



# THE COST OF CONFLICT IN OIL PALM IN INDONESIA

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# EXECUTIVE SUMMARY

## *Why this Study Matters*

Whether or not the private sector is liable on social and environmental matters is no longer a question. The question currently is how well they are able to manage these matters and how transparent and accountable they demonstrate themselves to be. This is particularly true in the palm oil sector. A recent survey conducted with a sample of 566 companies showed that “61% of companies active in palm oil” have adopted pledges or commitments for deforestation-free products or sustainable supply chains overall.<sup>1</sup> Furthermore, recent research indicates that palm oil growers representing 90% of the globally traded palm oil market are signatories to purchasing policies that include “no deforestation, no peat, no exploitation” policies.<sup>2</sup>

Although pledges and commitments may not necessarily translate into changes in implementation, they can lead to greater public scrutiny. With increased communications resulting from growth in social media, companies are realizing that avoiding or resolving conflict is becoming an important component of their license to operate. This recognition is meaningful, but insufficient to guide management decisions and strategy. Although costs resulting from social conflict are appreciated as material within industry, managers in oil palm companies do not currently have the necessary data to inform their decisions related to investments and operations.

## *Study Purpose and Findings*

To address this shortcoming, the Indonesia Business Council for Sustainable Development, IBCSD, through their Conflict Resolution Unit (CRU), commissioned a team from Daemeter Consulting to conduct a study to monetize the costs of social conflict in the palm oil sector. We used data from conflicts in five plantations in Kalimantan and Sumatra to calculate financial values for direct and indirect costs and loss of value from tangible and intangible assets. Our study provides a clear indication of how social conflict impacts the bottom line of palm oil companies and will hopefully allow executives and managers to make better policy and operational decisions with respect to avoiding and managing conflict. We conclude that the cumulative costs of social conflict are significant, undervalued and potentially pose a serious obstacle to productivity for companies, as well as imposing costs on communities and local government.<sup>3</sup> We found that:

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<sup>1</sup>Ben McCarthy, *Supply Change: Tracking Corporate Commitments to Deforestation-free Supply Chains*, Washington, DC: Forest Trends, 2016.

<sup>2</sup>Chain Reaction Research, *Indonesian Palm Oil Growers Exposure to Sustainability Purchasing Policies*, June 30, 2015.

<sup>3</sup>We did not address the costs of conflict to communities or government within this study, although we acknowledge that these costs may be significant.



- The tangible costs of social conflict range from USD 70,000 to USD 2,500,000 in the cases we studied. The largest direct costs are lost income from disrupted plantation operations and staff time diverted from other tasks to address conflict. Indirect costs result from the opportunity costs of using human and financial resources to address conflict rather than investing it to improve plantation productivity. Costs vary with the number of hectares affected, conflict duration, number of persons involved, and whether production was lost.
- Tangible costs represent 51% to 88% of plantation operational costs, and 102% to 177% of investment costs on a per hectare per year basis. Tangible costs represent a large percentage of overall expenditures. The largest single cost was decreased profits and income for companies. Company profits are decreased by delays in plantation development and stoppage of maintenance, production, and mill operations.
- Intangible or “hidden” costs may range from USD 600,000 to USD 9,000,000, representing expenditures or indirect losses associated with, for the purposes of this study, risk of: conflict recurrence or escalation; reputational loss; and risk of violence to property and people. Reputational loss could affect companies’ ability to borrow at market interest rate, result in decreased product demand, or reduce stock market value of the company. We calculated intangible costs by applying a conflict risk premium on borrowing, which raises borrowing costs. We found that property violence occurred in 7% of cases and human violence in 1%, which have far larger financial consequences than other risks.

### *How We Conducted Our Study*

We initially consulted key informants including palm oil industry executives, plantation managers, economists and NGO leaders to develop a social conflict framework and the methodology for the study. We then visited three palm oil estates in Sumatra and Kalimantan that have experienced different types of conflict and interviewed plasma and mill managers, community development officers, financial staff, community members and government representatives. Interviews focused on the cause and chronology of social conflict, notable events, and parties involved. Field visits were complemented by engagement with executives at company headquarters and financial data collection. We analysed two other cases of conflict through visits with management teams and headquarters staff. To provide context for our case studies and better calculate intangible costs, we compiled data on social conflict from local newspaper articles and online portals in three provinces: West, Central and East Kalimantan. This Data Set contains information on social conflicts experienced by 174 oil palm companies in these three provinces, which allowed us to calculate the potential range for the probability and intensity of conflicts and other factors necessary to calculating intangible costs.

A note on scope: We acknowledge that costs brought on by social conflicts in the palm oil sector burden not only the palm oil companies, but also local government, and, most notably, the communities or individuals involved in the conflict. As a proportion of total budgets and expenditures, these costs may in fact be most severe in their impacts to these additional parties. We recognise the significance of these costs to these other parties and appreciate a need to understand and define them. However, they are not included as a part of this study. We recommend they be considered in future research efforts.

The social conflict framework allowed us to better understand the common elements of social conflict including parties involved in the conflict, drivers underlying the conflict, manifestations of conflict in actions taken by claimants, and mechanisms and approaches to resolve the conflict. Local communities or groups of smallholder farmers were the claimants and palm oil plantations were the object of grievance in the cases we studied. Other parties that may intervene in conflicts include local government, law enforcement, the courts, and NGOs or farmer's groups. Land disputes were determined to be the primary driver of most social conflict, representing 67% of all cases in the Kalimantan data set. Problems related to smallholder oil palm schemes is the second most common cause of conflict, representing 24% of total cases. Many conflicts have more than one driver, including disputes over compensation payments and approaches. Conflict manifestations range from peaceful protests and formal complaints to destruction of public and private property, and in some cases violence to persons. In our review of media reports, 57% of conflicts start with formal complaints, initial meetings, and negotiations but also included court appearances or third party mediation. A quarter of cases involved demonstrations or road blocks. Conflicts thought to be resolved had re-emerged or escalated in over 50% of cases. Initiatives to resolve conflict vary by company but usually involve negotiation, compensation, and in some cases, legal settlement.

### *Recommendations*

Our study, although limited in scope and sample size, clearly indicates that social conflict is a significant and costly problem in the palm oil sector that merits greater attention from companies, the palm oil industry, government, and researchers to address its business, social, and livelihood dimensions. We recommend that the following actions be considered:

**Improve company policy and management procedures, including employee incentives and key performance indicators:** None of the companies we studied had a budget line for conflict-related expenses but rather assigned them to other line items on an ad hoc basis. This obscures the full cost of conflict, makes it impossible to evaluate whether social conflict management is costing more than conflict mitigation or CSR programs, and reduces the urgency for management to develop policies and allocate resources to avoid or reduce conflict. Company policy and internal communication protocols appear to be inadequate to effectively address conflict and employee incentives for rapid plantation development may perversely incentivize actions that ultimately lead to social conflict. Companies should consider incorporating incentives for estate management linked to good social relations and develop a comprehensive tracking system enabling them to more effectively recognise potential for conflict escalation. An early warning system could help companies recognise the onset of conflict and take quick actions to minimize escalation.

**Build capacity of local stakeholders:** An indirect cause of conflict is that stakeholders who should or could act as intermediaries between companies and communities do not play this role effectively because they are not trained in conflict mediation or the rapidly evolving legal framework for oil palm plantations. District government officials are key stakeholders because of their regulatory authority over plantations and responsibility for spatial planning and award of land titles. Law enforcement officers, relevant NGOs should also be trained. The number and skill level of professional, independent mediators must also be increased to handle the number of on-going conflicts.

**Expand the knowledge base on the causes, progression and implications of social conflict:** Currently social conflict is not being tracked in a systematic, transparent manner. Developing a data set for tracking social conflict in land-use sectors would be valuable to: (i) define trends and characteristics of social conflict; (ii) better understand and define tangible and intangible costs; and (iii) better understand the factors that drive conflict escalation. An analysis of socioeconomic and environmental implications and costs of social conflict would allow both government and the oil palm









industry to better develop policies to address it and allocate resources accordingly. This could include the costs incurred by communities and the government and be expanded to quantify the cost of land conflict across Indonesia, examining its implications for economic competitiveness and investment readiness.

**Develop best practices for conflict prevention, mitigation and resolution:** Very little information exists on the types, success rates and cost-effectiveness of current efforts to address and resolve conflict. We must study and understand what is being tried and what is working as a basis for developing best practices to be disseminated throughout the industry. Compensation payments require specific attention given the central role they current play in conflicts.

**Pilot conflict prevention and mitigation at the jurisdictional level:** The jurisdictional approach is being promoted and tested as a means to reduce the environmental and social impacts of oil palm plantations at the district or province level over extended time periods. This approach includes all stakeholder groups who should be involved in reducing conflict, providing a promising mechanism for piloting approaches to institutionalizing conflict reduction at the local government level.

# 1. INTRODUCTION

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## Background and Context of Study

Palm oil is an important sector for the Indonesian economy, contributing nearly USD 17 billion of export revenue, or 9% of the country's total exports in 2015<sup>4</sup>. As the world's leading producer of palm oil<sup>5</sup>, Indonesia is well placed to meet growing future demand for the commodity, with targets to increase production nearly 60% to 40 million tons by 2020.

In recent years, palm oil has drawn growing attention due to environmental impacts caused by forest and peat land conversion, as well as social impacts linked to land disputes and conflicts with local and indigenous communities. This attention has prompted many palm oil companies to adopt and implement new standards for best practices to mitigate these impacts. Increasing numbers of major producers, traders, processors and manufacturers today are committing to eliminating deforestation, protecting peat lands and avoiding exploitation of people and communities within their supply chains.<sup>6</sup>

Before the political reform in 1998, communities had little opportunities to oppose large scale economic development in their territories, including oil palm concessions. This changed rapidly after the fall of Soeharto. Local people can now protest and draw attention to their concerns with relative freedom. One result of this greater freedom of expression is the emergence of company-community conflicts, sometimes a rising from previously suppressed or unaddressed issues.

This change also means that old strategies for dealing with conflict (e.g., the use of police or other forms of coercion to repress conflict) have become counterproductive. Local stakeholders such as law enforcement and district governments are making reforms, but they have not yet fully adjusted to their new roles as intermediaries in conflict resolution.

Indonesia's national planning agency defines a land dispute *"a difference of opinion with regard to the authentication of land rights; grant of land rights; and registration of land rights including conveyance and publication of rights to title."*  
-The State Minister for Agrarian Affairs/Head of the National Land Agency Regulation Number 1 of 1999, Article 1.

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<sup>4</sup>[www.kemendag.go.id](http://www.kemendag.go.id) (sourced from BPS and accessed September 19 2016) (<http://www.kemendag.go.id/en/economic-profile/indonesia-export-import/indonesia-trade-balance>, <http://www.kemendag.go.id/en/economic-profile/indonesia-export-import/export-growth-hs-6-digits>)

<sup>5</sup>Index Mundi, through United States Department of Agriculture

<sup>6</sup>These practices have become so widely accepted that they are now referred to by the common acronym NPDE (no deforestation, no peat, no, exploitation).

In addition, the rapid expansion of telecommunications and the growing popularity of social media in Indonesia, one of the top five social media markets globally,<sup>7</sup> has also affected public perceptions of conflict. Today, even in remote areas, villagers have access to more information, including information on regulations that may protect their rights. These improved communication capabilities offer even isolated communities greater means to draw attention to their situation.

This increased focus on conflict and the sustainability challenges of the palm oil sector overall have prompted both governmental and non-governmental organizations to take more aggressive action to ensure greater accountability from relevant parties in cases of perceived environmental or social wrongdoing. As one example, the recent ruling against PT National Sago Prima (NSP) for negligence in fire prevention and control resulted in a record fine of USD 76 million. Similarly, IOI Corporation's alleged violations of the Roundtable on Sustainable Palm Oil (RSPO) standards, particularly its new planting procedures, led to their suspension from RSPO, resulting in a major buyer suspending certain contracts, and a 7.5% drop in their share price.<sup>8</sup>

These cases exemplify the pressing needs that companies have to understand, and better integrate into their operations, awareness about the onset, management and resolution of social conflicts and their relative cost implications.

While these material costs of conflict may be appreciated within the industry, the sector currently lacks empirical data to define these numbers. This likely results in undervaluation of costs related to social conflict, leading to uninformed planning and in appropriate resource allocation.

## Objectives

The objective of this study is to place real numbers on the costs of social conflict in the palm oil sector. By assigning financial values to all costs, expenditures, direct and indirect costs and loss of value from both tangible and intangible assets, the study aims to provide a clear picture of how social conflict impacts the bottom line of palm oil companies.

## Methodology

The methodology was designed in consultation with several economists, social NGOs and a range of experts on conflict, mediation and the palm oil sector, including company managers. It includes both qualitative and quantitative analysis with a focus on the costs incurred by large palm oil companies during incidents of conflict. We recognise that social conflict impacts and has economic consequences for other parties, such as communities and the government. However, they are not the focus of this study.<sup>9</sup>

Data was gathered through primary and secondary sources. Four large palm oil companies (growers) participated in case studies. These companies were selected based on geographic diversity, their ability and willingness to participate in the study and incidence of conflicts. For two of the companies, field visits were undertaken to obtain primary data from three estates representing three distinct cases of conflict. Interviews captured the views of a variety of individuals working at the estate: estate,

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<sup>7</sup><https://www.techinasia.com/indonesia-web-mobile-data-start-2015>

<sup>8</sup>Source: <http://www.bloomberg.com/quote/IOI:MK> (Accessed 15 August 2016)

<sup>9</sup>As a first of its kind in the palm oil sector, this study maintained a narrow scope to facilitate establishing a sound methodology and framework for analysis. Having gone through this first study, we recommend that additional analysis now be conducted on the costs of conflict from the perspective of the communities, government and general public alike.



plasma and mill managers, community development officers, and financial staff as well as community members and government representatives. Interviews focused on the cause and chronology of social conflict, notable events, and parties involved. Field visits were complemented by engagement with the companies' executive teams and financial data were collected during visits to the company's headquarters. For the other two companies, primary data was gathered through discussions with the management teams and headquarters but no field visits were conducted.

The data from these five cases facilitated a better understanding of social conflict, including identification of common elements; and enabled the development of an analytical framework. The framework (discussed more in the following section) provides an approach to analyse the conflicts and catalogue the costs incurred. In addition to the field visits, information obtained from the literature review and consultations with sector experts was used to develop the framework.

Quantitative analysis relied on a combination of accounting strategies to calculate costs based on the data gathered during the field visits and interviews and includes both tangible (direct and indirect) and intangible costs.

Beyond data gathered during the field visits, we also compiled secondary data to develop the analysis of the intangible costs. This data focused on incidences of social conflict in the palm oil sector as detailed in local newspapers and online news portals in three provinces, West, Central and East Kalimantan.<sup>10</sup> This data set, titled the Kalimantan Data Set, consists of information on social conflicts involving 174 companies and was fundamental to the calculation of intangible costs as it provides necessary data to estimate a range of probability and intensity of conflicts which is a key component of the estimation for intangible costs. Information compiled as part of this set includes, among others, data points on the duration and location of conflict, the number of villages/persons involved, the level of media coverage, which, if any, third parties were involved, and the number of hectares affected. Data was also compiled on the intensity of each conflict estimated using three simple categories based on the intensity of the manifestation, whereas 1) meetings, letters and non-physical manifestations signify a low intensity conflict, 2) and demonstrations, road blocks and work stoppages signify a medium intensity conflict; and 3) conflicts taken to the court or those that feature damage to private or public property, arson or violence to people signify high-intensity conflicts.

### Research Constraints and Limitations of the Study

This study's primary objective was to produce initial estimates of the financial costs of social conflict from a small sample of case studies and secondary data. This is an important step to better understand the implications of social conflict but has some limitations and constraints.

1. **Access to data:** Data gathering occurred through field visits and interviews with company personnel, and some community representatives. As such, the study is limited by the information provided by these parties. Accordingly, limited data was obtained regarding informal payments and other potentially sensitive topics.
2. **Selection bias:** Access to companies depended on their willingness to participate in this study, and therefore may not be representative of the entire sector. The participating companies are all part of at least one sustainable certification programme and thereby more aware, better versed and already investing in adequate social engagement processes.

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<sup>10</sup>West Kalimantan: 57 companies, Central Kalimantan: 67 companies, East Kalimantan: 50 companies

3. **Perspectives from third parties:** The primary focus was to collect information from the companies on the conflict event and the related costs. As such limited engagement and data gathering occurred for other stakeholders involved in the conflict (e.g., local communities, indigenous groups, local government.) We recognise that these are important components of the broader cost analysis and recommend they be included in follow on analysis.
4. **Intangible costs:** The limited number of cases, as well as the limitations cited above about the data gathering process precludes this study from drawing more specific conclusions regarding intangible costs; it also limits our ability to define the wider economic impacts of social conflicts, e.g., changes in investment, income, and livelihood.

## 2. SOCIAL CONFLICT FRAMEWORK

As a first step to determine the costs of social conflict in the palm oil sector, we developed a framework to better understand the common elements of social conflict. This framework includes the parties involved in the conflict, the drivers or reasons underlying the conflict, the manifestations of conflict or the actions that were taken as a result of the conflict, and initiatives to resolve the conflict. Conflicts were examined in three phases, pre-conflict, conflict and post-conflict.

### Drivers of Conflict

Much has been written about the drivers and underlying causes of social conflict in the palm oil sector.<sup>11</sup> Circumstances and contexts leading to social conflicts can vary greatly, and differ in terms of project phase, specific community issue, geography, and company-level issues. Nonetheless, some major thematic challenges in Indonesia's palm oil sector have emerged in our findings, enabling us to categorize the drivers of conflict as follows:

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<sup>11</sup>Examples of relevant literature include, among others, *Conflict or Consent? The oil palm sector at a crossroads*, FPP, Sawit Watch & TUK Indonesia, 2013; *Third-Party Intervention in Terminating Oil Palm Plantation Conflicts in Indonesia: A Structural Analysis*, SOJOURN: Journal of Social Issues in Southeast Asia, 2015, Vol. 30 Issue 1; and *Communities as Counterparties: Preliminary Review of Concessions and Conflict in Emerging and Frontier Market Concessions*, Rights and Resources Initiative, 2014.

*Table 1 Summary of Drivers of Social Conflict*

Driver	Predominant Causes
1. Land	Disputed land claims and property rights Lack of consent for use of land Inadequate compensation for land use
2. Plasma smallholders	Disagreements over contractual arrangements Issues surrounding plasma development and terms
3. Labour	Migrant populations: disappointment over the number of job opportunities available to local people or preferential use of non-local labour Employee recruitment process Labour conditions/wages
4. Environment	Environmental degradation and habitat destruction Pollution of natural resources Interference with livelihoods due to environmental damage
5. Corporate Social Responsibility (CSR) Programmes	Unfulfilled commitments regarding community development Misaligned expectations

### **Manifestations of Conflict**

The social disruptions, or manifestations of conflict, that result from challenges found in the palm oil sector tend to range from peaceful protests and formal complaints to destruction of public and private property, and in some cases include violence to persons.

This study divides manifestations of conflicts into four broad categories, as described below. Though not always represented in a linear manner, the progression below generally reflects the order in which escalation often takes place.<sup>12</sup>

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<sup>12</sup>This categorization is based on Davis, R. and D.M. Franks, 2014: Costs of Company-Community Conflict in the Extractive Sector. Corporate Social Responsibility Initiative Report No. 66.



Table 2 Predominant Manifestations of Conflict

Manifestation	Details
1. Procedures-based	Letters, formal complaints, petitions to the government and company Litigation Public campaigns (usually with NGOs)
2. Physical protests	Demonstrations Work stoppages Blockades
3. Violence / damage against property	Damage and destruction of private and public property Damage to crops Arson/Fire
4. Violence against people	Attacks, injuries, arrests, or kidnapping of any person involved in conflict, including company staff, community members and security or police forces.

### 3. ECONOMIC ANALYSIS

#### Types of Costs

The manifestations of conflict and their consequences can produce a variety of costs. These costs can be categorized as both tangible and intangible.<sup>13</sup>

**Tangible costs** represent direct financial expenditures and the opportunity cost of those expenditures. These costs are relatively easy to monetize and are usually documented as part of the company's standard record keeping practices. In cases where these costs are not presented as financial values, information on market prices of human and material resources are combined to estimate such costs.

Tangible costs can be further categorized into direct and indirect costs. Direct costs refer to financial losses and expenditures that are a direct result of the conflict events. For instance, the salary paid for the time allocated by members of executive management to deal with the conflict or the legal costs that the company incurs which in the absence of the conflict would not be accrued. Indirect costs are measured as a loss of potential. They refer to the opportunity costs that result from direct costs. For example, because of conflict a company incurs legal costs which are accounted in direct costs. However, had the conflict not occurred, the company would use the resources allocated to legal costs as investment or allocated to improving productivity.<sup>14</sup>

<sup>13</sup>This methodology and costs categories are widely recognised in the field of economics. References used include:

Dr. Tanis Day, Dr. Katherine McKenna, and Dr. Audra Bowlus, *The Economic Costs of Violence Against Women: An Evaluation of the Literature*, 2005.

Aaron Chalfin, *The Economic Cost of Crime*, School of Criminal Justice University of Cincinnati, 2013.

<sup>14</sup>Mark Harrison, *Valuing the Future: the social discount rate in cost-benefit analysis*, Australian Government Productivity Commission, Visiting Researcher Paper, April 2010.

**Intangible costs** represent those costs that are not expected at the onset of the conflict. These costs are associated with the risks and unforeseeable consequences that the conflicts may produce. They are subjective, difficult to quantify and hard to predict. The range of intangible costs depends on the intensity of conflict and the probability of the associated risks. Intangible costs can be significantly higher than tangible costs and accrue over a longer period of time. The categories of intangible costs included in this study are based on the data gathered as part of the case studies and the Kalimantan Data Set. Four intangible costs are calculated: 1) reputational risk; 2) risk of recurrence (or escalation) of social conflict; 3) risk of violence to property, and 4) risk of violence (threatened and or actual) to people.

## Estimation of the Costs

### Tangible Cost

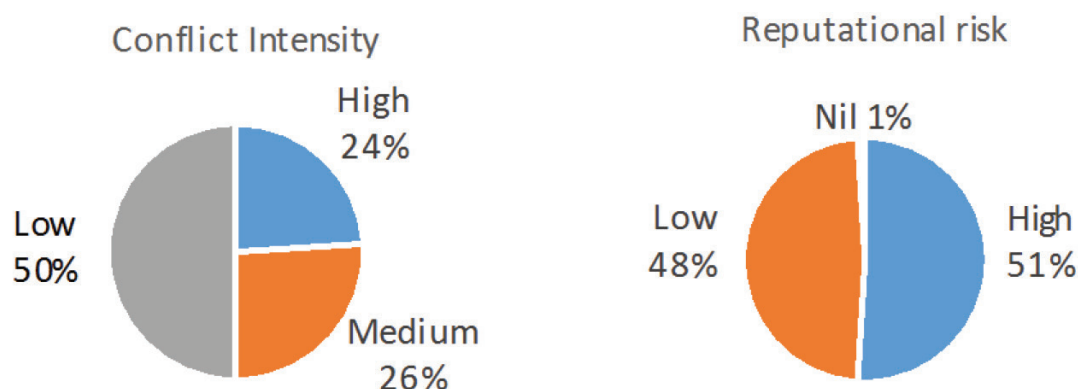
Based on the chronology of conflicts that were collected as part of the case study interviews, conflicts can be divided into discreet events. These events can then be further broken down to determine what aspects of the event have cost consequences. For example, almost all social conflicts we reviewed included meetings between the company and claiming party. The financial consequences of such meetings are divided into staff costs, legal costs in the preparation of meetings, and recurrent costs. Similarly, the costs arising from a protest which leads to stoppage of plantation or mill production will include the number of people involved from the community, the company and the government (including police) as well as the loss of production from that stoppage.

Once the elements of costs are defined, those provided directly by the company require no further estimation. For the numbers not available from the companies, a suitable unit cost was applied. Types of costs included in the calculations are staff costs, production lost, legal costs, compensation, and profit/income loss.

### Intangible Costs

To calculate the intangible costs, estimations around probability and intensity of conflicts were necessary. These were obtained using the Kalimantan Data Set. In addition, the company cash flow schedule and the direct and indirect cost of conflict were used.

*Chart 1 Conflict Intensity and Reputational Risks, per the Kalimantan Data Set (n=174)*



1. **The cost of conflict recurrence (or escalation):** Using the tangible cost of conflict calculated for each conflict, three scenarios are assumed: 1) high intensity, 2) medium intensity, and 3) low intensity. The probability of each of the scenarios is calculated using data from the Kalimantan Data Set. The probabilities are 0.24, 0.26, 0.5 for high, medium and low respectively. In the medium scenario it is assumed that the cost of conflict will be equal to the first round of the social conflict; in high intensity scenarios, the cost of the second round of the conflict is assumed to be twice as much as in the first estimated round; and in a low intensity scenario the costs will be half as much as in the first round. These costs were calculated based on assumptions taken largely from the literature review and anecdotal information obtained during interviews.
2. **The cost of reputational loss:** Reputation loss has several consequences. It could affect a companies' ability to borrow capital at market interest rates, result in decreased product demand, and can also result in lower market share value. For the purpose of calculating an intangible cost or to identify the value of lost reputation, we used the concept of risk premium. The cost to the company that incurs reputational loss is quantified by considering that the company will be categorized as higher risk and therefore borrow capital at a higher rate of interest.

The table below shows the assumption on interest rate increases due to different levels of integration between the probabilities. At the high end, there is an assumed 1% increase in interest rate; on the low end there is a .10% increase.

*Table 3 Change in interest rate based on probability and intensity of reputational risks*

Probability/intensity	High intensity conflict (24%)	Medium intensity conflict (26%)	Lower intensity conflict (50%)
High reputation loss (51%)	1%	0.5%	0.25%
Lower reputational loss (48%)	0.5%	0.25%	0.10%

The increased cost of borrowing capital is calculated using the cash flow figures obtained from the company interviews. The repayment cycle is 11 years as reported by companies: the base interest rate is 9%.

3. **The cost of violence (to property and people):** Based on estimations using the Kalimantan Data Set, we conclude that the possibility of violence to property is 7%, with the risk of violence to people at 1%.<sup>15</sup> Although, based on this data set, the likelihood of a social conflict leading to violence is very small, it has far larger financial consequences than any of the other risks.

Again, using the risk premium method, we calculated the intangible cost associated with the risk of violence. The assumptions of interest rate increases are shown in the table below. Using the assumed change on interest rate, the increased cost of capital over the repayment period (11 years) is calculated. The base interest rate for the palm oil sector is assumed to be 9%, which is reported by company officials, and it is assumed that this rate is applicable when there is no social conflict.

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<sup>15</sup>For the calculation of risks of violence, the sample size was 148, rather than 174 as more detailed information was needed.

Table 4 Change in interest rate based on probability and intensity of violence

Probability/intensity	High intensity conflict (24%)	Medium intensity conflict (26%)	Lower intensity conflict (50%)
Violence to property (7%)	0.5%	0.25%	0.1%
Violence to person (1%)	1%	0.5%	0.25%

## Assumptions

In calculating the costs of the case studies, a number of assumptions were used:

1. Currency: All costs are presented in 2015 USD, adjusted for inflation.
2. Wage calculations: The staff costs of company staff are calculated based on a combination of data from the company and information on local wages.
  - a. We developed an adjusted wage rate for two levels of employees, managers and non-management staff.
  - b. This wage rate and tier system was then applied to all persons spending time on conflict, including community members and the government personnel.
  - c. For community and government, wage levels were calculated based on their title or level (e.g., village leader, district official)
3. Indirect costs: The staff costs for company, community and government are assumed to create indirect or opportunity costs equal to direct costs
4. Standard operating costs: Assumptions were made regarding standard operating costs (materials, food, transport, accommodation, stationary, etc.), as related to involvement from individuals in the company, community and/or government. These costs were defined from data obtained during the interviews and generalized to all cases and all parties.
5. Timeline:
  - a. Tangible costs are calculated over the timeline of each particular conflict during which there was regular interaction between the disputing parties.
  - b. Intangible costs are calculated over an 11-year period to reflect the repayment cycle of borrowed capital.

## 4. FINDINGS: CONFLICT FRAMEWORK

### Predominant Conflict Drivers

As evident from the Kalimantan Data Set, by far the most important cause of social conflicts is related to land, with 67% of total cases attributing land as the predominant driver. Problems related to smallholder oil palm schemes is the second most common cause of conflict, representing 24% of total cases. The table below presents the predominant drivers of disputes listed in the Kalimantan Data Set. Note, however, that predominance does not indicate exclusiveness as many incidences of conflict



report more than one driver. This finding, that disputes related to land represent the most prominent underlying causes of social conflict in the palm oil sector, is validated as well through the literature review, the five case studies, and additional sources such as the RSPO Dispute Settlement Facility<sup>16</sup>.

*Table 5 Main causes of social conflicts (West, Central, & East Kalimantan), sourced from Kalimantan Data Set*

Driver	West Kalimantan		Central Kalimantan		East Kalimantan		Total	Overall %
	Number	%	Number	%	Number	%	Number	%
Land disputes	30	59	49	73	37	76	116	67%
Plasma smallholder	13	26	20	30	9	18	42	24%
Labour	2	4	8	12	5	10	15	9%
Environment	7	14	5	8	8	16	20	12%
CSR programmes	10	20	8	12	0	0	18	10%
Other	5	10	6	9	1	2	12	7%

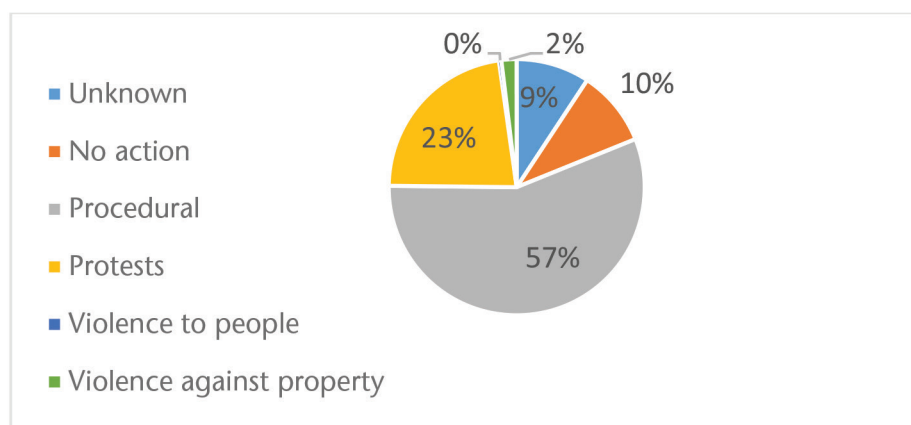
% = percentage of all companies in the province included in the study

Some companies have multiple conflicts, so total percentage of causes per province is more than 100%

### Predominant Manifestations of Conflict

Using the Kalimantan Data Set, we were also able to produce findings related to the manifestations of conflict. Most notably, 57% of all cases start with a procedures-based approach. This indicates that there may be important opportunities to prevent conflict escalation.

*Chart 2 Manifestations of Conflict, Sourced from Kalimantan Data Set (n=174)*



<sup>16</sup><http://www.rspo.org/members/complaints>, *Key Statistics for RSPO Complaints, Distribution by Category, September 2016*. (viewed September 13 2016)

From the available data it was not possible to determine the effectiveness of the procedural approach. However, the data set and anecdotal evidence suggest that in many cases a company's response to this type of manifestation is insufficient to resolve the conflict. More data and analysis is needed to make any conclusions and better understand the factors that trigger conflict escalation.

Additional findings on manifestations of conflict indicate that most of the attention directed at conflict in the palm oil sector is attracted by demonstrations and road blocks, as they are highly visual and most often captured by the media. Based on the Kalimantan Data Set, a quarter of the cases involve physical action as manifestation of the conflict.

*Table 6 Primary manifestations of social conflicts in palm oil sector (West, Central & East Kalimantan)*

Conflict Manifestation	W. Kalimantan		C. Kalimantan		E. Kalimantan		Total %
	Number	%	Number	%	Number	%	
Unknown	13	15.9	15	9.0	2	2.8	
No action	12	14.6	15	9.0	4	5.6	
Sent letter (procedural)	15	18.3	32	19.2	21	29.2	<b>56%</b>
Meeting (procedural)	9	11.0	54	32.3	21	29.2	
RSPO DSF (procedural)	5	6.1	0	0.0	1	1.4	
Court (procedural)	8	9.8	11	6.6	5	6.9	
Demonstrations (physical protest)	14	17.1	39	23.4	18	25.0	<b>22%</b>
Violent action (violence to property)	6	7.3	0	0.0	0	0.0	<b>2%</b>
Fatality (violence to persons)	0	0.0	1	0.6	0	0.0	<b>0.3%</b>
Total number	82	100%	167	100%	72	100%	<b>321</b>

**Source:** Kalimantan Data Set. Some articles stated more than one conflict manifestation linked to the same company.

## 5. FINDINGS: CASE STUDIES

Detailed information was obtained on five case studies in the two major oil palm producing areas in Indonesia. The key underlying cause of the conflicts in all five cases was related to land access and rights. In four cases the conflict was about a limited acreage of land over which persons in the community claimed ownership. In all cases the companies stated that they had tried, to the best of its ability, to identify the land owners of all land targeted for oil palm development. All companies are member of certification scheme requiring proper negotiating and documenting of land acquisition. In one case the community claimed customary ownership to the total area that the company had already developed for oil palm.

The areas under dispute varied in size from over 50 hectares to 9,000 hectares, in four cases between 60 – 400 hectares, which represented between less than 0.5% to 4.4% of the total plantation area. The claim based on customary land rights concerned the largest parcel of land, 9,000 hectares,

representing 100% of the plantation. Disputes were brought forth in some cases by an entire village or in other cases by a number of persons who claimed rights to the area for which land had been licensed to the company by the relevant government agencies.

### *Drivers of Conflict*

In all five cases the claimants demanded monetary compensation payments for lost access to and use of their land. This included a demand by the indigenous community requesting compensation for loss of their customary territory. In one case an additional conflict was over the development of smallholder plantations for the villagers. Lack of previous community experience with large scale oil development and limited discussion and information sharing prior to the smallholder plantation development led to misunderstanding and protests from the community.

### *Manifestations of Conflict*

In three cases, the first signal of the conflict was a letter by the claimants to the company, and in one case a meeting between the claimants and the company. This was followed by more meetings between the claimants and company. None of these conflicts were resolved at this stage, resulting in more action by the claimants. In three cases that claimants staged work stoppages in the sections of the plantation that were in dispute. In one case, only a few short work stoppages were organised within several months. While in two cases a larger number of work stoppages in the disputed area were put up over a number of years (two to nine years).

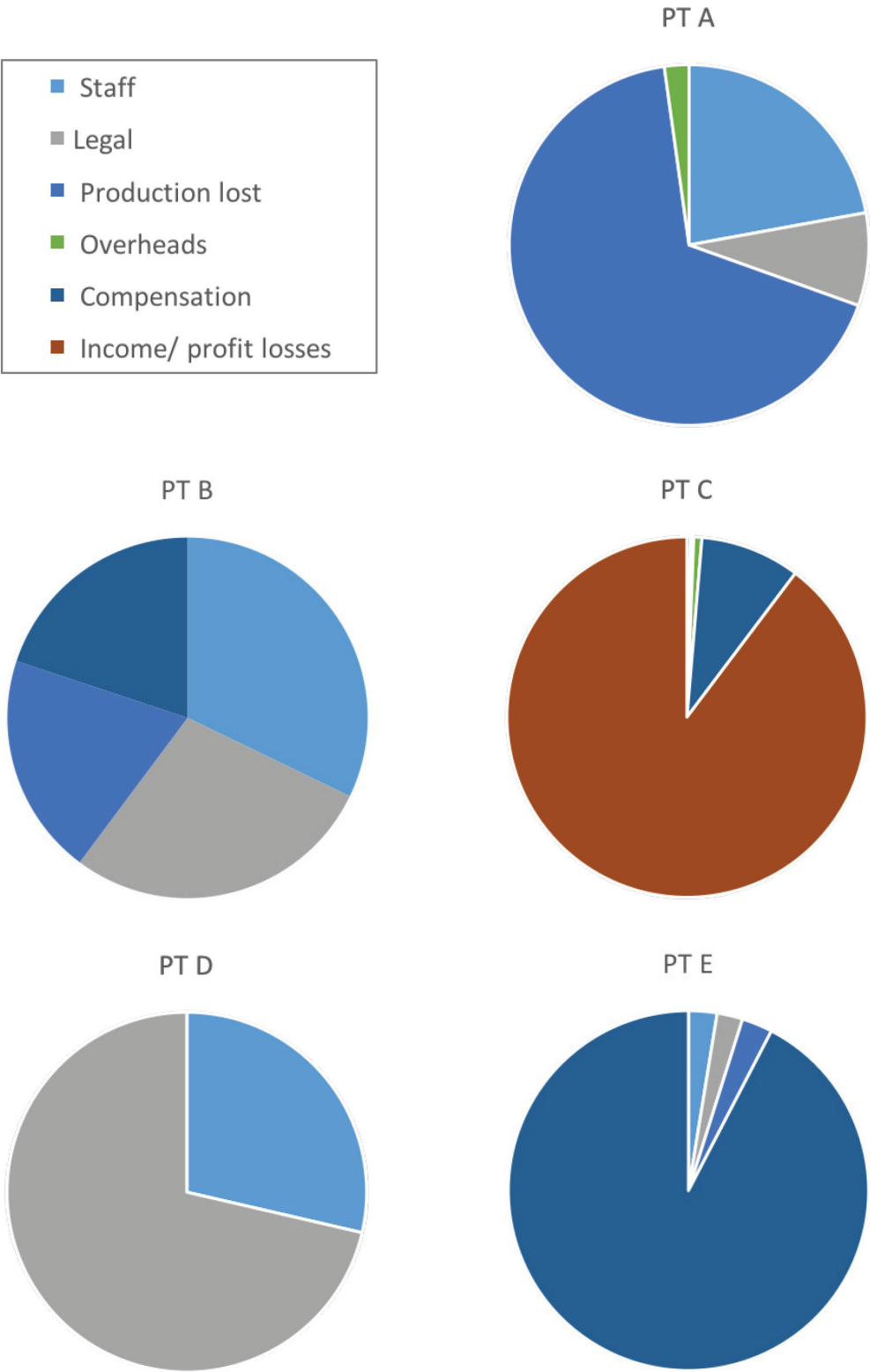
In one case the claimants did not organise work stoppages, but rather manifested the conflict by submitting a formal complaint to the district court.

In the case involving the entire community, the first action to expose the conflict was through disruptions to company operations. A demonstration organised to demand compensation payment for the loss of customary territory resulted in stopping the operations of the company's CPO mill. This demonstration, which lasted a few weeks, resulted in intense negotiations and agreement on the compensation payment. The demonstrations related to the smallholder plantation lasted for nearly a year.

### *Conflict Resolution*

In three out of the five cases, the company relied on direct negotiations with the persons to resolve the conflict and come to a mutually acceptable settlement. Often the local government, from village level until district level, were engaged in the process as mediators. In two cases the disputing parties came to an agreement on a compensation payment to the community members. While in one case no monetary compensation but employment opportunities were offered, and accepted. In the other two cases the conflict was submitted to the court. In both cases the court ruled that the claimants' cases were insufficiently substantiated by the evidence presented in court.

Chart 3 Distribution of Primary Costs Components for the 5 case studies





## 6. FINDINGS: THE COST OF CONFLICT

### Tangible Costs

Based on the case studies, our findings indicate that for a large palm oil company, the average annual per hectare costs of social conflict, considering only tangible costs, are equal to 65% of total annual operational costs per hectare. These costs also represent 132% of annualized investment costs on a per hectare basis, considering the impacted hectares only.<sup>17</sup>

*Table 7 Tangible costs as percentage of operations and investment costs (per year/ha)*

	Total Tangible Costs	Time-frame (yearly)	Tangible costs / year	Number of hectares impacted or in dispute	Total costs of conflict / hectare / year	Avg. investment costs for sector per year/per ha**	Annual costs of conflict as % of investment costs /ha	Avg. operational costs for sector per year/per ha*	Annual per ha costs of conflict as % of operational costs
PT A	117,873	.25	117,873	400	295	222	133%	450	65%
PT B	613,972	9	68,219	300	227	222	102%	450	51%
PT C	2,682,151	1	2,682,151	9000	298	222	134%	450	66%
PT D	110,345	5	22,069	90	254	222	114%	450	56%
PT E	70,886	3	23,629	60	394	222	177%	450	88%

On a per conflict basis, evaluating only tangible costs, the range of costs resulting from social conflict ranging from 3 months to 9 years in duration is approximately USD 700,000 to over USD 10,000,000.

*Table 8 Summary of Tangible Costs per Case Studies*

	Staff		Legal Cost		Production lost	Over-head	Compensation	Income/profit losses	Total
	Direct	Indirect	Direct	Indirect					
PT A	13,041	13,041	4,908	4,908	79,367	2,606			117,873
PT B	123,256	123,256	107,480	107,480	152,500				613,972
PT C	4,575	4,443			7,205	19,583	240,173	2,406,170	2,682,151
PT D	15,789	15,789	39,384	39,384					110,345
PT E	2,114	2,114	1,899	1,899	4,557		58,305		70,886

On the overall investment costs of a medium sized plantation (5,000 – 10,000 ha) these costs would be relatively small, 0.2% to 11%. This may explain why in most cases expenditures related to conflict

<sup>17</sup>Operational and investments costs were calculated based on data gathered from company interviews and field visits, and complemented through market data. In addition, per hectare costs for operations and investments were the same for the five cases, as they represent average market costs and are based on data from three of the cases. This indicates that costs of conflict are closely linked to number of hectares affected.

are not accounted for as such. Senior company personnel stated that companies do not have a specific budget line for plantation management to use when covering extra costs. Thus the plantation management has to cover the costs related to conflict from other budget lines, such as Corporate Social Responsibility (CSR) programmes. The companies currently seem to be able to internalize these costs. While this practice may be acceptable for day-to-day operations, it is indicative of a lack of adequate management systems and processes and does not provide a system for recognition of potential escalation (and the necessary mitigation measures).

The costs for each case differed greatly, from USD 70,000 to over USD 2.5 million when just considering tangible costs. Among the five case studies, the largest single cost was that of lost profits and income of companies. The companies lose profits due to delays in plantation development, stoppage of plantation maintenance and production, and stoppage of mill operations.

The second largest category of costs is the time allocated by company staff to the conflict. Company staff at different levels spend extensive amount of time in managing and resolving these conflicts. Similarly, the community members involved in the conflict also allocate significant time to negotiate the conflict. Demonstrations, road blockages, and plantation work stoppages require a large number people over a considerable amount of time to exert pressure on the company. Staff costs accounted for 13% of the cost of social conflict. However, in social conflicts where the loss of profits and income does not occur, it is the leading source of cost to all the parties involved. Legal, compensation and production costs all came in at about 5% to 7% of costs.



## Intangible Costs

### Intangible Costs: Difficult to count but it does count - IOI case

In March, 2016, RSPO suspended IOI's membership of RPSO. The suspension was due to a complaint by a NGO that one of IOI's operations had violated RSPO guidelines.

The speculation of the upcoming suspension and the actual suspension had a significant impact on the company's share prices. Just before the suspension, IOI shares were close to their historical highest level, at 5.00 MyR, since May 2014. Two weeks later the share prices had dropped to MyR 4.63 (a drop of nearly 7.5%) and further gradually declined, reaching its nadir at MyR 4.12 on 16 May, a drop of 17.6% of the value on 14 March 2016.



On 15 August 2016: Market capitalisation ( MyR): 27.605 billion (= USD 3.9 billion)

Shares outstanding: 6.288 billion

Source: <http://www.bloomberg.com/quote/IOI:MK> (Accessed 15 August 2016)

Although more challenging to quantify, intangible risks represent the largest potential costs for companies. For the cases reviewed for this study, intangible costs range from USD 600,000 to USD 9 million. The lower end of the range represents a low-intensity recurrence of conflict, while the high end of that spectrum represents the higher costs related to loss of reputation. Reputational losses may be significant, and pose a substantial risk for palm oil companies, particularly those that are listed and/or have a global presence or global investors.

There are several ways to evaluate these costs and what they represent. Below are details of the low and high end of these costs and the likelihood of these scenarios occurring.

Table 9 Financial Summary of Case Studies -Tangible and Intangible (recurrence and reputational)

	Tangible Costs (USD)	Intangible Costs (USD) - Recurrence and Reputational				
Company	Total Tangible Costs	Recurrence Minimum	Reputational Minimum	Total Intangible Costs (Min)	Recurrence Maximum	
PT A	117,873	61,020	531,394	592,415	244,082	
PT B	613,972	426,823	423,546	850,370	1,707,293	
PT C	2,682,151	1,969,085	489,079	2,458,164	7,876,340	
PT D	110,345	426,823	423,546	850,369	1,707,293	
PT E	70,886	426,823	423,546	850,370	1,707,293	

Table 10 Financial Summary of Case Studies -Tangible and Intangible (violence to property and people)

	Tangible Costs (USD)	Intangible Costs (USD) - Violence to Property		
Company	Total Tangible Costs	Total Violence to Property Minimum	Total Violence to Property Minimum	
PT A	117,873	676,548	3,397,569	
PT B	613,972	539,313	2,707,830	
PT C	2,682,151	622,756	3,126,792	
PT D	110,345	539,313	2,707,830	
PT E	70,886	539,313	2,707,830	

	Tangible Costs (USD)	Intangible Costs (USD) - Violence to Persons		
Company	Total Tangible Costs	Total Violence to Property Minimum	Total Violence to Property Minimum	
PT A	117,873	1,694,201	6,830,829	
PT B	613,972	1,350,400	5,443,548	
PT C	2,682,151	1,559,337	6,285,787	
PT D	110,345	1,350,400	5,443,548	
PT E	70,886	1,350,400	5,443,548	



			Grand Total (tangibles & intangibles) (minimum)	Grand Total (tangibles & intangibles) (maximum)	Highly likely scenario 72%
	Reputational Maximum	Total Intangible Costs (Max)			
	1,123,289	1,367,371	<b>710,288</b>	<b>1,485,244</b>	
	895,229	2,602,522	<b>1,464,342</b>	<b>3,216,494</b>	
	1,033,741	8,910,082	<b>5,140,315</b>	<b>11,592,233</b>	
	895,229	2,602,522	<b>960,714</b>	<b>2,712,867</b>	
	895,229	2,602,522	<b>921,256</b>	<b>2,673,408</b>	

	Grand Total (tangibles & intangibles) (minimum)	Grand Total (tangibles & intangibles) (maximum)	Low Likelihood 7%
	<b>794,421</b>	<b>3,515,442</b>	
	<b>1,153,285</b>	<b>3,321,802</b>	
	<b>3,304,907</b>	<b>5,808,943</b>	
	<b>649,658</b>	<b>2,818,175</b>	
	<b>610,199</b>	<b>2,778,716</b>	

	Grand Total (tangibles & intangi- bles) (minimum)	Grand Total (tangibles & intangi- bles) (maximum)	Lowest Likelihood 1%
	<b>1,812,074</b>	<b>6,948,702</b>	
	<b>1,964,372</b>	<b>6,057,520</b>	
	<b>4,241,488</b>	<b>8,967,938</b>	
	<b>1,460,745</b>	<b>5,553,893</b>	
	<b>1,421,286</b>	<b>5,514,434</b>	

## 7. CONCLUSIONS AND RECOMMENDATIONS

Through the case studies and analysis relative to this study, we were able to identify several common themes that provide some insights around social conflict in the palm oil sector. These include:

**Conflict as a resource drain:** Despite the small sample size and narrow scope of this study, our findings indicate that the costs relative to conflict are significant, misunderstood, and potentially pose a serious obstacle to productivity for companies, communities, and the government, and therefore, Indonesia as a whole. For the companies, this drain in productivity is a product of staff time but also a misallocation of capital. For example, there is no analysis currently being conducted by companies to evaluate whether or not the expenditures in social conflict management are more or less than expenditures in conflict mitigation or CSR programmes.

**Land (and livelihood) is the most important driver of social conflict in the palm oil sector:** In all five cases, land rights were the impetus for the dispute. In two cases the disputes were also based on disagreements over compensation for the land. In one case, in addition to a land dispute, there was also a dispute related to the smallholder scheme. This conforms with the information from the literature review and secondary data as in indicative of the value of land as an important, often the only, production asset in rural areas.

**Disputes tend to start with non-violence:** Procedural manifestations, including letters, meetings or court action, were the first approach taken by all but one of the five cases. This trend is substantiated by the Kalimantan Data Set which indicates that 57% of manifestations start as procedural disputes. Although more research on conflict escalation is needed, anecdotal evidence indicates that when procedural manifestations go unnoticed or ignored, the conflict often escalates to physical protests.

**Conflicts often recur:** Information of the case studies focuses on single conflict events. However, secondary data indicates that 57% of companies that experience initial conflict can have a recurrence of conflict. This means that 57% of companies experience multiple conflict incidents, which could involve a new conflict or the recurrence or escalation of a conflict previously believed to have been resolved.

**Conflicts tend to take place during production:** All of the case studies we reviewed occurred in the early stage of production. During this phase companies are more likely to respond as they stand to lose income and profits should their operations be disrupted.

### Suggestions for Further Research and Engagement

Our study, although limited in scope and sample size, clearly indicates that social conflict is a significant and costly problem in the palm oil sector that merits greater attention from companies, the palm oil industry, government, and researchers to address its business, social, and livelihood dimensions. We recommend that the following actions be considered:

**Improve company policy and management procedures, including employee incentives and key performance indicators:** None of the companies we studied had a budget line for conflict-related expenses but rather assigned them to other line items on an ad hoc basis. This obscures the full cost of conflict, makes it impossible to evaluate whether social conflict management is costing more than conflict mitigation or CSR programs, and reduces the urgency for management to develop policies and allocate resources to avoid or reduce conflict. Company policy and internal communication protocols appear to be inadequate to effectively address conflict and employee incentives for rapid plantation development may perversely incentivize actions that ultimately lead to social conflict. Companies should consider incorporating incentives for estate management linked to good social relation and develop a comprehensive tracking system enabling them to more effectively recognise potential for conflict escalation. An early warning system could help companies recognise the onset of conflict and take quick actions to minimize escalation.



**Build capacity of local stakeholders:** An indirect cause of conflict is that stakeholders who should or could act as intermediaries between companies and communities do not play this role effectively because they are not trained in conflict mediation or the rapidly evolving legal framework for oil palm plantations. District government officials are key stakeholders because of their regulatory authority over plantations and responsibility for spatial planning and award of land titles. Law enforcement officers, relevant NGOs should also be trained. The number and skill level of professional, independent mediators must also be increased to handle the number of on-going conflicts.

**Expand the knowledge base on the causes, progression and implications of social conflict:** Currently social conflict is not being tracked in a systematic, transparent manner. Developing a data set for tracking social conflict in land-use sectors would be valuable to: (i) define trends and characteristics of social conflict; (ii) better understand and define tangible and intangible costs; and (iii) better understand the factors that drive conflict escalation. An analysis of socioeconomic and environmental implications and costs of social conflict would allow both government and the oil palm industry to better develop policies to address it and allocate resources accordingly. This could include the costs incurred by communities and the government and be expanded to quantify the cost of land conflict across Indonesia, examining its implications for economic competitiveness and investment readiness.

**Develop best practices for conflict prevention, mitigation and resolution:** Very little information exists on the types, success rates and cost-effectiveness of current efforts to address and resolve conflict. We must study and understand what is being tried and what is working as a basis for developing best practices to be disseminated throughout the industry. Compensation payments require specific attention given the central role they current play in conflicts.

**Pilot conflict prevention and mitigation at the jurisdictional level:** The jurisdictional approach is being promoted and tested as a means to reduce the environmental and social impacts of oil palm plantations at the district or province level over extended time periods. This approach includes all stakeholder groups who should be involved in reducing conflict, providing a promising mechanism for piloting approaches to institutionalizing conflict reduction at the local government level.



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# Annex: Case Study Summaries

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## Case Study 1: PT A

**Duration of Conflict: 3 months**

**Hectares in Dispute: 400**

### **The Underlying Cause of Social Conflict: Land Dispute**

- Conflict driver was related to rights over land and natural resources.
- Company reported making efforts to identify community members with rights to land and reported having all claims settled.
- Several years after the company started developing the plantation, new claims emerged.
- Claims stated rights to area based on expired village documents granting usufruct and claims of no compensation.

### **Manifestation of Conflict and Events: Procedural, Physical Protests**

- Limited contact between the company and the claimants prior to conflict
- Procedural approach: A meeting was organised in one of the communities for the company and persons involved in the dispute to try and reach a solution.
- Physical protests: No mutually agreeable solution was found, so claimants put up a road block in the part of the plantation they claimed, preventing the company from harvesting. This continued over several months with a number of small blockades causing additional production losses.
- Police: Ongoing involvement included large numbers of police during blockades and smaller numbers during smaller disruptions. During this period a number of letters were sent by the company to the local authorities and several meetings were conducted trying to resolve the dispute. After several months no further protest action was organised by the claimants.

### **Conflict Resolution: Negotiation**

- Two-pronged approach used to resolve the conflict.
- Immediate response to avoid escalation using police to prevent violent action
- Whenever the protesters stopped operations in part of the plantation, the company would not use force to restart operations.
- Once the field situation was conducive to engagement, the company would try to negotiate with claimants.
- Negotiation process took several months and involved the village leaders and local government officials, up to district level.

Costs of Conflict (in USD):

PT A	USD
Total tangible costs (all parties)	117,873
Total intangible costs - company (weighted avg.)	6,764,587

## Case Study 2: PT B

**Duration of Conflict: 9 years**

**Hectares in Dispute: 300 ha**

### **The Underlying Causes of Social Conflict: Land Dispute, Compensation**

- A land claim emerged shortly after plantation development started
- Claimant stated that no compensation had been paid for this land.
- During initial phase, a number of meetings between the company and the claimant were held to obtain more detailed information on the claim and try to verify the basis for this claim.
- Process included village leaders and some government officials, but did not result in an agreement
- The claimant considered his claim genuine while the company deemed that it followed proper procedures when acquiring the land and that the disputed land had been compensated for.
- Company reported that most of the community leaders had been involved in the land acquisition process.

### **Manifestation of Conflict and Events: Procedural, Physical Protests**

- Procedural approach: Meetings first organised, but there was no mutual agreement.
- Physical protests: While negotiation process was still ongoing the claimant occasionally started occupying the disputed area.
  - Initially, low impact for company as oil palm not yet producing, but occupation continued during production period.
    - Over several years, a number of demonstrations disrupted operations on the disputed land, resulting in a loss to the company as it was not able to harvest the fruit bunches. Limited negotiations were held during this period.
  - As the situation did not improve, causing continued loss to the company, the company submitted the case to the courts.

### **Conflict Resolution: Court System**

- The district court processed the case in a number of sessions, examining the evidence and arguments of the two parties.
- Both parties had legal representation
- Judges ruled that the claim was unsubstantiated, but claimant still conducted further actions in the field.
- The company asked local authorities to explain to the claimant the potential consequences of ongoing action after the court ruling which prompted the claimant to cease action against the company.

PT B	USD
Total tangible costs - company	613,972
Total intangible costs - company (weighted avg.)	5,640,864



### Case Study 3: PT C

**Duration of Conflict: 1 year**

**Hectares in Dispute: 9000**

#### **The Underlying Causes of Social Conflict: Land Dispute and Plasma Development**

- Two underlying conflicts with two separate causes: 1) land dispute and 2) plasma development.
- An indigenous community in the area claimed the total concession area was its customary territory.
- Company reported that the community had no experience with oil palm development and did not understand the smallholder scheme.

#### **Manifestation of Conflict and Events: Physical Protests**

- With the smallholder scheme still under development, the community stopped all activities in that part of the plantation for approximately one year.
- When the company-managed plantation started production, the community staged a road block to stop FFB delivery to the mill. This protest was continued for approximately two weeks.

#### **Conflict Resolution: Negotiation, Smallholder Scheme Development, Compensation**

- The company reported that it realised that the problem related to the smallholder scheme was caused by the lack of experience and information of the communities on this matter.
- Dissemination of information/communications:
  - The company organised a study tour to visit a similar scheme in another part of the province and held discussions with formal and informal community leaders to provide them with information
  - The company invited the district estate crop agency to provide extension services to the indigenous community on the scheme.
  - The claim to customary territory was resolved through several meetings to negotiate a settlement, in the form of financial compensation to the community.

PT C	USD
Total tangible costs - company	2,682,151
Total intangible costs - company (weighted avg.)	7,487,940

#### **Case Study 4: PT D**

**Duration of conflict: 5 years**

**Hectares in Dispute: 90**

#### **The Underlying Causes of Social Conflict: Land Dispute, Compensation**

- The cause of the dispute was land.
- According to the claimants the company had not properly compensated land that they owned.
- The company reported that it had already compensated the owners of that land.

#### **Manifestation of Conflict and Events: Procedural, including intervention through the courts**

- Procedural: Initially the claimants drew attention to the dispute by sending letters to the company.
- This resulted in a meeting between the company and the claimants facilitated by the local government.
- To clarify the situation, a survey was conducted throughout the disputed area but no solution was reached
- The claimant submitted the dispute to the district court. The verdict was contested and an appeal was submitted to the High Court. The verdict was again challenged and the case submitted to the Supreme Court, where the company won the case.

#### **Conflict Resolution: Court System**

- Because no solution was reached through meetings and negotiations the claimants submitted the case to the court.
- The verdict was contested and the case was eventually adjudicated by the Supreme Court.

#### **Costs of conflict (in USD):**

PT D	USD
Total tangible costs - company	110,345
Total intangible costs - company (weighted avg.)	5,640,864

### Case Study 5: PT E

**Duration of conflict: 3 years**

**Hectares in Dispute: 60**

#### **The Underlying Cause of Social Conflict: Land Dispute**

- The dispute occurred when the company was acquiring land to develop an oil palm plantation.
- A group of persons claimed ownership of part of the area.

#### **Manifestation of Conflict and Related Events: Procedural, Physical Protests**

- Procedural approach: Claimants drew attention to the disputes by sending letters to the company. This resulted in a meeting between the company and the claimants facilitated by the village government and an agreement to survey the disputed area.
- The claimants felt that they did not receive clear information on the progress of their claim and that progress was slow.
- Physical protest: This frustration led them to put up road blocks to disrupt operations on a number of occasions.

#### **Conflict Resolution: Negotiation, Compensation**

- Meetings continued to be held after the first road block, again facilitated by the village government.
- During this meeting no agreement was reached on the size of the disputed area. However, soon after the meeting the claimants sent a letter agreeing on the total acreage under dispute. Through further negotiation, agreement was reached on the amount of compensation per hectare.
- Through further negotiation, agreement was reached on the amount of compensation per hectare.

#### **Costs of Conflict (in USD):**

PT E	USD
Total tangible costs - company	70,886
Total intangible costs - company (weighted avg.)	5,640,864

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# THE COST OF CONFLICT IN OIL PALM IN INDONESIA

