

# ADB and Smallholders Agriculture Projects in Papua New Guinea

Briefing Paper – June 2003

*“We, the landowners are developing and will continue to develop **OUR LAND** on our own term. We therefore sternly warn all those parties involved in wanting to use **OUR LAND** for oil palm to **STAY OUT!** Any attempt to bring oil palm on our land will be strongly resisted”*

Extract from a newspaper advertisement put out by a group of landowners in PNG, February 2003

## Oil Palm in PNG

There are four major oil palm projects in PNG, situated in the provinces of West New Britain, Oro, Milne Bay and New Ireland respectively. Oil palm is now the country's largest agriculture foreign exchange earner for the country, ahead of the long-standing PNG cash crop, coffee. At present all oil palm producing provinces except New Ireland are of the Nucleus Estate model with a 'parent' palm oil company predominantly foreign owned. The West New Britain oil palm project has been singled out as the blue print of the successes of agro-industry and the champion of the Nucleus Estate Scheme model.

In many of the existing nucleus estates, their standard milling capacity is 90 tons per hour. The palm production rates have not been able to meet the milling quota of these mills thus fail to reach their profitability level and efficiency. Consequently, there is a strong push from these foreign companies to expand plantings – to increase their investment return through increased production and milling output. However expanding planting as the company's entities will not be profitable from their experience. The production cost per tonne of crude is far greater to the company than if the plantations were owned by entities other than themselves because of the high set-up, maintenance and harvesting costs associated with oil palm plantation.

Under the *Smallholders Nucleus Estates* scheme, growers are organised into Village Oil Palm (VOP) and Leaseholders. VOP are operated by landowners in their own customary lands. Leaseholders lease land from other landowners for the plantings. The company and the associated support services funded by IFIs and other donors provide seedlings, expertise, tools, fertilizers, etc... which the growers will repay through the 'selling' of palm fruits when the palm matures. Growers provide labour and bear all the cost of land clearing and all stages of the palm plantation establishment, including regular maintenance and harvesting. So the risk is on the growers as their return is heavily dependent on the world palm oil price level and the productivity of their plots. From then on growers carry the costs as well as repay the development loan plus interest.

In Oro Province, growers pay 30 per cent of the farm gate price (about USD\$35 per tonne as at February 2003) to the World Bank. This is in truth a form of organised cheap labour and quick access to PNG's customary land. And this model offers a better and more profitable alternative from the conventional large-scale plantations owned by the company.

The 'joint venture' *Smallholders Nucleus Estates* is really an 'out sourcing' exercise for palm oil companies to increase supply and profitability for their mills whilst sharing the costs and risks associated with this kind of industry with growers.

Growers do not own shares in the companies so the company does not share its profit with those who toil and labour for the company's profit.

### **Role of the Asia Development Bank**

*“The international financial institutions like oil palm projects because they are one of the most viable development projects which will guarantee loan repayments.”*

Managing Director of a foreign owned palm oil company in PNG

In November 2001, ADB approved a Technical Assistance Loan to fund a feasibility study into Nucleus Agro-Enterprises Projects for PNG. The total project is estimated at \$US 7.9 million from the following contribution scheme:

- ADB provided \$US 5.9 million. PNG to repay a total estimated \$US 7.65 million on maturity with a total of 30 percent in interest repayment. Repayments are in US currency so if the value of the PNG kina falls further against the USD, PNGeans will ended up paying much higher debt in real term. Currently, USD\$1 is about Kina \$5
- PNG government is expected to contribute \$US 1.0 million to the project, and
- The private sector and NGOs to contribute a total equivalence of \$US 0.5 million for pilot projects

Senior ADB staff denied that this would result in large-scale expansion of oil palm. However, the Government of PNG (GOPNG) had already made public announcements that the ADB feasibility study is to facilitate oil palm projects and earmark the following areas to be studied :

- Bewani and Aitape integrated oil palm projects in the Sandaun Province,
- Vailala oil palm project in the Gulf Province
- Ramu Valley oil palm project in the Ramu Plains in the Madang Province
- Sepik Plains oil palm project in East Sepik
- Open Bay oil palm project in East New Britain
- Amazon Bay integrated oil palm project in the Abau District in Central Province
- Morobe-Gulf border integrated oil palm project in the Morobe & Gulf provinces
- Arowe oil palm project in the South Eastern part of West New Britain, and
- Collingwood Bay oil Palm project in Milne Bay & Oro provinces.

Even before the commencement of this feasibility study, ADB has already hailed oil palm as the best crop for nucleus estates in PNG. It is therefore a fair assumption that even if ADB is reluctant to move into funding major expansion in oil palm as a major Agro enterprise in PNG in the future, it is highly likely that much of its fund will be spent on exploring this possibility.

Senior bureaucrats and politicians including the Prime Minster, Michael Somare described the oil palm industry as “a silent achiever and is now the leading vibrant, dynamic industry with reputable status in the country, because of its professional managers, and board of directors, who have the vision for the industry for the nation, and to make it the biggest ever industry for the country in the 21<sup>st</sup> century.” Somare has recently declared tax breaks for company interested in developing the oil palm industry in PNG. Senior Government officials have announced plans for expansion of oil palm plantations in nearly every province in PNG. This has created fear amongst informed landowners. In one province, landowners have got themselves organised

and local level government representatives were voted in on “No Oil Palm” policy. Landowners vowed to fight against any oil palm plan from the national or the provincial governments.

ADB claims that it is formally committed to following its environmental policies including the Environmental Assessment Requirements and Environmental Review Procedures. However, valuable lessons from the Samut Prakarn Waste Treatment Project in Thailand, the Pakistan Chasma Right Irrigation Project and scores of other environmentally and socially devastating ADB projects elsewhere have alerted PNG civil society of the governance failures of ADB. Besides, civil society groups there have already been battling with a notoriously weak institution of governance and widespread corruptions in PNG. Concerned PNG groups will continue to work in partnership and through solidarity links with international groups to put pressure to stop the ADB from funding oil palm expansion in PNG.

### **ADB to facilitate Poverty Reduction in PNG?**

In the project brief, ADB claims that the most effective means of poverty reduction for PNG is through a broad-based economic growth model lead by the private sector. And that it is crucial to kick start the development of Nucleus Estates to a point where they will attract financing from private sector or other donors including ADB. The private sector can then provide a market for smallholder crops, improved technology and infrastructure support. And the poverty reduction objective can be achieved by developing commercial enterprises there will create spin-off benefits for the rural poor by enabling smallholder agricultural development.

Civil society is sceptical about this approach to poverty reduction for PNG. The majority of rural communities in PNG are by no means poor. With the exception of areas degraded or polluted by large mines, agriculture or fishery projects, the customary land tenure system has enable local communities to have free and easy access to land, clean water and the abundance of natural resources for a decent quality of life. Their lifestyle is one that many people in the industrialised west and poverty stricken places in the world would cherish and aspire to.

Villagers often wish for better health care, access to education as well as roads and transportation infrastructure to expand their market of their own produce. They are weary of large-scale projects that often create poverty through environmental destruction and displacement, which subsequently bring about adverse social impacts.

### **Implications of Nucleus Agro-Enterprises Projects for PNG**

Papua New Guinea is renowned for its socio-cultural diversity, with over 8,000 autonomous tribes and some 750 languages. It is largest and most populous country in the Pacific with a land area of 462,000 km<sup>2</sup> and a population of over 5 million.

PNG's land tenure system is probably one of the most unique in the world. Over 95 percent of lands are customary owned and this is enshrined in PNG's Constitution. For the local people, land is the centre of their life. It is a source of livelihood through subsistence activities, a source of power, authority and status through ownership, and above all a source of security and identity. As such, projects such as oil palm and other agro enterprises which involved large tracts of land has many adverse impacts.

The following sections outline some of the issues identified in PNG.

## **Undermining of customary land tenure system**

Plantation projects whether they are of the conventional large-scale plantations or nucleus smallholder plots effectively changed the relationship of land and the community. Lands are communally owned and shared within and between clans in PNG. Once the land is converted into cash crop plantation plots by a particular family or families within a clan, this relationship and 'ownership' is permanently changed. This is a major concern for most landowners.

Furthermore, fertile lands, which once form the basis of subsistence for Papua New Guineans, will become far less productive once the life span of the cash crop is through. This makes it more likely for landowners to turn their customary lands into private or state ownership for other commercial exploits for small monetary payment. Civil society is concerned that oil palm and other large-scale agriculture projects is just another way the IFIs and powerful donors use to facilitate 'land mobilisation'.

Land mobilisation involves creating a centrally controlled registering of land ownership and determination of boundary of customary lands. This will effectively give the national government the power to decide on land ownership and distribution, further eroding customary system which has already been in place for over 50,000 years. Potentially, this change will facilitate easier transfer of the customary land tenure system to freehold, leasehold or to state ownership to enable easier private sector access to PNG's rich and abundant natural resources. Customary land tenure in PNG has been blamed by many donors and businesses for holding back development because exploitation of natural resources. Under the current system consent from landowners is required before any activities can take place.

However, corruptions and the almost complete breakdown of governance have facilitated unscrupulous businesses to continue to ignore this legal requirement. Uninformed landowners continued to be cheated, coerced or forced into raw deals. Civil society fears that entrusting land registration and boundary determination to the Government is effectively letting the 'lions take care of the juicy lambs'.

Despite these the World Bank, backed and supported by many powerful donors, including the Australian Government, has provided a loan in the mid 90s for a 'Land Mobilisation' project. Protest actions and widespread public outcry eventually stalled the project. Hence civil society groups remained watchful that this agenda returns in a more subtle and disguised form in the name of development and economic growth for PNG.

## **The economics of Oil Palm**

Landowners and smallholders in existing oil palm project areas are unhappy with the low return from their labour and once productive land. Many growers complained that big promises were made to coerce them into accepting oil palm as a good development project just to find themselves trapped in a situation of total dependency on the oil palm company and commodity price fluctuations. Normally growers allocate the best farmland available in their charge to oil palm.

In Oro Province, the World Bank funded oil palm project allocate 30 percent of the farm gate price to paying the World Bank loan so growers get K\$130 (USD\$35) per tonne of their harvests in times of good world price. But this can quickly plummet if world supply increases or there is a low demand for oil palm due to economic recessions in palm oil consuming countries.

This concern is real as can be illustrated by the Malaysian experience. The average price of palm oil rose from RM1,358 (USD\$350) a tonne in 1997 to RM2,378 (USD\$530) in 1998, providing a bonanza to the smallholders. The price level began to decline in 1999 (averaging RM1,459 or USD\$360), and this trend continued in 2000. By 2001, prices are at a 15-year low - the average crude palm oil price for January was RM699 (USD\$150), a drop of 71 percent compared with the average price of 1998!

In another example in the Milne Bay province, Village Oil Palm scheme producers in Milne Bay average K\$1000 (USD\$250) per annum per hectare from harvesting oil palm. Compare this with the net profit from one grown tree of K\$1,050 (USD\$260) where an average 3 cubic metre worth of rough sawn timber can be obtained. When the value of non-timber products is added to the worth of the 1-hectare forests, the opportunity costs of the area is far beyond what oil palm can offer to landowners and many of the alternatives are far more ecologically sustainable and socially more viable. In the same province landowners are offered rent in a lease-leaseback arrangement of a mere K\$20 (USD\$5) per annum per hectare. When the oil palm is no longer productive, landowners will be left with a degraded land.

### **Social Implications**

Like many large-scale projects in the guise of development, the introduction of oil palm in PNG also brought many complex and costly social problems once unknown to rural PNG. The change that comes with this kind of externally imposed project is often disruptive and it undermines existing customary system and structure which has sustain local communities as long as they remember. Some of the issues identified are :

- Often not everyone in the community is in agreement with oil palm projects. Sometimes, customary land boundaries are crossed in the establishment of oil palm plots. At other times, the company lease out lands to people from other areas for oil palm plots resulting in communal tension and misunderstandings. All these manipulation of land use is no longer based on customary process of land use and allocation resulting in discontents and anger within the community and between communities. Conflicts from land disputes are on the increase as this kind of schemes are introduced. Further downstream communities bear the blunt of waterway pollution which is another source of communal conflicts.
- From subsistence to cargo/oil palm-dependency and community disempowerment - It is unfair and patronising to classify rural PNGeans as 'rural poor' as they have access to abundance of resources as long as their land remained intact and the natural environment healthy. The natural environment form the basis of their subsistence and strong cultures and wontok system<sup>1</sup>. However, oil palm scheme will drastically undermine this strong system which has sustained PNGeans for over 50,000 years as PNGeans will increasingly lose valuable land and natural resources as oil palm project encroaching more lands.
- Rise in alcohol abuse and domestic violence. Money from palm production increased the purchasing power of growers. Often men are the key recipients of

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<sup>1</sup> System of caring and sharing in PNG. Under this system, no one will be left to starve or without a shelter as it is the obligation and responsibility of family and friends to take care of the person/s in need.

money from oil palm even though the entire family may have been involved in whole production cycle. Unfortunately, alcohol is one of the most popular items purchased by men involved in nucleus estates.

- Rise in crime rate – following are some of the reported cases associated with the West New Britain oil palm scheme :
  - 67-year-old from Maprik in East Sepik jailed for seven year for breach of trust and for indecent assault of a 13 year old girl at Kapiura oil palm estate
  - an oil palm settler at Bavussi in Hoskins jailed for attempted rape of a 12 year old girl
  - warrants issued for 4 men who failed to appear on charges of rape and carnal knowledge of a young girl at Laleki oil palm settlement in Kimbe

### **Environmental Concerns**

PNG forest is the largest intact remaining tropical rainforest in the Asia-Pacific and third largest in the World. An estimated 5 percent of the world's biodiversity is found in PNG. The estimated forested areas of PNG are about 60 per cent or 27 million hectares. Some of the environmental concerns include :

- in Oro Province, oil palm plantations have encroached upon habitat of the world's largest and endangered Queen Alexander Birdwing butterfly. This species is endemic to the plains in Oro Province. Further expansion of oil palm in Oro Province will increase the risk of extinction of this butterfly species. This is especially of concern when a previous multimillion-dollar conservation project funded by Australia here had failed to either conserve or breed the butterfly.
- In East New Britain, the Open Bay oil palm proposal will threaten one of the most spectacular cave systems on Earth – known generally as the Caves of Pomio. The massive and numerous sinkholes, intriguing underground water systems and immense and deep caves in this area are considered to be of World Heritage quality. The full extent of the Pomio cave system is still unknown but its significance to date is yet to be recognised and protected.
- Pollution of waterways - Siltation, sediment run-off and eutrophication<sup>2</sup> during construction and operations of oil palm are common. Some of the impacts include:
  - these rivers drained from inland areas where the oil palm are planted. The downstream effects of the operation affect the livelihood of the people. In PNG, rural community depend on the extensive waterways for their subsistence living – they drink, bath, wash & collect aquatic and marine resources. Villagers complained of reduced food supplies from the river and coastal region, contaminated water and skin irritation after the introduction of oil palm in their area.
  - PNG is known for its extensive and diverse coral reef and fringing reef systems. Most of these have so far remained intact. However, increasing land clearing for timber and subsequently for oil palm will increase the amount of pollutant and sedimentation entering the coastal region. Excessive nutrients run-off from the residues of fertilizers used in oil palm plantations are

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<sup>2</sup> the process by which a body of water becomes rich in dissolved nutrients, thereby encouraging the growth and decomposition of oxygen-depleting plant life and resulting in harm to other organisms. The problem occurs in freshwater lakes or shallow seas when human sewage or nitrates and phosphates from fertilizers drain into them.

corrosive to the fragile and sensitive reef systems. This inevitably contributes to the destruction of pristine reef systems and hence valuable fish breeding and spawning grounds.

- Waste pollution - oil palm processing mills are usually located close to urban centres for ease of transportation and access to infrastructures. In Popondetta in the Oro province, the entire town and surrounding area is infested with flies which is a health hazard. The stench of rotting waste from the mill can be smelt for kilometres and the smoke from the Higaturu palm oil processing mill can be felt from as far as the Managalas plateau.

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