



An Indonesian soldier checks on a peat land fire near Palangkaraya, central Kalimantan, Indonesia. **REUTERS/DARREN WHITESIDE**

# Palm oil plantations in cross-fire after “no deforestation” pledges

BY **MICHAEL TAYLOR, AUGUSTINUS BEO DA COSTA AND BERNADETTE CHRISTINA**

**OCTOBER 7 – NOVEMBER 17** JAKARTA

# Big palm oil's pledge to preserve forests vexes Indonesia

BY MICHAEL TAYLOR

OCTOBER 7 JAKARTA

**T**he Indonesian government is asking major palm oil companies to row back on the historic “no deforestation” pledges they made at last year’s United Nations climate change summit, officials and company sources say.

Major palm oil companies were invited to a series of meetings at the economics ministry last week, where officials expressed concern the pledges the plantation companies made are causing big problems for smaller palm oil firms in their supply chain, the sources told Reuters.

The government has asked palm oil firms who signed the Indonesian Palm Oil Pledge (IPOP) to exempt smallholders because they are not yet ready to practice the same level of sustainable forest practices as the big players, said Musdhalifah Machmud, deputy minister for food and agriculture at the coordinating

ministry for economic affairs.

“Yah, they need to let smallholders fulfil their trade,” she told Reuters.

Indonesia is the world’s biggest palm oil producer and exporter and its industry employs nearly 5 million workers.

A top official at one of the major palm oil companies, who did not want to be named, said the companies “received guidance notes” from ministry officials.

## PALM OIL STIGMA

A representative of an environmental group said the government is urging big palm oil firms to “water their stance down” by urging them to continue to buy palm oil from their suppliers, even if that company is cutting down forests for new plantations.

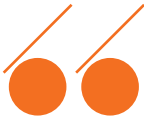
“This would pretty much ruin the whole attempt to create an industry-wide no-deforestation situation to remove the stigma from Indonesian palm oil,” the NGO representative said.

The pressure from the national government comes after local governments in Indonesia have begun taking away concessions from palm oil companies who tried to convert them into conservation forests, several big palm oil companies told Reuters.

The controversy over the IPOP pledges is arising as the Indonesia government comes under mounting pressure from its neighbours over the smoky haze from forest fires that has blanketed much of Southeast Asia the past month.

Plantation firms who use “slash and burn” techniques to clear forests – most of them smallholders now – are one of the biggest reasons for the fires.

Home to the world’s third-largest tropical forests – and the world’s fifth-largest emitter of greenhouse gases mainly due to their destruction – Indonesia will be one of the countries in the spotlight at December’s U.N. climate change conference in Paris. The meeting will try to get legally binding commitments from the 190 member nations to slash greenhouse gases.



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**Agus Purnomo**  
Golden Agri's  
director for strategic  
stakeholders  
agreement

## SUPERMARKET PRODUCTS

The spectacular growth of palm oil plantations over the past quarter-century, now covering over 11 million hectares in Indonesia or an area bigger than Iceland, has been a leading cause of deforestation.

Cheaper than other vegetable oils and low in trans-fat acids, palm oil has increasingly found its way into products throughout the supermarket, most commonly as cooking oil, but also everything from snack foods and chocolates to soaps and soup.

Around five years ago environmental activists began pressuring some of the world's biggest consumer goods companies to demand their palm oil suppliers adopt more sustainable forestry practices. They organised demonstrations outside suburban U.S. supermarkets. A prime-time documentary in April 2014 featured an angry Harrison Ford, clutching an orangutan on a visit to peat forests in Indonesia being clear-cut for plantations. Activists and media reports began highlighting the use of child workers and forced labour on some plantations.

The campaign worked. In September of last year, all the major Indonesian palm oil companies signed a "No Deforestation, No Peat, No Exploitation" pledge. Together, they and their supply chains controlled well over half the global palm oil trade. Indonesia's two biggest timber and paper companies, Asia Pacific Resources International Ltd and Asia Pulp and Paper have signed similar forestry sustainability pledges.

Greenpeace, which in 2010 had launched a YouTube video against Nestle for buying palm oil from a subsidiary of Singapore-based Golden-Agri Resources, then joined hands with their former arch villains to help them implement the pledges.

It seemed like a turning point in the battle against climate change.

## MONITORING COMPLIANCE

After the cascading movement of companies and their customers to adopt deforestation pledges, environmental activists and some of the companies themselves, set up online platforms to

monitor compliance with their IPOP pledges.

Wilmar International Ltd, the world's largest palm oil trader, unveiled an online platform this year that provides transparency and "traceability" into its supply chain, including the names and locations of refineries and palm oil mills.

"Wilmar is the first agro-industrial giant to offer a way to follow palm oil all the way back to the mills where the oil is processed," says Scott Poynton of The Forest Trust, a forestry activist group, which brokered Wilmar's zero deforestation policy and built the online dashboard.

Rainforest Action Network started a "Snackfood 20 Scorecard" that monitors the implementation of deforestation pledges by companies that buy palm oil from major plantation firms for their products, such as PepsiCo Inc, Kellogg Co and Kraft Heinz Co.

The speed and alacrity with which the major plantation companies began enforcing their "no deforestation" pledges – which also apply to companies in their supply chain – caught both the national government and smaller growers by surprise.

Efforts by big palm oil firms to convert concessions into protected forests have run into roadblocks at the local government level.

## CONFLICT OVER CONCESSIONS

When Golden Agri, one of the IPOP companies, tried to convert an area designated for plantations in Indonesian Borneo into a conservation forest, the local government threatened to revoke the concession, said Agus Purnomo, the company's director for strategic stakeholders agreement. He said the company was still negotiating with officials in the Kapuas Hulu district of West Kalimantan.

"If we are not developing it into plantations, they cancel (the concession) and give it to somebody else – a competitor," said Purnomo, a former director at WWF Indonesia and a presidential advisor on climate change.

Officials in Kapuas Hulu could not be reached for comment.

Wilmar and unlisted Singapore-based palm oil firm Musim Mas told Reuters they, too, had



Part of our country we have to protect for forests, and the other part we have to do some economic activity so the people around it can improve their prosperity.



**Musdhalifah  
Machmud**

Deputy minister for food and agriculture at the coordinating ministry for economic affairs

experienced problems similar to that of Golden Agri.

The conflict over whether concessions should be planted or preserved reflects a major policy dilemma in Indonesia: The forests are a prime source of employment and development in the world's fourth-most populous country, but their rapid depletion has economic as well as environmental consequences.

### ENCROACHING ON POLICY

Palm oil is a key driver of economic growth in Indonesia, said Machmud at the economics ministry. And growth is slowing: Indonesia's GDP is expected to decline to 4.9 percent this year from above 6 percent over the last decade.

"Part of our country we have to protect for forests, and the other part we have to do some economic activity so the people around it can improve their prosperity," she said.

The no-deforestation pledges made by the big palm oil companies are putting smallholders at risk, she said.

Moreover, IPOP was never coordinated with the government and encroaches on government policy and guidelines, she said.

The problem, she said, is that companies like Golden Agri are setting aside forests in their concession area for preservation that the government has already assigned for development.

"If you don't like it, no problem," she said. "Another company will come to develop it."

It's a stance that makes environmental groups unhappy.

The biggest palm oil and timber companies in Indonesia have all committed to the "no-deforestation" pledge and now they were losing concessions when they try to preserve forests, said Bustar Maitar, head of Greenpeace's campaign to save the forests in Indonesia. "This is enough to gain the momentum to tell the government that business as usual has already passed," he said.

### HAZY POLICY

Caught in the middle is Nur Masripatin, appointed

in June to the new role of director-general in charge of climate change policy within the newly merged environment and forestry ministry.


The government has had competing aims around development and conservation, she said in an interview, and her job is to help coordinate those priorities between different ministries.

The previous president, Susilo Bambang Yudhoyono took a high-profile approach to climate change policy because he "was more (about) exposing this country to the world," she said. "Our new president really wants to focus on developing the country and especially improving the welfare of the poor."

The environment and forestry ministry can do little about the conflicts over whether to preserve or develop forests in concession area, she added, because land use comes under the purview of the agricultural ministry.

It puts Indonesia in an awkward position in trying to defend its efforts to fight the forest fires – and the smothering haze it engenders – with its enraged neighbours. Malaysia's prime minister on Monday demanded that Indonesia take action against those setting fires in the forests.

Smallholder companies seeking to clear land for palm oil and pulp wood plantations have been accused of setting the fires that smoulder for weeks in underground peat deposits in Sumatra and Indonesia's part of Borneo island.

Indonesia's Vice President Jusuf Kalla said his country had no need to apologise for a month or so of fire and haze each year. "Look at how long they have enjoyed fresh air from our green environment and forests when there were no fires," he said during a dialogue session with Indonesians in New York in late September. "Could be months. Are they grateful?" 

Editing by **Bill Tarrant**



# Indonesia loses up to \$9 bln from timber clearing – anti-graft body

BY MICHAEL TAYLOR

OCTOBER 9 JAKARTA

**U**nreported forest clearing cost Indonesia up to \$9 billion between 2003 and 2014 in lost timber royalties – about three times the royalties it actually received, an investigation by the country's main anti-graft agency showed on Friday.

An eight-month investigation by the country's Corruption Eradication Commission (KPK) estimated the value of the lost timber at up to \$81 billion, with the cleared land often used for growing crops or mining.

A copy of its report, seen by Reuters and due to be handed to government ministers on Friday, will put further pressure on President Joko Widodo who has been criticised by green groups and other Southeast Asian nations on forestry policy and for failing to stop the annual "haze" problem from forest-burning.

"Where does the money go – it goes to the

corrupters," Dian Patria, group head of corruption prevention for natural resources at the KPK told Reuters. "It could be \$9 billion, it could be more, because these are quite conservative figures.

"This is not only a corruption issue, it's also about the long-term environmental impact."

Home to the world's third-largest tropical forests and a major palm oil and pulp and paper producer, Indonesia will be in the spotlight at the U.N.'s climate change conference in Paris in December.

Unregulated land clearing has long been a problem in the country, which lost 1.5 million hectares of tree cover last year, up from 1.1 million hectares in 2013.

The KPK report cited ineffective law enforcement, inaccurate production data and auditing by timber plantations, a lack of transparency on royalties data within government ministries, and poor coordination between central and regional governments as causes for the lost timber revenue.


Over the 12 years to 2014, Indonesia earned just \$3.2 billion from timber royalties, said the report, which comes as Widodo's government battles sluggish economic growth.

Late last month, Indonesia announced it would borrow \$4.2 billion from international agencies to cover a widening budget deficit.

The report, which did not name any companies or individuals, highlighted rising timber prices and land clearing for the rapid expansion of palm oil and pulp and paper production, as well as mining.

The worst year for state losses was in 2012, it showed, one year after the government signed off on its ban on primary forest clearing.

The KPK will hand its report to the forestry and finance ministries and the country's audit agency, and will monitor the development of action plans to correct problem areas, Patria said.

If no action was taken within 12 months it could hand its findings to its corruption investigations arm, he added. 

Reporting by Michael Taylor; Editing by Richard Pullin

# New palm oil council would drop “no deforestation” pledge

BY AUGUSTINUS BEO DA COSTA

OCTOBER 14 JAKARTA

**A** new palm oil producer grouping being set up by Indonesia and Malaysia would replace “no deforestation” pledges made by major palm companies in favour of a joint set of standards proposed by the two countries, an Indonesian minister said late Tuesday.

Indonesia wants big palm oil companies to row back on the historic pledges made at a climate change summit last year, arguing that they are hurting smallholder producers who cannot afford to adopt sustainable forestry practices.

Indonesia is the world's biggest producer and exporter of palm oil producer, a key driver of economic growth, and legions of smallholders account for about 40 percent of its palm output.

“Indonesia and Malaysia have agreed to harmonize and combine our two standards,” Indonesia's chief natural resources minister Rizal Ramli told parliament.

“This is an example of how to fight for our sovereignty. We are the biggest palm oil producer. Why (should) the consumers from the developed countries set the standard for us as they want?”

Indonesia and Malaysia, which account for 85 percent of the world's palm output, have since late August been discussing the plan to set up an intergovernmental organisation called Council of Palm Oil Producer Countries.

The move comes after major palm oil firms, including Cargill, Golden Agri-Resources and Wilmar International, signed the Indonesian Palm Oil Pledge (IPOP) following pressure to adopt better practices.

Indonesia, which is home to the world's third-largest tropical forests, has been criticised by green activists and other Southeast Asian nations on forestry policy and for failing to stop the region's annual “haze” problem from forest-burning.


Ramli said IPOP protected the interests of developed countries' vegetable oil markets, and the new council would set a standard that would also consider the welfare of smallholders.

Top palm buyers India and China would be lobbied to accept the new standard, he said.

IPOP officials could not be reached for comment on Wednesday, a national holiday in Indonesia, but have previously said they are working with smallholder suppliers to help them meet the pledges.

The new Council would also look to promote the image of palm oil, stabilise prices, improve cooperation between top producers, and coordinate on production, stocks, biodiesel mandates and re-planting schemes, industry groups have said.

Further details are expected to be announced from late October. Previous attempts to develop better palm relations between the two countries have had limited success.

“It really depends on the will power of both governments, and I suspect they will come together more when prices are low than when prices are high,” said Ivy Ng, analyst at CIMB Investment Bank. 

Additional reporting and writing by **Michael Taylor**

Editing by **Richard Pullin**

# Indonesia's action on haze won't stop burning - palm farmers group

BY BERNADETTE CHRISTINA AND MICHAEL TAYLOR

NOVEMBER 12 JAKARTA

**F**orest fires in Indonesia that have caused choking smoke across much of Southeast Asia will flare up again next year because government action to tackle the crisis is ineffective, a palm farmers group said.

Indonesia and the wider Southeast Asian region have been suffering for weeks from smoke caused by smouldering forest and peatland fires, largely in Sumatra and Borneo islands that authorities have struggled to contain.

Green groups and palm oil plantation firms say a 2009 law that allows smallholder farmers to use slash-and-burn practices to clear land for agricultural purposes is a key cause of the annual fires when the burning gets out of control.

"Burning will still happen because the government hasn't changed the regulations," Mansuetus Darto, secretariat at the Indonesian Oil Palm Smallholders Union told Reuters on Thursday.

Indonesia, the world's top palm oil producer and home to the world's third-largest tropical forest, has faced increased political pressure from neighbours Singapore and Malaysia to address the crisis as the haze has spiked to unhealthy levels, causing some school closures and flight cancellations.

Jakarta has said it would review laws that allow farmers to burn up to two hectares (five acres), and last week sent letters to plantation firms and provincial governments demanding peatland conversion is immediately halted.

Previously, the government ordered four companies to suspend operations for allegedly causing forest fires and revoked the land licences of three other firms.

Darto, however, said the government needed to implement stricter regulations to stop burning and give smallholders, who account for 40 percent of Indonesian palm oil output, better access to credit so they could afford to clear land using best practices. His group has 48,000 members, mostly in Sumatra and Kalimantan.

Using tractors, chainsaws or hand tools is the most environmentally friendly way to clear forest areas approved for development, say forestry groups, but these methods are more expensive and time-consuming than fires.

Before his election last year President Joko Widodo promised to provide easier access to credit for smallholder farmers, but has yet to act on that pledge.

He cut short an official trip to the United States last month to try and deal with the crisis as the fires pushed the country's average daily greenhouse gas emissions above those of the U.S.



Companies won't expand their areas and this means they will instead increase cooperation with farmers to increase productivity.




**Mansuetus Darto**  
Secretariat at the  
Indonesian Oil Palm  
Smallholders Union

Smallholder farmers have also been hit hard by a drop in palm oil benchmark prices, which touched a near six-and-a-half year low earlier this year.

To help, the Indonesian government wants major palm oil companies to row back on their historic "no deforestation" pledges made last year. The government says the pledges hurt smallholder producers who cannot afford to adopt sustainable forestry practices and are blocked from the supply chain.

Darto rejected this and said that the real reason why larger companies were not buying from smallholders was due to weak palm prices, not the Indonesian Palm Oil Pledge (IPOP).

The IPOP pledges made by major firms would in fact limit expansion to help bolster palm prices, while strengthening the relationship between his members and big plantations, he said.

"IPOP will benefit the farmers," Darto added. "Companies won't expand their areas and this means they will instead increase cooperation with farmers to increase productivity." 

Editing by **Susan Fenton**



# Indonesian govt ministers at odds over peatland haze policies

BY MICHAEL TAYLOR AND BERNADETTE CHRISTINA

NOVEMBER 17 JAKARTA

**D**ivisions have started to appear between Indonesian government ministries over how to tackle peatland fires that have caused choking smoke to spread across much of Southeast Asia.

Indonesia and the wider Southeast Asian region have been suffering for weeks from so-called “haze” caused by smouldering forest and peatland fires, largely in Sumatra and Borneo islands that climate officials described as a crime against humanity.

Green groups welcomed the Indonesia’s environment and forestry ministry’s decision

late last month to review laws that allow small-holder farmers to burn. It has also asked plantation firms to halt peatland conversion, restore burnt areas, while banning planting on burnt peatland.

Contradicting this, however, Agriculture Minister Amran Sulaiman said on Monday, 100,000 hectares of burnt peatland in Kalimantan may now be used to plant corn and soybeans, according to Kontan newspaper.

“We will ask for peatland that has already been burned to be converted into agricultural land,” Sulaiman was quoted in the newspaper, adding that the development should be led by local people and state-owned enterprises.


Sumardjo Gatot Irianto, director general of agriculture tools and infrastructure in the agriculture ministry, said on Tuesday he was not aware of any plan to plant on burnt peatlands in Kalimantan.

But Greenpeace Indonesia told Reuters it was concerned about Sulaiman’s comments and urged President Joko Widodo to stick to his moratorium on developing peatlands and avert fires next year.

“We strongly support the (peatlands) commitment by the president,” said Teguh Surya, forest campaigner at the environmental group. “The president has to call the minister of agriculture to stop the plan to plant corn.”

Last week, a smallholder palm oil group said that forest fires would again flare up next year because the government was yet to issue any new regulations relating to forest clearing.

Indonesia is home to the world’s third-largest tropical forest and Widodo is due to attend the U.N. climate summit in Paris in December where he is expected to outline the country’s pledges for tackling climate change.

The Southeast Asian nation is the world’s fifth-largest emitter of greenhouse gases mainly due to the “slash and burn” techniques to clear forests that blanket Singapore, Malaysia and northern Indonesia in a choking “haze” for months each year. 

Additional reporting by **Kanupriya Kapoor**; Editing by **Sanjeev Miglani**