

Indonesia emphasizes the significance of smallholders in the palm oil industry supply chain

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Smallholders play an essential role in the palm oil industry supply chain as Indonesia is the world leader in crude palm oil (CPO) production and exports. Apart from contributing significantly to the country's economy, smallholders play a crucial role in maintaining the palm oil industry.

Data from the Indonesian Palm Oil Statistics 2022, provided by the Central Statistics Agency (BPS), reveals that out of the approximately 16.83 million hectares of total oil palm plantations in Indonesia, 6.21 million hectares or 40.51% are owned by smallholders. Private plantations cover 8.58 million hectares (55.92%), while the remaining 0.55 million hectares (3.57%) are under large state-owned plantations.

A significant portion of oil palm produced by smallholder plantations is often sold on a small scale because they lack legal registration. Key challenges include land ownership regulations, bureaucratic obstacles creating legal uncertainty, and limited access to resources and financing, impeding the adoption of sustainable practices. Asian Agri actively supports its smallholders in obtaining certifications, addressing documentation costs, audits, and workforce training.

The managers of smallholder oil palm plantations fall into two categories: scheme smallholders, who have contractual ties or credit agreements with palm oil mills, and independent smallholders, lacking such connections in selling their fresh fruit

bunches.

According to the Plantation Statistics Book 2021-2022, around 2.5 million smallholders are engaged in oil palm cultivation in Indonesia, comprising both scheme and independent smallholders. Airlangga Hartarto, the Coordinating Minister for Economic Affairs, acknowledges that despite their substantial land contributions, smallholder plantations yield less compared to those of private companies and state-owned enterprises.

Major palm oil companies, such as Asian Agri, have long been committed to addressing these challenges. The company partnered with more than 300,000 smallholders covering more than 100,000 hectares of plantation. Currently, Asian Agri manages 30 plantations, 22 palm oil mills, 1 kernel crushing plants, and 11 Biogas plants.

In 2022, Asian Agri launched the Asian Agri 2030 initiative, dedicated to ensuring sustainable oil palm cultivation through partnerships, suppliers, and employee engagement. The initiative aims to protect the environment, forests, ecosystems, wildlife, and communities, including the welfare of smallholders who, by 2030, are projected to account for 60% of Indonesia's palm oil production. Within the Smallholder Partnership pillar of AA2030, Asian Agri reinforces replanting programs for smallholders, targeting a doubling of their income by 2030.

The company aims to increase income from fresh fruit bunches by replanting oil palm trees and resolving technical challenges in harvesting oil palm. As part of Asian Agri's commitment to supporting smallholders, economic, social, and environmental impact is emphasized. Asian Agri has been actively assisting smallholders in obtaining certifications since 2012. Independent and plasma smallholders can be guided to obtain the Indonesian Sustainable Palm Oil (ISPO) certification, and independent smallholders for the Roundtable on Sustainable Palm Oil (RSPO).

The company partners with scheme smallholders by providing them with access to financing, technical support, training and guidance for effective, sustainable, and efficient palm oil harvesting and management. Asian Agri has also assisted them in obtaining RSPO and ISCC certifications. Currently, we are working with them to obtain the ISPO certificates.

Committed to smallholder success, the company reinvests a portion of its sustainable palm oil profits into support programs. 2022 initiatives focused on enhancing agronomic skills, promoting livestock cultivation, and improving village and plantation infrastructure.