

Campaign Case Study: Dutch banks and Indonesian palm oil

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Friends of the Earth postcard: "Alarm for the rainforest"

The rise of the Indonesian palm oil sector

From the 1970s onward, the World Bank began to facilitate commercialisation of the Indonesian oil palm plantation sub-sector. By the early 1990s, when approximately 1 million hectares were established, the World Bank reduced its direct involvement: "Given the profitability of palm oil in Indonesia and the competitive advantage of the country in providing vegetable oil to the rapidly growing world market, the need for further incentives in the form of subsidised loans is questionable". <1>

Indeed, by 1995 more than 600 investors had applied for licenses to develop 20 million hectares of forestland for oil palm plantations, an area equal to 10% of Indonesia's total land surface. The applicants involved were the huge Indonesian corporate conglomerates such as Sinar Mas, Raja Garuda Mas, Salim Group, Astra Agro Lestari, Bakrie Brothers and Napan while Malaysian investors, such as Kumpulan Guthrie, Golden Hope, EPA Management and countless others applied for their share of the cake.<2>

Commercial banks provide capital for expansion

Between 1995 and 1999, the Indonesian government approved domestic and foreign investment projects with an estimated overall value of well over US\$ 20 billion. <3>

Many major European, American and Asian banks happily assisted the plantations industry to gather these billions of dollars to enable them to expand their estates. Among them were all major Dutch commercial banks: ABN AMRO Bank, Rabobank, ING Bank, and MeesPierson (now: Fortis Bank), as well as the much smaller Nationale Investeringsbank (now: NIB Capital) and FMO. These banks provide a range of financial services to the plantations industry, including: long and short term loans, sales of assets, arranging share and bond issuances, and fiscal facilities. <4>

Even though these services provide the banks with leverage over their clients environmental policies, this was inadequately mobilised to assure that the operations of the plantation companies are legal and environmentally and socially responsible.

Impacts on the environment and people

Under the huge pressure of investors, eager to develop the plantation estates, the Indonesian Ministry of Forests and Estate Crops set aside some 9 million hectares of forestland for conversion. Since 90% of Indonesia's oil palm estates are established in Sumatra and Kalimantan, the government began to provide incentives to the industry to expand in the less developed, but forest rich regions of Irian Jaya, East Kalimantan and Sulawesi.

Plantation companies are required to obtain a set of permits and licenses before land clearing and plantation establishment may commence. However, some companies which received substantial commercial bank loans to expand their estates, such as PT PP London Sumatra, began to clear forestland without several of the obligatory permits. Prior to the Asian economic crisis, plantation companies cleared some 270,000–300,000 hectares of forestland annually. This brought about extensive deforestation, widespread social conflict, illegal land clearing practises, economic vulnerability and destructive forest fires. IFFM/GTZ estimates that in 1997/98, ten million hectares of land burned to ashes, at least half of which was forest covered. According to WWF Indonesia, the

transboundary air pollution affected the health of 70 million people and the economic cost of the fires and haze was estimated by the Asian Development Bank at US\$ 9 billion. <5>

Future expansion

From the moment when the economic crisis hit Indonesia in mid-1997, the implementation of the ambitious land clearing plans of the oil palm industry was dramatically slowed down. Both CIFOR and Oil World expect that planting will recover to pre-crisis rates in the coming years. <6>

In order to regain this speed, BIRO estimates that the industry needs at least US\$ 3 billion of fresh capital, 80% of which would have to be borrowed from the banking sector. <7>

Considering the chaos within the domestic financial sector, there is little doubt that the plantation companies will approach the international banking community for fresh capital inputs. A recent study commissioned by Friends of the Earth Netherlands found that there are no indications that in the year 2000, Dutch banks would have become more reluctant to provide financial services to the oil palm corporations. <8>

Naturally, this raises questions about how and where oil palm expansion will occur in the future. The Indonesian NGO-network Sawit Watch and Dutch NGOs are concerned that further expansion will lead to more deforestation and social conflicts, increasingly in the forest rich regions of Kalimantan and Irian Jaya. Furthermore, the next El Niño climatic phenomenon, which may reoccur in 2001 or 2002, will bring about extreme draught to the Southeast Asian region. If plantation companies fail to implement the legally required zero-burning policies, rampant forest fires are likely.

Sawit Watch

Indonesian NGOs are very concerned about the trends in the palm oil sector and have conducted activities during the last six years to empower indigenous peoples and local communities to fight for their rights in their respective regions. Given the need to work and develop plans together, some Indonesian NGOs initiated the establishment of Sawit Watch on July 25, 1998.

Sawit Watch is a network of NGOs throughout Indonesia which are concerned about the expansion of oil palm plantations, which among others convert forests. Today around 40 NGOs have joined the Sawit Watch network, including WALHI (Friends of the Earth Indonesia), INFID, Telapak, Bioforum, ELSAM, KpSHK, LATIN, Tanah Merdeka Foundation, IDR, LBBT, Citra Mandiri Foundation, Plasma Foundation, etc.

Currently, Sawit Watch focuses its work on large-scale oil palm plantation regions, including Aceh, North Sumatra, Riau, West Sumatra, Jambi, South Sumatra, Bengkulu, Lampung, West Kalimantan, South Kalimantan, Central Kalimantan, East Kalimantan, South Sulawesi, Central Sulawesi, Southeast Sulawesi and Papua.

The campaign of Sawit Watch is directed at halting the expansion of large-scale oil palm plantations in Indonesia by undertaking the following activities:

- Monitoring the support of international financial institutions to the oil palm sector;
- Policy research;
- Investigation of environmental and social problems;
- Raising public awareness by dissemination of information;
- Facilitating the lobby activities of representatives of affected communities <9>

NGO-banks talks

In the summer of 2000, Greenpeace Netherlands and Milieudefensie (Friends of the Earth Netherlands) addressed the environmental and social problems related to palm-oil production to the Dutch banks. These problems were amply described in the report *Funding Forest Destruction*, which also analyzed the involvement of the major Dutch banks in financing the Indonesian oilpalm plantation companies. In a letter the NGOs asked the banks to subscribe to a set of conditions for investments in oil-palm production:

No deforestation for new plantations

No burning for new plantations

Respect the rights and wishes of local communities in order to avoid social conflicts

No violation of Indonesian law

If these conditions can not be fulfilled, the NGOs ask the banks not to invest in oil-palm plantation companies. <10>

Early 2001, Greenpeace Netherlands and Milieudefensie (Friends of the Earth Netherlands) entered into a first round of negotiations with all major Dutch banks: Rabobank, ING Bank, ABN AMRO Bank and Fortis Bank. The banks acknowledge there are problems in the sector and have committed themselves to approach their Asian counterparts and their clients about the concerns raised. But at the other hand the banks try to play down their involvement, by stating their individual role in financing the sector as a whole is only limited. This of course is a direct result of bankers' normal risk spreading strategies to finance projects in consortia, and stresses the need to call other international banks to account as well. Nevertheless, individual banks do sometimes play a crucial role on a company level.

To emphasise the need for action, Friends of the Earth distributed 250,000 postcards last February, enabling account holders to call upon their banks to stop investing in environmentally damaging plantation projects.

Meanwhile, it makes good sense for NGOs in other countries, especially those with key financial centres such as the UK, Germany, Switzerland, France and the USA, to engage their banks in similar processes.

Conclusion

The international banking sector has played an important role in the recent expansion of Indonesia's oil palm sub-sector. Poor due diligence practises have led to rampant environmental havoc and social conflict. These impacts are likely to aggravate, unless the international finance community begins to apply meaningful criteria when decisions are made about the projects and companies that will be funded. All major Dutch banks have expressed the need to work towards such approaches. The greatest challenge they will face is the actual application of appropriate policies and criteria to the projects that have already been funded, or those which are under consideration.

Update June 2001: Talks with NGOs

At a meeting co-organised by the Association of Dutch Banks (NVB) at the Greenpeace office in Amsterdam last January, the Dutch banks involved in financing oil palm companies in Indonesia requested the NGOs to list specific cases of environmental concerns related to their clients as described in the report *Funding Forest Destruction*. These specific cases will be discussed in separate meetings with each of the banks involved.

In April 2001, Friends of the Earth Netherlands decided to publicly release the case study "PT Matrasawit: Relations between ING Bank, Rabobank and ABN AMRO Bank and forest destruction and poverty in East Kalimantan, Indonesia". The report shows that the investments of the three Dutch banks involved are ultimately related to primary forest conversion, forest fires, illegal operations and

social conflicts. The report triggered Parliamentary questions to the Ministries of Housing, Spatial Planning and Environment, Economic Affairs, Finance and Development Co-operation. Rabobank released a press statement to air its discontent with Friends of the Earth. The bank's spokesman denied that it's client was involved in forest destruction and illegal operations because it is 'very difficult to confirm due to the inaccessibility of the area'.

Notes

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