

# Local inclusion in oil palm in Papua New Guinea and Solomon Islands



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“Palm oil is by its very nature reliant on a high degree of local participation”

## Introduction

Land grabbing, exploitation and destruction of natural ecosystems is a common criticism of large industrial agricultural projects and investments in developing countries. In Papua New Guinea, serious controversies unfolded after more than 10% of the country was hastily handed out to non-land owner third party companies controlled by foreign entities using ‘special agricultural business leases’ under the promise of future oil palm projects. Contrary to this generalization, New Britain Palm Oil Limited (NBPOL) wholly owned by Sime Darby Plantation, has been in Papua New Guinea and Solomon Islands for more than 50 years and has found that local inclusion and certified sustainable practices are a necessity to doing business.

The palm oil industry was first introduced into Papua New Guinea and Solomon Islands as a means to deliver development through public private partnerships starting in the late 1960s. Later these projects were all wholly privatized. The fact that they persist is a testament to their success, with an estimated 200,000 people in Papua New Guinea living in households that depend on oil palm as their principal source of income (Nelson et al. 2010). Being a vehicle for development, the business models were designed to maximize local participation as a means to amplify impact. Oil palm plantations require large local expenditure for labour, goods and services and projects were designed to outsource many services to local service providers.

Smallholder participation was a condition for the original loans to establish the industry and the terms and conditions defined therein still characterize how the industry works today. The recognition of indigenous/customary land ownership in Papua New Guinea and Solomon Islands requires joint ventures to access land. A smooth and long term business

relationship makes Free, Prior and Informed Consent (FPIC) paramount to preventing disputes. This paper presents a variety of innovative participatory processes as part of NBPOL ‘no deforestation, no peat and no exploitation’ expansion and sustainable management.

## The NBPOL development model

The NBPOL development model was based on appropriate and tested technologies to provide a multitude of economic benefits. In summary, the company provides genetic material for planting, extension services for cultivation, logistical support necessary for transport and processing, and access to international markets. Services include long term research and development including significant programmes on plant breeding and integrated pest management, agronomy, certified sustainable management, and access to certified sustainable markets. Local participation took the form of government and landowner shareholding. At the outset, the government owned 50% of the NBPOL project, but over the years the government sold off most shares with the remainder being bought out when Sime Darby purchased NBPOL.

The project in Solomon Islands is unique in that local landowners still own 20% of the shares in the company there. In all areas where oil palm is planted on customary land, landowners receive a per hectare rental for both conservation and production land and a percentage royalty of fruit harvested from the land. The recognition of customary land rights means that most farms are established in joint venture arrangements with local landowners, resulting in substantial payments for land rental and royalty. As an example, NBPOL plantations in West New Britain Province paid out more than PGK311 million (US\$95



*Plantation expansion without deforestation through implementation of the High Carbon Stock Approach © NBPOL.*

million) in 2017 of which 49% was on local salaries and wages, 37% for smallholder crop purchases, 8% to local contractors, and 6% as royalty and rental payments.

The oil palm industry is by its very nature very reliant on local participation, and the inclusion of independent smallholders is an important part of the supply base. NBPOL has more than 25,000 permanent employees, and as such is the largest private sector employer in both Papua New Guinea and Solomon Islands. Complete mechanization is impossible and palm oil production therefore relies on a high degree of labour. Logistics is a major facet of the business, and local contractors take on significant shares of both road maintenance and transport. Since most of the workforce is provided with housing, water and electricity by NBPOL, this in itself creates an industry in which local services in the form of construction, repair and maintenance is fundamental.

Smallholder support programmes follow original agreements established in 1967 and which have provided a solid foundation for smallholder inclusion in the industry. Smallholders have access to credit from NBPOL for the purchase of seedlings, tools

and fertilizers at cost price, and these interest free loans are recovered only when they start selling fruit to NBPOL. All research, development, and pest and disease control services are provided by the Oil Palm Research Association, subsidized by all growers through a levy of PGK2.00 (US\$0.80) per tonne of fruit. Transportation of fruit is provided at cost where required, and all fruit is purchased at a price determined through application of a profit-sharing formula that is regularly reviewed, and mandated by the government. Unlike many business models in Asia, there are no middlemen, and fruit is not graded according to quality on arrival at the mill. As per original development agreements, the mill is obliged to buy all fruit delivered by smallholders, independent of quality and at a price determined by the government.

The latest review indicates that this results in smallholders receiving greater than 57% of profits from milling (KPMG PNG 2014). While the arrangement ensures that smallholders always have a buyer, it does not ensure a constant price. The price a smallholder receives is mostly influenced by the USD/PGK exchange rate and the price of crude palm oil and palm kernel oil in Rotterdam. Because of



*Communities mapping their own land and deciding themselves where they want and don't want oil palm plantations is an essential component of inclusiveness. © NBPOL*

a good demand oil palm has provided a significant and consistent financial input to local economies over the past years, with NBPOL's average total monthly payments to smallholders in excess of PGK15 million (US\$4.6 million) every month. Considering all this, majority of landowners living within transport distance to an oil palm mill in Papua New Guinea will consider planting this crop as the risk of failure is low and the returns very attractive.

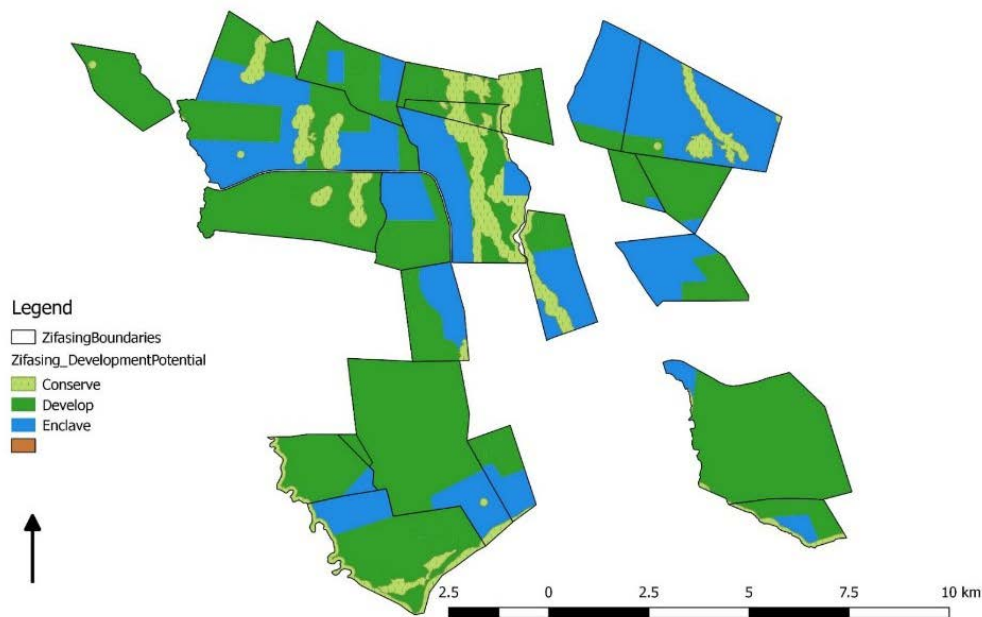
All smallholders linked to NBPOL participate in and benefit from the companies sustainability programmes. They are provided with training and the support needed to be audited against international standards. Smallholders are not required to contribute to auditing costs, and NBPOL passes on the entire premium it receives for the smallholder crop to them, that have increased from PGK5.89-13.87 (US\$1.80-4.25) per tonne. NBPOL is recognized as the first palm oil company to achieve 100% RSPO certification for all smallholders that supply them and today it supports more than 17,000 independent smallholders within its certification programmes, or 16.3% of all RSPO certified smallholders in the world. NBPOL is now also working

on rolling out smallholder inclusion in the company's Rainforest Alliance certification.

### **The issue of land**

Most land in Papua New Guinea (97%) and Solomon Islands (83%) is governed and owned by indigenous land owners. Customary land rights are recognized in their Constitutions and form the basis of traditions and social security of indigenous communities. All decisions regarding ownership and user rights are decided following communal customary laws. There are also legal provisions through which temporary user rights can be transferred to investors through sub-leases founded on free and prior informed consent principles. Not doing so would risk long term investment, and social and environmental impacts assessments are essential to maintaining very good relationships with communities. This is achieved through extensive information transfer and meetings on their premises and on their terms, and is essential to ensuring full understanding of all issues by everyone.

The NBPOL experience has shown that it takes at least three years from receiving



*Of the total 10,652 ha, communities decided that 31% (3293 ha) would remain available for their own use, 10% would be retained as conservation areas (1017 ha), leaving up to 59% (6280 ha) as potentially for planting with oil palm.*

an unsolicited expression of interest by local customary landowners to signing a development agreement. A significant part of the process revolves around building integrated land use plans in cooperation with the traditional landowners. The integrated land use plans utilize the High Conservation Stock Approach (HCSA) of which NBPOL is a steering group member and has helped define their practical methodology. Participation of communities is fundamental to both identifying Conservation Values, as are the strategies to conserve them. All scientifically justified High Conservation Values and High Carbon Stock Habitats, are identified through HCV Accredited Licensing Scheme assessments ([www.hcvnetwork.org/als/](http://www.hcvnetwork.org/als/)) and presented to communities through consultative process. Other participatory processes include identifying and setting aside enough areas for community use to ensure communities have enough land for subsistence and commercial farming. These areas termed Community Use Areas are calculated on a basis of 0.5 ha per person over the projected lease period, acknowledging population growth, to ensure ample land is available for living space, food security and provision of basic needs. Such land use planning is an iterative process that

requires time for communities to discuss internal agreements.

Land is only leased from communities if or after they register it for a formal title, a process which if done correctly, bolsters the company's FPIC process. To ensure that this is conducted with integrity, NBPOL assists by conducting genealogical studies, helping individuals attain birth certificates and identification cards, and ensuring that rental and royalty payments so benefits flow directly to the recognized families and not necessarily their legal representatives.

### **Acquisition of customary lands; a case study from Papua New Guinea**

Practices to meet sustainability standards are being implemented in Chivasing and Tararan villages in Huon Gulf district located in Papua New Guinea. Working with customary landowners who are interested in leasing land to developers is challenging, as most have no titles. Lease titles on which business relationships are based must be issued to those who represent communities who own the land, to avoid disputes and maximize benefit sharing. The following case study summarizes the



*Oil palm is established only on grasslands as NBPOL is now a zero deforestation company.*  
© NBPOL

process undertaken that assisted seven land owning clans who approached NBPOL with letters of interest signed by clan elders, to develop their land in a joint venture.

Approaches used by NBPOL followed standards for incorporating sustainability requirements for new development, minimizing negative impacts of oil palm cultivation on the environment and communities. Feasibility studies were first undertaken to ensure that areas which communities wanted to develop in joint ventures did not include forests or any area of high conservation or carbon stock value. With high levels of population growth in rural areas they cannot understand why unutilized customarily owned forests cannot be utilized to address their growing needs. Most communities were confused at NBPOL's *no deforestation policy*. In this case, most of their lands were grasslands, so there was sufficient potential to proceed. High Conservation Value (HCV) and High Carbon Stock (HCS) surveys were conducted with full participation of land owning communities. Further participatory social surveys, GPS boundary surveys, land use planning, clan genealogy, and test plantings of oil palms were also conducted. But even before these, clan elders and

NBPOL sign a clan land usage agreement that allows these studies to be undertaken, with the understanding that nothing is taken out during that period.

Based on survey results, an integrated land use plan is produced and agreed by clan elders. To define limits, all clan representatives, neighbouring clans, government representatives and NBPOL staff walked the boundaries while taking GPS points. These were then printed onto high resolution satellite imagery maps onto which they drew their land use plans, including areas for potential conversion to oil palm, areas for conservation, and areas for community use. Conservation areas (including HCV and HCS) were identified by experts approved by the Accredited Licensing Scheme after consultation with the landowners. Community use areas were identified by the landowners themselves, taking into account their current and future living space and food security needs. Only after these areas were mapped, potential areas for conversion to oil palm were added to a first draft map. This underwent several rounds of discussion and revision by clan members and NBPOL, until all were satisfied, with a final version signed and included in an Integrated Land Use Management Plan submitted through the

RSPO New Planting Procedure for review as part of management planning required by the RSPO.

In general, throughout free, prior and informed consent, community engagement processes and awareness-raising activities are carried out. To date, more than 100 meetings have been held (with 40% female representation), to inform communities of the positive and negative impacts of oil palm, as well as of policies and procedures such as the Grievance Procedure and Whistle Blower Policy, that are instrumental to developing a functional relationship. Informative brochures and leaflets were distributed. Other meetings concerned participatory mapping, and NBPOL also organised field trips so clan members could visit existing projects where customary land owners have leased land to NBPOL, so they could see what they could expect.

### **Are others going the wrong way?**

Although NBPOL has shown that certified sustainable oil palm and local inclusion has helped its profitability, NBPOL is under the impression that other companies establishing plantations in Papua New Guinea are not interested in a similar approach. It must be emphasized that by and large, the global market is also not so interested, with only 20% of the global supply being RSPO certified and only half of that being bought as RSPO on the market. This has resulted in more plantations being established without considering social and environmental safeguards that both NBPOL and RSPO find important. A recent internal study using publicly available satellite imagery data showed that over the past 10 years, more than 50,000 ha of new 'non-RSPO' oil palm plantations have been established in Papua New Guinea. We suspect that these may have been financed by the logging proceedings, which is by definition unsustainable. NBPOL has become a zero deforestation company following the HCSA methodology, but we also understand that some countries are willing to sacrifice some of their forests for agriculture and economic development.

### **Scaling up inclusive approaches**

Given the relatively low positions of both PNG and SI on the UN Human Development Index, 153 and 152 respectively out of 189 countries listed (UNDP 2018), it is not surprising that both governments are eager to develop sustainable agriculture industries as a means to improve the standard of living. Both countries also have more than 70% forest cover and less than 4% under permanent agriculture (Allen and Filer 2015). Papua New Guinea's Vision 2050 strategic development plan states that some land reform is needed to enable strengthening of economic development, and refers to this being driven by 'high impact' projects which will in turn provide spin-off benefits. NBPOL recognizes conflicting interests in Papua New Guinea, and feels that their inclusive approach could serve as a model for others. For example, NBPOL is working with government and RSPO partners to streamline new planting compliance for smallholders, to create a standard for the jurisdictional approach, defined as a means of certifying the entity managing and responsible for this jurisdiction, and to influence government policy that may provide inputs to the oil palm debate.

Streamlining compliance for smallholders is conducted in partnership with The Forest Trust. This includes implementing existing simplified RSPO-developed approaches and improving them by including use of predictive land use modelling and High Carbon Stock mapping in participatory land use planning processes that meet local development needs. NBPOL is also a co-chair on the RSPO Jurisdictional Approach Working Group, to guarantee responsibilities for providing services to all producers within a jurisdiction and support them to comply with local legal frameworks and the RSPO Principles and Criteria. Benefits are multiple, providing a rationale for protected areas beyond concession boundaries, and that growers benefit from group economies of scale.

NBPOL is also implementing its One Hour Principle Partnership within areas of new development. This states that all communities should have access to health

care, education, and potable water within one hour's walk. To assess this, community needs assessments are undertaken and results provide assistance to access these services where possible. Hopefully in the future, this will lead to improved approaches acceptable to all stakeholders, but most importantly to farmers and landowners.

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This paper was submitted for inclusion in the forthcoming edition of **ETFRN News 59 - Exploring inclusive oil palm production**, due for release in early 2019. This will contain 20 papers plus interviews, presenting examples of innovative and inclusive palm oil production systems. It will assess what has not worked, but importantly, it will analyse what positive practices and policies have worked for more inclusive palm oil production and why, as we strive towards more collective and sustainable solutions to this apparently intractable problem.

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Cover photo: Orokaivan tribesmen celebrating the opening of a community well donated by Nestle as part of New Britain Palm Oil's One Hour Principle Partnership © NBPOL



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