

The Wider Perspective on Palm Oil in Indonesia

Indonesian Economy

Palm oil is an increasingly important industry for Indonesia. In 2005, it accounted for US\$ 3.8 billion of exports, or 6% of non oil and gas exports of the country. In 2009, it reached US\$ 10.4 billion worth of exports or 11% of Indonesia's non oil and gas exports.

In US\$ billion	2005	2006	2007	2008	2009
CPO & Derivatives Exports - Indonesia	3.8	4.8	7.9	12.4	10.4
Non Oil & Gas Exports - Indonesia	66.4	79.6	92	107.9	97.5
In %	6%	6%	9%	11%	11%

Sources: www.indonesia.go.id, Statistics Indonesia and news agencies

Alleviation of Poverty

Palm oil has been widely acknowledged as an effective industry for alleviating poverty and for efficient land use in developing nations. Plantation management and harvesting of oil palm fruit are labour intensive activities, and the industry has become an important source of employment, providing direct and indirect jobs for approximately 4.5 million persons.

The industry is composed of small holders and large estate plantations. In Indonesia, small holders owned 39% of the total palm area in 2008, according to the Indonesian Department of Agriculture, while private plantations owned 53% and the government, 8%. Small holders represent 33% of the total palm oil production of the country.

In accordance with Indonesian government policy, oil palm plantation companies, which are known as nucleus, are encouraged to develop new plantations that will be owned and operated by local small holders. This form of assistance to local small holders is generally known as the "Plasma Program". Under the Plasma Program, the nucleus is committed to purchase Fresh Fruit Bunches (FFB) from the plasma at formula prices set by the Indonesian government, taking into account the costs incurred by the developer in processing and selling the FFB. Since the 1980s, the Indonesian government supports the financing of the Plasma Program, through government-owned banks, and now private banks, with the approval from Bank Indonesia and Directorate General of Plantation.

Contribution to Communities

The Indonesian palm oil industry makes a significant contribution to the local communities. In the case of Golden Agri-Resources Ltd ("GAR"), the parent company of PT SMART Tbk ("SMART"), one of the largest palm-based companies in the world, the company provides funding to build and maintain schools and other educational facilities in the plantations. This complements the efforts of local authorities to provide a good education to employees' children as well as to children living near our plantations. To date, GAR has constructed and manages more than 125 schools with over 1,000 teachers catering to more than 20,000 students; in areas in the heart of plantation estates which have few schooling options. Free transport to and from school is also provided for students who need it.

The company also seeks to meet the needs of the employees and the people living near the operations, by building and maintaining public infrastructure such as roads and bridges, health clinics, and places of worship such as mosques and churches; providing the facilities and know-how to run cooperatives that ensure basic necessities are available at affordable prices; constructing well-built dwellings and sporting facilities; and providing financial help for communities to celebrate festive and religious events. The company also helps to develop micro-economies by providing indirect employment to local entrepreneurs near estates, for example, by using local transporters to move products, and engaging local contractors for developing new plantations.

Uses of Palm Oil

Palm oil is known for its multiple uses, in food, healthcare products, cosmetics and biofuels. It is an inexpensive ingredient to a multitude of essential items. Palm oil is also a staple part of the national diet in Indonesia. The principal domestic use is cooking oil at home and by street vendors. It is also used in solidified spreads and as an ingredient in various processed foods.

Palm oil also has several nutritional benefits. The product is high in mono-unsaturated fats. It does not require hydrogenation to achieve a solid state and avoids the creation of the trans-fatty acids which are considered harmful to human health. It also contains carotenes (vitamin A) and vitamin E.

Palm Oil versus Other Vegetable Oils

Palm oil is the most environmentally sustainable vegetable oil available. Only 0.26 hectares of land is required to produce one tonne of palm oil. Meanwhile soybean, sunflower and rapeseed require 2.2, 2.0 and 1.5 hectares, respectively, to produce one tonne of oil. In addition, palm oil generates nearly 10 times the energy it consumes, compared to a ratio of 2.5 for soybeans and 3.0 for rape oilseed.

Palm oil is also an effective sink to absorb carbon dioxide as a managed forest. Oil palm plantations are leafy, composed by thousands of trees that can live more than 25 years, and have a positive carbon impact to the environment.

Our Role and Commitment

SMART remains committed to achieving sustainable palm oil production. In particular, the company is committed to conserving High Carbon Stock land, namely primary forest and peat land; as well as biodiversity on land assessed as having High Conservation Value (HCV). These commitments were announced on 4 February 2010, and apply to all plantations owned and managed by GAR. The company does not develop land on primary forests and peat land. SMART only develops on degraded land that does not have HCV. In addition, planting oil palm trees in degraded land has a positive carbon impact on the environment.

SMART complies with national laws, regulations and the principles and criteria of the Roundtable on Sustainable Palm Oil (RSPO). It is a RSPO member since 2005, and is already in the process of RSPO verification. GAR seeks to certify all of its palm oil operating units by 2015.



SMART is a pioneer in zero burning policy, it established a zero burning policy in 1997. The Indonesian government subsequently established the same policy in 1999.

SMART is committed to conserving the endangered orang-utan, and together with the leading environmental and orang-utan conservation organisations and the Indonesian Forestry Department, plays an active role in the national orang-utan Working Group in drafting the Strategy and Action Plan to conserve the orang-utan. To date, the company has set aside a 1,400 ha sanctuary in Central Kalimantan for an orang-utan habitat.

In addition, the company has also taken the lead in the International Conference on Palm Oil and Environment (“ICOPE”), which was hosted by SMART for the second time in February 2010. More than 400 scientists and practitioners from 14 countries participated in this important forum for experts to share best practices in an industry that is always evolving. This was again co-organised with Centre de Coopération Internationale en Recherche Agronomique pour le Développement (“CIRAD”), France, and WWF.

23 June 2010

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