

# **“The Oil Palm Industry of Sabah: The Good, The Bad and The Ugly”**

A Speech Delivered by Datuk Sam Mannan, Director of Forestry, Sabah, Malaysia at the “Global Roundtable on Sustainable Palm Oil 9,” held at The Sutera Harbour Resort, Kota Kinabalu

24<sup>th</sup> November 2011

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1. Bismillah-irrahman-irrahim.
2. Thank you MC.
3. Mr Darrel Webber, Secretary General of RSPO, members of RSPO, the media, ladies and gentlemen.
4. My thanks to you for this opportunity to deliver this speech this afternoon. I do not intend to bore you on how oil palm should be managed, as you are the expert on this. On the contrary, I would like to touch on issues which I believe will in some way, dampen the general negative perception on oil palm if addressed honestly and properly.
5. I have been invited at numerous occasions by MPOC (Malaysian Palm Oil Council) to present our SFM (Sustainable Forest Management) efforts here in Sabah, including a talk in London in 2006 and several briefings to EU Parliamentarians, from time to time. There was also a RSPO meeting in Sandakan that I had the honour to address.
6. As you already know much about what forestry and conservation is about in Sabah, let me just highlight our big picture **goals**:
  - (i) All short-term licences are being phased out progressively as they do not address sustainability – there remains about (10), not more than 10,000 hectares, which will be closed in the next 2-3 years.
  - (ii) All licences are now long-term (50-100 years) issued for forest management purposes, for which logging is just one component. The execution follows our Deramakot Model, the first FSC certified rainforest in the world.

- (iii) Independent Third Party Auditing is compulsory since 2009 with financing from the EU, for all long-term forest management licences. The purpose is not to punish and kill but to improve behaviour and performance. The results on performance improvement has been excellent and a source of pride for Sabah. We favour transparency in the long-term interest of Sabah.
- (iv) All long-term licences must be certified under any internationally recognised system by 2014 and a 5-year notice period has been given. To date, 852,374 hectares (33%) of forests have been fully or partially certified in Sabah, with 444,354 hectares, under full certification, dominated by the FSC (386,607 hectares), with full certification and 408,520 hectares, under partial certification). This represents about 33% of the target and we therefore have a long way to go yet.

We believe in certification ***because***:

- It improves behaviour and performance.
  - It is a continuous improvement mechanism.
  - It brings credibility and transparency.
  - It opens markets although it may not necessarily mean immediate green dividends.
  - It builds up our credibility with policy makers.
- (v) NFM (Natural Forest Management) logging areas are all now under RIL (Reduced Impact Logging) with 3<sup>rd</sup> Party Auditing.
- and
- (vi) Our Forte in the next (20) years is to rebuild the depleted stock of mature trees even if the biological assets are largely intact.

7. Enough on Forestry. Now to Oil Palm in Sabah.

## 8. The Good

### (i) Socio-Economic Development

In the 60s, 70s and even 80s, before investments were made into new CPO mills and the opening of lands for oil palm by large corporations, oil palm was a poor man's crop in Sabah. There were few mills to sell to and prices were extremely low (RM70.00/tonne, FFB) with poor distribution infrastructure.

Today, oil palm cultivation covers some 1.5 million hectares or most of the lands alienated for agriculture. Assuming that you employ 1 person directly for 10 hectares of oil palm, this translates to direct employment of at least 150,000 to 200,000 workers. Indirectly, this could be double that with its spill over effects, benefiting 500,000 people in Sabah or about 20% of the population.

For my money, no other crop has dramatically lifted so many people in Sabah from the abyss of extreme poverty, except oil palm.

### (ii) Direct Sabah Government Revenue

The CPO tax at 7.50% stands to provide not less than RM1 Billion to the State Government every year and this figure will rise in time, with increased production, increased productivity and rising prices.

This sum surpasses the current forest income by a factor of 10. We aim for the day when oil palm revenue breaks the old forest revenue record of RM1.1 Billion in 1979, during the height of the timber boom.

**(iii) Oil Palm Direct Revenue Reduces Pressure to Log More Forests for Revenue**

Due to the sheer force of depletion and conservation efforts, timber production in Sabah has dropped to its lowest level in the last 40 years and consequently its revenue flow.

Oil palm has been the crop that allows us to multiply our forest conservation programmes as indirectly, it subsidises our efforts and allows the government to carry on with its socio-economic development without being dependent on timber anymore. The One Billion RM in oil palm revenue means avoiding logging a staggering 200,000 hectares of virgin forests a year in Sabah. 5 times Danum Valley. **This is a point that unfortunately has been lost and not highlighted.**

**(iv) Oil Palm Companies are Beginning to Invest in Long-Term Conservation**

This has only just started with a few companies taking the lead such as: Sime Darby and Wilmar International. In 2008, Sime Darby endowed RM25m to the Forestry Department for restoring 5000 hectares of degraded forests in Ulu Segama for the benefit of Orang Utans. Sime Darby also supports Rhino Conservation efforts in Sabah.

Another notable programme is by Wilmar, through PPB Oil Palm at Lahad Datu, to restore some 300 hectares of riparian forests for the benefit of the endangered Proboscis Monkey and setting aside buffer areas for wildlife grazing.

There are other enterprises who similarly consciously put work into good environmental practices and the conservation of high conservation value areas within their plantations. A star example is Serijaya Industries Sdn Bhd, an estate managed by the TSH Group that utilises only some 65% of its land and the rest being conserved for protection, conservation and wildlife management. **I rate this particular example as a world**

**benchmark. RSPO must make a site visit to see for itself what I mean by world benchmark.**

**(v) Quality of Life at the Estates**

Life has certainly improved in the last 20 years with better housing facilities, clean water supply and the setting up of schools, places of worship, recreation etc. as opposed to the dilapidated facilities of the past. This must be acknowledged and commended.

**9. The Bad and The Ugly**

1.0 Ladies and Gentlemen, I am unable to decouple these 2 attributes and therefore have chosen to put them together.

**2.0 So, what is so bad and what is so ugly?**

**(i) Greed and Short Cuts Drive Irresponsible Behaviour**

**Let us watch this video clip which explains it best.**

**From time to time, I prefer this type of justice, where it is warranted.**

**(ii) Encroachment into Reserves**

Our statistics show that some 40,000 hectares of forest reserves in Sabah have been encroached by illegal oil palm. To date, we have retrieved some 20,000 hectares at considerable costs and energy and to have them rehabilitated under forest again. (See this clip)

At RM4,000.00-5,000.00/ha this adds up to RM100m of rehabilitation costs that could have been avoided. Such actions are not popular with some people and the accusations include cruelty amongst other praises. But we persevere.

**(iii) Who Buys Illegal Oil Palm?**

For many mills, there is no chain of custody and I doubt that there is at the moment, any effective measure to trace the origin of oil palm being sold from multiple suppliers. One can therefore safely say, all the illegal oil palm from encroached forest reserves end up in the supply chain with the conscious or unconscious buyers, benefitting.

**(iv) Elephants Continue to be Killed**

In 2010, not less than 5 juvenile male elephants (Berlusconi type) died from poisoning or being shot, after raiding young oil palm outside Ulu Segama Forest Reserve.

Due to the quality of evidence needed before one can prosecute, successfully, the culprits invariably get away. This is a shame for the industry due to the irresponsible behaviour of a few miscreants but all are considered guilty by association.

**(v) Orang Utans and Oil Palm Development – Is It Compatible?**

I do not think oil palm developers consciously go out to eliminate Orang Utans. However, during the process of land clearing in Orang Utan country, which means the



East Coast of Sabah, habitat loss definitely results in the collapse and even local extinction of this species. This is particularly evident in the 1990s during the height of the oil palm cultivation boom. The statistics from 1964 to 2010 of Orang Utan orphans being brought to the Sepilok Rehabilitation Centre, depict a direct correlation between the scale of development and the number of orphans, brought in. ***But yet, some of us still argue that deforestation in the East Coast of Sabah, in particular, does not affect Orang Utans.***

(vi) **Native Rights and Land Issues**

**“A market is a place set apart for men to deceive and get the better of one another”**

**(Anacharsis, “Lives of Eminent Philosophers”)**

**“Laissez faire” – Let Business Go Forward, No interference” (Marquis D’ Argenson)**

- 1) Ladies and Gentlemen, I had mixed thoughts about bringing this matter of land issues, but I consider it too important to be ignored because it raises a most important issue that is **Equity – or “Aequitas,” its Latin root or to us, the concept of being Fair and Impartial: Fair and Impartial.**
- 2) At our HoB Green Economy Conference last week, a UNDP expert quoted a figure of 70-80% of the oil palm production in Sabah, being derived from large corporation holdings and the rest being small holders. In acreage terms, this may be 1 million to 1.2 million hectares of prime agricultural land in Sabah, being managed by a few highly efficient companies.

- 3) On the grounds of efficiency and best practices, this is probably the best option.

However, from time to time, there are accusations that certain lands, particularly native titled lands, have been acquired or leased through dubious means, whereby the sellers' ignorance and vulnerable position, meaning poverty, have been exploited. Whether this is true or otherwise in some instances, I do not know.

- 4) However, I consider it unhealthy if the "Gini Coefficient" deepens as far as land holdings in Sabah is concerned and it continues to skew towards an amalgamation of giants and ***more and more being in the hands of less and less through the sheer force of the market place. Monopolies and oligopolies!!***

- 5) As much as the colonial government believed in its **Dual Mandate** (i.e. colonise partly to make money and the second part to develop the colonies for the benefit of the indigenous people), in the case of Sabah, they went out of their way to protect **Native Land Rights**, even disallowing non-natives to deal with or to own Native Titles.

This may have dampened the commercial value of such title, but ownership was protected exclusively.

- 6) I believe, the advent of the "sub-lease" arrangement of previous governments even up to 99 years, until recently reduced to 30 years or so, is a major cause and has indirectly led to the loss of control of native title lands, and ownership reduced to a nominal status of the original native owners. Hundreds of thousands of acres of native lands are now being developed on

sub-lease basis by big corporations. In practical terms, ownership has changed hands in essence, although it has not in substance.

- 7) This “loss of control” puts greater pressure on the remaining cultivable lands inside the Forest Reserve system, on the purported grounds, of some people being landless, primarily natives, and that reserve lands should therefore be taken out to fulfill this need for lands. The cycle of allocation and transfer of rights through sub-leases will then re-start and perpetuate itself with big corporations waiting in anticipation, ultimately becoming the sole winner.
- 8) **I therefore feel that the sub-lease system is a threat to native rights on lands.** It should be replaced with a more equitable system such as: joint-ventures or partnerships or the government itself taking a leading role in the management.
- 9) The “Communal Title” system therefore is a most timely alternative that protects native rights but allows development at the same time.
- 10) My question therefore is:

**What benefit does the “sub-lease” system bring to the native landowner apart from the few dollars earned now but burnt away quickly?**

**(vii) The Slow Death of The Lower Kinabatangan Corridor of Life**

If the destruction of the riparian reserves, corridors and ecological connectivity was not enough, the Kinabatangan River continues to be a sewer for Palm Oil Effluent, slowly choking it to death.

If there is any one place that faces the brunt of unfettered development for oil palm, this is it. Can the industry live with this?

**(viii) The Inability to Communicate and Articulate the Argument: Land Use Policy, Deforestation and Agricultural Development**

- 1.0 In this day and age, if you cannot communicate effectively, then the battle is lost before you even start.
- 2.0 If the industry continues to argue that oil palm never means deforestation, it never means loss of wildlife habitat, it never means loss of bio-diversity, than the industry will continue to fight a maligned public perception.
- 3.0 I cringe when I hear this argument. But to be fair, it is not the private sector that has not been effective in this regard but on the contrary, the government agencies who have been mandated to explain this to the world. They have failed in their – PR exercise. **There is endless denials!!**
- 4.0 The simple argument of “**Land Use Policy**” has never been properly articulated.

5.0 Arguments that are defensive and not progressive will in the end harm us all.

6.0 Basically, tell the Facts!! The Truth!! Get help.

## 10. Concluding Remarks

- (1) Ladies and Gentlemen, in my conclusion, I do not want to forget to record that the Plantation Industry in this country started with a respectable group of people who have served this country well for at least 150 years. It continues to be served by people of high competence and professionalism. In contrast, the forest industry that I serve, had to deal with Rogues in the beginning and only in recent times, are we catching up to the professionalism of the Plantation Industry.
- (2) Nevertheless, there are issues that must be addressed. As Sabah in particular is too small to compete on the basis of size, it is a better strategy to compete on the basis of good governance on the ground, with equity and environmental responsibility being addressed seriously. **Be exclusive like James Bond** (music).
- (3) My recommendations therefore are as **follows**:
  - (i) To be a branded good, you must be certified. What certification system you choose is up to you provided that it is internationally recognized.
  - (ii) Certification schemes must be fair in that, standards are not suddenly changed. **In the end, good ideas are of no use if nobody makes money.**

- (iii) The good examples of conservation measures taken individually or with government collaboration must be expanded. Set aside some pennies for the Orang Utans for example.
- (iv) The industry must self-regulate and find means to reward good behaviour and punish errant colleagues. The dying Kinabatangan Corridor of Life must be addressed as a special case to save it before it is too late.
- (v) You may or may not want to look at a self-regulating chain of **Custody and Control System** to avoid palm oil being tainted with illegally obtained oil palm.
- (vi) Do not expect green dividends. There is enough profits already. The green dividends come in the form of market access and your reputation!! **With great wealth, comes great responsibility.**
- (vii) Do not export Bad Behaviour and exploit lax regulations elsewhere.
- (viii) Tell the truth at all times – do not waffle!!
- (ix) Lastly, Live Long and Proper and May The Force Be With You, And I leave you with this clip.

Thank You Very Much