

## Indonesia's Smallholder Oil Palm Farmer: High profitability or Vulnerable?

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**Abstract:** *Oil palm estate is one the most common reason for personal land use change, especially from rice field and rubber plantation in Sumatera. Many smallholder oil palm farmers planted oil palm on their previously occupied land, whether it was from rice field, rubber plantation, coconut estate, horticulture field, and other land use. The farmers choose to change their commodity since they perceived it to be more profitable. However, we argue that it was merely a perception and that they are in a vulnerable position. Thus, this study aims to explore the vulnerability aspects of oil palm smallholder farmers in Indonesia. Applying qualitative method, we use in-depth interview to gather information from oil palm farmers and head of farmers union. The results show that oil palm can bring much profit. However, the farmers do not possess any power to control it. The price of oil palm fruit bunch is determined by many factors including global political and economic dynamics. Therefore the farmers could not be certain when they will profit and when they will lose.*

**Keywords:** *Profit, smallholder oil palm farmers, vulnerability*

### Introduction

Oil palm first came to Indonesia not as a commercial commodity. It was planted in today's Bogor Botanical Garden in the mid of 19<sup>th</sup> Century (Corley and Tinker, 2008). The first commercial oil palm plantation was established in 1911 in North Sumatera (Hartley, 1967). In 1930, the Unilever company in the Netherlands may have been supplied by the plantations in North Sumatera that grew fast after it's first establishment (Risza, 1994; Basiron, 2005; Setyamidjaja, 2006).

Shortly after independence, all foreign owned plantations were nationalized, including oil palm plantation (Deiniger and Byerlee, 2011). Unfortunately, however, the development of oil palm slowed down after the nationalization process and eventually almost totally collapse. The first re-development of oil palm is initiated in 1969 under the Suharto government (Setyamidjaja, 2006). The development was considered a success since production were increasing. In 2010, Indonesia overtaken Malaysia as the biggest palm oil producer (Sorda et al., 2010).

In 1977, the government include oil palm in the rural development program. Therefore, starting from 1979 production from smallholder estate was first ever recorded (Setyamidjaja, 2006). Since then, the share of smallholder oil palm estate is increasing, until it reaches 41,5% in 2021 (BPS, 2021).

Many rice growers considered oil palm as more profitable, therefore they were converting from rice to oil palm (Susanti and Burger, 2012). People are also converting their

rubber plantation into oil palm (Saputra, 2013;Hasibuan et al, 2020; Hengki et al, 2021;etc). the suspected cause of these conversion is because farmers and landowners perceived that oil palm is very much profitable (Novira, 2018).

However, on the other hand, oil palm farmers are experiencing unexplained price fluctuation. There are price fluctuation that normally occurs during dry and wet season. Other than in this normality, the farmers are not aware of the cause. Since palm oil is an export commodity, it is suspected that the price fluctuation has something to do with global political and economical dynamics. We therefore question, is oil palm really profitable? Or is that merely a perception and farmers are actually vulnerable?

## **Methodology**

This study is designed as a qualitative study. Applying semi-structured in-depth interview, various actors are interviewed, such as oil palm smallholder farmers, head of farmers union, head of village, officials in the Export Commodity Section of the Ministry of Agriculture, and a local parliament member. To support the understanding of the issue, literature and mass media news are also explored.

## **Findings & Discussion**

The results are divided into two section, the perception of profitability and the analysis of vulnerability aspect. From the perception of profitability, at least two aspects are identified, the success story of early planters and the effect of Indonesia's 1997 - 1998 monetary crisis.

Bulungihit Village was founded by the people brought from Java to clear the land used for one of the first commercial oil palm plantation in Sumatera. Therefore, Bulungihit is inhabited by 95% Javanese. By the time oil palm was allowed to be planted by smallholder at the end of 1970s, some non Javanese (Mandailing people) in Bulungihit planted it on their ex-fruit orchard while the Javanese people were planting rice. The people with oil palm had a significantly better life, better image, and higher social status. Thus the perception that oil palm brought good life was shaped.

In the 1980s, the Indonesian Government under the policy to include oil palm into rural development project initiated a transmigration project dedicated to it. The so-called oil palm transmigration project was located in Bagan Batu District, Rokan Hulu Regency, Riau Province around 4 hours (was 6 hour then) ride from Bulungihit. Some of Bulungihites participated in this program. The participants are those with very little to no land at all. At the transmigration site they received two hectares of readily planted 2 years old oil palm and one half of a hectare of land with semi-permanent housing readily installed and some spare land to grow food crop.

It did not take long for the participants of oil palm transmigration to deliver some good news. A year after they move to Bagan Batu the oil palm start to bear fruit. Although the fruit is not yet saleable as fruit bunch, it was still saleable a loose fruit. In the third year they can already harvest good fruit bunch. The transmigration program had instantly change their lives. From very poor with no land, to two hectares of oil palm estate owner. This has somehow add to the perception of the profitability of oil palm.

Another aspect that add to the perception of profitability is the soaring exchange rate in the times of monetary crisis in 1997 - 1998. The crisis struck Indonesia's economy so bad that the economy almost collapse. Exchange rate of US dollar to Indonesian Rupiah soared almost

seven fold from Rp. 2.500/USD to Rp. 16.000/USD. However, since palm oil is export commodity, its price automatically rose along with the soaring exchange rate of US dollar. The people of Bulungihit told the story of those crisis times. They said that in the 1997 - 1998 crisis, the price of oil palm fresh fruit bunch was very high that they considered the crisis as a blessing for them. Their economy was so good that motorcycles were sold door to door and they paid it in cash. This really shaped and firmed the perception of oil palm's profitability. Oil palm is seen as crisis proof commodity. On the other hand, this view has brought the people to vulnerability, since oil palm is not crisis proof at all.

Smallholder oil palm estate owner have no control over price. The rise and the fall of price is purely determined by the market, while that market is affected not only by local phenomenon. Since palm oil is an export commodity, global political and economical dynamics directly affect the price of fruit bunch at the farmers' level. National policy could also affect the price. Oil palm farmers can only accept the price fluctuation.

Unlike oil palm farmers in Africa that are able to produce unique products out of oil palm, Indonesian oil palm farmers do not have such ability. Since oil palm is native to Africa, it has become a part of their life and their culture. They are able to process oil palm fruit to several kind of goods, including food. On the other hand, oil palm was introduced to Indonesia less than a century ago. The spread of oil palm in Indonesia was through commercial way. The people never become a part of the processing. They are merely the workers. Therefore, oil palm is always seen only as a cash crop and never as food crop. This condition pose dependence of the farmers to oil palm mills. And since fruit must be harvested when they rife, the farmers have no bargaining power over the price. They do not have any option other than to accept the price from the middlemen that would then sell the fruit bunch to the mill.

## **Conclusion**

From the discussion above we can conclude that oil palm smallholders are actually vulnerable. The profitability of oil palm is merely a perception since they could not control the price. The price can rise and fall unexpectedly. At once they can have high profit, but then can lose also at once. They can not control the price since it is determined by the market that is affected by national and global dynamics. At the local level, the farmers do not have any bargaining position towards the middlemen and oil palm mill since the fruit can not wait to be harvested when it is rife.

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