



scandal



whitewash



cover-up



**Friends of
the Earth**

Palm oil, the hidden ingredient in thousands of everyday products, is driving rainforest destruction.

This report **Greasy palms – palm oil, the environment and big business** explains what needs to be done to stop it....

About this report

The international trade in palm oil is a key driver of rainforest destruction and a cause of human rights abuses on a massive scale.

This report is a summary of research undertaken in Indonesia, Malaysia and the Netherlands in 2003 into the impacts of the palm oil industry in Indonesia, its links to the European market and the involvement of UK companies.

Our research findings reveal a pressing need for Government legislation to require companies involved in the trade, processing and retail of palm oil and its derivatives to meet their social and environmental responsibilities by moving towards more sustainable sourcing of palm oil. This means companies putting in place systems so that they know where their palm oil comes from and the conditions under which it is produced; and it means taking all reasonable steps to reduce the significant negative social and environmental impacts of their business.

The complexity of the palm oil issue and the vast range of uses for the products means that a consumer boycott would be all but impossible, and potentially irresponsible.

Research methodology in Indonesia included monitoring reports compiled by the Indonesian non-governmental organisation (NGO) SawitWatch, and interviews with community members and local activists. The SawitWatch data had been gathered over a period of five years, based on field investigations, meetings with local community members, media reports and regular monitoring. The analysis of the European market focused particularly on companies trading in palm oil in the UK, the Netherlands and Sweden.

The research reports on which this summary is based is in two parts, titled *Greasy palms: European buyers of Indonesian palm oil* (Chapters 1–5) and *Greasy palms: The social and ecological impacts of large-scale oil palm plantation development in South East Asia* (Chapters A–J)

They can be obtained from Friends of the Earth, 26-28 Underwood Street, London N1 7JQ, tel: 020 7490 1555 or downloaded at www.foe.co.uk/resource/reports/greasy_palms_buyers.pdf www.foe.co.uk/resource/reports/greasy_palms_impacts.pdf

By working with partners in an international network of grassroots organisations Friends of the Earth addresses the causes of environmental degradation that hit poor and vulnerable communities hardest.

Contents

Foreword	3
Summary	4
Section 1:	
The rise and rise of the oil plantation business	6
The oil at your table	7
The trade	8
Producer countries	9
Development of the industry	9
Section 2:	
UK involvement: companies and products	10
Section 3:	
The impacts of oil palm	12
Oil palm and deforestation	13
Oil palm and forest fires	14
Oil palm and pollution	15
Oil palm and land rights	16
Section 4:	
Policies on palm oil: who's making a difference?	18
In Parliament	19
In Government	19
In the committee	20
On the ground	21
In the boardroom	22
Conclusion	23
Recommendations	24
References	26

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Rainforest destruction in your shopping basket

Why new laws are needed

The destruction of the world's rainforests has been one of the most prominent environmental issues for decades. Back in the 1980s, when I first started working as an environmental campaigner, it became a cliché to talk about how an area of Amazon rainforest “the size of Wales” was being lost every year. Everyone agreed that the situation was tragic and dangerous and that something had to be done to end the UK's role in the destruction.

This groundbreaking report exposes the continuing failure of successive UK Governments and companies to address the issue. Today areas of forests greater than the size of Wales are being lost every year in many countries – not just in Latin America but also in South East Asia and Africa. The rate of loss in Indonesia, for example, is actually accelerating. The international trade in palm oil is driving forest clearance as well as being a cause of human rights abuses on a massive scale.

UK consumers will be shocked to learn that they are playing an unwitting part in the continuing destruction of the tropical rainforest – not just through purchasing timber and paper products but through a wide variety of everyday items in their shopping bag. Chocolate, crisps, detergents, toothpastes and shampoo all are tainted with the damaging environmental and social impacts of palm oil. This “hidden ingredient” imported from monoculture plantations of South East Asia is found in more than 10 per cent of all products on the supermarket shelves.

Why is this allowed to happen? The answer is that UK Governments have failed to govern. In general they have relied on the goodwill of green consumers and voluntary initiatives to influence the impact of business on the environment, but ethical shopping alone cannot hope to change the behaviour of industries of this scale and complexity.

It is left to groups like Friends of the Earth to expose how yet another product line is associated with social and environmental catastrophes. But even with our best campaigning efforts we might be able to force at most a handful of British manufacturers and retailers to do the bare minimum to address the palm oil issue.

It is impractical – and it should not be our role – to do this for each of the tens of thousands of product lines in the average supermarket. Some companies simply will not respond to consumer campaigns – either because they

don't have brands that are sensitive to this kind of campaign or because most busy consumers lack the information, time or specialist knowledge to make well-informed choices. Many companies will continue to do business as usual, undercutting competitors that are acting more responsibly, and taking no action to reduce their own impact on the rainforests.

The evidence is clear – the voluntary approach doesn't work. We have legislation in areas such as health and safety because some things are too important to leave to the whim of corporations. The time has come for legislation that makes corporations take social and environmental issues seriously, and be held accountable when they don't.

Earlier this year Andy King MP introduced the Performance of Companies and Government Departments (Reporting) Bill to Parliament. This legislation would have made UK companies report on the significant negative social and environmental impacts of their activities and products. It would also have placed a legal duty on company directors to take reasonable steps to reduce those impacts as a counterbalance to their current financial duties to shareholders. It was supported by more than 300 cross-party MPs and a massive coalition of environment, human rights and development organisations, unions, and church groups. But the Government blocked the Bill before it could even benefit from detailed debate in committee. The message is clear: the Government supports legislation to protect the health of UK consumers, but not the human rights of Indonesian farmers or the global environment that we all depend on.

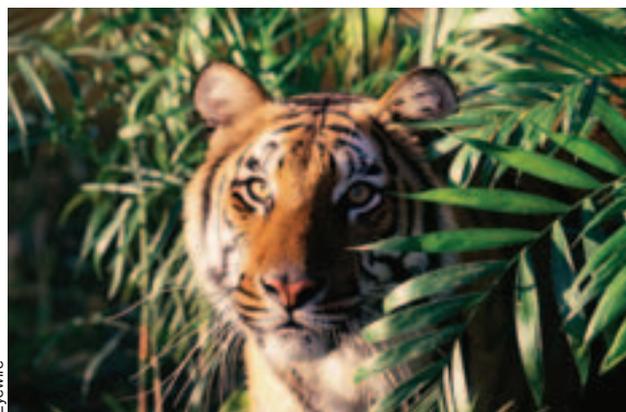
Unless these double standards change, unless our Government acts, we will all continue to be responsible for the destruction of our planet's resources every time we walk down a supermarket aisle.

Tony Juniper
Executive Director, Friends of the Earth



Bill Osment/Friends of the Earth

Summary



Palm oil is

- a form of vegetable oil derived from the oil palm tree *Elais guineensis*.
- produced on plantations in the tropics, notably in South East Asia.
- found in at least 10 per cent of supermarket products marketed in Europe, including biscuits, frying oil, sauces, mayonnaise, chips, chocolate and many others.
- broken down to form derivative products, which are also used in soaps, shampoo, cosmetics and detergents and in the metal and leather industries. Palm kernel meal, which is extracted from the same plant, is used as livestock feed.
- a commodity (like coffee, soy, cane sugar and cotton) traded on the international market. Commodity markets are characterised by lack of transparency in supply chains, bulk importing, and a distancing of consumers from the social and environmental impacts of the products they consume.

There is concern about palm oil because

- the creation of monoculture oil palm plantations is a major driver of forest destruction in one of the world's most biodiverse areas. In Indonesia, where tropical rainforest is disappearing at a rate of more than 2 million hectares a year, oil palm acreage increased by 118 per cent in the past eight years.
- in Indonesia indigenous people's land is stolen from them and given to companies for the development of palm oil plantations. Human rights abuses and violent conflict are commonly associated with land theft.
- plantation work in South East Asia often pays at below the minimum wage, is insecure, dangerous and involves unpaid work by workers' relatives in order to meet production targets.
- associated with oil palm is widespread use of illegal chemicals, which damage health and pollute land and water.
- bribery and corruption are associated with the expansion of plantations.



Justin Kase/Alamy



Pictures Colour Library/Alamy

UK companies are at fault because

- they are involved in the palm oil trade as buyers, refiners, retailers and investors.
- the European Union is the second-largest consumer of palm oil worldwide, and UK consumption of palm oil is expanding rapidly.
- companies have been aware for some time of the issues associated with palm oil production, but have done very little about it.
- most companies do not even know where their palm oil comes from.

The UK Government is at fault because

- it allows the trade to continue unregulated and has failed to introduce appropriate legislation.
- it invests in unsustainable palm oil through its wholly owned company, CDC (formerly the Commonwealth Development Corporation).

Legislation is needed because

- although there has been recognition recently of the need for companies to take action in producer countries and in Europe, progress has been painfully slow.
- there is little market incentive to work for change.
- there is a need for collective action, particularly at the retailer, processor and investor level, to drive change throughout the sector.
- consumer awareness and consumer concern is growing rapidly. Yet market pressure is difficult to apply in such a diverse sector.
- a boycott of palm oil is not a realistic, sensible or responsible option.
- any boycott of palm oil could simply force producers to switch to other, equally damaging vegetable oils – such as soy.
- legislation is the only way to make laggard companies source sustainably.

What needs to happen

For Friends of the Earth's detailed recommendations for Government, the European Union and companies, turn to page 24.



Myrthe Verweij/Milieudefensie

Section 1: **The rise and rise of the oil plantation business**

The oil at your table

What links breakfast margarine with the repression of indigenous people in Indonesia? Were your leather shoes made at the expense of the rainforests?¹ What do instant noodles, ice cream, cakes, crisps and biscuits have to do with the enforced displacement of rural populations? And what's the connection between fish and chips and the extinction of the world's biggest butterfly?

The link is a single product, palm oil, made from the fruit of the oil palm tree, *Elais guineensis*.

Palm oil is a vegetable oil with a huge range of uses – from shampoo to chips to frozen foods to cosmetics. It is the world's second most consumed edible oil (after soy) – yet consumers have little or no awareness of the product and its social and environmental impacts.²

In central Africa where the oil palm originated, its cultivation is central to the livelihoods of millions of small-scale farmers as a staple crop. But elsewhere in the world it is now big business, grown mainly on large-scale plantations. Commercial oil palm plantations have spread throughout the tropics – the Congo, Kenya, Nigeria, Liberia, Brazil, Colombia and Mexico, to name a few of the countries where the oil palm is now produced for export.

Its expansion has been most significant in South East Asia, particularly Malaysia and Indonesia, where it is a major driver of the destruction of tropical forests. The lowland evergreen tropical forest, which supports the highest biodiversity on Earth, is also the most suitable habitat for oil palm plantations.

Although conversion of primary rainforest to palm oil plantations is officially discouraged by international institutions such as the International Monetary Fund (IMF), industry figures show that nearly half (48 per cent) of South East Asian palm oil plantations are created on some kind of primary or secondary forest land.³ The use of fire to clear that land was also a major cause of the forest fires that ravaged Indonesian forests and cast a devastating smog over the entire region in 1997.

Many of the companies involved in the trade argue that palm oil is needed for the development of the region and brings money to poor rural areas. Since its introduction in the 19th century by colonial Europeans palm oil has played an increasingly important role in the economies of

Malaysia and Indonesia and has been strongly promoted by governments and international institutions as a route to prosperity for tropical countries.

But oil palm planting has also led to enormous human suffering and the destruction of forest lands that communities rely on. In Indonesia the oil palm is associated with the displacement of forest peoples from their land. A serious imbalance of power exists between these communities, who have no formal right to their traditional land, and the companies that are granted leave by the Government to convert the forest to plantations.

Despite their efforts, the voice of the communities opposing oil palm development is rarely heard.

The trade

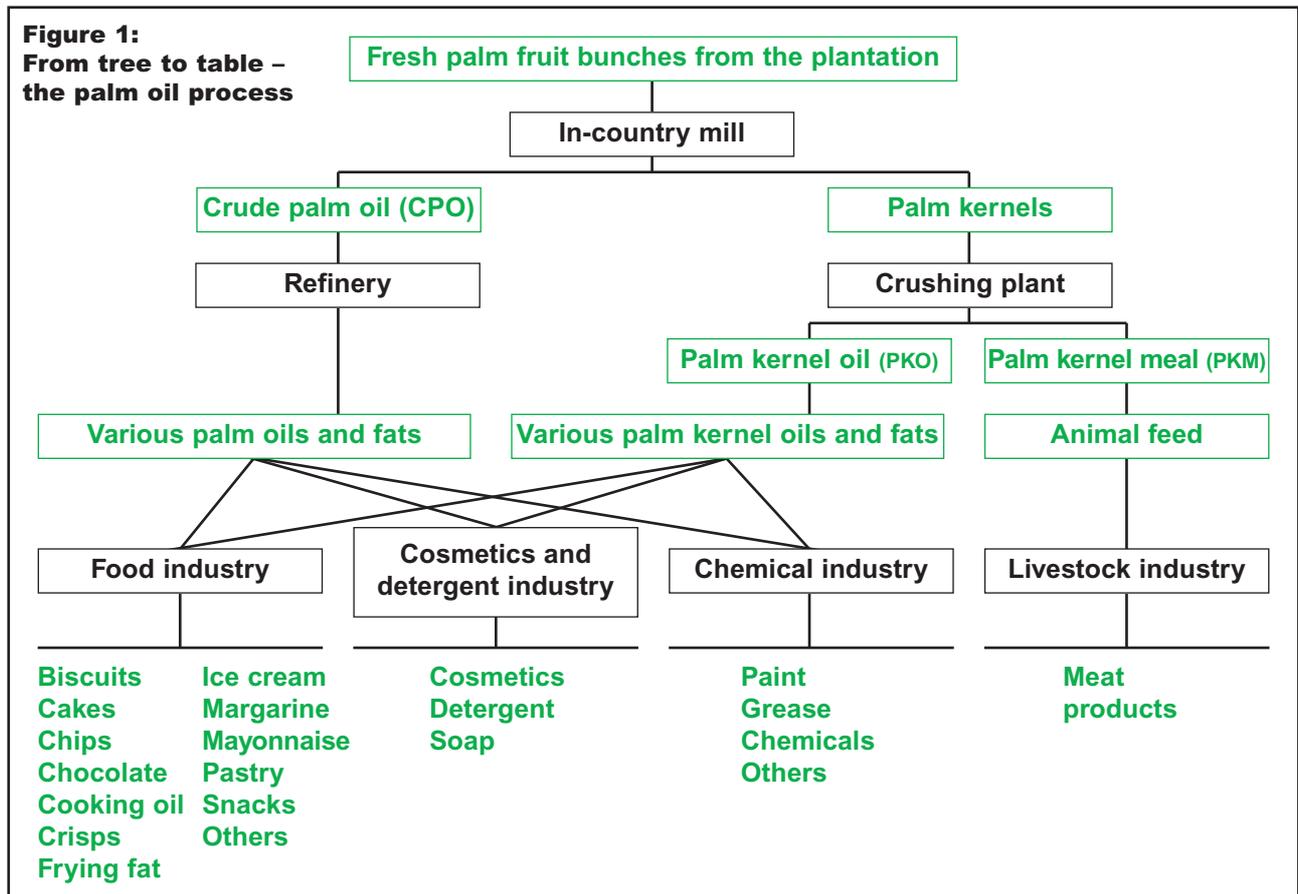
Oil palm's success as a global commodity lies in its flexibility, fecundity and competitive production costs. The oil palm tree requires a wet tropical climate at 24 to 32 degrees Centigrade and yields several crops of plum-sized fruit each year. The fruit of the tree, which grow in bunches of up to 3,000 and yield 10 to 35 tonnes per hectare on mature trees, are processed into a number of different products after harvesting. After 20 years the trees have to be replaced – or sometimes the land is just abandoned.

Crude palm oil, palm kernel oil and palm kernel meal are all extracted and can be processed into a wide variety of foodstuffs and other consumables. Palm kernel oil is appealing to manufacturers and retailers because the products in which it is used can be stored easily at room temperature without becoming rancid quickly. Palm oil is a major ingredient in margarine, ice cream, and in

processed foods such as crisps, chips, instant noodles, pastry, chocolate, instant soup and other snack foods. Palm kernel oil is used in biscuit doughs and filling creams, ice creams and coffee whiteners.

Derivatives of palm oil and palm kernel oil are also used in soaps, shampoo, cosmetics and detergents for their lathering properties.

The oil has further industrial uses in the metal and leather industries and palm kernel meal is used as feed for livestock.



Producer countries

Development of the industry



The oil palm originates from the coastal regions of West Africa, where it was a staple food well before written history began. The Portuguese discovered the crop during their expeditions to the region in the 15th century, and palm oil later became a staple on slave ships. The first oil palm plantations were established in Asia at the beginning of the 20th century by colonial rulers.

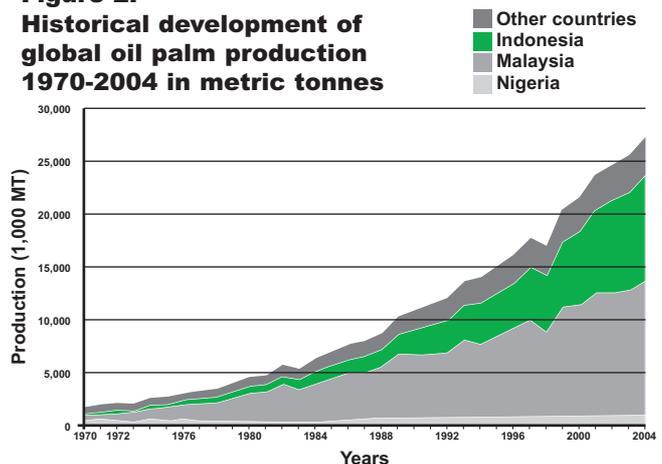
By the early 1970s Malaysia was the world's dominant producer and still accounts for half of global production today (see Figure 2, right). But rapid expansion has taken place in Indonesia, largely as a result of the actions of the Government of Indonesia which set out in the 1980s to overtake Malaysia as the main exporter of palm oil. In order to achieve this, the Government handed out vast areas of land to Indonesian business groups and foreign investors – including the then UK company London Sumatra for palm oil plantations. By 1996 the Indonesian Government had earmarked 9.13 million hectares of land for palm oil plantations in the eastern part of the country alone – an area about the size of Hungary.⁴ International financial institutions such as the World Bank have funded the development of private plantations and smallholder estates.⁵

Although the Asian economic crisis in the late 1990s put some of these plans on the back-burner, today palm oil is back on an expansionist track. Mature acreage has increased by 118 per cent in the past eight years alone (1995–2003).⁶ In a country where production of enough food for domestic consumption is increasingly a problem (and Indonesia is now a net importer of rice) this massive growth is increasingly export-driven.⁷

Today a small number of Indonesian and foreign business groups control the Indonesian oil palm plantation sector. Although they have accumulated their huge land banks with the help of government, development would not be possible without backing from commercial banks. Total investment has been in the region of US\$10 billion in the past 10 years (1993–2003) with UK financiers including Barclays, HSBC, Royal Bank of Scotland and NM Rothschild and Son Ltd.⁸

Palm oil now accounts for a 21 per cent share of the global edible oil market making it the second most consumed edible oil in the world after soy oil. And it won't stop there. Plantation companies want to expand large-scale oil production into other countries. One is Papua New Guinea, where the pattern of forest destruction and conversion to plantations already seen in Malaysia and Indonesia seems set to spread.

Figure 2:
Historical development of global oil palm production 1970-2004 in metric tonnes



Source: Greasy palms: European buyers of Indonesian palm oil



Justin Kase/Alamy

Section 2: **UK involvement: companies and products**

UK involvement: companies and products

“If the price of margarine in Europe doesn’t even include the price of the worker’s minimum wage, then this food industry must be in serious crisis.”

Rivani Noor, Indonesian non-governmental organisation Walhi, October 2003

Indonesian palm oil exports have increased by an astounding 244 per cent in the past seven years. The European Union now accounts for 23 per cent of Indonesian palm oil exports, 61 per cent of palm kernel oil exports and 87 per cent of palm kernel meal exports. The UK now consumes 13 per cent of Indonesian imports to the European Union. In the years between 1995 and 2002 alone, palm oil usage in the European Union increased by 90 per cent.⁹

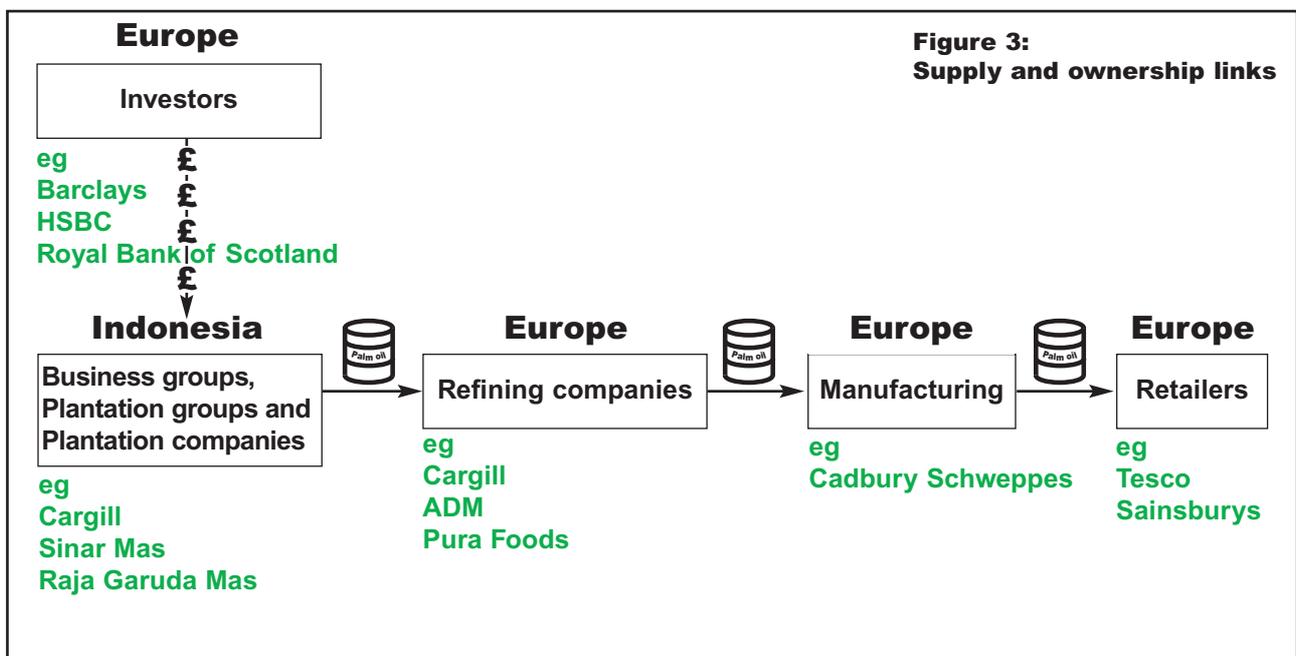
The chain of production and supply for palm oil is a complex one (see Figure 3, below), involving plantation owners, traders, refiners, processors and retailers of the oil. The hundreds of oil palm plantation companies in Indonesia are controlled by just a few Indonesian and foreign-owned business companies. These include the UK Government-owned company CDC, which is involved in major disputes with communities in West Kalimantan.¹⁰ Other UK companies include Anglo-Eastern and REA Holdings.

In Indonesia oil is produced from the fruit at centralised mills and processed in refineries, which can be located in either producer or consumer countries. UK Pura Foods Ltd, based in London and now owned by the US commodity trading company Archer Daniels Midland (ADM), refines palm oil and supplies approximately one-third of the edible oil requirements of the UK food manufacturing, catering and technical industries. ADM is closely linked to Wilmar Holdings in Singapore, which is probably supplying Indonesian palm oil to Pura foods.¹¹

Although some oil coming into the UK is imported by major players such as the Dutch-Anglo company Unilever, some is bulk-imported by a myriad of small independent oil traders and brokers. The oil is then sold on to be processed by companies for the many different products on our supermarket shelves.

Products marketed in the UK which contain palm oil include:

Type	Company name	Product name
Margarines	Unilever	Flora
Soups	HJ Heinz	Heinz
	UK Limited	soups
Chocolate	Cadbury	Cadbury’s
	Schweppes	Fruit ‘n’ Nut
Snacks	Jacob’s Bakery	Twiglets
Crisps	Walkers Snack Foods	Walkers crisps





Eyewire

Section 3:

The impacts of oil palm

Indonesia's forests are home to many significant species, including the orang-utan, Sumatran tiger (above), elephant, rhinoceros, and the world's largest butterfly, the Queen Alexandra Birdwing. Many of these species are under threat from human activities – for example a United Nations Environment Programme study estimates that by 2030 there will be “almost no” relatively undisturbed orang-utan habitat left in South East Asia.¹²

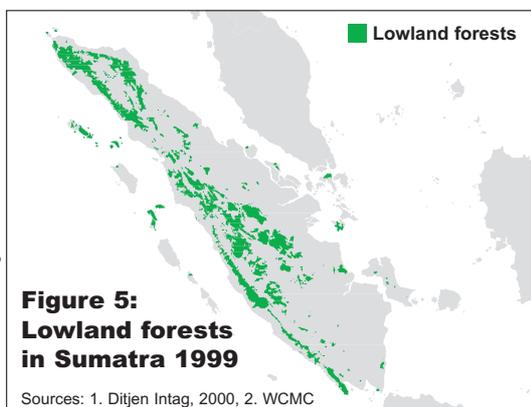
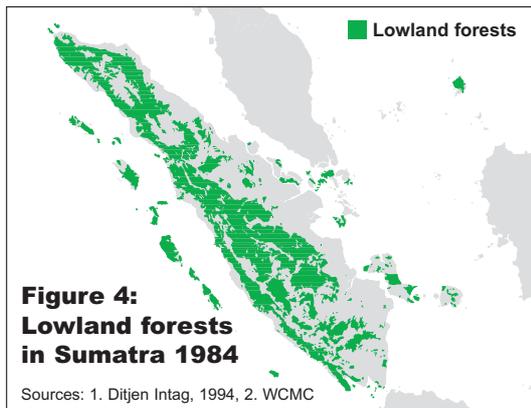
Oil palm and deforestation

The damp tropical climate in lowland South East Asia is ideal for the oil palm tree.¹³ But as companies expand their operations in order to increase profits and meet global demand for chips, crisps, ice cream and instant noodles, they drive the destruction of large tracts of ancient tropical rainforest.

The crisis facing the world's rainforests is well known. Indonesia covers just 1.3 per cent of the planet's land surface, yet its forests are home to around 10 per cent of all flowering plant species, 17 per cent of bird species, 12 per cent of all mammal species, 16 per cent of all reptile species and 16 per cent of all species of amphibians.¹⁴ Papua New Guinea, which covers only 0.3 per cent of the world's area, supports 5 per cent of the globe's biodiversity.

These forests are under threat. According to the United Nations Food and Agriculture Organisation forest cover in Indonesia and Malaysia declined by 12 per cent in the 1990s. It is estimated that on the Indonesian island of Sumatra, if present trends continue, the forest will be gone in five years (see Figures 4 and 5, below).¹⁵

In the past much of this loss has been blamed on slash-and-burn practices by local communities and on the activities of logging companies exploiting the forest for timber, wood pulp and paper products.¹⁶ The role of palm oil plantations has gone relatively unacknowledged.



Oil battle, new soldiers

Palm oil plantations are usually located in areas that have been logged previously¹⁷ or are planted in areas already covered by rubber, coconut or cacao plantations.¹⁸ Industry sources argue that there is therefore very little "direct" forest destruction involved. According to Malaysian and Indonesian industry data, however, nearly half (48 per cent) of plantations planted in Malaysia and Indonesia by 2002 involved some form of forest destruction. These figures may not even reflect the full picture; field observations indicate that many if not most plantations in Indonesia and East Malaysia are planted in areas that are forested.¹⁹ Based on similar calculations, as much as 87 per cent of all deforestation in Malaysia between 1985 and 2000 can be attributed to palm oil plantations.²⁰

In Indonesia there are strict rules about which forest areas can be cleared and which can be protected. But in practice many companies say they are "converting" a forest to another form of forest (oil palm plantation) as an excuse to clear protected forest of its valuable timber – and then abandon the land without planting anything.

Research has shown that when primary tropical rainforest is converted to oil palm plantations, 80-100 per cent of species of mammals, reptiles and birds are wiped out. Species that do survive can come to represent a problem for the people working on plantations. Under traditional forestry practices, human-animal conflict is rare; but when oil palm impinges on their habitat, species such as tiger and elephant are confined to ever-decreasing areas, and conflict can occur. According to WWF Indonesia, losses due to elephant damage of oil palm plantations and timber estates in the province of Riau reach up to US\$100 million a year.

Evidence of destruction

Around Lake Sentarum National Park in West Kalimantan, the oil palm plantation area grew by 91,000 hectares in only six years, from 3,000 hectares in 1994 to 94,000 in 2000. Meanwhile, the total forest area decreased by 205,000 hectares, from 528,300 ha to 323,000 ha.²¹ Local non-governmental organisation SawitWatch has mapped the oil palm companies that have cleared virtually all the forests surrounding Lake Sentarum National Park. Several of these companies abandoned their operations once the timber stand was removed.

Oil palm and forest fires



Eric Wakker/AIDEnvironment

“The damage inflicted by these fires and haze was terrible. Wildlife, natural habitats, and ecosystems in the worst affected areas were devastated beyond recovery. There were also heavy losses felt more directly by people...for every fire-setter who gained some short-term economic benefit from burning as a quick, dirty and cheap way to clear land or obtain forest resources, countless others paid a heavy toll in loss of income, bodily injury, and environmental destruction.”

Indonesia's former Minister of Environment, Emil Salim, on the Indonesian forest fires of 1997-98

Fires are a rarity in the damp climate of a rainforest. Yet in 1997 and 1998 fires raged throughout the forests of rural Indonesia, affecting up to 6 per cent of the country. The fires brought with them an unhealthy smog, which covered large parts of Indonesia, Malaysia, Brunei and Singapore for at least three months and caused considerable economic damage.²²

Depending on the region and the time of year, 46-80 per cent of the bigger fires in Indonesia in 1997 and 1998 occurred on plantation company land, around three-quarters of which were oil palm plantations.²³ It is likely that the majority were started by plantation companies.

Companies often consider that the most efficient way to prepare the land for an oil palm plantation is to burn the existing forest and scrubs. These clearance fires can easily spread out of control. Although the Indonesian Government banned such practices in 1997, and increasingly holds companies liable for fire outbreaks, burning for land clearing in Indonesia remains common. In 2002 data from the Centre for International Forestry Research (CIFOR) showed that more than 75 per cent of August hot spots²⁴ recorded in West and Central Kalimantan were a result of oil palm plantations, timber plantations and forest concessions. As recently as March 2003 a Friends of the Earth researcher witnessed forest fires started at oil palm company land near Dumai port in Riau.²⁵

Indonesian authorities and non-governmental organisations have had limited success in seeking redress from the plantation companies. Only five of the 176 plantation companies accused of burning to clear plantation land in 1997 were taken to court and only one was found guilty. One company found guilty of burning in 1999 was fined just US\$82.²⁶

Oil palm and pollution



Brandon Cole Marine Photography/Alamy

Palm oil production brings pollution. Villagers near plantations have described how local fish stocks decline and drinking and bathing water becomes polluted after the plantations are introduced. Others report significant increases in birth defects, and associate fertility and maternity problems with oil palm pollution.

Environmentalists are concerned that South East Asia's relatively intact coral reefs (above) will also be affected by pollution, which could contribute to the destruction of pristine reef systems and valuable fish breeding and spawning grounds.

Pesticides on the oil: Paraquat

Among the most significant causes of pollution associated with the plantations is the improper and/or excessive use of agro-chemicals. Around 25 different pesticides are regularly used on plantations but as usage is not monitored or documented, control is difficult. Many plantation estates do not even keep records of which fertilisers and herbicides they are using.

It is certain, however, that paraquat – the most toxic herbicide marketed over the past 60 years²⁷, and banned in 13 countries – is still commonly used in South East Asia. Paraquat can be fatal if swallowed, inhaled or absorbed through the skin and represents a severe public health problem on the plantations. Workers are frequently exposed to it during handling, mixing, spraying and working in freshly sprayed fields. Paraquat is persistent (it does not biodegrade) and accumulates in the soil with repeated applications.

Research has shown that agrochemicals like paraquat are more harmful to women than to men. Women are the core workforce on palm oil plantations, responsible for mixing, handling and spraying pesticides. In Malaysia, where

approximately 30,000 women work as herbicide and pesticide sprayers, most spray every day, 262 days a year. Many have shown acute paraquat poisoning symptoms including nosebleeds, eye infections, contact dermatitis, skin irritation, sores, damaged nails and stomach ulcers. Local NGOs are continuing to monitor the situation.

But the spraying continues. Although Malaysia announced its intention to ban production of paraquat through a two-year phase-out programme beginning in 2002, this ban is now being vigorously opposed by the pesticide industry.

Palm oil mill effluent (POME)

A range of waste products is generated by the production of palm oil. Of these, effluent from palm oil fruit processing – which takes place in hundreds of mills throughout South East Asia – is responsible for the most pollution. Known as palm oil mill effluent (POME), the waste consists of a mix of water, crushed shells and some fat residue and is notorious for contaminating rivers. It kills aquatic life for some distance downstream.

Responsible mills store POME waste in basins in the hope of detoxifying it, but the basins often overflow during bouts of heavy rain or intensive production. Even this half-hearted attempt to control the waste contamination is ignored by many companies which still release the effluent directly into rivers.²⁸

Dumping waste

In June 2001 the crude palm oil mill operated by PT Asianagro Lestari, near Merlung village, dumped excess liquid waste material into the Benanank river. The villagers depend on this river for clean drinking water and bathing. The river is now polluted with the mill's waste. Not only does this raise concerns among the community about health impacts, fish populations have been hit, so there is now no fish sock worth catching.²⁹

Oil palm and land rights



Eric Wakker/AIDEnvironment

“Our land rights are not being recognised [...] A big problem is the huge number of oil palm plantations which have taken our lands and cut down our forests. Sometimes indigenous communities are forced by the military or the police to give their land to the company. The most important thing is not compensation, but recognition of our rights. Companies have a lot of money to offer indigenous communities, but they’re never frank about the impact of oil palm plantations. These are not just destroying our lands, but also our culture.”

AMA Kalbar – Indigenous People’s Alliance, West Kalimantan³⁰

Much of the forest land cleared to make way for oil palm plantations has been previously logged, and is therefore considered by some to be “degraded” and useless. Yet this is to undervalue the ecological, socio-economic and cultural significance of these “community gardens” for local people.

It has been reckoned that 100 million of Indonesia’s population of 216 million people depend on forest and forest products for their livelihood.³¹ Of these, 40 million people (equivalent to two-thirds of the population of the UK) make up Indonesia’s indigenous communities, who rarely have formal rights to forest lands, but manage them according to ancient practices. Indonesian national law does not recognise traditional land rights (known as *adat*), and the land is granted to companies for logging and eventual conversion to palm oil.

Over the past 50 years and especially during the regime of President Suharto (which ended in 1998) more and more customary-rights land and community forest land has been granted to companies. As they turn the land over to oil palm, companies have been quick to claim that the oil palm brings development to deprived rural communities and is therefore a positive development.³²

Indigenous and other rural forest people see the appropriation of their land differently. The handing over of huge areas of community land to the oil palm plantation companies during Suharto’s dictatorship left a legacy of conflict. Before Suharto’s fall the army suppressed any attempt to reclaim land. The plantation business is the most conflict-prone land-based sector in Indonesia today.

According to data gathered by the Consortium for Agrarian Reform (KPA) plantation related social conflicts accounted for one third of all forest and land conflicts in the country.³³

Political liberalisation since Suharto’s departure has seen local communities stepping up protests against palm oil expansion. But their voices are rarely heard. Their land claims are on a small scale compared to the vast areas being swallowed up by the oil palm companies. For example, one community has struggled for 17 years for the return of just 130 hectares of land which was opened up illegally.³⁴

Feelings run high and at times communities resort to extreme measures. There have been cases of protestors burning estate offices and destroying large machinery, processing plants and plantations. Companies have reacted brutally in trying to protect “their” land, and there have been shootings and cases of torture. Military involvement, corruption of authorities and conflict between different parts of the Government make the situation confusing and difficult. Communities have little power compared to companies.

“The companies rent the land cheaply and hire locals for low wages. They have reaped the benefits for years while the people have watched”

Member of Team 13, a group set up by local administration to arbitrate a land conflict between villagers and a palm oil company in North Lampung, Sumatra

In areas where there are no palm oil plantations rural communities have control over the supply and production of their goods – including rattan, rubber, game, fruits and fish, which they farm and harvest from the forest on a rotational system as well as providing food for themselves and their families. Benefits from their production accrue directly to the communities rather than traders and “investors”. Palm oil replaces these diverse, mixed farming systems with export-oriented monocultures. Farmers on small-scale farms become workers on large-scale plantations, with less control over their lives and an income dependent on the fluctuations of the international market.

This system may bring benefits to local communities – for example, in the form of a regular wage. Yet the problems associated with the trade at producer level, loss of control at community level, environmental damage and conflict resulting from it, indicate that this development model may not be a sustainable or sensible one for the long-term.

Similar problems are associated with the production of other commodities for the international market, such as soy (see page 22). Serious questions need to be asked about the policies of international institutions, national governments and corporations in promoting the production of commodities like oil palm as an answer to the needs of rural communities.

Good for rural communities?

The Dayak people and oil palm

In the hilly uplands of West Kalimantan, one of Indonesia’s largest provinces (population 4 million), is the remote district of Manis Mata. This area is home to the Dayak people, who practice highly productive agroforestry on their traditional land. By the early 1990s loggers had already stripped the large, commercially viable trees from the forest. This damaged local livelihoods – but it was nothing compared to the day in 1993 when the ex-logging company PT Harapan Sawit Lestari (Hope for Sustainable Palm Oil) arrived. The villagers’ traditional land rights are not recognised by the Indonesian Government or by the company contractors, who destroyed their rubber and fruit trees with chainsaws, even bulldozing graveyards. Villagers who protested were summoned to the local police station to have the situation explained to them more clearly.

That was more than 10 years ago, but the people of the local villages – Beriam, Keladi, Kampung Terusan – continue to campaign for their rights to their land. Many joined “smallholder” schemes – whereby they were granted the right to farm a small area of company oil palms in exchange for surrendering their own land – but are still waiting for the two hectares they were promised. In the meantime, the UK Government-owned company CDC³⁵ has acquired an interest in the company and continues to support the scheme as “a positive land use in an area which had previously been degraded following exploitation of its forest resources”.



Pictures Colour Library/Alamy

Section 4: **Policies on palm oil: who's making a difference?**

In Parliament

Concern over the irresponsibility of some UK corporations has grown rapidly in recent years – and not least in the UK Parliament.

While MPs have not yet turned their attention to palm oil issue, they have repeatedly called on the Government to introduce legislation to improve the social and environmental performance of UK companies across all their business activities, products and procurement. Some MPs have been involved in proposing legislative solutions and in so doing have been instrumental in advancing the corporate accountability agenda.

In June 2001 Linda Perham, MP for Ilford North, tabled the Corporate Responsibility Bill. The Bill was promoted by The Corporate Responsibility Coalition (CORE), a broad coalition of trade unions, environment, human rights, development, and faith based organisations including Amicus, Amnesty International, Christian Aid, Friends of the Earth, T&G Union, New Economics Foundation, Save the Children, Traidcraft, Unison and Unity Trust Bank.

The Bill would have set standards in three key areas:

- **Mandatory reporting:** It would have required UK companies to report annually on the impact of their operations, policies, products and procurement practices on people and the environment in the UK and abroad.
- **Directors' duties:** It would have placed a legal duty on company directors to take reasonable steps to reduce any significant negative impacts. This would have acted as a counterbalance to the current financial duties they already have to shareholders.
- **Foreign direct liability:** This would have enabled affected communities abroad to seek damages in the UK for human rights and environmental abuses committed by UK companies or their overseas subsidiaries.

Although the Bill did not benefit from a parliamentary debate, it rapidly gained the support of MPs from all parties. By the end of 2003 more than 300 MPs had signed motions supporting the Bill's principles and calling on the Government to act.

Then in December 2003 Andy King, MP for Rugby and Kenilworth, secured parliamentary time to take forward the Performance of Companies and Government Departments (Reporting) Bill which, for practical reasons, focused on mandatory reporting and directors' duties. In his opening speech to the House on 30 January 2004 King said:

Companies have effects that reach further than their shareholders. I believe that it is the role of Parliament to set laws that encourage and allow companies to appreciate fully the repercussions of their actions. There is an important point to make here. When failures in company law have affected the richest and most powerful in society, we have always acted. Post-Enron and post-BCCI, there was a clamour for rules and regulations to protect investors who lost out. I applaud such regulations and believe that they represent a correct use of the powers of Parliament, but we must act with equal determination on behalf of those who are less well off.

Hansard 30 Jan 2004: Column 493

Both of the main opposition parties, the Conservatives and Liberal Democrats, stated their willingness to allow the Bill to proceed to the next stage of the parliamentary process where it could be debated in greater detail by Committee.

But the Government put the views of big business before those of hundreds of parliamentarians by blocking the Bill. For it to proceed to Committee, the debate needed to be finished by 2.30pm but at this point, Mike O'Brien, Minister for Trade and Industry, continued to talk about the Government's love of corporate voluntarism. The bill was blocked.

In Government

The UK is the fourth largest economy in the world, and the largest foreign direct investor. The way in which UK plc goes about its business directly affects the lives of hundreds of millions of people across the globe.

Palm oil is just one of thousands of products traded internationally by UK companies that end up in the hands of UK consumers. Yet this trade – and others like it – continue to operate virtually unregulated. UK money continues to prop up a deeply inequitable and damaging system and the companies involved continue to disclaim all responsibility.

On coming to power in 1997 the Labour Government committed itself to an "ethical foreign policy". Four years later Foreign Secretary Jack Straw stated that "we cannot leave companies to regulate themselves globally, any more than we can in our national economies. Setting common standards at a global level requires legislation".³⁶

Yet the Government has done nothing to progress common standards and legislation and has blocked attempts by others including Parliament to develop them.

In the committee

The Government remains wedded to the outdated notion that voluntary codes of conduct, voluntary policies and voluntary targets will do the job. This is despite the fact that this approach has failed time and time again.

For example, in a keynote address to the Confederation of British Industry (CBI) in October 2000, Tony Blair told business leaders:

“I am issuing a challenge, today, to all of the top 350 companies to be publishing annual environmental reports by the end of 2001.”

The Government's own figures indicate that by the end of 2001 only 79 of the top 350 companies (23 per cent) had bothered to meet Blair's challenge. If this is the response of big business to the clearest and most basic of challenges issued by the top politician in the land, what hope for the more complex demands that might come from other politicians and the rest of society?

Logically and intellectually deficient, the Government's approach is also hypocritical. When financial institutions and rich shareholders are hurt by corporate wrongdoing, the Government believes that the way to stop it happening again is through regulation. After the Enron, Worldcom and Arthur Anderson scandals Chancellor of the Exchequer, Gordon Brown, said:

“We should all adopt and monitor similar codes and standards for corporate governance and accounting and auditing, working with standard setters to develop stronger regulatory frameworks.”

Gordon Brown, 22 January 2003

But when it comes to protecting the poorest and most vulnerable people, or the environment, from corporate wrongdoing the Government pretends the voluntary approach will deliver.

Communities in Indonesia are desperate for their rights to be respected and their rainforest to be protected. The Government's own Advisory Committee on Consumer Products and the Environment has recognised the need for the UK Government to take a lead in looking into these issues. The Commons has recognised the need for binding legislation to control the activities of UK corporations. Civil society recognises the desperate need for the activities of big business to be reined in. The voluntary approach has been shown not to work and the Government does not rely on it to regulate issues that it clearly considers important.

And yet on corporate irresponsibility in general, and palm oil specifically, the Government does nothing. The message is that it cares more about financial institutions and accountancy regulations than vulnerable communities and the environment.

“It is amazing that this simple ingredient, used in so many of our products, had such a potentially negative impact on the other side of the world. ACCPE believes that the UK Government can make a huge contribution by helping find creative solutions that help businesses continue to prosper but not at the expense of the environment or communities in other parts of the world.”

Alan Knight OBE, Chair of ACCPE

The Government Committee ACCPE (Advisory Committee on Consumer Products and the Environment) first identified the problem of palm oil more than two years ago, in October 2000.³⁷ The Committee, which has a remit to advise the Government on how to tackle the environmental impacts of products retailed by UK companies, subsequently commissioned research into the feasibility of a generic supply chain initiative for sustainable commodity crops, including palm oil.³⁸

The Committee found that little progress had been made in this sector. A plethora of “green initiatives” are going ahead under different banners, yet the commodity trading system remains essentially unregulated.

The study concluded that:

“supply chain actors such as retailers would benefit from the development of a clear and coherent government policy position in relation to sustainable commodities. This would provide the policy context for involvement and support by supply chain actors and civil society. It would create a sense of leadership and provide a catalyst for further actions.”

On the ground

The fight to end the problems associated with palm oil production is being taken up by community groups and grassroots campaigning organisations in the countries suffering the effects of the trade.

In South East Asia indigenous community groups are campaigning against the impact of palm oil on their communities. Examples in Indonesia are AMAN, SawitWatch (Palm Oil Watch) and the country's biggest environmental group, Walhi – Friends of the Earth Indonesia.

These groups want local communities to be given formal rights to their own land in order to have the chance to control their own future.

“Our work with palm oil communities in Indonesia shows us one thing – that the rights of the people must be respected. If this does not happen, there can never be ‘sustainable’ palm oil. There should not be palm oil at all. Every day we see that the people’s land is stolen, the workers and the farmers suffer and the land is polluted and destroyed. Every day we fight to give the people a voice against the companies and the Government to get justice for people’s rights.”

Rudy Lumuru, SawitWatch

But land rights alone are not enough. In Papua New Guinea virtually all land is owned by communities – yet conflicts between communities and oil palm companies are common. Communities are not made aware of the negative effects of abandoning other styles of farming in favour of oil palm plantations. Subsequently they find themselves dependent on the whims of the oil palm market.³⁹

Secure land rights need to be coupled with genuine engagement and dialogue from companies so that affected communities are thoroughly and honestly consulted about the impact of plantations on their land and livelihood before decisions are made. Community activists have been campaigning for years for the concept of “prior and informed consent”. But at present there is little interest from companies in engaging with affected communities.

Can there be sustainable palm oil? Currently not even a handful of examples worldwide practice environmentally sensitive plantation management and socially responsible production.⁴⁰ Indonesian communities and non-governmental organisations have yet to see the first well developed plantation estate that does not disrupt the environment and local peoples’ livelihoods. They are ready to play their part but there is little indication that the corporations are ready to play theirs.

In the boardroom

UK corporations promote an image of environmental responsibility. Many in the UK palm oil retail trade talk the language of sustainability. For example:

“Tesco is committed to working with our suppliers to maintain, develop and improve standards [...] Tesco has a strong commitment to open and transparent relations with suppliers, actively seeking opportunities to share knowledge and improve transparency within the supply chain.”

Tesco Corporate Social Responsibility Review,
February 2003

“At Kellogg’s we are committed to building great brands. These are the shared values, principles and behaviour that we follow in providing high quality and great tasting foods worldwide. We Act With Integrity And Show Respect: Demonstrate a commitment to integrity and ethics.”⁴¹

Kellogg’s website, 2003

But despite these claims, in practice the vast majority of UK companies involved in the palm oil trade do not have specific policies in place to address the negative social and environmental impacts. Fewer than one in five (17 per cent) even know the origin of the palm oil they use.

In a letter to a Friends of the Earth supporter in December 2003 Tesco Customer Services wrote:

“At present we do not have our own specific Code of Practice on the production of palm oil.”

And Kellogg’s Consumer Services wrote to a Friends of the Earth supporter in December 2003:

“Our palm oil is purchased on the world market.”

The financial duties that company directors have towards shareholders increase the likelihood that social and environmental concerns may be addressed when it is clear that they also pose a financial risk to the company. In a survey by the ethical asset manager ISIS Asset Management plc, for example, more than two thirds (67 per cent) of companies felt that they were effectively “managing the risk” of environmental and social problems connected to the products they supply.⁴²

But the complexity of many social and environmental issues mean this is often not the case. Palm oil is an example, as highlighted in the ACCPE study:

“[for oil palm] there is no clear link between irresponsible practices and business risk”

Expert interviewed for ACCPE study⁴³

The result is that many UK companies involved in the palm oil sector are failing to address the palm oil issue, even when NGOs have gone to considerable lengths to facilitate a process.

Round Table for Sustainable Palm Oil

In August 2003 the inaugural meeting of the Round Table for Sustainable Palm Oil took place in Kuala Lumpur, Malaysia. The Round Table is a joint initiative between WWF and industry – with organisers including Unilever and oil refining company Aarhus United. It has the aim of “promot[ing] the growth and use of sustainable palm oil”.⁴⁴ The meeting was attended by more than 200 delegates from the palm oil sector, and participants were invited to sign up to a Statement of Intent acknowledging the problems associated with palm oil and expressing commitment to future action.

The efforts by WWF, and the recognition by some in the industry of the need for change, are welcome. But at the time of writing many of the UK’s key companies – including Sainsbury’s, Cadbury Schweppes and United Biscuits – have failed to sign up.

This is reminiscent of how efforts by NGOs and the more responsible companies in forming the Forest Stewardship Council (FSC) have been undermined by irresponsible competitors. Although Friends of the Earth remains committed to the FSC, it is disappointing that only 5-6 per cent of the world’s productive forests are certified.

It is early days for the Round Table for Sustainable Palm Oil and much work remains to be done to fully engage the many different stakeholders. But its future would be much brighter if it did not have to rely entirely on the goodwill of the more responsible companies.

Switch to another oil?

Companies criticised for the adverse social and environmental impacts of their activities often take the easiest route to a better reputation – switching supply to another product with the same properties.

Soy oil can often be used interchangeably with palm oil. It is produced from soy beans, a crop mainly grown on large, capital-intensive farms in South America. The world’s most consumed edible oil, soy is, like palm oil, imported into Europe and used in a wide range of different products. Soy beans are traditionally grown in temperate and sub-tropical regions worldwide and the industry is expanding into tropical regions.

The story echoes that of palm oil. Small farmers are not able to compete and may sell up and migrate to the cities. As with palm oil plantations, production of soy is associated with deforestation, habitat fragmentation, forest fires, pollution and social destruction.

Conclusion

Palm oil has been seen by corporations and government development agencies as liquid gold. Its versatility and low cost have guaranteed its role as a hidden ingredient in products ranging from lipstick to margarine and in the manufacturing of products ranging from shoes to plastics. Development agencies, international financial institutions and governments (including the UK), at the behest of big business, have promoted commodity trades like that in palm oil as a model for development. The result has been a huge expansion of oil palm plantations.

The UK Government invests in Indonesian plantations through its own company CDC, and allows UK companies carte blanche to trade and invest in palm oil. Yet if the corporations or Government had investigated properly they would have discovered that their actions are harming people and the environment.

The research on which this summary is based has exposed how many of the oil palm plantations have been created by forcing indigenous peoples off their land, clearing some of the most precious rainforest left in Indonesia. Too often this has been linked to human rights abuses and violent conflict, as well as causing the erosion of habitat which is home to critically endangered species such as the Sumatran tiger and the orang-utan.

The story of palm oil is a scandal, and UK consumers are unwittingly involved.

UK consumers care about the planet. They recycle their bottles and newspapers, drink fairly traded coffee and tea, and buy fairly traded bananas. But if they eat breakfast cereal, spread margarine on their toast, use toothpaste, soap and cosmetics, wear shoes, use a computer, eat chocolate bars, sandwiches, sausage rolls, biscuits, or ready meals, then the chances are that they are playing their part in this devastating trade.

The complexity of the palm oil issue and the vast range of uses for the products mean that a consumer boycott would be all but impossible, and potentially irresponsible. Even the most dedicated green consumer would find it difficult to discover which products on the supermarket shelves contain this hidden ingredient. It is also clear that many of the social and environmental problems linked to palm oil are also associated with many of the alternatives, such as soy oil. More important, however, a boycott is unlikely to help those vulnerable communities that have already suffered because of the unscrupulous commodity trade and the companies that supply it.

Instead, we need all of those companies that have fuelled the expansion of the palm oil trade, the supermarkets and processed food companies, to address the social and

environmental problems with the utmost urgency.

Experience has shown that this will not happen voluntarily. Whilst some may decide to review where their palm oil comes from and how it is produced, or to participate in the Round Table for Sustainable Palm Oil, their efforts will be compromised by those that don't. The irresponsible companies will undercut those that are more responsible, knowing that the UK Government will turn a blind eye.

Corporate responsibility legislation, as proposed by Linda Perham MP and Andy King MP, would make a real difference to the palm oil story. Mandatory reporting would ensure that supermarkets and processed food companies report fully on their links with the sector. A duty on directors to take reasonable steps to reduce significant negative social and environmental impacts would not tie them up in red tape or prescribe exactly how they should address the issue, but would at least stop them ignoring it. Regarding palm oil, most companies would meet such a legal obligation by finding out where their palm oil comes from and examining the impacts. They would participate in relevant sector initiatives such as the Round Table for Sustainable Palm Oil – and take them seriously. With such legislation UKplc could set a standard for other countries to follow.

The UK Government also needs to ask serious questions about its approach to commodity trades that fuel environmental and social destruction in the name of “development”.

If the UK Government fails to bring in corporate accountability legislation or to review its support for unsustainable commodity trades, then UKplc's involvement in the palm oil scandal will continue to spread. The responsibility will lie on the politicians' plate.

Recommendations

We call on the UK Government:

- to move on from the outdated and discredited paradigm that corporate irresponsibility can be addressed solely through voluntary agreements
- to make changes to the legal framework in which UK companies operate so that financial obligations are counterbalanced by social and environmental concerns. Specifically, the Government must introduce:
 - Mandatory reporting – requiring all UK companies to report annually on the impact of their operations, policies, products and procurement practices on people and the environment both in the UK and abroad
 - New legal duties on directors – to take reasonable steps to reduce any significant negative social or environmental impacts
 - Foreign direct liability – to enable affected communities abroad to seek redress in the UK for human rights and environmental abuses resulting directly from the operations, policies, products and procurement practices of UK companies or their overseas subsidiaries
- to urgently review how it is involved in the palm oil sector through its ownership of the company CDC, and ensure that it supports only responsible and sustainable production of palm oil – where people's rights and the rainforest are protected
- to take a lead in reviewing the social and environmental impacts of the international commodity trade and questioning the commodity-based development model
- to strongly support actions by the governments of producer countries (such as the Government of Indonesia) to ensure that UK companies obey the national law in those countries, and to ensure that those who do not are prosecuted.

We call on Members of the UK Parliament:

- to continue their welcome support for legislative measures to stop corporate irresponsibility by UK companies here and abroad
- to sign Early Day Motion 576 – Corporate Responsibility, which expresses regret that the Performance of Companies and Government Departments (Reporting) Bill was blocked, and challenges the Government to move as quickly as possible to introduce laws to improve the social and environmental performance of UK companies
- to write to the Secretary of State for Trade and Industry, the Right Hon. Patricia Hewitt MP, about palm oil and call on her to introduce such legislation as a matter of urgency
- to seek every opportunity to explore the issue further, such as proposing adjournment debates, committee investigations and tabling parliamentary questions. (Friends of the Earth would be ready and willing to provide assistance in this regard.)

We call on Members of the European Parliament:

- to recognise the need for European action on the palm oil trade and to provide mechanisms to ensure corporations based in the European Union can be held to account for their actions
- to reject the voluntary approach currently exemplified by the European Commission's Integrated Product Policy initiative, and promote European legislation that would ensure that all products sold in Europe are produced in a responsible fashion.

We call on all companies involved in palm oil production, investment, processing or food retailing:

- to take immediate steps to ensure that they only use responsibly produced palm oil, for example by participating in the Round Table for Sustainable Palm Oil.

and in particular to ensure that they are in no way connected with:

- the conversion of forest in order to create palm oil plantations
- the use of fire to clear land for palm oil plantations
- repression of, and conflicts with, local communities. Existing conflicts urgently need to be resolved and the rights of local communities already affected by oil palm plantations respected.

We further call on all companies involved in palm oil production, investment and processing:

- to obey the UN Norms for Multinationals on human rights and labour conditions, and obey national and international human rights and labour laws, including the right to a living wage, the right to work without fear of intimidation, and the right to form independent Unions
- to minimise their impact on the environment through good management practices including (but not limited to)
 - obeying all relevant government regulations (eg on emissions of waste-water)
 - use of integrated pest management
 - significant reduction in the use of pesticides
 - recycling of Palm Oil Mill Effluent (POME).

We call on UK food processing companies and supermarkets:

- to work together closely with other stakeholders in the supply chain to make sure that the above conditions are met urgently. In all cases the first step must be to trace their palm oil from source to end use
- to put less effort into “greenwash” and more effort into genuine attempts to improve the social and environmental impacts of their business operations, products, policies and procurement practices.

We call on national and international development bodies, and public and private financial institutions:

- to urgently review the model of development which encourages expansion of export-oriented monoculture crops with little regard for the environmental or social consequences or indeed the developmental outcomes promised.

We call on UK consumers:

- to write to the Secretary of State for Trade and Industry, the Right Hon. Patricia Hewitt MP, about palm oil and call on her to introduce legislation such as that outlined in Andy King's Bill, as a matter of urgency
- to ask their own MP to sign Early Day Motion 576 (Corporate Responsibility), to write to Patricia Hewitt, and to raise the palm oil issue in the House of Commons
- to write to their local supermarket and ask what policies, if any, they have in relation to palm oil and whether they can identify the source of their palm oil (sending copies of all correspondence to Friends of the Earth, 26-28 Underwood Street, London N1 7JQ).

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Friends of the Earth inspires solutions to environmental problems, which make life better for people

Friends of the Earth is:

- the country's most influential national environmental campaigning organisation**
- the most extensive environmental network in the world, with almost one million supporters across five continents and over 60 national organisations worldwide**
- a unique network of campaigning local groups, working in over 200 communities throughout England, Wales and Northern Ireland**
- dependent on individuals for over 90 per cent of its income.**