, he said. “As I am young enough, I could be the head of the district forestry office”.

“What about the forest”, I ask. “Well, the low land forest is now disappearing”. He unfolds a map and points out the expanding belt of plantations in logged over and degraded forest concessions now rezoned for agriculture. Then he shows me photos from his digital camera to prove it. It is all getting carved up. The question is: will he get a piece of the action or be left watching on?

Safrial, an environmental activist, notes that oil palm can be good for local farmers. But the problems are many: oil palm requires huge volumes of fertilizer which end up as chemicals in the water people drink. Few oil palm mills have effective pollution
management, and the putrid effluent also finds its way into local rivers where the poor wash and fish. Converting forest hillsides into oil palm also has consequences: unlike the deep roots and tangled undergrowth of the forest, the water runs off the oil palm rapidly, flooding the lowlands. At the same time, carbon emissions from forest fires are associated with peat drainage and land clearance by plantation owners. Factoring in these emissions, a 2007 report listed Indonesia as the world's third-leading producer of greenhouse gases. In response to these criticisms, the president of Indonesia has decreed that oil palm should not be opened in peat lands.

Safrial argues that the Indonesian government should do more to limit rampant oil palm expansion. While it makes sense to transform underutilized low land areas into oil palm, the government needs to avoid the unpleasant social and environmental effects. But as teachers, doctors and many government officials – along with corporations and their powerful political partners – attach their futures to the oil palm boom, it remains uncertain how the oil palm boom can be managed. Like firefighters facing a bush fire out of control, will policy makers have to wait until it runs its course?

Villagers love eating durian, Safrial notes, referring to the large, thorny fruit native to the Indonesian jungle. But it is well known that, while it is delicious, too much durian makes its consumer sick.

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