
Indonesia: Government Policy on Palm Oil Development

Based on an analysis of the evolving legislation on plantations, it is possible to identify five phases in government policies for palm oil development in Indonesia. We shall call these the PIR-Trans phase (up until October 1993), the Deregulation Phase (1993-1996), the Privatisation Phase (1996-1998), the Cooperatives Phase (1998-2002) and the current Decentralization Phase (2002-2006). It should be noted, however, that these phases were neither wholly discrete nor did the initiation of a new phase imply the ending of the previously launched processes.

PIR-Trans: Before October 1993, Government efforts to establish oil palm plantations were centred on taking over forested areas on the Outer islands and allocating these areas to PTPN [State-owned plantation company] operators, which controlled both *inti* [large-scale operations on extensive areas] and *plasma* [individually operated smallholdings] holdings, supplied with a workforce and smallholders through the Transmigration programme. Laws were passed in 1986 and 1990 designed to ensure better coordination between government agencies and so speed up the process of permitting required to release forest lands for conversion. Control of forests remained centralized with regional forestry offices (*Kanwil Kehutanan*) only being authorised to release up to 100 ha. for plantations.

During this period, resident communities' customary rights in land were often not recognised. Instead indigenous peoples were inserted into the Transmigration schemes either by being resettled as Transmigrant villages made up of local people (*Translok*) or by being slipped into mixed settlements (*Transmigrasi sisipan*) comprising local people and State-sponsored migrants from Java, Madura and Bali. Most PIR-Trans schemes allocated only 2 hectares to each Transmigrant family, half of which they were expected to plant with rice and half of which was to be developed as oil palm to supply the mills established alongside the nucleus estate. Migrants complained of sub-standard housing, low prices for fresh fruit bunches of oil palm (FFB) and long delays in the payment of wages, settling debts and transferring land titles.

Deregulation Phase: In October 1993, the government passed two laws as part of a National Deregulation Policy Package. The overall aim of the policy was to give local governors greater authority to promote regional development, while seeking to ensure that private companies had a long term commitment to the areas they were investing in. Under these laws, Governors could issue permits for the conversion of forest areas up to 200 hectares, while areas over 200 hectares remained the responsibility of the Directorate General of Estate Crops in Jakarta. Private companies applying for forest conversion permits, on the other hand, were not allowed to transfer ownership of leaseholds so secured.

Privatisation Phase: The final years of the Suharto dictatorship saw a concerted drive across several sectors, including estate crops, to privatise para-statal companies, encourage private sector initiatives and facilitate foreign direct investment. A number of laws were passed designed to accelerate estate crop development in this way and ensure fair play between companies. The procedures by which companies secured permits for developing estates were clarified – a temporary, one year, start-up permit (*ijin prinsip*), which could be converted to a permanent permit (*ijin tetap*) and

to which an expansion permit could be added (*ijin perluasan*). Requirements were introduced to ensure that companies planning to convert forests first secured the consent of any logging companies with logging permits (HPH) over the same areas. A new law also clarified that forest lands cleared and planted with estate crops were to be classified in Provincial Spatial Plans as agricultural lands but with no rights to plantation permits attached.

Cooperatives Phase: The fall of the Suharto regime resulted in an era of reform (*reformasi*) which allowed politicians with alternative ideas about rural development to gain power temporarily. Efforts were made to encourage models of development that would allow local communities to benefit more directly from lands and natural resources. While a law was passed prohibiting forest conversion in protected forests (*hutan lindung*), so harmonizing local and regional spatial planning procedures, a decree was passed to allow three-year plantation permits (*ijin usaha perkebunan*) to be granted to cooperatives for areas up to 1000 hectares by provincial Governors or up to 20,000 hectares by the central Ministry of Forests and Estate Crops.

Decentralization Phase: The fall of Suharto also ushered in a period of radical political change in Indonesia, whereby far greater powers to control lands, resources and to administer regional budgets were entrusted to local governments and legislatures. Since 2002, these changes have also had some impact on the development of the palm oil sector, while still limiting local authorities to encouraging medium-scale plantations. A new law allows district level regents (*bupati*) to issue permits of up to 1000 hectares, while any areas overlapping district boundaries remain the prerogative of Provincial Governors. However, authority to issue permits of over 1000 hectares was entrusted to the Ministry of Agriculture. Moreover, responding to concerns about the rate at which forests were being cleared for plantations even though vast areas of degraded lands were available for planting, in 2005 the Government passed another law establishing a moratorium on forest conversion for estate crops.

The moratorium was introduced following the signing of a letter of intent between the Government of Indonesia and the IMF, although this did not make clear for how long the moratorium should be maintained and whether it referred to a moratorium on actual conversion of forest cover or a moratorium on changing the status of forest lands to allow planting. In February 2005, the Ministry of Forests released two contradictory circulars to the local government. One stated that the moratorium was still effective, while the other stated that in order to optimise the use of forest land for estate crops the Ministry would evaluate proposals for conversion on their merits. The same split views can be discerned in the way the Ministry has responded to the proposal to establish 1.8 m. ha. oil palm plantation in the heart of Borneo.

Excerpted from: "Promised Land: Palm Oil and Land Acquisition in Indonesia - Implications for Local Communities and Indigenous Peoples", by Forest Peoples Programme, Sawit Watch, HuMA and the World Agroforestry Centre,

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