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Oil Palm Growers Exposed to USD 0.4-5.9B in Social Compensation Risk

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Oil palm plantation development and its effects on land clearing has likely impacted areas of critical value to local communities. While palm growers have made progress in quantifying and compensating loss for areas with environmental value, they have made less headway regarding compensation for clearing of land with social and cultural values. If palm growers cannot effectively mitigate these risks and compensate for the losses, complaints and conflicts with local communities are likely to ensue. In Indonesia, evidence shows that growers experience substantial operational, stranded land, and market access risks from social conflicts.

Key Findings:

- **Palm oil expansion can result in significant loss of social and cultural values.** Palm oil is the largest contributor to agrarian conflicts in Indonesia, with 204,135 hectares (ha) affected in 2018, or 1.4 percent of the total oil palm area. Communities point to examples of loss of livelihoods, pollution, drying out or flooding of water streams, and destruction of holy areas from oil palm expansion.
- **Buyers' NDPE policies and compensation schemes fall short of adequately mitigating social and cultural loss.** There are three reasons for the shortfall: 1) Identification and compensation of intangible social values is complex; 2) Growers often do not follow procedures of existing social compensation schemes; and 3) Pressure to formally compensate for social loss is minimal.
- **Lack of mitigation can result in complaints and conflicts, leading to operational, stranded land, and market access risks.** Growers experience considerable operational risks and costs from violent community conflicts. A Daemeter study estimated tangible costs of five company-community conflicts in Sumatra and Kalimantan ranged from USD 70,000 to USD 2.7 million, while intangible costs might have reached USD 9 million per case.
- **The hidden risk of social conflict in the Indonesian palm oil industry is projected at USD 0.4-5.9B.** The estimated 2018 costs of social conflict increased by 114 percent compared to 2017. With global demand for palm oil rising conflicts caused by oil palm plantation expansion will likely continue.

Loss of social and cultural values: An overlooked impact of palm oil expansion

The plantation industry, particularly oil palm plantations, contributed to the highest number of agrarian conflict cases in Indonesia in 2017 and 2018. Between January 2017 and December 2018, the monitoring agency of land conflicts in Indonesia, Konsorsium Pembaruan Agraria (KPA), recorded [1,069 agrarian conflicts](#) (Figure 1). Agrarian conflict refers to conflicts between “smallholders” (peasant, rural community) or landless laborers vis a vis “big holders” (private/state companies, state-actors). These conflicts affected 740,324 families and covered a total area of more than 1.3 m ha. Palm oil was the most significant contributor to conflicts, with a total of 23 percent oil palm area under dispute (Figure 1). The recorded conflict-affected oil palm area of 204,135 ha in 2018 constituted 1.4 percent of the estimated total palm planted area in Indonesia of [14.3 m](#) ha.

Figure 1: Scale of agrarian conflicts in Indonesia linked to oil palm

Period	Agrarian conflicts	Affected area (ha)	Affected families	Of which in plantation industry		Of which related to oil palm
				Agrarian conflicts	Affected area (ha)	Affected area (ha)
2017	659	520,492	652,738	208 (32 %)	194,453	95,565 (49%)
2018	410	807,177	87,586	144 (35%)	591,640	204,135 (35%)
Total (Jan 2017- Dec 2018)	1,069	1,327,669	740,324	352 (33%)	786,093	299,700 (38%)

Source: Konsorsium Pembaruan Agraria (KPA), 2019. Presentation at [2019 Asia Land Forum](#) & Chapter on Indonesia in the [report](#) ‘In defense of land rights’, 2019. Unclear from the data if and to what extent conflicts from 2017 were still active in 2018, therefore double-counting may be involved.

Despite changes in Indonesia’s land policy, conflicts caused by oil palm plantation expansion will likely continue. Indonesian government policies, including a forest and peatland-clearing ban first issued in 2011, initially had an [effect](#) in decelerating the expansion of palm oil concessions. Nevertheless, environmental activists labeled the ban as “propaganda” and pointed to several [loopholes](#) in the moratorium. Moreover, the leading certification body on sustainable sourcing, the Roundtable on Sustainable Palm Oil (RSPO), recently [questioned](#) the effectiveness of the [three-year moratorium](#), begun in 2018, on new licenses for palm oil plantations. With global demand for palm oil rising, large-scale oil palm plantations may expand. Projections point to a worldwide growth from current levels of 51 million metric tons demand for palm oil to [120-156 million metric tons](#) in 2050.

Exploitation of loopholes and the [lack of sanctions](#), such as on existing licenses that have been issued in violation of procedures, continuously prompt grievances over land. Conflicts between local communities and private enterprises are widespread, totaling nearly 50 percent ([453 cases](#)) of 937 agrarian conflicts recorded between January 2017 and August 2018. The other half involves conflicts between Indonesia’s government and local communities, along with conflicts between communities. The [conflicts](#) between oil palm companies and rural communities “generally have lengthy, complex trajectories that often end in stalemates, causing considerable economic damage and human suffering.”

With oil palm estates expanding in customary lands, local communities living in these areas report losing areas of critical social and cultural value. While exact data is not available on the size and scale of social loss, [Forest Peoples Programme](#) (FPP) and [Sawit Watch](#) have documented numerous examples. These [include](#), but are not limited to, loss of livelihoods, health issues from pollution, flooding or drying out of water streams, and destruction of a graveyard.

Buyers' NDPE policies and compensation schemes fall short of adequately mitigating social loss

Plantation development in Indonesia requires several mandatory social and environmental impact assessments that need to be in line with Indonesian law and/or certification schemes. They include the Environmental Impact Assessment (EIA, locally known as [AMDAL](#)), Social and Environment Impact Analysis (SEIA), and the High Conservation Value ([HCV](#)) Assessment. Several agricultural commodity certification schemes, such as the Forest Stewardship Council (FSC), the RSPO, and Rainforest Alliance (RA), require an HCV assessment. In addition, financial institutions increasingly require HCV assessments as part of their [investment due diligence](#) process. Finally, the HCV approach plays a [central role](#) in the guidelines for zero-deforestation developed by the Consumer Goods Forum, whose members include over 400 of the world's largest consumer goods companies.

In addition, major palm oil companies have increasingly adopted No Deforestation, No Peatland, No Exploitation (NDPE) policies to prevent deforestation, and social exploitation. Next to the protection of human and labor rights of workers and local communities, "No Exploitation" may [cover](#) a range of social issues. Wilmar International's [NDPE policy](#), for instance, includes the facilitation of smallholder inclusion into the supply chain; respect for land tenure rights; communities' free, prior and informed consent (FPIC) to operations on their lands; and resolving complaints and conflicts through an open, transparent and consultative process. Currently, there is no [standardization](#) of which social issues exactly fall under the "No Exploitation" part of NDPE policies. Therefore, the scope and strength of these policies may vary depending on how much weight each palm oil company places on social issues.

Identification and compensation of social and cultural impacts on surrounding communities of oil palm plantations are most pronounced in HCV assessments. While national EIA and SEIA legislation and labor laws partly cover land and labor issues, the [HCV approach](#) encompasses protection and compensation of broader social values. For instance, under RSPO's [2018 Principles & Criteria](#) (Principle 7.12), an HCV assessment must precede any land clearing after November 15, 2018. HCVs 4-6 particularly focus on the prevention of loss of social and cultural issues (Figure 2). Pre-emptive compensation for agreed land acquisitions, cash or in-kind, may be part of that assessment.

Consequently, 32 palm oil growers and 201 palm oil mills in Indonesia currently [certified under the RSPO](#) must comply with social (RSPO) requirements related to resource extraction including community engagement and their FPIC. These growers and mills represent 7.8 million metric tons of certified palm oil and 19 percent of Indonesia's total palm oil production of [41.5 million metric tons](#) in 2018/19.

Apart from pre-emptive compensation, growers must also restore and compensate for HCV loss that occurred in the past. For instance, under RSPO's [2018 Principles & Criteria](#) (Principle 7.12.8) for production of sustainable palm oil, certified palm oil growers must provide remedy and compensation to local communities for the loss of past social and cultural HCVs 4-6 (Figure 2).

Figure 2: Social and cultural HCVs and possible remediation and compensation

	HCV4: Ecosystem Services	HCV5: Community Needs	HCV6: Cultural Values
Definition	Areas and ecosystem services that provide protection, support and regulation of communities	Areas and goods that provide for basic community needs and livelihoods of communities	Areas and values that are critical to the cultural identity of local communities
Examples	Protection against landslides, provision of regular water supply, water catchments, riparian buffers	Food from hunting, fish, livestock products, food from agriculture, non-forest products (honey, rubber, fruit, medicinal plants, nuts)	Graveyards, sacred forests/mountains/river, medicinal gardens, ritual performance sites, monument
Indicators of loss	Pollution, decline in surface water quality, soil erosion, drained peatland, loss of access to clean drinking water	Less goods available for hunting/fishing/collecting, loss of access to productive lands or grazing areas	Destruction of holy/religious sites or cultural sites
Remediation and compensation	Supply of piped water to affected communities, drainage	Provision of (alternative) business opportunities to local communities	Heritage fund for language and cultural preservation, erection of a monument, compensation sum

Source: Compilation by CRR, based on several sources: [HCV Resource Network \(HCVRN\)](#), [RSPO Guidance on HCV Identification](#), [RSPO Remediation and Compensation Procedure](#)

While Indonesian palm growers have made progress in quantifying and compensating the loss of areas with environmental value, they have failed to effectively mitigate social loss. While NDPE policies have been key in addressing deforestation, eliminating social exploitation as part of NDPE implementation has been less advanced and [effective](#). The delay in eliminating exploitation is related to the voluntary nature of NDPE policies and the varying scope and strength of each company’s policy.

Moreover, the quality and effectiveness of the social impact assessments have been [questioned](#) following numerous land disputes and social conflicts related to Indonesian palm plantation development. For instance, land development began before the assessment was completed, assessors were considered to be biased, powerful local actors blocked the participation of local residents, and management and monitoring plans have been weak.

CRR recognizes three reasons for the overall inadequate compensation of social loss:

1. Identification and compensation of intangible social values is complex;
2. Growers often do not follow procedures of existing social compensation schemes;
3. There is little stakeholder pressure to compensate for social loss.

Identification and compensation of intangible social values is complicated

Growers and assessors lack in-house expertise to identify, manage, and monitor social and cultural loss. Generally, growers hire independent assessors to perform impact assessments. But assessors experience difficulties and lack expertise in performing social impact assessments. Some [challenges](#) involve the inconsistent application of HCV definitions, differences in interpretation of HCV values, poor quality of the assessors, the absence of stakeholder consultations, and the lack of an independent peer review. Consequently, RSPO’s New Planting Procedure (NPP) has set a requirement for all HCV assessments to be conducted by an HCV assessor licensed by the HCV Resource Network’s (HCVRN) [Assessor Licensing Scheme \(ALS\)](#). Next to the identification of social HCV loss, growers have [indicated](#) that they are less informed on how social HCVs should be managed and monitored.

If properly identified, compensating for intangible values is complex. While compensation of environmental loss can be quantified and monetized ("[dollar for hectare](#)"), social loss is less tangible and not easily mitigated. Currently, HCV management plans often mainly emphasize the most tangible HCV4 (ecosystem services) that relate to physical areas such as riparian buffers or wetlands. A 2017 [survey](#) of 16 palm oil producing companies certified under RSPO revealed that none mentioned management activities specific to HCV5 (basic community needs). Furthermore, only a few referred to HCV6 (sacred sites), but without identifying specific management activities. Communities say that sacred 'sites' as a term insufficiently covers the sacred character of whole mountains, forests, or even landscapes.

It may prove difficult to attribute social loss to one palm grower. Apart from oil palm plantations, other industrial activities such as [mining](#), logging, and road infrastructure can cause social and cultural HCV loss. Moreover, other palm growers or communities may contribute to social loss in adjacent concession areas. For instance, pollution in water streams may originate in other concession areas, or in other communities, villages, or families in the vicinity.

To further complicate matters, it is challenging to verify the validity of community claims. For instance, Nanga Kesange community members in Indonesia have [alleged](#) oil palm grower PT Sumber Hasil Prima & PT Sinar Sawit Andalan, a subsidiary of Goodhope Asia Holdings Ltd., of water contamination in rivers used for drinking water and bathing. RSPO's [publicly](#) available complaint documents for this case show the complexity of adjudicating social issues, with [multiple claims](#) and [counterclaims](#). It ultimately took 5.5 years before the complaint was closed.

Growers often do not follow procedures of existing social compensation schemes

Numerous oil palm growers have failed to obtain the FPIC of local communities as part of their NDPE policy and social assessments. Failures in obtaining FPIC is the most prevalent type of RSPO [complaint](#). Civil society and human rights organizations claim that if palm growers follow FPIC procedures that forbid the development of land without consent, social conflicts resulting from loss would less likely occur. But Indonesia's [1,069 agrarian conflicts](#) in 2017-2018, with oil palm expansion as the most significant contributor, reveal a different story. [Communities](#), their [representing agencies](#), and [the RSPO's complaint tracker](#) point to the following numerous issues: companies not consulting with communities; a lack of participatory mapping; the nonexistence of concession boundaries; no identification of communities' livelihoods in the permit area at the time of clearance; deficient community involvement in HCV identification; communities' non-awareness of the existence of a social dimension of the assessment; or a general deficiency of any social impact assessment before land clearing.

Community HCV management and monitoring (M&M) procedures seemingly fall short. A [study](#) on HCV M&M in RSPO-certified oil palm plantations concludes that community involvement in M&M of HCV areas is deficient. [Communities](#) point to a lack of regular and joint management and surveillance of HCVs and social impacts in their area. Moreover, if present, the M&M is conducted without the participation of local communities, which may also relate to communities' limited capacity to be part of an M&M system.

Growers say that existing procedures can be cumbersome, and they can resolve compensation matters outside existing schemes and/or as part of their NDPE compliance. Reasons for growers to not follow existing procedures of social assessments and compensation schemes are diverse. For example, growers often [experience](#) company-community engagement as one of the most challenging aspects of HCV M&M. They largely [rely on](#) external consultants conducting social assessments and community consultation. Moreover, the business case for protecting HCVs are not always [obvious](#) to senior management staff. Staff may lack information on the [costs of social conflict](#) resulting from HCV

loss to inform decisions related to investments and operations. Furthermore, since existing compensation schemes are often characterized by lengthy procedures, growers sometimes resolve compensation matters outside of schemes.

Stakeholder pressure to compensate for social loss is limited

Voluntary NDPE policies and social compensation schemes generally lack legal enforcement mechanisms. Apart from RSPO's Remediation and Compensation Procedure ([RaCP](#)), no formalized, mandatory laws monitor and enforce compensation of loss of social and cultural HCVs. National interpretations of HCVs (e.g. [Indonesia](#)) rarely report on any compensation and remediation, let alone on the compensation of social and cultural loss. Moreover, while compensation for *past* social loss is mandatory under RSPO's compensation procedure, *current* social loss is covered under voluntary grievance mechanisms.

Social remediation and compensation measures largely remain anecdotal. Without any formalized compensation procedures, companies may mitigate social loss through one-off [compensation projects](#). The projects may fall under their corporate social responsibility (CSR) programs. Moreover, [RSPO's complaints system](#) may settle any form of ad-hoc compensation, largely involving financial compensation sums, but no social remediation, i.e. alternative livelihood opportunities.

Growers' inability to mitigate and compensate for social loss may result in complaints and conflicts

Company-community conflicts in the palm oil sector often derive from disappointment over compensation or broken promises. While many social conflicts have multiple drivers, an important [factor of social conflict](#) is dissatisfaction with company compensation (payment) of land that can no longer be used (links to HCV5). Sixty-seven percent of social conflicts experienced by 174 oil palm companies in West, Central, and East Kalimantan were reportedly related to land disputes. Nearly one-third (47 cases) related to inadequate compensation for land use and loss. The second most common cause of conflict was linked to smallholder oil palm schemes that were not developed according to what was promised, or they were not developed at all, representing [24 percent](#) of the 174 cases. Other conflicts mainly arise as a result of misalignment of expectations and unfulfilled commitments regarding community development. For instance, job opportunities often [do not materialize](#), as lower-cost workers are hired from abroad. Furthermore, compensation payments are at times [not paid](#), and prosperity [never materializes](#).

Insensitive compensation procedures and payments may provoke conflicts between communities. Compensation at times brings about harmful impacts if applied without sensitivity to local contexts. Fractures in communities may occur when interests in land development between community members [differ](#). For instance, this situation may occur when part of the community accepts a compensation package while others reject it. Moreover, selective consultation in the negotiations over compensation may deepen existing inequalities, such as when women are [excluded](#) from the negotiation processes. This issue also applies when village chiefs fail to represent the view of the wider community and instead secure most of the benefits for plantation development. Considering the central role compensation payments play in many conflicts, they require [specific attention](#) to avoid dissatisfaction and conflict within a community. For instance, after PT Kayong Agro Lestari (PT KAL) paid a compensation sum to Kuala Tolak Village for specific land use, the main recipient [reportedly](#) did not hand over the money to the affected parties.

Grievances from inadequate compensation more often lead to formal complaints as communities are better linked to and backed by non-governmental organizations (NGOs). Rural communities can

bring their grievances to [three main types of mechanisms](#): Indonesia’s legal system, [RSPO’s dispute settlement facility](#), and more informal third-party mediation. For the majority of RSPO’s dispute cases, and for informal third-party mediation, Indonesian and international environmental, human rights and labor organizations represent affected Indonesian communities. They [include](#) Sawit Watch, Greenpeace, the Environmental Investment Agency (EIA), FPP, Link-AR Borneo, the Rainforest Action Network (RAN), the Indonesian Labour Rights Association (OPPUK), and International Labour Rights Forum (ILRF), and other local organizations. Complaints can also be filed under the Forest Stewardship Council (FSC) system and companies’ NDPE grievance systems. Improved communication and social media access [offer](#) “even isolated communities greater means to draw attention to their situation.”

Wilmar, GAR and Bumitama most exposed to complaints and costs from social conflict

Wilmar International, Golden-Agri Resources, and Bumitama Agri have seen the most formal RSPO complaints linked to social issues. Out of the [74 compliant cases filed](#) by RSPO over the last ten years in Indonesia, 22 are currently active. The years 2017 and 2018 marked the highest number of complaints filed, with respectively 11 and 14 new and re-opened complaints. The top three palm oil companies operating in Indonesia that have received most formal RSPO complaints in the last ten years are Wilmar International (15 percent), Golden Agri-Resources (GAR) (12 percent), and Bumitama Agri (9 percent). Considering only the 22 active cases, Golden Agri-Resources (5 cases), PT Pertamina – Persero (4 cases), Wilmar International (3 cases), and Bumitama (2 cases) are leading the list (Figure 3).

Figure 3: Active social complaints received by RSPO’s palm oil members in Indonesia

Parent company	No of active complaints	Subsidiaries with active complaints	Year(s)	Complaints relate to
Golden Agri-Resources	5	PT Kartika Prima Cipta; PT Agro Lestari Mandiri; Golden Agri-Resources; PT Smart TBK (2x)	2014, 2018, 2019	Not respecting FPIC, labor issues, illegal clearing by ‘shadow companies’
PT Perkebunan Nusantara	4	PT Perkebunan Nusantara IV (3x) and VI	2019	Labor issues
Wilmar International	3	PT Primatama Mulia Jaya Plantation; PT Permata Hijau Pasaman; PT AMP Plantation - AMP Palm Oil Mill	2018	Not respecting FPIC, smallholder scheme insufficiently developed
Bumitama Agri	2	PT Hati Prima Agro; PT Bumitama Gunajaya Abadi	2012, 2016	Smallholder scheme insufficiently developed; permit & license validity and legality
Cargill Inc.	1	PT Harapan Sawit Lestari	2018	Not respecting FPIC
Goodhope Asia Holdings Ltd	1	PT Nabire Baru	2017	Insufficient quality HCV assessment
M.P. Evans Group PLC	1	PT. Prima Mitrajaya Mandiri	2017	Labor issues
Noble Plantations Pte Ltd	1	PT Pusaka Agro Lestari	2017	Insufficient quality HCV assessment, risk of clearing primary forest
HSA group	1	Pacific Inter-Link Sdn Bhd, Pacific Oils & Fats Industries Sdn Bhd, PT. Pacific Indopalm Industries, PT. Pacific Medan Industri, PT. Pacific Palmindo Industri	2018	Violation of RSPO’s code of conduct – alleged ownership of four plantation companies in Papua
Musim Mas	1	PT Berkat Sawit Sejati	2019	Land use in wildlife reserve

Sime Darby	1	PT Mitra Austral Sejahtera	2012	Violations of indigenous land rights
Socfin	1	PT Socfin Indonesia	2019	Not respecting FPIC

Source: [RSPO Case Tracker](#) on Indonesia in November 2019

Long-running social conflict cases involve considerable costs and may cause palm companies to divest from subsidiaries. For example, Sime Darby has recently [confirmed](#) its sale of 100 percent of its interest in PT Mitra Austral Sejahtera (PT MAS) after the asset's loss of around RM 300 million (USD 72 m) linked to violations of indigenous land rights. The long-running dispute since 2012 between PT MAS and several communities in Indonesia's West-Kalimantan province [involve](#) grievances related to grabbing of traditional land and conversion to oil palm plantations without FPIC. The long-standing conflict over the [IOI Pelita Plantation](#) (subsidiary of IOI Corporation Berhad) concession in Sarawak (Malaysia) is also notable, as it has been ongoing since 2010 and is the longest-running RSPO complaint process related to social loss from land grabbing.

Southeast Asian palm oil companies that ventured into Africa experienced similar delays and costs from social conflict. Ambitious expansion projects by Sime Darby, Golden-Agri Resources (GAR), and Kuala Lumpur Kepong (KLK) have mostly [failed or significantly slowed](#) amid community protests. Sime Darby, for instance, aims to [divest](#) from Liberia by the end of 2019, following community claims on land aimed for expansion. The projects have been expensive for the companies involved and have received substantial international media attention, forcing companies to revise their development plans.

Growers exposed to operational, stranded land, and market access risks from social conflict

Growers experience considerable operational risks and costs from community conflicts that have turned violent. Tangible costs of social conflicts across five plantations in Sumatra and Kalimantan are estimated by Daemeter in 2016 at [USD 70,000 to USD 2.7 million](#) per case (Figure 4). Conflict predominantly came about in the form of procedures (e.g. formal complaints), physical protests (e.g. strikes, blockades), violence and damage of property (e.g. the damage of crops), or violence against people (e.g. against company staff). The largest direct costs derive from [lost revenues](#) due to "delays in plantation development, stoppage of plantation maintenance and production, and stoppage of mill operations."

Addressing complaints diverts growers' financial and human resources away from core business. The second-largest category of tangible costs is time allocated by company staff to respond to formal complaints and conflicts. Staff costs accounted for [13 percent](#) of the cost of social conflict across five plantations in Indonesia.

Moreover, intangible costs from social conflict can be substantial. The same study on five undisclosed palm grower-community social conflicts in Indonesia showed that "hidden" or intangible costs varied from [USD 0.6 million to USD 9 million](#) per case. Figure 4 shows intangible costs for each conflict case, with probability scenarios included in the "weighted average." The scenarios include the risk of recurrence or escalation of conflict, reputational loss, and the risk of violence to property or people. Reputational loss was quantified in the [study](#) "by considering that the company will be categorized as higher risk and therefore borrow capital at a higher rate of interest."

Figure 4: Tangible and intangible costs of social conflict in five plantations in Sumatra and Kalimantan

Company plantation*	Total area in dispute (ha)	Time frame (yearly)	Total tangible costs** (USD)	Total tangible costs/ha/year (USD)	Total intangible costs*** (USD; weighted avg.)
PT A	400	.25	117,873	295	6,764,587
PT B	300	9	613,972	227	5,640,864
PT C	9,000	1	2,682,151	298	7,487,940
PT D	90	5	110,345	245	5,640,864
PT E	60	3	70,886	394	5,640,864
Total	9,850		3,595,227		31,175,119

Source: *Daemeter, UKAid, IBCSD, Kadin Indonesia, 2016*

* Undisclosed company names; **Tangible costs include staff costs, production lost, legal costs, compensation, and profit/income loss;

***Intangible costs include the cost of conflict recurrence (or escalation), cost of reputational loss, and cost of violence. The study weighted the likelihood of intangible costs. The study also concludes that tangible costs of conflict are closely linked to number of hectares affected.

In addition, growers will likely face stranded land risks. Projected land developments may never be realized as a result of community objections to oil palm expansion. [CRR](#) recently found that 28 percent of Indonesia’s palm oil land bank is currently stranded. Against this backdrop, the economic viability of oil palm development on forested land has significantly diminished.

Finally, palm growers may experience market access risks from complaints and social conflict. For instance, NDPE traders [suspended](#) relations with FSC certificate holder Korindo Group, a private Indonesian palm oil, rubber, and timber company, after complaints of destruction of HCVs and social loss. After a formal complaint by Mighty Earth in 2017, the FSC’s Complaints Panel [concluded](#) that Korindo Group violated FSC’s policy through the destruction of HCVs by deforestation and fires, mainly social HCV 4, in its PT PAL and PT GMM concession areas. Moreover, the company violated traditional and human rights by withholding information necessary to local communities to make informed decisions. NDPE traders Wilmar, Musim Mas, Bunge Lodders Croklaan, and Nestlé publicly committed to [suspending](#) Korindo from their supply chains.

Similarly, Indofood’s withdrawal from RSPO in 2019 and suspension of its subsidiaries for not complying to RSPO guidelines is another fallout from recent and past accusations of the company. Over the past few years, the company has lost access to [several buyers](#). Nestlé, Hershey’s, Kellogg’s, General Mills, Unilever, and Mars severed relationships with Indofood, as have traders Musim Mas, AAK, and Cargill, among others. Indofood lost [10 percent](#) of its net revenues and 60 percent of its market capitalization in 2017-2018 after the suspensions by several buyers.

Hidden financial risk of at least USD 355 million for social conflict in the palm oil industry

The hidden risk of social conflict in the Indonesian palm oil industry is projected at USD 0.4-5.9B. Oil palm growers that fail to mitigate the loss of social and cultural values run the risk of social conflict. This failure may materialize into substantial financial risks. A conservative estimate by KPA says that the 2018 conflict area related to Indonesian oil palm plantations totaled 204,135 ha. With average tangible and intangible costs per ha of social conflict area varying between USD 3,530 and USD 28,941 (Figure 5), the total cost for 2018 was between USD 720 million and USD 5.9B.

An alternative projection based on the number of cases instead of the number of ha comes out at USD 355-450 m. This calculation is based on an intangible cost range of USD 5.6 million to USD 7.5 million per conflict and tangible costs of USD 365 per year per ha. This assumes that out of the 144 agrarian conflicts, 50 occur in palm plantations. These numbers represent only a small sample size as they are averages based on only five undisclosed company-community conflicts involving 9,850 ha of disputed area in Indonesia.

The USD 720 million-USD 5.9B cost range for 2018 represents a 114 percent increase compared to 2017 (USD 337 million – USD 2.8B) when 95,565 ha were under dispute. These numbers are likely conservative as not all social conflicts are recorded due to [fear of repercussions](#).

Figure 5: Average tangible, intangible, and overall costs per ha of social conflict

Company plantation*	Total area in dispute (ha)	Total tangible costs (USD)	Total intangible costs (USD, weighted avg.)	Average tangible costs per ha (USD)	Average intangible costs per ha (USD)	Average total costs per ha (USD)
PT A, B, C, D, E	9,850	3,595,227	31,175,119	365	3,165	3,530
PT A, B, D, E	850	913,076	23,687,179	1,074	27,867	28,941

Source: Derived from [Daemeter](#), [UKAid](#), [Ibcsd](#), [Kadin Indonesia](#), 2016

* CRR presents costs per ha per company with and without the outlier of 9,000 ha under dispute of company PT C

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