CONTEXT

Indonesia is the world’s largest producer, consumer, and exporter of palm oil. Palm oil exports, at over USD 12 billion per year, represent Indonesia’s third largest export earner, after crude oil and natural gas. The Indonesia palm oil sector has experienced continued rapid growth with a 17 percent average annual increase in production between 1985 and 2009. The industry, whose structure combines large plantations and many smallholder producers, provides the main livelihood or source of employment for nearly 5 million people. The West and Central Kalimantan region accounts for some 14 percent of national palm oil production and the island as a whole has the fastest growth rate in palm oil production area in Indonesia with total cultivation area increasing by 1.4 million ha between 2007 and 2011.

ENVIRONMENTAL RISKS AND IMPACTS

Indonesia’s expanding palm oil industry has had a very large environmental footprint with adverse impacts felt locally, regionally, and even globally. Rapid expansion has contributed to significant deforestation (from intentional land clearing and unintentional fires), posing threats to many areas of High Conservation Value (HCV), to biodiversity of both local and global importance, and to regional air quality. Some palm oil expansion has occurred, and continues to occur, on carbon-rich drained peat lands. Poor management practices, including overuse of fertilizers and chemical pesticides and degradation of riparian areas, have led to river siltation, soil erosion, water pollution, subsidence (of peat areas) and flooding.

INCENTIVES FOR MITIGATION

These manifold environmental risks and impacts have given rise to domestic and international pressures to change production practices and the patterns of further industry growth. Domestic civil society organizations have sought to protect the land and other resource use rights of communities in areas experiencing palm oil growth. National and international pressure is being applied to reduce greenhouse gas emissions associated with draining and burning of peat swamps and to protect endangered animal species. Agro-industrial companies are facing reputational risks and pressures from select overseas buyers to adopt more sustainable practices. However, market demand (and the willingness to pay) for sustainably produced palm oil is low given that it is an ‘invisible’ ingredient found in a large number of consumer products and that global demand is shifting to emerging markets that prioritize price.

POLICY ACTION

In West and Central Kalimantan, forward-thinking policies in commodity production are beginning to emerge from local political empowerment.

Figure 1. Palm oil worker in Sumatra.

Regulator of land, water and natural resource management

Although the national picture is more mixed (if not more commonly problematic), in Central Kalimantan, natural resource management has benefited from decentralization of decision-making power to local regulators. In response to threats posed by oil palm cultivation,
the Governor of Central Kalimantan has implemented regulations to support communities’ resource rights, enabled pilot testing by the UN Reducing Emissions from Deforestation and Degradation program, and required companies to monitor and report on social and environmental impacts. Key policy mechanisms included a gubernatorial decree and provincial regulation that provides increased recognition of indigenous land rights and ensures a collaborative mapping process between civil society, local government, and the Ministry of Agriculture. The mapping process and online database are intended to provide greater clarity of land ownership and allocation of production licenses.

In August 2014, the Governor convened a high-level meeting with major oil palm companies, district heads, and national government to set up a dialogue and working group to accelerate progress towards sustainable palm oil production. Although the results are not yet known, open dialogue between key decision makers and land users, especially at the local level, has been cited as critically important for implementation of better practices.

LESSONS LEARNED

International and regional actors see a need for Indonesia to take strong action in promoting sustainable land management in oil palm landscapes. However, the ‘market’ solution has thus far not prevented further environmental degradation. Less than 20% of Indonesia’s palm oil producing capacity is associated with internationally recognized sustainability standards and the environmental management credentials of some of that production has been questioned. Price premiums for certified palm oil are very small or non-existent. Where the impetus for voluntary action is limited and where producers are not yet bearing the financial costs for poor environmental management practices, government action is needed to address the gaps. In the case of West and Central Kalimantan, local action has been spurred by concerns surrounding land tenure and resource rights, which also provide an opportunity to address larger environmental issues surrounding the sector. Buy-in by multiple stakeholders, including communities and companies active in the landscape, can potentially be increased through open dialogue process such as that pursued by the provincial leadership in Central Kalimantan.