1. Introduction

1.1. General Introduction

> It has the scent of violets, the taste of olive oil, and color, which tinges food like saffron but is more attractive.
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> – Ca'da Mosto, *a 15th-century explorer on discovering palm oil.*

As far back as the 15th Century, Alvide da Ca'da Mosto, a Portuguese explorer who once tasted palm oil in Africa and was said to have written the words above. Mesmerized by his discovery, sense of taste, sight, and reasoning, he had no choice but to conclude with the words: "it is attractive." *Elais Guineensis*, as its scientific name, has proven an attractive commodity, a brilliant prestige to bear the promise of a new era as an energy source, the biofuel. This commodity is also promising a ticket to economic sovereignty, which is not impossible to pursue.

Palm oil has proven a powerful commodity. Various products require a mixture of palm oil as raw material. The increasing demand for palm oil is mainly driven by the rising global demand for food and renewable energy due to the continually increasing global population and the globalization of agriculture.

Indonesia, together with Malaysia, are the two producing countries that reap the most benefit from the supply and demand of the global market. Currently, Indonesia is the top global producer of palm oil, driven by the cooperation between large corporations and the Indonesian state, which offers conditions to promote palm oil. Palm oil and its by-products are being produced nationally and then exported worldwide, becoming part of global production chains, which transnational corporations link to upstream and downstream activities across national borders.

1.2. Research Background

Palm oil is seen as a successful means of developing rural areas, creating job opportunities, enhancing community welfare, and acquiring valuable foreign exchange. At the same time, it has a negative impact on the social situation, economy, and ecology. With a one-sided focus, people tend to problematize that there are injustices inflicted on the victims, in this case, the community, and that palm oil proliferation has detrimental effects on the ecology. Nevertheless, like the iceberg, the problems on the surface are triggered by a more complex system and the causes underneath.

In my former master thesis, I have addressed the visible issues and offered a solution through diakonia advocacy towards palm oil smallholders for my church Simalungun Christian Protestant Church (GKPS). However, I have

also described some macro issues in the thesis though not profound enough. This dissertation will analyze more complex issues around the palm oil industry and its global value chain, particularly the global market system and economic ethics.

After the end of oil glory, when the selling price went down, the government of Indonesia decided to switch from oil to non-oil and gas production, including rubber, wood, palm oil, and palm kernel. To attract investors and increase productivity, the government executed many changes in regulation and decisions, leading to a significant increase in foreign and domestic investment. The International Finance Corporation (IFC) and the World Bank have been investing in Latin America, Africa, and the Asia-Pacific region since 1965 to support the palm oil industry development. The two organizations provided nearly 1 billion USD for 35 projects, of which about 50% was used to fund projects in Indonesia. Indonesia is the most significant investment recipient country. These projects focused on palm oil and were implemented in the 1970s and 1980s.[1]

The World Bank regards this commodity as a critical role in promoting the economic development of these countries and ensuring the improvement of the living standards of the rural poor if all environmental, social,

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1 Cheng Hai Teoh, *Key Sustainability Issues in the Palm Oil Sector: A Discussion Paper for Multi- Stakeholders Consultations* (Washington D.C, USA: The World Bank, 2010), pp. 4,13.

economic, and governance risks are addressed. Nevertheless, although these investments were made under the agricultural development policies and procedures of the banks and the International Finance Corporation (IFC), there was no comprehensive strategy for this particular sector. The consequence is that Indonesia emerged as the largest oil palm producer globally, but at high environmental, social, and cultural costs, as indigenous people and smallholders had to be resettled, sometimes forcibly or without adequate compensation, to make way for the private estates.

Oil palm plantations are the fastest-growing monoculture in the world. At present, most palm oil production in the world is used for food and cosmetics. In just one decade, palm oil production increased from 24.3 million tons in 2000 to 53.3 million tons in 2012. The basis of the palm oil industry is an export-oriented model. It can be seen from the fact that 90% of Malaysia's products are exported, while 61% of Indonesia's palm oil products are sold globally.[2] Leading industrial end-users come from diverse groups along the global value chain, from food products to personal care and cosmetics and energy or fuel companies.

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2 Melanie Pichler, "People, Planet & Profit: Consumer-Oriented Hegemony and Power Relations in Palm Oil and Agrofuel Certification," *The Journal of Environment & Development* 22, no. 4 (December 2013): 370–90, https://doi.org/10.1177/1070496513502967, p. 371.

Indonesia is the world's largest palm oil producer. From 1990 to 2010, the area of the plantation increased significantly from 3.5 to 13.1 million hectares, with an annual growth rate of 7%. In 2014, Indonesia's total palm oil production reached 29.27 million tons, surpassing Malaysia's 19.67 MMT. Generally speaking, both Indonesia and Malaysia can produce more than 85% of palm oil globally.[3]

The palm oil plantation and processing industry in Indonesia have become a key industry and pillar of the Indonesian economy. In 2017, Indonesia's exports reached 168.8 billion USD, with a 16.8% increase from 2016. One of the most significant contributors to these exports is palm oil, which accounted for 13.6% in 2017. In 2017, Indonesian palm oil exports reached 22.97 billion U.S. dollars, increasing 26% over 2016.[4]

This industry has also successfully reduced unemployment. In 2017, around 3.8 million people were employed in the Indonesian palm oil industry, accounting for

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3 Petir Papilo et.al., "Sustainability Index Assessment of Palm Oil-Based Bioenergy in Indonesia,"*Journal of Cleaner Production* 196 (September 2018): 808–20, https://doi.org/10.1016/j.jclepro.2018.06.072, pp. 808-09.

4 Amzul Rifin et al., "Assessing the Impact of Limiting Indonesian Palm Oil Exports to the European Union," *Journal of Economic Structures* 9, no. 1 (December 2020): 26, https://doi.org/10.1186/s40008-020-00202-8, p. 1.

approximately 2.4% of the total Indonesian labor force.[5] Moreover, the palm oil industry in Indonesia is considered to contribute to reducing the poverty rate. The partnership program or plasma has helped the farmers to achieve a better life, and the independent smallholders see the high returns to land and low labor requirement of oil palm cultivation as benefitting compared to other crops. The farmers state that the desire or need for cash is the primary driver of palm oil cultivation. They receive the payment immediately on the spot in cash.[6] This golden fruit is praising as the catalyzer of rural people's economy that successfully takes them out of poverty and plays a strategic role in the national economy. By 2020, the Indonesian government has set an ambitious target of 40 million tons of CPO[7] because palm oil is seen as a successful means of developing rural areas, creating job opportunities, enhanc-

5 Truly Santika et al., "Does Oil Palm Agriculture Help Alleviate Poverty? A Multidimensional Counterfactual Assessment of Oil Palm Development in Indonesia," *World Development* 120 (August 2019): 105–17, https://doi.org/10.1016/j.worlddev.2019.04.012, p. 2.

6 Eva Anggraini and Philipp Grundmann, "Transactions in the Supply Chain of Oil Palm Fruits and Their Relevance for Land Conversion in Smallholdings in Indonesia," *The Journal of Environment & Development* 22, no. 4 (December 1, 2013): 391–410, https://doi.org/10.1177/1070496513506225, p. 404.

7 Asly Hanu, *Market Transformation by Oil Palm Smallholders* (Bogor, Indonesia: SPKS, 2013), p. 15.

ing community welfare, and acquiring valuable foreign exchange.[8]

There are three main business models for oil palm cultivation in Indonesia: large-scale private plantations, state-owned plantations, and smallholders, independent and nucleus estate. Most plantations are located in Sumatra and Kalimantan, and the dynamic land conversion is likely to increase because of the expansion of oil palm plantations. The final frontier of the palm oil expansion plan will be Papua. The expansion is mainly achieved through the conversion of forests and arable land. The conversion of arable land previously used for subsistence crop production has recently sparked a controversial discussion about the impact on food security, increased poverty, and inequality in income distribution among households. Palm oil is one of the utmost controversial agronomic products in recent decades.[9] The critics see palm oil as a destructive monoculture plant that triggers deforestation, driving the destruction of peatlands and rainforests and adding to greenhouse gas emissions. Indonesia itself has provoked a considerable amount of controversy around this issue. Approximately eighteen million hectares of tropical rainforest in Indonesia have been deforested and commer-

8 Oetami Dewi, "Reconciling Development, Conservation, and Social Justice in West Kalimantan," in *The Palm Oil Controversy in Southeast Asia: A Transnational Perspective*, ed. Oliver Pye and Jayati Bhattacharya (Singapore: ISEAS, 2012), p. 164.

9 Anggraini and Grundmann, pp. 391-92.

cialized.[10] Forest fires are raging across over four million hectares, causing social and health impacts and creating enormous greenhouse gas emissions with far-reaching environmental and economic consequences.[11] Due to the rapid extension of oil palm trees, rain forests have been destroyed, causing significant secondary external effects such as water pollution, soil erosion, and air pollution, which are the leading causes of fire and smog crises. According to the World Bank, it emitted large amounts of carbon into the atmosphere, costing Indonesia 16 billion USD.[12] The frequent burning during the dry season has damaged the community's health in places concerned.[13] Unregulated oil palm expansion poses a serious threat to tropical ecosystems, biodiversity, the Orang-utan and Sumatran tiger, birds and butterfly species, and potentially the global climate.

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10 Marcus Colchester, *Promised Land: Palm Oil and Land Acquisition in Indonesia: Implications for Local Communities and Indigenous Peoples* (Bogor, Indonesia: Sawit Watch, 2006), p. 12.

11 Norman Jiwan, Bambang Hero Saharjo, and Jeffri Saragih, *Development of Palm Oil Plantation Based on Greenhouse Gases Critical Perspectives* (Bogor, Indonesia: Sawit Watch, 2009), p. 19.

12 Philip Jacobson, "Indonesia's Forestry Ministry Follows through on Palm Oil Permit Freeze," Eco-Business, May 24, 2016, accessed January 6, 2022, https://www.eco-business.com/news/indonesias-forestry-ministry-follows-through-on-palm-oil-permit-freeze/.

13 Zahari Zen, Colin Barlow, and Ria Gondowarsito, "Oil Palm in Indonesian Socio-Economic Improvement: A Review of Options," *World Development 25, no.10* (February 2009): 1589-1607, p. 4.

Besides the ecological impacts, palm oil expansion attracts criticism regarding the social effects of land conflicts, critical labor conditions, and human rights abuses. Vulnerable groups such as women and children are particularly affected through different structures and processes. Consequently, resentment and dissatisfaction have resulted in 3,500 land conflicts in oil palm plantations, of which 660 are closely monitored and documented pertaining to abuses of human rights of indigenous people, local communities, smallholders, and workers.

The uncontrolled expansion will also have severe implications for many rural communities. Some regions of the outer islands suffer especially severe poverty and social problems, requiring attention to secure more appropriately balanced regional development. The growth of oil palm plantations has had considerable impacts on indigenous communities affecting their rights to land, territories, and natural resources they have traditionally owned, occupied, and otherwise used. Oil palm plantations have also undermined the mutual-aid system in Indonesia, called 'Gotong-Royong.' This value is one crucial feature of the Indonesian community. It encourages people; usually, farmers make joint decisions, organize water allocation, plan fertilization, pest control, and harvest crops, which is unnecessary for palm oil.[14]

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14 Anggraini and Grundmann, "Transactions in the Supply Chain of Oil Palm Fruits and Their Relevance for Land Conversion in Smallholdings in Indonesia", p. 401.