Top Indonesian palm oil developments in 2020

28 December 2020

As global demand for edible oil keeps growing, palm oil has enjoyed unprecedented growth both in consumption and production. Used in everything from chocolate to ice-cream, lipstick to shampoo, palm oil is now the most consumed vegetable oil in the world. The COVID-19 pandemic, however, has brought a halt to the palm oil industry's growth streak as nations enforce lockdown of varying degrees. But 2020 has been far from an uneventful year for the industry. Here are the highlights of palm oil stories from 2020 in Indonesia — by far the world's biggest producer and exporter of the commodity — ranging from a diplomatic spat, to shady corporate conduct, to corruption and deforestation.

Indonesia's biodiesel program

Since 2015, the Indonesian government has subsidized producers of palm oil-based biodiesel to ensure its pump price is competitive with conventional diesel. The subsidy is funded by tariffs on palm oil exports, but a drop in the price of the commodity this year due to the COVID-19 pandemic has caused a shortfall that's forced the government to pony up $195 million from the state budget to cover the subsidy.

That figure is only expected to swell over time as the government proceeds with a plan to gradually phase out conventional diesel altogether for a blend that is 100% derived from palm oil, or B100. The biodiesel now being sold at gas stations across Indonesia is a 30% blend, or B30. A new study by the University of Indonesia's Institute for Economic and Social Research (LPEM UI) shows that if the government hikes the blend by 2025 to B50, a 50:50, then the of subsidy required will surge to $60 billion. Activists are also worried that the biodiesel program will lead to wider deforestation for oil palm plantations: the government has estimated it will need to establish 15 million hectares (37 million acres) of new plantations — an area a fifth the size of Borneo — to produce enough palm oil-based biodiesel to meet domestic fuel demand.

Already officials have acknowledged the overwhelming financial pressure: an energy ministry official recently told parliament that Indonesia is unlikely to move ahead from the B30 phase to B40 next year as planned due to funding woes. Instead, the government will maintain the B30 phase, which it also concedes is already a financial challenge.

EU-Indonesia dispute

Tensions between the European Union and Indonesia over palm oil continued to rise in 2020.

The dispute started in 2017, when the European Parliament issued a resolution effectively refusing to recognize palm oil as a renewable biofuel feedstock because of the deforestation, social conflicts and labor rights abuses associated with its production. In 2019, the European Commission approved the policy, which puts the bloc on track to phase out palm oil as a biofuel. While often framed as a ban on palm oil-based biofuels, this is not the case, as EU member states will still be able to import and use palm oil-based biodiesel. It’s just that the fuel will no longer be considered a renewable fuel and thus won’t be eligible for the attendant tax incentives.

On top of that, the EU also decided in 2019 to impose an import tariff on biodiesel from Indonesia, set at between 8% and 18% over the next five years. It cited both environmental concerns and the need to balance out what it called the unfair advantage to Indonesian producers as a result of the country’s biodiesel subsidy.

Both decisions have been criticized by Indonesia and Malaysia, which together account for 85% of global palm oil production, and which allege discrimination by the EU in favor of producers of other vegetable oils. In December 2019 the Indonesian government initiated a lawsuit at the World Trade Organization. The WTO established a panel to oversee the dispute this July and appointed its members in November.

That hasn’t stopped individual European countries from imposing their own restrictions on palm oil-based biodiesel this year. In, France excluded the fuel from its renewable energy tax incentives for transport fuels, citing environmental concerns. And recently, the Swiss Constitutional Court decided to schedule a referendum for March 7, 2021, in which voters will determine whether Indonesian palm oil products may enter Switzerland.

At a December ministerial meeting between the EU and the Association of Southeast Asian Nations (ASEAN), the Indonesian foreign minister lobbied her EU counterparts on the palm oil issue. ASEAN and the EU have agreed to establish a joint working group on the matter, which will meet for the first time in January 2021.

Omnibus law

In October, the Indonesian parliament passed a so-called omnibus law on job creation, a sweeping slate of deregulation that overhauls the way the country manages its natural and human resources, including the plantation sector.

The law revises 26 articles and scraps seven from the 2014 Plantation Law, among other changes. Among the most significant of these pertains to the licensing process for major projects. The omnibus law scraps the requirement for developers to obtain an environmental permit. The need for environmental impact assessments is also waived for all developments except those deemed high risk. Yet even in high-risk sectors, such as oil palm plantations, the level of risk will depend on the scale of the business: a small plantation might be considered low or medium risk, whereas a corporate-run plantation might be categorized as high risk.

The omnibus law also contains numerous other provisions that impact the plantation sector. For one, the central government now has more leeway in determining the maximum and minimum sizes of plantations that may be permitted in a specific region, effectively throwing out social and environmental considerations such as population density, geography, and zoning plans. It also speeds up the time frame in which plantation operators must start developing their concessions, from three years to two.

Operators found not to be protecting the environment or keeping firefighting equipment at hand will not lose their permits, in another major change to the regulations. And those found operating without a permit will no longer face criminal charges, only administrative sanctions.

The omnibus law also allows plantation companies operating illegally in forest areas to whitewash their crime, by giving them a three-year grace period to obtain the necessary permits.

Oil palms on the edge of the Tanah Merah project. Image by Nanang Sujana for The Gecko Project.

Tanah Merah

Having depleted the forests of Sumatra and Borneo, palm oil companies are eyeing Indonesia's easternmost region of Papua as the new frontier for plantation expansion, with millions of hectares of pristine rainforest ripe to be logged and cleared.

At the heart of this expansion plan is the Tanah Merah project, billed as the world's largest oil palm plantation project, which stretches over 280,000 hectares (692,000 acres) of mostly primary forest.

But the project is mired in a litany of controversies, with permits being issued by an official from behind bars, Indigenous peoples being coerced into giving up their lands, and fake nominees being used to hide the true identities of the investors benefiting from the project.

All these are detailed in a 2018 investigation by Mongabay and The Gecko Project. In 2019, another investigation revealed allegations that plantation permits for the seven concessions in Tanah Merah had been falsified, with a top regional official saying his signature had been forged. A similar allegation, around a faked environmental permit, has also bogged down a major sawmill poised to process $6 billion worth of timber to be logged in the area.

But despite these allegations of wrongdoing, land clearing has already started, with approximately 8,300 hectares (20,500 acres) of rainforest, an area nearly the size of Paris, deforested on the basis of these shady permits. One of the biggest concession holders, PT Indo Asiana Lestari (IAL), has control over a 39,190-hectare (96,840-acre) swath of land and has begun moving in heavy equipment.

This has prompted members of the Indigenous Auyu tribe to protest, alleging that the company failed to obtain the required permits or get approval from the tribe for its operations.

A family living on the edge of Korindo's oil palm plantation in Getentiri. By Albertus Vembrianto for The Gecko Project/Mongabay.

Korindo

Not far from the Tanah Merah project, another scandal is unfolding. This one involves the Korindo Group, a privately owned conglomerate that has been logging Indonesia's rainforests since the 1970s.

A collaborative investigation in 2020 by Mongabay, The Gecko Project, the Korean Center for Investigative Journalism-Newstapa and Al Jazeera exposed a $22 million "consultancy" payment made by the company to an unnamed "expert" who had helped obtain the rights to develop a vast oil palm plantation in Papua province — even though permits for plantations have no significant official costs in Indonesia.

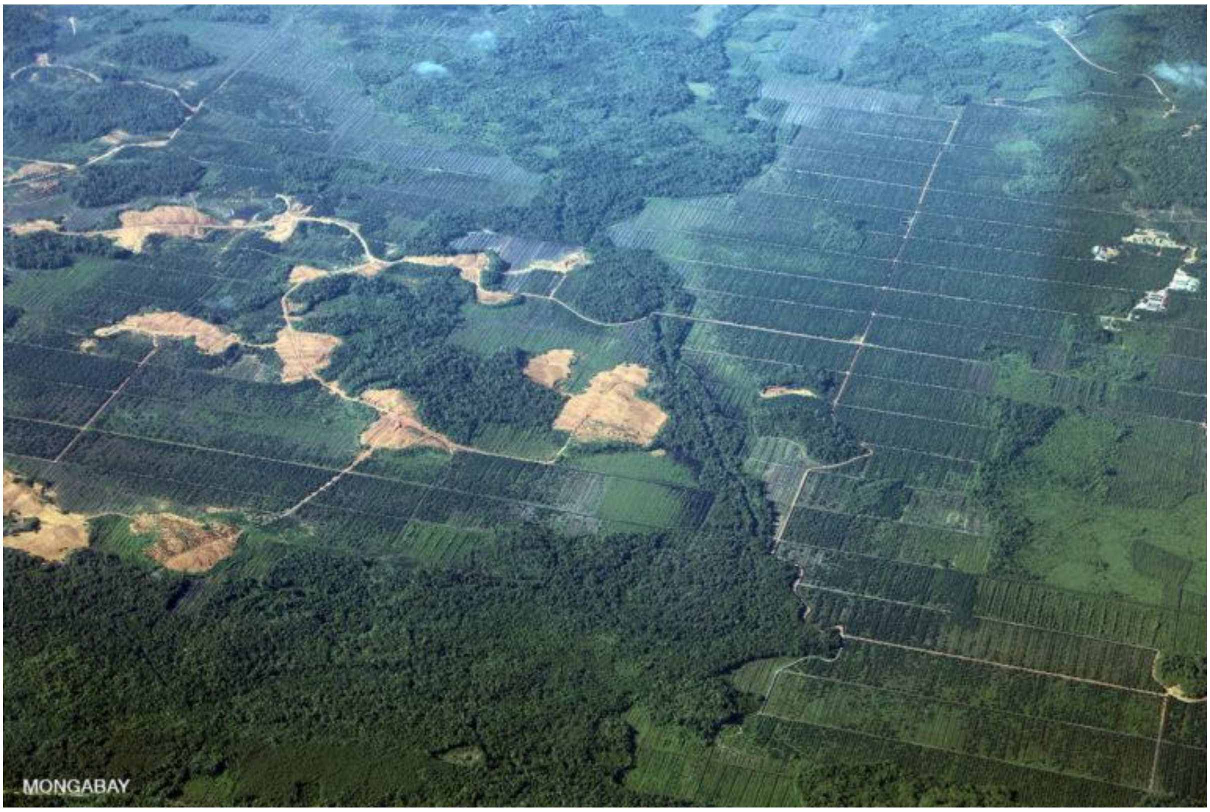
The payment was made at a critical juncture as Korindo rapidly grew its operations in Papua. Between 2009 and 2014, through this deal and several other concessions for which it obtained licenses directly from the government, Korindo acquired the rights to an area of land in the province twice the size of Seoul, the South Korean capital.

Korindo has given conflicting explanations for the payment, first describing it as a "consultancy fee" paid to this "expert" who helped it gain the requisite land rights, but later describing it as part of a "straightforward share purchase transaction."

Anti-corruption experts who reviewed the payment said it matched a typology of corruption schemes in which sham consultants are used as a front to channel bribes to government officials. The conglomerate has refuted this as "false news."

Activists have called for a financial probe into Korindo by the the national anti-corruption agency, known as the KPK, which should look into the flow of the money through the banking systems of at least two countries, including the U.S.

They have also called for the protection of the rights of Indigenous communities affected by the company's oil palm operations. In May, Papuan farmer Marius Betera was allegedly beaten by a police officer at a Korindo field office. Marius had gone there to complain about Korindo's destruction of his banana farm. He died some two hours later. Authorities moved quickly to attribute his death to a heart attack, but the alleged assault was caught on CCTV camera belonging to Korindo. The video has not been made public. Human rights observers say it's important to publish the video to ensure the investigation by the police of one of their own is impartial, in a region notorious for human rights abuses, including extrajudicial killings, by government security forces.



Deforestation for palm oil and mining in Indonesia. According to an annual assessment by the Zoological Society of London, many of the world's biggest palm oil companies have failed to make meaningful progress in achieving their zero-deforestation target

Missed 2020 deadline

In light of intense criticisms over the palm oil industry's impact on the environment, with plantations among the biggest drivers of deforestation in the tropics, players in the industry have vowed to stop clearing and burning forest and carbon-rich peat soils, and stop buying palm oil from unsustainable sources.

Processors, traders and major consumer brands have adopted zero-deforestation pledges for their palm oil supply chains. Big buyers such as Nestlé and P&G have committed to ending deforestation in their supply chains by the end of 2020 through the Consumer Goods Forum pledge or through their own targets. Many have also pledged to halve deforestation globally by the same date by signing up to the New York Declaration on Forests.

Despite these pledges and self-imposed deadlines, many of the world's biggest palm oil companies have failed to make meaningful progress in achieving their zero-deforestation targets, and won't make the end-of-year deadline. That's the finding of the Zoological Society of London's (ZSL) annual assessment of 100 of the world's most significant palm oil producers, processors and traders.

It found that while 71% of the companies assessed had made a clear and robust commitment to zero deforestation, only 42% had provide detailed information on how they were actually monitoring deforestation in their own operations. Fifty-four percent were found to be applying clear zero-deforestation commitments to their suppliers, but only 10% were able to comprehensively report on how they were monitoring this.

The ZSL assessment found similar failings on companies' commitments not to clear peatlands, not to exploit workers, and not to burn forest.

Another report by London-based nonprofit the Carbon Disclosure Project (CDP) also found that industry-defined deforestation targets to achieve net-zero emissions are "unlikely to be met" unless producers in supply chains, including palm oil, are able to better manage their risks.

According to the report, 47% of land managed for the cultivation of palm oil is certified by the Roundtable on Sustainable Palm Oil (RSPO), and thus can claim to meet deforestation standards. But the report notes that certification alone is not enough and that companies need to go beyond certification to end deforestation by rapidly improving their management of deforestation risks and opportunities.

Source: https://news.mongabay.com/2020/12/top-indonesia-palm-oil-news-story-2020/