Fact sheet on peasant farmers
Palm oil as a dead end for small farmers in Malaysia and Indonesia

Palm oil is often praised as a miracle solution for small farmers (see Box 1). But this is a myth. Some smallholder families can earn a good income thanks to the oil palm, but it is primarily private companies and governments that are benefiting from the palm oil boom and free trade in palm oil. An in-depth analysis of the context in Malaysia and Indonesia reveals considerable risks such as debt, vulnerability to world market prices, lack of competitiveness and health problems for small farmers. Palm oil is not a panacea for small farmers, often leads to land grabbing and prevents the development of sustainable alternatives.

Box 1: Small farmers - A definition[10]
In the palm oil sector there are basically three types of production: private estates, government & state schemes[11] and independent smallholders. The term small farmer implies the use of one's own labour - in contrast to the employment of employees and the purchase of machinery - and autonomy with regard to the use of one's own land. These basic requirements of smallholder production automatically limit the size of the farm. In Malaysia and Indonesia, a smallholder farm covers 4-6 hectares of oil palms along with the cultivation of other crops. In contrast to family businesses, oil palm plantations are cultivated in monoculture by private and state companies, managed by a central management team and managed by numerous employees.

The current palm oil boom is turning smallholders into losers for 10 reasons:

1. corporations and governments dominate the palm oil sector

An estimated 3 million small farmers worldwide are active in palm oil production. However, with 4 million tons of palm oil, these only account for 9% of total production.[12] Malaysia and Indonesia produce 85% of the global palm oil, with small farmers playing a marginal role. In Malaysia, private companies own 61% (3.5 million hectares) of the oil palm plantations. Only 16% (0.9 million ha) of the area where palm oil is produced belongs to independent small farmers (see Box 2). The remaining 23% (1.34 million ha) are owned by state-owned enterprises, and the dependent small farmers are only responsible for their management.[13] In Indonesia, around 40% of the area cultivated with oil palms is regarded as smallholder farms. In addition to small family farms, however, this also includes farms with areas of 25-250 ha.[14] The palm oil sector is thus dominated by corporations and governments, while small farmers generally only have the role of suppliers and workers.

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[10] Compare Rob Cramb & Jahn F. McCarthy (2018): *The Oil Palm Complex. Smallholder, Agribusiness and the State in Indonesia and Malaysia*, NUS Press: Singapore.
[11] Government and state schemes originated in course of government programs (e.g. FELDA, FELCRA, SALCRA) for landless small farmers in the 1960s. These included the establishment and building up of oil palm plantations on state-owned land. These programs were first thought as support for the small farmers but were more and more developing themselves away from small farmers plantations towards large state-owned plantations with a central management and employees. Today this type of production can be compared with the one of private oil palm companies (compare Cramb & McCarthy 2018, p. 53ff.).
[12] Nagiah & Azmi (2012): "A Review of Smallholder Oil Palm Production: Challenges and opportunities for Enhancing Sustainability – A Malaysian Perspective", in: Journal of oil Palm & The Environment, 3, p. 114.
[13] Compare Rob Cramb & John F. McCarthy (2018).
[14] Jelsma et al. (2017): "Unpacking Indonesia's independent oil palm smallholders: An actor-disaggregated approach to identifying environmental and social performance challenges", in: Land Use Policy, 69, p. 283.

2. dependent smallholders fall into the debt trap

Small farmers dependent on state-owned enterprises have to borrow money to build up the oil palm plantations on their land and to access means of production such as fertilizers and pesticides. Usually dependent small farmers make their land available to state companies for palm oil production and in return receive part of the plantation. In practice, however, promises of profit-sharing are often ignored or small farmers receive the poorer part of the plantations. In addition, it takes – if in practice, however, promises of profit-sharing are often ignored or small farmers receive the poorer part of the plantations. Furthermore, it takes - if at all - many years until small farmers can repay the debts for the establishment of the plantations to the state enterprises.[15]

3. Agricultural policy does not allow alternatives to

The number of small farmers who rely on oil palms has been growing steadily in Malaysia and Indonesia since the 1980s.[16] The decisive factor for this development is the aggressive agricultural policy of both governments, which for decades has aimed at the large-scale expansion of oil palm plantations.[17] This led to the development of a comprehensive infrastructure (palm oil mills, distribution channels, cultivation programmes) and a shift from small farms to large plantations. At the same time, state support for the cultivation of other crops (e.g. rubber, pepper, cocoa) has practically ceased.[18] Often, smallholder families can only secure their land rights by entering the palm oil sector - a phenomenon called strategic agriculture.[19] Many small farmers are thus forced to either lose their land to palm oil companies or grow their own oil palms.[20] The consequences of this agricultural policy are devastating: on the one hand, the oil palm is today the only cash crop for which it is guaranteed to find a buyer in Malaysia and Indonesia. On the other hand, small farmers without access to the palm oil infrastructure are completely neglected by the government due to their location or lack of transport facilities.[21]

Box 2: Types of small farmers[22]

Independent smallholders:

- self-determined construction of oil palms within a diversified production system
- Production without state support or agreement with palm oil company
- lower yields compared to large plantations, but an advantageous cost-benefit ratio due to low production costs (e.g. seedlings, fertilizers, pesticides)

Dependent smallholders:

- structurally dependent on state-owned companies that use land from small farmers for oil palm plantations
- state support (seedlings, fertilizers, pesticides) for the cultivation of oil palms
- Loss of autonomy, as decisions on land and farming practices are made by centrally controlled companies

Landless and former small farmers:

- Loss of land due to sale to or land grabbing by palm oil company
- Employment as agricultural workers (e.g. day labourers on large plantations)
- Dependence on wage labour or state support due to lack of subsistence base

[15] Cramb & McCarthy (2018), p. 56f.
[16] Compare Jelsma et al al. (2017).
[17] Cramb & McCarthy (2018), p. 11ff.
[18] The Malaysian government saw the establishment of large plantations as the only opportunity to integrate small farmers into the palm oil sector. This included a clear prioritisation of the private sectors over the small farmers, in which support programs for small farmers were specifically reduced. (Compare Cramb & McCarthy 2018, p. 248f.).
[19] Compare Majid-Cooke (2002): "Vulnerability, Control and Oil Palm in Sarawak, Globalization and a New Era", in: Development and Change, 33, 2, 193ff.
[20] Compare Colchester et al. (2013): Conflict or Consent? The Oil Palm Sector at a Cross Road, Forest Peoples Programme, Sawit Watch and TUK Indonesia.
[21] Cramb & McCarthy (2018), p. 60ff.
[22] Compare Cramb & McCarthy (2018).

4. The state expropriates small farmers for the benefit of large corporations

Corruption, which is widespread in Malaysia and Indonesia, is leading to a strategic alliance between politics and agricultural business. The resulting concession of indigenous territory in favour of palm oil companies is internal land grabbing.[23] Small farmers and indigenous communities affected by land grabbing have filed numerous lawsuits against palm oil companies, state enterprises and government. The complaints include land expropriations, border disputes, lack of consultation, illegal activities of the corporations and lack of compensation payments or false promises to the affected village communities.[24] In 2013 alone, Indonesia's National Land Office registered 3,000 conflicts between palm oil companies and local communities.[25] Land litigation cases often drag on for several years and are protracted under pressure from the corporations concerned.[26]

5. High health risk from pesticides

Conventional palm oil production requires the use of highly toxic pesticides such as paraquat, which is banned in 32 countries.[27] Small farmers often use these toxins without knowing their dangers and without having suitable protective equipment. Dependent small farmers and plantation workers should indeed be trained and equipped by palm oil companies in dealing with these toxins. However, numerous studies point out that large plantations regularly violate ILO conventions and human rights with regard to health and occupational safety.[28] Independent small farmers usually lack the capital to continue their education in this area and to buy the necessary work equipment. Improper use of pesticides often leads to allergic reactions, asthma, skin rashes and infections.[29] Palm oil production therefore poses an increased health risk for small farmers, regardless of the type of production they work in.

6. lack of capital as an obstacle to profitability

The central prerequisite for high yields in the palm oil sector is access to capital for high-quality seedlings, fertilizers and pesticides. These high production costs are a decisive hurdle for small farmers to profit from palm oil production.[30] Independent smallholders have on average 35-40% lower yields compared to large plantations of private or state-owned companies.[31] Indonesia produces an average of 2.6 tons of palm oil per hectare per year, whereas the yield of small women farmers is limited to 0.5 to 2 tons.[32]

7. vulnerability to fluctuating world market prices

Independent small farmers can now benefit from the established infrastructure (mills, roads, distribution channels), but with only 4-6 ha of oil palms they are very vulnerable to fluctuating world market prices.[33] In contrast to palm oil companies, small farmers are not present in the more profitable stages of the value chain - i.e. processing, transport and trade. Moreover, they cannot compensate for crop failures on their

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[23] While land grabbing is usually associated with the deliberate intrusion of transnational companies into foreign territory, the palm oil sector in Malaysia and Indonesia is a special case. Here, the population is bilked of their land by their own government, which concessions these in return of bribe money to – mostly native – palm oil companies. Thereby indigenous territory – established in the Malaysian constitution as a native customary right - is often issued as state-owned land.

[24] Cramb (2013): "A Malaysian Land Grab? The Political Economy of Large-scale oil Palm Development in Sarawak", in: The Land Deal Politics Initiative, p. 14ff.

[25] Brot für alle (2017): "Palmöl und Land Grabbing". https://brotfueralle.ch/content/uploads/2017/03/Palmoel-und-Land-Grabbing.pdf.

[26] Cramb & Sujang (2013): „The mouse deer and the crocodile: oil palm smallholders and livelihood strategies in Sarawak, Malaysia", in: The Journal of Peasant Studies, 40, 1, p. 131.

[27] Cramb & McCarthy (2018), p. 402.

[28] Compare Colchester et al. (2013); Liberty Asia (2018): Malaysia's Palm Oil Industry. http://freedom.collaborative.prod.s3.amazonaws.com/Malaysia_Analysis_120218_FINAL.pdf; Rainforest Action Network (2017): The Human Cost of Conflict Palm Oil Revisited. https://laborrights.org/sites/default/files/publications/Human_Cost_Revisited_0.pdf; Amnesty International (2016): The Great Palm Oil Scandal. https://www.amnesty.org/download/Documents/ASA2151842016ENGLISH.PDF.

[29] Cramb & McCarthy (2018), p. 402.

[30] Ismail et al. (2003): „The Production Cost of Oil Palm Fresh Fruit Bunches: the Case of Independent Smallholders in Johor", in: Oil Palm Industry Economic Journal, 3, 1, p. 4f.

[31] Kushairi et al. (2018): „Oil Palm Economic Performance in Malaysia and R&D Progress in 2017", in: Journal of Oil Palm Research, 30, 2, p. 171.

[32] Weltbank (2011): The World Bank Group Framework and IFC Strategy for Engagement in the Palm Oil Sector. https://www.ifc.org/wps/wcm/connect/159dce004ea3bd0fb359f71dc0e8434d/WBG+Framework+and+IFC+Strategy_FINAL_FOR+WEB.pd f?MOD=AJPERES, p. 22.

[33] Cramb & McCarthy (2018), p. 250.

plantations because they do not own a large number of plantations like private or state-owned companies.[34]

8. small farmers cannot keep up with the digitisation of companies

The palm oil industry is relying on digitization and mechanization to meet the growing global demand for palm oil. Yields are increased through the use of drones, robots and digital technology. The aim is to save manpower on the plantations.[35] Labour-intensive small businesses do not have this option because of their economic conditions.[36] As a result, the already limited competitiveness of small farmers in the palm oil sector will be further weakened.

9. Food security threatened by palm oil expansion

The expansion of palm oil production in Malaysia and Indonesia leads to a unilateral agricultural economy. Traditional subsistence crops such as rice are abandoned in favour of apparently lucrative vegetable oil.[37] For small farmers, this development driven by the government often means the loss of food security, as basic foodstuffs must be purchased from now on.[38] The palm oil sector accounts for almost a quarter of Indonesia's total agricultural area. Less than 10% of those employed in agriculture are employed on this area.[39] Small-scale farming could provide a livelihood for many more people on the same land. The fact that the conversion from oil palms to other crops - for example as a result of falling world market prices - is extremely difficult due to soil degradation exacerbates this problem.[40]

10. Palm oil monocultures threaten the culture and identity of small farmers

For centuries, small farmers have acquired knowledge about the use of forests and environmentally friendly farming practices.[41] For indigenous smallholder farmers in particular, land is central to their own culture and identity. This traditional knowledge is passed down orally from generation to generation.[42] The increasing conversion of agricultural land into oil palm plantations irrevocably destroys this knowledge. This not only poses a threat to the small farmers, most of whom are indigenous, but also means a loss of cultural diversity for society as a whole.

Conclusion: Small farmers are the big losers in the palm oil business!

Independent smallholders with diversified production systems can benefit from the palm oil sector under certain conditions (nearby roads, distribution channels and mills, high world market price for oil palm fruits). But this group is the exception. In Malaysia, 84% of palm oil is grown on large plantations by private companies or state-owned enterprises. The vast majority of small farmers can be found in these types of production and they play a marginal role: either they lose their land to the palm oil companies and thus also their livelihoods or they work on the plantations under often miserable working conditions. The unilaterally palm oil-based agricultural policy in Malaysia and Indonesia is also threatening food security and thus the right to food. Due to the increasing global demand for palm oil, the agricultural land previously used for basic foodstuffs is increasingly having to give way to the cultivation of oil palms. Most small farmers are therefore the big losers of the palm oil boom in Malaysia and Indonesia.

Bruno Manser Fund & Bread for all, August 2018

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[34] Cramb & McCarthy (2018), p. 33f.
[35] Nambiappan et al. (2018): Malaysia: „100 Years of Resilient Palm Oil Economic Performance, in: Journal of Oil Palm Research", 30, 1, p. 22f.
[36] Compare Majid Cooke (2002).
[37] Compare Colchester et al. (2013).
[38] Cramb & McCarthy (2018), p. 258ff.
[39] Statista (2018): Indonesia: "Verteilung der Erwerbstätigen auf die Wirtschaftssektoren von 2007 bis 2017". https://de.statista.com/statistik/daten/studie/253122/umfrage/erwerbstaetige-nach-wirtschaftssektoren-in-indonesien/.
[40] Compare Reuter (2016): „Biopatente im Kontext von Biodiversität, Versorgungssystemen und den Bedingungen guten menschlichen Lebens", in: B. Brandl und S. Schleissing (Hrsg.): Biopatente. Saatgut als Ware und als öffentliches Gut, Nomos, p. 133-158.
[41] Compare Jan Douwe van der Ploeg (2008): The New Peasantries: struggles for autonomy and sustainability in an era of Empire and Globalization, London: Sterling.
[42] International Labour Organization: C169 Indigenous and Tribal Peoples Convention, Art. 13. http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C169#A13.