
Financialized capital and palm oil corporations

The surging global demand for palm oil has produced windfall profits for the industry and turned oil palm plantations into hot targets for investment by banks, pension funds and other financiers looking to cash in on the palm oil boom. Wealthy business magnates control most of the biggest groups in the palm oil sector, especially in Asia. However, investment in debts, underwriting shares (whereby shares are bought by an investor for an agreed price and re-sold to the public at a mark-up, bearing all the associated costs) and bonds are facilitating these multinationals to expand their plantations and power. Yet, oil palm plantations continue to be a cause of deforestation. They are connected with forest and peatland fires, pollution from the intense use of agrochemicals as well as being imposed on local communities and indigenous peoples, whose livelihoods and territories these plantations destroy.

Financing tycoons for further expansion in Indonesia

Research by the NGO GRAIN revealed that in Indonesia alone, US\$12.5 billion is estimated to have been invested in oil palm expansion between 2000 and 2008. Much of this money comes from Singapore, where Indonesian tycoons parked their ill-gotten fortunes to protect them from the clampdown that occurred after the collapse of the Suharto dictatorship. These tycoons (meaning “great lords” in Japanese) are now using this money and their old political influence to build up plantation empires throughout Indonesia and in other countries, such as the Philippines and Liberia.

The NGO’s TUK Indonesia and Profundo also released a report in February 2015 analysing the owners and financiers of 25 corporate business groups active in the Indonesian palm oil sector. The businesses included in this report are involved in a large part of the existing plantations and the companies are developing very sizeable land banks – areas held for future development into new plantations. The study shows that even though 21 out of the 25 companies investigated are listed on a stock exchange, tycoons have invariably the largest shareholding – giving them the ability to control the management and strategy of the company. However, being listed on a stock exchange means that the companies have attracted capital – and continue to do so – by issuing shares to private and institutional investors. Some companies also issue bonds and all have access to bank loans.

The banks and investors involved enable the tycoons to invest more capital than they would be able otherwise, thereby accelerating the growth of the tycoon-controlled groups. Consequently, while the tycoons control the expansion process of the oil palm sector in Indonesia, the funds of banks and external investors offer them a way to accelerate their expansion. The same study shows how banks have helped the 25 tycoon-controlled groups to attract considerable amounts of capital in the last five years, through loans and by underwriting shares and bonds sold to investors by the companies. The most important banks giving loans to these groups have been HSBC (United Kingdom), OCBC (Singapore) and CIMB (Malaysia). Meanwhile, the most important banks which have underwritten issuances to these groups in the past five years were RHB (Malaysia), Morgan Stanley (United States) and Goldman Sachs (United States).

The most important tycoon-controlled groups – in terms of area planted – are Sinar Mas Group, Salim Group, Jardine Matheson Group, Wilmar Group and Surya Dumai Group. However, the study also highlights that the 25 tycoon-controlled groups still have at least 2.0 million hectares of land banks under their control, additional to the 3.1 million hectares that have already been planted. West Kalimantan, Central Kalimantan, Riau and East Kalimantan are the provinces with the largest tycoon-controlled land banks. Consequently, in terms of their unplanted land banks in Indonesia, the most important tycoon-controlled groups are Sinas Mar Group, Triputra Group, Musim Mas Group, Surya Dumai Group and Jardine Matheson Group.

Oil palm plantations are also a desired investment of Malaysian companies with close connections to the ruling elites. The forestry companies linked to the ex-Chief Minister of the Malaysian state of Sarawak are particularly active in building up land banks for oil palm plantations in Borneo, Papua and Africa. Meanwhile in Colombia and Honduras, paramilitary groups and drug barons are deeply intertwined with oil palm expansion.

Moreover, according to GRAIN, some of the largest palm oil companies have recently turned to public offerings on stock markets to raise money from the financial management companies and institutional investors eager to get a piece of the palm oil boom. In 2012, Felda, the Malaysian state-owned palm oil company, restructured and went partially public, raising US\$3.3 billion in what was the third largest share offering in the world that year. The share sale left Felda with the huge amount of US\$2 billion in cash that the company has since been using to acquire lands for oil palm and rubber plantations outside of Malaysia.

That same year, one of the largest oil palm plantation companies in Indonesia also made an initial public offering. Bumitama Agri, controlled by Indonesian billionaire Lim Hariyanto Wijaya Sarwono, raised around US\$177 million on the Singapore Stock Exchange, as palm oil giant Wilmar and several Asian, European and US financial management companies each bought multimillion dollar stakes in the company. Bumitama said it would allocate US\$114 million from the initial public offering for the expansion and development of its existing uncultivated land bank.

Between 1980-2001, companies, most of them controlled by friends and relatives of ex-President Suharto, acquired an incredible 72 million ha of lands under forestry permits in Indonesia, while 4.1 million hectares were handed out for oil palm plantations. But between 2004-2014, the forestry permit numbers dropped to 25 million hectares, while the oil palm numbers increased to 19 million hectares. The Indonesian NGO WALHI predicts that oil palm concessions will be the main source of land concessions over the next 10 years, accounting for 26.3 million ha, in comparison with 26.2 million ha for forestry concessions.

The rapid expansion of Indonesian oil palm plantations creates serious environmental and social problems: vast amounts of forest are converted into plantations; habitats of protected species are endangered; significant greenhouse gas emissions are caused by forest and peatland destruction; and many communities lose access to their territories which are crucial for their subsistence and cultures.

*** This article is based on information from the article “Cash crop”, GRAIN, 22 September 2014, in “Planet palm oil”, <https://www.grain.org/article/categories/519-planet-palm-oil> and “Tycoon-controlled oil palm groups in Indonesia”, TUK Indonesia and Profundo, February 2015, <http://tuk.or.id/file/Summary%20of%20the%20tycoon%20study%20TuK%20INDONESIA%20.pdf>*

